SNC-LAVALIN
2006 Annual Report

Plans in motion

SNC·LAVALIN

SNC-Lavalin is an international leader in engineering and construction, and a major player in operations and maintenance and infrastructure concession investments. Our success is founded on our experience and proven technical skills, our global versatility and on the way we carefully listen to our clients and the communities we serve.

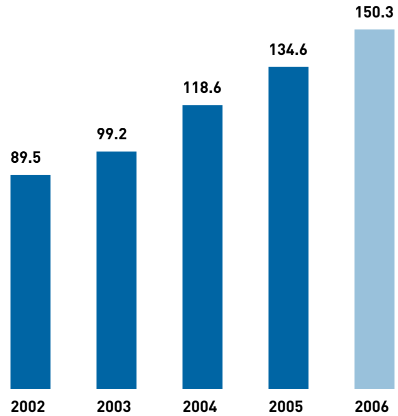
Cover: Canada Line rapid transit system employees — Vancouver, Canada.

THANK YOU

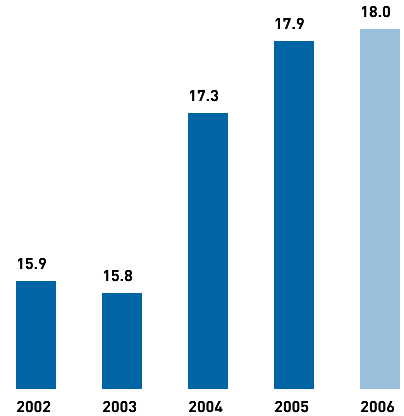
Our sincere thanks to all our employees who agreed to appear in this Annual Report.

In over 100 countries, SNC-Lavalin transforms plans into reality.

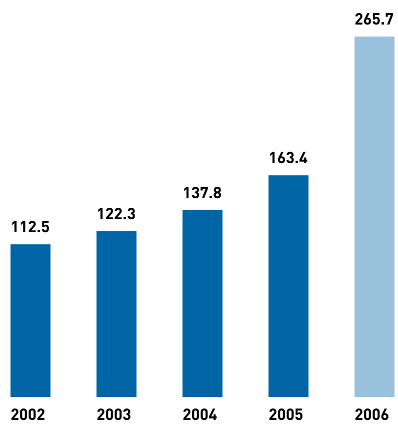
Financial Highlights



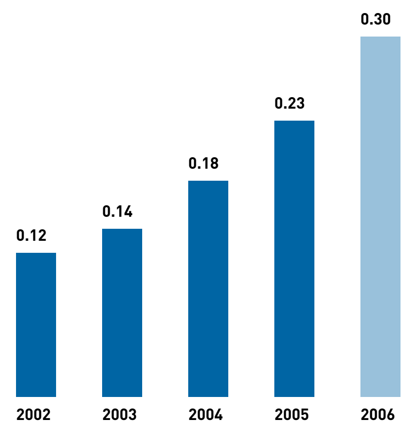
NET INCOME, EXCLUDING HIGHWAY 407
(IN MILLIONS OF CANADIAN $)



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



CASH FLOW FROM OPERATING ACTIVITIES BEFORE NET CHANGE IN NON-CASH WORKING CAPITAL ITEMS
(IN MILLIONS OF CANADIAN $)



ANNUAL DIVIDENDS DECLARED PER SHARE
(IN CANADIAN $)

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.

(IN THOUSANDS OF CANADIAN DOLLARS, UNLESS OTHERWISE INDICATED)	2006	2005

INCOME STATEMENT HIGHLIGHTS
FOR YEAR ENDED DECEMBER 31

	2006	2005
Revenues		
Services	**$ 1,180,237**	$ 958,510
Packages	**2,835,918**	1,704,097
Operations and Maintenance	**920,846**	695,935
Infrastructure Concession Investments	**213,405**	92,389
	$ 5,150,406	$ 3,450,931
Net income (loss)		
Excluding Highway 407	**$ 150,239**	$ 134,587
From Highway 407	**8,133**	(4,675)
	$ 158,372	$ 129,912

BALANCE SHEET HIGHLIGHTS
AT DECEMBER 31

	2006	2005
Cash and cash equivalents	**$ 1,106,265**	$ 1,153,521
Recourse long-term debt	**$ 104,532**	$ 104,406
Shareholders' equity	**$ 905,956**	$ 789,707

SHARE INFORMATION
FOR YEAR ENDED DECEMBER 31

	2006	2005
Diluted earnings per share ($)		
Excluding Highway 407	**$ 0.98**	$ 0.88
From Highway 407	**0.06**	(0.03)
	$ 1.04	$ 0.85
Annual dividends declared per share ($)	**$ 0.30**	$ 0.23

ROASE
FOR YEAR ENDED DECEMBER 31

	2006	2005
Return on average shareholders' equity (ROASE)		
Excluding Highway 407	**18.0%**	17.9 %
From Highway 407	**1.0%**	(0.6)%
	19.0%	17.3 %

BACKLOG
AT DECEMBER 31

	2006	2005
Services	**$ 819,800**	$ 604,200
Packages	**6,082,600**	4,308,100
Operations and Maintenance	**1,570,200**	2,112,400
Infrastructure Concession Investments	**1,942,000**	468,900
	$ 10,414,600	$ 7,493,600

At a Glance

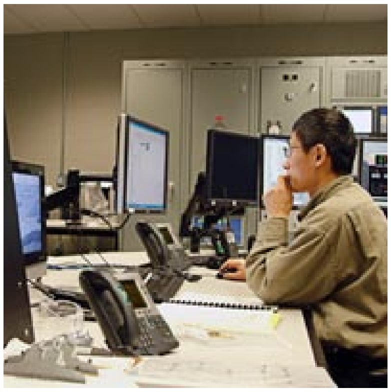
INFRASTRUCTURE
Our expertise in this sector includes airports, bridges, buildings, container ports, ferry terminals, flood control systems, hospitals, mass transit systems, railways, roads, and water treatment and distribution infrastructure and facilities for the public and private sectors.

ENVIRONMENT
Our expertise includes environmental impact assessments and studies; site assessment, remediation and reclamation; ecological and human health risk assessment; waste management, water and wastewater; marine and coastal management; air quality and acoustics; environmental management and institutional strengthening.

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

CHEMICALS AND PETROLEUM
Our expertise includes gas processing; heavy and conventional oil production; onshore and offshore oil and gas; liquefied natural gas; pipelines, terminals and pump stations; refining and upgrading; bitumen production; petrochemicals; biofuels; chemicals and fertilizers.

MINING AND METALLURGY
We provide project management, engineering, procurement and construction services for each step in the mineral and metal recovery process, including mineral processing, smelting, refining, mine closure and reclamation.



OPERATIONS AND MAINTENANCE

We provide operations, maintenance and logistics solutions for real estate, power plants, water supply and treatment systems, postal services, highways, light rail transit systems, military operations and ships.

INFRASTRUCTURE CONCESSION INVESTMENTS

We have been making equity investments since the mid-1980s, and in 1997, we created a new division dedicated entirely to infrastructure concession investments. We have the breadth of expertise to design, build, own, operate and maintain infrastructure facilities and systems, as well as provide a financing component for them.

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

We provide full service solutions for the pharmaceutical, biotechnology and life sciences sectors, including engineering, construction and validation. We also have international expertise in biotechnology and pharmaceutical process engineering and regulatory compliance.

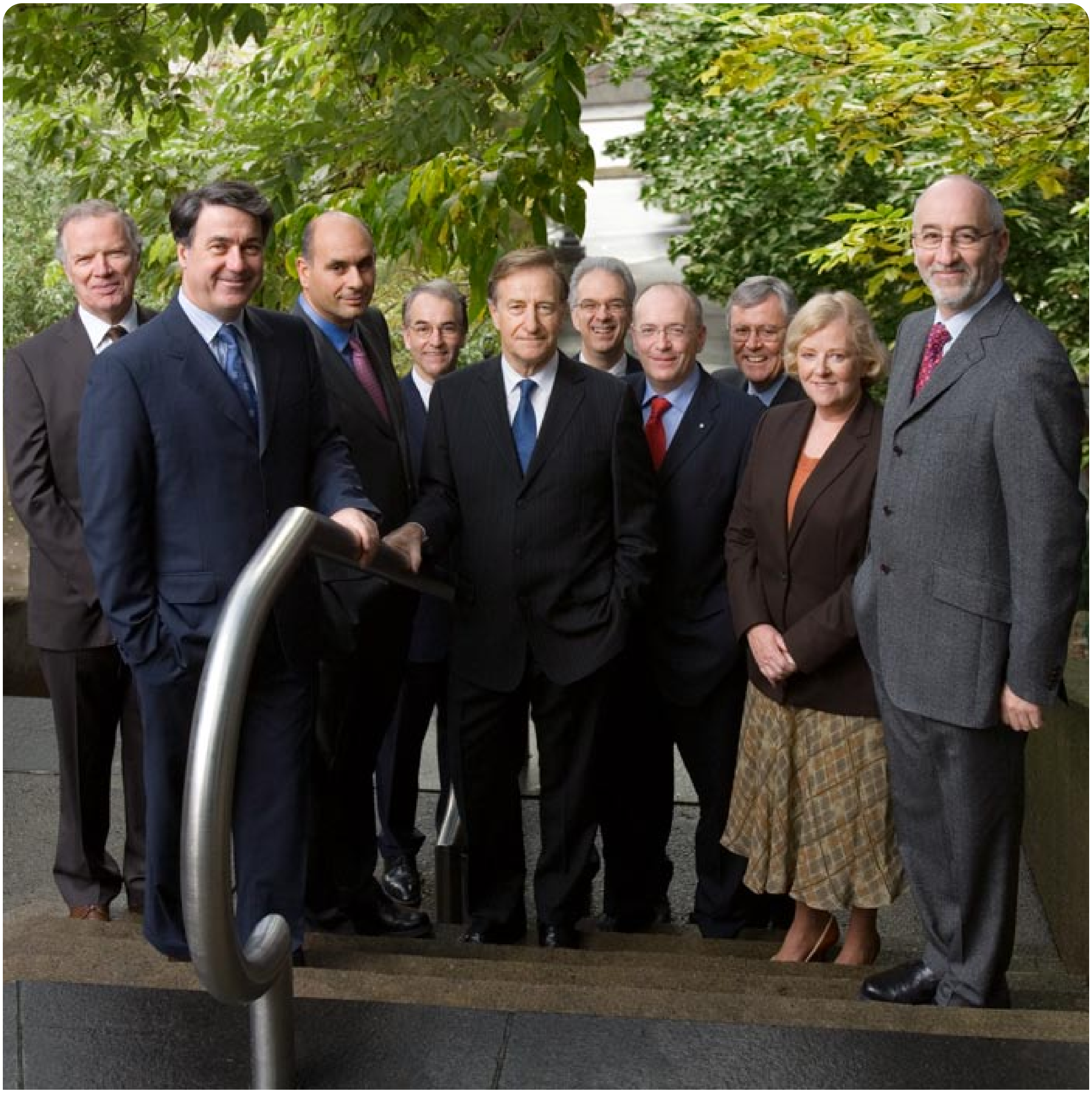
INDUSTRIAL

Our areas of activity include glass, lubricants, automobile and airplane assembly, cosmetics, filling and packaging lines, and many others. Our services range from process development and design, to plant commissioning and start up, and include complete services in the instrumentation and automation of industrial processes.

PROJECT FINANCING

SNC-Lavalin Capital offers worldwide modelling, financing advisory and arrangement services for our projects and for third party clients. Recently in the top 10 list for Global Project Finance Bonds bookrunner, SNC-Lavalin Capital's team in Algiers, Amsterdam, Montreal, Paris and Toronto have helped arrange over US$6 billion in financing for projects, including a number of award winning deals.

Members of the Office of the President



FROM LEFT TO RIGHT

Jacques Lamarre
Pierre Duhaime
Riadh Ben Aïssa
Michael Novak
Jean Claude Pingat
Gilles Laramée
Jean Beaudoin
Klaus Triendl
Marylynne Campbell
Pierre Anctil

Message to Shareholders

MANAGING FOR QUALITY

We are pleased to report that 2006 was another good year for SNC-Lavalin.

Our performance in 2006 reflects the quality of our work, not just over the past year, but over many years. Our long-term growth objectives are based on our commitment to quality, and we have achieved growth, year over year, by managing for quality. It is the common thread that runs through every aspect of our business: corporate governance, financial performance, business strategy, project execution, and our WE CARE values.

CORPORATE GOVERNANCE: RESPONSIBLE AND TRANSPARENT GOVERNANCE

Our shareholders, and all our stakeholders, have a right to transparent and complete information about our performance, and for the last several years we have been recognized for the quality of our corporate reporting. In 2006, the Canadian Coalition for Good Governance awarded SNC-Lavalin an Honourable Mention at its Governance Gavel Award Ceremony, and we ranked second out of 204 Canadian companies on the S&P/TSX composite index in the Globe and Mail's survey of corporate governance practices.

FINANCIAL PERFORMANCE: MEETING SET OBJECTIVES

We have three key financial objectives to meet every year: 1) increase our net income excluding Highway 407 by 7%–12%; 2) attain a return on average shareholders' equity, excluding Highway 407, equal to that of the Canada long-term bond yield plus 6% (which totalled 10.27% in 2006); and 3) maintain a strong balance sheet. In 2006, we met all three.

– Our net income excluding Highway 407 increased by 11.6% to reach $150.3 million. Our consolidated net income also increased, rising to $158.4 million in 2006 from $129.9 million in 2005.

– Our return on average shareholders' equity excluding Highway 407 was 18% in 2006. Shareholders who held shares at the end of 2005 obtained a return on their investments of 24.9% for 2006, assuming the dividends were reinvested.

– Our balance sheet remains strong with $1.1 billion in consolidated cash and cash equivalents. In addition, our infrastructure concession investments have increased in value, and their market values are much higher than their book values.

As you may have noted in our 2006 fourth quarter results, we now report under four revenue categories: Services, Packages, Operations & Maintenance, and Infrastructure Concession Investments. These categories correspond to the different activities currently associated with the projects we undertake, and give a clearer picture of them following the sale of the munitions manufacturing arm of our business, SNC Technologies Inc., effective January 5, 2007. SNC Technologies Inc. is shown as a discontinued operation in our financial reports. It should be noted, however, that we remain active in the Defence industry, notably in defence contracting and providing operations and maintenance services to the Canadian Navy, as well as remote-site infrastructure and logistics support for the Canadian Armed Forces overseas.

BUSINESS STRATEGY: DIVERSE AND EVOLVING EXPERTISE

Our business strategy draws on our ability to adapt to evolving markets over the long-term, and on the strength of our core expertise, which we continually enhance through internal growth, strategic partnerships and acquisitions. Our strategic plan has three main components:

1. **Maintain world-class technical expertise, continue to build on this expertise, and expand into other sectors.** We have world-class expertise in some of our sectors of activity and are constantly looking to enhance the expertise we have in all our sectors. Over the next 10 years, we would like to increase, perhaps even double, the number of sectors in which we have achieved world-class recognition.

2. **Develop well-established engineering bases in several key geographic areas.**
   Our management philosophy is based on distributed leadership, which allows our offices around the world to take the initiative in developing and expanding their operations based on economic developments in their respective regions. In 2006, we increased our international presence in this way on virtually every continent, and we continue to look for good growth opportunities around the world.

3. **Continue to invest in infrastructure concessions.**
   The combination of our technical expertise and our global financing abilities positions us well for future infrastructure concession investment opportunities. We have over 20 years of experience in this field and have built up an excellent track record with our current portfolio of infrastructure concession investments.

The quality of our business strategy is confirmed by our backlog, which continues to increase year after year. By the end of 2006, our backlog was $10.4 billion, up from $7.5 billion in 2005.

PROJECT EXECUTION: UNCOMPROMISING QUALITY

We will incur a financial loss rather than compromise on quality, and in 2006, we did incur some losses on certain turnkey projects. On all our projects, large or small, we are mindful that our client's name, as well as our own, will be linked to the project for years to come, and we take care to ensure that both of us can be proud of a job well done.

We go out of our way to make ourselves available to our clients, and place great importance on direct contact with an emphasis on face-to-face meetings and telephone conversations. In many cases, our multicultural staff is able to speak our clients' languages.

We can also bring added value to our clients through the synergies created by our complementary expertise. Our service offering can cover the entire life cycle of a project, and we are seeing more and more opportunities for our various sectors of expertise to work together on projects all over the world. We are encouraging all our business units to identify and promote these synergies worldwide.

WE CARE: INTEGRITY IN EVERYTHING WE DO

When we say we will not compromise on quality we are referring, of course, to all aspects of our work, including what we call our WE CARE values: employee well-being, health & safety, and the sustainable development of communities and the environment. These are crucial elements in the life cycle of all our projects and we encourage you to read our WE CARE & Sustainability Progress Report on page 27 for full coverage of the quality of our work in these areas.

We would like to make special mention of our employees who uphold our WE CARE values in our offices and on project sites around the world. We recognize this fact with our SNC-Lavalin Awards of Excellence for Outstanding Achievement in engineering, project management, health & safety and sustainable development. We also recognize and encourage excellence in our everyday operations, giving our employees more responsibility and authority than is traditionally afforded by large companies. We encourage them to innovate and take ownership of every project they undertake, regardless of their position in the Company. They have proven themselves many times over and we would like to thank every one of them for the part they have played in reinforcing SNC-Lavalin's reputation as a company of uncompromising quality.

OUTLOOK: WORLDWIDE OPPORTUNITIES

We are active in numerous industry sectors and geographical regions. If business is slow in one sector or region of the world, the lower revenues are mitigated by higher activity in other areas. Current commodity prices continue to create opportunities in the Chemicals and Petroleum and Mining and Metallurgy sectors, and global demand for Infrastructure and Power development also continues. Along with these projects come opportunities for environmental assessments and studies. Our Pharma group has expanded its share in the growing biotechnology market, and our Agrifood and

Industrial divisions are finding steady work on upgrade and conversion projects driven by increasingly stringent regulatory requirements. On the Operations and Maintenance side, we continue to diversify our portfolio and expand our presence in Canada and internationally.

In recognition of this positive outlook, the Board of Directors increased the quarterly dividend by 29% on February 23, 2007 from $0.07 per share to $0.09 per share. It is worth noting that, over the past five years, we have increased the dividends paid to our shareholders by an average of 26% per year, and in 2006, our dividend payments increased by 31%.

ARRIVALS AND DEPARTURES: RECOGNIZING MERIT

We welcomed Riadh Ben Aïssa to the Office of the President on January 1, 2007. Riadh assumes responsibility for construction operations and water projects worldwide, and we look forward to working with him in his new capacity.

We bid farewell to Sami Bébawi, who retired from SNC-Lavalin and the Office of the President at the end of 2006 after many years of service. Sami has been a driving force behind our construction operations and water projects all over the world, and we are pleased that he will continue to act as an advisor to the Company.

Our Board of Directors welcomed Patricia Hammick, Lorna Marsden and Jean-Paul Vettier to its ranks, and we are pleased to announce the proposal of Gwyn Morgan for Chairman of the Board. His appointment is subject to his re-election as a director by shareholders at our Annual Shareholders' Meeting on May 4, 2007.

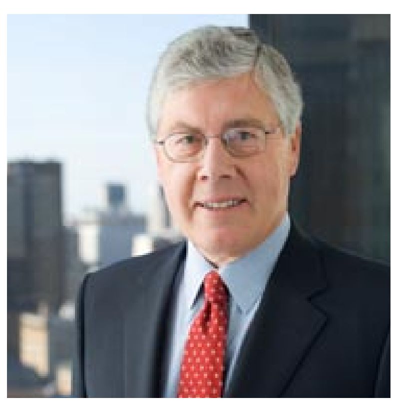
On behalf of myself, SNC-Lavalin and the members of the Board of Directors, our sincere thanks to John Cleghorn, who retires in May 2007 after completing his five-year commitment as Chairman of the Board.

John has been an insightful advisor and a respected Chairman. Thanks in part to his advice and support, SNC-Lavalin had some of its most dynamic and profitable years during his tenure with us. It has been an honour and a pleasure working with John these past five years.

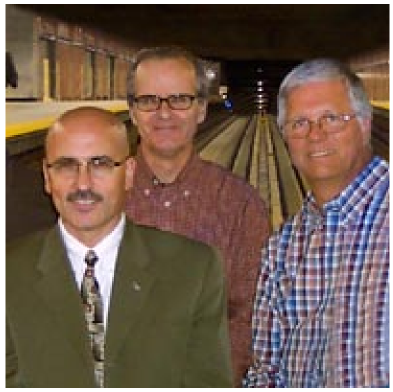
Jacques Lamarre

Jacques Lamarre, O.C., ENG.
PRESIDENT AND
CHIEF EXECUTIVE OFFICER

John E. Cleghorn, O.C., FCA
CHAIRMAN OF THE BOARD



INFRASTRUCTURE



MONTREAL METRO EXPANSION PROJECT EMPLOYEES — MONTREAL, CANADA

BARAHONA POTABLE WATER TREATMENT PLANT — DOMINICAN REPUBLIC

OUR TECHNICAL EXPERTISE IS COMPLEMENTED BY OUR GLOBAL PROCUREMENT NETWORK, OUR OPERATIONS AND MAINTENANCE EXPERIENCE, AND OUR ABILITY TO ARRANGE INNOVATIVE DEBT AND EQUITY FINANCING ANYWHERE IN THE WORLD.

Construction is well underway on the Canada Line rapid transit system connecting the cities of Vancouver and Richmond with Vancouver International Airport. We are building the entire 19 km automated system, including an underground tunnel through Vancouver, an elevated guideway over the Fraser River to Richmond, 16 stations and an operations centre.

In Reims, France, we are providing engineering and project management services as part of a consortium selected to build the city's first urban tramway and operate it for 30 years. The 11 km line has 22 stations, and the operations mandate includes a fleet of 150 buses.

Our Brun-Way Trans-Canada Highway project in New Brunswick is progressing well. We are designing and building 100 km of road, including bridges and water crossings; rehabilitating 130 km of existing highway; and operating and maintaining a further 275 km of highway until 2033. SNC-Lavalin Capital received a 2006 Project Financing Award of Merit from the Canadian Council for Public-Private Partnerships for its innovative financing of the project.

We have started foundation work for the William R. Bennett Bridge in British Columbia, and manufactured the first three of twelve 5,000-tonne pontoons for the floating portion of the bridge. Bridge work is also underway on the St. Lawrence River in Trois-Rivières, Quebec, where we are designing and supervising a deck replacement on the Laviolette Bridge, similar to the award-winning work we did on Montreal's Jacques-Cartier Bridge.

SNC-Lavalin Gulf Contractors, a company we formed with a local partner in the United Arab Emirates, has installed over 128,350 refrigerated tons of district cooling capacity in the UAE in the last three years.

Libya's Great Man Made River project is the largest water pipeline project in the world, consisting of nearly 4,000 km of pipeline, four metres in diameter. In 2006, we signed a new contract to manufacture 45,000 pre-stressed concrete cylinder pipes for a 383 km conveyance line.

Phase III of the Montréal-Pierre Elliott Trudeau International Airport expansion project is underway. In this phase we are enlarging the Transborder terminal's baggage area by 15,000 m^2, and applying our certified expertise in conveyor belt design to build the baggage conveyance system.

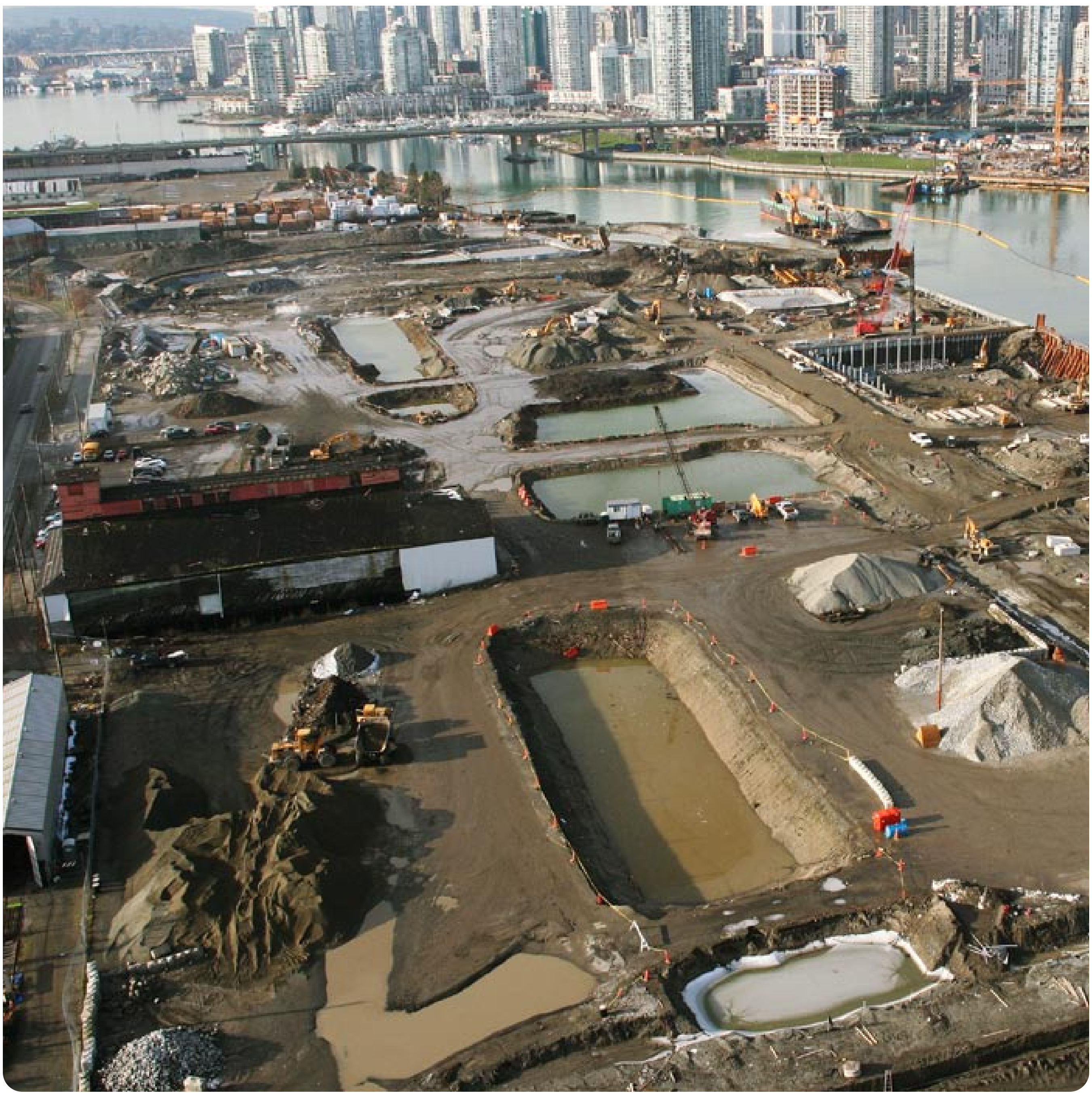
We completed a fast track mandate to build a 16,000 m^2 clinic and a 3,000 m^2 medical building at the Clinique des Cèdres near Grenoble, France. A key challenge on this project, and on others underway at hospitals in Cannes and Douai, was to carry out construction work on the grounds of existing hospitals without disturbing operations.

PROJECT PHOTO

We have nearly completed the Barahona potable water treatment plant and its 170 km pipeline conveyance system in the Dominican Republic. At the project's peak, we had 850 local people working on 24 separate work sites. Once the system goes into operation, it will deliver potable water to 400,000 people in need, at a rate of 1.75 m^3/second.

ENVIRONMENT

ENVIRONMENT EMPLOYEES — MONTREAL, CANADA



VANCOUVER'S SOUTHEAST FALSE CREEK — CANADA

OUR ENVIRONMENT TEAM HAS OVER 50 YEARS OF EXPERIENCE WORLDWIDE, WITH SPECIALIZED EXPERTISE IN THE POWER, INFRASTRUCTURE, TRANSPORT, CHEMICALS AND PETROLEUM, INDUSTRIAL AND MINING SECTORS.

We created a Corporate Risk Management Unit in 2006 to help companies analyze, assess and manage their social and environmental risks. It has already completed environmental liability assessments at several gas processing facilities for senior gas producers in Alberta.

The Equator Principles have become the standard guidelines for ethical project financing worldwide, and they are an integral part of an environmental impact assessment we are preparing for Alcan and the Cameroon government. The study is for an aluminum smelter expansion project, which will more than double production capacity at the Alucam smelter in Edea, Cameroon.

Stretching over 1.2 million km^2, South America's Guarani Aquifer is the largest freshwater aquifer in the world and one of the most important water sources for Argentina, Brazil, Paraguay and Uruguay. We are coordinating a comprehensive study of the area to help mitigate the effects of overuse, contamination and lack of coordinated management. Our mandate includes extensive fieldwork, mapping, groundwater modelling and socioeconomic profiling.

The Artibonite Valley is Haiti's largest rice-producing region, but farmers lack the funds and cultivation skills to make full use of it. We are acting as engineering consultants on a hydrological study of the Estère River as part of the Inter-American Development Bank's agricultural intensification program. The study's findings will open the way for major improvements in agricultural practices in the region.

The Canadian government's First Nations Water Strategy addresses serious concerns about water quality in First Nations communities. Our hydrogeological study of the Listuguj Mi'gmaq community's water source identified problems and potential threats and gave us the necessary information to develop a water source protection plan.

The Government of Vietnam has implemented numerous policies and programs to reduce the country's industrial pollution. Through a series of practical demonstrations, pilot projects, study tours and training activities, we helped Vietnamese environmental authorities and local industrial companies develop a systematic and collaborative approach to environmental management that includes all public and private sector stakeholders.

AltaGas Utilities required a detailed site assessment of its former drilled and abandoned oil well site in Bonnyville, Alberta, 250 km east of Edmonton. Following a study of moisture conditions, current land use, topography, landscape, surface water features, vegetation and soil, we determined how best to expose the original topsoil. We then landscaped and re-vegetated the site and successfully obtained a reclamation certificate from Alberta Environment.

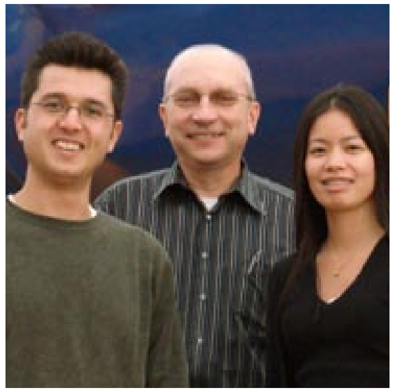
PROJECT PHOTO

Our subsurface investigation into soil and groundwater quality at Vancouver's Southeast False Creek was used to complete a quantitative human health and ecological risk assessment as part of a remedial action plan. Formerly home to shipyards, sawmills and other industrial facilities, the City is redeveloping the area into a mixed-use community, including the Athlete's Village for the 2010 Olympics.

AWARD

The Newfoundland & Labrador Environmental Industry Association awarded us an Environmental Performance Award for the Voisey's Bay nickel mine project. The Award recognizes companies that have gone beyond environmental compliance and demonstrated a commitment to improved environmental performance.

POWER



BRUCE POWER PROJECT EMPLOYEES — TIVERTON, CANADA

SOURCE: HYDRO-QUÉBEC

PÉRIBONKA RIVER HYDROELECTRIC DEVELOPMENT — CANADA

OUR POWER PROJECTS REPRESENT AN INSTALLED CAPACITY OF NEARLY 250,000 MW, OVER 90,000 KM OF TRANSMISSION AND DISTRIBUTION LINES, AND SOME 1,500 SUBSTATIONS.

The 768 MW Eastmain-1-A Project on the Rupert River is the largest hydro project in Canada today. Our engineering and construction support mandate includes a new powerhouse, four dams, 75 dykes, eight channels, a transfer tunnel and a spillway.

The Lac Seul project in northwestern Ontario is a fast track, turnkey contract to build a 12 MW plant on the English River across from an existing plant. We built a tunnel eight metres in diameter under Highway 105 to convey water to the new plant.

Our engineers at Inco's 130 MW Karebbe hydroelectric dam in Indonesia managed the constraints of a narrow work site by using an innovative design that places the spillway on top of the powerhouse.

The 1,227 MW Hadjret En Nouss power plant will be the largest thermal plant in Algeria, supplying about 20% of its energy. We are designing and building the plant, and will operate it under a 20-year contract.

Work has begun on a 550 MW combined cycle thermal power plant at Portlands Energy Centre in Toronto. We will deliver a simple cycle power generator by 2008 to meet the region's critical short-term power needs, and the full combined cycle generator in 2009.

We successfully completed and commissioned the 550 MW Bécancour co-generation thermal power plant in Quebec, and the 825 MW Skikda combined cycle thermal power plant in Algeria in 2006.

We have two projects underway at Bruce Power's nuclear plant in Ontario. The first is a plant refurbishment project, and the second is to replace sixteen 100 tonne steam generators. For the second mandate, we developed a new steam generator removal process that reduces costs and removal/replacement time.

We have an engineering, procurement, construction mandate for AltaLink's new 350 km, 500 kV line from Edmonton to Calgary. The project, which includes upgrades to several substations, is the largest single expansion to Alberta's transmission grid in over 20 years.

Montana Alberta Tie chose us to design and build the first Canada/US cross-border merchant transmission line. The 300 MW, 340 km line will connect Alberta and Montana.

We are upgrading Alinta's distribution management system by installing a GENe SCADA system to monitor and control electricity and gas distribution networks in Melbourne and Sydney, Australia.

We are owner's engineer on a project to interconnect the power systems of Bahrain, Kuwait, Qatar and Saudi Arabia. The project involves 800 km of new transmission lines, six new substations, an undersea cable, and a converter station linking 50 Hz and 60 Hz grids.

PROJECT PHOTO

The plastic concrete diaphragm wall that we designed for the Péribonka dam will set a world record as the deepest of its kind ever built. Varying in thickness from 1.2 m to 1.5 m, it cuts through sand and gravel to anchor in bedrock at a maximum depth of 115 m.

VALUE ADDED IN 2006

In 2006, we installed nearly 1,900 MW of power and delivered mandates for eight greenfield substations, 120 km of transmission line, and energy control systems serving over 3.3 million customers.

CHEMICALS AND PETROLEUM

CHEMICALS AND PETROLEUM EMPLOYEES — CALGARY, CANADA

GULF FARABI N-PARAFFIN/LINEAR ALKYL BENZENE PROJECT — SAUDI ARABIA

WE ARE A SINGLE-SOURCE SOLUTION FOR OUR CLIENTS, ABLE TO EXECUTE PROJECTS ON A COST-PLUS REIMBURSABLE AND LUMP-SUM TURNKEY BASIS ANYWHERE IN THE WORLD.

Our joint venture team completed Husky Energy's Tucker Lake *in situ* project in Alberta to the client's full satisfaction, under budget, in less than 24 months. This was one of the first lump-sum turnkey Steam Assisted Gravity Drainage projects ever undertaken in Alberta.

Engineering is progressing well at North West Upgrading's new 50,000 barrel/day bitumen upgrader in Alberta. We were awarded two more contracts for the project in 2006; one for project management, and the other for engineering, procurement and construction (EPC). We are also applying our expertise in oil sands technology and heavy oil recovery on EPC projects for a froth treatment plant and a secondary upgrader at CNRL's Horizon project.

Construction is underway at Canaport LNG's receiving and re-gasification terminal in New Brunswick. It will be the first terminal of its kind in Canada, and will have a capacity of over one billion cubic feet of natural gas/day.

Saudi Aramco awarded us two new contracts. The first, in joint venture, is to design and build four seawater injection plants with a capacity of over four million barrels of treated seawater/day at its Khurais oil field. The second is to design and build a new 250,000 barrel/day central processing facility, including a gas/oil separation plant, gas compression facilities and utilities at its Shaybah oil field.

We completed preliminary front-end engineering studies at Rosneft's Vankor field in Siberia, and were awarded the detailed engineering contract to design the 400,000 barrel/day central processing facility. Work is being carried out in our offices in the UK and Moscow.

Petróleos de Venezuela SA (PDVSA), awarded us the scoping study for an 800,000 barrel/day Extra Heavy Oil Processing Complex in the Orinoco Oil Belt. The complex is a major component of PDVSA's long-term plan to increase production in the region.

We are working with Texas-based DKRW to develop, design and construct a number of coal-to-liquid fuel projects in Wyoming. This relatively new technology converts coal into ultra low sulphur diesel fuel and captures the CO_2 emissions for commercial use elsewhere.

In the field of ethanol and biofuels, we have projects underway in Ontario and Quebec for Greenfield Ethanol, in Saskatchewan for Wild Horse Bio Fuels, and in the USA for Great Western Ethanol. In France, we have been involved in most of the biofuel projects undertaken in 2006, and are currently building two bio-ethanol plants for Tereos, and providing technical expertise and project management for Diester Industrie and Saipol's oil production and biodiesel complex.

PROJECT PHOTO

We successfully completed the Gulf Farabi project in Saudi Arabia and handed it over to the client with an outstanding safety record of 7.4 million person hours without a lost time incident.

MINING AND METALLURGY

GORO NICKEL PROJECT EMPLOYEES — NEW CALEDONIA

GORO NICKEL PROJECT — NEW CALEDONIA

WE HAVE CARRIED OUT OVER 370 PROJECTS WORLDWIDE IN THE FIELDS OF ALUMINA, ALUMINUM, COPPER, GOLD, NICKEL, STEEL AND ZINC, INCLUDING SOME OF THE LARGEST PROJECTS EVER UNDERTAKEN IN THE INDUSTRY. OUR PORTFOLIO OF CLIENTS INCLUDES LEADING COMPANIES, MANY OF WHOM ARE LONG-TIME OR REPEAT CLIENTS.

Hydro Aluminium of Norway and Qatar Petroleum awarded us the mandate for the design and construction of the potroom building and related service areas for a new primary aluminum smelter in Qatar's Mesaieed Industrial Park. Qatalum will be the largest primary aluminum smelter project ever undertaken in one step, with a peak capacity of 585,000 tonnes/year (tpy).

Alumar, a consortium of Alcoa, BHP Billiton and Alcan, selected us to manage its alumina refinery expansion project in Brazil based on our worldwide expertise in managing large projects, and our integrated project management system, PM+. The project will increase the refinery's capacity by about two million tpy.

We were appointed engineering, procurement and construction manager for the processing plant and associated infrastructure at the 72,000 tpy Cobres Las Cruces greenfield copper facility in Spain. Work will be carried out from our Centre of Excellence for copper in Santiago, Chile, and will involve expertise in leaching, solvent extraction, electrowinning and design.

Our offices in Perth and Brisbane, Australia are providing engineering services for BHP Billiton's Olympic Dam expansion pre-feasibility study in Australia. This is the first phase of what may become the largest copper project in the world.

Our modernization work at the Mopani copper mine has been completed, increasing the smelter's capacity by 250,000 tonnes of concentrate per year. SO_2 emissions are now captured and used to produce sulphuric acid.

We completed a feasibility study for the Ambatovy Nickel Project in Madagascar, and have now been awarded the contract for engineering, procurement and construction management. Its design capacity will be about 60,000 tpy of nickel and 5,600 tpy of cobalt. We have also agreed to acquire a 5% interest in Ambatovy once the project debt financing closes.

We are designing and building a new heap leach pad, primary crusher and associated infrastructure at Barrick Gold's Cortez Hills gold mine expansion project in Nevada, USA. The work will increase production capacity by about 5,000 US tons/yr.

Mine closure and reclamation are important aspects of the sustainable development approach to mining, and our business unit dedicated to this field has doubled its staff in the last two years. We have full-service projects underway across Canada, including a closure mandate at Xstrata's Heath Steel Mine in New Brunswick, and reclamation projects at Normétal's closed mine site in Quebec, and at various closed sites in British Columbia.

PROJECT PHOTO

By year-end the project team had completed earthworks for the process plant and 50% of the concrete at the Goro nickel project in New Caledonia. The port facilities were also completed and the first two of 18 shipments of structural/mechanical modules were delivered. The residue storage berm work has started, and will require seven million cubic metres of fill to complete.

AWARD

Our work on the Alouette aluminum project continues to receive recognition as a model of success. In a letter of appreciation, Alouette praised the team's multidisciplinary expertise, client and community relations, safety record, and project management. The project also received a Grand Prize for Project Management from the Quebec Association of Consulting Engineers.

OPERATIONS AND MAINTENANCE

OPERATIONS AND MAINTENANCE
EMPLOYEES — ESQUIMALT, CANADA

BRUN-WAY TRANS-CANADA HIGHWAY PROJECT — CANADA

OUR TOTAL PORTFOLIO OF OPERATIONS AND MAINTENANCE MANDATES INCLUDES OVER 10 MILLION SQUARE METRES OF SPACE IN MORE THAN 6,800 BUILDINGS, NEARLY 1000 MEGAWATTS OF POWER AND HUNDREDS OF KILOMETRES OF HIGHWAY.

Canada Post has been a long time client and, in 2006, SNC-Lavalin ProFac assumed responsibility for the operation and maintenance of its facilities in western Canada, and renewed its contract for Canada Post facilities in Quebec. This year also marked the first full year of service with Public Works and Government Services Canada after a successful transition in 2005. This is the largest contract of its kind in Canada, covering over three million square metres of space in more than 300 buildings across the country.

We have been providing in-service support for the Canadian Navy in Canada and overseas since the mid-1990s. In 2006 the Department of National Defence added another 10 ships to our portfolio, bringing the total to 36 vessels.

Following the closure of Camp Julien in Kabul, Afghanistan in 2005, the Canadian Armed Forces asked SNC-Lavalin PAE's CANCAP team to provide select remote site support for its troops in Kandahar. We are proud to note that, in March 2006, the Commander of Task Force Kabul awarded 25 CANCAP employees the General Service Medal.

In Algeria, we completed the first year of a 12-year mandate to operate the 825 MW Skikda thermal power plant, which we finished building in November 2005.

SNC-Lavalin ProFac successfully completed the first term of its three-year mandate at the Greater Toronto Airport Authority's (GTAA) cogeneration plant at Toronto's Pearson International Airport. GTAA has now engaged SNC-Lavalin ProFac to manage the Central Utility Plant adjacent to the cogeneration facility.

The Building Owners and Managers Association (BOMA) honoured SNC-Lavalin ProFac with 13 awards in 2006. The awards recognize superior building standards and management, and further underscore SNC-Lavalin ProFac's leadership in the industry. The awards included Certificates of Excellence, Office Building of the Year awards, Go Green Plus awards and an Earth Award. Three buildings managed by SNC-Lavalin ProFac were subsequently recognized as being among the very best managed in Canada.

PROJECT PHOTO

As work on the Trans-Canada Highway progresses in eastern Canada, our Brun-Way consortium has assumed responsibility for the operations and maintenance of another 35 km of road, bringing the total to 168 km.

AWARDS

SNC-Lavalin ProFac was honoured with 13 BOMA awards at the 2006 Building Owners and Managers Association gala ceremony.

INFRASTRUCTURE CONCESSION INVESTMENTS

WILLIAM R. BENNETT BRIDGE PROJECT EMPLOYEES — KELOWNA, CANADA

ALTALINK TRANSMISSION LINE MAINTENANCE — ALBERTA, CANADA

WE MAKE EQUITY INVESTMENTS IN INFRASTRUCTURE CONCESSIONS IN VARIOUS INDUSTRY SECTORS INCLUDING AIRPORTS, BRIDGES, ENERGY, MASS TRANSIT AND ROADS.*

In 2006, we increased our interest in AltaLink, purchased a direct interest in a natural gas distribution business, and signed contracts to design, build and operate a thermal power plant:

– On October 10, 2006, we purchased a 2.42% direct interest in Gaz Métro, a leading Quebec energy company and one of Canada's largest natural gas distributors. Our direct and indirect interests in the company now amount to approximately 6.39%

– We signed two contracts for the 1,227 MW Hadjret En Nouss gas-fired thermal power plant in Algeria; one to design and build the plant, and the other to operate and maintain it. The electricity produced will be sold to Algeria's state-owned electricity and gas distribution utility, Sonelgaz, under a 20-year contract. Our equity participation in Hadjret En Nouss is 26%.

– The transaction to increase our participation in AltaLink from 50% to 76.92% was concluded in 2006. AltaLink's fully regulated transmission system serves about 85% of Alberta's population.

The 500 MW Astoria thermal power plant in Queen's, New York, was completed on schedule and brought into service in May 2006. It will provide electricity for millions of Greater New York customers, mainly through the Consolidated Edison Company, which will purchase power from Astoria Energy during on-peak hours under a 10-year agreement. Our equity participation in Astoria is 21%.

407 ETR has added more than 80 km of new lanes to Highway 407 over the last four years, 53 km of which were added in 2006 alone. Already ahead of its expansion schedule, 407 ETR plans to build another 50 km of new lanes in 2007 between Highways 427 and 401. In addition, following various disputes and litigation issues, 407 ETR reached an amicable settlement with the Ontario Government in 2006. Since the settlement, 407 ETR has been actively implementing various aspects of the agreement, including rewards programs for customers. Our equity participation in Highway 407 is 16.77%.

Construction is progressing well on both the Canada Line rapid transit system and the William R. Bennett Bridge in British Columbia. We have a 33.3% equity participation in InTransit BC, which will operate and maintain the Canada Line under a 35-year concession agreement, and a 100% equity participation in the Okanagan Lake Concession, which will operate and maintain the William R. Bennett Bridge under a 30-year concession agreement.

** For a complete list of our infrastructure concession investments, please see page 51.*

PROJECT PHOTO

AltaLink owns and operates 11,600 kilometres of transmission lines and approximately 260 substations, making it the leading power transmission company in Alberta. Here, AltaLink employees are working atop a 240 kV transmission line more than 40 metres off the ground.

AWARD

407 ETR received the 2006 First Call Resolution Improvement Merit Award from the Service Quality Measurement Group. The Award recognizes improved customer service performance based on a review of over 260 call centres across North America.

AGRIFOOD

AGRIFOOD EMPLOYEES — REIMS, FRANCE

BROSSARD FROZEN PASTRY PRODUCTION FACILITY — FRANCE

WE HAVE OVER 50 YEARS OF INTERNATIONAL EXPERIENCE IN THE AGRIFOOD SECTOR, AND CAN PROVIDE TOTAL PROJECT MANAGEMENT, FROM INVESTMENT DECISIONS AND ENGINEERING TO COMMISSIONING.

Facing growing supply demands, Délifruit hired us to increase the storage capacity of its warehouse in Saint-Donat-sur-l'Herbasse, France. We extended the 6,000 m^2 warehouse and built a new 1,200 m^2 shipping area, as well as a number of smaller auxiliary buildings. The project tripled the site's storage capacity to 13,500 palettes.

We completed refurbishment work at Servair's 10,000 m^2 airline catering facility near Paris-Charles de Gaulle Airport. To ensure that operations could continue uninterrupted during construction, we performed the work in four phases and built mobile clean rooms to be used while the existing buildings were being renovated. Everything but the outer structure was completely redone.

Among our North American mandates in 2006, Kool Desserts awarded us a contract to design and build its dairy dessert production facility in Saint-Hyacinthe, Quebec. We completed the project in just under a year and the facility is now in commercial production.

We expanded our reach in Ontario as a number of repeat agrifood clients awarded us contracts in the province. Our mandates included hazard and operability analyses (HAZOP), heating, ventilation and air conditioning (HVAC) work, and the installation of new filling and packaging lines.

PROJECT PHOTO

Brossard's frozen pastry production facility in Castelsarrasin, France, required a new production unit to bring it up to modern standards. Working closely with Brossard, we designed and built a new 7,000 m^2 production unit on the original site in accordance with the industry's latest food sanitation rules. We completed construction and moved the existing production lines into the new building in only six months, with no interruption to the production process during construction.

PHARMACEUTICALS AND BIOTECHNOLOGY

PHARMACEUTICAL EMPLOYEES — TORONTO, CANADA

GLAXOSMITHKLINE (GSK) VACCINE PRODUCTION PLANT — CANADA

WE PROVIDE GLOBAL SOLUTIONS TO BIOTECHNOLOGY, PHARMACEUTICAL AND MEDICAL CLIENTS. OUR 500 EXPERTS AND TECHNICAL STAFF DELIVER COMPLETE PROCESS ENGINEERING, AUTOMATION, VALIDATION AND CONSTRUCTION MANAGEMENT SERVICES TO CLIENTS IN NORTH AMERICA, EUROPE AND ASIA.

CIBA Vision Canada's sterile manufacturing facility near Toronto is its worldwide centre of excellence for producing Lens Care products. Our detailed designs for expanding and renovating the facility must comply with international regulatory requirements as well as those in Canada and the USA. Our planning and execution strategy must also ensure minimal interruption to existing operations during each phase of this multi-year project.

Becton, Dickinson and Company selected us to design and build a 6,000 m^2 manufacturing facility in Quebec. It will produce diagnostic testing kits for the rapid detection of bacterial organisms, including those associated with hospital infections. The manufacturing process requires stringent environmental controls to prevent contamination of the molecular testing kits during fabrication.

Genzyme awarded us the first phase of a full-service engineering, procurement, construction management and validation contract to design and build a new biotechnology facility in Lyon, France. The 11,800 m^2 facility will include a manufacturing area, warehousing space, laboratories and offices.

Our offices in Paris and Lyon are providing specialized expertise for major renovations to modernize the historic Pasteur Institute in Paris. We are installing 21st century laboratories and other facilities in two historical buildings, one over 100 years old and the other dating back to the 1930s.

We completed a new Quality Control Centre for GSK in Wavre, Belgium that regroups all its quality control activities throughout the country. It has a total surface area of 110,000 m^2, and includes 9,000 m^2 of analysis and control laboratories designed to three biosafety levels, a power plant and offices.

In March 2006, we created a team of biopharmaceutical specialists within our existing office in Mumbai, India. The team has already conducted a feasibility study for Janssen, and is working on a number of other projects in India.

PROJECT PHOTO

We are on schedule for a fast track, 15 month mandate to expand GSK's vaccine production plant in Quebec. We are upgrading existing systems and building new facilities to increase the plant's production capacity to approximately 75 million doses of Fluviral™ influenza vaccine per year.

ACQUISITION

Our offices in Ontario expanded in 2006 with the acquisition of LKM & Partners. LKM further strengthens our expertise in advanced engineering in the healthcare, pharmaceutical, educational, commercial, multi-residential and light industrial sectors.

INDUSTRIAL

INDUSTRIAL EMPLOYEES — MONTREAL, CANADA

SOURCE: CAMECO CORP.

CAMECO'S NUCLEAR CONVERSION FACILITY — CANADA

WE MAINTAIN FULL SERVICE CAPABILITIES, AS WELL AS SPECIALIZED EXPERTISE IN AREAS SUCH AS INSTRUMENTATION AND AUTOMATION, MATERIAL HANDLING, MACHINERY DESIGN, FILLING AND PACKAGING LINES, AND SULPHURIC ACID.

The polystyrene plant we designed for NOVA Chemicals in Ohio is a 10-fold scale-up of a pilot plant we designed for them previously. We saved time and money on the complex piping system by doing all the engineering in 3D, prefabricating 1,800 spools of large and small bore pipe, and developing a bar-coding system to track the spools through the fabrication, shipping, storage and installation processes.

Despite a tight schedule and confined working environment, we achieved a flawless safety record with no lost time incidents on the Trans Quebec & Maritime Pipeline (TQM) project. We installed two new 7 MW electric compressors at TQM's station in Lachenaie, Quebec and programmed its automated control systems, ensuring full integration with the existing systems. One unit will increase gas flow to Quebec City, and the other will act as a back-up to an existing compressor unit on the Portland Natural Gas Transmission System between Lachenaie and Portland, Maine.

PSA Peugeot Citroën awarded us a second turnkey contract at its Power Train Test Facility in Carrière-sous-Poissy, France. We will design and build a series of 20 complex test facilities, some of which will include new gas analysis and driving simulation technologies.

In sulphuric acid, we are working on plants at Doe Run's copper smelter in Peru, and building two new 1,575 tonne/day double absorption plants for the Sredneuralsky Copper Smelter in Russia. The new plants will use SO_2 captured from the smelter, reducing atmospheric emissions by up to 99.7%. We are also expanding the sulphuric acid plant at Cameco's uranium mine in Canada; designing a new fertilizer complex and a 4,500 tonne/day sulphuric acid plant for IEFCO in Egypt; and expanding sulphuric acid plant capacities for Euro Chem Fertilizer's facilities in Russia.

PROJECT PHOTO

We are remediating Cameco's nuclear conversion facility in Port Hope, Canada. It is the world's largest nuclear conversion facility, and the only North American producer of the particular fuel used in CANDU reactors. A key part of our mandate is to ensure the plant remains operational while we do extensive soil decontamination and building replacement work.

WE CARE & SUSTAINABILITY

A Progress Report

2006 WAS A PIVOTAL YEAR AT SNC-LAVALIN IN TERMS OF ENSURING ONGOING AWARENESS AND ACTIVE SUPPORT FOR THE KEY VALUES THAT ARE FUNDAMENTAL TO US AS A COMPANY, AND AS INDIVIDUALS.

You may have noticed reference to our WE CARE Policy in the Health, Safety, Environment and Sustainability Report of our 2005 Annual Report. As our WE CARE values reflect the sum of all our initiatives related to health, safety, the environment and sustainable development, we have renamed this section accordingly, and will continue to report annually on our progress in these areas under WE CARE headings.

We introduced our WE CARE Value Statement in January 2006 to reinforce the fact that these values have formed the cornerstone of our culture for nearly 100 years, and that they remain key factors in our ability to achieve growth year after year. Throughout 2006, we instituted programs and initiatives to promote these values and measure the progress we have made, and continue to make, in each area.

By December 2006, we had a framework in place to realign corporate and individual business unit programs and activities in support of our values. A WE CARE Task Force supported by the Office of the President will ensure continuity in our corporate programs and the development of new ones, and see that individual division initiatives are acknowledged and highlighted.

Following is our 2006 Progress Report in support of each WE CARE value:

EMPLOYEE WELL-BEING

Our employees are our most important asset, and we are committed to providing a positive working environment, benefits packages and programs that are competitive with leading companies in the industry, and an opportunity for employees to participate in and benefit from the growth of SNC-Lavalin. A range of new initiatives launched in 2006 are indicative of our approach to employee well-being. Corporate examples include: the launch of an Employee Assistance Program, widespread presentations on our Employee Share Ownership Program, smoking cessation seminars, retirement planning seminars for eligible employees and the reduction or elimination of waiting periods for employees to participate in benefits programs. Local initiatives include: mentoring programs; employee activity days; on-site flu vaccinations and regular employee feedback meetings.

HEALTH & SAFETY

Our commitment to health and safety on project sites and in our offices worldwide has been a core value since our founding 1911. In 2006, we continued efforts towards achieving our goal of industry leadership in this area by implementing measures to support safety performance management, risk reporting and analysis, culture and process measurement and e-learning.

WE CARE VALUE STATEMENT

WE CARE advocates an awareness of elements that SNC-Lavalin considers to be the cornerstones of our daily work, and which apply to all our offices and to the execution of each and every project.

WE CARE about our employees, their personal growth, career development and general well-being.

WE CARE about the safety of our employees and the individuals who work under our supervision, and about the safety of the end users of our expertise.

WE CARE about the communities in which we live and work and their sustainable development, and take our responsibilities as a global citizen seriously.

WE CARE about the environment, and about conducting our business in an environmentally responsible and sustainable manner.

WE CARE & SUSTAINABILITY (continued)

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WE CARE IN ACTION

In 2006, SNC-Lavalin employees demonstrated their support for WE CARE values through various innovative initiatives internally, on project sites and in the communities in which we live and work worldwide. Some examples:

A Our Construction Division team working on the Barahona water treatment plant and conveyance system project in the Dominican Republic distributed exercise books and pencils to over 2,000 children in a dozen schools located along the water system.

B SNC-Lavalin linked up with its clients for the Canaport liquefied natural gas project in St. John, New Brunswick to hold a "Children's Road Safety Day" to teach local children how to cycle and play safely along the much-travelled route to the project site.

C SNC-Lavalin Engineers & Constructors in Toronto contributed to the quality of life of young people and their community in Iqaluit, Nunavut when they organized two celebrity hockey games in Iqualit with the National Hockey League Alumni team to raise money for repairs to the floor of the town's Arctic Winter Games Arena.

In addition, we began 2006 by issuing a new Safety Manual and a deployment plan for six WE CARE safety strategies. These include: integrating safety with business planning and goals, measuring and assessing SNC-Lavalin's safety culture, and an obligation for project teams to provide not only detailed reports on incidents and safety milestones achieved, but also on new and innovative measures which have resulted in improved safety performances, so that we can continue to learn from our successes, as well as our failures.

SNC-Lavalin is committed to improving our safety statistics annually, and is proud of ongoing efforts by all employees to improve the quality of their safety management. Following are some examples of safety milestones achieved in 2006:

- Six million person hours worked without a recordable incident on our n-Paraffin & Linear Alkyl Benzene Project for Gulf Farabi in Jubail, Saudi Arabia.
- Three million person hours without a lost time injury (LTI) completed by SNC-Lavalin Gulf Contractors on 17 district cooling projects in the United Arab Emirates.
- Four million person hours without an LTI on the Dubal 79B Aluminum Smelter Expansion Project in Dubai.
- Two million person hours worked without an LTI at the thermal power plant project in Skikda, Algeria.

COMMUNITY RELATIONS

SNC-Lavalin continued to forge links with communities in Canada and worldwide in 2006, demonstrating its commitment to sustainable development through local initiatives launched by project teams, direct partnerships with clients in communities adjacent to projects, and through volunteering by employees in their own communities. Our project teams in particular have a long history of leaving a social, as well as a technical footprint behind them once a project is completed. A recent example is the Taksebt water treatment project team in Algeria, who, along with SNC-Lavalin Maghreb, raised and

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donated enough money in December 2006 to enable local town authorities to construct an extension to a residence for elderly and handicapped people, and provide new furnishings, practical accessories, clothing and milk for 28 children in an orphanage.

Further examples of SNC-Lavalin at work in its communities worldwide in 2006 are depicted on these pages.

ENVIRONMENT

Important progress was made in 2006 in assisting both managers on project sites and division heads in our offices worldwide in providing quality environment management.

Project site examples include: eight construction site environment management manuals custom-made for specific project needs; a Construction Site Environment Audit Protocol providing an internal environment audit for business units and a new environmental module added to our project management software, PM+, which allows divisions to report on the environmental performance of every single project under their jurisdiction.

By the end of 2006, a combination of these new measures and a renewed commitment to manage for quality had resulted in an increasing number of our construction sites worldwide reporting environmental performance, measuring lagging indicators such as environmental incidents, and leading indicators such as site inspection, audits completed and numbers of employees trained.

We are also proud to report that for the third year in a row, all our project managers reported on their projects' compliance to the requirements of the Corporation's Environmental Policy.

Office site examples of quality environment management include: an ongoing survey of all divisions to identify environmentally-friendly practices already in place – such as carpooling, recycling and energy conservation. Based on results, tips for running a more environmentally sustainable office are being passed on via a new web page on our intranet.

WE CARE IN ACTION

D The Governor General of Canada, Her Excellency Michaëlle Jean marked her visit to the site of the Shariket Kahraba Hadjret En Nouss thermal power plant we are constructing in Algeria by planting one of the 150 trees our project team has planned for the facility. The initiative is consistent with the team's objective to carry out its work in an environmentally sustainable manner.

E SNC-Lavalin offices right across Canada, as well as some international project teams, marked Canada's Healthy Workplace Week in October 2006 by handing out pedometers to employees to encourage daily walking, and by providing tip sheets for staying healthy.

F SNC-Lavalin ProFac in Toronto partnered with York University to help fund the York Youth Connection Camp with a $40,000 donation. We also supplied backpacks and water bottles to the hundreds of young campers and sponsored an end-of-summer BBQ at the University.

Management's Discussion and Analysis

TABLE OF CONTENTS

1. HIGHLIGHTS

INCREASE IN 2006 NET INCOME

- Consolidated net income amounted to $158.4 million in 2006, compared to $129.9 million in 2005.
- Net income excluding Highway 407 increased by 11.6% to $150.3 million in 2006 from $134.6 million in 2005, within the Company's target annual growth range of 7% to 12%.
- Return on Average Shareholders' Equity, excluding Highway 407, reached 18.0% in 2006, compared to 17.9% in 2005, surpassing the Company's target.

INCREASE IN REVENUES IN 2006

- Consolidated revenues increased to $5.2 billion in 2006, compared to $3.5 billion in 2005.

DISCONTINUED OPERATIONS - DISPOSAL OF SNC TEC SUBSEQUENT TO DECEMBER 31, 2006

- In January 2007, SNC-Lavalin concluded the sale of all its shares in SNC TEC to a third party for proceeds of $335.9 million, subject to certain adjustments, which will result in a gain before taxes of approximately $113 million (net gain after taxes of $83 million) in 2007. As such, SNC TEC's results are now presented as discontinued operations in 2006, with previous years' figures being reclassified accordingly.

ADDITIONS AND DISPOSAL OF INFRASTRUCTURE CONCESSION INVESTMENTS

- In October 2006, SNC-Lavalin invested $50.0 million for a 2.42% direct participation in Gaz Métro Limited Partnership ("Gaz Métro"), a publicly traded entity mainly involved in natural gas distribution in Canada and the U.S., bringing its total participation, directly in Gaz Métro and indirectly through its investment in Trencap L.P., to approximately 6.39%.
- In July 2006, SNC-Lavalin announced its commitment to invest in a 26% indirect interest in Shariket Kahraba Hadjret En Nouss S.p.A., a newly established company which will build, own and operate a 1,227 MW gas-fired power plant in Algeria. This investment will amount to approximately US$66.8 million. The engineering, procurement and construction ("EPC") and operations and maintenance contracts were concurrently awarded to SNC-Lavalin.
- Effective May 31, 2006, SNC-Lavalin increased its participation from 50% to 76.92% in AltaLink, an electricity transmission facility owner whose business is the ownership and operation of regulated electricity transmission facilities in the Province of Alberta.
- On March 30, 2006, SNC-Lavalin sold its investment in a rate-regulated Australian electricity transmission line ("Murraylink"), which resulted in a net loss after taxes of $4.6 million.

ACQUISITIONS OF BUSINESSES

- In 2006, SNC-Lavalin completed the acquisition of three engineering firms: Geomar International Inc. and LKM & Partners Inc., in Canada, and Ingénierie Studio S.A.S, in France, for a total cash consideration of $10.0 million.

SOLID FINANCIAL POSITION

- The Company's consolidated balance sheet position remained solid, with cash and cash equivalents of $1,106.3 million as at December 31, 2006, to which the $335.9 million proceeds from the disposal of SNC TEC were added in January 2007.

INCREASE IN BACKLOG

- Consolidated revenue backlog at the end of 2006 was $10.4 billion, compared to $7.5 billion at the end of 2005, reflecting an increase mainly in the Packages and Services categories, as well as the inclusion of approximately $1.4 billion in revenue backlog from the AltaLink infrastructure concession investment following SNC-Lavalin's acquisition of control.

2007 OUTLOOK

- The Company's strong backlog, coupled with its solid balance sheet position and the various opportunities in almost all its operating segments provide a solid basis for continued growth in its profitability in 2007.

DIVIDEND INCREASE

- The Company's Board of Directors approved, on February 23, 2007, a dividend of $0.09 per share, a 28.6% increase from the previous dividend declared, reflecting a positive outlook.

CHANGES IN PRESENTATION AND ADDITIONAL DISCLOSURE

- In previous years, the Operations and Maintenance, Defence (comprised of SNC TEC), and Infrastructure Concession Investments segments were grouped into the "Concessions" category. In 2006, following the presentation of SNC TEC as discontinued operations, the "Concessions" category has been replaced by the Operations and Maintenance, and Infrastructure Concession Investments categories, with a reclassification of the previous years to conform with this new presentation.
- Following the acquisition of control in AltaLink during the second quarter of 2006, the Company added disclosure regarding additional information on its Infrastructure Concession Investments to its audited consolidated financial statements, to provide the reader with a better understanding of the Company's underlying assets, earnings base and financial resources.
- Also in 2006, Highway 407, which was disclosed separately in the past, is now regrouped under the Infrastructure Concession Investments segment, which now reflects all of the Company's infrastructure concession investments. The Company, however, continues to disclose its 16.77% proportionate share of Highway 407's net income (loss) as supplementary information, as this information is important in assessing the Company's fair value.

All financial information in this Management's Discussion and Analysis is in Canadian dollars, unless otherwise stated. All references to stock option compensation data, as well as all share and per share data in this Management's Discussion and Analysis and in the 2006 audited annual consolidated financial statements reflect the three-for-one stock split announced on February 24, 2006.

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 the Company's business, the Company's business strategy and performance, the Company's expectations of the future, and how the Company manages risk and capital resources. It is intended to enhance the understanding of the audited consolidated financial statements and accompanying notes, and should therefore be read in conjunction with these documents. 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.

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 and/or results could differ materially from those expressed or implied in such forward-looking statements, or could affect the extent to which a particular projection materializes.

2. OVERVIEW OF OUR BUSINESS AND STRATEGY

2.1 OUR BUSINESS

The Company provides engineering, construction, and operations and maintenance expertise through its network of offices located in over 30 countries, and is currently active on projects in some 100 countries.

SNC-Lavalin also makes selective investments in infrastructure concessions that are complementary to the engineering, construction, and operation and maintenance activities, for which its technical, engineering, construction, project management and operations and maintenance expertise, along with its experience in arranging project financing, represent a distinctive advantage.

2.2 OUR BUSINESS STRATEGY

SNC-Lavalin's business strategy is based on three key components and provides the flexibility necessary to remain attuned to market demands and to adapt to a rapidly changing environment. These three key components are:

- Maintain world-class technical expertise, continue to build on this expertise, and expand into other sectors;
- Develop well-established engineering bases in several key geographic areas; and
- Continue to invest in infrastructure concessions.

This business strategy, associated with strong operating efficiencies, which include a strong culture of financial accountability among its workforce, and the diversity of its revenue base, has permitted the Company to achieve sustained results for over a decade and to pay increasing dividends to its shareholders.

2.3 HOW WE ANALYZE OUR RESULTS

The Company's results are evaluated and reported based on segments, and are also reported by category of activity.

RESULTS BY SEGMENT

The Company's results are **evaluated by segment**. The segments regroup business units with related activities within SNC-Lavalin and are as follows: **Infrastructure and Environment, Power, Chemicals and Petroleum, Mining and Metallurgy, Operations and Maintenance, Infrastructure Concession Investments** and **All Other** segments. Their revenues are from four categories of activities: Services, Packages, Operations and Maintenance, and Infrastructure Concession Investments.

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

RESULTS BY CATEGORY OF ACTIVITY

Results by category of activity 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 engineering services, feasibility studies, planning, detailed design, contractor evaluation and selection, construction management and commissioning.

  Services revenues are derived primarily from cost-plus reimbursable contracts. Engineering, procurement and construction management ("EPCM") contracts are a common type of Services activity. Services revenues are driven by the value of our technical expertise and our ability to provide our expertise to clients, at the time and location needed.

- **Packages revenues**, in which SNC-Lavalin undertakes procurement and/or construction activities in addition to engineering services, are derived primarily from fixed-price contracts, which include lump-sum turnkey contracts. Engineering, procurement and construction ("EPC") contracts are a common type of Packages activity. Packages projects that are referred to as "lump-sum turnkey" projects result in the clients taking delivery of their completed projects or facilities, up and running under certain specified requirements.

  Packages revenues are driven by our technical expertise and our ability to manage the engineering, procurement and/or construction aspects and to deliver the required projects and facilities at the time and location needed and per the estimated cost. Engineering, procurement and construction-related activities, which are incorporated in Packages, result in higher revenues and, despite generating a lower gross-margin to revenue ratio compared to Services activities, usually result in a higher gross margin per project. This higher per project gross margin on Packages projects compared to Services projects reflects the higher risk level resulting from the possibility of cost overruns and penalties related to our performance.

- **Operations and Maintenance revenues** are derived primarily from cost reimbursable with a fixed-fee and fixed-price contracts. Operations and Maintenance include contracts to provide operations, maintenance and logistics solutions for real estate, power plants, water supply and treatment systems, postal services, highways, light rail transit systems, military operations and ships.

  Operations and Maintenance activities allow SNC-Lavalin to combine such activities with Services or Packages, offering all-inclusive contracts that meet clients' needs. Operations and Maintenance activities usually involve a high volume of transactions and a gross margin-to-revenue ratio lower than Services activities.

- **Infrastructure Concession Investments revenues** are generated from dividends received by SNC-Lavalin or from all or a portion of the investment's net results or revenues, depending on the accounting method required by Canadian generally accepted accounting principles ("GAAP") (refer to section 2.5 below) for each of its infrastructure concession investments. In addition to generating recurring revenues, SNC-Lavalin's ability to selectively invest in infrastructure concession investments creates synergies in certain instances by making available its technical expertise.

In previous years, the Operations and Maintenance, Defence (comprised of SNC TEC), and Infrastructure Concession Investments segments were grouped into the "Concessions" category. In 2006, following the presentation of SNC TEC as discontinued operations, the "Concessions" category has been replaced by the Operations and Maintenance, and Infrastructure Concession Investments categories, with a reclassification of the previous years to conform with this new presentation.

Notwithstanding the disposal of SNC TEC in 2007, the Company remains active in the defence industry, notably in defence contracting and providing operations and maintenance services to the Canadian Navy, as well as remote-site infrastructure and logistics support for the Canadian Armed Forces overseas. The Company continues to report its activities in the defence industry under the segment to which they relate, which is currently mainly under Operations and Maintenance.

2.4 IMPACT OF THE DISPOSAL OF SNC TECHNOLOGIES INC. SUBSEQUENT TO DECEMBER 31, 2006

On February 23, 2006, SNC-Lavalin entered into an agreement with a third party to sell all its shares in its wholly-owned subsidiary SNC Technologies Inc. and its subsidiaries ("SNC TEC") for proceeds of $335.9 million, subject to certain adjustments, which will result in a gain before taxes of approximately $113 million (net gain after taxes of $83 million). The transaction was subject to Canadian government approval and regulatory approvals in Canada, the U.S. and Europe. Following the receipt of all necessary approvals, the transaction was concluded on January 5, 2007. SNC TEC is involved in the manufacturing of small, medium and large calibre ammunition, extruded propellant for military purposes and sporting use, and the production of Simunition® training systems.

At the time this Management's Discussion and Analysis was prepared, the transaction was concluded, therefore, SNC TEC's financial results were reclassified in the 2006 audited consolidated financial statements as discontinued operations and assets held for sale as required under Canadian GAAP. However, the gain on disposal will be reflected in the 2007 financial results since the sale was concluded in January 2007 (refer to section 15).

The financial results of SNC TEC were previously presented under the Defence segment while they are now disclosed under discontinued operations. Also, SNC TEC's revenues and expenses have been reflected in "Net income from discontinued operations" in the Company's consolidated statement of income, while SNC TEC's assets and liabilities have been aggregated under "Assets held for sale" and "Liabilities related to assets held for sale" on the consolidated balance sheet. Accordingly, comparative figures for the prior periods have been restated to conform with the current year presentation.

2.5 IMPACT OF THE INFRASTRUCTURE CONCESSION INVESTMENTS ON THE AUDITED CONSOLIDATED FINANCIAL STATEMENTS

The Company's audited consolidated financial statements have been prepared in accordance with GAAP. Under GAAP, SNC-Lavalin's infrastructure concession investments are accounted for by either the cost, equity, proportionate consolidation or full consolidation methods depending on whether SNC-Lavalin exercises, or not, significant influence, joint control or control. As a result, the Company's consolidated balance sheet includes the line by line impact of consolidating and proportionately consolidating some of its infrastructure concession investments.

Contrary to Services, Packages and Operations and Maintenance activities, infrastructure concession investments are often capital intensive. This is due to the ownership of infrastructure assets that are financed mainly with project specific debt, which is non-recourse to the general credit of the Company. Therefore, when consolidating or proportionately consolidating such investments, the main impact on the Company's balance sheets is on the property and equipment, and the non-recourse long-term debt accounts. Accordingly, in the past, additional information was disclosed with SNC-Lavalin's investment in 407 International Inc. ("Highway 407" is used throughout this document as SNC-Lavalin's proportionate share of the results of 407 International Inc.) accounted for on the equity basis (i.e. single line item), mainly **to provide the reader of the Company's consolidated financial statements with a better understanding of the Company's consolidated balance sheet**.

In 2006, SNC-Lavalin increased its participation from 50% to 76.92% in AltaLink Holdings, L.P., which owns AltaLink, L.P. (collectively called "AltaLink"), an electricity transmission facility owner whose business is the ownership and operation of regulated electricity transmission facilities in the Province of Alberta. This transaction resulted in an acquisition of control and in the full consolidation under GAAP of this infrastructure concession investment, increasing significantly in 2006 the impact on the Company's balance sheet from consolidated and proportionally consolidated infrastructure concession investments.

Consequently, **in order to provide the reader of the financial statements with a better understanding of the impact from all its infrastructure concession investments on the Company's consolidated financial statements, more specifically on its consolidated balance sheet, the following disclosure has been added:**

- On the consolidated balance sheet, the property and equipment and the related non-recourse long-term debt of infrastructure concession investments are shown on separate lines;
- In Note 2A to the audited consolidated financial statements, the Company presents additional information about the line by line impact on the consolidated balance sheet from its investments and provides the net book value for its infrastructure concession investments by the method accounted for by SNC-Lavalin; and
- In certain other notes to the audited consolidated financial statements, information on infrastructure concession investments is disclosed separately from other activities, such as interest expense and depreciation expense on property and equipment.

As Highway 407 is now included in the Infrastructure Concession Investments segment, the above additional disclosure **provides the reader of the financial statements with a comprehensive understanding of the impact of this segment on the Company's balance sheet** and has replaced the additional information provided in the past with the investment in 407 International Inc. accounted for on an equity basis. The Company, however, continues to disclose its share of Highway 407's net income (loss) as supplementary information, as this information is important in assessing the Company's fair value, as further discussed in section 2.6.

2.6 HOW THE COMPANY IS GENERALLY VALUED

Based on the nature of the Company's business, most financial analysts and investors who monitor the Company's performance estimate the Company's fair value as the sum of the following three components:

1. **Value of the Company's business excluding Highway 407 and freehold cash**. Such value is calculated based on a price/earnings multiplier applied to consolidated net income excluding SNC-Lavalin's share of Highway 407's net income (loss), excluding the after-tax interest income on freehold cash, and excluding, if any, non-recurring gains or losses. SNC-Lavalin's proportionate share of Highway 407's net income (loss) is excluded since the value of Highway 407 is based on expected future cash flows, as described below.
2. **Value of SNC-Lavalin's investment in Highway 407**, based on a stand-alone estimate of fair value. The fair value is calculated using a discounted expected future cash flows methodology, which is more relevant than a price/earnings methodology. The fair value is further validated, when available, by the actual price from arm's length transactions. The latest such transaction occurred in October 2004 through an exchange of shares between Macquarie Infrastructure Group and Cintra Concesiones de Infraestructuras de Transporte, S.A. The value of this transaction would represent approximately $839.1 million at that date when applied to the 16.77% share of Highway 407 owned by SNC-Lavalin.
3. **Value of freehold cash**, defined as the amount of cash and cash equivalents that is not committed for the Company's operations and not committed for investments in infrastructure concession investments (refer to section 8.2).

It should be noted that, although used by most of the financial analysts and investors who monitor the Company's performance, this methodology is not the only way to estimate the Company's fair value. The description of this methodology is intended to provide the reader with a better understanding of how the market generally evaluates the fair value of the Company and help the reader understand why management discloses certain financial information through this Management's Discussion and Analysis and the audited consolidated financial statements.

2.7 OUR KEY FINANCIAL PERFORMANCE INDICATORS

The Company regularly evaluates its performance using key financial indicators, namely:

- **Net Income excluding Highway 407**. This financial indicator, which is useful in estimating the Company's fair value as explained above, is also used by the Company to communicate its growth objective, as the Company focuses on net income growth as opposed to revenue growth, and to measure its performance;
- **Return on Average Shareholders' Equity excluding Highway 407**, used as a measure of return on equity; and
- **Net Cash Position, excluding net cash position from infrastructure concession investments**, a key indicator of the Company's financial capabilities.

The Company also uses other indicators to evaluate its performance, such as consolidated net income, operating income by segment, gross margin by project and by category of activity, internal rate of return and dividends from infrastructure concession investments, cash flows from operating activities, recourse debt-to-capital ratio, working capital, capital expenditures compared to depreciation (excluding infrastructure concession investments), level of general and administrative expenses compared to gross margin, and revenue backlog.

The Company does not use earnings before interest, taxes, depreciation and amortization ("EBITDA") to evaluate its performance, as the interest revenues and expenses are part of its activities, whereby the positive cash flows on projects generate interest revenues, while negative cash flows reduce the Company's interest revenues.

Some of the indicators used by the Company 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 for the evaluation of the performance of the Company and its components based on various aspects, such as past, current and expected profitability and financial position. 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.

The following table presents a summary of key financial performance indicators and compares the results achieved as at or for the years ended December 31, 2006 and 2005 with the Company's targets.

As highlighted below, the Company either met or surpassed its targets on profitability growth and on return on average shareholders' equity excluding Highway 407 in 2006 and 2005, while maintaining a strong balance sheet.

FINANCIAL INDICATOR	FINANCIAL OBJECTIVE	FINANCIAL INDICATOR ACTUAL RESULTS	
		2006	2005
Growth in net income excluding Highway 407	Annual growth between 7% and 12%	**11.6%**	13.5%
Return on Average Shareholders' Equity ("ROASE") excluding Highway 407	At least equal to long-term Canada Bond Yield plus 600 basis points (totalling 10.27% for 2006 and 10.43% for 2005)	**18.0%**	17.9%
Net cash position (cash and cash equivalents, excluding cash and cash equivalents from infrastructure concession investments, less recourse debt)	Maintain a strong balance sheet with a net cash position sufficient to meet expected operating, financing and investing plans	**$ 979.9 M**	$ 1,032.1 M

The 2006 growth in net income excluding Highway 407 of 11.6% takes into consideration the results of SNC TEC, which are disclosed as discontinued operations, consistent with the view that SNC TEC contributed to the profitability of the Company up to its disposal, while the growth in net income from continuing operations excluding Highway 407 was approximately 16.4%.

3. OVERALL FINANCIAL PERFORMANCE AND 2007 OUTLOOK

(IN MILLIONS OF CANADIAN DOLLARS, UNLESS OTHERWISE INDICATED)		**2006**		2005		2004
Net income from continuing operations	**$**	**136.6**	$	105.6	$	87.2
Net income from discontinued operations, net of taxes		**21.8**		24.3		16.9
Net income		**158.4**		129.9		104.1
Highway 407, net income (loss) included above		**8.1**		(4.7)		(14.5)
Net income excluding Highway 407	**$**	**150.3**	$	134.6	$	118.6
Earnings per share from continuing operations ($)						
Basic	**$**	**0.90**	$	0.70	$	0.57
Diluted	**$**	**0.89**	$	0.69	$	0.57
Earnings per share ($)						
Basic	**$**	**1.05**	$	0.86	$	0.69
Diluted	**$**	**1.04**	$	0.85	$	0.68

3.1 CONSOLIDATED NET INCOME

- **Consolidated net income in 2006 was $158.4 million** ($1.04 per share on a diluted basis), compared to $129.9 million ($0.85 per share on a diluted basis) in 2005, resulting from increased contributions mainly from the Infrastructure and Environment, and Chemicals and Petroleum segments, partly offset mainly by the Power segment. Also contributing to the increase in consolidated net income was the Company's share in net income from Highway 407 of $8.1 million in 2006, compared to a share in net accounting loss of $4.7 million in 2005, primarily due to lower interest expense from inflation-linked bonds coupled with higher revenues.
- **Net income from discontinued operations, net of taxes, was $21.8 million in 2006**, compared to $24.3 million in 2005. Net income from discontinued operations represents the after-tax contribution from the SNC TEC operations.
- **Net income excluding Highway 407 increased by 11.6%, to $150.3 million in 2006,** from $134.6 million in 2005, within the Company's financial objective of attaining an annual increase between 7% and 12%.

3.2 CONSOLIDATED REVENUES

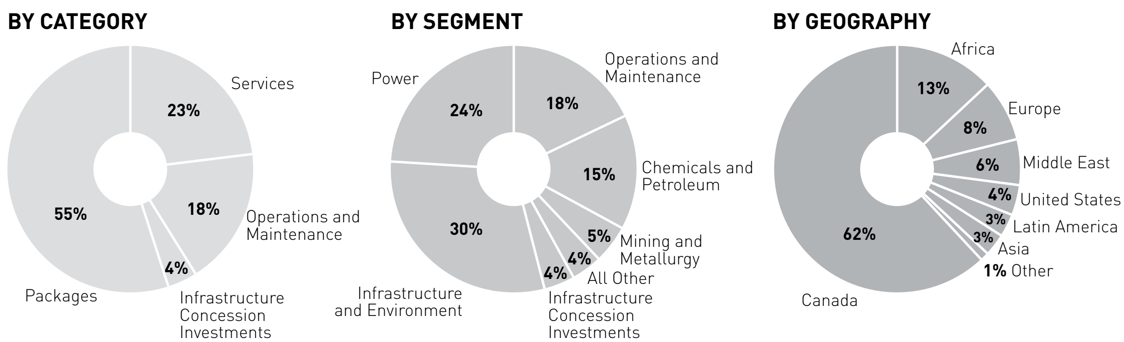
Consolidated revenues increased to $5,150.4 million in 2006, compared to $3,450.9 million in 2005, reflecting an increase in all revenue categories. The increase in Packages revenues was mainly due to the Infrastructure and Environment, Power, and Chemicals and Petroleum segments, while the increase in Services revenues was mainly due to the Chemicals and Petroleum, Infrastructure and Environment, All Other, and Mining and Metallurgy segments. Operations and Maintenance revenues increased in large part from increased volume on certain ongoing contracts, while the increase in Infrastructure Concession Investments revenues was mainly due to the full consolidation of AltaLink following SNC-Lavalin's acquisition of control in the second quarter of 2006.

Consolidated revenues in 2005 were $3,450.9 million, compared to $3,157.4 million in 2004, reflecting an increase in all revenue categories. Packages revenues increased mainly in the Infrastructure and Environment segment, partially offset by a decrease in the Chemicals and Petroleum segment. The increase in Services revenues was mainly due to increased activities in the Chemicals and Petroleum, and Infrastructure and Environment segments, partially offset by a decrease in the Mining and Metallurgy segment. The increase in Operations and Maintenance was in large part due to increased activities from a contract awarded in late 2004. The increase in Infrastructure Concession Investments revenues was mainly from Highway 407.

2006 REVENUES

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.

2006 Revenues



3.3 ECONOMIC TRENDS

As expected last year, the growth in the world's Gross Domestic Product ("GDP") in 2006, based on preliminary figures, was in line with the growth in 2005, with energy and commodity prices remaining strong in 2006 compared to historical data, with high demand and limited supplies. In 2007, the expected slowdown in growth of the United States' economy should contribute to slower growth in the world's GDP and result in softer energy and commodity prices, which are nevertheless expected to remain at levels sufficiently profitable to stimulate extraction and production projects in the oil and gas, and mining and metallurgy sectors. From a Canadian perspective, the above-mentioned 2007 slowdown in the growth of the United States' economy, affecting Canada's trade surplus, along with the decrease in domestic residential construction activities, are expected to result in slower growth in the Canadian GDP in 2007, to approximately 2.3%, compared to 2.7% in 2006. **The growth in non-residential business investments, a relevant indicator for engineering and construction companies, should however continue to outpace the expected growth in the Canadian GDP in 2007, as it did in 2006.**

In 2006, the Canadian dollar remained strong against the US dollar, reflecting various factors, including strong natural resource commodity prices. As mentioned in previous years, the impact from the strength of the Canadian dollar against the US dollar is not significant for SNC-Lavalin's activities, as it sources its project material and equipment on a global basis using the best value criteria, and the salaries component remains competitive compared to the United States. The Canadian dollar fluctuation had an impact on SNC TEC's manufacturing operations, which were disposed of in January 2007.

Overall, the 2007 economic outlook is positive for the Company, both from a Canadian and an international perspective.

3.4 COMPANY OUTLOOK

The favourable economic trends discussed above, the Company's strong backlog and various opportunities in almost all its operating segments, as further discussed in section 7, provide a solid basis for continued growth in the Company's profitability in 2007.

4. GEOGRAPHIC BREAKDOWN OF REVENUES

YEAR ENDED DECEMBER 31

(IN MILLIONS OF CANADIAN DOLLARS)		2006			2005
Canada	$	**3,184.9**	**62%**	$ 1,915.5	56%
Outside Canada					
Africa		**650.8**	**13%**	503.8	15%
Europe		**427.4**	**8%**	282.3	8%
Middle East		**289.8**	**6%**	210.0	6%
United States		**189.1**	**4%**	181.3	5%
Latin America		**180.9**	**3%**	117.5	3%
Asia		**164.2**	**3%**	189.8	6%
Other		**63.3**	**1%**	50.7	1%
		1,965.5	**38%**	1,535.4	44%
Total revenues	$	**5,150.4**	**100%**	$ 3,450.9	100%

4.1 REVENUES IN CANADA

As expected, **revenues in Canada increased in 2006, to $3,184.9 million**, compared to $1,915.5 million in 2005, mainly due to increased activity in the Infrastructure and Environment, Power, and Operations and Maintenance segments.

Revenues in Canada are expected to increase in 2007, due in part to higher activities anticipated mainly in the Infrastructure and Environment, Power, Chemicals and Petroleum, and Infrastructure Concession Investments segments.

4.2 REVENUES FROM OUTSIDE CANADA

As expected, **revenues from outside Canada increased in 2006 and totalled $1,965.5 million**, compared to $1,535.4 million in 2005, with increased activities mainly in the Infrastructure and Environment, Chemicals and Petroleum, and Mining and Metallurgy segments.

- Revenues generated in Africa were $650.8 million in 2006, compared to $503.8 million in 2005, mainly due to increased activities in the Infrastructure and Environment segment, partly offset by lower activities primarily in the Power segment.
- Revenues from Europe were $427.4 million in 2006, compared to $282.3 million in 2005, reflecting an increase mainly in the Power, and Infrastructure and Environment segments.
- Revenues from Middle East increased to $289.8 million in 2006, from $210.0 million in 2005, mainly due to increased activities in the Chemicals and Petroleum segment.
- Revenues from the United States increased to $189.1 million in 2006, from $181.3 million in 2005, mainly due to increased activities in the Chemicals and Petroleum segment, partly offset by decreased activities in the Power segment.
- Revenues from Latin America increased to $180.9 million in 2006, from $117.5 million in 2005, mainly due to increased activities in the Infrastructure and Environment segment.
- Revenues from Asia were $164.2 million in 2006, compared to $189.8 million in the previous year, mainly reflecting lower activities in the Operations and Maintenance, and Chemicals and Petroleum segments, partially offset by increased activities in the Mining and Metallurgy segment.
- Revenues from other regions, including mainly Eurasia, totalled $63.3 million in 2006, compared to $50.7 million last year, mainly due to increased activities in the Chemicals and Petroleum, and All Other segments.

The Company expects revenues from outside Canada to increase in 2007 with increased activities from recently awarded projects along with several opportunities, mainly in the Power, Mining and Metallurgy, and Chemicals and Petroleum segments.

5. BREAKDOWN OF INCOME STATEMENT

FINANCIAL RESULTS

YEAR ENDED DECEMBER 31

(IN MILLIONS OF CANADIAN DOLLARS)	**2006**		2005	
Revenues				
Services	**$ 1,180.2**		$ 958.5	
Packages	**2,835.9**		1,704.1	
Operations and Maintenance	**920.9**		695.9	
Infrastructure Concession Investments	**213.4**		92.4	
	$ 5,150.4		$ 3,450.9	
Gross margin				
Services	**$ 327.1**	**27.7%**	$ 249.7	26.1%
Packages	**72.1**	**2.5%**	109.2	6.4%
Operations and Maintenance	**35.6**	**3.9%**	37.3	5.4%
Infrastructure Concession Investments	**103.2**	**48.3%**	64.6	69.9%
	$ 538.0	**10.4%**	$ 460.8	13.4%
Administrative, marketing and other expenses	**285.7**		257.4	
Interest (revenues) and capital taxes				
From Infrastructure Concession Investments	**74.3**		47.6	
Other	**(21.0)**		(3.5)	
	53.3		44.1	
Income from continuing operations before income taxes and non-controlling interest	**199.0**		159.3	
Income taxes	**55.1**		51.5	
Non-controlling interest	**7.3**		2.2	
Net income from continuing operations	**136.6**		105.6	
Net income from discontinued operations	**21.8**		24.3	
Net income	**$ 158.4**		$ 129.9	

5.1 REVENUE AND GROSS MARGIN ANALYSIS

Revenues totalled $5,150.4 million in 2006, compared to $3,450.9 million in 2005, reflecting an increase in all revenue categories.

Gross margin increased to $538.0 million in 2006, compared to $460.8 million in 2005, reflecting the increase in activities in all revenue categories, partially offset by a decrease in the overall gross margin-to-revenue ratio mainly in Packages, and Operations and Maintenance activities.

5.1.1 SERVICES REVENUES AND GROSS MARGIN

Services revenues, which were expected to remain in line with the previous year, **increased to $1,180.2 million in 2006**, from $958.5 million in 2005, mainly due to increased activities in the Chemicals and Petroleum, Infrastructure and Environment, All Other, and Mining and Metallurgy segments.

Gross margin for the Services category was $327.1 million in 2006, compared to $249.7 million in 2005, reflecting increased activities coupled with a higher gross margin-to-revenue ratio.

The Company expects Services revenues to increase in 2007, reflecting expected increased activities on ongoing projects combined with several opportunities inside and outside Canada, mainly from the Chemicals and Petroleum, and Mining and Metallurgy segments.

5.1.2 PACKAGES REVENUES AND GROSS MARGIN

Packages revenues increased, as expected, **totalling $2,835.9 million in 2006**, compared to $1,704.1 million in 2005, reflecting an increase mainly in the Infrastructure and Environment, Power, and Chemicals and Petroleum segments.

The overall Packages gross margin amounted to $72.1 million in 2006, compared to $109.2 million in 2005, as the increase in revenues was more than offset by a decrease in gross margin-to-revenue ratio, primarily in the Power segment, reflecting mainly lower than anticipated profitability and negative gross margin on certain Power projects.

The Company expects the Packages revenues for 2007 to increase, reflecting a higher level of beginning backlog, with major projects mainly in the Power, Infrastructure and Environment, and Chemicals and Petroleum segments, coupled with various opportunities inside and outside Canada.

5.1.3 OPERATIONS AND MAINTENANCE REVENUES AND GROSS MARGIN

Operations and Maintenance revenues increased, as expected, **totalling $920.9 million in 2006**, compared to $695.9 million in 2005, with increased volume mainly on certain ongoing contracts.

Operations and Maintenance gross margin totalled $35.6 million in 2006, compared to $37.3 million in 2005, as the increased volume was more than offset by the lower gross margin-to-revenue ratio.

The Company expects the 2007 revenues from Operations and Maintenance to remain in line with 2006.

5.1.4 INFRASTRUCTURE CONCESSION INVESTMENTS REVENUES AND GROSS MARGIN

The relationship between revenues and gross margin for Infrastructure Concession Investments activities may not be meaningful, as a significant portion of the investments are accounted for by the cost and equity methods, which does not reflect the line by line items of the financial results. The Company, nonetheless, provides some guidance on revenues for trend analysis purposes.

Infrastructure Concession Investments revenues increased to $213.4 million in 2006, compared to $92.4 million in 2005, **while the gross margin increased to $103.2 million in 2006** from $64.6 million in 2005, both changes mainly due to the full consolidation of AltaLink following the acquisition of control in the second quarter of 2006. Included in the gross margin in 2006 was a loss before taxes of $5.8 million on disposal of Murraylink (refer to section 7.6.1). **The Company expects revenues from Infrastructure Concession Investment to increase in 2007**, mainly from the first complete year of fully consolidating AltaLink.

5.2 ADMINISTRATIVE, MARKETING AND OTHER EXPENSES ANALYSIS

Administrative, marketing and other expenses increased in 2006, as expected, **totalling $285.7 million**, compared to $257.4 million in the previous year, reflecting the overall increased volume of activities and the full year expenses related to 2005 business acquisitions. Given the full year expenses related to 2006 business acquisitions, as well as the anticipated increase in marketing and proposals costs and in its volume of activities, **the Company expects administrative, marketing and other expenses to increase in 2007**. Despite this anticipated increase, the Company continues to maintain an appropriate balance between gross margin and administrative expenses, while maintaining the necessary investment in marketing and selling activities to achieve growth. As such, administrative, marketing and other expenses represented approximately 53.1% of the gross margin in 2006, compared to 55.9% in 2005.

5.3 INTEREST (REVENUES) AND CAPITAL TAXES ANALYSIS

Interest and capital taxes expenses totalled \$53.3 million in 2006, compared to \$44.1 million in 2005. Interest and capital taxes expenses from infrastructure concession investments increased to \$74.3 million in 2006, compared to \$47.6 million in 2005, mainly due to the full consolidation of AltaLink following SNC-Lavalin's acquisition of control in the second quarter of 2006, partly offset by lower interest expenses in Highway 407 from inflation-linked bonds. Interest (revenues) and capital taxes from activities other than infrastructure concession investments increased to net revenues of \$21.0 million in 2006, from net revenues of \$3.5 million in 2005, mainly due to an increase in interest revenues as a result of higher average cash balance and yields.

(IN MILLIONS OF CANADIAN DOLLARS)	2006			2005		
	FROM INFRASTRUCTURE CONCESSION INVESTMENTS	OTHER	TOTAL	FROM INFRASTRUCTURE CONCESSION INVESTMENTS	OTHER	TOTAL
Interest revenues:	**\$ (3.5)**	**\$ (36.9)**	**\$ (40.4)**	\$ (2.1)	\$ (21.2)	\$ (23.3)
Interest on long-term debt:						
Recourse	**–**	**8.2**	**8.2**	–	8.2	8.2
Non-recourse						
AltaLink	**32.9**	**–**	**32.9**	–	–	–
Highway 407	**41.7**	**–**	**41.7**	48.3	–	48.3
Others	**1.1**	**3.0**	**4.1**	–	4.4	4.4
Capital taxes and other	**2.1**	**4.7**	**6.8**	1.4	5.1	6.5
Interest (revenues) and capital taxes	**\$ 74.3**	**\$ (21.0)**	**\$ 53.3**	\$ 47.6	\$ (3.5)	\$ 44.1

The Company expects its 2007 interest and capital taxes expense to increase, mainly due to the first complete year of fully consolidating AltaLink, partly offset by higher interest revenues.

5.4 INCOME TAXES ANALYSIS

The effective income tax rate decreased to 27.7% in 2006, from 32.3% in 2005. The decrease in income tax rate was mainly due to: i) the impact of Highway 407, which generated an income before taxes in 2006 without recording an income tax expense due to unrecognized cumulative tax loss carry forwards, compared to 2005 when Highway 407 reported an accounting loss before taxes; and ii) the geographic mix of the Company's activities. **The Company expects its 2007 effective income tax rate to remain in line** with 2006.

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 from infrastructure concession investments that are fully consolidated or proportionately consolidated. The Company **limits** the revenue backlog to the next five years for **Operations and Maintenance activities** when the contractual life **exceeds five years**.

The table below presents the Company's revenue backlog by category and by region. As a result of the disposal of SNC TEC in 2007 and its presentation as discontinued operations in the 2006 audited consolidated financial statements, the Company has removed the revenue backlog of SNC TEC from the Company's consolidated revenue backlog for 2006 and all previous years.

REVENUE BACKLOG

AT DECEMBER 31

(IN MILLIONS OF CANADIAN DOLLARS)	**2006**	2005
By category		
Services	**$ 819.8**	$ 604.2
Packages	**6,082.6**	4,308.1
Operations and Maintenance	**1,570.2**	2,112.4
Infrastructure Concession Investments	**1,942.0**	468.9
Consolidated revenue backlog	**$ 10,414.6**	$ 7,493.6
By region		
Canada	**$ 6,983.8**	$ 5,535.9
Outside Canada	**3,430.8**	1,957.7
Total	**$ 10,414.6**	$ 7,493.6

Revenue backlog increased to $10.4 billion as at December 31, 2006, compared to $7.5 billion as at December 31, 2005.

- Services backlog increased by 35.7%.
- Packages backlog grew by 41.2%.
- Operations and Maintenance backlog decreased by 25.7%.
- The increase in Infrastructure Concession Investments backlog mainly reflects the addition of AltaLink's revenue backlog of approximately $1.4 billion in the second quarter of 2006, upon SNC-Lavalin's acquisition of control.
- Backlog from Canada increased to $7.0 billion at the end of 2006, from $5.5 billion at the end of the previous year, mainly in the Infrastructure Concession Investments, Power, and Chemicals and Petroleum segments, partially offset by a decrease primarily in the Infrastructure and Environment, and Operations and Maintenance segments. The increase from the Infrastructure Concession Investments segment was mainly due to the acquisition of control of AltaLink in 2006.
- Backlog outside Canada increased by 75.2% over the previous year, reflecting mainly the increase in the Infrastructure and Environment, and Power segments.

6.1 SERVICES BACKLOG

Services backlog totalled $819.8 million at the end of 2006, compared to $604.2 million at the end of the previous year, reflecting an increase of 35.7%, which provides a favourable outlook for 2007 as the gross margin-to-revenue ratio from Services is the highest compared to Packages, and Operations and Maintenance activities.

RECONCILIATION OF SERVICES BACKLOG

AT DECEMBER 31

(IN MILLIONS OF CANADIAN DOLLARS)		2006		2005
Opening backlog	**$**	**604.2**	$	564.9
Add: Contract bookings during the year		**1,395.8**		997.8
Less: Revenues recognized during the year		**1,180.2**		958.5
Ending backlog	**$**	**819.8**	$	604.2

Services bookings totalled $1,395.8 million in 2006, compared to $997.8 million in 2005, and included notable additions such as:

- The Services contracts with Saudi Aramco for: i) the Shaybah Central Processing Facilities which form the core project within the Shaybah Expansion Program; and ii) the seawater injection plants which form a key part of Saudi Aramco's Khurais Oil Field Development Program, both in Saudi Arabia, in Chemicals and Petroleum. The 2006 contract booking on these contracts does not reflect the conversion features, which would result, if awarded, in the conversion of the Services contracts into much larger Packages contracts. Both contracts have their own conversion feature, subject to each project's details being further defined.
- The engineering feasibility study on the Ambatovy Nickel Project for an open-pit mine operation, and a hydrometallurgical processing plant, expected to produce mainly nickel and cobalt, in Madagascar, in Mining and Metallurgy. The full EPCM contract for this project is conditional to the closing of the project financing and, as such, has not been recorded in the Company's backlog as at December 31, 2006.
- The contract with NK Rosneft – NTC, an affiliate of OAO Rosneft, to carry out the detailed engineering for the central processing facility at the Vankor oilfield development project in Siberia, in Chemicals and Petroleum.
- The EPCM contract with the Dubai Aluminum Company ("DUBAL") for the expansion of two existing potlines, in the United Arab Emirates, in Mining and Metallurgy.
- The detailed engineering contract for the replacement of steam generators for Unit 4 of Bruce Power in Ontario, Canada, in Power.

6.2 PACKAGES BACKLOG

Packages backlog increased significantly to $6,082.6 million at the end of 2006, from $4,308.1 million at the end of 2005, mainly in the Infrastructure and Environment, Power, Chemicals and Petroleum, and Mining and Metallurgy segments.

RECONCILIATION OF PACKAGES BACKLOG

AT DECEMBER 31

(IN MILLIONS OF CANADIAN DOLLARS)		2006		2005
Opening backlog	**$**	**4,308.1**	$	2,483.2
Add: Contract bookings during the year		**4,610.4**		3,529.0
Less: Revenues recognized during the year		**2,835.9**		1,704.1
Ending backlog	**$**	**6,082.6**	$	4,308.1

Packages bookings in 2006 amounted to $4,610.4 million, compared to $3,529.0 million in the previous year. Major bookings in 2006 included notable additions such as:

- The engineering, procurement and construction ("EPC") contract for the fabrication of 45,000 pre-stressed cylinder concrete pipes for the Great Man-Made River Authority ("GMRA") in Sarir, Libya, in Infrastructure and Environment.
- The EPC contract with Shariket Kahraba Hadjret En Nouss S.p.A. for a 1,227 MW gas-fired power plant in the province of Tipaza, Algeria, in Power.

- The EPC contract with Sithe Global Power Goreway ULC to design and build a 880 MW combined cycle thermal power plant in Ontario, Canada, in Power.
- The EPC contract for a 550 MW combined cycle cogeneration power plant for the Portland Energy Centre L.P. in Ontario, Canada, in Power.
- The joint venture EPC contract awarded in May 2006 to design and build a Liquefied Natural Gas ("LNG") import and re-gasification terminal in New Brunswick, Canada, in Chemicals and Petroleum.
- The EPC contract with Qatar Petroleum and Hydro Aluminium AS for the service areas and potroom building of a greenfield aluminum smelter (Qatalum) in Mesaieed, Qatar, in Mining and Metallurgy.

6.3 OPERATIONS AND MAINTENANCE BACKLOG

RECONCILIATION OF OPERATIONS AND MAINTENANCE BACKLOG

AT DECEMBER 31

(IN MILLIONS OF CANADIAN DOLLARS)	**2006**	2005
Opening backlog	**$ 2,112.4**	$ 2,212.3
Add: Contract bookings during the year	**378.7**	596.0
Less: Revenues recognized during the year	**920.9**	695.9
Ending backlog	**$ 1,570.2**	$ 2,112.4

Operations and Maintenance backlog totalled $1,570.2 million at the end of 2006, compared to $2,112.4 million at the end of 2005, in large part due to normal fluctuations in the timing of long-term contracts. In 2006, the Operations and Maintenance segment continued to increase its involvement in complementary mandates with other segments, such as in the operation and maintenance of power plants, bridges, mass transit systems and roads, reflecting the Company's ability to deliver all-inclusive contracts.

6.4 INFRASTRUCTURE CONCESSION INVESTMENTS BACKLOG

The following table presents the details of the Infrastructure Concession Investments revenue backlog as at December 31, 2006 and 2005:

INFRASTRUCTURE CONCESSION INVESTMENTS BACKLOG

AT DECEMBER 31

(IN MILLIONS OF CANADIAN DOLLARS)	**2006**	2005
AltaLink (1)	**$ 1,405.9**	$ –
Highway 407 (2)	**466.4**	419.3
Others	**69.7**	49.6
Total backlog	**$ 1,942.0**	$ 468.9

(1) AltaLink is fully consolidated in 2006, therefore the related revenue backlog as at December 31, 2006 represents 100% of its estimated recurring revenues for the next five years.

(2) Highway 407 is proportionately consolidated, therefore the related revenue backlog as at December 31, 2006 and 2005 represent 16.77% of its estimated recurring revenue for the next five years.

The Infrastructure Concession Investments revenue backlog increased to $1,942.0 million at the end of 2006, compared to $468.9 million at the end of the previous year. Approximately $1.4 billion of revenue backlog related to the AltaLink infrastructure concession investment was added in the second quarter 2006 to the Company's consolidated revenue backlog, following the increase in ownership of AltaLink in the second quarter of 2006 resulting in an acquisition of control and the full consolidation of this investment. Prior to that date, the infrastructure concession investment in AltaLink was accounted for by the equity method, under which no revenue backlog was recorded in accordance with the Company's policy.

7. OPERATING RESULTS BY SEGMENT

As mentioned previously, the **Company's results are primarily evaluated by segment**, in which each of the Company's segment results, namely the Infrastructure and Environment, Power, Chemicals and Petroleum, Mining and Metallurgy, Operations and Maintenance, Infrastructure Concession Investments and All Other are used as a basis for accountability by management. The table below illustrates the **diversity of the operating income contributors**, from a segment standpoint, in 2006 and 2005.

OPERATING RESULTS BY SEGMENT

YEAR ENDED DECEMBER 31

(IN MILLIONS OF CANADIAN DOLLARS)	2006		2005	
	REVENUES	OPERATING INCOME (LOSS)	REVENUES	OPERATING INCOME
Infrastructure and Environment	**$ 1,564.2**	**$ 83.6**	$ 826.7	$ 26.8
Power	**1,219.5**	**(18.0)**	879.3	67.0
Chemicals and Petroleum	**770.2**	**66.9**	579.2	30.4
Mining and Metallurgy	**244.8**	**29.6**	223.0	33.9
Operations and Maintenance	**920.9**	**23.5**	695.9	18.3
Infrastructure Concession Investments	**213.4**	**19.1**	92.4	8.0
All Other	**217.4**	**10.7**	154.4	13.3
Total	**$ 5,150.4**	**$ 215.4**	$ 3,450.9	$ 197.7

The summary table below compares the actual contributions of the segments in 2006 to the initial expectations expressed in the 2005 annual Management's Discussion and Analysis, and presents the Company's expectations for 2007.

SUMMARY TABLE – OPERATING INCOME BY SEGMENT

	2006		2007
	EXPECTATIONS	ACTUAL	EXPECTATIONS
Infrastructure and Environment	▲	▲	–
Power	▲	▼	▲
Chemicals and Petroleum	▲	▲	–
Mining and Metallurgy	▼	▼	▲
Operations and Maintenance	–	▲	–
Infrastructure Concession Investments	▲	▲	▲
All Other	–	▼	–
Total operating income	▲	▲	▲

▲ INCREASE COMPARED TO PREVIOUS YEAR ▼ DECREASE COMPARED TO PREVIOUS YEAR – IN LINE WITH PREVIOUS YEAR

In 2006, operating segments for which the contribution was expected to increase or to remain in line compared to the previous year either met or surpassed the expectations, except for the Power segment, mainly due to lower than anticipated profitability and negative gross margin on certain Power Packages projects, and the All Other segment, mainly from a higher than expected level of administrative, marketing and other expenses.

7.1 INFRASTRUCTURE AND ENVIRONMENT

(IN MILLIONS OF CANADIAN DOLLARS)	REVENUES			OPERATING INCOME		
	2006	2005	Change	**2006**	2005	Change
Infrastructure and Environment	**$ 1,564.2**	$ 826.7	89.2%	**$ 83.6**	$ 26.8	211.6%

As expected, **Infrastructure and Environment revenues increased in 2006** compared to 2005, mainly due to increased activities on Packages projects inside and outside Canada. Major revenue contributors to the Infrastructure and Environment segment during the year were:

- The EPC contract with InTransit BC to design and build the Canada Line, a 19 kilometre rapid transit line connecting the cities of Vancouver and Richmond with Vancouver International Airport, in British Columbia, Canada.
- The turnkey contract to design and build a water treatment plant, pumping station and water conveyance system in Algeria.
- The EPC contract for some sections of the Trans-Canada Highway in New Brunswick, Canada.
- The EPC contract to design and build a water treatment plant and water conveyance system in the Dominican Republic.
- The joint venture contracts to provide engineering services and execute procurement and construction work to build seven new water cooling plants and expand four others in Abu Dhabi, in the United Arab Emirates.
- The EPC contract for the fabrication of 45,000 pre-stressed cylinder concrete pipes for the GMRA in Sarir, Libya.

As expected, **operating income increased in 2006**, mainly reflecting the increase in activities, combined with a higher gross margin-to-revenue ratio, as the 2005 gross margin reflected a lower than anticipated profitability on certain Packages projects.

The Company expects the 2007 contribution from the Infrastructure and Environment segment to remain in line with 2006, with continuous activities on major ongoing projects and prospects inside and outside Canada.

7.2 POWER

(IN MILLIONS OF CANADIAN DOLLARS)	REVENUES			OPERATING INCOME (LOSS)		
	2006	2005	Change	**2006**	2005	Change
Power	**$ 1,219.5**	$ 879.3	38.7%	**$ (18.0)**	$ 67.0	N/A

Power revenues increased in 2006 and included major projects such as:

- The EPC contract with Sithe Global Power Goreway ULC to design and build a 880 MW combined cycle thermal power plant in Ontario, Canada.
- The EPC contract with Elektrownia Patnow II Sp. z.o.o. to complete a 460 MW lignite-fired thermal power plant in Poland.
- The EPC contract for a 550 MW combined cycle cogeneration power plant for the Portland Energy Centre L.P. in Ontario, Canada.
- The EPC contract with Shariket Kahraba Hadjret En Nouss S.p.A. for a 1,227 MW gas-fired power plant in the province of Tipaza, in Algeria.
- The EPC contract for a 550 MW natural-gas fired cogeneration power plant in Bécancour, in Quebec, Canada.
- The EPC contracts with Bruce Power A.L.P. to replace steam generators at a nuclear power station and contribute to other refurbishment work, in Ontario, Canada.
- The EPC contracts to expand and improve the electricity transmission system in Alberta, Canada.
- The Packages contract to design and build four electrical transmission substations for the British Columbia Transmission Corporation, in Canada.

- The engineering and construction support contract, in Services, for a new powerhouse, four dams, 75 dykes, eight channels, a transfer tunnel and a spillway for the Eastmain-1-A project, in Quebec, Canada.

While the Company expected an increase in both revenues and operating income in 2006 compared to 2005, the **Power segment reported an operating loss of $18.0 million in 2006**. This operating loss was mainly due to revised cost estimates resulting in lower than anticipated profitability and negative gross margin on certain Packages projects, which more than offset the increased volume.

The Company expects a positive contribution from the Power segment in 2007, with an expected increased gross margin-to-revenue ratio, combined with a higher level of activities mainly from the solid opening backlog.

7.3 CHEMICALS AND PETROLEUM

(IN MILLIONS OF CANADIAN DOLLARS)	REVENUES			OPERATING INCOME		
	2006	2005	Change	**2006**	2005	Change
Chemicals and Petroleum	**$ 770.2**	$ 579.2	33.0%	**$ 66.9**	$ 30.4	120.2%

As expected, **revenues from Chemicals and Petroleum increased in 2006** and included activities from contributors such as:

- The joint venture EPC contract to design and build an LNG import and re-gasification terminal in New Brunswick, Canada.
- The contracts with Canadian Natural Resources Limited for an oil sands upgrader project and for a froth treatment plant, in Alberta, Canada.
- The joint venture turnkey contract to design and build the in situ Steam Assisted Gravity Drainage ("SAGD") heavy oil recovery plant for Husky Energy, in northern Alberta, Canada.
- The Services front-end engineering, project management, detailed engineering and procurement services for the ExxonMobil Refining and Chemical complexes located in Baytown, Texas.
- The Services contracts with Saudi Aramco for: i) the Shaybah Central Processing Facilities which form the core project within the Shaybah Expansion Program; and ii) the seawater injection plants which form a key part of Saudi Aramco's Khurais Oil Field Development Program, both in Saudi Arabia.
- The Services contracts with affiliates of OAO Rosneft, for the concept validation, front-end engineering and design, and to carry out the detailed engineering for the central processing facility at the Vankor oilfield development project in Siberia.

As expected, **operating income increased in 2006,** mainly due to the increase in activities from ongoing and recently awarded projects inside and outside Canada, coupled with an increased gross margin-to-revenue ratio.

The Company expects the 2007 contribution from the Chemicals and Petroleum segment to remain in line with 2006, as the increase in activities from certain ongoing projects and from various opportunities inside and outside Canada are expected to offset the decreased activities from completed or near completed projects.

7.4 MINING AND METALLURGY

(IN MILLIONS OF CANADIAN DOLLARS)	REVENUES			OPERATING INCOME		
	2006	2005	Change	**2006**	2005	Change
Mining and Metallurgy	**$ 244.8**	$ 223.0	9.8%	**$ 29.6**	$ 33.9	(12.5)%

Mining and Metallurgy revenues increased in 2006, mainly due to increased activities on ongoing and recently awarded projects outside Canada. Revenues in 2006 included activities from contributors such as:

- The joint venture EPCM contract for the Goro nickel project in New Caledonia.
- The Services engineering feasibility study contract for the Ambatovy Nickel Project for an open-pit mine operation, and a hydrometallurgical processing plant expected to produce mainly nickel and cobalt, in Madagascar.
- The pre-feasibility and EPCM contracts with DUBAL for the expansion of potlines, in the United Arab Emirates.
- The engineering services contract with Cobre Las Cruces S.A. for the processing plant and associated infrastructure at a new greenfield copper project near Gerena, Spain.
- The Services contract for a feasibility study on a potassium solution mine and process plant in Argentina.

As expected, **the contribution of the Mining and Metallurgy segment decreased in 2006** compared to 2005, reflecting a lower gross margin-to-revenue ratio, as the 2005 gross margin included favourable contributions from certain projects completed in 2005, partly offset by the increase in activities.

The Company expects the 2007 contribution from the Mining and Metallurgy segment to increase compared to 2006, mainly due to increased activities from recently awarded projects and various opportunities outside Canada.

7.5 OPERATIONS AND MAINTENANCE

(IN MILLIONS OF CANADIAN DOLLARS)	REVENUES			OPERATING INCOME		
	2006	2005	Change	**2006**	2005	Change
Operations and Maintenance	**$ 920.9**	$ 695.9	32.3%	**$ 23.5**	$ 18.3	28.0%

Operations and Maintenance revenues increased in 2006, mainly reflecting increased volume from ongoing contracts. Major contributors to the operations and maintenance revenues included:

- The contracts to provide comprehensive property and project management for more than 300 buildings located from coast to coast in Canada, encompassing over three million square metres, in the Canadian federal government's real estate property portfolio.
- The agreement for operations and management services for nearly 3,000 facilities with Ontario Realty Corporation.
- The contract to operate, maintain and rehabilitate portions of the Trans-Canada Highway in New Brunswick, in Canada.
- The contract to operate and maintain an 825 MW combined cycle thermal power plant in the Skikda region of Algeria.

Operating income, which was expected to remain in line with the previous year, **increased by 28.0% in 2006** compared to 2005, as the lower gross margin-to-revenue ratio on certain contracts was more than offset by a decrease in administrative, marketing and other expenses.

The Company expects the 2007 contribution from the Operations and Maintenance segment to remain in line with 2006, with continuous contributions from ongoing contracts.

7.6 INFRASTRUCTURE CONCESSION INVESTMENTS

As mentioned previously, SNC-Lavalin makes equity investments in infrastructure concessions in various industry sectors, such as airports, bridges, energy, mass transit systems and roads. The Infrastructure Concession Investments segment represents SNC-Lavalin's equity participation in the following investments as at December 31, 2006 (refer to Note 2A to the audited consolidated financial statements for disclosures on the balance sheet effect of these investments):

NAME	EQUITY PARTICIPATION	HELD SINCE	ACCOUNTING METHOD	DESCRIPTION OF ACTIVITIES
Gaz Métro Limited Partnership ("Gaz Métro") (1)	2.42%	2006	Cost	Gaz Métro is a publicly traded entity involved mainly in natural gas distribution in Canada and the U.S. SNC-Lavalin also has an indirect participation in Gaz Métro through its investment in Trencap Limited Partnership discussed below.
Shariket Kahraba Hadjret En Nouss S.p.A ("SKH")	26%	2006	Equity	Build, own and operate a 1,227 MW gas-fired power plant in Algeria to supply electricity to Sonelgaz S.p.A. under a 20-year agreement expiring in 2028. The construction of the power plant is expected to be completed in 2008 and the operations and maintenance is also expected to begin in 2008.
InTransit BC L.P. ("InTransit BC")	33.3%	2005	Equity	Once construction is completed, expected in late 2009, InTransit BC will operate and maintain the Canada Line, a 19 kilometre rapid transit line connecting the cities of Vancouver and Richmond with Vancouver International Airport, in British Columbia, under a 35-year concession agreement expiring in 2040.
Okanagan Lake Concession L.P. ("Okanagan Lake Concession")	100%	2005	Full Consolidation	Once construction is completed, expected in 2008, Okanagan Lake Concession will operate and maintain the new five-lane, 1.1 km William R. Bennett Bridge in Kelowna, British Columbia, under a 30-year concession agreement expiring in 2035.
Trencap Limited Partnership	11.1%	2004	Cost	Holds an indirect interest in Gaz Métro(1).
Astoria Project Partners LLC ("Astoria")	21%	2004	Equity	Owns and operates, since operations commenced in May 2006, a new 500 MW natural gas-fired power plant in Queens, New York.
Malta International Airport p.l.c.	15.5%	2002	Equity	Has the rights to own and manage the Malta International Airport under a 65-year concession agreement expiring in 2067.
AltaLink L.P. ("AltaLink") (2)	76.92%	2002	Full Consolidation	Owns and operates approximately 12,000 km of transmission lines and over 250 substations in Alberta on a rate regulated basis.
407 International Inc. ("Highway 407")	16.77%	1999	Proportionate consolidation	Operates, maintains and manages Highway 407, an all-electronic toll highway in the Greater Toronto Area under a 99-year concession agreement expiring in 2098.
Southern Electric Power Company Limited	21.1%	1999	Cost	Owns and operates a 117 MW thermal power plant in Pakistan.
Gazmont Limited Partnership	50%	1996	Proportionate Consolidation	Owns and operates a 25 MW biogas thermal power plant in Quebec.
West End Dam Associates	21%	1985	Equity	A 4.5 MW power generation facility in New York State.

(1) SNC-Lavalin owns, directly in Gaz Métro (2.42%) and indirectly through Trencap Limited Partnership (3.97%), approximately 6.39% of the outstanding units of Gaz Métro.
(2) SNC-Lavalin increased its participation in AltaLink to 76.92% in May 2006, from its initial ownership of 50.0% in 2002.

When making an equity investment in infrastructure concessions, SNC-Lavalin ensures that the debt included in these concessions is non-recourse to the general credit of the Company. Also, when making such equity investments, SNC-Lavalin may not be required to make its equity contribution immediately. In such cases, SNC-Lavalin may commit to make its equity contributions over time. As at December 31, 2006, all equity investments had been funded, except for InTransit BC, Okanagan Lake Concession and SKH. Refer to Note 2C to the audited consolidated financial statements and section 8.8 of this Management's Discussion and Analysis for further details on SNC-Lavalin's remaining commitments to invest in infrastructure concession investments.

7.6.1 ADDITIONS AND DISPOSAL OF INFRASTRUCTURE CONCESSION INVESTMENTS AND CONDITIONAL COMMITMENT TO INVEST IN AN INFRASTRUCTURE CONCESSION INVESTMENT

In 2006, SNC-Lavalin increased its participation from 50% to 76.92% in AltaLink, acquired a direct participation in Gaz Métro and announced its commitment to invest in SKH. SNC-Lavalin also signed a shareholders' agreement for the Ambatovy Nickel Project in which it committed to acquire a 5% interest in Ambatovy, conditional to the closing of the project debt financing. In 2006, SNC-Lavalin also disposed of all its shares in its wholly-owned subsidiary SNC-Lavalin Investment Australia Pty Ltd, which resulted in a loss before taxes of $5.8 million (net loss after taxes of $4.6 million). The principal business of SNC-Lavalin Investment Australia Pty Ltd was the 50% ownership of Murraylink Transmission Company Pty Ltd ("Murraylink"). Murraylink's sole business was the ownership and operation of a rate-regulated electricity transmission line that connects the electricity transmission grids of the Australian states of Victoria and South Australia.

In 2005, SNC-Lavalin committed to invest in InTransit BC and in Okanagan Lake Concession. The additions and disposal of infrastructure concession investments in 2006 and 2005 and the commitments to invest in infrastructure concession investments are further described in Notes 2B, 2C and 2D to the audited consolidated financial statements.

7.6.2 HIGHWAY 407 SETTLEMENT WITH THE PROVINCE OF ONTARIO

As mentioned in section 7.9 of the Company's 2005 Annual Report under Management's Discussion and Analysis, the Ontario provincial government was disputing certain aspects of the Concession and Ground Lease Agreement, signed in April 1999 between the Province of Ontario and Highway 407. During the first quarter of 2006, Highway 407 and the Province of Ontario reached an amicable settlement regarding all such disputes and litigation between the two parties. In particular, the Government agreed to dismiss its pending appeals of the toll setting and base year disputes and to accept as final and binding all court and arbitration decisions released to date. Also, in the settlement, the parties agreed to work together to improve customer service and to deter individuals from refusing to pay after using Highway 407. Benefits for Highway 407 customers arising from the settlement include the introduction of a four-year customer benefit program, savings for heavy usage and heavy-vehicle drivers, the addition of over 100 lane kilometres of new highway capacity by late 2007 and the appointment of an ombudsman to advocate on behalf of Highway 407 users.

7.6.3 NET BOOK VALUE OF INFRASTRUCTURE CONCESSION INVESTMENTS

Given the significant effect of infrastructure concession investments on the Company's consolidated balance sheet, the Company provides additional information regarding the net book value of its infrastructure concession investments by the method accounted for in SNC-Lavalin's consolidated balance sheet in Note 2 of its audited consolidated financial statements. As at December 31, 2006, the net book value of the Company's infrastructure concession investments was $476.5 million, compared to $368.3 million as at December 31, 2005, which is less than their fair value in both years.

The net book value of the infrastructure concession investments includes the investment in Highway 407 which is accounted for by the proportionate consolidation method. Under Canadian GAAP, the proportionate consolidation method requires the venturer to recognize its proportionate share of the joint venture losses irrespective of the carrying amount of its investment in joint venture. Consistent with this requirement, the net book value of the investment in Highway 407 resulted in a net negative balance of $28.2 million as at December 31, 2006, (negative balance of $12.1 million as at December 31, 2005), which does not represent a liability or any future obligation that SNC-Lavalin has relative to Highway 407 or any other party. This negative balance was the result of accounting for SNC-Lavalin's proportionate share of Highway 407's cumulative accounting losses and cumulative dividends received. Highway 407 reported a net income for the first time in 2006, whereas it had reported net accounting losses since its inception. The Company received dividends totalling $24.3 million in 2006, including $8.5 million in a special dividend, compared to $14.3 million in 2005.

7.6.4 OPERATING INCOME OF THE INFRASTRUCTURE CONCESSION INVESTMENTS SEGMENT

(IN MILLIONS OF CANADIAN DOLLARS)	REVENUES			OPERATING INCOME		
	2006	2005	Change	**2006**	2005	Change
Infrastructure Concession Investments	**$ 213.4**	$ 92.4	131.0%	**$ 19.1**	$ 8.0	140.6%

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

As mentioned in section 2.5, the Infrastructure Concession Investments segment now includes Highway 407 with a reclassification of the previous years to conform with this new presentation. **Operating income of the Infrastructure Concession Investments segment increased to $19.1 million in 2006,** compared to $8.0 million in 2005, mainly due to SNC-Lavalin's share in net income from Highway 407 in 2006, compared to a share in net accounting loss from this investment in 2005, and from contributions from certain investments, partially offset by SNC-Lavalin's net loss resulting from the sale of Murraylink. The net income from Highway 407 in 2006 was compared to a net loss in 2005, primarily due to lower interest expense on certain inflation-linked bonds coupled with higher revenues.

The Company expects the 2007 performance from the Infrastructure Concession Investments segment to increase compared to 2006, mainly reflecting the impact of the first complete year of the additional 26.92% participation in AltaLink, combined with the non-recurring loss on disposal of Murraylink recognized in 2006.

7.7 ALL OTHER

(IN MILLIONS OF CANADIAN DOLLARS)	REVENUES			OPERATING INCOME		
	2006	2005	Change	**2006**	2005	Change
All Other	**$ 217.4**	$ 154.4	40.7%	**$ 10.7**	$ 13.3	(19.5)%

All Other includes activities in agrifood, pharmaceuticals and biotechnology, as well as other industrial facilities.

All Other revenues increased in 2006, reflecting increased activities mainly from the pharmaceutical sector. While the Company expected the 2006 operating income to remain in line with the previous year, the increase in activities was more than offset by a higher than expected level of administrative, marketing and other expenses, resulting in a **decrease in operating income in 2006**.

The Company expects the 2007 contribution from the All Other segment to remain in line with 2006.

8. LIQUIDITY AND CAPITAL RESOURCES

As discussed in section 2.7 of the current Management's Discussion and Analysis, achieving a ROASE excluding Highway 407 at least equal to the long-term Canada Bond Yield plus 600 basis points, and maintaining a strong balance sheet with a net cash position sufficient to meet expected operating, investing and financing plans, are two key financial objectives of the Company.

This Liquidity and Capital Resources section has been prepared to provide the reader with a better understanding of the major components of these financial objectives and has been structured as follows:

- A **balance sheet** analysis, which has been prepared with the objective of providing additional information on the major changes in the Company's consolidated balance sheet in 2006 and 2005;
- A review of the **net cash position** and **freehold cash** of the Company;
- A **cash flow analysis**, providing details on how the Company generated and used cash and cash equivalents;
- A discussion on the Company's **recourse revolving credit facilities, credit ratings, recourse debt to capital,** and **working capital**, which all represent indicators of the financial strength of the Company;
- The presentation of the Company's **dividends declared** and **ROASE excluding Highway 407** over the past five years; and finally
- A review of the Company's **contractual obligations, derivative financial instruments** and **off-balance sheet arrangements**, which provides additional information for a better understanding of the Company's financial situation.

These elements demonstrate that 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 acquisitions and investments in infrastructure concessions, 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 average shareholders' equity on the other.

8.1 BALANCE SHEET ANALYSIS

As mentioned in section 2.5, the Company's consolidated balance sheet includes the line by line impact of consolidating and proportionately consolidating some of its infrastructure concession investments, which are often capital intensive, as it relates to the ownership of infrastructure assets that are financed mainly with project specific debt, which is non-recourse to the general credit of the Company. Therefore, when consolidating or proportionately consolidating such investments, the main impact on the Company's balance sheet is on the property and equipment, and the non-recourse long-term debt accounts.

Consistent with Note 2A to the 2006 audited consolidated financial statements where the Company presents additional information on the line by line impact of accounting for its investments and provides the net book value of its infrastructure concession investments, the following analysis of the consolidated balance sheet distinguishes the assets and liabilities of the Infrastructure Concession Investments from those of the other activities.

8.1.1 TOTAL ASSETS

VARIATION IN TOTAL ASSETS

(IN MILLIONS OF CANADIAN DOLLARS)	2006		
	FROM INFRASTRUCTURE CONCESSION INVESTMENTS	OTHER	TOTAL
Total assets at the beginning of the year	**$ 1,199.9**	**$ 2,826.6**	**$ 4,026.5**
Change in assets during the year:			
Cash and cash equivalents	**4.9**	**(52.1)**	**(47.2)**
Contract in progress subject to contract financing	**–**	**227.6**	**227.6**
Current assets other than those listed above	**113.3**	**657.7**	**771.0**
Property and equipment	**986.8**	**13.3**	**1,000.1**
Goodwill	**201.8**	**6.2**	**208.0**
Investments accounted for by the equity or cost methods	**3.9**	**–**	**3.9**
Other assets	**46.4**	**2.7**	**49.1**
Total change in assets during the year	**1,357.1**	**855.4**	**2,212.5**
Total assets at the end of the year	**$ 2,557.0**	**$ 3,682.0**	**$ 6,239.0**

Total assets increased to $6,239.0 million as at December 31, 2006, compared to $4,026.5 million as at December 31, 2005, an increase of $2,212.5 million.

Total assets of Infrastructure Concession Investments increased by $1,357.1 million in 2006, reflecting:

- The increase in current assets, property and equipment, and goodwill, mainly due to the full consolidation of AltaLink in 2006, following SNC-Lavalin's acquisition of control, representing $98.4 million of current assets other than cash and cash equivalents, $1,003.6 million of property and equipment and $203.8 million of goodwill as at December 31, 2006. Also adding $39.7 million to property and equipment was the progress on the bridge under construction by Okanagan Lake Concession. These increases were partially offset by the sale of Murraylink resulting in a reduction of $64.7 million of property and equipment and $2.0 million of goodwill in 2006.
- The $3.9 million increase in investments accounted for by the cost or equity methods, resulting mainly from the US$66.8 million commitment to invest in SKH and from the $50.0 million investment in Gaz Métro in 2006, partially offset by the $121.2 million investment in AltaLink accounted for by the equity method at the acquisition date, which was removed upon full consolidation of AltaLink.

Total assets of activities other than Infrastructure Concession Investments increased by $855.4 million in 2006 and included:

- The $227.6 million increase in contract in progress subject to contract financing arrangements, reflecting progress made on the EPC contract for some sections of the Trans-Canada Highway in New Brunswick (refer to Note 6 to the audited consolidated financial statements), in the Infrastructure and Environment segment.
- The $657.7 million increase in current assets other than cash and cash equivalents and contract in progress subject to contract financing arrangement, primarily due to the increase in contracts in progress and accounts receivable reflecting an overall higher level of activity.

VARIATION IN TOTAL ASSETS

(IN MILLIONS OF CANADIAN DOLLARS)	2005		
	FROM INFRASTRUCTURE CONCESSION INVESTMENTS	OTHER	TOTAL
Total assets at the beginning of the year	$ 1,121.3	$ 2,052.4	$ 3,173.7
Change in assets during the year:			
Cash and cash equivalents	(2.9)	480.1	477.2
Contract in progress subject to contract financing arrangement	–	102.5	102.5
Current assets other than those listed above	47.3	148.0	195.3
Property and equipment	1.8	3.6	5.4
Goodwill	–	11.8	11.8
Investments accounted for by the equity or cost methods	33.8	–	33.8
Other assets	(1.4)	28.2	26.8
Total change in assets during the year	78.6	774.2	852.8
Total assets at the end of the year	$ 1,199.9	$ 2,826.6	$ 4,026.5

In 2005, total assets increased by $852.8 million, to $4,026.5 million as at December 31, 2005, from $3,173.7 million as at December 31, 2004.

Total assets of Infrastructure Concession Investments increased by $78.6 million in 2005, reflecting mainly:

- The $47.3 million increase in current assets other than cash and cash equivalents, mainly from the increase in restricted cash of Okanagan Lake Concession.
- The $33.8 million increase in equity and cost investments, mainly from the 2005 commitment to invest in InTransit BC.

Total assets of activities other than Infrastructure Concession Investments increased by $774.2 million in 2005, reflecting mainly:

- The $480.1 million increase in cash and cash equivalents, due in large part to cash generated from operations, resulting mainly from increased downpayments on contracts and increased deferred revenues on certain major Packages projects and from continued profitability.
- The $102.5 million increase in contract in progress subject to contract financing arrangements, reflecting progress made on the EPC contract for some sections of the Trans-Canada Highway in New Brunswick, in the Infrastructure and Environment segment.
- The $148.0 million increase in current assets other than cash and cash equivalents and contract in progress subject to contract financing arrangement, mainly due to an increase in contracts in progress and accounts receivable, both reflecting an overall higher level of activity.

8.1.2 TOTAL CURRENT LIABILITIES

Total consolidated current liabilities amounted to $3.3 billion, $2.2 billion and $1.5 billion as at December 31, 2006, 2005 and 2004, respectively. The increase from 2005 to 2006 was mainly due to an increase in accounts payable and accrued charges, mainly due to an overall increase of activities, coupled with an increase in the advance under contract financing arrangement and the current portion of non-recourse long-term debt. The increase from 2004 to 2005 was primarily a result of the increase in downpayments on contracts, deferred revenues, and in the advance under a contract financing arrangement.

8.1.3 TOTAL LONG-TERM LIABILITIES

VARIATION IN TOTAL LONG-TERM LIABILITIES

(IN MILLIONS OF CANADIAN DOLLARS)	2006		
	FROM INFRASTRUCTURE CONCESSION INVESTMENTS	OTHER	TOTAL
Total long-term liabilities at the beginning of the year	**$ 790.0**	**$ 207.5**	**$ 997.5**
Change in long-term liabilities during the year:			
Long-term debt			
Recourse	**–**	**0.1**	**0.1**
Non-recourse	**864.6**	**(2.0)**	**862.6**
Other liabilities	**71.2**	**36.7**	**107.9**
Total change in long-term liabilities during the year	**935.8**	**34.8**	**970.6**
Total long-term liabilities at the end of the year	**$ 1,725.8**	**$ 242.3**	**$ 1,968.1**

Total consolidated long-term liabilities were $1,968.1 million as at December 31, 2006, compared to $997.5 million as at December 31, 2005, an increase of $970.6 million mainly due to the addition of $916.7 million of non-recourse long-term debt and $71.7 million of other long-term liabilities of AltaLink following its initial full consolidation in 2006, coupled with an additional $50.0 million received in 2006 by Okanagan Lake Concession under a non-recourse long-term credit facility.

VARIATION IN TOTAL LONG-TERM LIABILITIES

(IN MILLIONS OF CANADIAN DOLLARS)	2005		
	FROM INFRASTRUCTURE CONCESSION INVESTMENTS	OTHER	TOTAL
Total long-term liabilities at the beginning of the year	$ 733.0	$ 185.1	$ 918.1
Change in long-term liabilities during the year:			
Long-term debt			
Recourse	–	0.1	0.1
Non-recourse	57.4	(2.1)	55.3
Other liabilities	(0.4)	24.4	24.0
Total change in long-term liabilities during the year	57.0	22.4	79.4
Total long-term liabilities at the end of the year	$ 790.0	$ 207.5	$ 997.5

Total consolidated long-term liabilities increased from $918.1 million as at December 31, 2004 to $997.5 million as at December 31, 2005, reflecting mainly the $70.0 million received by Okanagan Lake Concession under a non-recourse long-term credit facility.

8.1.4 NON-CONTROLLING INTEREST

Non-controlling interest was $65.6 million as at December 31, 2006, compared to $2.2 million as at the end of the previous year, mainly due to SNC-Lavalin's increased participation in AltaLink, from 50% to 76.92%, which resulted in an acquisition of control in 2006.

8.1.5 SHAREHOLDERS' EQUITY

Shareholders' equity was $906.0 million as at December 31, 2006, compared to $789.7 million as at December 31, 2005 and $717.8 million as at December 31, 2004. For each of the two years, the change was primarily due to net income for the year, partially offset by dividends and the repurchase of shares under the normal course issuer bid.

8.2 NET CASH POSITION AND FREEHOLD CASH

NET CASH POSITION

AT DECEMBER 31

(IN MILLIONS OF CANADIAN DOLLARS)	2006	2005
Cash and cash equivalents	$ 1,106.3	$ 1,153.5
Less:		
Cash and cash equivalents from infrastructure concession investments	21.9	17.0
Recourse short-term and long-term debt	104.5	104.4
Net cash position	$ 979.9	$ 1,032.1

The December 31, 2006 net cash position amounted to $979.9 million, compared to $1,032.1 million as at the same date in the previous year, mainly due to the decrease in cash and cash equivalents, primarily from investing activities, as further explained in the Cash Flows Analysis section 8.3.

In addition to determining its net cash position, the Company estimated its **freehold cash**, defined as the amount of cash and cash equivalents that is not committed for its operations and not committed for investments in Infrastructure Concession Investments, at **approximately $500 million as at December 31, 2006** and 2005. The Company's freehold cash is available for making selective infrastructure concession investments and business acquisitions. **Adding to the freehold cash in 2007 will be approximately $300 million from the disposal of SNC TEC**.

In line with its business strategy, the Company intends to use its freehold cash primarily for making selective infrastructure concession investments and business acquisitions.

8.3 CASH FLOWS ANALYSIS

SUMMARY OF CASH FLOWS

YEAR ENDED DECEMBER 31

(IN MILLIONS OF CANADIAN DOLLARS)	2006	2005
Operating activities	$ (60.1)	$ 482.4
Investing activities	(286.4)	(135.5)
Financing activities	299.3	105.8
Net increase in cash and cash equivalents	(47.2)	452.7
Cash generated from discontinued operations	–	24.5
Cash and cash equivalents at beginning of year	1,153.5	676.3
Cash and cash equivalents at end of year	$ 1,106.3	$ 1,153.5

Cash and cash equivalents amounted to $1,106.3 million as at December 31, 2006, compared to $1,153.5 million as at December 31, 2005.

8.3.1 CASH GENERATED FROM/USED FOR OPERATING ACTIVITIES

Cash used for operating activities totalled $60.1 million in 2006, compared to cash generated from operating activities totalling $482.4 million in 2005, mainly due to:

- The increase in contract in progress subject to contract financing arrangement relating to the three-year EPC contract for some sections of the Trans-Canada Highway in New Brunswick, Canada, totalling $227.6 million in 2006, compared to $102.5 million in 2005.
- The fluctuation in non-cash working capital items other than the contract in progress subject to contract financing arrangement reflecting working capital requirements of $98.3 million in 2006 mainly on certain Packages projects, whereas changes in non-cash working capital items other than the contract in progress subject

to contract financing arrangement generated $421.5 million of cash and cash equivalents in 2005 mainly from downpayments on contracts and increased deferred revenues on certain major Packages projects.
- The continued growth in net income favourably impacting the cash and cash equivalents of both years.

8.3.2 CASH USED FOR INVESTING ACTIVITIES

Cash used for investing activities was $286.4 million in 2006, compared to $135.5 million in 2005.
2006 major investing activities were as follows:

- The $156.8 million used for the acquisition of additional participation and payments for infrastructure concession investments, as detailed in Note 2C to the audited consolidated financial statements.
- The acquisition of engineering businesses, which used a total cash outflow of $10.0 million.
- The acquisition of property and equipment from fully consolidated and proportionally consolidated infrastructure concession investments, such as Okanagan Lake Concession, AltaLink and Highway 407, for a total cash outflow of approximately $182.5 million.
- The acquisition of property and equipment for Services, Packages, and Operations and Maintenance activities for a total cash outflow of approximately $37.7 million, versus depreciation of property and equipment and amortization of other assets from these activities of $28.9 million. Approximately 57% of the acquisitions of property and equipment from these activities were related to information technology in 2006, compared to 75% in 2005.
- The disposal of Murraylink, which generated proceeds of $66.9 million.

2005 major investing activities were as follows:

- The $35.3 million in cash equity contributions to Astoria (refer to Note 2C to the audited consolidated financial statements).
- The acquisitions of engineering businesses in 2005 using a total cash outflow of $17.7 million.
- Cash was used for the construction of the William R. Bennett Bridge, shown in the property and equipment account following the consolidation of Okanagan Lake Concession. Cash was also used for the acquisition of $25.5 million of property and equipment for Services, Packages and Operations and Maintenance activities, versus the depreciation of property and equipment and amortization of other assets from these activities of $25.1 million.

8.3.3 CASH GENERATED FROM/USED FOR FINANCING ACTIVITIES

Cash generated from financing activities was $299.3 million in 2006, compared to cash used for financing activities of $105.8 million in 2005. The major financing activities were as follows:

- The Company received advances of $232.3 million in 2006, compared to $89.8 million in 2005, under a contract financing arrangement, reflecting the progress made on the three-year EPC contract for some sections of the Trans-Canada Highway in New Brunswick, Canada (refer to Note 6 to the audited consolidated financial statements).
- The increase in non-recourse long-term debt from infrastructure concession investments totalling $247.6 million in 2006, compared to $70.0 million in 2005, while the repayment of non-recourse long-term debt from infrasctructure concession investments amounted to $108.1 million in 2006, compared to $1.5 million in 2005.
- Under its normal course issuer bid, the Company repurchased shares for a total amount of $27.1 million in 2006 (952,300 shares at an average price of $28.51), compared to $26.0 million in 2005 (1,157,100 shares at an average price of $22.44). The Company expects to be as active in repurchasing its shares in 2007.
- Dividends paid amounted to $42.3 million in 2006, compared to $32.3 million in 2005, reflecting a dividend increase.
- The issuance of shares pursuant to the exercise of stock options generated $7.7 million in cash in 2006 (702,800 stock options at an average price of $10.94), compared to $7.8 million in 2005 (913,500 stock options at an average price of $8.58). As at December 31, 2006, there were 4,094,850 stock options outstanding with exercise prices varying from $7.20 to $32.50 per common shares. 150,970,143 shares are issued and outstanding as at February 13, 2007.

8.3.4 CASH GENERATED FROM DISCONTINUED OPERATIONS

The Company has disclosed the cash generated from the its continuing operations separately from its discontinued operations. The cash generated from discontinued operations reflects dividends paid (nil in 2006 and $24.5 million in 2005) by SNC TEC to the Company. The year-end cash and cash equivalents of SNC TEC have been aggregated as part of "Assets held for sale" shown on the Company's consolidated balance sheet for each of the respective years.

8.4 RECOURSE DEBT

8.4.1 RECOURSE REVOLVING CREDIT FACILITIES

The Company has access to $477.5 million of long-term revolving lines of credit. As at December 31, 2006, $110.1 million of the Company's credit lines remained unused, the difference of $367.4 million was used exclusively 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.

8.4.2 RECOURSE DEBENTURES – CREDIT RATINGS

On December 12, 2005, Standard & Poor's raised SNC-Lavalin Group's rating, from BBB with a positive outlook to BBB+ with a stable outlook, and confirmed this rating on December 22, 2006. On February 24, 2005, Dominion Bond Rating Service Limited ("DBRS") upgraded its rating for the debenture, from BBB to BBB (high) with a stable trend, and confirmed this rating on January 19, 2006 and on January 31, 2007.

8.4.3 RECOURSE DEBT TO CAPITAL RATIO

This ratio compares the recourse long-term debt balance to the sum of recourse long-term debt and shareholders' equity, and is a measure of the Company's financial capabilities. As at December 31, 2006, **the Company's recourse debt-to-capital ratio was 10:90**, compared to 12:88 as at December 31, 2005, both well below the Company's objective of not surpassing a ratio of 30:70.

8.5 WORKING CAPITAL

WORKING CAPITAL

AT DECEMBER 31

(IN MILLIONS OF CANADIAN DOLLARS, EXCEPT CURRENT RATIO)	**2006**	2005
Current assets	**$ 3,599.7**	$ 2,648.4
Current liabilities	**3,299.4**	2,237.0
Working Capital	**$ 300.3**	$ 411.4
Current Ratio	**1.09**	1.18

Working capital was $300.3 million (current ratio of 1.09) as at December 31 2006, compared to $411.4 million (current ratio of 1.18) in the previous year. The decrease in working capital was mainly due to the $124.0 million increase in the current portion of non-recourse long-term debt from fully consolidated and proportionally consolidated infrastructure concession investments, and the acquisition of additional participation and payments for infrastructure concession investments, partly offset by continuing profitability.

8.6 DIVIDENDS DECLARED

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 $0.07 per share to $0.09 per share for the fourth quarter of 2006, resulting in total cash dividends declared of $0.30 per share in 2006. The table below shows the dividends declared for each of the past five years:

DIVIDENDS DECLARED

YEAR ENDED DECEMBER 31

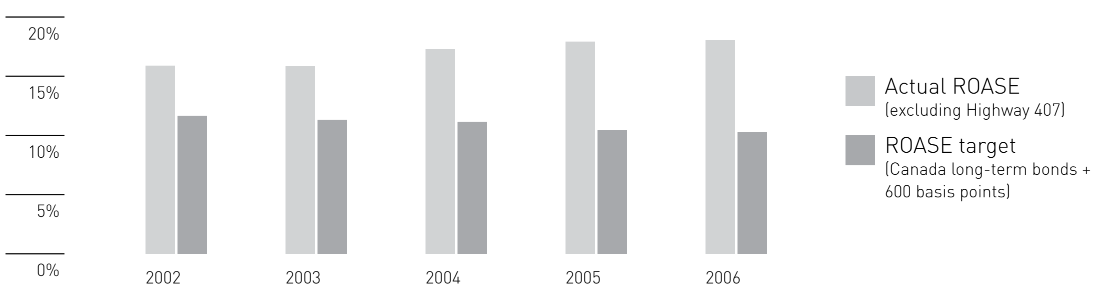
(IN CANADIAN DOLLARS)	**2006**	2005	2004	2003	2002
Dividends declared per share	**$ 0.30**	$ 0.23	$ 0.18	0.14	$ 0.12

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

ROASE, as calculated by the Company, corresponds to after-tax earnings, excluding Highway 407, divided by a trailing 13-month average shareholders' equity.

ROASE excluding Highway 407 was 18.0% in 2006, compared to 17.9% in 2005, which are both considerably higher than the Company's objective of long-term Canada Bond Yield plus 600 basis points (i.e.: totalling 10.27% in 2006 and 10.43% in 2005). The graph below shows that the Company generated ROASE excluding Highway 407 above 15.8% over the past five years, surpassing its target by at least 400 basis points each year.

ROASE



8.8 CONTRACTUAL OBLIGATIONS, DERIVATIVE FINANCIAL INSTRUMENTS AND OFF-BALANCE SHEET ARRANGEMENTS

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

8.8.1 CONTRACTUAL OBLIGATIONS

(IN MILLIONS OF CANADIAN DOLLARS)	2007	2008-2009	2010-2011	THEREAFTER	TOTAL
Long-term debt repayments– refer to Note 10 to the audited consolidated financial statements					
Recourse	$ –	$ –	$ 104.5	$ –	$ 104.5
Non-recourse	153.5	268.5	38.3	1,369.9	1,830.2
Commitment to invest in Infrastructure Concession Investments – refer to Note 2C to the audited consolidated financial statements	34.9	90.0	–	–	124.9
Rental obligations – refer to Note 19 to the audited consolidated financial statements	41.6	65.5	41.1	41.0	189.2
Total	$ 230.0	$ 424.0	$ 183.9	$1,410.9	$2,248.8

8.8.2 DERIVATIVE FINANCIAL INSTRUMENTS AND OFF-BALANCE SHEET ARRANGEMENTS

As disclosed in Note 16 of the 2006 audited consolidated financial statements, the Company enters into forward foreign exchange contracts and interest-rate financial instruments in order to hedge specific currency and interest rate exposure related to its revenue-generating projects. The Company also entered, in 2006, into a financial arrangement to limit its exposure relating to its Performance Share Units ("PSU") plan (refer to Note 12D to the audited consolidated financial statements). These financial instruments are taken with sound financial institutions, which SNC-Lavalin anticipates will satisfy their obligations under the contracts.

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 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, as well as disclosures made in the notes. 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 judgments, 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, Operations and Maintenance,** and **Infrastructure Concession Investments** activities. Services revenues are derived primarily from cost-plus reimbursable contracts. Packages revenues are derived primarily from fixed-price contracts, which include lump-sum turnkey contracts. Revenues from Operations and Maintenance activities are derived primarily from cost reimbursable with a fixed-fee and fixed-price contracts.

On **cost-plus reimbursable contracts**, mainly from **Services** activities, 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, which include lump-sum turnkey contracts,** derived mainly from **Packages** activities, revenues are recorded on the percentage-of-completion basis over the duration of the contract. The percentage of completion is determined by dividing the cumulative costs incurred as at the balance sheet date by the sum of incurred costs and anticipated costs for completing a contract.

On **cost reimbursable with a fixed-fee contracts** from **Operations and Maintenance** activities, fixed-fee revenues are recognized on a straight-line basis over the term of the contract. Revenue on **fixed-price Operations and Maintenance contracts** are recognized based on the stage of completion of the contract activity which involves taking the costs incurred as at the balance sheet date and dividing by the estimated total contract costs.

Revenue recognition on fixed-price contracts 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, cost of materials, labour costs and productivity, the impact of change orders or liability claims. 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.

For fixed-price contracts, the cumulative effect of changes to anticipated costs and anticipated revenues for completing a contract are recognized in the period in which the revisions are identified. Losses, if any, are recognized in their entirety in the period they become known. SNC-Lavalin has numerous contracts that are in various stages of completion. Estimates are required to determine the appropriate anticipated costs and revenues. Estimated revenues on contracts may include future revenues from claims and unapproved change orders, if such additional revenues can be reliably estimated.

Revenues from **Infrastructure Concession Investments** activities are derived primarily from dividends or from all or a portion of the investment's net results or revenues, depending on the accounting method followed by SNC-Lavalin for each investment. The accounting method followed by SNC-Lavalin is either the cost, equity, proportionate consolidation or full consolidation methods depending on whether SNC-Lavalin exercises, or not, significant influence, joint control or control. Revenues from infrastructure concession investments that are accounted for by the equity method, proportionate consolidation method and full consolidation method are based on estimates used to prepare the underlying financial statements of the infrastructure concession investments.

SNC-Lavalin may enter into contractual arrangements with a client to deliver activities on one project which span more than one of the following categories: Services or Packages, and/or Operation and Maintenance, and/or Infrastructure Concession Investments. When entering into such arrangements, the Company assesses each activity based on its fair value. Accordingly, when such arrangements exist on the same project, the value of each revenue category is based on the fair value of each related activity and recognized according to the respective revenue recognition methods described above.

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 the annual review of goodwill as at October 31 of each year. Based on the impairment test performed as at October 31, 2006 and 2005, the Company concluded that no goodwill impairment loss was required.

In addition, SNC-Lavalin reviews its **long-lived assets**, which include property 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 2006 and 2005.

PENSION PLANS

SNC-Lavalin's obligations and expenses relating to defined benefits pension plans 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. Please refer to Notes 1P and 17 to the audited consolidated financial statements for further details.

INCOME TAXES

The Company uses the liability method of accounting for income taxes, whereby future tax assets and liabilities are recognized for all temporary differences between the tax bases of assets and liabilities and their corresponding carrying amounts as at the balance sheet date. This method requires the exercise of significant judgment in determining whether or not the Company's future tax assets are "more likely than not" to be recovered from future taxable income and, therefore, can be recognized in the Company's audited consolidated financial statements. It also requires judgment on the expected timing upon which tax assets will be realized and upon which tax liabilities will be settled, and in determining the enacted or substantially enacted tax rates that will apply at such time.

10. ACCOUNTING CHANGES

INITIAL ADOPTION IN 2006

During the year ended December 31, 2006, the Company adopted the following new accounting standard:

Stock-based compensation. In July 2006, the Emerging Issue Committee ("EIC") issued Abstract 162 "Stock-based Compensation for Employees Eligible to Retire Before the Vesting Date". This Abstract provides interpretation on how to account for stock-based awards granted to employees who are either eligible for retirement at the grant date or will be eligible to retire before the end of the vesting period. The adoption of this Abstract had to be applied retroactively with restatement of prior periods to all stock-based compensation awards accounted for in accordance with Section 3870 "Stock-based Compensation and Other Stock-based Payments". The Company did not restate its consolidated financial statements, as the impact of applying the new Abstract was not material.

TAKING EFFECT SUBSEQUENT TO 2006

The Company will adopt the following new accounting standards subsequent to December 31, 2006:

Financial Instruments. The Canadian Institute of Chartered Accountants ("CICA") issued the following three new sections related to financial instruments that will become effective for SNC-Lavalin starting January 1, 2007:

- Section 3855, "Financial Instruments – Recognition and Measurement", provides guidance on when a financial instrument must be recognized on the balance sheet and how it must be measured. It also provides guidance on the presentation of gains and losses on financial instruments. The initial adoption of this new section will result in the Company's: i) measuring financial assets classified as loans and receivables, and held to maturity, if any, as well as financial liabilities, at their amortized cost; ii) measuring financial assets and financial liabilities classified as held for trading, if any, at fair value with the related gains and losses on measurement recognized in net income; iii) measuring financial assets classified as available-for-sale at fair value, with the related gains and losses on measurement recognized in "Other comprehensive income", a new account introduced with the application of Section 1530 discussed below; and iv) recognizing all derivative financial instruments, currently disclosed in Note 16 to the audited consolidated financial statements, at fair value on its consolidated balance sheet.

- Section 3865, "Hedges", provides guidance on the application of hedge accounting and related disclosures. The initial adoption of this new section will result in recognizing gains and losses on instruments designated as cash flow hedges in "Other comprehensive income", except for the ineffective portion of the hedges which will be recognized in net income.
- Section 1530, "Comprehensive Income", requires an entity to recognize certain gains and losses in "Other comprehensive income", an account included in shareholders' equity, until such gains and losses are recognized in net income.

11. RISKS AND UNCERTAINTIES

OVERVIEW

SNC-Lavalin's business is conducted under various types of contractual arrangements, including cost-plus, fixed-fee, and fixed-price contracts as well as investments in infrastructure concessions. 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 agreement.

RISK MANAGEMENT PRACTICES

SNC-Lavalin's continued commitment to sound risk management practices when underwriting and undertaking services, packages, and operations and maintenance 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, prior to submitting a proposal, risks associated with certain categories of projects, such as Packages exceeding a certain amount or other types of project considered to have a high or unusual risk, 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 to 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, such as Packages exceeding a certain amount or other types of project considered to have a high or unusual risk, as well as proposed acquisitions or dispositions of businesses and infrastructure concession investments.

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 benefits from cost savings, but bears the risk for cost overruns for 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 costs or schedule, such as obtaining the required environmental permits and approvals on a timely basis. The risk of cost overruns is mitigated by regular and proactive monitoring by employees with appropriate expertise, regular review by senior management, and by securing the purchase price of certain equipment and material with suppliers. Cost overruns also occur when unforeseen circumstances occur, as well as under changes of scope.

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.

ABILITY TO ATTRACT AND RETAIN QUALIFIED PERSONNEL

The success of SNC-Lavalin ultimately depends on its workforce, and its ability to attract and retain qualified personnel in a competitive work environment is achieved by providing diversified and challenging career opportunities, a safe and healthy work environment, as well as competitive compensation and benefits. Supporting the health, safety and environment objectives, SNC-Lavalin adopted its "WE CARE" Value Statement, which embodies its key corporate values and beliefs regarding its employees, health and safety, the environment and the communities in which they live and work.

JOINT VENTURE PARTNERS

SNC-Lavalin undertakes certain contracts with joint venture partners who have complementary expertise. The success of its joint ventures relies on the satisfactory performance by 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.

SUBCONTRACTORS AND SUPPLIERS

SNC-Lavalin undertakes contracts whereby it subcontracts a portion of the project or the supply of material and equipment to third parties. Should the subcontractors or suppliers fail to meet these standards by not delivering their portion of a project according to the contractual terms, including not meeting the delivery schedule or experiencing a deterioration of their financial conditions, the ability of SNC-Lavalin to perform and/or to achieve the anticipated profitability on the project may be impaired. This risk is managed by rigorously selecting the third party subcontractors and suppliers, by proactively monitoring the project schedules and budgets and by obtaining letters of credit or other guarantees.

CONTRACT AWARDS

Obtaining new awards, which is a key component for the sustainability of profits, is a risk factor in a competitive environment for which SNC-Lavalin's globally recognized core expertise, diversity of activities, segments and geographic base have proven to be mitigating factors.

BACKLOG

Backlog includes contract awards that are considered firm and is thus an indication of future revenues. However, there can be no assurance that cancellations or scope adjustments will not occur, that the revenue backlog will ultimately result in earnings or when revenues and earnings from such backlog will be recognized.

INFRASTRUCTURE CONCESSION INVESTMENTS

In accordance with its business strategy, SNC-Lavalin makes selective investments in infrastructure concessions, for which its technical, engineering and construction, and project management expertise, along with its experience in arranging project financing, represent a distinctive advantage.

When investing in infrastructure concessions, the Company strives to limit its risk to the investment value, 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 secure financing, is mitigated by sound risk management practices when investing in such infrastructure concessions, such as:

- Independence of the Investment business unit from the engineering, construction and operations and maintenance groups within SNC-Lavalin.
- Detailed review and structuring of concession contract arrangements.
- Detailed analysis of the risks specific to each investment, such as construction, operation, environment and supply and demand estimates.
- Ensuring, when applicable, 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 modelling performed in-house, coupled with independent third party modelling review.
- Review by independent third party consultants of financial projections and forecasts performed in-house.

FOREIGN CURRENCY RISK

The significant effect of international business volume exposes SNC-Lavalin to 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. This hedging strategy includes the use of forward foreign exchange contracts, which contain an inherent credit risk related to default on obligations by the counterparty. 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.

CREDIT RISK AND DELAY IN COLLECTION

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. Delay in collection occurs when payments from clients exceed the agreed payment terms. SNC-Lavalin's ability to structure positive cash flow arrangements on projects significantly reduces the credit risk on certain projects. Furthermore, 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.

Regarding collection, the objective of the Company is to make sure it collects its accounts receivable on a timely basis and, as such, has introduced the allocation of internal imputed interest to align the objectives of its managers with its overall objective. The monthly allocation of internal imputed interest, by project, results in an internal cost or revenue depending on whether the project's current assets exceed current liabilities, or vice versa, and improves the profitability of projects, which is used to determine managers' compensation.

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 CANADIAN DOLLARS, UNLESS OTHERWISE INDICATED)	2006				
	FIRST QUARTER	SECOND QUARTER	THIRD QUARTER	FOURTH QUARTER	ANNUAL
Revenues	**$ 1,077.8**	**$ 1,123.4**	**$ 1,283.5**	**$ 1,665.7**	**$ 5,150.4**
Net income					
From continuing operations	**$ 21.0**	**$ 31.9**	**$ 39.1**	**$ 44.6**	**$ 136.6**
From discontinued operations	**5.6**	**6.5**	**3.6**	**6.1**	**21.8**
	$ 26.6	**$ 38.4**	**$ 42.7**	**$ 50.7**	**$ 158.4**
Basic earnings per share ($)					
From continuing operations	**$ 0.14**	**$ 0.21**	**$ 0.26**	**$ 0.30**	**$ 0.90**
From discontinued operations	**0.04**	**0.04**	**0.02**	**0.04**	**0.15**
	$ 0.18	**$ 0.25**	**$ 0.28**	**$ 0.34**	**$ 1.05**
Diluted earnings per share ($)					
From continuing operations	**$ 0.14**	**$ 0.21**	**$ 0.26**	**$ 0.29**	**$ 0.89**
From discontinued operations	**0.03**	**0.04**	**0.02**	**0.04**	**0.15**
	$ 0.17	**$ 0.25**	**$ 0.28**	**$ 0.33**	**$ 1.04**
Dividend declared per share ($)	**$ 0.07**	**$ 0.07**	**$ 0.07**	**$ 0.09**	**$ 0.30**

(IN MILLIONS OF CANADIAN DOLLARS, UNLESS OTHERWISE INDICATED)	2005				
	FIRST QUARTER	SECOND QUARTER	THIRD QUARTER	FOURTH QUARTER	ANNUAL
Revenues	$ 737.0	$ 781.1	$ 831.4	$ 1,101.4	$ 3,450.9
Net income					
From continuing operations	$ 18.5	$ 28.1	$ 24.1	$ 34.9	$ 105.6
From discontinued operations	5.2	7.0	3.1	9.0	24.3
	$ 23.7	$ 35.1	$ 27.2	$ 43.9	$ 129.9
Basic earnings per share ($)					
From continuing operations	$ 0.12	$ 0.18	$ 0.16	$ 0.23	$ 0.70
From discontinued operations	0.04	0.05	0.02	0.06	0.16
	$ 0.16	$ 0.23	$ 0.18	$ 0.29	$ 0.86
Diluted earnings per share ($)					
From continuing operations	$ 0.12	$ 0.18	$ 0.16	$ 0.23	$ 0.69
From discontinued operations	0.03	0.05	0.02	0.06	0.16
	$ 0.15	$ 0.23	$ 0.18	$ 0.29	$ 0.85
Dividend declared per share ($)	$ 0.05	$ 0.05	$ 0.05	$ 0.07	$ 0.23

FOURTH QUARTER RESULTS

For the fourth quarter of 2006, consolidated net income totalled $50.7 million, compared to $43.9 million for the corresponding period last year. The increase reflects higher contributions from segments such as Chemicals and Petroleum, Operations and Maintenance, and Mining and Metallurgy, partially offset by a lower contribution from the Power segment. SNC-Lavalin's share of net income from Highway 407 was $1.5 million, compared to a share of net accounting loss of $0.7 million in the corresponding quarter of 2005.

Consolidated revenues for the fourth quarter of 2006 were $1,665.7 million, up from $1,101.4 million last year. The increase was mainly due to the full consolidation of AltaLink in the Infrastructure Concession Investments segment, as well as to the higher level of activities in the Power, and Infrastructure and Environment segments.

The consolidated backlog totalled $10.4 billion at the end of December 2006, compared to $11.0 billion at the end of the third quarter of 2006, as the increase mainly in Services was more than offset by the decrease in the Packages, and Operations and Maintenance categories.

At the end of December 2006, the Company's **consolidated cash and cash equivalents were $1,106.3 million**, up from $1,025.3 million at the end of September 2006, reflecting mainly cash generated from operating and financing activities, partly offset by cash used in investing activities.

13. ADDITIONAL INFORMATION

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

14. CONTROLS AND PROCEDURES

14.1 DISCLOSURE CONTROLS AND PROCEDURES

SNC-Lavalin's management, with the participation of the President and Chief Executive Officer, and of the Executive Vice-President and Chief Financial Officer, has evaluated the effectiveness of SNC-Lavalin's disclosure controls and procedures (as defined in the rules of the Canadian Securities Administrators) and has concluded that such disclosure controls and procedures are effective.

14.2 INTERNAL CONTROL OVER FINANCIAL REPORTING

SNC-Lavalin's management, with the participation of the President and Chief Executive Officer, and of the Executive Vice-President and Chief Financial Officer, has designed internal control over financial reporting to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements in accordance with the Company's GAAP. As of December 31, 2006, there has been no change in the Company's internal control over financial reporting that occurred during the Company's most recent interim period that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting.

15. SUBSEQUENT EVENT

On January 5, 2007, SNC-Lavalin concluded the sale of all its shares in SNC TEC for proceeds of $335.9 million, subject to certain adjustments, which resulted in a gain before taxes of approximately $113 million (net gain after taxes of $83 million). This gain will be reflected in the Company's 2007 financial results, as the transaction was completed in 2007.

Date: February 13, 2007

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 are 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 and may meet with or without the presence of management.

JACQUES LAMARRE
PRESIDENT AND
CHIEF EXECUTIVE OFFICER

GILLES LARAMÉE
EXECUTIVE VICE-PRESIDENT AND
CHIEF FINANCIAL OFFICER

MONTREAL, CANADA
FEBRUARY 13, 2007

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, 2006 and 2005 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, 2006 and 2005 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 13, 2007

Consolidated Statements of Income

YEAR ENDED DECEMBER 31

(IN THOUSANDS OF CANADIAN DOLLARS, UNLESS OTHERWISE INDICATED)	**2006**	2005
Revenues	**$ 5,150,406**	$ 3,450,931
Gross margin	**$ 537,972**	$ 460,771
Administrative, marketing and other expenses	**285,650**	257,405
Interest and capital taxes (Note 13)	**53,301**	44,037
Income from continuing operations before income taxes and non-controlling interest	**199,021**	159,329
Income taxes (Note 15)	**55,081**	51,530
Non-controlling interest	**7,375**	2,175
Net income from continuing operations	**136,565**	105,624
Net income from discontinued operations (Note 4)	**21,807**	24,288
Net income	**$ 158,372**	$ 129,912
Earnings per share from continuing operations ($) (Note 1R)		
Basic	**$ 0.90**	$ 0.70
Diluted	**$ 0.89**	$ 0.69
Earnings per share ($) (Note 1R)		
Basic	**$ 1.05**	$ 0.86
Diluted	**$ 1.04**	$ 0.85

See accompanying notes to consolidated financial statements.

Consolidated Statements of Shareholders' Equity

YEAR ENDED DECEMBER 31

(IN THOUSANDS OF CANADIAN DOLLARS, EXCEPT COMMON SHARES) **2006**

	SHARE CAPITAL					
	COMMON SHARES (IN THOUSANDS) (NOTE 12B)	AMOUNT	CONTRIBUTED SURPLUS	CUMULATIVE CURRENCY TRANSLATION ADJUSTMENT	RETAINED EARNINGS	TOTAL SHAREHOLDERS' EQUITY
Balance at beginning of year	**151,282**	**$ 345,879**	**$ 7,055**	**$ (9,152)**	**$ 445,925**	**$ 789,707**
Net income	**–**	**–**	**–**	**–**	**158,372**	**158,372**
Currency translation adjustment	**–**	**–**	**–**	**12,012**	**–**	**12,012**
Dividends	**–**	**–**	**–**	**–**	**(42,294)**	**(42,294)**
Stock option compensation (Note 12C)	**–**	**–**	**7,621**	**–**	**–**	**7,621**
Shares issued under stock option plan (Note 12C)	**703**	**9,114**	**(1,427)**	**–**	**–**	**7,687**
Shares redeemed and cancelled (Note 12E)	**(952)**	**(2,224)**	**–**	**–**	**(24,925)**	**(27,149)**
Balance at end of year	**151,033**	**$ 352,769**	**$ 13,249**	**$ 2,860**	**$ 537,078**	**$ 905,956**

YEAR ENDED DECEMBER 31

(IN THOUSANDS OF CANADIAN DOLLARS, EXCEPT COMMON SHARES) 2005

	SHARE CAPITAL					
	COMMON SHARES (IN THOUSANDS) (NOTE 12B)	AMOUNT	CONTRIBUTED SURPLUS	CUMULATIVE CURRENCY TRANSLATION ADJUSTMENT	RETAINED EARNINGS	TOTAL SHAREHOLDERS' EQUITY
Balance at beginning of year	151,525	$ 339,399	$ 4,737	$ 2,048	$ 371,657	$ 717,841
Net income	–	–	–	–	129,912	129,912
Currency translation adjustment	–	–	–	(11,200)	–	(11,200)
Dividends	–	–	–	–	(32,320)	(32,320)
Stock option compensation (Note 12C)	–	–	3,608	–	–	3,608
Shares issued under stock option plan (Note 12C)	914	9,125	(1,290)	–	–	7,835
Shares redeemed and cancelled (Note 12E)	(1,157)	(2,645)	–	–	(23,324)	(25,969)
Balance at end of year	151,282	$ 345,879	$ 7,055	$ (9,152)	$ 445,925	$ 789,707

See accompanying notes to consolidated financial statements.

Consolidated Balance Sheets

AT DECEMBER 31

(IN THOUSANDS OF CANADIAN DOLLARS)	**2006**	2005
Assets		
Current		
Cash and cash equivalents	**$ 1,106,265**	$ 1,153,521
Restricted cash	**134,692**	66,062
Accounts receivable	**1,137,593**	782,324
Contracts in progress	**640,777**	303,934
Contract in progress subject to contract financing arrangement (Note 6)	**330,088**	102,516
Assets held for sale (Note 4)	**250,286**	240,039
Total current assets	**3,599,701**	2,648,396
Property and equipment (Note 7):		
From infrastructure concession investments (Note 2A)	**1,439,285**	452,525
Other	**94,287**	81,015
Goodwill (Note 8)	**328,030**	120,012
Infrastructure concession investments accounted for by the equity or cost methods (Note 2A)	**321,110**	317,178
Other assets (Note 9)	**456,574**	407,335
Total assets	**$ 6,238,987**	$ 4,026,461
Liabilities		
Current		
Accounts payable and accrued charges	**$ 1,588,158**	$ 1,064,028
Downpayments on contracts	**541,437**	474,401
Deferred revenues	**612,065**	496,103
Advance under contract financing arrangement (Note 6)	**334,510**	92,054
Current portion of non-recourse long-term debt (Note 10)	**153,485**	29,193
Liabilities related to assets held for sale (Note 4)	**69,708**	81,268
Total current liabilities	**3,299,363**	2,237,047
Long-term debt (Note 10)		
Recourse	**104,532**	104,406
Non-recourse:		
From infrastructure concession investments (Note 2A)	**1,650,448**	785,861
Other	**26,236**	28,256
Other liabilities (Note 11)	**186,885**	78,963
Total liabilities	**5,267,464**	3,234,533
Non-controlling interest	**65,567**	2,221
Shareholders' equity	**905,956**	789,707
Total liabilities, non-controlling interest and shareholders' equity	**$ 6,238,987**	$ 4,026,461

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 CANADIAN DOLLARS)	2006	2005
Operating activities from continuing operations		
Net income from continuing operations	**$ 136,565**	$ 105,624
Items not involving a movement of cash:		
Depreciation of property and equipment and amortization of other assets:		
From infrastructure concession investments	**52,351**	13,693
Other	**28,942**	25,121
Accrued interest expense on non-recourse long-term debt and on advance under contract financing arrangement	**16,181**	17,668
Stock option compensation (Note 12C)	**7,621**	3,608
Income from infrastructure concession investments accounted for by the equity method	**(3,619)**	(4,334)
Loss from disposal of an infrastructure concession investment (Note 2B)	**4,590**	–
Non-controlling interest	**7,375**	2,175
Other	**11,249**	(5,377)
Dividends received from infrastructure concession investments accounted for by the equity method	**4,491**	5,211
	265,746	163,389
Net change in non-cash working capital items (Note 14A):		
Contract in progress subject to contract financing arrangement (Note 6)	**(227,572)**	(102,516)
Other	**(98,271)**	421,478
	(60,097)	482,351
Investing activities from continuing operations		
Acquisition of property and equipment:		
From infrastructure concession investments	**(182,463)**	(22,345)
Other	**(37,706)**	(25,461)
Acquisition of additional participation and payments for infrastructure concession investments (Note 2C)	**(156,819)**	(35,326)
Acquisition of businesses (Note 3)	**(10,039)**	(17,693)
Proceeds from disposal of an infrastructure concession investment (Note 2B)	**66,933**	–
Change in restricted cash position	**1,758**	(26,068)
Other	**31,919**	(8,557)
	(286,417)	(135,450)
Financing activities from continuing operations		
Repayment of non-recourse long-term debt:		
From infrastructure concession investments	**(108,050)**	(1,455)
Other	**(1,074)**	(3,018)
Increase in non-recourse long-term debt from infrastructure concession investments	**247,620**	70,000
Advance under contract financing arrangement (Note 6)	**232,286**	89,750
Net proceeds from exercise of stock options	**7,687**	7,835
Redemption of shares (Note 12E)	**(27,149)**	(25,969)
Dividends paid	**(42,294)**	(32,320)
Other	**(9,768)**	989
	299,258	105,812
Net increase (decrease) in cash and cash equivalents from continuing operations	**(47,256)**	452,713
Cash generated from discontinued operations (Note 4)	**–**	24,500
Cash and cash equivalents at beginning of year	**1,153,521**	676,308
Cash and cash equivalents at end of year	**$ 1,106,265**	$ 1,153,521

Supplementary cash flow information (Note 14)

See accompanying notes to consolidated financial statements.

Notes to Consolidated Financial Statements

DECEMBER 31, 2006 AND 2005
(TABULAR FIGURES IN THOUSANDS OF CANADIAN DOLLARS, UNLESS OTHERWISE INDICATED)

1. NATURE OF BUSINESS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

SNC-Lavalin Group Inc. (the "Company") is incorporated under the Canada Business Corporations Act. "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.

A) NATURE OF BUSINESS

The Company provides engineering, construction, and operations and maintenance expertise through its network of offices located in over 30 countries, and is currently active on projects in some 100 countries. SNC-Lavalin also makes selective investments in infrastructure concessions that are complementary to the engineering, construction and operations and maintenance activities.

The Company's results are **evaluated by segment**. The segments regroup business units with related activities within SNC-Lavalin and are as follows: **Infrastructure and Environment, Power, Chemicals and Petroleum, Mining and Metallurgy, Operations and Maintenance, Infrastructure Concession Investments** and **All Other** segments. Their revenues are from the following four categories of activities:

- **Services**: includes contracts to provide engineering services, feasibility studies, planning, detailed design, contractor evaluation and selection, construction management and commissioning. Services revenues are derived primarily from cost-plus reimbursable contracts.
- **Packages**: includes contracts in which SNC-Lavalin undertakes procurement and/or construction activities in addition to engineering services. Packages revenues are derived primarily from fixed-price contracts, which include lump-sum turnkey contracts.
- **Operations and Maintenance**: includes contracts to provide operations, maintenance and logistics solutions for real estate, power plants, water supply and treatment systems, postal services, highways, light rail transit systems, military operations and ships. Operations and Maintenance revenues are derived primarily from cost reimbursable with a fixed-fee and fixed-price contracts.
- **Infrastructure Concession Investments**: regroups SNC-Lavalin's investments in infrastructure concessions. SNC-Lavalin makes selective investments for which its technical, engineering and construction, project management and operations and maintenance expertise, along with its experience in arranging project financing, represent a distinctive advantage.

As disclosed in Note 4, on January 5, 2007, SNC-Lavalin disposed of its manufacturing operations which were previously regrouped under the Defence segment. These operations consisted of the manufacturing of small, medium and large calibre ammunition, extruded propellant for military purposes and sporting use and in the production of Simunition® training systems. The revenues from Defence, along with revenues from Operations and Maintenance and Infrastructure Concession Investments, were previously presented under the Concession revenue category. The Company now presents Operations and Maintenance and Infrastructure Concession Investments separately while the operations which were grouped under Defence now qualify as discontinued operations under Canadian generally accepted accounting principles ("GAAP") and have been reclassified and reflected under "Net income from discontinued operations". The Company, however, remains active in the defence industry, notably in defence contracting and providing operations and maintenance services to the Canadian Navy as well as remote-site infrastructure and logistics support for the Canadian Armed Forces overseas. The Company continues to report its activities in the defence industry under the segment to which they relate, which is currently mainly under Operations and Maintenance.

B) BASIS OF PRESENTATION AND USE OF ESTIMATES

The consolidated financial statements of the Company are prepared in accordance with GAAP. The preparation of the Company's financial statements in conformity with GAAP 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, as well as disclosures made in the notes to the financial statements. As such, actual results could differ from these estimates. The Company's critical accounting estimates include, among others, estimates related to revenue recognition, asset impairment, pension plans and income taxes.

1. NATURE OF BUSINESS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

C) PRINCIPLES OF CONSOLIDATION

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 entities in which SNC-Lavalin has significant influence, but does not exercise control or joint control, are accounted for by the equity method. Investments in entities in which SNC-Lavalin does not have significant influence are accounted for by the cost method.

D) REVENUE RECOGNITION

I) SERVICES, PACKAGES, OPERATIONS AND MAINTENANCE, AND INFRASTRUCTURE CONCESSION INVESTMENTS

Revenues from **Services, Packages** and **Operations and Maintenance** categories are recognized based on the nature of the contract as follows:

- **Cost-plus reimbursable contracts** revenues derived mainly from **Services** activities are recognized as costs are incurred, and include applicable fees earned as services are provided.
- **Fixed-price contracts** revenues, **which include lump-sum turnkey contracts**, derived mainly from **Packages** activities are recorded on the percentage-of-completion basis over the duration of the contract. The percentage of completion is determined by dividing the cumulative costs incurred as at the balance sheet date by the sum of incurred costs and anticipated costs for completing a contract.
- Fixed-fee contract revenues from **cost reimbursable with a fixed-fee Operations and Maintenance** activities are recognized on a straight-line basis over the term of the contract. Revenues on **fixed-price Operations and Maintenance contracts** are recognized based on the stage of completion of the contract activity which involves taking the costs incurred as at the balance sheet date and dividing by the estimated total contract costs.

For fixed-price contracts, the cumulative effect of changes to anticipated costs and anticipated revenues for completing a contract are recognized in the period in which the revisions are identified. Losses, if any, are recognized in their entirety in the period they become known. SNC-Lavalin has numerous contracts that are in various stages of completion. Estimates are required to determine the appropriate anticipated costs and revenues. Estimated revenues on contracts may include future revenues from claims and unapproved change orders, if such additional revenues can be reliably estimated.

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

Revenues from **infrastructure concession investments** correspond to the following:

- Revenues from infrastructure concession investments, which SNC-Lavalin has invested in and are accounted for by the full consolidation method.
- SNC-Lavalin's share of revenues that are generated and reported by infrastructure concession investments of investments accounted for by the proportionate consolidation method.
- SNC-Lavalin's share of net results of infrastructure concession investments accounted for by the equity method.
- Dividends received by SNC-Lavalin from infrastructure concession investments accounted for by the cost method.

II) MULTIPLE REVENUE CATEGORY CONTRACTUAL ARRANGEMENTS

SNC-Lavalin may enter into contractual arrangements with a client to deliver activities on one project which span more than one of the following categories: Services or Packages, and/or Operations and Maintenance, and/or Infrastructure Concession Investments. When entering into such arrangements the Company assesses each activity based on its fair value. Accordingly, when such arrangements exist on the same project, the value of each revenue category is based on the fair value of each related activity and recognized according to the respective revenue recognition methods described above.

1. NATURE OF BUSINESS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

E) CASH EQUIVALENTS

Cash equivalents include short-term liquid investments that are readily convertible into a known amount of cash.

F) RESTRICTED CASH

Restricted cash includes cash and cash equivalents, primarily from infrastructure concession investments that are consolidated or proportionally consolidated, for which the use is limited for specific use under certain arrangements. The long-term portion of restricted cash is included in "Other assets" (see Note 9).

G) 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.

H) PROPERTY AND EQUIPMENT

Property 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:

I) FROM INFRASTRUCTURE CONCESSION INVESTMENTS

Property and equipment from infrastructure concession investments that are accounted for by the full or proportionate consolidation methods are primarily:

- Toll highway, which relates to SNC-Lavalin's investment in the Highway 407 concession, is depreciated, for each significant component's part, on a usage basis according to actual Vehicle Kilometres Travelled ("VKT") over their respective useful lives, which are based on projected VKT.
- Toll equipment, which relates to SNC-Lavalin's investment in the Highway 407 concession, is depreciated using the straight-line method over a period of 10 years.
- Transmission assets, which relate to SNC-Lavalin's investment in the AltaLink concession, are depreciated on a straight-line basis, over a period ranging mainly from 30 to 40 years.
- Bridge under construction, which relates to SNC-Lavalin's investment in the Okanagan Lake concession, is not depreciated until it is ready for its intended use.

II) OTHER

Property and equipment used for Services, Packages, and Operations and Maintenance activities are primarily:

- Buildings and surface installations that are depreciated using the straight-line method over a period of 25 to 40 years or the diminishing balance method at a rate of 5%.
- Computer equipment that is depreciated using the straight-line method over a period of two years.
- Office furniture that is depreciated using the diminishing balance method at a rate of 20%.

I) IMPAIRMENT OF LONG-LIVED ASSETS

Long-lived assets, mainly property and equipment, held for use by the Company are tested for recoverability whenever events or changes in circumstances indicate that an asset's carrying amount may not be recoverable. An impairment loss, if any, is recognized when the carrying amount of a long-lived asset is not recoverable and exceeds its fair value.

1. NATURE OF BUSINESS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

J) GOODWILL

Goodwill represents the excess of the purchase price of an acquired enterprise over the fair value assigned to assets acquired and liabilities assumed. Goodwill is assessed for impairment at least annually, or more frequently if events or changes in circumstances indicate that the goodwill might be impaired. The Company has designated October 31 as the date for the annual impairment test.

K) CONCESSION RIGHT

Concession right relates to SNC-Lavalin's investment in the Highway 407 concession. The concession right is included in "Other assets" (see Note 9) and amortized under the usage method based on projected revenues over 99 years to reflect the duration of the Highway 407 Concession and Ground Lease Agreement with the Province of Ontario.

L) DEFERRED FINANCING COSTS

Deferred financing costs, which are included in "Other assets" (see Note 9), relate mainly to SNC-Lavalin's infrastructure concession investments and 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.

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 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.

N) DEFERRED REVENUES

Deferred revenues relate to billings in advance of revenue recognized according to the corresponding revenue recognition method.

O) 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.

P) PENSION PLANS AND OTHER POST-RETIREMENT BENEFITS

All accrued obligations for defined benefit pension plans and other post-retirement benefits are included in "Other liabilities" (see Note 11) and have been determined using the projected benefit method. In valuing the defined benefit cost 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 GAAP, past service costs and net actuarial gains or losses related to defined benefit pension plans and post-retirement benefit plans are amortized under a systematic method not exceeding the expected average remaining service period of active employees to receive benefits under the plans. For the purpose of calculating the expected return on plans assets, such assets are valued at fair value.

1. NATURE OF BUSINESS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Q) MARKETING EXPENSES

All costs related to contract proposals are expensed as incurred.

R) 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 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.

AT DECEMBER 31

(IN THOUSANDS)	2006	2005
Weighted average number of outstanding shares – basic	**151,034**	151,499
Dilutive effect of stock options	**1,651**	1,644
Weighted average number of outstanding shares – diluted	**152,685**	153,143

S) STOCK OPTION COMPENSATION

Stock option compensation is expensed using the fair value method. The estimated fair value of the options is determined using the Black-Scholes option pricing model. The Company determines the fair value of stock options on their grant date and charges this amount to income as a compensation cost over the shorter of the two-year vesting period of the stock options or the term over which an employee becomes eligible to retire. Refer to Note 1V for recent accounting changes on stock-based compensation.

T) FOREIGN CURRENCY TRANSLATION

Self-sustaining foreign operations are accounted for using the current rate method. Under this method, 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 for the year. Foreign exchange gains or losses on translation of SNC-Lavalin's net equity investment in these operations are included as part of shareholders' equity, under "Cumulative Currency Translation Adjustment", which has no impact on the consolidated statements of income until the net equity investments are reduced.

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

U) HEDGING RELATIONSHIPS AND DERIVATIVE FINANCIAL INSTRUMENTS

SNC-Lavalin enters into derivative financial instruments, namely forward foreign exchange contracts, to hedge its exposure to fluctuations in foreign currency exchange rates. The Company does not enter into derivative financial instruments for speculative purposes.

SNC-Lavalin also enters into interest-rate swaps and bond forwards to hedge the variability of interest rates relating to financing arrangements. The interest-rate swaps and bond forwards to hedge the future payments relating to the "Advance under contract financing arrangement" are described in Note 16A.

SNC-Lavalin formally documents all relationships between hedging instruments and hedged items, as well as its risk management objective and strategy for undertaking these hedge transactions. SNC-Lavalin also regularly assesses the effectiveness of these hedges. All derivative financial instruments are designated to hedge specifically identified exposures. Accordingly, any gains or losses related to the hedging instruments 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 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.

In 2006, the Company entered into a financial arrangement with an investment grade financial institution to limit its exposure relating to its Performance Share Units ("PSU") plan (see Note 12D). This financial arrangement includes a financial derivative, which fluctuates in accordance with the movement in the Company's share price and which is recorded at fair value on the consolidated balance sheet under "Other liabilities". Gains and losses from the remeasurement of the financial derivative offset the related losses and gains from the fair value remeasurement of the PSU liability. The financial derivative is reduced by the Company concurrently with payments made to employees under the PSU plan, and is increased by the Company when additional PSU are issued.

V) RECENT CHANGES TO ACCOUNTING STANDARDS

STOCK-BASED COMPENSATION

In July 2006, the Emerging Issue Committee ("EIC") issued Abstract 162 "Stock-based Compensation for Employees Eligible to Retire Before the Vesting Date". This Abstract provides interpretation on how to account for stock-based awards granted to employees who are either eligible for retirement at the grant date or will be eligible to retire before the end of the vesting period. The adoption of this Abstract had to be applied retroactively with restatement of prior periods to all stock-based compensation awards accounted for in accordance with Section 3870 "Stock-based Compensation and Other Stock-based Payments". The Company did not restate its consolidated financial statements, as the impact of applying the new Abstract was not material.

W) CHANGES TO ACCOUNTING STANDARDS COMING INTO EFFECT AFTER DECEMBER 31, 2006

FINANCIAL INSTRUMENTS

The CICA issued the following three new sections related to financial instruments that will become effective for SNC-Lavalin starting January 1, 2007:

- Section 3855, "Financial Instruments – Recognition and Measurement", provides guidance on when a financial instrument must be recognized on the balance sheet and how it must be measured. It also provides guidance on the presentation of gains and losses on financial instruments. The initial adoption of this new section will result in the Company's: i) measuring financial assets classified as loans and receivables, and held to maturity, if any, as well as financial liabilities, at their amortized cost; ii) measuring financial assets and financial liabilities classified as held for trading, if any, at fair value with the related gains and losses on measurement recognized in net income; iii) measuring financial assets classified as available-for-sale at fair value, with the related gains and losses on measurement recognized in "Other comprehensive income", a new account introduced with the application of Section 1530 discussed below; and iv) recognizing all derivative financial instruments, currently disclosed in Note 16 to the audited consolidated financial statements, at fair value on its consolidated balance sheet.
- Section 3865, "Hedges", provides guidance on the application of hedge accounting and related disclosures. The initial adoption of this new section will result in recognizing gains and losses on instruments designated as cash flow hedges in "Other comprehensive income", except for the ineffective portion of the hedges, which will be recognized in net income.
- Section 1530, "Comprehensive income", requires an entity to recognize certain gains and losses in "Other comprehensive income", an account included in shareholders' equity, until such gains and losses are recognized in net income.

2. INFRASTRUCTURE CONCESSION INVESTMENTS

SNC-Lavalin makes equity investments in infrastructure concessions in certain industry sectors, such as airports, bridges, power, mass transit systems and roads. In accordance with GAAP, SNC-Lavalin's investments are accounted for by either the cost, equity, proportionate consolidation or full consolidation methods depending on whether SNC-Lavalin exercises, or not, significant influence, joint control or control.

When making equity investments in infrastructure concessions, SNC-Lavalin ensures that the debt included in these concessions is non-recourse to the general credit of the Company. Also, when making such equity investments, SNC-Lavalin may not be required to make its equity contribution immediately but instead may commit to make its equity contribution over time (see 2C below).

A) IMPACT ON THE COMPANY'S BALANCE SHEET AND NET BOOK VALUE OF THE INVESTMENTS IN INFRASTRUCTURE CONCESSIONS

The infrastructure concession investments have a significant impact on the Company's consolidated balance sheet. Specifically, these investments have significant property and equipment, and long-term debt, which is non-recourse to the general credit of the Company. In order to assist the reader in understanding the impact of the infrastructure concession investments, additional information is provided in the following table regarding the assets and liabilities of infrastructure concession investments accounted for by the full or proportionate consolidation methods, as well as the Company's net book value for its infrastructure concession investments.

AT DECEMBER 31

	2006	2005
Infrastructure concession investments accounted for by the full or proportionate consolidation methods are reflected on the Company's balance sheet as follows:		
Cash and cash equivalents	**$ 21,937**	$ 17,006
Restricted cash	**123,063**	57,240
Accounts receivable	**70,929**	23,418
Property and equipment	**1,439,285**	452,525
Goodwill	**203,786**	2,022
Other assets	**376,894**	330,457
Accounts payable and accrued charges	**(145,841)**	(14,629)
Current portion of non-recourse long-term debt	**(150,991)**	(26,967)
Non-recourse long-term debt	**(1,650,448)**	(785,861)
Other liabilities	**(75,388)**	(4,103)
Non-controlling interest	**(57,816)**	–
Net book value of infrastructure concession investments accounted for by the full or proportionate consolidation methods	**155,410**	51,108
Net book value of infrastructure concession investments accounted for by the equity method	**181,703**	227,714
Net book value of infrastructure concession investments accounted for by the cost method	**139,407**	89,464
Net book value of infrastructure concession investments accounted for by the equity or cost methods as shown on balance sheet	**321,110**	317,178
Net book value of total infrastructure concession investments	**$ 476,520**	$ 368,286

2. INFRASTRUCTURE CONCESSION INVESTMENTS (CONTINUED)

The net book value of infrastructure concession investments accounted for by the full or proportionate consolidation methods of $155.4 million (2005: $51.1 million) includes the investment in Highway 407, which is accounted for by the proportionate consolidation method. Under Canadian GAAP, the proportionate consolidation method requires the venturer to recognize its proportionate share of the joint venture losses irrespective of the carrying amount of its investment in such joint venture. Consistent with this requirement, the net book value of the investment in Highway 407 resulted in a net negative balance of $28.2 million as at December 31, 2006 (December 31, 2005: negative balance of $12.1 million). This negative balance of the investment, which varies depending on SNC-Lavalin's proportionate share of Highway 407's accounting losses and income and dividends received, does not represent a liability or any future obligation that SNC-Lavalin has relative to Highway 407 or any other party.

B) ADDITIONS AND DISPOSAL OF INFRASTRUCTURE CONCESSION INVESTMENTS

I) ADDITIONS AND DISPOSAL IN 2006

- **Additional participation in AltaLink Holdings, L.P.**

Effective May 31, 2006, SNC-Lavalin increased its participation from 50% to 76.92% in AltaLink Holdings, L.P., which owns AltaLink, L.P. (collectively called "AltaLink"), an electricity transmission facility owner whose business is the ownership and operation of regulated electricity transmission facilities in the Province of Alberta. AltaLink, L.P. is regulated by the Alberta Energy and Utilities Board ("AEUB") pursuant to certain acts of the Province of Alberta. These acts and their respective regulations cover matters such as tariffs, rates, construction, operations, financing and accounting. The initial acquisition in 2002 resulted in a 50% ownership of AltaLink and was accounted for using the equity method. The second acquisition brought SNC-Lavalin's total investment in AltaLink to 76.92%. Following this acquisition of control, the Company changed the method of accounting for this investment from the equity method to full consolidation and recognized non-controlling interest ($57.8 million as at December 31, 2006). Accordingly, AltaLink has been accounted for using the purchase method and consolidated from the effective date of the increased participation.

At the date of acquisition, the cash paid of $60.9 million (i.e., resulting in a purchase price of $51.0 million, net of $9.9 million of cash and cash equivalents of AltaLink at May 31, 2006) for the additional 26.92% participation and the net book value of the 50% participation in AltaLink was allocated to the Company's accounts as follows:

	May 31 2006
Cash and cash equivalents	$ 9,930
Restricted cash	64,662
Accounts receivable	23,662
Property and equipment	907,333
Goodwill of AltaLink upon consolidation, following acquisition of control	202,066
Goodwill for the additional 26.92% participation	1,720
Other assets	71,312
Accounts payable and accrued charges	(68,845)
Downpayments on contracts	(66,508)
Current portion of non-recourse long-term debt	(218)
Future income taxes	(4,142)
Non-recourse long-term debt	(841,989)
Other liabilities	(60,983)
Non-controlling interest	(55,934)
	$182,066
Cash paid for the additional 26.92% participation in AltaLink	$ 60,898
Net book value of 50% participation in AltaLink	121,168
	$182,066

2. INFRASTRUCTURE CONCESSION INVESTMENTS (CONTINUED)

- **Additional investment in Gaz Métro Limited Partnership ("Gaz Métro")**

In October 2006, SNC-Lavalin invested $50.0 million for 2.9 million units of Gaz Métro Limited Partnership ("Gaz Métro"), a publicly traded entity mainly involved in natural gas distribution in Canada and the U.S. With the acquisition of the newly issued 2.9 million units of Gaz Métro, coupled with SNC-Lavalin's previous ownership through Trencap Limited Partnership, SNC-Lavalin owns, as at December 31, 2006, approximately 6.39% of the outstanding units of Gaz Métro. The investment in Gaz Métro is accounted for by the cost method.

- **Investment in Shariket Kahraba Hadjret En Nouss S.p.A. ("SKH")**

In July 2006, SNC-Lavalin announced its commitment to invest in Shariket Kahraba Hadjret En Nouss S.p.A. ("SKH"), a newly established company which will build, own and operate a 1,227 MW gas-fired power plant in Algeria. By the end of the construction of the power plant, which is expected in 2008, SNC-Lavalin has committed to make equity contributions totalling approximately US$66.8 million (see 2C below) for an indirect interest of 26% in SKH. During 2006, SNC-Lavalin injected a portion of its committed equity contribution amounting to US$17.9 million (CA$20.2 million). Also in July 2006, SNC-Lavalin was awarded an engineering, procurement and construction ("EPC") contract by SKH, as well as an operations and maintenance contract for the power plant. The investment in SKH is accounted for by the equity method.

- **Disposal of SNC-Lavalin Investment Australia Pty Ltd ("Murraylink")**

On March 30, 2006, SNC-Lavalin sold to a third party for proceeds of $66.9 million all its shares in its wholly-owned subsidiary SNC-Lavalin Investment Australia Pty Ltd, the principal business of which was the 50% ownership of Murraylink Transmission Company Pty Ltd ("Murraylink"). Murraylink's sole business was the ownership and operation of a rate-regulated electricity transmission line that connects the electricity transmission grids of the Australian states of Victoria and South Australia. This sale resulted, for SNC-Lavalin, in a loss before taxes of $5.8 million (net loss after taxes of $4.6 million) and is reflected in the consolidated statements of income as a reduction of the "Gross margin".

II) ADDITIONS IN 2005

- **Investment in InTransit BC L.P.**

In August 2005, SNC-Lavalin committed to invest $40.2 million for a 33.3% interest in InTransit BC L.P. ("InTransit BC"), which signed a 35-year concession agreement with Richmond-Airport-Vancouver Project Management Ltd ("RAVCO") and the Greater Vancouver Transportation Authority ("GVTA") to design, build, partially finance, operate and maintain the Canada Line, a 19 kilometre rapid transit line connecting the cities of Vancouver and Richmond with Vancouver International Airport, in the Province of British Columbia. SNC-Lavalin, under InTransit BC's long-term credit facility agreement, is committed to make an equity contribution of $40.2 million, which is payable in 2009 (see 2C below). Concurrent with the signing of the agreement, InTransit BC awarded SNC-Lavalin an EPC contract worth approximately $1.6 billion and an operations and maintenance contract for 35 years. The investment in InTransit BC is accounted for by the equity method.

- **Investment in Okanagan Lake Concession L.P.**

In June 2005, Okanagan Lake Concession L.P. ("Okanagan Lake Concession"), wholly-owned by SNC-Lavalin, signed a 30-year concession agreement with the Province of British Columbia to design, build, finance, operate and maintain the new William R. Bennett Bridge in Kelowna. To finance the project, SNC-Lavalin entered into a non-recourse long-term credit facility (see Note 10), under which, SNC-Lavalin committed to invest $27.7 million as equity contribution, which is payable in 2007 and 2008 (see 2C below). At the same date, Okanagan Lake Concession signed an EPC contract for the construction of the bridge with a wholly-owned subsidiary of SNC-Lavalin. It also signed a 27-year operations and maintenance contract with a wholly-owned subsidiary of SNC-Lavalin. SNC-Lavalin consolidates Okanagan Lake Concession's accounts, as it is the sole owner of Okanagan Lake Concession. Upon consolidation under Canadian GAAP, SNC-Lavalin eliminates its investment in Okanagan Lake Concession and will not recognize profit on the EPC and operations and maintenance contracts as long as it remains the sole owner.

2. INFRASTRUCTURE CONCESSION INVESTMENTS (CONTINUED)

C) ACQUISITION OF ADDITIONAL PARTICIPATION, PAYMENTS AND REMAINING COMMITMENTS IN INFRASTRUCTURE CONCESSION INVESTMENTS

The following table summarizes SNC-Lavalin's payments and outstanding commitments to invest in infrastructure concession investments as at December 31, 2006 and 2005:

			PAYMENTS FOR INFRASTRUCTURE CONCESSION INVESTMENTS		SNC-LAVALIN'S REMAINING COMMITMENT TO INVEST AS AT	
	SNC-LAVALIN'S ACQUIRED OWNERSHIP	ACQUIRED IN	**DURING 2006 (IN MILLIONS)**	DURING 2005 (IN MILLIONS)	DECEMBER 31, 2006 (IN MILLIONS)	DECEMBER 31, 2005 (IN MILLIONS)
SKH	26.0%	2006	**CA$20.2**	$ –	US$48.9 (from 2007 to 2009)	$ –
AltaLink	26.92%	2006	**CA$51.0**	$ –	$ –	$ –
Gaz Métro	2.42%	2006	**CA$50.0**	$ –	$ –	$ –
InTransit BC	33.3%	2005	**$ –**	$ –	CA$40.2 (in 2009)	CA$40.2 (in 2009)
Okanagan Lake Concession	100.0%	2005	**$ –**	$ –	CA$27.7 (from 2007 to 2008)	CA$27.7 (from 2007 to 2008)
Astoria Project Partners LLC	21.0%	2004	**CA$35.6**	CA$35.3	$ –	US$31.0 (in 2006)
Acquisition of additional participation and payments for infrastructure concession investments			**CA$156.8**	CA$35.3		

SNC-Lavalin's remaining commitments to invest at the end of the reporting period that are expected to be paid in the following year are reflected as current liabilities under "Accounts payable and accrued charges", while payments expected to be made beyond the following year are reflected as long-term liabilities, under "Other liabilities" (see Note 11). SNC-Lavalin fully consolidates Okanagan Lake Concession's accounts as it is the sole owner of Okanagan Lake Concession L.P. and, accordingly, no liability is presented on the Company's consolidated balance sheet for its remaining commitment to invest in this entity.

2. INFRASTRUCTURE CONCESSION INVESTMENTS (CONTINUED)

D) CONDITIONAL COMMITMENT TO INVEST IN AMBATOVY NICKEL PROJECT

In October 2006, SNC-Lavalin signed a shareholders' agreement for the Ambatovy Nickel Project ("Ambatovy") in which it committed to acquire a 5% interest in Ambatovy for approximately US$62 million, conditional to the closing of the project debt financing. Also, SNC-Lavalin was awarded an engineering, procurement and construction management ("EPCM") contract for the project which, will consist of an open-pit mine operation, and a hydrometallurgical processing plant, expected to produce mainly nickel and cobalt, in Madagascar.

Also contingent upon the closing of the project debt financing, expected to occur in 2007, SNC-Lavalin will provide:

- a US$85 million financial guarantee to the Ambatovy lenders related to the project debt financing, until certain financial and operating tests are satisfied upon completion of construction.
- a US$50 million cross guarantee for a shareholder's share of financial guarantees related to the project debt financing, until certain financial and operating tests are satisfied upon completion of construction.
- a US$20 million limited recourse subordinated loan to a shareholder, which will be used by the shareholder to finance part of its equity contribution. This loan will have a 15-year term and will be repaid from a portion of the shareholder's share of the project's anticipated distributions.

3. **ACQUISITION OF BUSINESSES**

In 2006, SNC-Lavalin completed the following business acquisitions: i) in March 2006, Geomar International Inc., a Canadian firm mainly involved in agricultural market development; ii) in July 2006, LKM & Partners Inc., a Canadian firm providing mechanical and electrical engineering consulting services to public and private clients for a variety of building projects; and iii) in November 2006, Ingénierie Studio S.A.S., an engineering firm based in Toulouse and Paris, France, which specializes in the field of infrastructure.

In 2005, SNC-Lavalin completed the following business acquisitions: i) in February 2005, Devonyx 2K Inc., a Canadian-based integrated e-learning solution provider and dynamic simulation developer for the engineering sector; ii) in March 2005, RJ Associates (Engineers) Private Limited, a full-service engineering and contracting firm based in Mumbai, India; iii) in June 2005, Morrow Environmental Consultants Inc., a Canadian environmental engineering and consulting company; iv) in November 2005, SIRR Ingénierie S.A.S., an engineering firm based in Alsace, France, which specializes in building engineering; v) in November 2005, B2000 Ingénierie S.A.S., an engineering firm based in Alsace, France, which specializes in the fields of infrastructure, development and the environment; and vi) in November 2005, BHA, a Canadian engineering firm which provides process engineering, automation and validation services in the pharmaceutical industry.

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

The net assets related to these business acquisitions were $12.5 million in 2006 (2005: $25.3 million), for which a cash consideration of $10.0 million was paid (2005: $17.7 million), net of cash and cash equivalents existing in these businesses at the time of acquisition of $2.5 million (2005: $6.1 million). The purchase price of these business acquisitions was allocated as follows:

	2006	2005
Cash and cash equivalents	**$ 2,513**	$ 6,095
Other current assets	**11,582**	14,346
Property and equipment	**4,083**	2,985
Goodwill	**6,138**	11,833
Other assets	**598**	49
Liabilities assumed	**(12,362)**	(10,017)
Net assets of businesses acquired	**12,552**	25,291
Less: Cash and cash equivalents at acquisition	**2,513**	6,095
Balance of purchase price payable	**-**	1,503
Cash consideration paid	**$ 10,039**	$ 17,693

4. DISPOSAL OF SNC TECHNOLOGIES INC.

DISCONTINUED OPERATIONS AND ASSETS HELD FOR SALE

On February 23, 2006, SNC-Lavalin entered into an agreement with a third party to sell all its shares in its wholly-owned subsidiary SNC Technologies Inc. and its subsidiaries ("SNC TEC") for proceeds of $335.9 million, subject to certain adjustments, which will result in a gain before taxes of approximately $113 million (net gain after taxes of $83 million). The transaction was subject to Canadian government approval and regulatory approvals in Canada, the U.S. and Europe. Following the receipt of all necessary approvals, the transaction was concluded on January 5, 2007. SNC TEC is involved in the manufacturing of small, medium and large calibre ammunition, extruded propellant for military purposes and sporting use, and the production of Simunition® training systems.

At the time these financial statements were prepared, the transaction was concluded, therefore, SNC TEC's financial results were reclassified as discontinued operations and assets held for sale as required under GAAP. However, the Company's gain on disposal will be reflected in the 2007 financial results since the sale was concluded in January 2007.

The financial results of SNC TEC were previously presented under the Defence segment while they are now disclosed under discontinued operations. Also, SNC TEC's revenues and expenses have been reflected in "Net income from discontinued operations" in the Company's consolidated statement of income, while SNC TEC's assets and liabilities have been aggregated under "Assets held for sale" and "Liabilities related to assets held for sale" on the consolidated balance sheet. Accordingly, comparative figures for the prior periods have been restated to conform with the current year presentation. The "Assets held for sale" amounted to $250.3 million as at December 31, 2006 (2005: $240.0 million), while the "Liabilities related to assets held for sale" amounted to $69.7 million (2005: $81.3 million). The net income from discontinued operations is detailed below:

YEAR ENDED DECEMBER 31

	2006	2005
Revenues	**$ 319,255**	$ 336,878
Gross margin	**$ 74,780**	$ 77,922
Administrative, marketing and other expenses	**39,732**	41,088
Interest and capital taxes	**540**	2,042
Income from discontinued operations before income taxes	**34,508**	34,792
Income taxes	**12,701**	10,504
Net income from discontinued operations	**$ 21,807**	$ 24,288

The cash flows related to the discontinued operations by major activities are detailed below:

YEAR ENDED DECEMBER 31

	2006	2005
Cash and cash equivalents of SNC TEC at beginning of year	**$ 22,656**	$ 36,865
Operating activities	**6,057**	17,985
Investing activities	**(6,959)**	(5,757)
Financing activities		
Dividends paid by SNC TEC to SNC-Lavalin	**–**	(24,500)
Other	**(607)**	(1,937)
Cash and cash equivalents of SNC TEC at end of year	**$ 21,147**	$ 22,656

The Company has presented dividends paid by SNC TEC to SNC-Lavalin (2006: nil; 2005: $24.5 million) on its consolidated statements of cash flows as a separate line item "Cash generated from discontinued operations" to distinguish this cash payment received from discontinued operations. The year-end cash and cash equivalents (2006: $21.1 million; 2005: $22.7 million) of SNC TEC have been aggregated in the Company's consolidated balance sheet under "Assets held for sale", for each of the respective years, as shown in the table above.

5. **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 is summarized by the following financial information:

AT DECEMBER 31

	2006	2005
Balance sheets		
Current assets	**$ 439,938**	$ 285,789
Property and equipment:		
From infrastructure concession investments	**381,822**	438,339
Other	**353**	3,521
Other long-term assets	**321,154**	322,225
	$ 1,143,267	$ 1,049,874
Current liabilities	**$ 474,777**	$ 281,036
Non-recourse long-term debt:		
From infrastructure concession investments	**613,754**	715,861
Other	**5,211**	4,102
Pro rata share of net assets of joint ventures	**49,525**	48,875
	$ 1,143,267	$ 1,049,874

YEAR ENDED DECEMBER 31

	2006	2005
Statements of income		
Revenues	**$ 672,868**	$ 426,235
Expenses	**605,248**	383,994
Pro rata share of net income of joint ventures	**$ 67,620**	$ 42,241
Cash and cash equivalents provided by (used in):		
Operating activities	**$ 92,700**	$ 84,451
Investing activities	**(12,763)**	(7,531)
Financing activities	**(19,280)**	(15,005)
Pro rata share of changes in cash and cash equivalents of joint ventures	**$ 60,657**	$ 61,915

6. CONTRACT IN PROGRESS SUBJECT TO CONTRACT FINANCING ARRANGEMENT AND ADVANCE UNDER CONTRACT FINANCING ARRANGEMENT

During 2005, the Company and a partner were awarded an engineering, procurement and construction ("EPC") contract for some sections of the Trans-Canada Highway in the Province of New Brunswick, Canada. For the duration of this three-year EPC contract, the Company and its partner will receive progress payments, based on advancement of work, from a group of purchasers of a $543.8 million debenture that was issued as consideration for the EPC contract by a corporation wholly-owned by the Government of New Brunswick. This debenture will mature upon completion of the EPC contract, at which time it will become payable to its holder, resulting concurrently in the transfer of the credit risk to the debenture holders.

The Company and its partner, on a joint and several basis, guarantee to the group of purchasers of the debenture the performance of all their obligations under the EPC contract, similar to other performance guarantees provided by the Company in the normal course of its operations for EPC contracts. Under the terms of the sale of the debenture, the Company and its partner might, under a performance default, be obligated to repurchase the debenture, whereby the Company would have to remit to the group of purchasers of the debenture an amount equal to the progress payments received at such time plus related interest.

As at December 31, 2006, the net amounts received by SNC-Lavalin of $322.0 million plus related accrued interest, totalling $334.5 million (December 31, 2005: $92.1 million), are reflected on the consolidated balance sheet under "Advance under contract financing arrangement", while the amount representing the advancement of work reflected on the consolidated balance sheet under "Contract in progress subject to contract financing arrangement" amounted to $330.1 million (December 31, 2005: $102.5 million). As work progresses on this EPC contract, both "Contract in progress subject to contract financing arrangement" and "Advance under contract financing arrangement" are expected to increase up to $543.8 million and will no longer appear on the consolidated balance sheet upon completion of this EPC contract, which is expected by 2008.

7. PROPERTY AND EQUIPMENT

AT DECEMBER 31

	2006		2005	
	COST	ACCUMULATED DEPRECIATION	COST	ACCUMULATED DEPRECIATION
From infrastructure concession investments				
Toll highway	**$ 358,767**	**$ 14,548**	$ 344,205	$ 12,392
Toll equipment	**43,117**	**25,062**	43,068	20,842
Transmission assets	**1,230,572**	**226,970**	74,121	9,467
Bridge under construction	**53,860**	**–**	14,186	–
Other	**35,038**	**15,489**	31,805	12,159
	1,721,354	**$ 282,069**	507,385	$ 54,860
Accumulated depreciation	**282,069**		54,860	
Net book value of property and equipment – From infrastructure concession investments	**1,439,285**		452,525	
Other				
Buildings and surface installations	**55,337**	**$ 15,257**	54,105	$ 13,928
Computer equipment	**219,230**	**194,726**	201,536	179,969
Office furniture	**72,445**	**53,593**	66,102	53,806
Other	**37,000**	**26,149**	34,837	27,862
	384,012	**$ 289,725**	356,580	$ 275,565
Accumulated depreciation	**289,725**		275,565	
Net book value of property and equipment – Other	**94,287**		81,015	
Total net book value of property and equipment	**$1,533,572**		$ 533,540	

Total depreciation expense on property and equipment from infrastructure concession investments was $47.6 million in 2006 (2005: $12.5 million), while total depreciation expense on other property and equipment was $27.9 million in 2006 (2005: $24.5 million).

Bridge under construction, which relates to the investment in Okanagan Lake Concession, is not depreciated until it is ready for its intended use, expected in 2008.

8. GOODWILL

As at October 31, 2006, date of the last impairment test, the fair value of the Company's units exceeded their carrying amount, and therefore, goodwill is not considered to be impaired.

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

AT DECEMBER 31

	2006			2005		
	INFRASTRUCTURE CONCESSION INVESTMENTS	OTHER	TOTAL	INFRASTRUCTURE CONCESSION INVESTMENTS	OTHER	TOTAL
Balance at beginning of year	**$ 2,022**	**$ 117,990**	**$ 120,012**	$ 2,022	$ 106,157	$ 108,179
Goodwill of AltaLink infrastructure concession investment upon consolidation, following acquisition of control (Note 2B)	**202,066**	**–**	**202,066**	–	–	–
Goodwill acquired during the year	**1,720**	**6,138**	**7,858**	–	11,833	11,833
Other	**(2,022)**	**116**	**(1,906)**	–	–	–
Balance at end of year	**$ 203,786**	**$ 124,244**	**$ 328,030**	$ 2,022	$ 117,990	$ 120,012

9. OTHER ASSETS

AT DECEMBER 31

	2006	2005
From infrastructure concession investments		
Restricted cash	**$ 31,709**	$ 37,435
Deferred financing costs	**54,089**	10,975
Concession right from Highway 407	**272,766**	273,687
Other	**18,330**	8,360
	376,894	330,457
Other	**79,680**	76,878
	$ 456,574	$ 407,335

The concession right reflects SNC-Lavalin's proportionate share in Highway 407's concession right, which originates from the acquisition of Highway 407 from the Ontario Government.

10. **LONG-TERM DEBT**

A) **RECOURSE REVOLVING CREDIT FACILITIES**

The Company has access to committed long-term revolving lines of credit with banks, up to a maximum of $477.5 million, upon which it may either issue letters of credit, or borrow at variable rates not exceeding the prime rate. As at December 31, 2006, $110.1 million of these credit lines remained unused, the difference of $367.4 million was used exclusively for the issuance of letters of credit. In addition, 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.

B) **RECOURSE LONG-TERM DEBT**

AT DECEMBER 31

	2006	2005
Recourse (to the general credit of the Company):		
Debentures, 7.70%, due in 2010		
The debentures with a face value of $105.0 million are repayable in full at maturity.		
These debentures are unsecured and subject to negative pledge clauses.	**$ 104,532**	$ 104,406

C) **NON-RECOURSE LONG-TERM DEBT (SECURED ONLY BY SPECIFIC ASSETS)**

I) **FROM INFRASTRUCTURE CONCESSION INVESTMENTS**

AT DECEMBER 31

	2006	2005
AltaLink		
Senior bonds, 4.45% to 5.43%, due from 2008 to 2036, secured by a first floating charge security interest on AltaLink, L.P.'s assets. These senior bonds rank equally with the commercial paper back-up facility.	**$ 575,964**	$ –
Unsecured debt, 5.02%, due 2012 and 10.50%, due in 2015	**290,000**	–
Commercial paper	**49,331**	–
The commercial paper is supported by a $200 million back-up facility and ranks equally with the senior bonds due from 2008 to 2036. The commercial paper is shown under long-term debt since the back-up facility matures in 2009. AltaLink may borrow under this facility at prime rates and bankers' acceptances.		
Other	**1,777**	–
Highway 407		
Senior bonds, 4.39% to 6.90%, due from 2007 to 2039	**354,693**	338,430
Inflation-linked senior bonds, 3.28% to 5.33%, due from 2016 to 2039	**237,650**	232,755
Junior bonds, 7.00%, due in 2010	**27,663**	27,659
Subordinated bonds, 9.00% and 5.75%, due in 2007 and 2036	**130,748**	130,053
Other	**1,282**	1,199
Highway 407's bonds are secured by substantially all assets of 407 International Inc. and its wholly-owned subsidiaries, which primarily include 407 ETR Concession Company Limited, including an assignment of future revenues.		
Okanagan Lake Concession L.P.		
5.415% credit facility, due in 2033, secured by all assets of Okanagan Lake Concession L.P., including a pledge by SNC-Lavalin of its units in Okanagan Lake Concession L.P. as well as an assignment of future revenues.	**120,000**	70,000
Other	**12,331**	12,732
Total non-recourse long-term debt from infrastructure concession investments	**1,801,439**	812,828
Less: portion due within one year	**150,991**	26,967
Non-recourse long-term debt from infrastructure concession investments	**$ 1,650,448**	$ 785,861

10. LONG-TERM DEBT (CONTINUED)

II) **OTHER**

AT DECEMBER 31

		2006		2005
Company headquarters				
9.39% mortgage, 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 $25.4 million is due at maturity.	**$**	**27,952**	$	29,904
Other		**778**		578
Total non-recourse long-term debt – other		**28,730**		30,482
Less: portion due within one year		**2,494**		2,226
Non-recourse long-term debt – other	**$**	**26,236**	$	28,256

D) **LONG-TERM DEBT IS DUE AS FOLLOWS:**

AT DECEMBER 31, 2006

	2007	2008	2009	2010	2011	THEREAFTER	TOTAL
Recourse	$ –	$ –	$ –	$ 104,532	$ –	$ –	$ 104,532
Non-recourse:							
From infrastructure concession investments	150,991	120,339	121,938	32,934	5,344	1,369,893	1,801,439
Other	2,494	26,097	88	40	11	–	28,730
Total	$ 153,485	$ 146,436	$ 122,026	$ 137,506	$ 5,355	$1,369,893	$1,934,701

11. OTHER LIABILITIES

AT DECEMBER 31

		2006		2005
Asset retirement obligations from an infrastructure concession investment	**$**	**56,380**	$	–
Commitment to invest in infrastructure concession investments		**65,838**		40,189
Pension and other post-retirement benefits		**34,220**		30,436
Other		**30,447**		8,338
	$	**186,885**	$	78,963

The "Asset retirement obligations from an infrastructure concession investment" relates to the AltaLink infrastructure concession and corresponds to the estimated present value of liabilities associated with the retirement of tangible long-lived assets. The obligation is accounted for on a present value basis using discount rates ranging from 4.40% to 5.14%. As at December 31, 2006, the estimated total undiscounted amount of asset retirement obligations was approximately $145.7 million.

12. **SHARE CAPITAL**

A) **AUTHORIZED**

The Company is authorized to issue an unlimited number of common shares, an unlimited number of first preferred shares and an unlimited number of 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.

B) **STOCK SPLIT**

On February 24, 2006, the Board of Directors of the Company approved a three-for-one stock split, to be effected in the form of a stock dividend, whereby the shareholders of the Company received two additional common shares for each common share held. The stock dividend was applicable to shareholders of record at the close of business on March 10, 2006. All references to stock option compensation data, as well as all share and per share data for 2006 and 2005 reflect the three-for-one stock split.

C) **STOCK OPTION PLAN**

The Company has a stock option plan under which the options granted may only be exercised two years after the date of the grant for a period not exceeding four years. Options terminate upon cessation of employment, except in the event of death or Company approved retirement.

The number of options varied as follows:

	2006		2005	
	NUMBER OF OPTIONS	WEIGHTED AVERAGE EXERCISE PRICE (IN DOLLARS)	NUMBER OF OPTIONS	WEIGHTED AVERAGE EXERCISE PRICE (IN DOLLARS)
Options outstanding at beginning of year	**3,675,600**	**$ 14.13**	3,746,550	$ 10.65
Granted	**1,232,150**	**$ 29.71**	884,550	$ 23.05
Exercised	**(702,800)**	**$ 10.94**	(913,500)	$ 8.58
Cancelled	**(110,100)**	**$ 17.36**	(42,000)	$ 12.60
Options outstanding at end of year	**4,094,850**	**$ 19.28**	3,675,600	$ 14.13

The table below summarizes information regarding the stock options outstanding and exercisable, under the terms of the plan, as at December 31, 2006.

	OPTIONS OUTSTANDING			OPTIONS EXERCISABLE	
RANGE OF EXERCISE PRICES	NUMBER OUTSTANDING	WEIGHTED AVERAGE REMAINING OPTIONS TERM (MONTHS)	WEIGHTED AVERAGE EXERCISE PRICE (IN DOLLARS)	NUMBER EXERCISABLE	WEIGHTED AVERAGE EXERCISE PRICE (IN DOLLARS)
$ 7.20 to $ 9.33	603,100	7	$ 7.25	603,100	$ 7.25
$10.02 to $11.89	807,150	27	$ 10.63	807,150	$ 10.63
$16.49 to $16.66	610,500	42	$ 16.60	610,500	$ 16.60
$20.92 to $24.33	863,550	52	$ 23.03	–	$ –
$29.20 to $32.50	1,210,550	62	$ 29.71	–	$ –
	4,094,850	42	$ 19.28	2,020,750	$ 11.43

12. SHARE CAPITAL (CONTINUED)

The Company determines the fair value of stock options on their grant date and charges this amount to income as a compensation cost over the shorter of the two-year vesting period of the stock options or the term over which an employee becomes eligible to retire, with an equivalent increase to contributed surplus. The following table presents the weighted average assumptions used to determine the stock option compensation cost, using the Black-Scholes option pricing model, for the year ended December 31:

	2006	2005
Risk-free interest rate	**4.03%**	3.44%
Expected stock price volatility	**24.04%**	23.12%
Expected option life	**4 years**	4 years
Expected dividend yield	**1.00%**	1.00%

During 2006, the Company granted 1,232,150 stock options (2005: 884,550) to employees with a weighted average fair value of $6.86 per stock option (2005: $4.95). The stock option compensation cost charged to the consolidated statement of income for the year ended December 31, 2006 was $7.6 million (2005: $3.6 million).

D) 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 and the participant may receive 50% of the current year's grant as a cash payment. Vested PSU of a participant are redeemable for cash by the Company within three months of a participant's cessation of employment. PSU vest immediately in the event of death, long-term disability or retirement of a participant. 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 12 weeks preceding the last day of employment. The compensation expense recorded for the year ended December 31, 2006 in respect of this plan was $8.0 million (2005: $9.3 million).

In 2006, the Company entered into a financial arrangement, as described in Note 1U to hedge its exposure to the variability of the PSU caused by fluctuations in their share price. The value of the PSU liability was $25.9 million as at December 31, 2006 (2005: $23.7 million), which is included in "Accounts payable and accrued charges" fully offset, in 2006, by the value of the financial asset resulting from the arrangement, which is included in "Accounts receivable".

E) REDEMPTION OF SHARES

In May 2006, the Board of Directors authorized the renewal of its normal course issuer bid to purchase for cancellation, on the open market, up to 10.8 million (2005: 11.7 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 and the Toronto Stock Exchange.

The redemption of shares in 2006 and 2005 were as follows:

	2006	2005
Redeemed and cancelled		
Portion allocated to share capital	**$ 2,224**	$ 2,645
Portion allocated to retained earnings	**24,925**	23,324
	$ 27,149	$ 25,969
Number of shares redeemed and cancelled	**952,300**	1,157,100
Average redemption price per share ($)	**$ 28.51**	$ 22.44

13. **INTEREST AND CAPITAL TAXES**

YEAR ENDED DECEMBER 31

	2006			2005		
	FROM INFRASTRUCTURE CONCESSION INVESTMENTS	OTHER	TOTAL	FROM INFRASTRUCTURE CONCESSION INVESTMENTS	OTHER	TOTAL
Interest revenues	**$ (3,523)**	**$ (36,885)**	**$ (40,408)**	$ (2,142)	$ (21,191)	$ (23,333)
Interest on long-term debt:						
Recourse	**–**	**8,211**	**8,211**	–	8,211	8,211
Non-recourse	**75,717**	**2,986**	**78,703**	48,273	4,423	52,696
Capital taxes and other	**2,061**	**4,734**	**6,795**	1,410	5,053	6,463
Interest (revenues) and capital taxes	**$ 74,255**	**$ (20,954)**	**$ 53,301**	$ 47,541	$ (3,504)	$ 44,037

14. **SUPPLEMENTARY CASH FLOW INFORMATION**

A) **NET CHANGE IN NON-CASH WORKING CAPITAL ITEMS**

The following table presents the items included in the net change in non-cash working capital related to operating activities presented in the statements of cash flows, for the year ended December 31:

	2006	2005
Increase in contract in progress subject to contract financing arrangement (Note 6)	**$ (227,572)**	$ (102,516)
Increase in accounts receivable	**(316,101)**	(54,440)
Increase in contracts in progress	**(336,266)**	(109,510)
Increase in accounts payable and accrued charges	**371,881**	79,379
Increase in downpayments on contracts	**66,851**	361,739
Increase in deferred revenues	**115,364**	144,310
	(98,271)	421,478
	$ (325,843)	$ 318,962

B) **INTEREST PAID AND INCOME TAXES PAID**

The following table presents the interest paid and income taxes paid for the year ended December 31:

	2006	2005
Interest paid:		
From infrastructure concession investments	**$ 69,639**	$ 34,319
Other	**12,307**	13,090
	$ 81,946	$ 47,409
Income taxes paid	**$ 81,312**	$ 59,607

15. **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:

	2006	2005
Provision and reserves	$ 43,485	$ 29,621
Tax loss carry forwards	33,330	18,799
Contracts in progress	(32,416)	(12,659)
Future employee benefits	12,505	10,773
Property and equipment	(13,263)	(8,507)
Other	(49)	4,331
Future income tax asset, net	$ 43,592	$ 42,358
Recorded as follows:		
Future income tax asset – current (1)	$ 12,752	$ 12,573
Future income tax asset – long-term (2)	$ 30,840	$ 29,785

(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”.

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:

YEAR ENDED DECEMBER 31

	2006		2005	
	AMOUNT	%	AMOUNT	%
Income tax expense at statutory Canadian rates	$ 64,707	32.5	$ 51,396	32.3
Increase (decrease) resulting from:				
Non-deductible expenses	4,030	2.0	2,769	1.7
Net losses not affected by tax	291	0.1	5,711	3.6
Effect of foreign tax rates	(14,205)	(7.1)	(8,204)	(5.1)
Income from infrastructure concession investments accounted for by the equity or cost methods	(2,250)	(1.1)	(2,955)	(1.9)
Other	2,508	1.3	2,813	1.7
Total income tax expense	$ 55,081	27.7	$ 51,530	32.3
Current income tax expense	$ 61,404		$ 61,946	
Future income tax benefit	(6,323)		(10,416)	
	$ 55,081		$ 51,530	

16. **FINANCIAL INSTRUMENTS**

A) **FAIR VALUE OF FINANCIAL INSTRUMENTS**

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

SHORT-TERM FINANCIAL ASSETS AND LIABILITIES

Cash and cash equivalents are invested in liquid and high-grade financial instruments. Due to the short duration of investments included in cash equivalents, their carrying amount approximates their fair value. For other short-term financial assets and liabilities, their 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 fair value of the non-recourse long-term debt from infrastructure concessions investments and of the other non-recourse and recourse long-term debt is summarized in the table below:

AT DECEMBER 31

	2006		2005	
	CARRYING VALUE	FAIR VALUE	CARRYING VALUE	FAIR VALUE
From infrastructure concession investments:				
Non-recourse	**$ 1,801,439**	**$ 1,980,980**	$ 812,828	$ 959,109
Other:				
Non-recourse	**28,730**	**29,899**	30,482	32,741
Recourse	**104,532**	**116,322**	104,406	119,522
Total	**$ 1,934,701**	**$ 2,127,201**	$ 947,716	$ 1,111,372

The fair value of long-term debt 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 or to the infrastructure concession investment, depending on which entity has issued the debt instrument, for debt with the same terms and conditions.

FORWARD FOREIGN EXCHANGE CONTRACTS

The following table summarizes the major forward foreign exchange contracts that were outstanding as at December 31, for which SNC-Lavalin has committed to buy or sell foreign currencies:

2006			2005		
BUY	SELL	MATURITY	BUY	SELL	MATURITY
CA$ 553,550	**US$ 500,210**	**2007-2011**	CA$ 214,680	US$ 177,261	2006-2009
CA$ 312,705	**EUR 211,694**	**2007-2011**	CA$ 108,265	EUR 71,717	2006-2008
US$ 144,170	**CA$ 165,975**	**2007-2009**	US$ 55,641	CA$ 66,711	2006-2007
US$ 287,640	**EUR 221,384**	**2007-2010**	US$ 30,506	EUR 24,443	2006-2008
EUR 57,907	**US$ 76,016**	**2007-2009**	EUR 2,177	US$ 2,509	2006
EUR 31,311	**CA$ 46,849**	**2007-2008**	EUR 113,433	CA$ 165,225	2006-2008

16. FINANCIAL INSTRUMENTS (CONTINUED)

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.

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. If settlement had occurred as at December 31, the estimated fair values, which are estimated by obtaining quotes from financial institutions, would be as follows:

	2006	2005
Favourable forward foreign exchange contracts	**$ 8,028**	$ 19,825
Unfavourable forward foreign exchange contracts	**(48,998)**	(13,594)
	$ (40,970)	$ 6,231

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. In accordance with Canadian GAAP, the above fair values are not recorded in the financial statements as at December 31, 2006 and any foreign exchange gains or losses related to hedges are deferred and recognized into income over the same period as the underlying hedged item.

INTEREST-RATE SWAPS AND BOND FORWARDS RELATED TO ADVANCE UNDER CONTRACT FINANCING ARRANGEMENT

Pursuant to an engineering, procurement and construction ("EPC") contract for some sections of the Trans-Canada Highway (see Note 6), SNC-Lavalin entered into a series of derivative financial instruments (i.e. interest-rate swaps and bond forwards) with a Canadian chartered bank to hedge the variability of future cash flows from the sale of a $543.8 million debenture. These derivative financial instruments are used solely to hedge the variability of the progress payments and had a total estimated unfavourable fair market value, if settlement were to occur, of approximately $0.5 million as at December 31, 2006 (December 31, 2005: unfavourable $0.5 million). Any gains or losses related to the hedges are deferred and recognized into income over the same period as the underlying hedged item. SNC-Lavalin does not use derivative financial instruments for speculative purposes. These derivative financial instruments are designated to hedge specifically identified interest rate exposure, which is formally documented and regularly assessed.

B) 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, 2006, SNC-Lavalin had outstanding letters of credit of $2,053.5 million (2005: $1,668.2 million).

C) 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.

17. PENSION PLANS AND OTHER POST-RETIREMENT BENEFITS

A) 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 (2006: $27.2 million; 2005: $20.3 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 by SNC-Lavalin for its pension plans, consisting of contributions to its defined contribution and defined benefit pension plans, was $35.0 million for 2006 (2005: $27.0 million).

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

AT DECEMBER 31

	2006	2005
Change in pension benefit obligation		
Benefit obligation at beginning of year	**$ 165,755**	$ 152,573
Benefit obligation of AltaLink infrastructure concession investment upon consolidation, following acquisition of control (at acquisition date)	**7,296**	-
Current service cost	**3,799**	3,887
Interest cost	**8,907**	8,883
Benefits paid	**(10,869)**	(10,931)
Actuarial losses	**6,489**	8,895
Other	**(1,425)**	2,448
Benefit obligation at end of year	**$ 179,952**	$ 165,755
Change in plans assets		
Fair value of plans assets at beginning of year	**$ 121,713**	$ 115,044
Fair value of plans assets of AltaLink infrastructure concession investment upon consolidation, following acquisition of control (at acquisition date)	**8,014**	-
Actual return on plans assets	**14,174**	10,749
Benefits paid	**(10,869)**	(10,931)
Employer contributions	**7,781**	6,684
Other	**169**	167
Fair value of plans assets at end of year	**$ 140,982**	$ 121,713
Funded status		
Funded status (plans deficit) at end of year	**$ (38,970)**	$ (44,042)
Unamortized net actuarial loss	**20,607**	27,000
Net accrued benefit liability	**$ (18,363)**	$ (17,042)

SNC-Lavalin has several defined benefit pension plans, for which an individual actuarial valuation is performed at least every three years for each respective plan. For the two principal pension plans, the latest actuarial valuations were performed on December 31, 2005 and December 31, 2003. The measurement date used for the above benefit obligation and plans assets is December 31 of each year.

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

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

	2006	2005
Asset class		
Equity securities	**56%**	53%
Debt securities	**44%**	47%
Total	**100%**	100%

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

AT DECEMBER 31

	2006	2005
Accrued benefit obligation		
Discount rate	**5.08%**	5.33%
Rate of compensation increase	**3.96%**	3.95%

YEAR ENDED DECEMBER 31

	2006	2005
Net benefit costs		
Discount rate	**5.31%**	5.75%
Expected long-term rate of return on plans assets	**6.37%**	6.25%
Rate of compensation increase	**3.95%**	3.80%

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

YEAR ENDED DECEMBER 31

	2006	2005
Current service cost	**$ 3,799**	$ 3,887
Interest cost on benefit obligation	**8,907**	8,883
Actual return on plans assets	**(14,174)**	(10,749)
Actuarial losses on benefit obligation	**6,489**	8,895
Cost arising in the period	**5,021**	10,916
Difference between cost arising in the period and cost recognized in the period in respect of:		
Return on plans assets	**6,248**	3,627
Actuarial losses on benefit obligation	**1,346**	(6,215)
	7,594	(2,588)
Valuation allowance	**(879)**	850
Net defined benefit cost recognized in the period	**$ 11,736**	$ 9,178

B) OTHER POST-RETIREMENT BENEFITS

As at December 31, 2006, the obligation for other post-retirement benefits amounted to $15.9 million (2005: $13.4 million) and is reflected in the consolidated balance sheet under "Other liabilities".

18. **CONTINGENCIES**

In the normal conduct of operations, there are 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 litigations will not materially affect the Company's consolidated financial position or results of operations.

19. **COMMITMENTS**

SNC-Lavalin's minimum lease payments for annual basic rental under long-term operating leases amount to $189.2 million. The annual minimum lease payments are as follows: 2007 – $41.6 million; 2008 – $35.4 million; 2009 – $30.1 million; 2010 – $23.0 million; 2011 – $18.1 million and thereafter – $41.0 million.

Other commitments and a conditional commitment relating to infrastructure concession investments are disclosed under Note 2C and Note 2D, respectively.

20. **SEGMENT DISCLOSURES**

The Company provides engineering, construction, and operations and maintenance expertise, through its network of offices located in over 30 countries, and is currently active on projects in some 100 countries. SNC-Lavalin also makes selective investments in infrastructure concessions that are complementary to the engineering, construction and operation and maintenance activities. These activities are grouped by segment, described as follows:

- Infrastructure and Environment segment entails a full range of activities in infrastructure projects, including airports, bridges, buildings, container ports, ferry terminals, flood control systems, hospitals, mass transit systems, railways, roads and water treatment and distribution infrastructure and facilities as well as environment projects, including impact assessment and studies, site assessment, remediation and reclamation, ecological and human health risk assessment, waste management, and water and wastewater.
- Power segment entails activities in hydroelectric, nuclear and thermal power generation, power sector reform, transmission and distribution projects, as well as in energy control systems and training.
- Chemicals and Petroleum segment entails activities in gas processing, heavy and conventional oil production, onshore and offshore oil and gas, liquefied natural gas, pipelines, terminals and pump stations, refining and upgrading, bitumen production, petrochemicals, biofuels, chemicals and fertilizers.
- Mining and Metallurgy segment entails a full range of services for each step in the mineral and metal recovery process, including mineral processing, smelting, refining, mine closure and reclamation. This segment also includes aluminum industry projects.
- Operations and Maintenance segment provides operations, maintenance and logistics solutions for real estate, power plants, water supply and treatment systems, postal services, highways, light rail transit systems, military operations and ships.
- Infrastructure Concession Investments segment regroups all of SNC-Lavalin's infrastructure concession investments. These investments are in various industry sectors, such as airports, bridges, power, mass transit systems and roads. When making equity investments in infrastructure concessions, SNC-Lavalin ensures that the debt included in these concessions is non-recourse to the general credit of the Company. Such investments are grouped and presented under the Infrastructure Concession Investments segment and include SNC-Lavalin's interest in the following investments: AltaLink L.P., Astoria Project Partners LLC, Gazmont Limited Partnership, 407 International Inc., InTransit BC L.P., Malta International Airport p.l.c., Okanagan Lake Concession L.P., Southern Electric Power Company Limited, Trencap Limited Partnership and West End Dam Associates, as well as Gaz Métro Limited Partnership and Shariket Kahraba Hadjret En Nouss S.p.A., which were added in 2006, and its investment in Murraylink Transmission Company Pty. Ltd which was disposed of in 2006 (refer to Note 2B).
- "All Other" segment combines activities in several sectors, namely agrifood, pharmaceuticals and biotechnology, as well as other industrial facilities.

On January 5, 2007, SNC-Lavalin completed the sale of all its shares in SNC TEC, which was involved in the manufacturing of small, medium and large calibre ammunition, extruded propellant for military purposes and sporting use and in the production of Simunition® training systems, and which was previously presented under the Defence segment. As at December 31, 2006, SNC TEC's operations qualified as discontinued operations under GAAP and it has been reclassified and reflected under "Net income from discontinued operations".

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 calculated on non-cash working capital position. The Company evaluates segment performance, except for the Infrastructure Concession Investments segment, 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.

20. SEGMENT DISCLOSURES (CONTINUED)

The Company evaluates the Infrastructure Concession Investments segment performance using: i) dividends received from investments accounted for by the cost method; ii) SNC-Lavalin's share of the net results of its investments accounted for by the equity method; iii) SNC-Lavalin's share of the net results of its investments accounted for by the proportionate consolidation method; and iv) net results from investments accounted for by the full consolidation method, less the portion attributable to non-controlling interest. SNC-Lavalin's results from its investment in Highway 407, which in previous years was disclosed separately from the Infrastructure Concessions Investment segment, is now included in this segment. The Company, however, continues to disclose its 16.77% proportionate share of Highway 407's net income (loss) as shown in the table below under "Supplementary Information", as this information is important in assessing the Company's fair value.

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

YEAR ENDED DECEMBER 31

	2006		2005	
	REVENUES	OPERATING INCOME (LOSS)	REVENUES	OPERATING INCOME
Infrastructure and Environment	**$ 1,564,253**	**$ 83,555**	$ 826,646	$ 26,818
Power	**1,219,465**	**(18,020)**	879,309	67,008
Chemicals and Petroleum	**770,234**	**66,865**	579,181	30,364
Mining and Metallurgy	**244,799**	**29,640**	222,958	33,869
Operations and Maintenance	**920,846**	**23,473**	695,935	18,340
Infrastructure Concession Investments	**213,405**	**19,149**	92,389	7,959
All Other	**217,404**	**10,737**	154,513	13,334
	$ 5,150,406	**215,399**	$ 3,450,931	197,692
Reversal of items included above:				
Imputed interest benefit		**(47,965)**		(45,227)
Net interest expense and capital taxes from Infrastructure Concession Investments segment		**74,255**		47,541
Non-controlling interest before income taxes		**10,633**		3,360
Income from continuing operations before interest, taxes and non-controlling interest		**252,322**		203,366
Interest and capital taxes (Note 13)		**53,301**		44,037
Income from continuing operations before income taxes and non-controlling interest		**199,021**		159,329
Income taxes		**55,081**		51,530
Non-controlling interest		**7,375**		2,175
Net income from continuing operations		**136,565**		105,624
Net income from discontinued operations (Note 4)		**21,807**		24,288
Net income		**$ 158,372**		$ 129,912

YEAR ENDED DECEMBER 31

	2006	2005
Supplementary information:		
SNC-Lavalin's proportionate share (16.77%) of Highway 407's net income (loss) included in the Company's net income. The results of Highway 407 are included in the Infrastructure Concession Investments segment shown above.	**$ 8,133**	$ (4,675)
Net income excluding Highway 407	**150,239**	134,587
Net income	**$ 158,372**	$ 129,912

20. SEGMENT DISCLOSURES (CONTINUED)

The Company's segments' net assets (liabilities), which are established according to the segment's non-cash working capital position, are reconciled to the consolidated total assets as follows:

AT DECEMBER 31

	2006	2005
Segment net assets (liabilities), as defined above		
Infrastructure and Environment	**$ (89,465)**	$ (185,492)
Power	**(400,557)**	(424,032)
Chemicals and Petroleum	**(116,088)**	(49,283)
Mining and Metallurgy	**21,817**	4,165
Operations and Maintenance	**(39,798)**	(34,588)
Infrastructure Concession Investments	**(74,912)**	8,791
All Other	**(29,538)**	(11,710)
Total segment net assets (liabilities)	**(728,541)**	(692,149)
Reversal of:		
Current liabilities included in the above segment net assets (liabilities)	**2,836,999**	1,880,923
Current assets, excluding cash and cash equivalents, restricted cash and assets held for sale	**2,108,458**	1,188,774
Cash and cash equivalents	**1,106,265**	1,153,521
Restricted cash	**134,692**	66,062
Assets held for sale (Note 4)	**250,286**	240,039
Property, equipment, goodwill and other long-term assets	**2,639,286**	1,378,065
Total assets	**$ 6,238,987**	$ 4,026,461

Revenues by category reflect SNC-Lavalin's activities in Services, Packages, Operations and Maintenance and Infrastructure Concession Investments.

YEAR ENDED DECEMBER 31

	2006	2005
Revenues by category		
Services	**$ 1,180,237**	$ 958,510
Packages	**2,835,918**	1,704,097
Operations and Maintenance	**920,846**	695,935
Infrastructure Concession Investments	**213,405**	92,389
	$ 5,150,406	$ 3,450,931

20. SEGMENT DISCLOSURES (CONTINUED)

The following table presents revenues by geographical segment according to project location:

YEAR ENDED DECEMBER 31

	2006	2005
Revenues by geographic segment		
Canada	**$ 3,184,869**	$ 1,915,469
Africa	**650,835**	503,817
Europe	**427,411**	282,276
Middle East	**289,842**	210,005
United States	**189,135**	181,338
Latin America	**180,850**	117,505
Asia	**164,215**	189,786
Other	**63,249**	50,735
	$ 5,150,406	$ 3,450,931

The following table presents property, equipment and goodwill inside and outside Canada:

AT DECEMBER 31

	2006	2005
Property, equipment and goodwill		
Canada:		
From Infrastructure Concession Investments	**$ 1,643,071**	$ 387,871
Other	**150,947**	164,852
	1,794,018	552,723
Outside Canada:		
From Infrastructure Concession Investments	**–**	66,676
Other	**67,584**	34,153
	67,584	100,829
	$ 1,861,602	$ 653,552

21. COMPARATIVE FIGURES

Certain 2005 figures have been reclassified to conform with the presentation adopted in 2006.

22. SUBSEQUENT EVENT

On January 5, 2007, SNC-Lavalin concluded the sale of all its shares in SNC TEC for proceeds of $335.9 million, subject to certain adjustments, which resulted in a gain before taxes of approximately $113 million (net gain after taxes of $83 million). This gain on disposal will be reflected in the Company's 2007 financial results, as the transaction was completed in 2007 (see Note 4).

Management Team

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President and Chief Executive Officer

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Executive Vice-President
Investment, Infrastructure,
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Chemicals and Petroleum

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Gilles Laramée
Executive Vice-President and
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Glass and Construction Materials

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Power, Transportation and International

CORPORATE

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Vice-President and Controller

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Senior Vice-President, Health and Safety

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Corporate Secretary

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Pierre Mailhot
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Global Human Resources

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Kebir Ratnani
Senior Vice-President, Business Development, Maghreb

Harry Varjabedian
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Yash Sthankiya
Senior Vice-President, Operations

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BAE-Newplan Group Limited

NOVA SCOTIA

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Sylvain Bouchard
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Belgium

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– S.A. Coppée-Courtoy N.V.

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– SNC-Lavalin Chile S.A.

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Ten-year Statistical Summary

YEAR ENDED DECEMBER 31 (IN MILLIONS OF CANADIAN DOLLARS, UNLESS OTHERWISE INDICATED)	**2006**	2005	2004	2003	2002	2001	2000	1999	1998	1997
Revenues										
Services	**1,180.2**	958.5	923.6	888.8	777.2	583.2	544.9	531.0	537.9	533.8
Packages	**2,835.9**	1,704.1	1,502.7	1,463.7	1,769.3	863.2	523.6	438.8	687.8	619.1
Operations and Maintenance	**920.9**	695.9	646.1	569.7	553.2	618.4	405.0	106.3	123.2	85.9
Infrastructure Concession Investments ("ICI")	**213.4**	92.4	85.0	76.1	64.6	55.8	65.9	31.6	(3.0)	4.1
	5,150.4	3,450.9	3,157.4	2,998.3	3,164.3	2,120.6	1,539.4	1,107.7	1,345.9	1,242.9
Gross margin	**538.0**	460.8	446.3	433.6	404.5	326.4	266.2	261.0	240.2	232.2
Administrative, marketing and other expenses	**285.7**	257.4	253.3	270.3	259.1	206.3	176.2	183.3	168.7	179.4
Interest (revenues) and capital taxes										
From ICI	**74.3**	47.6	52.9	44.7	47.9	67.8	51.7	24.0	–	0.8
Other	**(21.0)**	(3.5)	5.2	4.6	8.3	(0.9)	(4.4)	(1.1)	3.1	1.7
Income before gains, income taxes, non-controlling interest and amortization of goodwill	**199.0**	159.3	134.9	114.0	89.2	53.2	42.7	54.8	68.4	50.3
Gain on disposal of a portion of the investment in 407 International Inc. and dilution gain	**–**	–	–	–	164.0	–	–	–	–	–
Income before income taxes, non-controlling interest and amortization of goodwill	**199.0**	159.3	134.9	114.0	253.2	53.2	42.7	54.8	68.4	50.3
Income taxes	**55.1**	51.5	46.5	43.2	65.2	24.7	21.2	21.4	19.5	16.5
Non-controlling interest	**7.3**	2.2	–	–	–	–	–	–	–	–
Income before amortization of goodwill	**136.6**	105.6	88.4	70.8	188.0	28.5	21.5	33.4	48.9	33.8
Amortization of goodwill (net of income taxes)	**–**	–	–	–	–	14.6	10.5	7.6	7.4	6.4
Net income from continuing operations	**136.6**	105.6	88.4	70.8	188.0	13.9	11.0	25.8	41.5	27.4
Net income from discontinued operations	**21.8**	24.3	15.7	15.7	14.5	12.5	12.9	10.5	4.1	12.8
Net income	**158.4**	129.9	104.1	86.5	202.5	26.4	23.9	36.3	45.6	40.2
Return on average shareholders' equity — excluding Highway 407	**18.0%**	17.9%	17.3%	15.8%	15.9%	14.8%	14.9%	14.2%	14.3%	13.5%
Acquisition of property and equipment										
From ICI	**182.5**	22.3	9.1	75.0	13.1	70.8	87.3	14.0	–	–
Other	**37.7**	25.5	19.6	14.8	32.8	20.6	19.9	14.1	15.9	16.7
	220.2	47.8	28.7	89.8	45.9	91.4	107.2	28.1	15.9	16.7
Depreciation of property and equipment and amortization of other assets										
From ICI	**52.4**	13.7	13.5	11.0	10.4	14.1	11.7	5.7	–	0.1
Other	**28.9**	25.1	31.7	32.6	31.2	28.6	23.2	17.4	20.9	20.9
	81.3	38.8	45.2	43.6	41.6	42.7	34.9	23.1	20.9	21.0
Supplementary Information:										
SNC-Lavalin's proportionate share of Highway 407's net income (loss) included in the Company's net income [1]	**8.1**	(4.7)	(14.5)	(12.7)	113.0	(32.8)	(29.2)	(13.2)	–	–
Net income excluding Highway 407	**150.3**	134.6	118.6	99.2	89.5	59.2	53.1	49.5	45.6	40.2
Net income	**158.4**	129.9	104.1	86.5	202.5	26.4	23.9	36.3	45.6	40.2

[1] The Company discloses its proportionate share of Highway 407's net income (loss) as this information is important in assessing the Company's fair value.

YEAR ENDED DECEMBER 31	2006	2005	2004	2003	2002	2001	2000	1999	1998	1997
Diluted earnings per share ($)	**1.04**	0.85	0.68	0.56	1.32	0.18	0.17	0.26	0.32	0.27
Diluted earnings per share — excluding Highway 407 ($)	**0.98**	0.88	0.77	0.65	0.58	0.40	0.38	0.35	0.32	0.27
Weighted average number of shares — diluted (in thousands)	**152,685**	153,143	153,449	153,639	153,888	146,556	140,289	140,925	141,123	148,295
Annual dividends declared per share ($)	**0.30**	0.23	0.18	0.14	0.12	0.10	0.08	0.08	0.07	0.07

AT DECEMBER 31 (IN MILLIONS OF CANADIAN DOLLARS, UNLESS OTHERWISE INDICATED)	2006	2005	2004	2003	2002	2001	2000	1999	1998	1997
Number of employees	**13,297**	11,187	9,545	9,047	13,284	7,553	7,334	5,822	5,543	5,464
Backlog										
Services	**819.8**	604.2	564.9	567.7	416.2	389.7	370.0	314.8	329.2	407.3
Packages	**6,082.6**	4,308.1	2,483.2	1,749.5	1,715.4	885.0	1,163.9	914.9	655.6	1,166.7
Operations and Maintenance	**1,570.2**	2,112.4	2,213.5	764.3	1,135.9	1,151.9	1,256.4	342.9	145.6	118.9
ICI	**1,942.0**	468.9	394.9	370.9	342.8	511.8	560.6	512.1	155.6	–
	10,414.6	7,493.6	5,656.5	3,452.4	3,610.3	2,938.4	3,350.9	2,084.7	1,286.0	1,692.9
Cash and cash equivalents	**1,106.3**	1,153.5	676.3	471.9	467.4	290.7	257.6	110.9	214.2	135.0
Working capital	**300.3**	411.4	334.8	395.6	277.3	290.1	175.2	66.5	209.9	189.2
Property and equipment										
From ICI	**1,439.3**	452.5	450.8	456.8	451.0	601.8	569.2	458.9	–	2.4
Other	**94.3**	81.0	77.4	87.0	107.4	91.4	93.7	82.8	85.7	105.4
	1,533.6	533.5	528.2	543.8	558.4	693.2	662.9	541.7	85.7	107.8
Recourse long-term debt	**104.5**	104.4	104.3	104.2	104.0	103.9	103.8	–	–	–
Non-recourse long-term debt										
From ICI	**1,650.5**	785.9	728.5	673.1	612.1	1,036.8	958.7	802.8	–	–
Other	**26.2**	28.2	30.5	32.1	34.8	34.9	30.3	38.0	38.7	40.2
	1,676.7	814.1	759.0	705.2	646.9	1,071.7	989.0	840.8	38.7	40.2
Shareholders' equity	**906.0**	789.7	717.8	658.3	597.1	443.0	358.2	357.9	317.8	318.3
Book value per share ($)	**6.00**	5.22	4.74	4.33	3.97	2.96	2.60	2.54	2.36	2.21
Number of outstanding common shares (in thousands)	**151,033**	151,282	151,525	152,005	150,472	149,440	137,773	140,651	134,614	143,996
Closing market price per share ($)	**31.47**	25.43	19.33	17.00	11.35	9.63	4.65	3.65	3.85	3.67

Board of Directors

John E. Cleghorn, O.C., F.C.A.

Chairman of the Board

SNC-Lavalin Group Inc.
Montreal, Quebec
Canada

Member of the Governance Committee

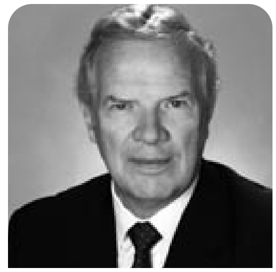
David Goldman

Chairman of the Board

Mamma.com Inc.
Montreal, Quebec
Canada

Member of the Audit Committee

Member of the Human Resources Committee



Jacques Lamarre, O.C.

President and Chief Executive Officer

SNC-Lavalin Group Inc.
Montreal, Quebec
Canada

Pierre H. Lessard

President and Chief Executive Officer

Metro Inc.
Montreal, Quebec
Canada

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Member of the Human Resources Committee

Edythe (Dee) A. Marcoux

Company Director

Gibsons
British Columbia
Canada

Member of the Governance Committee

Chairperson of the Health, Safety and Environment Committee

Lorna R. Marsden, CM, Ph.D.

President and Vice-Chancellor

York University
Toronto, Ontario
Canada

Member of the Human Resources Committee

Member of the Health, Safety and Environment Committee

Claude Mongeau

Executive Vice-President and Chief Financial Officer

Canadian National
Boucherville, Quebec
Canada

Chairman of the Audit Committee

Member of the Governance Committee

Gwyn Morgan

Company Director

Calgary, Alberta
Canada

Chairman of the Governance Committee

Member of the Human Resources Committee

Hon. Hugh D. Segal

Senate of Canada

Ottawa, Ontario
Canada

Member of the Human Resources Committee

Member of the Health, Safety and Environment Committee

Lawrence N. Stevenson

Company Director

Philadelphia, Pennsylvania
United States

Member of the Audit Committee

Chairman of the Human Resources Committee

Member of the Governance Committee

Jean-Paul Vettier

Company Director

Saint-Germain-en-Laye
France

Member of the Audit Committee

Member of the Health, Safety and Environment Committee

Information for Shareholders

COMMON SHARE INFORMATION

Listed:	Toronto Stock Exchange
Symbol:	SNC
Stock Split:	3 for 1 on March 10, 2006
Shares Outstanding:	151.0 million (December 31, 2006)

TRADING ACTIVITY

	VOLUME (000'S)	HIGH ($)	LOW ($)	CLOSE ($)
2006	72,838	33.50	25.15	31.47
2005	61,417	26.46	18.47	25.43
2004	48,442	19.82	14.17	19.33
2003	67,118	17.33	9.67	17.00
2002	76,943	12.98	8.42	11.35

DEBT INSTRUMENT

$105 million principal amount of debentures, 7.7%, due 2010

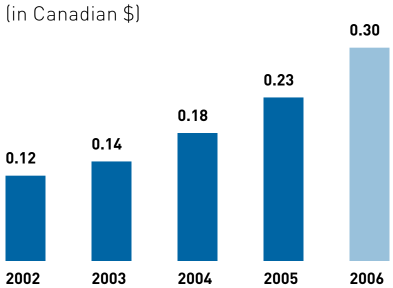
Credit Ratings

Standard & Poor's Ratings Services	BBB+/stable
DBRS	BBB (high)/stable

DIVIDENDS

The Company has paid consecutive quarterly dividends since 1989.

Annual Dividends Declared in the Last Five Years
(in Canadian $)



KEY DATES FOR 2007

	EARNINGS ANNOUNCEMENT	DIVIDEND RECORD	DIVIDEND PAYMENT
Q1	May 4	May 18	June 1
Q2	Aug. 3	Aug. 17	Aug. 31
Q3	Nov. 2	Nov. 15	Nov. 29
Q4	March 7, 2008	March 21, 2008	April 4, 2008

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

REGISTRAR AND TRANSFER AGENT

For information on matters such as dividends, changes in share registration or address, please contact:

Computershare Investor Services Inc.
100 University Ave.
9th Floor, North Tower
Toronto, Ontario M5J 2Y1

telephone: 1-800-564-6253
web: www.computershare.com

ANNUAL MEETING

The Annual Shareholders' Meeting will be held at 11:00 am Pacific Standard Time on Friday, May 4, 2007 at the
Fairmont Waterfront Hotel
900 Canada Place Way
Vancouver

HEAD OFFICE

SNC-Lavalin Group Inc.
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INVESTOR RELATIONS CONTACT

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514-393-1000

WWW.SNCLAVALIN.COM

We invite you to visit our website at www.snclavalin.com to learn more about SNC-Lavalin, our governance practices, our continuous disclosure materials and to obtain electronic copies of this and other reports.

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

EXEMPLAIRES FRANÇAIS

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

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