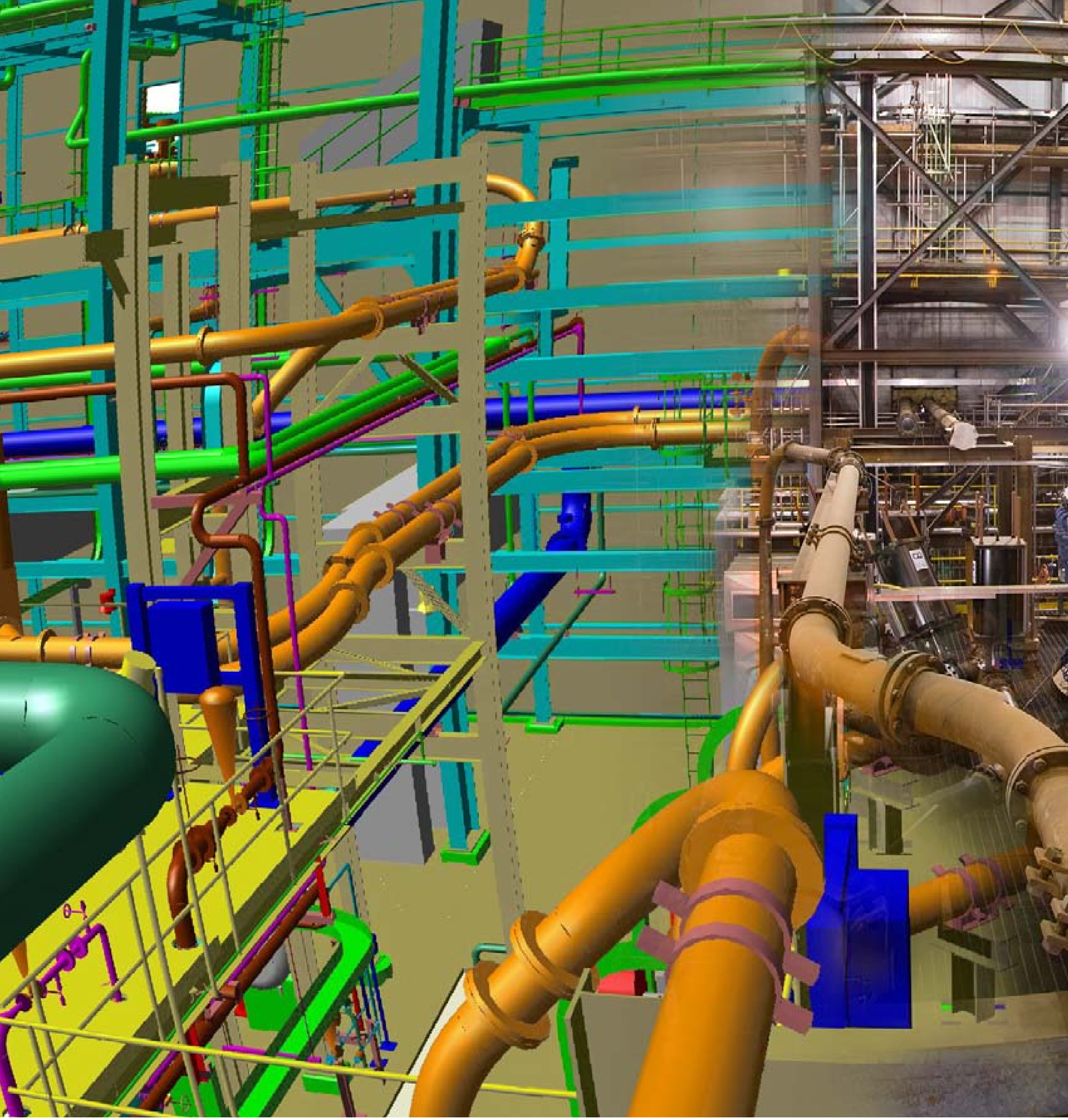
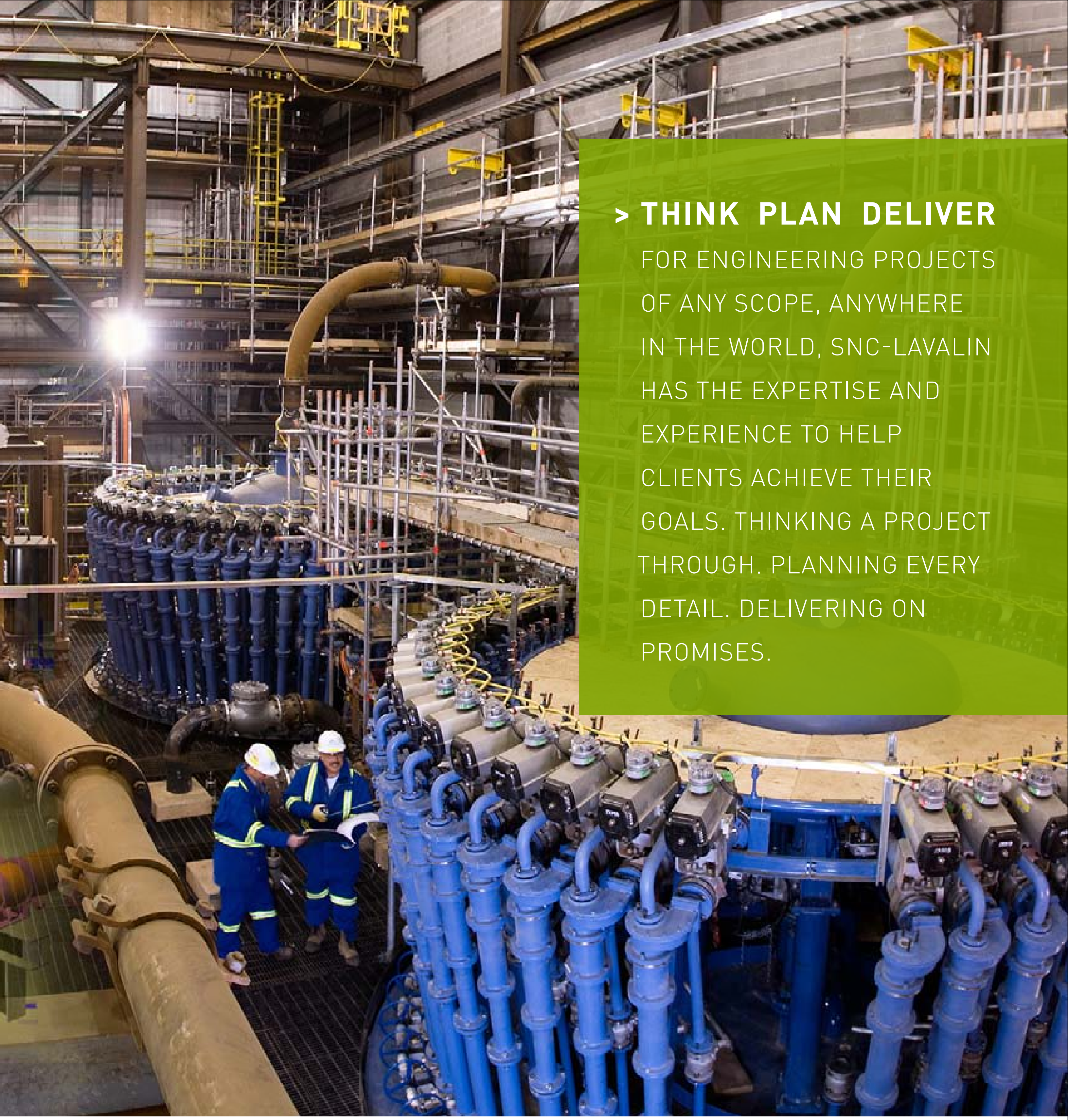
2007 ANNUAL REPORT

# > Engineering the future

SNC·LAVALIN





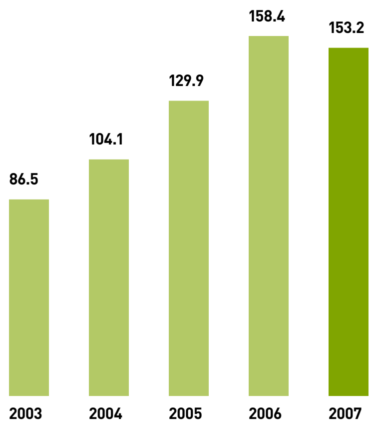
## > THINK PLAN DELIVER

FOR ENGINEERING PROJECTS OF ANY SCOPE, ANYWHERE IN THE WORLD, SNC-LAVALIN HAS THE EXPERTISE AND EXPERIENCE TO HELP CLIENTS ACHIEVE THEIR GOALS. THINKING A PROJECT THROUGH. PLANNING EVERY DETAIL. DELIVERING ON PROMISES.

**COVER PAGE:** USING THE 3D WORK SCREEN (AT LEFT), THE DESIGNER IS ABLE TO CREATE ALL ELEMENTS OF A PLANT INCLUDING PILING, FOUNDATIONS, PIPING AND STRUCTURES AS WELL AS ELECTRICAL AND INSTRUMENTATION COMPONENTS. ONCE THIS STEP IS COMPLETED, THIS 3D TOOL ALLOWS FOR THE PRODUCTION OF DESIGN DRAWINGS, SUCH AS THE PIPING ISOMETRICS ILLUSTRATED ON THE WORK SCREEN TO THE RIGHT.

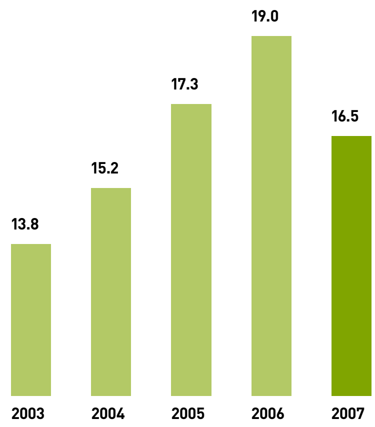
**THIS PAGE:** CANADIAN NATURAL RESOURCES LIMITED, HORIZON OIL SANDS PROJECT - FROTH TREATMENT PLANT.
**3D MODEL TO REALITY:** THE EXTRACTION OF BITUMEN FROM ALBERTA TAR SANDS INVOLVES LARGE SCALE PIPING TO COMPLEX STATIC AND ROTATING EQUIPMENT HOUSED IN MAJOR STRUCTURES AND BUILDINGS. DESIGN MODELLING PROVIDES AN EFFICIENT AND SEAMLESS TRANSITION TO REALITY.

# FINANCIAL HIGHLIGHTS



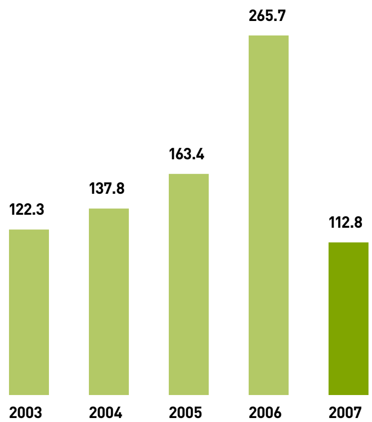

Net Income

(IN MILLIONS OF CANADIAN $)



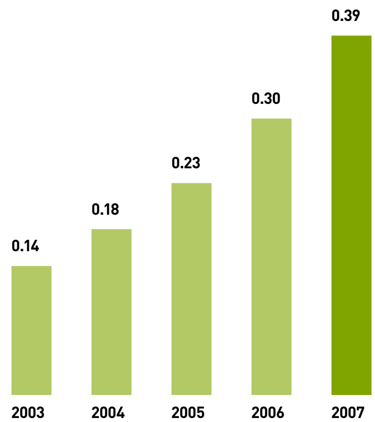

Return on Average Shareholders' Equity

(IN %)




Cash Flow from Operating Activities Before Net Change in Non-cash Working Capital Items

(IN MILLIONS OF CANADIAN $)




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) | 2007 | 2006 |
|---|---|---|
| **Income statement highlights** | | |
| FOR YEAR ENDED DECEMBER 31 | | |
| **Revenues** | | |
| Services | **$ 1,726,129** | $ 1,180,237 |
| Packages | **3,635,695** | 2,835,918 |
| Operations and Maintenance | **1,058,368** | 920,846 |
| Infrastructure Concession Investments | **311,272** | 213,405 |
| | **$ 6,731,464** | $ 5,150,406 |
| **Net income** | | |
| Net income from continuing operations | **$ 69,116** | $ 136,565 |
| Net income from discontinued operations | **84,086** | 21,807 |
| | **$ 153,202** | $ 158,372 |
| **Balance sheet highlights** | | |
| AT DECEMBER 31 | | |
| **Cash and cash equivalents** | **$ 1,088,616** | $ 1,106,265 |
| **Recourse long-term debt** | **$ 104,557** | $ 104,532 |
| **Shareholders' equity** | **$ 928,289** | $ 905,956 |
| **Share information** | | |
| FOR YEAR ENDED DECEMBER 31 | | |
| **Diluted earnings per share from continuing operations ($)** | **$ 0.45** | $ 0.89 |
| **Diluted earnings per share ($)** | **$ 1.00** | $ 1.04 |
| **Dividends declared per share ($)** | **$ 0.39** | $ 0.30 |
| **ROASE** | | |
| FOR YEAR ENDED DECEMBER 31 | | |
| **Return on average shareholders' equity (ROASE)** | **16.5 %** | 19.0 % |
| **Backlog** | | |
| AT DECEMBER 31 | | |
| **Services** | **$ 1,556,500** | $ 819,800 |
| **Packages** | **4,457,000** | 6,082,600 |
| **Operations and Maintenance** | **2,513,900** | 1,570,200 |
| **Infrastructure Concession Investments** | **2,095,400** | 1,942,000 |
| | **$10,622,800** | $10,414,600 |

# AT A GLANCE

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.

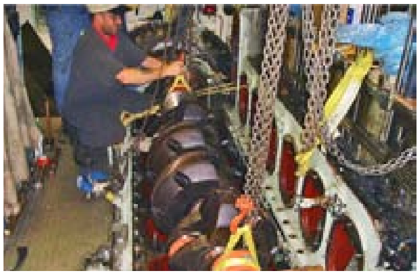
**INFRASTRUCTURE** Our expertise in this sector includes airports, bridges, buildings, container ports, ferry terminals, flood control systems, health care facilities, mass transit systems, railways, roads and water treatment/distribution infrastructure and facilities for the public and private sectors.

**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; climate change; institutional strengthening and rural development.

**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, transmission and distribution projects, energy control systems and training.

**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, broadcasting facilities, highways, light rail transit systems, military camps and ships.

**INFRASTRUCTURE CONCESSION INVESTMENTS** We have been making equity investments since the mid-1980s, and have had a division dedicated to this field since 1997. We have the breadth of expertise to design, build, own, operate and maintain infrastructure facilities and systems, as well as the ability to structure capital transactions in an efficient manner.

**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, sulphuric acid and many others. Our services range from process development and design, to plant commissioning and start up, and include complete services in instrumentation and automation.

**PROJECT FINANCING** SNC-Lavalin Capital offers worldwide modelling, financing arrangement and advisory services for our projects and for third party clients. SNC-Lavalin Capital's team has arranged billions of dollars in financing for projects, including a number of award winning deals.

# MEMBERS OF THE OFFICE OF THE PRESIDENT

# PRESIDENT'S MESSAGE

After several years of steadily increasing net income, we encountered a setback in 2007 with a $267 million pre-tax operating loss in the Power sector. As a result, our 2007 net income of $153 million was lower than the $158 million reported in 2006. The main cause of the Power sector operating loss was the bankruptcy proceedings and work stoppage of a key supplier on the Goreway thermal power project in Canada. This created a ripple effect of delays and increased costs and resulted in a significant loss on that project. Despite this setback, our 2007 consolidated net income was close to that achieved in 2006 because of good performances in all our other business sectors and a net gain after taxes of $84 million from the disposal of SNC Technologies.

## A CHALLENGING YEAR

Particularly strong performances in Chemicals and Petroleum and Mining and Metallurgy, and the gain from the disposal of SNC Technologies, compensated for the loss in the Power sector.

Over the last 10 years, we have achieved an average gross margin over revenue of 9% on our Packages projects. However, the gross margin for Packages fell to 3% in 2006, and in 2007, with the loss on Goreway, we are reporting a negative margin. We take the loss very seriously and have undertaken a careful review of the risks and rewards associated with our Packages projects. While some challenging projects remain in our portfolio, we are confident we will bring our Packages gross margin back to its traditional level.

For all its challenges, Goreway was a test of our ability to respond quickly, effectively and transparently to a serious situation, and we appreciate the efforts of our employees, and the trust and confidence our shareholders and other stakeholders showed in our ability to work through these challenges.

FROM LEFT TO RIGHT

MICHAEL NOVAK
JEAN CLAUDE PINGAT
JIM BURKE
CHARLIE RATE
JACQUES LAMARRE
RIADH BEN AÏSSA
PIERRE DUHAIME
GILLES LARAMÉE
JEAN BEAUDOIN
PATRICK LAMARRE
PIERRE ANCTIL

## FINANCIAL PERFORMANCE

We have set three key financial objectives to meet every year: 1) increase our net income by 7%–12%; 2) attain a return on average shareholders' equity equal to that of the Canada long-term bond yield plus 6% (which totalled 10.3% in 2007); and 3) maintain a strong balance sheet with a net cash position sufficient to meet our operational, financial and investment plans. For the first time in 15 years, we did not meet our first objective.

1) Our net income, including the $84 million net gain after taxes from the disposal of SNC Technologies, was $153 million in 2007 compared to $158 million in 2006. We expect our net income to be substantially higher in 2008.
2) Our return on average shareholders' equity was 16.5% in 2007, above our target of 10.3%.
3) Our balance sheet remains strong with a net cash position of $963.9 million at year-end.

## STRATEGIC GROWTH

Our position as one of the world's leading engineering-construction firms is anchored in the quality and breadth of our technical expertise and our global presence. We are constantly building on this expertise and expanding into new markets, primarily through internal growth, but also with strategic acquisitions.

2007 was a notable year for acquisitions.* We acquired 18 companies adding about 3,000 employees to our ranks. These acquisitions enhanced and expanded our technical expertise in the Infrastructure and Environment, Industrial, Mining and Metallurgy, and Pharmaceuticals and Biotechnology sectors. They also brought a strong presence in the key markets of Brazil and Spain, and reinforced our already well-established presence in Canada, France, India and the United States.

Our search for suitable acquisitions is based on strict selection criteria. A company must share our business culture, and bring additional technical expertise or geographical presence. We look for engineering teams that are keen to become part of SNC-Lavalin's diverse capabilities and strengths.

## STRATEGIC INVESTMENTS

We are equally selective when it comes to investing in infrastructure concessions, which have become an important component of SNC-Lavalin's market value. We invested in two new infrastructure concessions each in 2005 and 2006, and one in 2007. We remain committed to our selective approach, especially given today's increasingly competitive investment market. We have over 20 years of experience in this field and a good track record of choosing profitable investments. We continue to search for select infrastructure concessions in the same careful manner that has served us so well.

## PUTTING STRATEGY INTO PRACTICE

Our employees put our growth strategy into practice, winning projects and earning the confidence of our clients all over the world. The calibre of their expertise and the quality of their work are the foundation of SNC-Lavalin's success, and we are proud to work with such a skilled and dedicated team.

* Please refer to page 90 for a complete list and description of these acquisitions.

Recognition of this expertise is best reflected in our backlog of projects, which remains strong at $10.6 billion. A noteworthy aspect of our 2007 year-end backlog is the growth in Services contracts, up 90% from December 2006. This has positive implications for the year ahead, as Services contracts traditionally achieve gross margins over revenue of 23-29%.

## WE CARE

We care about the well-being of our employees, and of the communities and environments we work in. A successful project is one that clearly demonstrates these commitments, which we have formalized in our WE CARE value statements. These principles are a critical part of every project we undertake, and integral to the success of our business.

## OUTLOOK

We see excellent prospects for the coming year. Strong commodity prices and the demand for metals, energy and infrastructure continue to create opportunities in the Chemicals and Petroleum, Infrastructure and Environment, Mining and Metallurgy and Power sectors. The continued diversification of our Operations and Maintenance services into our engineering-construction activities is opening up new markets and opportunities worldwide. Given the strength and diversity of our revenue base, and our geographical coverage, we are optimistic about our prospects for the coming year and beyond.

In recognition of this positive outlook, the Board of Directors increased the quarterly dividend by 33% on March 6, 2008 from $0.09 to $0.12 per share.

## ARRIVALS AND DEPARTURES

Our sincere thanks to Marylynne Campbell and Klaus Triendl, who retired from the Office of the President in 2007, both with over 30 years of distinguished service.

Marylynne helped grow our Ontario operations into a leading engineering-construction firm in the Province, and as Executive Vice-President responsible for global Human Resources, she played a key role in guiding the Company through a period of unprecedented growth. Under Klaus's direction, our Power Group's reputation for quality work has grown. He has managed several other key divisions over the course of his career with us, including Airports, Mass Transit and SNC-Lavalin International. We are pleased to report that both Marylynne and Klaus have agreed to continue to act as advisors to the Company.

We welcomed three new members to the Office of the President. Jim Burke assumes responsibility for our operations in the Airports and Mass Transit sectors; Patrick Lamarre takes charge of the Power sector, as well as Industrial and Infrastructure operations in Ontario; and Charlie Rate assumes leadership of our Operations and Maintenance, Logistics and In-Service Support activities. We are pleased to welcome Jim, Patrick and Charlie in their new capacities.

**JACQUES LAMARRE**

PRESIDENT AND CHIEF EXECUTIVE OFFICER

# CHAIRMAN'S COMMENTARY

This is my first letter to shareholders as Chairman. As a former CEO, I understand very well that the Board's job is governance, while management's job is to create and deliver value to shareholders. SNC-Lavalin has a track record of high performance in both respects.

The Company has consistently ranked at or near the top of external corporate governance rankings. I am pleased to report that has remained so over the past year, with the Canadian Coalition for Good Governance awarding SNC-Lavalin the 2007 Governance Gavel Award for Excellence in Direct Disclosure.

With so much emphasis on the factors used to evaluate corporate governance, there is a risk of focusing on process, rather than results... a sort of "box ticking exercise". Quality corporate governance needs an attitude where the Board actually does understand that shareholders are counting on us to act in their interests. This includes active involvement in strategic planning and objective setting, measuring progress, identification and management of risk, workforce development, and succession planning. As your new Chair, I have been very impressed with how Board members of the Company proactively engage in these and other responsibilities

Governance is important: but it is capable, dedicated, creative employees who really deliver shareholder value. This is a time of extraordinary opportunity for Canada's largest international engineering company. We foresee a strong demand for basic commodities including energy, metals and agricultural products. Demand for both domestic and international infrastructure is also continuing to escalate. SNC-Lavalin is not only designing and building, but also taking ownership in some infrastructure projects. Today's global realities play to the diverse strengths contained within our team, a team made up of some 20,000 employees living in 35 countries and working on projects in 100 countries.

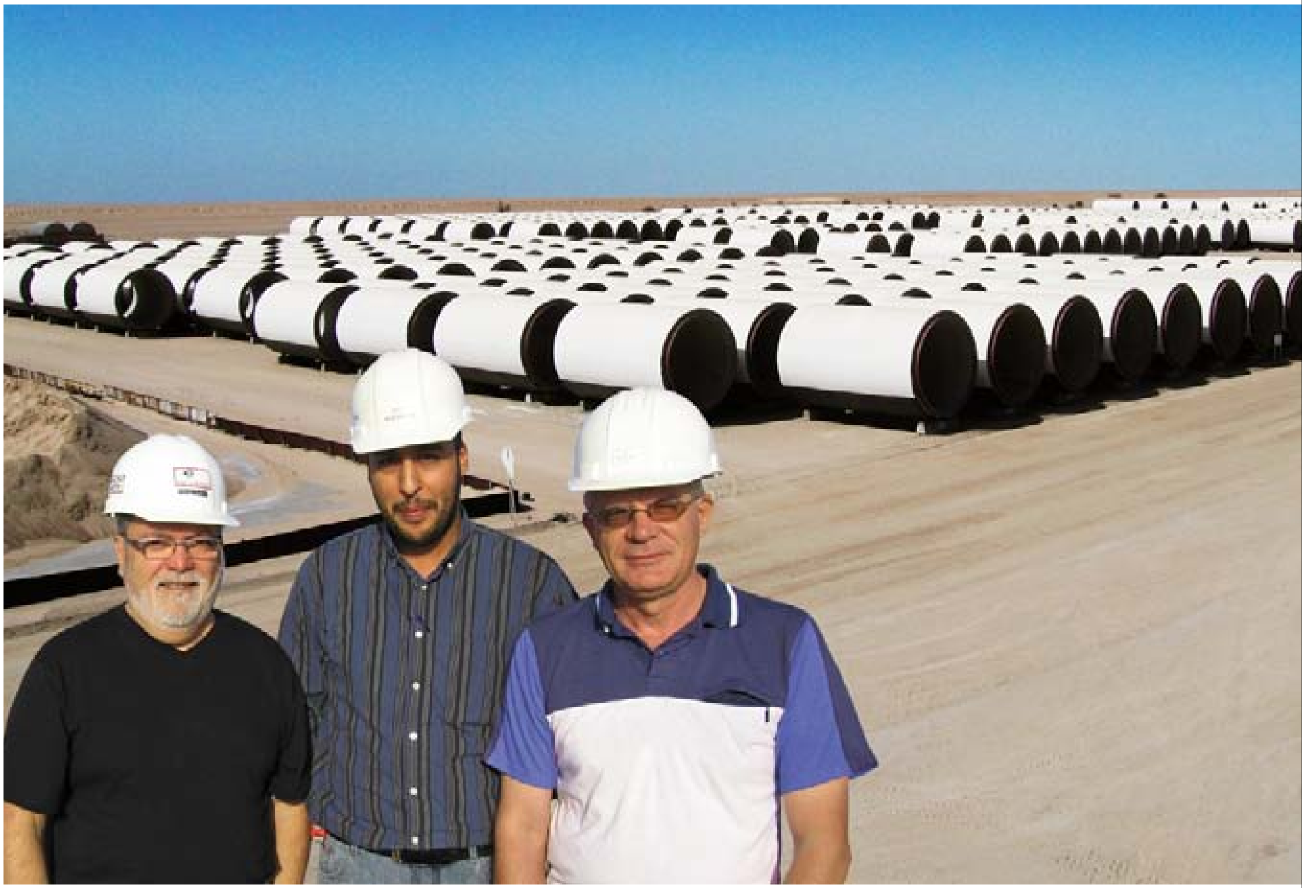
Finally, shareholder value creation is not possible without strong leadership. SNC-Lavalin has demonstrated first-rate leadership at every level of its operations, achieving 15 years of earnings growth. The Company suffered a setback in 2007, and the Board has worked closely with management with a view to ensuring a return to earnings growth in 2008.

**GWYN MORGAN**

CHAIRMAN OF THE BOARD

# INFRASTRUCTURE

WE HAVE EXTENSIVE GLOBAL EXPERIENCE IN THE PLANNING, DEVELOPMENT AND OPERATION OF A FULL RANGE OF INFRASTRUCTURE PROJECTS, AND WE PROVIDE ENGINEERING, PROCUREMENT, CONSTRUCTION AND CONSTRUCTION MANAGEMENT SERVICES FOR PROJECTS OF ALL SIZES.



## EXPANDED EXPERTISE / INDUSTRY RECOGNITION

We made 10 acquisitions in the infrastructure sector in 2007, reinforcing and expanding our breadth of expertise and our local presence in Canada, France, India and Spain with over 1,600 new employees. We can cover virtually every major field of engineering in this sector.

The Montreal Metro extension project won a Quebec Institute of Reinforced Steel *Armatura Award* for innovative use of reinforced steel. The extension was built to strict environmental and safety regulations.

## NOTABLE DEVELOPMENTS IN 2007

The next phase of the Great Man Made River Project is underway in Libya. We are producing 45,000 pre-stressed concrete pipes, four metres in diameter, for a water conveyance pipeline. It will carry 1.6 million $m^3$ of water/day, 383 km from underground aquifers near Kufra in the Sahara Desert to an existing conveyance line near the Sarir well field.

In Algeria, we completed the Oued Chiffa water diversion project and are nearing completion of the 600,000 $m^3$/day Taksebt water treatment plant, both major water projects.

SARIR PIPE PRODUCTION PROJECT —LIBYA

On the Brun-Way project in New Brunswick, we completed 98 km of new four-lane highway and refurbished 128 km of existing highway in only 27 months. This, despite a work stoppage of nearly two months so archaeologists could safely collect native Canadian artefacts uncovered during excavation. On the other side of the country, work is progressing well and on schedule on Vancouver's Canada Line rapid transit system and the W.R. Bennett Bridge in British Columbia.

In France, we are using our expertise in historical site work on the Reims and Orléans tramway projects. Both involve narrow confines and heritage surroundings, as well as the replacement of numerous unsightly overhead power lines with sophisticated ground-level power supply systems.

The M30 motorway refurbishment project in Madrid, Spain is finished. The project involved rerouting sections of the road through underground tunnels to free land for parks and reduce noxious emissions in the city. Numerous road projects are also underway in Canada as part of major infrastructure rehabilitation programs in Ontario and Quebec, and extensive refurbishment work was completed on the Taschereau Interchange near Montreal after five years of work.

We are managing costs, scheduling and quality for the Centre Hospitalier de l'Université de Montréal, one of the largest health care projects ever undertaken in Canada. It will relocate the activities of three hospitals to a new cutting-edge, 250,000 $m^2$ teaching hospital. In France, we completed extension work at the Centre Hospitalier de Meaux, which included obstetrics, neonatal and pediatric facilities, a central kitchen and conceptual designs for the entire complex.

Our acquisitions of Intecsa-Inarsa in Spain and Span in India give us an important local presence in these two dynamic infrastructure markets. We now have 500 employees throughout Spain and over 700 across India.

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

## INDUSTRY RECOGNITION

Our environmental assessment study and resettlement plan for Guinea Alumina Corporation's proposed refinery have received international media coverage from agencies such as the BBC and TV5. Our extensive consultation process encouraged villagers to voice their concerns and identify how they could benefit from the project.

Newfoundland and Labrador Refining Corporation commended us for our comprehensive environmental assessment for a 300,000 bpd greenfield refinery in Newfoundland. It will be one of the first new refineries built in North America in 20 years, and the largest in Canada. Both the government and the public have reacted favourably to our studies and to the project.

## NOTABLE DEVELOPMENTS IN 2007

British Columbia's Dockside Green is the first master planned community ever to target LEED™ Platinum certification for environmental sustainability. It is being built on a previously contaminated site, which we had originally assessed to establish risk-based criteria for development. We are now working with the developer during construction to ensure an effective risk management strategy is followed.

DOCKSIDE GREEN PROJECT —CANADA

Historical mining practices used at the Yankee Girl gold mine in British Columbia left 80,000 tonnes of exposed tailings deposits near a fish-bearing stream when it closed in 1942. The Province engaged us to prepare a comprehensive site assessment and remediation plan. We are now overseeing remedial work as owner's representative to safely contain the tailings and reclaim the site.

The United Nations hired us to assess potential soil and water contamination following a train derailment in Ukraine. A phosphorus fire erupted, sending a toxic cloud over approximately 90 $km^2$. Our report identified areas of concern and made recommendations regarding further investigation.

The United Nations Framework Convention on Climate Change registered the 45 MW Apaqui Hydroelectric Project in Ecuador as eligible for carbon credits based on our greenhouse gas evaluations and project design document. The project qualifies under the Kyoto Protocol's Clean Development Mechanism criteria.

We designed, built and now operate the CTBM biomass treatment plant near Montreal. It treats biosolids from multiple types of agro-industrial facilities, as well as from commercial and municipal sources. It generates water to strict environmental regulations and diverts solids for composting, resulting in virtually no waste.

The Communauté Métropolitaine de Montréal hired us to inventory proven treatment technologies for organic and municipal solid waste, suggest treatment options that avoid landfill use and greenhouse gas emissions, and identify sources of financing for the infrastructure needed to support these technologies.

In rural Africa, Asia and Central America, we work with governments and communities to increase the quantity, quality and security of food supplies. In Mali and Iran, we are building agricultural irrigation and drainage systems; in El Salvador, we are helping small farmers and agribusinesses develop entrepreneurial skills to move from subsistence to commercial agriculture; and in Senegal, we improved food quality and increased its quantity five-fold by helping small agrifood businesses develop business plans and improve hygiene practices.

We increased our market share in Canada with the acquisition of Ottawa-based Aqua Terre Solutions. Its expertise includes remediation of sites contaminated with petroleum hydrocarbons and chlorinated solvents, air quality modelling, and occupational health and safety.

# POWER

OUR POWER GROUP HAS NEARLY 100 YEARS OF EXPERIENCE IN OVER 120 COUNTRIES. OUR PROJECTS REPRESENT AN INSTALLED CAPACITY OF NEARLY 250,000 MW, OVER 90,000 KM OF TRANSMISSION AND DISTRIBUTION LINES AND SOME 1,500 SUBSTATIONS.

## DELIVERING INNOVATIVE SOLUTIONS

Our work on the Péribonka project in Quebec was the subject of numerous technical papers at the 2007 Canadian Dam Association Meeting. The 115-metre plastic concrete cut-off wall is the deepest ever built on alluvium, and now similar sites thought unsuitable for hydro dams may be viable. It has attracted international industry attention, and won a Quebec Institute for Reinforced Steel *Armatura Award* for design and innovative use of reinforcing steel in the spillway.

We successfully replaced all eight 90-tonne steam generators for Bruce A in the Unit 2 Reactor Building at Bruce Power's Nuclear Plant in Ontario, using a first-of-a-kind removal process developed specifically for CANDU reactors. We have almost completed replacing eight steam generators in Unit 1 using the same approach.

BRUCE POWER STEAM GENERATOR REPLACEMENT PROJECT —CANADA

## NOTABLE DEVELOPMENTS IN 2007

The 55 MW Fibrominn thermal plant in Minnesota is the first plant of its kind in North America. It uses turkey litter as its primary fuel, giving the poultry industry an alternative method of waste disposal, while providing electricity to the local power grid. We completed the plant and it went into commercial operation in 2007.

The 460 MW Patnow II thermal power plant in Poland achieved full power production in 2007. This was a turnkey mandate to replace an old polluting plant with what is now one of the most efficient and environmentally clean lignite-fired units in the country.

Emal awarded us a full turnkey mandate for a dedicated 2,000 MW thermal power plant at its aluminum smelter in the United Arab Emirates. It will have multiple combined and simple cycle power trains to provide the power supply and reserve capacity required for around the clock aluminum production.

We have been working in the power sector in India for over 40 years. In 2007, our Delhi office was awarded engineering mandates for two major hydropower projects; the 300 MW Alaknanda facility in Uttarakhand and the 700 MW Tato II facility in Arunachal Pradesh.

PT Inco expanded our engineering contract at the 130 MW Karebbe Hydroelectric Project in Indonesia to include construction management. We will incorporate innovative design concepts, such as a hydrocombine facility, wherein the spillway is constructed on top of the powerhouse.

We completed the 120 MW Brilliant Hydro Plant turnkey project in British Columbia. The facility entered into commercial operation in September, meeting stringent environmental, quality and safety standards.

SNC-Lavalin Nuclear is a key member of Team CANDU, which includes five of the world's leading nuclear technology and engineering companies. Team CANDU has completed a feasibility study for the construction of a new 1,085 MW Generation III+ Advanced CANDU Reactor at the Point Lepreau Generating Station for the Government of New Brunswick.

As part of Albian Sands' upgrader project in Canada's oil sands, we are providing turnkey services to refurbish a 260 kV substation and build a new 260/72 kV substation and 10 km of 260 kV double-circuit transmission line. Also in the oil sands, Suncor gave us a 100% satisfaction rating for our work relocating several 72 kV single-circuit structures on an existing site.

Australia's ENERGEX awarded us a contract to design, develop, install and commission a new Distribution Management System, using our GENe system. The system will control its energy distribution networks in Brisbane.

# CHEMICALS AND PETROLEUM

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

## SAFETY AND QUALITY

Out of 350 member companies, our Houston office was one of only three to be honoured with a Gas Processors Suppliers Association Safety Award. SNC-Lavalin GDS was commended for its longstanding commitment to health and safety on project sites. The office received five other safety awards in 2007 and earned ISO 9001 certification for quality assurance.

Our office in Sarnia, Ontario earned a Contractor Safety Award for outstanding contributions to safety improvement at the annual Imperial Oil Sarnia Refinery Contractor Safety Forum in January. The office had no recordable injuries, and was praised for excellent compliance to site requirements, continuous promotion of safety programs and strong management commitment.

## NOTABLE DEVELOPMENTS IN 2007

Construction activity is at its peak on Canadian Natural's Horizon project in Alberta's oil sands. All modules and major equipment are erected on site and we are on schedule to complete a 1,200 tonne/hr froth treatment plant and a 110,000 bpd secondary ugrading plant in 2008.

Following successful completion of Husky's Tucker Lake SAGD project in Alberta ahead of schedule in 2006, Husky awarded us similar work at its nearby Sunrise SAGD project. We are doing preliminary engineering for a 60,000 bpd central plant and well-pad facility.

HORIZON OIL SANDS PROJECT -SECONDARY UPGRADING —CANADA

We were awarded two front-end engineering mandates on the Fort Hills Oil Sands Project in Alberta. Our Montreal office is doing design work for Phase 1 of the secondary upgrader and our Calgary office is doing the froth treatment work.

Petróleos de Venezuela expanded our scoping study at its 400,000 bpd Cabruta refinery in the Orinoco Oil Belt to include a visualization study. Similarly, our engineering mandate for PetroJam in Jamaica was broadened to include a new delayed coking unit.

We continue our work with long-time client Saudi Aramco at the Shaybah central processing facility and the Khurais water injection pumping station. With the majority of engineering complete, construction activity is at its peak, and we have converted both contracts to fixed price lump-sum contracts.

We are nearing completion of a turnkey mandate to modernize Kuwait Oil Company's oil gathering facility in Kuwait and expand its capacity from 140,000 bpd to 190,000. The facility has remained operational during work.

Work at the Canaport LNG terminal in eastern Canada was over 60% complete at year-end. Major milestones included the erection of both LNG tanks and Canaport LNG's decision to proceed with a third tank and award us the design/build contract. We are also providing project management consultancy services on the Skikda LNG project in Algeria.

Preliminary engineering is complete and detailed design work is underway on TransCanada's Keystone oil pipeline project. Our mandate involves engineering design for all terminals, tankage, metering and pump stations for the new 450,000 bpd, 3,000 km pipeline between Hardisty, Alberta and Cushing, Oklahoma.

GreenField Ethanol's ethanol plant in Quebec started up in 2007, exceeding forecast production capacity. The client subsequently awarded us EPCM mandates for two new ethanol plants in Ontario. We also completed ethanol plants for Tereos, and diester plants for Diester Industrie and Saipol in France, and are helping BIOX with designs to maximize its bio-diesel fuel plant's operational efficiency in Ontario.

# MINING AND METALLURGY

WE ARE A WORLD LEADER IN THIS SECTOR, CARRYING OUT PROJECTS IN THE FIELDS OF ALUMINA, ALUMINUM, COPPER, GOLD, IRON ORE, NICKEL, POTASH, STEEL AND ZINC. OUR SERVICES RANGE FROM SCOPING STUDIES TO FULL EPC/EPCM FOR SOME OF THE LARGEST PROJECTS EVER UNDERTAKEN IN THE INDUSTRY.

## GROWING LOCALLY IN KEY MARKETS

Our acquisition of a leading Brazilian engineering firm, Minerconsult Engenharia, brought us world-class iron ore expertise and strengthened our presence in Brazil and South America. With over 1,000 professionals, providing services to clients in iron ore, gold, alumina and ferro-nickel, our total number of employees in the Mining and Metallurgy sector has expanded to over 3,500 worldwide.

## NOTABLE DEVELOPMENTS IN 2007

In the iron ore sector, Rio Tinto extended our mandate on the 50 million tpy Simandou iron ore project in Guinea, and we were awarded another study for the seven million tpy Guelb el Aouj project in Mauritania.

Emal's aluminum smelter in Abu Dhabi will be the world's largest single site aluminum smelter once Phase 2 is completed. Our team is designing and building Phase 1, consisting of a 731,000 tpy smelter and a 2,000 MW thermal plant. In Qatar, engineering and construction have begun for the potroom services area on the Qatalum project.

Rio Tinto Alcan (RTA) awarded our team the initial feasibility study, design and construction contract for its world-class 720,000 tpy Coega aluminum smelter in South Africa.

Our team is doing preliminary engineering for RTA's pilot plant in Jonquière, Quebec, where a new smelting technology will be developed as a model for future smelter projects.

In alumina, our Australian office conducted a feasibility study for Maaden's alumina project in Saudi Arabia, and in Brazil, we provided project management services on the Alumar project and advanced engineering for the Juruti project.

In the gold sector, Agnico-Eagle awarded us the engineering, procurement and commissioning contract for its new Kittila gold mine in Finland. Engineering is nearing completion on Barrick's Cortez Hill project in the US, as is engineering and procurement work for Kinross's Rio Paracatu project in Brazil.

LAS CRUCES COPPER REFINERY —SPAIN

Our Canadian, Chilean and Spanish offices are combining their copper expertise at the 72,000 tpy Las Cruces refinery in Spain. Similarly, on the Red Sea project in Egypt, our Johannesburg office is developing the design for the smelter and infrastructure, while our Santiago office is developing the electrolytic refinery.

In Australia, our Perth and Brisbane offices conducted a pre-feasibility study with our Chilean team for BHP Billiton's Olympic Dam copper/uranium facility expansion project, and a feasibility study with our Canadian office for RTA's Boyne Aluminum Smelter modernization project.

In nickel, work is underway on the Ambatovy project in Madagascar. It includes a mine, a large-scale hydrometallurgical refinery, auxiliary and utility plants, and a 220 km slurry pipeline. Work on the Goro project in New Caledonia is advancing well, and construction activities are ongoing on the Barro Alto project in Brazil.

We completed several mine reclamation projects in Canada in 2007. Among them, rehabilitation of Normetal's site in Quebec; final closure work at the Heath Steele mine and rehabilitation work at the East Kemptville mine in the Maritimes; and detailed engineering to expand the Diavik mine's water treatment facility in the Arctic.

# OPERATIONS AND MAINTENANCE

AS CANADA'S LEADER IN OPERATIONS AND MAINTENANCE, OUR PORTFOLIO COVERS BOTH PUBLIC AND PRIVATE SECTOR INFRASTRUCTURE IN NORTH AMERICA, THE MIDDLE EAST, ASIA AND AFRICA. OUR ADVANCED PROPRIETARY SYSTEMS, LEADING-EDGE MANAGEMENT SOLUTIONS AND DEEP COMMITMENT TO CONTINUOUS IMPROVEMENT ENABLE US, AND OUR CLIENTS, TO RETAIN A COMPETITIVE EDGE.

## INDUSTRY RECOGNITION

SNC-Lavalin ProFac picked up seven Building Owners and Managers Association (BOMA) Awards in 2007: three Certificates of Excellence, two Go Green Plus Awards, two Office Building of the Year (TOBY) Awards and one TOBY Earth Award. Under BOMA criteria, buildings must meet several requirements, including tenant satisfaction and excellence in building standards, environmental management, maintenance and operations.

## NOTABLE DEVELOPMENTS IN 2007

Standard Life of Canada awarded us a five-year mandate to manage over 800,000 m² of investment real estate across Canada, and act as strategic partner to maximize the value of the portfolio through the efficient management of its tenant-occupied buildings.

The Bank of Montreal also awarded us a five-year, cross-Canada contract to operate and maintain over 900 retail branches representing over 500,000 m² of space. This contract expands our portfolio to include financial sector properties.

CALGARY COURTS COMPLEX —CANADA

The Calgary Courts Complex opened in 2007 marking the start of our 30-year operations and maintenance mandate. With over 90,000 m² of space, it is the largest courts facility in Canada. It incorporates advanced security technology and is a LEED™ Silver facility.

Our new six-year mandate for Alberta Infrastructure & Transportation comprises about 200,000 m² of space in 63 buildings. In addition to managing the buildings, we will implement ISO-certified quality management systems, provide strategic procurement and project delivery, and administration and commercial leasing services.

CARA Operations awarded us its first ever outsourced facilities services contract. Our five-year mandate is to provide service request and call dispatch services, as well as cost management services for 420 of its restaurants across Canada.

Al-Waab City is a 1.2 million m² residential and commercial development under construction in Qatar. We are involved in planning, design and construction, and have been awarded a 10-year contract for its operations and maintenance. We will also operate and maintain two buildings in the city of Doha.

Our Brun-Way partnership completed construction and rehabilitation work on the Trans-Canada Highway between Longs Creek, New Brunswick and the Quebec border, and is now responsible for the operation, maintenance and rehabilitation of 275 km of the Highway until 2033. Our team includes local companies involved in design, construction, operations and maintenance work.

In addition to operating and maintaining the 825 MW Skikda thermal power plant in Algeria, we are training local people on its operations to prepare them for upcoming jobs at the 1,227 MW Hadjret En Nouss thermal plant, which we are building and will also operate.

As part of our 10-year contract with the Canadian Forces, our Logistics team supports some 2,300 Canadian soldiers at Kandahar Airfield in Afghanistan. All are trained in security and mine awareness and other skills needed in a conflict zone. Our mandate includes communications, IT systems and support, vehicle mechanics, supply and warehousing.

# INFRASTRUCTURE CONCESSION INVESTMENTS

WE MAKE INVESTMENTS IN INFRASTRUCTURE CONCESSIONS IN VARIOUS INDUSTRY SECTORS INCLUDING AIRPORTS, BRIDGES, POWER, MASS TRANSIT SYSTEMS, MINES, ROADS AND WATER.*

**AWARD**

The financing for the Ambatovy nickel project in Madagascar garnered two awards in 2007. *Project Finance International* named Ambatovy the Europe-Middle East-Africa (EMEA) Mining Project of the Year, and *Project Finance* magazine gave it the African Mining Deal of the Year Award. It is the largest project financing ever undertaken in sub-Saharan Africa and a precedent for international investment in Africa. The debt scheme has a 17-year tenor and is a mixture of commercial and multilateral loans.

* For a complete list of our infrastructure concession investments, please see page 52.

## NOTABLE DEVELOPMENTS IN 2007

AltaLink is Canada's only stand-alone transmission provider and Alberta's largest supplier of electricity transmission. It invested more than $200 million in capital expenditures on its transmission system in 2007, which includes more than 11,600 km of transmission lines and approximately 260 substations in Alberta. Our equity interest in AltaLink is 76.92%.

WILLIAM R. BENNETT BRIDGE —CANADA

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.

2007 marked the first full year of operations for the 500 MW Astoria gas-fired thermal power plant in Greater New York. Following an unusually harsh winter in 2006, we adapted the plant to withstand more extreme temperatures. The modifications were successful and the plant is running well. Our equity participation in Astoria is 21%.

407 ETR completed the final 50 km of a two-year project to add 103 km of new lanes between Highways 401 and 404. The opening of these lanes will increase traffic capacity through the busiest section of Highway 407 by 33% and help relieve congestion on other public highways and roads. The project required 375,000 $m^3$ of excavation, 200,000 $m^3$ of concrete, 105,000 hours of labour, the widening of 44 bridges and 11 km of storm sewer pipes. Our equity interest in Highway 407 is 16.77%.

We expanded our investment interests into the mining sector with a 5% equity interest in the Ambatovy Nickel Project in Madagascar. We are designing and managing construction of the mine, which will produce about 60,000 tonnes/yr of nickel and 5,600 tonnes/yr of cobalt.

# AGRIFOOD

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.

LOUIS ROEDERER CHAMPAGNE CELLAR PROJECT —FRANCE

## NOTABLE DEVELOPMENTS IN 2007

We are the leading agrifood engineering firm in France, recognized for our expertise in utilities, processes and the design of wine making vat rooms. In 2006, champagne producer, Louis Roederer, hired us to manage the construction of two new cellars able to store nine million bottles and a 24,000 hectolitre wine making vat room, all in the heart of Reims.

Pernod Ricard's site in Cognac, France will be its largest eau-de-vie storage site. We are building four new cellars with a total capacity of 440,000 hectolitres, able to store 100,000 barrels of eau-de-vie in an area over 30,000 m².

We are designing and building an 11,000 m², 30,000 tonne/yr mozzarella cheese production plant in Herbignac, France for le groupe HCI (Herbignac Cheese Ingredients). Our mandate includes implementation of the industrial, packaging, processing and storage processes. Also in France, we completed the engineering for Berthaut's new facility dedicated to the production of Époisses, a cheese designated *Appellation d'Origine Controlée*.

Following our successful completion of its chocolate factory in California, Barry-Callebaut gave us a mandate to provide process engineering, instrumentation and control services, as well as electrical/ mechanical work, for another new chocolate factory in Monterrey, Mexico.

In the pet food sector, we have been working with PLB International for over 15 years, and with Hagen Pet Foods for over 10. We are currently installing a packaging line at PLB's production unit in Quebec and working on a five-year mandate to modernize and expand Hagen's production facility in New York State.

# PHARMACEUTICALS AND BIOTECHNOLOGY

WE DELIVER COMPLETE PROCESS ENGINEERING, AUTOMATION, VALIDATION AND CONSTRUCTION MANAGEMENT SERVICES TO PHARMACEUTICAL, BIOTECHNOLOGY AND MEDICAL CLIENTS WORLDWIDE.

BD DIAGNOSTICS GENEOHM™ PRODUCTION FACILITY —CANADA

## NOTABLE DEVELOPMENTS IN 2007

We acquired three companies in this sector. Northstar and TCPI in Pennsylvania increase our presence in the heart of the US pharmaceutical and biotechnology manufacturing sectors, while Pipecon in Mumbai reinforces our expertise in India, a leading producer of generic medication.

The Quebec Association of Consulting Engineers awarded us a *Prix Léonard* for Project Management for our work at GlaxoSmithKline's (GSK) vaccine facility in Laval, Quebec. We doubled the facility's production space on a tight schedule, completing work under budget and ahead of schedule.

We are managing construction and providing commissioning and validation services for GSK's freeze-drying unit, including two freeze-drying lines fully automated with isolator technology. It will be part of a complex in Saint-Amand, France that will produce a uterine cancer vaccine using a specialized production line.

Flamel awarded us a turnkey contract to expand its pilot clinic in Pessac, France, which designs micro-pumps and produces COREG heart medication. The clinic must remain operational during work, which includes demolition, HVAC systems, clean rooms, an effluent storage room, testing and commissioning.

We expanded our geographic reach in this sector into Asia, with a contract to design and build a flu vaccine facility for ADImmune in Taiwan. This will be the first facility of its kind in Taiwan.

BD Diagnostics GeneOhm™ produces state-of-the-art nucleic acid-based testing kits that rapidly detect and identify infectious agents and genetic variations. We are providing EPCMV services for its new 6,000 m² facility in Quebec. All applicable US, Canadian and European standards, regulations and guidelines must be met.

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.

VERRERIE DU LANGUEDOC EXPANSION PROJECT —FRANCE

## NOTABLE DEVELOPMENTS IN 2007

The Verrerie du Languedoc (VDL) near Nîmes, France produces 600 million glass bottles/yr, mostly for Perrier and San Pellegrino. VDL hired us to manage its expansion project, which involved adapting an existing oven, utility networks and other infrastructure to handle more capacity and a new production line. The plant remained operational throughout the process.

We are supervising design and providing project management services at Placoplatre's gypsum panel production site in Vaujours, France. We demolished a 40,000 m² plant and are building new buildings over an area of 75,000 m², including a production line that ranks among the most efficient in the world. The refurbished site will be one of the world's largest gypsum panel plants, built to High Environmental Quality Standards to ensure harmonious integration with the environment and proper water management.

In conjunction with MECS, our technology licensor, we were awarded new mandates in the sulphuric acid sector in North America, Latin America, Europe, Africa, the former Soviet Union and Australia. Notable projects include a 1,000 tonne/day sulphuric acid plant at Prayon's production complex in Belgium, which features an advanced heat recovery system that will allow the company to apply for carbon credits; and a 1,860 tonne/day plant for Kazinc's new copper smelter in Kazakhstan, which will capture sulphur dioxide from the smelting process for use in its own production processes. Similar work at SUMZ's copper smelter in Russia also led to additional contract awards there in 2007.

# WE CARE & SUSTAINABILITY 2007 — A PROGRESS REPORT

FOR THE FIFTH CONSECUTIVE YEAR, SNC-LAVALIN IS PLEASED TO REPORT ON PROGRESS MADE BY ITS APPROXIMATELY 20,000 EMPLOYEES WORLDWIDE IN MEETING ITS SOCIAL RESPONSIBILITY AND SUSTAINABILITY COMMITMENTS.

### WE CARE VALUE STATEMENT

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

**WE CARE** about the health and 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.

Our "product" is our expertise, our employees. We are project and client-focused, providing services and expertise to clients worldwide. It is our responsibility to ensure that our employees work in a safe and healthy environment, and that we support local communities. We are proud that we can decommission a mine in the High Arctic, build roads and water transportation conduits through deserts, and deliver these projects in a safe and environmentally sustainable manner. We are also proud to have over 500 environment professionals working on projects around the world.

Health and safety and responsible stewardship of the environment are at the very heart of how we work and operate, and we will continue to strive every day, on every project site worldwide, to prevent accidents. Our overriding objective is to ensure that every single one of our employees and subcontractors goes home safely at the end of each day.

The words "WE CARE" represent our social responsibility framework of commitments to four values, which form the cornerstone of our 97-year old culture. These commitments are not only important to SNC-Lavalin, they also play a crucial role in our overall offering to clients.

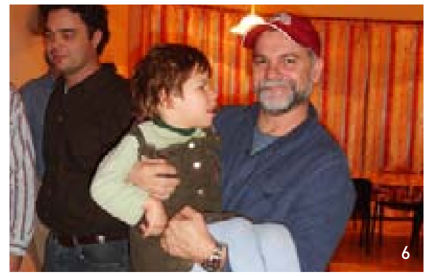
WE CARE
NOUS VEILLONS

Let's review progress made in 2007 in meeting our commitments to each of these values:

## WE CARE ABOUT THE WELL-BEING OF OUR EMPLOYEES

Key corporate Human Resources objectives start with providing a positive and fulfilling working environment for our employees, and include specific goals related to recruitment and retention: ongoing enhancement and expansion of our training and personal development programs; hiring practices worldwide that are fair given the differences in labour regulations and local business norms in the 100 countries where we work; and ensuring that our benefit packages and compensation are competitive, in order to help retain our employees, and attract new ones.

As part of our commitment to the well-being of our employees, we are pleased to report a number of new programs in 2007, including a series of personal nutrition and family assistance presentations. We would also like to acknowledge the success of the many initiatives organized locally by business units and project teams, such as safe driving awareness-raising events, family picnic days and walking and cycling clubs. These activities are indeed a true measure of what we mean when we say WE CARE.




## WE CARE VALUES IN ACTION WORLDWIDE

**1 WORLDWIDE TREE PLANTING BLITZ**
SNC-Lavalin celebrated World Environment Day on June 5, 2007 with a tree planting blitz as senior management and employees planted 1,200 trees in over 20 cities and at numerous project sites in Canada, the US, Europe, South America, the Middle East, Africa and Asia. In Australia and the UK, SNC-Lavalin offices participated in tree planting sponsorship programs in Perth and London. The initiative was part of a week-long series of environment-awareness events organized for National Environment Week in Canada. A Company-wide initiative to convert all printers to double-sided printing was also launched to conserve paper.

**4 TIZNADOS CLINIC**
Our project team working on the Tiznados irrigation project in Venezuela assisted in rebuilding a local medical clinic now open not only for project personnel and their families, but also for local residents in the State of Guarico, who are making an average of 20 visits a day.

**2 SAFE DRIVING-AWARENESS SEMINAR**
Employees in Montreal and other offices in Canada were offered safe driving-awareness seminars organized by local business units in conjunction with city police forces.

**5 CLEANING UP FOR A GOOD CAUSE**
At least two project teams worldwide helped their local communities to clean up the environment. SNC-Lavalin's Skikda Thermal Power Plant Operations and Management team in Algeria organized a beach clean up day in aid of a local surfing club which provides activities for young people; and (picture 5) SNC-Lavalin/CENMC partnership employees working on the Canaport LNG project in New Brunswick, Canada participated in the First Annual Road Clean Up as part of their ongoing volunteering efforts. The team picked up rubbish on a full kilometre of the road, and then signed up for the second annual clean up in 2008.

**3 TEACHING YOUNG PEOPLE TO PROTECT A PRECIOUS RESOURCE**
Project team members from the Hadjret En Nouss Thermal Power Plant and Taksebt Water Transfer projects in Algeria marked World Water Day in March 2007 by visiting local elementary and secondary schools to talk about water conservation and preservation. The children learned about SNC-Lavalin's WE CARE values, and its commitment to helping meet the world's water needs through treating, supplying and distributing water in cities worldwide. The teams also donated textbooks to the schools.

**6 SPECIAL NEEDS CHILDREN**
While SNC-Lavalin Polska's project team completed its work on a major thermal power plant in Poland, some team members were also paying monthly visits to a local Home for special needs children, where they talked and played with the residents, and brought them much needed groceries.

## WE CARE ABOUT HEALTH & SAFETY

The safety of our employees and those who work under our supervision on project sites worldwide is a core value at SNC-Lavalin. We continually strive to meet our goal of industry leadership in this area by ensuring that every effort is made to recognize and understand hazards, assess risks and mitigate potentially harmful outcomes, so that we avoid accidents, and maintain or improve on the low injury frequency rate we are reporting for 2007. One tribute to these efforts during 2007 is the WE CARE Ambassadors Health, Safety and Environment Incentive Program, which gave over 2,000 workers, supervisors and foremen on projects in Canada, the United Arab Emirates and Algeria Award Cards acknowledging their contribution to site safety.

While our WE CARE safety strategies, critical sections of the active project safety management plan and supporting training programs are available to all persons on construction sites, the challenge is to ensure they are also communicated in a timely fashion, and are clearly understood by subcontractors under our supervision, as well as by our own employees.

**7 ROOF FOR CHILE**
Employees at SNC-Lavalin Chile in Santiago put in many volunteer hours and effort in 2007 to build a house for a needy family under the "Roof for Chile" Program, an offshoot of the internationally recognized Habitat for Humanity initiative.

**8 RUNNING FOR CANCER RESEARCH**
SNC-Lavalin offices and project teams worldwide participate annually in local fundraising events for cancer research. Examples for 2007 include employees in Montreal and Toronto who made individual donations and wore jeans to mark National Denim Day for Breast Cancer last May; and in Abu Dhabi, SNC-Lavalin Gulf Contractors' personnel took part in the Terry Fox Run for Cancer for the third year in a row along with their families, and donated a cheque to the UAE University in Al-Ain for cancer treatment research.

In 2007, with over 60 million hours worked on construction sites worldwide, we are proud to report a decrease for the third year in a row in Lost Time Injury (LTI) frequency. Our record for 2007 is a 25% improvement over 2006, and 37% over 2005. While we are pleased with this result, we will continue to strive for a higher level of risk awareness for all our people.

## WE CARE ABOUT THE COMMUNITIES IN WHICH WE LIVE AND WORK

We support, encourage and acknowledge with pride the increasing number of outstanding local community initiatives undertaken by divisions, business units, project teams and individual employees in their communities worldwide (see these pages for some examples) because we believe volunteering in the community is simply the right thing to do, and because it demonstrates our active commitment as a responsible global citizen.

We are also pleased to report the expansion in 2007 of our key corporate community initiative, the SNC-Lavalin Award Scholarship and Internship Program, from 12 to 19 universities across Canada and worldwide, and the increase in the number of students accepted into the Program from one to two per university. This Program, and other internship programs organized by different business units with local universities, are key recruitment opportunities and help us maintain important links with academia and local communities.

## WE CARE ABOUT A SUSTAINABLE ENVIRONMENT

SNC-Lavalin is committed to implementing pollution prevention and abiding by the principles of sustainable development in everything we do.

We are pleased to report that in 2007, and for the second year in a row, no notices of violation or environmental prosecutions were issued or undertaken against SNC-Lavalin on any project site worldwide.

This is indeed good news and a tribute to ongoing efforts by employees to improve their environmental performance on sites, which is tracked through SNC-Lavalin's Construction Site Environmental Management Program.

The current focus of the Program is the tracking of current and leading indicators in order to identify potential problems before they arise, and ongoing efforts to build a broad-based culture of environmental awareness. These efforts range from the re-use and recycling of construction materials to the environmental assessment of suppliers and subcontractors. Our challenge is to go beyond regulatory compliance in order to implement pollution prevention and sustainable development in a cost effective manner for the benefit of our clients, the end-users of our expertise and a sustainable environment.

# MANAGEMENT'S DISCUSSION AND ANALYSIS

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# 1. HIGHLIGHTS

### NET INCOME

- Net income amounted to $153.2 million ($1.00 per share on a diluted basis) in 2007, compared to $158.4 million ($1.04 per share on a diluted basis) in 2006.
- Net income from continuing operations decreased to $69.1 million ($0.45 per share on a diluted basis) in 2007, from $136.6 million ($0.89 per share on a diluted basis) in 2006.
- Net income from discontinued operations was $84.1 million in 2007, which reflects the net gain after taxes on the disposal of SNC Technologies Inc. and its subsidiaries ("SNC TEC"), compared with $21.8 million in 2006, which represents the results of SNC TEC's operations.

### POWER SEGMENT OPERATING LOSS

- In 2007, SNC-Lavalin recognized a loss in the Power segment, mainly due to the bankruptcy proceedings and work stoppage of a key supplier on the Goreway thermal power project in Canada, which created a ripple effect of delays and increased costs and resulted in a significant loss on that project.

### DISPOSAL OF SNC TECHNOLOGIES INC.

- On January 5, 2007, SNC-Lavalin concluded the disposal of all its shares in its wholly-owned subsidiary SNC TEC for net cash proceeds of $334.1 million, which resulted in a gain before taxes of $114.0 million (net gain after taxes of $84.1 million).

### INCREASE IN REVENUES IN 2007

- Revenues increased to $6.7 billion in 2007, compared to $5.2 billion in 2006.

### SOLID FINANCIAL POSITION

- The Company's balance sheet position remained solid, with cash and cash equivalents of $1.1 billion as at December 31, 2007.

### STRONG BACKLOG

- Revenue backlog at the end of 2007 was $10.6 billion, compared to $10.4 billion at the end of 2006, reflecting an increase mainly in the backlog of Operations and Maintenance, and Services categories, partly offset by a decrease in the Packages category.

### BUSINESS ACQUISITIONS

- In 2007, SNC-Lavalin completed 18 engineering firm acquisitions with offices in Brazil, Canada, France, India, Spain and the United States for a total cash outflow of $160.5 million, which added approximately 3,000 employees to the Company's workforce. The Company had approximately 18,700 employees at December 31, 2007.

### 2008 OUTLOOK

- The Company's strong backlog, coupled with various opportunities in almost all operating segments, provide a solid basis for substantial growth in profitability in 2008 compared to 2007.

### DIVIDENDS INCREASE

- On March 6, 2008, the Company's Board of Directors approved a dividend of $0.12 per share, a 33.3% increase from the previous dividend declared, reflecting a positive outlook.

### S&P/TSX 60 INDEX AND S&P/TSX CANADIAN DIVIDEND ARISTOCRATS INDEX

- On February 1, 2008, the Company was added to the S&P/TSX 60 Index.
- On December 14, 2007, the Company was added to the S&P/TSX Canadian Dividend Aristocrats Index.

**Unless otherwise indicated, all financial information presented in this Management's Discussion and Analysis, including tabular amounts, is in Canadian dollars, and prepared in accordance with Canadian generally accepted accounting principles ("GAAP").**

### BASIS OF PRESENTATION

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.

### FORWARD-LOOKING STATEMENTS

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 the conditional or forward-looking terminology such as "believes", "expects", "may", "will", "should", "estimates", "anticipates", "projects", "plans", or the negative thereof or other variations thereon. The Company cautions that, by their nature, forward-looking statements involve risks and uncertainties, and that its actual actions and/or results could differ materially from those expressed or implied in such forward-looking statements, or could affect the extent to which a particular projection materializes.

Many factors could have an impact on the materialization of our projections, including, but not limited to, cost overruns, project performance, ability to attract and retain qualified personnel, performance of joint venture partners, subcontractors and suppliers, economic and political conditions, and other factors that are beyond our control. The Company cautions that the foregoing list of factors is not exhaustive. For more information on risks and uncertainties that would cause the Company's actual results to differ from current expectations, please refer to the section "Risks and Uncertainties" in this report and under the section "Caution regarding forward-looking statements" of the Company's most recent Annual Information Form filed with the securities regulatory authorities in Canada, available at SEDAR (www.sedar.com).

Unless otherwise mentioned, the forward-looking statements in this document reflect the Company's expectations as of March 6, 2008, when they were approved by the Company's Board of Directors, and which are subject to change after this date. The Company does not undertake to update any forward-looking statements, whether oral or written, made by itself or on its behalf, except to the extent required by securities legislation.

## 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 across Canada and in 35 other 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 distinct 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 expertise in the technical sectors where we have already achieved it, and attain the same level of expertise in other sectors;

> develop well-established engineering bases in several key geographic areas; and

> continue to invest in infrastructure concessions.

This business strategy, along with SNC-Lavalin's strong operating efficiencies, the strong culture of financial accountability among its workforce, and the diversity of its revenue base, has permitted the Company to consistently sustain good results for over a decade and to pay increasing dividends to its shareholders.

Consistent with the Company's business strategy of adding technical expertise and/or increasing its geographic coverage, SNC-Lavalin, in 2007, has completed 18 selective engineering business acquisitions for a total cash outflow of $160.5 million (refer to Note 3 of the audited consolidated financial statements) financed using its freehold cash. In 2008, SNC-Lavalin will continue to apply a selective approach for the acquisition of engineering businesses and investment in infrastructure concessions.

## 2.3 HOW WE ANALYZE OUR RESULTS

### RESULTS BY SEGMENT USED FOR ACCOUNTABILITY

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 presented in four categories of activities: Services, Packages, Operations and Maintenance, and Infrastructure Concession Investments.

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

### RESULTS BY CATEGORY OF ACTIVITY USED FOR PERFORMANCE AND RISKS REVIEWS

Results by category of activity are not used for accountability purposes. However, the Company regularly reviews the performance of these categories independently as they provide different gross margin yields and have different risk profiles.

### 2.3.1 SERVICES REVENUES

**Services revenues** are generated by providing engineering services, feasibility studies, planning, detailed design, contractor evaluation and selection, procurement management, construction management and commissioning, and a combination of engineering, procurement and construction management, which are referred to as "EPCM" contracts. Services revenues are derived primarily from cost-plus reimbursable contracts.

### 2.3.2 PACKAGES REVENUES

**Packages revenues**, in which SNC-Lavalin has the responsibility for procurement and/or construction activities in addition to providing one or more of the Services activities listed above, are derived primarily from fixed-price contracts. Packages contracts that provide for a combination of engineering, procurement and construction are referred as "EPC" contracts. Packages projects that provide for the delivery of a complete facility, up and running, at a fixed-price are referred to as "lump-sum turnkey" projects.

The following two scenarios, provided for explanatory purposes only, illustrate the difference between an EPCM contract reflected in Services activities versus an EPC contract reflected in Packages activities.

Scenario 1 assumes that the client has awarded an EPCM contract to SNC-Lavalin for a project with an estimated capital cost of $100 million. Based on the Company's 10-year average gross margin-to-revenue ratio of 26% on Services activities, the nominal gross margin generated on this project would be $3.9 million on revenues of $15 million. In this example, revenues generated on the EPCM contract represent 15% of the capital cost of the project, which is consistent with the range of 10% to 20% based on the Company's past experience.

**SCENARIO 1 — EPCM SERVICES CONTRACT**

(IN MILLIONS OF CANADIAN DOLLARS)

| | | |
|---|---|---|
| Services: | | |
| Revenues | $ | 15.0 |
| Gross margin | $ | 3.9 |
| Gross margin-to-revenue ratio | | 26% |

Scenario 2 assumes that the client has contracted the overall responsibility for construction and procurement activities to SNC-Lavalin, in addition to the Services activities illustrated under Scenario 1, through the award of a $100 million fixed-price EPC contract. The Company will recognize the following results over the life of the project, assuming that the project generates a gross margin-to-revenue ratio of 9%, which is the Company's average gross margin-to-revenue ratio recognized over the past 10 years:

**SCENARIO 2 — EPC PACKAGES CONTRACT**

(IN MILLIONS OF CANADIAN DOLLARS)

| | | |
|---|---|---|
| Packages: | | |
| Revenues | $ | 100.0 |
| Gross margin | $ | 9.0 |
| Gross margin-to-revenue ratio | | 9% |

The higher nominal gross margin generated under Scenario 2 (i.e., $9.0 million) compared to Scenario 1 (i.e., $3.9 million) results from the Company's undertaking of the overall responsibilities for the engineering, procurement and construction, and delivery of the project on a fixed-price basis. However, the gross margin-to-revenue ratio under Scenario 2 (i.e., 9%) is lower than under Scenario 1 (i.e., 26%) as procurement and construction generate a lower gross margin-to-revenue ratio than stand-alone Services activities.

### 2.3.3 OPERATIONS AND MAINTENANCE REVENUES

**Operations and Maintenance revenues** are derived primarily from cost reimbursable with a fixed-fee contracts 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, broadcasting facilities, highways, light rail transit systems, military camps and ships.

Operations and Maintenance activities enable SNC-Lavalin to combine such activities with Services or Packages, offering all-inclusive contracts that meet clients' needs, and to complement its Infrastructure Concession Investments. Operations and Maintenance activities usually involve a high volume of transactions, which are mainly cost reimbursable by the client, and thereby result in a gross margin-to-revenue ratio lower than Services activities.

### 2.3.4 INFRASTRUCTURE CONCESSION INVESTMENTS REVENUES

**Infrastructure Concession Investments revenues** are generated from dividends or distributions 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 GAAP (refer to section 2.4 below) for each of its infrastructure concession investments. SNC-Lavalin's ability to selectively invest in infrastructure concession investments complements the Company's other activities as it provides further opportunities for Services, Packages, and Operations and Maintenance.

## 2.4 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 Canadian GAAP. Under Canadian 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 sheet is on the property and equipment, and the non-recourse long-term debt accounts.

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 Company presents the following disclosures**:

- 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 depreciation expense on property and equipment and interest expense on non-recourse long-term debt. In the past, the Company disclosed its net income excluding Highway 407. Due to the increase in SNC-Lavalin's portfolio of infrastructure concession investments over the past years, now comprising more than 10 different investments at various stages of development, the Company has begun to disclose the net income from Infrastructure Concession Investments, comprised of the share of the net income of Highway 407 and the net income from other infrastructure concession investments, as this information is important for assessing the value of the Company's common share.

## 2.5 HOW THE COMPANY IS GENERALLY VALUED

The Company is generally valued based on the nature of its business, and, as such, most financial analysts and investors who monitor the Company's performance estimate its fair value as the sum of the following three components:

- **Value of the Company's business excluding Infrastructure Concession Investments and freehold cash**. The value of this component is calculated based on a price/earnings multiplier applied to consolidated net income excluding SNC-Lavalin's net income (loss) from its Infrastructure Concession Investments and interest income after taxes from freehold cash. For this purpose, SNC-Lavalin discloses as supplementary information its net income excluding Infrastructure Concession Investments, as well as the amount of freehold cash on which the effective yield earned was 3.96% and 3.20% before taxes, in 2007 and 2006, respectively.
- **Value of SNC-Lavalin's Infrastructure Concession Investments**, based on an estimate of the fair value for each infrastructure concession investment. The fair value is calculated using a discounted expected future cash flows methodology, or using the stock market bid price for shares of any investment that is traded on an active market, both of which are more relevant than a price/earnings methodology. The Company believes that the value of its Infrastructure Concession Investments is much higher than their book value of $532.7 million at December 31, 2007, which is disclosed in Note 2 of its audited consolidated financial statements.
- **Value of freehold cash**, defined as the amount of cash and cash equivalents not committed for the Company's operations or investments in infrastructure concessions, which amounted to $600 million and $500 million as at December 31, 2007 and 2006, respectively, (refer to Section 8.2 of this report).

It should be noted that, although this methodology is used by most of the financial analysts and investors who monitor the Company's performance, it 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.

## 2.6 OUR KEY FINANCIAL PERFORMANCE INDICATORS

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

> **net income**, is used by the Company to evaluate its profitability and communicate its growth objective, as the Company focuses on net income growth as opposed to revenue growth;

> **Return on Average Shareholders' Equity**, 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 capability.

In the past, the Company referred to its first two key financial performance indicators as "excluding Highway 407", whereby the results of Highway 407 were considered separately from the Company's other activities. In 2007, the Company modified its two first key financial indicators so that they now include the results of all its infrastructure concession investments, including Highway 407. As such, the Company strives to achieve a long-term growth in annual net income between 7% and 12% and to achieve a Return on Average Shareholders' Equity at least equal to the long-term Canada Bond Yield plus 600 basis points.

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, 2007 and 2006 with the Company's financial objective.

**KEY FINANCIAL INDICATORS**

| FINANCIAL INDICATOR | FINANCIAL OBJECTIVE | ACTUAL RESULTS | | | |
|---|---|---|---|---|---|
| | | 2007 | | 2006 | |
| Growth in net income | Annual growth between 7% and 12% | **(3.3)%*** | ☒ | 21.9% | ☑ |
| Return on Average Shareholders' Equity ("ROASE") | At least equal to long-term Canada Bond Yield plus 600 basis points (totalling 10.3% for 2007 and 2006) | **16.5%*** | ☑ | 19.0% | ☑ |
| 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 | **$ 963.9M** | ☑ | $ 979.9M | ☑ |

* The 2007 annual growth in net income and ROASE include the $84.1 million net gain after taxes on disposal of SNC TEC.

☑ In line or above financial objective ☒ Below financial objective

As discussed previously, the first two financial indicators of the Company have been changed in 2007 and are no longer presented "excluding Highway 407", with the table above reflecting such changes. However, the financial indicators "excluding Highway 407" would not have changed the result regarding whether or not the Company met its objectives. Specifically, for 2007 the growth in net income excluding Highway 407 would have been minus 4.8% compared to an objective between 7% and 12%, while the ROASE excluding Highway 407 would have been 15.4% compared to an objective of 10.3%.

The 2007 net income of $153.2 million was below the Company's target growth due to the loss in the Power segment (refer to Section 7.2 of this report). Excluding the loss in the Company's Power segment and the gain from disposal of SNC TEC, the growth in net income in 2007 would have been approximately 77%.

The Company also uses other indicators to evaluate its performance, such as operating income by segment, gross margin by project and by category of activity, internal rate of return, dividends and distributors 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, revenue backlog and gross margin backlog.

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.

### 2.7 DISPOSAL OF SNC TECHNOLOGIES INC.

On January 5, 2007, SNC-Lavalin concluded the disposal of all its shares in its wholly-owned subsidiary SNC Technologies Inc. and its subsidiaries ("SNC TEC") for net cash proceeds of $334.1 million, net of transaction costs of $2.5 million. The disposal of SNC TEC resulted in a gain before taxes of $114.0 million (net gain after taxes of $84.1 million), and is presented as "Net income from discontinued operations". SNC TEC was 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.

The financial results of SNC TEC have been presented as discontinued operations. As such, in the 2007 audited consolidated financial statements, SNC TEC's revenues and expenses of 2006 have been reflected, on a single line "Net income from discontinued operations" in the Company's consolidated statements of income, while assets and liabilities of SNC TEC have been aggregated under "Assets of discontinued operations" and "Liabilities of discontinued operations" on the Company's comparative consolidated balance sheet.

The Company continues to be active in the defence industry despite the disposal of SNC TEC, 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 results of the activities in the defence industry are reported under the segment to which they relate, which is currently mainly under Operations and Maintenance.

## 3. OVERALL FINANCIAL PERFORMANCE AND 2008 OUTLOOK

| YEAR ENDED DECEMBER 31 (IN MILLIONS OF CANADIAN DOLLARS, EXCEPT EARNINGS PER SHARE) | 2007 | 2006 | 2005 |
|---|---|---|---|
| **Revenues** | **$ 6,731.5** | $ 5,150.4 | $ 3,450.9 |
| Net income from continuing operations | **$ 69.1** | $ 136.6 | $ 105.6 |
| Net income from discontinued operations | **84.1** | 21.8 | 24.3 |
| **Net income** | **$ 153.2** | $ 158.4 | $ 129.9 |
| **Earnings per share from continuing operations ($)** | | | |
| Basic | **$ 0.46** | $ 0.90 | $ 0.70 |
| Diluted | **$ 0.45** | $ 0.89 | $ 0.69 |
| **Earnings per share ($)** | | | |
| Basic | **$ 1.01** | $ 1.05 | $ 0.86 |
| Diluted | **$ 1.00** | $ 1.04 | $ 0.85 |

### 3.1 NET INCOME

> **Net income in 2007 was $153.2 million** ($1.00 per share on a diluted basis), compared to $158.4 million ($1.04 per share on a diluted basis) in 2006. The decrease is mainly due to the loss recognized on a major Power project as described in Section 7.2 of this report, partially offset by higher contributions from all of the Company's other segments, mainly from the Chemicals and Petroleum, and Mining and Metallurgy segments, coupled with the gain on disposal of SNC TEC.

> **Net income from discontinued operations, net of taxes, was $84.1 million in 2007**, compared to $21.8 million in 2006. Net income from discontinued operations in 2007 reflects the net gain after taxes on the disposal of SNC TEC, while the $21.8 million in 2006 represents the results of SNC TEC's operations.

### 3.2 REVENUES

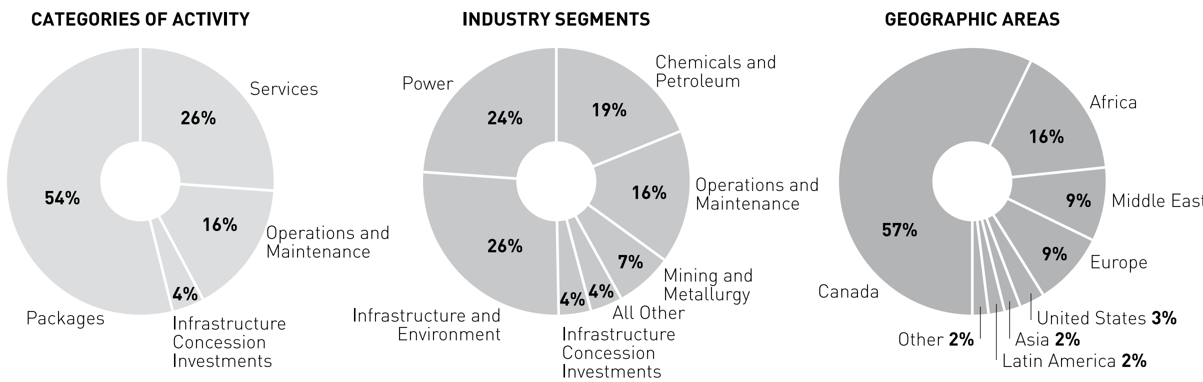
**Revenues increased to $6,731.5 million in 2007**, compared to $5,150.4 million in 2006, reflecting an increase in all revenue categories. The increase of $799.8 million in Packages revenues was mainly from the Power, Chemicals and Petroleum, and Infrastructure and Environment segments, while the increase of $545.9 million in Services revenues was mainly from the Chemicals and Petroleum, Mining and Metallurgy, and Infrastructure and Environment segments. The increase of $137.5 million in Operations and Maintenance revenues was due to an increased volume mainly on certain ongoing contracts in Canada, while the increase of $97.9 million in Infrastructure Concession Investments revenues was mainly from AltaLink reflecting the 12 months of full consolidation of AltaLink's revenues in 2007, compared to seven months in 2006, following SNC-Lavalin increased participation and acquisition of control during the second quarter of 2006.

Revenues in 2006 were $5,150.4 million, compared to $3,450.9 million in 2005, reflecting an increase in all revenue categories. The increase in Packages revenues was mainly from the Infrastructure and Environment, Power, and Chemicals and Petroleum segments, while the increase in Services revenues was mainly from the Chemicals and Petroleum, Infrastructure and Environment, All Other, and Mining and Metallurgy segments. Operations and Maintenance revenues increased mainly reflecting increased volume on certain ongoing contracts, while the increase in Infrastructure Concession Investments revenues was mainly due to the full consolidation of AltaLink effective May 31, 2006.

DIVERSITY IN COMPANY'S REVENUE BASE

The diversity of the Company's revenue base and its flexibility to operate in different categories of activity as well as industry segments and geographic areas, 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.

**2007 REVENUES**




## 3.3 ECONOMIC TRENDS

As expected last year, the world's Gross Domestic Product ("GDP") grew at a reduced pace in 2007, compared to 2006. Energy and commodity prices, however, remained higher than expected, stimulating projects in sectors such as oil and gas, as well as mining and metallurgy.

In 2008, the growth in the world's GDP is forecast to be lower than 2007, affected by the expected slowdown in the United States ("US") economy, coupled with lower forecast growth from developing economies, in particular China and India.

Despite the expected slowdown, the outlook for 2008 is that the growth in the global economy coupled with a continued strong demand and tight supply for commodities are expected to sustain commodity prices at high levels, compared to historical data.

From a Canadian perspective, the expected slowdown in the growth of the US economy in 2008 should, to a certain degree, negatively affect the level of growth in Canada. The Bank of Canada projects the Canadian economy will expand by 1.8% in 2008, compared to 2.6% in 2007, as presented in its January 2008 Monetary Policy Report Update. On the other hand, **the non-residential business investments growth, a relevant indicator for engineering and construction companies, is expected to be a solid contributor to growth in 2008 and, as in 2007, outpace the growth in the Canadian GDP**. Furthermore, certain components of public infrastructure (i.e., roads, bridges, airports, water systems, public transit systems and power plants) are reaching a point where they must be expanded and/or repaired, and have become a priority at all levels of government in Canada.

In 2007, the Canadian dollar demonstrated a strong appreciation against the US dollar and now fluctuates around parity. The impact from the fluctuation of the Canadian dollar against the US dollar or other currencies 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 enters into forward foreign exchange contracts to hedge exposure to foreign exchange variability, as described in section 8.6.2 of this report.

Overall, **the 2008 economic outlook remains positive** for the Company, in Canada and outside Canada.

## 3.4 COMPANY 2008 OUTLOOK

The Company's strong backlog, coupled with the opportunities in almost all operating segments, provide a solid basis for **substantial growth** in its profitability in 2008 compared to 2007.

## 4. GEOGRAPHIC BREAKDOWN OF REVENUES

| YEAR ENDED DECEMBER 31<br>(IN MILLIONS OF CANADIAN DOLLARS) | 2007 | | 2006 | |
|---|---|---|---|---|
| **Canada** | **$ 3,871.8** | **57%** | $ 3,184.9 | 62% |
| **Outside Canada** | | | | |
| Africa | **1,066.6** | **16%** | 650.8 | 13% |
| Middle East | **572.9** | **9%** | 289.8 | 6% |
| Europe | **572.7** | **9%** | 427.4 | 8% |
| United States | **225.1** | **3%** | 189.1 | 4% |
| Asia | **160.6** | **2%** | 164.2 | 3% |
| Latin America | **127.4** | **2%** | 180.9 | 3% |
| Other | **134.4** | **2%** | 63.3 | 1% |
| | **2,859.7** | **43%** | 1,965.5 | 38% |
| **Total revenues** | **$ 6,731.5** | **100%** | $ 5,150.4 | 100% |

### 4.1 REVENUES IN CANADA

As expected, **revenues in Canada increased, totalling $3,871.8 million in 2007**, compared to $3,184.9 million in 2006, due to increased activities mainly in the Infrastructure and Environment, Chemicals and Petroleum, and Operations and Maintenance segments.

**In 2008, revenues in Canada are expected to be in line with 2007**, mainly due to higher volume from the Operations and Maintenance segment coupled with increased Services activities mainly from the Chemicals and Petroleum segment, offset by lower Packages activities mainly from the Infrastructure and Environment, and Chemicals and Petroleum segments.

### 4.2 REVENUES FROM OUTSIDE CANADA

As expected, **revenues from outside Canada increased in 2007, totalling $2,859.7 million** compared to $1,965.5 million in 2006, with increased activities mainly from the Chemicals and Petroleum, Power, and Mining and Metallurgy segments.

> Revenues from Africa increased by $415.8 million in 2007, mainly due to increased activities in the Power, and Mining and Metallurgy segments.

> Revenues from the Middle East increased by $283.1 million in 2007, reflecting mainly increased activities in the Chemicals and Petroleum, and Mining and Metallurgy segments.

> Revenues from Europe increased by $145.3 million in 2007, mainly attributable to the Infrastructure and Environment, and Chemicals and Petroleum segments.

> The United States revenues increased to $225.1 million in 2007, compared to $189.1 million in 2006, mainly as a result of increased activities in the Chemicals and Petroleum segment, partly offset by lower activities in the Power segment.

> In Asia, revenues amounted to $160.6 million in 2007, compared to $164.2 million in the previous year, mainly reflecting lower activities in the Chemicals and Petroleum segment, partly offset by increased activities in the Mining and Metallurgy segment.

> Revenues in Latin America decreased to $127.4 million in 2007, mainly due to decreased activities in the Infrastructure and Environment segment.

> Revenues from other regions totalled $134.4 million in 2007, compared to $63.3 million last year, mainly due to increased activities in the Chemicals and Petroleum segment.

**The Company expects revenues from outside Canada to increase in 2008**, with increased activities expected from recently awarded projects along with several opportunities, mainly in the Mining and Metallurgy, and Infrastructure and Environment segments, partly offset by lower activities expected in the Power segment.

# 5. BREAKDOWN OF INCOME STATEMENT

**FINANCIAL RESULTS**

| YEAR ENDED DECEMBER 31 (IN MILLIONS OF CANADIAN DOLLARS) | 2007 | | 2006 | |
|---|---|---|---|---|
| **Revenues** | | | | |
| Services | $ 1,726.1 | | $ 1,180.2 | |
| Packages | 3,635.7 | | 2,835.9 | |
| Operations and Maintenance | 1,058.4 | | 920.9 | |
| Infrastructure Concession Investments | 311.3 | | 213.4 | |
| | $ 6,731.5 | | $ 5,150.4 | |
| **Gross margin** | | | | |
| Services | $ 492.5 | 28.5 % | $ 327.1 | 27.7% |
| Packages | (121.4) | (3.3)% | 72.1 | 2.5% |
| Operations and Maintenance | 48.8 | 4.6 % | 35.6 | 3.9% |
| Infrastructure Concession Investments | 147.3 | 47.3 % | 103.2 | 48.3% |
| | $ 567.2 | 8.4 % | $ 538.0 | 10.4% |
| **Administrative, marketing and other expenses** | 392.8 | | 285.7 | |
| **Interest (revenues) and capital taxes** | | | | |
| From Infrastructure Concession Investments | 104.6 | | 74.3 | |
| Other | (32.1) | | (21.0) | |
| | 72.5 | | 53.3 | |
| **Income from continuing operations before income taxes and non-controlling interest** | 101.9 | | 199.0 | |
| **Income taxes** | 23.6 | | 55.1 | |
| **Non-controlling interest** | 9.2 | | 7.3 | |
| **Net income from continuing operations** | 69.1 | | 136.6 | |
| **Net income from discontinued operations** | 84.1 | | 21.8 | |
| **Net income** | $ 153.2 | | $ 158.4 | |

## 5.1 REVENUE AND GROSS MARGIN ANALYSIS

**Revenues increased to $6,731.5 million in 2007**, from $5,150.4 million in 2006, reflecting an increase in all revenue categories. Revenues in 2007 include $145.2 million from business acquisitions completed during the year with activities mainly reflected in the Services category.

**Gross margin increased to $567.2 million in 2007**, from $538.0 million in 2006, reflecting the increase in activities in all revenue categories, partially offset by the overall decrease in the gross margin-to-revenue ratio mainly from Packages, reflecting the loss in the Power segment as discussed in section 7.2 of this report.

### 5.1.1 SERVICES REVENUES AND GROSS MARGIN

As expected, **Services revenues increased, totalling $1,726.1 million in 2007**, compared to $1,180.2 million in 2006, mainly due to increased activities in the Chemicals and Petroleum, Mining and Metallurgy, and Infrastructure and Environment segments.

**Services gross margin increased to $492.5 million in 2007**, compared to $327.1 million in 2006, reflecting increased activities coupled with a higher gross margin-to-revenue ratio.

As illustrated in the table below, Services gross margin-to-revenue ratio has been between 25%-29% in the past five years.

| | 2007 | 2006 | 2005 | 2004 | 2003 |
|---|---|---|---|---|---|
| Services gross margin-to-revenue ratio | **28.5%** | 27.7% | 26.1% | 25.5% | 25.8% |

**The Company expects Services revenues for 2008 to increase**, reflecting an increase in activities from recently awarded projects in the Mining and Metallurgy segment outside Canada as well as increased activities in the Chemicals and Petroleum segment in Canada. Furthermore, **the Company expects the gross margin-to-revenue ratio to be in-line with the past two years**.

### 5.1.2 PACKAGES REVENUES AND GROSS MARGIN

As expected, **Packages revenues increased, totalling $3,635.7 million in 2007**, compared to $2,835.9 million in 2006, reflecting an increase mainly in the Power, Chemicals and Petroleum, and Infrastructure and Environment segments.

**The negative gross margin for Packages was $121.4 million in 2007**, compared to a positive gross margin of $72.1 million in 2006, as the increase in revenues was more than offset by the loss recognized in the Power segment.

Packages gross margin-to-revenue ratio has historically been between 7%-10%, however as illustrated in the table below this ratio has been below historical range since 2005. **In 2008, the Company's focus will be on bringing the Packages gross margin-to-revenue ratio back within the 7%-10% range.**

| | 2007 | 2006 | 2005 | 2004 | 2003 |
|---|---|---|---|---|---|
| Packages gross margin-to-revenue ratio | **(3.3)%** | 2.5% | 6.4% | 7.0% | 9.3% |

**The Company expects Packages revenues for 2008 to remain in line** with 2007, reflecting lower activities from certain projects in Canada, mainly in the Infrastructure and Environment, Chemicals and Petroleum, and Power segments, offset by higher activities outside Canada mainly in the Mining and Metallurgy, Infrastructure and Environment, and Chemicals and Petroleum segments.

### 5.1.3 OPERATIONS AND MAINTENANCE REVENUES AND GROSS MARGIN

**Operations and Maintenance revenues**, which were expected to remain in line with the previous year, **increased to $1,058.4 million in 2007**, compared to $920.9 million in 2006, mainly reflecting an increased volume from certain ongoing contracts in Canada.

**Operations and Maintenance gross margin increased to $48.8 million in 2007**, from $35.6 million in 2006, reflecting a higher gross margin-to-revenue ratio coupled with increased volume.

Gross margin-to-revenue ratio for Operations and Maintenance has been approximately between 4%-6% in the past five years, as shown in the table below.

| | 2007 | 2006 | 2005 | 2004 | 2003 |
|---|---|---|---|---|---|
| Operations and Maintenance gross margin-to-revenue ratio | **4.6%** | 3.9% | 5.4% | 5.1% | 4.6% |

**The Company expects Operations and Maintenance revenues to increase in 2008**, mainly due to an overall increase in volume from ongoing contracts and various prospects. **In 2008, the gross margin-to-revenue ratio is expected to be within the five-year range**.

### 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.

**Infrastructure Concession Investments revenues**, as expected, **increased and totalled $311.3 million in 2007**, compared to $213.4 million in 2006, **while the gross margin increased to $147.3 million in 2007**, from $103.2 million in 2006, both increases mainly reflect the full consolidation of AltaLink following SNC-Lavalin's acquisition of control in the second quarter of 2006.

**The Company expects Infrastructure Concession Investment revenues to increase in 2008**, mainly due to the overall increase in Canada from AltaLink and Highway 407, as well as from the Okanagan Lake Concession that is expected to begin operations in 2008.

## 5.2 ADMINISTRATIVE, MARKETING AND OTHER EXPENSES ANALYSIS

As expected, **administrative, marketing and other expenses increased in 2007, totalling $392.8 million**, compared to $285.7 million in the previous year, reflecting the overall increased activities and the expenses related to business acquisitions. Administrative, marketing and other expenses related to the businesses acquired in 2007 amounted to $24.0 million. **The Company expects administrative, marketing and other expenses to increase in 2008 mainly to support the overall increased level of activities in 2008 coupled with the full year impact of business acquisitions completed in 2007 as well as an expected increase in proposal and marketing activities.** The Company continues to maintain an appropriate balance between gross margin and administrative expenses, while sustaining the necessary investment in marketing and selling activities to achieve growth. In 2007, the administrative, marketing and other expenses as a percentage of gross margin of approximately 69% has been the highest of the past five years, which averaged about 59%, mainly due to the negative gross margin from Packages activities. **In 2008, the Company expects the administrative, marketing and other expenses as a percentage of gross margin to be in line with 2006.**

| | 2007 | 2006 | 2005 | 2004 | 2003 |
|---|---|---|---|---|---|
| Administrative, marketing and other expenses as a percentage of gross margin | **69.2%** | 53.1% | 55.9% | 56.8% | 62.3% |

## 5.3 INTEREST (REVENUES) AND CAPITAL TAXES ANALYSIS

As expected, **interest and capital taxes expenses increased in 2007, to $72.5 million**, from $53.3 million in 2006. Interest and capital taxes expenses from infrastructure concession investments increased to $104.6 million in 2007, from $74.3 million in 2006, mainly due to the full consolidation of AltaLink following SNC-Lavalin's acquisition of control in the second quarter of 2006.

As expected, **interest revenues net of capital taxes from activities other than infrastructure concession investments increased, totalling $32.1 million in 2007**, up from $21.0 million in 2006, mainly due to an increase in interest revenues as a result of higher interest rates and average cash balance in 2007.

| (IN MILLIONS OF CANADIAN DOLLARS) | 2007 | | | 2006 | | |
|---|---|---|---|---|---|---|
| | FROM INFRASTRUCTURE CONCESSION INVESTMENTS | OTHER | TOTAL | FROM INFRASTRUCTURE CONCESSION INVESTMENTS | OTHER | TOTAL |
| Interest revenues: | **$ (4.3)** | **$ (47.7)** | **$ (52.0)** | $ (3.5) | $ (36.9) | $ (40.4) |
| Interest on long-term debt: | | | | | | |
| Recourse | – | **8.2** | **8.2** | – | 8.2 | 8.2 |
| Non-recourse | | | | | | |
| AltaLink | **56.8** | – | **56.8** | 32.9 | – | 32.9 |
| Highway 407 | **47.6** | – | **47.6** | 41.7 | – | 41.7 |
| Others | **1.1** | **2.9** | **4.0** | 1.1 | 3.0 | 4.1 |
| Capital taxes and other | **3.4** | **4.5** | **7.9** | 2.1 | 4.7 | 6.8 |
| Interest (revenues) and capital taxes | **$ 104.6** | **$ (32.1)** | **$ 72.5** | $ 74.3 | $ (21.0) | $ 53.3 |

**The Company expects interest and capital taxes expenses to increase in 2008**, mainly due to higher interest expense from Infrastructure Concession Investments coupled with lower interest revenues from activities other than infrastructure concession investments.

**Interest expense from Infrastructure Concessions Investments is expected to increase in 2008** mainly from i) the Okanagan Lake Concession, as the bridge is near completion and expected to be operational in 2008, at which point interest expense will cease to be capitalized as per Canadian GAAP, and ii) the additional debt expected to be issued by AltaLink to finance its budgeted capital expenditures for 2008.

**Interest revenue from activities other than infrastructure concession investments is expected to decrease in 2008**, as a result of lower expected interest rates.

## 5.4 INCOME TAXES ANALYSIS

**The effective income tax rate**, which was expected to be in line with the previous year, **decreased to 23% in 2007**, from 28% in 2006. The decrease in the effective income tax rate was mainly due to: i) a higher income before taxes generated by Highway 407, which is not affected by taxes due to the use of previously unrecorded tax benefits resulting from accumulated tax losses, and ii) the geographic mix of the Company's activities. **In 2008, the Company expects the effective income tax rate to be in line** with 2007.

## 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.

**REVENUE BACKLOG**

| AT DECEMBER 31<br>(IN MILLIONS OF CANADIAN DOLLARS) | 2007 | 2006 |
|---|---|---|
| **By category** | | |
| Services | **$ 1,556.5** | $ 819.8 |
| Packages | **4,457.0** | 6,082.6 |
| Operations and Maintenance | **2,513.9** | 1,570.2 |
| Infrastructure Concession Investments | **2,095.4** | 1,942.0 |
| **Revenue backlog** | **$ 10,622.8** | $ 10,414.6 |
| **By region** | | |
| Canada | **$ 6,331.2** | $ 6,983.8 |
| Outside Canada | **4,291.6** | 3,430.8 |
| **Revenue backlog** | **$ 10,622.8** | $ 10,414.6 |

**Revenue backlog increased to $10.6 billion as at December 31, 2007**, compared to $10.4 billion as at December 31, 2006.

> Services backlog increased by $736.7 million.

> Packages backlog decreased by $1,625.6 million.

> Operations and Maintenance backlog increased by $943.7 million.

> Infrastructure Concession Investments backlog increased by $153.4 million.

> Backlog from Canada decreased by $652.6 million to $6,331.2 million at the end of 2007, from $6,983.8 million at the end of the previous year, mainly due to a decrease in Packages backlog in Infrastructure and Environment, Power and Chemicals and Petroleum segments, partially offset by an increase in the Operations and Maintenance backlog.

> Backlog from Outside Canada increased by $860.8 million to $4,291.6 million at the end of 2007, from $3,430.8 million at the end of 2006, mainly due to an increase in the Services backlog in the Mining and Metallurgy, Power, and Infrastructure and Environment segments.

### 6.1 SERVICES BACKLOG

**Services backlog totalled $1,556.5 million at the end of 2007**, compared to $819.8 million at the end of the previous year, reflecting an increase of approximately 90%, which contributes to the Company's **favourable outlook for the 2008** as the gross margin-to-revenue ratio from Services is the highest compared to Packages, and Operations and Maintenance activities. The increase in Services backlog was mainly due to awards outside Canada in the Mining and Metallurgy, and Power segments, and from the addition and consolidation of the revenue backlog of engineering business acquisitions completed in 2007, mainly Minerconsult in Brazil and Ingesgrup S.A. in Spain.

**RECONCILIATION OF SERVICES BACKLOG**

| AT DECEMBER 31 (IN MILLIONS OF CANADIAN DOLLARS) | 2007 | 2006 |
|---|---|---|
| Opening backlog | **$ 819.8** | $ 604.2 |
| Add: Contract bookings during the year | **2,177.2** | 1,378.3 |
| Backlog from engineering business acquisitions | **285.6** | 17.5 |
| Less: Revenues recognized during the year | **1,726.1** | 1,180.2 |
| Ending backlog | **$ 1,556.5** | $ 819.8 |

**Services bookings totalled $2,177.2 million in 2007**, compared to $1,378.3 million in 2006, and included notable additions such as:

> The EPCM contract by Emirates Aluminium ("EMAL") in United Arab Emirates ("UAE") to design and build a new aluminum smelter, as well as the provisions for a 2,000 MW power plant, at EMAL's Taweelah site in Abu Dhabi, UAE.

> The EPCM contract for the Ambatovy Nickel Project, which will consist of an open-pit mine operation, and a hydrometallurgical processing plant expected to produce mainly nickel and cobalt, in Madagascar.

> The front-end engineering design services contract, as well as froth treatment work, for Phase 1 of the Secondary Upgrader portion of the Fort Hills Oil Sands Project in Alberta, Canada.

> The EPCM contract with Cobre Las Cruces S.A., for the processing plant and associated infrastructure at its new Greenfield copper project near Gerena, Spain.

> The EPCM contract for GreenField Ethanol's new 200 million litre per year ethanol plant in Ontario, Canada.

> The EPCM contract with Anglo American Brasil Ltda, for a greenfield ferro-nickel plant near Barro Alto, in the state of Goiás, Brazil.

## 6.2 PACKAGES BACKLOG

**Packages backlog totalled $4,457.0 million at the end of 2007**, compared to $6,082.6 million at the end of the 2006, mainly reflecting advancement of work made on certain ongoing major projects in the Power, and Infrastructure and Environment segments.

**RECONCILIATION OF PACKAGES BACKLOG**

| AT DECEMBER 31 (IN MILLIONS OF CANADIAN DOLLARS) | 2007 | 2006 |
|---|---|---|
| Opening backlog | **$ 6,082.6** | $ 4,308.1 |
| Add: Contract bookings during the year | **2,010.1** | 4,610.4 |
| Less: Revenues recognized during the year | **3,635.7** | 2,835.9 |
| Ending backlog | **$ 4,457.0** | $ 6,082.6 |

**Packages bookings in 2007 amounted to $2,010.1 million**, compared to $4,610.4 million in the previous year. Contract bookings in 2007 included notable additions such as:

> The conversion, from Services to Packages, of the 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. These two conversions consisted of the award by Saudi Aramco of EPC contracts for the completion of these facilities.

> The EPC contracts to build or expand water cooling plants in Abu Dhabi, UAE.

> The award of a lump-sum engineering and procurement contract for a new sulphuric acid plant in Kazakhstan.

## 6.3 OPERATIONS AND MAINTENANCE BACKLOG

**RECONCILIATION OF OPERATIONS AND MAINTENANCE BACKLOG**

| AT DECEMBER 31<br>(IN MILLIONS OF CANADIAN DOLLARS) | 2007 | 2006 |
|---|---|---|
| Opening backlog | **$ 1,570.2** | $ 2,112.4 |
| Add: Contract bookings during the year | **2,002.1** | 378.7 |
| Less: Revenues recognized during the year | **1,058.4** | 920.9 |
| Ending backlog | **$ 2,513.9** | $ 1,570.2 |

**Operations and Maintenance backlog totalled $2,513.9 million at the end of 2007**, compared to $1,570.2 million at the end of 2006, in large part due to normal fluctuations in the timing of the long-term contracts and notable contract bookings such as:

> A five-year contract with the Bank of Montreal to operate and maintain over 900 retail branches representing over 500,000$m^2$.

> A five-year contract to operate and manage a potable water transfer system consisting of the Taksebt water treatment plant with a daily capacity of 600,000$m^3$, a pumping station and a water conveyance system, in Algeria.

## 6.4 INFRASTRUCTURE CONCESSION INVESTMENTS BACKLOG

The following table presents the details of the Infrastructure Concession Investments revenue backlog as at December 31, 2007 and 2006:

**INFRASTRUCTURE CONCESSION INVESTMENTS BACKLOG**

| AT DECEMBER 31<br>(IN MILLIONS OF CANADIAN DOLLARS) | 2007 | 2006 |
|---|---|---|
| AltaLink (1) | **$ 1,474.3** | $ 1,405.9 |
| Highway 407 (2) | **531.2** | 466.4 |
| Okanagan Lake Concession (1) | **89.9** | 69.7 |
| Total backlog | **$ 2,095.4** | $ 1,942.0 |

(1) Altalink and Okanagan Lake Concession are fully consolidated, therefore the related revenue backlog as at December 31, 2007 and 2006 represents 100% of their estimated recurring revenues for the next five years.

(2) Highway 407 is proportionately consolidated, therefore the related revenue backlog as at December 31, 2007 and 2006 represent 16.77% of its estimated recurring revenue for the next five years.

**The Infrastructure Concession Investments revenue backlog increased to $2,095.4 million at the end of 2007**, compared to $1,942.0 million at the end of the previous year, mainly due to increased revenue backlog from AltaLink and Highway 407.

## 7. OPERATING RESULTS BY SEGMENT

As mentioned previously, the **Company's results are primarily evaluated by segment**, namely Infrastructure and Environment, Power, Chemicals and Petroleum, Mining and Metallurgy, Operations and Maintenance, Infrastructure Concession Investments and All Other, the results of which are used as a basis for accountability by management. The table below illustrates the contribution by each segment for 2007 and 2006.

**OPERATING RESULTS BY SEGMENT**

| YEAR ENDED DECEMBER 31<br>(IN MILLIONS OF CANADIAN DOLLARS) | **2007** | | 2006 | |
|---|---|---|---|---|
| | REVENUES | OPERATING INCOME (LOSS) | REVENUES | OPERATING INCOME (LOSS) |
| Infrastructure and Environment | **$ 1,757.2** | **$ 93.0** | $ 1,564.2 | $ 83.6 |
| Power | **1,616.3** | **(267.3)** | 1,219.5 | (18.0) |
| Chemicals and Petroleum | **1,256.6** | **126.4** | 770.2 | 66.9 |
| Mining and Metallurgy | **448.9** | **68.1** | 244.8 | 29.6 |
| Operations and Maintenance | **1,058.4** | **29.5** | 920.9 | 23.5 |
| Infrastructure Concession Investments | **311.3** | **25.1** | 213.4 | 15.8 |
| All Other | **282.8** | **18.8** | 217.4 | 10.7 |
| **Total** | **$ 6,731.5** | **$ 93.6** | $ 5,150.4 | $ 212.1 |

In 2007, the Company modified the presentation of its operating income from Infrastructure Concession Investments to include an allocation of corporate income taxes. Accordingly, the operating income of Infrastructure Concession Investments corresponds to the net income from Infrastructure Concession Investments presented as supplementary information in the Company's audited consolidated financial statements, with comparative figures reclassified to conform with such presentation.

The summary table below compares the actual contributions of each segment in 2007 to the initial expectations expressed in the 2006 annual Management's Discussion and Analysis, and presents the Company's expectations for 2008.

**SUMMARY TABLE — OPERATING INCOME BY SEGMENT**

| | **2007** | | | 2008 |
|---|---|---|---|---|
| | EXPECTATIONS | ACTUAL | ACTUAL VS. EXPECTATIONS | 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 LINE OR ABOVE EXPECTATIONS ☒ BELOW EXPECTATIONS

In 2007, 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 which was below expectations mainly due to the negative gross margin on the Goreway project as explained in section 7.2 of this report.

### 7.1 INFRASTRUCTURE AND ENVIRONMENT

| (IN MILLIONS OF CANADIAN DOLLARS) | REVENUES | | | OPERATING INCOME | | |
|---|---|---|---|---|---|---|
| | **2007** | 2006 | CHANGE | **2007** | 2006 | CHANGE |
| Infrastructure and Environment | **$ 1,757.2** | $ 1,564.2 | 12.3% | **$ 93.0** | $ 83.6 | 11.3% |

**Revenues from Infrastructure and Environment increased by $193.0 million in 2007**, compared to 2006, reflecting a higher level of activities mainly from ongoing Packages projects, coupled with increased Services revenues mainly from engineering business acquisitions completed in 2007. 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 the Taksebt 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 for the fabrication of 45,000 pre-stressed cylinder concrete pipes for the Great Man-Made River Authority in Sarir, Libya.

> The EPC contracts to build or expand water cooling plants in Abu Dhabi, UAE.

> The EPC contract for the rehabilitation of the existing portion of an irrigation canal of the Tiznados River and the construction of an additional irrigation system in the State of Guarico, Venezuela.

**Operating income**, which was expected to remain in line with the previous year, **increased by $9.4 million in 2007** compared to 2006, mainly due to the increased level of activities.

**The Company expects the 2008 contribution from the Infrastructure and Environment segment to increase**, with contributions from certain major ongoing Packages projects and various prospects inside and outside Canada.

## 7.2 POWER

| (IN MILLIONS OF CANADIAN DOLLARS) | REVENUES | | | OPERATING LOSS | | |
|---|---|---|---|---|---|---|
| | 2007 | 2006 | CHANGE | 2007 | 2006 | CHANGE |
| Power | **$ 1,616.3** | $ 1,219.5 | 32.5% | **$ (267.3)** | $ (18.0) | (1,383.1)% |

**Power revenues increased in 2007 by $396.8 million compared to 2006**, and included major projects such as:

> 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.

> 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 Sithe Global Power Goreway ULC to design and build a 880 MW combined cycle thermal power plant in Ontario, 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 contract with Elektrownia Patnow II Sp. z.o.o. to complete a 460 MW lignite-fired thermal power plant in Poland.

While the Company expected a positive contribution in 2007, the **Power segment reported an operating loss of $267.3 million in 2007**. The operating loss mainly reflects the forecasted loss recognized on a major Packages project due to issues arising from the bankruptcy proceedings and work stoppage of a key supplier of the Goreway 880MW combined cycle thermal power plant in Ontario, Canada. As a result of the supplier's bankruptcy and work stoppage, SNC-Lavalin incurred a loss on this project due to the supplier's failure to deliver its portion of the project according to the contractual terms and the delivery schedule, and due to its ripple effect on the overall project execution. The forecasted loss on Goreway recorded in the first quarter of 2007 was increased in the second and fourth quarters of 2007 pursuant the Company's revision of the estimated costs for completion. In accordance with its revenue recognition policy for fixed-price contracts, the Company recognizes the cumulative effect of changes to anticipated revenues and costs for completing a contract in the period in which such revisions are identified. Accordingly, there were certain other Power Packages projects for which the revisions of anticipated costs to complete resulted in negative gross margin in 2007.

While some challenging projects remain to be completed, **the Company's objective is for the Power segment to contribute positively to its consolidated results in 2008**.

## 7.3 CHEMICALS AND PETROLEUM

| (IN MILLIONS OF CANADIAN DOLLARS) | REVENUES | | | OPERATING INCOME | | |
|---|---|---|---|---|---|---|
| | **2007** | 2006 | CHANGE | **2007** | 2006 | CHANGE |
| Chemicals and Petroleum | **$ 1,256.6** | $ 770.2 | 63.1% | **$ 126.4** | $ 66.9 | 89.0% |

**Chemicals and Petroleum revenues increased in 2007 by $486.4 million**, compared to the previous year, and included activities from major contributors such as:

> The 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 original Services contracts for these projects were converted to Packages contracts in 2007.

> 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 Services contracts with 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, Russia.

> The front-end engineering, project management, detailed engineering and procurement services for the ExxonMobil Refining and Chemical complexes located in Baytown, Texas.

> The front-end engineering design services contract, as well as froth treatment work, for Phase 1 of the Secondary Upgrader portion of the Fort Hills Oil Sands Project in Alberta, Canada.

**Operating income**, which was expected to remain in line with 2006, **increased in 2007 by $59.5 million**, mainly due to an increased level of activities from Packages projects both outside and inside Canada.

**The Company expects the 2008 contribution from the Chemicals and Petroleum segment to remain in line** with 2007, as the increase in activities from certain ongoing projects coupled with various prospects inside and outside Canada is expected to be offset by the decrease in activities from certain completed or near completed projects.

## 7.4 MINING AND METALLURGY

| (IN MILLIONS OF CANADIAN DOLLARS) | REVENUES | | | OPERATING INCOME | | |
|---|---|---|---|---|---|---|
| | **2007** | 2006 | CHANGE | **2007** | 2006 | CHANGE |
| Mining and Metallurgy | **$ 448.9** | $ 244.8 | 83.4% | **$ 68.1** | $ 29.6 | 129.6% |

**Mining and Metallurgy revenues increased by $204.1 million in 2007**, compared to 2006 reflecting increased activities mainly from projects awarded in 2006 and 2007, outside Canada. Revenues in 2007 included activities from major contributors such as:

> The EPCM 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 joint venture EPCM contract for the Goro nickel project in New Caledonia.

> The EPC contract with Qatar Petroleum and Hydro Aluminium AS for the service areas and potroom building of a greenfield aluminum smelter (Qatalum) in Qatar.

> The joint venture EPCM contract with Emirates Aluminium to design and build a new aluminum smelter, in UAE.

- 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 in Spain.
- The EPCM contract for the processing facilities and mine infrastructure at the Las Brisas Gold-Copper Mine Project in Venezuela.
- The contract to provide project management services on the Alumar project, in Brazil.
- The pre-feasibility study for BHP Billiton's Olympic Dam copper/uranium facility expansion project, in Australia.

As expected, **operating income increased in 2007**, mainly due to the higher level of activities mainly from projects outside Canada.

**The Company expects the 2008 contribution from the Mining and Metallurgy segment to increase** compared to 2007, mainly reflecting the expected increased activities from recently awarded projects, engineering businesses acquired in 2007 and various prospects mainly outside Canada.

## 7.5 OPERATIONS AND MAINTENANCE

| (IN MILLIONS OF CANADIAN DOLLARS) | REVENUES | | | OPERATING INCOME | | |
|---|---|---|---|---|---|---|
| | **2007** | 2006 | CHANGE | **2007** | 2006 | CHANGE |
| Operations and Maintenance | **$ 1,058.4** | $ 920.9 | 14.9% | **$ 29.5** | $ 23.5 | 25.7% |

**Operations and Maintenance revenues increased in 2007**, mainly reflecting an increased volume from certain ongoing contracts in Canada. Major activities included in operations and maintenance are regrouped under the following lines of business:

- **Facilities management:** which includes all aspects of operations and management, realty management and project delivery and program management.
- **Infrastructure:** which provides operations, maintenance and rehabilitation management for large infrastructure assets including public transit systems, highways, bridges and tunnels.
- **Industrial:** which involves specialized expertise to oversee the operations and maintenance of assets such as turbines, steam generators, boilers, electrical systems, mechanical systems, manufacturing installations, and heavy process operations found in petrochemical refineries, from start-up mobilization to steady-state operation.
- **Logistics:** which provides support to Canada's Armed Forces, as well as large mining, metallurgy, petrochemical and oil and gas operations by building and maintaining temporary camps and living facilities around the globe.
- **Naval and marine:** which provides support to Canada's Navy, servicing many different types of vessels, from research and defence boats to tugs and many other classes of ships. Also, includes comprehensive engineering design, refitting, and corrective and preventative maintenance to keep these boats in a constant state of readiness for deployment all over the world.

The Operations and Maintenance segment allows SNC-Lavalin to complement its Services, Packages and Infrastructure Concession Investments activities on projects such as: i) the Trans-Canada Highway in New Brunswick, Canada, ii) the William R. Bennett Bridge in Kelowna, Canada, iii) the rapid transit line connecting the cities of Vancouver and Richmond with Vancouver International Airport, in British Columbia, Canada, iv) power plants with the Greater Toronto Airports Authority's Cogeneration Plant in Toronto, Canada, as well as the 825MW thermal power plant in Skikda and the 1,227 MW gas-fired thermal power plant in Tipaza, both in Algeria, and v) the Taksebt water transfer system, in Algeria.

**Operating income**, which was expected to remain in line with the previous year, **increased by $6.0 million in 2007** compared to 2006, reflecting mainly increased volume.

**The Company expects the 2008 contribution from the Operations and Maintenance segment to increase** compared to 2007, mainly due to an overall increase in volume from ongoing contracts and various prospects.

## 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, mines and roads.

### 7.6.1 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, 2007, the net book value of the Company's infrastructure concession investments was $532.7 million, compared to $476.5 million as at December 31, 2006, 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 negative balance of $35.1 million as at December 31, 2007, (negative balance of $28.2 million as at December 31, 2006), 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 $20.1 million in 2007, compared to $24.3 million in 2006, which included a special dividend of $8.5 million.

**NET BOOK VALUE OF INFRASTRUCTURE CONCESSION INVESTMENTS**

| (IN MILLIONS OF CANADIAN DOLLARS) | 2007 | 2006 |
|---|---|---|
| Investments accounted for by the full or proportionate consolidation methods | $ **161.9** | $ 155.4 |
| Investments accounted for by the equity method | **146.9** | 181.7 |
| Investments accounted for by the cost method | **223.9** | 139.4 |
| Net book value of infrastructure concession investments | $ **532.7** | $ 476.5 |

The Infrastructure Concession Investments segment includes SNC-Lavalin's equity participation in the following investments as at December 31, 2007 (refer to Note 2A to the audited consolidated financial statements for additional disclosure on the impact of these investments on the balance sheet):

**INVESTMENTS ACCOUNTED FOR BY THE FULL OR PROPORTIONATE CONSOLIDATION METHODS**

| NAME | EQUITY PARTICIPATION | HELD SINCE | DESCRIPTION OF ACTIVITIES |
|---|---|---|---|
| Okanagan Lake Concession L.P. ("Okanagan Lake Concession") | 100% | 2005 | 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. |
| AltaLink L.P. ("AltaLink") (1) | 76.92% | 2002 | 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 | Operates, maintains and manages Highway 407, a 108 kilometre all-electronic toll highway in the Greater Toronto Area, under a 99-year concession agreement expiring in 2098. |
| Gazmont Limited Partnership | 50% | 1996 | Owns and operates a 25 MW biogas thermal power plant in Quebec. |

(1) SNC-Lavalin increased its participation in AltaLink to 76.92% in May 2006, from its initial ownership of 50.0% in 2002.

#### INVESTMENTS ACCOUNTED FOR BY THE EQUITY METHOD

| NAME | EQUITY PARTICIPATION | HELD SINCE | DESCRIPTION OF ACTIVITIES |
|---|---|---|---|
| Shariket Kahraba Hadjret En Nouss S.p.A ("SKH") | 26% | 2006 | Once construction is completed, expected in late 2008, SKH will operate and maintain 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. |
| InTransit BC L.P. ("InTransit BC") | 33.3% | 2005 | 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. |
| Astoria Project Partners LLC ("Astoria") | 21% | 2004 | Astoria owns and operates a 500 MW natural gas-fired power plant in Queens, New York. Construction on the power plant was completed in May 2006. |
| Malta International Airport p.l.c. | 15.5% | 2002 | Has the rights to own and manage the Malta International Airport under a 65-year concession agreement expiring in 2067. |
| West End Dam Associates | 21% | 1985 | A 4.5 MW power generation facility in New York State. |

#### INVESTMENTS ACCOUNTED FOR BY THE COST METHOD

| NAME | EQUITY PARTICIPATION | HELD SINCE | DESCRIPTION OF ACTIVITIES |
|---|---|---|---|
| Ambatovy Nickel Project ("Ambatovy") | 5% | 2007 | An open-pit mine operation, and a hydrometallurgical processing plant in Madagascar that will produce mainly nickel and cobalt once construction is completed. |
| Gaz Métro Limited Partnership ("Gaz Métro") | 2.42% | 2006 | 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 presented below. |
| Trencap Limited Partnership | 11.1% | 2004 | Holds an indirect interest in Gaz Métro equivalent to 3.97%. |
| Southern Electric Power Company Limited | 21.1% | 1999 | Owns and operates a 135 MW thermal power plant in Pakistan. |

### 7.6.2 OPERATING INCOME OF THE INFRASTRUCTURE CONCESSION INVESTMENTS SEGMENT

| (IN MILLIONS OF CANADIAN DOLLARS) | REVENUES | | | OPERATING INCOME | | |
|---|---|---|---|---|---|---|
| | **2007** | 2006 | CHANGE | **2007** | 2006 | CHANGE |
| Infrastructure Concession Investments | **$ 311.3** | $ 213.4 | 45.9% | **$ 25.1** | $ 15.8 | 59.0% |

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 expected, **operating income of the Infrastructure Concession Investments segment increased in 2007** compared to 2006, mainly due to the first full year contributions of AltaLink and Gaz Métro, coupled with increased profitability from Highway 407, while the net loss after taxes of $4.6 million on disposal of the Murraylink infrastructure concession investment was recognized in 2006.

**The Company expects the 2008 performance from the Infrastructure Concession Investments segment to increase** compared to 2007, mainly reflecting increased contributions from concession investments such as AltaLink and Highway 407, as well as the commencement of operations of the Okanagan Lake Concession, expected in 2008 upon the completion of the bridge under construction.

The following table summarizes certain selected financial indicators related to the Infrastructure Concession Investments:

| (IN MILLIONS OF CANADIAN DOLLARS) | 2007 | 2006 | 2005 | 2004 | 2003 |
|---|---|---|---|---|---|
| Net income (loss) from infrastructure concession investments: | | | | | |
| From Highway 407 | **$ 10.1** | $ 8.1 | $ (4.7) | $ (14.5) | $ (12.7) |
| From other infrastructure concession investments | **15.0** | 7.7 | 8.8 | 7.2 | 4.2 |
| Total | **$ 25.1** | $ 15.8 | $ 4.1 | $ (7.3) | $ (8.5) |
| Dividends received by SNC-Lavalin: | | | | | |
| From Highway 407 | **$ 20.1** | $ 24.3 | $ 14.3 | $ 12.6 | $ 11.1 |
| From other infrastructure concession investments | **10.4** | 12.4 | 10.5 | 3.5 | 3.0 |
| Total | **$ 30.5** | $ 36.7 | $ 24.8 | $ 16.1 | $ 14.1 |
| Net book value on SNC-Lavalin's balance sheet at December 31: | | | | | |
| From Highway 407 | **$ (35.1)** | $ (28.2) | $ (12.1) | $ 6.9 | $ 33.9 |
| From other infrastructure concession investments | **567.8** | 504.7 | 380.4 | 363.3 | 183.6 |
| Total | **$ 532.7** | $ 476.5 | $ 368.3 | $ 370.2 | $ 217.5 |

## 7.7 ALL OTHER

| (IN MILLIONS OF CANADIAN DOLLARS) | REVENUES | | | OPERATING INCOME | | |
|---|---|---|---|---|---|---|
| | **2007** | 2006 | CHANGE | **2007** | 2006 | CHANGE |
| All Other | **$ 282.8** | $ 217.4 | 30.1% | **$ 18.8** | $ 10.7 | 74.6% |

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

**All Other revenues increased by $65.4 million in 2007** compared to 2006, mainly reflecting increased activities outside Canada, coupled with revenue from business acquisitions. **Operating income**, which was expected to remain in line with the previous year, **increased in 2007 by $8.1 million** compared to 2006, mainly due to an increased level of activities, coupled with a higher profitability on certain projects.

**The Company expects the 2008 contribution from the All Other segment to increase** compared to 2007, reflecting an overall increase in activities.

## 8. LIQUIDITY AND CAPITAL RESOURCES

As discussed in section 2.6 of the current Management's Discussion and Analysis, achieving a ROASE 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 2007 and 2006;
- 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 **working capital, recourse revolving credit facilities, credit ratings**, and **recourse debt to capital**, which all represent indicators of the financial strength of the Company;
- a review of the Company's **contractual obligations** and **derivative financial instruments**, which provides additional information for a better understanding of the Company's financial situation; and finally
- the presentation of the Company's **dividends declared** and **ROASE** over the past five years, as well as **market indices** in which the Company's stock is included.

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 satisfying 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.

As at December 31, 2007, Highway 407, which is accounted for by the proportionate consolidation method, held $159.0 million principal amount of non-bank sponsored Asset-Backed Commercial Papers ("ABCPs"). Most of these ABCPs currently have no liquidity and, therefore, have been revalued using best available market data, which resulted in a reduction in their carrying value to $136.8 million. The share of SNC-Lavalin in the revised carrying value of the ABCPs held by Highway 407 represents approximately $22.9 million at December 31, 2007 and is presented mainly in "other long-term assets", while the $3.7 million reduction in their carrying value has been recorded as part of "interest and capital taxes" in the Company's audited consolidated financial statements. However, while some uncertainty exists with respect to the amount and timing of cash flows relating to these ABCPs, it will not have a significant impact on SNC-Lavalin's financial position. On a consolidated basis, SNC-Lavalin has no other direct or indirect investment in ABCPs.

As the ABCPs held by Highway 407 are not included in the Company's $1,088.6 million of cash and cash equivalents, they are not part of the following discussion and analysis of net cash position, freehold cash and cash flows of the Company.

### 8.1 BALANCE SHEET ANALYSIS

As mentioned in section 2.4, 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 they relate 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 2007 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 (i.e., Services, Packages and Operating and Maintenance).

#### 8.1.1 TOTAL ASSETS

**VARIATION IN TOTAL ASSETS**

| (IN MILLIONS OF CANADIAN DOLLARS) | | 2007 | |
|---|---|---|---|
| | FROM INFRASTRUCTURE CONCESSION INVESTMENTS | OTHER | TOTAL |
| Total assets at beginning of year | $ 2,557.0 | $ 3,682.0 | $ 6,239.0 |
| Transitional adjustment on adoption of new accounting standards | (59.0) | 13.1 | (45.9) |
| Adjusted total assets at beginning of year | 2,498.0 | 3,695.1 | 6,193.1 |
| Change in assets during the year, excluding the transitional adjustment: | | | |
| Cash and cash equivalents | (2.0) | (20.6) | (22.6) |
| Contract in progress subject to contract financing | – | (319.1) | (319.1) |
| Current assets other than those listed above | (26.5) | 177.0 | 150.5 |
| Property and equipment | 201.4 | 17.7 | 219.1 |
| Goodwill | – | 153.5 | 153.5 |
| Investments accounted for by the equity or cost methods | 65.5 | – | 65.5 |
| Other long-term assets and long-term future income tax asset | 12.8 | 32.6 | 45.4 |
| Total change in assets during the year, excluding the transitional adjustment | 251.2 | 41.1 | 292.3 |
| Total assets at end of year | $ 2,749.2 | $ 3,736.2 | $ 6,485.4 |

**Total assets increased to $6,485.4 million as at December 31, 2007**, compared to $6,239.0 million as at December 31, 2006, an increase of $246.4 million, after deducting the $45.9 million transitional adjustment on adoption of new accounting standards described in section 10 of this report.

When excluding the transitional adjustment on adoption of new accounting standards, the change in assets in 2007 represented $292.3 million and is discussed below.

An increase of $251.2 million in assets from Infrastructure Concession Investments, reflecting mainly:

> An increase of $201.4 million in property and equipment mainly from AltaLink, progress on the bridge under construction of Okanagan Lake Concession and Highway 407.

> An increase of $65.5 million in investments accounted for by the cost or equity methods, resulting mainly from the investment in Ambatovy in 2007.

An increase of $41.1 million in assets of activities other than Infrastructure Concession Investments including mainly:

> An increase of $177.0 million in current assets other than cash and cash equivalents and contract in progress subject to contract financing arrangement, primarily due to the increase of $391.1 million in accounts receivable reflecting an overall higher level of activity, partly offset by the decrease of $250.3 million in assets of discontinued operations following the disposal of SNC TEC in January 2007.

> An increase of $153.5 million in goodwill reflecting the engineering business acquisitions completed in 2007.

> A decrease of $319.1 million in contract in progress subject to contract financing arrangements, reflecting the completion of most of the EPC contract for the Trans-Canada Highway in New Brunswick (refer to Note 6 to the audited consolidated financial statements).

**VARIATION IN TOTAL ASSETS**

| (IN MILLIONS OF CANADIAN DOLLARS) | 2006 | | |
|---|---|---|---|
| | FROM INFRASTRUCTURE CONCESSION INVESTMENTS | OTHER | TOTAL |
| Total assets at beginning of 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 arrangement | – | 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 long-term assets and long-term future income tax asset | 46.4 | 2.7 | 49.1 |
| Total change in assets during the year | 1,357.1 | 855.4 | 2,212.5 |
| Total assets at end of year | $ 2,557.0 | $ 3,682.0 | $ 6,239.0 |

In 2006, total assets increased by $2,212.5 million to $6,239.0 million as at December 31, 2006, from $4,026.5 million as at December 31, 2005.

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

> 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 advancement on the bridge under construction by Okanagan Lake Concession. These increases were partially offset by the disposal 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 equity or cost methods, resulting mainly from the commitment to invest in SKH and from the investment in Gaz Métro in 2006, partially offset by the investment in AltaLink, which was removed from the investments accounted for by the equity method to be fully consolidated upon the acquisition of control, on May 31, 2006.

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).

> 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.

### 8.1.2 TOTAL CURRENT LIABILITIES

Total consolidated current liabilities amounted to $3.2 billion, $3.3 billion and $2.2 billion as at December 31, 2007, 2006 and 2005, respectively. The decrease from 2006 to 2007 was mainly due to i) a decrease in the advance under contract financing arrangement reflecting the completion of most of the EPC contract for the Trans-Canada Highway in New Brunswick (refer to Note 6 of the audited consolidated financial statements), and ii) a decrease in downpayments on contracts and in the current portion of non-recourse long-term debt of Highway 407, partly offset by iii) an increase in accounts payable and accrued charges reflecting the Company's overall higher level of activity. The increase from 2005 to 2006 was primarily a result of the increase in accounts payable and accrued charges, coupled with an increase in the advance under a contract financing arrangement and the current portion of non-recourse debt.

### 8.1.3 TOTAL LONG-TERM LIABILITIES

**VARIATION IN TOTAL LONG-TERM LIABILITIES**

| (IN MILLIONS OF CANADIAN DOLLARS) | | 2007 | |
|---|---|---|---|
| | FROM INFRASTRUCTURE CONCESSION INVESTMENTS | OTHER | TOTAL |
| Total long-term liabilities at beginning of year | **$ 1,725.8** | **$ 242.3** | **$ 1,968.1** |
| Transitional adjustment on adoption of new accounting standards | **(25.8)** | **(0.6)** | **(26.4)** |
| Adjusted total long-term liabilities at beginning of year | **1,700.0** | **241.7** | **1,941.7** |
| Change in long-term liabilities during the year, excluding the transitional adjustment: | | | |
| Long-term debt | | | |
| Recourse | – | **0.1** | **0.1** |
| Non-recourse | **343.0** | **(25.7)** | **317.3** |
| Other long-term liabilities | **7.1** | **68.8** | **75.9** |
| Total change in long-term liabilities during the year, excluding the transitional adjustment | **350.1** | **43.2** | **393.3** |
| Total long-term liabilities at end of year | **$ 2,050.1** | **$ 284.9** | **$ 2,335.0** |

**Total long-term liabilities increased to $2,335.0 million as at December 31, 2007**, compared to $1,968.1 million as at December 31, 2006, mainly due to the increase of non-recourse long-term debt, excluding the current portion, from Highway 407, AltaLink and Okanagan Lake Concession.

**VARIATION IN TOTAL LONG-TERM LIABILITIES**

| (IN MILLIONS OF CANADIAN DOLLARS) | | 2006 | |
|---|---|---|---|
| | FROM INFRASTRUCTURE CONCESSION INVESTMENTS | OTHER | TOTAL |
| Total long-term liabilities at beginning of 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 long-term 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 end of year | $ 1,725.8 | $ 242.3 | $ 1,968.1 |

Total long-term liabilities increased from $997.5 million as at December 31, 2005 to $1,968.1 million as at December 31, 2006, 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 the Okanagan Lake Concession under a non-recourse long-term credit facility.

### 8.1.4 NON-CONTROLLING INTEREST

**Non-controlling interest was $71.3 million as at December 31, 2007**, compared to $65.6 million as at the end of the previous year, which mainly relates to SNC-Lavalin's 76.92% investment in AltaLink.

### 8.1.5 SHAREHOLDERS' EQUITY

**SHAREHOLDERS' EQUITY**

| AT DECEMBER 31 (IN MILLIONS OF CANADIAN DOLLARS) | 2007 | 2006 | 2005 | 2004 | 2003 |
|---|---|---|---|---|---|
| Balance at beginning of year | **$ 906.0** | $ 789.7 | $ 717.8 | $ 658.3 | $ 597.1 |
| Net income | **153.2** | 158.4 | 129.9 | 104.1 | 86.5 |
| Dividends paid to Company's shareholders | **(54.5)** | (42.3) | (32.3) | (26.3) | (20.2) |
| Shares issued under stock option plan | **15.0** | 7.7 | 7.8 | 6.4 | 17.0 |
| Shares redeemed and cancelled | **(48.2)** | (27.1) | (26.0) | (25.0) | (23.9) |
| Transitional adjustment on adoption of new accounting standards | **(54.1)** | – | – | – | – |
| Other | **10.9** | 19.6 | (7.5) | 0.3 | 1.8 |
| Balance at end of year | **$ 928.3** | $ 906.0 | $ 789.7 | $ 717.8 | $ 658.3 |

**Shareholders' equity was $928.3 million as at December 31, 2007**, compared to $906.0 million as at December 31, 2006 and $789.7 million as at December 31, 2005. The increase from 2006 to 2007 was mainly due to i) net income for the year which includes the net gain after taxes of $84.1 million on disposal of SNC TEC, partially offset by ii) dividends paid to Company's shareholders, iii) the recording of a transitional accounting adjustment following the adoption of new accounting standards in 2007 which mainly relates to the effective portion of cash flow hedges as described in section 10 of this report, as well as iv) the repurchase of shares under the normal course issuer bid. The increase from 2005 to 2006 primarily reflects net income for the year, partially offset by dividends paid to the Company's shareholders 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) | 2007 | 2006 |
|---|---|---|
| Cash and cash equivalents | **$ 1,088.6** | $ 1,106.3 |
| Less: | | |
| Cash and cash equivalents of infrastructure concession investments accounted for by the full or proportionate consolidation methods | **20.1** | 21.9 |
| Recourse long-term debt | **104.6** | 104.5 |
| Net cash position | **$ 963.9** | $ 979.9 |

**The December 31, 2007 net cash position of $963.9 million was in line** with the previous year.

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 $600 million** and $500 million **as at December 31, 2007** and 2006, respectively. The increase in the amount of freehold cash was mainly attributable to net cash proceeds after taxes from the disposal of SNC TEC in the first quarter of 2007, partially offset mainly by cash outflow for the acquisition of businesses. The Company's freehold cash is available for making engineering business acquisitions and investments in selective infrastructure concessions.

## 8.3 CASH FLOWS ANALYSIS

**SUMMARY OF CASH FLOWS**

| YEAR ENDED DECEMBER 31 (IN MILLIONS OF CANADIAN DOLLARS) | 2007 | 2006 |
|---|---|---|
| Operating activities | **$ 462.9** | $ (60.1) |
| Investing activities | **(548.9)** | (286.4) |
| Financing activities | **(265.8)** | 299.3 |
| Net decrease in cash and cash equivalents | **(351.8)** | (47.2) |
| Cash generated from discontinued operations | **334.1** | – |
| Cash and cash equivalents at beginning of year | **1,106.3** | 1,153.5 |
| Cash and cash equivalents at end of year | **$ 1,088.6** | $ 1,106.3 |

**Cash and cash equivalents amounted to $1,088.6 million as at December 31, 2007**, compared to $1,106.3 million as at December 31, 2006.

### 8.3.1 CASH GENERATED FROM (USED FOR) OPERATING ACTIVITIES

**Cash generated from operating activities totalled $462.9 million in 2007**, compared to cash used of $60.1 million in 2006, mainly due to:

> The decrease in contract in progress subject to contract financing arrangement relating to the EPC contract for some sections of the Trans-Canada Highway in New Brunswick, Canada, totalling $319.1 million in 2007, compared to an increase of $227.6 million in 2006.

> The fluctuation in non-cash working capital items other than the contract in progress subject to contract financing arrangement reflecting cash generated from the change in non-cash working capital of $31.0 million in 2007, compared to cash used of $98.3 million in 2006 reflecting working capital requirements mainly on certain Packages projects.

### 8.3.2 CASH USED FOR INVESTING ACTIVITIES

**Cash used for investing activities was $548.9 million in 2007**, compared to $286.4 million in 2006.

**2007 major investing activities were as follows:**

> The cash outflow of $75.0 million reflects payments for infrastructure concession investments, as detailed in Note 2E to the audited consolidated financial statements.

> The acquisition of engineering businesses for a total cash outflow of $160.5 million.

> The acquisition of property and equipment from fully consolidated and proportionally consolidated infrastructure concession investments, mainly AltaLink, Okanagan Lake Concession and Highway 407, for a total cash outflow of approximately $308.6 million.

> The acquisition of property and equipment for Services, Packages, and Operations and Maintenance activities for a total cash outflow of approximately $41.2 million, compared to depreciation of property and equipment and amortization of other long-term assets from these activities of $35.7 million. Approximately 57% of the acquisitions of property and equipment from these activities were related to information technology in 2007 and 2006.

**2006 major investing activities were as follows:**

> The $156.8 million used for the acquisition of additional participation in Altalink and payments for infrastructure concession investments, as detailed in Note 2E 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, mainly from 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, compared to depreciation of property and equipment and amortization of other long-term 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.

### 8.3.3 CASH GENERATED FROM (USED FOR) FINANCING ACTIVITIES

**Cash used for financing activities was $265.8 million in 2007**, compared to cash generated of $299.3 million in 2006. The major financing activities were as follows:

- > The repayment of advances totalling $341.1 million in 2007, compared to advances received of $232.3 million in 2006, under a contract financing arrangement, related to the EPC contract for 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 $334.9 million in 2007, compared to $247.6 million in 2006, while the repayment of non-recourse long-term debt from infrastructure concession investments amounted to $150.0 million in 2007, compared to $108.1 million in 2006.
- > Under its normal course issuer bid, the Company repurchased shares for a total amount of $48.2 million in 2007 (1,227,000 shares at an average price of $39.32), compared to $27.1 million in 2006 (952,300 shares at an average price of $28.51). **The Company expects to be as active in repurchasing its shares in 2008.** The Company, as a general practice, repurchases its common shares under its normal course issuer bid to at least offset the dilutive effect of stock issuance under its stock options program.
- > Dividends paid to the Company's shareholders amounted to $54.5 million in 2007, compared to $42.3 million in 2006, reflecting an increase in dividends per share.
- > The issuance of shares pursuant to the exercise of stock options generated $15.0 million in cash in 2007 (1,231,930 stock options at an average price of $12.21), compared to $7.7 million in 2006 (702,800 stock options at an average price of $10.94). As at December 31, 2007, there were 4,036,670 stock options outstanding with exercise prices varying from $10.02 to $42.36 per common shares. 150,913,173 shares are issued and outstanding as at February 27, 2008.

### 8.3.4 CASH GENERATED FROM DISCONTINUED OPERATIONS

The Company has presented net proceeds from the disposal of SNC TEC of $334.1 million, net of transaction costs of $2.5 million, on its consolidated statement of cash flows as a separate line item "Cash generated from discontinued operations" to distinguish it from continuing operations. The cash proceeds were received in January 2007. The year-end cash and cash equivalents of SNC TEC at December 31, 2006 have been aggregated as part of "Assets of discontinued operations", as shown on the Company's consolidated balance sheet.

## 8.4 WORKING CAPITAL

**WORKING CAPITAL**

| AT DECEMBER 31<br>(IN MILLIONS OF CANADIAN DOLLARS, EXCEPT CURRENT RATIO) | 2007 | 2006 |
|---|---|---|
| Current assets | **$ 3,421.0** | $ 3,599.7 |
| Current liabilities | **3,150.8** | 3,299.4 |
| Working Capital | **$ 270.2** | $ 300.3 |
| Current Ratio | **1.09** | 1.09 |

**Working capital was $270.2 million (current ratio of 1.09) as at December 31, 2007**, in line with the previous year.

## 8.5 RECOURSE DEBT AND NON-RECOURSE DEBT

### 8.5.1 RECOURSE REVOLVING CREDIT FACILITIES

**The Company has access to $477.5 million of long-term revolving lines of credit.** As at December 31, 2007, $443.9 million of the Company's credit lines remained unused, while the balance of $33.6 million was exclusively used for the issuance of letters of credit. In addition, the Company has other lines of credit specifically for letters of credit. Letters of credit are provided, under certain circumstances, as collateral for the fulfillment of contractual obligations, including guarantees for performance, advance payments, contractual holdbacks and bid bonds. Certain letters of credit decrease in relation to the percentage of completion of projects. Historically, SNC-Lavalin has fulfilled the necessary contractual obligations thereby obtaining release of such letters of credit upon project completion.

### 8.5.2 RECOURSE DEBENTURES—CREDIT RATINGS

On July 10, 2007, **Standard & Poor's** reconfirmed SNC-Lavalin Group's rating of **BBB+ with a stable outlook**. On January 31, 2007 and January 22, 2008, **DBRS** reconfirmed its rating for the Company's debenture of **BBB (high) with a stable trend**.

### 8.5.3 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, 2007 and 2006, **the Company's recourse debt-to-capital ratio was 10:90**, well below the Company's objective of not surpassing a ratio of 30:70.

### 8.5.4 NON-RECOURSE DEBT

SNC-Lavalin does not consider non-recourse debt when monitoring its capital because such debt results from the consolidation or proportionate consolidation of certain infrastructure concession investments held by the Company. As such, lenders of such debt do not have recourse to the general credit of the Company, but rather to the specific assets of the infrastructure concession investments.

## 8.6 CONTRACTUAL OBLIGATIONS AND FINANCIAL INSTRUMENTS

### 8.6.1 CONTRACTUAL OBLIGATIONS

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

| (IN MILLIONS OF CANADIAN DOLLARS) | 2008 | 2009-2010 | 2011-2012 | THEREAFTER | TOTAL |
|---|---|---|---|---|---|
| Long-term debt repayments: (1) | | | | | |
| Recourse | $ – | $ 105.0 | $ – | $ – | $ 105.0 |
| Non-recourse | 31.1 | 391.0 | 292.7 | 1,312.0 | 2,026.8 |
| Commitments to invest in Infrastructure Concession Investments (2) | 21.2 | 78.2 | – | – | 99.4 |
| Rental obligations (3) | 60.4 | 93.5 | 52.2 | 52.8 | 258.9 |
| Total | $ 112.7 | $ 667.7 | $ 344.9 | $ 1,364.8 | $ 2,490.1 |

(1) refer to Note 10 of the audited consolidated financial statements.

(2) refer to Note 2E of the audited consolidated financial statements.

(3) refer to Note 20 of the audited consolidated financial statements.

### 8.6.2 FINANCIAL INSTRUMENTS

SNC-Lavalin enters into forward exchange contracts to hedge its exposure to fluctuations in foreign currency exchange rates on revenue-generating projects and into interest-rate swaps and bond forwards to hedge the variability of interest rates relating to financing arrangements (refer to Note 17 to the audited consolidated financial statements). Also, the Company has a financial arrangement with an investment grade financial institution to limit its exposure to the variability of the Performance Share Unit ("PSU") plan caused by fluctuations in its share price (refer to Note 12C 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 hold or issue any derivative instruments for speculative purposes. The derivative financial instruments are subject to normal credit terms and conditions, financial controls and management and risk monitoring procedures.

### 8.7 DIVIDENDS DECLARED

Based on the Company's positive outlook, the Board of Directors has decided to **increase the quarterly dividend paid to shareholders, from $0.09 per share to $0.12 per share for the fourth quarter of 2007**, resulting in total cash dividends declared of $0.39 per share in 2007. The table below summarizes the dividends declared for each of the past five years:

**DIVIDENDS DECLARED**

| YEAR ENDED DECEMBER 31 (IN CANADIAN DOLLARS) | 2007 | 2006 | 2005 | 2004 | 2003 |
|---|---|---|---|---|---|
| Dividends per share declared to Company's shareholders | **$ 0.39** | $ 0.30 | $ 0.23 | $ 0.18 | $ 0.14 |
| Growth in % | **30%** | 30% | 28% | 29% | 17% |

### 8.8 MARKET INDICES

SNC-Lavalin is listed on the Toronto Stock Exchange and is included in the S&P/TSX Composite Index, which is the principal broad market measure for the Canadian equity markets. In addition, the Company's stock was recently added to the following two S&P/TSX indices:

> On February 1, 2008, the Company was added to the **S&P/TSX 60 Index**. Within the S&P/TSX Composite Index, the S&P/TSX 60 is comprised of 60 large Canadian publicly traded companies with a view to matching the sector balance of the S&P/TSX Composite Index.

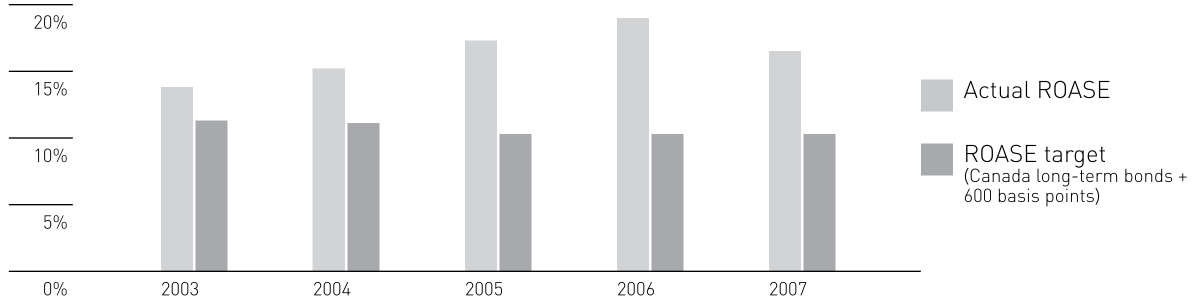
> On December 14, 2007, the Company was added to the **S&P/TSX Canadian Dividend Aristocrats Index**, an index designed to measure the performance of S&P/Citigroup Canada Broad Market Index constituents, which have consistently increased dividends annually for at least seven years. The index consists of 37 stocks and tracks Canada's most consistent dividend-raisers. The Company's stable and increasing dividends signal that management has confidence in the Company's strength and growth.

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

ROASE is a key performance indicator used to measure the Company's return on equity. ROASE, as calculated by the Company, corresponds to the trailing 12-month after-tax earnings, divided by a trailing 13-month average shareholders' equity, excluding "accumulated other comprehensive income (loss)".

The Company excludes accumulated other comprehensive income (loss) because it results mainly from the accounting treatment of cash flow hedges, which is not seen as having an impact on the Company's financial strength but is rather a reflection of a method used by the Company to manage its foreign exchange risks.

**ROASE was 16.5% in 2007**, compared to 19.0% in 2006, which are both higher than the Company's objective of long-term Canada Bond Yield plus 600 basis points (i.e., totalling 10.32% in 2007 and 10.27% in 2006). The graph below illustrates that the Company generated ROASE above 13.8% over the past five years, surpassing its target by at least 200 basis points each year. The Company strives to position itself to achieve a consistently high ROASE while maintaining a strong balance sheet, which it has achieved over the last years.



## 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. Revenues from Operations and Maintenance activities are derived primarily from cost reimbursable with a fixed-fee contracts and fixed-price contracts.

#### SERVICES AND PACKAGES ACTIVITIES

On **cost-plus reimbursable contracts**, revenues are recognized as costs are incurred, and include applicable fees earned as services are provided. Revenue recognition for cost-plus reimbursable contracts does not usually involve significant estimates.

On **fixed-price contracts**, revenues are recorded on the percentage-of-completion basis 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.

i) The determination of **anticipated costs** for completing a contract is based on estimates that can be affected by a variety of factors such as potential variances in scheduling and cost of materials along with the availability and cost of qualified labour and subcontractors, as well as productivity.

ii) The determination of **anticipated revenues** includes the contractually agreed revenue and may also involve estimates mainly related to unapproved change orders, and claims to the extent it is considered probable that such items will result in revenue and are capable of being reliably measured. A change order results from a change to the scope of the work being performed compared with the original contract that was signed. An example of such contract variation could be a change in the specifications or design of the project, whereby costs related to such variation might be incurred prior to the client's formal contract amendment signature. A claim represents an amount expected to be collected from the client or a third-party as reimbursement for costs incurred that are not part of the original contract. In both cases, management's judgment is required in determining the probability that additional revenue will be recovered from these variations and in determining the measurement of the amount to be recovered.

Estimates used to determine revenues and costs of fixed-price contracts involve uncertainties that ultimately depend on the outcome of future events and are periodically revised as projects progress. The cumulative effect of changes to anticipated revenues and anticipated costs for completing a contract are recognized in the period in which the revisions are identified. In the event that the anticipated costs exceed the anticipated revenue on a contract, such loss is recognized in its entirety in the period it becomes known.

The determination of estimates is based on SNC-Lavalin's business practices as well as its historical experience. Furthermore, management regularly reviews underlying estimates of project profitability.

#### OPERATIONS AND MAINTENANCE ACTIVITIES

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. The recognition of revenue based on the stage of completion involves estimates similar to those used under the percentage of completion basis for fixed-price Packages activities.

## 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, 2007 and 2006, 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 events or changes in 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 2007 and 2006.

## 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 18 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. Such 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. Also estimates are required to determine the expected timing upon which tax assets will be realized and upon which tax liabilities will be settled, and the enacted or substantially enacted tax rates that will apply at such time.

## 10. ACCOUNTING CHANGES

### INITIAL ADOPTION IN 2007

The Company's audited consolidated financial statements of 2007 reflect the impact of adopting the new Canadian Institute of Chartered Accountants ("CICA") Handbook Sections: 3855 "Financial Instruments—Recognition and Measurement", 3861 "Financial Instruments—Disclosure and Presentation", 3865 "Hedges", and 1530 "Comprehensive income". The changes and the impact of these changes on the Company's consolidated financial statements are described in Note 1T to the audited consolidated financial statements of 2007. Accordingly, the adoption of these new standards, which was made without restatement of the comparative figures, resulted in the recognition of a transitional adjustment in retained earnings and "accumulated other comprehensive income (loss)". This transitional adjustment represents the cumulative effect of adjustments relating to prior periods and can be summarized as follows:

- $0.8 million increase in the opening balance of retained earnings, resulting mainly from the measurement of recourse and non-recourse long-term debt that are all classified as "other financial liabilities", at amortized cost using the effective interest method; and
- $54.9 million decrease in "accumulated other comprehensive income", reflecting the $51.3 million after-tax effective portion of cash flow hedges and the $3.6 million after-tax revaluation of available-for-sale financial assets.

The adoption of the new accounting standards also required the following adjustments to the Company's balance sheet as at January 1, 2007:

- increases in cash and cash equivalents of $4.9 million, in accounts receivable of $2.5 million, in future income tax asset of $4.8 million for the current portion and $10.8 million for the long-term portion, and in accounts payable and accrued charges of $42.3 million;
- decreases in infrastructure concession investments of $15.8 million, in other long-term assets of $53.4 million, in non-recourse long-term debt of $23.0 million, in other long-term liabilities of $3.3 million, and in non-controlling interest of $7.0 million; and
- certain adjustments to other balance sheet accounts that were not material.

### FUTURE CHANGES TO ACCOUNTING STANDARDS

The CICA has issued the following new Handbook Sections, which will become effective on January 1, 2008 for SNC-Lavalin:

- section 3862, "Financial Instruments—Disclosures";
- section 3863, "Financial Instruments—Presentation"; and
- section 1535, "Capital disclosures".

Section 3862 modifies the **disclosure requirements** of Section 3861 "Financial Instruments – Disclosure and Presentation", including required disclosure regarding the assessment of the significance of financial instruments on an entity's financial position and performance and the extent of risks arising from financial instruments to which the Company is exposed and how the Company manages those risks. The Company is currently evaluating the impact of the adoption of Section 3862 on the consolidated financial statements. Section 3863 carries forward the **presentation requirements** of the existing Section 3861 and as such, the Company does not expect the adoption of 3863 to have a significant effect on the consolidated financial statements.

Section 1535 establishes standards for disclosing information about an entity's capital and how it is managed. The entity's disclosure should include information about its objectives, policies and processes for managing capital and disclosure regarding whether or not it has complied and the consequences of non-compliance with any capital requirements to which it is subject. The Company is currently evaluating the impact of the adoption of this new section on the consolidated financial statements.

### ADOPTION OF INTERNATIONAL FINANCIAL REPORTING STANDARDS IN CANADA

In 2006, the Canadian Accounting Standards Board ("AcSB") adopted its Strategic Plan, which includes the decision to move financial reporting for Canadian publicly accountable enterprises to the International Financial Reporting Standards ("IFRSs"), as issued by the International Accounting Standards Board ("IASB"). Under the AcSB's plan, this new framework will be effective for fiscal years beginning on or after January 1, 2011. Information regarding the entreprise's plan for convergence and the anticipated effects is to be disclosed prior to the adoption, with the first disclosure by SNC-Lavalin expected to be made in the consolidated financial statements for the year ended December 31, 2008.

## 11. RISKS AND UNCERTAINTIES

While management is positive about SNC-Lavalin's long term outlook, the Company is subject to a number of risks and uncertainties in carrying-out its activities. The Company has adopted various strategies, policies and practices to mitigate its risks and uncertainties. The Company's principal risks and uncertainties are described below.

### CONTRACTUAL ARRANGEMENTS

#### 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.

Prior to submitting a proposal for a fixed price project that exceeds a certain revenue threshold and/or contains elements considered to have a high or unusual risk, the proposal must be reviewed and analyzed by a Risk Evaluation Committee ("REC"). The REC is composed of managers with appropriate expertise who are responsible for recommending a course of action to senior management in respect of the project under consideration. In addition, proposals for projects exceeding a certain threshold must also be reviewed by the Company's Bid and Investment Approval Committee ("BIAC"). The BIAC is composed of senior executives and, under certain circumstances, is expanded to add members of the Company's Board of Directors when certain levels are reached or under specific circumstances. The BIAC also reviews proposed acquisitions or dispositions of businesses and Infrastructure Concession Investments.

#### SERVICES, PACKAGES, AND OPERATIONS AND MAINTENANCE

SNC-Lavalin's continued commitment to sound risk management practices when 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 over 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, being selective when choosing partners, subcontractors and suppliers 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.

#### INFRASTRUCTURE CONCESSION INVESTMENTS

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

When investing in infrastructure concessions, the Company structures such transactions with debt financing that is non-recourse to the general credit of the Company. Erosion of the Company's investment value in concessions, which is dependent on the ability of the concession to attain its revenue 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 modeling performed in-house, coupled with independent third party modeling review.

> Review by independent third party consultants of financial projections and forecasts performed in-house.

### COST OVERRUNS

SNC-Lavalin benefits from cost savings, but bears the risk for cost overruns from 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, productivity, performance of our people and of subcontractors or equipment suppliers, price, availability of labour, equipment and materials and other requirements that may affect project costs or schedule, such as obtaining the required environmental permits and approvals on a timely basis. 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 arise.

### PROJECT PERFORMANCE

In certain instances, SNC-Lavalin may guarantee a client to complete a project by a scheduled date or a facility to achieve certain performance standards. As such, SNC-Lavalin may incur additional costs, should the project or facility subsequently fail to meet the scheduled or performance standards.

### ABILITY TO ATTRACT AND RETAIN QUALIFIED PERSONNEL

The success of SNC-Lavalin ultimately depends on its workforce, and the 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.

### JOINT VENTURE PARTNERS

SNC-Lavalin undertakes certain contracts with joint venture partners. The success of its joint ventures relies on the satisfactory performance of SNC-Lavalin's joint venture partners in 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 as Packages activities 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 impacted. 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.

## FOREIGN CURRENCY RISK

The significant effect of the Company's activities outside Canada 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. The 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 contractually agreed payment terms. SNC-Lavalin's capability 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 revenues base, and their dispersion across different business and geographic areas.

The Company's objective is to ensure collection of its accounts receivable on a timely basis and, as such, applies the allocation of internal imputed interest to align the objectives of its managers with the Company's 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 accordingly impacts the profitability of projects, which is used to determine managers' compensation.

## INFORMATION MANAGEMENT

Information is critical to SNC-Lavalin's success. The integrity, reliability and security of information in all forms are critical to the Company's daily and strategic operations. Inaccurate, incomplete or unavailable information and/or inappropriate access to information could lead to incorrect financial and/or operational reporting, poor decisions, privacy breaches and/or inappropriate disclosure or leaking of sensitive information. The development of policies and procedures pertaining to security access, system development and change management is implemented with a view to enhance and standardize the controls to manage the information management risk. Recognizing the value of information, the Company is committed to managing and protecting it wisely, responsibly and cost effectively. SNC-Lavalin maintains accounting systems and internal controls over financial reporting which, in the opinion of management, provides reasonable assurance regarding the accuracy, relevance and reliability of financial information.

## 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 the international economic and political conditions.

## 12. QUARTERLY INFORMATION

| (IN MILLIONS OF CANADIAN DOLLARS, UNLESS OTHERWISE INDICATED) | 2007 | | | | |
|---|---|---|---|---|---|
| | FIRST QUARTER | SECOND QUARTER | THIRD QUARTER | FOURTH QUARTER | ANNUAL |
| Revenues | $ 1,268.2 | $ 1,686.6 | $ 1,785.3 | $ 1,991.4 | $ 6,731.5 |
| Net income (loss) | | | | | |
| From continuing operations | $ (103.9) | $ 41.1 | $ 63.2 | $ 68.7 | $ 69.1 |
| From discontinued operations | 84.1 | – | – | – | 84.1 |
| | $ (19.8) | $ 41.1 | $ 63.2 | $ 68.7 | $ 153.2 |
| Basic earnings (loss) per share ($) | | | | | |
| From continuing operations | $ (0.69) | $ 0.27 | $ 0.42 | $ 0.45 | $ 0.46 |
| From discontinued operations | 0.56 | – | – | – | 0.55 |
| | $ (0.13) | $ 0.27 | $ 0.42 | $ 0.45 | $ 1.01 |
| Diluted earnings (loss) per share ($) | | | | | |
| From continuing operations | $ (0.69) | $ 0.27 | $ 0.41 | $ 0.45 | $ 0.45 |
| From discontinued operations | 0.56 | – | – | – | 0.55 |
| | $ (0.13) | $ 0.27 | $ 0.41 | $ 0.45 | $ 1.00 |
| Dividend declared per share ($) | $ 0.09 | $ 0.09 | $ 0.09 | $ 0.12 | $ 0.39 |

| (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 |

### FOURTH QUARTER RESULTS

**Net income totalled $68.7 million for the fourth quarter 2007**, compared to $50.7 million for the corresponding period last year. This 36% increase in year over year fourth quarter net income reflects higher contributions mainly from the Chemicals and Petroleum, Infrastructure and Environment, and Mining and Metallurgy segments, partially offset by a loss in the Power segment, which includes additional costs estimated to complete the Goreway thermal power plant project. The $6.1 million net income from discontinued operations in the fourth quarter of 2006 represents the results of SNC TEC's operations, which were disposed in January 2007.

**Revenues for the fourth quarter of 2007 were $1,991.4 million**, up from $1,665.7 million for the same quarter last year. The increase was mainly due to higher activities in the Chemicals and Petroleum, Mining and Metallurgy, and Operations and Maintenance segments.

**The Company's backlog totalled $10.6 billion as at December 31, 2007**, compared to $9.8 billion as at the end of the third quarter of 2007, reflecting an increase in the Operations and Maintenance, Services, and Packages categories.

At the end of December 2007, the Company's **cash and cash equivalents were $1,088.6 million**, down from $1,133.4 million at the end of September 2007, reflecting mainly cash used in financing and investing activities, partly offset by cash generated from operating 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, 2007, 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.

Date: March 6, 2008

# 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

**JACQUES LAMARRE**
PRESIDENT AND
CHIEF EXECUTIVE OFFICER

Gilles Laramée

**GILLES LARAMÉE**
EXECUTIVE VICE-PRESIDENT AND
CHIEF FINANCIAL OFFICER

Montreal, Canada
February 27, 2008

# 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, 2007 and 2006 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, 2007 and 2006 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 27, 2008

# CONSOLIDATED STATEMENTS OF INCOME

| YEAR ENDED DECEMBER 31<br>(IN THOUSANDS OF CANADIAN DOLLARS, EXCEPT EARNINGS PER SHARE) | 2007 | 2006 |
|---|---|---|
| Revenues | **$ 6,731,464** | $ 5,150,406 |
| Gross margin | **$ 567,212** | $ 537,972 |
| Administrative, marketing and other expenses | **392,775** | 285,650 |
| Interest and capital taxes (Note 14) | **72,512** | 53,301 |
| Income from continuing operations before income taxes and non-controlling interest | **101,925** | 199,021 |
| Income taxes (Note 16) | **23,650** | 55,081 |
| Non-controlling interest | **9,159** | 7,375 |
| Net income from continuing operations | **69,116** | 136,565 |
| Net income from discontinued operations (Note 4) | **84,086** | 21,807 |
| Net income | **$ 153,202** | $ 158,372 |
| Earnings per share from continuing operations ($) (Note 12E) | | |
| Basic | **$ 0.46** | $ 0.90 |
| Diluted | **$ 0.45** | $ 0.89 |
| Earnings per share ($) (Note 12E) | | |
| Basic | **$ 1.01** | $ 1.05 |
| Diluted | **$ 1.00** | $ 1.04 |

See accompanying notes to consolidated financial statements.

SNC-LAVALIN GROUP INC.

# CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY

YEAR ENDED DECEMBER 31
(IN THOUSANDS OF CANADIAN DOLLARS, EXCEPT COMMON SHARES) 2007

| | SHARE CAPITAL | | | | | |
|---|---|---|---|---|---|---|
| | COMMON SHARES (IN THOUSANDS) | AMOUNT | CONTRIBUTED SURPLUS | ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS) (NOTE 13) | RETAINED EARNINGS | TOTAL SHAREHOLDERS' EQUITY |
| **Balance at beginning of year** | **151,033** | **$ 352,769** | **$ 13,249** | **$ 2,860** | **$ 537,078** | **$ 905,956** |
| Transitional adjustment on adoption of new accounting standards (Note 1T) | – | – | – | **(54,887)** | **775** | **(54,112)** |
| **Adjusted balance at beginning of year** | **151,033** | **352,769** | **13,249** | **(52,027)** | **537,853** | **851,844** |
| Comprehensive income: | | | | | | |
| Net income | – | – | – | – | **153,202** | **153,202** |
| Currency translation adjustment | – | – | – | **(19,839)** | – | **(19,839)** |
| Net unrealized gain on available-for-sale financial assets (net of income taxes of $nil) | – | – | – | **658** | – | **658** |
| Net unrealized gain on derivative financial instruments designated as cash flow hedges (net of income taxes of $4.4 million) | – | – | – | **22,250** | – | **22,250** |
| Total comprehensive income | | | | | | **156,271** |
| Dividends paid to Company's shareholders | – | – | – | – | **(54,455)** | **(54,455)** |
| Stock option compensation (Note 12B) | – | – | **7,828** | – | – | **7,828** |
| Shares issued under stock option plan (Note 12B) | **1,232** | **17,485** | **(2,443)** | – | – | **15,042** |
| Shares redeemed and cancelled (Note 12D) | **(1,227)** | **(2,981)** | – | – | **(45,260)** | **(48,241)** |
| **Balance at end of year** | **151,038** | **$ 367,273** | **$ 18,634** | **$ (48,958)** | **$ 591,340** | **$ 928,289** |

YEAR ENDED DECEMBER 31
(IN THOUSANDS OF CANADIAN DOLLARS, EXCEPT COMMON SHARES) 2006

| | SHARE CAPITAL | | | | | |
|---|---|---|---|---|---|---|
| | COMMON SHARES (IN THOUSANDS) | 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 paid to Company's shareholders | – | – | – | – | (42,294) | (42,294) |
| Stock option compensation (Note 12B) | – | – | 7,621 | – | – | 7,621 |
| Shares issued under stock option plan (Note 12B) | 703 | 9,114 | (1,427) | – | – | 7,687 |
| Shares redeemed and cancelled (Note 12D) | (952) | (2,224) | – | – | (24,925) | (27,149) |
| **Balance at end of year** | 151,033 | $ 352,769 | $ 13,249 | $ 2,860 | $ 537,078 | $ 905,956 |

See accompanying notes to consolidated financial statements.

# CONSOLIDATED BALANCE SHEETS

| AT DECEMBER 31<br>(IN THOUSANDS OF CANADIAN DOLLARS) | 2007 | 2006 |
|---|---|---|
| **Assets** | | |
| Current | | |
| Cash and cash equivalents | **$ 1,088,616** | $ 1,106,265 |
| Restricted cash | **107,905** | 134,692 |
| Accounts receivable | **1,519,177** | 1,124,841 |
| Contracts in progress | **630,672** | 640,777 |
| Contract in progress subject to contract financing arrangement (Note 6) | **10,939** | 330,088 |
| Future income tax asset (Note 16) | **63,712** | 12,752 |
| Assets of discontinued operations (Note 4) | **–** | 250,286 |
| **Total current assets** | **3,421,021** | 3,599,701 |
| Property and equipment (Note 7): | | |
| From infrastructure concession investments (Note 2A) | **1,640,663** | 1,439,285 |
| Other | **111,990** | 94,287 |
| Goodwill (Note 8) | **481,521** | 328,030 |
| Infrastructure concession investments accounted for by the equity or cost methods (Note 2A) | **370,819** | 321,110 |
| Future income tax asset (Note 16) | **98,128** | 30,840 |
| Other long-term assets (Note 9) | **361,244** | 425,734 |
| **Total assets** | **$ 6,485,386** | $ 6,238,987 |
| **Liabilities** | | |
| Current | | |
| Accounts payable and accrued charges | **$ 2,127,482** | $ 1,588,158 |
| Downpayments on contracts | **336,692** | 541,437 |
| Deferred revenues | **643,068** | 612,065 |
| Advance under contract financing arrangement (Note 6) | **13,152** | 334,510 |
| Current portion of non-recourse long-term debt (Note 10) | **30,424** | 153,485 |
| Liabilities of discontinued operations (Note 4) | **–** | 69,708 |
| **Total current liabilities** | **3,150,818** | 3,299,363 |
| Long-term debt (Note 10): | | |
| Recourse | **104,557** | 104,532 |
| Non-recourse: | | |
| From infrastructure concession investments (Note 2A) | **1,970,991** | 1,650,448 |
| Other | **–** | 26,236 |
| Other long-term liabilities (Note 11) | **259,439** | 186,885 |
| **Total liabilities** | **5,485,805** | 5,267,464 |
| **Non-controlling interest** | **71,292** | 65,567 |
| **Shareholders' equity** | **928,289** | 905,956 |
| **Total liabilities, non-controlling interest and shareholders' equity** | **$ 6,485,386** | $ 6,238,987 |

See accompanying notes to consolidated financial statements.

Approved by, on behalf of the Board of Directors:

**JACQUES LAMARRE**
DIRECTOR

**CLAUDE MONGEAU**
DIRECTOR

# CONSOLIDATED STATEMENTS OF CASH FLOWS

| YEAR ENDED DECEMBER 31<br>(IN THOUSANDS OF CANADIAN DOLLARS) | 2007 | 2006 |
|---|---|---|
| **Operating activities from continuing operations** | | |
| Net income from continuing operations | **$ 69,116** | $ 136,565 |
| Items not involving a movement of cash: | | |
| Depreciation of property and equipment and amortization of other long-term assets: | | |
| From infrastructure concession investments | **76,945** | 52,351 |
| Other | **35,682** | 28,942 |
| Future income taxes | **(120,173)** | (6,323) |
| Accrued interest expense on non-recourse long-term debt and on advance under contract financing arrangement | **33,477** | 16,181 |
| Stock option compensation (Note 12B) | **7,828** | 7,621 |
| Loss (income) from infrastructure concession investments accounted for by the equity method | **2,610** | (3,619) |
| Loss from disposal of an infrastructure concession investment (Note 2D) | **–** | 4,590 |
| Non-controlling interest | **9,159** | 7,375 |
| Other | **(2,697)** | 17,572 |
| Dividends received from infrastructure concession investments accounted for by the equity method | **818** | 4,491 |
| | **112,765** | 265,746 |
| Net change in non-cash working capital items (Note 15A): | | |
| Decrease (increase) in contract in progress subject to contract financing arrangement (Note 6) | **319,149** | (227,572) |
| Other | **31,000** | (98,271) |
| | **462,914** | (60,097) |
| **Investing activities from continuing operations** | | |
| Acquisition of property and equipment: | | |
| From infrastructure concession investments | **(308,628)** | (182,463) |
| Other | **(41,164)** | (37,706) |
| Acquisition of additional participation and payments for infrastructure concession investments (Note 2E) | **(74,960)** | (156,819) |
| Acquisition of businesses (Note 3) | **(160,501)** | (10,039) |
| Proceeds from disposal of an infrastructure concession investment (Note 2D) | **–** | 66,933 |
| Change in restricted cash position | **17,861** | 1,758 |
| Other | **18,471** | 31,919 |
| | **(548,921)** | (286,417) |
| **Financing activities from continuing operations** | | |
| Repayment of non-recourse long-term debt: | | |
| From infrastructure concession investments | **(149,966)** | (108,050) |
| Other | **(1,260)** | (1,074) |
| Increase in non-recourse long-term debt from infrastructure concession investments | **334,893** | 247,620 |
| Advance (repayment of advance) under contract financing arrangement (Note 6) | **(341,077)** | 232,286 |
| Proceeds from exercise of stock options | **15,042** | 7,687 |
| Redemption of shares (Note 12D) | **(48,241)** | (27,149) |
| Dividends paid to Company's shareholders | **(54,455)** | (42,294) |
| Other | **(20,714)** | (9,768) |
| | **(265,778)** | 299,258 |
| **Net decrease in cash and cash equivalents from continuing operations** | **(351,785)** | (47,256) |
| **Cash generated from discontinued operations** (Note 4) | **334,136** | – |
| **Cash and cash equivalents at beginning of year** | **1,106,265** | 1,153,521 |
| **Cash and cash equivalents at end of year** | **$ 1,088,616** | $ 1,106,265 |

Supplementary cash flow information (Note 15)

See accompanying notes to consolidated financial statements.

# NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2007 AND 2006
(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 across Canada and in 35 other countries, and is currently active on projects in some 100 countries. SNC-Lavalin also makes selective investments in infrastructure concessions that are complementary to its 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, procurement management, construction management and commissioning. Services revenues are derived primarily from cost-plus reimbursable contracts.

> **Packages:** includes contracts in which SNC-Lavalin, in addition to providing one or more of the Services activities listed above, acts as principal when undertaking procurement and/or construction activities. Packages revenues are derived primarily from fixed-price 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, broadcasting facilities, highways, light rail transit systems, military camps and ships. Operations and Maintenance revenues are derived primarily from cost reimbursable with a fixed-fee contracts 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 distinct advantage.

### B) BASIS OF PRESENTATION AND USE OF ESTIMATES

The consolidated financial statements of the Company are prepared in accordance with Canadian generally accepted accounting principles ("GAAP"). The preparation of the Company's financial statements in conformity with Canadian 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 accompanying 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, most notably the determination of appropriate anticipated costs and revenues on fixed-price contracts, as well as items such as claims and change orders, and estimates related to asset impairment, pension plans and income taxes.

### 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.

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

### D) 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 "Accumulated other comprehensive income (loss)" ("Cumulative Currency Translation Adjustment" prior to January 1, 2007, as explained under Note 1T), which has no impact on the consolidated statements of income until the Company reduces its net equity investments in these foreign operations.

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.

### E) REVENUE RECOGNITION

#### E.1) 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, which are mainly as follows:

> **Services and Packages activities: Cost-plus reimbursable contract** revenues are recognized as costs are incurred, and include applicable fees earned as services are provided. **Fixed-price contract** 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.

> **Operations and Maintenance activities:** Fixed-fee revenues from **cost reimbursable with a fixed-fee contracts** are recognized on a straight-line basis over the term of the contract. Revenues on **fixed-price 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 from all revenue categories, 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. In the event that the anticipated costs exceed the anticipated revenue on a contract, such loss is recognized in its entirety in the period it becomes 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 and it is considered probable that they will be recovered. Such estimated revenues are limited to the costs on the related claims or unapproved change orders.

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 that are recognized and reported by infrastructure concession investments which are accounted for by the full consolidation method.

> SNC-Lavalin's share of revenues that are generated and reported by infrastructure concession investments which are 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 and distributions from infrastructure concession investments accounted for by the cost method.

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

#### E.2) 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.

### F) CASH EQUIVALENTS

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

### G) 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 restricted for specific purposes under certain arrangements, mainly from financing agreements. Restricted cash that is not expected to become unrestricted within the next twelve months is included in "Other long-term assets" (see Note 9).

### H) CONTRACTS IN PROGRESS

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

### I) 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.1) 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 ownership of the Okanagan Lake Concession, is not depreciated until it is ready for its intended use. The bridge will then be amortized on a straight-line basis over the duration of the concession agreement, which is approximately 27 years.

#### I.2) 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%.

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

### J) 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.

### K) 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.

### L) CONCESSION RIGHT

Concession right relates to SNC-Lavalin's investment in the Highway 407 concession. The concession right is included in "Other long-term 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.

### 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 substantively 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 long-term 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 Canadian 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.

## 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 measurement date and charges this amount to income as a compensation cost over the shorter of the vesting period of the stock options or the term over which an employee becomes eligible to retire.

## T) RECENT CHANGES IN ACCOUNTING STANDARDS

Effective January 1, 2007, SNC-Lavalin adopted the new Canadian Institute of Chartered Accountants ("CICA") Handbook Sections: i) 3855 "Financial Instruments – Recognition and Measurement", ii) 3861 "Financial Instruments – Disclosure and Presentation", iii) 3865 "Hedges", and iv) 1530 "Comprehensive income". These new accounting standards provide guidance on the accounting for financial instruments and hedges, as well as on their presentation and disclosures, and introduce the concept of "comprehensive income". The adoption of these new standards, which was made without restatement of the comparative figures, resulted in the recognition of a transitional adjustment in retained earnings and "accumulated other comprehensive income (loss)" and in the changes discussed below.

### T.1) FINANCIAL ASSETS AND FINANCIAL LIABILITIES

CICA Handbook Section 3855 provides guidance on the accounting for financial instruments, including the classification of financial assets as either "held-to-maturity", "held for trading", "available-for-sale" or "loans and receivables" and of its financial liabilities as either "held for trading" or "other financial liabilities". As such, the Company has classified its financial assets and liabilities as follows:

- Cash and cash equivalents, restricted cash and the financial arrangement discussed in Note 12C are classified as "held for trading".
- Infrastructure concession investments accounted for by the cost method as well as certain financial instruments regrouped under "Other long-term assets" are classified as "available-for-sale". Investments in entities accounted for by the equity, proportionate consolidation or full consolidation methods are scoped out from these new standards.
- Trade accounts receivable are classified as "loans and receivables".
- Trade accounts payable as well as the recourse and non-recourse long-term debt are classified as "other financial liabilities", except for a non-recourse debt of Highway 407 included in "Senior Bonds" in Note 10C, which is accounted for at fair value.

The initial carrying amount of financial assets classified as "held for trading" corresponds to the transaction price, which represents the fair value of the consideration given. Subsequent measurements of these financial assets are based on fair value, with the resulting gains and losses recognized in net income.

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

The initial carrying amount of financial assets classified as "available-for-sale" corresponds to the transaction price, which represents the fair value of the consideration given, and includes transaction costs. Equity instruments classified as "available-for-sale" that do not have a quoted market price in an active market are subsequently measured at cost, while other "available-for-sale" financial assets are subsequently measured at fair value, with resulting gains and losses recognized in the "Other comprehensive income" account presented in the consolidated statements of shareholders' equity. Such gains and losses are reclassified to net income when the related financial asset is disposed of or when an other than temporary impairment loss occurs on the asset.

The initial carrying amount of financial assets classified as "loans and receivables" corresponds to the transaction price, which represents the fair value of the consideration given, and includes transaction costs, if any. Subsequent measurement of these financial assets corresponds to their amortized cost, using the effective interest method. As trade receivables included in this category are of short-term nature, their amortized cost usually corresponds to their initial carrying value and is presented net of any allowance for doubtful accounts.

The initial carrying amount of financial liabilities classified as "other financial liabilities" corresponds to the transaction price, which represents the fair value of the consideration received, and includes transaction costs, if any. Subsequent measurement of these financial liabilities corresponds to their amortized cost, using the effective interest method. As trade payables and accrued charges included in this category are of short-term nature, their amortized cost usually corresponds to their initial carrying value.

The fair value used for subsequent measurement of available-for-sale financial assets described above is derived from published bid price quotations in an active market.

### T.2) DERIVATIVE FINANCIAL INSTRUMENTS AND HEDGE ACCOUNTING

SNC-Lavalin enters into forward exchange contracts to hedge its exposure to fluctuations in foreign currency exchange rates on revenue-generating projects and into interest-rate swaps and bond forwards to hedge the variability of interest rates relating to financing arrangements. 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, and regularly assesses the effectiveness of these hedges. As such, all the derivative financial instruments described qualify for hedge accounting and are accounted for as cash flow hedges. The Company does not enter into derivative financial instruments for speculative purposes.

Prior to January 1, 2007, any gains or losses related to the hedging instruments were deferred and recognized into income over the same period as the underlying hedged item. In the event that a designated hedging relationship ceased to qualify for hedge accounting, any gains or losses previously deferred were recognized into income over the same period as the underlying hedged item or immediately charged to income, if the underlying hedged item had ceased to exist.

Following the adoption of Sections 3855, 3865 and 1530 on January 1, 2007, the derivative financial instruments designated as cash flow hedges are measured at fair value. The effective portion of the change in fair value of the derivative financial instruments is recorded in "Other comprehensive income", while the ineffective portion, if any, of such change is recognized in net income. When the hedged items of a cash flow hedge affect net income, the associated gains or losses recorded into "Other comprehensive income" are reclassified to net income as an offset to the gains or losses recognized on the hedged items.

In addition to recognizing all stand-alone derivative financial instruments at fair value, Section 3855 requires embedded derivatives, which are components that have features similar to derivatives and that are included in financial instruments or other contractual arrangements, to be accounted for separately from the financial instruments or contractual arrangements in which they are embedded when certain conditions are met. Section 3855 allows reporting entities to only consider financial instruments and contractual arrangements that were issued, acquired or substantially modified by the entity on or after a "transition date" for applying the requirement of separately accounting for embedded derivatives. The Company selected January 1, 2003 as its transition date for embedded derivatives. The impact from this new requirement was not material to the Company's consolidated financial statements.

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

### T.3) COMPREHENSIVE INCOME

SNC-Lavalin discloses comprehensive income, which includes net income plus other comprehensive income within its consolidated statements of shareholders' equity. The components of other comprehensive income for the Company includes the changes in the following items:

> Currency translation adjustments resulting from the conversion of self-sustaining foreign operations.

> Unrealized gains and losses on available-for-sale financial assets measured at fair value.

> Gains and losses on the effective portion of derivative financial instruments designated as cash flow hedges.

### T.4) DEFERRED FINANCING COSTS

Deferred financing costs relate mainly to SNC-Lavalin's infrastructure concession investments and were, prior to January 1, 2007, included in "Other long-term assets" (see Note 9) and amortized using the straight-line method over the term of the related debt, with the amortization expense included as part of interest expense on long-term debt. Following the adoption of Section 3855 on January 1, 2007, deferred financing costs are now deducted from the carrying balance of the related long-term debt and recognized in net income through interest expense based on the effective interest method.

### T.5) TRANSITIONAL ADJUSTMENT

The adoption of the above new accounting standards resulted in the recording of a transitional adjustment to the beginning balance of the retained earnings and "Accumulated other comprehensive income (loss)" of the period. The transitional adjustment can be summarized as follows:

> $0.8 million increase in the opening balance of retained earnings resulting mainly from the measurement of recourse and non-recourse long-term debt that are classified as "other financial liabilities", at amortized cost using the effective interest method; and

> $54.9 million decrease in "Accumulated other comprehensive income", reflecting the $51.3 million after-tax effective portion of cash flow hedges and the $3.6 million after-tax revaluation of available-for-sale financial assets.

The adoption of the new accounting standards also required the following adjustments to the balance sheet as at January 1, 2007:

> increases in cash and cash equivalents of $4.9 million, in accounts receivable of $2.5 million, in future income tax asset of $4.8 million for the current portion and $10.8 million for the long-term portion, and in accounts payable and accrued charges of $42.3 million;

> decreases in infrastructure concession investments of $15.8 million, in other long-term assets of $53.4 million, in non-recourse long-term debt of $23.0 million, in other long-term liabilities of $3.3 million, and in non-controlling interest of $7.0 million; and

> certain adjustments to other balance sheet accounts that were not material.

### U) FUTURE CHANGES TO ACCOUNTING STANDARDS

#### DISCLOSURE AND PRESENTATION OF FINANCIAL INSTRUMENTS AND CAPITAL DISCLOSURES

The CICA has issued the following new Handbook Sections, which will become effective on January 1, 2008 for SNC-Lavalin:

> section 3862, "Financial Instruments – Disclosures";

> section 3863, "Financial Instruments – Presentation"; and

> section 1535, "Capital disclosures".

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

Section 3862 modifies the **disclosure requirements** of Section 3861 "Financial Instruments – Disclosure and Presentation", including required disclosure for the assessment of the significance of financial instruments for an entity's financial position and performance and of the extent of risks arising from financial instruments to which the Company is exposed and how the Company manages those risks, whereas Section 3863 carries forward the **presentation requirements** of Section 3861. The Company is currently evaluating the impact of the adoption of Section 3862 while the Company does not expect the adoption of 3863 to have a significant effect on the consolidated financial statements.

Section 1535 establishes standards for disclosing information about an entity's capital and how it is managed. The entity's disclosure should include information about its objectives, policies and processes for managing capital and disclosure regarding whether or not it has complied and the consequences of non-compliance with any capital requirements to which it is subject. The Company is currently evaluating the impact of the adoption of this new section on the consolidated financial statements.

### ADOPTION OF INTERNATIONAL FINANCIAL REPORTING STANDARDS IN CANADA

In 2006, the Canadian Accounting Standards Board ("AcSB") adopted its Strategic Plan, which includes the decision to move financial reporting for Canadian publicly accountable enterprises to the International Financial Reporting Standards ("IFRSs"), as issued by the International Accounting Standards Board ("IASB"). Under the AcSB's plan, this new framework will be effective for fiscal years beginning on or after January 1, 2011. Information regarding the entreprise's plan for convergence and the anticipated effects is to be disclosed prior to the adoption, with the first disclosure by SNC-Lavalin expected to be made in the consolidated financial statements for the year ending December 31, 2008.

## 2. INFRASTRUCTURE CONCESSION INVESTMENTS

SNC-Lavalin makes equity investments in infrastructure concessions in certain industry sectors, such as airports, bridges, power generation and transmission, mass transit systems, mines and roads. In accordance with Canadian 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 Note 2E).

### 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.

## 2. INFRASTRUCTURE CONCESSION INVESTMENTS (CONTINUED)

| AT DECEMBER 31 | 2007 | 2006 |
|---|---|---|
| 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 | **$ 20,057** | $ 21,937 |
| Restricted cash | **96,057** | 123,063 |
| Accounts receivable and current future income tax asset | **70,918** | 70,929 |
| Property and equipment | **1,640,663** | 1,439,285 |
| Goodwill | **203,786** | 203,786 |
| Other long-term assets and long-term future income tax asset | **346,901** | 376,894 |
| Accounts payable and accrued charges | **(104,383)** | (145,841) |
| Current portion of non-recourse long-term debt | **(4,030)** | (150,991) |
| Non-recourse long-term debt | **(1,970,991)** | (1,650,448) |
| Other long-term liabilities | **(79,124)** | (75,388) |
| Non-controlling interest | **(58,013)** | (57,816) |
| Net book value of infrastructure concession investments accounted for by the full or proportionate consolidation methods | **161,841** | 155,410 |
| Net book value of infrastructure concession investments accounted for by the equity method | **146,929** | 181,703 |
| Net book value of infrastructure concession investments accounted for by the cost method | **223,890** | 139,407 |
| Net book value of infrastructure concession investments accounted for by the equity or cost methods as shown on balance sheet | **370,819** | 321,110 |
| Net book value of total infrastructure concession investments | **$ 532,660** | $ 476,520 |

The net book value of infrastructure concession investments accounted for by the full or proportionate consolidation methods of $161.8 million (2006: $155.4 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 negative balance of $35.1 million as at December 31, 2007 (December 31, 2006: negative balance of $28.2 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.

As at December 31, 2007, Highway 407, which is accounted for by the proportionate consolidation method, held $159.0 million principal amount of non-bank sponsored Asset-Backed Commercial Papers ("ABCPs"). Most of these ABCPs currently have no liquidity and, therefore, have been revalued using best available market data, which resulted in a reduction in their carrying value to $136.8 million. The share of SNC-Lavalin in the revised carrying value of the ABCPs held by Highway 407 represents approximately $22.9 million at December 31, 2007 and is presented mainly in "other long-term assets", while the $3.7 million representing the share of SNC-Lavalin in the reduction in their carrying value has been recorded as part of "interest and capital taxes". However, while some uncertainty exists with respect to the amount and timing of cash flows relating to these ABCPs, it will not have a significant impact on SNC-Lavalin's financial position. On a consolidated basis, SNC-Lavalin has no other direct or indirect investment in ABCPs.

### B) IMPACT OF THE INFRASTRUCTURE CONCESSIONS INVESTMENTS ON THE COMPANY'S NET INCOME

The Company provides, in Note 21, supplementary information on its net income from Highway 407 and from its other infrastructure concession investments, with a reconciliation to consolidated net income, as such financial information is often used to value the share price of the Company's common shares.

## 2. INFRASTRUCTURE CONCESSION INVESTMENTS (CONTINUED)

### C) ADDITIONS OF INFRASTRUCTURE CONCESSION INVESTMENTS

#### I) ADDITION IN 2007

In October 2006, SNC-Lavalin was awarded an engineering, procurement and construction management ("EPCM") contract for the Ambatovy Nickel Project ("Ambatovy") which will consist of an open-pit mine operation, and a hydrometallurgical processing plant, expected to produce mainly nickel and cobalt, in Madagascar. Concurrently, SNC-Lavalin signed a shareholders' agreement in which it committed to acquire a 5% interest in Ambatovy. SNC-Lavalin has made equity contributions of US$35.8 million (CA$35.7 million) as at December 31, 2007 and is committed to contribute an additional US$52.2 million in this project, for a total investment of US$88.0 million. The investment in Ambatovy is accounted for by the cost method.

The Ambatovy project has signed project debt financing agreements with a group of international lenders in 2007, the financial close of such agreements being contingent on certain conditions precedent. If the financial close does not occur prior to a certain date in the third quarter of 2008, SNC-Lavalin will have the option to divest from its investment by selling its 5% interest to a shareholder of Ambatovy, which is the project operator ("Project Operator"), and recover the amount invested up to that date.

Also, contingent upon the closing of the project debt financing, SNC-Lavalin will provide:

> a US$105 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 portion of the Project Operator's share of financial guarantees related to the project debt financing, until certain financial and operating tests are satisfied upon completion of construction; and

> a US$20 million limited recourse subordinated loan to the Project Operator, which will be used by the Project Operator to finance part of its equity contribution. This loan will have a 15-year term and will be repaid from a portion of the Project Operator's share of the project's anticipated distributions.

In addition, once certain financial and operating tests are satisfied upon completion of construction (the "option vesting date"), a put/call arrangement between SNC-Lavalin and two shareholders of Ambatovy, including the Project Operator, will come into effect. Under this put/call arrangement, SNC-Lavalin will have, for a period of two years after the option vesting date, the option to divest from its 5% interest in Ambatovy and the balance of its recourse subordinated loan, and the two shareholders will have the option to acquire SNC-Lavalin's 5% interest in Ambatovy and repay to SNC-Lavalin the outstanding balance of the limited recourse subordinated loan. If either the put or call option is exercised, the amount to be received by SNC-Lavalin will provide for a specific return on its investment and subordinated loan.

#### II) ADDITIONS 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. Accordingly, AltaLink has been accounted for using the purchase method and consolidated from the effective date of the increased participation.

## 2. INFRASTRUCTURE CONCESSION INVESTMENTS (CONTINUED)

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 long-term 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 long-term 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 |

### 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. SNC-Lavalin presents this 2.42% direct investment in Gaz Métro as part of its infrastructure concession investments, along with its investment in Trencap Limited Partnership, which by itself provides for a 3.97% indirect interest in Gaz Métro. The direct investment in Gaz Métro and the investment in Trencap Limited Partnership are 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. 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. SNC-Lavalin has made equity contributions of 2,623.4 million Algerian Dinars ("DZD") (CA$39.3 million) and DZD 1,281.0 million (CA$20.2 million) in 2007 and 2006, respectively, and is committed to contribute an additional DZD 532.3 million in this project, for a total investment of DZD 4,436.7 million. The end of the construction of the power plant is expected within the next 12 months.

## 2. INFRASTRUCTURE CONCESSION INVESTMENTS (CONTINUED)

### D) DISPOSAL OF AN INFRASTRUCTURE CONCESSION INVESTMENT

#### I) DISPOSAL IN 2006

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) in the first quarter of 2006 and is reflected in the consolidated statements of income as a reduction of the "Gross margin".

### E) 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, 2007 and 2006:

| | | | ACQUISITION OF ADDITIONAL PARTICIPATION AND PAYMENTS FOR INFRASTRUCTURE CONCESSION INVESTMENTS | | SNC-LAVALIN'S REMAINING COMMITMENTS TO INVEST AS AT | |
|---|---|---|---|---|---|---|
| | SNC-LAVALIN'S ACQUIRE DOWNERSHIP | ACQUIRED IN | **DURING 2007 (IN MILLIONS)** | DURING 2006 (IN MILLIONS) | DECEMBER 31, 2007 (IN MILLIONS) | DECEMBER 31, 2006 (IN MILLIONS) |
| Ambatovy | 5.0% | 2007 | **CA$35.7** | – | US$52.2 (from 2008 to 2010) | – |
| SKH | 26.0% | 2006 | **CA$39.3** | CA$20.2 | DZD 532.3 (from 2008 to 2009) | DZD 3,155.7 (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$3.5** | – | CA$24.2 (in 2008) | CA$27.7 (from 2007 to 2008) |
| Astoria Project Partners LLC | 21.0% | 2004 | – | CA$35.6 | – | – |
| Total before consolidation elimination | | | **CA$78.5** | CA$156.8 | | |
| Consolidation elimination | | | **(CA$3.5)** | – | | |
| Total | | | **CA$75.0** | CA$156.8 | | |

SNC-Lavalin fully consolidates Okanagan Lake Concession's accounts as it is the sole owner of Okanagan Lake Concession L.P. and, accordingly, the equity investments made in this concession are eliminated upon consolidation when presenting the amount of "Acquisition of additional participation and payments for infrastructure concession investments" on the Company's consolidated statement of cash flows.

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 long-term liabilities" (see Note 11). Since SNC-Lavalin fully consolidates Okanagan Lake Concession's accounts, no liability is presented on the Company's consolidated balance sheet for its remaining commitment to invest in this entity.

## 3. ACQUISITION OF BUSINESSES

**In 2007, SNC-Lavalin completed the following business acquisitions, which added approximately 3,000 employees to its workforce:**

In February 2007, a total of approximately 50 employees with The Construction Partnership, Inc., a US firm based in Pennsylvania, which provides engineering consulting and construction services to the pharmaceutical and life sciences sectors and NorthStar CV, Inc., a US firm based in Pennsylvania, that specializes in providing compliance, commissioning and validation services to the biotechnology and pharmaceutical industries.

In March 2007, Ingesgrup S.A. and its subsidiaries, which include Intecsa-Inarsa, S.A., a Spanish engineering group based in Madrid, recognized in the infrastructure sector for its experience in mass transit, water engineering, ports and marine facilities, and tunnels and bridges, as well as in the industrial sector for its expertise in the construction of gas compression stations, representing approximately 500 employees.

In April 2007, four engineering firms based in France: Viatec, based in Evry, specialized in road systems, building and environment; Laumond Faure Ingenierie, based in Brive-la-Gaillarde, with expertise in building engineering; Becsi EIC and Ageau-Général Contractant, both based in Nancy, recognized for their expertise in urban planning, for a total of approximately 100 people.

In May 2007, Capital Engineering, Inc., a US firm of approximately 50 people based in Chicago, which provides general engineering and specialty mill equipment design services to the steel and aluminum industries; as well as Aqua Terre Solutions Inc., a Canadian firm of 110 employees based in Ottawa, with expertise in the areas of environmental assessments, site investigations, remediation, monitoring and environmental management services.

In June 2007, B2i, a French firm based in Puget sur Argens, which specializes in road and rail line infrastructure; as well as Pipecon Consultants Pvt. Ltd., an Indian firm based in Mumbai, which provides mechanical, piping, electrical and process engineering, as well as project management services, to several international and local pharmaceutical and biotechnology companies, for a total of approximately 50 professionals.

In July 2007, Wiebe Forest Engineering Ltd., a Canadian firm of nearly 50 employees based in Calgary, which provides mechanical, electrical and structural engineering, consulting and construction services to the healthcare, institutional, educational and recreational sectors.

In August 2007, the Canadian engineering firm Groupe Qualitas Inc. and all its subsidiaries, with approximately 300 employees providing services throughout Quebec in materials engineering, pavement management and engineering, geotechnology, and environment.

In September 2007, Span Consultants Pvt. Ltd., an Indian engineering firm of approximately 700 employees recognized in infrastructure and environment, headquartered in New Delhi with local offices in Bangalore, Mumbai and Kolkata, as well as Agro-Bio-Sucres Engineering, a French firm specialized in the sugar industry and employing approximately 25 people, and Bureau Technique du Poitou, also located in France, providing services in area such as reinforced concrete and frames, with approximately 40 employees.

In December 2007, Minerconsult Engenharia, a Brazilian leading multidisciplinary engineering firm of approximately 1,000 people providing a full range of services in gold, copper, iron, nickel and bauxite mining from the early stages of conceptual studies to pre-commissioning and start up for clients in Brazil, Latin America and in other parts of the world. Also in December 2007, DTI Telecom Inc., a Canadian engineering and consulting company based in Montreal and recognized for its expertise in telecommunications, representing approximately 65 professionals.

# 3. ACQUISITION OF BUSINESSES (CONTINUED)

**In 2006, SNC-Lavalin completed the following business acquisitions, adding a total of approximately 170 employees to its workforce:**

In March 2006, Geomar International Inc., a Canadian firm of approximately 20 employees mainly involved in agricultural market development.

In July 2006, LKM & Partners Inc., a Canadian firm of over 90 employees providing mechanical and electrical engineering consulting services to public and private clients for a variety of building projects.

In November 2006, Ingénierie Studio S.A.S., an engineering firm based in Toulouse and Paris, France, which specializes in the field of infrastructure and employs approximately 60 people.

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

The purchase price for these business acquisitions, subject to final adjustments, was $196.9 million (2006: $10.0 million), net of cash and cash equivalents existing in these businesses at the time of acquisition of $25.1 million (2006: $2.5 million). The allocation of the purchase price to acquire these businesses was as follows:

| | 2007 | 2006 |
|---|---|---|
| Cash and cash equivalents | **$ 25,068** | $ 2,513 |
| Accounts receivable | **77,384** | 11,005 |
| Contracts in progress | **23,919** | 577 |
| Property and equipment | **12,780** | 4,083 |
| Other long-term assets | **1,034** | 598 |
| Accounts payable and accrued charges | **(52,293)** | (11,323) |
| Other liabilities assumed | **(23,676)** | (1,039) |
| Net assets of businesses acquired | **64,216** | 6,414 |
| Goodwill | **157,723** | 6,138 |
| Total purchase price | **221,939** | 12,552 |
| Less: Cash and cash equivalents at acquisition | **25,068** | 2,513 |
| Total purchase price, net of cash and cash equivalents at acquisition | **196,871** | 10,039 |
| Less: Balance of purchase price payable | **36,370** | – |
| Cash consideration paid | **$ 160,501** | $ 10,039 |

Approximately $84.2 million of goodwill resulting from the business acquisitions concluded in 2007 is expected to be deductible for tax purposes (2006: nil).

## 4. DISCONTINUED OPERATIONS

On January 5, 2007, SNC-Lavalin concluded the disposal of all its shares in its wholly-owned subsidiary SNC Technologies Inc. and its subsidiaries ("SNC TEC") for proceeds of $336.6 million, resulting in a gain before taxes of $114.0 million (net gain after taxes of $84.1 million), which is presented as "Net income from discontinued operations". SNC TEC was 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.

The financial results of SNC TEC were previously presented under the Defence segment while they are now disclosed under discontinued operations. As such, SNC TEC's revenues and expenses of 2006 have been reflected on a single line "Net income from discontinued operations" in the Company's comparative consolidated statement of income, while assets and liabilities of SNC TEC have been aggregated under "Assets of discontinued operations" and "Liabilities of discontinued operations" on the consolidated balance sheet at December 31, 2006.

Despite the disposal of SNC TEC, 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.

The net income from discontinued operations is detailed below:

| YEAR ENDED DECEMBER 31 | 2007 | 2006 |
|---|---|---|
| Revenues | $ – | $ 319,255 |
| Gross margin | $ – | $ 74,780 |
| Administrative, marketing and other expenses | – | 39,732 |
| Interest and capital taxes | – | 540 |
| Income from discontinued operations before income taxes | – | 34,508 |
| Income taxes | – | 12,701 |
| Net gain on disposal | **84,086** | – |
| Net income from discontinued operations | **$ 84,086** | $ 21,807 |

The cash flows related to the discontinued operations have been excluded from the Company's statement of consolidated cash flows, consistent with the fact that the cash and cash equivalents of SNC TEC at December 31, 2006 have been aggregated in the Company's consolidated balance sheet under "Assets of discontinued operations" and had no impact on its cash and cash equivalents. As supplementary information, cash flows that related specifically to the discontinued operations were:

| YEAR ENDED DECEMBER 31 | 2007 | 2006 |
|---|---|---|
| Cash and cash equivalents of SNC TEC at beginning of year | $ – | $ 22,656 |
| Operating activities | – | 6,057 |
| Investing activities | – | (6,959) |
| Financing activities | – | (607) |
| Cash and cash equivalents of SNC TEC at end of year | $ – | $ 21,147 |

The Company has presented its net cash proceeds on disposal of SNC TEC of $334.1 million, net of transaction costs of $2.5 million, on its consolidated statement of cash flows as a separate line item "Cash generated from discontinued operations" for the year 2007 to distinguish it from continuing operations.

## 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 below:

| AT DECEMBER 31 | 2007 | 2006 |
|---|---|---|
| **Balance sheets** | | |
| Current assets | **$ 512,129** | $ 439,938 |
| Property and equipment: | | |
| From infrastructure concession investments | **385,466** | 381,822 |
| Other | **214** | 353 |
| Other long-term assets and long-term future income tax asset | **330,205** | 321,154 |
| | **$ 1,228,014** | $ 1,143,267 |
| Current liabilities | **$ 327,234** | $ 474,777 |
| Non-recourse long-term debt: | | |
| From infrastructure concession investments | **781,047** | 613,754 |
| Other | **911** | 5,211 |
| Pro rata share of net assets of joint ventures | **118,822** | 49,525 |
| | **$ 1,228,014** | $ 1,143,267 |

| YEAR ENDED DECEMBER 31 | 2007 | 2006 |
|---|---|---|
| **Statements of income** | | |
| Revenues | **$ 843,839** | $ 672,868 |
| Expenses | **733,610** | 605,248 |
| Pro rata share of net income of joint ventures | **$ 110,229** | $ 67,620 |
| **Cash and cash equivalents provided by (used in):** | | |
| Operating activities | **$ 55,202** | $ 92,700 |
| Investing activities | **(27,991)** | (12,763) |
| Financing activities | **(13,314)** | (19,280) |
| Pro rata share of changes in cash and cash equivalents of joint ventures | **$ 13,897** | $ 60,657 |

## 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 EPC contract, the Company and its partner received 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 (the "Client"). This debenture matures, in part, upon completion of sections of the highway and of certain auxiliary work under the EPC contract, at which time such amount that becomes due is payable to its holder. This transaction results in the concurrent transfer of the credit risk to the debenture holders as amounts becomes due.

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. The terms of the sale of the debenture provides that 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, less any amounts already received by the group of purchasers.

In the fourth quarter of 2007, the Company and its partner completed all sections of the highway, resulting in the payment by the issuer of the debenture of the amount due to the group of purchasers, while the completion of the remaining auxiliary work resulted in the remaining amount of the debenture being paid in the first quarter of 2008.

The Company presents, in the "Advance under contract financing arrangement" consolidated balance sheet account, the net amounts received from the group of purchasers, plus related accrued interest, less all amounts paid to the group of purchasers by the issuer of the debenture. The amount representing the advancement of work, less the contract value of all completed sections of the highway, is reflected on the consolidated balance sheet under "Contract in progress subject to contract financing arrangement". The remaining balances in these two accounts as at December 31, 2007 relate to auxiliary work under the EPC contract and will be removed from the Company's consolidated balance sheet in the first quarter of 2008.

SNC-Lavalin also 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 the above-mentioned $543.8 million debenture. These derivative financial instruments were used solely to hedge the variability of the progress payments and were determined to be highly effective hedges. All these derivative financial instruments had been settled as at December 31, 2007 (the unfavourable fair market value of these derivative financial instruments at December 31, 2006 was $0.5 million).

## 7. PROPERTY AND EQUIPMENT

| AT DECEMBER 31 | 2007 | | 2006 | |
|---|---|---|---|---|
| | COST | ACCUMULATED DEPRECIATION | COST | ACCUMULATED DEPRECIATION |
| **From infrastructure concession investments** | | | | |
| Toll highway | **$ 369,853** | **$ 17,521** | $ 358,767 | $ 14,548 |
| Toll equipment | **44,778** | **29,985** | 43,117 | 25,062 |
| Transmission assets | **1,423,349** | **285,179** | 1,230,572 | 226,970 |
| Bridge under construction | **117,049** | – | 53,860 | – |
| Other | **35,834** | **17,515** | 35,038 | 15,489 |
| | **1,990,863** | **$ 350,200** | 1,721,354 | $ 282,069 |
| Accumulated depreciation | **350,200** | | 282,069 | |
| **Net book value of property and equipment – From infrastructure concession investments** | **1,640,663** | | 1,439,285 | |
| **Other** | | | | |
| Buildings and surface installations | **59,562** | **$ 18,762** | 55,337 | $ 15,257 |
| Computer equipment | **239,100** | **210,507** | 219,230 | 194,726 |
| Office furniture | **90,728** | **65,748** | 72,445 | 53,593 |
| Other | **43,105** | **25,488** | 37,000 | 26,149 |
| | **432,495** | **$ 320,505** | 384,012 | $ 289,725 |
| Accumulated depreciation | **320,505** | | 289,725 | |
| **Net book value of property and equipment – Other** | **111,990** | | 94,287 | |
| **Total net book value of property and equipment** | **$ 1,752,653** | | $ 1,533,572 | |

Total depreciation expense on property and equipment from infrastructure concession investments was $76.2 million in 2007 (2006: $47.6 million), while total depreciation expense on other property and equipment was $34.7 million in 2007 (2006: $27.9 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, 2007, 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 | 2007 | | | 2006 | | |
|---|---|---|---|---|---|---|
| | INFRASTRUCTURE CONCESSION INVESTMENTS | OTHER | TOTAL | INFRASTRUCTURE CONCESSION INVESTMENTS | OTHER | TOTAL |
| Balance at beginning of year | **$ 203,786** | **$ 124,244** | **$ 328,030** | $ 2,022 | $ 117,990 | $ 120,012 |
| Goodwill of AltaLink infrastructure concession investment upon consolidation, following acquisition of control (Note 2C) | – | – | – | 202,066 | – | 202,066 |
| Goodwill acquired during the year | – | **157,723** | **157,723** | 1,720 | 6,138 | 7,858 |
| Other | – | **(4,232)** | **(4,232)** | (2,022) | 116 | (1,906) |
| Balance at end of year | **$ 203,786** | **$ 277,735** | **$ 481,521** | $ 203,786 | $ 124,244 | $ 328,030 |

## 9. OTHER LONG-TERM ASSETS

| AT DECEMBER 31 | 2007 | 2006 |
|---|---|---|
| **From infrastructure concession investments** | | |
| Concession right from Highway 407 (1) | **$ 272,181** | $ 272,766 |
| Restricted cash | **38,781** | 31,709 |
| Deferred financing costs (2) | – | 54,089 |
| Other | **22,401** | 11,280 |
| | **333,363** | 369,844 |
| **Other** | **27,881** | 55,890 |
| | **$ 361,244** | $ 425,734 |

(1) 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.

(2) Following the adoption on January 1, 2007 of the new accounting standards described under Note 1T, $20.0 million of deferred financing costs from infrastructure concession investments have been reclassified as a reduction of long-term debt, which is presented net of deferred financing costs, and $34.1 million have been reclassified into accumulated other comprehensive income, as it represents the unamortized balance of cash flow hedges relating to the issuance of long-term debt by infrastructure concession investments. These reclassifications were made without restatement of the previous periods.

## 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, 2007, $443.9 million of these credit lines remained unused, while the balance of $33.6 million was exclusively used 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.

# 10. LONG-TERM DEBT (CONTINUED)

## B) RECOURSE LONG-TERM DEBT

| AT DECEMBER 31 | 2007 | 2006 |
|---|---|---|
| **Recourse (to the general credit of the Company)** | | |
| Debentures, 7.70%, due in 2010<br>The debentures with a face value of $105.0 million are repayable in full at maturity.<br>These debentures are unsecured and subject to negative pledge clauses. | **$ 104,557** | $ 104,532 |

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

### I) FROM INFRASTRUCTURE CONCESSION INVESTMENTS

| AT DECEMBER 31 | 2007 | 2006 |
|---|---|---|
| **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. | **$ 568,809** | $ 575,964 |
| Unsecured debt, 5.02%, due 2012 and 10.50%, due in 2015 | **286,738** | 290,000 |
| Commercial paper | **178,789** | 49,331 |
| The commercial paper is supported by a $200 million back-up facility and ranks equally with the senior bonds. The commercial paper is shown under long-term debt since the back-up facility matures in 2009. AltaLink may borrow under this facility at prime rate and bankers' acceptances. | | |
| Other | **1,527** | 1,777 |
| **Highway 407** | | |
| Senior bonds, 4.39% to 6.75%, due from 2008 to 2039 | **370,674** | 354,693 |
| Inflation-linked senior bonds, 3.28% to 5.33%, plus inflation component, due from 2016 to 2039 | **243,666** | 237,650 |
| Junior bonds, 7.00%, due in 2010 | **27,491** | 27,663 |
| Subordinated bonds, 4.96% and 5.75%, due in 2008 and 2036 | **130,255** | 130,748 |
| Other | **726** | 1,282 |
| Highway 407's bonds are secured by substantially all assets of 407 International Inc. and its wholly-owned subsidiaries, which primarily include 407 ETR Concession Company Limited, including an assignment of future revenues. | | |
| **Okanagan Lake Concession L.P.** | | |
| 5.415% credit facility, due in 2033, secured by all assets of Okanagan Lake Concession L.P., including a pledge by SNC-Lavalin of its units in Okanagan Lake Concession L.P. as well as an assignment of future revenues. | **155,246** | 120,000 |
| **Other** | **11,100** | 12,331 |
| **Total non-recourse long-term debt from infrastructure concession investments** | **1,975,021** | 1,801,439 |
| **Less: current portion (1)** | **4,030** | 150,991 |
| **Non-recourse long-term debt from infrastructure concession investments** | **$ 1,970,991** | $ 1,650,448 |

(1) The current portion of non-recourse debt from infrastructure concession investments excludes $99.5 million of Senior Bonds of AltaLink and $79.6 million reflecting the Company's share of Senior and Subordinated Bonds of Highway 407, due in 2008 and expected to be refinanced subsequent to December 31, 2007.

## 10. LONG-TERM DEBT (CONTINUED)

### II) OTHER

| AT DECEMBER 31 | | 2007 | | 2006 |
|---|---|---|---|---|
| **Company headquarters** | | | | |
| 9.39% mortgage, due in February 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 $25.4 million is due at maturity. | **$** | **25,740** | $ | 27,952 |
| **Other** | | **654** | | 778 |
| **Total non-recourse long-term debt – Other** | | **26,394** | | 28,730 |
| **Less: current portion** | | **26,394** | | 2,494 |
| **Non-recourse long-term debt – Other** | **$** | **–** | $ | 26,236 |

### D) REPAYMENT OF PRINCIPAL OF LONG-TERM DEBT:

The future principal payments of SNC-Lavalin's recourse and non-recourse long-term debt are summarized below and reconciled to their net carrying amount:

| AT DECEMBER 31, 2007 | RECOURSE | NON-RECOURSE | | TOTAL |
|---|---|---|---|---|
| | | FROM INFRASTRUCTURE CONCESSION INVESTMENTS[1] | OTHER | |
| 2008 | $ – | $ 4,636 | $ 26,466 | $ 31,102 |
| 2009 | – | 252,285 | – | 252,285 |
| 2010 | 105,000 | 138,704 | – | 243,704 |
| 2011 | – | 85,993 | – | 85,993 |
| 2012 | – | 206,708 | – | 206,708 |
| Thereafter | – | 1,312,037 | – | 1,312,037 |
| Total | $ 105,000 | $ 2,000,363 | $ 26,466 | $ 2,131,829 |
| Net unamortized deferred financing costs and unamortized discounts | 443 | 25,342 | 72 | 25,857 |
| Net carrying amount of long-term debt | $ 104,557 | $ 1,975,021 | $ 26,394 | $ 2,105,972 |

(1) The future principal payments of non-recourse long-term debt from infrastructure concession investments reflect the expected refinancing of Senior Bonds by AltaLink and the Company's share of Senior and Subordinated Bonds by Highway 407 subsequent to December 31, 2007.

## 11. OTHER LONG-TERM LIABILITIES

| AT DECEMBER 31 | | 2007 | | 2006 |
|---|---|---|---|---|
| Asset retirement obligations from an infrastructure concession investment | **$** | **57,954** | $ | 56,380 |
| Commitments to invest in infrastructure concession investments | | **78,217** | | 65,838 |
| Pension and other post-retirement benefits | | **30,187** | | 34,220 |
| Other | | **93,081** | | 30,447 |
| | **$** | **259,439** | $ | 186,885 |

The "Asset retirement obligations from an infrastructure concession investment" relate to the AltaLink infrastructure concession and correspond 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 4.52% to 5.41%. As at December 31, 2007, the estimated total undiscounted amount of asset retirement obligations was approximately $132.9 million (December 31, 2006: $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 OPTION PLANS

In 2007, the Company introduced a new stock option plan. All stock options granted in 2007 have been granted under this plan. The plan provides for graded vesting, beginning on the sixth trading day following the award, at which date the exercise price is determined (the "date of effect"), whereby the award vests in three equal tranches, two years, three years and four years, respectively, after the date of effect, with all awards expiring five years after the date of effect. In the event of cessation of employment, except in the event of death or Company approved retirement, unvested options are cancelled immediately and vested options remain exercisable for a specified period not exceeding 30 days. In the event of death or Company approved retirement, both vested and unvested options continue to run their normal course.

Under the previous stock option plan, options granted become fully exercisable two years after the date of the grant, for a period not exceeding four years. The exercise price of these options was determined at the date of grant. In the event of death or Company approved retirement, the vesting of the options continues in accordance with the plan, but the life of the option is limited to a period of two years following such event. All options are cancelled immediately upon other cessations of employment.

The number of options varied as follows:

| | 2007 | | 2006 | |
|---|---|---|---|---|
| | NUMBER OF OPTIONS | WEIGHTED AVERAGE EXERCISE PRICE (IN DOLLARS) | NUMBER OF OPTIONS | WEIGHTED AVERAGE EXERCISE PRICE (IN DOLLARS) |
| Options outstanding at beginning of year | **4,094,850** | **$ 19.28** | 3,675,600 | $ 14.13 |
| Granted | **1,262,200** | **$ 37.71** | 1,232,150 | $ 29.71 |
| Exercised | **(1,231,930)** | **$ 12.21** | (702,800) | $ 10.94 |
| Cancelled | **(88,450)** | **$ 31.85** | (110,100) | $ 17.36 |
| Options outstanding at end of year | **4,036,670** | **$ 26.92** | 4,094,850 | $ 19.28 |

The table below summarizes information regarding the stock options outstanding and exercisable, under the terms of the plans, as at December 31, 2007.

| | 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) |
| $10.02 to $11.89 | 583,000 | 15 | $ 10.57 | 583,000 | $ 10.57 |
| $16.49 to $16.66 | 447,600 | 30 | $ 16.59 | 447,600 | $ 16.59 |
| $20.92 to $24.33 | 612,770 | 39 | $ 23.04 | 612,770 | $ 23.04 |
| $29.20 to $32.50 | 1,156,950 | 50 | $ 29.68 | – | $ – |
| $37.64 to $42.36 | 1,236,350 | 53 | $ 37.71 | – | $ – |
| | 4,036,670 | 42 | $ 26.92 | 1,643,370 | $ 16.86 |

## 12. SHARE CAPITAL (CONTINUED)

The Company determines the fair value of stock options on their measurement date and charges this amount to income as a compensation cost over the shorter of the 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:

| | 2007 | 2006 |
|---|---|---|
| Risk-free interest rate | **4.54%** | 4.03% |
| Expected stock price volatility | **23.17%** | 24.04% |
| Expected option life | **4 years** | 4 years |
| Expected dividend yield | **1.00%** | 1.00% |

During 2007, the Company granted 1,262,200 stock options (2006: 1,232,150) to employees with a weighted average fair value of $8.80 per stock option (2006: $6.86). The stock option compensation cost charged to the consolidated statement of income for the year ended December 31, 2007 was $7.8 million (2006: $7.6 million).

### C) PERFORMANCE SHARE UNIT PLAN

The Company has a Performance Share Unit Plan, under which the Board of Directors, through its Human Resources Committee, grants a number of Performance Share Units ("PSU") to selected key executives (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. Furthermore, PSU vest immediately in the event of death, long-term disability or retirement of a participant.

Prior to January 1, 2007, vested PSU of a participant were redeemable for cash by the Company within three months of a participant's cessation of employment. The redemption price of PSU was the average closing price per share on the Toronto Stock Exchange on the day of cessation and the last trading day on the Toronto Stock Exchange of each of the 12 weeks preceding the last day of employment. Starting January 1, 2007, vested PSU of a participant are redeemable for cash by the Company within three months following the first year anniversary of a participant's cessation of employment. Accordingly, the redemption price of PSU is the average closing price per share on the Toronto Stock Exchange on the first year anniversary of cessation of employment and the last trading day on the Toronto Stock Exchange of each of the 12 weeks preceding that date.

The Company entered, in 2006, into a financial arrangement with an investment grade financial institution to limit its exposure to the variability of the PSU caused by fluctuations in its share price. This financial arrangement includes a financial instrument, which fluctuates in accordance with the movement in the Company's share price, and is recorded at fair value on the consolidated balance sheet under "Accounts receivable". Gains and losses from the remeasurement of the financial instrument offset the related losses and gains from the fair value remeasurement of the PSU liability. The financial instrument 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. The value of the PSU liability, which is offset by the value of the financial instrument resulting from the arrangement, was $41.7 million as at December 31, 2007 (December 31, 2006: $25.9 million). The compensation expense, net of the $15.0 million offsetting gain from the remeasurement of the financial arrangement in 2007 (2006: offsetting gain of $1.4 million), was $2.4 million for the year ended December 31, 2007 (2006: $8.0 million) in respect of this plan.

### D) REDEMPTION OF SHARES

In May 2007, the Board of Directors authorized the renewal of its normal course issuer bid to purchase for cancellation, on the open market, up to 11.8 million (2006: 10.8 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.

## 12. SHARE CAPITAL (CONTINUED)

The redemption of shares in 2007 and 2006 were as follows:

| | 2007 | 2006 |
|---|---|---|
| Redeemed and cancelled | | |
| Portion allocated to share capital | $ 2,981 | $ 2,224 |
| Portion allocated to retained earnings | 45,260 | 24,925 |
| | $ 48,241 | $ 27,149 |
| Number of shares redeemed and cancelled | 1,227,000 | 952,300 |
| Average redemption price per share ($) | $ 39.32 | $ 28.51 |

### E) WEIGHTED AVERAGE NUMBER OF OUTSTANDING SHARES – BASIC AND DILUTED

The weighted average number of outstanding shares in 2007 and 2006 used to calculated the basic and diluted earnings per share were as follows:

| AT DECEMBER 31 (IN THOUSANDS) | 2007 | 2006 |
|---|---|---|
| Weighted average number of outstanding shares – basic | 151,172 | 151,034 |
| Dilutive effect of stock options | 1,525 | 1,651 |
| Weighted average number of outstanding shares – diluted | 152,697 | 152,685 |

## 13. ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS)

The components of "accumulated other comprehensive income (loss)" which is presented in the Consolidated Statements of Shareholders' Equity were as follows as at December 31, 2007:

| | DECEMBER 31, 2007 |
|---|---|
| Accumulated currency translation adjustment | $ (16,979) |
| Accumulated net unrealized loss on available-for-sale financial assets | (2,954) |
| Accumulated net unrealized loss on derivative financial instruments designated as cash flow hedges | (29,025) |
| Accumulated other comprehensive income (loss) | $ (48,958) |

In 2007, no amounts have been reclassified to net income for accumulated currency translation adjustment and accumulated net unrealized loss on available-for-sale financial assets. The reconciliation of the accumulated net unrealized loss on derivative financial instruments designated as cash flow hedges for 2007 is as follows:

| | 2007 |
|---|---|
| Transition adjustment - January 1, 2007 | $ (51,275) |
| Net increase in fair value of derivative financial instruments designated as cash flow hedges | 54,561 |
| Reclassification to net income to offset the impact of the underlying hedged items | (32,311) |
| Balance at end of year | $ (29,025) |

The Company expects that approximately $5.4 million of the accumulated net unrealized loss on derivative financial instruments designated as cash flow hedges balance at December 31, 2007 will be reclassified in net income in the next 12 months. As the Company's cash flow hedges are highly effective, the amount of the accumulated other comprehensive income that is reclassified to net income offsets the impact of the underlying hedged items.

## 14. INTEREST AND CAPITAL TAXES

| YEAR ENDED DECEMBER 31 | 2007 | | | 2006 | | |
|---|---|---|---|---|---|---|
| | FROM INFRASTRUCTURE CONCESSION INVESTMENTS | OTHER | TOTAL | FROM INFRASTRUCTURE CONCESSION INVESTMENTS | OTHER | TOTAL |
| Interest revenues | $ (4,293) | $ (47,685) | $ (51,978) | $ (3,523) | $ (36,885) | $ (40,408) |
| Interest on long-term debt: | | | | | | |
| Recourse | – | 8,213 | 8,213 | – | 8,211 | 8,211 |
| Non-recourse | 105,453 | 2,869 | 108,322 | 75,717 | 2,986 | 78,703 |
| Capital taxes and other | 3,445 | 4,510 | 7,955 | 2,061 | 4,734 | 6,795 |
| Interest (revenues) and capital taxes | $ 104,605 | $ (32,093) | $ 72,512 | $ 74,255 | $ (20,954) | $ 53,301 |

## 15. 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:

| | 2007 | 2006 |
|---|---|---|
| Decrease (increase) in contract in progress subject to contract financing arrangement (Note 6) | $ 319,149 | $ (227,572) |
| Increase in accounts receivable | (271,998) | (316,101) |
| Decrease (increase) in contracts in progress | 27,118 | (336,266) |
| Increase in accounts payable and accrued charges | 459,127 | 371,881 |
| Increase (decrease) in downpayments on contracts | (217,577) | 66,851 |
| Increase in deferred revenues | 34,330 | 115,364 |
| | 31,000 | (98,271) |
| Total net change in non-cash working capital items | $ 350,149 | $ (325,843) |

### B) INTEREST PAID AND INCOME TAXES PAID

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

| | 2007 | 2006 |
|---|---|---|
| Interest paid: | | |
| From infrastructure concession investments | $ 94,426 | $ 69,639 |
| Other | 12,067 | 12,307 |
| | $ 106,493 | $ 81,946 |
| Income taxes paid | $ 86,517 | $ 81,312 |

## 16. 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:

| | 2007 | 2006 |
|---|---|---|
| Provisions and reserves | $ 79,927 | $ 43,485 |
| Tax loss carry forwards | 107,074 | 33,330 |
| Contracts in progress | (27,005) | (32,416) |
| Future employee benefits | 8,599 | 12,505 |
| Property and equipment and goodwill | (15,888) | (13,263) |
| Accumulated other comprehensive income | 11,666 | – |
| Other | (2,533) | (49) |
| **Future income tax asset, net** | $ 161,840 | $ 43,592 |
| **Recorded as follows:** | | |
| **Future income tax asset – current** | $ 63,712 | $ 12,752 |
| **Future income tax asset – long-term** | $ 98,128 | $ 30,840 |

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 | 2007 | | 2006 | |
|---|---|---|---|---|
| | AMOUNT | % | AMOUNT | % |
| Income tax expense at statutory Canadian rates | $ 33,302 | 32.7 | $ 64,707 | 32.5 |
| Increase (decrease) resulting from: | | | | |
| Non-deductible expenses | 5,827 | 5.7 | 4,030 | 2.0 |
| Effect of substantively enacted income tax rate changes | 4,937 | 4.8 | (128) | (0.1) |
| Net losses (income) not affected by tax | (2,766) | (2.7) | 291 | 0.1 |
| Effect of foreign tax rates | (9,287) | (9.1) | (14,205) | (7.1) |
| Non-taxable income from infrastructure concession investments | (1,770) | (1.7) | (2,250) | (1.1) |
| Other | (6,593) | (6.5) | 2,636 | 1.4 |
| Total income tax expense at effective tax rates | $ 23,650 | 23.2 | $ 55,081 | 27.7 |
| Current income tax expense | $ 143,823 | | $ 61,404 | |
| Future income tax benefit | (120,173) | | (6,323) | |
| | $ 23,650 | | $ 55,081 | |

## 17. 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, and restricted cash are invested in liquid and high-grade financial instruments and are accounted for at 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 FINANCIAL ASSETS

Restricted cash is accounted for at fair value.

The carrying amount as at December 31, 2007 of available-for-sale financial assets measured at fair value was $47.6 million, included in "Infrastructure concession investments accounted for by the equity or cost method" and $10.4 million included in "Other long-term assets". The fair value of these financial assets is based on their quoted market price on an active market.

The carrying amount as at December 31, 2007 of available-for-sale financial assets measured at cost was $176.3 million included in "Infrastructure concession investments accounted for by the equity or cost method". These financial assets represent equity instruments that do not have a quoted market price in an active market.

#### 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 | 2007 | | 2006 | |
|---|---|---|---|---|
| | CARRYING VALUE | FAIR VALUE | CARRYING VALUE | FAIR VALUE |
| **From infrastructure concession investments:** | | | | |
| Non-recourse | **$ 1,975,021** | **$ 2,104,443** | $ 1,801,439 | $ 1,980,980 |
| **Other:** | | | | |
| Non-recourse | **26,394** | **27,795** | 28,730 | 29,899 |
| Recourse | **104,557** | **111,612** | 104,532 | 116,322 |
| **Total** | **$ 2,105,972** | **$ 2,243,850** | $ 1,934,701 | $ 2,127,201 |

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:

| 2007 | | | 2006 | | |
|---|---|---|---|---|---|
| BUY | SELL | MATURITY | BUY | SELL | MATURITY |
| **CA$ 508,851** | **US$ 490,177** | **2008-2011** | CA$ 553,550 | US$ 500,210 | 2007-2011 |
| **CA$ 481,411** | **€ 330,722** | **2008-2011** | CA$ 312,705 | € 211,694 | 2007-2011 |
| **US$ 67,289** | **CA$ 69,175** | **2008-2009** | US$ 144,170 | CA$ 165,975 | 2007-2009 |
| **US$ 238,752** | **€ 176,712** | **2008-2010** | US$ 287,640 | € 221,384 | 2007-2010 |
| **€ 26,177** | **US$ 35,544** | **2008-2010** | € 57,907 | US$ 76,016 | 2007-2009 |
| **€ 43,426** | **CA$ 63,508** | **2008-2011** | € 31,311 | CA$ 46,849 | 2007-2008 |

## 17. 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:

| | 2007 | 2006 |
|---|---|---|
| Favourable forward foreign exchange contracts | **$ 35,685** | $ 8,028 |
| Unfavourable forward foreign exchange contracts | **(26,801)** | (48,998) |
| | **$ 8,884** | $ (40,970) |

Following the adoption on January 1, 2007 of the new accounting standards described under Note 1T, the estimated fair value of these contracts is included, at December 31, 2007, in "Accounts receivable" when it is favourable and "Accounts payable and accrued charges" when it is unfavourable, with the counterpart included in "Accumulated other comprehensive income" for the portion of such fair value that is considered an effective hedge and in "Retained earnings" for the ineffective portion that has been recognized through net income. Prior to January 1, 2007, these derivative financial instruments were not recognized on the Company's consolidated balance sheet (refer to Note 1T). The ineffective portion of SNC-Lavalin's cash flow hedges on foreign exchange is not material.

#### 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 were used solely to hedge the variability of the progress payments and had all been settled as at December 31, 2007 (total estimated unrecognized unfavourable fair market value, if settlement were to occur, of approximately $0.5 million as at December 31, 2006). Any gains or losses related to the hedges were deferred and recognized into income over the same period as the underlying hedged item.

### 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, 2007, SNC-Lavalin had outstanding letters of credit of $2,159.6 million (2006: $2,053.5 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.

# 18. PENSION PLANS AND OTHER POST-RETIREMENT BENEFITS

## A) PENSION PLANS

SNC-Lavalin has defined contribution pension plans for which its contributions are recorded as expenses in the year in which they are incurred (2007: $37.6 million; 2006: $27.2 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 $46.4 million for 2007 (2006: $35.0 million).

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

| AT DECEMBER 31 | 2007 | 2006 |
|---|---|---|
| **Change in pension benefit obligation** | | |
| Pension benefit obligation at beginning of year | **$ 179,952** | $ 165,755 |
| Benefit obligation of AltaLink infrastructure concession investment upon consolidation, following acquisition of control (at acquisition date) | **–** | 7,296 |
| Current service cost | **3,718** | 3,799 |
| Interest cost | **9,227** | 8,907 |
| Benefits paid | **(12,119)** | (10,869) |
| Actuarial losses (gains) | **(5,784)** | 6,489 |
| Other | **2,817** | (1,425) |
| Pension benefit obligation at end of year | **$ 177,811** | $ 179,952 |
| **Change in pension plans' assets** | | |
| Fair value of pension plans' assets at beginning of year | **$ 140,982** | $ 121,713 |
| Fair value of plan assets of AltaLink infrastructure concession investment upon consolidation, following acquisition of control (at acquisition date) | **–** | 8,014 |
| Fair value of plan assets transferred from a previous pension plan sponsor | **8,380** | – |
| Actual return on plans' assets | **2,364** | 14,174 |
| Benefits paid | **(12,119)** | (10,869) |
| Employer contributions | **8,768** | 7,781 |
| Other | **735** | 169 |
| Fair value of pension plans' assets at end of year | **$ 149,110** | $ 140,982 |
| **Funded status** | | |
| Pension plans' deficit at end of year | **$ (28,701)** | $ (38,970) |
| Unamortized net actuarial loss | **15,598** | 20,607 |
| Net accrued benefit pension liability | **$ (13,103)** | $ (18,363) |

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, 2006. The measurement date used for the above benefit obligation and plans' assets is December 31 of each year.

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

| | 2007 | 2006 |
|---|---|---|
| **Asset class** | | |
| Equity securities | **36%** | 56% |
| Debt securities | **64%** | 44% |
| Total | **100%** | 100% |

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

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

| AT DECEMBER 31 | 2007 | 2006 |
|---|---|---|
| **Accrued pension benefit obligation** | | |
| Discount rate | **5.34%** | 5.08% |
| Rate of compensation increase | **4.18%** | 3.96% |

| YEAR ENDED DECEMBER 31 | 2007 | 2006 |
|---|---|---|
| **Net benefit pension costs** | | |
| Discount rate | **5.08%** | 5.31% |
| Expected long-term rate of return on plans' assets | **6.25%** | 6.37% |
| Rate of compensation increase | **3.96%** | 3.95% |

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

| YEAR ENDED DECEMBER 31 | 2007 | 2006 |
|---|---|---|
| Current service cost | **$ 3,718** | $ 3,799 |
| Interest cost on benefit obligation | **9,227** | 8,907 |
| Actual return on plans' assets | **(2,364)** | (14,174) |
| Actuarial losses (gains) on benefit obligation | **(5,784)** | 6,489 |
| Cost arising in the period | **4,797** | 5,021 |
| Difference between cost arising in the period and cost recognized in the period in respect of: | | |
| Return on plans' assets | **(6,930)** | 6,248 |
| Actuarial losses on benefit obligation | **10,547** | 1,346 |
| | **3,617** | 7,594 |
| Valuation allowance | **–** | (879) |
| **Net defined benefit pension cost recognized in the period** | **$ 8,414** | $ 11,736 |

### B) OTHER POST-RETIREMENT BENEFITS

As at December 31, 2007, the obligation for other post-retirement benefits amounted to $17.1 million (2006: $15.9 million) and is reflected in the consolidated balance sheet under "Other long-term liabilities".

## 19. 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.

## 20. COMMITMENTS

SNC-Lavalin's minimum lease payments for annual basic rental under long-term operating leases, mainly for office space, amount to $258.9 million. The annual minimum lease payments are as follows: 2008 – $60.4 million; 2009 – $50.8 million; 2010 – $42.7 million; 2011 – $32.5 million; 2012 – $19.7 million and thereafter – $52.8 million.

Other commitments relating to infrastructure concession investments are disclosed under Note 2E.

## 21. SEGMENT DISCLOSURES

The Company provides engineering, construction, and operations and maintenance expertise, through its network of offices across Canada and in 35 other countries, and is currently active on projects in some 100 countries. SNC-Lavalin also makes selective investments in infrastructure concessions that are complementary to its 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, health care facilities, 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, 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, broadcasting facilities, highways, light rail transit systems, military camps 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, mines 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, Gaz Métro Limited Partnership, Gazmont Limited Partnership, 407 International Inc., InTransit BC L.P., Malta International Airport p.l.c., Okanagan Lake Concession L.P., Shariket Kahraba Hadjret En Nouss S.p.A., Southern Electric Power Company Limited, Trencap Limited Partnership and West End Dam Associates, as well as Ambatovy, which was added in 2007, and its investment in Murraylink Transmission Company Pty. Ltd which was disposed of in 2006.

> "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. SNC TEC operations, which were previously presented under the Defence segment qualified as discontinued operations under Canadian GAAP and have 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 and corporate general and administrative costs. Imputed interest is allocated monthly to these segments at a rate of 10% per year resulting in a cost or revenue depending on whether the segment's current assets exceed current liabilities or vice versa, while corporate general and administrative costs are allocated based on the gross margin of each these segments. Corporate income taxes are not allocated to these segments.

## 21. SEGMENT DISCLOSURES (CONTINUED)

The Company evaluates the Infrastructure Concession Investments segment performance using: i) dividends or distributions received from investments accounted for by the cost method; ii) SNC-Lavalin's share of the net income of its investments accounted for by the equity method; iii) SNC-Lavalin's share of the net income of its investments accounted for by the proportionate consolidation method; and iv) net income from investments accounted for by the full consolidation method, less the portion attributable to non-controlling interest. In the case of Infrastructure Concession Investments for which income taxes are payable by the investor, such as investments in limited partnerships in Canada, corporate income taxes are now allocated based on the tax rate of SNC-Lavalin for such investments. Prior to 2007, the Company did not allocate corporate income taxes to Infrastructure Concession Investments and, as such, comparative figures have been reclassified to conform with this presentation. Following this change, the operating income (loss) of the Infrastructure Concession Investments segment is now reported net of income taxes and represents SNC-Lavalin's net income (loss) from its infrastructure concession investments. The Company also discloses in the table below under "Supplementary Information" its 16.77% proportionate share of Highway 407's net income (loss), as well as its net income (loss) from other infrastructure concession investments, as this information is important for assessing the value of the Company's common shares.

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 | 2007 | | 2006 | |
|---|---|---|---|---|
| | REVENUES | OPERATING INCOME (LOSS) | REVENUES | OPERATING INCOME (LOSS) |
| Infrastructure and Environment | **$ 1,757,169** | **$ 93,036** | $ 1,564,253 | $ 83,555 |
| Power | **1,616,360** | **(267,255) *** | 1,219,465 | (18,020) |
| Chemicals and Petroleum | **1,256,620** | **126,396** | 770,234 | 66,865 |
| Mining and Metallurgy | **448,904** | **68,053** | 244,799 | 29,640 |
| Operations and Maintenance | **1,058,368** | **29,514** | 920,846 | 23,473 |
| Infrastructure Concession Investments | **311,272** | **25,142** | 213,405 | 15,811 |
| All Other | **282,771** | **18,749** | 217,404 | 10,737 |
| | **$ 6,731,464** | **93,635** | $ 5,150,406 | 212,061 |
| Reversal of items included above: | | | | |
| Imputed interest benefit | | **(41,107)** | | (47,965) |
| Net interest expense and capital taxes from Infrastructure Concession Investments segment | | **104,605** | | 74,255 |
| Income taxes from Infrastructure Concession Investments segment | | **5,557** | | 3,338 |
| Non-controlling interest before income taxes | | **11,747** | | 10,633 |
| Income from continuing operations before interest, taxes and non-controlling interest | | **174,437** | | 252,322 |
| Interest and capital taxes (Note 14) | | **72,512** | | 53,301 |
| Income from continuing operations before income taxes and non-controlling interest | | **101,925** | | 199,021 |
| Income taxes | | **23,650** | | 55,081 |
| Non-controlling interest | | **9,159** | | 7,375 |
| **Net income from continuing operations** | | **69,116** | | 136,565 |
| **Net income from discontinued operations** (Note 4) | | **84,086** | | 21,807 |
| **Net income** | | **$ 153,202** | | $ 158,372 |

* In 2007, SNC-Lavalin recognized a loss in the Power segment, mainly due to issues arising from the bankruptcy proceedings and work stoppage of a key supplier on the Goreway thermal power project in Canada, which created a ripple effect of delays and increased costs and resulted in a significant loss on that project.

## 21. SEGMENT DISCLOSURES (CONTINUED)

| YEAR ENDED DECEMBER 31 | 2007 | 2006 |
|---|---|---|
| **Supplementary information:** | | |
| SNC-Lavalin's net income from Infrastructure Concession Investments | | |
| From Highway 407 | **$ 10,116** | $ 8,133 |
| From other infrastructure concession investments | **15,026** | 7,678 |
| Net income excluding Infrastructure Concession Investments | | |
| From continuing operations | **43,974** | 120,754 |
| From discontinued operations | **84,086** | 21,807 |
| Net income | **$ 153,202** | $ 158,372 |

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 | 2007 | 2006 |
|---|---|---|
| Segment net assets (liabilities), as defined above | | |
| Infrastructure and Environment | **$ (91,985)** | $ (89,465) |
| Power | **(428,701)** | (400,557) |
| Chemicals and Petroleum | **(61,194)** | (116,088) |
| Mining and Metallurgy | **36,556** | 21,817 |
| Operations and Maintenance | **(63,893)** | (39,798) |
| Infrastructure Concession Investments | **(33,465)** | (74,912) |
| All Other | **(58,903)** | (29,538) |
| Total segment net assets (liabilities) | **(701,585)** | (728,541) |
| Reversal of: | | |
| Current liabilities included in the above segment net assets (liabilities) | **2,926,085** | 2,836,999 |
| Current assets, excluding cash and cash equivalents, restricted cash and assets of discontinued operations | **2,224,500** | 2,108,458 |
| Cash and cash equivalents | **1,088,616** | 1,106,265 |
| Restricted cash | **107,905** | 134,692 |
| Assets of discontinued operations (Note 4) | **–** | 250,286 |
| Property, equipment, goodwill and other long-term assets | **3,064,365** | 2,639,286 |
| **Total assets** | **$ 6,485,386** | $ 6,238,987 |

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

| YEAR ENDED DECEMBER 31 | 2007 | 2006 |
|---|---|---|
| **Revenues by category** | | |
| Services | **$ 1,726,129** | $ 1,180,237 |
| Packages | **3,635,695** | 2,835,918 |
| Operations and Maintenance | **1,058,368** | 920,846 |
| Infrastructure Concession Investments | **311,272** | 213,405 |
| | **$ 6,731,464** | $ 5,150,406 |

## 21. SEGMENT DISCLOSURES (CONTINUED)

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

| YEAR ENDED DECEMBER 31 | 2007 | 2006 |
|---|---|---|
| **Revenues by geographic segment** | | |
| Canada | **$ 3,871,827** | $ 3,184,869 |
| Africa | **1,066,604** | 650,835 |
| Middle East | **572,895** | 289,842 |
| Europe | **572,721** | 427,411 |
| United States | **225,070** | 189,135 |
| Asia | **160,575** | 164,215 |
| Latin America | **127,355** | 180,850 |
| Other | **134,417** | 63,249 |
| | **$ 6,731,464** | $ 5,150,406 |

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

| AT DECEMBER 31 | 2007 | 2006 |
|---|---|---|
| **Property, equipment and goodwill** | | |
| **Canada:** | | |
| From Infrastructure Concession Investments | **$ 1,844,449** | $ 1,643,071 |
| Other | **187,068** | 150,947 |
| | **2,031,517** | 1,794,018 |
| **Outside Canada:** | | |
| From Infrastructure Concession Investments | – | – |
| Other | **202,657** | 67,584 |
| | **202,657** | 67,584 |
| | **$ 2,234,174** | $ 1,861,602 |

## 22. COMPARATIVE FIGURES

Certain 2006 figures have been reclassified to conform with the presentation adopted in 2007.

# MANAGEMENT TEAM

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President and Chief Executive Officer

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Executive Vice-President
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**Dennis Lafleur** (Ottawa)
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**Douglas Hodgins** (Toronto)
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*Continued on next page*

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# BOARD OF DIRECTORS

**DAVID GOLDMAN**
Chairman of the Board
Copernic Inc.
Montreal, Quebec
Canada
Member of the Audit Committee
Member of the Human Resources Committee

**PATRICIA A. HAMMICK, PhD**
Company Director
Kilmarnock, Virginia
United States
Member of the Audit Committee
Member of the Health, Safety and Environment 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
Member of the Governance Committee
Member of the Human Resources Committee

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Gibsons, British Columbia
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Member of the Governance Committee
Chairperson of the Health, Safety and Environment Committee

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Toronto, Ontario
Canada
Member of the Human Resources Committee
Member of the Health, Safety and Environment Committee

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Executive Vice-President and Chief Financial Officer
Canadian National
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Canada
Chairman of the Audit Committee
Member of the Governance Committee

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Chairman of the Board
SNC-Lavalin Group Inc.
North Saanich, British Columbia
Canada
Chairman of the Governance 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**
Managing Director
Callisto Capital
Toronto, Ontario
Canada
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

# TEN-YEAR STATISTICAL SUMMARY

| YEAR ENDED DECEMBER 31 (IN MILLIONS OF CANADIAN DOLLARS, UNLESS OTHERWISE INDICATED) | 2007 | 2006 | 2005 | 2004 | 2003 | 2002 | 2001 | 2000 | 1999 | 1998 |
|---|---|---|---|---|---|---|---|---|---|---|
| Revenues | | | | | | | | | | |
| Services | **1,726.1** | 1,180.2 | 958.5 | 923.6 | 888.8 | 777.2 | 583.2 | 544.9 | 531.0 | 537.9 |
| Packages | **3,635.7** | 2,835.9 | 1,704.1 | 1,502.7 | 1,463.7 | 1,769.3 | 863.2 | 523.6 | 438.8 | 687.8 |
| Operations and Maintenance | **1,058.4** | 920.9 | 695.9 | 646.1 | 569.7 | 553.2 | 618.4 | 405.0 | 106.3 | 123.2 |
| Infrastructure Concession Investments (ICI) | **311.3** | 213.4 | 92.4 | 85.0 | 76.1 | 64.6 | 55.8 | 65.9 | 31.6 | (3.0) |
| | **6,731.5** | 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 |
| Gross margin | **567.2** | 538.0 | 460.8 | 446.3 | 433.6 | 404.5 | 326.4 | 266.2 | 261.0 | 240.2 |
| Administrative, marketing and other expenses | **392.8** | 285.7 | 257.4 | 253.3 | 270.3 | 259.1 | 206.3 | 176.2 | 183.3 | 168.7 |
| Interest (revenues) and capital taxes | | | | | | | | | | |
| From ICI | **104.6** | 74.3 | 47.6 | 52.9 | 44.7 | 47.9 | 67.8 | 51.7 | 24.0 | – |
| Other | **(32.1)** | (21.0) | (3.5) | 5.2 | 4.6 | 8.3 | (0.9) | (4.4) | (1.1) | 3.1 |
| Income before gains, income taxes, non-controlling interest and amortization of goodwill | **101.9** | 199.0 | 159.3 | 134.9 | 114.0 | 89.2 | 53.2 | 42.7 | 54.8 | 68.4 |
| 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 | **101.9** | 199.0 | 159.3 | 134.9 | 114.0 | 253.2 | 53.2 | 42.7 | 54.8 | 68.4 |
| Income taxes | **23.6** | 55.1 | 51.5 | 46.5 | 43.2 | 65.2 | 24.7 | 21.2 | 21.4 | 19.5 |
| Non-controlling interest | **9.2** | 7.3 | 2.2 | – | – | – | – | – | – | – |
| Income before amortization of goodwill | **69.1** | 136.6 | 105.6 | 88.4 | 70.8 | 188.0 | 28.5 | 21.5 | 33.4 | 48.9 |
| Amortization of goodwill (net of income taxes) | – | – | – | – | – | – | 14.6 | 10.5 | 7.6 | 7.4 |
| Net income from continuing operations | **69.1** | 136.6 | 105.6 | 88.4 | 70.8 | 188.0 | 13.9 | 11.0 | 25.8 | 41.5 |
| Net income from discontinued operations | **84.1** | 21.8 | 24.3 | 15.7 | 15.7 | 14.5 | 12.5 | 12.9 | 10.5 | 4.1 |
| Net income | **153.2** | 158.4 | 129.9 | 104.1 | 86.5 | 202.5 | 26.4 | 23.9 | 36.3 | 45.6 |
| Return on average shareholders' equity | **16.5%** | 19.0% | 17.3% | 15.2% | 13.8% | 36.0% | 6.6% | 6.7% | 10.4% | 14.3% |
| Acquisition of property and equipment | | | | | | | | | | |
| From ICI | **308.6** | 182.5 | 22.3 | 9.1 | 75.0 | 13.1 | 70.8 | 87.3 | 14.0 | – |
| Other | **41.2** | 37.7 | 25.5 | 19.6 | 14.8 | 32.8 | 20.6 | 19.9 | 14.1 | 15.9 |
| | **349.8** | 220.2 | 47.8 | 28.7 | 89.8 | 45.9 | 91.4 | 107.2 | 28.1 | 15.9 |
| Depreciation of property and equipment and amortization of other assets | | | | | | | | | | |
| From ICI | **76.9** | 52.4 | 13.7 | 13.5 | 11.0 | 10.4 | 14.1 | 11.7 | 5.7 | – |
| Other | **35.7** | 28.9 | 25.1 | 31.7 | 32.6 | 31.2 | 28.6 | 23.2 | 17.4 | 20.9 |
| | **112.6** | 81.3 | 38.8 | 45.2 | 43.6 | 41.6 | 42.7 | 34.9 | 23.1 | 20.9 |
| Supplementary Information (1): | | | | | | | | | | |
| SNC-Lavalin's net income (loss) from ICI | | | | | | | | | | |
| From Highway 407 | **10.1** | 8.1 | (4.7) | (14.5) | (12.7) | 113.0 | (32.8) | (29.2) | (13.2) | – |
| From other ICI | **15.0** | 7.7 | 8.8 | 7.2 | 4.1 | 5.2 | 1.2 | (5.8) | 0.7 | (4.8) |
| SNC-Lavalin's net income excluding ICI | **128.1** | 142.6 | 125.8 | 111.4 | 95.1 | 84.3 | 58.0 | 58.9 | 48.8 | 50.4 |
| Net income | **153.2** | 158.4 | 129.9 | 104.1 | 86.5 | 202.5 | 26.4 | 23.9 | 36.3 | 45.6 |

(1) The Company discloses its net income (loss) from ICI and excluding ICI, as this information is important for assessing the value of the Company's common share.

| YEAR ENDED DECEMBER 31 | 2007 | 2006 | 2005 | 2004 | 2003 | 2002 | 2001 | 2000 | 1999 | 1998 |
|---|---|---|---|---|---|---|---|---|---|---|
| Diluted earnings per share ($) | **1.00** | 1.04 | 0.85 | 0.68 | 0.56 | 1.32 | 0.18 | 0.17 | 0.26 | 0.32 |
| Weighted average number of shares — diluted (in thousands) | **152,697** | 152,685 | 153,143 | 153,449 | 153,639 | 153,888 | 146,556 | 140,289 | 140,925 | 141,123 |
| Annual dividends declared per share ($) | **0.39** | 0.30 | 0.23 | 0.18 | 0.14 | 0.12 | 0.10 | 0.08 | 0.08 | 0.07 |

| AT DECEMBER 31 (IN MILLIONS OF CANADIAN DOLLARS, UNLESS OTHERWISE INDICATED) | 2007 | 2006 | 2005 | 2004 | 2003 | 2002 | 2001 | 2000 | 1999 | 1998 |
|---|---|---|---|---|---|---|---|---|---|---|
| Number of employees | **18,691** | 13,297 | 11,187 | 9,545 | 9,047 | 13,284 | 7,553 | 7,334 | 5,822 | 5,543 |
| Backlog | | | | | | | | | | |
| Services | **1,556.5** | 819.8 | 604.2 | 564.9 | 567.7 | 416.2 | 389.7 | 370.0 | 314.8 | 329.2 |
| Packages | **4,457.0** | 6,082.6 | 4,308.1 | 2,483.2 | 1,749.5 | 1,715.4 | 885.0 | 1,163.9 | 914.9 | 655.6 |
| Operations and Maintenance | **2,513.9** | 1,570.2 | 2,112.4 | 2,213.5 | 764.3 | 1,135.9 | 1,151.9 | 1,256.4 | 342.9 | 145.6 |
| Infrastructure Concession Investments (ICI) | **2,095.4** | 1,942.0 | 468.9 | 394.9 | 370.9 | 342.8 | 511.8 | 560.6 | 512.1 | 155.6 |
| | **10,662.8** | 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 |
| Cash and cash equivalents | **1,088.6** | 1,106.3 | 1,153.5 | 676.3 | 471.9 | 467.4 | 290.7 | 257.6 | 110.9 | 214.2 |
| Working capital | **270.2** | 300.3 | 411.4 | 334.8 | 395.6 | 277.3 | 290.1 | 175.2 | 66.5 | 209.9 |
| Property and equipment | | | | | | | | | | |
| From ICI | **1,640.7** | 1,439.3 | 452.5 | 450.8 | 456.8 | 451.0 | 601.8 | 569.2 | 458.9 | – |
| Other | **112.0** | 94.3 | 81.0 | 77.4 | 87.0 | 107.4 | 91.4 | 93.7 | 82.8 | 85.7 |
| | **1,752.7** | 1,533.6 | 533.5 | 528.2 | 543.8 | 558.4 | 693.2 | 662.9 | 541.7 | 85.7 |
| Recourse long-term debt | **104.6** | 104.5 | 104.4 | 104.3 | 104.2 | 104.0 | 103.9 | 103.8 | – | – |
| Non-recourse long-term debt | | | | | | | | | | |
| From ICI | **1,971.0** | 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 |
| | **1,971.0** | 1,676.7 | 814.1 | 759.0 | 705.2 | 646.9 | 1,071.7 | 989.0 | 840.8 | 38.7 |
| Shareholders' equity | **928.3** | 906.0 | 789.7 | 717.8 | 658.3 | 597.1 | 443.0 | 358.2 | 357.9 | 317.8 |
| Book value per share ($) | **6.15** | 6.00 | 5.22 | 4.74 | 4.33 | 3.97 | 2.96 | 2.60 | 2.54 | 2.36 |
| Number of outstanding common shares (in thousands) | **151,038** | 151,033 | 151,282 | 151,525 | 152,005 | 150,472 | 149,440 | 137,773 | 140,651 | 134,614 |
| Closing market price per share ($) | **48.14** | 31.47 | 25.43 | 19.33 | 17.00 | 11.35 | 9.63 | 4.65 | 3.65 | 3.85 |

# INFORMATION FOR SHAREHOLDERS

## COMMON SHARE INFORMATION

| | |
|---|---|
| Listed: | Toronto Stock Exchange |
| Symbol: | SNC |
| Shares outstanding: | 151.0 million (December 31, 2007) |
| Market capitalization: | $7,271 million (December 31, 2007) |

## TRADING ACTIVITY

| | Volume (000's) | High ($) | Low ($) | Close ($) |
|---|---|---|---|---|
| 2007 | 102,745 | 51.04 | 30.00 | 48.14 |
| 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 |

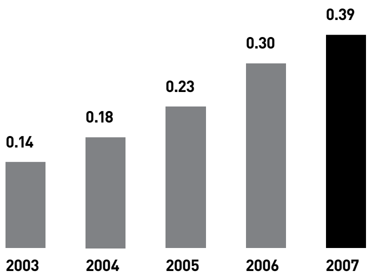
## DEBT INSTRUMENT

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

Credit Ratings

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

## DIVIDENDS




**Dividends Declared in the Last Five Years**
(IN CANADIAN $)

## KEY DATES FOR 2008

| | Earnings Announcement | Dividend Record | Dividend Payment |
|---|---|---|---|
| Q1 | May 1 | May 15 | May 29 |
| Q2 | July 30 | Aug. 13 | Aug. 27 |
| Q3 | Oct. 30 | Nov. 13 | Nov. 27 |
| Q4 | March 6, 2009 | March 20, 2009 | April 3, 2009 |

Note: Dividends are subject to approval by the Board of Directors.
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 ON M5J 2Y1

Telephone: 1-800-564-6253
Web: www.computershare.com

## ANNUAL MEETING

The Annual Shareholders' Meeting will be held at 11:00 am Eastern Daylight Time on Thursday, May 1st, 2008 at "Amphitheatre of Les Salles du Gesù", 1200 de Bleury Street, Montreal, Quebec.

## AUDITORS

Deloitte & Touche LLP
Chartered Accountants
Montreal QC

## HEAD OFFICE

SNC-Lavalin Group Inc.
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## INVESTOR RELATIONS CONTACT

Denis Jasmin, Vice-President, Investor Relations
denis.jasmin@snclavalin.com
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 :

Services des relations publiques
Groupe SNC-Lavalin inc.
455, boul. René-Lévesque Ouest
Montréal QC
H2Z 1Z3 Canada
514-393-1000, poste 2121

**About the production of our Annual Report**

SNC–Lavalin recognizes the importance of contributing to the protection of our environment by using paper that came from well-managed forests or other controlled sources, certified in accordance with the international standards of the Forest Stewardship Council (FSC).

The cover and editorial pages of this report are printed on acid-free paper which contains 30% post-consumption recycled fibres; the financial pages are printed on paper certified by *Environmental Choice* (EcoLogo) with 100% post-consumption recycled fibres, de-inked without chlorine and made using biogas energy.

Using recycled paper for our Annual Report rather than virgin fibres paper helps protect the environment in a number of ways:

| 105 | 3,040 kg | 287,568 l | 19.2 kg | 6,676 kg | 434 $m^3$ |
|---|---|---|---|---|---|
| Trees saved *(or 2.1 American football fields)* | Reduction in solid waste | Reduction in water usage | Reduction in suspended particles in the water | Reduction in atmospheric emissions *(yearly emissions of 1.3 cars)* | Reduction in natural gas consumption |

Sources : www.environmentaldefense.org, www.ofee.gov, www.ncasi.org, www.epa.gov

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**THANK YOU**

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

SNC·LAVALIN

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