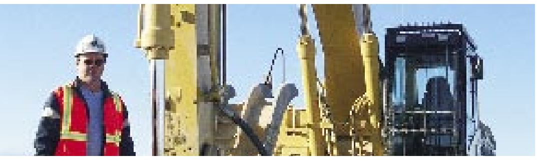
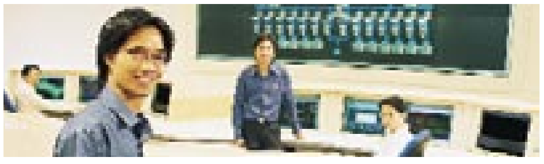
2005 ANNUAL REPORT





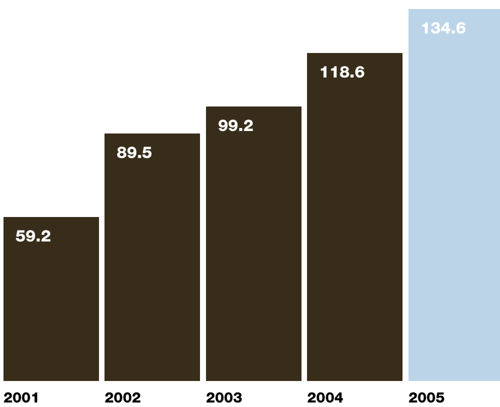
SNC·LAVALIN

SNC-LAVALIN 2005 ANNUAL REPORT

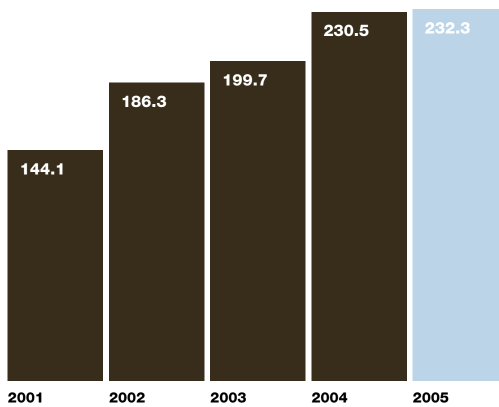
WE ARE SNC-LAVALIN, PROVIDING IDEAS, INNOVATION AND EXPERTISE.

SNC-Lavalin is an international leader in engineering, construction, operations and maintenance, and infrastructure concessions. 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.

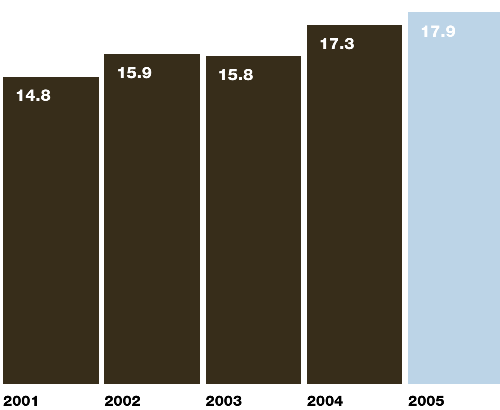
FINANCIAL HIGHLIGHTS



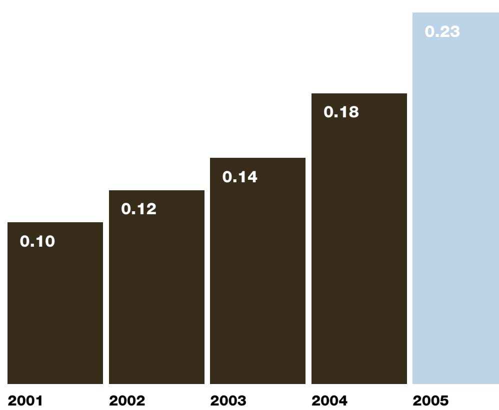
Net Income, excluding Highway 407
(IN MILLIONS OF CANADIAN $)



Earnings before interest, taxes, depreciation and amortization, excluding Highway 407
(IN MILLIONS OF CANADIAN $)



Return on Weighted Average Shareholders' Equity, excluding Highway 407
(IN %)



Annual Dividends Declared per Share
(IN CANADIAN $)

Reference in this Annual Report to "SNC-Lavalin" means, as the context may require, SNC-Lavalin Group Inc. and all or some of its subsidiaries or joint ventures, or SNC-Lavalin Group Inc. or one or more of its subsidiaries or joint ventures. Additional definitions are set out in note 1 to the consolidated financial statements.

FINANCIAL HIGHLIGHTS

(IN THOUSANDS OF CANADIAN DOLLARS, UNLESS OTHERWISE INDICATED)

INCOME STATEMENT HIGHLIGHTS

FOR YEAR ENDED DECEMBER 31

	2005	2004
Revenues		
Services	$ 958,510	$ 923,578
Packages	1,704,097	1,502,692
Concessions	1,125,202	1,020,694
	$ 3,787,809	$ 3,446,964
Earnings before interest, taxes, depreciation and amortization (EBITDA)		
Excluding Highway 407	$ 232,341	$ 230,463
From Highway 407	53,022	46,606
	$ 285,363	$ 277,069
Net income (loss)		
Excluding Highway 407	$ 134,587	$ 118,580
From Highway 407	(4,675)	(14,467)
	$ 129,912	$ 104,113

BALANCE SHEET HIGHLIGHTS

AT DECEMBER 31

	2005	2004
Cash and cash equivalents	$ 1,176,177	$ 713,173
Recourse long-term debt	$ 104,406	$ 104,280
Shareholders' equity	$ 789,707	$ 717,841

SHARE INFORMATION

FOR YEAR ENDED DECEMBER 31

	2005	2004
Diluted earnings per share ($) (1)		
Excluding Highway 407	$ 0.88	$ 0.77
From Highway 407	(0.03)	(0.09)
	$ 0.85	$ 0.68
Dividends declared per share ($) (1)	$ 0.23	$ 0.18

ROASE

FOR YEAR ENDED DECEMBER 31

	2005	2004
Return on weighted average shareholders' equity (ROASE)		
Excluding Highway 407	17.9 %	17.3 %
From Highway 407	(0.6)%	(2.1)%
	17.3 %	15.2 %

BACKLOG

AT DECEMBER 31

	2005	2004
Services	$ 604,200	$ 564,900
Packages	4,308,100	2,483,200
Concessions	3,224,500	3,281,600
	$ 8,136,800	$ 6,329,700

(1) The diluted earnings per share and dividends per share reflect the three-for-one stock split announced on February 24, 2006.

AT A GLANCE

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.

INFRASTRUCTURE

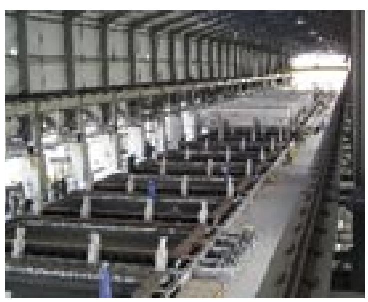
Our expertise in this sector includes airports, bridges, buildings, container ports, ferry terminals, flood control systems, hospitals, mass transit systems, railways, roads and water treatment and distribution facilities.

ENVIRONMENT

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

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; chemicals and fertilizers.



MINING AND METALLURGY

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

OPERATIONS AND MAINTENANCE

We provide operations, maintenance, logistics and commissioning, as well as real estate and asset lifecycle management, for buildings, ships, remote sites, and military, commercial, industrial and infrastructure installations.

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. We are market leaders in engineering, construction and validation projects with expertise in biotechnology and pharmaceutical process engineering and regulatory compliance.

INDUSTRIAL

Our areas of activity in the light industrial and secondary processing sectors include glass, biofuels, lubricants, automobile and aircraft assembly, cosmetics, filling and packaging lines, and many others. Our services range from process development and design, to plant commissioning and start up. We also offer complete services in the instrumentation and automation of industrial processes.

PROJECT FINANCING

SNC-Lavalin Capital is an accredited International Financial Centre with offices in Vancouver, Toronto, Montreal, Amsterdam and Algiers. Our financial experts help arrange financing for our own projects and for third party clients. In 2005, Dealogic Global Project Finance Review ranked SNC-Lavalin Capital among the world's top 10 global bookrunners for project finance bonds.

DEFENCE

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

INFRASTRUCTURE CONCESSION INVESTMENTS

We have been making equity investments since the mid-1980s, giving us 20 years of experience in this field. We have the breadth of expertise to design, build, own, operate and maintain infrastructure facilities and systems, as well as provide a financing component for them.

MEMBERS OF THE OFFICE OF THE PRESIDENT

FROM LEFT TO RIGHT

FRONT ROW
Jacques Lamarre
Marylynne Campbell
Pierre Anctil
Jean Claude Pingat
Pierre Duhaime
Michael Novak

BACK ROW
Klaus Triendl
Gilles Laramée
Jean Beaudoin
Sami Bébawi

MESSAGE TO SHAREHOLDERS

2005 was a year of considerable achievement for SNC-Lavalin.

We performed well financially; we increased our backlog by nearly 30% over 2004; we acquired engineering companies in the environment, industrial, infrastructure and pharmaceutical sectors; and we expanded our portfolio of infrastructure concession investments with two new investments, including one of the largest infrastructure projects underway in Canada. Over the course of the year, we also received votes of confidence from the financial community. Standard & Poor's and Dominion Bond Rating Service upgraded our rating from BBB TO BBB+ / BBB (high), and our share price increased by 31.6% over 2004, and was more than $30.00 in March 2006.

It was a good year, and one that firmly positions us for another good year in 2006.

FINANCIAL PERFORMANCE

We met all three of our financial objectives.

1. GROW OUR NET INCOME EXCLUDING HIGHWAY 407 BY 7%-12%

Our net income excluding Highway 407 increased by 13.5%, rising from $118.6 million in 2004 to $134.6 million at year end 2005. Our consolidated net income also increased, rising by 24.8% to $129.9 million.

2. ATTAIN A RETURN ON AVERAGE SHAREHOLDERS' EQUITY EQUAL TO THAT OF THE CANADA LONG-TERM BOND YIELD PLUS 6% (ABOUT 11% IN 2005)

We surpassed our target with a return on average shareholders' equity of 17.9%.

3. MAINTAIN A STRONG BALANCE SHEET

Our balance sheet remains strong with $1.2 billion in cash and cash equivalents, while our recourse debt was only $105 million. The market value of our portfolio of infrastructure concession investments continues to increase and is much higher than our recorded book value.

STRATEGIC STRENGTHS

Our backlog reflects our ability to win contracts and is a quantifiable means of measuring the effectiveness of our strategic decisions. Looking back over the last five years, our backlog has grown consistently, rising from $4.0 billion in 2000 to over $8.1 billion at the end of 2005.

Our strategy has clearly served us well, and we believe it remains an appropriate and reliable approach for our future activities. It consists of four key components:

- Build on our globally recognized *core expertise* and add *new areas of technical expertise* which are recognized worldwide
- Use our *international network* to maintain continuous relationships with our clients and identify new opportunities
- Use our *financing capabilities* to enhance our competitiveness on major projects
- Combine our technical expertise, our operations and maintenance experience and our financing capabilities to develop and acquire *infrastructure concessions*

A good strategy, on its own, does not necessarily ensure the Company's strong performance. We supplement our strategic plan with three fundamental operational practices: accountability, diversity and adaptability.

ACCOUNTABILITY

We are accountable to all our stakeholders, and advocate an awareness of what we consider to be the cornerstones of our daily work:

- Ensuring the safety and well-being of our employees, the individuals under our supervision and the end users of our projects
- Employing sustainable development practices in the communities where we live and work
- Conducting our business in an environmentally responsible manner
- Maintaining the highest standards of quality to meet or exceed our clients' expectations

We have launched an extensive "WE CARE" campaign to promote these values throughout the Company and to our external stakeholders.

DIVERSITY

Our revenue base is well balanced by region, industry sector and type of activity. We also have a multicultural workforce able to communicate with clients, communities and subcontractors in their own languages, while we ourselves share a common corporate culture. Moreover, our international network of offices provides important local expertise and a permanent local presence in countries around the world.

ADAPTABILITY

Our areas of expertise often complement each other, creating synergies that can generate further market opportunities. For example, our process engineers are using agrifood technology on a biofuel project; our expertise in simulation technology can be applied to operations in the mining, chemicals and petroleum and other sectors; and our operations and maintenance group is working more and more with our engineering and construction teams to ensure that the start-up of facilities, and their subsequent operations, meet the projects' objectives.

Our diverse and complementary expertise gives us the flexibility to adapt to evolving market demands. One of the more notable examples in recent years has been our ready response to an increasing demand for all-inclusive contracts. These require expertise in engineering, procurement, construction, project management, operations and maintenance, and often include project financing and ownership components. SNC-Lavalin can fulfill all these requirements.

Our ability to adapt to individual clients' needs depends on our employees' know how and the critical decisions they make on the job every day. Our employees are among the best in the business. Thanks to their world-class expertise and the high quality of their work, we have established solid client relationships and achieved global leadership in many of our key areas of activity.

You may notice that many of the clients mentioned in this Report are repeat customers, some of whom have been working with us for decades. We are also proud of the recognition our employees have earned from the industry at large. As highlighted in the Awards section of this Report, they were honoured with several awards in 2005 for innovation, design, quality, safety and high environmental standards.

BUSINESS ACQUISITIONS

Our existing expertise is the basis for our success, but we continually enhance our capabilities through select business acquisitions.

We acquired five companies in 2005, bringing us a total of over 300 new employees.

Our acquisition of Morrow Environmental Consultants in western Canada enhances and expands our environmental team's global expertise, and extends its presence right across the country.

The addition of Montreal-based Devonyx brings us expertise in dynamic process simulation, e-learning, time and motion analysis, and Web-based software and training, all of which are applicable to our other sectors of activity.

In the pharmaceutical and biotechnology sector, we acquired BHA of Toronto, a company specialized in process engineering, automation and validation services.

In France, we acquired SIRR and B2000, both based in Alsace. SIRR specializes in infrastructure related to healthcare, education, recreation and manufacturing. B2000 brings additional environmental expertise as well as special skills such as demolition and underground topography problem-solving.

INFRASTRUCTURE CONCESSION INVESTMENTS

Infrastructure concession investments are another important means of growing our business, and 2005 was an outstanding year for our infrastructure investment portfolio.

We signed two major agreements with a total capital cost of nearly $2 billion. Both required a full range of engineering and construction expertise from our transport team, financing expertise from SNC-Lavalin Capital and operations and maintenance experience from SNC-Lavalin ProFac.

The first was a 30-year concession agreement to design, build and finance the William R. Bennett Bridge in Kelowna, British Columbia. Once built, SNC-Lavalin ProFac will operate and maintain the bridge for 27 years.

The second was a 35-year concession agreement to design, build, operate and maintain the Canada Line rapid transit system in British Columbia. The agreement included a financing component, and it has since been recognized as the North American Infrastructure Deal of the Year by Project Finance International Magazine, and the North American Transport Deal of the Year by Euromoney Project Finance Magazine.

CORPORATE GOVERNANCE

We review our policies and practices every year to ensure they reflect the highest governance principles.

We were pleased to note that SNC-Lavalin was rated number one out of 209 companies on the S&P/TSX composite index in the Globe and Mail's 2005 survey of corporate governance practices. We received a score of 97%, the highest mark the survey has ever awarded.

OUTLOOK

2005 was a good year for SNC-Lavalin and, given the current price of commodities, the global demand for infrastructure and power development, and our ability to meet market demands in all our sectors, we are optimistic about our prospects for 2006.

Given our solid performance in 2005, and the strength of our market position into 2006, we are happy to report that the Board of Directors has approved a three-for-one stock split and a 31.2% increase in our quarterly dividend to $0.07 per share.

ACKNOWLEDGEMENTS

We would like to thank our employees for their invaluable contribution to our success in 2005. Their initiative and dedication helps ensure the success of our business strategy.

We welcomed Jean Beaudoin to the Office of the President on January 1, 2006. Jean is responsible for our Chemicals and Petroleum operations worldwide, and we are pleased to be working with him in this new capacity.

We bid farewell to Krish Krishnamoorthy, who retired from SNC-Lavalin and the Office of the President at the end of 2005 after nearly 30 years of service. Krish helped build our Chemicals and Petroleum operations into one of the best in the business, and pioneered many of our project, risk and quality management procedures. He has agreed to continue to act as an advisor to the Company.

We extend our appreciation to the Board of Directors for their guidance, and welcomed Gwyn Morgan to the Board in 2005. Gwyn has 30 years of experience in the oil and gas industry and is highly regarded for his business acumen and strategic thinking. He is an excellent addition to our Board.

Our thanks to Angus Bruneau and Allan F. Leach, who are retiring from the Board in May 2006, having reached the mandatory retirement age for directors. We are grateful for the valuable knowledge and direction they provided throughout their tenure with us.

Finally, we thank our clients and shareholders for their ongoing confidence in SNC-Lavalin.

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

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

POWER

NEARLY 95 YEARS OF EXPERIENCE IN OVER 120 COUNTRIES
INSTALLED CAPACITY OF OVER 250,000 MW
90,000 KM OF TRANSMISSION AND DISTRIBUTION LINES

Thanks to the combined efforts of our Seattle and Toronto staff, the Greater Toronto Airports Authority's thermal power plant at Pearson International Airport has maintained an exceptional safety record of no lost time incidents. The plant will give the Airport its own supply of electricity and provide steam for its heating and cooling system.

Our team on the Skikda thermal project in Algeria overcame several challenges to meet an urgent power provision deadline, including a demanding schedule, severe space constraints and 40 straight days of rain that delayed work by a full month. Nonetheless, they met their deadline to the client's satisfaction with no lost time incidents.

Our American and Polish offices are designing and building a 460 MW lignite-fired supercritical thermal plant in Poland for Elektrownia Patnow. The plant will be the most efficient and environmentally clean brown coal fired unit in Poland.

The Eastmain-1 hydroelectric site's reservoir in Quebec covers an area of 603 km^2 and is surrounded by low-lying terrain. To enclose it, our engineers designed 29 earth and rock filled dikes and an 890 metre-long dam. The diversion tunnel has been closed, and the reservoir impoundment should be completed by May 2006.

Governments are turning to nuclear power to meet increasing energy demands. We are working on two units at Bruce Power's Bruce A facility in Ontario, replacing eight steam generators and contributing to other refurbishment work. Restarting the units will boost the site's total output to over 6,200 MW.

Working with a partner, we are preparing preliminary designs for a 165 MWe (electrical) pebble bed modular nuclear reactor demonstration power plant in Koeberg, South Africa. Pebble bed reactor technology has a passive shutdown safety design to prevent meltdown in case of overheating.

Construction is nearing completion on the underground transmission line project at Three Sisters Mountain Village Resort in Canada's Rocky Mountains. We are converting an overhead line into an underground concrete vault in mountainous terrain. Construction challenges included abandoned shallow mineshafts, sinkholes and special wildlife precautions.

For its first ever outsourced substation project, the British Columbia Transmission Corporation selected our Alberta-based power transmission and distribution experts to do the job. The lump sum turnkey contract involves the delivery of four new substations in B.C.

Our engineers installed an extensive energy management system for NSTAR in Boston. This is the largest installation of its kind ever undertaken, and one of the first to be fully compliant with post 9/11 National Electricity Reliability Council (NERC) requirements for cyber attack security.

Toronto, Canada

Eastmain-1 Hydroelectric Development Project, Canada

Société d'énergie de la Baie James, Eastmain-1 Project

INFRASTRUCTURE

PROJECTS OF ALL SIZES
GLOBAL PROCUREMENT NETWORK
PROJECT FINANCING WORLDWIDE

We have a number of all-inclusive contracts underway in Canada, each requiring a full complement of expertise. The Canada Line transit system and William R. Bennett Bridge projects in British Columbia, and the Brun-Way Trans-Canada Highway project in New Brunswick are among the largest infrastructure projects underway in the country. We are designing and building the structures, SNC-Lavalin Capital arranged the financing, and SNC-Lavalin ProFac will be responsible for operations and maintenance.

Our team building the Taksebt water treatment plant and pumping station in Algeria finished the emergency water supply phase one month ahead of schedule with no lost time incidents. We are now installing the conveyance lines and working on the first phase of the water treatment plant. Once the plant is built, we will operate and maintain it under a five-year contract.

SNC-Lavalin Gulf Contractors, a company we formed with a local partner in the United Arab Emirates, has completed two projects and is working on nine others in the UAE for the National Central Cooling Company, Tabreed.

We are part of a consortium upgrading seven potable water plants in the Montreal area, including two that account for 85% of the City's water production capacity.

We designed the artificial lagoon and pool complex at the luxurious Monte Carlo Bay Resort. The lagoon is filled with 750 tonnes of sand and is the first of its kind in Europe. We also installed an ultramodern communications system and a heating/air conditioning system that uses seawater.

Our team building the Qikiqtani General Hospital in Nunavut, Canada had to ensure all necessary materials and equipment were shipped to coincide with three summer sealifts, and that outside construction was completed before the onset of arctic winter in October. The building was enclosed on schedule, and is heated for winter work.

We have numerous road projects underway as part of a Quebec-wide upgrade and expansion program. Construction has begun on the Route 132 upgrade on Montreal's south shore, we are upgrading Highway 73 south of Quebec City and extending it by 11 km to St-Georges-de-Beauce, and we are providing engineering and consulting services on several other road and bridge projects.

Our ports specialists are providing engineering and project management expertise on B.C. Ferries' capital expansion project, and maintenance services at all its terminals. We are also providing key construction management expertise on a large dock facility project for P&O Ports in downtown Vancouver, including a rail yard and track work.

Barahona, Dominican Republic

Brun-Way Trans-Canada Highway Project, Canada

ENVIRONMENT

OVER 50 YEARS OF EXPERIENCE WORLDWIDE
EXPERTISE IN POWER, INFRASTRUCTURE,
TRANSPORT, CHEMICALS & PETROLEUM AND MINING

Our acquisition of Morrow Environmental in western Canada has enhanced our environment team's global expertise and extended its presence across the country.

The Sélingué hydroelectric dam's reservoir in Mali forms an artificial lake used for irrigation and fishing. We conducted a study of the dam's ecological impact over a 4,400 km^2 area to determine how best to monitor and manage it, and will train local people to manage and maintain it using geographic information systems.

The Ontario government and local communities approved our class environmental assessment for an expansion of the Western James Bay transmission line to service DeBeers' proposed Victor Diamond Mine. We conducted traditional ecological knowledge studies and two series of community consultations to ensure local concerns and First Nations' traditional knowledge were incorporated.

In Guinea, we are acting as consulting engineer on a rural water supply project which will provide about 450,000 people with access to safe drinking water. The project involves installing 1,100 bored water wells with manual pumps, a mini-network of six small reservoirs with solar powered pumps, and 5,200 latrines.

In British Columbia, we are working at two five hectare contaminated sites at Victoria's inner harbour. One was used for coal gas production until the mid-1900s, the other is an old commercial and industrial site now largely undeveloped.

We finished an environmental impact study for a four-lane suspension bridge across the Saguenay River in Quebec. It will be 1,350 m long, making it the longest suspension bridge in North America and the fifth longest in the world.

The environmental impact study we conducted for Rabaska's liquefied natural gas (LNG) facility near Lévis, Quebec was the first study of its kind ever undertaken in the province. Our report met all criteria required by the Quebec Environment Ministry, the Canadian Environmental Assessment Act and the National Energy Board.

The Alto Chicama gold mine in the Peruvian Andes straddles the intercontinental divide, which made the environmental impact assessment, design, permitting and construction processes particularly challenging. We completed the project ahead of schedule, and our environmental and engineering design was so well received by regulatory bodies it set a new standard for environmental submissions in Peru.

We were hired to determine the extent of contamination at a remote radar site near Hudson Bay in northern Ontario. Everything from basic necessities to heavy equipment had to be brought into the abandoned site, making logistics particularly challenging and time-sensitive. The team drilled 111 boreholes and installed 30 monitoring wells over multiple sites in only 10 days.

Rock Bay, Canada


City of Victoria Dockside Lands, Canada

CHEMICALS AND PETROLEUM

MAJOR PROJECTS WORLDWIDE
SINGLE-SOURCE SOLUTION
COST-PLUS REIMBURSABLE TO LUMP SUM TURNKEY PROJECTS

We have two contracts underway at Canadian Natural Resources Limited's oil sands project in Alberta. We are designing and will manage construction on a project to process bitumen froth for further upgrading into synthetic crude. We also teamed up with another firm to design and build three hydrotreaters able to process 135,000 bbls/day of feedstock into synthetic crude components.

The Bitmin demonstration plant we designed and built for Fort Hills Energy can process oil sand from the Athabasca Oil Sands in Alberta using a new extraction process that uses less water and energy than current practices, and produces a dry tailing that can be reclaimed immediately.

The aggressive schedule at Husky Energy's Tucker *in situ* project in Alberta allows only 24 months from detailed design to mechanical completion. We are about halfway through construction, on schedule, and have had no lost time incidents despite the accelerated timeframe.

We are a partner in one of only two consortia selected by Saudi Aramco to provide In-Kingdom project management and engineering services under a five-year contract. We have completed design and project management services work for its Khurais and Ghawar oil fields water injection facilities, and its Shaybah crude expansion and intermediate pump stations.

Petro-Canada has awarded us a second sulphur reduction project at its Montreal refinery. We are using ExxonMobil technology to produce Ultra Low Sulphur Diesel in accordance with new cleaner fuels legislation. The project is being carried out in a fast track mode.

Our UK office is working with a Russian design institute to develop a concept and preliminary design for Rosneft's Vankor Oil Field development project in eastern Siberia. The oil field has a production capacity of about 19 million tonnes of crude oil, which will be exported through a 540 km pipeline.

We are leading a consortium that is providing project management consultancy services to Sonatrach for the design and construction of a new world class liquefied natural gas (LNG) train at Skikda in Algeria. Also in the LNG field, we carried out preliminary design work and an environmental study for Rabaska's LNG receiving terminal, to be built in Quebec.

We have an ongoing services agreement with ExxonMobil at its largest refining complex in Baytown, Texas, and a similar contract with Imperial Oil for services primarily at its Sarnia manufacturing site. Both our Houston and Sarnia teams have won recognition for outstanding safety records at these sites.

Calgary, Canada

Ultra Low Sulphur Diesel Project, Canada

MINING AND METALLURGY

OVER 350 PROJECTS COMPLETED WORLDWIDE
SOME OF THE WORLD'S LARGEST MINING PROJECTS
LONG-TIME AND REPEAT CUSTOMERS

Our aluminum team and its partner more than doubled the Alouette aluminum smelter's capacity to 550,000 tonnes/year with one of the best safety records ever achieved on a large construction project in Quebec. The project was completed to the client's satisfaction three months ahead of schedule. It is now the biggest and one of the most efficient smelters in the Americas.

The Dubai Aluminum Company (DUBAL) has awarded us several contracts over the years. Recently, we came in under budget on work that increased its Dubai smelter's capacity by almost 74,000 tonnes/year. DUBAL has now awarded us another contract to expand the smelter by a further 100,000 tonnes/year which will require adding another 164 pots to lines 7a and 9 and upgrading the rodding shop.

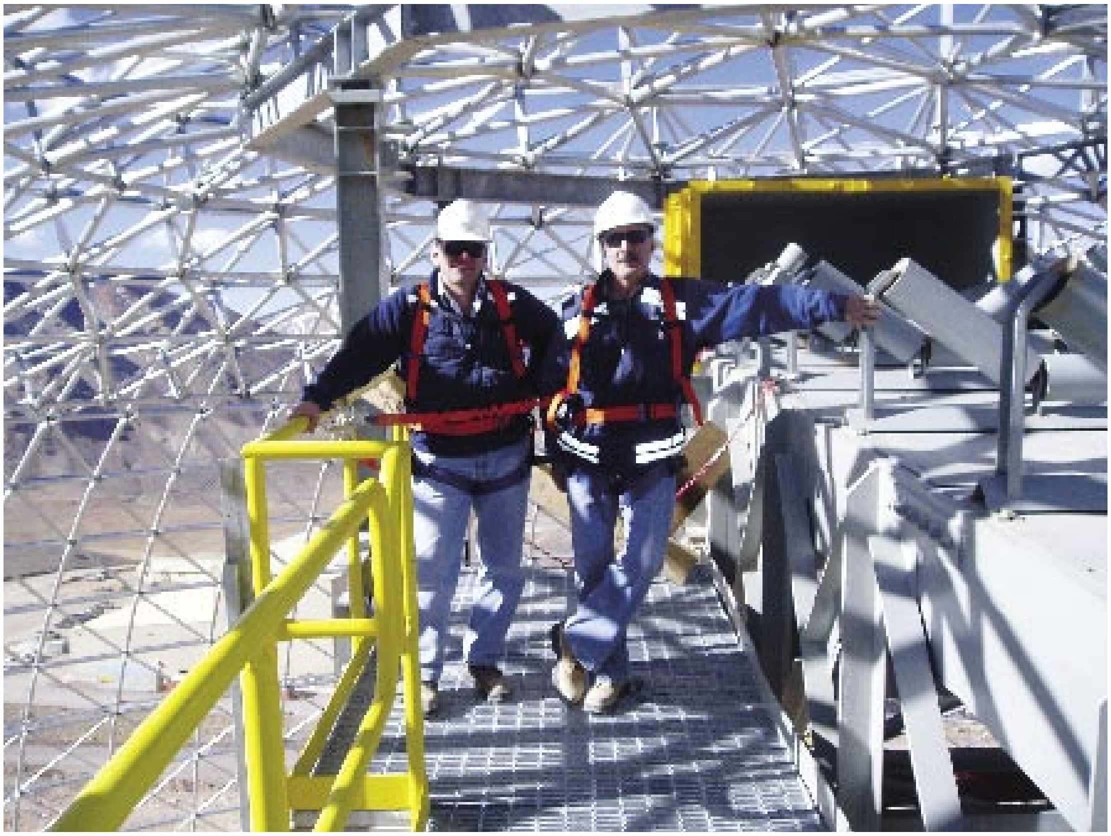
Our engineers and joint venture partner have advanced the detailed engineering on the Goro nickel-cobalt project in New Caledonia and have adopted a modular approach to overcome the challenges of the remote location, limitations of access roads and availability of local workforce. Our in-house training specialists will be using simulation software to train local people how to operate the plant once it is commissioned.

On the Voisey's Bay nickel-copper-cobalt project in Newfoundland and Labrador, we managed to complete the project so that Inco could ship the first load of commercial concentrate more than seven months ahead of the original schedule. Despite the aggressive timeframe and extreme winter conditions, the project was completed with a good safety record and no environmental incidents. The project also maximized the number of local and native employees and contractors.

The Alto Chicama gold mine project is located in the Peruvian Andes at an elevation of 4,200 metres. Despite the high altitude environment and having to build the heap leach pad during the rainy season, we completed the project one month ahead of schedule with an excellent safety record.

We have been integrating phosphate, ammonia, and sulphuric acid production technologies into the Al Jalamid project in Saudi Arabia. We completed the feasibility study with a partner in early 2005, and worked on the advance engineering design for the complex.

Our Mine Closure and Reclamation team is responding to an increasing demand in this sector. In Canada, alone, we are working on a water system infrastructure project at the Diavik Diamond Mine in the Arctic, helping to upgrade the water management system at Quebec Iron and Titanium's mine in northern Quebec, and preparing a sustainable, safe closure plan for Falconbridge's mine in the Abitibi region of Quebec.



Alto Chicama, Peru

Voisey's Bay Project, Canada

OPERATIONS AND MAINTENANCE

CANADA'S LEADING FACILITY MANAGER AND OPERATOR
OVER 10 MILLION SQUARE METRES MANAGED
LOGISTICS AND REMOTE SITE SUPPORT SERVICES
INFRASTRUCTURE OPERATIONS AND MAINTENANCE

SNC-Lavalin ProFac's contract with Public Works and Government Services Canada came into effect in April 2005, marking the largest operations and management changeover in Canadian real estate history. It was a seamless transition, completed in only four months with no disruption to client operations. This is the biggest contract of its kind in Canada comprising over three million square metres of space in more than 300 buildings across the country.

Long-term contracts with clients such as Bell Canada, Canada Post Corporation, Ontario Realty Corporation and the Canadian Broadcasting Corporation round out SNC-Lavalin ProFac's portfolio to make it the dominant facilities management company in Canada.

We phased out our support services at Camp Julien in Afghanistan following demobilization of the Canadian peacekeeping mission that had been stationed there. Our staff completed the Camp's closure on schedule in November 2005.

The Canadian Navy added another 11 vessels to our in-service support mandate, bringing the total number of vessels under our management to 26. Along with minor warships and Maritime Coastal Defence Vessels, we now repair and maintain vessels such as tugboats, firefighting boats, tall-ship sailboats and research ships, including one of the world's quietest ships used for ultrasound testing.

An increasing number of SNC-Lavalin's mandates in other sectors require operations and maintenance expertise as well as technical know how. Six recent contracts in the Power and Infrastructure sectors reflect this trend:

- We will run operations at thermal power plants in Toronto, Canada and Skikda, Algeria, both designed and built by our thermal engineers.
- We will operate and manage the Taksebt water treatment plant and pumping station in Algeria once our construction team completes its work, and the William R. Bennett Bridge and Canada Line transit system, both being designed and built by our transport group in British Columbia.

On the Trans-Canada Highway expansion project in New Brunswick, we are providing engineering and construction expertise as well as operations and maintenance services as part of the Brun-Way Group. We achieved dual ISO 9001 and ISO 14001 certification for the operations and maintenance portion of this mandate in 2005.

Guelph, Canada

Greater Toronto Airports Authority Project, Canada

AGRIFOOD

OVER 50 YEARS OF EXPERIENCE
FROM INVESTMENT DECISIONS TO COMMISSIONING

The French baked goods company, Harry's, hired us to oversee reconstruction of its 11,000 m^2 production facility near Moscow which burned down in November 2004. We screened each subcontractor individually to ensure quality work, and managed an accelerated schedule to get the facility back into production. Specifications were submitted two months after the fire, work commenced three months later and the handover took place six and a half months after work began.

Our engineers have been working at Kermené's meat product processing plants throughout France for 20 years. In 2005 alone, they reconfigured a plant and completed a bacteriological analysis laboratory in Collinée, and finished building a new plant in Saint-Léry.

The water bottling plant we built for Aquamark can fill as many as 300 million bottles a year. Located near the water's source in Auvergne Natural Park, our engineers employed strict environmental standards to conserve the ecological integrity of the site.

Barry-Callebaut hired us to build its new chocolate moulding factory in California. Chocolate is delivered to the factory in one tonne blocks which must be broken into five centimetre pieces for the melting process. After conducting a series of tests and equipment trials, our engineers and their suppliers developed a system able to crush the blocks to size in less than one minute.

Rosporden, France

Kermené Meat Product Processing Plant, France

PHARMACEUTICALS AND BIOTECHNOLOGY

FULL RANGE OF SERVICES
FIRM UNDERSTANDING OF THE GLOBAL MARKET

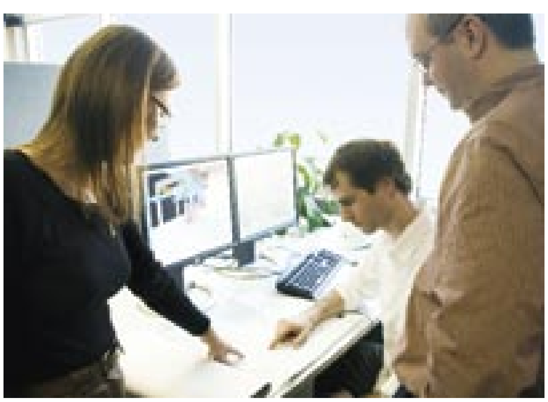
We created a new company with our acquisition of Toronto-based BHA in November, 2005. SNC-Lavalin Engineering & Technology combines process engineering, automation and validation expertise with biopharmaceutical know how. This strengthens our Toronto office's service offering and brings additional expertise to our pharmaceutical business units worldwide.

Biopharmaceutical companies are increasing production capacities at their vaccine plants in response to concerns about a shortage of flu vaccine. Our biotechnology specialists completed renovations at the GlaxoSmithKline (GSK) plant in Laval, Quebec, doubling its size in about nine months. We are now acting as consultants for the expansion of GSK's Quebec City site.

Our engineering office in India is working with our Canadian pharmaceutical specialists and an Australian partner designing a research laboratory in Mumbai for Johnson & Johnson. We are drawing on 40 years of experience managing our own international network to manage the project's communications logistics, which must also take into account team members in Shanghai and Belgium.

We successfully completed a complex turnkey expansion project at Flamel Technologies' polymer production facility in Pessac, France. Work was completed within 11 months, and the facility has since been approved by European drug agencies.

Montreal, Canada



Flamel Technologies' Polymer Production Facility, France

INDUSTRIAL

FULL SERVICE CAPABILITIES: DESIGN TO VALIDATION
SPECIALIZED SERVICES

Our Winnipeg, Sarnia and Montreal offices are working on ethanol projects for Commercial Alcohols in Varennes, Quebec and Chatham, Ontario. In Quebec, our Montreal team is building a new plant which will use corn to produce clean fuel ethanol. In a joint effort, the Winnipeg and Sarnia team have incorporated a cooling system into the Chatham plant to stop dried, spent grain from heating and charring while in storage. They also debottlenecked the dust control and feedstock preparation systems.

In Mississauga, Ontario we are expanding a section of Petro-Canada's lubricant plant by almost 50%. It is the largest plant of its kind in North America, producing a wide range of products from food grade oils to engine lubricants.

We assembled a team with both industrial and agrifood expertise to oversee construction of Saipol's oil and Diester production plant in Champagne Ardenne, France. The plant will use canola seeds to produce Diester, an environmentally friendly biofuel.

In Mers-les-Bains, France, we are building a primary material preparation and storage plant for Saint-Gobain, a fine glass maker and supplier of perfume bottles to fashion houses such as Chanel, Dior and Givenchy. This follows the completion of similar contracts we carried out at its sites in Spain and the United States.

Pittsburgh, USA

Varennes Ethanol Project, Canada

DEFENCE

AMMUNITIONS SYSTEMS
SIMUNITION® TRAINING SYSTEMS
EXTRUDED PROPELLANT FOR INDUSTRY AND MILITARY
MEMBER OF NORTH AMERICAN TECHNOLOGY AND INDUSTRIAL BASE ORGANIZATION (NATIBO)

SNC TEC built its reputation on the strategic partnership it has developed with the Canadian Department of National Defence (DND). DND remains our main client, single-handedly accounting for 39% of our total Defence revenues in 2005. DND reconfirmed its confidence in SNC TEC in 2005 by extending our preferred supplier status until 2010.

In 2005, EXPRO TEC completed the development, industrialization and qualification of a new generation of military propellant, which has since been recognized by the US Armament Research, Development and Engineering Center, and is now in full production. SNC TEC's development work on an insensitive munition is also complete. Insensitive munitions are less sensitive to movement and other outside influences, making them safer to handle, transport and store.

EXPRO TEC is finalizing a new production process for its extruded propellant. The propellant can become volatile at one point during production, so we automated that step of the process to eliminate all human contact during its unstable stage.

Our Simunition® training systems were showcased at the Police and Firefighter World Games, held in Quebec City in 2005. Police officers from around the world registered to participate in our FX Challenge, which created a number of realistic training scenarios in a specially constructed facility. Our systems use the trainees' own service weapons, making the exercises more realistic and better preparing them for active duty.

As announced on February 23, 2006, we have agreed to sell our shares in SNC TEC, including its wholly-owned subsidiary EXPRO TEC, to General Dynamics for $315 million, subject to certain adjustments. The transaction is subject to Canadian government approval and regulatory approvals in Canada, the U.S. and in Europe.

Le Gardeur, Canada

SNC TEC Plant, Canada

HIGHWAY 407

WORLD'S FIRST ALL-ELECTRONIC, OPEN ACCESS TOLL ROAD
GREATER TORONTO AREA, ONTARIO
SNC-LAVALIN HOLDS 16.77% OWNERSHIP

The team at 407 ETR received a score of 99% in an independent audit conducted in 2005. The audit examined how well the Highway complies with federal and provincial operations and maintenance standards.

The level of service 407 ETR gives its customers continues to rise as traffic increases. It gained over 99,000 new transponder users in 2005, indicating an 11% increase in regular customers over the previous year, yet customer calls were down 27% from 2004 and 41% from 2003.

More self-serve features are available on-line, reducing costs and waiting times. Over 22% of accounts are now paid by automatic pre-authorized debit or credit, and many accounts have switched to an electronic billing system.

407 ETR has added over 24 km of new lanes in the past three years to address the rising amount of traffic. By the end of 2006, it will have added another 50 km of new lanes between Highways 427 and 404.

A recent study by an independent firm found that 74% of low rise development in the Greater Toronto Area is within a 10 kilometre radius around Highway 407, which bodes well for future increases in traffic levels.

The Ontario provincial government is disputing certain aspects of 407 ETR's 99-year contract, including its right to raise toll rates without government approval. 407 ETR is confident in its position, and proceedings have found in its favour in all major legal decisions handed down since the disputes arose.

Toronto, Canada

Highway 407, Canada

INFRASTRUCTURE CONCESSION INVESTMENTS

We signed two new infrastructure concession agreements in 2005, both in British Columbia:

The first was a 30-year concession agreement to design, build, and finance the William R. Bennett Bridge in Kelowna, and then operate and maintain it for 27 years. SNC-Lavalin Capital arranged a $157.3 million debt offering for the project that received an "A" rating from Standard & Poor's. SNC-Lavalin's equity participation is 100%.

The second was a 35-year concession agreement to design, build, operate and maintain the Canada Line rapid transit system joining the cities of Vancouver and Richmond and Vancouver International Airport. Our mandate also included a financial component. SNC-Lavalin's equity participation is 33.3%.

Our infrastructure concession investments also include our interests in the following:

POWER

ALTALINK – REGULATED ELECTRICAL TRANSMISSION LINES – ALBERTA, CANADA – 50%
ASTORIA – THERMAL POWER PROJECT – NEW YORK, USA – 21%
GAZMONT – 25 MW BIOGAS THERMAL POWER STATION – QUEBEC, CANADA – 50%
MURRAYLINK – REGULATED ELECTRICAL TRANSMISSION LINE – AUSTRALIA – 50%
SOUTHERN ELECTRIC POWER COMPANY LIMITED (SEPCOL) – PAKISTAN – 21%
WEST END DAM – 4.5 MW HYDRO PLANT – NEW YORK, USA – 21%

INFRASTRUCTURE

HIGHWAY 407 EXPRESS TOLL ROUTE – ONTARIO, CANADA – 16.77%
MALTA INTERNATIONAL AIRPORT CONCESSION – MALTA – 15.5%

CHEMICALS AND PETROLEUM

TRENCAP LIMITED PARTNERSHIP NATURAL GAS DISTRIBUTION BUSINESS – QUEBEC, CANADA – 11.1%

Our proposal to increase our participation in AltaLink from 50% to 76.92% is awaiting the approval of the Alberta Energy and Utilities Board. We expect to receive its decision towards the end of 2006.

Vancouver, Canada

AltaLink Network Expansion, Canada

AWARDS

DUBAL ALUMINUM SMELTER EXPANSION– UNITED ARAB EMIRATES

Project Safety Award
JC Maclean Construction Week Awards,
ITP Business Magazine

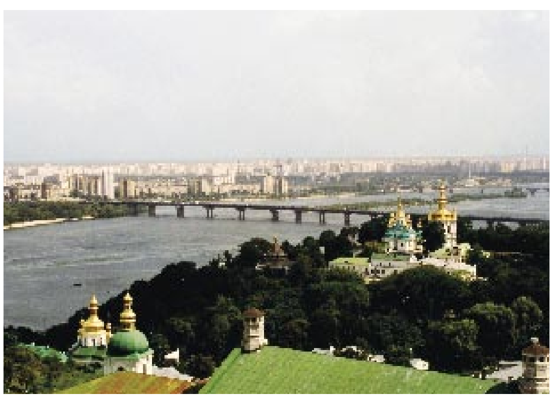
Aluminum Division, Montreal and Partner DUBAL
One and a half million man hours were completed without a single lost time incident. The project increased the smelter's capacity by nearly 74,000 tonnes a year, and was finished under budget.

SAIH NIHAYDA GAS PLANT– OMAN

Project of the Year
JC Maclean Construction Week Awards,
ITP Business Magazine

Best Project
Petroleum Development Oman Engineering Conference

Chemicals and Petroleum Division, Calgary
The plant has a capacity of 20 million cubic metres of gas a day. Construction was completed in less than three years with an exemplary safety record.



IDENTIFICATION AND ANALYSIS OF SOURCES OF POLLUTION (HOT SPOTS)– DNIEPER RIVER BASIN–UKRAINE, RUSSIA, BELARUS

Award of Excellence, International Category
Association of Consulting Engineers of Canada
with Canadian Consulting Engineer Magazine

SNC-Lavalin Engineers & Constructors, Toronto
This award recognizes outstanding work by consulting engineers on completed projects. Of the 67 entries received from consulting firms across Canada, 10 awards were given. The project exceeded expectations and produced a technical methodology adopted and published by the United Nations Industrial Development Organization (UNIDO).

TRUDEAU INTERNATIONAL AIRPORT EXPANSION– MONTREAL, CANADA

Excellence in Steel Construction
Canadian Institute of Steel Construction

Armatura Award for Excellence in Structural Design
Quebec Institute of Reinforced Steel

General Engineering and Environment Division, Montreal
Our team's designs respected the architect's vision of an elegant, open concept with large transparent surfaces, while creating a structure resistant enough to withstand constant pedestrian traffic.

BOMA Canada

CANADIAN EMBASSY–
PORT-AU-PRINCE, HAITI

Best International Project
Quebec Association of Consulting Engineers

General Engineering and Environment Division, Montreal
Our office in Port-au-Prince played a key part in the success of this turnkey project. The building met all the requirements stipulated by the Canadian Department of Foreign Affairs and International Trade.

ACADIE INTERCHANGE RECONSTRUCTION–
MONTREAL, CANADA

Best Transport Infrastructure Project
Quebec Association of Consulting Engineers

General Engineering and Environment Division, Montreal
This was one of the largest road projects in Quebec in recent years. Our engineers' innovative structural design used a highly curved steel framework, and careful orchestration kept traffic moving during construction.

SNC-LAVALIN PROFAC–ONTARIO
AND QUEBEC, CANADA

National Office Building of the Year (TOBY) Award
11 Local Chapter Awards
Building Owners and Managers Association (BOMA)

ONE STONE ROAD–Guelph, Ontario
National Building of the Year Award,
Government Building Category
BOMA Canada

LEO BLANCHETTE MAIL PROCESSING PLANT–
St-Laurent, Quebec
Go Green Certification
BOMA Quebec

GARDEN CITY TOWER–St. Catherines, Ontario
Earth Award and Environmental Excellence Award
BOMA Toronto

JOHN SOPINKA COURTHOUSE–Hamilton, Ontario
Environmental Excellence Award
BOMA Toronto

LONDON COURTHOUSE–London, Ontario
Environmental Excellence Award
and Building Excellence Award
BOMA Toronto

METRO WEST DOWNSVIEW BUILDING B–
Toronto, Ontario
Building Excellence Award
BOMA Toronto

ONTARIO GOVERNMENT BUILDING
(MTO COMPLEX)–London, Ontario
Environmental Excellence Award
BOMA Toronto

MINISTRY OF ENVIRONMENT HEADQUARTERS–
Toronto, Ontario
Building Excellence Award
BOMA Toronto

ONE STONE ROAD–Guelph, Ontario
Office Building of the Year, Government Building
Category and Building Excellence Award
BOMA Toronto

WE CARE

NOUS VEILLONS

HEALTH, SAFETY, ENVIRONMENT (HSE) AND SUSTAINABILITY REPORT

"Our mission is to be an international leader in health, safety and the environment in all our offices and project sites worldwide."

In 2005, we made good progress in meeting our HSE objectives and put additional measures in place to further improve our performance. We are proud to report that two of our achievements in the fields of health, safety and environment were recognized by industry and clients:

- the ***"Project Safety Award of the Year"***, presented to SNC-Lavalin and client, DUBAL, at the 2005 JC Maclean Construction Week Awards
- the ***"2005 Award of Excellence"*** in the international category for SNC-Lavalin Engineers & Constructors from the Association of Consulting Engineers of Canada for our Dnieper River Basin Project in eastern Europe.

Efforts in 2005 towards improving our HSE and Sustainability performances included an emphasis on "safety first", as stated in our *"WE CARE"* Policy, and improvements to our Construction Site Environmental Management Program to help project managers better understand and manage environment issues on construction sites. The improvements were based on experience and input from over 30 SNC-Lavalin project and construction managers, and other specialists.

WE CARE embodies SNC-Lavalin's key corporate values and beliefs regarding: our employees, health and safety, the environment, the communities in which we live and work, and the quality of our work.

In 2005 – we strengthened measures to support our HSE and Sustainability values.

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

In support of our Safety First Campaign we launched:

- a Company-wide search for a safety slogan to highlight the importance of thinking safety on a project or client's site, in the office and in our private lives;
- a new H&S Employee Handbook identifying corporate goals and the expectations of our employees and supervisors, which every employee is required to read, and agree to abide by;
- a new H&S "tool kit" composed of a comprehensive database of safety pointers, tips and programs to provide more effective resources in support of local H&S efforts on project sites, and in our offices worldwide;
- an enhanced Safety Recognition Program to recognize all project teams and offices who constantly strive for a zero incident environment.
- In 2005 – the Program recognized approximately 56 million hours worked by our engineering and construction project teams worldwide without lost time incidents, in particular on mining and metallurgy and chemicals and petroleum sites.

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

Our Environmental Policy commits all employees to implementing sustainable development by applying the principles of pollution prevention, and by their compliance with environmental laws and regulations. Our experts in greenhouse gas emission reduction are helping clients meet their GHG emission commitments under the Kyoto Protocol by developing customized clean development mechanism programs which allow them to buy and sell carbon credits.

Our Construction Site Environment Management Program is mandatory on all project and construction sites worldwide as a guide to good environment stewardship. In 2005, it was updated to include more efficient training programs, a PM+ environmental package to track environmental performance on construction sites, and a simpler, clearer Emergency Response Procedure for Environmental Incidents. Examples of how the Program is used on site include:

- The team designing and building an 825 MW combined cycle thermal power plant in Algeria has so far trained 1,100 construction personnel in environmental awareness, which led to the project's Environmental Team identifying an innovative way to dispose of unavoidable small hydrocarbon spills using sand, which can be biodegraded and rendered harmless.
- Strong environmental management by our project team at the Voisey's Bay Inco nickel project resulted in the complete absence of any environmental or wildlife incident during the project's three year construction.

"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 contribute to the well being of the communities where we live and work by building roads, bridges, sewage treatment plants, schools and hospitals near our project sites worldwide. We also reach local communities indirectly through the training and community development services we have offered our clients for over 40 years. Hundreds of local people have been trained in project management, proposal preparation and environmental management, as well as in gender equality, women's empowerment and "train the trainer". Thousands more have been trained in construction-related skills, as well as in health and safety on and off the project site.

* (excerpt: *WE CARE* Policy Statement)

1

2

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5

Closer to home, we show we care in our home communities through ongoing volunteering activities by individual employees as illustrated on this page.

In 2005, our employees:

1. **took part in the Big Bike Challenge in Edmonton for the Heart and Stroke Foundation**
2. **participated in Montreal's 60 km Walk for Breast Cancer**
3. **held fundraisers for Canada's United Way/ Centraide campaign**
4. **helped build a house for a Toronto family as part of the Habitat for Humanity initiative**
5. **prepared and served meals for 300 people over three nights at a special residence for families with cancer and other terminal illnesses in Redmond, Washington.**

MANAGEMENT'S DISCUSSION AND ANALYSIS

TABLE OF CONTENTS

1. HIGHLIGHTS

INCREASE IN 2005 CONSOLIDATED NET INCOME

- Consolidated net income increased to $129.9 million in 2005 from $104.1 million in 2004.
- Net income excluding Highway 407 increased by 13.5% to $134.6 million in 2005 from $118.6 million in 2004, surpassing the Company's targeted annual growth range of 7% to 12%.
- ROASE excluding Highway 407 reached 17.9% in 2005 compared to 17.3% in 2004, surpassing the Company's target.

INCREASE IN CONSOLIDATED REVENUES IN 2005

- Consolidated revenues increased to $3.8 billion in 2005, compared to $3.4 billion in 2004.

SOLID BALANCE SHEET POSITION

- The Company's consolidated balance sheet position as at December 31, 2005 remained solid, with cash and cash equivalents of $1,176.2 million and a recourse debt of $104.4 million as at December 31, 2005, compared to cash and cash equivalents of $713.2 million and a recourse debt of $104.3 million a year ago.

STRONG BACKLOG AS AT DECEMBER 31, 2005

- Consolidated revenue backlog at the end of 2005 was $8.1 billion, compared to $6.3 billion at the end of 2004, reflecting major bookings mainly in the Infrastructure and Environment, and Power segments.

INFRASTRUCTURE CONCESSION INVESTMENTS AND BUSINESS ACQUISITIONS

- In June 2005, Okanagan Lake Concession L.P., wholly-owned by SNC-Lavalin, signed a 30-year concession agreement for the new William R. Bennett Bridge in Kelowna, British Columbia and concurrently awarded a $144.5 million engineering, procurement and construction ("EPC") contract, as well as an Operations and Maintenance ("O&M") contract, to two separate subsidiaries of SNC-Lavalin.
- In August 2005, Intransit BC L.P., in which SNC-Lavalin holds a 33.3% interest, signed a 35-year concession agreement for the Canada Line, previously the Richmond-Airport-Vancouver ("RAV") rapid transit line, in British Columbia, and concurrently awarded a $1.6 billion EPC contract, as well as an O&M contract, to two separate subsidiaries of SNC-Lavalin.
- In October 2005, SNC-Lavalin entered into an agreement to increase its participation in AltaLink from 50% to 76.92%, subject to regulatory approval by the Alberta Energy and Utilities Board.
- In 2005, SNC-Lavalin completed the acquisition of six engineering-related firms: BHA, Devonyx 2K Inc. and Morrow Environmental Consultants Inc., in Canada; B2000 Ingénierie S.A.S. and SIRR Ingénierie S.A.S., in Alsace, France; and RJ Associates (Engineers) Private Limited, in Mumbai, India.

2006 OUTLOOK

- The Company's strong opening backlog, coupled with its solid balance sheet position and the various opportunities in almost all of its operating segments provide a solid basis for continued growth in its profitability in 2006.

DIVIDEND INCREASE

- Dividend per share for the fourth quarter increased from $0.05 to $0.07.

SUBSEQUENT EVENTS

- On February 23, 2006, SNC-Lavalin entered into an agreement with a third party to sell all of its shares in its wholly-owned subsidiary SNC Technologies Inc. ("SNC TEC"), for proceeds of approximately $315 million, subject to certain adjustments. The transaction is subject to Canadian government approval and regulatory approvals in Canada, the U.S. and in Europe.
- On February 24, 2006, the Board of Directors approved a three-for-one stock split, to be effected in the form of a stock dividend. All references to stock-based compensation plans data, as well as all share and per share data in this Management's Discussion and Analysis and in the 2005 audited annual consolidated financial statements reflect the three-for-one stock split.

All financial information in this Management's Discussion and Analysis is in Canadian dollars, unless otherwise stated. All references to stock-based compensation plans data, as well as all share and per share data in this Management's Discussion and Analysis and in the 2005 audited annual consolidated financial statements reflect the three-for-one stock split announced on February 24, 2006.

BASIS OF PRESENTATION AND CAUTION REGARDING FORWARD-LOOKING STATEMENTS

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

2. OVERVIEW OF OUR BUSINESS AND STRATEGY

2.1 OUR BUSINESS

The Company is engaged in engineering and construction activities ranging from engineering, procurement, construction and construction management services to lump-sum turnkey packages in industry segments such as Power, Infrastructure and Environment, Chemicals and Petroleum, Mining and Metallurgy and All Other. The Company also provides operations and maintenance services and is involved in the manufacturing of ammunition, including the related propellants and propulsive powder. The Company also makes selective equity investments in infrastructure concessions that require the ability to bring together a variety of skills ranging from technical and project management, to financing.

2.2 OUR BUSINESS STRATEGY

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

- Build on our globally recognized *core expertise* and add *new areas of technical expertise* which are recognized worldwide;
- Use our *international network* to maintain continuous relationships with our clients and identify new opportunities;
- Use our *financing capabilities* to enhance our competitiveness on major projects;
- Combine our technical expertise, our operations and maintenance experience and our financing capabilities to develop and acquire *infrastructure concessions*.

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

2.3 HOW WE ANALYZE OUR RESULTS

The Company's audited consolidated financial statements have been prepared in accordance with Canadian Generally Accepted Accounting Principles ("GAAP"), whereby the investment in 407 International Inc. ("Highway 407") is being accounted for by the proportionate consolidation method. Based on this accounting treatment, the Company's consolidated balance sheet reflects $730.1 million in non-recourse long-term debt from Highway 407 as at December 31, 2005, compared to the Company's total shareholders' equity of $789.7 million as at the same date. As mentioned in note 2 to the audited consolidated financial statements, this current accounting treatment (proportionate consolidation) does not reflect the way the Company views the nature of the investment in Highway 407.

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

2.3.1 RESULTS EXCLUDING HIGHWAY 407

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

RESULTS BY INDUSTRY SEGMENT

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

- The **Power, Infrastructure and Environment, Chemicals and Petroleum, Mining and Metallurgy and All Other** industry segments incorporate both Services and Packages activities ranging from engineering, procurement, construction and construction management services to lump-sum turnkey packages.
- The **Operations and Maintenance** segment, (previously the Facilities and Operations Management segment), provides operations, maintenance, logistics and commissioning, as well as real estate and asset lifecycle management, for buildings, ships, remote sites, and military, commercial, industrial and infrastructure installations.
- The **Defence** segment includes the manufacturing of ammunition, including the related propellants and propulsive powder, for military and paramilitary markets.
- The **Infrastructure Concession Investments** segment, (previously the Investments segment), consists of SNC-Lavalin's equity investments in infrastructure concessions in various industry sectors, such as airports, bridges, energy, mass transit and roads, for which accountability lies with the SNC-Lavalin Investment unit, which is independent from other business units.

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

RESULTS BY CATEGORY OF ACTIVITY

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

- **Services revenues** are generated by providing professional services, including engineering, feasibility studies, planning, detailed design, contractor evaluation and selection, construction management and commissioning, and are derived from cost-plus reimbursable contracts and fixed-fee contracts.
- **Packages revenues**, in which SNC-Lavalin also undertakes procurement and/or construction activities, are mainly generated from fixed-price contracts.
- **Concessions revenues** represent SNC-Lavalin's activities from Infrastructure Concession Investments together with operations and maintenance services, the manufacturing of ammunition and other concession-type arrangements, all of which generate recurring revenues on a long-term basis.

2.3.2 KEY PERFORMANCE INDICATORS

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

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

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, 2005 and 2004 to the Company's targets. As highlighted below, the Company surpassed its targets on profitability growth and on return on weighted average shareholders' equity in 2005 and 2004, while maintaining a strong balance sheet.

FINANCIAL INDICATOR (EXCLUDING HIGHWAY 407)	FINANCIAL OBJECTIVE	FINANCIAL INDICATOR ACTUAL RESULTS	
		2005	2004
Growth in Net Income	Annual growth between 7% and 12%	**13.5%**	19.6%
Return on Weighted Average Shareholders' Equity ("ROASE")	At least equal to long-term Canada Bond Yield plus 600 basis points (2005 = 10.43%; 2004 = 11.14%)	**17.9%**	17.3%
Net Cash Position (cash and cash equivalents less recourse debt)	Maintain a strong balance sheet with a net cash position sufficient to meet expected operating, financing and investing plans	**$ 1,056.2 M**	$ 588.2 M

3. OVERALL FINANCIAL PERFORMANCE AND 2006 OUTLOOK

YEAR ENDED DECEMBER 31

(IN MILLIONS OF CANADIAN DOLLARS, UNLESS OTHERWISE INDICATED)	**2005**	2004	2003
Net income (loss)			
Excluding Highway 407	**$ 134.6**	$ 118.6	$ 99.2
From Highway 407	**(4.7)**	(14.5)	(12.7)
Consolidated net income	**$ 129.9**	$ 104.1	$ 86.5
Earnings per share ($)			
Basic	**$ 0.86**	$ 0.69	$ 0.57
Diluted	**$ 0.85**	$ 0.68	$ 0.56

3.1 CONSOLIDATED NET INCOME

Consolidated net income in 2005 was $129.9 million ($0.85 per share on a diluted basis) compared to $104.1 million ($0.68 per share on a diluted basis) in 2004, mainly due to:

An increase of 13.5% in net income excluding Highway 407, resulting primarily from increased contributions mainly from the Power, Defence and Chemicals and Petroleum segments, combined with increased interest revenues. With this increase, the Company surpassed its target of achieving an annual growth between 7% and 12%.

A net accounting loss of $4.7 million from Highway 407 in 2005 compared to $14.5 million in 2004, resulting mainly from increased revenues and lower interest and other expenses.

3.2 CONSOLIDATED REVENUES

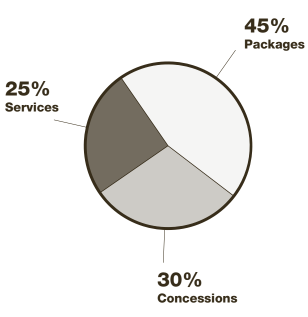
Consolidated revenues increased to $3,787.8 million in 2005, compared to $3,447.0 million in 2004, with increases in all revenue categories. Packages revenues increased mainly in the Infrastructure and Environment segment, partially offset by a decrease in the Chemicals and Petroleum segment. The increase in Services contracts is mainly due to increased activities in the Chemicals and Petroleum, and Infrastructure and Environment segments, partially offset by a decrease in the Mining and Metallurgy segment. The increase in Concessions revenues is in large part due to increased activities in the Operations and Maintenance, and Defence segments.

Consolidated revenues in 2004 were $3,447.0 million compared to $3,263.9 million in 2003, also reflecting an increase in all revenue categories. The increase in Packages revenues, mainly in the Power segment, was partially offset by a decrease in the Chemicals and Petroleum segment, while increased revenues in Services mainly reflected increased activities in the Mining and Metallurgy segment, partially offset by a decrease in the Power segment. The increase in Concessions revenues was in large part due to increased activities in the Operations and Maintenance, and Defence segments.

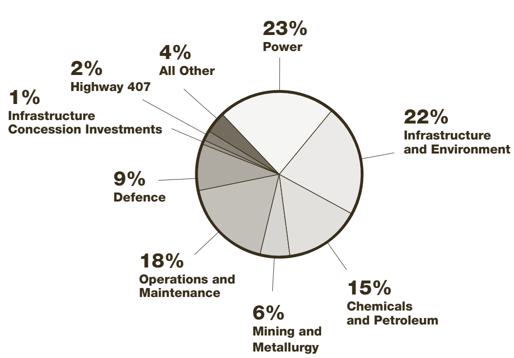
The diversity of the Company's revenue base and its flexibility to operate in different categories as well as industry and geographic segments, as illustrated in the charts below, have been key elements in its sustainable performance over the last decade, despite the year-to-year variations in the respective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

2005 REVENUES

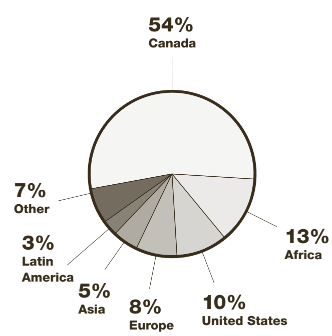
BY CATEGORY



BY INDUSTRY SEGMENT



BY GEOGRAPHIC SEGMENT



3.3 ECONOMIC TRENDS

As expected last year, the world Gross Domestic Product ("GDP") grew, based on preliminary figures, at a slower pace in 2005 than in 2004. The world economy is estimated to have grown by approximately 3% in 2005 (4% in 2004) despite strong energy prices, increasing interest rates in some major countries and the impact of the summer's hurricanes in the United States, and is expected to repeat a similar performance in 2006. From a Canadian perspective, the anticipated continuous solid demand for many natural resource commodities on the global market is expected to sustain strong prices which, although subject to a possible decline from their current levels, should continue stimulating business investments in the oil and gas, and mining and metallurgy sectors in 2006. Also, strong corporate profits and still favourable financing costs are expected to further contribute to non-residential investments in Canada, along with the announced and anticipated major projects in the infrastructures and power sectors. The growth in non-residential business investments, a relevant indicator for engineering and construction companies, should outpace the expected 3% growth in the Canadian GDP in 2006, as it did in 2005.

In 2005, the Canadian dollar continued to appreciate against the US dollar, reflecting various factors, including strong natural resource commodity prices. As mentioned in previous years, the impact from the appreciation of the Canadian dollar is not significant to SNC-Lavalin's activities, as it sources its project material and equipment on a global basis based on best value criteria, and the salaries component remains competitive compared to the United States. The Canadian dollar fluctuation has an impact on SNC-Lavalin's Defence manufacturing operations; however, this is offset in part through its product differentiation.

Overall, the 2006 economic outlook bodes well for the Company, both from a Canadian and an international perspective.

3.4 COMPANY OUTLOOK

Along with the favourable economic trends discussed above, the Company's strong opening backlog and various opportunities in almost all of its operating segments provide a solid foundation for continued growth in its profitability in 2006.

4. GEOGRAPHIC BREAKDOWN OF REVENUES

YEAR ENDED DECEMBER 31

(IN MILLIONS OF CANADIAN DOLLARS)	**2005**		2004	
Canada	**$ 2,030.3**	**54%**	$ 1,520.7	44%
Outside Canada				
Africa	**503.8**	**13%**	676.7	20%
United States	**364.6**	**10%**	281.7	8%
Europe	**302.3**	**8%**	333.3	10%
Asia	**197.5**	**5%**	315.0	9%
Latin America	**118.1**	**3%**	93.7	3%
Other	**271.2**	**7%**	225.9	6%
	1,757.5	**46%**	1,926.3	56%
Total revenues	**$ 3,787.8**	**100%**	$ 3,447.0	100%

4.1 REVENUES IN CANADA

As expected, **revenues in Canada increased in 2005, amounting to $2,030.3 million,** compared to $1,520.7 million in 2004, mainly due to increased activity in the Infrastructure and Environment, and Power segments.

Revenues in Canada are expected to increase in 2006, due in part to higher activities anticipated mainly in the Infrastructure and Environment, Operations and Maintenance, and Power segments.

4.2 REVENUES FROM OUTSIDE CANADA

Revenues from outside Canada in 2005, which were expected to remain in line with the previous year, **totalled $1,757.5 million,** compared to $1,926.3 million in 2004, as increased activities mainly in the Infrastructure and Environment segment were more than offset by a decrease primarily in the Power, and Chemicals and Petroleum segments.

- Revenues generated in Africa were $503.8 million in 2005, compared to $676.7 million in 2004, due in large part to lower volume in the Power segment.
- Revenues generated in the United States increased to $364.6 million in 2005 from $281.7 million in 2004, due primarily to increased activities in the Defence and Power segments.
- Revenues from Europe were $302.3 million in 2005, compared to $333.3 million in 2004, mainly due to lower activities in the Power segment, partially offset by increased volume in the All Other segment.
- Revenues from Asia in 2005 were $197.5 million compared to $315.0 million the previous year, mainly reflecting lower activities in the Chemicals and Petroleum segment, partially offset by increased activities in the Mining and Metallurgy segment.
- Revenues from Latin America increased to $118.1 million in 2005, from $93.7 million in 2004, mainly due to increased activities primarily in the Infrastructure and Environment segment.
- Revenues from other regions, including Eurasia and the Middle East, increased to $271.2 million in 2005 compared to $225.9 million last year, mainly due to increased activities in the Infrastructure and Environment segment.

The Company expects revenues from outside Canada to increase in 2006, with increased activities, mainly in the Infrastructure and Environment, Chemicals and Petroleum, and Power segments, from ongoing and recently awarded projects along with several opportunities.

5. BREAKDOWN OF INCOME STATEMENT

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

FINANCIAL RESULTS (EXCLUDING HIGHWAY 407)

YEAR ENDED DECEMBER 31

(IN MILLIONS OF CANADIAN DOLLARS)	**2005**		2004	
Revenues				
Services	**$ 958.5**		$ 923.6	
Packages	**1,704.6**		1,502.7	
Concessions	**1,054.7**		956.9	
	$ 3,717.8		$ 3,383.2	
Gross margin				
Services	**$ 249.7**	**26.1%**	$ 235.5	25.5%
Packages	**106.0**	**6.2%**	104.8	7.0%
Concessions	**130.1**	**12.3%**	134.1	14.0%
	$ 485.8	**13.1%**	$ 474.4	14.0%
Administrative, marketing and other expenses	**292.8**		289.1	
Interest (revenues) and capital taxes	**(1.5)**		11.4	
Income before income taxes	**194.5**		173.9	
Income taxes	**59.9**		55.3	
Net income excluding Highway 407	**$ 134.6**		$ 118.6	

5.1 REVENUE AND GROSS MARGIN ANALYSIS

Revenues totalled $3,717.8 million in 2005, compared to $3,383.2 million in 2004.

- Services revenues increased by 3.8%.
- Packages revenues increased by 13.4%.
- Concessions revenues increased by 10.2%.

Gross margin increased to $485.8 million in 2005, compared to $474.4 million in 2004, reflecting the increase in volume, partially offset by a decrease in the overall gross margin-to-revenue ratio.

5.1.1 SERVICES REVENUES AND GROSS MARGIN

Services revenues, which were expected to remain in line with the previous year, **increased to $958.5 million in 2005** from $923.6 million in 2004, as higher revenues mainly in the Chemicals and Petroleum, and Infrastructure and Environment segments, in part from the 2005 business acquisitions in the latter segment, more than offset the lower level of activities in the Mining and Metallurgy segment.

Gross margin for the Services category was $249.7 million in 2005, compared to $235.5 million in 2004, due to increased volume and a higher gross margin-to-revenue ratio.

The Company expects Services revenues to remain in line in 2006, as increased activities on ongoing projects, combined with several prospects inside Canada and outside Canada, are expected to offset the decrease in volume from completed or near-completed projects.

5.1.2 PACKAGES REVENUES AND GROSS MARGIN

Packages revenues increased, as expected, **totalling $1,704.6 million in 2005** compared to $1,502.7 million in 2004, reflecting an increase mainly in the Infrastructure and Environment segment, partially offset by a decrease in the Chemicals and Petroleum segment.

The overall Packages gross margin amounted to $106.0 million in 2005 compared to $104.8 million in 2004, as the increase in volume was partially offset by a decrease in the gross margin-to-revenue ratio, primarily in the Infrastructure and Environment segment, reflecting mainly lower than anticipated profitability on certain Packages projects.

The Company expects the Packages revenues for 2006 to increase, reflecting a higher level of beginning backlog, with major projects mainly in the Infrastructure and Environment, and Power segments, coupled with various opportunities both inside Canada and outside Canada.

5.1.3 CONCESSIONS REVENUES AND GROSS MARGIN

Concession revenues include operations and maintenance activities, mainly from the SNC-Lavalin ProFac subsidiary, the Defence segment, involved in the manufacturing of ammunition, as well as the Infrastructure Concession Investments segment.

CONCESSIONS REVENUES BY INDUSTRY SEGMENT (EXCLUDING HIGHWAY 407)

YEAR ENDED DECEMBER 31

(IN MILLIONS OF CANADIAN DOLLARS)	**2005**	2004
Operations and Maintenance	**$ 685.6**	$ 629.1
Defence	**336.9**	289.6
Infrastructure Concession Investments	**22.3**	21.3
All Other	**9.9**	16.9
	$ 1,054.7	$ 956.9

As expected, **Concessions revenues increased, totalling $1,054.7 million in 2005,** compared to $956.9 million in 2004, primarily due to increased activities in the Operations and Maintenance, and Defence segments.

Concessions gross margin totalled $130.1 million in 2005, compared to $134.1 million in 2004, reflecting a decrease in the gross margin-to-revenue ratio primarily in the Operations and Maintenance segment, partially offset by an overall increase in volume.

The Company expects Concessions revenues to increase in 2006, mainly from higher activities in the Operations and Maintenance segment.

5.2 ADMINISTRATIVE, MARKETING AND OTHER EXPENSES ANALYSIS

Administrative, marketing and other expenses, which were expected to increase in 2005, totalled $292.8 million in 2005 compared to $289.1 million in the previous year, as the impact from the 2004 and 2005 business acquisitions was partially offset mainly by lower expenses in certain business units. Given the full year expenses from the 2005 business acquisitions, as well as the anticipated increase in marketing and proposals costs and in its volume of activities, **the Company expects administrative, marketing and other expenses to increase in 2006.** Despite this anticipated increase, the Company continues to maintain an appropriate balance between gross margin and administrative expenses while maintaining the necessary investment in marketing and selling activities to achieve growth. As such, administrative, marketing and other expenses represented approximately 60.3% of the gross margin in 2005, in line with the 60.9% ratio in 2004.

5.3 INTEREST (REVENUES) AND CAPITAL TAXES ANALYSIS

As expected, the Company's 2005 average cash balance and effective interest yield increased compared to the previous year, with **interest revenues,** net of capital taxes, amounting to $1.5 million in 2005, compared to an **interest** and capital taxes **expense** of $11.4 million in 2004. The higher average cash balance in 2005, compared to 2004, was mainly due to increased downpayments on contracts and increased billings in advance on certain Packages projects, coupled with continued profitability. **In 2006, the Company expects its interest revenues, net of capital taxes, to be at least in line with 2005.**

5.4 INCOME TAXES ANALYSIS

As expected, the effective income tax rate, excluding Highway 407, decreased in 2005, totalling 30.8% compared to 31.8% in 2004, while the consolidated effective tax rate was 31.9% in 2005 compared to 34.8% in 2004. **The Company expects its 2006 effective tax rate, excluding Highway 407, to remain in line with 2005.**

6. BACKLOG

The Company records backlog based on contract awards that are considered firm, as well as on a rolling basis for recurring revenues on certain concession-type agreements and for Highway 407. The Company **limits** the revenues backlog to the next five years for **Concessions activities,** when the contractual life **exceeds five years.**

REVENUE BACKLOG

AT DECEMBER 31

(IN MILLIONS OF CANADIAN DOLLARS)	**2005**	2004
By category		
Services	**$ 604.2**	$ 564.9
Packages	**4,308.1**	2,483.2
Concessions	**2,805.2**	2,886.7
Total – Excluding Highway 407	**7,717.5**	5,934.8
From Highway 407	**419.3**	394.9
Consolidated revenue backlog	**$ 8,136.8**	$ 6,329.7
By region		
Canada		
Excluding Highway 407	**$ 5,623.5**	$ 3,570.2
From Highway 407	**419.3**	394.9
Total Canada	**6,042.8**	3,965.1
Outside Canada	**2,094.0**	2,364.6
Total	**$ 8,136.8**	$ 6,329.7

Revenue backlog, excluding Highway 407, increased to $7.7 billion as at December 31, 2005, compared to $5.9 billion as at December 31, 2004.

- Services backlog increased by 7.0%.
- Packages backlog grew by 73.5%.
- Concessions backlog decreased by 2.8%.
- Backlog from Canada, excluding Highway 407, increased to $5.6 billion at the end of 2005, from $3.6 billion at the end of the previous year, mainly in the Infrastructure and Environment, and Power segments.
- Backlog outside Canada decreased by 11.4% over last year, reflecting a decrease mainly in the Infrastructure and Environment segment.

6.1 SERVICES BACKLOG

Services backlog totalled $604.2 million at the end of 2005, compared to $564.9 million at the end of the previous year.

RECONCILIATION OF SERVICES BACKLOG

AT DECEMBER 31

(IN MILLIONS OF CANADIAN DOLLARS)	**2005**	2004
Opening backlog	**$ 564.9**	$ 567.7
Add: Contract bookings during the year	**997.8**	920.8
Less: Revenues recognized during the year	**958.5**	923.6
Ending backlog	**$ 604.2**	$ 564.9

Services bookings for 2005 totalled $997.8 million, compared to $920.8 million in the previous year. Contract bookings in 2005 included notable additions such as:

- The engineering, procurement and construction management ("EPCM") services contract for a froth treatment plant for Canadian Natural Resources Limited, in Alberta, Canada, in Chemicals and Petroleum;
- The front-end engineering and project management services contract with Saudi Arabian Oil Company ("Saudi Aramco") for new facilities to support the treatment, supply, distribution and injection of sea water in the Khurais and Ghawar oil fields, in Chemicals and Petroleum;
- The EPCM contract with the Dubai Aluminum Company ("DUBAL") for the expansion of two existing potlines, as well as construction management services for a new alumina silo, in the United Arab Emirates, in Mining and Metallurgy;

- The contract for consultancy and supervision services with the Gulf Cooperation Council Interconnection Authority for a construction project to interconnect electrical systems among the Gulf states of Kuwait, Saudi Arabia, Bahrain and Qatar, in Power;
- The Project Management Consultancy agreement, through a consortium, to provide services in connection with the construction of a new Liquefied Natural Gas ("LNG") train in Skikda, Algeria, in Chemicals and Petroleum;
- The joint venture contract with Diavik Diamond Mines Inc. for the procurement and construction management services for a dike in the Northwest Territories, Canada, in Power.

6.2 PACKAGES BACKLOG

Packages backlog increased significantly to $4,308.1 million at the end of 2005 from $2,483.2 million at the end of 2004, mainly in the Infrastructure and Environment, and Power segments.

RECONCILIATION OF PACKAGES BACKLOG

AT DECEMBER 31

(IN MILLIONS OF CANADIAN DOLLARS)	2005	2004
Opening backlog	**$ 2,483.2**	$ 1,749.5
Add: Contract bookings during the year	**3,529.0**	2,236.4
Less: Revenues recognized during the year	**1,704.1**	1,502.7
Ending backlog	**$ 4,308.1**	$ 2,483.2

Packages bookings in 2005 amounted to $3,529.0 million, compared to $2,236.4 million in the previous year. Major bookings in 2005 included contracts such as:

- The engineering, procurement and construction ("EPC") contract with InTransit BC L.P. ("InTransit BC") for the Canada Line, previously the Richmond-Airport-Vancouver ("RAV") rapid transit line, in Infrastructure and Environment;
- The EPC contract for some sections of the Trans-Canada Highway in the Province of New Brunswick, Canada, in Infrastructure and Environment;
- The EPC contracts with Bruce Power A.L.P. to replace steam generators of a nuclear power station and to contribute to other refurbishment work, in Ontario, Canada, in Power;
- The EPC contract with Elektrownia Patnow II Sp. z.o.o. to complete a 460 MW lignite-fired supercritical thermal power plant in Poland, in Power;
- The joint venture contract for the engineering and procurement, as well as construction management services, for an oil sands upgrader project for Canadian Natural Resources Limited, in Alberta, Canada, in Chemicals and Petroleum;
- The joint venture contracts to provide engineering services and execute procurement and construction work to build seven new water cooling plants and expand four others in Abu Dhabi, in the United Arab Emirates, in Infrastructure and Environment;
- The contracts with Sredneuralsky Copper to design and supply equipment and materials for two sulphuric acid plants, in Russia, in Chemicals and Petroleum;
- The contract to design and build four electrical transmission substations for the British Columbia Transmission Corporation, in Canada, in Power.

In 2005, a subsidiary of SNC-Lavalin was awarded a $144.5 million EPC contract for the construction of the new William R. Bennett Bridge by the Okanagan Lake Concession, which is wholly-owned by SNC-Lavalin. The future revenues of this Packages contract have not been included in the December 31, 2005 backlog since SNC-Lavalin is the sole owner of this infrastructure concession investment and, therefore, all revenues generated from this contract are eliminated upon consolidation, in accordance with GAAP. The same treatment applies to the operations and maintenance ("O&M") contract awarded by Okanagan Lake Concession to another subsidiary of SNC-Lavalin, which has not been included in the Concessions backlog.

6.3 CONCESSIONS BACKLOG

BREAKDOWN OF CONCESSIONS BACKLOG

AT DECEMBER 31

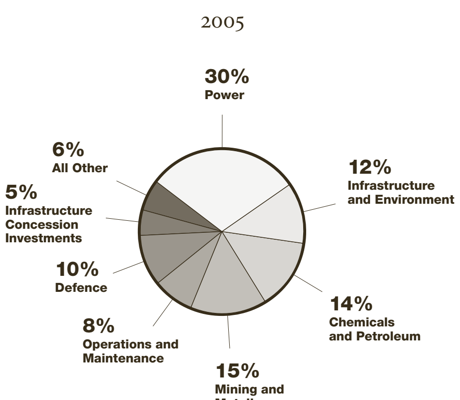
(IN MILLIONS OF CANADIAN DOLLARS)	**2005**	2004
Operations and Maintenance	**$ 2,112.4**	$ 2,212.3
Defence	**643.2**	673.2
Other	**49.6**	1.2
Excluding Highway 407	**2,805.2**	2,886.7
From Highway 407	**419.3**	394.9
Total concessions	**$ 3,224.5**	$ 3,281.6

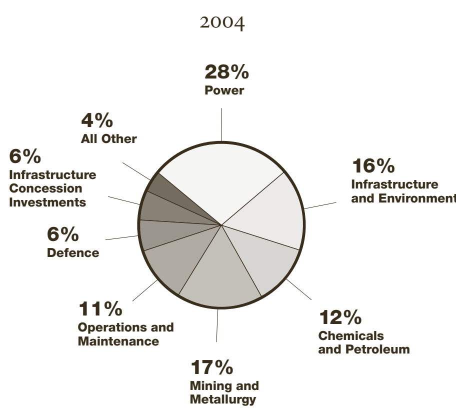
Concessions backlog, excluding Highway 407, totalled $2,805.2 million at the end of 2005, compared to $2,886.7 million at the end of 2004, in large part due to a normal fluctuation in the timing of long-term contracts, mainly in the Operations and Maintenance segment. In 2005, the Operations and Maintenance segment increased its involvement in complementary mandates with other segments, such as the operation and maintenance of power plants, bridges and roads, reflecting the Company's ability to deliver all-inclusive contracts.

7. OPERATING RESULTS BY INDUSTRY SEGMENT

As mentioned previously, the **Company's results,** excluding Highway 407, **are primarily evaluated by industry segment,** in which each of the Company's segmented results, namely the Power, Infrastructure and Environment, Chemicals and Petroleum, Mining and Metallurgy, Operations and Maintenance, Defence, Infrastructure Concession Investments and All Other are used as a basis for accountability by management. The charts below illustrate the **diversity of the operating income contributors,** from an industry segment standpoint, in 2005 and 2004.

OPERATING INCOME BY INDUSTRY SEGMENT





The following discussion and analysis has been prepared for the excluding Highway 407 component (refer to note 20 to the audited consolidated financial statements for a reconciliation to consolidated net income as well as a description of each segment).

OPERATING RESULTS BY INDUSTRY SEGMENT (EXCLUDING HIGHWAY 407)

YEAR ENDED DECEMBER 31

(IN MILLIONS OF CANADIAN DOLLARS)	2005		2004	
	REVENUES	OPERATING INCOME	REVENUES	OPERATING INCOME
Power	**$ 879.3**	**$ 67.0**	$ 891.0	$ 51.2
Infrastructure and Environment	**826.7**	**26.8**	527.9	27.9
Chemicals and Petroleum	**579.2**	**30.4**	584.2	21.8
Mining and Metallurgy	**223.0**	**33.9**	279.8	31.3
Operations and Maintenance	**685.6**	**18.3**	629.1	20.4
Defence	**336.9**	**21.9**	289.6	10.7
Infrastructure Concession Investments	**22.3**	**11.7**	21.3	10.5
All Other	**164.8**	**13.3**	160.3	7.4
Total	**$ 3,717.8**	**$ 223.3**	$ 3,383.2	$ 181.2

The summary table below compares the actual contributions of the industry segments in 2005 to the initial expectations expressed in the 2004 annual Management's Discussion and Analysis, and presents the Company's expectations for 2006.

SUMMARY TABLE—OPERATING INCOME BY INDUSTRY SEGMENT (EXCLUDING HIGHWAY 407)

	2005		2006
	EXPECTATIONS	ACTUAL	EXPECTATIONS
Power	—	▲	▲
Infrastructure and Environment	▲	▼	▲
Chemicals and Petroleum	▲	▲	▲
Mining and Metallurgy	—	▲	▼
Operations and Maintenance	▲	▼	—
Defence	—	▲	▼
Infrastructure Concession Investments	—	▲	▲
All Other	—	▲	—
Total operating income (excluding Highway 407)	▲	▲	▲

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

In 2005, the operating segments' contributions were in line with or exceeded initial expectations, except for the Infrastructure and Environment segment, mainly due to lower than anticipated profitability on certain Packages projects, and for the Operations and Maintenance segment, reflecting a lower gross margin contribution.

7.1 POWER

Power revenues were $879.3 million in 2005, compared to $891.0 million in 2004, with major projects such as:

- The contract to design and build an 825 MW combined cycle thermal power plant in the Skikda region of Algeria;
- The EPC contract for a 550 MW natural gas-fired cogeneration power plant in Bécancour, Canada;
- The contract to design and build a 117 MW cogeneration power plant at Pearson International Airport, in Canada;
- The EPC contract for a 50 MW biomass fuelled power plant in Minnesota, United States;
- The EPC contract for a 150 MW combined heat and power plant near the City of Limerick, in Ireland;

- The EPC contract to design and build a 120 MW hydro-power facility in British Columbia, Canada;
- The EPC contract with Elektrownia Patnow II Sp. z.o.o. to complete a 460 MW lignite-fired supercritical thermal power plant in Poland.

Operating income, which was expected to remain in line with the previous year, **increased to $67.0 million in 2005,** compared to $51.2 million in 2004, mainly due to an imputed interest benefit arising from the higher level of positive cash flow generated by projects, while the volume of activities and the level of gross margin remained in line with 2004.

In 2006, the Company expects the contribution from the Power segment to increase, with activities from ongoing and recently awarded projects and from various opportunities inside Canada and outside Canada, expected to more than offset the decrease in activities from completed or near-completed major projects.

7.2 INFRASTRUCTURE AND ENVIRONMENT

Infrastructure and Environment revenues increased to $826.7 million in 2005 compared to $527.9 million in 2004, mainly due to increased activities on certain projects awarded in late 2004 and in 2005. Major revenue contributors to the Infrastructure and Environment segment during the year were:

- The turnkey contract to design and build a water treatment plant and pumping station in Algeria;
- The EPC contract for some sections of the Trans-Canada Highway in the Province of New Brunswick, Canada;
- The EPC contract to design and build a water treatment plant and water conveyance system in the Dominican Republic;
- The EPC contract with InTransit BC for the Canada Line, previously the RAV rapid transit line, in Canada;
- The joint venture contracts to provide engineering services and execute procurement and construction work to build seven new water cooling plants and expand four others in Abu Dhabi, in the United Arab Emirates.

Operating income, which was expected to increase in 2005, **totalled $26.8 million in 2005,** compared to $27.9 million in 2004, as the lower than anticipated profitability on certain Packages projects in 2005 more than offset the increased volume.

The Company expects contributions from the Infrastructure and Environment segment to increase in 2006, with a higher level of activity from the solid opening backlog and from various opportunities inside Canada and outside Canada, combined with an expected increased gross margin-to-revenue ratio.

7.3 CHEMICALS AND PETROLEUM

Revenues from Chemicals and Petroleum amounted to $579.2 million in 2005, in line with the previous year. Revenues in 2005 included activities from contributors such as:

- The turnkey contract to design and build, through a joint venture, the *in situ* Steam Assisted Gravity Drainage ("SAGD") heavy oil recovery plant for Husky Energy, in northern Alberta, in Canada;
- The EPC contract for an anhydrous ammonia production plant in Australia;
- The front-end engineering, project management, detailed engineering and procurement services for the ExxonMobil Refining and Chemical complexes located in Baytown, Texas;
- The contracts with Canadian Natural Resources Limited for an oil sands upgrader project and for a froth treatment plant, in Alberta, in Canada;

- The EPCM services contract to upgrade pump stations for a pipeline in Alaska;
- The front-end engineering and project management services contract with Saudi Arabian Oil Company ("Saudi Aramco") for new facilities to support the treatment, supply, distribution and injection of sea water in the Khurais and Ghawar oil fields, in Saudi Arabia.

As expected, **operating income increased, totalling $30.4 million in 2005,** compared to $21.8 million in 2004, mainly due to a larger proportion of revenues generated from Services activities, which usually generate a higher gross margin-to-revenue ratio than Packages activities, combined with a higher level of profitability on Packages projects compared to the previous year.

The Company expects the contribution from the Chemicals and Petroleum segment to increase in 2006, with increased volume from ongoing projects and various opportunities.

7.4 MINING AND METALLURGY

Mining and Metallurgy revenues totalled $223.0 million in 2005, compared to $279.8 million in 2004, as increased activities from some major projects outside Canada were more than offset by the completion of certain major projects in Canada. Revenues in 2005 included activities from contributors such as:

- The joint venture EPCM contract for the Goro nickel project in New Caledonia;
- The EPCM services for the Las Cristinas, Alto Chicama and Veladero gold mine projects, in Venezuela, Peru and Argentina, respectively;
- The EPCM services for the increased capacity of Aluminerie Alouette Inc.'s aluminum smelter, in Canada;
- The EPCM services contract for the new nickel mine, concentrator and related facilities located at Voisey's Bay, in Canada;
- The EPCM contract with the Dubai Aluminum Company ("DUBAL") for the expansion of two existing potlines, as well as construction management services for a new alumina silo, in the United Arab Emirates.

While the Company expected the 2005 contribution of the Mining and Metallurgy segment to remain in line with the previous year, **operating income increased to $33.9 million in 2005** from $31.3 million in 2004, as favourable contributions from certain projects completed in 2005 more than offset the lower volume of activities.

The Company expects the 2006 contribution from the Mining and Metallurgy segment to decrease compared to 2005, reflecting a lower gross margin-to-revenue ratio, as the 2005 gross margin included favourable contributions from certain projects completed in 2005.

7.5 OPERATIONS AND MAINTENANCE

Operations and Maintenance revenues increased to $685.6 million in 2005 from $629.1 million in 2004, resulting mainly from a contract awarded in late 2004 to manage the Canadian Government's real property portfolio.

Operating income, which was expected to increase in 2005, **totalled $18.3 million in 2005** compared to $20.4 million in the previous year, mainly due to a lower gross margin contribution on certain contracts.

The Company expects the 2006 contribution from the Operations and Maintenance segment to remain in line with 2005, with continuous contributions from ongoing contracts.

7.6 DEFENCE

Defence revenues were $336.9 million in 2005, compared to $289.6 million in 2004, mainly due to increased volume outside Canada. **The operating income,** which was expected to remain in line with the previous year, **increased to $21.9 million in 2005** from $10.7 million in 2004. This increase mainly results from increased volume, favourable margins on certain contracts, and lower imputed interest due to a lower level of total net assets employed. **The Company expects contributions from the Defence segment to decrease in 2006,** primarily due to a lower gross margin contribution from the international market, resulting from lower expected activities and the impact from the Canadian dollar's appreciation. The 2006 contributions from the Defence segment will be further reduced if the transaction announced on February 23, 2006 is completed, once the required approvals are obtained. Refer to section 15 on subsequent events for further details.

7.7 INFRASTRUCTURE CONCESSION INVESTMENTS

As previously mentioned, SNC-Lavalin makes equity investments in infrastructure concessions in various industry sectors, such as airports, bridges, energy, mass transit and roads. The Infrastructure Concession Investments segment represents SNC-Lavalin's equity participation in the following investments (Highway 407 is not part of the investments below as it is presented separately in section 7.9):

NAME	EQUITY PARTICIPATION	HELD SINCE	DESCRIPTION OF ACTIVITIES
InTransit BC L.P. ("InTransit BC")	33.3%	2005	Once the design and construction is completed, expected in late 2009, it will operate and maintain the Canada Line, a 19 km rapid transit line which will connect Vancouver with Central Richmond and the Airport, in the Province of British Columbia, under a 35-year concession agreement expiring in 2040. Refer to note 3 to the audited consolidated financial statements.
Okanagan Lake Concession L.P. ("Okanagan Lake Concession")	100%	2005	Once the design and construction is completed, expected in 2008, it will operate and maintain the new William R. Bennett Bridge in Kelowna, British Columbia, under a 30-year concession agreement expiring in 2035. Refer to note 3 to the audited consolidated financial statements.
Trencap Limited Partnership	11.1%	2004	Holds an indirect substantial interest in Gaz Métro Limited Partnership, a publicly traded company involved in natural gas distribution in Canada. Refer to note 3 to the audited consolidated financial statements.
Astoria Project Partners LLC ("Astoria")	21%	2004	Owns and, once completed in 2006, will operate a new 500 MW natural gas-fired power plant (Phase 1) in Queens, New York. Refer to note 3 to the audited consolidated financial statements.
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.
AltaLink L.P. ("AltaLink")	50%(1)	2002	Owns and operates approximately 12,000 km of transmission lines and over 250 substations in Alberta on a rate regulated basis.
Murraylink Transmission Company Pty. Ltd.	50%	2001	Owns and operates an interconnector on a rate regulated basis between the electricity transmission grids of the Australian states of Victoria and South Australia.
Southern Electric Power Company Limited	21.1%	1999	Owns and operates a 117 MW thermal power plant in Pakistan.
Gazmont Limited Partnership	50%	1996	Owns and operates a 25 MW biogas thermal power plant in Québec.
West End Dam Associates	21%	1985	A 4.5 MW power generation facility in New York State.

(1) Subject to regulatory approval by the Alberta Energy and Utilities Board, it is expected that SNC-Lavalin will increase its participation in AltaLink to 76.92% in 2006, for a consideration of approximately $51 million, subject to certain adjustments. Refer to note 19 to the audited consolidation financial statements.

When making an equity investment in infrastructure concessions, SNC-Lavalin ensures that the debt included in these concessions is non-recourse to the general credit of the Company. Also, when making such equity investments, SNC-Lavalin may not be required to inject funds upon signing of the concession agreement. In such cases, SNC-Lavalin has to guarantee its share of equity contributions, which may be over a certain period of time, through the issuance of bank letters of credit. As at December 31, 2005, all equity investments had been funded, except for Astoria, InTransit BC and Okanagan Lake Concession. Refer to note 3 to the audited consolidated financial statements for further details on the SNC-Lavalin's approximately $67.9 million and US$31.0 million commitment to make contributions to infrastructure concession investments, up to 2009, in addition to the consideration to be paid for the anticipated increased participation in AltaLink, subject to regulatory approval.

The Company's investments are accounted for by 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 is accounted for by the cost and equity methods, which do not reflect the line by line items of the financial results.

While it was expected that the contribution from the Infrastructure Concession Investments segment would remain in line with 2004, **operating income increased to $11.7 million in 2005** from $10.5 million in 2004, mainly due to an increased contribution from certain investments, including the first full-year contribution from Trencap Limited Parthership, acquired in June 2004, partially offset by SNC-Lavalin's share of the loss in Astoria, which incurred costs related to the refinancing of its debt facilities completed in the second quarter of 2005.

The Company expects the 2006 performance from the Infrastructure Concession Investments segment to increase compared to 2005, with the commencement of revenue-generating operations following the anticipated completion of the natural gas power plant held by Astoria, in 2006, and the non-recurrence of Astoria's costs incurred to refinance its debt facilities in 2005, combined with continuous contributions expected from other infrastructure concession investments.

7.8 ALL OTHER

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

Revenues in 2005 totalled $164.8 million compared to $160.3 million in 2004. **Operating income,** which was expected to remain in line with the previous year, **increased to $13.3 million in 2005** from $7.4 million in 2004, mainly due to a lower level of administrative and marketing expenses.

The Company expects the 2006 performance from the All Other segment to remain in line with 2005, reflecting higher volume, offset by higher administrative and marketing expenses.

7.9 HIGHWAY 407

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

HIGHWAY 407

YEAR ENDED DECEMBER 31

(IN MILLIONS OF CANADIAN DOLLARS)	**2005**	2004
Highway 407 results (at 100% level)		
Revenues	**$ 420.3**	$ 380.2
Income before interest, other expenses and taxes	**261.3**	222.5
Interest and other expenses, excluding inflation adjustments	**(238.0)**	(257.1)
Inflation adjustments on certain bonds	**(45.4)**	(50.4)
Interest and other expenses	**(283.4)**	(307.5)
Loss before income taxes	**(22.1)**	(85.0)
Income taxes	**(5.7)**	(1.7)
Net loss	**$ (27.8)**	$ (86.7)
SNC-Lavalin's proportionate share		
Net loss, net of consolidation eliminations	**$ (4.7)**	$ (14.5)

SNC-Lavalin's proportionate share of Highway 407 net accounting loss in 2005 was $4.7 million, compared to $14.5 million in 2004.

Net accounting loss (at 100% level) was $27.8 million in 2005 compared to $86.7 million in 2004, resulting mainly from increased revenues and lower interest and other expenses.

Highway 407's revenues in 2005 increased to $420.3 million from $380.2 million in 2004, mainly due to increased traffic coupled with a toll rate increase in February 2005. Vehicle kilometres travelled (VKT), which represents the total kilometres travelled for all vehicles, increased by 5.3% to 2,064.1 million in 2005 compared to 1,959.5 million in 2004.

Interest and other expenses of Highway 407 amounted to $283.4 million in 2005, compared to $307.5 million in the previous year, as the 2004 results included a one-time $23.2 million premium and accelerated amortization of charges related to the early redemption of senior bonds in the fourth quarter of 2004.

As noted in previous years, despite accounting losses anticipated for the initial years of the 99-year concession, which are not unusual for highway concessions, positive cash flows generated from Highway 407 have enabled it to make dividend payments to its investors. Accordingly, Highway 407 paid SNC-Lavalin dividends totalling $14.3 million in 2005, compared to $12.6 million in 2004, and expects to generate sufficient cash on a prospective basis to continue to pay quarterly dividends.

As mentioned in previous years, the Ontario provincial government is disputing certain aspects of the Concession and Ground Lease Agreement, signed in April of 1999 between the Province of Ontario and Highway 407, including its right to raise toll rates without government approval. Highway 407's management believes that the disputes have no merit and expects to resolve the disputes without a material impact on the business or financial position of Highway 407.

OWNERSHIP OF HIGHWAY 407

In a private transaction, Macquarie Infrastructure Group ("MIG") acquired, on October 26, 2004, 107.5 million common shares of 407 International Inc., representing a 13.87% ownership on a fully diluted basis, from Cintra Concesiones de Infraestructuras de Transporte, S.A. ("Cintra") which, on the basis of Cintra's IPO offering price, established the value of the consideration paid at approximately $693.8 million. The value of the transaction between MIG and Cintra, when applied to the 16.77% share owned by SNC-Lavalin, would represent approximately $839.1 million on that date. The carrying value of the investment in 407 International Inc., when accounting for Highway 407 by the equity method (refer to note 2 to the audited consolidated financial statements), amounted to a negative balance of $12.1 million as at December 31, 2005 (carrying value of $6.9 million as at December 31, 2004). It should be noted that this negative balance of the investment, which varies depending on SNC-Lavalin's proportionate share of Highway 407 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, nor does it reflect the fair value of SNC-Lavalin's investment in Highway 407.

Following the transaction described above, MIG converted, in 2004, a previously issued debenture into 125.0 million common shares of Highway 407, representing an interest of approximately 16.13% in the concession. As a result, Highway 407 is currently owned by a consortium comprised of Cintra (53.23%), MIG (30%) and SNC-Lavalin (16.77%).

8. FINANCIAL POSITION AND RESOURCES

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

8.1 BALANCE SHEET

VARIATION IN TOTAL ASSETS OF SNC-LAVALIN GROUP INC.
(WITH THE INVESTMENT IN HIGHWAY 407 ACCOUNTED FOR AS A SINGLE LINE ITEM, I.E. EQUITY METHOD)

AT DECEMBER 31

(IN MILLIONS OF CANADIAN DOLLARS)	2005	2004
Total assets at the beginning–using equity method for the investment in Highway 407	**$ 2,443.8**	$ 1,952.1
Change in assets during the year		
Increase in cash and cash equivalents	**468.1**	207.9
Increase in current assets, excluding cash and cash equivalents	**312.6**	140.0
Increase (decrease) in property, plant and equipment	**3.3**	(19.6)
Decrease in book value of investment in 407 International Inc.	**(18.9)**	(27.1)
Increase in goodwill from acquisitions	**11.8**	20.2
Increase in cost and equity investments	**31.3**	180.8
Change in other assets	**33.5**	(10.5)
Total assets at the end–using equity method for the investment in Highway 407	**$ 3,285.5**	$ 2,443.8

Total assets, with Highway 407 accounted for by the equity method, totalled $3,285.5 million as at December 31, 2005 compared to $2,443.8 million as at December 31, 2004. The $841.7 million increase was mainly due to:

- The $468.1 million increase in cash and cash equivalents, due in large part from cash generated from operations, resulting mainly from increased downpayments on contracts and increased billings in advance on certain major Packages projects and from continued profitability;
- The $312.6 million increase in current assets, excluding cash and cash equivalents, mainly due to an increase in contracts in progress and in the contract in progress subject to contract financing arrangement, both reflecting advancement on certain major Packages projects, primarily in the Infrastructure and Environment segment;
- The $31.3 million increase in cost and equity investments, mainly from the investment commitment in InTransit BC in 2005.

In 2004, total assets with Highway 407 accounted for by the equity method increased by $491.7 million, mainly due to:

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

Total consolidated assets, which include the proportionate share of Highway 407's assets, amounted to $4,026.5 million as at December 31, 2005, compared to $3,173.7 million as at December 31, 2004, an increase of $852.8 million. Total consolidated assets increased by $549.3 million in 2004, from $2,624.4 million as at December 31, 2003 to $3,173.7 million as at December 31, 2004.

Total consolidated short-term liabilities amounted to $2.2 billion, $1.5 billion and $1.1 billion as at December 31, 2005, 2004 and 2003, respectively. The increase from 2004 to 2005 was primarily a result of the increase in downpayments on contracts, deferred revenues, and in the advance under a contract financing arrangement. The increase from 2003 to 2004 reflects mainly an increase in deferred revenue, and accounts payable and accrued charges, partially offset by a decrease in downpayments on contracts.

Total consolidated long-term liabilities were $1,014.7 million as at December 31, 2005, compared to $935.1 million as at December 31, 2004, reflecting mainly the $70.0 million received by Okanagan Lake Concession under a non-recourse long-term credit facility. Total consolidated long-term liabilities increased in 2004, from $868.7 million as at December 31, 2003 to $935.1 million as at December 31, 2004, mainly due to SNC-Lavalin's proportionate share in the increase of Highway 407's non-recourse debt.

Shareholders' equity was $789.7 million at December 31, 2005 compared to $717.8 million at December 31, 2004 and $658.3 million at December 31, 2003. For each of the two years, the change was primarily due to net income for the year combined with the issuance of shares pursuant to the exercise of stock options, partially offset by dividends and the repurchase of shares under the normal course issuer bid.

8.2 NET CASH POSITION (EXCLUDING HIGHWAY 407)

NET CASH POSITION (EXCLUDING HIGHWAY 407)

AS AT DECEMBER 31

(IN MILLIONS OF CANADIAN DOLLARS)	**2005**	2004
Cash and cash equivalents	**$ 1,160.6**	$ 692.5
Recourse short-term and long-term debt	**104.4**	104.3
Net cash position	**$ 1,056.2**	$ 588.2

The 2005 net cash position increased compared to 2004, mainly due to the increase in cash and cash equivalents, primarily from operating activities, as further explained in the Cash Flows Analysis section 8.3 below.

8.3 CASH FLOWS ANALYSIS

SUMMARY OF CASH FLOWS

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

YEAR ENDED DECEMBER 31

(IN MILLIONS OF CANADIAN DOLLARS)	**2005**	2004
Operating activities	**$ 497.8**	$ 394.4
Investing activities	**(135.4)**	(135.6)
Financing activities	**105.7**	(51.0)
Net increase in cash and cash equivalents	**468.1**	207.8
Cash and cash equivalents at beginning of year	**692.5**	484.7
Cash and cash equivalents at end of year	**$ 1,160.6**	$ 692.5

Cash and cash equivalents, excluding Highway 407, amounted to $1,160.6 million as at December 31, 2005, compared to $692.5 million as at December 31, 2004.

8.3.1 CASH GENERATED FROM OPERATING ACTIVITIES

Cash generated from operating activities totalled $497.8 million in 2005, compared to $394.4 million in 2004, mainly due to:

- Continued growth in net income excluding Highway 407;
- The fluctuation in non-cash working capital items, totalling $310.4 million, mainly from increased downpayments on contracts and increased billings in advance primarily in the Infrastructure and Environment, and Power segments, partially offset by the increase in contract in progress subject to contract financing arrangement.

8.3.2 CASH USED FOR INVESTING ACTIVITIES

Cash used for investing activities was $135.4 million in 2005 compared to $135.6 million in 2004.

2005 major investing activities were as follows:

- The $35.3 million cash equity contributions to Astoria;
- The acquisitions of businesses in 2005 for a total cash outflow of $17.7 million;
- Cash was used for the construction of the William R. Bennett Bridge, shown in the property, plant and equipment account following the consolidation of Okanagan Lake Concession. Cash was also used for the acquisition of $31.3 million of other property, plant and equipment, versus depreciation of other property, plant and equipment of $36.5 million. Approximately 62% of the acquisitions of other property, plant and equipment were related to information technology in 2005.

2004 major investing activities were as follows:

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

8.3.3 CASH GENERATED FROM/USED FOR FINANCING ACTIVITIES

Cash generated from financing activities was $105.7 million in 2005 compared to cash used for financing activities of $51.0 million in 2004.

- The Company received advances of $89.8 million (nil in 2004) under a contract financing arrangement following the award of a three-year EPC contract for some sections of the Trans-Canada Highway in the Province of New Brunswick, Canada (refer to note 7 to the audited consolidated financial statements).
- Okanagan Lake Concession, wholly-owned by SNC-Lavalin, received $70.0 million (nil in 2004) under a non-recourse long-term credit facility.
- Under its normal course issuer bid, the Company repurchased shares for a total amount of $26.0 million in 2005 (1,157,100 shares at an average price of $22.44) compared to $25.0 million in 2004 (1,523,700 shares at an average price of $16.43). The Company expects to be as active in repurchasing its shares in 2006.
- Dividends paid amounted to $32.3 million in 2005, compared to $26.3 million in 2004, reflecting a dividend increase effective in the fourth quarter of 2004, from $0.04 to $0.05, corresponding to a 23.1% increase in the dividend per share. Based on the Company's solid results and positive outlook, the Board of Directors has decided to increase the quarterly dividend paid to shareholders, from $0.05 per share to $0.07 per share for the fourth quarter of 2005, resulting in total cash dividends declared of $0.23 per share in 2005 ($0.18 in 2004 and $0.14 in 2003).
- The issuance of shares pursuant to the exercise of stock options generated $7.8 million in cash in 2005 (913,500 stock options at an average price of $8.58), compared to $6.4 million in 2004 (1,043,892 stock options at an average price of $6.16). As at December 31, 2005, there were 3,675,600 stock options outstanding with exercise prices varying from $4.13 to $24.33 per common shares. 151,071,543 shares are issued and outstanding as at February 15, 2006.

8.4 RECOURSE REVOLVING CREDIT FACILITIES

The Company has access to $477.5 million of long-term revolving lines of credit. As at December 31, 2005, $110.2 million of the Company's credit lines remained unused, with the balance of $367.3 million used for the issuance of letters of credit. In addition, the Company has other lines of credit specifically for letters of credit.

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

8.5 WORKING CAPITAL (EXCLUDING HIGHWAY 407)

WORKING CAPITAL (EXCLUDING HIGHWAY 407)

AT DECEMBER 31

(IN MILLIONS OF CANADIAN DOLLARS, EXCEPT CURRENT RATIO)	**2005**	2004
Current Assets	**$ 2,540.5**	$ 1,759.8
Current Liabilities	**2,188.0**	1,510.7
Working Capital	**$ 352.5**	$ 249.1
Current Ratio	**1.16**	1.16

Working capital, excluding Highway 407, was $352.5 million (current ratio of 1.16) as at December 31 2005, compared to $249.1 million (current ratio of 1.16) in the previous year. The $103.4 million increase in working capital reflects mainly the $71.9 million increase in shareholders' equity and the unused portion of funds received by Okanagan Lake Concession through a non-recourse long-term credit facility, partially offset by the increase in goodwill and other long-term assets from business acquisitions.

8.6 RECOURSE DEBT TO CAPITAL

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, 2005, **the Company's recourse debt-to-capital ratio was 12:88,** compared to 13:87 as at December 31, 2004, both well below the Company's objective not to surpass a ratio of 30:70. The recourse debt-to-capital ratio is the same whether or not Highway 407 is accounted for by the proportionate consolidation method, as all Highway 407's debt is non-recourse to SNC-Lavalin.

8.7 CREDIT RATINGS

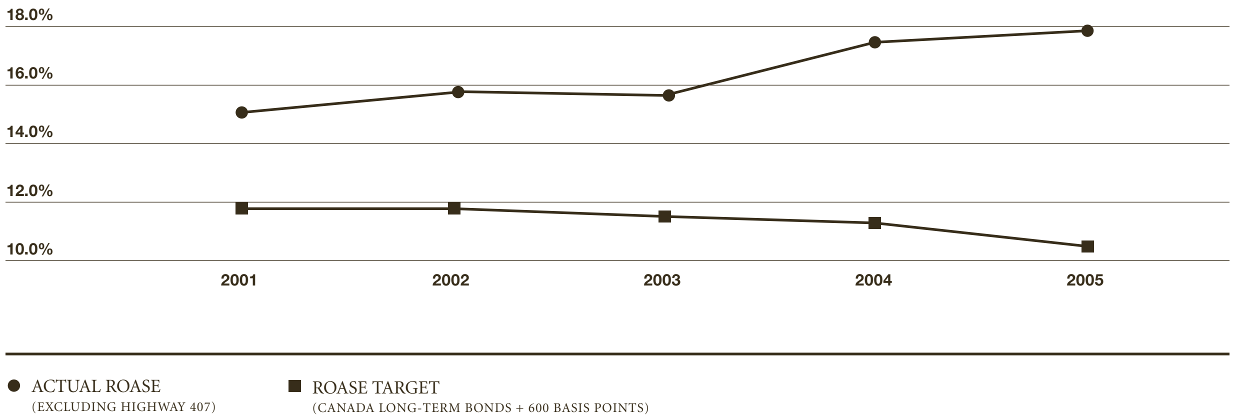
On December 12, 2005, Standard & Poor's raised SNC-Lavalin Group's rating, from BBB with a positive outlook to BBB+ with a stable outlook. This change in rating follows the revised outlook, from stable to positive, announced on February 1, 2005 by the same rating agency. On February 24, 2005, Dominion Bond Rating Service Limited ("DBRS") upgraded its rating for the debenture to BBB (high), from BBB, with a stable trend, and confirmed this rating on January 19, 2006.

8.8 FINANCIAL POSITION AND ROASE

The Company has cash and cash equivalents as well as access to sufficient sources of funds and credit facilities to meet its expected operating, investing and financing plans, including financing of business and concession acquisitions, share repurchases and business growth, as well as its contractual obligations. In terms of the shareholders' capital adequacy, the Company seeks to maintain an adequate balance between ensuring sufficient capital for financing net asset positions, maintaining satisfactory bank credit lines and capacity to absorb project net retained risks on the one hand, and to optimize return on weighted average shareholders' equity on the other.

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

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



ROASE, excluding Highway 407, was 17.9% in 2005, compared to 17.3% in 2004, which are both considerably higher than the Company's objective of long-term Canada Bond Yield plus 600 basis points (i.e.: 10.43% in 2005 and 11.14% in 2004).

8.9 CONTRACTUAL OBLIGATIONS

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

CONTRACTUAL OBLIGATIONS (EXCLUDING HIGHWAY 407)

(IN MILLIONS OF CANADIAN DOLLARS)	2006	2007-2008	2009-2010	THEREAFTER	TOTAL
Long-term debt – refer to note 11 to the audited consolidated financial statements	$ 2.2	$ 30.7	$ 109.5	$ 75.2	$ 217.6
Rental obligations – refer to note 19B to the audited consolidated financial statements	28.0	44.2	30.3	19.3	121.8
Total	$ 30.2	$ 74.9	$ 139.8	$ 94.5	$ 339.4

8.10 OFF-BALANCE SHEET ARRANGEMENTS

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

9. CRITICAL ACCOUNTING ESTIMATES

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

REVENUE RECOGNITION

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

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

Estimated revenues on contracts include future revenues from claims when such additional revenues can be reliably established.

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

ASSET IMPAIRMENT

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

Goodwill is subject to at least an annual assessment of impairment by applying a fair value based test at the reporting unit level. An impairment loss is recognized to the extent that the carrying amount of goodwill for each reporting unit exceeds its estimated fair market value. The fair market values of the reporting units are derived from certain valuation models, which may consider various factors such as normalized and estimated future earnings, price earnings multiples, terminal values and discount rates. All factors used in the valuation models are based on management's estimates and are subject to uncertainties and judgments. Changes in any of these estimates could affect the fair value of the reporting units and, consequently, the value of the reported goodwill. The Company performs the annual review of goodwill as at October 31 of each year, and based on the impairment test performed as at October 31, 2005 and 2004, the Company concluded that no goodwill impairment loss was required.

In addition, SNC-Lavalin reviews its **long-lived assets,** which include property, plant and equipment, for impairment whenever circumstances indicate that the carrying amount of the asset may not be recoverable. To determine whether impairment exists, management compares the estimated undiscounted future cash flows that are projected to be generated by those assets to their respective carrying value. If the undiscounted future cash flows and fair value are lower than the carrying value, then an impairment loss is recognized. Estimated undiscounted future cash flows reflect management's estimates, and changes in those estimates could affect the carrying amount of the long-lived assets. The Company concluded that no impairment charge was required for its long-lived assets for 2005 and 2004.

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 10 and 17 to the audited consolidated financial statements for further details.

INCOME TAXES

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

10. ACCOUNTING CHANGES

INITIAL ADOPTION IN 2005

During the year ended December 31, 2005, the Company adopted the following new accounting standard:

- **Variable Interest Entities.** Effective January 1, 2005, the Company adopted revised Canadian Institute of Chartered Accountants ("CICA") Accounting Guideline 15 ("AcG-15") regarding "Consolidation of Variable Interest Entities", with no material impact on the Company's consolidated financial statements.

TAKING EFFECT SUBSEQUENT TO 2005

- **Financial Instruments.** In January 2005, the CICA issued three new sections for financial instruments:
  - Section 3855, "Financial Instruments – Recognition and Measurement", provides guidance on when a financial instrument must be recognized on the balance sheet and how it must be measured. It also provides guidance on the presentation of gains and losses on financial instruments.
  - Section 3865, "Hedges", provides guidance on the application of hedge accounting and related disclosures.
  - Section 1530, "Comprehensive Income", requires an entity to recognize certain gains and losses in a separate statement, until such gains and losses are recognized in the statement of income.

The Company is currently in the process of evaluating the impact of these new sections, which come into effect for annual and interim periods relating to fiscal years beginning on or after October 1, 2006.

11. RISK MANAGEMENT

OVERVIEW

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

RISK MANAGEMENT PRACTICES

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

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

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

COST OVERRUNS

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

PROJECT PERFORMANCE

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

JOINT VENTURE PARTNERS

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

SUBCONTRACTORS AND SUPPLIERS

SNC-Lavalin undertakes contracts whereby it subcontracts a portion of the project or the supply of equipment to third parties. Should the subcontractors or suppliers fail to meet these standards by not delivering their portion of a project according to the contractual terms, including not meeting the delivery schedule or experiencing a deterioration of their financial conditions, the ability of SNC-Lavalin to perform and/or to achieve the anticipated profitability on the project may be impaired. This risk is managed by rigorously selecting the third party subcontractors and suppliers, by proactively monitoring the project schedules and budgets and, when necessary, 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 for which the diversity of SNC-Lavalin's activities, industry segments and geographic base have proven to be mitigating factors.

BACKLOG

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

INFRASTRUCTURE CONCESSION INVESTMENTS

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

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

FOREIGN CURRENCY RISK

The significant effect of international business volume could expose SNC-Lavalin to greater foreign currency exchange risks, which could adversely impact its operating results. SNC-Lavalin has a hedging strategy in place to protect itself against foreign currency exposure. This hedging strategy includes the use of forward foreign exchange contracts, which contain an inherent credit risk relating 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

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

ECONOMIC AND POLITICAL CONDITIONS

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

12. QUARTERLY INFORMATION

(IN MILLIONS OF CANADIAN DOLLARS, UNLESS OTHERWISE INDICATED)	2005 FIRST QUARTER	SECOND QUARTER	THIRD QUARTER	FOURTH QUARTER	ANNUAL
Consolidated revenues	**$ 799.4**	**$ 870.7**	**$ 909.1**	**$ 1,208.6**	**$ 3,787.8**
Net income (loss)					
Excluding Highway 407	**$ 25.9**	**$ 32.2**	**$ 31.9**	**$ 44.6**	**$ 134.6**
From Highway 407	**(2.2)**	**2.9**	**(4.7)**	**(0.7)**	**(4.7)**
	$ 23.7	**$ 35.1**	**$ 27.2**	**$ 43.9**	**$ 129.9**
Basic earnings per share ($)					
Excluding Highway 407	**$ 0.17**	**$ 0.21**	**$ 0.21**	**$ 0.29**	**$ 0.89**
From Highway 407	**(0.01)**	**0.02**	**(0.03)**	**–**	**(0.03)**
	$ 0.16	**$ 0.23**	**$ 0.18**	**$ 0.29**	**$ 0.86**
Diluted earnings per share ($)					
Excluding Highway 407	**$ 0.17**	**$ 0.21**	**$ 0.21**	**$ 0.29**	**$ 0.88**
From Highway 407	**(0.02)**	**0.02**	**(0.03)**	**–**	**(0.03)**
	$ 0.15	**$ 0.23**	**$ 0.18**	**$ 0.29**	**$ 0.85**
Dividend declared per share ($)	**$ 0.05**	**$ 0.05**	**$ 0.05**	**$ 0.07**	**$ 0.23**

(IN MILLIONS OF CANADIAN DOLLARS, UNLESS OTHERWISE INDICATED)	2004 FIRST QUARTER	SECOND QUARTER	THIRD QUARTER	FOURTH QUARTER	ANNUAL
Consolidated revenues	$ 759.8	$ 774.0	$ 784.7	$ 1,128.5	$ 3,447.0
Net income (loss)					
Excluding Highway 407	$ 23.9	$ 29.2	$ 28.3	$ 37.2	$ 118.6
From Highway 407	(5.1)	(3.8)	0.9	(6.5)	(14.5)
	$ 18.8	$ 25.4	$ 29.2	$ 30.7	$ 104.1
Basic earnings per share ($)					
Excluding Highway 407	$ 0.16	$ 0.19	$ 0.19	$ 0.24	$ 0.78
From Highway 407	(0.04)	(0.02)	0.01	(0.04)	(0.09)
	$ 0.12	$ 0.17	$ 0.20	$ 0.20	$ 0.69
Diluted earnings per share ($)					
Excluding Highway 407	$ 0.16	$ 0.19	$ 0.18	$ 0.24	$ 0.77
From Highway 407	(0.04)	(0.02)	0.01	(0.04)	(0.09)
	$ 0.12	$ 0.17	$ 0.19	$ 0.20	$ 0.68
Dividend declared per share ($)	$ 0.04	$ 0.04	$ 0.04	$ 0.05	$ 0.18

FOURTH QUARTER RESULTS

For the fourth quarter of 2005, consolidated net income totalled $43.9 million, compared to $30.7 million for the corresponding period last year. Excluding Highway 407, net income for the fourth quarter of 2005 was $44.6 million compared to $37.2 million last year. The increase reflects higher contributions mainly from the Infrastructure and Environment, Infrastructure Concession Investments and Power segments coupled with higher interest revenues. SNC-Lavalin's share of net accounting losses from Highway 407 was $0.7 million, compared to $6.5 million in the corresponding quarter of 2004.

Consolidated revenues for the fourth quarter of 2005 were $1,208.6 million, up from $1,128.5 million last year. The increase was mainly due to higher volume in the Infrastructure and Environment segment, partially offset by a decrease mainly in the Power segment.

The **consolidated backlog totaled $8.1 billion at the end of December 2005,** compared to $7.6 billion at the end of the third quarter of 2005, reflecting an increase mainly in the Power segment.

At the end of December 2005, the Company's **consolidated cash and cash equivalents were $1,176.2 million,** up from $1,025.9 million at the end of September 2005, reflecting continuous profitability and a favourable impact from the change in non-cash working capital during the fourth quarter of 2005.

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. 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.

15. SUBSEQUENT EVENTS

15.1 AGREEMENT TO SELL SNC TECHNOLOGIES INC., SUBJECT TO CERTAIN APPROVALS

On February 23, 2006, SNC-Lavalin entered into an agreement with a third party to sell all of its shares in its wholly-owned subsidiary SNC Technologies Inc. ("SNC TEC"), for proceeds of approximately $315 million, subject to certain adjustments. The transaction is subject to Canadian government approval and regulatory approvals in Canada, the U.S. and in Europe. SNC TEC manufactures small, medium and large calibre ammunition, and produces Simunition® training systems. Expro Technologies Inc., SNC TEC's subsidiary, manufactures extruded propellant for military purposes, as well as for sporting use and commercial application in the automobile airbag industry. Revenues from SNC TEC represent less than 10% of the Company's total revenues on an annual basis.

15.2 STOCK SPLIT

On February 24, 2006, the Board of Directors of the Company approved a three-for-one stock split, to be effected in the form of a stock dividend, whereby the shareholders of the Company will receive two additional common shares for each common share held. The stock dividend is applicable to shareholders of record at the close of business on March 10, 2006. Shares of SNC-Lavalin will continue to trade on a pre-split basis until the close of trading on March 7, 2006. All references to stock-based compensation plans data, as well as all share and per share data in this Management's Discussion and Analysis and in the 2005 audited consolidated financial statements reflect the three-for-one stock split.

Date: February 15, 2006 (except for the subsequent events, which are as of February 24, 2006)

MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL REPORTING

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

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

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

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

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

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

The consolidated financial statements have been audited, on behalf of the shareholders, by Deloitte & Touche LLP, the external auditors, in accordance with Canadian generally accepted auditing standards. The external auditors have full and free access to the Audit Committee and may meet with or without the presence of management.

Jacques Lamarre
PRESIDENT AND
CHIEF EXECUTIVE OFFICER

Gilles Laramée
EXECUTIVE VICE-PRESIDENT AND
CHIEF FINANCIAL OFFICER

MONTREAL, CANADA
FEBRUARY 15, 2006, EXCEPT AS TO NOTE 22
WHICH IS AS OF FEBRUARY 24, 2006

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, 2005 and 2004 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, 2005 and 2004 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 15, 2006, EXCEPT AS TO NOTE 22
WHICH IS AS OF FEBRUARY 24, 2006

CONSOLIDATED STATEMENTS OF INCOME

YEAR ENDED DECEMBER 31

(IN THOUSANDS OF CANADIAN DOLLARS, UNLESS OTHERWISE INDICATED)	**2005**	2004
Revenues	**$ 3,787,809**	$ 3,446,964
Gross margin	**$ 535,273**	$ 516,778
Administrative, marketing and other expenses	**298,433**	294,062
Interest and capital taxes	**46,079**	62,988
Income before income taxes	**190,761**	159,728
Income taxes (note 15)	**60,849**	55,615
Net income	**$ 129,912**	$ 104,113
Earnings per share ($) (note 1P)		
Basic	**$ 0.86**	$ 0.69
Diluted	**$ 0.85**	$ 0.68

See accompanying notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY

YEAR ENDED DECEMBER 31

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

	SHARE CAPITAL					
	COMMON SHARES (IN THOUSANDS) (NOTE 22B)	AMOUNT	CONTRIBUTED SURPLUS	CUMULATIVE CURRENCY TRANSLATION ADJUSTMENT	RETAINED EARNINGS	TOTAL SHAREHOLDERS' EQUITY
Balance at beginning of year	**151,525**	**$ 339,399**	**$ 4,737**	**$ 2,048**	**$ 371,657**	**$ 717,841**
Net income	**–**	**–**	**–**	**–**	**129,912**	**129,912**
Currency translation adjustment	**–**	**–**	**–**	**(11,200)**	**–**	**(11,200)**
Dividends	**–**	**–**	**–**	**–**	**(32,320)**	**(32,320)**
Stock-based compensation (note 12B)	**–**	**–**	**3,608**	**–**	**–**	**3,608**
Shares issued under stock option plan	**914**	**9,125**	**(1,290)**	**–**	**–**	**7,835**
Shares redeemed and cancelled (note 12D)	**(1,157)**	**(2,645)**	**–**	**–**	**(23,324)**	**(25,969)**
Balance at end of year	**151,282**	**$ 345,879**	**$ 7,055**	**$ (9,152)**	**$ 445,925**	**$ 789,707**

YEAR ENDED DECEMBER 31

(IN THOUSANDS OF CANADIAN DOLLARS, EXCEPT COMMON SHARES) 2004

	SHARE CAPITAL					
	COMMON SHARES (IN THOUSANDS) (NOTE 22B)	AMOUNT	CONTRIBUTED SURPLUS	CUMULATIVE CURRENCY TRANSLATION ADJUSTMENT	RETAINED EARNINGS	TOTAL SHAREHOLDERS' EQUITY
Balance at beginning of year	152,005	$ 336,380	$ –	$ 4,691	$ 317,238	$ 658,309
Retroactive adjustment for stock-based compensation	–	–	1,754	–	(1,754)	–
Net income	–	–	–	–	104,113	104,113
Currency translation adjustment	–	–	–	(2,643)	–	(2,643)
Dividends	–	–	–	–	(26,311)	(26,311)
Stock-based compensation (note 12B)	–	–	2,983	–	–	2,983
Shares issued under stock option plan	1,044	6,432	–	–	–	6,432
Shares redeemed and cancelled (note 12D)	(1,524)	(3,413)	–	–	(21,629)	(25,042)
Balance at end of year	151,525	$ 339,399	$ 4,737	$ 2,048	$ 371,657	$ 717,841

See accompanying notes to consolidated financial statements.

SNC-LAVALIN GROUP INC.

CONSOLIDATED BALANCE SHEETS

AT DECEMBER 31

(IN THOUSANDS OF CANADIAN DOLLARS)	**2005**	2004
Assets		
Current		
Cash and cash equivalents	**$ 1,176,177**	$ 713,173
Restricted cash	**66,062**	36,227
Accounts receivable	**834,214**	768,195
Contracts in progress and inventories (note 6)	**408,202**	289,637
Contract in progress subject to contract financing arrangement (note 7)	**102,516**	–
Total current assets	**2,587,171**	1,807,232
Property, plant and equipment (note 8)	**590,157**	587,669
Goodwill (note 9)	**119,533**	107,700
Other assets (note 10)	**729,600**	671,141
Total assets	**$ 4,026,461**	$ 3,173,742
Liabilities		
Current		
Accounts payable and accrued charges	**$ 1,125,717**	$ 1,037,332
Downpayments on contracts	**478,062**	125,913
Deferred revenues	**497,004**	352,379
Advance under contract financing arrangement (note 7)	**92,054**	–
Current portion of non-recourse long-term debt (note 11)	**29,193**	5,226
Total current liabilities	**2,222,030**	1,520,850
Long-term debt (note 11)		
Recourse	**104,406**	104,280
Non-recourse	**814,117**	758,966
Other liabilities	**96,201**	71,805
Total liabilities	**3,236,754**	2,455,901
Shareholders' equity	**789,707**	717,841
Total liabilities and shareholders' equity	**$ 4,026,461**	$ 3,173,742

See accompanying notes to consolidated financial statements.

On behalf of the Board:

Jacques Lamarre,
DIRECTOR

Claude Mongeau,
DIRECTOR

CONSOLIDATED STATEMENTS OF CASH FLOWS

YEAR ENDED DECEMBER 31

(IN THOUSANDS OF CANADIAN DOLLARS)	2005	2004
Operating activities		
Net income	**$ 129,912**	$ 104,113
Items not involving a movement of cash:		
Depreciation of property, plant and equipment and amortization of other assets	**48,523**	54,353
Accrued interest	**15,364**	18,373
Future income tax benefit (note 15)	**(13,968)**	(11,063)
Stock-based compensation (note 12B)	**3,608**	2,983
Income from investments accounted for by the equity method	**(4,334)**	(11,558)
Other	**8,600**	3,280
Dividends received from equity investments	**5,211**	2,198
	192,916	162,679
Net change in non-cash working capital items (note 14):		
Contract in progress subject to contract financing arrangement (note 7)	**(102,516)**	–
Other	**409,936**	230,865
	500,336	393,544
Investing activities		
Acquisition of property, plant and equipment:		
Bridge under construction (note 8)	**(14,186)**	–
Other	**(39,377)**	(34,928)
Payment for infrastructure concession investment (note 3)	**(35,326)**	(100,833)
Acquisition of businesses (note 4)	**(17,693)**	(15,255)
Restricted cash	**(26,068)**	(23,156)
Other	**(8,557)**	10,408
	(141,207)	(163,764)
Financing activities		
Repayment of non-recourse long-term debt	**(4,473)**	(119,699)
Increase in non-recourse long-term debt	**70,000**	156,257
Advance under contract financing arrangement (note 7)	**89,750**	–
Net proceeds from exercise of stock options	**7,835**	6,432
Redemption of shares (note 12D)	**(25,969)**	(25,042)
Dividends paid	**(32,320)**	(26,311)
Other	**(948)**	(4,044)
	103,875	(12,407)
Net increase in cash and cash equivalents	**463,004**	217,373
Cash and cash equivalents at beginning of year	**713,173**	495,800
Cash and cash equivalents at end of year	**$ 1,176,177**	$ 713,173
Supplementary cash flow information		
Interest paid	**$ 47,409**	$ 45,937
Income taxes paid	**$ 61,261**	$ 56,530

See accompanying notes to consolidated financial statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2005 AND 2004
(TABULAR FIGURES IN THOUSANDS OF CANADIAN DOLLARS, UNLESS OTHERWISE INDICATED)

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A) PRINCIPLES OF CONSOLIDATION AND PRESENTATION

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

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

B) USE OF ESTIMATES

The preparation of the Company’s financial statements in conformity with Canadian 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. Actual results could differ from these estimates.

C) TRANSLATION OF FOREIGN CURRENCIES

For self-sustaining foreign operations, assets and liabilities are translated into Canadian dollars using the exchange rate in effect at the consolidated balance sheet date and revenues and expenses are translated at the average rates during the year. Exchange gains or losses on translation of SNC-Lavalin’s net equity investment in these operations are included as part of shareholders’ equity, under “Cumulative Currency Translation Adjustment”, which has no impact on the consolidated statements of income until the net equity investments are reduced.

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

SNC-Lavalin enters into forward contracts to hedge its exposure to fluctuations in foreign exchange rates. The Company does not enter into forward foreign exchange contracts for speculative purposes. All forward contracts are designated to hedge specifically identified foreign exchange exposures. Accordingly, any foreign exchange gains or losses related to the hedges are deferred and recognized into income over the same period as the underlying hedged item. In the event that a designated hedging relationship ceases to qualify for hedge accounting, any foreign exchange gains or losses previously deferred would be recognized into income over the same period as the underlying hedged item or immediately charged to income, if the underlying hedged item ceases to exist. SNC-Lavalin formally documents all relationships between hedging instruments and hedged items, as well as its risk management objective and strategy for undertaking these hedge transactions. SNC-Lavalin also regularly assesses the effectiveness of these hedges.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

D) REVENUE RECOGNITION

Revenues are generated from Services, Packages and Concessions activities.

SERVICES AND PACKAGES

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

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

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

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

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

CONCESSIONS

SNC-Lavalin's activities from Infrastructure Concession Investments, together with operations and maintenance services, the manufacturing of ammunition and other concession-type arrangements are reported as "Concessions" activities.

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

E) CASH EQUIVALENTS

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

F) CONTRACTS IN PROGRESS AND INVENTORIES

CONTRACTS IN PROGRESS

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

INVENTORIES

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

G) PROPERTY, PLANT AND EQUIPMENT

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

FOR PROPERTY, PLANT AND EQUIPMENT EXCLUDING HIGHWAY 407

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

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

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

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

Bridge under construction is not depreciated until it is ready for its intended use.

FOR HIGHWAY 407'S PROPERTY, PLANT AND EQUIPMENT

The toll highway is depreciated, for each significant component's parts, on a usage basis over their respective useful lives, which is calculated based on 99 years projected Vehicle Kilometres Travelled.

Toll equipment is depreciated using the straight-line method over a period of 10 years.

H) IMPAIRMENT OF LONG-LIVED ASSETS

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

I) 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 tested for impairment on an annual basis, in October, or more frequently if events or changes in circumstances indicate that the goodwill might be impaired.

J) HIGHWAY 407'S CONCESSION RIGHT

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

K) DEFERRED FINANCING COSTS

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

L) INCOME TAXES

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

M) MARKETING EXPENSES

All costs related to contract proposals are expensed as incurred.

N) 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.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

O) PENSION PLANS AND OTHER POST-RETIREMENT BENEFITS

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

P) 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.

The weighted average number of outstanding shares used in the calculation of earnings per share for the year, reflecting the three-for-one stock split (see note 22 B), are as follows:

(IN THOUSANDS)	**2005**	2004
Weighted average number of outstanding shares – basic	**151,499**	151,816
Dilutive effect of stock options	**1,644**	1,633
Weighted average number of outstanding shares – diluted	**153,143**	153,449

Q) STOCK-BASED COMPENSATION

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

R) RECENT CHANGES TO ACCOUNTING STANDARDS

VARIABLE INTEREST ENTITIES

Effective January 1, 2005, the Company adopted revised CICA Accounting Guideline 15 ("AcG-15") regarding "Consolidation of Variable Interest Entities". This Guideline requires enterprises to identify Variable Interest Entities ("VIE") in which they have an interest. An entity is a VIE when, by design, one or both of the following conditions exist: (a) total equity investment at risk is not sufficient to permit that entity to finance its activities without additional subordinated financial support from other parties; (b) as a group, the holders of the equity investment at risk lack certain essential characteristics of a controlling financial interest. AcG-15 requires consolidation by an enterprise of VIE in which it is the primary beneficiary. The adoption of this Guideline had no material impact on the Company's consolidated financial statements.

2. ACCOUNTING FOR HIGHWAY 407 – ADDITIONAL INFORMATION

SNC-Lavalin owns 16.77% (2004: 16.77%) of 407 International Inc., the principal business of which is the ownership of 407 ETR and through 407 ETR operates, maintains and manages highway 407, an all-electronic toll highway in the Greater Toronto area. In accordance with the recommendations of the CICA, SNC-Lavalin's investment in Highway 407 is currently accounted for by the proportionate consolidation method, whereby the consolidated financial statements reflect, line by line, the pro-rata share of each of the assets, liabilities, revenues and expenses of Highway 407. Given the significant effect of Highway 407 on the Company's consolidated financial statements and to reflect the way the Company views the nature of this investment, the Company provides the following additional information about its accounts, in which the investment in Highway 407 is being accounted for as a single line item as opposed to the line by line pro-rata share of financial results, thereby enabling the reader a greater understanding of the Company's underlying assets, earnings base and financial resources.

FINANCIAL POSITION OF SNC-LAVALIN GROUP INC.

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

AT DECEMBER 31

	2005	2004
Assets		
Current		
Cash and cash equivalents	**$ 1,160,586**	$ 692,548
Restricted cash	**39,401**	10,423
Accounts receivable	**829,734**	767,144
Contracts in progress and inventories (note 6)	**408,202**	289,637
Contract in progress subject to contract financing arrangement (note 7)	**102,516**	–
Total current assets	**2,540,439**	1,759,752
Property, plant and equipment (note 8)	**228,379**	225,069
Investment in 407 International Inc. (refer to the following reconciliation table)	**(12,068)**	6,865
Goodwill (note 9)	**119,533**	107,700
Other assets (note 10)	**409,249**	344,463
Total assets	**$ 3,285,532**	$ 2,443,849
Liabilities		
Current		
Accounts payable and accrued charges	**$ 1,118,617**	$ 1,028,825
Downpayments on contracts	**478,062**	125,913
Deferred revenues	**497,004**	352,379
Advance under contract financing arrangement (note 7)	**92,054**	–
Current portion of non-recourse long-term debt (note 11)	**2,226**	3,584
Total current liabilities	**2,187,963**	1,510,701
Long-term debt (note 11)		
Recourse	**104,406**	104,280
Non-recourse	**110,988**	43,345
Other liabilities	**92,468**	67,682
Total liabilities	**2,495,825**	1,726,008
Shareholders' equity	**789,707**	717,841
Total liabilities and shareholders' equity	**$ 3,285,532**	$ 2,443,849

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

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

	2005	2004
Investment at original cost	**$ 175,000**	$ 175,000
SNC-Lavalin's proportionate share of cumulative losses	**(123,830)**	(119,155)
Gain on dilution in 2002	**14,673**	14,673
Carrying value of shares sold in 2002	**(28,214)**	(28,214)
Cumulative dividends received	**(49,697)**	(35,439)
Carrying value (negative balance) of investment	**$ (12,068)**	$ 6,865

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 investment in Highway 407 accounted for as a single line item resulted in a negative balance as at December 31, 2005. This negative balance of the investment, which varies depending on SNC-Lavalin's proportionate share of Highway 407 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.

RESULTS OF OPERATIONS OF SNC-LAVALIN GROUP INC.

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

YEAR ENDED DECEMBER 31

	2005	2004
Revenues	**$ 3,717,760**	$ 3,383,238
Gross margin	**$ 485,824**	$ 474,420
Administrative, marketing and other expenses	**292,796**	289,147
Interest (revenues) and capital taxes	**(1,462)**	11,402
Income before income taxes	**194,490**	173,871
Income taxes (note 15)	**59,903**	55,291
Net income, excluding Highway 407	**134,587**	118,580
Highway 407 net loss	**4,675**	14,467
Net income	**$ 129,912**	$ 104,113
Basic earnings per share ($) (note 1P)		
Excluding Highway 407	**$ 0.89**	$ 0.78
From Highway 407	**(0.03)**	(0.09)
	$ 0.86	$ 0.69
Diluted earnings per share ($) (note 1P)		
Excluding Highway 407	**$ 0.88**	$ 0.77
From Highway 407	**(0.03)**	(0.09)
	$ 0.85	$ 0.68

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

CASH FLOWS OF SNC-LAVALIN GROUP INC.

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

YEAR ENDED DECEMBER 31

	2005	2004
Operating activities		
Net income	**$ 129,912**	$ 104,113
Items not involving a movement of cash:		
Depreciation of property, plant and equipment and amortization of other assets	**39,313**	45,190
Highway 407 net loss	**4,675**	14,467
Future income tax benefit	**(13,960)**	(11,098)
Stock-based compensation (note 12B)	**3,608**	2,983
Income from investments accounted for by the equity method	**(4,334)**	(11,558)
Other	**8,711**	3,391
Dividends received from 407 International Inc. and equity investments	**19,469**	14,778
	187,394	162,266
Net change in non-cash working capital items (note 14):		
Contract in progress subject to contract financing arrangement (note 7)	**(102,516)**	–
Other	**412,890**	232,208
	497,768	394,474
Investing activities		
Acquisition of property, plant and equipment:		
Bridge under construction (note 8)	**(14,186)**	–
Other	**(31,260)**	(26,089)
Payment for infrastructure concession investment (note 3)	**(35,326)**	(100,833)
Acquisition of businesses (note 4)	**(17,693)**	(15,255)
Restricted cash	**(28,978)**	(3,553)
Other	**(7,942)**	10,097
	(135,385)	(135,633)
Financing activities		
Repayment of non-recourse long-term debt	**(4,473)**	(3,068)
Increase in non-recourse long-term debt	**70,000**	–
Advance under contract financing arrangement (note 7)	**89,750**	–
Net proceeds from exercise of stock options	**7,835**	6,432
Redemption of shares (note 12D)	**(25,969)**	(25,042)
Dividends paid	**(32,320)**	(26,311)
Other	**832**	(2,966)
	105,655	(50,955)
Net increase in cash and cash equivalents	**468,038**	207,886
Cash and cash equivalents at beginning of year	**692,548**	484,662
Cash and cash equivalents at end of year	**$ 1,160,586**	$ 692,548
Supplementary cash flow information		
Interest paid	**$ 13,090**	$ 12,923
Income taxes paid	**$ 60,439**	$ 55,726

3. INFRASTRUCTURE CONCESSION INVESTMENTS

SNC-Lavalin makes equity investments in infrastructure concessions in various industry sectors, such as airports, bridges, energy, mass transit and roads. When making an equity investment in infrastructure concessions, SNC-Lavalin ensures that the debt included in these concessions is non-recourse to the general credit of the Company. Also, when making such equity investments, SNC-Lavalin may not be required to inject funds upon signing of the concession agreement. In such cases, SNC-Lavalin has to guarantee its share of equity contributions, which may be over a certain period of time (see 3B below), through the issuance of bank letters of credit.

A) ADDITIONS TO INFRASTRUCTURE CONCESSION INVESTMENTS

The following is a description of the 2005 and 2004 SNC-Lavalin's additions to infrastructure concession investments:

INTRANSIT BC L.P.

In August 2005, InTransit BC L.P. ("InTransit BC"), a limited partnership formed by SNC-Lavalin Inc., British Columbia Investment Management Corporation and the Caisse de dépôt et placement du Québec signed a 35-year concession agreement with Richmond-Airport-Vancouver Project Management Ltd. ("RAVCO") and the Greater Vancouver Transportation Authority ("GVTA") to design, build, partially finance, operate and maintain the Canada Line, a rapid transit line of 19 kilometres which will connect Vancouver with Central Richmond and the Airport, in the Province of British Columbia. Concurrent with the signing of the agreement, InTransit BC awarded SNC-Lavalin an engineering, procurement and construction ("EPC") subcontract worth approximately $1.6 billion. In addition to funding from Federal and British Columbia governments, GVTA and the Vancouver International Airport Authority, InTransit BC partners will contribute $120 million of equity into the project. InTransit BC has also obtained a $600 million long-term credit facility, which is non-recourse to the Company. Under this long-term credit facility agreement, SNC-Lavalin provided a letter of credit to the lenders as security for its equity contribution commitment of $40.2 million, which is payable in 2009 (see 3B below). This investment is accounted for by the equity method and is included in other assets.

OKANAGAN LAKE CONCESSION L.P.

In June 2005, Okanagan Lake Concession L.P. ("Okanagan Lake Concession"), wholly-owned by SNC-Lavalin, signed a 30-year concession agreement with the Province of British Columbia to design, build, finance, operate and maintain the new William R. Bennett Bridge in Kelowna. To finance the project, SNC-Lavalin entered into a non-recourse long-term credit facility (see note 11), under which, SNC-Lavalin provided a letter of credit to the lenders as a security for its $27.7 million equity contribution commitment, which is payable in 2007 and 2008 (see 3B below). At the same date, Okanagan Lake Concession signed an EPC contract for the construction of the bridge with a subsidiary of SNC-Lavalin. It also signed a 27-year operations and maintenance ("O&M") contract with a wholly-owned subsidiary of SNC-Lavalin. SNC-Lavalin consolidates Okanagan Lake Concession's accounts as it is the sole owner of Okanagan Lake Concession. Upon consolidation, SNC-Lavalin eliminates its investment in Okanagan Lake Concession and will not recognize profit on the EPC and O&M contracts as long as it remains the sole owner.

ASTORIA PROJECT PARTNERS LLC

In April 2004, SNC-Lavalin invested US$60.0 million (CA$69.8 million as at December 31, 2005) for an equity interest of 21% in Astoria Project Partners LLC, which is the parent company of Astoria Energy LLC ("Owner") that will own a new 500 MW natural gas-fired power plant (Phase 1) in Queens, New York. SNC-Lavalin's equity contribution of US$60.0 million is payable from 2005 to 2006 (see 3B below). During 2005, SNC-Lavalin injected US$29.0 million (CA$35.3 million) of equity contribution, which is reflected on the statement of cash flows. This investment is accounted for by the equity method and is included in other assets.

3. INFRASTRUCTURE CONCESSION INVESTMENTS (CONTINUED)

In addition to its investment, the Company provided to the Owner a guarantee of the obligations of the contractor which is to build the plant, in consideration of which the Company is receiving a compensation as a guarantor. Under the guarantee, the Company guarantees to the Owner the full and punctual payment when due and the full and faithful performance of all the contractor's obligations under the engineering, procurement and construction contract.

TRENCAP LIMITED PARTNERSHIP

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

B) EQUITY CONTRIBUTION COMMITMENTS IN INFRASTRUCTURE CONCESSION INVESTMENTS

The following table summarizes SNC-Lavalin's equity contribution commitments in its infrastructure concession investments:

	SNC-LAVALIN'S OWNERSHIP	SNC-LAVALIN'S TOTAL EQUITY CONTRIBUTION	SNC-LAVALIN'S EQUITY CONTRIBUTION PAID FOR THE YEAR ENDED DECEMBER 31, 2005	SNC-LAVALIN'S EQUITY CONTRIBUTION COMMITMENT AS AT DECEMBER 31, 2005
InTransit BC L.P.	33%	$40.2 million	$ –	$40.2 million (in 2009)
Okanagan Lake Concession L.P.	100%	$27.7 million	$ –	$27.7 million (in 2007 and 2008)
Astoria Project Partners LLC	21%	US$60.0 million	US$29.0 million	US$31.0 million (in 2006)

SNC-Lavalin's investment in InTransit BC L.P. is reflected on the consolidated balance sheet under "Other assets – investments accounted for by the equity method", while the equity remaining to be paid in 2009 is reflected under "Other liabilities". SNC-Lavalin's investment in Astoria Project Partners LLC is reflected on the consolidated balance sheet under "Other assets – investments accounted for by the equity method", while the equity remaining to be paid in 2006, is reflected under "Accounts payable and accrued charges". SNC-Lavalin consolidates Okanagan Lake Concession's accounts as it is the sole owner of Okanagan Lake Concession L.P. Accordingly, upon consolidation, SNC-Lavalin eliminates its investment in Okanagan Lake Concession L.P. and its corresponding payable.

4. ACQUISITIONS OF BUSINESSES

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

In 2004, SNC-Lavalin completed two acquisitions in the Lyon region of France. In May 2004, SNC-Lavalin acquired Chovet Engineering S.A.S. which specializes in industrial processes. In July 2004, SNC-Lavalin acquired Sogequip Group S.A.S. which specializes in the fields of pharmaceuticals, fine chemicals and industrial refrigeration. In addition, in December 2004, SNC-Lavalin acquired all remaining shares of Canatom NPM Inc. (now SNC-Lavalin Nuclear Inc.), a private sector nuclear engineering company in Canada, in which it previously had a 61.25% interest.

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

4. ACQUISITIONS OF BUSINESSES (CONTINUED)

The purchase price, net of cash and cash equivalents included in these acquired businesses at acquisition date (2005: $6.1 million; 2004: $22.1 million), for these acquired businesses was $19.2 million and $15.3 million in 2005 and 2004, respectively. The total cash consideration paid in 2005 and 2004 was $17.7 million and $15.3 million, respectively. The purchase price was allocated as follows:

	2005	2004
Current assets	**$ 14,346**	$ 34,753
Property, plant and equipment	**2,985**	1,113
Goodwill	**11,833**	20,262
Other assets	**49**	872
Liabilities assumed	**(10,017)**	(41,745)
Net assets of businesses acquired	**19,196**	15,255
Balance of purchase price payable	**1,503**	–
Cash consideration	**$ 17,693**	$ 15,255

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, including Highway 407, is summarized by the following financial information:

	2005	2004
Balance sheets		
Current assets	**$ 285,789**	$ 183,663
Long-term assets	**764,085**	781,958
	$ 1,049,874	$ 965,621
Current liabilities	**$ 288,122**	$ 213,018
Long-term liabilities	**712,877**	724,664
Pro-rata share of net assets of joint ventures	**48,875**	27,939
	$ 1,049,874	$ 965,621
Statements of income		
Revenues	**$ 426,235**	$ 359,930
Expenses	**383,994**	349,970
Pro-rata share of net income of joint ventures	**$ 42,241**	$ 9,960
Cash and cash equivalents provided by (used in):		
Operating activities	**$ 84,451**	$ 28,330
Investing activities	**(7,531)**	(30,405)
Financing activities	**(15,005)**	19,619
Pro-rata share of changes in cash and cash equivalents of joint ventures	**$ 61,915**	$ 17,544

6. CONTRACTS IN PROGRESS AND INVENTORIES

	2005	2004
Contracts in progress	**$ 303,781**	$ 190,274
Inventories	**104,421**	99,363
	$ 408,202	$ 289,637

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

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

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

As at December 31, 2005, the net amounts received by SNC-Lavalin of $89.8 million plus related accrued interest, totalling $92.1 million, are reflected on the consolidated balance sheet under "Advance under contract financing arrangement", while the amount representing the advancement of work reflected on the consolidated balance sheet under "Contract in progress subject to contract financing arrangement" amounted to $102.5 million. As work progresses on this EPC contract, both "Contract in progress subject to financing arrangement" and "Advance under contract financing arrangement" are expected to increase to $543.8 million and will no longer appear on the consolidated balance sheet upon completion of this EPC contract, which is expected by 2008.

8. PROPERTY, PLANT AND EQUIPMENT

	2005		2004	
	COST	ACCUMULATED DEPRECIATION	COST	ACCUMULATED DEPRECIATION
Excluding Highway 407				
Buildings and surface installations	**$ 133,874**	**$ 47,541**	$ 130,982	$ 42,684
Computer equipment	**212,778**	**190,686**	191,450	172,787
Office furniture and machinery	**173,922**	**142,435**	164,074	132,172
Transmission assets	**74,121**	**9,467**	82,229	6,596
Bridge under construction– Okanagan Lake Concession (see note 3)	**14,186**	**–**	–	–
Other	**37,835**	**28,208**	35,124	24,551
	646,716	**418,337**	603,859	378,790
Highway 407				
Toll highway	**344,205**	**12,392**	340,079	10,500
Toll equipment	**43,068**	**20,842**	41,739	16,516
Other	**13,281**	**5,542**	12,400	4,602
	400,554	**38,776**	394,218	31,618
	1,047,270	**$ 457,113**	998,077	$ 410,408
Accumulated depreciation	**457,113**		410,408	
Net book value	**$ 590,157**		$ 587,669	

9. GOODWILL

As at October 31, 2005, date of the last impairment test, the fair value of each reporting unit exceeded its carrying amount, goodwill is therefore considered not to be impaired.

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

	2005			2004		
	OPERATIONS AND MAINTENANCE	OTHERS	TOTAL	OPERATIONS AND MAINTENANCE	OTHERS	TOTAL
Balance at beginning of year	**$ 20,418**	**$ 87,282**	**$ 107,700**	$ 20,418	$ 67,020	$ 87,438
Goodwill acquired during the year	**–**	**11,833**	**11,833**	–	20,262	20,262
Balance at end of year	**$ 20,418**	**$ 99,115**	**$ 119,533**	$ 20,418	$ 87,282	$ 107,700

10. OTHER ASSETS

	2005	2004
Excluding Highway 407		
Investments accounted for by the equity method	**$ 266,489**	$ 218,507
Investments accounted for by the cost method	**92,061**	108,766
Other	**50,699**	17,190
	409,249	344,463
Highway 407		
Concession right	**273,687**	274,683
Restricted cash and deferred financing costs	**46,664**	51,995
	320,351	326,678
	$ 729,600	$ 671,141

11. LONG-TERM DEBT

	2005	2004
Recourse (to the general credit of the Company):		
Debentures, 7.70%, due in 2010 The debentures with a face value of $105.0 million are repayable in full at maturity. These debentures are unsecured and subject to negative pledge clauses.	**$ 104,406**	$ 104,280
Non-recourse (secured only by specific assets):		
Highway 407		
Senior bonds, 3.68% to 6.90%, due from 2006 to 2039	**571,185**	557,685
Junior bonds, 7.00%, due in 2010	**27,659**	27,656
Subordinated bonds, 4.00% and 9.00%, due in 2006 and 2007	**130,053**	130,262
Other	**1,199**	1,660
Highway 407's bonds are secured under a Master Trust Indenture ("Indenture"), which establishes common security and a set of common covenants given by 407 International Inc. for the benefit of all its lenders. The security comprises substantially all assets of both 407 International Inc. and its wholly-owned subsidiaries, which primarily include 407 ETR Concession Company Limited, including an assignment of future revenues. Pursuant to the Indenture, 407 International Inc. established cash reserves in accordance with the terms and conditions of these bonds. In addition, SNC-Lavalin has pledged, as security for obligations under the subordinated bonds due in 2007, its shares of 407 International Inc. under a Master Security Agreement.		
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.	**70,000**	–
Company headquarters		
9.39% mortgage, due in 2008, secured by a first ranking hypothec on the building, including a hypothec upon all rents payable in respect of such property. A balance of capital repayment of $25.4 million is due at maturity.	**29,904**	31,684
Other	**13,310**	15,245
	843,310	764,192
Less: portion due within one year for non-recourse debt	**29,193**	5,226
Non-recourse long-term debt	**814,117**	758,966
Total long-term debt	**$ 918,523**	$ 863,246

11. LONG-TERM DEBT (CONTINUED)

LONG-TERM DEBT IS DUE AS FOLLOWS:

	2006	2007	2008	2009	2010	THEREAFTER	TOTAL
Excluding Highway 407							
Recourse	$ –	$ –	$ –	$ –	$ 104,406	$ –	$ 104,406
Non-recourse	2,226	3,456	27,271	2,475	2,554	75,232	113,214
Highway 407	26,967	124,132	1,442	68,594	29,052	479,909	730,096
	$ 29,193	$ 127,588	$ 28,713	$ 71,069	$ 136,012	$ 555,141	$ 947,716

RECOURSE REVOLVING CREDIT FACILITIES

The Company has access to committed long-term revolving lines of credit with banks, upon which it may borrow at variable rates not exceeding the prime rate, up to a maximum of $477.5 million. As at December 31, 2005, $110.2 million of these credit lines remained unused, the difference of $367.3 million was exclusively used for the issuance of letters of credit. Also, the Company has other lines of credit specifically for letters of credit. All the above-mentioned lines of credit are unsecured and subject to negative pledge clauses.

12. SHARE CAPITAL

A) AUTHORIZED

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

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

B) STOCK OPTION PLANS

The Company has stock option plans under which the options granted may only be exercised two years after the date of the grant for a period not exceeding four years. The exercise price per option is equal to the market value of a share on the day immediately preceding the date of grant. Options terminate upon cessation of employment, except in case of death or Company's approved retirement.

The following stock options data for 2005 and 2004 reflect the three-for-one stock split (see note 22 B).

The number of options varied as follows:

	2005		2004	
	NUMBER OF OPTIONS	WEIGHTED AVERAGE EXERCISE PRICE (DOLLARS)	NUMBER OF OPTIONS	WEIGHTED AVERAGE EXERCISE PRICE (DOLLARS)
Options outstanding at beginning of year	**3,746,550**	**$ 10.65**	4,147,842	$ 8.19
Granted	**884,550**	**$ 23.05**	834,600	$ 16.60
Exercised	**(913,500)**	**$ 8.58**	(1,043,892)	$ 6.16
Cancelled	**(42,000)**	**$ 12.60**	(192,000)	$ 7.87
Options outstanding at end of year	**3,675,600**	**$ 14.13**	3,746,550	$ 10.65

12. SHARE CAPITAL (CONTINUED)

The table below summarizes information regarding the stock options outstanding and exercisable, under the terms of the plans, as at December 31, 2005.

	OPTIONS OUTSTANDING			OPTIONS EXERCISABLE	
RANGE OF EXERCISE PRICES	NUMBER OUTSTANDING	WEIGHTED AVERAGE REMAINING OPTIONS TERM (MONTHS)	WEIGHTED AVERAGE EXERCISE PRICE (DOLLARS)	NUMBER EXERCISABLE	WEIGHTED AVERAGE EXERCISE PRICE (DOLLARS)
\$ 4.13 to \$ 4.63	30,000	10	\$ 4.58	30,000	\$ 4.58
\$ 7.20 to \$ 9.33	861,900	20	\$ 7.27	861,900	\$ 7.27
\$10.02 to \$12.18	1,088,550	39	\$ 10.76	1,088,550	\$ 10.76
\$16.49 to \$16.66	815,100	54	\$ 16.60	–	\$ –
\$20.92 to \$24.33	880,050	64	\$ 23.05	–	\$ –
	3,675,600	44	\$ 14.13	1,980,450	\$ 9.15

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

	2005	2004
Risk-free interest rate	**3.44%**	3.74%
Expected stock price volatility	**23.12%**	25.48%
Expected option life	**4 years**	4 years
Expected dividend yield	**1.0%**	1.0%

During 2005, the Company granted 884,550 stock options (2004: 834,600) to employees with a weighted average fair value of \$4.95 per stock option (2004: \$3.92). Stock-based compensation cost charged to the consolidated statement of income for the year ended December 31, 2005 was \$3.6 million (2004: \$3.0 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 the plan participants. The PSU vest at a rate of 20% per year in respect of each grant and on each anniversary of such grant. Under certain conditions, vesting could be immediate and the participant may receive 50% of the current year's grant as a cash payment. Vested PSU of a participant are redeemable for cash by the Company within three months of a participant's termination of employment. PSU vest immediately in the case of death, long-term disability or retirement of a participant. The redemption price of PSU is the average closing price per share on the Toronto Stock Exchange on the day of termination and the last trading day of each of the twelve weeks preceding the date of termination of employment. The compensation expense recorded for the year ended December 31, 2005 in respect of this plan was \$9.3 million (2004: \$5.3 million). As at December 31, 2005 the value of PSU outstanding which is included in "Accounts payable and accrued charges" was \$23.7 million (2004: \$17.9 million).

12. SHARE CAPITAL (CONTINUED)

D) REDEMPTION OF SHARES

In May 2005, the Board of Directors authorized the renewal of its normal course issuer bid to purchase for cancellation, on the open market, up to 11.7 million (2004: 12.0 million) common shares within a one-year period. The renewal of the Company's normal course issuer bid requires annual approval by the Board of Directors.

The following share data for 2005 and 2004 reflect the three-for-one stock split (see note 22 B).

The redemption of shares in 2005 and 2004 were as follows:

	2005	2004
Redeemed and cancelled		
Portion allocated to share capital	**$ 2,645**	$ 3,413
Portion allocated to retained earnings	**23,324**	21,629
	$ 25,969	$ 25,042
Number of shares redeemed and cancelled	**1,157,100**	1,523,700
Average redemption price per share	**$ 22.44**	$ 16.43

13. INFORMATION INCLUDED IN THE CONSOLIDATED STATEMENTS OF INCOME

The following are included in the consolidated statements of income:

	2005	2004
Excluding Highway 407		
Depreciation and amortization	**$ 39,313**	$ 45,190
Interest revenues	**$ 20,179**	$ 7,855
Interest on long-term debt	**$ 14,301**	$ 14,694
Income from investments accounted for by the equity method	**$ 4,334**	$ 11,558
Highway 407		
Depreciation and amortization	**$ 9,210**	$ 9,163
Interest revenues	**$ 2,142**	$ 1,818
Interest on long-term debt	**$ 48,142**	$ 52,013

14. NET CHANGE IN NON-CASH WORKING CAPITAL ITEMS

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

	2005	2004
Excluding Highway 407		
Contract in progress subject to contract financing arrangement (note 7)	**$ (102,516)**	$ –
Increase in accounts receivable	**(63,838)**	(177,480)
Decrease (increase) in contracts in progress and inventories	**(114,224)**	84,893
Increase in accounts payable and accrued charges	**94,481**	193,644
Increase (decrease) in downpayments on contracts	**352,149**	(124,229)
Increase in deferred revenues	**144,322**	255,380
	412,890	232,208
	310,374	232,208
Highway 407		
Increase in accounts receivable	**(3,082)**	(2,011)
Increase in accounts payable and accrued charges	**128**	668
	(2,954)	(1,343)
	$ 307,420	$ 230,865

15. INCOME TAXES

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

	2005	2004
Excluding Highway 407		
Provision and reserves	**$ 26,420**	$ 42,063
Tax loss carry forwards	**9,742**	6,138
Contracts in progress and inventories	**(17,750)**	(22,035)
Future employee benefits	**12,955**	12,820
Property, plant and equipment	**8,998**	(5,254)
Book value in partnerships in excess of tax basis	**(1,000)**	(7,009)
Other	**3,738**	1,588
	43,103	28,311
Highway 407		
Tax loss carry forwards	**9,135**	12,826
Long-term debt and accrued liabilities	**4,276**	3,554
Deferred gains	**1,348**	1,489
Property, plant and equipment	**(12,419)**	(15,432)
Other	**(2,340)**	(2,437)
	–	–
Future income tax asset, net	**$ 43,103**	$ 28,311
Recorded as follows:		
Future income tax asset–current (1)	**$ 8,866**	$ 20,017
Future income tax asset–long-term (2)	**$ 34,237**	$ 8,294

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

15. INCOME TAXES (CONTINUED)

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

	2005		2004	
	AMOUNT	%	AMOUNT	%
Excluding Highway 407				
Income tax expense at statutory Canadian rates	**$ 62,740**	**32.3**	$ 56,544	32.5
Increase (decrease) resulting from:				
Non-deductible expenses	**2,866**	**1.5**	2,078	1.2
Net losses not affected by tax	**4,504**	**2.3**	1,738	1.0
Effect of foreign tax rates	**(8,047)**	**(4.1)**	(3,437)	(2.0)
Income from investments accounted for by the equity or cost method	**(2,955)**	**(1.5)**	(2,938)	(1.7)
Other	**795**	**0.3**	1,306	0.8
	59,903	**30.8**	55,291	31.8
Highway 407				
Income tax benefit at statutory Canadian rates	**(1,337)**	**(35.8)**	(5,148)	(36.4)
Increase resulting from:				
Net losses not affected by tax	**1,337**	**35.8**	5,148	36.4
Other	**946**	**25.4**	324	2.3
	946	**25.4**	324	2.3
Total income tax expense	**$ 60,849**	**31.9**	$ 55,615	34.8
Current income tax expense	**$ 74,817**		$ 66,678	
Future income tax benefit	**(13,968)**		(11,063)	
	$ 60,849		$ 55,615	

As at December 31, 2005, the Company's share of Highway 407's unused non-capital tax loss carryovers totalled $103.8 million which are available to offset Highway 407's future taxable income and are expiring as follow:

2007	2008	2009	2010	2014	2015
$ 6,335	$ 8,807	$ 136	$ 42,183	$ 33,517	$ 12,856

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

16. FINANCIAL INSTRUMENTS

A) FAIR VALUE OF FINANCIAL INSTRUMENTS

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

SHORT-TERM FINANCIAL ASSETS AND LIABILITIES

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

LONG-TERM DEBT

The carrying amount and estimated fair value of the long-term debt as at December 31, 2005, was $947.7 million (2004: $868.5 million) and $1,111.3 million (2004: $994.8 million), respectively. These amounts include SNC-Lavalin's proportionate share of Highway 407's carrying amount and fair value of its long-term debt of $730.1 million (2004: $717.3 million) and $873.9 million (2004: $822.6 million), respectively. The fair value was determined using public quotations or the discounted cash flow method in accordance with current financing arrangements. The discount rates used correspond to prevailing market rates offered to SNC-Lavalin for debt with the same terms and conditions.

16. FINANCIAL INSTRUMENTS (CONTINUED)

FORWARD FOREIGN EXCHANGE CONTRACTS

SNC-Lavalin enters into forward foreign exchange contracts with banks to hedge its foreign exchange exposure on cash flows related to revenues and operating expenses in currencies other than the Canadian dollar.

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:

2005			2004		
BUY	SELL	MATURITY	BUY	SELL	MATURITY
CA$ 448,531	**US$ 368,679**	**2006-2009**	CA$ 509,109	US$ 391,206	2005-2008
CA$ 128,037	**EUR 84,863**	**2006-2008**	CA$ 77,857	EUR 48,970	2005-2006
US$ 106,781	**CA$ 127,632**	**2006-2008**	US$ 51,177	CA$ 64,467	2005-2008
US$ 30,506	**EUR 24,443**	**2006-2008**	US$ 16,195	EUR 12,738	2005-2006
EUR 2,177	**US$ 2,509**	**2006**	EUR 48,509	US$ 60,136	2005-2006
EUR 128,929	**CA$ 187,841**	**2006-2008**	EUR 10,985	CA$ 17,843	2005-2006

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

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:

	2005	2004
Favourable forward foreign exchange contracts	**$ 34,753**	$ 49,182
Unfavourable forward foreign exchange contracts	**(17,918)**	(7,643)
	$ 16,835	$ 41,539

Consistent with its policy not to speculate on foreign currency positions, SNC-Lavalin does not usually incur favourable and unfavourable settlement variances given that the forward foreign exchange contracts normally maintain their initial anticipated hedging relationships up to maturity. In accordance with Canadian GAAP, the above fair values are not recorded in the financial statements as at December 31, 2005 and any foreign exchange gains or losses related to hedges are deferred and recognized into income over the same period as the underlying hedged item.

INTEREST-RATE SWAPS AND BOND FORWARDS

Pursuant to an engineering, procurement and construction ("EPC") contract for some sections of the Trans-Canada Highway (see note 7), the Company entered into a series of derivative financial instruments (i.e. interest-rate swaps and bond forwards) with a Canadian chartered bank to hedge the variability of future cash flows from the sale of a $543.8 million debenture. These derivative financial instruments are solely used to hedge the variability of the progress payments and had a total estimated unfavourable fair market value, if settlement were to occur, of approximately $0.5 million as at December 31, 2005. Any gains or losses related to the hedges are deferred and recognized into income over the same period as the underlying hedged item. SNC-Lavalin does not use derivative financial instruments for speculative purposes. These derivative financial instruments are designated to hedge specifically identified interest rate exposure which is formally documented and regularly assessed.

16. FINANCIAL INSTRUMENTS (CONTINUED)

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, 2005, SNC-Lavalin had outstanding letters of credit of $1,668.2 million (2004: $949.8 million).

C) CONCENTRATION OF CREDIT RISK

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

17. PENSION PLANS AND OTHER POST-RETIREMENT BENEFITS

A) PENSION PLANS

SNC-Lavalin has several types of defined contribution pension plans for which its contributions are recorded as expenses in the year in which they are incurred (2005: $24.2 million; 2004: $23.4 million), as well as defined benefit pension plans which provide pension benefits based on length of service and final pensionable earnings.

The total cash amount paid by SNC-Lavalin for its pension plans, consisting of contributions to its defined contribution and defined benefit pension plans was $30.9 million for 2005 (2004: $29.6 million).

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

	2005	2004
Change in pension benefit obligation		
Benefit obligation at beginning of year	**$ 152,573**	$ 139,141
Current service cost	**3,887**	3,197
Interest cost	**8,883**	8,742
Benefits paid	**(10,931)**	(8,602)
Actuarial losses	**8,895**	8,549
Other	**2,448**	1,546
Benefit obligation at end of year	**$ 165,755**	$ 152,573
Change in plan assets		
Plan assets fair value at beginning of year	**$ 115,044**	$ 107,838
Actual return on plan assets	**10,749**	9,407
Benefits paid	**(10,931)**	(8,602)
Employer contributions	**6,684**	6,527
Other	**167**	(126)
Plan assets fair value at end of year	**$ 121,713**	$ 115,044
Funded status		
Funded status – plan deficit	**$ (44,042)**	$ (37,529)
Unamortized net actuarial loss	**27,000**	22,981
Net accrued benefit liability *	**$ (17,042)**	$ (14,548)

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

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

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

	ASSET ALLOCATION	
	2005	2004
Asset class		
Equity securities	**53%**	47%
Debt securities	**47%**	53%
Total	**100%**	100%

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

	2005	2004
Accrued benefit obligation as at December 31		
Discount rate	**5.33%**	5.75%
Rate of compensation increase	**3.95%**	3.80%
Net benefit costs for year ended December 31		
Discount rate	**5.75%**	6.25%
Expected long-term rate of return on plan assets	**6.25%**	6.25%
Rate of compensation increase	**3.80%**	3.25%

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

	2005	2004
Current service cost	**$ 3,887**	$ 3,197
Interest cost on benefit obligation	**8,883**	8,742
Actual return on plan assets	**(10,749)**	(9,407)
Actuarial losses on benefit obligation	**8,895**	8,549
Cost arising in the period	**10,916**	11,081
Difference between cost arising in the period and cost recognized in the period in respect of:		
Return on plan assets	**3,627**	2,703
Actuarial losses on benefit obligation	**(6,215)**	(7,246)
	(2,588)	(4,543)
Valuation allowance	**850**	(341)
Net defined benefit cost recognized in the period	**$ 9,178**	$ 6,197

B) OTHER POST-RETIREMENT BENEFITS

As at December 31, 2005, the obligation for other post-retirement benefits amounted to $19.8 million (2004: $18.5 million) and is reflected on the consolidated balance sheet under "Other liabilities".

18. CONTINGENCIES

The Company and certain of its subsidiaries have been named as defendants along with other parties in a number of class action lawsuits and other actions filed in Canada and the United States by or on behalf of shareholders of Bre-X Minerals Ltd. and Bresea Resources Ltd. seeking to recover damages allegedly sustained by them as a result of the Bre-X affair. The complaints with respect to these actions generally allege that the Company and/or its subsidiaries were negligent, negligently or fraudulently misrepresented or failed to disclose information relating to Bre-X's Busang gold project, and violated US securities laws. Certain of these lawsuits have been resolved and the class action lawsuit in the United States was dismissed in October 2005. The Company continues to deny all claims and is vigorously contesting the remaining lawsuits and claims. These claims and lawsuits remain at an early stage and, as litigation is subject to many uncertainties, it is not possible to predict the ultimate outcome of these lawsuits or to estimate the loss, if any, which may result. However, management believes that the Company's subsidiaries have acted professionally and appropriately at all times in carrying out the services, which were performed in connection with Bre-X's Busang project and, after having consulted with legal counsel, believes that the Company and its subsidiaries have strong grounds to contest these claims. The Company's insurers have been advised of these claims and are cooperating with the Company in the defence of these lawsuits subject to policy deductibles, limits, and terms and conditions.

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

19. COMMITMENTS

A) PURCHASE, SUBJECT TO REGULATORY APPROVAL, OF ADDITIONAL INTEREST IN AN INFRASTRUCTURE CONCESSION INVESTMENT

In October 2005, SNC-Lavalin and Macquarie Essential Assets Partnership entered into an agreement with the other two unitholders to acquire their respective participation 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 solely in the Province of Alberta. These transactions, subject to regulatory approval by the Alberta Energy and Utilities Board ("AEUB") whose decision is expected in 2006, would bring SNC-Lavalin's participation in AltaLink from 50%, which is currently accounted for by the equity method, to 76.92%. Accordingly, the method of accounting for the investment in AltaLink will change from the equity method to full consolidation with non-controlling interest. The purchase price for the additional 26.92% interest will amount to approximately $51 million, subject to certain adjustments. The purchase price allocation will be established upon approval by the AEUB.

As at December 31, 2005, AltaLink's consolidated balance sheet included $1.4 billion in total assets and $1.1 billion in liabilities, including $826.9 million of long-term debt, which will remain non-recourse to the Company.

B) MINIMUM LEASE PAYMENTS

SNC-Lavalin's minimum lease payments for annual basic rental under long-term operating leases amount to $121.8 million. The annual minimum lease payments are as follows: 2006 – $28.0 million; 2007 – $24.2 million; 2008 – $20.0 million; 2009 – $16.8 million; 2010 – $13.5 million and thereafter – $19.3 million.

20. SEGMENT DISCLOSURES

SNC-Lavalin is engaged in engineering and construction activities ranging from engineering, procurement, construction and construction management services to lump-sum turnkey packages. SNC-Lavalin also provides operations and maintenance services and is involved in the manufacturing of ammunition as well as investing in infrastructure concession investments. These activities are grouped by industry segment, described as follows:

- Power segment is engaged in hydroelectric, nuclear and thermal power generation, in transmission and distribution projects, as well as in energy control systems and training.
- Infrastructure and Environment segment is engaged in a full range of activities in infrastructure projects, including airports, bridges, buildings, container ports, ferry terminals, flood control systems, hospitals, mass transit systems, railways, roads and water treatment and distribution facilities as well as environment projects, including ecological and human health risk assessment, impact assessment and studies, remediation and reclamation, site assessment, waste management, and water and wastewater.
- Chemicals and Petroleum segment is comprised of projects 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, chemicals and fertilizers.
- Mining and Metallurgy segment provides a full range of services in the fields of mining, mineral processing, pyrometallurgy, hydrometallurgy, electrometallurgy and mine reclamation. This segment also includes aluminum industry projects.
- Operations and Maintenance segment provides operations, maintenance, logistics and commissioning, as well as real estate and asset lifecycle management, for buildings, ships, remote sites, and military, commercial, industrial and infrastructure installations.
- Defence segment represents mainly the activities of the Company's subsidiary SNC Technologies Inc. and its subsidiaries, which are the manufacturing of ammunition, including the related propellants and propulsive powder, for military and paramilitary markets.
- SNC-Lavalin makes equity investments in infrastructure concessions in various industry sectors, such as airports, bridges, energy, mass transit and roads. When making an equity investment in infrastructure concessions, SNC-Lavalin ensures that the debt included in these concessions is non-recourse to the general credit of the Company. Such investments are grouped and presented under the Infrastructure Concession Investments segment and include the following investments: SNC-Lavalin's interest in AltaLink L.P., Astoria Project Partners LLC, Gazmont Limited Partnership, InTransit BC L.P., Malta International Airport p.l.c., Murraylink Transmission Company Pty. Ltd., Okanagan Lake Concession L.P., Southern Electric Power Company Limited, Trencap Limited Partnership and West End Dam Associates.
- Highway 407 segment, represents SNC-Lavalin's proportionate share of 407 International Inc.'s results, net of related consolidation eliminations. The principal business of 407 International Inc. is the ownership of 407 ETR, and through 407 ETR, the operation, maintenance and management of highway 407 in the Greater Toronto area.
- "All Other" segment combines activities in several sectors, namely agrifood, pharmaceuticals and biotechnology, as well as other industrial plants.

The accounting policies for the segments are the same as those described in the Summary of Significant Accounting Policies (note 1) except for imputed interest. Imputed interest is calculated on non-cash working capital position except for the Defence segment for which imputed interest is calculated on total net assets employed. The Company evaluates segment performance, except for Highway 407 and Infrastructure Concession Investments segments, using operating income net of imputed interest, which is allocated monthly to the segments at a rate of 10% per year resulting in a cost or revenue depending on whether the segment's current assets exceed current liabilities or vice versa. Corporate general and administrative costs are allocated based on the gross margin of each segment. Corporate income taxes are not allocated to segments.

The Company evaluates the Infrastructure Concession Investments segment performance using SNC-Lavalin's share of the net results of its investments based on their respective financial statements using Canadian GAAP.

20. SEGMENT DISCLOSURES (CONTINUED)

Highway 407 segment performance is reported using net income (loss).

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

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

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

YEAR ENDED DECEMBER 31

	2005		2004	
	REVENUES	OPERATING INCOME	REVENUES	OPERATING INCOME
Excluding Highway 407				
Power	**$ 879,309**	**$ 67,008**	$ 891,039	$ 51,174
Infrastructure and Environment	**826,646**	**26,818**	527,923	27,884
Chemicals and Petroleum	**579,181**	**30,364**	584,232	21,853
Mining and Metallurgy	**222,958**	**33,869**	279,772	31,353
Operations and Maintenance	**685,606**	**18,340**	629,126	20,354
Defence	**336,878**	**21,842**	289,610	10,730
Infrastructure Concession Investments	**22,340**	**11,688**	21,279	10,495
All Other	**164,842**	**13,334**	160,257	7,391
	$ 3,717,760	**$ 223,263**	$ 3,383,238	$ 181,234
Reversal of total imputed interest cost (benefit) included in above segment operating income		**(30,235)**		4,039
Income before interest and taxes		**193,028**		185,273
Interest (revenues) and capital taxes		**(1,462)**		11,402
Income before income taxes		**194,490**		173,871
Income taxes		**59,903**		55,291
Net income, excluding Highway 407		**134,587**		118,580
Highway 407, net loss		**4,675**		14,467
Net income		**$ 129,912**		$ 104,113

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

YEAR ENDED DECEMBER 31

	2005	2004
Revenues	**$ 70,495**	$ 63,782
Gross margin, after deducting $9,210 (2004: $9,163) of depreciation	**$ 49,477**	$ 42,248
Administrative, marketing and other expenses	**5,637**	4,915
Interest and other expenses	**47,541**	51,586
Loss before income taxes	**3,701**	14,253
Income taxes	**954**	289
Net loss, before consolidation eliminations	**4,655**	14,542
Consolidation eliminations	**20**	(75)
Net loss	**$ 4,675**	$ 14,467

20. SEGMENT DISCLOSURES (CONTINUED)

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

AT DECEMBER 31

	2005	2004
Excluding Highway 407		
Segment net assets (liabilities), as defined above		
Power	**$ (424,032)**	$ (191,519)
Infrastructure and Environment	**(185,492)**	(88,531)
Chemicals and Petroleum	**(49,283)**	(14,923)
Mining and Metallurgy	**4,165**	(8,829)
Operations and Maintenance	**(34,588)**	(50,704)
Defence	**153,119**	168,730
Infrastructure Concession Investments	**1,597**	(3,422)
All Other	**5,190**	(17,150)
Total segment net assets (liabilities)	**(529,324)**	(206,348)
Reversal of:		
Current liabilities included in the above segment net assets (liabilities)	**1,926,548**	1,322,226
Defence segment's property, plant and equipment included in the above segment net assets (liabilities)	**(56,772)**	(59,097)
Current assets, excluding cash and cash equivalents and restricted cash	**1,340,452**	1,056,781
Cash and cash equivalents	**1,160,586**	692,548
Restricted cash	**39,401**	10,423
Property, plant and equipment, goodwill and other long-term assets	**757,161**	677,232
Total assets, excluding Highway 407	**3,297,600**	2,436,984
Proportionate share of Highway 407's total assets	**728,861**	736,758
Total assets	**$ 4,026,461**	$ 3,173,742

YEAR ENDED DECEMBER 31

	2005	2004
Revenues by category		
Services	**$ 958,510**	$ 923,578
Packages	**1,704,097**	1,502,692
Concessions	**1,125,202**	1,020,694
	$ 3,787,809	$ 3,446,964

20. SEGMENT DISCLOSURES (CONTINUED)

YEAR ENDED DECEMBER 31

	2005	2004
Revenues by geographic segment		
Canada	**$ 2,030,290**	$ 1,520,624
Africa	**503,817**	676,680
United States	**364,563**	281,674
Europe	**302,257**	333,307
Asia	**197,529**	315,000
Latin America	**118,147**	93,733
Other	**271,206**	225,946
	$ 3,787,809	$ 3,446,964

AT DECEMBER 31

	2005	2004
Property, plant, equipment, and goodwill		
Canada		
Excluding Highway 407	**$ 247,562**	$ 222,311
Highway 407	**361,778**	362,600
Outside Canada	**100,350**	110,458
	$ 709,690	$ 695,369

21. COMPARATIVE FIGURES

Certain 2004 figures have been reclassified to conform with the presentation adopted in 2005.

22. SUBSEQUENT EVENTS

A) AGREEMENT TO SELL SNC TECHNOLOGIES INC., SUBJECT TO CERTAIN APPROVALS

On February 23, 2006, SNC-Lavalin entered into an agreement with a third party to sell all of its shares in its wholly-owned subsidiary SNC Technologies Inc. ("SNC TEC"), for proceeds of approximately $315 million, subject to certain adjustments. The transaction is subject to Canadian government approval and regulatory approvals in Canada, the U.S. and in Europe. SNC TEC manufactures small, medium and large calibre ammunition, and produces Simunition® training systems. Expro Technologies Inc., SNC TEC's subsidiary, manufactures extruded propellant for military purposes, as well as for sporting use and commercial application in the automobile airbag industry. Revenues from SNC TEC represent less than 10% of the Company's total revenues on an annual basis.

B) STOCK SPLIT

On February 24, 2006, the Board of Directors of the Company approved a three-for-one stock split, to be effected in the form of a stock dividend, whereby the shareholders of the Company will receive two additional common shares for each common share held. The stock dividend is applicable to shareholders of record at the close of business on March 10, 2006. Shares of SNC-Lavalin will continue to trade on a pre-split basis until the close of trading on March 7, 2006. All references to stock-based compensation plans data, as well as all share and per share data in these consolidated financial statements for 2005 and 2004, reflect the three-for-one stock split.

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Environment and Pharmaceuticals

SAMI BÉBAWI
Executive Vice-President
Infrastructure and Construction

JEAN BEAUDOIN
Executive Vice-President
Chemicals and Petroleum

MARYLYNNE CAMPBELL
Executive Vice-President
Infrastructure; Operations and
Maintenance; Human Resources;
Aboriginal Affairs and Health,
Safety and Environment

PIERRE DUHAIME
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Mining and Metallurgy and Industrial

GILLES LARAMÉE
Executive Vice-President
and Chief Financial Officer

MICHAEL NOVAK
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Defence

JEAN CLAUDE PINGAT
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Agrifood, Fertilizer, Glass and
Construction Materials

KLAUS TRIENDL
Executive Vice-President
Power, Transportation and International

CORPORATE

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LOUIS DAGENAIS
Vice-President, Global
Information Technologies &
Project Management Systems

MARC ESCANDE
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RÉJEAN GOULET
Vice-President, Law

GERRY GRIGOROPOULOS
Vice-President and Controller

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Vice-President and Treasurer

YVES LAVERDIÈRE
Corporate Secretary

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ADAM MALKHASSIAN
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STÉPHANE ROY
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BORYS YAROSH
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ESSAM FARAG (Montreal)
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MYLES GODFREY (Toronto)
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PARVEEN KHAN (Montreal)
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OKANAGAN LAKE CONCESSION LIMITED PARTNERSHIP
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PACIFIC LIAICON AND ASSOCIATES INC.
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BURNABY

MORROW ENVIRONMENTAL CONSULTANTS INC.
8648 Commerce Court
Burnaby BC V5A 4N6
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MANITOBA

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

NEW BRUNSWICK

SNC-LAVALIN INC.
414 York Street
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Telephone (506) 459-2645
Fax (506) 444-9419

BRUN-WAY CONSTRUCTION INC.
416 York Street
Fredericton NB E3B 4P7
Telephone (506) 443-8370
Fax (506) 443-8366

BRUN-WAY HIGHWAYS OPERATIONS INC.
500 Beaverbrook Court
Fredericton NB E3B 5X4
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Fax (506) 474-7752

NEWFOUNDLAND AND LABRADOR

BAE-NEWPLAN GROUP LIMITED
1133 Topsail Road
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NORTHWEST TERRITORIES

NISHI-KHON / SNC-LAVALIN LIMITED
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SNC-LAVALIN AUDET
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«Britannia»–Tour A
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69432 Lyon cedex 03
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68150 Ribeauvillé
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Fax (33 4) 78.02.04.84

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SNC-LAVALIN MÜHENDISLIK VE TAAHHÜT LTD. SIRKETI
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Brisbane QLD 4000
Telephone (61-7) 3229-5887
Fax (61-7) 3211-8619

TEN-YEAR STATISTICAL SUMMARY

YEAR ENDED DECEMBER 31

(IN MILLIONS OF CANADIAN DOLLARS, UNLESS OTHERWISE INDICATED)	**2005**	2004	2003	2002	2001	2000	1999	1998	1997	1996
Revenues										
Services	**958.5**	923.6	888.8	777.2	583.2	544.9	531.0	537.9	533.8	559.3
Packages	**1,704.1**	1,502.7	1,463.7	1,769.3	863.2	523.6	438.8	687.8	619.1	595.9
Concessions	**1,125.2**	1,020.7	911.4	885.1	880.4	671.9	301.0	281.8	260.0	206.6
	3,787.8	3,447.0	3,263.9	3,431.6	2,326.8	1,740.4	1,270.8	1,507.5	1,412.9	1,361.8
Gross margin	**535.3**	516.8	497.6	466.2	373.4	310.8	300.9	281.3	270.4	259.2
Administrative, marketing and other expenses	**298.4**	294.1	310.8	298.0	234.4	202.5	206.1	199.7	199.5	196.3
Interest (revenues) and capital taxes	**46.1**	63.0	52.0	57.0	67.8	47.1	25.1	4.0	3.4	(1.1)
Income before gains, income taxes and amortization of goodwill	**190.8**	159.7	134.8	111.2	71.2	61.2	69.7	77.6	67.5	64.0
Gain on disposal of a portion of the investment in 407 International Inc.	**–**	–	–	149.3	–	–	–	–	–	–
Gain on dilution of investment in 407 International Inc.	**–**	–	–	14.7	–	–	–	–	–	–
Income before income taxes and amortization of goodwill	**190.8**	159.7	134.8	275.2	71.2	61.2	69.7	77.6	67.5	64.0
Income taxes	**60.9**	55.6	48.3	72.7	30.2	26.8	25.8	24.6	20.9	20.0
Income before amortization of goodwill	**129.9**	104.1	86.5	202.5	41.0	34.4	43.9	53.0	46.6	44.0
Amortization of goodwill (net of income taxes)	**–**	–	–	–	14.6	10.5	7.6	7.4	6.4	7.0
Net income (loss)										
Excluding Highway 407	**134.6**	118.6	99.2	89.5	59.2	53.1	49.5	45.6	40.2	37.0
From Highway 407	**(4.7)**	(14.5)	(12.7)	113.0	(32.8)	(29.2)	(13.2)	–	–	–
	129.9	104.1	86.5	202.5	26.4	23.9	36.3	45.6	40.2	37.0
Earnings before interest, taxes, depreciation and amortization										
Excluding Highway 407	**232.3**	230.5	199.7	186.3	144.1	120.3	107.2	109.9	99.4	88.7
From Highway 407	**53.1**	46.6	40.1	196.8	45.4	31.1	18.7	–	–	–
	285.4	277.1	239.8	383.1	189.5	151.4	125.9	109.9	99.4	88.7
Return on weighted average shareholders' equity										
Excluding Highway 407	**17.9%**	17.3%	15.8%	15.9%	14.8%	14.9%	14.2%	14.3%	13.5%	14.9%
From Highway 407	**(0.6)%**	(2.1)%	(2.0)%	20.1%	(8.2)%	(8.2)%	(3.8)%	–	–	–
	17.3%	15.2%	13.8%	36.0%	6.6 %	6.7 %	10.4%	14.3%	13.5%	14.9%
Acquisition of property, plant and equipment										
Excluding Highway 407										
Bridge under construction	**14.2**	–	–	–	–	–	–	–	–	–
Transmission assets	**–**	–	69.1	11.3	–	–	–	–	–	–
Other	**31.3**	26.1	26.2	31.9	35.0	28.1	22.2	22.9	24.1	29.0
From Highway 407	**8.1**	8.8	5.0	13.1	67.6	85.9	14.0	–	–	–
	53.6	34.9	100.3	56.3	102.6	114.0	36.2	22.9	24.1	29.0
Depreciation of property, plant and equipment and amortization of other assets										
Excluding Highway 407	**39.3**	45.2	44.1	42.2	37.5	33.8	25.6	28.2	28.5	25.8
From Highway 407	**9.2**	9.2	8.9	8.7	13.0	9.3	5.5	–	–	–
	48.5	54.4	53.0	50.9	50.5	43.1	31.1	28.2	28.5	25.8

YEAR ENDED DECEMBER 31

	2005	2004	2003	2002	2001	2000	1999	1998	1997	1996
Basic earnings per share ($)										
Excluding Highway 407	**0.89**	0.78	0.66	0.60	0.41	0.38	0.35	0.33	0.28	0.26
From Highway 407	**(0.03)**	(0.09)	(0.09)	0.75	(0.23)	(0.21)	(0.09)	–	–	–
	0.86	0.69	0.57	1.35	0.18	0.17	0.26	0.33	0.28	0.26
Weighted average number of shares – basic (in thousands)	**151,499**	151,816	151,130	150,416	143,742	139,050	139,886	139,679	144,249	140,134
Dividends declared per share ($)	**0.23**	0.18	0.14	0.12	0.10	0.08	0.08	0.07	0.07	0.06

AT DECEMBER 31

(IN MILLIONS OF CANADIAN DOLLARS, UNLESS OTHERWISE INDICATED)	**2005**	2004	2003	2002	2001	2000	1999	1998	1997	1996
Number of employees	**12,786**	11,098	10,510	14,538	8,819	8,174	6,643	6,383	6,286	6,226
Backlog										
Services	**604.2**	564.9	567.7	416.2	389.7	370.0	314.8	329.2	407.3	385.3
Packages	**4,308.1**	2,483.2	1,749.5	1,715.4	885.0	1,163.9	914.9	655.6	1,166.7	1,428.4
Concessions										
Excluding Highway 407	**2,805.2**	2,886.7	1,484.9	1,695.0	1,710.5	2,036.6	1,173.2	956.8	617.1	633.9
From Highway 407	**419.3**	394.9	370.8	342.8	511.8	403.6	356.4	–	–	–
	8,136.8	6,329.7	4,172.9	4,169.4	3,497.0	3,974.1	2,759.3	1,941.6	2,191.1	2,447.6
Cash and cash equivalents										
Excluding Highway 407	**1,160.6**	692.5	484.7	479.7	301.6	242.7	95.9	217.6	146.5	146.0
From Highway 407	**15.6**	20.7	11.1	11.9	21.6	13.1	14.4	–	–	–
	1,176.2	713.2	495.8	491.6	323.2	255.8	110.3	217.6	146.5	146.0
Working capital										
Excluding Highway 407	**352.5**	249.1	322.6	250.6	209.5	101.1	(11.5)	153.2	126.0	56.5
From Highway 407	**12.7**	37.3	11.8	(26.4)	32.0	23.9	26.7	–	–	–
	365.2	286.4	334.4	224.2	241.5	125.0	15.2	153.2	126.0	56.5
Property, plant and equipment										
Excluding Highway 407	**228.4**	225.1	244.7	256.5	168.3	159.3	134.5	138.9	161.3	179.0
From Highway 407	**361.8**	362.6	361.3	362.1	583.8	552.3	457.5	–	–	–
	590.2	587.7	606.0	618.6	752.1	711.6	592.0	138.9	161.3	179.0
Recourse long-term debt	**104.4**	104.3	104.2	104.0	103.9	103.8	–	–	–	–
Shareholders' equity	**789.7**	717.8	658.3	597.1	443.0	358.2	357.9	317.8	318.3	237.7
Book value per share ($)	**5.22**	4.74	4.33	3.97	2.96	2.60	2.54	2.36	2.21	1.77
Number of outstanding common shares (in thousands)	**151,282**	151,525	152,005	150,472	149,440	137,773	140,651	134,614	143,996	133,982
Closing market price per share [1] ($)	**25.43**	19.33	17.00	11.35	9.63	4.65	3.65	3.85	3.67	4.62

(1) Based on closing market prices, adjusted to reflect the three-for-one stock split, listed on last day of the respective year on the Toronto Stock Exchange.

Note: The above share data reflect the three-for-one stock split announced on February 24, 2006.

BOARD OF DIRECTORS

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Member of the
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Environment Committee

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**Chairman of the Board
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Montreal, Quebec
Canada**

Member of the
Governance Committee

DAVID GOLDMAN

**Chairman of the Board
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Montreal, Quebec
Canada**

Member of the
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Member of the Human
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**President and
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**Company Director
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Chairperson of the Health,
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Committee

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**Executive Vice-President
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Canadian National
Boucherville, Quebec
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Member of the
Governance Committee

GWYN MORGAN

**Executive Vice-Chairman
of the Board
EnCana Corporation
Calgary, Alberta
Canada**

Member of the Human
Resources Committee

Member of the
Health, Safety and
Environment Committee

HON. HUGH D. SEGAL

**President
Institute for Research
on Public Policy
Montreal, Quebec
Canada**

Member of the Human
Resources Committee

Member of the Health,
Safety and Environment
Committee

LAWRENCE N. STEVENSON

**Chairman of the Board and
Chief Executive Officer
PEP Boys Inc.
Philadelphia, Pennsylvania
United States**

Member of the
Audit Committee

Chairman of the Human
Resources Committee

Member of the
Governance Committee

SHAREHOLDER INFORMATION

COMMON SHARE INFORMATION
Listed: Toronto Stock Exchange
Symbol: SNC

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

Shares outstanding at December 31, 2005: 151.3 million
Weighted average number of outstanding shares for 2005: 151.5 million

	VOLUME (000'S)	HIGH ($)	LOW ($)	CLOSE ($)
2005	61,417	26.46	18.47	25.43
2004	48,442	19.82	14.17	19.33
2003	67,118	17.33	9.67	17.00
2002	76,943	12.98	8.42	11.35
2001	97,006	9.63	4.42	9.63

DEBT INSTRUMENT
$105 million principal amount of debentures, 7.7%, due 2010
Credit Ratings:
Standard & Poor's Ratings Services: BBB+/stable
Dominion Bond Rating Service: BBB (high)/stable

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

COMPUTERSHARE INVESTOR SERVICES INC.
1-800-564-6253
9th Floor, North Tower
100 University Avenue
Toronto, Ontario
M5J 2Y1
www.computershare.com

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

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

KEY DATES

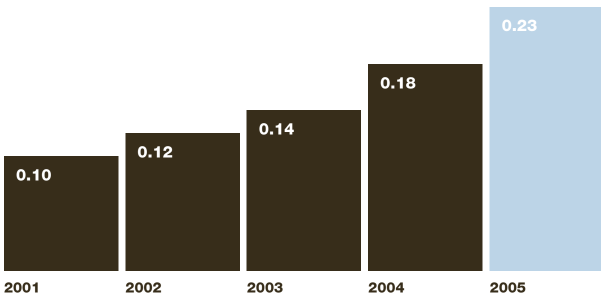
ANNUAL MEETING
The Annual Shareholders' Meeting will be held at 11:00 am on Thursday May 4, 2006 at "Amphitheatre of Les Salles du Gesù" located at 1200 de Bleury Street in Montreal, Quebec.

2006 EXPECTED EARNINGS AND DIVIDEND DATES

	EARNINGS RELEASE	DIVIDEND RECORD	DIVIDEND PAYMENT
Q1	May 4	May 18	June 1
Q2	August 4	August 18	September 1
Q3	November 3	November 16	November 30
Q4	February 23, 2007	March 9, 2007	March 23, 2007

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

ANNUAL DIVIDENDS DECLARED PER SHARE
(IN CANADIAN $)



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

SERVICE DES RELATIONS PUBLIQUES
GROUPE SNC-LAVALIN INC.
455, boul. René-Lévesque Ouest, Montréal (Québec)
H2Z 1Z3 Canada (514) 393-1000, poste 2121

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

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SNC·LAVALIN 2005 ANNUAL REPORT

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