2008
ANNUAL REPORT

The world is our workplace

SNC·LAVALIN

Cover: The SNC-Lavalin logo and some of the people who stand behind it.

Each component of our logo is designed to evoke specific associations.

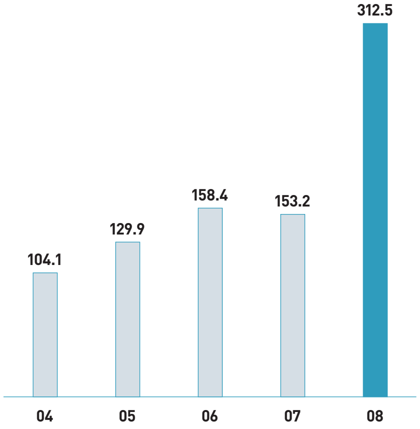
Engineering Quality Stability Strength	+	Progress Dynamism Synergy	+	International Environment	=	Unity Innovation Complementarity Future

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

Our employees mean the world

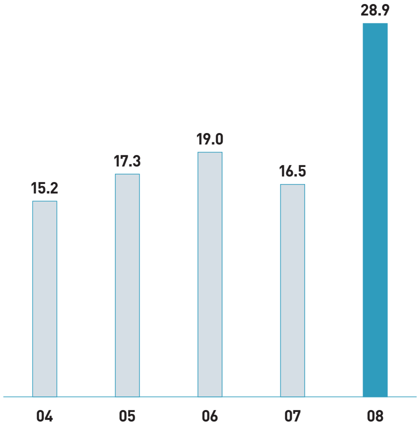
Our reputation is embodied in the extraordinary people of SNC-Lavalin. We're one team dedicated to serving clients on five continents. With the commitment and technical excellence to deliver any size project, start to finish.

Financial Highlights



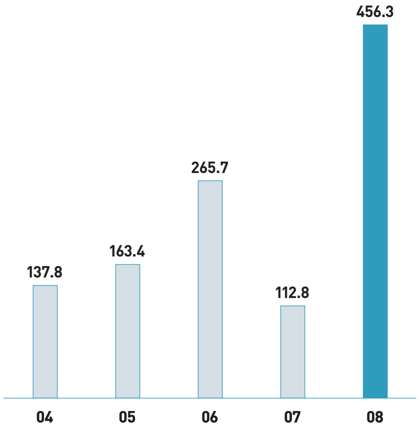
Net Income

(IN MILLIONS OF CANADIAN $)



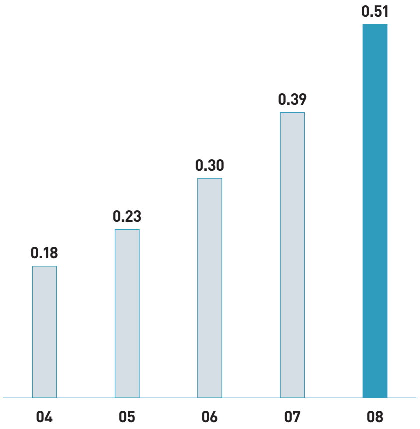
Return on Average Shareholders' Equity

(IN %)



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

(IN MILLIONS OF CANADIAN $)



Dividends Declared per Share

(IN CANADIAN $)

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

(IN THOUSANDS OF CANADIAN DOLLARS, UNLESS OTHERWISE INDICATED)	2008	2007
Income statement highlights		
FOR YEAR ENDED DECEMBER 31		
Revenues by activity		
Services	**$ 2,305,393**	$ 1,726,129
Packages	**3,229,444**	3,635,695
Operations and Maintenance	**1,225,012**	1,058,368
Infrastructure Concession Investments	**347,020**	311,272
	$ 7,106,869	$ 6,731,464
Net income		
Net income from continuing operations	**$ 312,520**	$ 69,116
Net income from discontinued operations	**–**	84,086
	$ 312,520	$ 153,202
Balance sheet highlights		
AT DECEMBER 31		
Cash and cash equivalents	**$ 988,236**	$ 1,088,616
Recourse long-term debt	**$ 104,709**	$ 104,557
Shareholders' equity	**$ 1,095,007**	$ 928,289
Share information		
FOR YEAR ENDED DECEMBER 31		
Diluted earnings per share from continuing operations ($)	**$ 2.05**	$ 0.45
Diluted earnings per share ($)	**$ 2.05**	$ 1.00
Dividends declared per share ($)	**$ 0.51**	$ 0.39
ROASE		
FOR YEAR ENDED DECEMBER 31		
Return on average shareholders' equity (ROASE)	**28.9 %**	16.5 %
Backlog by activity		
AT DECEMBER 31		
Services	**$ 1,545,300**	$ 1,556,500
Packages	**3,508,000**	4,457,000
Operations and Maintenance	**2,196,200**	2,513,900
Infrastructure Concession Investments	**2,342,700**	2,095,400
	$ 9,592,200	$10,622,800
Employees		
AT DECEMBER 31		
Number of employees	**21,260**	18,691

At a Glance

SNC-Lavalin operates across a broad range of industry sectors. It brings expertise in multiple engineering and business disciplines to every project.

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

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

CHEMICALS AND PETROLEUM
Our expertise includes gas processing; heavy and conventional oil production; onshore and offshore oil and gas; liquefied natural gas (LNG); coal to liquid gas; carbon capture, transportation and sequestration; pipelines, terminals and pump stations; refining and upgrading; bitumen production; biofuels; petrochemicals; chemicals and fertilizers.

POWER Our project services include front end engineering for project feasibility, detailed design, building, commissioning and operating power facilities on a cost-plus reimbursable or lump-sum turnkey basis. Our areas of activity include power generation, transmission and distribution projects and energy control systems. We also provide sustainable development training programs.

MINING AND METALLURGY
We provide project management, process and detailed engineering, procurement and construction services for all mineral and metal recovery processes, including mine development, mineral processing, smelting, refining, mine closure and reclamation.

OPERATIONS AND MAINTENANCE We provide operations, maintenance and logistics solutions for buildings, power plants, water supply and treatment systems, postal services, broadcasting facilities, highways, bridges, light rail transit systems, airports, military and construction camps and ships.

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

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

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

INDUSTRIAL Our areas of activity include glass, lubricants, automobile and aircraft assembly, cosmetics, filling and packaging lines, sulphuric and phosphoric acid and many others. Our services range from process development and design, to plant commissioning and start up, and include complete services in instrumentation and automation.

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

Members of the Office of the President

(FROM LEFT TO RIGHT)

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

President's Message

In our 2007 Annual Report, we reported that for the first time in 15 years we had not met our annual objective to increase our net income by 7% to 12%, and that we expected our net income to be substantially higher in 2008. In fact, it increased to $313 million, up from $153 million in 2007 and from $158 million in 2006. Looking ahead to 2009, we are well positioned to achieve this objective, though we remain cautious given the uncertainties regarding the global economic situation.

Substantial Net Income Growth

The main contributors to our growth in 2008 were particularly strong performances in Mining & Metallurgy and Infrastructure & Environment, and a good performance in Chemicals & Petroleum. In Power, we continued to feel the ripple effects of the Goreway thermal project. It has been a challenge, but we are confident that we will bring the plant into commercial operation in the second quarter of 2009.

We would like to thank our employees worldwide for their outstanding performance in 2008, which has brought us back on track after a challenging 2007.

Outstanding Financial Performance

We assess our financial performance based on three key annual objectives: increase our net income by 7% to 12%, attain a return on average shareholders' equity equal to that of the Canada long-term bond yield plus 6% (which totalled 10.1% in 2008) and maintain a strong balance sheet with a net cash position sufficient to meet our operational, financial and investment plans.

1) Our net income was $313 million compared to $153 million in 2007, an increase of about 100% over both our 2007 and 2006 results.
2) Our return on average shareholders' equity was 28.9% in 2008, almost three times our target return.
3) Our balance sheet remains strong with a net cash position of $855 million at year-end.

Market Adaptability

Our ability to adapt to changing market realities is one of our defining characteristics. We have evolved from a small Canadian engineering consulting office in 1911 to a global firm whose services include engineering, procurement, construction, construction management, project management, operations and maintenance, project financing and infrastructure concession investments.

Offering these services individually or in combination has served our business well over many years. In our 2007 Annual Report, we expressed confidence in our ability to bring our Packages gross margin back to its traditional 7% to 10% level. In 2008 it was 4%, compared to a negative percentage in 2007, and we are well positioned to achieve a 7% to 10% gross margin in 2009.

In the infrastructure concession investment sector, we have always been very selective in choosing our investments and in 2008 we made only one major investment: a 25.5% indirect equity investment in Myah Tipaza, which will own and operate a seawater desalination plant we are building in Algeria.

We take an equally disciplined approach to acquisitions, buying only companies that meet our strategic and financial objectives and that share our business culture. We made 11 such acquisitions in 2008, and I am happy to report that all 18 acquisitions made in 2007 are performing well and contributing to our growth.

WE CARE

Last August, we experienced a terrible tragedy in Algeria, when 12 of our Algerian colleagues lost their lives in a terrorist attack. The incident took place 25 kilometres from the site of our Koudiat Acerdoune water treatment plant and distribution project. We have a longstanding relationship with Algeria, and have carried out many projects in that country over more than 30 years. It was largely because of this relationship that we were able to organize a rapid, concerted response to the tragedy and provide help and support to our employees and their families.

The well-being of our employees, the communities we work in and the natural environment are of the utmost importance to us. We work hard to ensure safe and sustainable workplaces and project sites worldwide, and we never compromise on quality.

Outlook

Our capacity to operate in different categories of activity and industry sectors, and the fact that we have permanent offices in over 35 countries, give us the basis to achieve our expected net income growth of 7% to 12% in 2009. Decreases in commodity prices and capital expenditures mean some projects could be delayed, scaled back or cancelled, particularly in the Mining & Metallurgy, Chemicals & Petroleum and Industrial sectors, but the most viable projects will proceed. We expect governments worldwide will invest in infrastructure to stimulate their economies, which will benefit our Infrastructure & Environment and Operations & Maintenance sectors and increase the demand for Power projects. We do not expect to be affected by the tightening of available credit in the lending market as we have a solid balance sheet with a strong net cash position.

Given its confidence in SNC-Lavalin's business and in recognition of its solid performance in 2008, the Board of Directors increased the quarterly dividend by 25% from 0.12 cents to 0.15 cents. This is the eighth consecutive year the Company's dividend paid per share has been increased.

Acknowledgements

I would like to extend a special thanks to Pierre Anctil who retires from the Office of the President after nearly 20 years of distinguished service. Pierre played a major role in developing our investment operations into the successful portfolio of infrastructure concession investments we have today. I wish him all the best.

In Conclusion

After 13 years as President and Chief Executive Officer, and a total of 42 years of actively participating in SNC-Lavalin's growth and development, I announced on March 6 that I would be passing the baton to my successor on May 7, 2009.

It is time to move on, and to hand over the care and pleasures of leading this Company towards new challenges and successes, to others. Thanks to the outstanding cooperation and support I have received from colleagues and employees, and from a Board which is both astute and open, we have been able to turn SNC-Lavalin into the Company we all know today. I would also like to thank our clients and all our stakeholders for their contributions to SNC-Lavalin's success.

I wish the new President and CEO, Pierre Duhaime, as much pleasure in confronting the challenges which lie ahead–as I personally have enjoyed.

JACQUES LAMARRE

PRESIDENT AND CHIEF EXECUTIVE OFFICER

Chairman's Commentary

With over 21,000 employees and projects in 100 countries, SNC-Lavalin has long been one of the world's most versatile and respected international engineering and construction companies. Recent years have seen the addition of both a growing operations and maintenance business and increased revenues from equity participation, mostly in projects built by the Company. This diversification is consistent with strategic plans that are robustly reviewed and supported by the Board.

An important priority for fiscal 2008 was conducting Board level post-mortems of problematic projects and working with management to improve risk assessment and management. As well, the Board worked with the CEO to strengthen the Company's executive development and succession process.

SNC-Lavalin has consistently ranked at or near the top of external corporate governance assessments conducted on Canadian corporations. Over the past year, SNC-Lavalin was ranked second out of 180 companies by the Globe and Mail newspaper in its annual review of Canada's corporate boards, based upon a rigorous set of governance criteria covering board composition, compensation, shareholder rights and disclosure. These are important measures but, as we have seen all too often, it's the core values of an organization that truly determine behaviour. The leadership team at SNC-Lavalin understands that ethics and quality must never be compromised as they are the foundation on which enduring success is built. This is one of the most impressive attributes I have observed in the people of SNC-Lavalin.

After power project setbacks in 2007, which ended the Company's 15 year record of earnings growth, SNC-Lavalin delivered a strong financial performance in 2008. We enter 2009 in the midst of the most severe global economic downturn in seven decades. No company, including SNC-Lavalin, will be immune to its impact. Expected increases to infrastructure spending by governments, combined with reliable income from concession investments as well as operations and maintenance contracts, will help offset slowdowns in industry sectors such as petroleum and mining. This diversified revenue base, combined with net cash on the balance sheet and teams with world class expertise, positions SNC-Lavalin well to weather the downturn and emerge even stronger.

The Company's May, 2009 Annual Meeting will witness a transition of leadership with the retirement of Jacques Lamarre, after 13 years as President and CEO and 42 years with the Company. Jacques leaves a truly exceptional legacy in the building of SNC-Lavalin into a globally respected leader in its field. His many recognitions include Canada's Outstanding CEO, but those who have been fortunate to work with him know that the success of the people of SNC-Lavalin is what is truly important to this great Canadian business leader. On behalf of shareholders and the Board, I express our admiration and appreciation to Jacques Lamarre, and wish him and his wife Céline a healthy and fulfilling retirement.

The mark of a quality CEO is the development of quality successors. Pierre Duhaime has demonstrated his readiness to lead SNC-Lavalin after 30 years of progressively more challenging and successful responsibilities in Canada and around the world. The Board is confident that the Company will achieve continued success under his leadership.

GWYN MORGAN

CHAIRMAN OF THE BOARD

Infrastructure

We have extensive global experience in the planning, development and operation of a full range of infrastructure projects, and we provide engineering, procurement, construction and construction management (EPC and EPCM) services for projects of all sizes.

TAKSEBT WATER TREATMENT PLANT
ALGERIA

Notable Developments in 2008

Our work on the Taschereau Interchange, Highway 10, and extending Montreal's subway to the City of Laval garnered Léonard Awards from the Association of Quebec Consulting Engineers. We have now established technical specifications to manage the replacement of 336 cars for the subway, and once the client has selected a manufacturer, we will oversee their manufacture and provide quality control.

Our district cooling specialists, SNC-Lavalin Gulf Contractors, earned ISO certifications for excellence in quality, environment and health & safety. We completed the 50,000 RT Khalifa/Aldar district cooling plant in Abu Dhabi, our largest to date, and signed a contract in Bahrain for our first plant using salt water.

In Algeria, we completed the 605,000 m^3/day Taksebt water treatment plant and are now building the 120,000 m^3/day Fouka desalination plant, which we will partially own and operate for 25 years, and the 360,000 m^3/day Koudiat Acerdoune water treatment plant.

In France, we are applying High Quality Environmental standards building auxiliary facilities for the ITER international fusion experimental reactor and the head offices of the National Geographic Institute and Météo France. In Quebec, we enlarged the Espace 400^e Pavilion for Quebec City's 400th anniversary, and are designing the Canada Pavilion for World Expo 2010 in Shanghai based on a concept created by Cirque du Soleil.

We are reinforcing our presence in the health sector with work in Canada on the Centre Hospitalier de l'Université de Montréal, which includes building a 250,000 m^2 hospital and a 50,000 m^2 research institute downtown over Highway 720, and in France on the Centre Hospitalier de Toulon and the Clinique Universitaire du Cancer in Toulouse, which includes all diagnostic, medical and research facilities. Also in Canada, we are doing the electrical and mechanical engineering for a 130,000 m^2 full service acute care hospital in Alberta.

In Spain, we are building a 5,644 m tunnel linking two Barcelona train stations with a high-speed train line. Extra precautions are required due to the tunnel's proximity to Gaudi's La Sagrada Família. At the Puy de Dôme in France, we are building a 500,000-passenger/yr cog railway, which we will operate and maintain until 2043. In Vancouver, the Canada Line rapid transit system is nearing completion ahead of schedule, and we have begun testing and commissioning.

Also in British Columbia (BC), we completed the William R. Bennett Bridge ahead of schedule and are now operating and maintaining it. In Port Coquitlam, we are designing and building the 580 metre-long cable-stayed Coast Meridian Overpass over a busy rail yard.

We completed the Samuel de Champlain promenade in Quebec City, and are modernizing the Dorval and De la Vérendrye interchanges in Montreal. We are also designing sections of highways 30 and 50 near Montreal, and we completed geotechnical studies and quality control for Highway 25. In Ontario, we are providing engineering services for the widening of highways 400 and 427, and in Algeria, we are overseeing construction of 169 km of the East-West Highway.

We are designing a new baggage handling system at Montréal-Pierre Elliott Trudeau International Airport to meet new US security standards. It will electronically scan and track each bag from check-in to the customs clearance point. In Libya, we signed a contract to build a new terminal, runway and apron at Benghazi's Benina International Airport.

Environment

Our Environment team has over 50 years of experience worldwide, with specialized expertise in the power, infrastructure, chemicals and petroleum, industrial, mining and rural development sectors.

SIMANDOU
BASELINE STUDY
GUINEA

Notable Developments in 2008

To ensure industrial and other development does not adversely affect drinking water supplies, we mapped wellhead and surface water protection zones for 10 communities in Ontario. We completed 3-D modelling and other simulations to define drinking water source areas and the speed of water movement to wells and intakes so authorities can protect them from potential contamination.

We are developing demolition plans for process and support buildings, and a detailed excavation plan for low-level radioactive soil as part of Cameco's Vision 2010 Project to remediate and redevelop its Port Hope conversion facility in Ontario.

The Canadian Government hired us to do the assessment and remediation for mercury contamination at over 150 hydrometric stations in BC. The program tested the surrounding soil and screened vapour concentrations inside the stations. The stations were then decontaminated and residual soils were excavated.

The EnCana well site reclamation project was the first of its kind in BC. Rather than perform standard surface reclamation, we devised a plan to create a self-sustaining marsh-pond complex that will also create a new habitat and increase biodiversity.

We work with clients worldwide to ensure their projects promote sustainable local community development. In Africa, we are helping Guinea Alumina promote local employment at its refinery, and we are training local people and establishing supply chains with farmers at the Ambatovy mine in Madagascar. In Canada, we are helping Athabasca Potash promote employment and economic opportunities for Aboriginal people.

In Senegal, we worked with local people, businesses and associations to increase their domestic and international competitiveness in the agrifood sector by improving processing techniques and management practices. We also reinforced Dakar's Institut de Technologie Agroalimentaire's capacity to provide technical assistance to small enterprises for processing and food quality improvement.

We completed a baseline study for Rio Tinto Iron Ore's Simandou mine, port facilities and 700 km railroad in Guinea. Issues include ground and surface water changes and assessing baseline information about local populations, landscape and biodiversity.

In Venezuela, we are building an entire agro-industrial community for the Tiznados Irrigation Project. Besides canal network systems, we are building hundreds of new homes, schools, medical facilities, roads, silos and warehouses, and providing training and support for local farmers and agro-industrial workers.

We are the leader in wind project environmental studies in Quebec. In 2008, we completed two 54 MW projects for 3Ci Energy and we are now conducting environmental studies and bird and bat inventories for a 300 MW project for Boralex and Gaz Métro.

In Brazil, we performed an analysis of the air quality in regions surrounding 13 Petrobras production installations, including the modelling of future behaviour. Our mandate also included air quality measurement in several of the 13 installations.

Chemicals and Petroleum

We are a single-source solution for our clients, able to deliver projects on a cost-plus reimbursable and lump-sum turnkey basis anywhere in the world.

SHAYBAH CENTRAL PROCESSING FACILITY
SAUDI ARABIA

Notable Developments in 2008

Our Edmonton, Houston and Mumbai offices are working on TransCanada's Keystone Project, designing facilities for a 3,000 km, 450,000 bpd pipeline and related infrastructure across Canada's three Prairie Provinces and into the US to Illinois.

In Alberta, we completed Canadian Natural's 1,200-tonne/hr froth treatment plant and 110,000 bpd secondary upgrading plant, and we continue to provide front end engineering and design (FEED) and study services for the 150,000-tonne/hr froth treatment plant at Petro-Canada's Fort Hills Project. We completed FEED work for Husky's 60,000 bpd Sunrise SAGD Project and are now examining alternatives and doing further studies to support regulatory approvals. We are also expanding Inter Pipeline's pumping facilities between Scotford and Fort McMurray with four new 5,000 horsepower pump stations.

Our office in Sarnia, Ontario led engineering and procurement work on the Visbreaker Upgrade Project at North Atlantic's 115,000 bpd refinery in Newfoundland and Labrador, while our Montreal office completed expansion of the FCC unit at Petro-Canada's Montreal-East Refinery one month ahead of schedule.

We are nearing completion of Canaport's one billion ft^3/day LNG terminal in New Brunswick, and continue to provide project management consultancy services on the Skikda LNG Project in Algeria. In Spain, engineering and procurement for the installation of an LNG storage tank at Enagás's terminal is nearing completion.

In Saudi Arabia, we are nearing completion of Saudi Aramco's 250,000 bpd Shaybah central processing facility and 5.5 million bpd Khurais water injection pumping station. Khurais will increase the Ghawar oilfield's production by 1.6 million bpd; the largest single crude oil increase ever performed.

Our Houston office is preparing studies and FEEDs for coal gasification projects in North America. Houston is our Centre of Excellence for gasification and our Calgary office is a leader in carbon capture and sequestration, which captures CO_2 produced in the gasification process.

In Venezuela, the conception phase of Petróleos de Venezuela's 400,000 bpd Cabruta upgrader is complete and we are evaluating upstream oil field development and upgraders for proposed facilities for BP.

Our Offshore Oil and Gas Division in the UK completed detailed engineering on Nexen's Buzzard Enhancement Platform within a fast track schedule. The jacket structure, currently being fabricated by Heerema, will be installed in 97 metres of water in the North Sea in third quarter 2009.

GRTgaz awarded us a turnkey contract for two new natural gas compressor and interconnection stations in France as part of a program to reduce greenhouse gas emissions. We are also building a station for Fluxys in Belgium to compress and treat gas from Russia for underground summer storage and reinjection into the Russian pipeline system during periods of high demand.

In France, we completed an engineering and management mandate for two production lines at Cristanol's two million hl/yr ethanol plant in Bazancourt, and are working on several turnkey biodiesel fuel projects for Diester Industrie. In Canada, we completed GreenField Ethanol's 200 million litre/day Johnstown fuel ethanol plant.

Power

Our Power group has been involved in power projects for nearly 100 years in more than 120 countries. Our projects represent an installed capacity of nearly 250,000 MW, over 90,000 km of transmission and distribution lines and some 1,500 substations.

PORTLANDS
ENERGY CENTRE
CANADA

Notable Developments in 2008

Our innovative engineering on Hydro-Québec's Eastmain-1-A project reduced the amount of reinforcement steel needed while maintaining long-term performance standards. We are now working at its 640 MW Romaine-2 project, which includes a 118 metre-high, 505 metre-long concrete face rockfill dam. Also in Quebec, we have begun the construction phase of our EPCM mandate for Rio Tinto Alcan's 225 MW Shipshaw Project.

Our office in India has grown from a small project office to a permanent operation. It is working with major private developers and government utilities on several greenfield hydro projects, some as large as 1,250 MW, and performing fast-track modernization and upgrade work at the 177 MW Chilla, 243 MW Kashang and 380 MW Bhairon Ghati hydro projects in North India.

The 550 MW Portlands Energy Centre thermal plant in Toronto achieved simple cycle capacity ahead of schedule in spring 2007, and combined cycle capacity four months ahead of schedule in January 2009. In nearby Brampton, Ontario, we are nearing completion of the 880 MW Goreway thermal plant.

The 1,200 MW Hadjret En Nouss combined cycle plant in Algeria will be completed early in 2009, and we will then operate and maintain the plant for 20 years. In Abu Dhabi, construction is progressing well on EMAL's 2,000 MW combined cycle plant, which will power the world's largest single site aluminum smelter.

Our Power Division in France has been involved in several studies, including those for Total Petrochemicals' 20 MW steam turbine generator, Oradea's 50 MW brown coal boiler, and Cristal Union's 11.5 MW cogeneration plant, which uses pyrolysis and is fueled by biomass fermentation.

We have replaced all 16 steam generators at Units 1&2 of Bruce Power's nuclear plant in Ontario. We are now using the same metrology methods to assess a planned steam generator replacement at Xcel Energy's nuclear plant in Minnesota. We are also replacing and rehabilitating many components of the balance of plant systems for Units 1&2 at the Bruce plant, and providing project management and engineering services for balance of plant work at Hydro-Québec's Gentilly 2 station.

Work is underway on the Phase II EPCM contract for the Pebble Bed Modular Reactor's Demonstration Power Plant in South Africa. This phase entails building a 165 MW commercial scale Generation IV pebble bed nuclear power plant.

Our Transmission & Distribution division, SNC-Lavalin T&D, provided EPC or EPCM delivery of seven new high-voltage substations and nine substation upgrades in Western Canada in 2008. Engineering has begun on 13 additional new substations and upgrades.

SNC-Lavalin T&D has also secured several master agreements for planning and study services for major developers, utilities, and system operators in the US, BC, Alberta, Ontario and Nova Scotia, and completed numerous feasibility and master planning studies for developers and T&D companies around the world.

Energy control systems developed and installed by the T&D group control over 150,000 MW of power serving over 300 million people on six continents. In 2008, new contracts were awarded by electric utilities in South America, Africa, Asia and Australia.

Mining and Metallurgy

We are a world leader in this sector, carrying out projects in the fields of alumina, aluminum, bauxite, copper, diamonds, gold, iron ore, nickel, phosphate, potash, steel, zinc and other commodities. Our global services range from scoping studies to full project implementation for some of the largest projects ever undertaken in the industry.

BARRO ALTO NICKEL PROJECT
BRAZIL

Notable Developments in 2008

Working with cutting-edge aluminum technology, we continue with preliminary engineering, procurement and construction management services at Rio Tinto Alcan's (RTA) Jonquière Pilot Plant in Quebec, and we are expanding Dubal's smelter in Dubai using its flagship DX technology. We are also employing DX technology at EMAL's 730,000 tpy smelter in Abu Dhabi, currently under construction, and have begun a phase II feasibility study.

We were awarded the feasibility study for Alcoa's Baie Comeau smelter modernization project in Quebec, and are providing EPCM services for RTA's 550,000 tpy Boyne smelter refurbishment in Australia. In Qatar, we are advancing with delivery of the first sections of the potroom buildings at the Qatalum smelter.

We completed a feasibility study for Red Sea Copper's 300,000 tpy copper smelter and refinery in Egypt, and construction is nearly complete at the 72,000 tpy Las Cruces copper project in Spain. Our Centre of Excellence for Copper in Chile was active working with other business units worldwide in the fields of nickel, aluminum, iron ore and mine closure consultation.

In nickel, our EPCM mandate for the 60,000 tpy Ambatovy project in Madagascar includes major infrastructure development including a processing plant, a 220 km pipeline, a port, a railway, 130 km of access roads and an industrial complex. We advanced to the next phase of a feasibility study for Kabanga's 1.2 Mtpy mine in Tanzania, and EPCM work continues on Anglo American's 34,000 tpy Barro Alto project in Brazil. In New Caledonia, we reached substantial completion on the Goro project.

Our iron ore mandates include basic engineering for Vale's 90 Mtpy Serra Sul project in Brazil and a feasibility study in Malaysia, EPCM services at SNIM's Guelb el Rhein expansion in Mauritania, a prefeasibility study for Anglo Ferrous Brazil's Option Study Project, and working with RTA to complete a prefeasibility study for the Simandou project in Guinea.

In gold, we completed EPCM services expanding Kinross's Rio Paracatu gold beneficiation plant in Brazil to 61 Mtpy of ore, and construction has begun at Barrick Gold's Cortez Hills project in the US. In Pakistan, we are doing a feasibility study for Tethyan's 72,000 tpd Reko Diq project and investigating possibilities for its future expansion. We are also providing basic/detailed engineering and procurement services for a pressure oxidation facility for Polymetal's Amursk project in Russia, and we completed a similar mandate for Agnico Eagle's Kittila project in Finland.

In other commodities, we are completing EPCM mandates at Alcoa's 2.6 Mtpy Juruti Bauxite project in Brazil, a front-end study to expand Votorantim's Cajamarquilla zinc plant in Peru to 420 tpy, a feasibility study for the 4.3 Mtpy Potasio Rio Colorado potash project in Argentina, and a project management mandate at the Alumar alumina refinery expansion in Brazil. We were also awarded studies for greenfield projects by Athabasca Potash and Potash One in Saskatchewan.

Our mine reclamation and geotechnical unit provides a full range of services in mine closure, mine infrastructure demolition, tailings dam design and construction, water management and rehabilitation of mine sites for domestic and international clients. It is currently executing projects in Canada, Chile, New Caledonia and Madagascar.

Operations and Maintenance

We are one of Canada's leading providers of operations and maintenance (O&M) services, with a portfolio covering both public and private sector infrastructure in North America, the Middle East and Africa. Our advanced proprietary systems, leading-edge management solutions and deep commitment to continuous improvement enable us to provide optimum services to our clients.

WILLIAM R. BENNETT BRIDGE
CANADA

Notable Developments in 2008

We were recognized by our peers at the 2008 Building Owners and Managers Association (BOMA) Awards Ceremonies. In Ontario, we won eight Certificates of Excellence, two Earth Awards and the Office Building of the Year (TOBY) Award in the Government Building category; on a Canada-wide scale we garnered both a National Earth Award and an Overall Earth Award; and at the international level we won the TOBY Award in the Government Building category.

Our Brun-Way partnership, which provides operations, maintenance and rehabilitation services for the 275 km Trans-Canada Highway Project in New Brunswick, won several awards in 2008, including a Safety Award, an award for Innovation and Excellence in Public-Private Partnerships and an award for Excellence in Salt Storage.

In Kelowna, BC, we progressed to the O&M phase of our mandate at the 50,000 vehicle/day William R. Bennett Bridge. It is the only floating bridge in Canada and one of only a handful in the world. This project also won an award for Innovation and Excellence in Public-Private Partnerships.

We have about 60 people working with the EPC contractor at Vancouver's Canada Line rapid transit system preparing for its commissioning and commencement of operations in 2009.

Our staff providing O&M services for the Canadian Forces at Afghanistan's Kandahar Airfield has grown from 25 people in 2006 to over 300 at the end of 2008. We are now applying this expertise in Alberta's oil sands to build, own and operate a 100-person camp for Conoco Phillips' Surmont Project and a 232-person pioneer camp for Thompson Construction at Husky's Sunrise site.

With over three million m² of space, our contract with Public Works and Government Services Canada (PWGSC) is the largest O&M contract in the country. In 2008, PWGSC added 700 Royal Canadian Mounted Police detachments throughout Canada, including several in Nunavut and the Northwest Territories, expanding our presence in the Arctic. Alberta Infrastructure also increased our mandate, adding approximately 95,000 m² of space in northern Alberta.

ProFac-EKO, our new Turkish partnership, was awarded a three-year facilities management contract for the 80,896 m² Süzer Plaza in Istanbul including offices, a 244-room Ritz-Carleton Hotel, retail and residential space.

We commissioned and assumed operation and maintenance of our first building in Qatar's 1.2 million m² Al-Waab City, and expanded our portfolio in Doha, where we were awarded a renewable two-year O&M contract for Qatar-Shell's head office, and a project management contract in the Amwal Tower for Mashreq Bank and THE LAND Investment and Real Estate Development Company.

In Algeria, we have begun our five-year mandate at the 605,000 m³/day Taksebt water treatment plant and distribution system, and continue our 12-year mandate at the 825 MW Skikda power plant. We are also preparing for commissioning, start-up and O&M at the 1,200 MW Hadjret En Nouss thermal plant, scheduled for 2009.

Infrastructure Concession Investments

We make investments in infrastructure concessions in various industry sectors including airports, bridges, power, mass transit systems, roads and water.

CANADA LINE RAPID TRANSIT SYSTEM
CANADA

Notable Developments in 2008

The William R. Bennett Bridge in Kelowna, BC, officially opened ahead of schedule in May 2008. The new five-lane bridge was built as an innovative public-private partnership and includes an elevated span for marine traffic and a lane for cyclists and pedestrians. We have a 100% equity interest in the Okanagan Lake Concession, which will operate and maintain the Bridge for 27 years. In Vancouver, the Canada Line rapid transit system is scheduled for completion in 2009 in time for the 2010 Winter Olympics. We have a 33.3% equity interest in InTransit BC, which will operate and maintain the system under a 35-year concession agreement.

Construction is underway on a 120,000 m³/day seawater desalination plant in Fouka, Algeria. The project will be completed on a design, build, own, operate and transfer basis, and two companies wholly owned by the Algerian Government will purchase the plant's entire production as part of a 25-year Take or Pay water purchase and sale contract. We have a 25.5% indirect equity interest in Myah Tipaza, which will own and operate the plant.

AltaLink is Canada's only stand-alone transmission provider. It delivers electricity to approximately 85% of Alberta's population, and in 2008, it energized the Province's first 500 kV transmission line in 20 years. We have a 76.92% equity interest in AltaLink.

Astoria Energy II was awarded a contract to design, build, own and operate a second combined cycle thermal power plant at the Astoria site in New York City. The New York Power Authority will buy power from the new 500 MW plant under a 20-year tolling agreement. We have an 18.5% equity interest in Astoria Energy II, and a 21% equity interest in Astoria Energy, which built and operates a similar 500 MW power block in Astoria.

407 ETR, together with the Ontario Ministry of Transportation, was presented a Silver Award by The Canadian Council for Public-Private Partnerships for being a global leader in service delivery. The Award recognizes 407 ETR for its customer service upgrades, and for building and opening new lanes ahead of schedule and offering over $18 million in benefits to its customers through its innovative ETR Rewards program. We have a 16.77% equity interest in 407 ETR

In France, we have a 51.07% equity interest in Société d'Exploitation de Vatry-Europort, which manages Vatry Airport. In 2008, we expanded our investment interests in the airport sector to include 100% equity interests in Chalon-sur-Saône Airport in Burgundy and Vannes Airport in Brittany. We will also operate and manage the airports for seven and six years respectively.

We expanded our investment portfolio further in France with a 100% equity interest in TC Dôme, which will design and build a 5.3 km cog railway running from the base of Puy de Dôme Mountain to its summit. TC Dôme will then operate the railway until 2043.

Agrifood

We have over 50 years of international experience in the agrifood sector, and can provide total project management, from investment decisions and engineering to commissioning.

BIGARD BOVINE ABATTOIR
FRANCE

Notable Developments in 2008

In France, we completed the 15,000 m² Herbignac Cheese Ingredients complex. We designed and built the complex, including all materials and equipment for producing and distributing electricity and elements such as vapour, compressed air and cold generation. It has an annual production capacity of 270 million litres of milk and 30,000 tonnes of cheese.

Bigard hired us to build its new 28,000 tonne/yr bovine abattoir in Feignies, France. Our mandate includes a reception coral, an 80 metre long slaughterhouse, a refrigeration area, an ageing room and a water purification station.

We have leading expertise in designing and building winemaking facilities, and are particularly active in the Champagne region, where we have many long-time clients. We completed projects for Roederer, Piper & Heidsieck and Laurent-Perrier in 2008, and have projects underway for Mumm and Perrier-Jouët. In Cognac, we completed four new eau-de-vie storage cellars in an area covering 30,000 m² for Martell & Co.

In North America, we completed Barry-Callebaut's new chocolate factory in Mexico and are involved in several projects at its factory in New Jersey. We also have projects underway with long-term clients Diageo, Hagen Pet Foods, Maple Leaf Foods and Lantic Sugar, and we continue to strengthen our geographic presence in North America.

We deliver complete process engineering, automation, validation and construction management services to pharmaceutical, biotechnology and medical clients worldwide.

Pharmaceuticals and Biotechnology

NOVASEP BIOPHARMACEUTICAL PRODUCTION UNIT
FRANCE

Notable Developments in 2008

Our expansion of GlaxoSmithKline's flu vaccine facility in Sainte-Foy, Quebec garnered a Léonard Award from the Association of Quebec Consulting Engineers. We tripled the plant's capacity on a fast-track schedule that allowed only 15 months for engineering, construction, commissioning and certification. We are now working at GSK's vaccine facilities in Pennsylvania and Montana in the US.

We completed BD GeneOhm's 6,000 m² DNA diagnostic testing kit manufacturing facility in Quebec City, and are now designing and building a 5,200 m² extension to it for a research and development area.

We are working on a multi-phase expansion project at Septodont-Novocol's pharmaceutical facility in Cambridge, Ontario, including a new 3,150 m² production line area with space for future expansions and a microbiology lab.

Our expertise in this industry extends to both North American and European standards. Genzyme retained our Lyon office to design and manage construction of a new biopharmaceutical unit in Lyon. In Pompey, France, we are designing and building a biotechnological ingredient production unit for Novasep and performing qualification services for Good Manufacturing Practices standards at Sanofi Pasteur's new Val-de-Reuil unit.

We continue to expand our presence worldwide, and are working on projects for Berna Biotech in South Korea, PolyPeptide Laboratories and Zydus Nycomed in India, Cipla in Morocco and Sanofi Aventis in Spain.

Industrial

We maintain full service capabilities in the manufacturing, industrial chemicals, sulphuric and phosphoric acid and fertilizer sectors, with specialized expertise in areas such as instrumentation and automation, material handling, machinery design, filling and packaging lines, and CO_2 and SO_2 capture.

PSA PEUGEOT CITROËN TEST FACILITY
FRANCE

Notable Developments in 2008

We have recognized expertise in glass and have worked with renowned French glassmakers Saint Gobain, Baccarat, Verrerie du Languedoc and Saverglass. Most recently, we renovated Saverglass's Arques factory to produce bottles for the luxury market in a record 10 months.

Airbus hired us to build a 12,300 m² aircraft part receiving and handling plant at Saint-Nazaire – Montoir Airport, and PSA Peugeot Citroën awarded us a second mandate for test facilities at its Carrières-sous-Poissy plant.

Our e-learning and process simulation tools improve a project's operating efficiencies, timelines and financial performance. They contributed to the Goro Nickel Project's success in New Caledonia, and we are applying them at the Canaport LNG Project in Canada.

Our Pittsburgh and Toronto offices are performing engineering and procurement services for a new flue gas scrubber at Valero's refinery in California. The scrubber process will reduce NO_x and SO_2 emissions to comply with the Environmental Protection Agency's standards. Our Toronto office is also building a nitric/sulphuric acid concentration plant in Virginia.

We have leading expertise in inorganic chemicals used in industries such as copper, fertilizers, nickel and uranium. In 2008, Minera y Metalurgica del Boleo hired us to build a sulphuric acid plant for its copper-leaching complex in Mexico, and we have ongoing sulphuric acid projects for copper smelters in Russia and Kazakhstan, and for a uranium mine in Canada. We completed two phosphoric acid plants in Morocco and are building two in Vietnam and Bulgaria, and we are working on fertilizer projects in South Africa and Russia, on two diammonium phosphate projects in Jordan, and on a urea project in France.

WE CARE and Sustainability Report—2008

SNC-Lavalin is pleased to present its sixth annual report on new and ongoing measures and initiatives worldwide in support of our WE CARE commitments. Our business and its ongoing success are founded on five core values, which play a critical role in every project we undertake.

WE CARE VALUE STATEMENT

WE CARE is our response to our social responsibilities. It embodies the importance we place on these core values:

WE CARE
NOUS VEILLONS

EMPLOYEE well-being and career development

HEALTH & SAFETY of employees and end users

COMMUNITIES where we work and their sustainable development

ENVIRONMENTAL responsibility and stewardship

QUALITY work

In 2008, SNC-Lavalin's 21,000 employees worldwide continued to demonstrate strong, visible and innovative leadership in support of WE CARE.

Nowhere was this more evident than in Algeria last August, when we learned with shock and immense sadness of a terrorist car bombing which killed 12 employees near the Koudiat Acerdoune water treatment and distribution project. Fifteen others were injured in this random attack.

Our Executive Vice-President in charge of the region immediately flew in to meet the families of the victims, visit each wounded employee in hospital, and begin a review of security arrangements for our employees with government authorities. Support was provided for other employees at the project site itself, and SNC-Lavalin's President and CEO paid them a visit. We issued public and internal statements expressing our deepest sympathies to the families of the victims and deploring this act of terrorism; SNC-Lavalin offices and project sites worldwide observed a moment of silence in memory of the victims, and flags at head office were flown at half-mast for a week.

A true measure of SNC-Lavalin's capacity for caring and acting was also reflected in the many offers of assistance and support for the families of the victims from employees on project sites elsewhere in Algeria, and from our offices worldwide.

We would also like to acknowledge the many messages of support and sympathy received from clients and other stakeholders in the weeks following the attack.

Flying at half-mast
Outside head office in Montreal, flags flew at half mast to honour the employees who were killed in the Algeria bombing in August 2008.

Cleaning up for the community
Fouka, Algeria: Socodec's Desalination Plant project team organized a cleanup at a three-kilometre stretch of beach that had become a polluted dumping ground. The cleanup involved local schools, associations, businesses, firemen, boy scouts, residents and project subcontractors. About 2,000 tonnes of rubbish and rock were cleared away over five days and the road connecting the beach to the highway was also cleared to give local residents easy access. An official letter from the Mayor of Fouka thanked the project team for returning the beach to its former beauty. The cleanup aimed to contribute to the protection and preservation of the fragile coastal ecosystem, making it habitable again for marine life.

A partnership for life
France: SNC-Lavalin in Europe formalized its partnership with the EFS (French Blood Establishment) by circulating its blood drive announcements to employees. In addition, bus transportation is now provided up to twice a year for those wishing to give blood at one of the local EFS centres during work hours.

World Partnership Walk
Ontario, Canada: Employees and family members from the Lakeshore and Oakville offices participated in the 24th Annual World Partnership Walk for Global Poverty (WPW), raising a total of $9,000 through sponsorships. The WPW helps improve the lives of families and communities in Africa and Asia through health, education, rural development programs and community-led initiatives.

Security and Safety First

A secure working environment for our employees is a top priority, and while certain situations are beyond anyone's control, we continue to work closely with local and national authorities worldwide to ensure the most secure environment possible for our employees and others working under our aegis.

In addition, our WE CARE commitments require that we place the health and safety of our employees at the very heart of how we work and operate. Our overriding goal is to send our people home safely at the end of each day, so we continue to strive every day, on every project site, to eliminate accidents.

2008 Initiatives

And now, let us review some examples of visible leadership in support of our WE CARE values at the corporate, project team, division and office levels.

WE CARE about the Well-being of our Employees

CARING starts with recognizing the critical contributions of our employees to our ongoing success, and by providing them with a positive and fulfilling work environment.

In 2008, we supported the personal development of our employees with a variety of new and ongoing corporate and divisional workshops and presentations on: nutrition, safe driving, dealing with stress, parenting, effective communications at work, as well as on executive leadership and professional training.

In addition, many offices in Canada and worldwide offered free flu vaccinations for employees.

We also strengthened our Human Resources teams globally and developed a framework where we work more closely together to better develop our employees and facilitate global mobility.

WE CARE about Health & Safety

OUR culture of visible leadership around safety is led by each member of the Office of the President and is pursued at all levels. In 2008, Health & Safety officers on project sites worldwide continued to ensure daily adherence to each project's Safety Management Plan, which takes local regulations, culture and project-specific risks into consideration, and emphasizes regular training to recognize and understand hazards, assess risks and mitigate potentially harmful outcomes.

Again in 2008, thousands of workers, supervisors and foremen on projects in Canada, Saudi Arabia, the UAE, Algeria and Brazil were recognized and rewarded for their contributions to site safety as part of an expanding recognition and motivation program.

In offices worldwide, business units adhere to individual Safety Management Systems, which include measures such as an Emergency Response Plan with designated leaders, and mandatory full-scale evacuation drills.

In 2008, SNC-Lavalin's good safety record was recognized by:

- Two "Prévention" Awards for SNC-Lavalin in Europe for incorporating sound safety procedures right from the design phase into building projects in Mayenne and Angers, France

- A "Safety Award" in the Large Companies category for SNC-Lavalin ProFac from the New Brunswick Road Builders and Heavy Construction Association for the way we operate and maintain 275 km of the Brun-Way Highway

- A fifth "Safety Excellence" Award for The Chemicals & Petroleum Division, Calgary and its joint venture partner on the Horizon Oil Sands Secondary Upgrader Project in Alberta from the project's client for demonstrating the best overall safety standards, procedures, culture and results.

WE CARE about our Communities

SNC-Lavalin employees are committed to working with and contributing to the communities where they live and work worldwide.

Their growing number of initiatives (examples on these pages) take many forms: raising AIDS awareness among adolescents and good dental care in primary schools in Algeria; volunteering for Habitat for Humanity in Toronto, Roofs for Chile in Santiago and for a local Special Olympics competition by our Houston, Texas Business Unit; marathon running/walking to fundraise for a seeing eye dog trainer in Brussels and for breast cancer research in a number of Canadian cities; a special partnership between our French offices and the French Blood Establishment; support for a variety of charities through United Way and Centraide across Canada; and individual volunteering to help build an orphanage in Mexico and in a local French food bank.

At the corporate level—our focus is on the *recruitment* of promising young engineering students through the SNC-Lavalin Award Scholarship-Internship Program and other local initiatives. In 2008, this Award Program welcomed a record 27 engineering students in offices across Canada, the US, France, Chile and Egypt. The interns benefited from a paid summer job plus a CAN$2,500 scholarship, and our local offices benefited from their enthusiastic participation as part of a project team. Truly a win-win situation, which will expand to 40 students in 2009.

WE CARE about the Environment

SNC-Lavalin is committed to pollution prevention and abiding by the principles of responsible stewardship of the environment in all activities worldwide. As part of our efforts in support of a sustainable planet, we are continuously looking for innovative ways to help our clients lessen their environmental footprint.

Some examples in 2008

- SNC-Lavalin engineers are studying carbon capture and storage technology to reduce the carbon footprint of large greenhouse gas emitters, notably in Canada's oil sands.

- We participated in the global Carbon Disclosure Project, where according to the Conference Board of Canada, our assessment of our carbon footprint places us in the Low

A special day with special athletes
Houston, USA: For the fourth year in a row, several employees from the Baytown office volunteered at a local Special Olympics competition helping to keep time for track events and assisting with other field events involving wheelchair athletes.

Encouraging the next generation of engineers
Calgary, Canada: SNC-Lavalin's C&P Business Unit developed a 'Science at the Stampede' contest inviting high schools to submit ideas for an alternative method of VIP transport in the annual Calgary Stampede Parade. Two winning designs were selected from the many secondary school submissions, which were combined and produced with the help of the University of Calgary's Schulich School of Engineering. The project encouraged young students to get excited about engineering as a potential career.

Joining forces for a cause
Brussels, Belgium: SNC-Lavalin employees joined forces with the Association de la Ligue Braille (Braille League Association) to form a team for the Brussels 20K Run. The team included blind and partially blind participants, who may not otherwise have had the chance to participate in the run. While the Brussels 20K is not officially a charity run, SNC-Lavalin and the Braille League used the occasion to raise much-needed funds for the instruction for a third guide dog trainer at the League.

Carbon Impact Sector category of companies. This is good news. Nevertheless, we continue to seek ways to reduce our emissions and the environmental footprint of our 200-plus offices worldwide. An example is the employee-led "green teams", which raise awareness on environmental issues and experiment with alternative ways of doing things.

- In Algeria, the Koudiat-Acerdoune water treatment and distribution project team not only relocated over 20 mature olive trees to another part of the site instead of simply disposing of them, they also planted more than 2,000 new trees to help stabilize the plant's embankments and landscape open spaces.

- In British Columbia, our environment engineers went well beyond standard site reclamation for an EnCana oil and gas well site when they developed a plan for a marsh-pond complex complete with re-shaped and re-contoured cleaned-up land, new vegetation and additional woody debris to blend into the natural landscape. The project is now self-sustaining and complements local biodiversity by creating a new habitat for migratory wildlife.

In 2008, we received the following acknowledgements for sustainable development:

- LEED™ Platinum certification for SNC-Lavalin Environment from the Canada Green Building Council for the first phase of the Dockside Green Community project in Victoria, which also scored the world's highest marks for new construction in this program.

- The Sustainable Development Project Award of Excellence from the Quebec Order of Engineers for our Quebec City office of the Transport, Infrastructure and Buildings Division for its work on Pavilion Espace 400^{e}.

WE CARE about the Quality of our Work

SNC-Lavalin's growth is based on managing for quality. It is a fundamental pillar of our identity and our success as one of the world's leading groups of engineering and construction companies. Quality is what we deliver to our clients, and quality work requires ongoing investment in our people.

Our culture of learning and training, the sharing among divisions of expertise and experiences, including lessons learned, all attest to this commitment.

In 2008, SNC-Lavalin received the following awards and recognition for quality work:

- An Award of Excellence from the Canadian Institute of Steel Construction for our work on the Pavilion Espace 400^{e} for Quebec City's 400^{th} anniversary

- Léonard Awards at the 6^{th} Annual Quebec Consulting Engineering Grand Prize Awards for: the rehabilitation of the Taschereau Interchange and Autoroute 10 projects near Montreal, Transport Infrastructure category; the main dam of the Péribonka Hydroelectric Development Project, Power category; the Montreal subway extension project, Project Management category; and a vaccine plant expansion near Quebec City, Industrial category

- For the third year in a row, our Annual Report won the Award for excellence in corporate reporting, Industrials and Energy Sector, from the Canadian Institute of Chartered Accountants

Supporting those far away
Toronto, Canada: Employees launched a fundraising campaign in support of the victims of Cyclone Ivan that caused massive damage to the Atsinanana region of Madagascar. A total of $5,000 was collected from employees, client representatives and SNC-Lavalin (Toronto). 259 knapsacks were distributed to students, with enough supplies for the school year. Funds were also donated to an elementary school, as well as to homeless children.

Campaigns for charity
Fundraising campaigns that took place coast to coast at the end of 2008, in support of United Way (Centraide) and other organizations, raised a combined total of over one million dollars. This was one of the most impressive years in terms of fundraising and volunteer activities by all divisions across Canada and in offices worldwide. In Montreal, Jacques Lamarre, President and CEO of SNC-Lavalin Group Inc., co-chaired the Centraide Greater Montreal Campaign.

Top fundraisers
Saint John, Canada: Members from the SNC-Lavalin/Snamprogetti (SNC-SNAM) partnership at work on the Canaport Liquid Natural Gas (LNG) project participated in the 2008 Saint John Dragon Boat Festival and raised $26,000 towards the expansion of the Extended Day Surgery Program at the local St. Joseph's Hospital. The team was the top fundraiser for the event.

Management's Discussion and Analysis

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1 Highlights

SUBSTANTIAL INCREASE IN 2008 NET INCOME

> Net income for the year ended December 31, 2008 increased to $312.5 million ($2.05 per share on a diluted basis), reflecting a substantial growth in profitability, compared to $153.2 million ($1.00 per share on a diluted basis) in 2007, which included a significant loss in the Power segment, partially offset by a net income from discontinued operations.

> Net income from continuing operations increased to $312.5 million ($2.05 per share on a diluted basis) in 2008, from $69.1 million ($0.45 per share on a diluted basis) in 2007. The increase was mainly due to higher contributions from the Mining and Metallurgy, Other Industries, and Infrastructure and Environment segments, combined with a lower loss in 2008 from the Power segment, partially offset by a lower contribution from the Chemicals and Petroleum segment. In 2008 and 2007, SNC-Lavalin recognized losses in the Power segment, mainly due to higher revised expected costs to complete the Goreway 880 MW combined cycle thermal power plant project in Ontario, Canada.

> There were no discontinued operations in 2008, compared to a net income from discontinued operations of $84.1 million in 2007, which represents the net gain after taxes on the sale of SNC Technologies Inc. and its subsidiaries.

INCREASE IN REVENUES IN 2008

> Revenues increased to $7.1 billion in 2008, compared to $6.7 billion in 2007, reflecting increased activities mainly in the Services, and Operations and Maintenance revenue categories, partially offset by lower activities in the Packages revenue category.

SOLID FINANCIAL POSITION

> The Company's balance sheet position remained solid, with cash and cash equivalents of $988.2 million as at December 31, 2008.

STRONG BACKLOG

> The Company's backlog for its four revenue categories: Services, Packages, Operations and Maintenance, and Infrastructure Concession Investments, totalled $9.6 billion at December 31, 2008, compared to $10.6 billion at the end of 2007, reflecting a decrease mainly in the Packages and Operations and Maintenance categories, partly offset by an increase in the Infrastructure Concession Investments category, with Services backlog being in line with the previous year.

2009 OUTLOOK

> In addition to its solid financial position and strong backlog, the Company's capacity to operate in different categories of activity as well as industry segments, combined with the fact that it has permanent offices in over 35 countries, provide it with the basis for expected growth in profitability for 2009, in line with its long-term financial objective of annual growth in net income between 7% and 12%, however the Company remains cautious given the uncertainties regarding the global economic situation.

DIVIDENDS INCREASE

> On March 6, 2009, the Company's Board of Directors approved a quarterly dividend of $0.15 per share, a 25.0% increase from the previous dividend declared, consistent with the Company's outlook regarding continued growth in profitability. Including 2008, the Company has paid quarterly dividends for more than 15 consecutive years, and for the eighth consecutive year has increased its annual dividend paid per share.

RETURN ON AVERAGE SHAREHOLDERS' EQUITY ("ROASE")

> ROASE was 28.9% for the 12-month period ended December 31, 2008, compared to 16.5% for the same period last year, significantly surpassing the Company's performance objective of 600 basis points above the long-term Canada Bond Yield (i.e., totalling 10.1% in 2008).

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

BASIS OF PRESENTATION

Management's Discussion and Analysis is designed to provide the reader with a greater understanding of the Company's business, the Company's business strategy and performance, the Company's expectations of the future, and how the Company manages risk and capital resources. It is intended to enhance the understanding of the audited consolidated financial statements and accompanying notes, and should therefore be read in conjunction with these documents. Reference in this Management's Discussion and Analysis to the "Company" or 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.

FORWARD-LOOKING STATEMENTS

Statements made in this Management's Discussion and Analysis ("MD&A") that describe the Company's or management's budgets, estimates, expectations, forecasts, objectives, predictions or projections of the future may be "forward-looking statements", which can be identified by the use of the conditional or forward-looking terminology such as "anticipates", "believes", "estimates", "expects", "may", "plans", "projects", "should", "will", or the negative thereof or other variations thereon. The Company cautions that, by their nature, forward-looking statements involve risks and uncertainties, and that its actual actions and/or results could differ materially from those expressed or implied in such forward-looking statements, or could affect the extent to which a particular projection materializes.

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

Unless otherwise mentioned, the forward-looking statements in this document reflect the Company's expectations as of March 6, 2009, when this document was approved by the Company's Board of Directors, and are subject to change after this date.

2 Overview of Our Business and Strategy

2.1 OUR BUSINESS

The Company provides engineering, project and construction management, construction, and operations and maintenance expertise through its network of offices located across Canada and in over 35 other countries, and is currently working in some 100 countries.

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

2.2 OUR BUSINESS STRATEGY

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

> Maintain world-class expertise in the technical sectors where we have already achieved it, and attain the same level of expertise in other sectors;

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

> Continue to selectively invest in infrastructure concessions.

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

2.3 HOW WE ANALYZE AND REPORT OUR RESULTS

RESULTS BY CATEGORY OF ACTIVITY

The Company reports its results under **four categories of activities**, which are **Services**, **Packages**, **Operations and Maintenance**, and **Infrastructure Concession Investments**. The Company regularly analyzes the results of these categories independently as they generate different gross margin yields and have different risk profiles.

2.3.1 SERVICES ACTIVITIES

Services revenues include contracts whereby SNC-Lavalin provides engineering services, feasibility studies, planning, detailed design, contractor evaluation and selection, project and construction management, and commissioning. In particular, Services contracts that provide for engineering, project and construction management are referred to as "EPCM" contracts. Services revenues are derived primarily from cost-plus reimbursable contracts.

2.3.2 PACKAGES ACTIVITIES

Packages revenues include contracts in which SNC-Lavalin takes on the responsibility not only for providing one or more of the Services activities listed above, but also undertakes the responsibility for providing materials/equipment and/or construction activities. In particular, Packages contracts that include Services, providing materials/equipment and construction activities are referred to as "EPC" contracts. Packages revenues are derived primarily from fixed-price contracts.

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

Scenario 1 assumes that the client has awarded an EPCM contract to SNC-Lavalin for a project with an estimated capital cost of $100 million, and that the project generates a gross margin-to-revenue ratio of 27%, in line with the Company's historical average, for Services activities. The nominal gross margin generated on this project would be $4.1 million on revenues of $15 million. In this example, revenues generated on the EPCM contract, which would be included under the Services revenues category, represent 15% of the capital cost of the project, the percentage of which could vary from one project to another.

SCENARIO 1 — EPCM SERVICES CONTRACT

(IN MILLIONS OF CANADIAN DOLLARS)	
Services:	
Revenues	$ 15.0
Gross margin	$ 4.1
Gross margin-to-revenue ratio	27%

Scenario 2 assumes that the client has awarded a $100 million fixed-price EPC contract to SNC-Lavalin. The Company will recognize the following results over the life of the project, assuming that the project generates a gross margin-to-revenue ratio of 9%, in line with the Company's historical average.

SCENARIO 2 — EPC PACKAGES CONTRACT

(IN MILLIONS OF CANADIAN DOLLARS)	
Packages:	
Revenues	$ 100.0
Gross margin	$ 9.0
Gross margin-to-revenue ratio	9%

The higher nominal gross margin generated under Scenario 2 (i.e., $9.0 million) compared to Scenario 1 (i.e., $4.1 million) results from the additional risks assumed by the Company related to fixed-price Packages contracts, which are subject to cost-overruns.

2.3.3 OPERATIONS AND MAINTENANCE ACTIVITIES

Operations and Maintenance revenues are derived primarily from cost reimbursable with a fixed-fee contracts and from fixed-price contracts. Major activities included in operations and maintenance are regrouped under the following lines of business:

> **Facilities management:** which includes all aspects of operations and management, realty management, project delivery and commissioning, and program management;

> **Infrastructure:** which provides operations, maintenance and rehabilitation management for large infrastructure assets including water supply and treatment systems, public transit systems, highways, bridges and tunnels;

> **Industrial:** which involves specialized expertise to oversee the operations and maintenance of assets such as turbines, steam generators, boilers, electrical systems, mechanical systems, manufacturing installations, and heavy process operations found in petrochemical refineries, from start-up mobilization to steady-state operation;

> **Logistics:** which provides support to Canada's Armed Forces, as well as large mining, metallurgy, petrochemical, and oil and gas operations by building and maintaining temporary camps and living facilities around the globe; and

> **Naval and marine:** which provides support to Canada's Navy, servicing many different types of vessels, from research and defence boats to tugs and many other classes of ships. It also includes comprehensive engineering design, refitting, and corrective and preventative maintenance to keep these boats in a constant state of readiness for deployment all over the world.

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

2.3.4 INFRASTRUCTURE CONCESSION INVESTMENTS ("**ICI**") ACTIVITIES

ICI revenues are generated from dividends or distributions received by SNC-Lavalin or from all or a portion of an investment's net results or revenues, depending on the accounting method required by Canadian GAAP. SNC-Lavalin selectively invests in ICI that complement the Company's other activities as they provide further opportunities for Services, Packages, and Operations and Maintenance.

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

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

ICI are often capital intensive, contrary to Services, Packages and Operations and Maintenance activities. This is due to the ownership of infrastructure assets that are financed mainly with project specific debt, which is non-recourse to the general credit of the Company. Therefore, when consolidating or proportionately consolidating such investments, the main impact on the Company's balance sheet is on the property and equipment, and the non-recourse long-term debt accounts, and most of the Company's depreciation, amortization and interest expense is from the consolidation or proportionate consolidation of these investments.

In order to provide the reader with a better understanding of its financial statements, the Company presents certain distinct financial information related specifically to its ICI segment throughout its financial statements:

- On the consolidated balance sheet, the property and equipment and the related non-recourse long-term debt of ICI are shown on separate lines;
- In Note 3 to the 2008 audited annual consolidated financial statements, the Company presents additional information about the line by line impact on the consolidated balance sheet from its investments that are fully and proportionately consolidated and provides the net book value for its ICI by the applicable method of accounting; and
- In certain other notes to the audited consolidated financial statements, information on ICI is disclosed separately from other activities. Also, the Company discloses the net income from ICI, comprised of its proportionate share of the net income of Highway 407 and the net income from other ICI, as this information is important for assessing the value of the Company's share price.

In certain places throughout this report activities from Services, Packages, and Operations and Maintenance are collectively referred to as "from other activities" or "excluding ICI" to distinguish them separately from ICI.

RESULTS BY SEGMENT USED FOR ACCOUNTABILITY

The Company's results are evaluated by segment. The segments regroup related activities within SNC-Lavalin **consistent with the way management performance is assessed.**

Services and Packages activities relate to engineering and construction operations and are presented in the way management performance is assessed by regrouping its projects within the industries they are executed for, and are as follows:

- **Infrastructure and Environment** includes a full range of infrastructure projects, including airports, bridges, buildings, ports, ferry terminals, flood control systems, healthcare facilities, mass transit systems, railways, roads, and water treatment and distribution infrastructure and facilities, as well as environment projects, including impact assessment and studies, site assessment, remediation and reclamation, ecological and human health risk assessment, waste management, and water and wastewater.
- **Chemicals and Petroleum** includes projects in gas processing, heavy and conventional oil production, onshore and offshore oil and gas, liquefied natural gas ("LNG"), coal to liquid gas, carbon capture, transportation and sequestration, pipelines, terminals and pump stations, refining and upgrading, bitumen production, petrochemicals, biofuels, chemicals and fertilizers.
- **Power** includes projects in power generation, transmission and distribution, as well as in energy control systems and sustainable development training programs.
- **Mining and Metallurgy** includes a full range of services for all mineral and metal recovery processes, including mine development, mineral processing, smelting, refining, mine closure and reclamation.
- **Other Industries**, formerly labelled as "All Other", combines projects in several industry sectors, namely agrifood, pharmaceuticals and biotechnology, sulphuric acid as well as projects related to other industrial facilities not already identified as part of any other segment above.

Operations and Maintenance regroups activities as discussed in section 2.3.3 above.

Infrastructure Concession Investments regroups SNC-Lavalin's investments in infrastructure concessions, as discussed in section 2.3.4 above.

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

2.4 HOW WE BUDGET AND FORECAST OUR RESULTS AND BASIS FOR PROVIDING FINANCIAL GUIDANCE

The Company prepares a formal annual budget ("Annual Budget"), a process that begins at the project level, whereby budget information is prepared for individual projects and/or prospects, which form the primary basis for the Company's consolidated Annual Budget. The project information is then compiled by each division and approved by the Company's divisional management. The divisional budgets are subsequently reviewed by the Company's senior executives followed by approval from the Board of Directors. This Annual Budget forms the basis for the Company being able to provide financial guidance. The Annual Budget is updated to reflect current information during the year as the Company prepares forecasts of its annual expected results in the first, second and third quarters ("Quarterly Forecasts"), which are presented to the Board of Directors. In addition, the performance of each individual project (i.e., its estimated revenues and costs to complete) is continuously reviewed by its respective project manager.

The two key elements taken into account when preparing the Company's Annual Budget for Services, Packages, and Operations and Maintenance activities are, 1) its revenue **backlog** and **prospect list**, and 2) the **execution and expected performance**, which reflects estimated revenues and costs, **on each individual project**.

1. The Company's revenue **backlog** is used to estimate a portion of its future revenues taking into account each individual project. The backlog is maintained current at all times, reflecting any changes to projects in which the Company is currently involved. Such changes could include, although not exhaustively, additions in the form of newly awarded contracts that are considered firm, changes of scope to the amount of work to be performed on a given project, and project cancellations, if any.

   The Company's **prospect list** is derived from contracts that the Company is currently bidding on, and/or future projects for which it intends to actively compete. For every prospect, the Company utilizes what is referred to as a "Go-Get Percentage", which is a product of the expectation that the client will go forward with the contract (i.e., "Go"), and the probability that it will be awarded to the Company (i.e., "Get"). This "Go-Get Percentage" is applied to the value of the contract, taking into account the project's anticipated revenue and cost estimates (as discussed below), as well as the expected start date of the work.

2. The **expected revenues and costs** (or execution) **of projects** are determined on an individual project basis, and take into consideration assumptions on risks and uncertainties that can have an impact on the progress and/or profitability of that project, such as, but not limited to, performance of the Company's employees and of subcontractors or equipment suppliers, as well as price and availability of labour, equipment and materials. The expected performance of a project is estimated for both backlog and prospects in order to derive the Company's consolidated budgeted or forecasted revenues and gross margin.

In regards to its Infrastructure Concession Investments, the Company uses expected results based on assumptions specific to each investment and applies the appropriate accounting treatment (i.e., as described in section 2.3.4.1 of this report) to each of these results.

On a monthly basis the Company evaluates and analyzes its actual results by comparing them to the Annual Budget, and on a quarterly basis the Company compares its Annual Budget with the most recent Quarterly Forecast, for revenue, gross margin and profitability variances, the explanations of which arise mainly from the following:

> The level of activities, which varies depending on the number of newly awarded, ongoing, completed or near-completed projects and on the progress made on each of these projects in the period;

> Any changes in the estimated revenues and/or costs to complete each individual project, such as the estimated costs to complete projects for fixed-price contracts;

> Any change in the revenue mix, as Services revenues generate a higher gross margin-to-revenue ratio than Packages, and Operations and Maintenance activities; and

> Any changes in the results or dividends and distributions of its Infrastructure Concession Investments, depending on the accounting treatment of each investment.

As discussed above, the Annual Budget and Quarterly Forecasts are built up by individual project, which form the basis for the Company's forward-looking information. Budgeted and forecasted selling, general and administrative expenses, interest and capital taxes expense, and income tax expense are derived from detailed analyses and are influenced by the level of anticipated activities and profitability.

2.5 HOW THE COMPANY IS GENERALLY VALUED

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

1. **Value of the Company's business excluding ICI and freehold cash.** The value of this component is calculated based on a price/earnings multiplier applied to consolidated net income excluding the Company's net income from its ICI and interest income net of tax from freehold cash. For this purpose, the Company discloses as supplementary information its net income excluding ICI, as well as the amount of freehold cash on which the effective yield earned was 2.82% and 3.96% before taxes, in 2008 and 2007, respectively.
2. **Value of SNC-Lavalin's ICI**, based on an estimate of the fair value for each ICI. The fair value is calculated using a discounted expected future cash flows methodology, or using the stock market bid price for shares of any investment that is traded on an active market, both of which are more relevant than a price/earnings methodology. The Company believes that the value of its ICI is considerably higher than their book value of $554.3 million at December 31, 2008, which is disclosed in Note 3 of its 2008 audited annual consolidated financial statements.
3. **Value of freehold cash**, defined as the amount of cash and cash equivalents not committed for the Company's operations or investments in infrastructure concessions, which amounted to approximately $600 million as at December 31, 2008 and 2007 (refer to Section 8.2 of this report).

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

2.6 OUR KEY FINANCIAL PERFORMANCE INDICATORS

The Company continuously strives to maximize its shareholder value by regularly evaluating its overall performance using key financial indicators, namely:

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

> **Return on Average Shareholders' Equity**, which is used as a measure of return on equity; and

> **Net cash position, excluding net cash position from ICI**, which is a key indicator of the Company's financial capability.

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, 2008 and 2007 with the Company's financial objectives.

KEY FINANCIAL INDICATORS

FINANCIAL INDICATOR	FINANCIAL OBJECTIVE	ACTUAL RESULTS				LAST FIVE-YEAR AVERAGE ACTUAL RESULTS
		2008		2007		
Growth in net income	Annual growth between 7% and 12%	**104.0%**	☑	(3.3%)(*)	☒	33.6%
Return on Average Shareholders' Equity ("ROASE")	At least equal to long-term Canada Bond Yield plus 600 basis points (totalling 10.1% for 2008 and 10.3% for 2007)	**28.9%**	☑	16.5%(*)	☑	19.4%
Net cash position (cash and cash equivalents, excluding cash and cash equivalents from ICI, less recourse long-term debt)	Maintain a strong balance sheet with a net cash position sufficient to meet expected operating, financing and investing plans	**$854.6M**	☑	$963.9M	☑	$876.3M

☑ IN LINE OR ABOVE FINANCIAL OBJECTIVE ☒ BELOW FINANCIAL OBJECTIVE

(*) Includes the $84.1 million net income from discontinued operations on the disposal of SNC Technologies Inc. and its subsidiaries.

The 2008 net income increased by 104%, surpassing the Company's objective of attaining annual growth between 7% and 12%. Accordingly, the 2008 Return on Average Shareholders' Equity ("ROASE") of 28.9% significantly exceeded its objective for the year of 10.1%, reflecting a solid performance on the part of the Company. The Company's net cash position of $854.6 million as at December 31, 2008 is representative of its strong balance sheet, which allows the Company to meet expected operating, financing and investing plans.

The average five year net income growth of 33.6%, ROASE of 19.4% and net cash position of $876.3 million reflect the Company's ability to sustain growth in net income over the long-term and achieve return for its shareholders above its financial objective, while maintaining a solid cash position.

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

Some of the indicators used by the Company represent non-GAAP financial measures. Consequently, they do not have a standardized meaning as prescribed by Canadian GAAP, and are therefore unlikely to be comparable to similar measures presented by other issuers. Management believes that these indicators nevertheless provide useful information because they allow for the evaluation of the performance of the Company and its components based on various aspects, such as past, current and expected profitability and financial position. These non-GAAP measures include the Company's revenues backlog, freehold cash, net cash position and ROASE. 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, and when applicable, the Company provides a clear quantitative reconciliation from the non-GAAP financial measures to the most directly comparable measure calculated in accordance with GAAP. Of the measures described above, the Company's net cash position can be readily reconciled to GAAP measures, and therefore is done so in section 8.2 of this report.

3 Overall Financial Performance and 2009 Outlook

YEAR ENDED DECEMBER 31 (IN MILLIONS OF CANADIAN DOLLARS, EXCEPT EARNINGS PER SHARE)	2008	2007	2006
Revenues	**$ 7,106.9**	$ 6,731.5	$ 5,150.4
Net income from continuing operations	**$ 312.5**	$ 69.1	$ 136.6
Net income from discontinued operations	**–**	84.1	21.8
Net income	**$ 312.5**	$ 153.2	$ 158.4
Earnings per share from continuing operations ($)			
Basic	**$ 2.07**	$ 0.46	$ 0.90
Diluted	**$ 2.05**	$ 0.45	$ 0.89
Earnings per share ($)			
Basic	**$ 2.07**	$ 1.01	$ 1.05
Diluted	**$ 2.05**	$ 1.00	$ 1.04

3.1 NET INCOME

> **Net income in 2008 increased to $312.5 million** ($2.05 per share on a diluted basis), compared to $153.2 million ($1.00 per share on a diluted basis) in 2007, which included a significant loss from Power, partially offset by a net income from discontinued operations.

> **Net income from continuing operations increased to $312.5 million ($2.05 per share on a diluted basis) in 2008**, compared to $69.1 million ($0.45 per share on a diluted basis) in 2007. The increase was mainly due to higher contributions from Mining and Metallurgy, Other Industries, and Infrastructure and Environment, combined with a lower loss in 2008 from Power, partially offset by a lower operating income in Chemicals and Petroleum. In 2008 and 2007, SNC-Lavalin recognized losses in Power, mainly reflecting higher revised expected costs to complete the Goreway 880 MW combined cycle thermal power plant project in Ontario, Canada.

> There were **no discontinued operations in 2008**, compared to a net income from discontinued operations of $84.1 million in 2007, which represents the net gain after taxes on the sale of SNC Technologies Inc. and its subsidiaries.

3.2 REVENUES

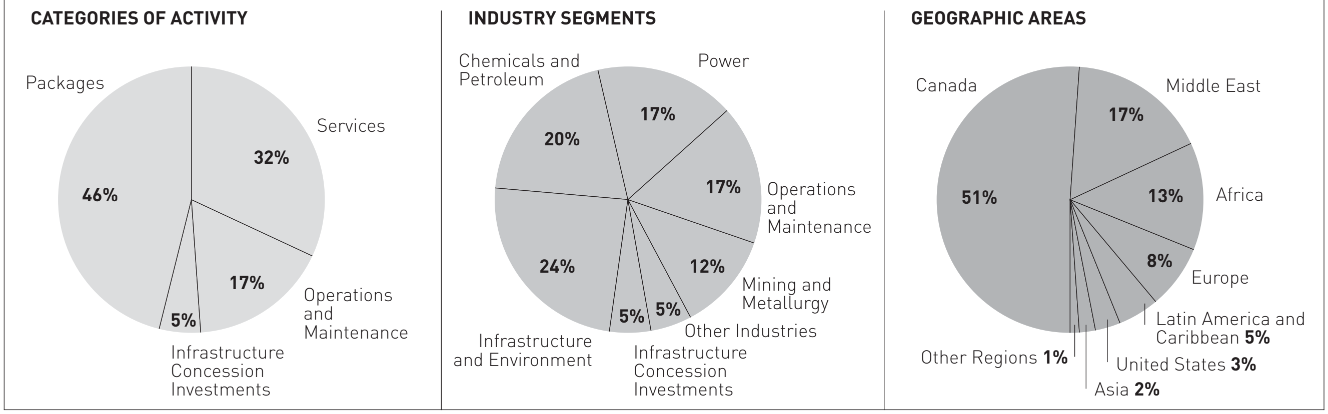
Revenues increased to $7,106.9 million in 2008, compared to $6,731.5 million in 2007, reflecting an increase in the Services, Operations and Maintenance, and ICI revenue categories, partially offset by a decrease in the Packages revenue category. Services revenues increased by $579.3 million, mainly from Mining and Metallurgy, Infrastructure and Environment, and Power, partly offset by Chemicals and Petroleum. Operations and Maintenance revenues increased by $166.6 million, due mainly to increased volume on certain ongoing facilities management contracts, primarily in Canada. ICI revenues increased by $35.7 million, primarily due to AltaLink, Okanagan Lake Concession and Highway 407. Packages revenues decreased in 2008, compared with the previous year, primarily due to a lower level of activities from Power, and Infrastructure and Environment, partially offset by higher activities mainly in Chemicals and Petroleum, and Other Industries.

Revenues in 2007 were $6,731.5 million, compared to $5,150.4 million in 2006, reflecting an increase in all revenue categories. The increase in Packages revenues was mainly from Power, Chemicals and Petroleum, and Infrastructure and Environment, while the increase in Services revenues was mainly from Chemicals and Petroleum, Mining and Metallurgy, and Infrastructure and Environment. Operations and Maintenance revenues increased mainly reflecting increased volume on certain ongoing facilities management contracts in Canada, while the increase in ICI revenues mainly reflects 12 months of full consolidation of AltaLink's revenues in 2007, compared to 7 months in 2006, following SNC-Lavalin's increased participation and acquisition of control during the second quarter of 2006.

DIVERSITY OF THE COMPANY'S REVENUE BASE

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

2008 REVENUES



3.3 ECONOMIC TRENDS AND THE IMPACT OF THE GLOBAL ECONOMIC SITUATION

While a slowdown in the growth of the world Gross Domestic Product ("GDP") was expected in 2008, the deterioration of economic conditions around the globe was stronger than forecasted. The year 2008 has been marked by a steep decline in most commodity prices and a tightening of the credit market. These factors have caused, and continue to cause many sponsors around the world to re-evaluate and potentially delay their ongoing projects, as well as exercise heightened caution when considering expansion of existing facilities or launching new projects.

The Canadian economy has proven to be resilient to these factors for most of 2008, but is expected to contract in 2009, with a return to slight growth in the following year. **The non-residential business investments, a relevant indicator for engineering and construction companies, are expected to decrease by 6.7% in 2009 compared to 2008, with a slight recovery expected in 2010**. The government of Canada's most recent federal budget, presented in January 2009 pledges $12 billion over the next two years for public infrastructure (i.e., including roads, bridges, water systems, public transit systems and clean energy), which provides for a positive outlook for engineering and construction companies. Furthermore, the Canadian federal government is not the only one pledging for increased contributions to the economy, with governments from various developed countries adopting or planning to adopt significant stimulus packages, many of which contemplate spending on infrastructure assets.

Also in 2008, the foreign currency exchange rates have been subject to significant volatility. The impact from the fluctuation of the Canadian dollar against the US dollar or other currencies, however, is not materially significant for SNC-Lavalin's activities, as it sources its project material and equipment on a global basis using the best value criteria, and takes advantage of its worldwide employee base to draw on the best available expertise in a cost effective manner. In addition, the Company enters into forward foreign currency exchange contracts to hedge exposure to foreign currency exchange variability upon award of a project, as described in section 8.6.2 of this report.

Overall, despite the general uncertainty surrounding the 2009 global economic outlook, the Company remains cautiously optimistic for the upcoming year.

3.4 COMPANY 2009 OUTLOOK

In addition to its solid financial position and strong backlog, the Company's capacity to operate in different categories of activity as well as industry segments, combined with the fact that it has permanent offices in over 35 countries, provide it with the basis for expected growth in profitability for 2009, in line with its long-term financial objective of annual growth in net income between 7% and 12%, however the Company remains cautious given the uncertainties regarding the global economic situation.

4 Geographic Breakdown of Revenues by Category of Activity

YEAR ENDED DECEMBER 31 (IN MILLIONS OF CANADIAN DOLLARS)	2008					
	SERVICES	PACKAGES	OPERATIONS AND MAINTENANCE	INFRASTRUCTURE CONCESSION INVESTMENTS	TOTAL	
Canada	**$ 740.9**	**$ 1,368.9**	**$ 1,154.5**	**$ 346.1**	**$ 3,610.4**	**51%**
Outside Canada						
Middle East	**305.6**	**874.7**	**1.2**	**–**	**1,181.5**	**17%**
Africa	**280.5**	**586.8**	**44.7**	**(1.4)**	**910.6**	**13%**
Europe	**369.0**	**183.9**	**–**	**2.3**	**555.2**	**8%**
Latin America and Caribbean	**199.0**	**148.0**	**–**	**–**	**347.0**	**5%**
United States	**203.3**	**31.8**	**–**	**–**	**235.1**	**3%**
Asia	**135.1**	**2.1**	**18.0**	**–**	**155.2**	**2%**
Other Regions	**72.0**	**33.3**	**6.6**	**–**	**111.9**	**1%**
	1,564.5	**1,860.6**	**70.5**	**0.9**	**3,496.5**	**49%**
Total	**$ 2,305.4**	**$ 3,229.5**	**$ 1,225.0**	**$ 347.0**	**$ 7,106.9**	**100%**

YEAR ENDED DECEMBER 31 (IN MILLIONS OF CANADIAN DOLLARS)	2007					
	SERVICES	PACKAGES	OPERATIONS AND MAINTENANCE	INFRASTRUCTURE CONCESSION INVESTMENTS	TOTAL	
Canada	$ 609.1	$ 1,937.7	$ 1,012.6	$ 312.4	$ 3,871.8	57%
Outside Canada						
Middle East	145.6	427.3	–	–	572.9	9%
Africa	155.3	878.3	33.5	(0.5)	1,066.6	16%
Europe	289.3	281.5	–	1.9	572.7	9%
Latin America and Caribbean	68.6	58.8	–	–	127.4	2%
United States	203.9	23.7	–	(2.5)	225.1	3%
Asia	143.6	4.7	12.3	–	160.6	2%
Other Regions	110.7	23.7	–	–	134.4	2%
	1,117.0	1,698.0	45.8	(1.1)	2,859.7	43%
Total	$ 1,726.1	$ 3,635.7	$ 1,058.4	$ 311.3	$ 6,731.5	100%

4.1 REVENUES IN CANADA

Revenues in Canada, which were expected to remain in line with the previous year, **decreased to $3,610.4 million in 2008**, compared to $3,871.8 million in 2007, due to a lower level of Packages activities, partially offset by increased activities in Services, Operations and Maintenance, and ICI.

Services activities in Canada increased by $131.8 million in 2008 compared with 2007, mainly reflecting increased activities in Infrastructure and Environment, Power, and Mining and Metallurgy.

Packages activities in Canada decreased to $1,368.9 million in 2008, compared to $1,937.7 million in the previous year, mainly due to lower activities in Infrastructure and Environment, Power, and Chemicals and Petroleum.

Operations and Maintenance activities in Canada increased by $141.9 million, mainly due to higher volume from ongoing facilities management contracts.

The increase of $33.7 million in Infrastructure Concession Investments in Canada for 2008, compared with 2007 reflects primarily higher revenues from i) AltaLink, ii) Okanagan Lake Concession, which operates, maintains and manages the William R. Bennett Bridge that opened to traffic on May 31, 2008, and iii) Highway 407.

In 2009, revenues in Canada are expected to decrease compared to 2008, mainly due to lower Packages activities from Power, Infrastructure and Environment, and Chemicals and Petroleum, partially offset by increased activities in Services, mainly from Infrastructure and Environment, as well as in Operations and Maintenance and ICI.

4.2 REVENUES FROM OUTSIDE CANADA

As expected, **revenues from outside Canada increased in 2008, totalling $3,496.5 million**, compared to $2,859.7 million in 2007, with increased activities mainly in Services, Packages and Operations and Maintenance.

> **Revenues from the Middle East increased by $608.6 million to $1,181.5 million in 2008**, mainly reflecting increased Packages activities from Chemicals and Petroleum, and Infrastructure and Environment, as well as in Services activities, mainly from Mining and Metallurgy, and Power.

> **Revenues from Africa were $910.6 million in 2008**, compared to $1,066.6 million in 2007, mainly due to decreased Packages activities from Power, partly offset by increased Services activities, mainly in Mining and Metallurgy.

> **Revenues from Europe were $555.2 million in 2008**, compared to $572.7 million in 2007, mainly attributable to decreased activities in Packages, primarily from Power, partially offset by increased Services activities, mainly from Infrastructure and Environment, and Other Industries.

> **Revenues in Latin America and Caribbean increased to $347.0 million in 2008**, mainly reflecting increased Services activities in Mining and Metallurgy, coupled with increased Packages activities primarily from Infrastructure and Environment, and Other Industries.

> **United States revenues totalled $235.1 million in 2008**, in line with $225.1 million in 2007.

> **In Asia, revenues amounted to $155.2 million in 2008**, in line with $160.6 million from the previous year.

> **Revenues from Other Regions totalled $111.9 million in 2008**, compared to $134.4 million in 2007, mainly due to decreased Services activities in Chemicals and Petroleum, partially offset by an increase in Packages activities, mainly from Other Industries.

The Company expects revenues from outside Canada in 2009 to decrease compared to 2008, mainly due to i) lower Packages activities, mainly in Chemicals and Petroleum, and Power, partially offset by increased Packages activities in Infrastructure and Environment, coupled with ii) decreased Services activities, mainly from Mining and Metallurgy.

5 Breakdown of Income Statement

FINANCIAL RESULTS

YEAR ENDED DECEMBER 31 (IN MILLIONS OF CANADIAN DOLLARS)	2008		2007	
Revenues by activity:				
Services	**$ 2,305.4**		$ 1,726.1	
Packages	**3,229.5**		3,635.7	
Operations and Maintenance	**1,225.0**		1,058.4	
Infrastructure Concession Investments	**347.0**		311.3	
	$ 7,106.9		$ 6,731.5	
Gross margin by activity:				
Services	**$ 678.1**	**29.4%**	$ 492.5	28.5%
Packages	**130.0**	**4.0%**	(121.4)	(3.3%)
Operations and Maintenance	**43.6**	**3.6%**	48.8	4.6%
Infrastructure Concession Investments	**161.2**	**46.5%**	147.3	47.3%
	$ 1,012.9	**14.3%**	$ 567.2	8.4%
Selling, general and administrative expenses	**515.2**		392.8	
Interest (revenues) and capital taxes:				
From Infrastructure Concession Investments	**108.2**		104.6	
From other activities	**(13.7)**		(32.1)	
	94.5		72.5	
Income from continuing operations before income taxes and non-controlling interest	**403.2**		101.9	
Income taxes	**85.1**		23.6	
Non-controlling interest	**5.6**		9.2	
Net income from continuing operations	**312.5**		69.1	
Net income from discontinued operations	**–**		84.1	
Net income	**$ 312.5**		$ 153.2	

5.1 REVENUE AND GROSS MARGIN ANALYSIS

Revenues increased to $7,106.9 million in 2008, compared to $6,731.5 million in 2007, reflecting increased activities in Services, Operations and Maintenance, and ICI, partially offset by decreased activities in Packages. **Gross margin increased to $1,012.9 million in 2008**, from $567.2 million in 2007, mainly reflecting a positive contribution from Packages, which had a negative gross margin in 2007 primarily due to the loss on the Goreway 880 MW combined cycle thermal power plant project, coupled with increased Services activities.

In 2009, the Company expects its revenues to decrease, with lower activities in Packages, partly offset by increased activities in Services, Operations and Maintenance, and ICI, while its **gross margin is expected to increase**, mainly reflecting an expected increase in the gross margin-to-revenue ratio from its Packages activities.

5.1.1 SERVICES REVENUES AND GROSS MARGIN

As expected, **Services revenues increased, totalling $2,305.4 million in 2008**, compared to $1,726.1 million in 2007, representing **an increase of 33.6%**, mainly due to increased activities in Mining and Metallurgy, Infrastructure and Environment, and Power, partially offset by Chemicals and Petroleum.

Services gross margin increased to $678.1 million in 2008, compared to $492.5 million in 2007, mainly reflecting the increased level of activities, coupled with a slightly higher gross margin-to-revenue ratio.

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

	2008	2007	2006	2005	2004
Services gross margin-to-revenue ratio	**29.4%**	28.5%	27.7%	26.1%	25.5%

The Company expects Services revenues for 2009 to remain in line with 2008, reflecting a strong backlog as at December 31, 2008, coupled with expected new project awards, primarily in Infrastructure and Environment. Accordingly, **the Company expects the Services gross margin in 2009 to remain in line with 2008**.

5.1.2 PACKAGES REVENUES AND GROSS MARGIN

Packages revenues, which were expected to remain in line with the previous year, **decreased to $3,229.5 million in 2008**, compared to $3,635.7 million in 2007, reflecting a lower level of activities mainly from Power, and Infrastructure and Environment, partially offset by higher activities primarily from Chemicals and Petroleum and Other Industries.

The gross margin for Packages totalled $130.0 million in 2008, compared to a negative gross margin of $121.4 million in 2007, due primarily to the higher loss in 2007, compared to 2008 on the Goreway 880 MW combined cycle thermal power plant project in Ontario, Canada and a higher gross margin-to-revenue ratio in 2008 on Packages projects excluding Goreway.

Packages gross margin-to-revenue ratio has historically been between 7% and 10%, however as illustrated in the table below this ratio has been below its historical range since 2005. **The Company's focus is to bring the Packages gross margin-to-revenue ratio back to within its historical range of 7% to 10%.**

	2008	2007	2006	2005	2004
Packages gross margin-to-revenue ratio	**4.0%**	(3.3%)	2.5%	6.4%	7.0%

The Company expects Packages revenues for 2009 to decrease compared to 2008, reflecting lower activities on certain projects, mainly in Power, and Chemicals and Petroleum, partly offset by increased activities, mainly in Infrastructure and Environment. **Packages gross margin is expected to increase in 2009** compared to 2008, as the Company focuses on restoring its Packages gross margin-to-revenue ratio back to within its historical range of 7% to 10%.

5.1.3 OPERATIONS AND MAINTENANCE REVENUES AND GROSS MARGIN

As expected, **Operations and Maintenance revenues increased, totalling $1,225.0 million in 2008**, compared to $1,058.4 million in 2007, mainly reflecting increased volume from certain ongoing facilities management contracts, mainly inside Canada.

Operations and Maintenance gross margin decreased to $43.6 million in 2008, from $48.8 million in 2007, mainly reflecting lower profitability on certain ongoing contracts, partially offset by an increase in the volume of activities.

Gross margin-to-revenue ratio for Operations and Maintenance has been approximately between 3% and 5% over the past five years, as shown in the table below.

	2008	2007	2006	2005	2004
Operations and Maintenance gross margin-to-revenue ratio	**3.6%**	4.6%	3.9%	5.4%	5.1%

The Company expects Operations and Maintenance revenues in 2009 to increase compared to 2008, mainly due to an overall increase in volume from ongoing contracts and various prospects. **In 2009, the gross margin is expected to increase** compared to 2008, mainly due to increased volume.

5.1.4 ICI REVENUES AND GROSS MARGIN

The relationship between revenues and gross margin for ICI activities may not be meaningful, as a significant portion of the investments are accounted for under the equity and cost methods, which do not reflect the line by line items of their financial results.

ICI revenues, as expected, **increased, totalling $347.0 million in 2008**, compared to $311.3 million in 2007, reflecting higher revenues from i) AltaLink, ii) Okanagan Lake Concession, which operates, maintains and manages the William R. Bennett Bridge that opened to traffic on May 31, 2008, and iii) Highway 407. **The gross margin increased to $161.2 million in 2008**, from $147.3 million in 2007, relating mainly to the increase in the revenues from the ICI listed above.

The Company expects ICI revenues to increase in 2009, mainly due to the overall increase in Canada from AltaLink, the expected start of operations of the Shariket Kahraba Hadjret En Nouss S.p.A. ("SKH") 1,227 MW power plant in Algeria, which is accounted for by the equity method, and Okanagan Lake Concession, which will benefit from 12 months of operations of the William R. Bennett Bridge in 2009, compared to 7 months in 2008. **Gross-margin in 2009 is expected to increase**, due mainly to increased revenue contributions.

5.2 SELLING, GENERAL AND ADMINISTRATIVE EXPENSES ANALYSIS

Selling, general and administrative expenses, as expected, **increased totalling $515.2 million in 2008**, compared to $392.8 million in 2007, mainly reflecting the Company's overall increased level of activities and the full-year impact related to business acquisitions completed in 2007. Selling costs relate mainly to costs for proposals and business development activities. General and administrative expenses are comprised primarily of occupancy costs relating mostly to the cost of rent, and support functions such as accounting, human resources and general management. The table below presents the Company's selling costs and general and administrative expenses.

YEAR ENDED DECEMBER 31 (IN MILLIONS OF CANADIAN DOLLARS)	2008	2007	CHANGE (%)
Selling costs	**$ 135.8**	$ 112.1	21.1%
General and administrative expenses	**379.4**	280.7	35.2%
Selling, general and administrative expenses	**$ 515.2**	$ 392.8	31.2%

The Company expects selling, general and administrative expenses in 2009, to remain in line with 2008. The Company continues to maintain an appropriate balance between gross margin and selling, general and administrative expenses, while sustaining the necessary investment in selling activities in order to achieve its growth objective. In 2008, the selling, general and administrative expenses as a percentage of gross margin was approximately 51%, below the level of the past five years, although 2007 was considerably higher mainly due to the negative gross margin from Packages activities in that year.

	2008	2007	2006	2005	2004
Selling, general and administrative expenses as a percentage of gross margin	**50.9%**	69.2%	53.1%	55.9%	56.8%

5.3 INTEREST (REVENUES) AND CAPITAL TAXES ANALYSIS

As expected, **interest and capital taxes expenses increased in 2008, totalling $94.5 million**, compared to $72.5 million in 2007. Interest and capital taxes are analyzed separately for amounts from ICI and from other activities.

ICI includes interest and capital taxes from consolidated investments and the Company's share of interest and capital taxes from proportionately consolidated investments, both of which have debt that is non-recourse to the Company.

Interest and capital taxes expenses from ICI increased to $108.2 million in 2008, from $104.6 million in 2007, mainly due to i) interest expense from Okanagan Lake Concession, for which interest was capitalized during the construction period, and is expensed since the opening of the bridge to traffic on May 31, 2008, which is reflected under "Non-recourse others" in the table below, ii) the Company's proportionate share of the fair value adjustment to Highway 407's investment in non-bank sponsored asset-backed commercial paper and notes, which is reflected under "Capital taxes and other" in the table below, **partly offset** by iii) a lower interest expense from the Company's proportionate share of Highway 407's inflation-indexed debt.

As expected, **in 2008, interest revenues net of capital taxes from other activities decreased, totalling $13.7 million**, compared to $32.1 million in 2007, mainly due to decreased interest revenues resulting from lower effective yields and a lower average cash balance in 2008.

(IN MILLIONS OF CANADIAN DOLLARS)	2008			2007		
	FROM INFRASTRUCTURE CONCESSION INVESTMENTS	FROM OTHER ACTIVITIES	TOTAL	FROM INFRASTRUCTURE CONCESSION INVESTMENTS	FROM OTHER ACTIVITIES	TOTAL
Interest revenues	**$ (3.7)**	**$ (26.0)**	**$ (29.7)**	$ (4.3)	$ (47.7)	$ (52.0)
Interest on long-term debt:						
Recourse	**–**	**8.3**	**8.3**	–	8.2	8.2
Non-recourse						
AltaLink	**59.7**	**–**	**59.7**	56.8	–	56.8
Highway 407	**39.4**	**–**	**39.4**	47.6	–	47.6
Others	**6.1**	**0.4**	**6.5**	1.1	2.9	4.0
Capital taxes and other	**6.7**	**3.6**	**10.3**	3.4	4.5	7.9
Interest (revenues) and capital taxes	**$ 108.2**	**$ (13.7)**	**$ 94.5**	$ 104.6	$ (32.1)	$ 72.5

The Company expects interest and capital taxes expenses to increase in 2009, mainly due to higher interest expense from ICI coupled with lower interest revenues from other activities.

Interest expense from ICI is expected to increase in 2009 mainly from i) higher interest expense from AltaLink, primarily for the additional debt expected to be issued to finance its budgeted capital expenditures for 2009, and ii) higher interest expense from Okanagan Lake Concession, reflecting 12 months of interest expense in 2009, compared to 7 months in 2008, as interest was capitalized during the construction period of the bridge and is expensed since its opening to traffic on May 31, 2008.

Interest revenues from other activities is expected to decrease in 2009, primarily due to lower effective yields as interest rates are anticipated to decrease.

5.4 INCOME TAXES ANALYSIS

The effective income tax rate, which was expected to be in line with the previous year, **decreased to 21% in 2008**, from 23% in 2007. The decrease in the effective income tax rate was mainly due to: i) SNC-Lavalin's proportionate share of the recognition of future income tax assets that were previously unrecognized, related to Highway 407; ii) the change in the effect of differences of foreign tax rates compared to Canadian rates resulting from the geographic mix of the Company's activities; and iii) lower statutory Canadian income tax rates.

The following table shows a summary of the Company's effective tax rate presented separately from ICI and from other activities.

(IN MILLIONS OF CANADIAN DOLLARS)	2008			2007		
	FROM INFRASTRUCTURE CONCESSION INVESTMENTS	FROM OTHER ACTIVITIES	TOTAL	FROM INFRASTRUCTURE CONCESSION INVESTMENTS	FROM OTHER ACTIVITIES	TOTAL
Income from continuing operations before income taxes and non-controlling interest	**$ 37.7**	**$ 365.5**	**$ 403.2**	$ 30.7	$ 71.2	$ 101.9
Income taxes	**$ 0.5**	**$ 84.6**	**$ 85.1**	$ 5.6	$ 18.0	$ 23.6
Effective tax rate (%)	**1.4%**	**23.1%**	**21.1%**	18.1%	25.4%	23.2%

The Company expects the effective income tax rate to be higher in 2009, mainly due to the income tax benefit recognized by activities from ICI in 2008 from Highway 407 not expected to recur in 2009, while the effective income tax rate from other activities is expected to remain in line with 2008.

6 Revenues Backlog

The Company reports revenues backlog, which is a non-GAAP financial measure, for its **categories of activities**: i) **Services**, ii) **Packages**, iii) **Operations and Maintenance**, and iv) **ICI**. Revenues backlog is a **forward-looking indicator of anticipated revenues** that will be recognized by the Company. It is determined based on **contract awards** that are considered **firm**, as well as on a **five-year rolling basis** for recurring revenues from **ICI** activities accounted for under the **full consolidation** or **proportionate consolidation** methods where the Company exercises control or joint control, respectively. ICI backlog is reported by the Company since the future revenues of these concessions constitute one of the Company's categories of revenue activities. Future revenues from ICI accounted for under the equity or cost methods are not reported in backlog as they represent the Company's expected share of net results or dividends and distributions. In the case of **Operations and Maintenance** activities the Company **limits** the revenues backlog to **the earlier of**, i) **the contract term awarded**, and ii) **the next five years**.

The Company aims to provide a revenues backlog that is both meaningful and current. As such, the Company regularly reviews its backlog to ensure that it reflects any modifications, which include awards of new projects, changes of scope on current projects, or project cancellations, if any.

REVENUES BACKLOG BY SEGMENT AND BY CANADA AND OUTSIDE CANADA, BY CATEGORY OF ACTIVITY

The following table provides a breakdown of revenues backlog by segment, and by Canada and outside Canada, both by category of activity.

AT DECEMBER 31 (IN MILLIONS OF CANADIAN DOLLARS)	2008				
BY SEGMENT	SERVICES	PACKAGES	OPERATIONS AND MAINTENANCE	INFRASTRUCTURE CONCESSION INVESTMENTS	TOTAL
Services and Packages					
Infrastructure and Environment	$ 676.8	$ 2,174.4	$ –	$ –	$ 2,851.2
Chemicals and Petroleum	179.5	647.9	–	–	827.4
Power	194.7	546.0	–	–	740.7
Mining and Metallurgy	392.0	–	–	–	392.0
Other Industries	102.3	139.7	–	–	242.0
Operations and Maintenance	–	–	2,196.2	–	2,196.2
Infrastructure Concession Investments	–	–	–	2,342.7	2,342.7
Total	$ 1,545.3	$ 3,508.0	$ 2,196.2	$ 2,342.7	$ 9,592.2
BY CANADA AND OUTSIDE CANADA					
Canada	$ 305.6	$ 778.7	$ 1,878.1	$ 2,342.7	$ 5,305.1
Outside Canada	1,239.7	2,729.3	318.1	–	4,287.1
Total	$ 1,545.3	$ 3,508.0	$ 2,196.2	$ 2,342.7	$ 9,592.2

AT DECEMBER 31 (IN MILLIONS OF CANADIAN DOLLARS)	2007				
BY SEGMENT	SERVICES	PACKAGES	OPERATIONS AND MAINTENANCE	INFRASTRUCTURE CONCESSION INVESTMENTS	TOTAL
Services and Packages					
Infrastructure and Environment	$ 470.2	$ 2,041.5	$ –	$ –	$ 2,511.7
Chemicals and Petroleum	235.6	1,015.2	–	–	1,250.8
Power	242.7	1,157.4	–	–	1,400.1
Mining and Metallurgy	513.4	130.4	–	–	643.8
Other Industries	94.6	112.5	–	–	207.1
Operations and Maintenance	–	–	2,513.9	–	2,513.9
Infrastructure Concession Investments	–	–	–	2,095.4	2,095.4
Total	$ 1,556.5	$ 4,457.0	$ 2,513.9	$ 2,095.4	$ 10,622.8
BY CANADA AND OUTSIDE CANADA					
Canada	$ 298.2	$ 1,675.7	$ 2,261.8	$ 2,095.4	$ 6,331.1
Outside Canada	1,258.3	2,781.3	252.1	–	4,291.7
Total	$ 1,556.5	$ 4,457.0	$ 2,513.9	$ 2,095.4	$ 10,622.8

The Company's backlog for its four revenue categories: Services, Packages, Operations and Maintenance, and ICI, **totalled $9.6 billion at December 31, 2008**, compared to $10.6 billion at the end of 2007, reflecting a decrease mainly in the Packages, and Operations and Maintenance categories, partly offset by an increase in the ICI category, with Services backlog being in line with the previous year.

Backlog from Canada decreased to $5,305.1 million at the end of 2008, from $6,331.1 million at the end of the previous year, primarily due to a decrease in Packages mainly from Power, Infrastructure and Environment, Chemicals and Petroleum, and in Operations and Maintenance, partially offset by an increase in ICI.

Backlog from Outside Canada of $4,287.1 million at the end of 2008 was in line with the previous year, with a decrease, mainly in Power, Mining and Metallurgy, and Chemicals and Petroleum backlog, offset by increased Infrastructure and Environment backlog.

6.1 SERVICES BACKLOG

Services backlog totalled $1,545.3 million at the end of 2008, in line with the previous year, reflecting contract awards mainly in Infrastructure and Environment, offset by progress on projects, mainly outside Canada, in Mining and Metallurgy, Chemicals and Petroleum, and Power.

RECONCILIATION OF SERVICES BACKLOG

YEAR ENDED DECEMBER 31 (IN MILLIONS OF CANADIAN DOLLARS)	2008	2007
Opening backlog	**$ 1,556.5**	$ 819.8
Add: Contract bookings during the year	**2,281.1**	2,177.2
Backlog from engineering business acquisitions	**13.1**	285.6
Less: Revenues recognized during the year	**2,305.4**	1,726.1
Ending backlog	**$ 1,545.3**	$ 1,556.5

Services bookings totalled $2,281.1 million in 2008, compared to $2,177.2 million in 2007, and included notable additions in 2008 such as:

- The EPCM contract to provide remediation support, environmental and regulatory code compliance, and capital improvement for both heavy and light water power generation nuclear reactors for the Cameco Corporation Fuel Services division;
- The engineering contract for the supervision of construction work for the 169-kilometre-long centre section of the East-West Highway in Algeria;
- The EPCM contract to design and build a new biotechnology plant for Genzyme, in Lyon, France;

> An engineering services contract for a 64,000 m², 312-bed University Centre specialized in research and advanced treatment against cancer in Toulouse, France;

> The front-end engineering and development and detailed engineering services contracts consisting of a new crude oil storage facility and pipeline, and the expansion of the existing pumping facilities, of the TransCanada Keystone Pipeline starting in Alberta, Canada and terminating in Illinois, USA;

> The EPCM contract with Qatar Petroleum and Hydro Aluminium AS for the service areas and potroom building of a greenfield aluminium smelter in Qatar;

> The joint venture EPCM contract for the furnace and crane replacement projects for Rio Tinto Alcan's 550,000 tpa brownfield and greenfield Boyne Smelter in Queensland, Australia; and

> The engineering technical services contract to increase production capacity for Vale's Iron Ore Northern System in Brazil.

6.2 PACKAGES BACKLOG

Packages backlog decreased to $3,508.0 million at the end of 2008, compared to $4,457.0 million at the end of 2007, resulting primarily from Power, Chemicals and Petroleum, and Mining and Metallurgy, partially offset by new awards in Infrastructure and Environment.

RECONCILIATION OF PACKAGES BACKLOG

YEAR ENDED DECEMBER 31 (IN MILLIONS OF CANADIAN DOLLARS)	2008	2007
Opening backlog	**$ 4,457.0**	$ 6,082.6
Add: Contract bookings during the year	**2,280.5**	2,010.1
Less: Revenues recognized during the year	**3,229.5**	3,635.7
Ending backlog	**$ 3,508.0**	$ 4,457.0

Packages bookings in 2008 amounted to $2,280.5 million, compared to $2,010.1 million in the previous year. Contract bookings in 2008 included notable additions such as:

> The contract for the procurement and construction activities for a new international terminal, runway and apron for a greenfield airport in Benghazi, Libya;

> The contract to design and construct the Coast Meridian Overpass, a 580 metre-long cable-stayed bridge in British Columbia, Canada;

> The turnkey and construction contract for GRTgaz, a subsidiary of Gaz de France, to construct two new natural gas compressor and interconnection stations in the communes of Fontenay-Mauvoisin and Saint-Avit, France;

> Myah Tipaza S.p.A., an EPC contract to construct a 120,000 m³/day seawater desalination plant in the province (wilaya) of Tipaza, in Algeria;

> The EPC contract for the SaskPower Ermine greenfield 80 MW gas-fired thermal power plant in Saskatchewan, Canada;

> The turnkey engineering and cost-plus reimbursable civil works contract for SaskPower's Queen Elizabeth Power Station to add three gas turbine generators totalling 96 MW to the existing thermal power station in Saskatchewan, Canada; and

> The EPC contract for Instituto Nacional de Desarrollo Rural to design and build an integrated irrigation system to support the infrastructure and three towns in the Tiznados district of the State of Guarico, Venezuela.

6.3 OPERATIONS AND MAINTENANCE BACKLOG

Operations and Maintenance backlog totalled $2,196.2 million at the end of 2008, compared to $2,513.9 million at the end of 2007, in large part due to normal fluctuations in the timing of the long-term contracts as well as for current contracts nearing their potential renewal date.

RECONCILIATION OF OPERATIONS AND MAINTENANCE BACKLOG

YEAR ENDED DECEMBER 31 (IN MILLIONS OF CANADIAN DOLLARS)	2008	2007
Opening backlog	**$ 2,513.9**	$ 1,570.2
Add: Contract bookings during the year	**907.3**	2,002.1
Less: Revenues recognized during the year	**1,225.0**	1,058.4
Ending backlog	**$ 2,196.2**	$ 2,513.9

Notable contract bookings in 2008 included additions such as:

> Alberta Infrastructure & Transport added approximately 95,000 m² of new space spread across 50 buildings to be maintained in the northwest region of Alberta, in addition to its initial mandate of about 200,000 m² of space in 63 buildings;

> A new five-year contract awarded by the Ontario Realty Corporation to deliver project management services for the East Region of Ontario, Canada; and

> Shariket Kahraba Hadjret En Nouss S.p.A. ("SKH"), a 20-year contract to operate and maintain a 1,227 MW gas-fired power plant in Algeria.

Operations and Maintenance revenue activities are largely complementary to Services, Packages and ICI, thereby enabling the Company to offer its clients engineering and construction expertise as well as assistance with the ongoing operations of a particular facility. Operations and Maintenance expertise also represents an advantage for the Company when making investments in ICI.

Examples of related major Packages projects undertaken by the Company for which it was also awarded Operations and Maintenance contracts include projects such as the Taksebt water transfer system and the SKH power plant, both in Algeria, and the contract to operate and maintain the William R. Bennett Bridge for Okanagan Lake Concession in British Columbia, Canada, which is also an ICI as it is owned 100% by the Company.

6.4 INFRASTRUCTURE CONCESSION INVESTMENTS BACKLOG

The following table presents the details of the ICI revenues backlog as at December 31, 2008 and 2007:

INFRASTRUCTURE CONCESSION INVESTMENTS BACKLOG

AT DECEMBER 31 (IN MILLIONS OF CANADIAN DOLLARS)	2008	2007
AltaLink	**$ 1,685.2**	$ 1,474.3
Highway 407	**558.4**	531.2
Okanagan Lake Concession	**99.1**	89.9
Total backlog	**$ 2,342.7**	$ 2,095.4

The ICI revenues backlog increased to $2,342.7 million at the end of 2008, compared to $2,095.4 million at the end of the previous year, mainly due to expected increased revenues from AltaLink.

The revenue backlog presented for AltaLink and Okanagan Lake Concession as at December 31, 2008 and 2007 represents 100% of their estimated recurring revenues for the next five years, as both investments are fully consolidated, whereas for Highway 407, which is proportionately consolidated, represents SNC-Lavalin's 16.77% proportionate share of the estimated recurring revenues for the next five years.

7 Operating Results by Segment

As mentioned previously, the Company's results are evaluated by segment. The segments regroup related activities within SNC-Lavalin consistent with the way management performance is assessed: i) **Services and Packages** relate to engineering and construction operations, for which the Company presents the information in the way management is assessed, and regroups its projects within the industries they are executed for, namely **Infrastructure and Environment**, **Chemicals and Petroleum**, **Power**, **Mining and Metallurgy**, and **Other Industries** (formerly labelled as "All Other"); ii) **Operations and Maintenance**; and iii) **ICI**.

The following discussion reviews the Company's revenues and operating income by segment. Refer to Note 2 of the 2008 audited annual consolidated financial statements to obtain information on the way the Company determines operating income.

The table below summarizes the contribution by segment for 2008 and 2007.

OPERATING RESULTS BY SEGMENT

YEAR ENDED DECEMBER 31 (IN MILLIONS OF CANADIAN DOLLARS)	2008		2007	
	REVENUES	OPERATING INCOME (LOSS)	REVENUES	OPERATING INCOME (LOSS)
Services and Packages				
Infrastructure and Environment	**$ 1,700.4**	**$ 113.0**	$ 1,757.2	$ 93.0
Chemicals and Petroleum	**1,416.8**	**104.4**	1,256.6	126.4
Power	**1,176.2**	**(24.4)**	1,616.3	(267.3)
Mining and Metallurgy	**859.0**	**117.0**	448.9	68.1
Other Industries	**382.5**	**46.8**	282.8	18.8
Operations and Maintenance	**1,225.0**	**25.4**	1,058.4	29.5
Infrastructure Concession Investments	**347.0**	**37.2**	311.3	25.1
Total	**$ 7,106.9**	**$ 419.4**	$ 6,731.5	$ 93.6

The summary table below compares the actual contributions of each segment in 2008 to the initial expectations expressed in the 2007 annual Management's Discussion and Analysis, and presents the Company's expectations for 2009.

SUMMARY TABLE — OPERATING INCOME BY SEGMENT

	2008			2009
	EXPECTATIONS	ACTUAL	ACTUAL VS. EXPECTATIONS	EXPECTATIONS
Services and Packages				
Infrastructure and Environment	↑	↑	☑	↑
Chemicals and Petroleum	—	↓	☒	↓
Power	↑	↓	☒	↑
Mining and Metallurgy	↑	↑	☑	↓
Other Industries	↑	↑	☑	—
Operations and Maintenance	↑	↓	☒	↑
Infrastructure Concession Investments	↑	↑	☑	↑
Total operating income	↑	↑	☑	↑

↑ INCREASE COMPARED TO PREVIOUS YEAR ↓ DECREASE COMPARED TO PREVIOUS YEAR — IN LINE WITH PREVIOUS YEAR ☑ IN LINE OR ABOVE EXPECTATIONS ☒ BELOW EXPECTATIONS

In 2008, operating segments for which the contribution was expected to increase or to remain in line compared to the previous year either met or surpassed the expectations, except for the Power, Chemicals and Petroleum, and Operations and Maintenance segments which were below expectations. Power, although posting a lower loss in 2008 compared to 2007, did not meet the Company's expectation, which anticipated a positive contribution in 2008, as explained further in section 7.3 of this report. Also, the variances for Chemicals and Petroleum, and Operations and Maintenance activities are further explained in sections 7.2 and 7.6, respectively, of this report.

7.1 INFRASTRUCTURE AND ENVIRONMENT

(IN MILLIONS OF CANADIAN DOLLARS)	2008	2007	Change (%)
Revenues from Infrastructure and Environment			
Services	**$ 534.5**	$ 388.2	37.7%
Packages	**1,165.9**	1,369.0	(14.8%)
Total	**$ 1,700.4**	$ 1,757.2	(3.2%)
Operating income from Infrastructure and Environment	**$ 113.0**	$ 93.0	21.5%
Operating income over revenues from Infrastructure and Environment (%)	**6.6%**	5.3%	N/A

Revenues from Infrastructure and Environment decreased by $56.8 million to $1,700.4 million in 2008, compared to 2007, reflecting lower Packages activities on certain major projects in Canada and Africa, partly offset by an increase in Services activities both outside and inside Canada.

The major revenue contributors in 2008 were as follows:

> **Canada Line** (Packages/Canada): This EPC contract with InTransit BC to design and build the rapid transit line connecting the cities of Vancouver and Richmond with Vancouver International Airport in Canada was ongoing in 2008, and is projected to be completed in the second half of 2009;

> **East-West Highway** (Services/Middle East): The engineering contract, awarded in 2008, for the supervision of construction work for the 169-kilometre-long centre section of a six-lane divided highway in Algeria;

> **Koudiat Acerdoune** (Packages/Africa): Construction work ramped up in 2008 for this EPC contract, which consists of a water treatment plant, reservoirs, pumping station and water conveyance system in Algeria;

> **Sarir Phase II** (Packages/Africa): The second phase of the EPC contract for the fabrication of 45,000 pre-stressed cylinder concrete pipes for the Great Man-Made River Authority in Libya began in 2008 and is ongoing, following the completion by the Company in 2006 of the first phase of the project;

> **Taksebt** (Packages/Africa): The turnkey contract to design and build a water treatment plant, pumping station and water conveyance system in Algeria was awarded in 2004, and was near completion in 2008; and

> **Tiznados Phase II** (Packages/Latin America and Caribbean): This EPC contract to design and build an integrated irrigation system in the State of Guarico, Venezuela, was awarded in 2008, and represents a two-phase project that succeeds the project completed by the Company in early 2008 for the same client, to rehabilitate an existing portion of an irrigation canal of the Tiznados River.

As expected, **operating income increased in 2008** compared to 2007. The **increase of $20.0 million** mainly reflects a higher overall gross margin-to-revenue ratio resulting from increased Services revenues compared to the previous year, as well as an increased contribution from certain major Packages projects.

The Company expects the 2009 contribution from the Infrastructure and Environment industry segment to increase, as the segment has a strong backlog and anticipates contributions from a combination of major ongoing Services and Packages projects, as well as various prospects both inside and outside Canada.

7.2 CHEMICALS AND PETROLEUM

(IN MILLIONS OF CANADIAN DOLLARS)	2008	2007	Change (%)
Revenues from Chemicals and Petroleum			
Services	**$ 543.4**	$ 614.4	(11.6%)
Packages	**873.4**	642.2	36.0%
Total	**$ 1,416.8**	$ 1,256.6	12.7%
Operating income from Chemicals and Petroleum	**$ 104.4**	$ 126.4	(17.4%)
Operating income over revenues from Chemicals and Petroleum (%)	**7.4%**	10.1%	N/A

Chemicals and Petroleum revenues increased in 2008 by $160.2 million to $1,416.8 million, compared to the previous year, mainly reflecting increased activities from certain major Packages projects, primarily outside Canada, partially offset by decreased activities resulting mainly from Services projects that were near-completed or completed.

The major revenue contributors in 2008 were as follows:

- > **Canaport LNG Limited Partnership** (Packages/Canada): Awarded in 2006, this EPC contract to design and build a Liquefied Natural Gas import re-gasification terminal in New Brunswick, Canada was ongoing in 2008;
- > **ExxonMobil Refining and Chemical Plant** (Services/United States): The ongoing front-end engineering, project management, detailed engineering and procurement services for a refinery and chemical complex located in Baytown, Texas;
- > **Fort Hills Oil Sands Project** (Services/Canada): Two front-end engineering development and design services mandates awarded in early 2007 by Fort Hills Energy L.P., for a 165,000 bpd dry bitumen froth treatment plant, and for Phase I of a 110,000 bpd Secondary Upgrader located in Alberta, Canada were ongoing in 2008;
- > **Khurais Oil Field Development Phase II** (Packages/Middle East): This fixed-price lump sum turnkey contract, awarded in 2007 to design and build four plants for the supply and injection of treated seawater to Khurais and Ghawar fields, in Saudi Arabia is expected to be completed in 2009;
- > **Shaybah Expansion Program Phase II** (Packages/Middle East): This ongoing fixed price lump sum turnkey contract, awarded in 2007, to design and build the Shaybah Central Processing Facilities is expected to be completed in 2009; and
- > **Valero Flue Gas Scrubber** (Services/United States): The cost-plus reimbursable EPCM contract to provide design and construction support for the modification of refinery stock sulfur emissions in California ramped up in 2008.

Operating income, which was expected to remain in line with 2007, **decreased in 2008**, mainly due to an unfavourable revised forecast to complete a certain major Packages project that resulted in a loss in Chemicals and Petroleum for the fourth quarter of 2008, coupled with an allowance for doubtful accounts on the Newfoundland and Labrador Refining Corporation ("NLRC") project recognized during the second quarter of 2008, partially offset by an overall increased level of activities from Packages projects, mainly outside Canada.

The Company expects the 2009 contribution from Chemicals and Petroleum to decrease compared with 2008, as certain major Packages projects will be nearing completion or be completed, partially offset mainly by new Services prospects both outside and inside Canada.

7.3 POWER

(IN MILLIONS OF CANADIAN DOLLARS)	2008	2007	Change (%)
Revenues from Power			
Services	**$ 258.5**	$ 145.3	77.8%
Packages	**917.7**	1,471.0	(37.6%)
Total	**$ 1,176.2**	$ 1,616.3	(27.2%)
Operating loss from Power	**$ (24.4)**	$ (267.3)	90.9%
Operating loss over revenues from Power (%)	**(2.1%)**	(16.5%)	N/A

Power revenues were $1,176.2 million in 2008, compared to $1,616.3 million in 2007, reflecting primarily a decrease in Packages activities, partly offset by an increase in Services activities. Packages revenues were lower in 2008 compared with 2007, mainly due to lower activities on certain major ongoing projects. Services activities were higher mainly due to an increased level of activities outside and inside Canada.

The major revenue contributors in 2008 were as follows:

- > **Albian Sands Expansion Phase I** (Packages/Canada): The EPC contract for 11 kilometres of transmission lines and brown-field and greenfield substations for Shell Canada in Alberta, Canada, was nearing completion in 2008;
- > **Bruce Power A.L.P.** (Packages/Canada): This EPC contract, awarded in 2005, to replace steam generators at a nuclear power station and contribute to other refurbishment work, in Ontario, Canada was ongoing in 2008;
- > **Emirates Aluminium Smelter Complex** (Services/Middle East): The EPCM services contract was awarded in 2007 to design and build a new aluminium smelter in Abu Dhabi with a total capacity of 1.4 million tonnes per year upon completion of both phases, and includes a 2,000 MW combined cycle thermal power plant. Services activities on the thermal power plant ramped up in 2008, and are expected to be ongoing in 2009. Activities relating to the aluminium smelter are presented in Mining and Metallurgy below;

> **Portland Energy Centre L.P.** (Packages/Canada): Awarded in late 2006, this ongoing EPC contract for a 550 MW combined cycle cogeneration power plant for the Portland Energy Centre L.P. in Ontario, Canada, is expected to be completed in 2009;

> **Shariket Kahraba Hadjret En Nouss S.p.A.** (Packages/Africa): This EPC contract for a 1,227 MW gas-fired power plant in Algeria was awarded in 2006, and is expected to be delivered in 2009. The Company also has a 26.0% ownership interest in the project company that is reflected as an ICI and was also awarded a long-term operations and maintenance contract; and

> **Sithe Global Power Goreway ULC** (Packages/Canada): This EPC contract is to design and build an 880 MW combined cycle thermal power plant in Ontario, Canada. The Company incurred a loss in Power in 2007 and in 2008 mainly due to this project, which is expected to be delivered in 2009.

Power, which was expected to provide a positive contribution in 2008, **reported an operating loss of $24.4 million in 2008**, compared to a loss of $267.3 million in the previous year. In 2007, SNC-Lavalin recognized a loss in the Power segment, mainly due to issues arising from the bankruptcy proceedings and work stoppage of a key supplier of the Goreway 880 MW combined cycle thermal power plant project in Ontario, Canada, which created a ripple effect of delays and increased costs and resulted in a significant loss on that project. In 2008, the Company recognized additional losses on the Goreway thermal power project, reflecting higher revised expected costs to complete the project, partially offset by the favourable contribution from the progress of certain ongoing Power projects.

The Company expects that Power will contribute positively to its consolidated results in 2009.

7.4 MINING AND METALLURGY

(IN MILLIONS OF CANADIAN DOLLARS)	2008	2007	Change (%)
Revenues from Mining and Metallurgy			
Services	$ **764.4**	$ 404.6	88.9%
Packages	**94.6**	44.3	113.5%
Total	$ **859.0**	$ 448.9	91.3%
Operating income from Mining and Metallurgy	$ **117.0**	$ 68.1	71.9%
Operating income over revenues from Mining and Metallurgy (%)	**13.6%**	15.2%	N/A

Mining and Metallurgy revenues increased by $410.1 million in 2008, compared to 2007 reflecting increased activities mainly from ongoing and new project awards, outside Canada.

The major revenue contributors in 2008 were as follows:

> **Ambatovy Nickel Project** (Services/Africa): This EPCM contract was awarded in 2006 to construct an open-pit mine operation, and a hydrometallurgical processing plant expected to produce mainly nickel and cobalt in Madagascar. SNC-Lavalin has a 5% equity investment in this project accounted for by the cost method;

> **Barro Alto Ferro-Nickel Project** (Services/Latin America and Caribbean): The ongoing EPCM contract was awarded in 2007 to provide project management and related technical services for expansion work on a greenfield ferro-nickel plant in Brazil;

> **Dubai Aluminium Company Ltd** (Services/Middle East): The ongoing EPCM contract for the aluminium smelter in Dubai;

> **Emirates Aluminium Smelter Complex** (Services/Middle East): The EPCM services contract was awarded in 2007 to design and build a new aluminium smelter in Abu Dhabi with a total capacity of 1.4 million tonnes per year upon completion of both phases. Activity on the project ramped up in 2008, and is expected to be ongoing in 2009; and

> **Qatar Petroleum and Hydro Aluminium AS** (Services/Middle East): The EPCM contract for the service areas and potroom building of a greenfield aluminium smelter in Qatar is anticipated to be ongoing in 2009.

As expected, **operating income increased in 2008**, mainly due to the higher level of activities primarily from projects outside Canada.

The Company expects the 2009 contribution from Mining and Metallurgy to decrease compared to 2008, mainly reflecting a lower level of anticipated activities from backlog projects, partially offset by prospects both outside and inside Canada.

7.5 OTHER INDUSTRIES

(IN MILLIONS OF CANADIAN DOLLARS)	2008	2007	Change (%)
Revenues from Other Industries			
Services	**$ 204.7**	$ 173.6	17.9%
Packages	**177.8**	109.2	62.9%
Total	**$ 382.5**	$ 282.8	35.3%
Operating income from Other Industries	**$ 46.8**	$ 18.8	149.5%
Operating income over revenues from Other Industries (%)	**12.2%**	6.6%	N/A

The Other Industries segment (formerly labelled as "All Other") includes activities in agrifood, pharmaceuticals and biotechnology, sulphuric acid as well as other industrial facilities.

Other Industries revenues increased to $382.5 million in 2008 compared to $282.8 million in 2007, mainly reflecting increased Packages activities outside Canada. As expected, **operating income increased in 2008, totalling $46.8 million**, compared to $18.8 million in 2007. The increase in operating income was due mainly to an increased contribution primarily from sulphuric acid Packages projects, as well as projects for other industrial facilities from both Packages and Services activities, mainly outside Canada.

The Company **expects the 2009 contribution from Other Industries to remain in line** with the strong performance achieved in 2008.

7.6 OPERATIONS AND MAINTENANCE

(IN MILLIONS OF CANADIAN DOLLARS)	2008	2007	Change (%)
Revenues from Operations and Maintenance	**$ 1,225.0**	$ 1,058.4	15.7%
Operating income from Operations and Maintenance	**$ 25.4**	$ 29.5	(13.9%)
Operating income over revenues from Operations and Maintenance (%)	**2.1%**	2.8%	N/A

Operations and Maintenance revenues increased in 2008, mainly reflecting increased volume from certain ongoing contracts, primarily in Canada.

The Operations and Maintenance segment, in addition to obtaining stand-alone operations and maintenance contracts, provides SNC-Lavalin with the opportunity to expand on its Services, Packages, and ICI activities by offering its clients complementary engineering and construction expertise as well as assistance with the ongoing operations of a particular facility.

The Company currently manages more than 9,000 facilities that include buildings, bridges, power plants, ships and highways including more than 130 million square feet of real estate and 250,000 infrastructure sites, making SNC-Lavalin the largest facility operations and management provider in Canada, and operating on an international basis as well, in power generation, real estate management, water supply and treatment systems, and remote camps.

Operating income which was expected to increase, **decreased in 2008, totalling $25.4 million**, compared to $29.5 million in 2007, mainly reflecting lower profitability on certain ongoing contracts, partially offset by an increase in the volume of activities.

The Company expects the 2009 contribution from the Operations and Maintenance segment to increase compared to 2008, mainly due to higher volume.

7.7 INFRASTRUCTURE CONCESSION INVESTMENTS

As mentioned previously, SNC-Lavalin makes equity investments in infrastructure concessions in certain industry segments, such as airports, bridges, energy, mass transit systems, roads and water.

7.7.1 NET BOOK VALUE OF INFRASTRUCTURE CONCESSION INVESTMENTS

Given the significant effect of ICI on the Company's consolidated balance sheet, the Company provides additional information in Note 3 of its 2008 audited annual consolidated financial statements regarding the net book value of its ICI by the method accounted for on SNC-Lavalin's consolidated balance sheet. As at December 31, 2008, the net book value of the Company's ICI was $554.3 million, compared to $532.7 million as at December 31, 2007, for which the Company believes their fair value to be significantly greater than their net book value in both years, with the Company's investment in Highway 407 having the highest estimated fair value of the Company's ICI portfolio.

The net book value of the ICI includes the investment in Highway 407, which is accounted for by the proportionate consolidation method. Under Canadian GAAP, the proportionate consolidation method requires the venturer to recognize its proportionate share of the joint venture cumulative losses irrespective of the carrying amount of its investment in such joint venture. Consistent with this requirement, the net book value of the Company's investment in Highway 407 resulted in a negative balance of $37.9 million as at December 31, 2008, compared to a negative balance of $35.1 million as at December 31, 2007, which does not represent a liability or any future obligation that SNC-Lavalin has relative to Highway 407 or any other party. This negative balance is the result of accounting for SNC-Lavalin's proportionate share of Highway 407's accounting losses and income and dividends received. Highway 407 has reported positive net income since 2006, whereas previously it had reported net accounting losses since its inception in 1999. The Company received dividends from Highway 407 totalling $22.6 million in 2008, compared to $20.1 million in 2007.

NET BOOK VALUE OF INFRASTRUCTURE CONCESSION INVESTMENTS

AT DECEMBER 31 (IN MILLIONS OF CANADIAN DOLLARS)	2008	2007
Investments accounted for by the full or proportionate consolidation methods	$ 204.2	$ 161.9
Investments accounted for by the equity method	117.1	146.9
Investments accounted for by the cost method	233.0	223.9
Net book value of infrastructure concession investments	$ 554.3	$ 532.7

The ICI segment includes SNC-Lavalin's equity participation in the following investments as at December 31, 2008 (refer to Note 3B to the 2008 audited annual consolidated financial statements for additional disclosure on the impact of these investments on the balance sheet):

INVESTMENTS ACCOUNTED FOR BY THE FULL OR PROPORTIONATE CONSOLIDATION METHODS

NAME	EQUITY PARTICIPATION	HELD SINCE	DESCRIPTION OF ACTIVITIES
TC Dome S.A.S. ("TC Dome")	100%	2008	Will operate a 5.3 km electric cog railway in France once construction is completed, expected in 2012.
Okanagan Lake Concession L.P. ("Okanagan Lake Concession")	100%	2005	Operates, maintains and manages the new five-lane, 1.1 km William R. Bennett Bridge in Kelowna, British Columbia, under a 30-year concession agreement expiring in 2035.
AltaLink L.P. ("AltaLink")	76.92%	2002	Owns and operates approximately 12,000 km of transmission lines and over 250 substations in Alberta on a rate regulated basis.
407 International Inc. ("Highway 407")	16.77%	1999	Operates, maintains and manages Highway 407, a 108 km all-electronic toll highway in the Greater Toronto Area, under a 99-year concession agreement expiring in 2098.
Gazmont Limited Partnership	50%	1996	Owns and operates a 25 MW biogas thermal power plant in Quebec.

INVESTMENTS ACCOUNTED FOR BY THE EQUITY METHOD

NAME	EQUITY PARTICIPATION	HELD SINCE	DESCRIPTION OF ACTIVITIES
Astoria Project Partners II LLC ("Astoria II") (1)	18.5%	2008	Once construction is completed, expected in 2011, Astoria II will own and operate a 500 MW natural gas-fired power plant in Queens, New York. Astoria II signed a 20-year firm Power Purchase Agreement with the New York Power Authority ("NYPA").
Myah Tipaza S.p.A. ("Myah Tipaza")	25.5%	2008	Once construction is completed, expected in 2010, Myah Tipaza will operate and maintain a 120,000 m^3/day seawater desalination plant in Algeria to supply treated water to Sonatrach and l'Algérienne des Eaux ("ADE") under a 25-year agreement expiring in 2033.
Shariket Kahraba Hadjret En Nouss S.p.A. ("SKH")	26%	2006	Once construction is completed, expected in 2009, SKH will own, operate and maintain a 1,227 MW gas-fired power plant in Algeria to supply electricity to Sonelgaz S.p.A. under a 20-year agreement.
InTransit BC L.P. ("InTransit BC")	33.3%	2005	Once construction is completed, expected in 2009, InTransit BC will operate and maintain the Canada Line, a 19-kilometre rapid transit line connecting the cities of Vancouver and Richmond with Vancouver International Airport, in British Columbia, under a 35-year concession agreement expiring in 2040.
Astoria Project Partners LLC ("Astoria")	21.0%	2004	Owns and operates a 500 MW natural gas-fired power plant in Queens, New York. Construction on the power plant was completed in May 2006.
Malta International Airport p.l.c.	15.5%	2002	Has the rights to own and manage the Malta International Airport under a 65-year concession agreement expiring in 2067.
Société d'exploitation de Vatry-Europort ("SEVE")	51.1%	1999	Manages and operates a cargo airport under a 20-year concession agreement expiring in 2020. During 2008, SNC-Lavalin increased its ownership percentage from 33.4% to 51.1%.
West End Dam Associates	21%	1985	A 4.5 MW hydro-power generation facility in New York State.

(1) Until project financing is obtained, SNC-Lavalin and a group of investors are providing temporary financing to Astoria II through notes receivable and letters of credit. Refer to Note 3A of the Company's 2008 audited annual consolidated financial statements for more information.

INVESTMENTS ACCOUNTED FOR BY THE COST METHOD

NAME	EQUITY PARTICIPATION	HELD SINCE	DESCRIPTION OF ACTIVITIES
Ambatovy Nickel Project ("Ambatovy")(2)	5%	2007	An open-pit mine operation, and a hydrometallurgical processing plant in Madagascar that will produce mainly nickel and cobalt once construction is completed.
Gaz Métro Limited Partnership ("Gaz Métro")	2.42%	2006	A publicly traded entity involved mainly in natural gas distribution in Canada and the U.S. SNC-Lavalin also has an indirect participation in Gaz Métro through its investment in Trencap Limited Partnership presented below.
Trencap Limited Partnership	11.1%	2004	Holds an indirect interest in Gaz Métro equivalent to 3.97%.

(2) The capital cost estimate of the Ambatovy project has been updated in early 2009, reflecting increased costs that are expected to be funded by equity. Refer to Note 3A of the Company's 2008 audited annual consolidated financial statements for more information on Ambatovy.

7.7.2 OPERATING INCOME OF THE INFRASTRUCTURE CONCESSION INVESTMENTS SEGMENT

(IN MILLIONS OF CANADIAN DOLLARS)	2008	2007	Change (%)
Revenues from Infrastructure Concession Investments	$ **347.0**	$ 311.3	11.5%
Operating income from Infrastructure Concession Investments	$ **37.2**	$ 25.1	47.9%

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

As expected, **operating income for the ICI segment increased in 2008, totalling $37.2 million**, compared to $25.1 million in 2007, mainly due to i) AltaLink, primarily from increased revenues, and ii) Highway 407, mainly due to lower interest and other expenses primarily from inflation-indexed debt, coupled with a future income tax benefit.

The Company expects the 2009 performance from the ICI segment to increase compared to 2008, mainly reflecting higher revenues from AltaLink, the expected start of operations of the SKH 1,227 MW power plant in Algeria, and Okanagan Lake Concession, which will benefit from 12 months of operations of the William R. Bennett Bridge in 2009, compared to 7 months in 2008.

The Company also discloses in the table below as supplementary information its 16.77% proportionate share of Highway 407's net income, its net income from other ICI, as well as other financial indicators related to the ICI, as this information is useful in assessing the value of its share price.

(IN MILLIONS OF CANADIAN DOLLARS)	2008	2007	2006	2005	2004
Net income (loss) from ICI:					
From Highway 407	$ **20.0**	$ 10.1	$ 8.1	$ (4.7)	$ (14.5)
From other ICI	**17.2**	15.0	7.7	8.8	7.2
Total	$ **37.2**	$ 25.1	$ 15.8	$ 4.1	$ (7.3)
Dividends received by SNC-Lavalin:					
From Highway 407	$ **22.6**	$ 20.1	$ 24.3	$ 14.3	$ 12.6
From other ICI	**12.8**	10.4	12.4	10.5	3.5
Total	$ **35.4**	$ 30.5	$ 36.7	$ 24.8	$ 16.1
Net book value on SNC-Lavalin's balance sheet at December 31:					
From Highway 407	$ **(37.9)**	$ (35.1)	$ (28.2)	$ (12.1)	$ 6.9
From other ICI	**592.2**	567.8	504.7	380.4	363.3
Total	$ **554.3**	$ 532.7	$ 476.5	$ 368.3	$ 370.2

7.7.3 SERVICES, PACKAGES, AND OPERATIONS AND MAINTENANCE TRANSACTIONS WITH ICI

With its expertise in designing, building, owning, operating and maintaining infrastructure facilities and systems, as well as its ability to structure capital transactions, the Company selectively makes equity investments in ICI. The underlying philosophy in making these investments is to endeavour to, whenever possible, invest in concessions that can, in the future, yield potential complementary engineering and construction, and/or operations and maintenance contract opportunities, while attracting a fair internal rate of return.

When the Company invests in these ICI that in turn award it with new projects, the Company enters, in the normal course of operations, into related party transactions with these ICI. Revenues from operations with fully consolidated investments are eliminated upon consolidation, as are SNC-Lavalin's proportionate share of revenues from operations with joint ventures. ICI in which SNC-Lavalin does not have control, joint control or significant influence are accounted for by the cost method and are not considered related parties.

For the year ended December 31, 2008, the Company recognized revenues of $660.1 million, compared to $1,079.6 million for the corresponding period last year, relating to the following ICI accounted for by the equity method: Astoria II and Myah Tipaza in 2008, and InTransit BC and SKH in both 2008 and 2007. Total trade receivables related to these ICI were $95.8 million for the year ended December 31, 2008, compared to $152.9 million as at December 31, 2007, and the note receivable from Astoria II totalled $21.0 million as at December 31, 2008, compared to $nil as at December 31, 2007. Remaining commitments to invest in these ICI were $50.3 million as at December 31, 2008, compared to $48.1 million as at December 31, 2007. The Company provides additional information regarding its ICI in Note 3 to its 2008 audited annual consolidated financial statements.

8 Liquidity and Capital Resources

As discussed in section 2.6 of the current MD&A, achieving a ROASE at least equal to the long-term Canada Bond Yield plus 600 basis points, and maintaining a strong balance sheet with a net cash position sufficient to meet expected operating, investing and financing plans, are two key financial objectives of the Company.

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

> A **balance sheet** analysis, which has been prepared with the objective of providing additional information on the major changes in the Company's consolidated balance sheet in 2008 and 2007;

> A review of the **net cash position** and **freehold cash** of the Company;

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

> A discussion on the Company's **working capital**, **recourse revolving credit facilities**, **credit ratings**, and **recourse debt to capital**, which all represent indicators of the financial strength of the Company;

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

> The presentation of the Company's **dividends declared** and **ROASE** over the past five years, as well as **market indices** in which the Company's stock is included.

These elements, as discussed in their corresponding sections below, demonstrate that the Company has cash and cash equivalents as well as access to sufficient sources of funds and credit facilities to meet its expected operating, investing and financing plans, including financing of business acquisitions and investments in infrastructure concessions, share repurchases and business growth, as well as satisfying its contractual obligations. In terms of the shareholders' capital adequacy, the Company seeks to maintain an adequate balance between ensuring sufficient capital for financing net asset positions, maintaining satisfactory bank lines of credit and capacity to absorb project net retained risks, while at the same time optimizing return on average shareholders' equity.

As at December 31, 2008, Highway 407, which is accounted for by the proportionate consolidation method, held $147.0 million principal amount of non-bank sponsored Asset-Backed Commercial Paper ("ABCP") and $6.3 million of non-bank notes (the "Notes"), compared to December 31, 2007, where Highway 407 held $159.0 million of ABCP, of which $12.0 million was converted into cash and Notes during 2008. The market for ABCP and Notes has not been liquid since August 2007 and therefore they have been revalued using best available market data, which has resulted in a reduction in their carrying value to $92.0 million at December 31, 2008, compared to $136.8 million at December 31, 2007. SNC-Lavalin's proportionate share in the revised carrying value of the ABCP and Notes held by Highway 407 represented approximately $15.4 million at December 31, 2008, compared to $22.9 million at December 31, 2007, and is presented in "Other long-term assets". SNC-Lavalin's proportionate share in the reduction in the carrying value of the ABCP and Notes in 2008, which amounted to $6.7 million, compared to $3.7 million in 2007, has been recorded as part of "interest and capital taxes". While some uncertainties exist with respect to the amount and timing of cash flows relating to the ABCP and Notes, they will not have a significant impact on SNC-Lavalin's financial position. On a consolidated basis, SNC-Lavalin has no other direct or indirect investment in either ABCP or Notes.

As SNC-Lavalin's proportionate share of the carrying value of the ABCP and Notes held by Highway 407 is not included in the Company's $988.2 million of cash and cash equivalents, they are not part of the following discussion and analysis of net cash position, freehold cash and cash flows of the Company.

8.1 BALANCE SHEET ANALYSIS

As mentioned in section 2.3.4, the Company's consolidated balance sheet includes the line by line impact of consolidating and proportionately consolidating some of its ICI, which are often capital intensive, as they relate to the ownership of infrastructure assets that are financed mainly with project specific debt, which is non-recourse to the general credit of the Company. Therefore, when consolidating or proportionately consolidating such investments, the main impact on the Company's balance sheet is on the property and equipment, and the non-recourse long-term debt accounts.

Consistent with Note 3 to the 2008 audited annual consolidated financial statements where the Company presents additional information on the line by line impact of accounting for its investments and provides the net book value of its ICI, the following analysis of the consolidated balance sheet distinguishes the assets and liabilities of the ICI from those of the other activities.

8.1.1 TOTAL ASSETS

VARIATION IN TOTAL ASSETS

(IN MILLIONS OF CANADIAN DOLLARS)	2008		
	FROM INFRASTRUCTURE CONCESSION INVESTMENTS	FROM OTHER ACTIVITIES	TOTAL
Total assets at beginning of year	$ 2,749.2	$ 3,736.2	$ 6,485.4
Change in assets during the year:			
Cash and cash equivalents	8.9	(109.3)	(100.4)
Contract in progress subject to contract financing arrangement	–	(10.9)	(10.9)
Current assets other than those listed above	(68.2)	310.9	242.7
Property and equipment	110.0	11.4	121.4
Goodwill	–	14.6	14.6
Investments accounted for by the equity or cost methods	(20.7)	–	(20.7)
Other long-term assets and long-term future income tax asset	56.4	(11.1)	45.3
Total change in assets during the year	86.4	205.6	292.0
Total assets at end of year	$ 2,835.6	$ 3,941.8	$ 6,777.4

Total assets increased to $6,777.4 million as at December 31, 2008, compared to $6,485.4 million as at December 31, 2007, representing an increase of $292.0 million, which is discussed below.

An increase of $86.4 million in assets **from ICI**, mainly reflecting:

> An increase of $110.0 million in property and equipment, mainly from AltaLink and Okanagan Lake Concession, which completed the William R. Bennett Bridge that was opened to traffic in 2008.

> An increase of $56.4 million in other long-term assets and long-term future income tax assets, due mainly to AltaLink.

> A decrease of $68.2 million in current assets other than cash and cash equivalents due to a decrease in restricted cash and in trade and other receivables of $47.3 million and of $20.9 million, respectively.

An increase of $205.6 million in assets **from other activities** including mainly:

> An increase of $310.9 million in current assets other than cash and cash equivalents and contract in progress subject to contract financing arrangement, primarily due to an increase of $176.9 million in trade and other receivables and an increase of $77.3 million in contracts in progress.

> An increase of $14.6 million in goodwill mainly reflecting the engineering business acquisitions completed in 2008.

> A decrease of $109.3 million in cash and cash equivalents, resulting primarily from the utilization of cash for investing and financing activities, partially offset by the generation of cash from operating activities (refer to section 8.3 of this report for additional details on the movement of cash and cash equivalents).

> A decrease of $10.9 million in contract in progress subject to contract financing arrangement, reflecting the completion of the EPC contract for the Trans-Canada Highway in New Brunswick (refer to Note 18B to the 2008 audited annual consolidated financial statements for additional information).

VARIATION IN TOTAL ASSETS

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

In 2007, total assets increased to $6,485.4 million as at December 31, 2007, from $6,193.1 million as at December 31, 2006, an increase of $292.3 million, which is discussed below.

Total assets **from ICI** increased by $251.2 million in 2007, mainly reflecting:

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

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

Total assets **from other activities** increased by $41.1 million in 2007, and included:

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

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

> A decrease of $319.1 million in contract in progress subject to contract financing arrangement, reflecting the completion of most of the EPC contract for the Trans-Canada Highway in New Brunswick (refer to Note 18B to the 2008 audited annual consolidated financial statements for additional information).

8.1.2 TOTAL CURRENT LIABILITIES

Total consolidated current liabilities amounted to $3.3 billion as at December 31, 2008, $3.2 billion as at December 31, 2007 and $3.3 billion as at December 31, 2006. Although the total current liabilities for 2008 were in line with 2007, the following movements were noted: i) an increase in downpayments on contracts, and ii) an increase in trade and other payables, partly offset by iii) a decrease in deferred revenues. The decrease from 2006 to 2007 was mainly due to i) a decrease in the advance under contract financing arrangement reflecting the completion of most of the EPC contract for the Trans-Canada Highway in New Brunswick, and ii) a decrease in downpayments on contracts and in the Company's proportionate share of the current portion of non-recourse long-term debt of Highway 407, partly offset by iii) an increase in trade and other payables reflecting the Company's overall higher level of activity.

8.1.3 TOTAL LONG-TERM LIABILITIES

VARIATION IN TOTAL LONG-TERM LIABILITIES

(IN MILLIONS OF CANADIAN DOLLARS)	2008		
	FROM INFRASTRUCTURE CONCESSION INVESTMENTS	FROM OTHER ACTIVITIES	TOTAL
Total long-term liabilities at beginning of year	**$ 2,050.1**	**$ 284.9**	**$ 2,335.0**
Change in long-term liabilities during the year:			
Long-term debt			
Recourse	**–**	**0.1**	**0.1**
Non-recourse	**32.3**	**–**	**32.3**
Other long-term liabilities	**53.9**	**(82.7)**	**(28.8)**
Total change in long-term liabilities during the year	**86.2**	**(82.6)**	**3.6**
Total long-term liabilities at end of year	**$ 2,136.3**	**$ 202.3**	**$ 2,338.6**

Total long-term liabilities of $2,338.6 million as at December 31, 2008 were in line with the previous year, reflecting an increase of non-recourse long-term debt from AltaLink and Highway 407. Other long-term liabilities from ICI increased mainly due to AltaLink, offset by a decrease from other activities mainly due to the Company's commitments to invest in ICI, which are reflected under current liabilities in 2008.

VARIATION IN TOTAL LONG-TERM LIABILITIES

(IN MILLIONS OF CANADIAN DOLLARS)	2007		
	FROM INFRASTRUCTURE CONCESSION INVESTMENTS	FROM OTHER ACTIVITIES	TOTAL
Total long-term liabilities at beginning of year	$ 1,700.0	$ 241.7	$ 1,941.7
Change in long-term liabilities during the year:			
Long-term debt			
Recourse	–	0.1	0.1
Non-recourse	343.0	(25.7)	317.3
Other long-term liabilities	7.1	68.8	75.9
Total change in long-term liabilities during the year	350.1	43.2	393.3
Total long-term liabilities at end of year	$ 2,050.1	$ 284.9	$ 2,335.0

Total long-term liabilities increased from $1,941.7 million as at December 31, 2006 to $2,335.0 million as at December 31, 2007, an increase of $393.3 million mainly due to the increase of non-recourse long-term debt, from Highway 407, AltaLink and Okanagan Lake Concession.

8.1.4 TOTAL FINANCIAL LIABILITIES

The Company's total financial liabilities, as presented in Note 20 to the 2008 audited annual consolidated financial statements, **were $4.7 billion as at December 31, 2008**, in line with $4.5 billion as at both December 31, 2007 and 2006.

8.1.5 NON-CONTROLLING INTEREST

Non-controlling interest of $67.7 million as at December 31, 2008, was in line with the $71.3 million as at the end of the previous year.

8.1.6 SHAREHOLDERS' EQUITY

SHAREHOLDERS' EQUITY

YEAR ENDED DECEMBER 31 (IN MILLIONS OF CANADIAN DOLLARS)	2008	2007	2006	2005	2004
Balance at beginning of year	**$ 928.3**	$ 851.9*	$ 789.7	$ 717.8	$ 658.3
Net income	**312.5**	153.2	158.4	129.9	104.1
Other comprehensive income (loss):					
Currency translation adjustment on self-sustaining foreign operations	**27.7**	(19.8)	12.0	(11.2)	(2.6)
Net unrealized loss on available-for-sale financial assets	**(10.7)**	0.7	–	–	–
Net unrealized loss on derivative financial instruments designated as cash flow hedges	**(69.5)**	22.2	–	–	–
Dividends paid to Company shareholders	**(72.5)**	(54.5)	(42.3)	(32.3)	(26.3)
Shares issued under stock option plans	**16.8**	15.0	7.7	7.8	6.4
Shares redeemed and cancelled	**(47.2)**	(48.2)	(27.1)	(26.0)	(25.0)
Stock option compensation	**9.6**	7.8	7.6	3.7	2.9
Balance at end of year	**$ 1,095.0**	$ 928.3	$ 906.0	$ 789.7	$ 717.8

(*) The shareholders' equity balance at the beginning of 2007 is not equal to the balance at the end of 2006 by $54.1 million, which represents the transitional accounting adjustment following the adoption of new CICA accounting standards effective January 1, 2007, that relate to the accounting for financial instruments and hedges.

Shareholders' equity was $1,095.0 million as at December 31, 2008, compared to $928.3 million as at December 31, 2007 and $906.0 million as at December 31, 2006. The increase from 2007 to 2008 was mainly due to higher net income for the year, partially offset by i) the impact from other comprehensive income, mainly from cash flow hedges, ii) dividends paid to Company shareholders, as well as iii) the repurchase of Company common shares under its normal course issuer bid program.

The increase from 2006 to 2007 was mainly due to net income for the year which includes the net gain after taxes of $84.1 million on the disposal of SNC Technologies Inc. and its subsidiaries, partially offset by i) dividends paid to Company shareholders, and ii) the repurchase of shares under the normal course issuer bid.

8.2 NET CASH POSITION AND FREEHOLD CASH

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

NET CASH POSITION

AT DECEMBER 31 (IN MILLIONS OF CANADIAN DOLLARS)	2008	2007	2006	2005	2004
Cash and cash equivalents	**$ 988.2**	$ 1,088.6	$ 1,106.3	$ 1,153.5	$ 676.3
Less:					
Cash and cash equivalents of ICI accounted for by the full or proportionate consolidation methods	**28.9**	20.1	21.9	17.0	20.8
Recourse long-term debt	**104.7**	104.6	104.5	104.4	104.3
Net cash position	**$ 854.6**	$ 963.9	$ 979.9	$ 1,032.1	$ 551.2

The net cash position as at December 31, 2008 was $854.6 million, compared to $963.9 million as at December 31, 2007, due mainly to cash used by i) investing activities, primarily from the acquisition of property and equipment from ICI, ii) financing activities, largely from the repayment of non-recourse long-term debt from infrastructure concession investments, dividends paid to Company shareholders and the repurchase of Company shares, partly offset by an increase in non-recourse long-term debt from ICI, partially offset by cash generated from iii) operating activities, primarily from net income from continuing operations.

In addition to determining its net cash position, the Company estimates its **freehold cash**, a non-GAAP financial measure defined as the amount of cash and cash equivalents that is not committed for its operations and not committed for investments in ICI. As such, the freehold cash is derived from the cash and cash equivalents, excluding cash and cash equivalents from consolidated and proportionately consolidated ICI at the end of the period, adjusted for estimated cash requirements to complete existing projects and the estimated net cash inflows from major ongoing projects upon their completion, as well as deducting the remaining commitments to invest in ICI. The freehold cash **was approximately $600 million as at December 31, 2008**, in line with December 31, 2007. The Company's freehold cash, consistent with its overall business strategy, is available for making engineering business acquisitions and investments in selective infrastructure concessions.

8.3 CASH FLOWS ANALYSIS

SUMMARY OF CASH FLOWS

YEAR ENDED DECEMBER 31 (IN MILLIONS OF CANADIAN DOLLARS)	2008	2007
Operating activities	$ 313.3	$ 462.9
Investing activities	(310.9)	(548.9)
Financing activities	(102.8)	(265.8)
Net decrease in cash and cash equivalents from continuing operations	(100.4)	(351.8)
Cash provided by disposal of discontinued operations	–	334.1
Cash and cash equivalents at beginning of year	1,088.6	1,106.3
Cash and cash equivalents at end of year	$ 988.2	$ 1,088.6

Cash and cash equivalents amounted to $988.2 million as at December 31, 2008, compared to $1,088.6 million as at December 31, 2007.

8.3.1 CASH GENERATED FROM OPERATING ACTIVITIES

Cash generated from operating activities totalled $313.3 million in 2008, compared to cash generated of $462.9 million in 2007, mainly due to:

> The net income of $312.5 million from continuing operations, compared to $69.1 million in the corresponding period of 2007.

> The fluctuation in non-cash working capital items other than the contract in progress subject to contract financing arrangement reflecting cash used of $154.0 million in 2008, reflecting working capital requirements mainly on certain Packages projects, compared to cash generated of $31.0 million in 2007.

> The change in contract in progress subject to contract financing arrangement relating to the EPC contract for some sections of the Trans-Canada Highway in New Brunswick, Canada, which generated $10.9 million in 2008, compared to $319.1 million in 2007. Refer to Note 18B of the Company's 2008 audited annual consolidated financial statements for more information.

8.3.2 CASH USED FOR INVESTING ACTIVITIES

Cash used for investing activities was $310.9 million in 2008, compared to $548.9 million in 2007.

The major 2008 investing activities were as follows:

> The acquisition of property and equipment from fully consolidated and proportionally consolidated ICI, mainly AltaLink and Okanagan Lake Concession, for a total cash outflow of approximately $193.5 million.

> The acquisition of property and equipment from other activities for a total cash outflow of approximately $46.3 million, compared to depreciation of property and equipment and amortization of other long-term assets from these activities of $41.9 million. In line with 2007, approximately 58% of the acquisitions of property and equipment from these activities were related to information technology in 2008.

> The acquisition of businesses for a total cash outflow of $38.6 million.

> The cash outflow of $25.9 million reflects payments for ICI, as detailed in Note 3C to the 2008 audited annual consolidated financial statements.

The major 2007 investing activities were as follows:

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

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

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

> The cash outflow of $75.0 million reflects payments for ICI.

8.3.3 CASH USED FOR FINANCING ACTIVITIES

Cash used for financing activities was $102.8 million in 2008, compared to cash used of $265.8 million in 2007. The major financing activities were as follows:

> The repayment of advances under a contract financing arrangement, totalling $13.6 million in 2008, compared to $341.1 million in 2007, related to some sections of the EPC contract for the Trans-Canada Highway in New Brunswick, Canada (refer to Note 18B to the 2008 audited annual consolidated financial statements).

> The increase in non-recourse long-term debt from ICI totalling $215.2 million in 2008, compared to $334.9 million in 2007, while the repayment of non-recourse long-term debt from ICI amounted to $187.5 million in 2008, compared to $150.0 million in 2007. Also, in February 2008 the Company repaid the remaining balance of the mortgage of approximately $25 million on its head office building in downtown Montreal. The building has a carrying value of $34.1 million on the Company's balance sheet as at December 31, 2008.

> Under its normal course issuer bid, the Company repurchased shares for a total amount of $47.2 million in 2008 (933,100 shares at an average price of $50.58), compared to $48.2 million in 2007 (1,227,000 shares at an average price of $39.32). The Company expects to be as active in repurchasing its shares in 2009. As a general practice, when managing its capital, the Company repurchases its common shares under its normal course issuer bid mainly to offset the dilutive effect of stock issuance under its stock options programs.

> Dividends paid to the Company shareholders amounted to $72.5 million in 2008, compared to $54.5 million in 2007, reflecting an increase in dividends per share. The increase in dividends reflects dividends paid of $0.48 per share in 2008, compared to $0.36 per share in the same period of 2007.

> The issuance of shares pursuant to the exercise of stock options generated $16.8 million in cash in 2008 (927,920 stock options at an average price of $18.07), compared to $15.0 million in 2007 (1,231,930 stock options at an average price of $12.21). As at February 25, 2009, there were 4,264,600 stock options outstanding with exercise prices varying from $11.89 to $55.10 per common share. At that same date there are 150,934,193 common shares issued and outstanding. In 2009, the Board of Directors of the Company plans to replenish the number of stock options available for future grants to key employees, subject to approval required from certain regulatory authorities as well as from the Company's shareholders.

8.4 WORKING CAPITAL

WORKING CAPITAL

AT DECEMBER 31 (IN MILLIONS OF CANADIAN DOLLARS, EXCEPT CURRENT RATIO)	2008	2007
Current assets	**$ 3,552.4**	$ 3,421.0
Current liabilities	**3,276.0**	3,150.8
Working Capital	**$ 276.4**	$ 270.2
Current Ratio	**1.08**	1.09

Working capital was $276.4 million, with a current ratio of 1.08 as at December 31, 2008, both of which are in line with the previous year.

8.5 RECOURSE DEBT AND NON-RECOURSE DEBT

8.5.1 RECOURSE REVOLVING CREDIT FACILITIES

The Company has access to committed long-term revolving lines of credit with banks, totalling $477.5 million, upon which it may either issue letters of credit, or borrow at variable rates not exceeding the prime rate. As at December 31, 2008, $428.2 million of these lines of credit remained unused, while the balance of $49.3 million was exclusively used for the issuance of letters of credit. In addition, the Company has other lines of credit specifically available for the issuance of letters of credit. All the above-mentioned lines of credit are unsecured and subject to negative pledge clauses.

8.5.2 RECOURSE DEBENTURES — CREDIT RATINGS

On July 24, 2008, **Standard & Poor's** reconfirmed SNC-Lavalin Group's rating of **BBB+ with a stable outlook**. On June 25, 2008, **DBRS** reconfirmed its rating for the Company's debenture of **BBB (high) with a stable trend**.

8.5.3 RECOURSE DEBT-TO-CAPITAL RATIO

This ratio compares the recourse long-term debt balance to the sum of recourse long-term debt and shareholders' equity, excluding accumulated other comprehensive income (loss), and is a measure of the Company's financial capabilities. As at December 31, 2008 and 2007, **the Company's recourse debt-to-capital ratio was 8:92** and 10:90, respectively, well below the Company's objective, which is not to surpass a ratio of 30:70. Refer to the Company's 2008 audited annual consolidated financial statements Note 21 for more information.

8.5.4 NON-RECOURSE DEBT

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

8.6 CONTRACTUAL OBLIGATIONS AND FINANCIAL INSTRUMENTS

8.6.1 CONTRACTUAL OBLIGATIONS

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

(IN MILLIONS OF CANADIAN DOLLARS)	2009	2010-2011	2012-2013	THEREAFTER	TOTAL
Long-term debt repayments:					
Recourse	$ –	$ 105.0	$ –	$ –	$ 105.0
Non-recourse from ICI	6.1	434.8	539.6	1,044.4	2,024.9
Commitments to invest in ICI	106.6	–	–	–	106.6
Rental obligations	77.2	113.9	54.4	52.3	297.8
Total	$ 189.9	$ 653.7	$ 594.0	$ 1,096.7	$ 2,534.3

Additional details of the future principal repayments of the Company's recourse and non-recourse long-term debt are provided in Note 13D of the Company's 2008 audited annual consolidated financial statements. The commitments to invest in ICI results from SNC-Lavalin not being required to make its equity contribution immediately when making an equity investment, but instead committing to make its equity contribution over time, as detailed in Note 3C of its 2008 audited annual consolidated financial statements. The commitments to invest in ICI relate to Ambatovy, SKH, Myah Tipaza and InTransitBC. Information regarding the Company's minimum lease payments for annual basic rental under long-term operating leases can be obtained in Note 24 of its 2008 audited annual consolidated financial statements.

8.6.2 FINANCIAL INSTRUMENTS

The Company discloses information on the classification and fair value of its financial instruments, as well on the nature and extent of risks arising from financial instruments, and related risk management in Note 20 of its 2008 audited annual consolidated financial statements.

SNC-Lavalin enters into forward currency exchange contracts to hedge its exposure to fluctuations in foreign currency exchange rates on projects and into interest-rate swaps and bond forwards to hedge the variability of interest rates relating to financing arrangements (refer to Note 1G.3 to the 2008 audited annual consolidated financial statements). Also, the Company has a financial arrangement with an investment grade financial institution to limit its exposure to the variability of the Performance Share Unit ("PSU") plan caused by fluctuations in its share price (refer to Note 15C to the 2008 audited annual consolidated financial statements). These financial instruments are entered into with sound financial institutions, which SNC-Lavalin anticipates will satisfy their obligations under the contracts.

The Company does not hold or issue any derivative instruments for speculative purposes, but rather for hedging purposes only. The derivative financial instruments are subject to normal credit terms and conditions, financial controls and management and risk monitoring procedures.

8.7 DIVIDENDS DECLARED

Given its confidence in SNC-Lavalin's business and in recognition of its solid performance, in 2008 the Board of Directors has decided to **increase the quarterly cash dividend paid to shareholders from $0.12 per share to $0.15 per share for the fourth quarter of 2008, resulting in total cash dividends declared of $0.51 per share for 2008.** The table below summarizes the dividends declared for each of the past five years:

DIVIDENDS DECLARED

YEAR ENDED DECEMBER 31 (IN CANADIAN DOLLARS)	2008	2007	2006	2005	2004
Dividends per share declared to Company shareholders	**$ 0.51**	$ 0.39	$ 0.30	$ 0.23	$ 0.18
Dividend increase in %	**31%**	30%	30%	28%	29%

Total cash dividends paid in 2008 were $72.5 million, compared to $54.5 million in 2007. Including 2008, the Company has paid quarterly dividends for more than 15 consecutive years, and for the eighth consecutive year has increased its annual dividend paid per share.

8.8 MARKET INDICES

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

> The **S&P/TSX 60 Index**, which is comprised of 60 large Canadian publicly-traded companies with a view to matching the sector balance of the S&P/TSX Composite Index.

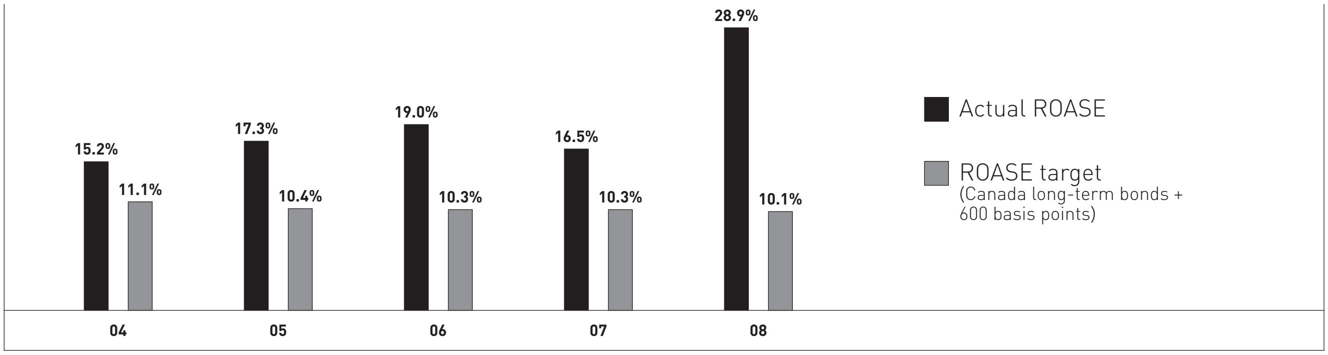
> The **S&P/TSX Canadian Dividend Aristocrats Index**, an index designed to measure the performance of S&P/Citigroup Canada Broad Market Index constituents, which have consistently increased dividends annually for at least seven years. The index consists of 44 stocks and tracks Canada's most consistent dividend-raisers. The Company's stable and increasing dividends signal that management has confidence in the Company's strength and growth.

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

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

The Company excludes accumulated other comprehensive income (loss) because it results mainly from the accounting treatment of cash flow hedges, and is not representative of the way the Company evaluates its management of its foreign currency exchange risk, and is not representative of the Company's financial position.

ROASE was 28.9% in 2008, compared to 16.5% in 2007, both of which are significantly higher than the Company's objective of long-term Canada Bond Yield plus 600 basis points (i.e., totalling 10.06% in 2008 and 10.32% in 2007). The graph below illustrates that the Company generated ROASE of 15.2% or better per year over the past five years, surpassing its target by at least 400 basis points each year. The Company strives to position itself to achieve a consistently high ROASE while maintaining a strong balance sheet, which it has achieved over the last years.



9 Critical Accounting Estimates and Judgment Applied

The preparation of the Company's consolidated financial statements in conformity with Canadian GAAP requires management to apply judgment when making estimates that affect the reported amounts of assets and liabilities at the date of the financial statements, the reported amounts of revenues and expenses of the reporting period, as well as disclosures made in the accompanying notes to the financial statements. The estimates and associated assumptions are based on past experience and other factors that are considered relevant. Actual results could differ from these estimates. The following are the Company's most critical accounting estimates, which are those that require management's most challenging, subjective and complex judgments, requiring the need to make estimates about the effect of matters that are inherently uncertain and may change in subsequent periods.

REVENUE RECOGNITION

Revenues are generated from **Services**, **Packages**, **Operations and Maintenance**, and **ICI** activities. Services revenues are derived primarily from cost-plus reimbursable contracts. Packages revenues are derived primarily from fixed-price contracts. Revenues from Operations and Maintenance activities are derived primarily from cost reimbursable with a fixed-fee contracts and fixed-price contracts.

SERVICES AND PACKAGES ACTIVITIES

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

On **fixed-price contracts**, revenues are recorded on the percentage-of-completion basis over the duration of the contract, which consists of recognizing revenue on a given contract proportionately with its percentage of completion at any given time. The percentage of completion is determined by dividing the cumulative costs incurred as at the balance sheet date by the sum of incurred costs and anticipated costs for completing a contract.

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

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

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

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

OPERATIONS AND MAINTENANCE ACTIVITIES

On **cost reimbursable with a fixed-fee contracts** from **Operations and Maintenance** activities, fixed-fee revenues are recognized on a straight-line basis over the term of the contract, while the revenues from the cost-reimbursable portion are recognized as costs are incurred. Revenue on **fixed-price contracts** are recognized based on the stage of completion of the contract activity, which involves taking the costs incurred as at the balance sheet date and dividing by the estimated total costs for the activity. This measure of progress is then applied to the related anticipated revenue, resulting in recognizing revenue proportionately with the stage of completion at any given time.

ASSET IMPAIRMENT

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

Goodwill is subject to at least an annual assessment of impairment by applying a fair value based test at the reporting unit level. An impairment loss is recognized to the extent that the carrying amount of goodwill for each reporting unit exceeds its estimated fair market value. The fair market values of the reporting units are derived from certain valuation models, which may consider various factors such as normalized and estimated future earnings, price earnings multiples, terminal values and discount rates. All factors used in the valuation models are based on management's estimates and are subject to uncertainties and judgments. Changes in any of these estimates could affect the fair value of the reporting units and, consequently, the value of the reported goodwill. The Company performs the annual review of goodwill as at October 31 of each year. Based on the impairment test performed as at October 31, 2008 and 2007, the Company concluded that no goodwill impairment loss was required.

In addition, SNC-Lavalin reviews its **long-lived assets**, which include property and equipment, for impairment whenever events or changes in circumstances indicate that the carrying amount of the asset may not be recoverable. To determine whether impairment exists, management compares the estimated undiscounted future cash flows that are projected to be generated by those assets to their respective carrying value. If the undiscounted future cash flows and fair value are lower than the carrying value, then an impairment loss is recognized. Estimated undiscounted future cash flows reflect management's estimates, and changes in those estimates could affect the carrying amount of the long-lived assets. The Company concluded that no impairment charge was required for its long-lived assets for 2008 and 2007.

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 plans' 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. Refer to Notes 1S and 22 to the 2008 audited annual consolidated financial statements for further details.

INCOME TAXES

The Company uses the liability method of accounting for income taxes. Under this method, future income tax assets and liabilities arise from temporary differences between the tax bases of assets and liabilities and their carrying amounts reported in the financial statements. Future income tax assets also reflect the benefit of unutilized tax losses that can be carried forward to reduce income taxes in future years. Such method requires the exercise of significant judgment in determining whether or not the Company's future tax assets are "more likely than not" to be recovered from future taxable income and therefore, can be recognized in the Company's consolidated financial statements. Also estimates are required to determine the expected timing upon which tax assets will be realized and upon which tax liabilities will be settled, and the enacted or substantially enacted tax rates that will apply at such time.

10 Accounting Changes

INITIAL ADOPTION IN 2008 AND 2007

Effective January 1, 2008, SNC-Lavalin adopted the following new Canadian Institute of Chartered Accountants ("CICA") Handbook Sections:

> 3862, "Financial Instruments—Disclosures" replaces the **disclosure requirements** of Section 3861, "Financial Instruments—Disclosure and Presentation", and includes the required disclosure for the assessment of the significance of financial instruments for an entity's financial position and performance, and of the nature and extent of risks arising from financial instruments to which the Company is exposed, and how the Company manages those risks. Pursuant to the adoption of Section 3862, the Company added disclosures in Note 20 of its 2008 audited annual consolidated financial statements.

> 3863, "Financial Instruments—Presentation" carries forward, unchanged, the **presentation requirements** of Section 3861 for financial instruments and non-financial derivatives. The adoption of Section 3863 had no material impact on the Company's 2008 consolidated financial statements.

> 1535, "Capital Disclosures" establishes standards for disclosing information about an entity's capital and how it is managed. Pursuant to the adoption of Section 1535, the Company added disclosures in Note 21 of its 2008 audited annual consolidated financial statements.

Effective January 1, 2007, SNC-Lavalin adopted the CICA Handbook Sections:

> 3855 "Financial Instruments—Recognition and Measurement";

> 3861 "Financial Instruments—Disclosure and Presentation";

> 3865 "Hedges"; and

> 1530 "Comprehensive Income".

These new accounting standards provide guidance on the accounting for financial instruments and hedges, as well as on their presentation and disclosures, and introduced the concept of "comprehensive income". The adoption of these new standards, which was made without restatement of the comparative figures, resulted in the recognition of a transitional adjustment in retained earnings and "accumulated other comprehensive income (loss)", thereby reducing the Company's Shareholders' Equity by $54.1 million as at January 1, 2007.

FUTURE CHANGES TO ACCOUNTING STANDARDS

GOODWILL AND INTANGIBLE ASSETS

In February 2008, the CICA issued Section 3064, "Goodwill and Intangible Assets", which provides guidance on the recognition, measurement, presentation and disclosure of goodwill and intangible assets. This new section will replace Section 3062, "Goodwill and Intangible Assets" and Section 3450, "Research and Development Costs", and concurrently, EIC-27, "Revenues and Expenditures in the Pre-operating Period" will be withdrawn, while Accounting Guideline 11, "Enterprises in the Development Stage" and Section 1000, "Financial Statements Concepts", will be amended. Section 3064 is to be applied retroactively with restatement of prior periods and will be effective January 1, 2009 for SNC-Lavalin.

The Company is currently evaluating the impact to its consolidated financial statements.

BUSINESS COMBINATIONS, CONSOLIDATED FINANCIAL STATEMENTS AND NON-CONTROLLING INTEREST

In January 2009, the CICA issued the following new Handbook Sections:

> Section 1582, "Business Combinations";

> Section 1601, "Consolidated Financial Statements"; and

> Section 1602, "Non-controlling Interests".

Section 1582, which replaces the former Section 1581, requires all business combinations to be accounted for by applying the acquisition method. Under this method, assets acquired and liabilities assumed are measured at their full fair value at the date of acquisition unless another standard requires otherwise. Section 1582 provides the option of accounting for non-controlling interest at either fair value, or at the non-controlling interest's proportionate share of the identifiable net assets acquired. Acquisition costs associated with a business combination are to be expensed in the periods in which they are incurred. Section 1601 carries forward the standards for the preparation of consolidated financial statements of former Section 1600, while Section 1602 requires non-controlling interests to be reported as a separate component of equity, with net income calculated without deduction for non-controlling interests. Rather, consolidated net income is to be allocated between controlling and non-controlling interest.

These three new sections are to be implemented concurrently and apply prospectively to all business combinations for which the acquisition date is on or after January 1, 2011, with earlier application permitted.

ADOPTION OF INTERNATIONAL FINANCIAL REPORTING STANDARDS IN CANADA

In February 2008, the Canadian Accounting Standards Board ("AcSB") confirmed January 1, 2011 as the changeover date to move financial reporting for Canadian publicly accountable enterprises to International Financial Reporting Standards ("IFRS"), as issued by the International Accounting Standards Board ("IASB"). Accordingly, the Company will issue its last financial statements prepared in accordance with Canadian GAAP in 2010. Starting from the first quarter of 2011, the Company's financial statements will be prepared in accordance with IFRS in effect in 2011, with 2010 comparative figures and January 1, 2010 ("date of transition") opening balance sheet restated to conform with such IFRS, along with reconciliations from Canadian GAAP to IFRS, as per the guidance provided in IFRS 1, *First-Time Adoption of International Financial Reporting Standards*.

As part of its transition to IFRS, the Company developed an implementation plan that comprises the following:

> The establishment of a steering committee comprising senior executives and the identification of internal resources to conduct the implementation;

> An ongoing extensive analysis of the expected accounting differences between Canadian GAAP and IFRS;

> The assessment of the expected impact of the accounting differences on its consolidated financial statements, including the review of choices available upon the initial adoption of IFRS;

- Initial training sessions provided to key finance personnel and management and the preparation of additional training sessions throughout the implementation process; and
- A review of the potential impact on the business activities of the Company, on its disclosure controls and internal controls over financial reporting, and on its financial reporting systems.

In 2008, the Company added disclosures to its annual audited consolidated financial statements, some of which were required from the adoption of accounting standards on financial instruments and capital disclosures issued by the CICA and substantively aligned with IFRS. The Company also added other disclosures that were not required by Canadian GAAP although needed under IFRS, such as pro-forma information on business acquisitions presented in Note 4 to its 2008 audited annual consolidated financial statements, as well as the list of its ICI in Note 3 and its average share price in Note 15.

Based on the analysis of expected accounting differences conducted so far by the Company, which is subject to change following further work to be performed and potential modifications to IFRS until the conversion is completed, the Company has prepared a summary description of potential impacts on its consolidated financial statements. This summary description, presented below, should not be seen as an exhaustive list of all potential or actual differences between IFRS and Canadian GAAP that will or could impact the Company's consolidated financial statements.

CONSTRUCTION CONTRACTS (IAS 11) AND REVENUE (IAS 18)

IAS 11 provides guidance on construction contracts that are, in general, consistent with Canadian GAAP on long-term contracts. As such, based on its current review of guidance on revenue recognition, the Company does not foresee any significant impact from applying IAS 11 and IAS 18 to its revenue-generating activities.

BUSINESS COMBINATIONS (IFRS 3-REVISED) AND CONSOLIDATED FINANCIAL STATEMENTS (IAS 27-REVISED)

The upcoming adoption of the newly issued CICA Sections 1582, *Business Combinations*, 1601 *Consolidated Financial Statements*, and 1602, *Non-controlling Interests*, which is described in Note 1W of the Company's 2008 audited annual consolidated financial statements, is expected to substantially align Canadian GAAP to IFRS.

THE EFFECTS OF CHANGES IN FOREIGN EXCHANGE RATES (IAS 21)

Canadian GAAP requires self-sustaining foreign operations to be accounted for using the current rate method and integrated foreign operations to be accounted for using the same method as foreign transactions for Canadian operations. IFRS does not distinguish between self-sustaining or integrated foreign operations. It rather requires all entities, including foreign operations, to determine their functional currency and to translate their results and financial position into that functional currency. Then, the financial statements of foreign operations, if any, are translated into the functional currency of the consolidated reporting entity by using a method equivalent to the current rate method, with any resulting difference recorded as part of the consolidated shareholders' equity, and therefore, having no impact on net income.

An optional exception provided under IFRS 1 allows transferring to retained earnings any balance included in the foreign currency translation adjustment account under Canadian GAAP at the date of transition.

INTERESTS IN JOINT VENTURES (IAS 31)

IAS 31 allows accounting for jointly controlled entities using either the equity method or the proportionate consolidation method, while Canadian GAAP requires the use of the proportionate consolidation method only. SNC-Lavalin believes that the use of the equity method for its jointly controlled entities in ICI, which include its investment in Highway 407, would better reflect the way it views these investments.

In regards to accounting for Highway 407 under the equity method, IFRS states that the investor shall continue recognizing its share of the losses of an investee accounted for by the equity method when the recognition of such losses would result in a negative balance for its investment, only to the extent the investor has incurred legal or constructive obligations or made payments on behalf of the investee. 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. As a result, the net investment in Highway 407 was negative by $37.9 million as at December 31, 2008. Since SNC-Lavalin did not incur any legal or constructive obligations or make payment on behalf of this investment at that date, the carrying value of the Company's investments in Highway 407 would not be negative under IFRS.

FINANCIAL INSTRUMENTS, RECOGNITION AND MEASUREMENT (IAS 39)

The CICA standards on financial instruments adopted by the Company in 2007 and 2008 are substantially aligned with the corresponding IFRS, although some remaining differences, which are currently being assessed, could have an impact on SNC-Lavalin, such as the fact that IFRS requires all available-for-sale financial assets to be measured at fair value, unless fair value is not reliably determinable. In such cases, the financial assets are measured at cost. Under Canadian GAAP, available-for-sale financial assets are measured at fair value, except for equity instruments for which there is no quoted market price in an active market, which are accounted at cost. SNC-Lavalin held $199.1 million of available-for-sale financial assets accounted at cost as at December 31, 2008, which would be accounted at fair value under IFRS if their fair value can be reliably measured.

SERVICE CONCESSION ARRANGEMENT (IFRIC 12)

IFRIC 12, which became effective January 1, 2008, provides guidance on the accounting for certain qualifying private-to-public partnership arrangements. Under such arrangements, the operator accounts for the infrastructure asset by applying the intangible asset model, the financial asset model, or both, depending on whether or not the operator bears market risk through the usage of the infrastructure, or if it bears part of such risk. Under the intangible asset model, the intangible asset is amortized over the term of the concession agreement. Under the financial asset model, the infrastructure asset gives rise to an account receivable, which is reduced by payments received for the services provided, notwithstanding the usage level of the infrastructure asset.

Under Canadian GAAP, the operator can recognize the infrastructure asset as an item of property and equipment, based on the fact that it is considered as having control over such asset during the period of the arrangement.

In applying IFRIC 12, the impact, if any, should be limited mainly to SNC-Lavalin's infrastructure concession investments, which in turn may affect the application of certain other standards, such as revenue recognition, as well as accounting for property, plant and equipment, intangible assets and financial instruments.

PROPERTY, PLANT AND EQUIPMENT (IAS 16), INTANGIBLE ASSETS (IAS 38) AND IMPAIRMENT OF ASSETS (IAS 36)

IAS 16 reinforces the requirement under Canadian GAAP to depreciate property, plant and equipment by major components, and provides more specific guidance on the cost of a component and the accounting for its replacement.

In terms of intangible assets, the adoption of Section 3064, *Goodwill and Intangible Assets*, as at January 1, 2009, as disclosed in Note 1W to the Company's 2008 audited annual consolidated financial statements, is expected to eliminate some of the differences between IFRS and Canadian GAAP on certain intangible assets.

The detailed guidance on impairment of property, plant and equipment and intangible assets, including goodwill, differs on certain aspects under Canadian GAAP and IFRS. For example, the impairment testing of long-term assets such as property, plant and equipment and goodwill is based on a two-step approach under Canadian GAAP, while it is based on comparing the carrying amount to the recoverable amount under IFRS. In addition, IFRS requires, under certain circumstances, the reversal of impairment losses, which is not allowed under Canadian GAAP.

As most of the carrying amount of property and equipment and intangible assets included in SNC-Lavalin's consolidated balance sheet comes from the consolidation or proportionate consolidation of infrastructure concession investments, the impact of potential differences in accounting for such items is expected to result mainly from these activities, including the potential impact from the application of IFRIC 12.

PROVISIONS, CONTINGENT LIABILITIES AND CONTINGENT ASSETS (IAS 37)

IFRS provides specific guidance on the measurement of provisions, which are defined as liabilities of uncertain timing and amount, while Canadian GAAP refers to the application of the general concept of liabilities under such circumstances. Furthermore, the recognition threshold used to recognize, or not, uncertain cash outflows and the reference to constructive obligations (i.e. the expectation that a particular responsibility exists, and that it will be discharged) to all provisions under IFRS might lead to certain differences between IFRS and Canadian GAAP.

11 Risks and Uncertainties

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

CONTRACTUAL ARRANGEMENTS

OVERVIEW

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

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

SERVICES, PACKAGES, AND OPERATIONS AND MAINTENANCE

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

INFRASTRUCTURE CONCESSION INVESTMENTS

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

When investing in infrastructure concessions, the Company strives to structure such transactions with debt financing that is non-recourse to the general credit of the Company. Erosion of the Company's investment value in concessions, which is dependent on the ability of the concession to attain its revenue and cost projections as well as the ability to secure financing, is mitigated by sound risk management practices when investing in such infrastructure concessions, such as:

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

COST OVERRUNS

SNC-Lavalin benefits from cost savings, but bears the risk for cost overruns from fixed-price contracts. Contract revenues and costs are established, in part, on estimates which are subject to a number of assumptions, such as those regarding future economic conditions, productivity, performance of our people and of subcontractors or equipment suppliers, price, availability of labour, equipment and materials and other requirements that may affect project costs or schedule, such as obtaining the required environmental permits and approvals on a timely basis. The risk of cost overruns is mitigated by regular and proactive monitoring by employees with appropriate expertise, regular review by senior management, and by securing the purchase price of certain equipment and material with suppliers. Cost overruns also occur when unforeseen circumstances arise.

PROJECT PERFORMANCE

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

ABILITY TO ATTRACT AND RETAIN QUALIFIED PERSONNEL

The success of SNC-Lavalin ultimately depends on its workforce, and the ability to attract and retain qualified personnel in a competitive work environment is achieved by providing diversified and challenging career opportunities, a safe and healthy work environment, as well as competitive compensation and benefits.

JOINT VENTURE PARTNERS

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

SUBCONTRACTORS AND SUPPLIERS

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

CONTRACT AWARDS

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

BACKLOG

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

FOREIGN CURRENCY RISK

The Company's activities outside Canada exposes SNC-Lavalin to foreign currency exchange risks, which could adversely impact its operating results. SNC-Lavalin has a hedging strategy in place to protect itself against foreign currency exposure. The hedging strategy includes the use of forward foreign exchange contracts, which contain an inherent credit risk related to default on obligations by the counterparty. SNC-Lavalin reduces this credit risk by entering into foreign exchange contracts with sound financial institutions, which SNC-Lavalin anticipates will satisfy their obligations under the contracts.

CREDIT RISK AND DELAY IN COLLECTION

Credit risk corresponds to the risk of loss due to the client's inability to fulfill its obligations with respect to trade and other receivables and contracts in progress. Delay in collection occurs when payments from clients exceed the contractually agreed payment terms. SNC-Lavalin's capability to structure positive cash flow arrangements on projects significantly reduces the credit risk on certain projects. Furthermore, the concentration of credit risk is limited due to the large number of clients comprising SNC-Lavalin's revenues base, and their dispersion across different industry segments and geographic areas.

The Company's objective is to reduce credit risk by ensuring collection of its trade and other receivables on a timely basis. The Company internally allocates imputed interest to provide an incentive to project managers to collect trade and other receivables, as uncollected balances result in an internal cost for the related project, and as such, impacts the profitability of projects, which is used to determine managers' compensation, and of the associated operating segment.

INFORMATION MANAGEMENT

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

ECONOMIC AND POLITICAL CONDITIONS

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

12 Quarterly Information

(IN MILLIONS OF CANADIAN DOLLARS, UNLESS OTHERWISE INDICATED)	2008				
	FIRST QUARTER	SECOND QUARTER	THIRD QUARTER	FOURTH QUARTER	ANNUAL
Revenues by activity:					
Services	$ 477.5	$ 567.2	$ 548.7	$ 712.0	$ 2,305.4
Packages	863.7	795.9	791.4	778.5	3,229.5
Operations and Maintenance	355.5	250.3	249.6	369.6	1,225.0
Infrastructure Concession Investments	78.4	89.1	95.7	83.8	347.0
	$ 1,775.1	$ 1,702.5	$ 1,685.4	$ 1,943.9	$ 7,106.9
Net income					
From continuing operations	$ 70.8	$ 75.4	$ 91.3	$ 75.0	$ 312.5
From discontinued operations	–	–	–	–	–
	$ 70.8	$ 75.4	$ 91.3	$ 75.0	$ 312.5
Basic earnings per share ($)					
From continuing operations	$ 0.47	$ 0.50	$ 0.61	$ 0.50	$ 2.07
From discontinued operations	–	–	–	–	–
	$ 0.47	$ 0.50	$ 0.61	$ 0.50	$ 2.07
Diluted earnings per share ($)					
From continuing operations	$ 0.47	$ 0.49	$ 0.60	$ 0.49	$ 2.05
From discontinued operations	–	–	–	–	–
	$ 0.47	$ 0.49	$ 0.60	$ 0.49	$ 2.05
Dividend declared per share ($)	$ 0.12	$ 0.12	$ 0.12	$ 0.15	$ 0.51

(IN MILLIONS OF CANADIAN DOLLARS, UNLESS OTHERWISE INDICATED)	2007				
	FIRST QUARTER	SECOND QUARTER	THIRD QUARTER	FOURTH QUARTER	ANNUAL
Revenues by activity:					
Services	$ 353.7	$ 426.8	$ 430.4	$ 515.2	$ 1,726.1
Packages	525.3	981.9	1,049.4	1,079.1	3,635.7
Operations and Maintenance	316.6	200.3	220.6	320.9	1,058.4
Infrastructure Concession Investments	72.6	77.6	84.9	76.2	311.3
	$ 1,268.2	$ 1,686.6	$ 1,785.3	$ 1,991.4	$ 6,731.5
Net income (loss)					
From continuing operations	$ (103.9)	$ 41.1	$ 63.2	$ 68.7	$ 69.1
From discontinued operations	84.1	–	–	–	84.1
	$ (19.8)	$ 41.1	$ 63.2	$ 68.7	$ 153.2
Basic earnings (loss) per share ($)					
From continuing operations	$ (0.69)	$ 0.27	$ 0.42	$ 0.45	$ 0.46
From discontinued operations	0.56	–	–	–	0.55
	$ (0.13)	$ 0.27	$ 0.42	$ 0.45	$ 1.01
Diluted earnings (loss) per share ($)					
From continuing operations	$ (0.69)	$ 0.27	$ 0.41	$ 0.45	$ 0.45
From discontinued operations	0.56	–	–	–	0.55
	$ (0.13)	$ 0.27	$ 0.41	$ 0.45	$ 1.00
Dividend declared per share ($)	$ 0.09	$ 0.09	$ 0.09	$ 0.12	$ 0.39

FOURTH QUARTER RESULTS

For the fourth quarter of 2008, net income increased by 9% to $75.0 million ($0.49 per share on a diluted basis), compared to $68.7 million ($0.45 per share on a diluted basis) for the corresponding period last year. The increase reflects a higher net income from ICI of $7.5 million, mainly due to the Company's proportionate share of the increase in Highway 407's net income. Net income excluding ICI was $61.4 million, compared to $62.6 million for the fourth quarter of 2007. This variance reflects a loss in the Chemicals and Petroleum segment and a lower contribution from the Operations and Maintenance segment, partially offset by higher contributions from the Mining and Metallurgy, Other Industries and Infrastructure and Environment segments, and by a lower loss from the Power segment.

Revenues for the fourth quarter of 2008 of $1,943.9 million were in line with the fourth quarter of 2007, primarily due to lower Packages activities in Power, and Chemicals and Petroleum, partially offset by higher Services activities from Mining and Metallurgy, and Other Industries, as well as Operations and Maintenance activities.

The Company's backlog totalled $9.6 billion as at December 31, 2008, compared to $9.7 billion as at the end of the third quarter of 2008, reflecting a decrease in the Packages and Services revenue categories, partially offset by an increase in the Operations and Maintenance, and ICI revenue categories.

At the end of December 2008, the Company's **cash and cash equivalents increased to $988.2 million**, from $798.2 million at the end of September 2008, mainly reflecting cash generated from operating activities, primarily from the fluctuation in non-cash working capital items, as well as from net income from continuing operations, partially offset by cash used for investing activities, mainly from the acquisition of property and equipment from ICI.

13 Additional Information

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

14 Controls and Procedures

Effective January 1, 2008, SNC-Lavalin adopted the Canadian Securities Administrators' National Instrument 52-109. This new instrument stipulates disclosure and filing requirements, effective December 15, 2008, for financial years ending on or after this date.

14.1 DISCLOSURE CONTROLS AND PROCEDURES

SNC-Lavalin's management, with the participation of the President and Chief Executive Officer, and of the Executive Vice-President and Chief Financial Officer, has designed disclosure controls and procedures (as defined in the rules of the Canadian Securities Administrators) to provide reasonable assurance that i) material information related to the Company is made known to them, and ii) information required to be disclosed in the Company's filings is recorded, processed, summarized and reported within the time period specified in securities legislation. They have also evaluated the effectiveness of SNC-Lavalin's disclosure controls and procedures (as defined in the rules of the Canadian Securities Administrators) and have concluded that such disclosure controls and procedures are effective.

14.2 INTERNAL CONTROL OVER FINANCIAL REPORTING

SNC-Lavalin's management, with the participation of the President and Chief Executive Officer, and of the Executive Vice-President and Chief Financial Officer, has designed internal control over financial reporting to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements in accordance with the Company's GAAP. They have also evaluated the effectiveness of SNC-Lavalin's internal control over financial reporting and have concluded that such controls are effective. As of December 31, 2008, there has been no change in the Company's internal control over financial reporting that occurred during the Company's most recent fiscal period that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting.

Date: March 6, 2009

Management's Responsibility for Financial Reporting

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

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

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

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

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

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

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

Jacques Lamarre

JACQUES LAMARRE
PRESIDENT AND
CHIEF EXECUTIVE OFFICER

Gilles Laramée

GILLES LARAMÉE
EXECUTIVE VICE-PRESIDENT AND
CHIEF FINANCIAL OFFICER

Montreal, Canada
February 19, 2009

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, 2008 and 2007 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, 2008 and 2007 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[1]

CHARTERED ACCOUNTANTS

Montreal, Canada
February 19, 2009

(1) Chartered accountant auditor permit No. 18190

Consolidated Statements of Income

YEAR ENDED DECEMBER 31 (IN THOUSANDS OF CANADIAN DOLLARS, EXCEPT EARNINGS PER SHARE AND SHARES)	NOTE	2008	2007
Revenues by activity:			
Services		$ 2,305,393	$ 1,726,129
Packages		3,229,444	3,635,695
Operations and Maintenance		1,225,012	1,058,368
Infrastructure Concession Investments		347,020	311,272
		7,106,869	6,731,464
Direct costs of activities		6,094,004	6,164,252
Gross margin		1,012,865	567,212
Selling, general and administrative expenses		515,199	392,775
Interest and capital taxes	17	94,471	72,512
Income from continuing operations before income taxes and non-controlling interest		403,195	101,925
Income taxes	19	85,114	23,650
Non-controlling interest		5,561	9,159
Net income from continuing operations		312,520	69,116
Net income from discontinued operations	5	–	84,086
Net income		$ 312,520	$ 153,202
Earnings per share from continuing operations ($)			
Basic		$ 2.07	$ 0.46
Diluted		$ 2.05	$ 0.45
Earnings per share ($)			
Basic		$ 2.07	$ 1.01
Diluted		$ 2.05	$ 1.00
Weighted average number of outstanding shares (in thousands)	15E		
Basic		150,925	151,172
Diluted		152,265	152,697

See accompanying notes to consolidated financial statements.

Consolidated Statements of Shareholders' Equity

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

2008

	SHARE CAPITAL					
	COMMON SHARES (IN THOUSANDS)	AMOUNT	CONTRIBUTED SURPLUS	ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS) (NOTE 16)(1)	RETAINED EARNINGS(1)	TOTAL SHAREHOLDERS' EQUITY
Balance at beginning of year	**151,038**	**$ 367,273**	**$ 18,634**	**$ (48,958)**	**$ 591,340**	**$ 928,289**
Comprehensive income:						
Net income	–	–	–	–	312,520	312,520
Currency translation adjustment on self-sustaining foreign operations	–	–	–	27,677	–	27,677
Net unrealized loss on available-for-sale financial assets (2)	–	–	–	(10,697)	–	(10,697)
Net unrealized loss on derivative financial instruments designated as cash flow hedges (3)	–	–	–	(69,489)	–	(69,489)
Total comprehensive income						260,011
Dividends paid to Company shareholders	–	–	–	–	(72,471)	(72,471)
Stock option compensation (Note 15B)	–	–	9,605	–	–	9,605
Shares issued under stock option plans (Note 15B)	928	20,761	(3,992)	–	–	16,769
Shares redeemed and cancelled (Note 15D)	(933)	(2,383)	–	–	(44,813)	(47,196)
Balance at end of year	**151,033**	**$ 385,651**	**$ 24,247**	**$ (101,467)**	**$ 786,576**	**$ 1,095,007**

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

2007

	SHARE CAPITAL					
	COMMON SHARES (IN THOUSANDS)	AMOUNT	CONTRIBUTED SURPLUS	ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS) (NOTE 16)(1)	RETAINED EARNINGS(1)	TOTAL SHAREHOLDERS' EQUITY
Balance at beginning of year	151,033	$ 352,769	$ 13,249	$ (52,027)	$ 537,853	$ 851,844
Comprehensive income:						
Net income	–	–	–	–	153,202	153,202
Currency translation adjustment on self-sustaining foreign operations	–	–	–	(19,839)	–	(19,839)
Net unrealized gain on available-for-sale financial assets (2)	–	–	–	658	–	658
Net unrealized gain on derivative financial instruments designated as cash flow hedges (3)	–	–	–	22,250	–	22,250
Total comprehensive income						156,271
Dividends paid to Company shareholders	–	–	–	–	(54,455)	(54,455)
Stock option compensation (Note 15B)	–	–	7,828	–	–	7,828
Shares issued under stock option plans (Note 15B)	1,232	17,485	(2,443)	–	–	15,042
Shares redeemed and cancelled (Note 15D)	(1,227)	(2,981)	–	–	(45,260)	(48,241)
Balance at end of year	151,038	$ 367,273	$ 18,634	$ (48,958)	$ 591,340	$ 928,289

(1) Total of accumulated other comprehensive income (loss) and retained earnings was $685.1 million at December 31, 2008 (December 31, 2007: $542.4 million).

(2) Net of income taxes of $nil in 2008 (2007: $nil).

(3) Net of income taxes of $17.4 million in 2008 (2007: $4.4 million).

See accompanying notes to consolidated financial statements.

Consolidated Balance Sheets

AT DECEMBER 31 (IN THOUSANDS OF CANADIAN DOLLARS)	NOTE	2008	2007
Assets			
Current			
Cash and cash equivalents	7A	**$ 988,236**	$ 1,088,616
Restricted cash	7B	**59,997**	107,905
Trade and other receivables	8	**1,675,170**	1,519,177
Contracts in progress	1J	**707,994**	641,611
Future income tax asset	19	**121,026**	63,712
Total current assets		**3,552,423**	3,421,021
Property and equipment:			
From infrastructure concession investments	3, 9	**1,750,690**	1,640,663
From other activities	9	**123,356**	111,990
Goodwill	10	**496,147**	481,521
Infrastructure concession investments accounted for by the equity or cost methods	3	**350,113**	370,819
Future income tax asset	19	**79,533**	98,128
Other long-term assets	11	**425,130**	361,244
Total assets		**$ 6,777,392**	$ 6,485,386
Liabilities			
Current			
Trade and other payables	12	**$ 2,260,670**	$ 2,140,634
Downpayments on contracts	1P	**473,199**	336,692
Deferred revenues	1Q	**536,394**	643,068
Current portion of non-recourse long-term debt	13	**5,764**	30,424
Total current liabilities		**3,276,027**	3,150,818
Long-term debt:			
Recourse	13	**104,709**	104,557
Non-recourse from infrastructure concession investments	3, 13	**2,003,303**	1,970,991
Other long-term liabilities	14	**230,614**	259,439
Total liabilities		**5,614,653**	5,485,805
Non-controlling interest	1D	**67,732**	71,292
Shareholders' equity		**1,095,007**	928,289
Total liabilities, non-controlling interest and shareholders' equity		**$ 6,777,392**	$ 6,485,386

See accompanying notes to consolidated financial statements.

Approved by, on behalf of the Board of Directors:

Jacques Lamarre

JACQUES LAMARRE
DIRECTOR

CLAUDE MONGEAU
DIRECTOR

Consolidated Statements of Cash Flows

YEAR ENDED DECEMBER 31 (IN THOUSANDS OF CANADIAN DOLLARS)	NOTE	2008	2007
Operating activities from continuing operations			
Net income from continuing operations		**$ 312,520**	$ 69,116
Items not involving a movement of cash:			
Depreciation of property and equipment and amortization of other long-term assets:			
From infrastructure concession investments		**88,098**	76,945
From other activities		**41,947**	35,682
Future income tax benefit		**(19,089)**	(120,173)
Accrued interest expense on non-recourse long-term debt from infrastructure concession investments		**10,583**	13,758
Accrued interest expense on advance under contract financing arrangement	18B	**398**	19,719
Stock option compensation	15	**9,605**	7,828
Loss from infrastructure concession investments accounted for by the equity method		**3,219**	2,610
Non-controlling interest		**5,561**	9,159
Other		**483**	(2,697)
Dividends received from infrastructure concession investments accounted for by the equity method		**2,999**	818
		456,324	112,765
Net change in non-cash working capital items:			
Decrease in contract in progress subject to contract financing arrangement	18B	**10,939**	319,149
Other	18A	**(153,986)**	31,000
		313,277	462,914
Investing activities from continuing operations			
Acquisition of property and equipment:			
From infrastructure concession investments		**(193,489)**	(308,628)
From other activities		**(46,348)**	(41,164)
Payments for infrastructure concession investments	3C	**(25,924)**	(74,960)
Acquisition of businesses	4	**(38,582)**	(160,501)
Change in restricted cash position		**6,007**	17,861
Other		**(12,552)**	18,471
		(310,888)	(548,921)
Financing activities from continuing operations			
Repayment of non-recourse long-term debt:			
From infrastructure concession investments		**(187,483)**	(149,966)
From other activities		**(25,812)**	(1,260)
Increase in non-recourse long-term debt from infrastructure concession investments		**215,219**	334,893
Repayment of advance under contract financing arrangement	18B	**(13,550)**	(341,077)
Proceeds from exercise of stock options		**16,769**	15,042
Redemption of shares	15D	**(47,196)**	(48,241)
Dividends paid to Company shareholders		**(72,471)**	(54,455)
Other		**11,755**	(20,714)
		(102,769)	(265,778)
Net decrease in cash and cash equivalents from continuing operations		**(100,380)**	(351,785)
Cash provided by disposal of discontinued operations	5	**–**	334,136
Cash and cash equivalents at beginning of year		**1,088,616**	1,106,265
Cash and cash equivalents at end of year		**$ 988,236**	$ 1,088,616
Supplementary cash flow information	18		

See accompanying notes to consolidated financial statements.

DECEMBER 31, 2008 AND 2007
(TABULAR FIGURES IN THOUSANDS OF CANADIAN DOLLARS, UNLESS OTHERWISE INDICATED)

1 Nature of Business and Summary of Significant Accounting Policies

SNC-Lavalin Group Inc. (the "Company") is incorporated under the Canada Business Corporations Act. "SNC-Lavalin" means, as the context may require, the Company and all or some of its subsidiaries or joint ventures, or the Company or one or more of its subsidiaries or joint ventures.

The consolidated financial statements of the Company are prepared in accordance with **Canadian generally accepted accounting principles ("GAAP")**.

A) NATURE OF BUSINESS

The Company provides engineering, project and construction management, construction, and operations and maintenance expertise through its network of offices located across Canada and in over 35 other countries, and is currently working in some 100 countries. SNC-Lavalin also makes selective investments in infrastructure concessions that are complementary to its other activities.

The Company reports its revenues under **four categories of activities**, which are as follows:

- **Services:** includes contracts in which SNC-Lavalin provides engineering services, feasibility studies, planning, detailed design, contractor evaluation and selection, project and construction management and commissioning.

  Services revenues are derived primarily from cost-plus reimbursable contracts.

- **Packages:** includes contracts in which SNC-Lavalin takes the responsibility not only for providing one or more of the Services activities listed above, but also undertakes the responsibility for providing materials/equipment and/or construction activities.

  Packages revenues are derived primarily from fixed-price contracts.

- **Operations and Maintenance:** consists of providing operations, maintenance and logistics solutions for buildings, power plants, water supply and treatment systems, postal services, broadcasting facilities, highways, bridges, light rail transit systems, airports, military and construction camps and ships.

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

- **Infrastructure Concession Investments ("ICI"):** regroups SNC-Lavalin's investments in infrastructure concessions. SNC-Lavalin makes selective investments for which its technical, engineering and construction, project management and operations and maintenance expertise, along with its experience in arranging project financing, represent a distinct advantage.

In these financial statements, activities from Services, Packages, and Operations and Maintenance are collectively referred to as "from other activities" or "excluding ICI" to distinguish them separately from ICI.

B) CRITICAL ACCOUNTING ESTIMATES AND JUDGMENT APPLIED

The preparation of the Company's consolidated financial statements in conformity with Canadian GAAP requires management to apply judgment when making estimates that affect the reported amounts of assets and liabilities at the date of the financial statements, the reported amounts of revenues and expenses of the reporting period, as well as disclosures made in the accompanying notes to the financial statements. The estimates and associated assumptions are based on past experience and other factors that are considered relevant. Actual results could differ from these estimates. The Company's critical accounting estimates include, among others, estimates related to revenue recognition, mainly on the determination of appropriate anticipated costs and revenues on fixed-price contracts and on items such as claims and change orders, as well as estimates related to asset impairment, pension plans and income taxes.

1 Nature of Business and Summary of Significant Accounting Policies (Continued)

C) RECENT CHANGES IN ACCOUNTING STANDARDS FOR 2008

Effective January 1, 2008, SNC-Lavalin adopted the following new Canadian Institute of Chartered Accountants ("CICA") Handbook Sections:

i) 3862, "Financial Instruments—Disclosures" replaces the **disclosure requirements** of Section 3861, "Financial Instruments—Disclosure and Presentation", and includes the required disclosure for the assessment of the significance of financial instruments for an entity's financial position and performance, and of the nature and extent of risks arising from financial instruments to which the Company is exposed, and how the Company manages those risks. Pursuant to the adoption of Section 3862, the Company added disclosures in Note 20.

ii) 3863, "Financial Instruments—Presentation" carries forward, unchanged, the **presentation requirements** of Section 3861 for financial instruments and non-financial derivatives. The adoption of Section 3863 had no material impact on the Company's 2008 consolidated financial statements.

iii) 1535, "Capital Disclosures" establishes standards for disclosing information about an entity's capital and how it is managed. Pursuant to the adoption of Section 1535, the Company added disclosures in Note 21.

D) PRINCIPLES OF CONSOLIDATION

The consolidated financial statements include the accounts of the Company, its subsidiaries and its pro-rata share of each of the assets, liabilities, revenues and expenses of its joint ventures. The portion of the net assets of an entity that is fully consolidated but not wholly-owned by SNC-Lavalin is presented as non-controlling interest on the consolidated balance sheet, while the portion of net income attributable to such non-controlling interest is also shown separately on the consolidated statement of income. Investments in entities in which SNC-Lavalin has significant influence, but does not exercise control or joint control, are accounted for by the equity method. Investments in entities in which SNC-Lavalin does not have significant influence are accounted for by the cost method.

E) FOREIGN CURRENCY TRANSLATION

Self-sustaining foreign operations are accounted for using the current rate method. Under this method, assets and liabilities are translated into Canadian dollars using the exchange rate in effect at the consolidated balance sheet date and revenues and expenses are translated at the average rates for the year. Foreign exchange gains or losses on translation of SNC-Lavalin's net equity investment in these operations are included as part of shareholders' equity, under "Accumulated other comprehensive income (loss)—currency translation adjustment on self-sustaining foreign operations", which has no impact on the consolidated statements of income until the Company reduces its net equity investments in these foreign operations.

Integrated foreign operations and foreign currency transactions of Canadian operations are accounted for by translating i) monetary items into Canadian dollars using the exchange rate in effect at the consolidated balance sheet date; ii) non-monetary items using the historical exchange rate; and iii) revenues and expenses using the average monthly exchange rates for the year. Any resulting gains or losses are charged to income unless they qualify for hedge accounting.

F) REVENUE RECOGNITION

F.1) REVENUES FROM SERVICES, PACKAGES, AND OPERATIONS AND MAINTENANCE ACTIVITIES

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

> **Services and Packages activities: Cost-plus reimbursable contract** revenues are recognized as costs are incurred, and include applicable fees earned as services are provided. **Fixed-price contract** revenues are recorded on the percentage-of-completion basis over the duration of the contract, which consists of recognizing revenue on a given contract proportionately with its percentage of completion at any given time. The percentage of completion is determined by dividing the cumulative costs incurred as at the balance sheet date by the sum of incurred costs and anticipated costs for completing a contract.

> **Operations and Maintenance activities:** The fixed-fee revenues portion from **cost reimbursable with a fixed-fee contracts** are recognized on a straight-line basis over the term of the contract, while the revenues from the cost-reimbursable portion are recognized as costs are incurred. Revenues on **fixed-price contracts** are recognized based on the stage of completion of the contract activity which involves taking the costs incurred as at the balance sheet date and dividing by the estimated total costs for the activity. This measure of progress is then applied to the related anticipated revenue, resulting in recognizing revenue proportionately with the stage of completion at any given time.

1 Nature of Business and Summary of Significant Accounting Policies (Continued)

For fixed-price contracts in all of the above-mentioned activities, the cumulative effect of changes to anticipated costs and anticipated revenues for completing a contract are recognized in the period in which the revisions are identified. In the event that the total anticipated costs exceed the total anticipated revenue on a contract, such loss is recognized in its entirety in the period it becomes known. SNC-Lavalin has numerous contracts that are in various stages of completion. Estimates are required to determine the appropriate anticipated costs and revenues. Anticipated revenues on contracts may include future revenues from claims and unapproved change orders, if such additional revenues can be reliably estimated and it is considered probable that they will be recovered. Such additional revenues are limited to the costs related to the claims or unapproved change orders. Revenues from performance incentives are recognized when specific indicators have been met and collection is reasonably assured.

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

F.2) REVENUES FROM INFRASTRUCTURE CONCESSION INVESTMENTS

Revenues from **infrastructure concession investments** regroup the following:

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

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

> SNC-Lavalin's **share of net results** of infrastructure concession investments accounted for by the **equity method**.

> **Dividends and distributions** from infrastructure concession investments accounted for by the **cost method**.

F.3) MULTIPLE REVENUE CATEGORY CONTRACTUAL ARRANGEMENTS

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

G) FINANCIAL INSTRUMENTS

Financial instruments are contracts that give rise to a financial asset or a financial liability. Unless specifically covered by another accounting policy, the measurement of financial assets and financial liabilities is based on their classification, which under Canadian GAAP are one of the following for SNC-Lavalin: i) "held for trading"; ii) "available-for-sale"; iii) "loans and receivables"; or iv) "other financial liabilities".

G.1) MEASUREMENT OF FINANCIAL ASSETS

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

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

The initial carrying amount of financial assets classified or designated as "loans and receivables" corresponds to the transaction price, which represents the fair value of the consideration given. Subsequent measurement of these financial assets corresponds to their amortized cost, using the effective interest method.

1 Nature of Business and Summary of Significant Accounting Policies (Continued)

G.2) MEASUREMENT OF FINANCIAL LIABILITIES

The initial carrying amount of financial liabilities classified or designated as either "held for trading" or "other financial liabilities" corresponds to the transaction price, which represents the fair value of the consideration received, and includes, for other financial liabilities, any transaction costs. Subsequent measurements of "held for trading" financial liabilities are based on fair value, with the resulting gains and losses recognized in net income, while subsequent measurement of "other financial liabilities" corresponds to their amortized cost, using the effective interest method.

G.3) DERIVATIVE FINANCIAL INSTRUMENTS USED FOR HEDGE ACCOUNTING

SNC-Lavalin enters into forward exchange contracts to hedge its exposure to fluctuations in foreign currency exchange rates on projects and into interest-rate swaps and bond forwards to hedge the variability of interest rates relating to financing arrangements. SNC-Lavalin formally documents all relationships between hedging instruments and hedged items, as well as its risk management objective and strategy for undertaking these hedge transactions, and regularly assesses the effectiveness of these hedges. As such, all the derivative financial instruments described above qualify for hedge accounting and are accounted for as cash flow hedges. The Company does not enter into derivative financial instruments for speculative purposes.

Derivative financial instruments designated as cash flow hedges are measured at fair value. The fair value of these instruments generally reflects the estimated amounts SNC-Lavalin would receive on settlement of favourable contracts or would be required to pay to terminate unfavourable contracts as at the balance sheet date. The effective portion of the change in fair value of the derivative financial instruments is recorded in other comprehensive income, while the ineffective portion, if any, of such change is recognized in net income. Gains or losses from cash flow hedges included in accumulated other comprehensive income are reclassified to net income as an offset to the gains or losses recognized on the underlying hedged items.

G.4) COMPREHENSIVE INCOME

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

> Currency translation adjustments on self-sustaining foreign operations

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

> The effective portion of gains and losses on derivative financial instruments designated as cash flow hedges

H) CASH EQUIVALENTS

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

I) RESTRICTED CASH

Restricted cash includes cash and cash equivalents, primarily from infrastructure concession investments that are consolidated or proportionally consolidated, for which the use is restricted for specific purposes under certain arrangements, mainly from financing agreements. Restricted cash that is not expected to become unrestricted within the next twelve months is included in "Other long-term assets" (Note 11).

J) CONTRACTS IN PROGRESS

Contracts in progress consist of revenues recognized by the Company as work is performed, in accordance with the revenue recognition method applied, in excess of amounts billed to clients and are recorded at their estimated realizable value.

1 Nature of Business and Summary of Significant Accounting Policies (Continued)

K) PROPERTY AND EQUIPMENT

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

K.1) FROM INFRASTRUCTURE CONCESSION INVESTMENTS

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

> Transmission assets, which relate to SNC-Lavalin's investment in the AltaLink concession, are depreciated on a straight-line basis, over a period ranging from 30 to 40 years.

> Toll highway, which relates to SNC-Lavalin's investment in the Highway 407 concession, is depreciated for each significant component's part mainly on a usage basis according to actual Vehicle Kilometres Travelled ("VKT") over their respective useful lives based on projected VKT, resulting in depreciating the toll highway's components over a weighted average period of 90 years.

> Toll equipment, which relates to SNC-Lavalin's investment in the Highway 407 concession, is depreciated using the straight-line method over a period of 10 years.

> The William R. Bennett Bridge, which relates to SNC-Lavalin's ownership of the Okanagan Lake Concession, is depreciated on a straight-line basis from the date it opened to traffic, on May 31, 2008, until the end of the concession agreement, which represents a period of 27 years.

K.2) FROM OTHER ACTIVITIES

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

> Buildings and surface installations that are depreciated using the straight-line method over a period of 25 to 40 years or the diminishing balance method at a rate of 5%.

> Computer equipment that is depreciated using the straight-line method over a period of two years.

> Office furniture that is depreciated using the diminishing balance method at a rate of 20%.

L) IMPAIRMENT OF LONG-LIVED ASSETS

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

M) GOODWILL

Goodwill represents the excess of the purchase price of an acquired enterprise over the fair value assigned to assets acquired and liabilities assumed. Goodwill is assessed for impairment at least annually, or more frequently if events or changes in circumstances indicate that the goodwill might be impaired. The assessment of impairment is based on fair market values 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. The Company has designated October 31 as the date for the annual impairment test. As at October 31, 2008, date of the last impairment test, goodwill was not considered to be impaired.

N) CONCESSION RIGHT

Concession right relates to SNC-Lavalin's investment in the Highway 407 concession. The concession right is included in "Other long-term assets" (Note 11) and amortized under the usage method based on projected revenues over 99 years to reflect the duration of the Highway 407 Concession and Ground Lease Agreement with the Province of Ontario.

O) 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. An impairment loss, if any, is recognized in the period it occurs.

1 Nature of Business and Summary of Significant Accounting Policies (Continued)

P) DOWNPAYMENTS ON CONTRACTS

Downpayments on contracts are contractually agreed advance payments made by clients that are deducted from future billings to such clients as work is performed.

Q) DEFERRED REVENUES

Deferred revenues consist of amounts billed to clients in excess of revenue recognized according to the corresponding revenue recognition method. A given project may present an amount in either deferred revenues, as described above, or in contracts in progress, which consists of revenue recognized in excess of amounts billed to clients and therefore represents the opposite of deferred revenues, but not both.

R) INCOME TAXES

The Company uses the liability method of accounting for income taxes. Under this method, future income tax assets and liabilities arise from temporary differences between the tax bases of assets and liabilities and their carrying amounts reported in the financial statements. Future income tax assets also reflect the benefit of unutilized tax losses that can be carried forward to reduce income taxes in future years.

Future income tax assets and liabilities are measured based upon substantively enacted tax rates that are expected to be in effect for the years in which the temporary differences are expected to reverse and the tax losses are projected to be used. In all cases, future income tax assets are recognized only to the extent that it is more likely than not that they will be realized.

S) PENSION PLANS AND OTHER POST-RETIREMENT BENEFITS

Defined benefit pension plans and other post-retirement benefits obligations are included in "Other long-term liabilities" (Note 14) and have been determined using the projected benefit method. In valuing the defined benefit cost as well as other post-retirement benefits, assumptions are based on management's best estimates, except for the discount rate where the Company uses the market interest rate at the measurement date based on high-quality debt instruments with cash flows that match the timing and amount of expected benefit payments.

Current service costs are expensed in the year. In accordance with Canadian GAAP, past service costs and net actuarial gains or losses related to defined benefit pension plans and post-retirement benefit plans are amortized by individual pension plans using the straight-line method over periods ranging from two to six years, not exceeding the expected average remaining service period of active employees for each plan. For the purpose of calculating the expected return on plans' assets, such assets are valued at fair value.

T) SELLING EXPENSES

All costs related to contract proposals are expensed as incurred.

U) 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.

V) STOCK OPTION COMPENSATION

Stock option compensation is expensed using the fair value method. The estimated fair value of the options is determined using the Black-Scholes option pricing model. The Company determines the fair value of stock options on their measurement date and charges this amount to income as a compensation cost over the shorter of the vesting period of the stock options or the term over which an employee becomes eligible to retire.

1 Nature of Business and Summary of Significant Accounting Policies (Continued)

W) FUTURE CHANGES TO ACCOUNTING STANDARDS

GOODWILL AND INTANGIBLE ASSETS

In February 2008, the CICA issued Section 3064, "Goodwill and Intangible Assets", which provides guidance on the recognition, measurement, presentation and disclosure of goodwill and intangible assets. This new section will replace Section 3062, "Goodwill and Intangible Assets" and Section 3450, "Research and Development Costs", and concurrently, EIC-27, "Revenues and Expenditures in the Pre-operating Period" will be withdrawn, while Accounting Guideline 11, "Enterprises in the Development Stage" and Section 1000, "Financial Statements Concepts", will be amended. Section 3064 is to be applied retroactively with restatement of prior periods and will be effective January 1, 2009 for SNC-Lavalin.

The Company is currently evaluating the impact to its consolidated financial statements.

BUSINESS COMBINATIONS, CONSOLIDATED FINANCIAL STATEMENTS AND NON-CONTROLLING INTERESTS

In January 2009, the CICA issued the following new Handbook Sections:

> Section 1582, "Business Combinations";

> Section 1601, "Consolidated Financial Statements"; and

> Section 1602, "Non-controlling Interests".

Section 1582, which replaces the former Section 1581, requires all business combinations to be accounted for by applying the acquisition method. Under this method, assets acquired and liabilities assumed are measured at their full fair value at the date of acquisition, unless another standard requires otherwise. Section 1582 provides the option of accounting for non-controlling interest at either fair value, or at the non-controlling interest's proportionate share of the identifiable net assets acquired. Acquisition costs associated with a business combination are to be expensed in the periods in which they are incurred. Section 1601 carries forward the standards for the preparation of consolidated financial statements of former Section 1600, while Section 1602 requires non-controlling interests to be reported as a separate component of equity, with net income calculated without deduction for non-controlling interests. Rather, consolidated net income is to be allocated between controlling and non-controlling interest.

These three new sections are to be implemented concurrently and apply prospectively to all business combinations for which the acquisition date is on or after January 1, 2011, with earlier application permitted.

ADOPTION OF INTERNATIONAL FINANCIAL REPORTING STANDARDS IN CANADA

In February 2008, the Canadian Accounting Standards Board ("AcSB") confirmed January 1, 2011 as the changeover date to move financial reporting for Canadian publicly accountable enterprises to International Financial Reporting Standards ("IFRS"), as issued by the International Accounting Standards Board ("IASB"). Accordingly, the Company will issue its last financial statements prepared in accordance with Canadian GAAP in 2010. Starting from the first quarter of 2011, the Company's financial statements will be prepared in accordance with IFRS in effect in 2011, with 2010 comparative figures and January 1, 2010 ("date of transition") opening balance sheet restated to conform with such IFRS, along with reconciliations from Canadian GAAP to IFRS, as per the guidance provided in IFRS 1, *First-Time Adoption of International Financial Reporting Standards*.

As part of its transition to IFRS, the Company developed an implementation plan that comprises the following:

> The establishment of a steering committee comprising senior executives and the identification of internal resources to conduct the implementation;

> An ongoing extensive analysis of the expected accounting differences between Canadian GAAP and IFRS;

> The assessment of the expected impact of the accounting differences on its consolidated financial statements, including the review of choices available upon the initial adoption of IFRS;

> Initial training sessions provided to key finance personnel and management and the preparation of additional training sessions throughout the implementation process; and

> A review of the potential impact on the business activities of the Company, on its disclosure controls and internal controls over financial reporting, and on its financial reporting systems.

The Company is currently evaluating the impact of adopting IFRS on its consolidated financial statements.

2 Segment Disclosures

The Company's results are evaluated by segment. The segments regroup related activities within SNC-Lavalin consistent with the way management performance is assessed:

i) **Services and Packages** relate to engineering and construction operations and are presented below in the way management performance is assessed by regrouping its projects within the industries they are executed for, and are as follows:

> **Infrastructure and Environment** includes a full range of infrastructure projects, including airports, bridges, buildings, ports, ferry terminals, flood control systems, healthcare facilities, mass transit systems, railways, roads, and water treatment and distribution infrastructure and facilities, as well as environment projects, including impact assessment and studies, site assessment, remediation and reclamation, ecological and human health risk assessment, waste management, and water and wastewater.

> **Chemicals and Petroleum** includes projects in gas processing, heavy and conventional oil production, onshore and offshore oil and gas, liquefied natural gas ("LNG"), coal to liquid gas, carbon capture, transportation and sequestration, pipelines, terminals and pump stations, refining and upgrading, bitumen production, petrochemicals, biofuels, chemicals and fertilizers.

> **Power** includes projects in power generation, transmission and distribution, as well as in energy control systems and sustainable development training programs.

> **Mining and Metallurgy** includes a full range of services for all mineral and metal recovery processes, including mine development, mineral processing, smelting, refining, mine closure and reclamation.

> **Other Industries**, formerly labelled as "All Other", combines projects in several industry sectors, namely agrifood, pharmaceuticals and biotechnology, sulphuric acid as well as projects related to other industrial facilities not already identified as part of any other segment above.

ii) **Operations and Maintenance** consists of providing operations, maintenance and logistics solutions for buildings, power plants, water supply and treatment systems, postal services, broadcasting facilities, highways, bridges, light rail transit systems, airports, military and construction camps and ships.

iii) **Infrastructure Concession Investments ("ICI")** regroups SNC-Lavalin's investments in infrastructure concessions, for which further details are provided in Note 3.

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

The Company evaluates the ICI segment performance using: i) dividends or distributions received from investments accounted for by the cost method; ii) SNC-Lavalin's share of the net income of its investments accounted for by the equity method; iii) SNC-Lavalin's share of the net income of its investments accounted for by the proportionate consolidation method; and iv) net income from investments accounted for by the full consolidation method, less the portion attributable to non-controlling interest. In the case of ICI for which income taxes are payable by the investor, such as investments in limited partnerships in Canada, corporate income taxes are allocated based on SNC-Lavalin's tax rate for such investments. Accordingly, the operating income from ICI is reported net of income taxes and represents SNC-Lavalin's net income from its ICI.

2 Segment Disclosures (Continued)

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

YEAR ENDED DECEMBER 31	2008		2007	
	REVENUES	OPERATING INCOME (LOSS)	REVENUES	OPERATING INCOME (LOSS)
Services and Packages				
Infrastructure and Environment	**$ 1,700,445**	**$ 113,056**	$ 1,757,169	$ 93,036
Chemicals and Petroleum	**1,416,746**	**104,438**	1,256,620	126,396
Power (1)	**1,176,155**	**(24,401)**	1,616,360	(267,255)
Mining and Metallurgy	**858,969**	**116,991**	448,904	68,053
Other Industries	**382,522**	**46,770**	282,771	18,749
Operations and Maintenance	**1,225,012**	**25,409**	1,058,368	29,514
ICI	**347,020**	**37,173**	311,272	25,142
	$ 7,106,869	**419,436**	$ 6,731,464	93,635
Reversal of items included above:				
Imputed interest benefit		**(35,661)**		(41,107)
Net interest expense and capital taxes from ICI		**108,149**		104,605
Income taxes from ICI		**520**		5,557
Non-controlling interest before income taxes		**5,222**		11,747
Income from continuing operations before interest, taxes and non-controlling interest		**497,666**		174,437
Interest and capital taxes (Note 17)		**94,471**		72,512
Income from continuing operations before income taxes and non-controlling interest		**403,195**		101,925
Income taxes		**85,114**		23,650
Non-controlling interest		**5,561**		9,159
Net income from continuing operations		**312,520**		69,116
Net income from discontinued operations (Note 5)		**–**		84,086
Net income		**$ 312,520**		$ 153,202

(1) In 2007, SNC-Lavalin recognized a loss in the Power segment, mainly due to issues arising from the bankruptcy proceedings and work stoppage of a key supplier on the Goreway thermal power project in Canada, which created a ripple effect of delays and increased costs and resulted in a significant loss on that project. In 2008, the Company recognized additional losses on the Goreway thermal power project, reflecting higher revised expected costs to complete the project.

The Company also discloses in the table below under "Supplementary Information" its 16.77% proportionate share of Highway 407's net income, as well as its net income from other ICI, as this information is useful in assessing the value of the Company's share price.

YEAR ENDED DECEMBER 31	2008	2007
Supplementary information:		
SNC-Lavalin's net income from ICI		
From Highway 407	**$ 19,968**	$ 10,116
From other ICI	**17,205**	15,026
Net income excluding ICI		
From continuing operations	**275,347**	43,974
From discontinued operations	**–**	84,086
Net income	**$ 312,520**	$ 153,202

2 Segment Disclosures (Continued)

As previously stated, the segment performance, except for the ICI segment, takes into account imputed interest calculated on non-cash working capital position. As such, the table below reconciles the Company's consolidated total assets to the sum of i) total assets from ICI; ii) the non-cash working capital of segments from other activities; and iii) other assets from other activities:

AT DECEMBER 31	2008	2007
Total assets from ICI (Note 3):		
ICI accounted for by the full or proportionate consolidation methods	**$ 2,485,536**	$ 2,378,382
ICI accounted for by the equity method	**117,154**	146,929
ICI accounted for by the cost method	**232,959**	223,890
Total assets from ICI	**2,835,649**	2,749,201
Segment non-cash working capital from other activities		
Services and Packages		
Infrastructure and Environment	**(259,220)**	(91,985)
Chemicals and Petroleum	**40,247**	(61,194)
Power	**(94,465)**	(428,701)
Mining and Metallurgy	**52,747**	36,556
Other Industries	**(106,674)**	(58,903)
Operations and Maintenance	**(48,064)**	(63,893)
Total segment non-cash working capital from other activities	**(415,429)**	(668,120)
Reversal of current liabilities included in the non-cash working capital above	**2,869,580**	2,821,702
Current assets from other activities, excluding cash and cash equivalents and restricted cash	**2,454,151**	2,153,582
Other assets from other activities:		
Cash and cash equivalents and restricted cash from other activities	**970,562**	1,080,407
Property and equipment, goodwill, long-term future income tax asset and other long-term assets from other activities	**517,030**	502,196
Total assets from other activities	**3,941,743**	3,736,185
Total assets	**$ 6,777,392**	$ 6,485,386

The following table presents property, equipment and goodwill inside and outside Canada reflected on the Company's consolidated balance sheet:

AT DECEMBER 31	2008	2007
Property, equipment and goodwill		
Canada:		
From ICI	**$ 1,954,476**	$ 1,844,449
From other activities	**198,893**	187,068
	2,153,369	2,031,517
Outside Canada:		
From ICI	**–**	–
From other activities	**216,824**	202,657
	216,824	202,657
	$ 2,370,193	$ 2,234,174

2 Segment Disclosures (Continued)

The following table presents revenues by geographic area according to project location:

YEAR ENDED DECEMBER 31	2008			
	SERVICES AND PACKAGES	OPERATIONS AND MAINTENANCE	INFRASTRUCTURE CONCESSION INVESTMENTS	TOTAL
Revenues by geographic area				
Canada	**$ 2,109,795**	**$ 1,154,547**	**$ 346,087**	**$ 3,610,429**
Middle East	**1,180,310**	**1,146**	**–**	**1,181,456**
Africa	**867,341**	**44,675**	**(1,432)**	**910,584**
Europe	**552,843**	**–**	**2,336**	**555,179**
Latin America and Caribbean	**346,977**	**–**	**–**	**346,977**
United States	**235,052**	**–**	**29**	**235,081**
Asia	**137,175**	**18,058**	**–**	**155,233**
Other Regions	**105,344**	**6,586**	**–**	**111,930**
	$ 5,534,837	**$ 1,225,012**	**$ 347,020**	**$ 7,106,869**

YEAR ENDED DECEMBER 31	2007			
	SERVICES AND PACKAGES	OPERATIONS AND MAINTENANCE	INFRASTRUCTURE CONCESSION INVESTMENTS	TOTAL
Revenues by geographic area				
Canada	$ 2,546,896	$ 1,012,561	$ 312,370	$ 3,871,827
Middle East	572,895	–	–	572,895
Africa	1,033,600	33,476	(472)	1,066,604
Europe	570,800	–	1,921	572,721
Latin America and Caribbean	127,355	–	–	127,355
United States	227,617	–	(2,547)	225,070
Asia	148,244	12,331	–	160,575
Other Regions	134,417	–	–	134,417
	$ 5,361,824	$ 1,058,368	$ 311,272	$ 6,731,464

3 Infrastructure Concession Investments

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

Infrastructure concession investments are often capital intensive, contrary to Services, Packages and Operations and Maintenance activities. This is due to the ownership of infrastructure assets that are financed mainly with project specific debt, which is non-recourse to the general credit of the Company. Therefore, when consolidating or proportionately consolidating such investments, the main impact on the Company's balance sheet is on the property and equipment, and the non-recourse long-term debt accounts, while most of the Company's depreciation, amortization and interest expense is from the consolidation or proportionate consolidation of these investments.

In order to provide the reader of the financial statements with a better understanding of the financial position and results of operations of its infrastructure concession investments, the Company presents certain distinct financial information related specifically to its ICI throughout its financial statements, as well as certain additional information below.

3 Infrastructure Concession Investments (Continued)

A) ADDITIONS OF ICI

I) ADDITIONS IN 2008

INVESTMENT IN MYAH TIPAZA S.P.A.

In June 2008, SNC-Lavalin announced its commitment to invest in Myah Tipaza S.p.A. ("Myah Tipaza"), a new company established to build, own and operate a 120,000 m^3/day seawater desalination plant located in Fouka, province (wilaya) of Tipaza, Algeria. SNC-Lavalin's commitment to invest approximately 650 million Algerian Dinars ("DZD") (CA$11 million at December 31, 2008) represents a 25.5% indirect interest in this concession, which is accounted for by the equity method. SNC-Lavalin, through a joint venture, was also awarded an engineering, procurement and construction ("EPC") contract by Myah Tipaza, as well as an operations and maintenance ("O&M") contract for the desalination plant. The construction of the desalination plant, which is currently ongoing, is expected to be completed in 2010.

ASTORIA II PROJECT

In the third quarter of 2008, SNC-Lavalin and a group of investors (the "investors") provided temporary financing to Astoria Project Partners II LLC and its subsidiary (collectively called "Astoria II"), through notes receivable and letters of credit (collectively referred to as "temporary financing"), to finance the initial costs related to the development of a new 500 MW thermal power plant in Queens, New York. The letters of credit have been provided to third parties to support some of Astoria II's contractual obligations in relation to this project. The provision of temporary financing followed the signing by Astoria II of a 20-year firm Power Purchase Agreement ("PPA") with the New York Power Authority ("NYPA").

At December 31, 2008, SNC-Lavalin had provided US$17.2 million (CA$21.0 million) under a note receivable and US$23.4 million (CA$28.5 million) of letters of credit, both representing 28.57% of the total temporary financing provided to Astoria II. Additional temporary financing is expected to be provided to Astoria II until project financing is obtained, at which time the note receivable is to be repaid to the investors and the letters of credit to be released. The letters of credit can be called upon in the event of default by Astoria II of its contractual obligations to third parties, which would under such circumstances oblige SNC-Lavalin to pay to the third parties the amounts guaranteed. The note receivable, which is of short-term nature, is presented as part of the Trade and other receivables on the Company's consolidated balance sheet as at December 31, 2008. The amount of SNC-Lavalin's equity investment in Astoria II, which was nominal at December 31, 2008 and resulted in an 18.5% ownership interest, is presented as part of the ICI accounted for by the equity method. In addition to being an investor, SNC-Lavalin is also currently involved in providing engineering and procurement management services to the project.

TC DOME S.A.S.

In 2008, TC Dome S.A.S. ("TC Dome"), a wholly-owned subsidiary of the Company, was awarded a contract by the Conseil Général du Puy-de-Dôme, in France, to design, build and operate until 2043 a 5.3 km electric cog railway linking the base of Puy de Dôme mountain to its summit. The completion of the construction, which is expected in 2012, will enable the cog railway to carry approximately 1,200 visitors per hour. TC Dome, which is accounted for by the full consolidation method, awarded an engineering, procurement and construction ("EPC") contract to the Company. The Company has a €4.0 million commitment (CA$7.0 million at December 31, 2008) to invest in TC Dome.

II) ADDITION IN 2007

AMBATOVY NICKEL PROJECT

SNC-Lavalin has a 5% equity interest in the Ambatovy Nickel Project ("Ambatovy") in Madagascar, which will consist of an open-pit mine operation, and a hydrometallurgical processing plant, expected to produce mainly nickel and cobalt. SNC-Lavalin was also awarded an engineering, procurement and construction management ("EPCM") contract for the Ambatovy project.

In March 2008, Ambatovy obtained senior debt project financing whereupon each shareholder concurrently provided the Ambatovy senior lenders with a financial guarantee in proportion to their respective ownership interests. Also, to support the portion of the financial guarantee issued by one of the shareholders who is also the project operator of Ambatovy ("Project Operator"), the remaining shareholders ("Other Shareholders"), including SNC-Lavalin, provided cross guarantees to the Ambatovy senior lenders. The financial guarantees and cross-guarantees will remain outstanding until certain legal, financial and operating conditions are satisfied upon completion of construction and commissioning ("Completion Date") of the project. The Other Shareholders also entered into a limited recourse subordinate loan agreement to finance a portion of the Project Operator's equity contribution in Ambatovy (the "Loan to Project Operator").

3 Infrastructure Concession Investments (Continued)

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

The following table summarizes SNC-Lavalin's disbursements and commitments at December 31, 2008 related to the Ambatovy project:

	AMOUNT DISBURSED AT DECEMBER 31, 2008	COMMITMENTS BASED ON COST ESTIMATE APPROVED AT DECEMBER 31, 2008
Equity contributions in Ambatovy (1)	CA$50.9 million	US$96 million(4)
Financial guarantee (2)	–	US$105 million
Cross-guarantee (2)	–	US$50 million
Loan to Project Operator (3)	CA$6.5 million	US$20 million

(1) In 2008, SNC-Lavalin's commitment to invest in Ambatovy increased to US$96 million, from US$88 million, to reflect the increased capital cost of the project approved by the shareholders. The capital cost estimate has also been updated in early 2009, as detailed at footnote 4 below. As at December 31, 2008, SNC-Lavalin had made equity contributions totalling CA$50.9 million in Ambatovy (December 31, 2007: CA$35.7 million). The investment in Ambatovy is accounted for by the cost method.

(2) The amount of US$155 million represents the maximum that could be paid if both the financial guarantee and cross-guarantee were called upon once the project debt financing is fully drawn.

(3) This interest-bearing variable-rate loan has a 15-year term and will be repaid from a portion of the Project Operator's share of the project's future distributions. At December 31, 2008, US$5.3 million (CA$6.5 million) had been loaned to the Project Operator by SNC-Lavalin (December 31, 2007: $nil) and is presented as part of "Other long-term assets".

(4) The capital cost estimate of the Ambatovy project has been updated in early 2009, reflecting increased costs that are expected to be funded by equity. Accordingly, the increase in equity contributions for SNC-Lavalin would represent approximately US$50 million and would be covered by the put/call arrangement described above. Concurrently, the Other Shareholders have initiated discussions to put in place a funding arrangement with the Project Operator to finance its remaining required equity contribution.

B) NET BOOK VALUE AND DESCRIPTIONS OF ICI

The net book value of the Company's investments in infrastructure concessions was as follows:

AT DECEMBER 31	2008	2007
Net book value of ICI accounted for by the full or proportionate consolidation methods	**$ 204,208**	$ 161,841
Net book value of ICI accounted for by the equity or cost methods:		
Net book value of ICI accounted for by the equity method	**117,154**	146,929
Net book value of ICI accounted for by the cost method	**232,959**	223,890
Net book value of ICI accounted for by the equity or cost methods as shown on balance sheet	**350,113**	370,819
Net book value of total ICI	**$ 554,321**	$ 532,660

3 Infrastructure Concession Investments (Continued)

I) ICI ACCOUNTED FOR BY THE FULL OR PROPORTIONATE CONSOLIDATION METHODS

SNC-Lavalin's infrastructure concession investments accounted for by the full or proportionate consolidation methods are detailed below:

			OWNERSHIP INTEREST (%)	
NAME OF ICI	PRINCIPAL ACTIVITY	LOCATION	2008	2007
407 International Inc. ("Highway 407")	108-km toll highway under a 99-year concession agreement	Canada	**16.77**	16.77
AltaLink L.P. ("AltaLink")	Rate-regulated transmission lines and substations	Canada	**76.92**	76.92
Okanagan Lake Concession L.P. ("Okanagan Lake Concession")	1.1 km William R. Bennett Bridge under a 30-year concession agreement	Canada	**100.0**	100.0
Gazmont Limited Partnership	25 MW biogas thermal power plant	Canada	**50.0**	50.0
TC Dome S.A.S. (Note 3A)	5.3 km electric cog railway	France	**100.0**	–

The Company's consolidated balance sheet includes the following assets, liabilities and non-controlling interest from these investments:

AT DECEMBER 31	2008	2007
Cash and cash equivalents	**$ 28,920**	$ 20,057
Restricted cash	**48,751**	96,057
Trade and other receivables and current future income tax asset	**50,039**	70,918
Property and equipment	**1,750,690**	1,640,663
Goodwill	**203,786**	203,786
Other long-term assets and long-term future income tax asset	**403,350**	346,901
Total assets	**2,485,536**	2,378,382
Trade and other payables	**75,524**	104,383
Current portion of non-recourse long-term debt	**5,764**	4,030
Non-recourse long-term debt	**2,003,303**	1,970,991
Other long-term liabilities	**132,976**	79,124
Non-controlling interest	**63,761**	58,013
Total liabilities and non-controlling interest	**2,281,328**	2,216,541
Net book value of ICI accounted for by the full or proportionate consolidation methods	**$ 204,208**	$ 161,841

The $204.2 million net book value of ICI accounted for by the full or proportionate consolidation methods at December 31, 2008 (December 31, 2007: $161.8 million) is net of the negative carrying amount resulting from the proportionate consolidation of Highway 407. Under Canadian GAAP, the proportionate consolidation method requires the venturer to recognize its proportionate share of the joint venture cumulative losses irrespective of the carrying amount of its investment in such joint venture. Consistent with this requirement, the net book value of the Company's investment in Highway 407 resulted in a negative balance of $37.9 million as at December 31, 2008 (December 31, 2007: negative balance of $35.1 million). The negative balance of this investment, which varies depending on SNC-Lavalin's proportionate share of Highway 407's accounting losses and income and dividends received, does not represent a liability or any future obligation that SNC-Lavalin has relative to Highway 407 or any other party.

3 Infrastructure Concession Investments (Continued)

As at December 31, 2008, Highway 407, which is accounted for by the proportionate consolidation method, held $147.0 million principal amount of non-bank sponsored Asset-Backed Commercial Paper ("ABCP") and $6.3 million of non-bank notes (the "Notes") (December 31, 2007: $159.0 million of ABCP of which $12.0 million has been converted into cash and Notes in 2008). The market for ABCP and Notes has not been liquid since August 2007 and therefore they have been revalued using best available market data, which has resulted in a reduction in their carrying value to $92.0 million at December 31, 2008 (December 31, 2007: $136.8 million). SNC-Lavalin's proportionate share in the revised carrying value of the ABCP and Notes held by Highway 407 represented approximately $15.4 million at December 31, 2008 (December 31, 2007: $22.9 million) and is presented in "Other long-term assets". SNC-Lavalin's proportionate share in the reduction in the carrying value of the ABCP and Notes in 2008, which amounted to $6.7 million (2007: $3.7 million), has been recorded as part of "Interest and capital taxes". While some uncertainties exist about the amount and timing of cash flows relating to the ABCP and Notes, they will not have a significant impact on SNC-Lavalin's financial position. On a consolidated basis, SNC-Lavalin has no other direct or indirect investment in either ABCP or Notes.

II) ICI ACCOUNTED FOR BY THE EQUITY METHOD

SNC-Lavalin's infrastructure concession investments accounted for by the equity method had the following net book value and are listed below:

AT DECEMBER 31	2008	2007
Net book value of ICI accounted for by the equity method	**$ 117,154**	$ 146,929

			OWNERSHIP INTEREST (%)	
NAME OF ICI	PRINCIPAL ACTIVITY	LOCATION	2008	2007
Astoria Project Partners LLC	500 MW natural-gas power plant	United States	**21.0**	21.0
Astoria Project Partners II LLC (Note 3A)	500 MW natural-gas power plant (under construction)	United States	**18.5**	–
InTransit BC L.P.	19-km rapid transit line (under construction)	Canada	**33.3**	33.3
Malta International Airport p.l.c.	Concession agreement expiring in 2067 to operate the Malta airport	Malta	**15.5**	15.5
Myah Tipaza S.p.A. (Note 3A)	Seawater desalination plant (under construction)	Algeria	**25.5**	–
Société d'exploitation de Vatry-Europort	Concession agreement expiring in 2020 to operate the Vatry airport	France	**51.1**	33.4
Shariket Kahraba Hadjret En Nouss S.p.A. ("SKH")	1,227 MW gas-fired thermal power plant (under construction)	Algeria	**26.0**	26.0
West End Dam Associates	4.5 MW hydro-power generating facility	United States	**21.0**	21.0

3 Infrastructure Concession Investments (Continued)

III) ICI ACCOUNTED FOR BY THE COST METHOD

SNC-Lavalin's infrastructure concession investments accounted for by the cost method had the following net book value and are listed below:

AT DECEMBER 31	2008	2007
Net book value of ICI accounted for by the cost method	**$ 232,959**	$ 223,890

			OWNERSHIP INTEREST (%)	
NAME OF ICI	PRINCIPAL ACTIVITY	LOCATION	2008	2007
Ambatovy Nickel Project (Note 3A)	Open-pit mine and hydrometallurgical processing plant (under construction)	Madagascar	**5.0**	5.0
Gaz Métro Limited Partnership ("Gaz Métro")	Publicly traded entity involved mainly in natural gas distribution	Canada	**2.42**	2.42
Trencap Limited Partnership	Holds an indirect interest in Gaz Métro	Canada	**11.1**	11.1

C) PAYMENTS AND REMAINING COMMITMENTS IN ICI

When making equity investments in infrastructure concessions, SNC-Lavalin may not be required to make its equity contribution immediately but instead may commit to make its equity contribution over time. SNC-Lavalin's remaining commitments to invest at the end of the reporting period that are expected to be paid in the following year or that are callable on demand by the investment are reflected as current liabilities under "Trade and other payables", otherwise they are included in long-term liabilities, under "Other long-term liabilities".

The following table summarizes SNC-Lavalin's payments and outstanding commitments to invest in infrastructure concession investments as at December 31, 2008 and 2007:

AT DECEMBER 31	2008	2007
Commitments to invest in ICI—beginning of year	**$ 99,360**	$ 97,230
Increase in commitments to invest in ICI	**33,213**	77,090
Payments for ICI during the year:		
Ambatovy	**(15,163)**	(35,705)
Myah Tipaza	**(4,693)**	–
SKH	**(5,206)**	(39,255)
Société d'exploitation de Vatry-Europort	**(862)**	–
Total payments for ICI during the year	**(25,924)**	(74,960)
Commitments to invest in ICI—end of year	**$ 106,649**	$ 99,360
Presented on the balance sheet as follows:		
Trade and other payables	**$ 106,649**	$ 21,143
Other long-term liabilities	**$ –**	$ 78,217

At December 31, 2008 and 2007, the commitments to invest in ICI related to Ambatovy, SKH, Myah Tipaza (2008 only) and InTransit BC.

4 Acquisition of Businesses

A) BUSINESSES ACQUIRED

In 2008, SNC-Lavalin completed the following business acquisitions, which added approximately 600 employees to its workforce:

In February 2008, Techmat (1992) Inc., known as Groupe Techmat, a Canadian firm specialized in the materials and geotechnical engineering sectors employing approximately 80 people.

In the first quarter of 2008, a 50% interest in two Turkish joint ventures involved in operations and maintenance activities, mainly in facilities management with commercial, residential and retail clients, adding approximately 100 people to the Company's total employees.

In July 2008, three Canadian firms with a total of approximately 100 people: i) Genesis Network Architecture and Engineering Inc., a firm in Saskatchewan involved in design and project management for institutional, recreational and commercial clients; ii) C.J. MacLellan & Associates Inc., an engineering and surveying firm in Nova Scotia, offering a full-range of multi-discipline design services; and iii) Laboratoire Sol et Béton L.S.B. Inc., a firm specialized in material and geotechnical engineering, based in Quebec City.

In the third quarter of 2008, the assets of two engineering groups based in Bucharest, Romania, providing a multidisciplinary engineering team of some 200 professionals with extensive experience in steel metallurgy and other industrial process plants, materials handling, and in the infrastructure, commercial and institutional sectors.

In December 2008, Quéformat Ltd., a Canadian firm specialized in material engineering, geotechnology and environmental sciences, and roofs and waterproofing, employing approximately 100 people.

Also in 2008, two French engineering firms with a total of approximately 20 employees: i) SODER S.A.S., specialized in industrial buildings and agrifood; and ii) Arcoba Mediterranée H.M. Ingénierie S.A.S., specialized in buildings.

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

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

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

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

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

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

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

4 Acquisition of Businesses (Continued)

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

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

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

B) COST OF ACQUISITIONS AND ALLOCATION OF PURCHASE PRICE

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

The purchase price for these business acquisitions, subject to final adjustments, was $23.7 million (2007: $196.9 million), net of cash and cash equivalents existing in these businesses at the time of acquisition of $1.2 million (2007: $25.1 million). The allocation of the purchase price to acquire these businesses and the total cash consideration paid were as follows:

	2008	2007
Cash and cash equivalents	**$ 1,201**	$ 25,068
Trade and other receivables	**13,149**	77,384
Contracts in progress	**3,765**	23,919
Property and equipment	**4,136**	12,780
Other long-term assets	**2,647**	1,034
Trade and other payables	**(7,289)**	(52,293)
Other liabilities assumed	**(1,521)**	(23,676)
Net assets of businesses acquired	**16,088**	64,216
Goodwill (1)	**8,788**	157,723
Total purchase price	**24,876**	221,939
Less: Cash and cash equivalents at acquisition	**1,201**	25,068
Total purchase price, net of cash and cash equivalents at acquisition	**23,675**	196,871
Less: Balance of purchase price payable in future years	**2,948**	36,370
Cash consideration paid for businesses acquired in the year	**20,727**	160,501
Plus: Balance of purchase price from previous year paid in current year	**17,855**	–
Cash consideration paid presented on consolidated statements of cash flows	**$ 38,582**	$ 160,501

(1) Approximately $0.7 million of goodwill resulting from the business acquisitions concluded in 2008 is expected to be deductible for tax purposes (2007: $84.2 million).

C) IMPACT OF BUSINESS ACQUISITIONS ON THE RESULTS OF SNC-LAVALIN PROVIDED AS SUPPLEMENTARY INFORMATION

SNC-Lavalin's consolidated revenues and net income in 2008 included approximately $25.7 million and $0.3 million, respectively, from business acquisitions completed in 2008 (2007: $145.2 million of revenues and $14.0 million of net income from business acquisitions completed in 2007). Had these 2008 business acquisitions all occurred on January 1, 2008, SNC-Lavalin's pro-forma consolidated revenues and net income would have been approximately $7,115.7 million and $312.8 million, respectively (2007: pro-forma revenues of $6,886.4 million and net income of $167.1 million assuming all transactions in 2007 had been completed on January 1, 2007). These pro-forma figures have been estimated based on the results of the acquired businesses prior to being purchased by SNC-Lavalin, adjusted to reflect the Company's accounting policies when significant differences existed, and are provided as supplementary information only and should not be viewed as indicative of SNC-Lavalin's future results.

5 Discontinued Operations

On January 5, 2007, SNC-Lavalin concluded the disposal of all its shares in its wholly-owned subsidiary SNC Technologies Inc. and its subsidiaries ("SNC TEC") for proceeds of $336.6 million, resulting in a gain before taxes of $114.0 million (net gain after taxes of $84.1 million), which is presented as "Net income from discontinued operations". SNC TEC was involved in the manufacturing of small, medium and large calibre ammunition, extruded propellant for military purposes and sporting use, and the production of Simunition® training systems. Despite the disposal of SNC TEC, the Company remains active in the defence industry, notably in defence contracting and providing operations and maintenance services to the Canadian Navy as well as remote-site infrastructure and logistics support for the Canadian Armed Forces overseas. The Company continues to report its activities in the defence industry under the segment to which they relate, which is currently mainly under Operations and Maintenance.

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

6 Joint Venture Activities

SNC-Lavalin carries out part of its activities through joint ventures. SNC-Lavalin's pro rata share of the assets, liabilities, net income and cash flows of such joint ventures is summarized below:

AT DECEMBER 31	2008	2007
Balance sheets		
Current assets	**$ 493,762**	$ 512,129
Property and equipment:		
From ICI	**380,933**	385,466
From other activities	**379**	214
Other long-term assets and long-term future income tax asset	**337,650**	330,205
	$ 1,212,724	$ 1,228,014
Current liabilities	**$ 359,076**	$ 327,234
Non-recourse long-term debt from ICI	**796,796**	781,047
Other long-term liabilities	**–**	911
Pro rata share of net assets of joint ventures	**56,852**	118,822
	$ 1,212,724	$ 1,228,014

YEAR ENDED DECEMBER 31	2008	2007
Statements of income		
Revenues	**$ 814,371**	$ 843,839
Expenses	**759,520**	733,610
Pro rata share of net income of joint ventures	**$ 54,851**	$ 110,229
Cash and cash equivalents generated by (used in):		
Operating activities from continuing operations	**$ 104,399**	$ 55,202
Investing activities from continuing operations	**(24,947)**	(27,991)
Financing activities from continuing operations	**(103,617)**	(13,314)
Pro rata share of changes in cash and cash equivalents of joint ventures	**$ (24,165)**	$ 13,897

7 Cash and Cash Equivalents and Restricted Cash

A) CASH AND CASH EQUIVALENTS

AT DECEMBER 31	2008	2007
Bank balances, bank term deposits and bankers' acceptances	**$ 969,212**	$ 1,086,223
Government treasury bills and treasury notes	**19,024**	2,393
Cash and cash equivalents	**$ 988,236**	$ 1,088,616

B) RESTRICTED CASH

AT DECEMBER 31	2008	2007
Bank balances, bank term deposits and bankers' acceptances	**$ 55,295**	$ 123,896
Government treasury bills and treasury notes	**47,888**	11,978
Restricted cash—current and long-term	**$ 103,183**	$ 135,874
Presented on the balance sheet as follows:		
Current assets—"Restricted cash"	**$ 59,997**	$ 107,905
Long-term assets—included in "Other long-term assets"	**$ 43,186**	$ 27,969

8 Trade and Other Receivables

A) DETAILS OF TRADE AND OTHER RECEIVABLES

Trade and other receivables are carried on the balance sheet net of an allowance for doubtful accounts, which relates exclusively to trade receivables. Trade and other receivables are detailed in the following table:

AT DECEMBER 31	2008	2007
Trade receivables, net of allowance for doubtful accounts	**$ 1,223,623**	$ 1,127,603
Other receivables:		
Retentions on client contracts	**135,190**	152,159
Income taxes and other taxes receivable	**82,989**	34,569
Performance Share Unit arrangement (Note 15C)	**31,305**	41,745
Prepaid expenses	**29,309**	26,368
Derivative financial instruments used for cash flow hedges—favourable	**26,334**	35,685
Note receivable from Astoria II (Note 3A)	**20,978**	–
Other	**125,442**	101,048
Trade and other receivables	**$ 1,675,170**	$ 1,519,177

8 Trade and Other Receivables (Continued)

B) TRADE RECEIVABLES AND ALLOWANCE FOR DOUBTFUL ACCOUNTS

The following table presents the Company's trade receivables that are within normal terms of payment separately from those that are past due, with a reconciliation to the net carrying amount:

AT DECEMBER 31	2008	2007
Trade receivables:		
Within normal terms of payment	**$ 1,031,944**	$ 968,338
Past due	**279,752**	244,382
Total trade receivables	**1,311,696**	1,212,720
Allowance for doubtful accounts	**(88,073)**	(85,117)
Trade receivables, net of allowance for doubtful accounts	**$ 1,223,623**	$ 1,127,603

The allowance for doubtful accounts is established based on SNC-Lavalin's best estimates on the recovery of balances for which collection may be uncertain. Uncertainty of collection may become apparent from various indicators, such as a deterioration of the credit situation of a given client or delay in collection when the aging of invoices exceeds the normal payment terms. Management regularly reviews trade receivables and assesses the appropriateness of the allowance for doubtful accounts.

The change in the allowance for doubtful accounts is detailed below:

YEAR ENDED DECEMBER 31	2008	2007
Balance at beginning of year	**$ 85,117**	$ 52,513
Net change in allowance for doubtful accounts	**2,956**	32,604
Balance at end of year	**$ 88,073**	$ 85,117

9 Property and Equipment

AT DECEMBER 31	2008		2007	
	COST	ACCUMULATED DEPRECIATION	COST	ACCUMULATED DEPRECIATION
From ICI				
Transmission assets	**$ 1,577,377**	**$ 353,771**	$ 1,423,349	$ 285,179
Toll highway	**373,471**	**21,872**	369,853	17,521
Toll equipment	**46,644**	**34,543**	44,778	29,985
William R. Bennett Bridge (1)	**149,298**	**3,146**	117,049	–
Other	**36,519**	**19,287**	35,834	17,515
	2,183,309	**$ 432,619**	1,990,863	$ 350,200
Accumulated depreciation	**432,619**		350,200	
Net book value of property and equipment—From ICI	**1,750,690**		1,640,663	
From other activities				
Buildings and surface installations	**63,899**	**$ 20,387**	59,562	$ 18,762
Computer equipment	**253,617**	**223,361**	239,100	210,507
Office furniture	**102,752**	**75,912**	90,728	65,748
Other	**54,051**	**31,303**	43,105	25,488
	474,319	**$ 350,963**	432,495	$ 320,505
Accumulated depreciation	**350,963**		320,505	
Net book value of property and equipment—From other activities	**123,356**		111,990	
Total net book value of property and equipment	**$ 1,874,046**		$ 1,752,653	

(1) The William R. Bennett Bridge, which relates to the investment in Okanagan Lake Concession (Note 3B), opened to traffic at the end of May 2008, at which time depreciation began.

Total depreciation expense on property and equipment from ICI was $86.4 million in 2008 (2007: $76.2 million), while total depreciation expense on property and equipment from other activities was $40.8 million in 2008 (2007: $34.7 million).

10 Goodwill

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

	INFRASTRUCTURE CONCESSION INVESTMENTS	FROM OTHER ACTIVITIES		TOTAL
		SERVICES AND PACKAGES	OPERATIONS AND MAINTENANCE	
Balance at December 31, 2006	$ 203,786	$ 103,369	$ 20,875	$ 328,030
Goodwill arising from acquisitions completed in the year	–	157,723	–	157,723
Foreign exchange on self-sustaining foreign operations	–	(4,232)	–	(4,232)
Balance at December 31, 2007	203,786	256,860	20,875	481,521
Goodwill arising from acquisitions completed in the year	**–**	**7,781**	**1,007**	**8,788**
Foreign exchange on self-sustaining foreign operations	**–**	**5,838**	**–**	**5,838**
Balance at December 31, 2008	**$ 203,786**	**$ 270,479**	**$ 21,882**	**$ 496,147**

11 Other Long-term Assets

AT DECEMBER 31	2008	2007
From ICI		
Concession right from Highway 407 (1)	**$ 271,569**	$ 272,181
Restricted cash (Note 7B)	**43,186**	27,969
Other	**70,576**	33,213
	385,331	333,363
From other activities	**39,799**	27,881
	$ 425,130	$ 361,244

(1) The Company's proportionate share of the original cost of the concession right from Highway 407 was $281.2 million, while accumulated depreciation totalled $9.6 million as at December 31, 2008 (December 31, 2007: $9.0 million). Amortization of the concession right was $0.6 million in 2008 (2007: $0.6 million).

12 Trade and Other Payables

Trade and other payables were detailed as follows:

AT DECEMBER 31	2008	2007
Trade and accrued liabilities	**$ 1,735,012**	$ 1,735,605
Other payables:		
Retentions on supplier contracts	**201,015**	215,881
Derivative financial instruments used for cash flow hedges–unfavourable	**107,591**	26,801
Commitments to invest in infrastructure concession investments (Note 3C)	**106,649**	21,143
Income taxes and other taxes payable	**79,098**	99,459
Performance Share Unit liability (Note 15C)	**31,305**	41,745
Trade and other payables	**$ 2,260,670**	$ 2,140,634

13 Long-term Debt

A) RECOURSE REVOLVING CREDIT FACILITIES

The Company has access to committed long-term revolving lines of credit with banks, totalling $477.5 million, upon which it may either issue letters of credit, or borrow at variable rates not exceeding the prime rate. As at December 31, 2008, $428.2 million of these lines of credit remained unused, while the balance of $49.3 million was exclusively used for the issuance of letters of credit. In addition, the Company has other lines of credit specifically available for the issuance of letters of credit. All the above-mentioned lines of credit are unsecured and subject to negative pledge clauses.

B) RECOURSE LONG-TERM DEBT

AT DECEMBER 31	2008	2007
Recourse (to the general credit of the Company)		
Debentures, 7.70%, due in September 2010 Debentures with a face value of $105.0 million are repayable in full at maturity. These debentures are unsecured and subject to negative pledge clauses.	**$ 104,709**	$ 104,557

13 Long-term Debt (Continued)

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

I) FROM ICI

AT DECEMBER 31	2008	2007
AltaLink (76.92% ownership with the following debt reflected at 100% based on full consolidation)		
Senior Debt, 5.02% to 5.43%, due from 2012 to 2036 (December 31, 2007: 4.45% to 5.43%, due from 2008 to 2036), secured by a first floating charge security interest on AltaLink, L.P.'s assets. This senior debt ranks equally with AltaLink, L.P.'s secured credit facilities.	**$ 568,899**	$ 568,809
Unsecured Debt, 5.02% due in 2012 and, 10.50% due in 2015	**287,300**	286,738
Unsecured Commercial Paper and secured bank credit facility	**164,686**	178,789
The commercial paper is supported by a $200 million secured bank credit facility under which AltaLink may also borrow at prime rate and bankers' acceptances, maturing in 2011 and ranking equally with the Senior Debt. At December 31, 2008, drawdowns under the bank credit facility totalled $139.5 million (December 31, 2007: $nil).		
Unsecured revolving credit facility expiring in 2011	**31,783**	–
Other	**1,261**	1,527
Highway 407 (16.77% ownership with the following debt reflected at proportionate consolidation)		
Senior Bonds, 4.50% to 6.75%, due from 2009 to 2039 (December 31, 2007: 4.39% to 6.75%, due from 2008 to 2039)	**383,113**	370,674
Inflation-linked Senior Bonds, 3.28% to 5.33%, plus inflation component, due from 2016 to 2039	**246,321**	243,666
Junior Bonds, 7.00%, due in 2010	**27,521**	27,491
Subordinated Bonds, 5.00% and 5.75% due in 2011 and 2036 (December 31, 2007: 4.96% and 5.75%, due in 2008 and 2036)	**130,093**	130,255
Other	**732**	726
Highway 407's bonds are secured by substantially all assets of 407 International Inc. and its wholly-owned subsidiaries, which primarily include 407 ETR Concession Company Limited, including an assignment of future revenues.		
Okanagan Lake Concession L.P. (100% ownership with the following debt reflected at full consolidation)		
5.415% credit facility, due in 2033, secured by all assets of Okanagan Lake Concession L.P., including a pledge by SNC-Lavalin of its units in Okanagan Lake Concession L.P. as well as an assignment of future revenues.	**156,164**	155,246
Other	**11,194**	11,100
Total non-recourse long-term debt from ICI	**2,009,067**	1,975,021
Less: current portion (1)	**5,764**	4,030
Non-recourse long-term debt from ICI	**$ 2,003,303**	$ 1,970,991

(1) The current portion of non-recourse debt from ICI at December 31, 2008 excluded $67.0 million reflecting the Company's share of Senior Bonds of Highway 407 due July 2009 that were refinanced in January 2009, while at December 31, 2007 it excluded $99.5 million of Senior Debt of AltaLink and the Company's share of Senior and Subordinated Bonds of Highway 407, totalling $79.6 million, that were due in 2008 and refinanced in 2008.

13 Long-term Debt (Continued)

II) FROM OTHER ACTIVITIES

AT DECEMBER 31	2008	2007
Company headquarters		
9.39% mortgage, due in February 2008, secured by a first ranking hypothec on the building, including a hypothec upon all rents payable in respect of such property. A balance of capital repayment of $25.4 million was reimbursed at maturity.	**$ –**	$ 25,740
Other	**–**	654
Total non-recourse long-term debt—From other activities	**–**	26,394
Less: current portion	**–**	26,394
Non-recourse long-term debt—From other activities	**$ –**	$ –

D) REPAYMENT OF PRINCIPAL OF LONG-TERM DEBT

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

AT DECEMBER 31, 2008	RECOURSE	NON-RECOURSE FROM ICI (1)	TOTAL
2009	$ –	$ 6,095	$ 6,095
2010	105,000	139,267	244,267
2011	–	295,491	295,491
2012	–	206,767	206,767
2013	–	332,822	332,822
Thereafter	–	1,044,454	1,044,454
Total	$ 105,000	$ 2,024,896	$ 2,129,896
Net unamortized deferred financing costs and unamortized discounts	(291)	(15,829)	(16,120)
Net carrying amount of long-term debt	$ 104,709	$ 2,009,067	$ 2,113,776

(1) The future principal payments of non-recourse long-term debt from ICI reflect the refinancing of Senior Bonds of Highway 407 in January 2009.

14 Other Long-term Liabilities

AT DECEMBER 31	2008	2007
Asset retirement obligations from an ICI (1)	**$ 60,181**	$ 57,954
Commitments to invest in ICI (Note 3C)	**–**	78,217
Pension and other post-retirement benefits (Note 22)	**32,644**	30,187
Other	**137,789**	93,081
	$ 230,614	$ 259,439

(1) The "Asset retirement obligations from an ICI" relate to the AltaLink infrastructure concession and correspond to the estimated present value of liabilities associated with the retirement of tangible long-lived assets. The obligation is accounted for on a present value basis using discount rates ranging from 4.13% to 7.46%. As at December 31, 2008, the estimated total undiscounted amount of asset retirement obligations was approximately $130.7 million (December 31, 2007: $132.9 million).

15 Share Capital

A) AUTHORIZED

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

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

B) STOCK OPTION PLANS

In 2007, the Company introduced the 2007 stock option plan. The stock options granted in 2007 and 2008 have been granted under this stock option plan. The plan provides for graded vesting, beginning on the sixth trading day following the grant, at which date the exercise price is determined (the "measurement date"). This exercise price is the greater of: i) the average closing price for the five trading days preceding the measurement date and ii) the closing price on the first trading day immediately preceding the measurement date. The award vests in three equal tranches, two years, three years and four years, respectively, after the measurement date, with all options expiring five years after the measurement date. In the event of cessation of employment, except in the event of death or Company approved retirement, unvested options are cancelled immediately and vested options remain exercisable for a specified period not exceeding 30 days. In the event of death or Company approved retirement, both vested and unvested options continue to run their normal course.

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

The number of options varied as follows:

	2008		2007	
	NUMBER OF OPTIONS	WEIGHTED AVERAGE EXERCISE PRICE (IN DOLLARS)	NUMBER OF OPTIONS	WEIGHTED AVERAGE EXERCISE PRICE (IN DOLLARS)
Options outstanding at beginning of year	**4,036,670**	**$ 26.92**	4,094,850	$ 19.28
Granted	**1,382,500**	**$ 46.20**	1,262,200	$ 37.71
Exercised (1)	**(927,920)**	**$ 18.07**	(1,231,930)	$ 12.21
Cancelled	**(172,150)**	**$ 39.76**	(88,450)	$ 31.85
Options outstanding at end of year	**4,319,100**	**$ 34.48**	4,036,670	$ 26.92

(1) The Company's weighted average share price upon the exercise of stock options was $45.75 in 2008 ($38.81 in 2007).

15 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, 2008.

		OPTIONS OUTSTANDING			OPTIONS EXERCISABLE	
RANGE OF EXERCISE PRICES	YEAR OF GRANT	NUMBER OUTSTANDING	WEIGHTED AVERAGE REMAINING OPTIONS' TERM (MONTHS)	WEIGHTED AVERAGE EXERCISE PRICE (IN DOLLARS)	NUMBER EXERCISABLE	WEIGHTED AVERAGE EXERCISE PRICE (IN DOLLARS)
$11.89	2003	88,700	4	$ 11.89	88,700	$ 11.89
$16.49 to $16.66	2004	394,500	18	$ 16.58	394,500	$ 16.58
$20.92 to $24.33	2005	515,170	27	$ 22.84	515,170	$ 22.84
$29.20 to $32.50	2006	858,530	38	$ 29.64	858,530	$ 29.64
$37.64 to $42.36	2007	1,135,200	40	$ 37.71	–	$ –
$37.17 to $55.10	2008	1,327,000	51	$ 46.19	–	$ –
		4,319,100	39	$ 34.48	1,856,900	$ 24.13

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

	2008	2007
Risk-free interest rate	**2.79%**	4.54%
Expected stock price volatility	**25.90%**	23.17%
Expected option life	**4 years**	4 years
Expected dividend yield	**1.00%**	1.00%

In 2008, the Company granted 1,382,500 stock options (2007: 1,262,200) to employees with a weighted average fair value of $10.33 per stock option (2007: $8.80). The exercise price of all options granted in 2008 and 2007 was higher than the stock price at the date of the award.

As at December 31, 2008, 1,037,800 stock options remained available for future grants (December 31, 2007: 2,263,650) under the Company's authorized stock option plan. In 2009, the Board of Directors of the Company plans to replenish the number of stock options available for future grants to key employees, subject to approval required from certain regulatory authorities as well as from the Company's shareholders.

15 Share Capital (Continued)

C) PERFORMANCE SHARE UNIT PLAN

The Company has a Performance Share Unit Plan, under which the Board of Directors, through its Human Resources Committee, grants a number of Performance Share Units ("PSU") to selected key executives (the plan "participants"). The PSU vest at a rate of 20% per year on the anniversary of each grant. Under certain conditions, vesting could be immediate and the participant may receive 50% of the current year's grant as a cash payment. Furthermore, PSU vest immediately in the event of death, long-term disability or retirement of a participant.

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

The Company has a financial arrangement with an investment grade financial institution to limit its exposure to the variability of the PSU caused by fluctuations in its share price. This financial arrangement includes a financial instrument, which fluctuates in accordance with the movement in the Company's share price, and is recorded at fair value on the consolidated balance sheet under "Trade and other receivables", while the PSU liability is recorded in "Trade and other payables" for the same amount. Gains and losses from the remeasurement of the financial instrument offset the related losses and gains from the fair value remeasurement of the PSU liability. The financing arrangement is adjusted as needed to reflect new awards and/or settlements of PSU units. The Company awarded 48,751 units (average fair value of $46.29 per unit) in 2008 and 57,410 units (average fair value of $35.74 per unit) in 2007. The compensation expense, net of the $7.5 million offsetting unrealized loss/gain from the remeasurement of the financial arrangement/PSU liability in 2008 (2007: offsetting unrealized gain/loss of $15.0 million from the remeasurement of the financial arrangement/PSU liability), was $5.7 million for the year ended December 31, 2008 (2007: $2.4 million) in respect of this plan.

D) REDEMPTION OF SHARES

In May 2008, the Board of Directors authorized the renewal of its normal course issuer bid to purchase for cancellation, on the open market, up to 10.6 million (2007: 11.8 million) common shares within a one-year period. The renewal of the Company's normal course issuer bid requires annual approval by the Board of Directors and the Toronto Stock Exchange. The redemption of shares in 2008 and 2007 were as follows:

	2008	2007
Redeemed and cancelled:		
Portion allocated to share capital	**$ 2,383**	$ 2,981
Portion allocated to retained earnings	**44,813**	45,260
	$ 47,196	$ 48,241
Number of shares redeemed and cancelled	**933,100**	1,227,000
Average redemption price per share ($)	**$ 50.58**	$ 39.32

E) WEIGHTED AVERAGE NUMBER OF OUTSTANDING SHARES — BASIC AND DILUTED

The weighted average number of outstanding shares in 2008 and 2007 used to calculate the basic and diluted earnings per share were as follows:

AT DECEMBER 31 (IN THOUSANDS)	2008	2007
Weighted average number of outstanding shares—basic	**150,925**	151,172
Dilutive effect of stock options	**1,340**	1,525
Weighted average number of outstanding shares—diluted	**152,265**	152,697

In 2008, 1,312,000 outstanding stock options have not been included in the computation of diluted earnings per share because they were anti-dilutive (2007: nil).

16 Accumulated Other Comprehensive Income (Loss)

The following table provides the balances of the components of accumulated other comprehensive income (loss) at December 31:

	2008	2007
Accumulated currency translation adjustment on self-sustaining foreign operations	**$ 10,698**	$ (16,979)
Accumulated net unrealized loss on available-for-sale financial assets	**(13,651)**	(2,954)
Accumulated net unrealized loss on derivative financial instruments designated as cash flow hedges	**(98,514)**	(29,025)
Accumulated other comprehensive loss	**$ (101,467)**	$ (48,958)

In 2008 and 2007, no amounts were reclassified to net income for accumulated currency translation adjustment on self-sustaining foreign operations, while a loss of $0.1 million was reclassified to net income in 2008 on available-for-sale financial assets (2007: $nil). For derivative financial instruments designated as cash flow hedges, any amount of the accumulated other comprehensive income (loss) that is reclassified to net income offsets the gain or loss recognized in net income on the underlying hedged items, since the Company's cash flow hedges are highly effective. The Company expects that approximately $22.6 million of the accumulated net unrealized loss on derivative financial instruments designated as cash flow hedges balance at December 31, 2008 will be reclassified in net income in the next 12 months offsetting unrealized gains on the corresponding underlying hedged items.

The reconciliation of the accumulated net unrealized loss on derivative financial instruments designated as cash flow hedges is as follows:

	2008	2007
Balance at the beginning of year	**$ (29,025)**	$ (51,275)
Net increase (decrease) in fair value of derivative financial instruments designated as cash flow hedges	**(130,822)**	54,561
Reclassification to net income to offset the impact of the underlying hedged items	**61,333**	(32,311)
Balance at end of year	**$ (98,514)**	$ (29,025)

17 Interest and Capital Taxes

YEAR ENDED DECEMBER 31	2008			2007		
	FROM INFRASTRUCTURE CONCESSION INVESTMENTS	FROM OTHER ACTIVITIES	TOTAL	FROM INFRASTRUCTURE CONCESSION INVESTMENTS	FROM OTHER ACTIVITIES	TOTAL
Interest revenues	**$ (3,730)**	**$ (26,007)**	**$ (29,737)**	$ (4,293)	$ (47,685)	$ (51,978)
Interest on long-term debt:						
Recourse	**–**	**8,250**	**8,250**	–	8,213	8,213
Non-recourse	**105,171**	**444**	**105,615**	105,453	2,869	108,322
Capital taxes and other	**6,708**	**3,635**	**10,343**	3,445	4,510	7,955
Interest (revenues) and capital taxes	**$ 108,149**	**$ (13,678)**	**$ 94,471**	$ 104,605	$ (32,093)	$ 72,512

18 Supplementary Cash Flow Information

A) NET CHANGE IN NON-CASH WORKING CAPITAL ITEMS

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

	2008	2007
Decrease in contract in progress subject to contract financing arrangement (Note 18B)	$ 10,939	$ 319,149
Increase in trade and other receivables	(118,135)	(271,998)
Decrease (increase) in contracts in progress	(59,200)	27,118
Increase in trade and other payables	11,930	459,127
Increase (decrease) in downpayments on contracts	132,243	(217,577)
Increase (decrease) in deferred revenues	(120,824)	34,330
	(153,986)	31,000
Net change in non-cash working capital items	$ (143,047)	$ 350,149

B) CONTRACT IN PROGRESS SUBJECT TO CONTRACT FINANCING ARRANGEMENT AND REPAYMENT OF ADVANCE UNDER CONTRACT FINANCING ARRANGEMENT

In 2005, the Company and a partner entered into an EPC contract with the Government of New Brunswick for some sections of the Trans-Canada Highway in the Province of New Brunswick, Canada. Under a contract financing arrangement, the Company and its partner received progress payments from third-parties (the "group of purchasers") throughout the duration of this contract who in turn received payments from the client upon attainment of certain pre-determined milestones. Throughout the duration of the project, the Company presented a liability on its balance sheet for the amounts received from the group of purchasers, plus related accrued interest, less any amounts paid to the group of purchasers by the client as "Advance under contract financing arrangement", while it presented an asset for the amount of the advancement of work, less the contract value of all completed sections of the Highway, as "Contract in progress subject to contract financing arrangement". The asset and liability have been removed from the Company's consolidated balance sheet in the first quarter of 2008, upon the final completion of the EPC contract and repayment of related advance, and their comparative figures at December 31, 2007 have been reclassified to "Trade and other payables" for $13.2 million and "Contracts in progress" for $10.9 million, respectively, in the Company's 2008 annual consolidated financial statements. The decrease in contract in progress subject to contract financing arrangement and related accrued interest are presented in the operating activities on the Company's consolidated statements of cash flows, while the repayment of advance under contract financing arrangement is presented in the financing activities.

C) INTEREST PAID AND INCOME TAXES PAID

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

	2008	2007
Interest paid:		
From infrastructure concession investments	$ 91,570	$ 94,426
From other activities	10,112	12,067
	$ 101,682	$ 106,493
Income taxes paid	$ 186,497	$ 86,517

19 Income Taxes

SNC-Lavalin's income tax expense attributable to continuing operations was comprised of the following:

YEAR ENDED DECEMBER 31	2008	2007
Current income tax expense	$ 104,203	$ 143,823
Future income tax benefit	(19,089)	(120,173)
Income tax expense	**$ 85,114**	$ 23,650

The following table presents the reconciliation between the income tax expense calculated using statutory Canadian rates to the effective income tax expense in SNC-Lavalin's consolidated statements of income:

YEAR ENDED DECEMBER 31	2008		2007	
	AMOUNT	%	AMOUNT	%
Income tax expense at statutory Canadian rates	$ 124,631	30.9	$ 33,302	32.7
Increase (decrease) resulting from:				
Effect of differences of foreign tax rates compared to Canadian rates	(25,180)	(6.2)	(9,287)	(9.1)
Proportionate share of future income tax benefit recognized by Highway 407	(10,169)	(2.5)	–	–
Non-deductible expenses for tax purposes	6,257	1.5	5,827	5.7
Net income not affected by tax	(1,599)	(0.4)	(2,766)	(2.7)
Non-taxable income from certain ICI accounted for by the equity or cost methods	(1,519)	(0.4)	(1,770)	(1.7)
Effect of income tax rate changes on future income tax assets and liabilities	1,477	0.4	4,937	4.8
Other	(8,784)	(2.2)	(6,593)	(6.5)
Income tax expense at effective tax rate	**$ 85,114**	**21.1**	$ 23,650	23.2

The following table presents i) the temporary differences between the tax bases of assets and liabilities and their carrying amounts reported in the financial statements, and ii) tax loss carry forwards, which give rise to future income tax assets presented on the Company's balance sheet:

AT DECEMBER 31	2008	2007
Temporary differences arising from:		
Retentions on client contracts	$ (6,382)	$ (18,117)
Contracts in progress	(18,071)	(27,005)
Retentions on supplier contracts	28,750	32,934
Accrued employees compensation	7,428	11,438
Other accrued liabilities	68,285	53,672
Property and equipment, and goodwill	(26,187)	(15,888)
ICI accounted for by the equity or cost methods	(7,431)	(1,999)
Pension plans and other post-retirement benefits	7,681	8,599
Accumulated other comprehensive loss from cash flow hedges	29,054	11,666
Other	(1,450)	(534)
Tax loss carry forwards	118,882	107,074
Future income tax asset, net	**$ 200,559**	$ 161,840
Presented on the balance sheet as follows:		
Future income tax asset—current	**$ 121,026**	$ 63,712
Future income tax asset—long-term	**$ 79,533**	$ 98,128

At December 31, 2008, SNC-Lavalin's had $392.2 million of non-capital tax loss carry forwards that expire in varying amounts from 2009 to 2028. A future income tax asset of $118.9 million has been recognized on $385.3 million of these losses.

20 Financial Instruments

A) CLASSIFICATION AND FAIR VALUE OF FINANCIAL INSTRUMENTS

The following tables present the carrying value of financial assets held by SNC-Lavalin at December 31, by category and classification, with the corresponding fair value, when available:

AT DECEMBER 31	2008					
	CARRYING VALUE OF FINANCIAL ASSETS BY CATEGORY					
	HELD FOR TRADING	AVAILABLE-FOR-SALE	LOANS AND RECEIVABLES	DERIVATIVES USED FOR CASH FLOW HEDGES	TOTAL	FAIR VALUE
Cash and cash equivalents (1)	$ 988,236	$ –	$ –	$ –	$ 988,236	$ 988,236
Restricted cash (1)	59,997	–	–	–	59,997	59,997
Trade and other receivables	31,305 (2)	–	1,505,233	26,334 (2)	1,562,872	1,562,872
ICI accounted for by the cost method:						
At fair value	–	38,316	–	–	38,316	38,316
At cost (3)	–	194,643	–	–	194,643	See (3)
Other long-term assets:						
Restricted cash (1)	43,186	–	–	–	43,186	43,186
Asset-backed commercial paper and non-bank notes held by Highway 407	15,431	–	–	–	15,431	15,431
Other:						
At fair value	–	7,932	–	–	7,932	7,932
At cost/amortized cost (3)	–	4,423	6,504	–	10,927	See (3)
Total	$ 1,138,155	$ 245,314	$ 1,511,737	$ 26,334	$ 2,921,540	

AT DECEMBER 31	2007					
	CARRYING VALUE OF FINANCIAL ASSETS BY CATEGORY					
	HELD FOR TRADING	AVAILABLE-FOR-SALE	LOANS AND RECEIVABLES	DERIVATIVES USED FOR CASH FLOW HEDGES	TOTAL	FAIR VALUE
Cash and cash equivalents (1)	$ 1,088,616	$ –	$ –	$ –	$ 1,088,616	$ 1,088,616
Restricted cash (1)	107,905	–	–	–	107,905	107,905
Trade and other receivables	41,745 (2)	–	1,380,810	35,685 (2)	1,458,240	1,458,240
ICI accounted for by the cost method:						
At fair value	–	47,611	–	–	47,611	47,611
At cost (3)	–	176,279	–	–	176,279	See (3)
Other long-term assets:						
Restricted cash (1)	27,969	–	–	–	27,969	27,969
Asset-backed commercial paper held by Highway 407	22,940	–	–	–	22,940	22,940
Other:						
At fair value	–	10,432	–	–	10,432	10,432
At cost (3)	–	4,507	–	–	4,507	See (3)
Total	$ 1,289,175	$ 238,829	$ 1,380,810	$ 35,685	$ 2,944,499	

(1) Cash and cash equivalents, and restricted cash, have been designated as held for trading and are accounted for at fair value.

(2) Trade and other receivables include $31.3 million in 2008 (2007: $41.7 million) for the PSU arrangement (required to be classified as held for trading), as well as derivatives used for cash flow hedges, that are accounted for at fair value. The tables above exclude income taxes and other taxes receivable, and prepaid expenses, which are not financial assets.

(3) The available-for-sale financial assets represent equity instruments that do not have a quoted market price in an active market, while the $6.5 million presented in loans and receivables in 2008 is a reasonable estimate of its fair value.

20 Financial Instruments (Continued)

The following tables present the carrying value of financial liabilities of SNC-Lavalin at December 31, by category and classification, with the corresponding fair value, when available:

AT DECEMBER 31	2008				
	CARRYING VALUE OF FINANCIAL LIABILITIES BY CATEGORY				
	HELD FOR TRADING	DERIVATIVES USED FOR CASH FLOW HEDGES	OTHER FINANCIAL LIABILITIES	TOTAL	FAIR VALUE
Trade and other payables [1]	**$ –**	**$ 107,591**	**$ 2,042,676**	**$ 2,150,267**	**$ 2,150,267**
Downpayments on contracts	**–**	**–**	**473,199**	**473,199**	**473,199**
Long-term debt [2]:					
Recourse	**–**	**–**	**104,709**	**104,709**	**107,804** [2]
Non-recourse from ICI [3]	**14,082**	**–**	**1,994,985**	**2,009,067**	**1,950,773** [2]
Other long-term liabilities	**–**	**–**	**7,725**	**7,725**	**7,725**
Total	**$ 14,082**	**$ 107,591**	**$ 4,623,294**	**$ 4,744,967**	

AT DECEMBER 31	2007				
	CARRYING VALUE OF FINANCIAL LIABILITIES BY CATEGORY				
	HELD FOR TRADING	DERIVATIVES USED FOR CASH FLOW HEDGES	OTHER FINANCIAL LIABILITIES	TOTAL	FAIR VALUE
Trade and other payables [1]	$ –	$ 26,801	$ 1,972,629	$ 1,999,430	$ 1,999,430
Downpayments on contracts	–	–	336,692	336,692	336,692
Long-term debt [2]:					
Recourse	–	–	104,557	104,557	111,612 [2]
Non-recourse from ICI [3]	25,010	–	1,950,011	1,975,021	2,104,443 [2]
Non-recourse from other activities	–	–	26,394	26,394	27,795
Other long-term liabilities:					
Commitments to invest in ICI	–	–	78,217	78,217	78,217
Other	–	–	15,106	15,106	15,106
Total	$ 25,010	$ 26,801	$ 4,483,606	$ 4,535,417	

(1) Trade and other payables include derivatives used as cash flow hedges which are accounted for at fair value. The tables above exclude taxes and other taxes payable, which are not financial liabilities, and the PSU liability, which is excluded from the classification requirement and accounted for at fair value.

(2) The fair value of long-term debt was determined using public quotations or the discounted cash flows method in accordance with current financing arrangements. The discount rates used correspond to prevailing market rates offered to SNC-Lavalin or to the infrastructure concession investment, depending on which entity has issued the debt instrument, for debt with the same terms and conditions.

(3) The non-recourse long-term debt from ICI includes $14.1 million at December 31, 2008 (December 31, 2007: $25.0 million) related to the Company's share in the long-term debt of Highway 407 that was required to be classified as a held for trading financial liability and accounted for at fair value. The Company's $12.3 million share of the gain on revaluation on this non-recourse long-term debt for 2008 (2007: $4.2 million) is included in interest expense from ICI.

20 Financial Instruments (Continued)

B) NATURE AND EXTENT OF RISKS ARISING FROM FINANCIAL INSTRUMENTS AND RELATED RISK MANAGEMENT

CREDIT RISK

Credit risk corresponds to the risk that one party to a financial instrument will incur a financial loss if the other party fails to discharge an obligation. The maximum exposure to credit risk for an entity at the end of a given period usually corresponds to the carrying amount of its financial assets exposed to such risk.

For SNC-Lavalin, credit risk arises from:

i) Cash and cash equivalents, and restricted cash, which are invested in liquid and high-grade financial instruments, based on SNC-Lavalin's investment policy.

ii) Derivative financial instruments used for hedging purposes with a favourable fair value and the PSU arrangement, which contain an inherent credit risk relating to default on obligations by the counterparty. This credit risk is reduced by entering into such contracts with sound financial institutions, which are anticipated to satisfy their obligations under the contracts.

iii) Trade and other receivables, as detailed in Note 8. A given client may represent a material portion of SNC-Lavalin's consolidated revenues in any given year due to the size of a particular project and the progress accomplished on such project, however, the exposure to credit risk is generally limited due to the large number of clients comprising SNC-Lavalin's revenue base, and their dispersion across different industry segments and geographic areas. Furthermore, SNC-Lavalin endeavours to structure positive cash flow arrangements on its projects to reduce the underlying credit risk.

   The Company's objective is to reduce credit risk by ensuring collection of its trade and other receivables on a timely basis. The Company internally allocates imputed interest to provide an incentive to project managers to collect trade and other receivables, as uncollected balances result in an internal cost for the related project and, as such, impacts the profitability of the project, which is used to determine manager's compensation, and of the associated operating segment.

iv) Certain financial assets included in "Other long-term assets", including the share of Highway 407's ABCP and Notes, disclosed in Note 3.

v) The financial guarantees and loans on the Ambatovy and Astoria II projects disclosed in Note 3.

LIQUIDITY RISK

Liquidity risk corresponds to the possibility that an entity will encounter difficulties in meeting the obligations associated with its financial liabilities. The Company monitors liquidity risk on an ongoing basis and furthermore calculates freehold cash, which represents the amount of cash and cash equivalents that is not committed for its operations and not committed for investments in ICI. Furthermore, if needed, the Company has access to committed lines of credit with banks.

The Company's consolidated balance sheet included approximately $2,217.6 million at December 31, 2008 (December 31, 2007: $2,158.5 million) of liabilities from ICI that are accounted for by the full or proportionate consolidation methods, as disclosed in Note 3. These liabilities, which are non-recourse to the Company, are to be repaid by the ICI and are secured by the respective concession's assets, including $170.5 million of financial assets at December 31, 2008 (December 31, 2007: $180.7 million), and by SNC-Lavalin's shares or units in such concession investments. As such, the actual book value at risk for SNC-Lavalin assuming its ICI accounted for by the full or proportionate consolidation methods were unable to meet their obligations corresponds to the carrying amount invested in these entities, which totalled $204.2 million at December 31, 2008 (December 31, 2007: $161.8 million).

The contractual maturity of SNC-Lavalin's long-term financial liabilities, other than its long-term debt presented in Note 13, mainly relates to its $7.7 million of balance of purchase price payable on business acquisitions payable in 2010.

20 Financial Instruments (Continued)

MARKET RISK

Market risk corresponds to the variability in the fair value or future cash flows of a financial instrument caused by a change in market prices in items such as currency rates, interest rates and equity prices.

I) CURRENCY RISK

SNC-Lavalin's foreign currency risk arises from arrangements in currencies other than its reporting currency and from the net assets of its foreign operations.

Foreign currency risk is managed by the Company by matching, when possible, the cash receipts in a foreign currency and the cash disbursements in the same foreign currency, for each revenue-generating project in which foreign currencies are involved. Derivative financial instruments with banks (i.e, forward foreign exchange contracts) are also used to hedge the cash flows in foreign currencies.

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

AT DECEMBER 31, 2008			AT DECEMBER 31, 2007		
BUY	SELL	MATURITY	BUY	SELL	MATURITY
CA$ 680,248	**US$ 611,038**	**2009-2013**	CA$ 508,851	US$ 490,177	2008-2011
CA$ 391,723	**€ 256,745**	**2009-2013**	CA$ 481,411	€ 330,722	2008-2011
US$ 126,874	**CA$ 147,348**	**2009-2010**	US$ 67,289	CA$ 69,175	2008-2009
US$ 147,024	**€ 108,785**	**2009-2010**	US$ 238,752	€ 176,712	2008-2010
€ 46,363	**US$ 61,671**	**2009-2010**	€ 26,177	US$ 35,544	2008-2010
€ 73,108	**CA$ 120,341**	**2009-2011**	€ 43,426	CA$ 63,508	2008-2011

As at December 31, 2008, the forward foreign exchange contracts used for hedging purposes by the Company had a net unfavourable fair value of $81.3 million (December 31, 2007: $8.9 million favourable). The major forward foreign exchange contracts that were outstanding at that date were to either buy or sell foreign currencies against the Canadian dollar, or to either buy or sell the US dollar against the Euro. All forward foreign exchange contracts entered into by the Company are used for hedging purposes and, as the hedging relationships are highly effective, a 20% increase or decrease at December 31, 2008 of the exchange rates between the currencies in which the Company transacts would not have had a material impact on the Company's consolidated net income, assuming that all other variables remained the same. Any increase or decrease in the foreign currency exchange rates have an impact on the fair value of the forward foreign exchange contracts and on the revaluation of the hedged balance sheet items. As such, at December 31, 2008, a 20% increase in the Canadian dollar for all forward foreign exchange contracts involving Canadian dollars combined with a 20% increase in the US dollar for all forward foreign exchange contracts involving the US dollar against the Euro would have resulted in a total "Accumulated other comprehensive loss" of $5.7 million, compared to $101.5 million as reflected on the Company's consolidated statement of shareholders' equity, whereby an opposite change of 20% in the same currencies would have resulted in a total "Accumulated other comprehensive loss" of $197.3 million, assuming all other variables remained the same.

Investments made in self-sustaining foreign operations are usually not hedged against foreign currency fluctuations. The exchange gains or losses on the net equity investment of these operations are reflected in the "Accumulated other comprehensive income (loss)" account in the shareholders' equity, as part of the accumulated currency translation adjustment.

20 Financial Instruments (Continued)

II) INTEREST RATE RISK

Cash and cash equivalents, and restricted cash, usually involve limited interest rate risk due to their short-term nature.

NON-RECOURSE LONG-TERM DEBT FROM ICI

ICI, contrary to Services, Packages and Operations and Maintenance activities, are often capital intensive, due to the ownership of infrastructure assets that are financed mainly with project specific debt, which is non-recourse to the general credit of the Company. These investments usually reduce their exposure to interest rate risk by entering into fixed-rate financing arrangements or by hedging the variability of interest rates through derivative financial instruments. Fixing the interest rates gives the infrastructure concession investments stable and predictable financing cash outflows, which are usually structured to match the expected timing of their cash inflows. As a result, the changes in variable interest rates do not have a significant impact on SNC-Lavalin's consolidated net income.

RECOURSE LONG-TERM DEBT FROM OTHER ACTIVITIES

SNC-Lavalin's recourse long-term debt bears interest at a fixed rate and is measured at amortized cost, therefore, the Company's net income is not exposed to a change in interest rates on this financial liability.

III) EQUITY RISK

At December 31, 2008, SNC-Lavalin held equity investments classified as "available-for-sale" that have a quoted market price in an active market totalling $38.3 million (December 31, 2007: $47.6 million) included in "Infrastructure concession investments accounted for by the equity or cost methods" and $7.9 million (December 31, 2007: $10.4 million) included in "Other long-term assets". The cumulative change in the fair value of these investments is recorded in "Accumulated other comprehensive income (loss)" (Note 16) until such investments are sold or when an other than temporary impairment loss occurs.

In addition, as disclosed in Note 15, SNC-Lavalin has a financing arrangement with an investment grade financial institution to limit its exposure to the variability, caused by fluctuations in its share price, of the Performance Share Units ("PSU") issued under its PSU plan. This financing arrangement resulted in a financial instrument required to be classified as held for trading and measured at fair value. The change in fair value of the PSU liability in 2008 and 2007 (Note 15C) was offset by an opposite change in the fair value of the financial instrument, therefore the change in SNC-Lavalin's share price did not have any impact on its consolidated net income.

C) LETTERS OF CREDIT

Under certain circumstances, SNC-Lavalin provides bank letters of credit as collateral for the fulfillment of contractual obligations, including guarantees for performance, advance payments, contractual retentions and bid bonds. Certain letters of credit decrease in relation to the percentage of completion of projects. As at December 31, 2008, SNC-Lavalin had outstanding letters of credit of $1,909.3 million (December 31, 2007: $2,159.6 million).

21 Capital Management

SNC-Lavalin's main objective when managing its capital is to maintain an adequate balance between i) ensuring sufficient capital for financing net asset positions, maintaining satisfactory bank lines of credit and capacity to absorb project net retained risks, while at the same time ii) optimizing return on average shareholders' equity.

Maintaining sufficient capital and access to satisfactory bank lines of credit is key to the Company's activities, as it demonstrates the Company's financial strength and its ability to meet its performance guarantees on multiple projects, and allows the Company to provide letters of credit as collateral for the fulfillment of its contractual obligations. Maintaining sufficient capital is also a key financial indicator that allows the Company to maintain its investment grade credit rating, which results in, among other things, having access to financing arrangements at a competitive cost.

The Company defines its capital as its shareholders' equity excluding accumulated other comprehensive income (loss) plus its recourse debt. The Company excludes accumulated other comprehensive income (loss) from its definition of capital because this component of shareholders' equity results mainly from the accounting treatment of cash flow hedges and is not representative of the way the Company evaluates the management of its foreign currency risk. Accordingly, the accumulated other comprehensive income (loss) is not representative of the Company's financial position.

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

The Company's objective remains to maintain a recourse debt-to-capital ratio that would not exceed a ratio of 30:70. The recourse debt-to-capital ratio, as calculated by the Company, was as follows:

AT DECEMBER 31	2008	2007
Recourse debt	$ 104,709	$ 104,557
Shareholders' equity	$ 1,095,007	$ 928,289
Plus: Accumulated other comprehensive loss	101,467	48,958
Plus: Recourse debt	104,709	104,557
Capital	$ 1,301,183	$ 1,081,804
Recourse debt-to-capital ratio	8:92	10:90

As a general practice, when managing its capital, the Company repurchases its common shares under its normal course issuer bid mainly to offset the dilutive effect of stock issuance under its stock option programs. The Company has paid quarterly dividends for more than 15 consecutive years and strives to increase its yearly dividend paid per share, which it has done over the past 8 years.

In 2008, the Company complied with all of the covenants related to its debenture and bank credit facilities.

22 Pension Plans and Other Post-Retirement Benefits

A) PENSION PLANS

SNC-Lavalin has defined contribution pension plans for which its contributions are recorded as expenses in the year in which they are incurred, totalling $42.6 million in 2008 (2007: $37.6 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 $52.0 million in 2008 (2007: $46.4 million).

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

AT DECEMBER 31	2008	2007
Change in pension benefit obligation:		
Pension benefit obligation at beginning of year	**$ 177,811**	$ 179,952
Current service cost	**3,134**	3,718
Interest cost	**9,001**	9,227
Benefits paid	**(9,940)**	(12,119)
Actuarial losses (gains)	**1,519**	(5,784)
Settlement	**(12,774)**	–
Other	**6,169**	2,817
Pension benefit obligation at end of year	**$ 174,920**	$ 177,811
Change in pension plans' assets:		
Fair value of pension plans' assets at beginning of year	**$ 149,110**	$ 140,982
Fair value of pension plans' assets transferred from a previous pension plan sponsor	**–**	8,380
Actual return (loss) on plans' assets	**(4,575)**	2,364
Benefits paid	**(9,940)**	(12,119)
Employer contributions	**9,389**	8,768
Settlement	**(13,720)**	–
Other	**155**	735
Fair value of pension plans' assets at end of year	**$ 130,419**	$ 149,110
Funded status:		
Pension plans' deficit at end of year	**$ (44,501)**	$ (28,701)
Unamortized net actuarial losses	**27,854**	15,598
Net accrued pension benefit liability	**$ (16,647)**	$ (13,103)

SNC-Lavalin's funded status of its defined benefit pension plans is further detailed below:

AT DECEMBER 31	2008			2007		
	PENSION BENEFIT OBLIGATION	PENSION PLANS' ASSETS	PENSION PLANS' SURPLUS (DEFICIT)	PENSION BENEFIT OBLIGATION	PENSION PLANS' ASSETS	PENSION PLANS' SURPLUS (DEFICIT)
Pension plans for which the plan's assets exceed the benefit obligation	**$ 6,625**	**$ 7,012**	**$ 387**	$ 59,678	$ 60,471	$ 793
Pension plans for which the benefit obligation exceed the plan's assets	**168,295**	**123,407**	**(44,888)**	118,133	88,639	(29,494)
Total	**$ 174,920**	**$ 130,419**	**$ (44,501)**	$ 177,811	$ 149,110	$ (28,701)

22 Pension Plans and Other Post-Retirement Benefits (Continued)

SNC-Lavalin has a number of defined benefit pension plans, for which an individual actuarial valuation is performed at least every three years for each respective plan. For the two principal pension plans, the latest actuarial valuations were performed on December 31, 2006 and June 30, 2008, this later date corresponding to the termination of membership for a group of employees in one of SNC-Lavalin's pension plans. The measurement date used for the above benefit obligation and plans' assets is December 31 of each year.

The following table presents the asset allocation of SNC-Lavalin's defined benefit pension plans:

AT DECEMBER 31	2008	2007
Asset class		
Equity securities	**32%**	36%
Debt securities	**68%**	64%
Total	**100%**	100%

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

AT DECEMBER 31	2008	2007
Accrued pension benefit obligation		
Discount rate	**5.03%**	5.34%
Rate of compensation increase	**4.18%**	4.18%

YEAR ENDED DECEMBER 31	2008	2007
Net benefit pension costs		
Discount rate	**4.98%**	5.08%
Expected long-term rate of return on plans' assets	**5.46%**	6.25%
Rate of compensation increase	**4.18%**	3.96%

SNC-Lavalin's net defined benefit pension cost recognized in net income was comprised of:

YEAR ENDED DECEMBER 31	2008	2007
Current service cost	**$ 3,134**	$ 3,718
Interest cost on benefit obligation	**9,001**	9,227
Actual loss (return) on plans' assets	**4,575**	(2,364)
Actuarial losses (gains) on benefit obligation	**1,519**	(5,784)
Settlement loss	**946**	–
Other	**1,614**	–
Cost arising in the period	**20,789**	4,797
Adjustments to cost arising in the period to recognize the long-term nature of defined benefit pension costs:		
Deferral of deficiency of actual return on plans' assets over expected return	**(12,517)**	(6,930)
Deferral of actuarial gains (losses) on benefit obligation	**(1,519)**	5,784
Amortization of previously deferred actuarial losses	**6,180**	4,763
	(7,856)	3,617
Net defined benefit pension cost recognized in the period	**$ 12,933**	$ 8,414

B) OTHER POST-RETIREMENT BENEFITS

As at December 31, 2008, the obligation for other post-retirement benefits amounted to $16.0 million (December 31, 2007: $17.1 million) and is reflected in the consolidated balance sheet under "Other long-term liabilities".

23 Contingencies

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

24 Commitments

SNC-Lavalin's minimum lease payments for annual basic rental under long-term operating leases, mainly for office space, amounted to $297.8 million in 2008. The annual minimum lease payments are as follows: 2009—$77.2 million; 2010—$64.1 million; 2011—$49.8 million; 2012—$34.3 million; 2013—$20.1 million and thereafter—$52.3 million.

Other commitments relating to infrastructure concession investments are disclosed under Note 3.

25 Related Party Transactions

In the normal course of operations, SNC-Lavalin enters into related party transactions with certain of its infrastructure concession investments. Revenues from operations with fully consolidated investments are eliminated upon consolidation, as are SNC-Lavalin's proportionate share of revenues from operations with joint ventures. Investments in which SNC-Lavalin does not have control, joint control or significant influence are accounted for by the cost method and are not considered related parties.

In 2008, SNC-Lavalin recognized revenues of $660.1 million (2007: $1,079.6 million) from contracts with the following infrastructure concession investments accounted for by the equity method:

i) Astoria II and Myah Tipaza, which are described in Note 3.

ii) InTransit BC L.P., an entity that signed in 2005 a 35-year concession agreement with Richmond-Airport-Vancouver Project Management Ltd. ("RAVCO") and the Greater Vancouver Transportation Authority ("GVTA") to design, build, partially finance, operate and maintain the Canada Line, a 19 km rapid transit line connecting the cities of Vancouver and Richmond with Vancouver International Airport, in the Province of British Columbia. SNC-Lavalin, which holds a 33.3% ownership interest in this entity, was awarded in 2005 an EPC contract, as well as an O&M contract for this project.

iii) Shariket Kahraba Hadjret En Nouss S.p.A., an entity established to build, own and operate a 1,227 MW gas-fired power plant in Algeria. SNC-Lavalin, which holds a 26.0% indirect ownership interest in this entity, was awarded an EPC contract in 2006, as well as an O&M contract for this project.

Total trade receivables from these ICI amounted to $95.8 million as at December 31, 2008 (December 31, 2007: $152.9 million) and the note receivable from Astoria II totalled $21.0 million at December 31, 2008 (December 31, 2007: $nil), while SNC-Lavalin's remaining commitment to invest in these ICI was $50.3 million at December 31, 2008 (December 31, 2007: $48.1 million). All of these transactions are measured at the exchange amount agreed upon by the related parties, which corresponds to fair value.

26 Comparative Figures

Certain 2007 figures have been reclassified to conform with the presentation adopted in 2008.

Management Team

OFFICE OF THE PRESIDENT

Jacques Lamarre
President and Chief Executive Officer
(until May 7, 2009)

Jean Beaudoin
Executive Vice-President
Chemicals and Petroleum

Riadh Ben Aïssa
Executive Vice-President
Construction, Defence Contractors,
Geotechnical and Laboratories,
Infrastructure and Water

Jim Burke
Executive Vice-President
Airports, Mass Transit, Railways, Ports
and Marine and Environment

Pierre Duhaime
Executive Vice-President
Mining and Metallurgy, Industrial—Quebec,
Pharmaceuticals and Sulphuric Acid

President and Chief Executive Officer
(effective May 7, 2009)

Patrick Lamarre
Executive Vice-President
Power, and Industrial and
Infrastructure—Ontario

Gilles Laramée
Executive Vice-President and
Chief Financial Officer

Michael Novak
Executive Vice-President
Global Information Technologies, Global
Procurement, International, Health,
Safety and Environment, Risk Evaluation
Committee and Strategic Planning

Jean Claude Pingat
Executive Vice-President
Agrifood, Airport Operations, Biofuels,
Fertilizers, Glass and Construction
Materials, and Infrastructure, Environment
and Medical Facilities—Europe

Charlie Rate
Executive Vice-President
Operations and Maintenance,
Logistics and In-Service Support

CORPORATE

Christiane Bergevin
Senior Vice-President and General
Manager, Corporate Projects

Louis Dagenais
Vice-President, Global Information
Technologies and Project
Management Systems

Pat Di Lillo
Vice-President, Taxation

Réjean Goulet
Vice-President, Law

Gerry Grigoropoulos
Vice-President and Controller

Michael Ioffredi
Vice-President and Treasurer

Denis Jasmin
Vice-President, Investor Relations

Jacques Landry
Vice-President, Global Procurement

Yves Laverdière
Corporate Secretary

Terry Lefebvre
Vice-President, Mergers and Acquisitions

Gillian MacCormack
Vice-President, Global Public Relations

Pierre Mailhot
Vice-President, Administration

Adam Malkhassian
Vice-President, Risk Evaluation

Sylvie Nadeau
Vice-President, Internal Audit

Diane Nyisztor
Senior Vice-President, Global
Human Resources

Calvin Price
Vice-President, Global Health and Safety

CANADA

INFRASTRUCTURE

CONSTRUCTION

SOCODEC

Abdelatif Ahmed-Chaouch
Vice-President, Power

Martin Beaudry
Vice-President, Concessions / Water

Samir El-Bahar
Senior Vice-President, Construction

Nadia Feknous
Vice-President, Infrastructure

Alain Koessler
Vice-President, Operations and Maintenance

Melody Kratsios
Vice-President, Health, Safety
and Environment

Alain Langelier
Senior Vice-President,
Estimating and Proposals

Richard Massé
Senior Vice-President,
Investment and Financing

Pierre Ranger
Vice-President, Aluminum,
United Arab Emirates

Kebir Ratnani
Senior Vice-President, Business
Development, North Africa and Middle East

Stéphane Roy
Vice-President Controller

CONSTRUCTION MANAGEMENT AND CONSTRUCTION—CANADA

Charles Chebl
Senior Vice-President and General Manager

Jean B. Dufresne
Vice-President, Health and Special Projects

Richard Larivée
Vice-President, Airports

Sylvie Letendre
Vice-President, Special Projects
and Project Reviews

INFRASTRUCTURE AND BUILDINGS

NEWFOUNDLAND AND LABRADOR

Albert Williams
Senior Vice-President and General Manager

Bassem Eid
Vice-President, Ports, Marine
and Environment

Elwood J. Reid
President
BAE-Newplan Group

QUEBEC

Luc Lainey
Senior Vice-President, Quality and Training

QUALITAS (Materials and Geotechnical Engineering)

Charles Malenfant
Senior Vice-President and General Manager

Henri Madjar
Senior Vice-President, Project
Development and International

TRANSPORT,INFRASTRUCTURE AND BUILDINGS

Yves Cadotte
Senior Vice-President and General Manager

Pierre Beaudoin
Director, International Projects

Raymond Bleau
Vice-President, Structure

Jacques R. Côté
Vice-President, Engineering

Brian DeCoste
Vice-President, Operations, Halifax

Laurent De Français
Vice-President, Transportation Systems

Pierre Hénault
Vice-President, Mechanical and
Electrical Engineering

Michel Labbé
Vice-President, Quebec City
and Eastern Quebec

Martin Lachance
Vice-President, Structure and Industry

Jean-Louis Mailloux
Vice-President, Transport

Marc Samson
Vice-President, Municipal and First Nations

Jacques Trottier
Manager, Processes and
Urban Infrastructure

ROAD TRANSPORTATION

Amin Khouday
Senior Vice-President and General Manager

Pierre Beauchesne
Vice-President, Road and Special Projects

Nadia Girard
Vice-President, Operations

Olivier Joly
Vice-President, Bridges and Structure

WESTERN CANADA

Brian Gardner
Vice-President, Pacific
Liaicon and Associates

Nuno Pereira
Director, Design—Build Group

Mark Wallace
Vice-President and General Manager, Wiebe

INFRASTRUCTURE AND CONSTRUCTION

ONTARIO

Damien Kulasingham
Vice-President, Construction

Bing Wong
Vice-President, Transport

TRANSPORTATION

Mike Chin
Vice-President, Engineering,
Roads and Infrastructure

Rainer Ibowski
Vice-President, Mass Transit

Dante Marining
Marketing Director, Ports and Rail

Ian Matheson
Vice-President, Airport Development

Geoff Vickery
Vice-President, Ports and Marine Group

ENVIRONMENT

Grant Byers
Senior Vice-President and General Manager

Jacques Benoît
Vice-President, Operations,
Quebec and Maritimes

Robert Ferrari
Vice-President, Development, Environment
and Agriculture, Quebec and Maritimes

Lyndon Hanson
Vice-President, Operations, Western Canada

Dennis Lafleur
Vice-President, Operations, Central Canada

Douglas Hodgins
Vice-President, Environment, Ontario

CHEMICALS AND PETROLEUM

Harry Sambells
Senior Vice-President and General Manager

Rajeev Aggarwal
Vice-President, International
Business Development

Brian Cole
Vice-President, Mineable Energy

Mick Cooper
Vice-President, Projects

Gulshan Dua
Vice-President, Process Engineering
and Gas Processing

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Senior Vice-President, Middle East

Donald McLeod
Vice-President and General
Manager, Edmonton Operations

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Vice-President, Finance

John Schadan
Vice-President, Domestic
Business Development

Karen Sobel
Vice-President, Engineering

Robert Sparrow
Senior Vice-President, Global
Technology and Process

Robert Stewart
Vice-President and General Manager

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POWER AND HEAVY CIVIL WORKS

François Couturier
Vice-President, Engineering

Rabih Hafez
Director, Operations

Alfred Hanna
Vice-President and General
Manager, Hydro Power

Parveen Khan
Vice-President, External Training
and Sustainable Development

Suzanne Leblanc
Vice-President, Hydro Power

Joseph Salim
Vice-President and General Manager,
Energy Control Systems

NUCLEAR

Ron Moleschi
Vice-President, Business
Development and Technology

Alain Poplemon
Senior Vice-President, Special Projects

Ramesh Sharma
Vice-President, Finance

Yash Sthankiya
Senior Vice-President, Operations

THERMAL

James P. Zapke
Senior Vice-President and General Manager

Michel Lanthier
Vice-President, Operations

Geoffrey Wormell
Director, Thermal Power

TRANSMISSION AND DISTRIBUTION

Cindy Andrew
Senior Vice-President and General Manager

Myles Godfrey
Vice-President, Operations

Dick Molyneaux
Vice-President, Operations

MINING AND METALLURGY

Feroz Ashraf (M & M, Global)
Senior Vice-President, Commercial and Strategic Development

Luc Bélanger
Vice-President, Montreal

Dale Clarke
Vice-President and General Manager, Toronto

John Lindsay
Vice-President, Operations and Technology, Toronto

Patric Mercille
Vice-President, Business Integration and Development

Marcel Pineau
Vice-President, Mine Reclamation and Geotechnical Services

Tony Wachmann
Vice-President, Operations, Vancouver

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César Inostroza
Vice-President and General Manager

Robert Minto
Vice-President, Technology and Project Development

George Rode
Vice-President, Projects

Chantal Sorel
Vice-President, Operations

OPERATIONS AND MAINTENANCE

SNC-LAVALIN PROFAC

Don Chynoweth
Senior Vice-President, Logistics and Defence

Marc Devlin
Senior Vice-President, Transportation and Industrial

Gilles Hébert
Senior Vice-President, Facility Management

Peter Horvatis
Senior Vice-President, Business Development and Shared Services

Narsain Jaipersaud
Senior Vice-President, Finance

Barry Ross
Vice-President, Realty Management

Justin Sharp
Senior Vice-President, Middle East

DEFENCE

DEFENCE CONTRACTORS

Peter Langlais
Senior Vice-President and General Manager

INDUSTRIAL SECTORS

AGRIFOOD

Brad Beaudoin
Vice-President, Operations

INDUSTRIAL

QUEBEC

Jean Nehmé
Senior Vice-President and General Manager

Les McMullan
Vice-President, Project Services

Luc-André Nadeau
Director, Business Development

Mario Robalo
Vice-President, Operations

Andrew Sharp
Vice-President and Project Director

Gilbert Villeneuve
Vice-President, Construction

ONTARIO

Kevin Wallace
Senior Vice-President and General Manager

Krish Krishnamurti
Vice-President, Industrial Operations

MANITOBA

Edward Ryczkowski
Vice-President and General Manager

SASKATCHEWAN

Thomas Nahachewsky
Vice-President and General Manager

SULPHURIC ACID PLANTS

Vulcan Mutler
President
SNC-Lavalin Fenco

Garry Warren
Vice-President, Operations

PHARMACEUTICALS AND BIOTECHNOLOGY

Daniel Lachapelle
Senior Vice-President and General Manager

Grace Chin
Senior Vice-President, Biopharmaceuticals

SNC-LAVALIN CAPITAL AND SNC-LAVALIN INVESTMENT

André Dufour
Senior Vice-President

Robert Blais
Vice-President

Hugo Bouchard
Vice-President

Claude Bourque
Vice-President

Patrice Duval
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Vice-President

Stéphane Mailhot
Vice-President

Chantal Rougerie
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Louis St-Maurice
Vice-President

SNC-LAVALIN RISK & INSURANCE

Georges Boutary
Senior Vice-President

Antonio Alfieri
Vice-President, Risk Engineering Services

Pierre Parizeau
Vice-President, Insurance Services

407 INTERNATIONAL

Kenneth Walker
Chief Financial Officer

SNC-LAVALIN INTERNATIONAL

Ron Denom
President

Tony Rosato
Senior Vice-President, Latin America and Administration

Robert G. Blackburn
Senior Vice-President, Government and International Development Institutions, and Africa

Paul Mariamo
Senior Vice-President, Middle East

Fadima Touré-Diallo
Vice-President, Africa

ABORIGINAL AND NORTHERN AFFAIRS

Steve Lindley
Vice-President

OUTSIDE CANADA

Algeria

Esber Bitar
President and General Manager
SNC-Lavalin Maghreb

Éric Boutemy
General Manager
Myah Tipaza

Paul Grégoire
General Manager
Shariket Kahraba Hadjret En Nouss

Australia

Tony Cau
Senior Vice-President and Managing Director

Douglas Luscombe
Vice-President and General Manager, Brisbane

Tim Wilkinson
Vice-President, Operations

Belgium

Jérôme Dupuis
General Manager and Managing Director

Brazil

Eduardo Eymard Ramos Dias
Managing Director

Paulo Afonso de Resende
Senior Technical Director

Chile

Fernando Garcia
Vice-President and General Manager

Patricio Searle
Director, Operations

China

Keith Pedwell
Vice-President

Sheldon Xie
Director

Colombia

Alvaro Torres
Vice-President and General Manager

Egypt

Hani Keira
Vice-President and General Manager

France

Jacques Bodreau
Vice-President, Operations, Major Building Projects, Industry and Urban Planning

Jean-Paul Turquin
Senior Vice-President, Business Development, Buildings, Southern France

Thierry Bruneau
Vice-President, Business Development

Pascal Cirasse
Vice-President, Operations, Major Building Projects, Safety and Security

Alain Dewez
Senior Vice-President, Business Development, Buildings

Éric Martin
Vice-President, Operations, Agrifood

Arnaud Pingat
Vice-President, Operations, Buildings and Structure, and Urban Planning

Louis Roland-Gosselin
Vice-President, Operations, Infrastructure, Transportation and Environment

Georges Sontag
Vice-President, Operations, Industrial Processes and Power

Jean-François Yot
Vice-President, Operations, Pharmaceuticals and Biotechnology

Claude Ganache
Vice-President, Finance and Administration

Haiti

Bernard Chancy
Vice-President and General Manager
Société d'expertise et d'ingénierie LGL

Hungary

Emmanuel Curnie
General Manager

India

BIOPHARMACEUTICALS

Richard Poulin
Vice-President, Asia

K.T.M Nambiar
Managing Director, India

CHEMICALS AND PETROLEUM, AND MINING AND METALLURGY

P.R. Shankar
President
SNC-Lavalin Engineering India

TK Mandal
Chief Operating Officer

POWER

Khalid Ali Baig
Director, Energy and Heavy Civil Works

Vinod Batta
Vice-President

INFRASTRUCTURE

H. A. Kazmi
President
Span Consultants

Indonesia

Tim Wilkinson
Vice-President, Operations

Libya

André Béland
Vice-President, Engineering and Construction

Charles Azar
Vice-President, Administration and Finance

Malaysia

INTERNATIONAL

Alain Lemay
Senior Vice-President, Asia and Oceania

POWER

Travis Smith
Vice-President, Hydro

TRANSPORT

Scott Anderson
Vice-President, Infrastructure Engineering

New Caledonia

Jean-Michel Berlioz
General Manager

Panama

Mercedes del Castillo
Vice-President, Marketing, Central America

Continued on next page

Management Team (Cont'd)

Peru

Francisco M. Silva Checa
Vice-President

Poland

INTERNATIONAL

Wojciech Ksiazkiewicz
Vice-President

POWER

Krzysztof Michalczuk
Vice-President

Qatar

Zouheir Chebl
Vice-President

Romania

Michel Weiss
General Director

Russia

Yuri Kotliarov
Vice-President

Saudi Arabia

CHEMICALS AND PETROLEUM

Hadi Alajmi
President and General Manager
SNC-Lavalin Arabia

Chris Goodwin
Vice-President, Projects

Alfy Hanna
Senior Vice-President and
Corporate Sponsor,
Middle East

Sameh Khoury
Vice-President, Finance and Administration

OPERATIONS AND MAINTENANCE

Helmut Regel
Vice-President

South Africa

James Nieuwenhuys
Managing Director

Spain

Juan Diego Ibáñez-López
President
Intecsa-Inarsa
Censa, Catalana d'Enginyeria

Éric Pingat
Vice-President, International
Business Development

Thailand

Sivilay Manisy
Director, Business Development,
Thailand and Indochina

The Netherlands

Hans Kuiken
Director, SNC-Lavalin Capital

Tunisia

Hughes Crener
Director

United Arab Emirates

DISTRICT COOLING

Paul Beaudry
General Manager
SNC-Lavalin Gulf Contractors

ALUMINUM

Adrian Owens
Senior Vice-President, Middle
East and North Africa

United Kingdom

Tony Allen
Senior Vice-President and General Manager

Andrei Orlov
Vice-President, Business Development

Ged Roope
Vice-President, Operations

Tim Smith
Vice-President, Copper

United States

INDUSTRIAL

Bob Grier
Vice-President and General Manager

THERMAL POWER

Mike Ranz
President
SNC-Lavalin Constructors

Hélène Bock
Vice-President, Finance and Administration

Steve Daniels
Senior Vice-President,
Business Development

Carl Quist
Vice-President, Operations

CHEMICALS AND PETROLEUM

James M. Walters
President
SNC-Lavalin Engineers & Constructors

Gary Gibson
Vice-President, Engineering Management

Jim Henry
Vice-President, Construction Services

James Holekamp
Vice-President, Operations, Baytown

Chris Niemeyer
Vice-President, Process Services

Jerry O'Brien
Vice-President, Safety Processes

Bill Wingate
Vice-President, Business Development

BIOPHARMACEUTICALS,
AGRIFOOD AND INDUSTRIAL

Joe Biehl
President
SNC-Lavalin Project Services

Mike Leader
Vice-President, Regional Markets

Venezuela

INFRASTRUCTURE AND
CONSTRUCTION

Marzio Lorenzini
Vice-President

CHEMICALS AND PETROLEUM

Victor Tovar
Director, Operations

Vietnam

Tran Tuan Dung
Manager

Main Offices

CANADA

QUEBEC

MONTREAL

HEAD OFFICE

SNC-Lavalin Inc.
455 René-Lévesque Blvd. West
Montreal QC H2Z 1Z3
Telephone 514-393-1000
Fax 514-866-0795

SNC-Lavalin Inc.
2271 Fernand-Lafontaine Blvd.
Longueuil QC J4G 2R7
Telephone 450-677-1455
Fax 450-677-1489

SNC-Lavalin Inc.
Local 105—1st Floor
35 Saint-Pierre Street
Saint-Constant QC J5A 2E4
Telephone 450-638-6677
Fax 450-638-6425

SNC-Lavalin Devonyx Inc.
Suite 800
360 Saint-Jacques Street West
Montreal QC H2Y 1P5
Telephone 514-845-2166
Fax 514-845-2073

**SNC-Lavalin Energy
Control Systems Inc.**
2425 Pitfield Blvd.
Montreal QC H4S 1W8
Telephone 514-334-6780
Fax 514-334-9174

SNC-Lavalin Pharma Inc.
3rd Floor
8000 Décarie Blvd.
Montreal QC H4P 2S4
Telephone 514-735-5651
Fax 514-737-7988

DTI Telecom Inc.
Suite 1000
625 René-Lévesque Blvd. West
Montreal QC H3B 1R2
Telephone 514-392-3000
Fax 514-392-3003

Nexacor Realty Management Inc.
87 Ontario Street West
Montreal QC H2X 1Y8
Telephone 1-800-363-2920
Fax 1-888-283-4577

Groupe Qualitas Inc.
3420 Saint-Joseph Blvd. East
Montreal QC H1X 1W6
Telephone 514-255-0613
Fax 514-252-0071

QUEBEC CITY & AREA

SNC-Lavalin Inc.
Suite 300
5955 Saint-Laurent Street
Lévis QC G6V 3P5
Telephone 418-837-3621
Fax 418-837-2039

SNC-Lavalin Inc.
Suite 200
5500 des Galeries Blvd.
Quebec City QC G2K 2E2
Telephone 418-621-5500
Fax 418-621-9090

RIMOUSKI

SNC-Lavalin Inc.
Suite 222
84 Saint-Germain Street East
Rimouski QC G5L 1A6
Telephone 418-723-4717
Fax 418-723-1571

THETFORD MINES

SNC-Lavalin Inc.
69 Notre-Dame Street West
Thetford Mines QC G6G 1J4
Telephone 418-338-4631
Fax 418-338-6564

ONTARIO

TORONTO

SNC-Lavalin Inc.
2200 Lake Shore Blvd. West
Toronto ON M8V 1A4
Telephone 416-252-5311
Fax 416-231-5356

SNC-Lavalin Inc.
Suite 1000
789 Don Mills Road
Don Mills ON M3C 1T5
Telephone 416-422-4056
Fax 416-422-4638

SNC-Lavalin ProFac Inc.
Suite 900
304 The East Mall
Toronto ON M9B 6E2
Telephone (416) 207-4700
Fax (416) 207-4702

Nexacor Realty Management Inc.
Suite 600
300 The East Mall
Toronto ON M9B 6B7
Telephone 416-207-3200
Fax 416-207-3202

KINGSTON

SNC-Lavalin PAE Inc.
Suite 202
80 Queen Street
Kingston ON K7K 6W7
Telephone 613-547-7155
Fax 613-544-3829

OAKVILLE

SNC-Lavalin Nuclear Inc.
Suite 700
2275 Upper Middle Rd. East
Oakville ON L6H 0C3
Telephone 905-829-8808
Fax 905-829-8809/10

OTTAWA

SNC-Lavalin
Suite 1100
170 Laurier Avenue West
Ottawa ON K1P 5V5
Telephone 613-567-8517
Fax 613-567-5509

SNC-Lavalin Defence Contractors Inc.
1 Chrysalis Way
Ottawa ON K2G 6P9
Telephone 613-723-7000
Fax 613-226-5138

SNC-Lavalin Environment Inc.
Suite 200
2 Gurdwara Road
Ottawa ON K2E 1A2
Telephone 613-226-2456
Fax 613-226-5529

SARNIA

SNC-Lavalin Inc.
Suite 301
265 North Front Street
Sarnia ON N7T 7X1
Telephone 519-336-0201
Fax 519-336-0209

WOODBRIDGE

407 International Inc.
6300 Steeles Avenue West
Woodbridge ON L4H 1J1
Telephone 905-264-5242
Fax 905-265-4071

ALBERTA

CALGARY

SNC-Lavalin Inc.
14th Floor
605—5th Avenue SW
Calgary AB T2P 3H5
Telephone 403-294-2100
Fax 403-237-8365

SNC-Lavalin T&D Inc.
1035—7th Avenue SW
Calgary AB T2P 3E9
Telephone 403-539-4550
Fax 403-539-4554

AltaLink Management Ltd.
1035—7th Avenue SW
Calgary AB T2P 3E9
Telephone 403-267-3400
Fax 403-267-3454

Wiebe Forest Engineering
3613—33rd Street NW
Calgary AB T2L 2A7
Telephone 403-670-7300
Fax 403-670-7301

EDMONTON

SNC-Lavalin Inc.
608 Oxford Tower
10235-101 Street
Edmonton AB T5J 3G1
Telephone 780-426-1000
Fax 780-426-4131

BRITISH COLUMBIA

VANCOUVER

SNC-Lavalin Inc.
18th Floor
1075 West Georgia Street
Vancouver BC V6E 3C9
Telephone 604-662-3555
Fax 604-662-7688

InTransit BC Limited Partnership
Suite 1020
1075 West Georgia Street
Vancouver BC V6E 3C9
Telephone 604-662-3555
Fax 604-605-5999

Okanagan Lake Concession Limited Partnership
Suite 1300
1075 West Georgia Street
Vancouver BC V6E 3C9
Telephone 604-662-3555
Fax 604-605-5936

Pacific Liaicon and Associates Inc.
Suite 2500
1075 West Georgia Street
Vancouver BC V6E 3C9
Telephone 604-299-8860
Fax 604-299-8722

BURNABY

Morrow Environmental Consultants Inc.
8648 Commerce Court
Burnaby BC V5A 4N6
Telephone 604-515-5151
Fax 604-515-5150

MANITOBA

SNC-Lavalin Inc.
148 Nature Park Way
Winnipeg MB R3P 0X7
Telephone 204-786-8080
Fax 204-786-7934

NEW BRUNSWICK

FREDERICTON

Brun-Way Highways Operations Inc.
1754 Route 640
Hanwell NB E3C 2B2
Telephone 506-474-7750
Fax 506-474-7752

CAMPBELLTON

Nexacor Realty Management Inc.
88 Sister Greene Road
Campbellton NB E3N 3Y6
Telephone 1-800-363-2920
Fax 1-888-283-4577

NEWFOUNDLAND AND LABRADOR

BAE-Newplan Group Limited
1133 Topsail Road
Mount Pearl NL A1N 5G2
Telephone 709-368-0118
Fax 709-368-3541

NORTHWEST TERRITORIES

Nishi-Khon / SNC-Lavalin Limited
Suite 809
5201 50 Avenue
Yellowknife NT X1A 3S9
Telephone 867-873-6242
Fax 867-873-6243

NOVA SCOTIA

SNC-Lavalin Inc.
40 Fielding Avenue
Dartmouth NS B3B 1E4
Telephone 902-468-6230
Fax 902-468-7864

SNC-Lavalin Inc.
Suite 200
Park Lane Terraces
5657 Spring Garden Road
Halifax NS B3J 3R4
Telephone 902-492-4544
Fax 902-492-4540

SASKATCHEWAN

SNC-Lavalin
P.O. Box 492
642 3rd Street East
Bruno SK S0K 0S0
Telephone 306-369-7689
Fax 306-369-2940

YUKON

Kaska—SNC-Lavalin Inc.
Suite 200
304 Jarvis Street
Whitehorse YT Y1A 2H2
Telephone 416-252-5311
Fax 416-231-5356

UNITED STATES

INDIANA

Capital Engineering LLC
6933 Indianapolis Blvd
Hammond IN 46324
Telephone 219-844-1984
Fax 219-845-9902

NEW YORK

SNC-Lavalin Generation, Inc.
17-10 Steinway Street
Astoria NY 11105-1012
Telephone 718-626-5760
Fax 718-204-8564

PENNSYLVANIA

SNC-Lavalin America, Inc.
6585 Penn Avenue
Pittsburgh PA 15206
Telephone 412-363-9000
Fax 412-365-3303

SNC-Lavalin Project Services, Inc.
Suite 100
436 Creamery Way
Exton PA 19341
Telephone 610-524-5920
Fax 610-524-2443

TEXAS

SNC-Lavalin Engineers & Constructors, Inc.
Suite 800
9009 West Loop South
Houston TX 77096-1719
Telephone 713-667-9162
Fax 713-667-9241

WASHINGTON

SNC-Lavalin Constructors, Inc.
Suite 300
19015 North Creek Parkway South
Bothell WA 98001
Telephone 425-489-8000
Fax 425-489-8040

EUROPE

BELGIUM

S.A. SNC-Lavalin N.V.
Avenue Louise 251, Boîte 22
B-1050 Bruxelles
Telephone (322) 643.15.11
Fax (322) 647.74.35

FRANCE

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

2 rue Gambetta
77210 Avon
Telephone (33 1) 60.74.90.50
Fax (33 1) 60.74.00.10

5 boulevard Amiral Grivel
B.P. 10523
19107 Brive-la-Gaillarde cedex
Telephone (33 5) 55.17.65.75
Fax (33 5) 55.17.65.80

3 Place du Capitaine Dreyfus
68000 Colmar
Telephone (33 3) 89.73.29.00
Fax (33 3) 89.73.29.15

Z.A. Les Epenottes
39101 Dole
Telephone (33 3) 84.79.10.55
Fax (33 3) 84.82.30.28

14 rue Bois Sauvage
91000 Evry
Telephone (33 1) 69.87.57.45
Fax (33 1) 69.87.66.27

16 rue de l'industrie
B.P. 30047
67402 Illkirch cedex
Telephone (33 3) 88.40.88.00
Fax (33 3) 88.67.22.80

19 boulevard Paul Vaillant-Couturier
94200 Ivry sur Seine
Telephone (33 1) 56.20.50.00
Fax (33 1) 56.20.50.10

Immeuble "Britannia"—Tour A
20 boulevard Eugène Deruelle
69432 Lyon cedex 03
Telephone (33 4) 72.84.79.90
Fax (33 4) 72.84.79.91

Parc d'affaires ICARE
1 rue du Pré Mahé
Zac de Cadréan—B.P. 29
44550 Montoir-de-Bretagne
Telephone (33 2) 40.45.90.00
Fax (33 2) 40.45.80.70

28 bis rue du Colonel Courtot de Cissey
B.P. 3860
54000 Nancy
Telephone (33 3) 83.90.88.90
Fax (33 3) 83.90.80.99

3 ter, rue d'Athènes
B.P. 71217
44312 Nantes cedex 3
Telephone (33 2) 51.89.50.50
Fax (33 2) 51.89.50.89

"Hibiscus Park"
29 avenue Auguste Vérola
06200 Nice Saint-Isidore
Telephone (33 4) 92.29.57.90
Fax (33 4) 92.29.57.99

62 rue Jean Jaurès
B.P. 109
79004 Niort cedex
Telephone (33 5) 49.77.21.77
Fax (33 5) 49.77.21.80

Immeuble Azur Center
Route des Vernèdes
83480 Puget sur Argens
Telephone (33 4) 94.19.32.00
Fax (33 4) 94.19.32.09

CD 12
69360 Solaize
Telephone (33 4) 78.02.77.44
Fax (33 4) 78.02.04.84

78 chemin des 7 Deniers
Bâtiment 7, B.P. 20405
31204 Toulouse cedex 02
Telephone (33 5) 62.72.41.41
Fax (33 5) 61.13.47.69

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

HUNGARY

SNC-Lavalin Hongrie SARL
H-1143 Budapest
Stefánia út 71., 1/5.
Telephone (36-1) 225 01 97
Fax (36-1) 214 02 03

MONACO

Fimatec S.A.M.
"Aigue Marine"
24 avenue de Fontvieille
98000 Monte Carlo
Telephone (377) 92.05.19.20
Fax (377) 92.05.19.29

POLAND

SNC-Lavalin Polska Sp. z o.o.
ul. Królewska 16
00-103 Warsaw
Telephone (48 22) 330.67.01
Fax (48 22) 330.67.05

ROMANIA

SNC-Lavalin Romania S.A.
11G Soseaua Fabrica de Glucoza
020331, Sect. 2, Bucharest
Telephone 40.213.207.160
Fax 40.213.234.091

SPAIN

Intecsa-Inarsa S.A.
Santa Leonor, 32
28037 Madrid
Telephone 34.915.67.38.00
Fax 34.915.67.38.01

Censa S.A.
Doctor Trueta, 50–54–1a
(Villa Olímpica)
08005 Barcelona
Telephone 34.93.221.39.40
Fax 34.93.221.33.06

THE NETHERLANDS

SNC-Lavalin Europe B.V.
Schiphol Boulevard, 169
1118 BG Schiphol
Amsterdam
Telephone 31 (20) 316-3393
Fax 31 (20) 316-3394

UNITED KINGDOM

SNC-Lavalin UK Limited
Knollys House
10th Floor
17 Addiscombe Road
Croydon Surrey CR0 6SR
Telephone 44 (0) 208 681 4250
Fax 44 (0) 208 681 4299

Continued on next page

LATIN AMERICA

BRAZIL

SNC-Lavalin Projetos Ltda.
Rua Bandeira Paulista, 702
Cj. 101—10th Floor—Itaim Bibi
04532-002 São Paulo—SP
Telephone (5511) 3077-1204
Fax (5511) 3077-1201

Mineconsult Engenharia Ltda.
Av. Raja Gabaglia, 1.255
Luxemburgo 30380-090
Belo Horizonte—MG
Telephone (5531) 3298-4000
Fax (5531) 3298-4001

CHILE

SNC-Lavalin Chile S.A.
Edificio Parque Araucano
Avda. Presidente Riesco No. 5335, Piso 2
Las Condes, Santiago
Telephone (562) 431-2800
Fax (562) 431-2900

COLOMBIA

SNC-Lavalin International Inc.
Carrera 11A #94A-23 Oficina 309
Bogotá
Telephone (571) 621-3096
Fax (571) 695-1929

HAITI

Société d'expertise et d'ingénierie LGL S.A.
29, rue Ogé
B.P. 15427 PV
Pétionville HT 6140
Telephone (5092) 57-17-46
Fax (5092) 57-83-11

HONDURAS

SNC-Lavalin International Inc.
Edificio Galerías La Paz
Ave. La Paz, Oficina No. 313-315, Piso 3
Tegucigalpa
Telephone (504) 220.43.93
Fax (504) 220.43.94

PANAMA

SNC-Lavalin International Inc.
Calle Punta Darién y Punta Coronada
Urbanización Punta Pacífica
San Francisco, Panamá
Edificio P.H. Torres de las Américas
Piso No. 7, Oficina No. 704-B, Torre B
Telephone 507-204-5790
Fax 507-204-5791

PERU

SNC-Lavalin Peru S.A.
Centro Empresarial Pardo y Aliaga
Avda. Pardo y Aliaga 699 Ofna. 501-B.
San Isidro, Lima 27
Telephone (511) 221-2002
Fax (511) 221-1338

VENEZUELA

SNC-Lavalin International Co. Inc.
Edificio Caracas Teleport
Oficina 704, Piso 7
Avda. Paseo Colón
Urbanización Maripérez
Caracas 1050
Telephone (58 212) 576-8752
Fax (58 212) 576-3258

AFRICA

ALGERIA

SNC-Lavalin Maghreb EURL
18, rue Mustapha Khalef
Ben Aknoun
Alger
Telephone (213-21) 91.17.50
Fax (213-21) 91.17.58

CAMEROON

SNC-Lavalin
B.P. 6111
Yaoundé
Telephone (237) 22.20.01.83
Fax (237) 22.21.07.80

EGYPT

SNC-Lavalin Egypt LLC
4, Abou Bakre El Sedeak Street
Section 1144
Sheraton Area
Heliopolis
Cairo
Telephone 202 2 267 9003
Fax 202 2 268 9592

LIBYA

SNC-Lavalin Europe B.V.
Gamfouda Road
P.O. Box 9404
Benghazi—G.S.P.L.A.J.
Telephone (218 61) 22.25.242
Fax (218 61) 22.38.401

SOUTH AFRICA

SNC-Lavalin South Africa (Pty) Ltd.
Block C, Cullinan Place
2, Cullinan Close, Morningside
P.O. Box 784593, Sandton 2146
Telephone (2711) 535-4900
Fax (2711) 884-6363

TUNISIA

Socodec Tunisia Services SARL
4, rue Abdelhamid Ibn Badis
1002 Tunis
Telephone (216-71) 28.54.66
Fax (216-71) 84.17.00

MIDDLE EAST

QATAR

SNC-Lavalin
P.O. Box 24922
Doha
Telephone +974-499-6399
Fax +974-466-1301

SNC-Lavalin ProFac Gulf Management LLC
P.O. Box 45592
Doha
Telephone +974-4684451
Fax +974-4685652

SAUDI ARABIA

SNC-Lavalin Europe B.V.
1st Floor, Delmon Building
Prince Sultan Bin Abdulaziz Road
P.O. Box 30851
Al Khobar 31952
Telephone (9663) 847-6234
Fax (9663) 847-6219

TURKEY

SNC-Lavalin Mühendislik Ve Taahhüt Ltd. Sirketi
Ugur Mumcu'num Sokagi 14/1
Gaziomanpasa
06700 Ankara
Telephone (90-312) 447.62.37
Fax (90-312) 447.58.37

UNITED ARAB EMIRATES

SNC-Lavalin
P.O. Box 11626
API Tower #304-A
Sheikeh Zayed Road
Dubai
Telephone (971 4) 331-6422
Fax (971 4) 331-6421

SNC-Lavalin Gulf Contractors LLC
4th Floor, West Tower
Abu Dhabi Trade Center Building
P.O. Box 54130
Abu Dhabi
Telephone (971 2) 644-0001
Fax (971 2) 644-6649

SNC-Lavalin International S.A.S.
Al-Otaiba Tower (Siemens Bldg)
4th Floor
Zayed the 2nd Street
P.O. Box 53249
Abu Dhabi
Telephone (971 2) 633-4544
Fax (971 2) 633-4511

ASIA

CHINA

SNC-Lavalin International Inc.
Beijing Representative Office
Beijing Lufthansa Center, C605
No. 50 Liangmaqiao Road
Chaoyang District
Beijing 100016
Telephone (8610) 6463-9640
Fax (8610) 6463-9649

SNC-Lavalin (Shanghai) International Trading Co. Ltd.
Suite 401-405
Huawen Plaza
999 Zhongshan Rd. (West)
Shanghai, 200051
Telephone (8621) 3251-5666
Fax (8621) 3251-5590

INDIA

SNC-Lavalin
3rd Floor, Wing B
Radisson Commercial Plaza
National Highway 8
Mahipalpur
New Delhi, 110037
Telephone (91-11) 4168-4104
Fax (91-11) 4168-4103

SNC-Lavalin Engineering & Technology Pvt. Ltd.
Mirchandani Business Park
6th Floor, Sakinaka
Andheri (East)
Mumbai 400072
Telephone (91-22) 6720-7000
Fax (91-22) 6720-7099

SNC-Lavalin Engineering India Pvt. Ltd.
401, "Vedanta"
4th Floor Makwana Road
Mumbai, 400059
Telephone (91-22) 6789-2600
Fax (91-22) 2859-2393

Span Consultants Pvt. Ltd
Mindwill Corporate Tower
4th & 5th Floor
Plot 24-A, Film City
Sector 16-A
Noida, Uttar Pradesh, 201 301
Telephone (91-12) 0468-7400
Fax (91-12) 0468-7444

INDONESIA

PT SNC Lavalin TPS
Graha-Aktiva, 4th Floor, Suite 401
JL.H.R. Rasuna Said Blok X-1, Kav. 03
Kuningan, Jakarta Selatan, 12950
Telephone (62.21) 520-3528
Fax (62.21) 520-3526

MALAYSIA

SNC-Lavalin International Inc.
Asia Regional Office
Menara Hap Seng, 8th Floor
Jalan P. Ramlee
50250 Kuala Lumpur
Telephone (603) 2026-6206
Fax (603) 2026-7206

THAILAND

SNC-Lavalin International Inc.
Unit 2A, 5th Floor, M. Thai Tower
All Seasons Palace, 87 Wireless Rd.
Lumpini, Pathumwan
Bangkok 10330
Telephone (662) 654-0105
Fax (662) 654-0107

VIETNAM

SNC-Lavalin International Inc.
Binh Minh Hotel
Suite 430
27 Ly Thai To Street
Hoan Kiem district
Hanoi
Telephone (844) 934-5521
Fax (844) 825-1040

EURASIA

RUSSIA

SNC-Lavalin International Inc.
World Trade Center
Suite 603
Krasnopresnenskaya nab. 12
Moscow 123610
Telephone (7495) 258-1186
Fax (7495) 258-1181

OCEANIA

AUSTRALIA

SNC-Lavalin Australia Pty Ltd.
Level 5
320 Adelaide Street
Brisbane, 4000
GPO Box 347
Brisbane QLD 4001
Telephone (61-7) 3010-9429
Fax (61-7) 3010-9818

SNC-Lavalin Australia Pty Ltd.
Level 17
191 St-George's Terrace
Perth, W.A. 6000
Telephone (61-8) 9322-0900
Fax (61-8) 9322-0901

NEW CALEDONIA

SNC-Lavalin New Caledonia
17 route de l'Anse Vata
B.P. 18926
Nouméa, 98857
Telephone (687) 24.29.24
Fax (687) 24.29.11

Board of Directors

DAVID GOLDMAN
Chairman of the Board
Copernic Inc.
Toronto, Ontario
Canada
Member of the Audit Committee
Member of the Human Resources Committee

PATRICIA A. HAMMICK, Ph.D.
Company Director
Kilmarnock, Virginia
United States
Member of the Audit Committee
Member of the Health, Safety and Environment Committee

JACQUES LAMARRE, O.C.
President and Chief Executive Officer
SNC-Lavalin Group Inc.
Montreal, Quebec
Canada
(until May 7, 2009)

PIERRE H. LESSARD
Executive Chairman
Metro Inc.
Montreal, Quebec
Canada
Member of the Governance Committee
Member of the Human Resources Committee

EDYTHE (DEE) A. MARCOUX
Company Director
Gibsons, British Columbia
Canada
Member of the Audit Committee
Member of the Governance Committee
Chairperson of the Health, Safety and Environment Committee

PROFESSOR LORNA R. MARSDEN, C.M., Ph.D.
President Emerita
York University
Toronto, Ontario
Canada
Member of the Human Resources Committee
Member of the Health, Safety and Environment Committee

CLAUDE MONGEAU
Executive Vice-President and Chief Financial Officer
Canadian National
Montreal, Quebec
Canada
Chairman of the Audit Committee
Member of the Governance Committee

GWYN MORGAN
Chairman of the Board
SNC-Lavalin Group Inc.
Montreal, Quebec
Canada
Chairman of the Governance Committee

THE HON. HUGH D. SEGAL
Senator
Senate of Canada
Ottawa, Ontario
Canada
Member of the Human Resources Committee
Member of the Health, Safety and Environment Committee

LAWRENCE N. STEVENSON
Managing Director
Callisto Capital
Toronto, Ontario
Canada
Member of the Audit Committee
Chairman of the Human Resources Committee
Member of the Governance Committee

JEAN-PAUL VETTIER
Company Director
Saint-Germain-en-Laye
France
Member of the Audit Committee
Member of the Health, Safety and Environment Committee

Ten-Year Statistical Summary

YEAR ENDED DECEMBER 31 (IN MILLIONS OF CANADIAN DOLLARS, UNLESS OTHERWISE INDICATED)	2008	2007	2006	2005	2004	2003	2002	2001	2000	1999
Revenues by activity										
Services	**2,305.4**	1,726.1	1,180.2	958.5	923.6	888.8	777.2	583.2	544.9	531.0
Packages	**3,229.5**	3,635.7	2,835.9	1,704.1	1,502.7	1,463.7	1,769.3	863.2	523.6	438.8
Operations and Maintenance	**1,225.0**	1,058.4	920.9	695.9	646.1	569.7	553.2	618.4	405.0	106.3
Infrastructure Concession Investments (ICI)	**347.0**	311.3	213.4	92.4	85.0	76.1	64.6	55.8	65.9	31.6
	7,106.9	6,731.5	5,150.4	3,450.9	3,157.4	2,998.3	3,164.3	2,120.6	1,539.4	1,107.7
Gross margin	**1,012.9**	567.2	538.0	460.8	446.3	433.6	404.5	326.4	266.2	261.0
Selling, general and administrative expenses	**515.2**	392.8	285.7	257.4	253.3	270.3	259.1	206.3	176.2	183.3
Interest (revenues) and capital taxes										
From ICI	**108.2**	104.6	74.3	47.6	52.9	44.7	47.9	67.8	51.7	24.0
From other activities	**(13.7)**	(32.1)	(21.0)	(3.5)	5.2	4.6	8.3	(0.9)	(4.4)	(1.1)
Income before gains, income taxes, non-controlling interest and amortization of goodwill	**403.2**	101.9	199.0	159.3	134.9	114.0	89.2	53.2	42.7	54.8
Gain on disposal of a portion of the investment in 407 International Inc. and dilution gain	**–**	–	–	–	–	–	164.0	–	–	–
Income before income taxes, non-controlling interest and amortization of goodwill	**403.2**	101.9	199.0	159.3	134.9	114.0	253.2	53.2	42.7	54.8
Income taxes	**85.1**	23.6	55.1	51.5	46.5	43.2	65.2	24.7	21.2	21.4
Non-controlling interest	**5.6**	9.2	7.3	2.2	–	–	–	–	–	–
Income before amortization of goodwill	**312.5**	69.1	136.6	105.6	88.4	70.8	188.0	28.5	21.5	33.4
Amortization of goodwill (net of income taxes)	**–**	–	–	–	–	–	–	14.6	10.5	7.6
Net income from continuing operations	**312.5**	69.1	136.6	105.6	88.4	70.8	188.0	13.9	11.0	25.8
Net income from discontinued operations	**–**	84.1	21.8	24.3	15.7	15.7	14.5	12.5	12.9	10.5
Net income	**312.5**	153.2	158.4	129.9	104.1	86.5	202.5	26.4	23.9	36.3
Return on average shareholders' equity	**28.9%**	16.5%	19.0%	17.3%	15.2%	13.8%	36.0%	6.6%	6.7%	10.4%
Acquisition of property and equipment										
From ICI	**193.5**	308.6	182.5	22.3	9.1	75.0	13.1	70.8	87.3	14.0
From other activities	**46.3**	41.2	37.7	25.5	19.6	14.8	32.8	20.6	19.9	14.1
	239.8	349.8	220.2	47.8	28.7	89.8	45.9	91.4	107.2	28.1
Depreciation of property and equipment and amortization of other assets										
From ICI	**88.1**	76.9	52.4	13.7	13.5	11.0	10.4	14.1	11.7	5.7
From other activities	**41.9**	35.7	28.9	25.1	31.7	32.6	31.2	28.6	23.2	17.4
	130.0	112.6	81.3	38.8	45.2	43.6	41.6	42.7	34.9	23.1
Supplementary Information [(1)]:										
SNC-Lavalin's net income (loss) from ICI										
From Highway 407	**20.0**	10.1	8.1	(4.7)	(14.5)	(12.7)	113.0	(32.8)	(29.2)	(13.2)
From other ICI	**17.2**	15.0	7.7	8.8	7.2	4.1	5.2	1.2	(5.8)	0.7
SNC-Lavalin's net income excluding ICI	**275.3**	128.1	142.6	125.8	111.4	95.1	84.3	58.0	58.9	48.8
Net income	**312.5**	153.2	158.4	129.9	104.1	86.5	202.5	26.4	23.9	36.3

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

YEAR ENDED DECEMBER 31	2008	2007	2006	2005	2004	2003	2002	2001	2000	1999
Diluted earnings per share ($)	**2.05**	1.00	1.04	0.85	0.68	0.56	1.32	0.18	0.17	0.26
Weighted average number of shares — diluted (in thousands)	**152,265**	152,697	152,685	153,143	153,449	153,639	153,888	146,556	140,289	140,925
Dividends declared per share ($)	**0.51**	0.39	0.30	0.23	0.18	0.14	0.12	0.10	0.08	0.08

AT DECEMBER 31 (IN MILLIONS OF CANADIAN DOLLARS, UNLESS OTHERWISE INDICATED)	2008	2007	2006	2005	2004	2003	2002	2001	2000	1999
Number of employees	**21,260**	18,691	13,297	11,187	9,545	9,047	13,284	7,553	7,334	5,822
Backlog										
Services	**1,545.3**	1,556.5	819.8	604.2	564.9	567.7	416.2	389.7	370.0	314.8
Packages	**3,508.0**	4,457.0	6,082.6	4,308.1	2,483.2	1,749.5	1,715.4	885.0	1,163.9	914.9
Operations and Maintenance	**2,196.2**	2,513.9	1,570.2	2,112.4	2,213.5	764.3	1,135.9	1,151.9	1,256.4	342.9
Infrastructure Concession Investments (ICI)	**2,342.7**	2,095.4	1,942.0	468.9	394.9	370.9	342.8	511.8	560.6	512.1
	9,592.2	10,622.8	10,414.6	7,493.6	5,656.5	3,452.4	3,610.3	2,938.4	3,350.9	2,084.7
Cash and cash equivalents	**988.2**	1,088.6	1,106.3	1,153.5	676.3	471.9	467.4	290.7	257.6	110.9
Working capital	**276.4**	270.2	300.3	411.4	334.8	395.6	277.3	290.1	175.2	66.5
Property and equipment										
From ICI	**1,750.7**	1,640.7	1,439.3	452.5	450.8	456.8	451.0	601.8	569.2	458.9
From other activities	**123.4**	112.0	94.3	81.0	77.4	87.0	107.4	91.4	93.7	82.8
	1,874.1	1,752.7	1,533.6	533.5	528.2	543.8	558.4	693.2	662.9	541.7
Recourse long-term debt	**104.7**	104.6	104.5	104.4	104.3	104.2	104.0	103.9	103.8	–
Non-recourse long-term debt										
From ICI	**2,003.3**	1,971.0	1,650.5	785.9	728.5	673.1	612.1	1,036.8	958.7	802.8
From other activities	**–**	–	26.2	28.2	30.5	32.1	34.8	34.9	30.3	38.0
	2,003.3	1,971.0	1,676.7	814.1	759.0	705.2	646.9	1,071.7	989.0	840.8
Shareholders' equity	**1,095.0**	928.3	906.0	789.7	717.8	658.3	597.1	443.0	358.2	357.9
Book value per share ($)	**7.25**	6.15	6.00	5.22	4.74	4.33	3.97	2.96	2.60	2.54
Number of outstanding common shares (in thousands)	**151,033**	151,038	151,033	151,282	151,525	152,005	150,472	149,440	137,773	140,651
Closing market price per share ($)	**39.69**	48.14	31.47	25.43	19.33	17.00	11.35	9.63	4.65	3.65

Common Share Information

Listed:	Toronto Stock Exchange
Symbol:	SNC
Shares outstanding:	151.0 million (December 31, 2008)
Market capitalization:	$5,995 million (December 31, 2008)

Trading Activity

	Volume (000's)	High ($)	Low ($)	Close ($)
2008	147,291	61.95	26.00	39.69
2007	102,745	51.04	30.00	48.14
2006	72,838	33.50	25.15	31.47
2005	61,417	26.46	18.47	25.43
2004	48,442	19.82	14.17	19.33

Debt Instrument

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

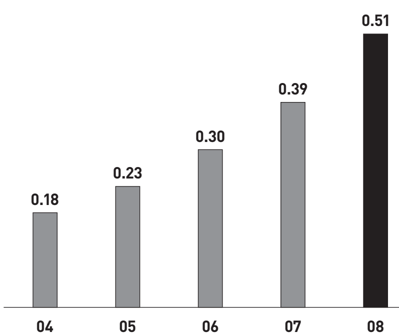
Credit Ratings

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

Annual Meeting

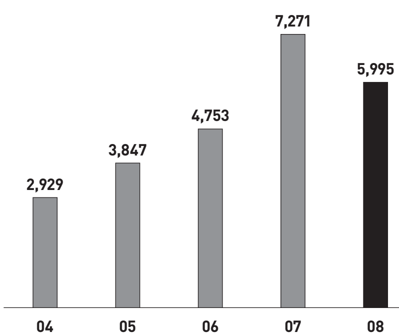
The Annual Shareholders' Meeting will be held at 11:00 am Eastern Daylight Time on Thursday, May 7th, 2009 at "Amphitheatre of Les Salles du Gesù", 1200 de Bleury Street, Montreal, Quebec.

Dividends and Market Capitalization



Dividends Declared in the Last Five Years

(IN CANADIAN $)



Market Capitalization in the Last Five Years

(IN MILLIONS OF CANADIAN $)

Key Dates for 2009

	Earnings Announcement	Dividend Record	Dividend Payment
Q1	May 7	May 21	June 4
Q2	August 7	August 21	September 4
Q3	November 6	November 19	December 3
Q4	March 5, 2010	March 19, 2010	April 2, 2010

Note: Dividends are subject to approval by the Board of Directors.
These dates may change without prior notice.

Registrar and Transfer Agent

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

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

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

Auditors

Deloitte & Touche LLP
Chartered Accountants
Montreal QC

Head Office

SNC-Lavalin Group Inc.
455 René-Lévesque Blvd West
Montreal QC
H2Z 1Z3 Canada

Investor Relations

Denis Jasmin, Vice-President, Investor Relations
denis.jasmin@snclavalin.com
514-393-1000

www.snclavalin.com

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

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

About the production of our Annual Report

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

This Annual Report is printed on paper certified by *Environmental Choice* (EcoLogo) with 100% post-consumption recycled fibres, de-inked without chlorine and made using biogas energy.

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Reduction in atmospheric emissions
(yearly emissions of 2.4 cars)

788 m³
Reduction in natural gas consumption

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

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SNC·LAVALIN

HEAD OFFICE

455 René-Lévesque Blvd West
Montreal, Quebec H2Z 1Z3 Canada
Tel. 514-393-1000
Fax 514-866-0795

www.snclavalin.com