

# SNC - LAVALIN GROUP INC.

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## ANNUAL INFORMATION FORM

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March 31, 2002

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## ITEM 2

### CORPORATE STRUCTURE

#### 2.1 INCORPORATION OF THE CORPORATION

SNC-Lavalin Group Inc. (the "**Corporation**") was incorporated under the laws of Canada on May 18, 1967 and was continued under the *Canada Business Corporations Act* on March 24, 1980. The articles of the Corporation were amended on several occasions, including the split of its outstanding shares on a three-for-one basis, to implement a shareholder rights plan, to change its name, to create new classes of shares and reorganize its outstanding share capital, to change the maximum number of directors, to require that at least two thirds of the directors must not be employees of the Corporation or its affiliates and to redesignate the class A subordinate voting shares as common shares.

The Corporation is authorized to issue an unlimited number of common shares, first preferred shares and second preferred shares. Only common shares are currently outstanding and each such share entitles the holder thereof to one vote at each shareholders' meeting of the Corporation.

The Corporation's head office is located at 455 René-Lévesque Boulevard West, Montréal, Québec, Canada H2Z 1Z3.

Reference in this Annual Information Form to "**SNC-Lavalin**" includes, as the context may require, the Corporation and all or some of its subsidiaries, or the Corporation or one or more of its subsidiaries.

#### 2.2 SUBSIDIARIES AND ASSOCIATED COMPANIES

The chart appearing on the next page lists the main subsidiaries and associated companies of SNC-Lavalin, their jurisdiction of incorporation (which is in Canada, unless otherwise indicated) and the percentage of voting shares held directly or indirectly by SNC-Lavalin.

**SNC-Lavalin Inc.** 100% ●

**Chemicals and Petroleum**

Fenco Ingenieros y Constructores Chile S.A. (*Chile*) 100% ●

**Infrastructure**

**Mass Transit Systems**

Kaska/SNC-Lavalin Inc. (*Yukon*) 49% ◆

Manila Bay Area Rapid Transit Corp. (*Philippines*) 100% ●

Pacific Liaison and Associates Inc. 100% ●

**Construction**

Socodéc Inc. 100% ●

**Infrastructure and Buildings**

BAE-Newplan Group Limited (*Newfoundland*) 100% ●

Fenco Shawinigan Engineering Limited (*Nova Scotia*) 100% ●

Laberge & Associates Ltd. 100% ●

Lalonde, Valois, Lamarre, Valois & Associates Inc. 100% ●

Lalonde, Girouard, Letendre & Associates Ltd. 100% ●

Piette, Audy, Bertrand, Lemieux & Associates Inc. (*Québec*) 100% ●

Polytec Inc. 100% ●

Roy LGL Ltée 100% ●

Nishi-Khon/SNC-Lavalin Limited (*Northwest Territories*) 49% ◆

SNC-Lavalin Defence Programs Inc. 100% ●

Société d'expertise et d'ingénierie L.G.L., S.A. (*Haïti*) 33.33% ◆

SLIVIA Inc. (*Québec*) 60% ●

**Environment**

SNC-Lavalin Environment Inc. 100% ●

Procean Environment Inc. (*Québec*) 100% ●

**Mining and Metallurgy**

SNC-Lavalin Engineers & Constructors Inc. (*Ontario*) 100% ●

Kilborn Engineering Pacific Ltd. (*British Columbia*) 100% ●

SNC-Lavalin Australia Pty Ltd. (*Australia*) 100% ●

SNC-Lavalin - Murray & Roberts (Proprietary) Limited (*South Africa*) 50% ◆

**Power**

SNC, Ltd. (*New York*) 100% ●

Canada-China Power Inc. 40% ◆

Canatom NPM Inc. 61.25% ●

SNC-Lavalin Energy Control Systems Inc. 100% ●

**Defence**

SNC Technologies Inc. 100% ●

SNC Technologies Corp. (*Delaware*) 100% ●

Securiplex Inc. 100% ●

EXPRO Technologies Inc. 100% ●

**Facilities and Operations Management**

ProFac Facilities Management Services Inc. 100% ●

Nexacor Realty Management Inc. 100% ●

**Other sectors**

**Telecommunications**

Expertech Network Installations Inc. 25% ◆

**Agrifood**

Pingat Ingénierie S.A.S. (*France*) 100% ●

Eurotec S.A. (*France*) 100% ●

SNC-Lavalin Agriculture (1998) Inc. 100% ●

**Pharmaceuticals and Biotechnology**

Pellemon Inc. 100% ●

SNC-Lavalin Pharma Inc. 100% ●

**Industrial**

SNC-Lavalin Services Ltd. 100% ●

**Other**

Murraylink Transmission Company Pty Ltd. (*Australia*) 50% ◆

AltaLink Management Ltd. (*Alberta*) 50% ◆

SNC-Lavalin de Costa Rica, S.A. (*Costa Rica*) 100% ●

**Financing services**

SNC-Lavalin Capital Inc. 100% ●

The Equinox Indemnity Co. Ltd. (*Bermuda*) 100% ●

**International network**

SNC-Lavalin International Inc. 100% ●

SNC-Lavalin Europe B.V. (*Netherlands*) 100% ●

S.A. SNC-Lavalin Europe N.V. (*Belgium*) 100% ●

S.A. Coppée-Courtroy N.V. (*Belgium*) 100% ●

SNC-Lavalin America, Inc. (*Colorado*) 100% ●

SNC-Lavalin Europe Limited (*England*) 100% ●

SNC-Lavalin Chile S.A. (*Chile*) 100% ●

Socodéc Venezuela C.A. (*Venezuela*) 100% ●

SNC-Lavalin do Brasil Ltda (*Brazil*) 100% ●

SNC-Lavalin Maghreb EURL (*Algeria*) 100% ●

SNC-Lavalin (Malaysia) Sdn. Bhd. (*Malaysia*) 100% ●

SNC-Lavalin Peru S.A. (*Peru*) 100% ●

SNC-Lavalin Philippines Inc. 100% ●

P.T. SNC-Lavalin TPS (*Indonesia*) 90% ●

SNC-Lavalin (China) Engineering Inc. (*British Columbia*) 51% ●

Saudi SNC-Lavalin Company Limited (*Saudi-Arabia*) 50% ◆

Société d'Exploitation de Vatry Europort S.A. (SEVE) (*France*) 23.32% ◆

SNC Italia S.p.A. (*Italy*) 100% ●

SNC-Lavalin Mühendislik VE Taahhüt Limited Sirketi (*Turkey*) 100% ●

**Highway 407**

407 International Inc. (*Ontario*) 16.77% ◆

● Subsidiary  
◆ Associated company

## ITEM 3

### GENERAL DEVELOPMENT OF THE BUSINESS

Major events that have influenced the general development of the business of SNC-Lavalin over the last three years are as follows:

#### 1999

SNC-Lavalin acquired an equity participation of 25% of Expertech Network Installations Inc., a subsidiary of Bell Canada specializing in wireline fibre optic and copper network installations. Concurrently with such transaction, Expertech entered into a strategic alliance agreement with Spectra Telecom ST Inc., in which SNC-Lavalin had a 50% equity interest and which specialized in wireless network installation.

In May, 407 International Inc., owned by SNC-Lavalin (26.92%) and Spanish company Cintra Concesiones de Infraestructuras de Transporte, S.A. (73.08%) acquired 100% of the shares of 407 ETR Concession Company Limited, a company created to hold a 99-year concession lease from the Government of Ontario (the Highway 407 Project) for a total consideration of \$3.1 billion. A construction joint venture formed by SNC-Lavalin and Ferroviol Agroman, a subsidiary of Cintra's parent company was to build the extensions under a lump-sum turnkey contract. The concession company implemented a significant upgrade to the tolling and billing system to provide the added capacity required for the two extensions. To finance the acquisition, the consortium established a senior bond financing program. The first issue in July, for a face value of \$1.1 billion, was the largest ever Canadian dollar corporate bond issue in Canada. In 1999, a total of \$2.15 billion in bonds was issued, with A ratings from Standard & Poors, CBRS and DBRS, to repay the senior bridge loan, which was obtained at the acquisition date.

In May, the Corporation renewed its normal course issuer bid program. A total of 2,669,000 common shares were redeemed in 1999 under the 1998 and 1999 programs for a total consideration of \$31.2 million.

#### 2000

In 2000, SNC-Lavalin became a North American leader in the facilities and operations management sector by acquiring, in May, the remaining 50% interest in ProFac Management Facilities Services Inc. ("**ProFac**") which had previously acquired, in March, Nexacor Realty Management Inc., a company specializing in facilities management for the telecommunications industry.

407 International Inc. issued, on July 26, 2000, \$165 million (the Corporation's proportionate share of which was \$44 million) of 7% Junior Bonds due July 26, 2010, extendible at the option of the bondholder to July 26, 2040, bearing interest at an annual rate of 7.125%. With this issue, the total refinancing of 407 International Inc.'s original debt of more than \$3.2 billion (SNC-Lavalin's proportionate share of which was \$861 million) was completed.

In May, the Corporation renewed its normal course issuer bid program. A total of 1,214,300 common shares were redeemed in 2000 under the 1999 and 2000 programs for a total consideration of approximately \$15 million.

#### 2001

In February, SNC-Lavalin took a 50% equity participation in the Murraylink build-own-operate project for the installation of an interconnector between the electricity transmission grids of two Australian states, Victoria and South Australia.

To strengthen its position in synthetic crude and heavy oil production, SNC-Lavalin acquired Titan Projects Ltd. of Alberta, recognized for its expertise in gas processing and steam-assisted gravity drainage projects. SNC-Lavalin also purchased certain assets of Quebec-based EXPRO Chemical Products Inc., a North American producer of an extruded propellant used in commercial and military products.

SNC-Lavalin has taken a 50% - ownership in a new consortium, AltaLink, which has signed an agreement to acquire TransAlta's power transmission business in Alberta, Canada, which is expected to close in the first half of 2002.

The construction of the East partial and West Extensions of Highway 407 were successfully completed during the year and opened ahead of schedule.

In May, the Corporation renewed its normal course issuer bid program to purchase for cancellation on the open market, between May 23, 2001 and May 22, 2002 up to 3,253,400 common shares. A total of 391,000 common shares were redeemed in 2001 under the 2000 and 2001 programs for a total consideration of approximately \$6.4 million.

In June, the Corporation issued 3,000,000 common shares for a total of \$66,000,000 to be used by the Corporation for general corporate purposes including the funding of potential future acquisitions and investment opportunities in Canada and abroad.

### **First quarter of 2002**

In February, a dividend and distribution was paid by 407 International Inc. to its equity holders.

In March, SNC-Lavalin agreed to sell 26% of its investment in 407 International Inc. to one of its partners in the venture, Cintra Concesiones de Infraestructuras de Transporté, S.A. of Spain for a cash consideration of approximately \$178 million, or \$3.96 per share, which is approximately four times its original investment per share price.

## **ITEM 4**

### **NARRATIVE DESCRIPTION OF THE BUSINESS**

#### **4.1 GENERAL**

SNC-Lavalin has been active since 1911 and is one of the leading groups of engineering and construction companies in the world and a global leader in the ownership and management of infrastructure. It provides (on a fee-for-services basis or a lump-sum basis) engineering, procurement, construction project management, project financing services (including financial structuring and/or equity investments for Build-own-operate-transfer (BOOT) projects), and facility and operations management.

SNC-Lavalin derives revenues from three principal sources: services, packages and concessions activities, in the following segments: (i) infrastructure, (ii) chemicals and petroleum, (iii) power, (iv) mining and metallurgy, (v) facilities and operations management, (vi) defence, and (vii) all other. Revenues on services and packages contracts are derived primarily from cost-plus reimbursable contracts and fixed price contracts while revenues from concessions reflect SNC-Lavalin 's activities from its investments in companies arising from privatization, public-private partnerships, long-term outsourcing and other concession-type arrangements.

#### **4.2 CONTEXT OF ACTIVITIES**

##### **Industry Background**

Engineering-construction firms provide a full range of services to manage the execution of capital investment projects from conception to financing assistance and start-up of operations. Services provided for a particular project may include any or all of the feasibility studies, planning, detailed design, project and construction management, commissioning and plant operation, financial structuring and equity investment. Engineering-construction firms provide many other services, such as traffic flow analysis, environmental assessments, water resource management, agricultural and irrigation improvement programs and technology transfer.

Clients of engineering-construction firms in Canada range from large industrial companies and Crown corporations to municipal, provincial and federal governments. Most international clients of Canadian engineering-construction firms are developing countries or large industrial companies.

Internationally, Canadian engineering-construction firms compete mainly in emerging economies. The level of spending on capital projects in these countries is largely dependent on the availability of financing, particularly from major banking institutions, private venture capital pools, international lending agencies such as the World Bank, export credit agencies such as Canada's EDC and foreign aid agencies such as the Canadian International Development Agency (CIDA). While the Canadian government, in general, has curtailed some of its export incentives, EDC, however, has expanded its mandate to participate in private project financing and equity investments and has substantially increased its lending portfolio. Nevertheless, because of the scale of projects, credit risks of clients and substantial local costs, Canadian engineering firms must also seek international project financing from third countries and from private sources or international lending agencies.

### **Major Trends in the Industry**

Over the past 10 years, the Canadian engineering-construction services industry has been influenced by certain trends, as described below. Engineering-construction markets are changing; clients tend to demand lump-sum turnkey packages of goods and services, often combined with financing packages, a pattern that is fast replacing the traditional sale of services. They also ask for real technology transfer. Economic growth in emerging regions and indebted governments in developed countries lead them to look for privatization and public-private partnerships to answer their needs in infrastructure. These trends represent a significant opportunity for engineering-construction firms. In some countries, arranging the financing of the project or making an equity investment in the project is decisive in obtaining contracts.

#### **(i) Financing**

The ability to arrange or provide project financing and other financial services is becoming increasingly critical in engineering-construction. The Corporation established SNC-Lavalin Capital Inc. in 1993 and SNC-Lavalin Investment, a division of SNC-Lavalin Inc. in 1996, to respond to this requirement. SNC-Lavalin Capital Inc., a designated International Finance Center enjoying partial corporate tax breaks, provides financial modelling, assistance in structuring public-private partnerships or privatization arrangements and structuring and arranging of project financing. SNC-Lavalin Investment provides equity investments in selected projects and ventures, including BOOT projects.

#### **(ii) Firm Price Contracts and BOOT Projects**

A growing trend among clients is the demand for firm price contracts as well as BOOT arrangements requiring minority interest equity investments. These practices have required participants to enhance both their service offerings and their financing capabilities. Firm price contracts may cover engineering-construction services alone, or a package comprising services, material, equipment, construction and commissioning, in which case they are referred to as turnkey contracts. In other cases, these contracts provide for a package consisting of financing and engineering services.

#### **(iii) Local Contracting**

To meet technology transfer requirements in the international market, engineering-construction contracts often stipulate that detailed engineering design work, formerly carried out in-house, must be done in the client's country in conjunction with local firms. Consequently, the services provided internationally by the major engineering-construction firms, including SNC-Lavalin, are increasingly concentrated in project management, preliminary engineering, procurement and construction management and financial structuring.

#### **(iv) Privatization and Public-Private Partnerships**

A growing trend is emerging towards the privatization of public services, as governments seek to refurbish and expand public infrastructure and BOOT projects requiring minority interest equity investments.

#### **(v) Environmental Awareness**

Compliance with present provincial laws and associated standards regulating the discharge of materials into the environment, or otherwise relating to the protection of the environment, offers a potential source of work for engineering-construction companies as clients seek to ensure that their plants and operations meet government requirements. On the other hand, if clients choose to delay their expansion efforts because of the large expenditures required to ensure regulatory compliance, or if activists and pressure groups succeed in having projects delayed or cancelled as a result of their demands for exhaustive environmental studies, then the workload of the engineering-construction industry could be adversely affected. Another growing international trend with impact on the industry is the move toward sustainable economic development and the establishment of effective environmental management systems. This opens opportunities for engineering-construction firms, especially in developing countries, to provide technical and managerial assistance, specialized skills and other tools required for effective, locally-based, environment management, institutional strengthening and capacity building.

#### **Competition**

The engineering-construction business is highly competitive in Canada. SNC-Lavalin is one of the leading groups of engineering-construction companies and, within each industry sector, competes with one or more Canadian or international firms that concentrate on that particular industry. As one of the leaders in Canada, SNC-Lavalin has a competitive advantage in obtaining contracts for large capital projects. Domestically, engineering-construction firms compete on the basis of price, the proposed project staff and the experience and size of the firm.

In industrialized countries, most engineering-construction work is carried out by domestic firms. Consequently, international competition is for projects in developing countries with emerging economies. As one of the leading groups of engineering and construction companies in the world, SNC-Lavalin competes with important engineering-construction firms from most industrialized nations and, for basic technology projects, from developing countries. Competitiveness in this market depends primarily on reputation, price and the ability to arrange financing for the project as well as, in some cases, a willingness to invest equity in the project.

With the expansion of engineering education and experience in developing countries in Asia, Africa, Latin America and former republics of the Soviet Union, some engineering firms from those areas have started to export engineering services, particularly for projects requiring basic technology. The competitive advantage of these firms is primarily derived from lower labour costs. Consequently, engineering-construction firms from the western industrialized nations are facing increased competition for such projects as buildings, transportation facilities, dams and irrigation works.

SNC-Lavalin has worked in some 100 countries and, despite increased competition, has continued to obtain international contracts. In the year 2001, approximately 33% of SNC-Lavalin's revenues were from outside Canada.

Contracts are either competitively bid and awarded or individually negotiated. SNC-Lavalin also receives repeat business from its clients. Competition is primarily centered on performance and the ability to provide the engineering, planning and management skills required to complete complex projects on schedule and within budget.

SNC-Lavalin derives its competitive strength from its ability to work in many languages, its reputation for quality, its procurement capability, its project management expertise, its geographical coverage and its ability to execute projects of varying sizes calling for a wide range of services and technologies, as well as for its strong financial condition and its capability to structure and source project financing, by providing its own equity capital in certain cases.

#### **Business Strategy**

SNC-Lavalin's business strategy consists of several key elements: first, its widespread presence through a global network of offices in some 30 countries; second, its expanding project financing capabilities which consist of structuring and sourcing financing, as well as investing its own funds; third, SNC-Lavalin is structured and market-focused on a product-line and industry-sector basis with the objective of achieving market leadership and delivering

high value. Another important element is the presence of highly qualified, multilingual employees who are responsive to client needs and are dedicated to the success of their projects.

Acquisitions are an integral component of SNC-Lavalin's strategy for increasing its market share. SNC-Lavalin will acquire, or enter into a joint venture with specialized firms that combine SNC-Lavalin's strengths with targeted technical expertise in emerging and high-growth sectors, such as pharmaceuticals, agrifood and facility and operations management. As the need arises, acquisitions and joint ventures will also be made in the more well-established sectors, such as chemicals and petroleum and infrastructure.

In 2001, SNC-Lavalin completed four such transactions in different technical sectors. Vancouver-based Pacific Liaison and Associates Inc. was acquired to enhance SNC-Lavalin's project management expertise in the airport sector, while Roberts, Sloane & Associates of Winnipeg, was purchased to strengthen SNC-Lavalin's position in the high-growth agrifood sector. Calgary-based Titan Projects Ltd. was acquired so SNC-Lavalin could pursue business opportunities in the expanding fields of natural gas processing and heavy oil production, for which Titan has recognized expertise. Finally, SNC Technologies Inc. acquired EXPRO Chemical Products Inc., one of only two North American producers of an extruded propellant used in commercial and military products.

### **Organizational Structure**

SNC-Lavalin currently has a network of operating offices and marketing offices in some 30 countries to conduct ongoing projects, pursue business opportunities and market its products and services. To gain better access to markets outside Canada and to facilitate the financing on international projects, SNC-Lavalin may form alliances, either with firms possessing know-how complementary to SNC-Lavalin's existing capabilities or with leading local firms in such markets. These alliances enable SNC-Lavalin to share project risks and provide investment opportunities which can add to SNC-Lavalin's strength and capability.

### **SNC Technologies Inc.**

SNC Technologies Inc. ("**SNC TEC** ") is the prime contractor and preferred supplier of ammunition to the Department of National Defence ("**DND**"). In 1994, SNC TEC's preferred supplier status was confirmed to year 2006. All sales to DND are negotiated with Public Works and Government Services Canada ("**PWGSC**") in accordance with standard PWGSC policies and procedures for purchases on a negotiated basis. PWGSC monitors international ammunition prices to confirm the reasonableness of the prices it negotiates and has audit privileges to ensure compliance with its policies.

Export sales of military products must be in accordance with the Government of Canada export controls. Foreign sales are usually negotiated with foreign governments and awarded in competition with other ammunition suppliers. DND and PWGSC encourage foreign sales because of improved economies of scale which reduce fixed charges that would otherwise be applied to their contracts. There is no other Canadian supplier of ammunition in Canada and foreign manufacturers wishing to enter the market are encouraged by DND to deal through SNC TEC which is the preferred source of supply for ammunition.

#### **(i) Preferred Supplier Status**

Pursuant to an agreement made with the Government of Canada in 1994 (the "**1994 Agreement**"), SNC TEC is designated until May 8, 2006 (which date may be extended by the Government of Canada) to be:

- the preferred source of supply, acting as sole supplier in Canada, of a list of approximately 100 products that are required by DND and which SNC TEC manufactures in Canada; and
- the centre in Canada for the maintenance and further development of an industrial defence capability in the existing production facilities, as well as the necessary technical knowledge, research and development, relating to the list of products, and other ammunition products containing explosives which may be designated by the Minister of Supply and Services of Canada.

The 1994 Agreement does not provide for any assurance as to volume of ammunition to be procured from SNC TEC until May 8, 2006, or that the general acquisition, price and profit policies of the Government of Canada will not be changed. It does, however, contain certain safeguards in the event of a significant decrease in the Government's requirements for the products provided by SNC TEC. The 1994 Agreement also provides for SNC TEC to request an extension of the preferred supplier status starting May 8, 2004.

#### **(ii) Restrictions on SNC TEC**

SNC TEC is subject to the provisions of the *Canadian Arsenal Limited Divestiture Authorization Act* (the "Act"), federal legislation enacted in 1986 upon the purchase of Canadian Arsenal Limited by the Corporation from the Government of Canada. Among other things, the Act provides that the articles of SNC TEC or any successor corporation must contain provisions imposing constraints on the issue, transfer and ownership of its shares to prevent persons who are "non-Canadians" (as defined in the *Investment Canada Act*) from holding or beneficially owning shares to which are attached more than 25% of the votes that may be cast to elect directors of SNC TEC or any successor corporation. The articles of SNC TEC contain provisions imposing such constraints.

The Act also provides that, among other things, SNC TEC may not, without the prior consent of the Minister of Supply and Services, (i) apply for continuance in another jurisdiction, (ii) amalgamate, (iii) sell, lease or exchange all or substantially all of its property or (iv) voluntarily dissolve or liquidate.

#### **(iii) EXPRO Technologies Inc.**

In December 2001, SNC TEC acquired, through a newly formed wholly-owned subsidiary, EXPRO Technologies Inc., certain assets of Quebec-based EXPRO Chemical Products Inc., one of only two North American producers of an extruded propellant used in commercial and military products. EXPRO Chemical Products Inc.'s business is now operated by EXPRO Technologies Inc. This transaction will solidify SNC TEC's position in the North American and NATO ammunition markets.

### **4.3 REVIEW OF MAJOR ACTIVITIES**

A review of the major activities of SNC-Lavalin for the fiscal year ended December 31, 2001 is presented in the Report on Operations on pages 10 to 25 of the Corporation's 2001 annual report as well as under the item "Management's discussion and analysis – Infrastructure – Chemicals and Petroleum – Power – Mining and Metallurgy – Facilities and Operations Management – Defence – All Other – Highway 407" on pages 32 to 36 of the Corporation's 2001 annual report and in note 16 "Segment disclosures" to the consolidated financial statements for the fiscal year ended December 31, 2001 on pages 57 to 59 of the Corporation's 2001 annual report, which items are incorporated herein by reference.

### **4.4 BACKLOG AND OUTLOOK**

A discussion of the revenue backlog of SNC-Lavalin is presented under the item "Management's discussion and analysis – Backlog", on pages 31 and 32 of the Corporation's 2001 annual report, which item is incorporated herein by reference.

### **4.5 RISK MANAGEMENT**

SNC-Lavalin's business is conducted under various types of contractual arrangements, including cost-plus reimbursable, fixed fee, all inclusive rate, unit price, and firm or maximum price contracts as well as concession agreements. At present, an important portion of SNC-Lavalin's operations is derived from fixed fee type contracts. SNC-Lavalin has developed and applies rigorous risk mitigation and management practices to reduce the nature and extent of the financial and legal risks under each of these types of contractual arrangements.

SNC-Lavalin is subject to the following main risk factors:

#### *Cost Overruns*

SNC-Lavalin bears all or a significant portion of the risk for cost overruns for fixed fee, all inclusive rate, unit price, and firm or maximum price type contracts. Contract prices are established in part on estimates which are subject to a number of assumptions, such as those regarding future economic conditions, price, availability of labour, equipment and materials and other requirements which may affect project schedule or cost.

#### *Backlog*

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

#### *Project Performance*

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

SNC-Lavalin's continued commitment to sound risk management practices when underwriting and undertaking contracts, includes technical risk assessment, rigorous drafting and legal review of contracts, applying stringent cost and schedule control of projects, the regular review of projects forecasts to complete, the structuring of positive cash flow arrangements on projects, the hedging of currency rate fluctuations, securitization of project insurance, obtention of third party guarantees and other risk mitigating measures. To maintain comprehensive insurance coverage for various aspects of its business and operations is an important element in the risk management process of SNC-Lavalin. SNC-Lavalin elects, at times, to retain a portion of assets for potential losses by applying selective self-insurance practices and professionally managing such retention in its regulated captive insurance company.

## **4.6 REAL ESTATE**

The Corporation has its head office at 455 René-Lévesque Boulevard West, Montréal, Québec, Canada H2Z 1Z3 and occupies 31,856 of the 37,486 square metres of the building, which SNC-Lavalin owns.

Office space of significant size leased by SNC-Lavalin ranges from 680 to 25,000 square metres of floor space in various cities in Canada, the U.S.A., Europe, Asia and South America. SNC-Lavalin also leases smaller office space around the world for its operations and marketing activities.

SNC TEC has three plants: one in Le Gardeur, Québec, occupying 1,178 acres with 85,500 square metres of floor space and a second plant in Saint-Augustin, Québec, which occupies 15 acres with 11,900 square metres of floor space and a third one for EXPRO Technologies Inc. in Valleyfield, Québec, occupying 1,100 acres equivalent to 4,300,000 square metres with 191 buildings. SNC TEC also owns property in Valcartier, Québec, which occupies 473 acres of land with 54,500 square metres of floor space.

## **4.7 HUMAN RESOURCES**

As at December 31, 2001, SNC-Lavalin had some 8,800 employees. The number of engineering-construction employees varies with the sales volume and the number of projects. Towards the end of a large project, there is always a certain attrition, which is offset as staff requirements for another large project are built up.

## 4.8 ENVIRONMENTAL ISSUES

The Corporation has adopted an environmental policy that commits SNC-Lavalin and its employees to integrating environmental considerations into all its activities, both in Canada and abroad.

SNC-Lavalin is subject to federal, provincial and municipal laws and regulations relating to the environment, particularly with regard to its manufacturing operations. SNC-Lavalin believes it complies in all material respects with such laws and regulations. Compliance with such laws and regulations in the future may require additional capital expenditures and the Corporation expects that for the foreseeable future, such capital expenditures will be financed through cash flow from operations.

### ITEM 5 SELECTED CONSOLIDATED FINANCIAL INFORMATION

#### 1. Consolidated financial information for three consecutive years ended December 31:

	<u>2001</u>	<u>2000</u>	<u>1999</u>
	(in millions of dollars, except per share amounts)		
Revenues	<u>2,326.8</u>	<u>1,740.4</u>	<u>1,270.8</u>
Net income (loss)			
Excluding Highway 407	59.2	53.1	49.5
From Highway 407	<u>(32.8)</u>	<u>(29.2)</u>	<u>(13.2)</u>
	<u>26.4</u>	<u>23.9</u>	<u>36.3</u>
Basic earnings per share			
Excluding Highway 407	1.24	1.14	1.06
From Highway 407	<u>(0.69)</u>	<u>(0.63)</u>	<u>(0.28)</u>
	<u>0.55</u>	<u>(0.51)</u>	<u>0.78</u>
Diluted earnings per share			
Excluding Highway 407	1.21	1.14	1.05
From Highway 407	<u>(0.67)</u>	<u>(0.63)</u>	<u>(0.28)</u>
	<u>0.54</u>	<u>0.51</u>	<u>0.77</u>
Dividends paid			
amount	13.4	11.1	11.3
per share	0.28	0.24	0.24
Total assets <sup>(2)</sup>	2,490.6	2,227.2	1,843.4
Total long-term debt <sup>(1) (2)</sup>	1,178.6	1,095.9	843.8

(1) Includes long-term debt due within one year.

(2) The Corporation's consolidated total assets and long-term debt as at December 31, 2001, include the Corporation's proportionate share of total assets and total long-term debt (non-recourse to the general credit of the Corporation) of Highway 407 amounting to \$1,167.4 million (\$1,111.0 million in 2000 and \$996.3 million in 1999) and \$1,027.9 million (\$942.0 million in 2000 and \$802.3 million in 1999) respectively.

Factors affecting the comparability of the above data:

(i) **1999**

In March, SNC-Lavalin acquired a 25% equity participation in Expertech Network Installation Inc. a company specializing in wireline fibre optic and copper network installations, for a total consideration of \$25,060,000.

In May, the Corporation renewed its normal course issuer bid program (the "**1999 Program**") to purchase for cancellation, on the open market, between May 21, 1999 and May 20, 2000 up to a maximum of 4,013,300 common shares. During 1999, 2,669,000 common shares were redeemed under the 1998 Program and the 1999 Program for a total consideration of \$31.2 million.

In May, SNC-Lavalin, in consortium with Spanish company Cintra Concesiones de Infraestructuras de Transporte, S.A., invested in Highway 407 in a 99-year concession lease from the Government of Ontario for \$3.1 billion. To finance the acquisition, the consortium established a senior bond financing program. In 1999, a total of \$2.15 billion in bonds was issued to repay the senior bridge loan, which was obtained at the acquisition date. For purposes of comparison and to disclose the financial impact of Highway 407, the Corporation's consolidated financial statements provide financial disclosure relating to Highway 407 as well as the results of total activities excluding Highway 407.

The Corporation adopted the new recommendations of the Canadian Institute of Chartered Accountants ("**CICA**") with respect to the presentation of cash flow information. Under the new recommendations, cash equivalents are restricted to investments that are readily convertible into a known amount of cash, that are subject to minimal risk of changes in value and which have an original maturity of three months or less. Short-term, liquid investments with original maturities of more than three months are included in short-term investments. Figures for prior years have been restated to conform to the new recommendations.

The Corporation adopted the new recommendations of the CICA with respect to employee future benefits including pension benefits and other post-employment and post-retirement benefits. As such, the January 1, 1999 consolidated accounts reflected an adjustment to retained earnings of \$5,725,000 as well as a reduction of future income tax liability of \$3,781,000 and an increase of other liabilities of \$9,506,000.

(ii) **2000**

In March, SNC-Lavalin acquired, through ProFac, Nexacor Realty Management Inc. In May, SNC-Lavalin purchased the remaining 50% equity interest in ProFac.

On July 26, 2000, 407 International Inc. issued \$165 million (the Corporation's proportionate share of which was \$44 million) of 7% Junior Bonds due July 26, 2010, extendible at the option of the bondholder to July 26, 2040, bearing interest at an annual rate of 7.125%. With this issue, the total refinancing of 407 International Inc.'s original debt of more than \$3.2 billion (the Corporation's proportionate share of which was \$861 million) was completed.

In May, the Corporation renewed its normal course issuer bid program (the "**2000 Program**") to purchase for cancellation on the open market, between May 23, 2000 and May 22, 2001, up to a maximum of 3,910,000 common shares. During 2000, 1,214,300 common shares were redeemed under the 1999 Program and the 2000 Program for a total consideration of \$15 million.

(iii) **2001**

In May, the Corporation renewed its normal course issuer bid program (the "**2001 Program**") to purchase for cancellation on the open market, between May 23, 2001 and May 22, 2002 up to a maximum of 3,253,400 common shares. During 2001, 391,000 common shares were redeemed under the 2000 Program and the 2001 Program for a total consideration of \$6.4 million.

The Corporation adopted the new recommendations of the CICA with respect to "Business Combinations". Under these recommendations, business combinations initiated after June 30, 2001 are required to be accounted for using the purchase method of accounting, thereby no longer permitting the pooling-of-interests method of accounting. These recommendations also broaden criteria for recording other intangible assets separately from goodwill. Goodwill represents the excess of the cost of acquired enterprises over the net of the amounts assigned to assets acquired and liabilities assumed at the date of acquisition. Concurrently, the Corporation also adopted the new recommendations of the CICA with respect to "Goodwill and Other Intangible Assets". Effective as at July 1, 2001 for business acquisitions initiated after June 30, 2001 and January 1, 2002 for goodwill on business acquisitions initiated prior to July 1, 2001, goodwill will no longer be amortized, but instead will be tested for impairment and, if required, written down and charged to earnings only in the periods in which the recorded value of goodwill exceeds its fair value.

In adopting the new recommendations, the Corporation will reassess its current goodwill impairment methodology, and any potential transitional impairment losses on goodwill determined will be charged to retained earnings at such date for such unamortized goodwill effective January 1, 2002. Currently, the Corporation assesses the carrying value of unamortized goodwill existing at each balance sheet date based on an estimate of the undiscounted future cash flow of each business to which the goodwill relates. The amount of impairment loss, if any, is the excess of the carrying value over the estimated net undiscounted cash flows. Goodwill is written down for any impairment in value of the unamortized portion.

The Corporation retroactively adopted the new recommendations of the CICA with respect to the calculation of earnings per share. The principles for calculating basic earnings per share are consistent with previous recommendations; however, diluted earnings per share are now calculated using the treasury stock method. Under the treasury stock method, 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 issuance, and the proceeds from the exercise of such dilutive options are used to repurchase common shares at the average market price for the period. The new recommendations no longer require an adjustment to net income for imputed interest in calculating diluted earnings per share. The 2000 consolidated diluted net earnings per share and diluted cash flow per share have been restated to reflect the new recommendations, resulting in no change for diluted earnings per share, while diluted cash flow per share increased by \$0.07, to \$1.86 from \$1.79.

The Corporation completed an offering to the public of three million (3,000,000) common shares at \$22 per share for net proceeds of \$63.2 million to be used for general corporate purposes including the funding of potential future acquisitions and investment opportunities in Canada and abroad.

2. **Consolidated financial information for the eight consecutive quarters ended December 31, 2001.**

**QUARTER ENDED**

	<b>March 31</b>	<b>June 30</b>	<b>Sept. 30</b>	<b>Dec. 31</b>	<b>Total</b>
	<u>2001</u>	<u>2001</u>	<u>2001</u>	<u>2001</u>	
	(in millions of dollars, except per share amounts)				
Revenues	<u>564.9</u>	<u>532.0</u>	<u>575.2</u>	<u>654.7</u>	<u>2,326.8</u>
Net income (loss)					
Excluding Highway 407	12.7	17.0	15.8	13.7	59.2
From Highway 407	<u>(6.7)</u>	<u>(6.3)</u>	<u>(8.9)</u>	<u>(10.9)</u>	<u>(32.8)</u>
	<u>6.0</u>	<u>10.7</u>	<u>6.9</u>	<u>2.8</u>	<u>26.4</u>
Basic earnings per share					
Excluding Highway 407	0.28	0.36	0.32	0.28	1.24
From Highway 407	<u>(0.15)</u>	<u>(0.13)</u>	<u>(0.18)</u>	<u>(0.23)</u>	<u>(0.69)</u>
	<u>0.13</u>	<u>0.23</u>	<u>0.14</u>	<u>0.05</u>	<u>0.55</u>

**QUARTER ENDED**

	<b>March 31</b>	<b>June 30</b>	<b>Sept. 30</b>	<b>Dec. 31</b>	<b>Total</b>
	<u>2000</u>	<u>2000</u>	<u>2000</u>	<u>2000</u>	
	(in millions of dollars, except per share amounts)				
Revenues	<u>333.5</u>	<u>434.5</u>	<u>462.0</u>	<u>510.4</u>	<u>1,740.4</u>
Net income (loss)					
Excluding Highway 407	11.5	15.5	13.7	12.4	53.1
From Highway 407	<u>(9.0)</u>	<u>(7.8)</u>	<u>(4.5)</u>	<u>(7.9)</u>	<u>(29.2)</u>
	<u>2.5</u>	<u>7.7</u>	<u>9.2</u>	<u>4.5</u>	<u>23.9</u>
Basic earnings per share					
Excluding Highway 407	0.25	0.33	0.30	0.26	1.14
From Highway 407	<u>(0.20)</u>	<u>(0.16)</u>	<u>(0.10)</u>	<u>(0.17)</u>	<u>(0.63)</u>
	<u>0.05</u>	<u>0.17</u>	<u>0.20</u>	<u>0.09</u>	<u>0.51</u>

3. **Dividend policy**

The Corporation has paid quarterly dividends on its shares since it became a public company in 1986, except from the third quarter of 1988 until the third quarter of 1989, inclusively. The Corporation reinstated a quarterly dividend of \$0.07 per share in the fourth quarter of 1989. Thereafter, there were increases and reductions in the quarterly dividend until 1994 when it was increased twice, from \$0.05 in the last quarter of 1993 to \$0.07 per share in the first quarter of 1994 and to \$0.09 in the third quarter of 1994, to \$0.10 in the first quarter of 1995 and to \$0.11 for its last quarter. Subsequent to the three for one stock split effective May 8, 1996, the dividend increased to \$0.04 per share for the second and third quarters of 1996, to \$0.05 per share for the last quarter of 1996, the four quarters of 1997 and the first three quarters of 1998. The dividend was increased to \$0.06 per share for the last quarter of 1998, the four quarters of 1999 and the first three quarters of 2000 and to \$0.07 per share for the last quarter of 2000 and the first three quarters of 2001. In March 2002, \$0.08 per share was also declared for the last quarter of 2001.

## ITEM 6

### MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

A discussion and analysis by management of the financial condition and results of operations for the fiscal years ended December 31, 2001 and 2000 is given under the item "Management's discussion and analysis" on pages 26 to 38 of the Corporation's 2001 annual report, which item is incorporated herein by reference.

## ITEM 7

### MARKET FOR SECURITIES

The common shares of the Corporation are listed for trading on The Toronto Stock Exchange.

## ITEM 8

### DIRECTORS AND SENIOR EXECUTIVES

The following tables list the directors and officers of the Corporation, and their municipality of residence:

#### Directors of the Corporation

<u>Name and Municipality of Residence</u>	<u>Principal Occupation</u>	<u>Director since</u>
Jacqueline L. Boutet, C.M. <sup>(1)(3)</sup> Montréal, Québec	President Jacqueline L. Boutet Inc. Montréal, Québec	1990
Angus A. Bruneau, O.C. Ph.D. <sup>(2)</sup> St. John's, Newfoundland	Chairman of the Board Fortis Inc. St. John's, Newfoundland	1991
John E. Cleghorn, O.C., F.C.A. <sup>(2)</sup> Toronto, Ontario	Retired Chairman and Chief Executive Officer Royal Bank of Canada Toronto, Ontario	2001
Jacques A. Drouin <sup>(2)</sup> London, England	Managing Director - Canada Country Head Lazard Brothers & Co., Limited London, England	1993
David Goldman <sup>(1)</sup> Toronto, Ontario	Chairman and Chief Executive Officer Intasys Corporation Montreal, Quebec	2002
Christopher Hampson, C.B.E. <sup>(1)</sup> London, England	Chairman of the Board RMC Group p.l.c. London, England	1993

### Directors of the Corporation

<u>Name and Municipality of Residence</u>	<u>Principal Occupation</u>	<u>Director since</u>
Jacques Lamarre <sup>(3)</sup> Montréal, Québec	President and Chief Executive Officer SNC-Lavalin Group Inc. Montréal, Québec	1996
Allan F. Leach <sup>(1)</sup> Toronto, Ontario	President Allan Leach Consultants Inc. Toronto, Ontario	1999
Pierre H. Lessard <sup>(2)</sup> Montréal, Québec	President and Chief Executive Officer Metro Inc. Montréal, Québec	1998
Edythe A. Parkinson-Marcoux <sup>(1)</sup> Canmore, Alberta	Company Director Canmore, Alberta	1998
Guy Saint-Pierre, O.C. <sup>(2)(3)(4)</sup> Montréal, Québec	Chairman of the Board SNC-Lavalin Group Inc. Montréal, Québec	1987
Hugh D. Segal <sup>(1)</sup> Kingston, Ontario	President Institute for Research on Public Policy Montréal, Québec	1999
Lawrence N. Stevenson <sup>(2)</sup> Paris, France	Company Director Paris, France	1999
Neil Webber, Ph.D. <sup>(1)</sup> Calgary, Alberta	President and Chairman Webber Academy Calgary, Alberta	1990

(1) Member of the Audit Committee

(2) Member of the Corporate Governance and Human Resources Committee

(3) Member of the Bid and Investment Approval Committee

(4) Chairman of the Board

Except for Mr. John E. Cleghorn who was, until his retirement in 2001, Chairman and Chief Executive Officer of Royal Bank of Canada, and Mr. David Goldman who, until 2001, held various executive positions with Noranda Inc., all of the above-named nominees have held their present position or other executive positions with the same or associated firms or organizations during the past five years. The term of office of each director expires upon the election of his/her successor unless he/she resigns his/her office, or his/her office becomes vacant by death, removal or other cause.

As at March 31, 2002, the directors of the Corporation held either directly or indirectly, or exercised control over 1.51% of the common shares of the Corporation.

**Officers who are not also  
Directors of the Corporation**

<b><u>Name and Municipality of Residence</u></b>	<b><u>Principal Occupation</u></b>
Pierre Anctil Montréal, Québec	Executive Vice-President
Jean-Marc Arbaud Outremont, Québec	Vice-President, Operations and Maintenance
Jean Beaudoin Calixa-Lavallée, Québec	Senior Vice-President and General Manager, Industrial
Sami Bébawi Outremont, Québec	Executive Vice-President
Christiane Bergevin Montréal, Québec	Senior Vice-President and General Manager, Capital
Robert Blackburn Ottawa, Ontario	Senior Vice-President, Government and International Development Institutions
George Boutary Saint-Lambert, Québec	Vice-President and General Manager, Risk and Insurance
Wayne K. Boyd Scarborough, Ontario	Vice-President
Marylynne Campbell Toronto, Ontario	Senior Vice-President, Human Resources
Ian Chapman Montréal, Québec	Vice-President, Law and Corporate Secretary
Dale Christensen Calgary, Alberta	Senior Vice-President and General Manager, Chemicals and Petroleum
Guy Davister Brussels, Belgium	Senior Vice-President and General Manager, Belgium
Paul Dufresne Montréal, Québec	Senior Vice-President and General Manager, Power Division, Montréal
Pierre Duhaime Montréal, Québec	Senior Vice-President and General Manager, Mining and Metallurgy, Québec
Lloyd Girman Winnipeg, Manitoba	Senior Vice-President, Strategic Initiatives
Lance S. Howard Saint-Lambert, Québec	Senior Vice-President and General Manager, Power Development Division

**Name and Municipality of Residence****Principal Occupation**

Michael Ioffredi Montréal, Québec	Vice-President and Controller
Krish Krishnamoorthy Calgary, Alberta	Executive Vice-President
Daniel Lachapelle Terrebonne, Québec	Senior Vice-President and General Manager, Pharmaceutical and Biotechnology
Hubert Lafortune Montréal, Québec	Director, Internal Audit
Luc Lainey Montréal, Québec	Vice-President and General Manager, Infrastructure & Buildings Environment, Agriculture Québec
Gilles Laramée Saint-Bruno, Québec	Executive Vice-President, Finance
Denny Law Calgary, Alberta	Senior Vice-President, Strategic Development, Chemicals and Petroleum
Robert Leboeuf Nuns' Island, Québec	Executive Vice-President
Mark Loader Vancouver, British Columbia	Senior Vice-President, Transport
Gillian MacCormack Westmount, Québec	Vice-President, Public Relations
Adam Malkhassian Ahuntsic, Québec	Vice-President and Chairman, Risk Evaluation Committee
Mario Moranelli Saint-Léonard, Québec	Vice-President and Treasurer
Normand Morin Outremont, Québec	Executive Vice-President
Vulcan Mutler Richmond Hill, Ontario	Vice-President and General Manager, Sulphuric Acid Plants
Roger Nichol Scarborough, Ontario	Executive Vice-President
Michael C. Novak Westmount, Québec	Executive Vice-President
David Parsons Coquitlam, British Columbia	Senior Vice-President and General Manager, Thermal Power Division (Vancouver)
Jean-Claude Pingat Reims, France	Senior Vice-President and General Manager, France

<b><u>Name and Municipality of Residence</u></b>	<b><u>Principal Occupation</u></b>
Alain Poplemon Mont-Saint-Hilaire, Québec	Senior Vice-President and General Manager, Energy Control Systems
Pierre Ranger L'Orignal, Ontario	Senior Vice-President and General Manager, Aluminium
Yash Sthankiya Winnipeg, Manitoba	Vice-President and General Manager, Winnipeg
Albert Sweetnam North York, Ontario	Senior Vice-President and General Manager, Infrastructure and Environment
Robert Tribe Matsqui, British Columbia	Executive Vice-President
Klaus Triendl Pointe-Claire, Québec	Executive Vice-President
Albert Williams St. John's, Newfoundland	Senior Vice-President and General Manager, Newfoundland and Labrador

All the above officers have held their present position or other positions within the Corporation or associated companies within the past five years with the exception of Mr. Sami Bébawi, who was President of Géracon until December 1998, Gillian MacCormack who was Site Manager, Communications at Montréal General Hospital of the McGill University Health Centre until June 2001, Lloyd Girman who was Deputy Minister of Northern Affairs in Manitoba and Senior Program Officer with the Secretary of State and Department of Health and Welfare for the federal government until December 1998 and Mark Loader who was Senior Associate at Booz-Allen & Hamilton in Sydney, Australia until December 1999.

As at March 31, 2002, the directors and officers of the Corporation, as a group, held, either directly or indirectly, or exercised control over 2.62% of the common shares of the Corporation.

**ITEM 9**  
**ADDITIONAL INFORMATION**

When the securities of the Corporation are in the course of a distribution pursuant to a short form prospectus, or when a preliminary short form prospectus has been filed in respect of a distribution of its securities, copies of the following documents may be obtained upon request from the Corporate Secretary, SNC-Lavalin Group Inc., Suite 1500, 455 René-Lévesque Boulevard West, Montréal, Québec, Canada H2Z 1Z3:

- (i) annual information form of the Corporation, together with one copy of any document, or the pertinent pages of any document, incorporated by reference in the annual information form;
- (ii) comparative financial statements of the Corporation for its most recently completed financial year together with the accompanying auditors' report and the interim financial statements of the Corporation subsequent to the financial statements for its most recently completed financial year;
- (iii) management proxy circular of the Corporation in respect of its most recent annual meeting of shareholders that involved the election of directors or any annual filing prepared in lieu of that information circular, as appropriate; and
- (iv) any other documents that are incorporated by reference in the preliminary short form prospectus or the short form prospectus and which are not required to be provided under (i) to (iii) above.

At any other time, one copy of any documents referred to in (i) to (iii) above may also be obtained upon request from the Corporate Secretary, at the address indicated above; the Corporation may require the payment of a reasonable charge if the request is made by a person who is not a security holder of the Corporation.

Additional information, including executive compensation and indebtedness, principal holders of securities and options to purchase securities, is contained in the Management Proxy Circular of the Corporation dated March 22, 2002 (the "**2002 Management Proxy Circular**"), which relates to the May 9, 2002 annual meeting of shareholders of the Corporation.

Additional financial information, including comparative financial statements for its most recently completed financial year, is contained in the 2001 annual report of the Corporation on pages 39 through 61.

Copies of the 2002 Management Proxy Circular and the 2001 annual report may be obtained upon request from the Corporate Secretary, SNC-Lavalin Group Inc., Suite 1500, 455 René-Lévesque Boulevard West, Montréal, Québec, Canada H2Z 1Z3.

