

## MEMBERS OF THE OFFICE OF THE PRESIDENT



## PRESIDENT'S MESSAGE

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

### **A CHALLENGING YEAR**

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

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

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



**FROM LEFT TO RIGHT**

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

## **FINANCIAL PERFORMANCE**

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

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

## **STRATEGIC GROWTH**

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

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

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

## **STRATEGIC INVESTMENTS**

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

## **PUTTING STRATEGY INTO PRACTICE**

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

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

## PRESIDENT'S MESSAGE (CONTINUED)

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

### WE CARE

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

### OUTLOOK

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

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

### ARRIVALS AND DEPARTURES

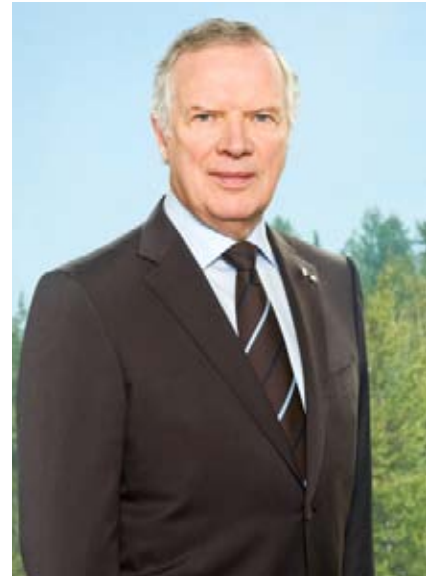
Our sincere thanks to Marylynne Campbell and Klaus Triendl, who retired from the Office of the President in 2007, both with over 30 years of distinguished service.

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

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

### JACQUES LAMARRE

#### PRESIDENT AND CHIEF EXECUTIVE OFFICER



## CHAIRMAN'S COMMENTARY

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

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

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

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

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

**GWYN MORGAN**

CHAIRMAN OF THE BOARD

