



SNC • LAVALIN

Q2

**Interim Condensed Consolidated
Financial Statements** (unaudited)

As at and for the six-month periods ended
June 30, 2017 and 2016

SNC-Lavalin Group Inc.
INTERIM CONDENSED CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
(UNAUDITED)

(IN THOUSANDS OF CANADIAN DOLLARS)

	Note	June 30 2017	December 31 2016
ASSETS			
Current assets			
Cash and cash equivalents		\$ 737,361	\$ 1,055,484
Restricted cash		41,353	55,577
Restricted funds	20	1,264,740	–
Trade receivables		872,471	935,983
Contracts in progress		1,384,610	1,188,912
Inventories		134,059	138,795
Other current financial assets		403,797	492,725
Other current non-financial assets		302,965	315,847
Assets of disposal groups classified as held for sale and assets held for sale	16	416,543	6,706
Total current assets		5,557,899	4,190,029
Property and equipment		290,704	298,333
Capital investments accounted for by the equity method	4	268,814	399,425
Capital investments accounted for by the cost method	4	48,807	48,325
Goodwill		3,238,856	3,268,214
Intangible assets related to Kentz acquisition		162,755	194,164
Deferred income tax asset		443,012	421,461
Non-current portion of receivables under service concession arrangements		208,743	356,847
Other non-current financial assets		34,510	58,523
Other non-current non-financial assets		67,489	62,998
Total assets		\$ 10,321,589	\$ 9,298,319
LIABILITIES AND EQUITY			
Current liabilities			
Trade payables		\$ 1,755,060	\$ 1,888,242
Downpayments on contracts		257,381	263,382
Deferred revenues		709,009	851,158
Other current financial liabilities		268,809	303,975
Liabilities for subscription receipts	20	1,282,341	–
Other current non-financial liabilities		350,669	397,790
Current portion of provisions		179,599	236,594
Short-term debt and current portion of long-term debt:			
Non-recourse from Capital investments		15,553	21,011
Liabilities of disposal groups classified as held for sale	16	317,460	–
Total current liabilities		5,135,881	3,962,152
Long-term debt:			
Recourse		349,487	349,369
Non-recourse from Capital investments		291,764	472,571
Other non-current financial liabilities		6,559	5,928
Non-current portion of provisions		307,802	326,401
Other non-current non-financial liabilities		40,816	15,846
Deferred income tax liability		154,003	269,718
Total liabilities		6,286,312	5,401,985
Equity			
Share capital	9	563,436	554,839
Retained earnings		3,102,696	2,959,366
Other components of equity	10	312,265	360,845
Other components of equity of disposal group classified as held for sale	10, 16	30,977	(1,828)
Equity attributable to SNC-Lavalin shareholders		4,009,374	3,873,222
Non-controlling interests		25,903	23,112
Total equity		4,035,277	3,896,334
Total liabilities and equity		\$ 10,321,589	\$ 9,298,319

See accompanying notes to interim condensed consolidated financial statements.

SNC-Lavalin Group Inc.

INTERIM CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

(UNAUDITED)

SIX MONTHS ENDED JUNE 30
(IN THOUSANDS OF CANADIAN DOLLARS, EXCEPT
NUMBER OF COMMON SHARES)

2017

	Equity attributable to SNC-Lavalin shareholders					Non-controlling interests	Total equity
	Share Capital		Retained earnings	Other components of equity (Note 10)	Total		
	Common shares (in thousands)	Amount					
Balance at beginning of the period	150,357	\$ 554,839	\$ 2,959,366	\$ 359,017	\$ 3,873,222	\$ 23,112	\$ 3,896,334
Net income for the period	-	-	226,103	-	226,103	3,374	229,477
Other comprehensive income (loss) for the period	-	-	974	(15,775)	(14,801)	24	(14,777)
Total comprehensive income (loss) for the period	-	-	227,077	(15,775)	211,302	3,398	214,700
Dividends declared (Note 8)	-	-	(82,151)	-	(82,151)	-	(82,151)
Dividends declared by subsidiaries to non-controlling interests	-	-	-	-	-	(607)	(607)
Stock option compensation	-	-	139	-	139	-	139
Shares issued under stock option plans	181	8,597	(1,735)	-	6,862	-	6,862
Balance at end of the period	150,538	\$ 563,436	\$ 3,102,696	\$ 343,242	\$ 4,009,374	\$ 25,903	\$ 4,035,277

SIX MONTHS ENDED JUNE 30
(IN THOUSANDS OF CANADIAN DOLLARS, EXCEPT
NUMBER OF COMMON SHARES)

2016

	Equity attributable to SNC-Lavalin shareholders					Non-controlling interests	Total equity
	Share Capital		Retained earnings	Other components of equity (Note 10)	Total		
	Common shares (in thousands)	Amount					
Balance at beginning of the period	149,772	\$ 526,812	\$ 2,901,353	\$ 440,013	\$ 3,868,178	\$ 35,318	\$ 3,903,496
Net income for the period	-	-	210,617	-	210,617	9,111	219,728
Other comprehensive loss for the period	-	-	(16,245)	(231,971)	(248,216)	(3,373)	(251,589)
Total comprehensive income (loss) for the period	-	-	194,372	(231,971)	(37,599)	5,738	(31,861)
Dividends declared (Note 8)	-	-	(77,964)	-	(77,964)	-	(77,964)
Dividends declared by subsidiaries to non-controlling interests	-	-	-	-	-	(5,445)	(5,445)
Stock option compensation	-	-	470	-	470	-	470
Shares issued under stock option plans	406	19,449	(3,756)	-	15,693	-	15,693
Balance at end of the period	150,178	\$ 546,261	\$ 3,014,475	\$ 208,042	\$ 3,768,778	\$ 35,611	\$ 3,804,389

See accompanying notes to interim condensed consolidated financial statements.

SNC-Lavalin Group Inc.

INTERIM CONDENSED CONSOLIDATED INCOME STATEMENTS

(UNAUDITED)

(IN THOUSANDS OF CANADIAN DOLLARS, EXCEPT
EARNINGS PER SHARE AND NUMBER OF SHARES)

		SECOND QUARTER		SIX MONTHS ENDED JUNE 30	
	Note	2017	2016	2017	2016
Revenues from:					
E&C		\$ 1,868,161	\$ 2,045,237	\$ 3,656,485	\$ 3,976,010
Capital investments accounted for by the consolidation or cost methods		15,663	11,269	28,095	24,158
Capital investments accounted for by the equity method		51,049	46,480	99,563	90,988
		1,934,873	2,102,986	3,784,143	4,091,156
Direct cost of activities		1,633,238	1,762,190	3,189,516	3,458,452
Gross margin		301,635	340,796	594,627	632,704
Selling, general and administrative expenses		185,293	201,082	342,383	369,189
Restructuring costs	5	22,306	2,729	25,131	15,744
Acquisition-related costs and integration costs	20	55,272	1,725	56,635	2,969
Amortization of intangible assets related to Kentz acquisition		14,301	15,781	29,664	36,070
Gain on disposals of Capital investments	4A	(5,403)	–	(5,403)	(58,539)
Gain from adjustment on disposals of E&C businesses	17	(287)	–	(1,006)	–
Gain on disposal of the head office building	18	(115,101)	–	(115,101)	–
EBIT⁽¹⁾		145,254	119,479	262,324	267,271
Financial expenses	6	16,366	16,803	31,651	31,856
Financial income and net foreign exchange losses (gains)	6	(2,968)	(4,531)	(5,059)	(10,079)
Earnings before income taxes		131,856	107,207	235,732	245,494
Income taxes		(2,549)	14,866	6,255	25,766
Net income for the period		\$ 134,405	\$ 92,341	\$ 229,477	\$ 219,728
Net income (loss) attributable to:					
SNC-Lavalin shareholders		\$ 136,390	\$ 88,510	\$ 226,103	\$ 210,617
Non-controlling interests		(1,985)	3,831	3,374	9,111
Net income for the period		\$ 134,405	\$ 92,341	\$ 229,477	\$ 219,728
Earnings per share (in \$)					
Basic		\$ 0.91	\$ 0.59	\$ 1.50	\$ 1.41
Diluted		\$ 0.91	\$ 0.59	\$ 1.50	\$ 1.40
Weighted average number of outstanding shares (in thousands)					
	7				
Basic		150,483	149,972	150,432	149,880
Diluted		150,597	150,185	150,572	150,041

⁽¹⁾ Earnings before interest and income taxes (“EBIT”)

See accompanying notes to interim condensed consolidated financial statements.

SNC-Lavalin Group Inc.

INTERIM CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(UNAUDITED)

THREE MONTHS ENDED JUNE 30

(IN THOUSANDS OF CANADIAN DOLLARS)

	2017			2016		
	Attributable to SNC-Lavalin shareholders	Non- controlling interests	Total	Attributable to SNC-Lavalin shareholders	Non- controlling interests	Total
Net income (loss) for the period	\$ 136,390	\$ (1,985)	\$ 134,405	\$ 88,510	\$ 3,831	\$ 92,341
Other comprehensive income (loss):						
Exchange differences on translating foreign operations (Note 10)	9,812	202	10,014	(112,164)	(3,013)	(115,177)
Available-for-sale financial assets (Note 10)	813	–	813	505	–	505
Cash flow hedges (Note 10)	12,009	–	12,009	(43,505)	–	(43,505)
Share of other comprehensive income (loss) of investments accounted for by the equity method (Note 10)	(358)	–	(358)	2,369	–	2,369
Income taxes (Note 10)	(529)	–	(529)	9,725	–	9,725
Total of items that will be reclassified subsequently to net income	21,747	202	21,949	(143,070)	(3,013)	(146,083)
Remeasurement on defined benefit plans (Note 10)	789	–	789	(15,241)	–	(15,241)
Income taxes (Note 10)	829	–	829	1,865	–	1,865
Total of items that will not be reclassified subsequently to net income	1,618	–	1,618	(13,376)	–	(13,376)
Total other comprehensive income (loss) for the period	23,365	202	23,567	(156,446)	(3,013)	(159,459)
Total comprehensive income (loss) for the period	\$ 159,755	\$ (1,783)	\$ 157,972	\$ (67,936)	\$ 818	\$ (67,118)

SIX MONTHS ENDED JUNE 30

(IN THOUSANDS OF CANADIAN DOLLARS)

	2017			2016		
	Attributable to SNC-Lavalin shareholders	Non- controlling interests	Total	Attributable to SNC-Lavalin shareholders	Non- controlling interests	Total
Net income for the period	\$ 226,103	\$ 3,374	\$ 229,477	\$ 210,617	\$ 9,111	\$ 219,728
Other comprehensive income (loss):						
Exchange differences on translating foreign operations (Note 10)	(22,039)	24	(22,015)	(212,167)	(3,373)	(215,540)
Available-for-sale financial assets (Note 10)	3,431	–	3,431	1,191	–	1,191
Cash flow hedges (Note 10)	4,195	–	4,195	(20,696)	–	(20,696)
Share of other comprehensive loss of investments accounted for by the equity method (Note 10)	(347)	–	(347)	(5,656)	–	(5,656)
Income taxes (Note 10)	(1,015)	–	(1,015)	5,357	–	5,357
Total of items that will be reclassified subsequently to net income	(15,775)	24	(15,751)	(231,971)	(3,373)	(235,344)
Remeasurement on defined benefit plans (Note 10)	47	–	47	(18,339)	–	(18,339)
Income taxes (Note 10)	927	–	927	2,094	–	2,094
Total of items that will not be reclassified subsequently to net income	974	–	974	(16,245)	–	(16,245)
Total other comprehensive income (loss) for the period	(14,801)	24	(14,777)	(248,216)	(3,373)	(251,589)
Total comprehensive income (loss) for the period	\$ 211,302	\$ 3,398	\$ 214,700	\$ (37,599)	\$ 5,738	\$ (31,861)

See accompanying notes to interim condensed consolidated financial statements.

SNC-Lavalin Group Inc.

INTERIM CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(UNAUDITED)

(IN THOUSANDS OF CANADIAN DOLLARS)

	Note	SECOND QUARTER		SIX MONTHS ENDED JUNE 30	
		2017	2016	2017	2016
Operating activities					
Net income for the period		\$ 134,405	\$ 92,341	\$ 229,477	\$ 219,728
Income taxes received (paid)		16,778	(34,571)	6,009	(28,631)
Interest paid from E&C		(18,137)	(2,446)	(29,455)	(16,472)
Interest paid from Capital investments		(1,639)	(4,085)	(11,657)	(14,820)
Other reconciling items	11A	(49,448)	(42,113)	(40,050)	(89,210)
		81,959	9,126	154,324	70,595
Net change in non-cash working capital items	11B	(164,462)	(90,952)	(423,602)	(392,177)
Net cash used for operating activities		(82,503)	(81,826)	(269,278)	(321,582)
Investing activities					
Acquisition of property and equipment		(21,306)	(30,120)	(53,045)	(57,681)
Proceeds from disposal of the head office building	18	173,288	–	173,288	–
Payments for Capital investments		–	(3,649)	–	(10,669)
Costs associated to a foreign exchange option	20	(54,134)	–	(54,134)	–
Recovery associated to a foreign exchange option	20	5,407	–	5,407	–
Change in restricted cash position		5,527	(1,628)	9,753	(9,946)
Increase in receivables under service concession arrangements		(53,262)	(48,107)	(103,244)	(83,585)
Recovery of receivables under service concession arrangements		31,738	20,608	60,773	40,723
Decrease in short-term and long-term investments		11,417	16,958	33,157	41,222
Net cash inflow on disposals of Capital investments accounted for by the equity method	4A	23,270	–	23,270	101,851
Other		(289)	5,788	4,635	(3,317)
Net cash generated from (used for) investing activities		121,656	(40,150)	99,860	18,598
Financing activities					
Increase in recourse credit facility	11C	160,431	–	160,431	4,876
Repayment of recourse credit facility	11C	(160,431)	(1,164)	(160,431)	(1,164)
Repayment of non-recourse debt from Capital investments	11C	(1,173)	(1,467)	(3,549)	(3,878)
Increase in advances under contract financing arrangements		–	27,349	–	52,023
Repayment of advances under contract financing arrangements		–	(157,742)	–	(165,818)
Proceeds from exercise of stock options		5,135	13,135	6,862	15,693
Dividends paid to SNC-Lavalin shareholders	8, 11C	(41,094)	(39,010)	(82,151)	(77,964)
Amount advanced for contingent acquisition of non-controlling interest	19	(31,220)	–	(31,220)	–
Other	11C	374	(5,281)	411	496
Net cash used for financing activities		(67,978)	(164,180)	(109,647)	(175,736)
Increase (decrease) from exchange differences on translating cash and cash equivalents		826	(4,257)	6,115	(5,137)
Net decrease in cash and cash equivalents		(27,999)	(290,413)	(272,950)	(483,857)
Cash and cash equivalents at beginning of period		810,533	1,388,390	1,055,484	1,581,834
Cash and cash equivalents at end of period		\$ 782,534	\$ 1,097,977	\$ 782,534	\$ 1,097,977
Presented on the statement of financial position as follows:					
Cash and cash equivalents		\$ 737,361	\$ 1,064,589	\$ 737,361	\$ 1,064,589
Assets of disposal groups classified as held for sale and assets held for sale	16	45,173	33,388	45,173	33,388
		\$ 782,534	\$ 1,097,977	\$ 782,534	\$ 1,097,977

See accompanying notes to interim condensed consolidated financial statements.

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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Notes to Interim Condensed Consolidated Financial Statements

(ALL TABULAR FIGURES IN THOUSANDS OF CANADIAN DOLLARS, UNLESS OTHERWISE INDICATED)
(UNAUDITED)

1. DESCRIPTION OF BUSINESS

SNC-Lavalin Group Inc. is incorporated under the Canada Business Corporations Act and has its registered office at 455 René-Lévesque Boulevard West, Montreal, Quebec, Canada H2Z 1Z3. SNC-Lavalin Group Inc. is a public company listed on the Toronto Stock Exchange in Canada. Reference 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 arrangements, or SNC-Lavalin Group Inc. or one or more of its subsidiaries or joint arrangements.

The Company provides engineering and construction and operations and maintenance expertise, which together are referred to as “E&C”, through its network of offices in over 50 countries, and is currently working on projects around the world. SNC-Lavalin also makes select investments that are complementary to its other activities and referred to as “Capital investments” or “Capital” in these financial statements.

2. BASIS OF PREPARATION

A) BASIS OF PREPARATION

The Company’s financial statements are presented in **Canadian dollars**. All values are rounded to the nearest thousand dollars, except where otherwise indicated.

These financial statements have been prepared in accordance with IAS 34, *Interim Financial Reporting*, (“IAS 34”).

The IFRS accounting policies that are set out in Note 2 to the Company’s annual audited consolidated financial statements for the year ended December 31, 2016 were consistently applied to all periods presented, except for the new accounting policy adopted in the six-month period ended June 30, 2017, as described in Note 2D.

The preparation of financial statements in conformity with IAS 34 requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the Company’s accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant, are disclosed in Note 3 in the Company’s annual audited consolidated financial statements for the year ended December 31, 2016 and remained unchanged for the six-month period ended June 30, 2017, except for the new estimates related to sale and leaseback transactions, as described in Note 2D, notably on fair value.

The Company’s financial statements have been prepared on the historical cost basis, with the exception of i) certain financial instruments, derivative financial instruments and liabilities for share unit plans, which are measured at fair value; and ii) a defined benefit liability, which is measured as the net total of the present value of the defined benefit obligation minus the fair value of plan assets. Historical cost generally represents the fair value of consideration given in exchange for assets upon initial recognition.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or a liability, the Company takes into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date. Fair value for measurement and/or disclosure purposes in these consolidated financial statements is determined on such a basis, except for share-based payment transactions that are within the scope of IFRS 2, *Share-based Payment*, and measurements that have some similarities to fair value but are not fair value, such as net realisable value in IAS 2, *Inventories*, or value in use in IAS 36, *Impairment of Assets*.

These interim condensed consolidated financial statements do not include all of the information required for annual financial statements and should be read in conjunction with the Company’s 2016 annual audited consolidated financial statements.

These Company’s interim condensed consolidated financial statements were authorized for issue by the Board of Directors on August 2, 2017.

B) CHANGES IN ACCOUNTING POLICIES

In the fourth quarter of 2016, the Company changed its measure of profit or loss for its reportable segments, such measure of profit or loss is referred to as the segment EBIT, which now excludes gains (losses) on disposals of E&C businesses and Capital investments, whereas in the past it only excluded disposals of activities that qualified as restructuring. This change in an accounting policy did not have any impact on the Company’s financial statements, other than on its segment disclosures, and was made in accordance with IAS 8, *Accounting Policies, Changes in Accounting Estimates and Errors*.

2. BASIS OF PREPARATION (CONTINUED)

In the second quarter of 2017, the Company updated its definition of the segment EBIT, which now excludes the gain on disposal of the head office building (see Note 18). This change in the definition was made to take into consideration a transaction that took place in the second quarter of 2017. This change in the definition did not have any impact on the Company's financial statements, other than on its segment disclosures, and was made in accordance with IAS 8, *Accounting Policies, Changes in Accounting Estimates and Errors*.

C) CHANGE IN PRESENTATION

In the first quarter of 2017, the Company combined the financial results of its Infrastructure & Construction and Operations & Maintenance sub-segments, which were previously presented separately as additional information of the Infrastructure segment. The combination mainly comes from the disposal of a significant portion of the Operations & Maintenance sub-segment in the fourth quarter of 2016, which decreased the level of activities of the Operations & Maintenance sub-segment. As a result of the combination, comparative figures have been adjusted, with no impact on the Infrastructure segmented results.

D) NEW ACCOUNTING POLICY ADOPTED IN THE SIX-MONTH PERIOD ENDED JUNE 30, 2017

As a result of the disposal of the Company's head office building in the second quarter of 2017, as detailed in Note 18, the Company adopted a new accounting policy applicable to sale and leaseback transactions, which is as follows:

A sale and leaseback transaction involves the sale of an asset by the Company and the leasing back of the same asset from the buyer.

Where a sale and leaseback transaction results in a finance lease, any excess of sales proceeds over the carrying amount is not immediately recognized as income by a seller-lessee. Instead, it is deferred and amortized over the lease term.

Where a leaseback transaction results in an operating lease:

- if the sale price of the asset is at fair value, the gain or loss from the sale is recognized immediately in the Company's income statement;
- if the sale price of the asset is above fair value, the excess over fair value is deferred and amortized over the period for which the asset is expected to be used; and
- if the sale price of the asset is below fair value, any gain or loss is recognized immediately in the Company's income statement except that, if the loss is compensated for by future lease payments at below market price, it is deferred and amortized in proportion to the lease payments over the period for which the asset is expected to be used.

E) AMENDMENTS ADOPTED IN THE SIX-MONTH PERIOD ENDED JUNE 30, 2017

The following amendments to existing standards have been adopted by the Company on January 1, 2017:

- *Disclosure Initiative* (Amendments to IAS 7, *Statement of Cash Flows*) require disclosures of information enabling users of financial statements to evaluate changes in liabilities arising from financing activities.
- Amendments to IFRS 12, *Disclosure of Interests in Other Entities*, clarify the scope of the standard by specifying that the disclosure requirements in the standard, except for summarized financial information for subsidiaries, joint ventures and associates, apply to an entity's interests in subsidiaries, joint arrangements, associates and unconsolidated structured entities that are classified as held for sale, as held for distribution or as discontinued operations in accordance with IFRS 5, *Non-current Assets Held for Sale and Discontinued Operations*.

The adoption of the amendments listed above did not have any impact on the Company's financial statements, other than on its disclosures of the financial information (see Note 11C).

F) STANDARDS, AMENDMENTS AND INTERPRETATION ISSUED TO BE ADOPTED AT A LATER DATE

The following standards, amendments to standards and an interpretation have been issued and are applicable to the Company for its annual periods beginning on January 1, 2018 and thereafter, with an earlier application permitted:

- IFRS 9, *Financial Instruments*, ("IFRS 9") covers mainly: i) the classification and measurement of financial assets and financial liabilities; ii) the new impairment model for the recognition of expected credit losses; and iii) the new hedge accounting model.
- IFRS 15, *Revenue from Contracts with Customers*, ("IFRS 15") outlines a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers. It will supersede current revenue recognition guidance including IAS 18, *Revenue*, IAS 11, *Construction Contracts*, and related Interpretations.

2. BASIS OF PREPARATION (CONTINUED)

- Amendments to IFRS 15 clarify how to: i) identify a performance obligation in a contract; ii) determine whether a company is a principal or an agent; and iii) determine whether the revenue from granting a license should be recognized at a point in time or over time. In addition, the amendments to IFRS 15 include two additional transition reliefs.
- Amendments to IFRS 2, *Share-based Payment*, provide requirements on the accounting for: i) the effects of vesting and non-vesting conditions on the measurement of cash-settled share-based payments; ii) share-based payment transactions with a net settlement feature for withholding tax obligations; and iii) a modification to the terms and conditions of a share-based payment that changes the classification of a transaction from cash-settled to equity-settled.
- Amendments to IAS 28, *Investments in Associates and Joint Ventures*, clarify that the election to measure at fair value through profit or loss an investment in an associate or a joint venture that is held by an entity that is a venture capital organisation, or other qualifying entity, is available for each investment in an associate or joint venture on an investment-by-investment basis, upon initial recognition.
- IFRIC Interpretation 22, *Foreign Currency Transactions and Advance Consideration*, clarifies that: i) the date of the transaction, for the purpose of determining the exchange rate, is the date of initial recognition of the non-monetary prepayment asset and deferred income liability; and ii) if there are multiple payments or receipt in advance, a date of transaction is established for each payment or receipt.
- *Transfers of Investment Property* (Amendments to IAS 40, *Investment Property*) state that an entity shall transfer a property to, or from, investment property when, and only when, there is an evidence of a change in use. A change of use occurs if property meets, or ceases to meet, the definition of investment property. A change in management's intentions for the use of a property by itself does not constitute evidence of a change in use.

The following standard has been issued and is applicable to the Company for its annual periods beginning on January 1, 2019 and thereafter, with an earlier application permitted for entities that have also adopted IFRS 15:

- IFRS 16, *Leases*, provides a comprehensive model for the identification of lease arrangements and their treatment in the financial statements of both lessees and lessors. It will supersede IAS 17, *Leases*, and its associated interpretative guidance.

The Company is currently evaluating the impact of adopting these amendments, standards and interpretation on its financial statements.

Considerations for the implementation of IFRS 9 and IFRS 15

IFRS 9 and IFRS 15 are required to be applied for annual reporting periods beginning on or after January 1, 2018. SNC-Lavalin will not be early adopting IFRS 9 or IFRS 15.

IFRS 9 is applicable retrospectively in accordance with IAS 8, *Accounting Policies, Changes in Accounting Estimates and Errors*, subject to certain exemptions and exceptions. In general, the main impacts of adopting IFRS 9 are expected to be on classification and measurement of financial assets, the introduction of a new impairment model based on expected losses (rather than incurred loss as per IAS 39, *Financial Instruments: Recognition and Measurement*), hedge accounting and significant additional disclosure requirements.

IFRS 15 can be applied using one of the following two methods: retrospectively to each prior reporting period presented in accordance with IAS 8, *Accounting Policies, Changes in Accounting Estimates and Errors*, or retrospectively with the cumulative effect of initially applying IFRS 15 recognised at the date of initial application. The Company is currently evaluating the transition methods prescribed under IFRS 15. For companies like SNC-Lavalin that are currently applying IAS 11, *Construction Contracts*, the main impacts of adopting IFRS 15 are expected to be on timing of revenue recognition, contract assets and liabilities, as well as disclosure.

During the six-month period ended June 30, 2017, the Company continued to assess the potential impacts of the application of IFRS 9 and IFRS 15 on the Company's interim and annual financial statements. As at June 30, 2017, a number of training sessions on IFRS 9 and IFRS 15 to key finance personnel have taken place. At the same time, the Company is currently evaluating the impacts of the new standards on its financial systems and is in the process of updating its internal policies and procedures regarding revenue recognition and financial instruments. The Company's current implementation roadmap extends into the fourth quarter of 2017; therefore, it will report on progress achieved over the course of 2017.

3. SEGMENT DISCLOSURES

The following table presents revenues and EBIT according to the Company's segments for the three-month periods ended June 30, 2017 and 2016:

	2017				2016 ⁽¹⁾			
	REVENUES	SEGMENT EBIT			REVENUES	SEGMENT EBIT		
		E&C	CAPITAL	TOTAL		E&C	CAPITAL	TOTAL
Mining & Metallurgy	\$ 94,827	\$ 7,512	\$ –	\$ 7,512	\$ 92,138	\$ 15,232	\$ –	\$ 15,232
Oil & Gas	807,236	29,014	–	29,014	900,022	71,396	–	71,396
Power	366,628	43,248	–	43,248	415,179	28,705	–	28,705
Infrastructure	599,470	31,317	–	31,317	637,898	29,263	–	29,263
Total E&C segments	1,868,161	111,091	–	111,091	2,045,237	144,596	–	144,596
Capital	66,712	–	55,126	55,126	57,749	–	46,768	46,768
	\$ 1,934,873			166,217	\$ 2,102,986			191,364
Reversal of non-controlling interests before income taxes included above		(1,985)	–	(1,985)		3,815	–	3,815
Corporate selling, general and administrative expenses and others not allocated to the segments		(40,639)	(7,251)	(47,890)		(49,789)	(5,676)	(55,465)
Restructuring costs (Note 5)		(22,306)	–	(22,306)		(2,729)	–	(2,729)
Acquisition-related costs and integration costs (Note 20)		(55,272)	–	(55,272)		(1,725)	–	(1,725)
Amortization of intangible assets related to Kentz acquisition		(14,301)	–	(14,301)		(15,781)	–	(15,781)
Gain on disposals of Capital investments (Note 4A)		–	5,403	5,403		–	–	–
Gain from adjustment on disposals of E&C businesses (Note 17)		287	–	287		–	–	–
Gain on disposal of the head office building (Note 18)		115,101	–	115,101		–	–	–
EBIT		91,976	53,278	145,254		78,387	41,092	119,479
Net financial expenses (Note 6)		10,474	2,924	13,398		8,642	3,630	12,272
Earnings before income taxes		81,502	50,354	131,856		69,745	37,462	107,207
Income taxes		(3,868)	1,319	(2,549)		13,020	1,846	14,866
Net income for the period	\$	\$ 85,370	\$ 49,035	\$ 134,405	\$	\$ 56,725	\$ 35,616	\$ 92,341
Net income attributable to:								
SNC-Lavalin shareholders				\$ 136,390				\$ 88,510
Non-controlling interests				(1,985)				3,831
Net income for the period				\$ 134,405				\$ 92,341

⁽¹⁾ Comparative figures have been revised to reflect a change made to the measure of profit or loss for the Company's reportable segments (see Note 2B) and a change made to the Company's reporting of its financial results related to the Infrastructure segment (see Note 2C).

3. SEGMENT DISCLOSURES (CONTINUED)

The following table presents revenues and EBIT according to the Company's segments for the six-month periods ended June 30, 2017 and 2016:

SIX MONTHS ENDED JUNE 30	2017				2016 ⁽¹⁾			
	REVENUES	SEGMENT EBIT			REVENUES	SEGMENT EBIT		
		E&C	CAPITAL	TOTAL		E&C	CAPITAL	TOTAL
Mining & Metallurgy	\$ 196,238	\$ 14,157	\$ –	\$ 14,157	\$ 209,607	\$ 20,884	\$ –	\$ 20,884
Oil & Gas	1,663,781	85,004	–	85,004	1,753,489	113,531	–	113,531
Power	740,097	75,505	–	75,505	798,444	57,884	–	57,884
Infrastructure	1,056,369	61,357	–	61,357	1,214,470	60,715	–	60,715
Total E&C segments	3,656,485	236,023	–	236,023	3,976,010	253,014	–	253,014
Capital	127,658	–	110,964	110,964	115,146	–	97,175	97,175
	\$ 3,784,143			346,987	\$ 4,091,156			350,189
Reversal of non-controlling interests before income taxes included above		3,374	–	3,374		9,116	–	9,116
Corporate selling, general and administrative expenses and others not allocated to the segments		(83,970)	(14,147)	(98,117)		(83,690)	(12,100)	(95,790)
Restructuring costs (Note 5)		(25,131)	–	(25,131)		(15,744)	–	(15,744)
Acquisition-related costs and integration costs (Note 20)		(56,635)	–	(56,635)		(2,969)	–	(2,969)
Amortization of intangible assets related to Kentz acquisition		(29,664)	–	(29,664)		(36,070)	–	(36,070)
Gain on disposals of Capital investments (Note 4A)		–	5,403	5,403		–	58,539	58,539
Gain from adjustment on disposal of E&C businesses (Note 17)		1,006	–	1,006		–	–	–
Gain on disposal of the head office building (Note 18)		115,101	–	115,101		–	–	–
EBIT		160,104	102,220	262,324		123,657	143,614	267,271
Net financial expenses (Note 6)		20,527	6,065	26,592		14,753	7,024	21,777
Earnings before income taxes		139,577	96,155	235,732		108,904	136,590	245,494
Income taxes		3,511	2,744	6,255		15,700	10,066	25,766
Net income		136,066	93,411	\$ 229,477		\$ 93,204	\$ 126,524	\$ 219,728
Net income attributable to:								
SNC-Lavalin shareholders				\$ 226,103				\$ 210,617
Non-controlling interests				3,374				9,111
Net income				\$ 229,477				\$ 219,728

⁽¹⁾ Comparative figures have been revised to reflect a change made to the measure of profit or loss for the Company's reportable segments (see Note 2B) and a change made to the Company's reporting of its financial results related to the Infrastructure segment (see Note 2C).

3. SEGMENT DISCLOSURES (CONTINUED)

The Company also discloses in the table below under “Supplementary Information” its net income from E&C, its dividends from 407 International Inc. (“Highway 407 ETR”), and its net income from other Capital investments, as this information may be useful in assessing the Company’s value.

It should be noted that supplementary information provided in the following table does not reflect information related to the Company’s segments, but is rather an allocation of net income attributable to SNC-Lavalin shareholders between various components.

	SECOND QUARTER		SIX MONTHS EBDED JUNE 30	
	2017	2016	2017	2016
Supplementary information:				
Net gain from adjustment on disposals of E&C businesses (Note 17)	\$ 245	\$ –	\$ 857	\$ –
Net gain on disposal of the head office building (Note 18)	101,531	–	101,531	–
Excluding the items listed above	(14,420)	52,894	30,305	84,093
Net income attributable to SNC-Lavalin shareholders from E&C	87,356	52,894	132,693	84,093
Net gain on disposals of Capital investments (Note 4A)	5,403	–	5,403	51,045
Highway 407 ETR dividends	34,799	31,451	69,605	62,903
Excluding the items listed above	8,832	4,165	18,402	12,576
Net income attributable to SNC-Lavalin shareholders from Capital investments	49,034	35,616	93,410	126,524
Net income attributable to SNC-Lavalin shareholders for the period	\$ 136,390	\$ 88,510	\$ 226,103	\$ 210,617

4. CAPITAL INVESTMENTS

SNC-Lavalin makes investments in infrastructure concessions for public services such as airports, bridges, cultural and public service buildings, highways, mass transit systems, power facilities, energy infrastructure and water treatment plants.

The main concessions and public-private partnerships contracts reported under IFRIC Interpretation 12, *Service Concession Arrangements*, (“IFRIC 12”) are all accounted for under the financial asset model. The Société d’Exploitation de l’Aéroport de Mayotte S.A.S. concession was accounted for under the bifurcated model and was disposed of in the fourth quarter of 2016. The Rayalseema Expressway Private Limited (“Rayalseema”) concession was accounted for under the intangible asset model and was disposed of in the first quarter of 2016, as described below.

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

A) VARIATIONS IN OWNERSHIP INTERESTS IN INVESTMENTS

I) IN THE SIX-MONTH PERIOD ENDED JUNE 30, 2017

SNC-LAVALIN INFRASTRUCTURE PARTNERS LP

On June 30, 2017, SNC-Lavalin announced the launch of a new infrastructure investment vehicle, SNC-Lavalin Infrastructure Partners LP (the “Partnership”), established to efficiently redeploy capital back into development opportunities and entered into a strategic agreement with a Canadian subsidiary of BBGI SIVAC S.A. (“BBGI”). This vehicle will hold 100% of SNC-Lavalin’s interests in a selection of its mature Canadian infrastructure assets and their holding companies.

The Partnership will initially hold a portfolio comprised of SNC-Lavalin’s interests in the following five assets: Okanagan Lake Concession Limited Partnership (“Okanagan”), InTransit BC Limited Partnership (“InTransit”), Chinook Roads Partnership (“Chinook”), Rainbow Hospital Partnership (“Rainbow”) and Groupe infrastructure santé McGill (“MIHG”), which will comprise the disposal group.

As per the strategic agreement, BBGI will purchase 80% of the Partnership for approximately \$185 million, taking into account the partial deemed disposal of MIHG and reduction of the subordinated loan receivable from MIHG that occurred on June 30, 2017, subject to certain other adjustments, for the initial five transferred assets, while SNC-Lavalin will hold the remaining 20%. SNC-Lavalin will also retain the long-term management of the assets. This transaction is subject to certain customary approvals, notably from third party lenders.

The major classes of assets and liabilities of the disposal group to be transferred into the Partnership as at June 30, 2017 were as follows:

	JUNE 30 2017
Cash and cash equivalents	\$ 8,176
Restricted cash	4,749
Other current assets	15,070
Capital investments accounted for by the equity method	134,078
Other non-current assets	214,097
Assets of disposal group classified as held for sale	376,170
Current liabilities	10,789
Non-current liabilities	282,991
Liabilities of disposal group classified as held for sale	293,780
Net assets of disposal group classified as held for sale	\$ 82,390
Allocated as follows:	
Net assets of disposal group classified as held for sale - Infrastructure assets	\$ 178,160
Net liabilities of disposal group classified as held for sale - Holding companies	(95,770)
Net assets of disposal group classified as held for sale	\$ 82,390
Accumulated other comprehensive income of disposal group classified as held for sale	\$ 30,977

4. CAPITAL INVESTMENTS (CONTINUED)

GRUPE INFRASTRUCTURE SANTÉ MCGILL

On June 30, 2017, the joint venture Groupe infrastructure santé McGill, in which SNC-Lavalin previously held a 60% ownership interest, issued equity instruments to the other investor in MIHG, which resulted in a dilution of SNC-Lavalin's ownership interest to 50%. In addition, the Company's subordinated loan receivable from MIHG of \$109.3 million (the "Subordinated Loan") was partially sold to the other investor in MIHG and was partially reimbursed by MIHG for total cash consideration of \$23.3 million.

Gain on equity transaction of MIHG

SIX MONTHS ENDED JUNE 30	2017
SNC-Lavalin's share of the contribution by the other investor in MIHG	\$ 5,052
Cost of deemed disposal of 10% of ownership interest in MIHG	(2,480)
Gain before income taxes	2,572
Income taxes	–
Net gain on equity transaction of MIHG	\$ 2,572

Gain on Subordinated Loan transaction

SIX MONTHS ENDED JUNE 30	2017
Consideration received	\$ 23,270
Carrying amount of the Subordinated Loan sold to the other investor	(18,218)
Carrying amount of the reimbursed Subordinated Loan	(2,221)
Gain before taxes	2,831
Income taxes	–
Net gain on Subordinated Loan transaction	\$ 2,831

For the six-month period ended June 30, 2017, the gain on partial disposal of MIHG is presented in the Company's consolidated income statement as follows:

SIX MONTHS ENDED JUNE 30	2017
Gain on equity transaction of MIHG	\$ 2,572
Gain on Subordinated Loan transaction	2,831
Gain on partial disposal of MIHG	\$ 5,403

II) IN THE SIX-MONTH PERIOD ENDED JUNE 30, 2016

MALTA INTERNATIONAL AIRPORT

On March 30, 2016, SNC-Lavalin announced that it has reached financial close on the sale of its indirect ownership interest in MML Holdings Malta Limited [formerly, SNC-Lavalin (Malta) Limited ("SNCL Malta")] to an affiliate of Flughafen Wien AG for total cash consideration of approximately €64 million (approximately CA\$98.7 million). SNCL Malta was the indirect owner of the Company's 15.5% ownership interest in Malta International Airport p.l.c.

Net gain on disposal of SNCL Malta

SIX MONTHS ENDED JUNE 30	2016
Consideration received	\$ 98,675
Carrying amount of the investment	(38,660)
Cumulative exchange gain on translating foreign operations reclassified from equity	1,074
Gain on disposal of SNCL Malta	61,089
Income taxes	(7,494)
Net gain on disposal of SNCL Malta	\$ 53,595

4. CAPITAL INVESTMENTS (CONTINUED)

Net cash inflow on disposal of SNCL Malta

SIX MONTHS ENDED JUNE 30	2016
Consideration received in cash	\$ 98,675
Less: cash and cash equivalents balances disposed of	(4,865)
Net cash inflow on disposal of SNCL Malta	\$ 93,810

RAYALSEEMA

In 2016, SNC-Lavalin completed the sale of its ownership interest of 36.9% in Rayalseema in exchange of total cash consideration of approximately US\$6 million (approximately CA\$8 million). The net loss on disposal of SNC-Lavalin's ownership interest in Rayalseema amounted to \$2.6 million.

Gain on disposals of Capital investments

The gain on disposals of SNCL Malta and Rayalseema is presented as follows in the Company's consolidated income statement:

SIX MONTHS ENDED JUNE 30	2016		
	BEFORE TAXES	INCOME TAXES	NET OF TAXES
Gain on disposal of SNCL Malta	\$ 61,089	\$ (7,494)	\$ 53,595
Loss on disposal of Rayalseema	(2,550)	-	(2,550)
Gain on disposals of Capital investments	\$ 58,539	\$ (7,494)	\$ 51,045

Net cash inflow on disposals of Capital investments

Following the disposal of SNCL Malta and Rayalseema in the six-month period ended June 30, 2016, the net cash inflow on disposals of Capital investments accounted for by the equity method presented in the Company's consolidated statement of cash flows is as follows:

SIX MONTHS ENDED JUNE 30	2016
Net cash inflow on disposal of SNCL Malta	\$ 93,810
Cash inflow on disposal of Rayalseema	8,041
Net cash inflow on disposals of Capital investments accounted for by the equity method	\$ 101,851

B) NET BOOK VALUE OF CAPITAL INVESTMENTS

The Company's consolidated statement of financial position includes the following net assets (liabilities) from its consolidated Capital investments and net book value from its Capital investments accounted for by the equity and cost methods.

	JUNE 30 2017	DECEMBER 31 2016
Net liabilities from Capital investments accounted for by the consolidation method	\$ (64,686)	\$ (31,231)
Net book value of Capital investments accounted for by the equity method ^{(1), (2), (3)}	268,814	399,425
Net book value of Capital investments accounted for by the cost method	48,807	48,325
Total net book value of Capital investments	\$ 252,935	\$ 416,519

⁽¹⁾ Includes the Company's investment in Highway 407 ETR, for which the net book value was \$nil as at June 30, 2017 and December 31, 2016.

⁽²⁾ Includes the Company's subordinated loan receivable from a Capital investment of \$nil as at June 30, 2017 and \$109.3 million as at December 31, 2016.

⁽³⁾ Excludes the Company's investments in Okanagan, InTransit, Chinook, Rainbow, MIHG and TC Dôme, which are included in the "Assets of disposal groups classified as held for sale and assets held for sale" in the Company's consolidated statement of financial position, as at June 30, 2017 (December 31, 2016: TC Dôme).

In 2016, SNC-Lavalin signed an agreement to support a commitment of US\$100 million to a fund focused on global infrastructure investments sponsored by The Carlyle Group ("Carlyle"), subject to certain conditions. The intent of this agreement is for SNC-Lavalin and Carlyle to cooperate with respect to investments in, and work on, infrastructure projects related to energy, power and other natural resources that include a significant amount of greenfield development, construction or other capital expenditures programs. As at June 30, 2017 and December 31, 2016, no liability was recorded in relation to this agreement as the conditions have not been met yet.

5. RESTRUCTURING COSTS

The Company incurred restructuring costs totalling \$22.3 million in the second quarter of 2017 (2016: \$2.7 million) and \$25.1 million in the six-month period ended June 30, 2017 (2016: \$15.7 million).

The restructuring costs recognized in the six-month periods ended June 30, 2017 and 2016 were mainly for severances.

6. NET FINANCIAL EXPENSES

THREE MONTHS ENDED JUNE 30	2017			2016		
	FROM E&C	FROM CAPITAL	TOTAL	FROM E&C	FROM CAPITAL	TOTAL
Interest on debt:						
Recourse	\$ 5,505	\$ –	\$ 5,505	\$ 5,486	\$ –	\$ 5,486
Non-recourse	–	5,861	5,861	–	7,101	7,101
Other	5,095	(95)	5,000	4,367	(151)	4,216
Financial expenses	10,600	5,766	16,366	9,853	6,950	16,803
Financial income	(214)	(2,712)	(2,926)	(3,195)	(3,320)	(6,515)
Net foreign exchange losses (gains)	88	(130)	(42)	1,984	–	1,984
Financial income and net foreign exchange losses (gains)	(126)	(2,842)	(2,968)	(1,211)	(3,320)	(4,531)
Net financial expenses	\$ 10,474	\$ 2,924	\$ 13,398	\$ 8,642	\$ 3,630	\$ 12,272

SIX MONTHS ENDED JUNE 30	2017			2016		
	FROM E&C	FROM CAPITAL	TOTAL	FROM E&C	FROM CAPITAL	TOTAL
Interest on debt:						
Recourse	\$ 10,948	\$ –	\$ 10,948	\$ 10,956	\$ –	\$ 10,956
Non-recourse	–	11,944	11,944	–	13,658	13,658
Other	8,759	–	8,759	7,150	92	7,242
Financial expenses	19,707	11,944	31,651	18,106	13,750	31,856
Financial income	(2,938)	(5,749)	(8,687)	(5,942)	(6,726)	(12,668)
Net foreign exchange losses (gains)	3,758	(130)	3,628	2,589	–	2,589
Financial income and net foreign exchange losses (gains)	820	(5,879)	(5,059)	(3,353)	(6,726)	(10,079)
Net financial expenses	\$ 20,527	\$ 6,065	\$ 26,592	\$ 14,753	\$ 7,024	\$ 21,777

7. WEIGHTED AVERAGE NUMBER OF OUTSTANDING SHARES

The weighted average number of outstanding shares for the second quarters and six-month periods ended June 30, 2017 and 2016 used to calculate the basic and diluted earnings per share were as follows:

(IN THOUSANDS)	SECOND QUARTER		SIX MONTHS ENDED JUNE 30	
	2017	2016	2017	2016
Weighted average number of outstanding shares - basic	150,483	149,972	150,432	149,880
Dilutive effect of stock options	114	213	140	161
Weighted average number of outstanding shares - diluted	150,597	150,185	150,572	150,041

In the second quarter and six-month period ended June 30, 2017, all outstanding stock options have been included in the computation of diluted earnings per share. In the second quarter and six-month period ended June 30, 2016, 5,000 outstanding stock options have not been included in the computation of diluted earnings per share because they were anti-dilutive.

In July 2017, following the completion of the acquisition of WS Atkins plc by the Company (see Note 20), SNC-Lavalin issued 24,880,000 common shares, which are not included in the table above.

8. DIVIDENDS

During the six-month period ended June 30, 2017, the Company recognized as distributions to its equity shareholders dividends of \$82.2 million or \$0.546 per share (2016: \$78.0 million or \$0.52 per share).

SIX MONTHS ENDED JUNE 30	2017		2016	
Dividends payable at January 1	\$	–	\$	–
Dividends declared during the period		82,151		77,964
Dividends paid during the period		(82,151)		(77,964)
Dividends payable at June 30	\$	–	\$	–

9. REDEMPTION OF SHARES

In the second quarter of 2017, the Company announced that it had filed a notice to renew, for a 12-month period, its normal course issuer bid, which expired on June 5, 2017. In the notice, SNC-Lavalin stated that a maximum of 1,500,000 common shares may be purchased for cancellation, on the open market. Purchases may commence on June 6, 2017 and will terminate no later than June 5, 2018. For the period from June 6, 2016 to June 5, 2017, the number of common shares subject to the issuer bid was 3,000,000 common shares.

There was no redemption of shares in the first six months of 2017 and 2016.

10. OTHER COMPONENTS OF EQUITY

The Company has the following elements, net of income taxes, within its other components of equity at June 30, 2017 and December 31, 2016:

	JUNE 30		DECEMBER 31	
	2017		2016	
Exchange differences on translating foreign operations	\$	367,687	\$	389,726
Available-for-sale financial assets		4,263		2,384
Cash flow hedges		10,688		6,695
Share of other comprehensive loss of investments accounted for by the equity method		(39,396)		(39,788)
Other components of equity	\$	343,242	\$	359,017
Presented on the statement of financial position as follows:				
Other components of equity	\$	312,265	\$	360,845
Other components of equity of disposal group classified as held for sale (Note 16)	\$	30,977	\$	(1,828)

- Exchange differences on translating foreign operations component represents exchange differences relating to the translation from the functional currencies of the Company's foreign operations into Canadian dollars. On disposal of a foreign operation, the cumulative translation differences are reclassified to net income as part of the gain or loss on disposal. Exchange differences also include gains and losses on the hedging instrument relating to the effective portion of hedges of net investments of foreign operations, which are reclassified to net income on the disposal of the foreign operation.
- Available-for-sale financial assets component arises upon the revaluation of available-for-sale financial assets. When a revalued financial asset is sold, the portion of the component that relates to that financial asset, and is effectively realized, is recognized in net income. When a revaluated financial asset is impaired, the portion of the component that relates to that financial asset is recognized in net income.
- Cash flow hedges component represents hedging gains and losses recognized on the effective portion of cash flow hedges. The cumulative deferred gain or loss on the hedge is recognized in net income when the hedged transaction impacts net income, or is included as a basis adjustment to the non-financial hedged item, consistent with the applicable accounting policy.
- Share of other comprehensive income (loss) of investments accounted for by the equity method component represents the Company's share of the other comprehensive income (loss) from its investments accounted for by the equity method.

10. OTHER COMPONENTS OF EQUITY (CONTINUED)

The following table provides a reconciliation of each element of other components of equity for the second quarters and the six-month periods ended June 30, 2017 and 2016:

	SECOND QUARTER		SIX MONTHS ENDED JUNE 30	
	2017	2016	2017	2016
Exchange differences on translating foreign operations:				
Balance at beginning of period	\$ 357,875	\$ 370,013	\$ 389,726	\$ 472,355
Current period gains (losses)	9,812	(114,682)	(22,039)	(229,159)
Reclassification to net income	–	–	–	5,776
Net investment hedge - current period gains	–	2,518	–	11,216
Income taxes relating to current period gains	–	(572)	–	(2,911)
Balance at end of period	367,687	257,277	367,687	257,277
Available-for-sale financial assets:				
Balance at beginning of period	3,817	2,180	2,384	1,768
Current period gains (losses) ⁽¹⁾	751	(1,119)	3,034	(2,048)
Income taxes relating to current period gains (losses)	(367)	(126)	(1,552)	(400)
Reclassification to net income ⁽¹⁾	62	1,624	397	3,239
Balance at end of period	4,263	2,559	4,263	2,559
Cash flow hedges:				
Balance at beginning of period	(562)	29,016	6,695	10,036
Current period gains (losses)	11,159	(6,421)	6,896	11,229
Income tax relating to current period gains (losses)	(1,461)	3,085	(1,697)	3,061
Reclassification to net income	850	(37,084)	(2,701)	(31,925)
Income taxes relating to amounts reclassified to net income	702	7,916	1,495	4,111
Balance at end of period	10,688	(3,488)	10,688	(3,488)
Share of other comprehensive income (loss) of investments accounted for by the equity method:				
Balance at beginning of period	(39,635)	(50,097)	(39,788)	(44,146)
Current period share	(4,108)	(129)	(6,030)	(10,262)
Income taxes relating to current period share	1,109	(48)	1,765	2,588
Reclassification to net income	3,750	2,498	5,683	4,606
Income taxes relating to amounts reclassified to net income	(512)	(530)	(1,026)	(1,092)
Balance at end of period	(39,396)	(48,306)	(39,396)	(48,306)
Other components of equity	\$ 343,242	\$ 208,042	\$ 343,242	\$ 208,042

Presented on the statement of financial position as follows:

Other components of equity \$ 312,265 \$ 208,042 \$ 312,265 \$ 208,042

Other components of equity of disposal group classified

as held for sale (Note 16) \$ 30,977 \$ – \$ 30,977 \$ –

⁽¹⁾ For the second quarter and the six-month period ended June 30, 2017, the gain arising on derivatives designated as hedging instruments in fair value hedges amounted to \$0.1 million (2016: \$1.6 million) and to \$0.4 million (2016: 3.2 million), respectively, and the loss arising on adjustments for the hedged item attributable to hedged risk in a designated fair value hedge accounting relationship amounted to \$0.1 million (2016: \$1.6 million) and to \$0.4 million (2016: \$3.2 million), respectively.

REMEASUREMENT RECOGNIZED IN OTHER COMPREHENSIVE INCOME

The following tables provide changes in the cumulative amount of remeasurement gains (losses) recognized in other comprehensive income relating to defined benefit pension plans and other post-employment benefits for the second quarters and the six-month periods ended June 30, 2017 and 2016:

THREE MONTHS ENDED JUNE 30	2017			2016		
	BEFORE TAX	INCOME TAX	NET OF TAX	BEFORE TAX	INCOME TAX	NET OF TAX
Cumulative amount at beginning of period	\$ (74,762)	\$ 10,194	\$ (64,568)	\$ (36,617)	\$ 6,470	\$ (30,147)
Gains (losses) recognized during the period	789	829	1,618	(15,241)	1,865	(13,376)
Cumulative amount at end of period	\$ (73,973)	\$ 11,023	\$ (62,950)	\$ (51,858)	\$ 8,335	\$ (43,523)
SIX MONTHS ENDED JUNE 30	2017			2016		
	BEFORE TAX	INCOME TAX	NET OF TAX	BEFORE TAX	INCOME TAX	NET OF TAX
Cumulative amount at beginning of period	\$ (74,020)	\$ 10,096	\$ (63,924)	\$ (33,519)	\$ 6,241	\$ (27,278)
Gains (losses) recognized during the period	47	927	974	(18,339)	2,094	(16,245)
Cumulative amount at end of period	\$ (73,973)	\$ 11,023	\$ (62,950)	\$ (51,858)	\$ 8,335	\$ (43,523)

11. STATEMENTS OF CASH FLOWS

A) OTHER RECONCILING ITEMS

The following table presents the items to reconcile net income to cash flows from operating activities presented in the statements of cash flows:

	SECOND QUARTER		SIX MONTHS ENDED JUNE 30	
	2017	2016	2017	2016
Depreciation of property and equipment and amortization of other non-current assets:				
From E&C	\$ 28,744	\$ 30,742	\$ 57,138	\$ 71,063
From Capital	–	1,692	–	1,692
Income taxes recognized in net income	(2,549)	14,866	6,255	25,766
Net financial expenses recognized in net income (Note 6)	13,398	12,272	26,592	21,777
Share-based expense (reversal of share-based expense)	7,260	(1,889)	21,155	1,739
Income from Capital investments accounted for by the equity method	(51,049)	(46,480)	(99,563)	(90,988)
Dividends and distributions received from Capital investments accounted for by the equity method	37,331	32,918	75,631	64,750
Net change in provisions related to forecasted losses on certain contracts	(11,536)	(42,914)	(23,847)	(47,522)
Gain on disposals of Capital investments (Note 4A)	(5,403)	–	(5,403)	(58,539)
Remeasurement of a foreign exchange option (Note 20)	48,727	–	48,727	–
Restructuring costs recognized in net income (Note 5)	22,306	2,729	25,131	15,744
Restructuring costs paid	(16,176)	(27,741)	(45,987)	(61,188)
Gain from adjustment on disposals of E&C businesses (Note 17)	(287)	–	(1,006)	–
Gain on disposal of the head office building (Note 18)	(115,101)	–	(115,101)	–
Other	(5,113)	(18,308)	(9,772)	(33,504)
Other reconciling items	\$ (49,448)	\$ (42,113)	\$ (40,050)	\$ (89,210)

B) 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:

	SECOND QUARTER		SIX MONTHS ENDED JUNE 30	
	2017	2016	2017	2016
Decrease (increase) in trade receivables	\$ (1,172)	\$ 79,788	\$ 63,256	\$ 198,989
Increase in contracts in progress	(137,703)	(282,379)	(355,142)	(441,937)
Decrease (increase) in inventories	(694)	1,768	1,621	(2,464)
Decrease in other current financial assets	57,122	171,059	99,115	180,950
Increase in other current non-financial assets	(50,937)	(24,520)	(79,733)	(5,814)
Increase (decrease) in trade payables	39,017	46,019	40,849	(221,761)
Increase (decrease) in downpayments on contracts	(16,260)	40,791	(3,909)	17,120
Decrease in deferred revenues	(88,291)	(77,126)	(146,337)	(89,706)
Decrease in other current financial liabilities	(12,007)	(27,800)	(11,819)	(24,910)
Increase (decrease) in other current non-financial liabilities	46,463	(18,552)	(31,503)	(2,644)
Net change in non-cash working capital items	\$ (164,462)	\$ (90,952)	\$ (423,602)	\$ (392,177)

11. STATEMENTS OF CASH FLOWS (CONTINUED)

C) CHANGES IN LIABILITIES ARISING FROM FINANCING ACTIVITIES

	Recourse credit facility	Non-recourse short-term debt and long-term debt from Capital investments ⁽¹⁾	Recourse long-term debt	Dividends declared to SNC-Lavalin shareholders	Other non-current financial liabilities ⁽²⁾	Other non-current non-financial liabilities ⁽²⁾
Balance at January 1, 2017	\$ –	\$ 493,582	\$ 349,369	\$ –	\$ 5,928	\$ 15,846
Changes arising from cash flows:						
Increase in debt / liabilities	160,431	–	–	–	854	666
Repayment of debt / liabilities	(160,431)	(3,549)	–	(82,151)	(201)	(522)
Total - changes arising from cash flows	–	(3,549)	–	(82,151)	653	144
Non-cash changes:						
Declaration of dividends to SNC-Lavalin shareholders	–	–	–	82,151	–	–
Effect of foreign currency exchange differences	–	748	–	–	(22)	12
Amortization of deferred financing costs and discounts	–	408	118	–	–	–
Non-current portion of deferred tenant allowance related to the disposal of the head office building (Note 18)	–	–	–	–	–	24,814
Reclassification of non-recourse debt from Capital investments to "Liabilities of disposal groups classified as held for sale" (Note 4A)	–	(183,872)	–	–	–	–
Balance at June 30, 2017	\$ –	\$ 307,317	\$ 349,487	\$ –	\$ 6,559	\$ 40,816

⁽¹⁾ Non-recourse short-term debt and long-term debt from Capital investments were presented in the Company's consolidated statements of financial position as follows:

	JUNE 30 2017	JANUARY 1 2017
Non-recourse short-term debt and current portion of long-term debt from Capital investments	\$ 15,553	\$ 21,011
Non-recourse long-term debt from Capital investments	291,764	472,571
Total	\$ 307,317	\$ 493,582

⁽²⁾ Change arising from cash flows of other non-current financial liabilities and other non-current non-financial liabilities was presented in the financing activities in the Company's consolidated statement of cash flows as follows:

SIX MONTHS ENDED JUNE 30	2017
Other non-current financial liabilities	\$ 653
Other non-current non-financial liabilities	144
Other	(386)
Total	\$ 411

12. RELATED PARTY TRANSACTIONS

In the normal course of its operations, SNC-Lavalin enters into transactions with certain of its Capital investments. Investments in which SNC-Lavalin has significant influence or joint control, which are accounted for by the equity method, are considered related parties.

Consistent with IFRS, intragroup profits generated from revenues with Capital investments accounted for by the equity or consolidation methods are eliminated in the period they occur, except when such profits are deemed to have been realized by the Capital investment. Profits generated from transactions with Capital investments accounted for by the cost method are not eliminated.

The accounting treatment of intragroup profits is summarized below:

CAPITAL INVESTMENT	ACCOUNTING METHOD	ACCOUNTING TREATMENT OF INTRAGROUP PROFITS
Capital investments accounted for under IFRIC 12	Consolidation method	Not eliminated upon consolidation in the period they occur, as they are considered realized by the Capital investment through the contractual agreement with its client.
	Equity method	Not eliminated upon consolidation in the period they occur, as they are considered realized by the Capital investment through the contractual agreement with its client.
Others	Equity method	Eliminated in the period they occur, as a reduction of the underlying asset and subsequently recognized over the depreciation period of the corresponding asset.
	Cost method	Not eliminated, in accordance with IFRS.

12. RELATED PARTY TRANSACTIONS (CONTINUED)

For the second quarter and the first six months of 2017, SNC-Lavalin recognized E&C revenues of \$214.2 million (2016: \$192.6 million) and \$423.8 million (2016: \$366.2 million), respectively, from contracts with Capital investments accounted for by the equity method. SNC-Lavalin also recognized its share of net income from these Capital investments accounted for by the equity method of \$51.0 million for the second quarter of 2017 (2016: \$46.5 million) and \$99.6 million for the six-month period ended June 30, 2017 (2016: \$91.0 million), respectively.

SNC-Lavalin's trade receivables from Capital investments accounted for by the equity method amounted to \$87.7 million as at June 30, 2017 (December 31, 2016: \$90.2 million). SNC-Lavalin's other current financial assets receivable from these Capital investments accounted for by the equity method amounted to \$90.4 million as at June 30, 2017 (December 31, 2016: \$83.0 million). SNC-Lavalin's remaining commitment to invest in these Capital investments accounted for by the equity method was \$98.0 million at June 30, 2017 (December 31, 2016: \$98.0 million).

All of these related party transactions are measured at fair value.

13. FINANCIAL INSTRUMENTS

The following tables present the carrying value of financial assets held by SNC-Lavalin at June 30, 2017 and December 31, 2016 by category and classification, with the corresponding fair value, when available:

	2017						FAIR VALUE
	CARRYING VALUE OF FINANCIAL ASSETS BY CATEGORY					TOTAL	
	FVTPL ⁽¹⁾	AVAILABLE-FOR-SALE	LOANS AND RECEIVABLES	DERIVATIVES USED FOR HEDGES			
Cash and cash equivalents	\$ 737,361	\$ –	\$ –	\$ –	\$ 737,361	\$ 737,361	
Restricted cash	41,353	–	–	–	41,353	41,353	
Restricted funds	–	–	1,264,740	–	1,264,740	1,264,740	
Trade receivables	–	–	872,471	–	872,471	872,471	
Other current financial assets	–	–	377,359	26,438	403,797	403,797	
Capital investments accounted for by the cost method ⁽²⁾	–	46,123	2,684	–	48,807	See ⁽²⁾	
Non-current portion of receivables under service concession arrangements ⁽³⁾	–	–	208,743	–	208,743	236,134	
Other non-current financial assets ^{(3), (4)}	8,073	–	21,882	4,555	34,510	34,510	
Total	\$ 786,787	\$ 46,123	\$ 2,747,879	\$ 30,993	\$ 3,611,782		

	2016						FAIR VALUE
	CARRYING VALUE OF FINANCIAL ASSETS BY CATEGORY					TOTAL	
	FVTPL ⁽¹⁾	AVAILABLE-FOR-SALE	LOANS AND RECEIVABLES	DERIVATIVES USED FOR HEDGES			
Cash and cash equivalents	\$ 1,055,484	\$ –	\$ –	\$ –	\$ 1,055,484	\$ 1,055,484	
Restricted cash	55,577	–	–	–	55,577	55,577	
Trade receivables	–	–	935,983	–	935,983	935,983	
Other current financial assets	–	–	490,352	2,373	492,725	493,665	
Capital investments accounted for by the equity method	–	–	109,306	–	109,306	109,306	
Capital investments accounted for by the cost method ⁽²⁾	–	47,732	593	–	48,325	See ⁽²⁾	
Non-current portion of receivables under service concession arrangements ⁽³⁾	–	–	356,847	–	356,847	397,271	
Other non-current financial assets ^{(3), (4)}	38,187	–	20,336	–	58,523	58,523	
Total	\$ 1,149,248	\$ 47,732	\$ 1,913,417	\$ 2,373	\$ 3,112,770		

⁽¹⁾ Fair value through profit or loss ("FVTPL"), comprised of financial assets classified as held for trading.

⁽²⁾ These available-for-sale financial assets represent mainly equity instruments that do not have a quoted market price in an active market.

⁽³⁾ For non-current portion of receivables under service concession arrangements and most of the other non-current financial assets other than at fair value, the Company uses the present value technique to determine the fair value.

⁽⁴⁾ For the six-month period ended June 30, 2017, the net loss on derivative financial instruments at FVTPL entered into in 2015 for the purpose of the Company's share unit plans amounted to \$5.4 million (2016: net gain of \$25.8 million), while the net gain on corresponding share unit plans' liabilities amounted to \$3.4 million (2016: net loss of \$17.0 million).

13. FINANCIAL INSTRUMENTS (CONTINUED)

The following tables present the carrying value of financial liabilities held by SNC-Lavalin at June 30, 2017 and December 31, 2016 by category and classification, with the corresponding fair value, when available:

	2017				FAIR VALUE
	CARRYING VALUE OF FINANCIAL LIABILITIES BY CATEGORY				
	DERIVATIVES USED FOR HEDGES	OTHER FINANCIAL LIABILITIES	TOTAL		
Trade payables	\$ —	\$ 1,755,060	\$ 1,755,060	\$ 1,755,060	
Downpayments on contracts	—	257,381	257,381	257,381	
Other current financial liabilities	18,004	250,805	268,809	268,809	
Liabilities for subscription receipts	—	1,282,341	1,282,341	1,399,998	
Provisions	—	82,638	82,638	82,638	
Short-term debt and long-term debt ⁽¹⁾	—	656,804	656,804	705,231	
Other non-current financial liabilities	—	6,559	6,559	6,559	
Total	\$ 18,004	\$ 4,291,588	\$ 4,309,592		

	2016				FAIR VALUE
	CARRYING VALUE OF FINANCIAL LIABILITIES BY CATEGORY				
	DERIVATIVES USED FOR HEDGES	OTHER FINANCIAL LIABILITIES	TOTAL		
Trade payables	\$ —	\$ 1,888,242	\$ 1,888,242	\$ 1,888,242	
Downpayments on contracts	—	263,382	263,382	263,382	
Other current financial liabilities	39,216	264,759	303,975	303,975	
Provisions	—	103,791	103,791	103,791	
Short-term debt and long-term debt ⁽¹⁾	—	842,951	842,951	925,216	
Other non-current financial liabilities	—	5,928	5,928	5,928	
Total	\$ 39,216	\$ 3,369,053	\$ 3,408,269		

(1) The fair value of short-term debt and long-term debt classified in the “other financial liabilities” category 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 Capital investments, depending on which entity has issued the debt instrument, for debt with the similar terms and conditions.

“Restricted funds” are classified within Level 2 of the fair value hierarchy, while “Liabilities for subscription receipts” are classified within Level 1 of the fair value hierarchy.

For the six-month periods ended June 30, 2017 and 2016, there were no changes in valuation techniques and in inputs used in the fair value measurements and there were no transfers between the levels of the fair value hierarchy.

14. CONTINGENT LIABILITIES

A) ONGOING INVESTIGATIONS

In February 2012, the Board of Directors initiated an independent investigation (the “Independent Review”), led by its Audit Committee, of the facts and circumstances surrounding certain payments that were documented (under certain agreements presumed to be agency agreements) to construction projects to which they did not relate, and certain other contracts. On March 26, 2012, the Company announced the results of the Independent Review and related findings and recommendations of the Audit Committee to the Board of Directors and provided information to the appropriate authorities. The Company understands that investigations by law enforcement and securities regulatory authorities remain ongoing in connection with this information, which are described in greater detail below. The Company also continues to review compliance matters (including matters beyond the scope of the Independent Review), including to assess whether amounts may, directly or indirectly, have been improperly paid to persons owing fiduciary duties to the Company, and as additional information, if any, arises as a result thereof, the Company will continue to investigate and review such information as it has in the past.

14. CONTINGENT LIABILITIES (CONTINUED)

Charges and RCMP investigation

On February 19, 2015, the Royal Canadian Mounted Police (the “RCMP”) and the Public Prosecution Service of Canada laid charges against the Company and its indirect subsidiaries SNC-Lavalin International Inc. and SNC-Lavalin Construction Inc. Each entity has been charged with one count of fraud under section 380 of the Criminal Code (Canada) (the “Criminal Code”) and one count of corruption under Section 3(1)(b) of the Corruption of Foreign Public Officials Act (Canada) (the “CFPOA”), (the “Charges”). These Charges follow the RCMP’s formal investigation (including in connection with the search warrant executed by the RCMP at the Company on April 13, 2012) into whether improper payments were made or offered, directly or indirectly, to be made, to a government official of Libya to influence the award of certain engineering and construction contracts between 2001 and 2011. This investigation, referred to as Project Assistance by the RCMP, also led to criminal charges being laid against two former employees of the Company. The Company understands that the charges laid against one or both of these former employees include bribery under the CFPOA, fraud, laundering the proceeds of crime and possession of property obtained by crime under the Criminal Code, and contravention of the *Regulations Implementing the United Nations Resolutions on Libya* in Canada. Due to the inherent uncertainties of these proceedings, it is not possible to predict the final outcome of the Charges, which could possibly result in a conviction on one or more of the Charges. The preliminary inquiry in respect of the Charges has been scheduled for a court hearing in September 2018. The Company cannot predict what, if any, other actions may be taken by any other applicable government or authority or the Company’s customers or other third parties as a result of the Charges, or whether additional charges may be brought in connection with the RCMP investigation of these matters.

The Charges and potential outcomes thereof, and any negative publicity associated therewith, could adversely affect the Company’s business, results of operations and reputation and could subject the Company to sanctions, fines and other penalties, some of which may be significant. In addition, potential consequences of the Charges could include, in respect of the Company or one or more of its subsidiaries, mandatory or discretionary suspension, prohibition or debarment from participating in projects by certain governments (such as the Government of Canada and/or Canadian provincial governments) or by certain administrative organizations under applicable procurement laws, regulations, policies or practices. The Company derives a significant percentage of its annual global revenue (and an even larger percentage of its annual Canadian revenue) from government and government-related contracts. As a result, suspension, prohibition or debarment, whether discretionary or mandatory, from participating in certain government and government-related contracts (in Canada, Canadian provinces or elsewhere) could have a material adverse effect on the Company’s business, financial condition and liquidity and the market prices of the Company’s publicly traded securities.

AMF Investigation; AMF Certification under the Quebec Act Respecting Contracting by Public Bodies

The Company understands that there is an ongoing investigation being conducted in the context of applicable securities laws and regulations by the securities regulator in the Province of Quebec, the *Autorité des marchés financiers* (the “AMF”).

Certain subsidiaries of the Company require certification from the AMF to contract with public bodies in the Province of Quebec, as required pursuant to the *Act Respecting Contracting by Public Bodies*. Such certification is subject to periodic renewal by the AMF. If an entity or any of its affiliates is convicted of certain specified offences under the Criminal Code or the CFPOA, AMF certification can be automatically revoked. In addition, the AMF has the discretionary power to refuse to grant an authorization or revoke or not renew an authorization if it determines that the enterprise concerned fails to meet the high standards of integrity that the public is entitled to expect from a party to a public contract or subcontract. Those subsidiaries of the Company that need to be certified by the AMF have obtained that certification.

14. CONTINGENT LIABILITIES (CONTINUED)

World Bank Settlement

On April 17, 2013, the Company announced a settlement in connection with the previously announced investigations by the World Bank Group relating to a project in Bangladesh and a project in Cambodia, which includes a suspension of the right to bid on and to be awarded World Bank Group-financed projects by SNC-Lavalin Inc., a subsidiary of the Company, and its controlled affiliates for a period of 10 years (the “World Bank Settlement”). The suspension could be lifted after eight years, if the terms and conditions of the settlement agreement are complied with fully. According to the terms of the World Bank Settlement, the Company and certain of its other affiliates continue to be eligible to bid on and be awarded World Bank Group-financed projects as long as they comply with all of the terms and conditions imposed upon them under the terms of the World Bank Settlement, including an obligation not to evade the sanction imposed. The World Bank Settlement also requires that the Company cooperate with the World Bank on various compliance matters in the future. The World Bank Settlement does not include a financial penalty. The World Bank Settlement has led to certain other multilateral development banks following suit, debarring SNC-Lavalin Inc. and its controlled affiliates on the same terms.

African Development Bank Settlement

On October 1, 2015, the Company announced a settlement with the African Development Bank relating to allegations of corruption in two African countries. The settlement included the payment by SNC-Lavalin Group Inc. of \$1.9 million to the African Development Bank (the “African Development Bank Settlement”). The African Development Bank Settlement also requires that the Company cooperate with the African Development Bank on various compliance matters in the future.

Canada’s Integrity Regime

The Canadian government announced the Integrity Regime for procurement and real property transactions on July 3, 2015. The scope of offences which may cause a supplier to be deemed ineligible to carry on business with the federal government are broad and encompass offences under the Criminal Code, the Competition Act, and the Corruption of Foreign Public Officials Act, among others. Some of the offences qualifying for ineligibility include: bribery, fraud, money laundering, falsification of books and documents, extortion, and offences related to drug trafficking. A determination of ineligibility to participate in federal government procurement projects may apply for 10 years for listed offences. However, the Integrity Regime permits the ineligibility period to be reduced by up to five years if a supplier can establish that it has cooperated with law enforcement authorities or addressed the causes of misconduct.

If a supplier is charged with a listed offence (as is presently the case with the Company), it may under the Integrity Regime be ineligible to do business with the Canadian government while legal proceedings are ongoing.

If a supplier applies for a reduced ineligibility period, or if a supplier charged with a listed offence is notified that it could be ineligible to do business with the Canadian government, as a condition of granting the reduced ineligibility period or not suspending the supplier an administrative agreement may be imposed to monitor the supplier. Administrative agreements include conditions and compliance measures that the supplier must meet to remain eligible to contract with the federal government.

The Company has signed an administrative agreement with Public Services and Procurement (PSP) of the Government of Canada under the Integrity Regime.

Failure of the Company to abide by the terms of any of its certification from the AMF, the World Bank Settlement, the African Development Bank Settlement and/or the PSP Administrative Agreement could result in serious consequences for the Company, including new sanctions, legal actions and/or suspension from eligibility to carry on business with the government or agency involved or to work on projects funded by them. The Company is taking steps that are expected to mitigate this risk.

14. CONTINGENT LIABILITIES (CONTINUED)

Quebec's Voluntary Reimbursement Program (the "Program")

The Company announced on May 10, 2016, through a Notice of Intention filed with the Director of the Program, its participation in the Voluntary Reimbursement Program ("Bill 26") which was put into force by the Government of Quebec on November 2, 2015. The Program provides for a period of 90 days within which the Government of Quebec and various municipalities, governmental agencies and others can assess whether settlement proposals by program participants should cover a governmental or municipal entity. An extension from that 90 day deadline was given to the Ministries of Sustainable Development, Environment and the Fight against Climate Change and of Transport, Urban Mobility and Electrification of Transportation of Quebec generally to assess whether they believe they should receive any Bill 26 proposal. The McGill University Health Centre ("MUHC") has notified the Director of the Program that unless it receives a proposal it will not waive its possible claims against the Company under Bill 26 for the 2010 public-private partnership agreement with Groupe infrastructure santé McGill (of which the Company is a shareholder) for the construction and ongoing operation of the MUHC. The Company has advised the Bill 26 program management that the Company categorically rejects any claim by the MUHC under Bill 26 as being ill-founded. Settlement discussions mediated by the Director of the Program continue.

Other Investigations

The Company understands that there are also investigations by various authorities ongoing in various jurisdictions with respect to the above and other matters. In addition, Pierre Duhaime and Riadh Ben Aïssa, former Company employees, have been charged by authorities in the Province of Quebec with various fraud offences allegedly in connection with a Company project in the Province of Quebec.

On October 1, 2014, Mr. Ben Aïssa entered guilty pleas to certain criminal charges in the Federal Criminal Court of Switzerland following a lengthy investigation by Swiss authorities and the detention of Mr. Ben Aïssa by Swiss authorities from April 2012 to October 2014. The Company was recognized as an injured party in the context of the Swiss proceedings and has been awarded for certain offences for which Mr. Ben Aïssa has plead guilty a sum equivalent to CA\$17.2 million translated using the exchange rates as at October 1, 2014 (representing the equivalent of 12.9 million CHF and US\$2.0 million) plus interest. The Company has so far received CA\$15.2 million up to June 30, 2017 with the balance expected to be received upon the forced execution of seized assets.

The Company is currently unable to determine when any of the above investigations will be completed or whether other investigations of the Company by these or other authorities will be initiated or the scope of current investigations broadened. While the Company continues to cooperate and communicate with authorities in connection with all ongoing investigations as noted above, if regulatory, enforcement or administrative authorities or third parties determine to take action against the Company or to sanction the Company in connection with possible violations of law, contracts or otherwise, the consequences of any such sanctions or other actions, whether actual or alleged, could require the Company to pay material fines or damages, consent to injunctions on future conduct or lead to other penalties including temporary or permanent, mandatory or discretionary suspension, prohibition or debarment from participating in projects by certain administrative organizations (such as those provided for in the World Bank Settlement) or by governments (such as the Government of Canada and/or the Government of Quebec) under applicable procurement laws, regulations, policies or practices, each of which could, materially adversely affect the Company's business, financial condition and liquidity and the market price of the Company's publicly traded securities.

The outcomes of the above investigations or the Charges could also result in, among other things, (i) covenant defaults under various project contracts, (ii) third party claims, which may include claims for special, indirect, derivative or consequential damages, or (iii) adverse consequences on the Company's ability to secure or continue its own financing, or to continue or secure financing for current or future projects, any of which could materially adversely affect the Company's business, financial condition and liquidity and the market prices of the Company's publicly traded securities. In addition, the Charges, these investigations and outcomes of these investigations or Charges and any negative publicity associated therewith, could damage SNC-Lavalin's reputation and ability to do business. Finally, the findings and outcomes of the Charges or these investigations may affect the course of the class action lawsuits (described below).

14. CONTINGENT LIABILITIES (CONTINUED)

Due to the uncertainties related to the outcome of the Charges and each of the above investigations, the Company is currently unable to reliably estimate an amount of potential liabilities or a range of potential liabilities, if any, in connection with the Charges or any of these investigations.

The Company's senior management and Board of Directors have been required to devote significant time and resources to the investigations described above and ongoing related matters which have distracted and may continue to distract from the conduct of the Company's daily business, and significant expenses have been and may continue to be incurred in connection with these investigations including substantial fees of lawyers and other advisors. In addition, the Company and/or other employees or additional former employees of the Company could become the subject of these or other investigations by law enforcement and/or regulatory authorities in respect of the matters described above or other matters which, in turn, could require the devotion of additional time of senior management and the diversion or utilization of other resources.

B) CLASS ACTION LAWSUITS

The Company is subject to class actions in Quebec and Ontario commenced in 2012 on behalf of security holders (collectively, the "Actions"). The Actions are brought pursuant to the secondary market civil liability provisions in the various Canadian provincial and territorial securities statutes. The Actions allege the agent payments that were the subject of the Independent Review were bribes to public officials and that bribes were also offered in relation to the project in Bangladesh that forms part of the World Bank Settlement. Consequently, it is alleged that various of the Company's public disclosure documents issued between November 2009 and November 2011 included misrepresentations. The Actions seek damages, on behalf of all persons who acquired securities of SNC-Lavalin between November 6, 2009 and February 27, 2012, based on the decline in market value of SNC-Lavalin shares following the Company's February 28, 2012 news release and other public announcements.

The Ontario Action is presently at the oral discovery stage. The Quebec Action is presently in abeyance while the Ontario Action proceeds.

Due to the inherent uncertainties of litigation, it is not possible to predict the final outcome of these lawsuits or determine the amount of any potential losses, if any, and SNC-Lavalin may, in the future, be subject to further class action lawsuits or other litigation. While SNC-Lavalin has directors' and officers' liability insurance insuring individuals against liability for acts or omissions in their capacities as directors and officers, the Company does not maintain any other insurance in connection with the Actions. The amount of coverage under the directors' and officers' policy is limited and such coverage may be an insignificant portion of any amounts the Company is required or determines to pay in connection with the Actions. In the event the Company is required or determines to pay amounts in connection with these lawsuits or other litigation, such amounts could be significant and may have a material adverse impact on SNC-Lavalin's liquidity and financial results.

C) OTHER

On June 12, 2014, the Quebec Superior Court rendered a decision in "Wave 1" of the matter commonly referred to as the "Pyrrhotite Case" in Trois-Rivières, Quebec and in which SNC-Lavalin is one of numerous defendants. The Superior Court ruled in favour of the plaintiffs, awarding an aggregate amount of approximately \$168 million in damages apportioned amongst the then-known defendants, on an *in solidum* basis (the "Wave 1 claims"). SNC-Lavalin, among other parties, filed a Notice to Appeal the Superior Court decision both on merit and on the apportionment of liability. Based on the current judgment, SNC-Lavalin's share of the damages would be approximately 70%, a significant portion of which the Company would expect to recover from its external insurers (such insurance coverage is itself subject to litigation). In addition to the appeal of the decision, recourses in warranty were filed against another party, which may result in reduction of SNC-Lavalin's share of the damages.

In parallel to the appeal and warranty recourses for Wave 1 claims, additional potential claims were notified and continue to be notified against numerous defendants, including SNC-Lavalin, in "Wave 2" of the Pyrrhotite Case. Wave 2 claims are currently undergoing discovery stage and it is still premature to evaluate SNC-Lavalin's total liability exposure in respect of same, if any. It is currently estimated that a significant portion of the damages claimed are in respect of buildings for which the concrete foundations were poured outside of SNC-Lavalin's liability period, as determined in the Wave 1 judgement. SNC-Lavalin expects some insurance coverage for claims filed up to March 31, 2015. In addition, SNC-Lavalin has undertaken warranty recourse against another party with respect to Wave 2 claims.

14. CONTINGENT LIABILITIES (CONTINUED)

Legal proceedings

SNC-Lavalin becomes involved in various legal proceedings as a part of its ordinary course of business and this section describes certain important ordinary course of business legal proceedings, including the general cautionary language relating to the risks inherent to all litigation and proceedings against SNC-Lavalin, which is equally applicable to the legal proceedings described below.

While SNC-Lavalin cannot predict with certainty the final outcome or timing of the legal proceedings described below, based on the information currently available (which in some cases remains incomplete), SNC-Lavalin believes that it has strong defences to these claims and intends to vigorously defend its position.

SNC-Lavalin Inc. has initiated court proceedings against a Canadian client stemming from engineering, procurement, and construction management services that SNC-Lavalin Inc. provided in relation to the client's expansion of an ore-processing facility. SNC-Lavalin claimed from the client certain amounts due under the project contract. The client has counterclaimed alleging that SNC-Lavalin defaulted under the project contracts and seeking damages.

A project-specific wholly-owned subsidiary of SNC-Lavalin ("SNC SUB") has received a notice of arbitration from a client for, amongst other things, breach of contract and gross negligence in relation to the design and construction of a facility. SNC SUB has counterclaimed for unpaid invoices and costs arising from termination, plus the return of funds improperly drawn under a bank guarantee.

Due to the inherent uncertainties of litigation, it is not possible to (a) predict the final outcome of these and other related proceedings generally, (b) determine if the amount included in the Company's provisions is sufficient or (c) determine the amount of any potential losses, if any, that may be incurred in connection with any final judgment on these matters.

The Company is a party to other claims and litigation arising in the normal course of operations, including by clients, subcontractors, and vendors presenting claims for, amongst other things, recovery of costs related to certain projects. Due to the inherent uncertainties of litigation and-or the early stage of certain proceedings, it is not possible to predict the final outcome of all ongoing claims and litigation at any given time or to determine the amount of any potential losses, if any. With respect to claims or litigation arising in the normal course of operations which are at a more advanced stage and which permit a better assessment of potential outcome, the Company does not expect the resolution of these matters to have a materially adverse effect on its financial position or results of operations.

15. SHORT-TERM DEBT AND LONG-TERM DEBT

On April 20, 2017, SNC-Lavalin announced that it reached an agreement with WS Atkins plc ("Atkins") to acquire the entire issued and to be issued share capital of Atkins (see Note 20). This acquisition was to be funded through a combination of equity and debt issuance, including a £300 million term facility (the "Term Facility") and a \$1,500 million loan (the "CDPQ Loan") made by CDPQ Revenu Fixe Inc. (the "Caisse") to SNC-Lavalin Highway Holdings Inc. ("Highway Holdings").

On May 15, 2017, the Company amended its existing revolving credit facility (the "Revolving Facility") of \$4,250 million and the Term Facility and merged both facilities into one single agreement (the "Credit Agreement").

Following the acquisition of Atkins, the actual cash draws under the Term Facility, the CDPQ loan and the Revolving Facility are indicated in Note 20.

A) REVOLVING FACILITY

The Revolving Facility is comprised of three tranches: i) tranche A is for an amount of \$2,000 million less the dollar equivalent at any time of £400 million until the expiry and cancellation of tranche C which is expected to occur on or about July 17, 2017 (the "Reallocation Date"); ii) tranche B is for an amount of \$750 million; and iii) tranche C is for an amount of £400 million. After the Reallocation Date, all outstanding borrowings under tranche C will be reallocated to tranche A and tranche C will be cancelled, with tranche A being increased to \$2,000 million. The Revolving Facility maturity date is May 15, 2021 or such other date as may be agreed pursuant to extension provisions of the Credit Agreement. Borrowings under tranche A and tranche C may be obtained in the form of: i) prime rate loans; ii) acceptances; iii) US base rate loans; iv) Libor loans in US dollars, Euros and British pounds; and v) non-financial, financial and documentary letters of credit. Borrowings under tranche B may be obtained only in the form of non-financial or documentary letters of credit.

15. SHORT-TERM DEBT AND LONG-TERM DEBT (CONTINUED)

B) TERM FACILITY

The Term Facility is comprised of three tranches: i) tranche 1 is for an amount of £75 million; ii) tranche 2 is for an amount of £75 million; and iii) tranche 3 is for an amount of £150 million. Tranches 1, 2 and 3 maturity dates are respectively on the third, the fourth and the fifth anniversaries of the disbursement of the Term Facility. The Term Facility is available by way of one single drawdown in British pounds, after which any unused portion of the Term Facility will be cancelled. The Term Facility is not revolving and amounts repaid or prepaid may not be reborrowed. Borrowings may be obtained in the form of Libor loans in various currencies, including British pounds.

C) CDPQ LOAN

The CDPQ Loan is a limited recourse debt comprised of two tranches: i) tranche A which is a non-revolving term loan in an aggregate amount of \$1,000 million; and ii) tranche B which is a non-revolving term loan in an aggregate amount of \$500 million. Each of tranche A and tranche B is available by way of a single drawdown by Highway Holdings. Any amount not drawn by Highway Holdings under the CDPQ Loan on the funding date will be cancelled and will be a permanent reduction of tranche A or tranche B, as the case may be. The maturity date of the CDPQ Loan is on the seventh anniversary of the funding date. Borrowings under tranche A and tranche B bear interest at a base rate, which is the greater of: i) the CDOR rate; and ii) 0.9%, plus an applicable margin.

16. DISPOSAL GROUPS AND NON-CURRENT ASSETS CLASSIFIED AS HELD FOR SALE

As at June 30, 2017, the disposals groups and non-current assets classified as held for sale included: i) other non-current assets, mainly project equipment, included in the Oil & Gas segment; ii) a disposal group comprising five Capital investments and their holding companies (see Note 4A); and iii) a wholly-owned subsidiary of SNC-Lavalin, Equinox CA Europe Ltd. (“Equinox”), for which a disposal agreement was signed by SNC-Lavalin and the acquirer in the second quarter of 2017. The disposal agreement of Equinox is subject to customary regulatory approvals and other conditions, is expected to close by the end of 2017 and is not expected to have a significant impact in the Company’s consolidated income statement.

The major classes of assets and liabilities and assets of the disposal groups and of assets held for sale as at June 30, 2017 were as follows:

AT JUNE 30, 2017	CAPITAL INVESTMENTS ⁽¹⁾		EQUINOX ⁽²⁾		OTHER NON-CURRENT ASSETS		TOTAL
Cash and cash equivalents	\$	8,176	\$	36,997	\$	–	\$ 45,173
Restricted cash		4,749		–		–	4,749
Other current assets		15,070		233		–	15,303
Capital investments accounted for by the equity method		134,078		–		–	134,078
Other non-current assets		214,097		–		3,143	217,240
Assets of disposal groups classified as held for sale and assets held for sale							
		376,170		37,230		3,143	416,543
Current liabilities		10,789		23,680		–	34,469
Non-current liabilities		282,991		–		–	282,991
Liabilities of disposal groups classified as held for sale		293,780		23,680		–	317,460
Net assets of disposal groups classified as held for sale and assets held for sale							
	\$	82,390	\$	13,550	\$	3,143	\$ 99,083
Accumulated other comprehensive income of disposal group classified as assets held for sale							
	\$	30,977	\$	–	\$	–	\$ 30,977

⁽¹⁾ See Note 4A

⁽²⁾ Equinox is a subsidiary not allocated to any of the Company's reportable segments.

As at December 31, 2016, assets held for sale of \$6.7 million included in the Company’s consolidated statement of financial position included: i) the net book value of \$1.9 million related to a Capital investment in France accounted for by the equity method, namely TC Dôme S.A.S.; and ii) the net book value of \$4.8 million of other non-current assets, mainly project equipment, included in the Oil & Gas segment.

17. GAIN FROM ADJUSTMENT ON DISPOSALS OF E&C BUSINESSES

In the fourth quarter of 2016, the Company disposed of its ongoing local activities in France and in Monaco and of its non-core Real Estate Facilities Management business in Canada. The consideration receivable (payable) from these transactions is subject to certain adjustments. While the adjustments have not been finalized yet as at June 30, 2017, certain assumptions used to estimate such adjustments have been revised, resulting in a gain of \$0.3 million before income taxes (\$0.3 million net of taxes) in the second quarter of 2017 and of \$1.0 million before income taxes (\$0.9 million net of taxes) in the six-month period ended June 30, 2017.

18. GAIN ON DISPOSAL OF THE HEAD OFFICE BUILDING

On June 22, 2017, SNC-Lavalin announced that it completed the sale of its Montreal head office building and the adjacent empty lot of land located on René-Lévesque Boulevard West for \$173.3 million to GWL Realty Advisors on behalf of institutional clients. Concurrently, SNC-Lavalin entered into a 20 year lease for the building.

Net gain on disposal of the head office building

SIX MONTHS ENDED JUNE 30	2017
Consideration received	\$ 173,288
Carrying amount of the head office building and the adjacent lot of land	(22,781)
Deferred tenant allowance	(31,017)
Deferred gain on disposal of the head office building	(2,905)
Disposition-related costs	(1,484)
Gain on disposal of the head office building	115,101
Income taxes	(13,570)
Net gain on disposal of the head office building	\$ 101,531

19. CONTINGENT ACQUISITION OF NON-CONTROLLING INTEREST

In the second quarter of 2017, SNC-Lavalin signed an agreement to acquire 26% of non-controlling interest of Saudi Arabian Kentz Company Limited, which will increase SNC-Lavalin's ownership interest in this subsidiary from 49% to 75%, for total cash consideration of US\$45.8 million (approximately CA\$62 million). Completion of the acquisition is subject mainly to the approval by the Saudi Arabian government. On the signing of the agreement, the first tranche of cash consideration of US\$22.9 million (CA\$31.2 million) was paid to the seller, while the second tranche of US\$22.9 million is due on the effective sale date. The amount paid of CA\$31.2 million is included in "Other current financial assets" in the consolidated statement of financial position as at June 30, 2017.

20. WS ATKINS PLC

A) ACQUISITION OF WS ATKINS PLC

On April 20, 2017, SNC-Lavalin announced that it reached an agreement with Atkins, approved by the boards of directors of both companies, on the terms of a cash acquisition by which SNC-Lavalin will acquire the entire issued and to be issued share capital of Atkins (the "Acquisition"). Headquartered in the United Kingdom, Atkins is a global design, engineering and project management consultancy, with a position across the infrastructure, transportation and energy sectors.

In July 2017, SNC-Lavalin announced that it completed its Acquisition of Atkins.

In July 2017, the aggregate cash consideration for the Acquisition was £20.80 per Atkins share for a total consideration of approximately \$3.5 billion and was financed, as well as the acquisition-related costs, using the net proceeds from a \$880 million public bought deal offering of subscription receipts completed through a syndicate of underwriters; a \$400 million concurrent private placement of subscription receipts with the Caisse de dépôt et placement du Québec; a \$1.5 billion loan from the Caisse to Highway Holdings (see Note 15), a draw of £300 million (CA\$498 million) under the Term Facility, as well as a draw of US\$185 million (CA\$238 million) and £56 million (CA\$93 million) under tranche C of the Revolving Facility.

20. WS ATKINS PLC (CONTINUED)

As at June 30, 2017, the net cash proceeds from the issue of the subscription receipts from the bought deal and private placement were held by an escrow agent, in a restricted account, pending the fulfillment or waiver of all other outstanding conditions precedent to closing the Acquisition. As the funds were not directly received by the Company, they were not presented in the consolidated statement of cash flows. The restricted account is included in “Restricted funds” and disclosed in the Company’s consolidated statement of financial position, with a corresponding “Liabilities for the subscription receipts”. The restricted funds and the liabilities for subscription receipts can be reconciled as follows:

JUNE 30, 2017

	PUBLIC OFFERING	PRIVATE PLACEMENT	TOTAL
Subscription receipts (number outstanding)	17,105,000	7,775,000	24,880,000
Price per subscription receipt (in \$)	\$ 51,45	\$ 51,45	\$ 51,45
Gross proceeds	\$ 880,052	\$ 400,024	\$ 1,280,076
Plus: Investment income earned on restricted account			2,265
Liabilities for subscription receipts			\$ 1,282,341
Less: Issuance costs			(17,601)
Restricted funds			\$ 1,264,740

On July 3, 2017, each subscription receipt entitled the holder to automatically receive, without payment of additional consideration or further action, one common share of the Company together with an amount equal to the per share dividends the Company declared on its common shares for record dates that occurred between April 27, 2017 and July 3, 2017, for a total of \$6.8 million, net of any applicable withholding taxes.

B) PURCHASE PRICE ALLOCATION

In accordance with IFRS 3, *Business Combinations* (“IFRS 3”), if the date of acquisition of a business combination is after the end of the reporting period but before the financial statements are issued, the acquirer shall disclose the information required under IFRS 3, unless the initial accounting for the business combination is incomplete at the time the financial statements are issued. In that situation, the acquirer shall describe the reasons why they cannot be made. Due to the very limited time between the closing of the Acquisition and the issuance of these interim condensed consolidated financial statements, certain business acquisition required disclosures under IFRS 3, mainly the preliminary purchase price allocation, have not been provided as this information is not yet available. The Company is in the process of assessing the fair values of the assets acquired and the liabilities assumed.

C) ACQUISITION-RELATED COSTS

In the second quarter of 2017, in relation with the agreement to acquire Atkins, SNC-Lavalin entered into a foreign exchange option to hedge the foreign exchange exposure of the transaction. Until its settlement in the second quarter of 2017, this option was classified as a derivative used for cash flow hedges and was measured at its fair value with gains and losses arising from periodic remeasurements and not qualifying for hedge accounting being recognized in net income. In the second quarter of 2017, the loss arising from remeasurement of the foreign exchange option amounted to \$48.7 million and is included in “Acquisition-related costs and integration costs” in the Company’s consolidated income statement.

For the six-month period ended June 30, 2017, acquisition-related costs related to Atkins Acquisition amounted to \$56.4 million.

In addition, following the settlement of the option described above, SNC-Lavalin entered into forward foreign exchange contracts under which SNC-Lavalin sold Canadian dollars and bought British pounds having a notional value of £1,500 million. These forward foreign exchange contracts were classified as derivatives used for cash flow hedges until the payment date, which occurred in July 2017.



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