

Senior SNC executive denies signing controversial agreements

By PAUL WALDIE

May 3, 2012, Globe and Mail

Michael Novak said he was not involved in improper payments to agents, raising concerns about management's oversight practices

An aggressive self-defence being mounted by a senior executive at SNC-Lavalin Group Inc. SNC-T is raising fresh questions about oversight at the upper levels of the company's management.

Michael Novak, chairman of SNC-Lavalin International, on Wednesday denied any knowledge of wrongdoing at the Montreal-based engineering firm, which has been caught up in a scandal that involved \$56-million in alleged improper payments to commercial agents.

In a lengthy e-mail to The Globe and Mail, Mr. Novak said he knows nothing about the alleged bribes, some of which date back to 2009 and required approval from his office.

The long-time SNC executive was responding to an internal investigation, led by the audit committee of the company's board, that revealed that a "senior officer" at International co-signed the agent agreements with Riadh Ben Aissa. "The senior officer of [International] referred to in the Independent Review Report is not me," Mr. Novak said in the e-mail. He did not elaborate.

Mr. Novak's comments raise more questions about oversight at SNC, one of the largest engineering firms in the world with operations in roughly 100 countries. The International subsidiary is supposed to approve all "hiring and remuneration" of agents, according to company policy.

SNC has alleged that Mr. Ben Aissa hired the agents on his own to help win contracts on two construction projects. The company alleged those agents can't be located and the \$56-million they received has vanished. Mr. Ben Aissa, who left SNC in February, has denied any wrongdoing. He was arrested last month in Switzerland as part of that country's investigation into allegations of corruption in North Africa. It is not clear what charges he faces.

Mr. Novak said he only learned about the agent agreements during the internal investigation, which began last December and led to the departures of Mr. Ben Aissa, a vice-president in charge of SNC's construction division, and chief executive officer Pierre Duhaime.

In his e-mail, Mr. Novak said he did not know about one set of payments to the agents, totalling \$22.5-million. That payment "was processed out of the construction division without my knowledge, and I only became aware of it when it was brought to the attention of the Audit Committee in February 2012," he wrote.

He was asked to authorize the second set of payments, totalling \$33.5-million, in December 2011, but refused. "I refused to authorize the payments because company policy and procedure had not been adhered to," he said in the e-mail. The company alleged that Mr. Duhaime later authorized Mr. Ben Aissa to make the payments, even though the CEO did not have authority under company policy.

Mr. Novak also took issue with a recent report on the SNC scandal by *Veritas Investment Research*. That report, by *Anthony Scilipoti*, questioned the thoroughness of the internal SNC review and suggested more improper payments could surface. The report also noted that Mr. Novak sold 64 per cent of his holdings in SNC in March, 2011, for gross proceeds of \$13-million.

"When I exercised my options and sold my common shares in SNC-Lavalin in March 2011, I did not have any knowledge of, nor any reason to suspect any contravention of company policy and procedures, or

violations of internal controls practices, with regard to [the agent agreements]," he wrote in the e-mail, which was also sent to **Veritas**. The stock sale "was done strictly for personal reasons on the advice of an outside professional financial adviser based on the fact that at the age of 57 almost all of my personal wealth was in SNC-Lavalin common shares and SNC-Lavalin phantom shares (PSUs and DSUs), and it was financially prudent to diversify my portfolio into other holdings."

He added that he still owns more than 140,000 shares of SNC, which amounts to "close to one half of my personal wealth."

Mr. Scilipoti said Wednesday that he stood by his report. However the Toronto-based firm has sent a copy of Mr. Novak's e-mail to all clients who received the report.