

SNC-Lavalin warns of more fallout from corruption investigations

Nicolas Van Praet
May 3, 2012, National Post

MONTREAL — Investigations by various authorities are ongoing into allegations of impropriety at [SNC-Lavalin Group Inc.](#), the engineering multinational says as it signalled there will be more fallout in the weeks ahead.

The Swiss government's prosecution office and the RCMP are among the agencies probing the company or its former vice-president of construction, [Riadh Ben Aissa](#), who sits in a Swiss jail in connection with an investigation into corruption, fraud and money laundering in North Africa.

"This has been a very intense time," SNC chairman Gwyn Morgan told shareholders at the company's annual meeting in Toronto Thursday, adding this year will be the most challenging the company has faced.

SNC has done as much as it can into looking into wrongdoing itself and that's why it has turned over documentation to authorities, company vice-chairman and interim chief executive Ian Bourne said on a conference call later to discuss the company's first-quarter profit of \$67.1-million.

"The reality of these police investigations mean that they're going to find some other stuff," Mr. Bourne said. "At least we hope they find some other stuff to the extent that they can go looking into places that we couldn't look."

SNC spent \$5.4-million during the quarter on an internal review looking into what happened to \$56-million worth of unexplained payments to commercial agents that *Veritas Investment Research* says are likely bribes. And it spent another \$5-million on a severance package for its former chief executive, Pierre Duhaime, who was questioned as part of that review.

The internal probe concluded that Mr. Duhaime breached company policy in approving the payments. It was unable to determine what happened to the money, but maintains it is not related to its work in Libya.

The company's board weighed whether to take legal action against Mr. Duhaime and whether he should be fired with cause. In the end, it decided to honour its contract with him and accept his retirement, said chairman Gwyn Morgan.

Canada's largest engineering company is facing an unprecedented ethics scandal related to the payments and questions surrounding its relationship with former Libyan dictator Muammar Gaddafi that has rocked its reputation. Mr. Duhaime was relieved of his CEO duties at the end of March. Mr. Ben Aissa and his controller, Stephane Roy, have left the company. As many as eight senior executives at SNC appear to have some knowledge of the improper acts committed, *Veritas* said in an April 26 report.

SNC said it's impossible to predict the outcomes of the investigations or whether any penalties or sanctions will be imposed on the company. It has not taken any financial provision against possible fines or charges.

It became clear Thursday that company leaders have been busy behind the scenes trying to reassure various stakeholders that they have the situation under control. Despite vocal criticism of the company's leadership earlier this week by two major investors, Jarislowsky Fraser Ltd. and the Caisse de dépôt et placement du Québec, the lack of significant questioning by shareholders at SNC's annual meeting suggests much of the concern had already been aired privately.

Mr. Bourne has spoken in person and over the phone in recent weeks with many investors, insisting the board acted decisively as soon as it learned of the wrongdoing. Customers have expressed concern that the company can deliver on its current projects, he said, and certain clients are asking for "additional comfort" in some cases.

Mr. Bourne has written letters in response as circumstances require. "But there's no indication that it's onerous" or that it's created a problem in getting bids, he said.

The paradox of this scandal is that even as SNC faces the biggest reputational test in its history, its order backlog has never been higher. It stood at US\$10.5-billion as of the end of March, higher than at the end of 2011.

No significant projects have been cancelled and no big bids have been pulled as a result of recent events, the company said.

Asked if the company would consider buying back shares to boost its beaten-down stock given that it has \$1-billion in cash, Mr. Bourne said he does not believe in "financial engineering." Winning new work and executing existing work will restore confidence in the company, he said.

"While we are not making light of the current difficult situation that the company is facing vis-à-vis authorities, we believe that SNC-Lavalin's competitive position will not be affected long term," Alta Corp. analyst Maxim Sytchev said in a research note Thursday. Other firms that have

experienced similar scandals in the past have come out stronger in the end, the analyst's research shows, including KBR, Technip, Daimler and Siemens.

SNC shares fell 2% to \$37.31 in trading Thursday on the Toronto Stock Exchange. They have lost 26% of their value since the start of the year.