SNC-Lavalin readies for siege as Veritas report warns of more revelations

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MONTREAL • SNC-Lavalin Group Inc. will try Thursday to repudiate a damning new report from Toronto equity research firm ***Veritas Investment Research*** that warns there is a good chance the engineering giant's future prospects will be hurt by more revelations of "improper acts."

The April 26 report, written by a team led by ***Veritas*** vice-president ***Anthony Scilipoti*** and titled "Skeletons in the Closet," analyzed the findings of SNC's audit committee made public at the end of March, as well as its fiscal 2011 financial statements and other relevant disclosures.

It concludes that the US$56-million in untraced payments requested by former SNC vice-president Riadh Ben Aissa were likely bribes, that the raid by the RCMP on the company's Montreal headquarters April 13 indicates a widening involvement by law enforcement, and that there is a reasonable likelihood that more irregularities and illegal acts will come to light as police use their subpoena power to uncover information that SNC's own internal probe failed to obtain.

Veritas states that as many as eight senior executives at SNC appear to have some knowledge of the improper acts

"This story is far from over and we advise investors to expect a rocky ride until a thorough investigation of the scandal is completed by legal authorities — and possibly securities regulators," the ***Veritas*** report states. "In our view, the findings of this report support an increased probability that SNC's future business prospects will be adversely affected by additional relevations of improper acts and/or increased scrutiny over SNC's business activities."

SNC-Lavalin, one of the world's largest engineering and construction companies, is facing an ethics scandal that has sullied its reputation and rocked its employee base, many of whom are now seeking employment with rival firms, according to anecdotal reports.

It started late last year, when questions arose about just how far the company went in its relationship with the family of former Libyan dictator Muammar Gaddafi.

It continued with the departure from the company of two key executives, Mr. Ben Aissa and controller Stéphane Roy.

Then in March, SNC revealed the results of an internal review led by its board's audit committee that found US$56-million in mysterious payments were made to business agents that may or may not have actually existed. Chief executive Pierre Duhaime was ousted for breaching the company's ethics policy in approving the payments. Mr. Ben Aissa is now being held by Swiss authorities in connection with a criminal investigation into corruption, fraud and money laundering in North Africa.

SNC's major investors are growing increasingly anxious about the situation. This week both money management firm Jarislowsky Fraser Ltd. and pension fund Caisse de dépôt et placement du Québec expressed their concern about the way it has been handled as it becomes clear the board of directors may have been in the dark about the impropriety.

The company's annual meeting in Toronto Thursday is expected to be the most explosive in its 101-year corporate history. Shareholders will grill chairman Gwyn Morgan and executive vice-chairman Ian Bourne about what exactly is going on at the company. But barring a surprise, SNC's proposed slate of directors will be approved. The thinking among some investors is that replacing the board would only add to the company's woes at a time when it needs a steady hand.

The ***Veritas*** report challenges whether SNC's audit committee did a thorough review. And it questions whether Mr. Morgan is correct in his insistence that the improper payments were isolated incidents that have been contained.

Veritas states that as many as eight senior executives at SNC appear to have some knowledge of the improper acts committed even though only three – Messrs. Duhaime, Ben Aissa and Roy, have been formally cited by the company in connection with breaches of its ethics policies.

More specifically, ***Veritas*** asks why SNC's current chief financial officer, Gilles Laramée, was not asked to resign given that he failed to inform the company's auditors or any member of the board of directors of the impropriety even though he opposed it. And it asks whether the chairman of SNC-Lavalin international, Michael Novak, had any knowledge of the matters uncovered by the internal review given that he sold off 64% of the common shares he held in the company for $13-million in March 2011.

"The key question that should have been directly addressed by the audit committee is: How is it that US$56-million in improper payments occurred over a two-year period, with at least some knowledge of the improper acts on the part of eight members of senior management," the ***Veritas*** report states. "The answer: a failure of corporate governance."

SNC-Lavalin dismissed the report, saying it reflects only the personal and "very superficial" opinions of the authors.

“We disagree with their conclusions and will address this during the [annual meeting] and the days to come,” company spokesperson Leslie Quinton said in an email.

Said Ms. Quinton: “It is clear that the analysis conducted by ***Veritas*** is not factual and based essentially on speculations and various conclusions formulated on these speculations. It is surprising that the authors would question the work of the audit committee and the report from the board, given how little information they based their evaluations upon.”

SNC shares have lost 25% of their value since the start of the year.