

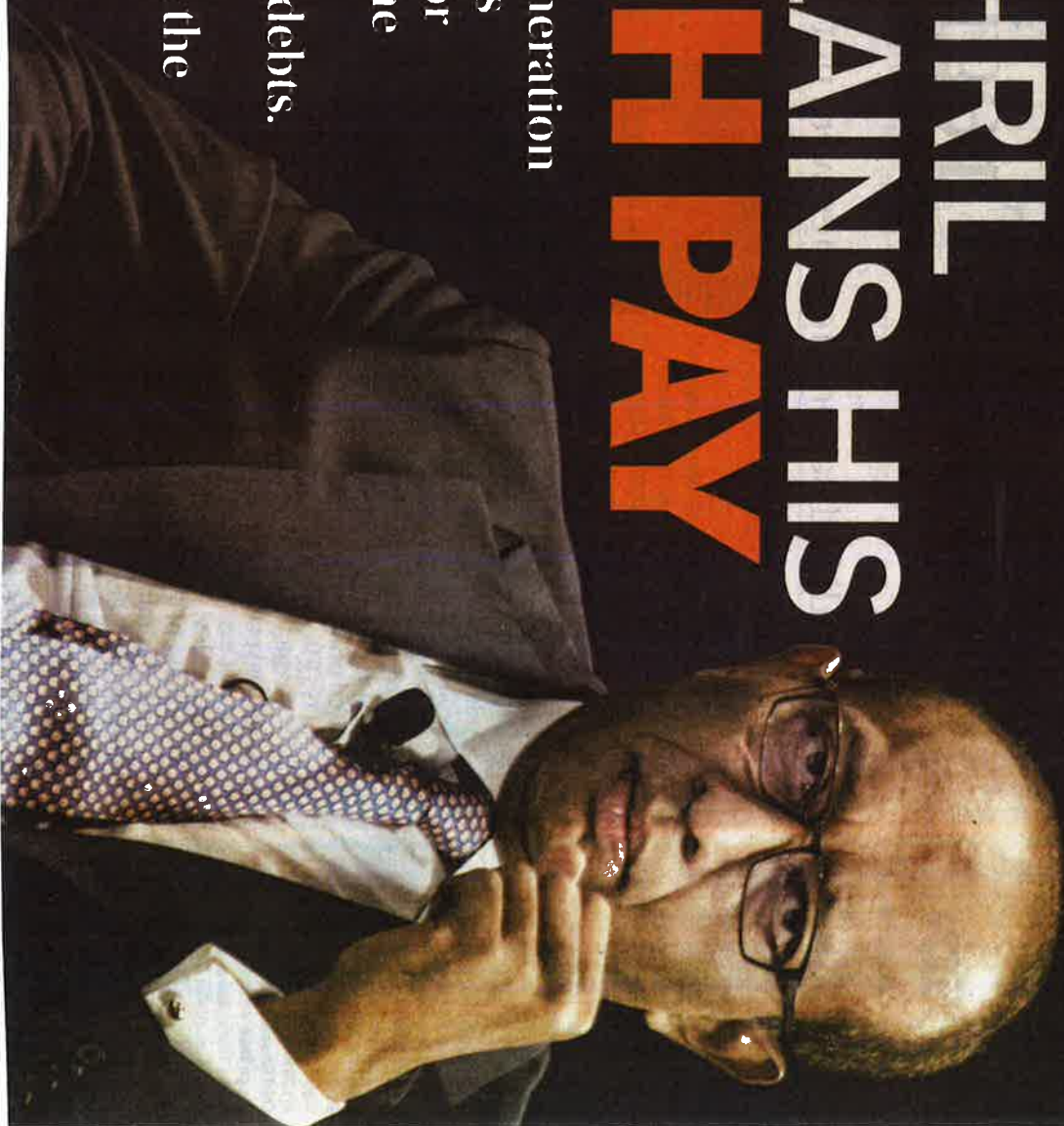
MINORITY SHAREHOLDER WATCH GROUP

BADAN PENGAWAS PEMEGANG SAHAM MINORITI BERHAD
(Incorporated in Malaysia – Company No. 524989-M)

The Edge Financial Daily – Thursday July 19, 2018 **(Part 1)**

SHAHRIL EXPLAINS HIS HIGH PAY

The CEO's remuneration package includes compensation for share covenant he has to refinance Sapura Energy's debts. Jose Barrock & Kathy Fong have the story on Page 3.



The Edge Financial Daily – Thursday July 19, 2018 (Part 2)

Shahril explains his high pay

CEO's remuneration includes compensation for share covenant to refinance Sapura Energy's debts

BY JOSE BARROCK & KATHY FONG

KUALA LUMPUR: Part of the fat salary that Sapura Energy Bhd president and chief executive officer (CEO) Tan Sri Shahril Shamsuddin draws hinges on a share covenant that he has with financial institutions, when the oil and gas group refinanced its whopping RM1.4 billion in borrowings.

Shahril confirmed the existence of this covenant, and it being the reason for his high remuneration package when contacted by *The Edge Financial Daily*.

"Yes, we have explained this in the AGM (annual general meeting). It is true that part of the remuneration package is for the share covenant that has locked up my shares in Sapura Energy.

"This means that if I sell my shares (below 10%), the loan will default. If I step down [from being the CEO], the loan will be in default as well," said Shahril, who was grilled in the group's AGM yesterday over his high pay of RM71.92 million in the financial year ended Jan 31, 2018 (FY18), and RM84.24 million in FY17.

Shahril is the single largest shareholder of Sapura Energy holding a 15.9% stake. The share covenant was not stated in the annual reports.

He reiterated that he did not ask for the high compensation. "My salary is determined by the board. The board is independent ... I did not ask for it (compensation). It is the board which decides on this.

"When someone offers me this, of course I will accept. I am just an officer of the company. And yet I am willing to do this. I could have sold my shares at RM4 but I didn't. I didn't even sell a single share ... the opportunity cost is far more [than the compensation]," said Shahril.

Sapura Energy's share price has not been spared from selling pressure amid the prolonged industry downturn that began in late 2014. Its share price peaked at RM4.84 at end-December 2013. The stock tumbled to a record low of 41 sen at mid-March. It closed at 60 sen yesterday.

Shahril pointed out that the group's remuneration committee made the recommendation to the board, and the board will decide on the proposals.

Sapura Energy's board remuneration committee consists of its chairman Dank Hamzah Bakar, independent director Mohamed Rashidi Mohamed Ghazali and Shahril. On the share covenant, it started back in FY14, according to Shahril.

"With the loan refinancing, we managed to get better rates with an average of about 5%, compared with others in the industry that are paying 6% to 7%," he said.

The group's annual reports indicated that Shahril's salary was above the RM80 million band between FY14 and FY17. His remuneration package, however, shrank slightly to RM71.92 million in FY18 when the group dipped into the red with a net loss of RM2.5 billion, dragged down by a massive RM2.13 billion impairment provision.

"They (shareholders) said my remuneration is too high. As a shareholder, I respect that. But one thing that people don't see is the effort that the management has put in place for future growth," he said.

"The company should be measured relative to others that have gone bust locally and globally. Shareholders should also evaluate us in non-financial terms, for example the PSC (production sharing contract) that we won in Mexico, the new jobs that we have gotten in Brazil ... that [contributes] a lot more to future growth," Shahril added.

Six resolutions passed despite EPF's strong opposition

BY SULHI AZMAN

KUALA LUMPUR: Sapura Energy Bhd saw all six resolutions, including the re-election of its president and group chief executive officer (CEO) Tan Sri Shahril Shamsuddin and two independent directors, as well as the proposed payment of up to RM5.6 million to its non-executive directors, approved in its annual general meeting (AGM) despite strong opposition from one of its institutional shareholders, the Employees Provident Fund (EPF).

"The results of the poll were validated by Symphony Corporate house Sdn Bhd, the independent scrutineer," Sapura Energy said in a Bursa Malaysia filing yesterday. In the AGM, the EPF made a surprise move to block the re-election of Shahril as the non-independent executive director of Sapura Energy after he was criticised for receiving "excessive" and "obscene" annual take-home pay, which totalled RM71.92 million in the financial year ended Jan 31, 2018 (FY18).

"Our stance is to vote against all the directors that are due for re-election in this AGM, including the group CEO," EPF head of equity research department Nor Azam Yahya was heard addressing the AGM yesterday.

Nor Azam said the EPF had also indicated its intention to vote against the re-election of the two independent directors, Mohamed Rashidi Mohamed Ghazali and Dank Muhammad Noor Hamid, as well as the upcoming re-election of Dank Hamzah Bakar, who has been Sapura Energy's chairman since Dec 9, 2011.

On May 17, the EPF ceased to be Sapura Energy's substantial shareholder after it pared down its stake to below 5%. Currently, Kumpulan Wang Pearsaam (Diperbadankan) is the largest institutional shareholder, with 7.18% of the oil and gas services firm as at April 17.

Nor Azam said Sapura Energy's consistent move to grant Shahril an annual take-home pay of between RM70 million and RM80 million was "irresponsible," especially given the company's poor financial performance over the last few years.

"The shareholders have seen the downside of the company's financial performance and the impairments. But we don't see the downside of your pay. I think if we can see the correlation [between your pay] and the headline numbers, that will be at least convincing to us," Nor Azam said, pointing to Sapura Energy's net loss of RM2.5 billion in FY18.

Besides Nor Azam, the Minority Shareholders Watchdog Group (MSWG) had also grilled Shahril for raking in an exorbitant remuneration package, which included a RM55 million bonus, when Sapura Energy was in the red and did not recommend any dividend to the shareholders in FY18.

"Now you are saying that you are going to double, increase or quadruple the profit. Are we going to expect your pay to be RM200 million or RM300 million next year?" Nor Azam added. "I guess you need to be sensitive to the pay and also the shareholders of your company."

By rewarding a large pay quantum, MSWG general manager Lya Rahman said, investors failed to see any alignment of interest between the shareholders and management. "We think there was no proper

governance carried out," she lamented. In its defence, Sapura Energy told shareholders that Shahril's bonus payment was based on the group's performance and achievements for FY17, as measured by the key performance indicators.

"The board of directors is satisfied that its decision made on the bonus and the long-term incentive plan at that time commensurate with Shahril's performance and contributions to the company for FY18," it said.

At the same time, Sapura Energy said it appreciated Shahril's voluntary curbing his base salary, which is entering its third year.

In its 2018 annual report, the company said Shahril's base pay was reduced to RM7.24 million in FY17, RM8.7 million in FY16 and RM10.75 million in FY15.

As for the dividends, Sapura Energy said: "The board will consider recommending appropriate dividend payment from the company's profits to the shareholders."

In spite of the harsh criticism, Shahril secured an overwhelming approval from 81.71% of the shareholders to retain his seat on Sapura Energy's board.

Similarly, Sapura Energy shareholders reappointed both Mohamed Rashidi and Muhammad Noor as independent directors.

In addition, Sapura Energy had also secured a mandate from its shareholders to reward its non-executive directors with fees and benefits-in-kind, totalling up to RM5.6 million in FY19.