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## Sime President and CEO Zubir removed

**The high-profile removal is linked to Qatar and Bakun projects' cost overruns**

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PETALING JAYA: In what is seen as the first high-profile removal of the head of a government-linked company, Sime Darby Bhd's board of directors has asked its president and group chief executive Datuk Ahmad Zubir Murshid to take a leave of absence prior to the expiry of his contract on Nov 26, 2010.

Sime Darby chairman Tun Musa Hitam said at a press conference yesterday afternoon that Zubir's leaving was in connection with the cost overruns that the group's energy and utilities division had suffered in carrying out projects in Qatar and the Bakun hydro-electric dam.

Datuk Azhar Abdul Hamid, currently head of Sime Darby Plantations, has been appointed as acting group chief executive.

Sime Darby also said it would take a hit of RM964mil in its second half earnings from losses from its energy division.



From left: Datuk Seri Panglima Andrew Sheng, Tun Musa Hitam and Datuk Azhar Abdul Hamid at the press conference on Thursday

Musa said the problems in this division first surfaced when the board was performing its functions in the last six to seven months. "We discovered that there were a few questionable positions in relation to the financial status of the company and the application of corporate governance. We then decided to look further and realised that there was cause for curiosity in the energy and utility division," he said.

Musa added that the board then formed a working group in October 2009 to look into the matter. The work group, which is still looking into the issues, consists of Datuk Seri Panglima Andrew Sheng, as chairman, Tan Sri Wan Zahid Noordin and Datin Zaitoon Othman.

It is advised by external lawyers Ashurst, Rajah and Tann and Zaid Ibrahim & Co as well as the accounting firms of Deloitte and KPMG

The work group then found that one particular project needed more attention.



Subsequently, a comprehensive investigation was conducted and it was discovered that the problems involved two or three other projects, Musa said.

“The group worked with seriousness, determination and thoroughness that was demanded of them. They did a tremendous job,” Musa said.

Musa said the board had assessed the “damages” caused by this division and, in the interest of good corporate governance, identified the individuals that were responsible and accountable for these losses. “It is not appropriate for us to list out everyone concerned and the whys and hows of what went on. But this is the basis of our decisions,” he said.

When asked if this meant Sime Darby was firing Zubir, Musa said: “The fact is, he has left as of today. It is up to you how you want to interpret that.”

Sime Darby was also asked if there was a breakdown of risk management within the group. Musa said the same question had been raised in the working group as the Bakun project had stated in 2002, while the Qatar projects first began in 2005. “But note that these are very long and complex technical projects. But we do acknowledge that there should have been better controls in place.”

Sheng, who is also a Sime Darby board member, said there were valuable lessons to be learnt from this episode. “We have given instructions to the management to strengthen controls and manage all operations in the most prudent and efficient manner.”

Musa added that the board was looking at making changes to the management structure of the group to ensure that better corporate governance was adhered to.

On whether any fraud has been detected or criminal charges filed against any Sime Darby employees, Musa said that would depend on the findings of the working group and their special consultants, which is still “work in progress.”

Azhar added that Sime Darby would be obliged to follow up on the appropriate course of action based on the findings of its investigations.

The RM964mil provisioning that will take place, is made up of losses of RM200mil from the Qatar Petroleum project, RM159mil from the Maersk Oil Qatar project, RM155mil from a project to construct vessels for use in the latter project and RM450mil from cost overruns in the Bakun project.

Kenanga Research, in a note yesterday evening, reversed its rating on Sime Darby from a hold to a sell, noting that the announcement was “extremely negative” as the provisioning was “much larger than what the investment community had been forecasting.”

“The lack of controls in such a large GLC is nothing less than shocking,” the report stated.

Kenanga estimates Sime Darby’s full year FY2010 net profit to come down to RM1.74bil versus its previous projection of RM2.5bil.

Ivy Ng, senior regional analyst at CIMB Investment Bank shared the same view that Sime Darby’s provisions are bigger than what CIMB had expected. “So that is negative. Furthermore, the change of management is only marginally positive as they have not named who will be their permanent CEO,” she said.

**A glimpse of Sime Darby’s cost overruns in its energy and utilities division:**

- Qatar Petroleum project – delays and cost overruns which resulted in losses on the project exceeding RM500mil, which have already been accounted for. The board has decided to reverse the revenue of RM200mil previously recognised in FY2009.
- Maersk Oil Qatar project – delays and cost overruns have resulted in foreseeable losses of RM526mil for FY2010. Of this, RM367mil has already been recognised in the first half FY2010 and the board has decided to recognise the remaining RM159mil.
- Construction of vessels for use in the Maersk Oil Qatar project – the board estimates the project may result in losses of about RM155mil.
- The Bakun hydroelectric dam project, in which Sime Engineering Sdn Bhd holds a 35.7% effective interest – management estimates that there could be a potential additional cost attributable to the group in the FY2010 results of RM450mil.

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