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Karoon leadership dispute heats up

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The moves by Pegasus are being strongly resisted by Karoon. **Photo: istock**

Angela Macdonald-Smith

Influential proxy adviser ISS has thrown its weight behind the move by dissident Karoon Gas shareholder Pegasus CP One to revamp the board of the junior explorer, but has recommended against the investor's nominee as chairman, Colin Goodall.

ISS pointed to "material under-performance" of Karoon, as well as continuing concerns over corporate governance. It noted a "compelling case for change" on the board.

The recommendation comes ahead of Karoon's annual shareholder meeting on October 27, where the board is also facing a potential second strike against its remuneration report, which could lead in any case to a board spill. Shareholders will also be asked to vote on Pegasus's three director nominees to the Karoon board, including David Bamford and Glenda McLoughlin, as well as Mr Goodall.

Pegasus partner Erwin Weinzinger said he was surprised ISS was recommending against the appointment of Mr Goodall, who he said was a crucial part of Pegasus's plans to switch Karoon's leadership away from the "casino mentality" under current executive chairman Robert Hosking.

"With only two directors it will be way, way harder to make the changes that are needed," Mr Weinzinger said.

"The whole problem in Karoon comes down to one single person – and that is Bob Hosking. If he can be neutralised, if he can be put out of the driver's seat, then this company can be turned around. The assets have value that can be unlocked."

The moves by Pegasus, which owns around 2.4 per cent of Karoon, are being strongly resisted by Karoon.

In a letter to shareholders on Friday, Mr Hosking, who has several family members in roles at Karoon, described Pegasus's plans as "opaque" and listed concerns about the suitability of the director nominees.

Pegasus "is proposing Karoon adopt a new strategy which is very unclear, but seems to revolve around increased M&A for unknown assets", he wrote.

Key points

- Pegasus say new chairman is needed to change leadership away from casino mentality.
- Existing chairman Bob Hosking has questioned who really controls Pegasus's shares.

Mr Hosking also queried who “really controls” Pegasus’s shares in Karoon, implying another party may be behind it, which Mr Weinzinger rejected.

Mr Goodall, a former BP executive, said his priority was to get a “proper independent board” at Karoon with an experienced managing director to take the company forward.

“The most important thing is to conserve the cash” at Karoon, he said, pointing to aggressive drilling plans by Karoon in Brazil that could burn through its \$690 million of cash and leave it back looking for more equity from shareholders within a year.

Instead Mr Goodall believes Karoon should “slow things down” in Brazil and look to add near-term production.

ISS’s reservations about Mr Goodall centre around his directorship at London-listed Lamprell, which was fined by the Financial Services Authority over failings in controls that contributed to a profit warning in May 2012.

ISS also recommended investors vote against Karoon’s remuneration report, and against the election of Geoff Atkins, chair of the remuneration committee.

It supports the election of other existing directors Mark Smith, Peter Turnbull and Bernard Wheelahan.

The Australian Financial Review



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