



## Integrated Thinking

Strategies for optimising value and managing risk in diverse asset portfolios

**FLAME Conference**  
**DATE:** 10<sup>th</sup> March, 2009

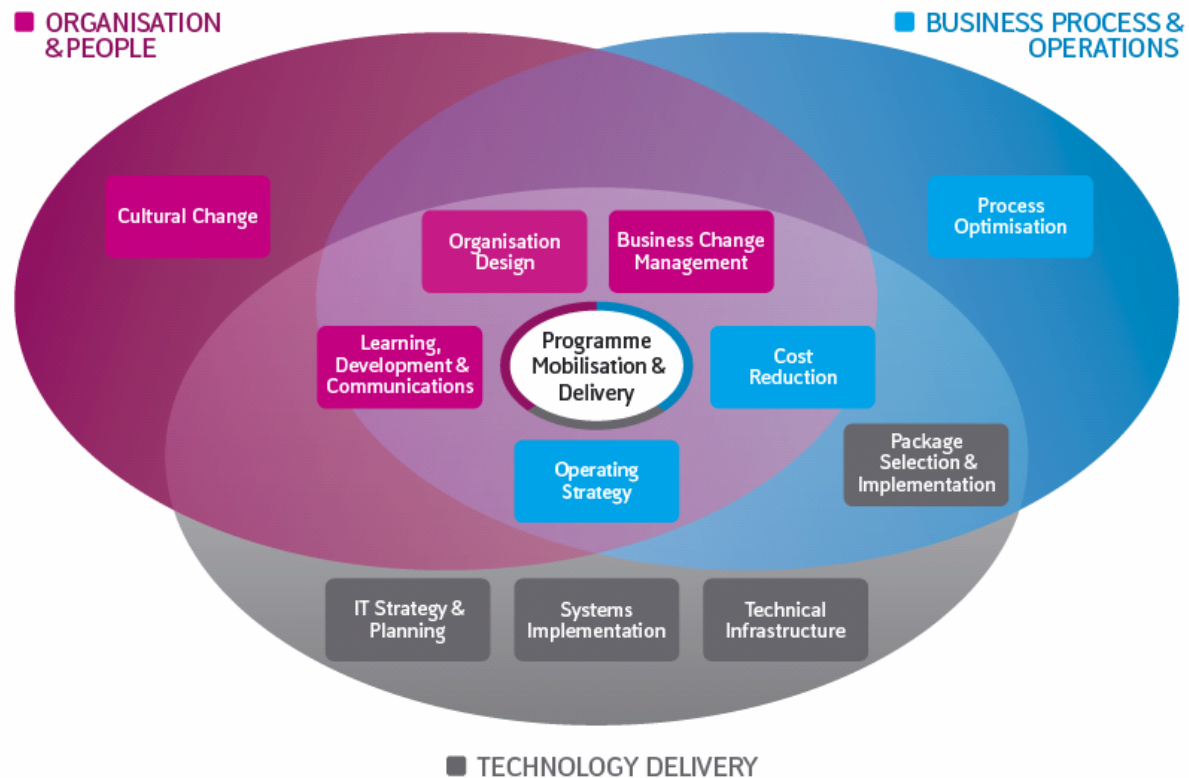
Reputation built on Results



# Introduction to Baringa Partners



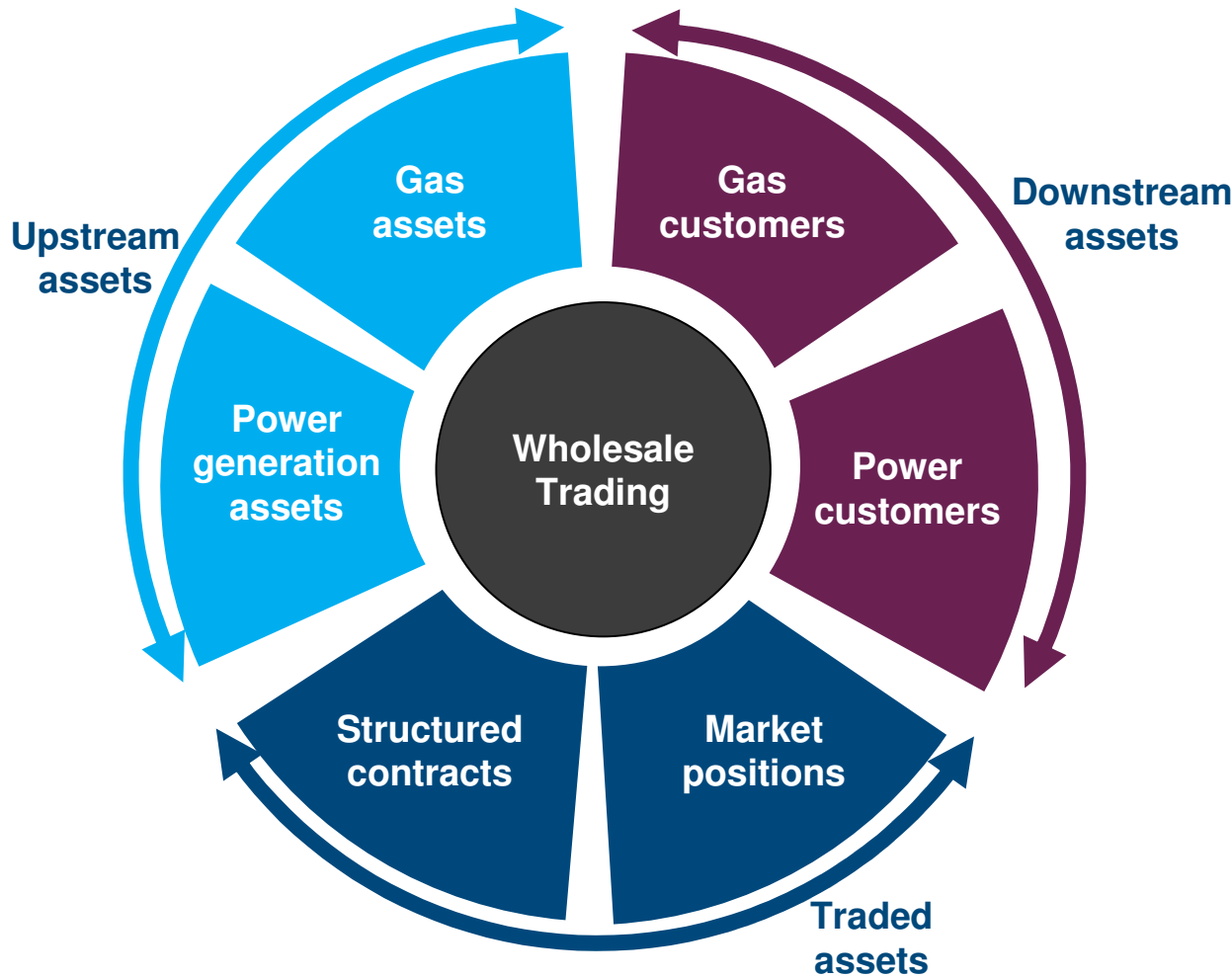
- ▶ Baringa Partners: An international consulting company deep knowledge and skills in the energy and financial services markets



- ▶ Formerly known as The Structure Group



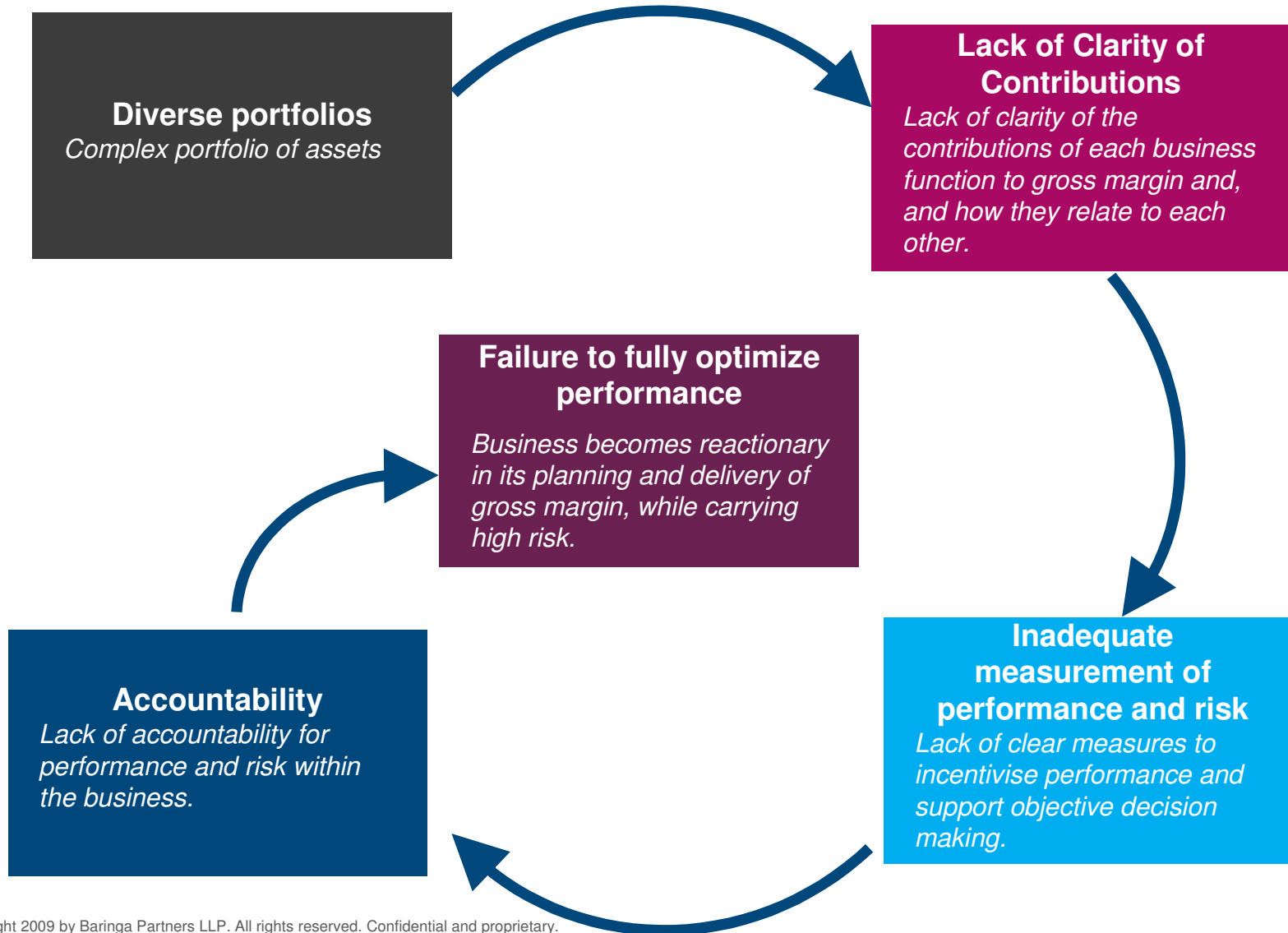
# Challenges of today's energy company



- ▶ Diverse portfolios of assets
- ▶ Rapid growth
- ▶ Evolving markets
- ▶ Volatile prices



# The 'Spiral' of lost value





## Overview



▶ *To differentiate themselves, organisations need to push the boundaries of ‘integrated thinking’*

▶ **How to measure performance to drive value and manage risk**

▶ **Strategies for integrated thinking**

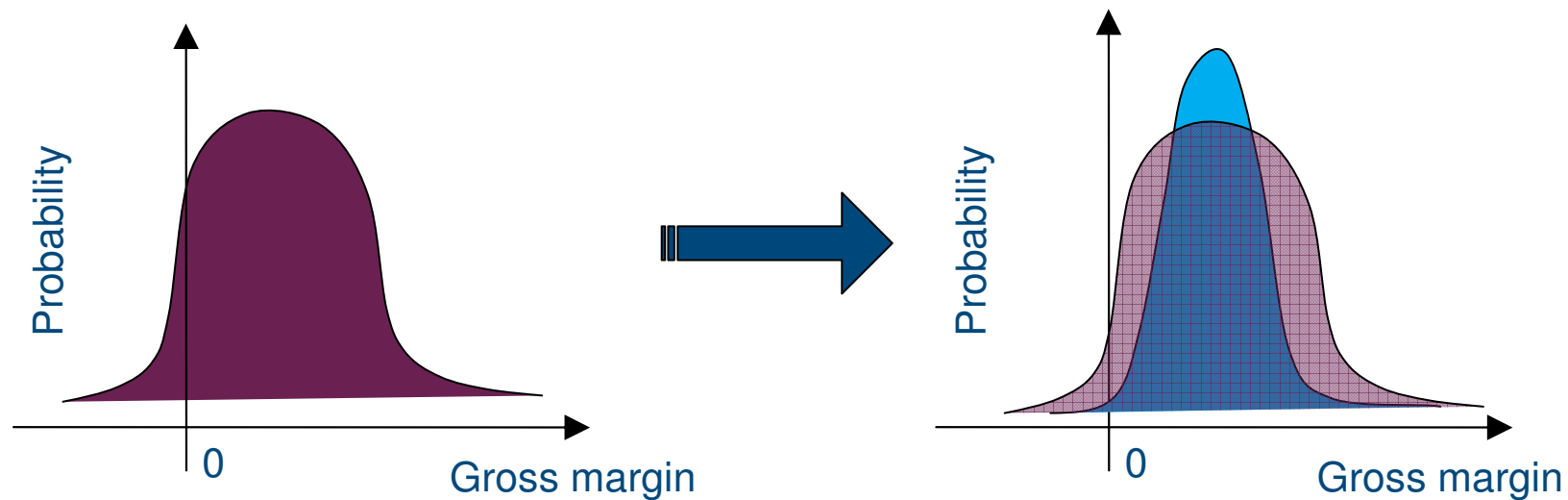
▶ **Making it happen**

# ▶ Measuring performance across the value chain



▶ **Gross margin (percentage) =  $\frac{\text{Revenue} - \text{Cost of good sold}}{\text{Revenue}}$**

▶ **Gross margin at risk provides a probabilistic view of gross margin outcomes**

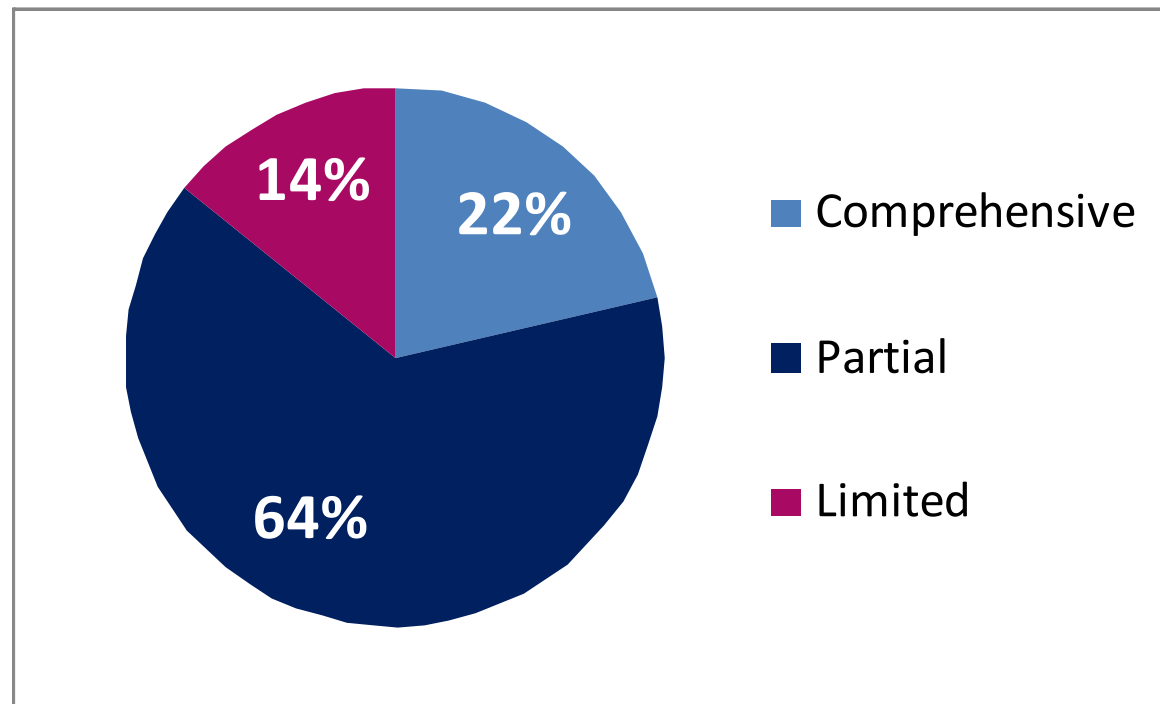




# Managing gross margin *Performance Survey*



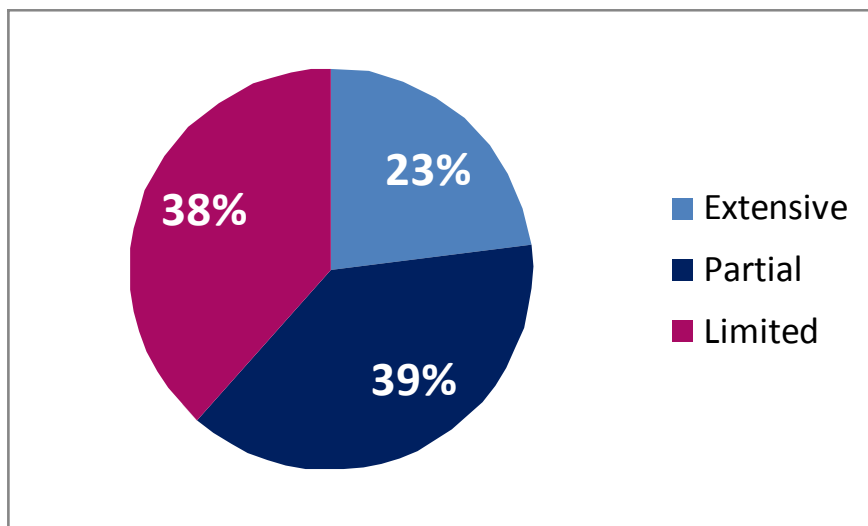
1. To what extent is the relationship between the performance of individual business units/assets versus the whole portfolio clearly understood?



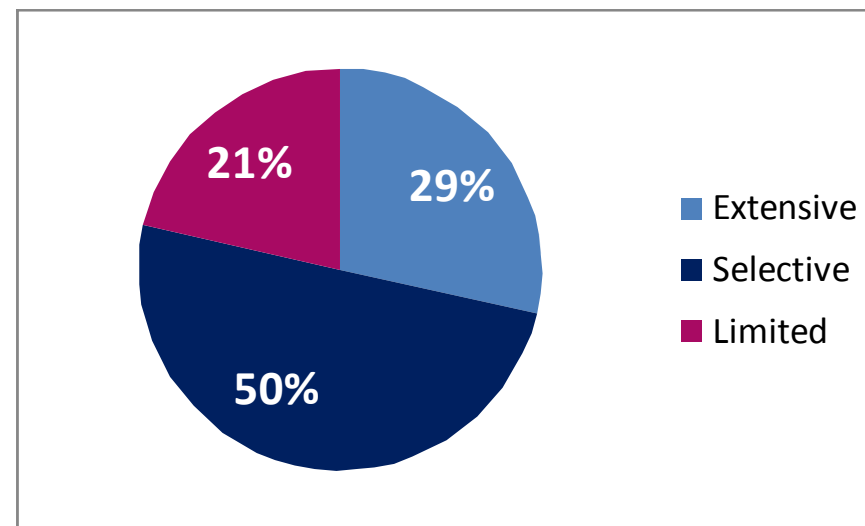
# ▶ Managing gross margin *Performance Survey*



2. To what extent is the impact on portfolio-wide gross margin used in business decisions?

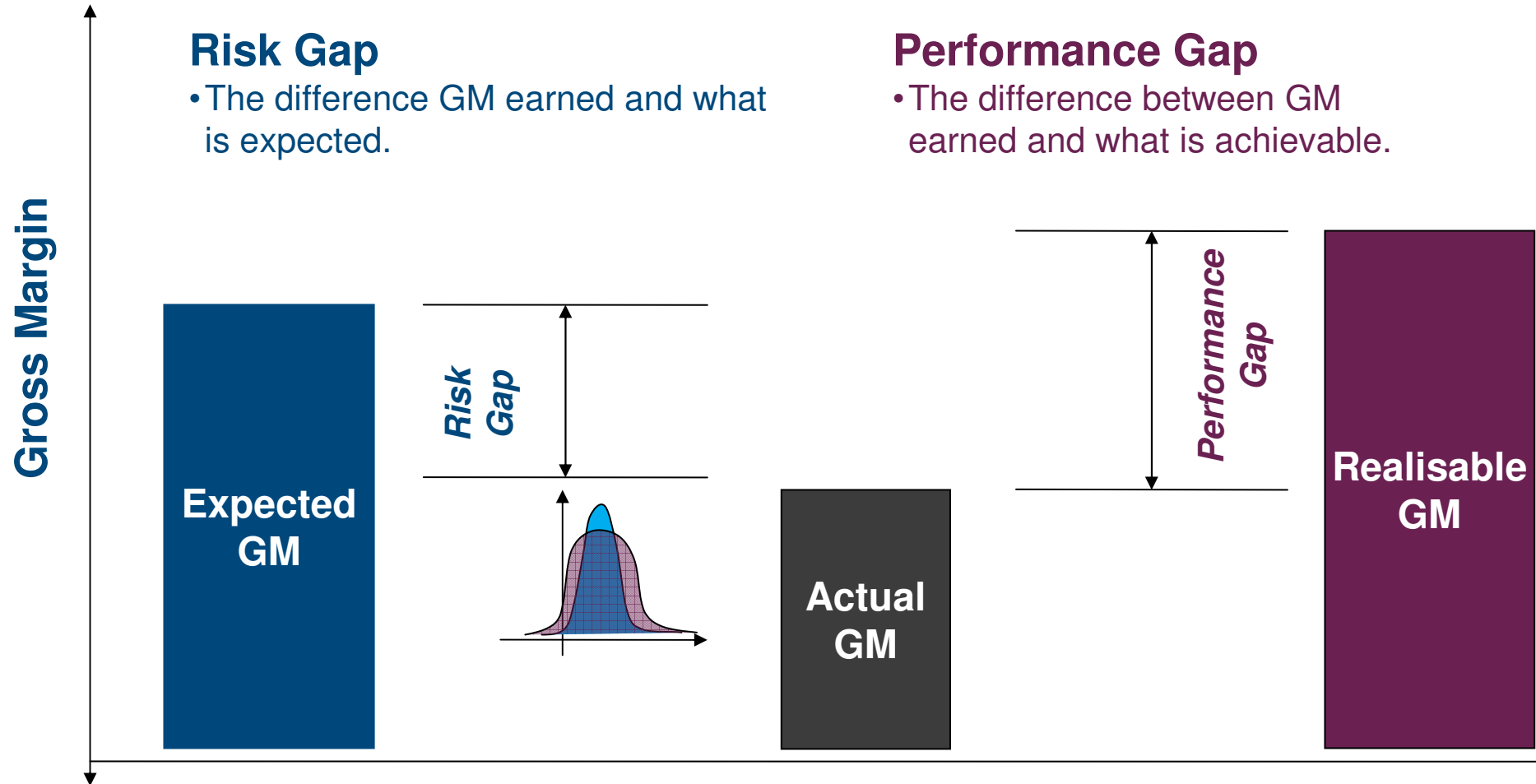


3. To what extent is the risk profile for gross margin used in business decisions?





# Understanding Integrated Performance





# Understanding Integrated Performance

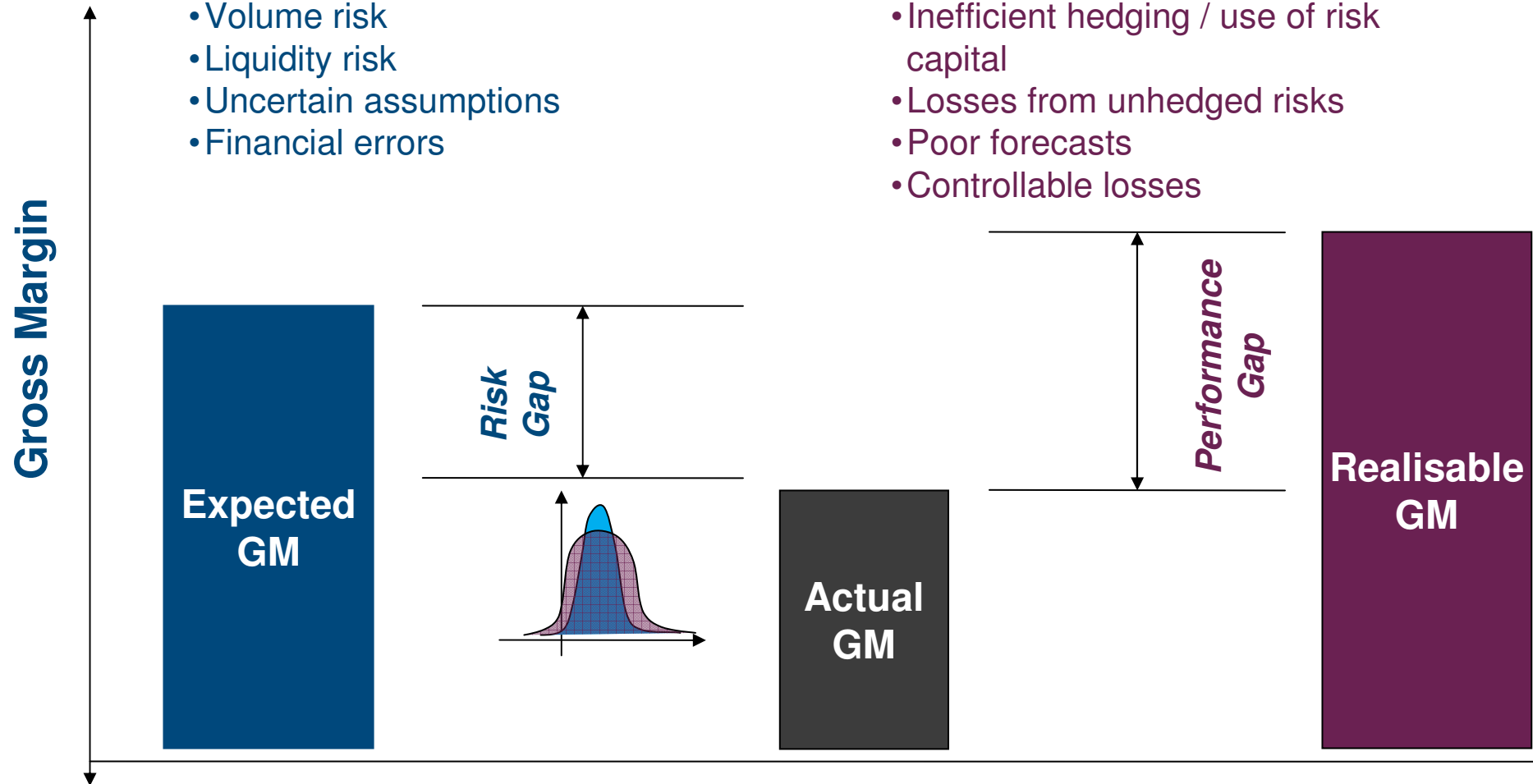


## Risk Gap

- Wholesale price risk
- Volume risk
- Liquidity risk
- Uncertain assumptions
- Financial errors

## Performance Gap

- Inadequate asset optimisation
- Inefficient hedging / use of risk capital
- Losses from unhedged risks
- Poor forecasts
- Controllable losses

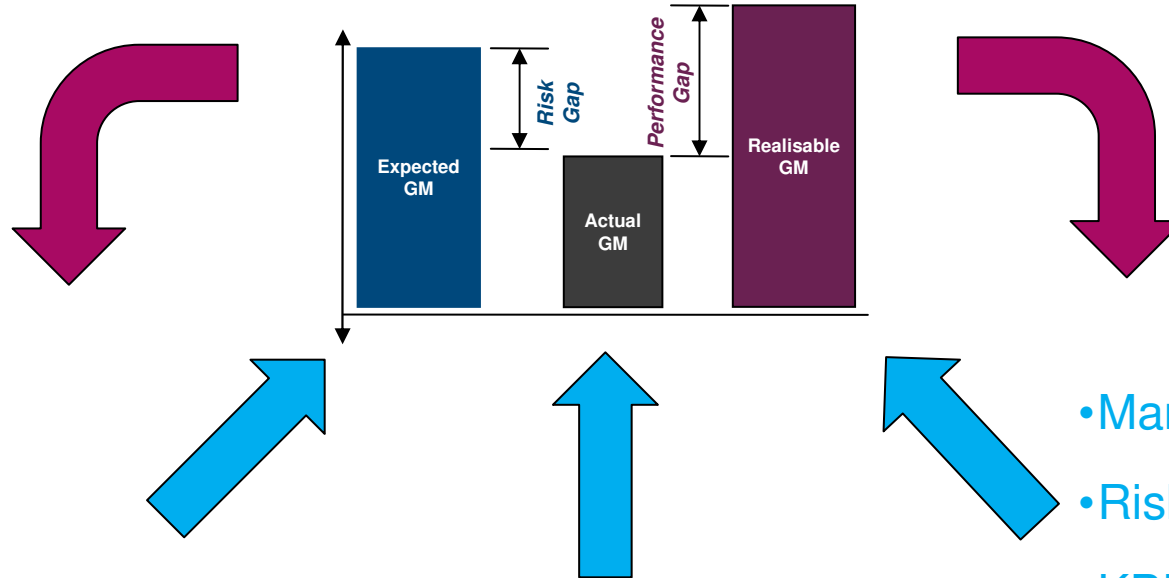


# Understanding Integrated Performance

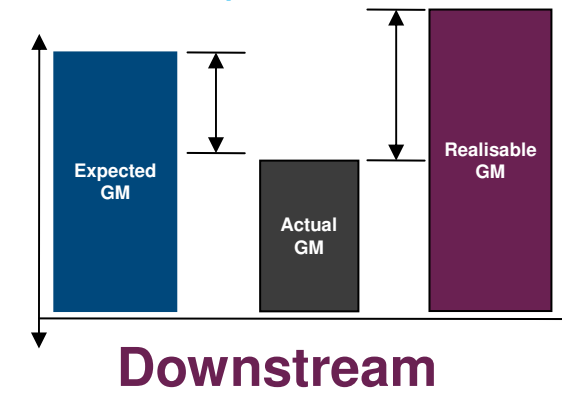
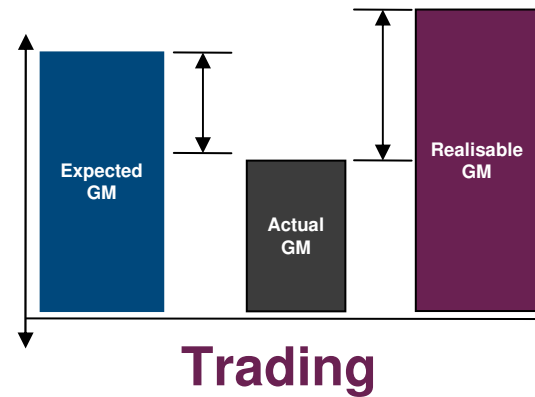
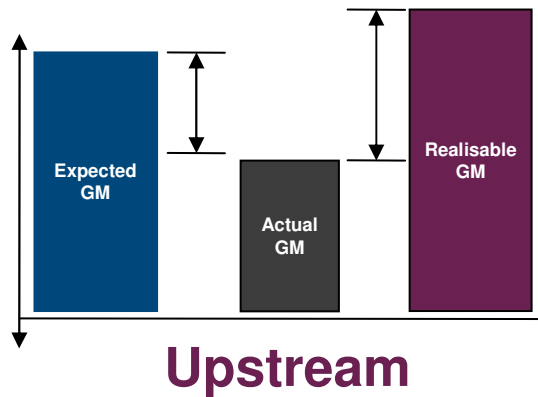


## Portfolio Wide

- Portfolio-adjusted margin & risk
- KPI design
- Targets



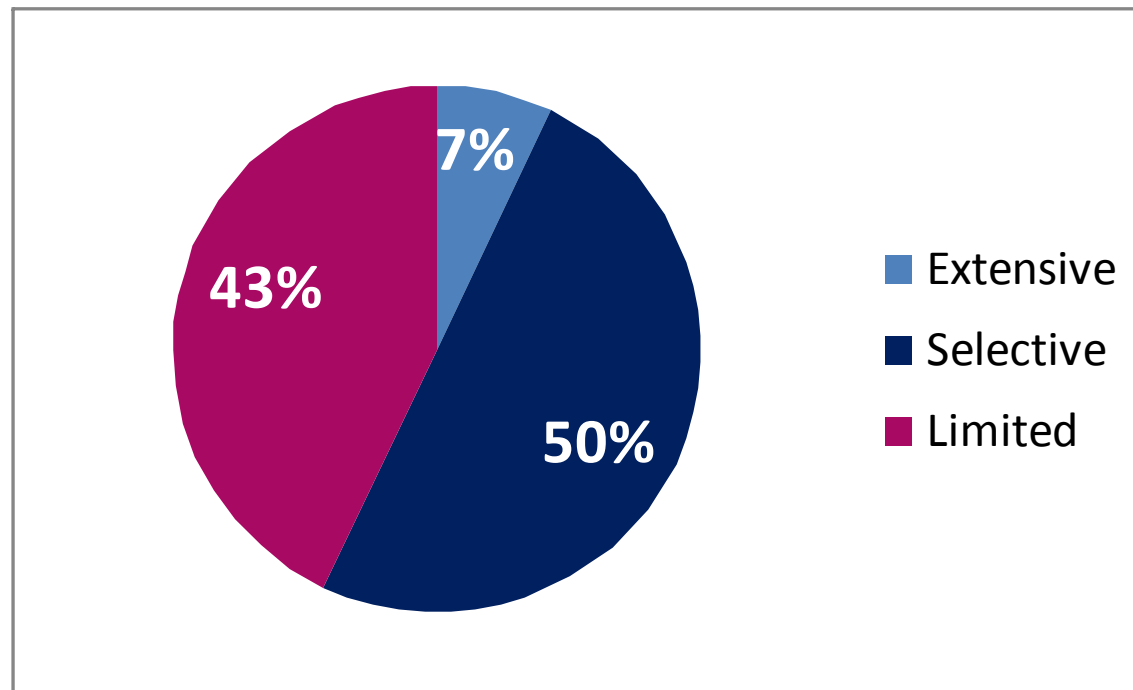
- Margin
- Risk
- KPI performance



# ▶ Managing gross margin *Performance Survey*



## 4. To what extent are upstream, traded and downstream portfolio elements co-optimised?



# ► Strategies for integrated thinking



## Operational independence

- Separate organisational units
- Interaction of each unit direct with market

## Conventional transfer pricing

- Separate organisational units
- Transfer prices static
- Limited sharing of information

## Progressive transfer pricing

- Separate organisational units
- Cross-portfolio oversight
- Transfer prices regularly reviewed
- Active sharing of information

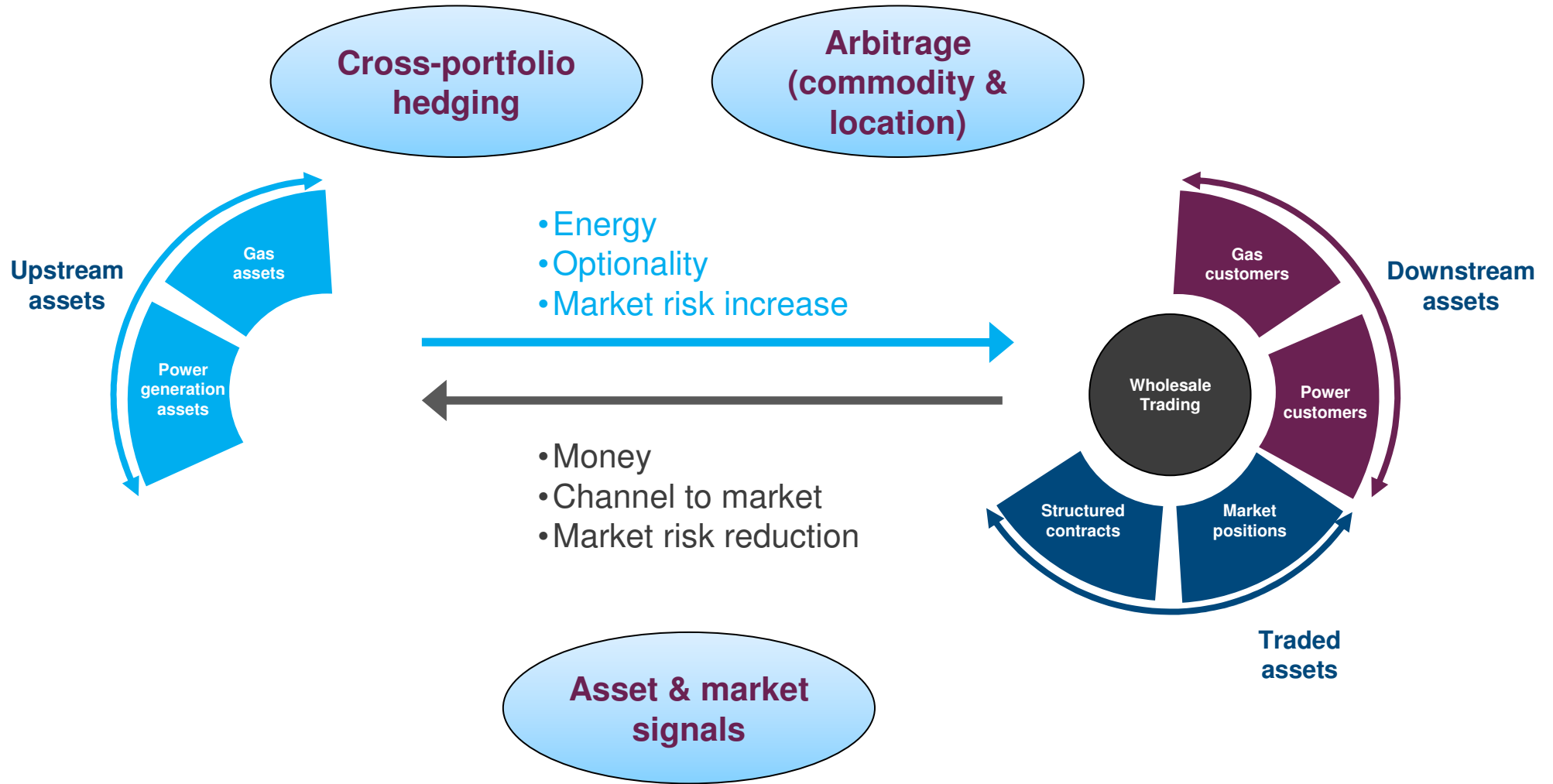
## Complete integration

- One organisational unit
- Single profit centre



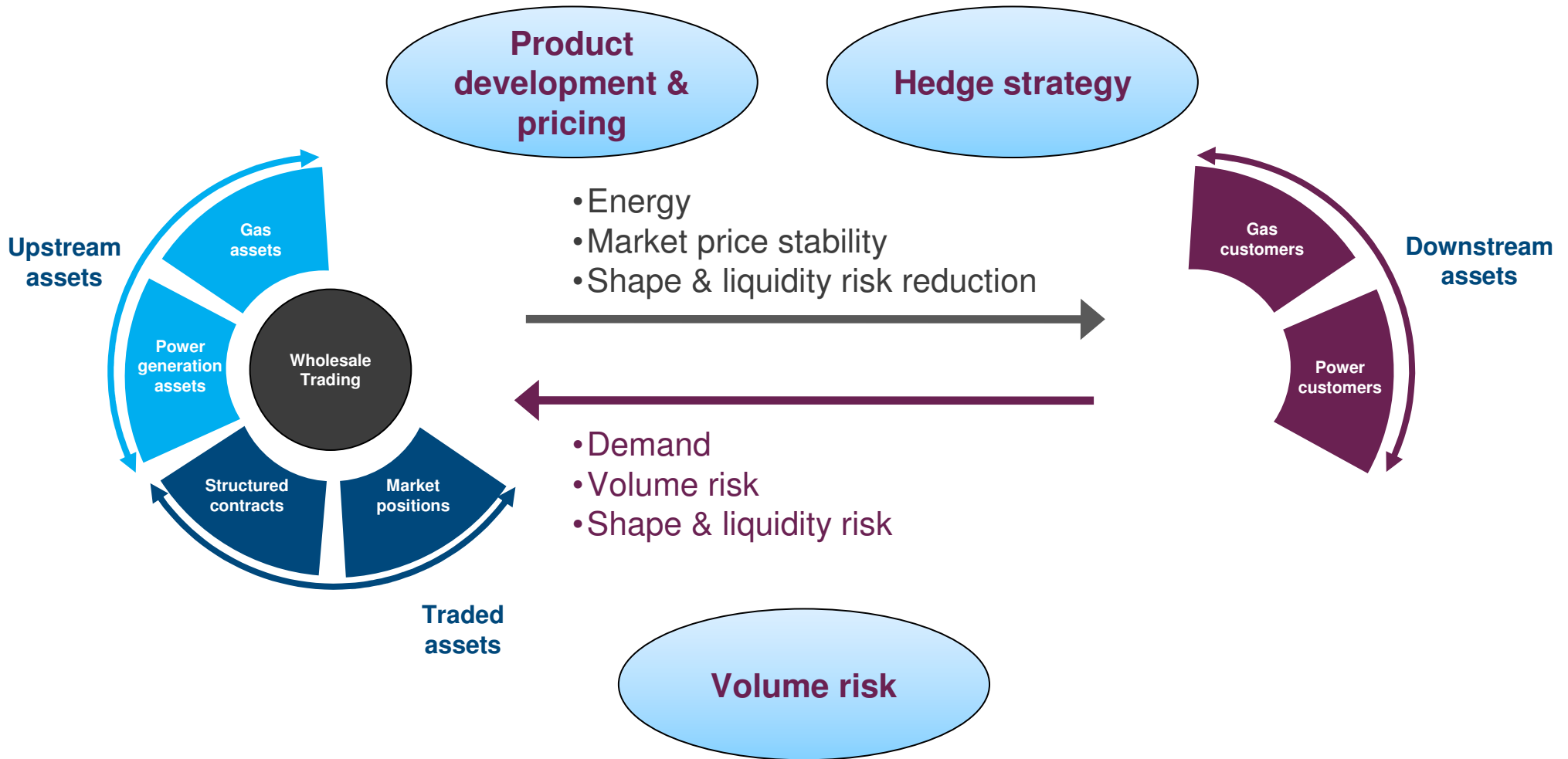
# Strategies for Integrated Thinking

## Upstream



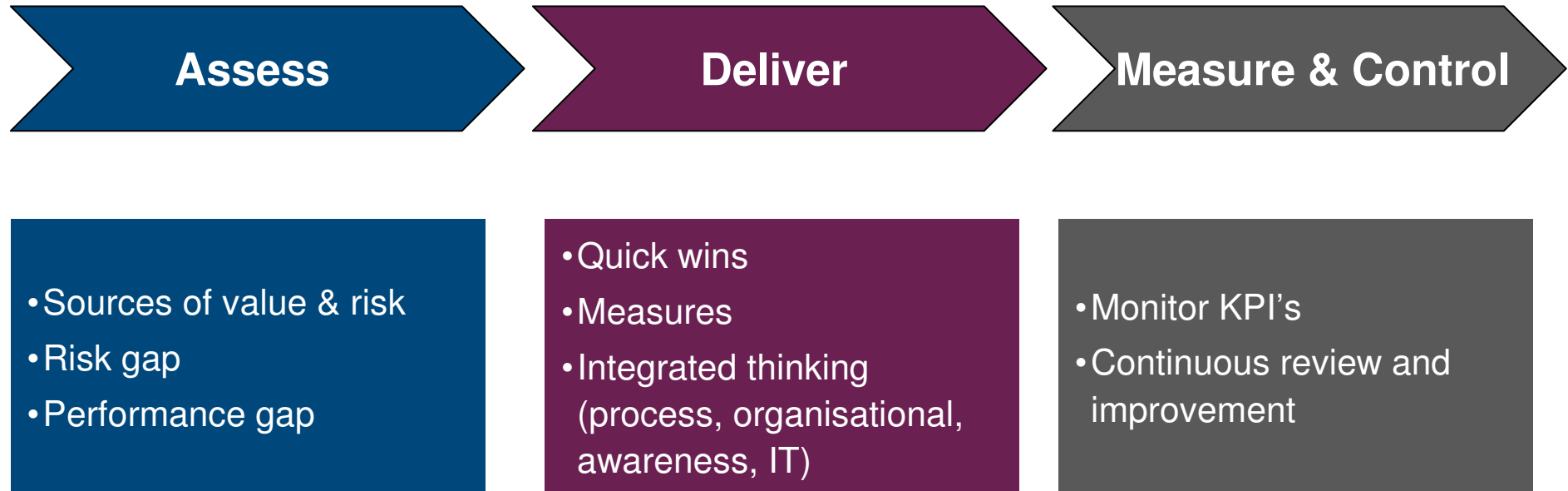
# Strategies for Integrated Thinking

## Downstream





# Making it happen





# Questions



# Baringa

Reputation built on Results