



ENHANCING JV HEALTH AND PERFORMANCE FOR MULTI-OWNER JV

THE CLIENT

- \$10BN downstream energy industry JV with 4 shareholders
- 4 shareholders, with mixture of backgrounds; no shareholder designated as operator

THE NEED

- Sustained operational underperformance
- View among shareholders that dysfunctional governance / shareholder interaction significant source of problems

OUR SOLUTION

- Conducted broad-based diagnostic of venture – across strategy and scope, financial arrangements, governance and org. issues
- “Sized the prize” – i.e., built the economic case for why shareholders should change / behave differently
- Brought benchmarking data and comparative practices to bear to underpin arguments and catalyze change
- Acted as independent outsider to facilitate senior shareholder discussions / drive agreement
- Redesigned key processes (e.g., annual target setting, capex review, succession planning,

Summary scores and Board-level recommendations

SUMMARY SCORES AND RECOMMENDATIONS	BENCHMARKING AND ASSESSMENT DATA	COMPARATIVE PRACTICES TO SUPPORT IMPLEMENTATION																												
<p><b>Overall summary score – underlying practices (100=ideal)</b></p> <p><b>1. Strategy and scope</b> 18 Possible score: 25</p> <p><b>2. Financial arrangements</b> 17 Possible score: 25</p> <p><b>3. Governance</b> 12 Possible score: 25</p> <p><b>4. Organization</b> 11 Possible score: 25</p>	<p><b>Summary recommendations</b></p> <ul style="list-style-type: none"> <li>• Clarify owner “philosophy” toward JV – e.g., “operate worldclass asset” vs. develop a real business (i.e., maximize P&amp;L), including sharp-edged implications</li> <li>• Move certain subscale admin. functions (e.g., purchasing, benefits management) out of JV and into Parent A</li> <li>• Raise JV CEO fiscal authority immediately to \$2M – and commit to additional increase contingent on performance</li> <li>• ID opportunities for non-operating partners to consolidate and coordinate CAPEX review processes / feasibility studies – e.g., coordinated site visits, data requests</li> <li>• Agree on rules for Board involvement – where to be “activist” vs. “participant” or “informed observer”</li> <li>• Consider bringing in Independent Director (as Chair) to drive performance management, coordinate 4 owners</li> <li>• Streamline number of subcommittees (currently 7 committees, 37 members, at 20-40% ~12 FTEs); retain only 2 as standing bodies</li> <li>• Streamline but formalize parent reporting – fewer <i>ad hoc</i> asks; standardize single monthly financial report and metrics acceptable to all shareholder (no exceptions)</li> <li>• Revisit seconded incentives and career management</li> <li>• Put in place “talent feeder” program such that JV has / pays for access to consistent flow of parent staff (sr. technical engineers and operators especially)</li> <li>• Reduce operational / HSE risks by allowing JV CEO to take more immediate action on issues</li> </ul>	<p>Illustrated in following exhibits</p> <p><b>Benchmarking data to support diagnostic and recommendations</b></p> <p><b>COMPARATIVE PRACTICES TO SUPPORT IMPLEMENTATION</b></p> <p><b>Priority levels</b></p> <p>% of annual operating budget*</p> <table border="1"> <tr><td>3.18</td></tr> <tr><td>3.33</td></tr> <tr><td>0.43</td></tr> <tr><td>1.79</td></tr> <tr><td>0.42</td></tr> <tr><td>0.10</td></tr> <tr><td>0.23</td></tr> <tr><td>0.74</td></tr> <tr><td>0.49</td></tr> <tr><td>0.13</td></tr> <tr><td>0.03</td></tr> <tr><td>1.90</td></tr> <tr><td>2.00</td></tr> <tr><td>0.91</td></tr> <tr><td>1.52</td></tr> <tr><td>0.63</td></tr> <tr><td>0.02</td></tr> <tr><td>0.02</td></tr> </table> <p><b>Profiles of comparative practices</b></p> <table border="1"> <thead> <tr> <th>Compensation (monthly)</th> <th>Impact on performance*</th> </tr> </thead> <tbody> <tr> <td>\$7,000</td> <td>○</td> </tr> <tr> <td>\$9,000</td> <td>○</td> </tr> <tr> <td>\$10,000</td> <td>●</td> </tr> <tr> <td>Honorarium (to charity): \$4,200 / month</td> <td>●</td> </tr> </tbody> </table>	3.18	3.33	0.43	1.79	0.42	0.10	0.23	0.74	0.49	0.13	0.03	1.90	2.00	0.91	1.52	0.63	0.02	0.02	Compensation (monthly)	Impact on performance*	\$7,000	○	\$9,000	○	\$10,000	●	Honorarium (to charity): \$4,200 / month	●
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	Joint Venture 13	Joint Venture 14	Joint Venture 15	Joint Venture 16	Pegasus	Joint Venture 18
Expansion, getting parent technical talent into the venture)	\$1.0M	\$1.0M	\$0.8M	\$0.5M	\$0.3M	\$0.1M
25 <sup>th</sup> percentile	1.0M	0.13				
Median	2.6M	0.43				
75 <sup>th</sup> percentile	5.0M	1.79				
Range	\$0.1-35.0M	0.002-3.000				

	Joint Venture 5	Joint Venture 6
significantly closer access	Related industry CEO	Mix – former industry regulator, business exec, politician
• No Board Director willing to spend 30-40 days per year on role	Rotation between parents	Each of 3 parents recommends; full Board approves
	Yes on select issues	Yes
	2 year non-renewable	TBD
	1-2 days per month	1-2 days per month
	\$7,500	TBD
But without such a voice and presence, JV CEO regularly receiving multiple conflicting messages from shareholders		