

PERFORMANCE OF PETROJAM LIMITED FOR FINANCIAL YEAR 2004/2005 AND FOCUS FOR FINANCIAL YEAR 2005/2006

1.0 Purpose of Ministry Paper

The purpose of this Ministry Paper is to present information on the performance of Petrojam Limited for the Financial Year 2004/2005 as well as a summary of the strategic focus, targets and programmes for the Financial Year 2005/2006.

2.0 Mission of Petrojam Limited

Petrojam's mission is to refine and supply petroleum products at internationally competitive prices and quality, acting in the best interest of Jamaica and all other stakeholders.

Petrojam's vision is to be the petroleum product supplier of choice - best at what we do.

2.1 Roles and Functions of Petrojam Limited

2.1.1 Refinery

The core business of Petrojam Limited is the operation of a thirty-six thousand (36,000) barrel a day oil refinery located on the Kingston Harbor. It is the only oil refinery in Jamaica.

Petrojam satisfies approximately eighty-five percent (85%) of the local non-bauxite petroleum demand in the country, through a mix of products refined from crude oil, and imported finished products. The total local non-bauxite demand is approximately 14.2 million barrels, of which Petrojam supplies 12.2 million barrels with the remaining 2.0 million barrels being supplied by the Multinational Marketing Companies (MMCs).

2.1.2 Shipping

A major division of Petrojam is its Shipping Division, which manages the vessels used in its marine operations. Petrojam currently owns one (1) vessel and charters others as required to effect movement of crude and finished products into the country. The vessels also make round island movements (RIM's) with products for JPSCo and other power companies, as well as to Petrojam's Montego Bay Terminal. The vessel owned by Petrojam is a barge, used primarily to deliver bunker fuel to ships calling in the Kingston Harbour.

2.1.3 JARS

Jamaica Aircraft Refueling Services (JARS) is a subsidiary of Petrojam Limited, being owned 50:50 with Air B/P. JARS supplies turbo fuel into-plane at the island's two international airports. This company ensures that Petrojam has an outlet for its turbo fuel independently of the MMCs.

Between 2000/2001 and 2003/2004 JARS's sales volume increased by an average annual rate of eighty-four percent (84%). This has resulted in an increase in Petrojam's local market share for Jet Fuel from forty-four percent (44%) in 2000 to seventy-eight percent (78%) in 2004.

2.1.4 Petrojam Ethanol Limited

Petrojam Ethanol Limited was established for the purpose of exporting dehydrated fuel grade ethanol into the United States of America, under the CBI legislation, which allows duty free access to that country. Since 2004, following the cessation of wine alcohol feedstock imports from the European Union, and termination of the tolling agreement with ED&F Man, a decision was taken to restart manufacture of ethanol at the Petrojam facilities, using Brazilian feedstock.

Rehabilitation work on the ethanol dehydration plant at Petrojam continues, with a projected date for the commissioning of the plant sometime in late May 2005.

Engineers from Brazil representing the investment partner and the plant manufacturer have been on site since November 2004 and other technical support from Brazil is expected throughout the project. The construction phase of the project has employed over forty-five (45) persons since commencement with nine (9) persons being non-residents in engineering, supervision and specialist roles. The local workers are comprised of a mixture of skilled and unskilled labour from various parts of the island including the local community.

2.1.5 Staffing

Employment of staff to fill the available posts for the plant operation commenced February 2005 and the full complement of eleven (11) persons were scheduled to be in place by March 1, 2005. A comprehensive training programme is scheduled for the staff during the period before start up.

2.1.6 Bunkering Operations

A joint venture with Chevron/Texaco for the supply of bunker fuel by barge to vessels in Kingston Harbour came into effect in April 2003. Petrojam supplied both ADO and HFO

bunker fuel, while Chevron/Texaco was responsible for the marketing aspect of the venture. This agreement was terminated on December 15, 2004.

Following the termination of this arrangement, Petrojam has since entered into an agreement to supply bunker fuels to vessels outside of the Kingston area to AGEAN Marine Petroleum SA Ltd. of Liberia through its local subsidiary AGEAN Bunkering Jamaica Ltd. The first delivery of fuel was made February 27, 2005.

3.0 PETROJAM TARGETS AND OBJECTIVES FOR 2004/2005

Profitability Targets

ITEMS	Target at Jan 05 Mil J\$	Actual (un-audited) YTD Jan 05 Mil J\$
Refinery Gross Margin	2,088	2,060
Other Operating Income	45	30
Admin and Operating Expenses	(1,225)	(1,166)
Other Operating Expenses	(548)	(656)
INCOME FROM OPERATIONS	360	268
Non-operating Income	224	155
PROFIT/(LOSS) Before Tax	584	423
Taxation	(195)	(141)
NET PROFIT/ (LOSS)	389	282
Sales Volume	12,523 kbbls	11,741 kbbls

4.0 PERFORMANCE HIGHLIGHTS FOR FINANCIAL YEAR 2004/2005

The year 2004/2005 was a very challenging one for the Petrojam refinery. Of significance is the very low service factor experienced, arising from two main events:

- Longer than planned shutdown for maintenance and instrumentation project tie-ins during August-September 2004, and
- Explosion of T-6 tower on October 27, 2004. The refinery has been shut down since then, and is not expected to be back in operation until May 2005.

A number of other performance parameters were affected as a result of the extended downtime. These include:

- Lower than budgeted refinery gross margin due to increased importation of finished products
- Lower than planned export volumes
- Higher than planned maintenance expenses
- Lower productivity ratio (actual crude throughput: target throughput)

Notwithstanding the adverse impacts cited above, good performance was achieved in other areas. These include:

- Increase in market share.
- Oil loss contained below the maximum limit
- Past due receivables contained within the maximum limit
- Lower than budgeted administrative expenses

5.0 Update on Refinery Upgrade Project

In August 2004, Cabinet considered the proposed upgrading of the Petrojam refinery and gave its approval to proceed with the project. Since then, a number of activities have taken place to advance the project. These include:

5.1 Selection of Financial Advisor/Lead Arranger

Eighteen (18) firms responded to the invitation to pre-qualify, and six (6) were short-listed. Proposals were subsequently received from three (3) of the six (6), and Petrojam is now in the process of making the final selection.

5.2 Discussions with PDVSA regarding PetroCaribe

Since November 2004, Petrojam has been in discussions and exchange of information with PDVSA (the national oil company of Venezuela), regarding its potential equity participation in the Petrojam refinery. The project economics were updated at the request of PDVSA, with the inclusion of the particular crude the Venezuelan entity would wish for Petrojam to process in the upgraded refinery. A Letter of Intent (LOI) was signed between the Governments of Jamaica and Venezuela under the umbrella of the PetroCaribe initiative in February 2005, signaling Venezuela's formal intention to seriously explore the potential for its participation in Jamaica's energy industry, including the Petrojam refinery, retail marketing of petroleum products, and oil and gas exploration.

Petrojam and PDVSA are now engaged in undertaking various analyses/evaluations, with a view to PDVSA making a final decision regarding its investment in the Petrojam refinery. PDVSA has indicated that assuming the results of the evaluations are positive; their participation is likely to be in the order of fifty percent (50%).

Some of the evaluations to be undertaken include:

- Selection of upgrade option
- Refining of capital cost estimates
- Market studies for the export streams
- Refinery inspection
- Crude test run

- Evaluation of the processability impact of the crude on the refinery
- Determination of the business structure under which PDVSA would participate.

A time frame of three (3) months has been proposed for concluding the evaluations, following which PDVSA will advise whether it intends to invest in the refinery.

5.3 Delayed Coker Project

The Interplan Consulting Group (consisting primarily of ex-Foster Wheeler staff) has independently been pursuing the development of a Delayed Coker project for the Petrojam refinery. This group has assembled a team including potential crude suppliers and product off-takers, as well as a financial advisor, and have put together a SPV structure for financing of the project, using a combination of equity by Petrojam, off-take financing, and financing from the U.S. Ex-Im Bank.

The group has made a number of presentations to me and I am currently awaiting the advice of the Petrojam Board as to how to proceed.

5.4 Other Expressions of Interest

A number of offers or expressions of interest have been received from various companies interested in participating in the refinery upgrade project, whether to provide financing, EPC service, financial advice or other inputs. All of these are being looked at with a view to assembling the optimum mix of options for the project, to achieve cost effectiveness while ensuring transparency.

6.0 Performance in Key Result Areas

TABLE 6.1 LONG TERM SURVIVAL

KEY RESULT AREA	GOAL	PERFORMANCE MEASURES
LONG TERM SURVIVAL	To ensure the continued viability of retaining refining capacity in Jamaica, and secure Petrojam's position as the leading and least-cost supplier of petroleum products to the local market.	Project Milestones achieved
Major Achievements: <ul style="list-style-type: none"> ▪ Feasibility Study completed for refinery upgrade project. Obtained Cabinet approval to proceed ▪ Work in progress with PDVSA with a view to obtaining its participation in the project. ▪ Instrumentation upgrade completed and commissioned 		

TABLE 6.2 MARKET GROWTH

KEY RESULT AREA	GOAL	PERFORMANCE MEASURES	TARGET 2004/05	ACTUAL YTD JAN 2004/05
MARKET GROWTH	To consolidate existing market share and aggressively pursue opportunities for increasing local market share as well as export markets	1. Local Market Share (%) 2. Export Volume (000 barrels)	85.9% 2826	85.2%est 1697
<p>Major Achievements:</p> <ul style="list-style-type: none"> ▪ Emulsion Asphalt plant commissioned ▪ Obtained contract to supply second phase of Highway 2000 project with asphalt ▪ Increase in market share for Jet Fuel Signed new supply agreement for sale of bunker fuel 				

TABLE 6.3: CUSTOMER CARE

KEY RESULT AREA	GOAL	PERFORMANCE MEASURES	TARGET 2004/05	ACTUAL YTD JAN 2004/05
CUSTOMER CARE	To continuously satisfy customers through anticipating their needs, and responding to their concerns in an effective and timely manner.	1. Delivery Downtime (supply days down) 2. Customer Satisfaction Index	0 days 80	7 days 78%
<p>Major Achievements:</p> <ul style="list-style-type: none"> ▪ New LPG sphere project to be completed in early 2005. This should improve the timeliness of LPG supplies. ▪ Designs completed for replacement of 20" crude pipeline to the dock ▪ Process Hazard Analysis completed for relocation of HFO loading facilities ▪ Investigation completed for use of floating hoses in the event Petrojam dock is unavailable ▪ Laboratory Management Information System scheduled to be completed in early 2005. 				

TABLE 6.4: FINANCIAL RESOURCE MANAGEMENT

KEY RESULT AREA	GOAL	PERFORMANCE MEASURES	TARGET 2004/05	ACTUAL YTD JAN 2004/05
FINANCIAL RESOURCE MANAGEMENT	To make the most cost effective use of the company's financial resources in supporting the essential business processes, while maintaining cash flow and profitability	1. Maintenance Expenses (US\$/bbl sales)	0.196	0.21
		2. Other Operating and Admin. Expenses (US\$/bbl sales)	1.408	1.407
		3. Past due receivables	5% max	5%
Major Achievements: <ul style="list-style-type: none"> ▪ Ongoing variance analysis of expenses to highlight areas that can be improved ▪ Upgrade of SAP system in progress ▪ SAP training for all managers completed ▪ Significant improvement in the collection of outstanding receivables ▪ Analysis of factors leading to high manning vs. benchmark peers completed 				

TABLE 6.5: SUPPLY CHAIN MANAGEMENT

KEY RESULT AREA	GOAL	PERFORMANCE MEASURES	TARGET 2004/05	ACTUAL 2004/05
SUPPLY CHAIN MANAGEMENT	To minimize procurement costs, and maximize the utilization and efficiency of the refinery production facilities within design and economic constraints	1. Unit gross margin (US\$/barrel)	3.77	2.85
		2. Operational Availability (% service factor)	95.0	45.3
		3. Productivity (%)	98	80%
		4. Asphalt Unit capacity Utilization (BPCD)	616	251
		5. Oil Loss (% loss on sales)	0.5%	0.49%
		6. Energy Intensity Index	100 max	106.7

Major Achievements:

- New air compressor being installed to improve reliability of instrument air system
- Eighty-five percent (85%) completion of project to solve frequent small pipe fitting leaks
- Leaking exchangers being addressed
- Increased inspection of underground pipelines in progress.
- Computerized oil loss monitoring system in progress
- Hardware installation for fuel metering project completed. This project should improve monitoring and hence reduction of fuel use.

TABLE 6.6: HEALTH, SAFETY AND ENVIRONMENTAL COMPLIANCE

KEY RESULT AREA	GOAL	PERFORMANCE MEASURES	TARGET 2004/05	ACTUAL YTD JAN 2004/05
HEALTH, SAFETY AND ENVIRONMENTAL COMPLIANCE	To eliminate all unsafe conditions, and to mitigate all aspects of the company's operations that have a negative impact on worker health and the environment	1. Safety Index	125	5
		2. Environmental Compliance	50% min	33%
Major Achievements: <ul style="list-style-type: none"> ▪ Oil spill response equipment upgrade completed ▪ Design completed for firewater system upgrade in Montego Bay ▪ Monthly publishing of safety and environment information in company newsletter ▪ Significant progress made in remediation of sludge ponds ▪ Plan being developed to address safe disposal of obsolete chemicals ▪ Achieved compliance with new ISPS requirements for port and vessel security 				

TABLE 6.7: HUMAN CAPITAL

KEY RESULT AREA	GOAL	PERFORMANCE MEASURES	TARGET 2004/05	ACTUAL YTD JAN 2004/05
HUMAN CAPITAL	To create a dynamic work environment characterized by high levels of employee productivity and participation.	1. Employee Satisfaction Index	80%	50%
<p>Major Achievements:</p> <ul style="list-style-type: none"> ▪ Employee handbook finalized and distributed ▪ Job evaluation update completed ▪ MPT/OCS focus group established ▪ Seventy percent (70%) completion of Training Manual ▪ Certification programme for internal training in place ▪ Programme in place to evaluate training effectiveness 				

7.0 STRATEGIC DIRECTION FOR 2005/06

The future viability of the Petrojam refinery must be actively pursued in order to ensure security of supply for the nation's energy needs. In this regard all efforts are being made to implement the first phase of the refinery upgrade that will see a conversion of Heavy Fuel Oil (HFO) into higher valued products such as vacuum gas oil for export. This will be in keeping with global market trends which have resulted in many refineries making conversion investments.

There are a number of emerging issues that will be closely monitored as they may present challenges or opportunities for Petrojam Limited. These include:

- The proposed implementation of the PetroCaribe initiative which presents an opportunity to increase market share and downstream competition as well as to offer capital for the refinery upgrade project
- Introduction of LNG into the market for JPSCo and the Bauxite/Alumina companies
- The approaching FTAA negotiations which may see the removal of the Common External Tariff (CET) on imported petroleum products and subsequent increased competition from regional suppliers by 2006/2007.

- The phase out of MTBE as an octane enhancer by the United States over the period 2004-2007, which is expected to affect its availability and price for importers such as Jamaica.
- Increasingly stringent fuel product specifications worldwide, which could see regional specifications converging with the U.S. specifications by 2010. Any requirement to adhere to these specifications will likely require significant technological upgrades to the existing processing facility.
- Intense competition in the regional markets, which requires the Petrojam refinery to make the structural changes necessary for maximizing capacity utilization, optimizing the product mix and flattening the cost structure in order to close the benchmarking gaps between Petrojam and its regional counterparts.

The proposed upgrade of the refinery is expected to address most of the challenges identified above. This upgrade project was approved by the Government in August 2004, and efforts are underway to secure financing for the project, concurrent with development of the basic engineering design.

8.0 Strategic Objectives and Major Projects

Table 8.1 below lists the strategic objectives for the next three (3) fiscal years, and the associated strategic initiatives that will be pursued to achieve the objectives. A list of the major capital projects for 2005/2006 is outlined in Table 8.2 following.

Table 8.1: Strategic Objectives and Main Strategic Initiatives

KEY RESULT AREA	STRATGIC OBJECTIVES	MAIN STRATEGIC INITIATIVES
Long Term Survival	<ul style="list-style-type: none"> • Increase Refinery Gross Margin Ratio from the current 7% average to 14% after the refinery upgrade in 2008. • Improve position of benchmark performance indices by at least one quartile, and achieve at least a 50% reduction in the Operating Expense gap, by 	<ul style="list-style-type: none"> • Implement the Refinery Upgrade Project • Accelerate the deployment of the Maintenance Management Program to improve operational availability and reduce maintenance expenses, and implement projects identified under the Cost Reduction Initiative. • Implement ISO quality

KEY RESULT AREA	STRATGIC OBJECTIVES	MAIN STRATEGIC INITIATIVES
	2006/2007. <ul style="list-style-type: none"> • Achieve full ISO quality certification for the refinery by 2007/2008 	assurance programs for the lab, production facilities and for environmental management.
Market Growth	<ul style="list-style-type: none"> • Achieve and maintain local market share at a minimum of 85% starting 2005 • Achieve Export Volume of 2.5 million barrels by 2004/2005 and 7.7 million barrels after 2008/2009 	<ul style="list-style-type: none"> • Differentiate the LPG market, promote 87 Octane gasoline, secure long term contracts with customers. • Maintain JARS market share at 50% of the turbo fuel market, expand bunkers, implement the refinery upgrade project
Customer Care Enhancement	<ul style="list-style-type: none"> • Achieve and maintain a minimum Customer Satisfaction Index of 85% from 2005 	<ul style="list-style-type: none"> • Achieve ISO 17025 certification for the laboratory, investigate extended opening hours.
Supply Chain Management	<ul style="list-style-type: none"> • Achieve and maintain a service factor of greater than 95% outside of planned shutdowns from 2005 • Achieve and maintain delivery downtime index of zero supply days down, from 2005 • Achieve and maintain a Productivity ratio of actual crude to target crude run of 98% from 2005 	<ul style="list-style-type: none"> • Continue preventative/predictive maintenance program, develop a “10 bad actors” process for addressing reliability issues. Implement options for reliable power generation. • Commission new LPG Sphere, Relocate the Bunker Blending facilities • Implement projects aimed at minimizing process slowdowns

KEY RESULT AREA	STRATGIC OBJECTIVES	MAIN STRATEGIC INITIATIVES
	<ul style="list-style-type: none"> • Maintain Oil loss at less than 0.5% on input • Maintain Energy Intensity Index (EII) at less than 100 	<p>and reprocessing.</p> <ul style="list-style-type: none"> • Appoint full time Oil Loss Coordinator, continue tank repair program • Install oxygen analyzers in major furnaces
Financial Resource Management	<ul style="list-style-type: none"> • Reduce Maintenance Expenses by at least 5% p.a. • Reduce Other Operating and Administrative Expenses by at least 5% p.a. • Maintain past due receivables below 5% throughout the year. 	<ul style="list-style-type: none"> • Continue preventative/predictive maintenance program, and develop a “10 bad actors” process for addressing reliability issues. • Monitor department budget variances continuously, implement projects identified under the Cost Reduction Initiative • Implement bi-weekly invoicing, enforce credit terms
Safety and Environment Compliance	<ul style="list-style-type: none"> • Achieve and maintain a minimum Safety and Industrial hygiene Index of 100, with a 10% p.a. reduction in the number of incidents. <p>Achieve minimum compliance of 50% with NEPA standards by 2005, and 100% by 2008/9.</p>	<ul style="list-style-type: none"> • Install fire and gas detectors, conduct simulations and drills as per schedule, implement fire response system upgrades • Complete evaluation of options for treating waste water, finalize air quality action plan
Human Capital Development	<ul style="list-style-type: none"> • Achieve and maintain Employee Satisfaction 	<ul style="list-style-type: none"> • Formalize training needs analysis, upgrade Technician

KEY RESULT AREA	STRATGIC OBJECTIVES	MAIN STRATEGIC INITIATIVES
	<p>Index of 80% minimum from 2005.</p> <p>Provide a minimum of 40 hours training per employee per year</p>	<p>progression system to include certification program</p>
Organizational Effectiveness	<ul style="list-style-type: none"> • Achieve 90% of maximum rating in all performance measures by 2005 onwards. 	<ul style="list-style-type: none"> • Implement identified projects to improve business processes in various departments, implement compliance audit schedule.

Table 8.2: Summary of Major Capital Projects for 2005/2006

MAJOR PROJECTS		INVESTMENT REQ'D (Est.)	EXPECTED BENEFIT/IMPACT
1	Basic Engineering for the Refinery Upgrade Project	US\$ 2 million	The refinery upgrade project will enhance competitiveness of the refinery and secure long term viability
2	Implement alternative dock options	J\$ 31 million	Reduced vulnerability to risk factors that impact on supply reliability. Also should significantly reduce demurrage expenses.
3	Expand asphalt production capacity and storage	J\$ 27 million	Increased export volumes
4	Replace pipestill sidestream pumps	J\$ 35.6 million	Upgraded plant equipment to ensure continued processing capability
5	Major maintenance replacement equipment programme	J\$ 140 million	Sustaining capital requirements for refining plant facilities and storage tanks
6	Evaluate options for providing reliable power supply including 69KV system and refurbish/replace GTG	J\$ 95 million	Improved reliability of power supply
7	Relocate Bunker Blending Facilities	J\$ 19 million	Greater reliability of product supply to meet customer requirements
8	Replace 20" crude line to the docks	J\$ 17.6 million	Greater reliability of supply infrastructure
9	Implement new sprinkler system and foam dispenser	J\$ 9.5 million	Improvements to emergency response systems
10	Implement refinery firewater system upgrade	J\$ 14.4 million	Improvements to emergency response systems
11	Implement upgraded drainage system at the refinery	J\$ 30 million	Improvements to physical facilities
12	Implement open office plan in Administration Building	J\$ 17 million	Improvements to physical facilities
13	Complete upgrade/migration to new SAP version and implement S&D module	J\$ 19.8 million	Improved efficiency and effectiveness of business process

9.0 MAIN PERFORMANCE TARGETS FOR FINANCIAL YEAR 2005/2006

Below is a summary of the main performance targets.

TABLE 9.1: PERFORMANCE INDICATORS AND TARGETS

Performance Indicator	Performance Target (2005/2006)
Local Market Share	87.3%
Export Volume	2028 Kbbbls
Customer Satisfaction	80% minimum
Delivery Downtime	0 Days
Refinery Service Factor	84.1% minimum
Productivity	98% minimum
Asphalt Unit Capacity Utilization	616 BPCD minimum
Unit Gross Margin	US\$ 3.26/barrel
Oil Loss	0.5% max on Input
Energy Intensity Index	100 maximum
Maintenance Expense	US\$ 0.13/bbl maximum
Other Operating And Admin. Expense	US\$1.54/bbl maximum
Past Due Receivables	5% maximum
Safety Index	100 minimum
NEPA Compliance	50% minimum
Employee Satisfaction Index	80%
Overall Corporate Performance	TARGET 100% of maximum rating in all measures

10.0 BUDGET

Table 10.1 shows actual financial performance for 2004/05 and projection for 2005/06.

TABLE 10.1: BUDGET FOR FINANCIAL YEARS 2004/2005 & 2005/2006

ITEMS	2005/2006 J\$M	2004/2005 J\$M
Refinery Gross Margin	3,104	2,506
Other Operating Income	61	55
Admin and Operating Expenses	(1,590)	(1,471)
Other Operating Expenses	(1,036)	(658)
INCOME FROM OPERATIONS	538	432
Non-operating Income	130	370
PROFIT/(LOSS) Before Tax	605	701
Taxation	(202)	(234)
NET PROFIT/ (LOSS)	403	468
Sales Volume	15,359 kbbls	15,027 kbbls

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