

MINISTRY PAPER NO. _____

**PERFORMANCE OF PETROJAM LIMITED FOR FINANCIAL YEAR 2005/2006 AND
FOCUS FOR FINANCIAL YEAR 2006/2007**

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 2005/2006 as well as a summary of the strategic focus, targets and programmes for the Financial Year 2006/2007.

2.0 Mission and Vision

Petrojam's mission is to refine and supply petroleum products at internationally competitive prices and quality, acting in the best interest of its customers, other stakeholders and Jamaican society in general.

Petrojam's vision is to be the petroleum product supplier of choice and be best at what it does.

3.0 Roles and Functions of Petrojam Limited

3.1 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 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 Multinational Marketing Companies (MMC's).

3.2 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 tug/barge, used primarily to deliver bunker fuel to ships calling in the Kingston Harbour.

In December 2005 Petrojam entered into a time-charter agreement with Aegean Shipping, the company took delivery of the MT KINGSTON at Kingston at the end of February 2006. This vessel will primarily be engaged in the transportation of fuel oil to JEP, JPSCO and JPPC. It will also be available for short spot charters.

3.3 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 MMC's.

From 2000/2001 to 2004/2005 JARS' market share grew by 17.5%, increasing from 31.9% in 2001 to 49.4% in 2005. This has resulted in an increase in Petrojam's local market share for Jet Fuel from forty-four percent (44%) in 2000 to seventy percent (70%) in 2005.

3.4 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 for fuel grade ethanol 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 manufacturing of ethanol at the Petrojam facilities, using Brazilian feedstock.

In 2004 a corporate partnership arrangement between Petrojam Ethanol and COIMEX of Brazil resulted in the resumption of ethanol production by Petrojam Ethanol.

The arrangement involves the refurbishing of the ethanol plant with enhanced processing technology, installation of new ethanol storage facilities and acquisition of Brazilian feedstock for processing in the new plant. The ethanol plant was commissioned in September 2005 and officially opened in November 2005.

The plant is being operated at approximately 90% capacity, and since commissioning, Petrojam Ethanol has shipped 70 million litres of ethanol to the U.S.A.

The Ministry has mandated the use of ethanol in gasoline in the Jamaican market by 2008. To this end Petrojam has been directed to carry out the research work necessary to determine the ethanol blend in gasoline, which would be most suitable for Jamaica's transportation fleet. A pilot project was rolled out in May 2006, involving motor vehicles from the PCJ Group and the MITEC, using ethanol blended gasoline.

Additionally it is planned to encourage the use of ethanol produced from local sugar cane, as this will provide assurance of supply availability in the medium to long term, and will also benefit Jamaica's sugar industry, by opening new markets for sugar cane products grown and manufactured by the local industry.

Petrojam Ethanol is staffed by a full complement of eleven (11) persons; eight (8) Operators; a General Manager; an Administrative Assistant and a Production Supervisor.

3.6 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 for vessels outside of the Kingston area to AGEAN Marine Petroleum SA Ltd. of Greece through its local subsidiary AGEAN Bunkering Jamaica Ltd.

4.0 Petrojam Targets and Objectives for Financial Year 2005/2006

Table 4.1 Profitability Targets

Items	Target at Mar. 06 J\$M	Actual (un-audited) YTD Mar. 06 J\$M
Refinery Gross Margin	3,104	3,849
Other Operating Income	61	96
Admin and Operating Expenses	(1,591)	(2,169)
Other Operating Expenses	(1037)	(1237)
INCOME FROM OPERATIONS	538	539
Non-operating Income	67	(103)
PROFIT/(LOSS) Before Tax	605	436
Taxation	(202)	(145)
NET PROFIT/ (LOSS)	403	290
Sales Volume	15,359 kbbls	16,326 kbbls

5.0 Performance Highlights for Financial Year 2005/2006

The year 2005/2006 was a very challenging one for the Petrojam refinery. Significantly, the refinery experienced a low service factor primarily due to the explosion of T-6 tower on October 27, 2004. The refinery had been shut down since then, and did not resume operations until June 2005.

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

- Higher than planned maintenance expenses
- Higher than planned demurrage expenses
- Lower productivity ratio (actual crude throughput to: target throughput)
- Low Refinery Service Factor

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

- Higher than planned sales volume, driven primarily by higher than planned export volumes, due primarily to sales of bunkers to Aegean, and sales of ADO to bauxite companies.
- Improved supply reliability of LPG with the commissioning of the new storage facilities
- Oil losses contained below the target maximum of 0.5%
- Past due receivables contained within the maximum limit
- Improved safety record over the previous year primarily in number of lost time incidents, and lower cost of incidents.

6.0 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:

6.1 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). Following selection of one of the proposals and having this recommendation approved by the National Contracts Commission (NCC), Cabinet subsequently directed that the Financial Advisor and Lead Arranger aspects be separated and further, that the Ministry of Finance and Planning should provide the advisory services. Petrojam is now in the process of agreeing an approach with the MOFP.

6.2 Process Scheme and Project Development

In August 2005, the process scheme for the refinery upgrade was agreed on between Petrojam and PDVSA, the Venezuelan counterpart to Petrojam. The following are the major facilities agreed upon for Phase 1 of the project, which forms the basis for the engineering studies which are currently underway:

- Expand the crude throughput from 35 to 50 KBPD
- Install a new CCR Reformer to expand the gasoline production to 7.5 KBPD
- Install a new diesel hydrotreater to produce ADO with sulphur less than 50 parts per million (ppm)
- Install a new vacuum unit to reduce the proportion of heavy fuel oil produced, while producing vacuum gas oil for export
- Install a new visbreaker, which will convert a proportion of the heavy fuel oil into more valuable components (clean fuel).

In January 2006, after a thorough pre-qualification and tender selection process, Cabinet approved the recommendation of the NCC for the selection of SNC-Lavalin of Canada, as the consulting engineering firm to carry out the Front End Engineering Design (FEED) study for the refinery upgrade project. The (FEED) study is expected to be completed in February 2007, following which the project economics will be updated and the EPC works begun. Project completion is expected in the second quarter of 2009.

6.3 Equity Participation of PDVSA in the Refinery

Petrojam and PDVSA are concurrently engaged in various due diligence exercises, including a valuation of the refinery. This is expected to be completed by the end of June 2006. PDVSA has previously indicated that it would like its equity participation in the Petrojam refinery to be in the order of fifty percent (50%). No agreement has been reached regarding the equity participation as negotiations are ongoing.

7.0 Performance in Key Result Areas

Table 7.1 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. Commissioning expected 2 nd quarter 2009.
Major Achievements: <ul style="list-style-type: none"> ▪ Refinery upgrade project in advanced state of development. FEED study currently being executed, additional land purchased, and due diligence continues with PDVSA with a view to obtaining its participation in the project. ▪ Instrumentation upgrade completed and commissioned 		

Table 7.2 Market Growth

Key Result Area	Goal	Performance Measures	Target 2005/06	Actual YTD Mar. 2005/06
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% 2028	85.8% 4200
Major Achievements: <ul style="list-style-type: none"> ▪ Continued growth in market share of Turbo fuel, ADO, and asphalt ▪ Agreement signed with Aegean Marine to supply fuel for bunkers – approximately 166,000 barrels per month ▪ Obtained un-anticipated supply agreement with Bauxite companies for ADO supply 				

Table 7.3: Customer Care

Key Result Area	Goal	Performance Measures	Target 2005/05	Actual YTD Mar 2005/06
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%	4 days To be measured
<p>Major Achievements:</p> <ul style="list-style-type: none"> ▪ Commissioning of new LPG Sphere which has so far eliminated supply disruptions ▪ Project to install single-point mooring facilities for JPPC in construction. This will improve the efficiency of delivery to this customer, and lower transportation costs. ▪ Establishment of a Customer Relations Unit in the Logistics and Marketing Department 				

Table 7.4: Financial Resource Management

Key Result Area	Goal	Performance Measures	Target 2005/06	Actual YTD Mar. 2005/06
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) 2. Other Operating and Admin. Expenses (US\$/bbl sales) 3. Past due receivables	0.13 1.54 5% max	0.365 1.73 2%
<p>Major Achievements:</p> <ul style="list-style-type: none"> ▪ Repaired and commissioned Reverse Osmosis Unit which has reduced purchased water expenses ▪ Significant improvement in the collection of outstanding receivables 				

Table 7.5: Supply Chain Management

Key Result Area	Goal	Performance Measures	Target 2005/06	Actual Mar. 2005/06
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) 2. Operational Availability (% service factor) 3. Productivity (%) 4. Asphalt Unit Capacity Utilization (BPCD) 5. Oil Loss (% loss on sales) 6. Energy Intensity Index	3.26 84.0 98 616 0.5% 100 max	3.72 60.7% 86.1% 0 0.26% 104.5
Major Achievements: <ul style="list-style-type: none"> ▪ Completed project to solve frequent small pipe fitting leaks ▪ Repaired and commissioned Desalter 				

Table 7.6: Health, Safety and Environmental Compliance

Key Result Area	Goal	Performance Measures	Target 2005/06	Actual YTD Mar. 2005/06
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 2. Environmental Compliance	100 min 50% min	60 22%
<p>Major Achievements:</p> <ul style="list-style-type: none"> ▪ Oil spill response equipment upgraded ▪ Acquired state of the art gas and heat stress monitors for measuring personnel exposure to hazardous chemical ▪ Effected safe disposal of obsolete chemicals ▪ Achieved or maintained compliance with new International Shipping and Port Security (ISPS) requirements for port and vessel security through conducting a comprehensive security drill involving external agencies ▪ Completed policy documents for (3) major elements of the Process Safety Management (PSM) program ▪ Obtained re-certification of fire truck to meet all National Fire Prevention Agency (NFPA) requirements 				

Table 7.7: Human Capital

Key Result Area	Goal	Performance Measures	Target 2005/06	Actual YTD Mar 2005/06
Human Capital	To create a dynamic work environment characterized by high levels of employee productivity and participation.	<ol style="list-style-type: none"> 1. Employee Satisfaction Index 2. Training hours per employee 	<p>80%</p> <p>40 hours avg. min</p>	<p>To be determined</p> <p>47 hours avg.</p>
<p>Major Achievements:</p> <ul style="list-style-type: none"> ▪ Zero industrial dispute or work stoppage ▪ Documentation of Mentoring and Coaching Programme ▪ Partnered with BP Whiting Refinery to provide training to some senior employees ▪ Training hours exceeded minimum target 				

8.0 Strategic Direction for Financial Year 2006/2007

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 similar 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 implementation of the PetroCaribe initiative which presents an opportunity to offer capital for the refinery upgrade project
- Introduction of LNG into the market for JPSCo and the Bauxite/Alumina companies
- Lobby from some CARICOM countries together with a possible push from the FTAA for the removal of the Common External Tariff (CET) on imported petroleum products and subsequent increased competition from regional suppliers.
- 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. In particular lower sulphur specifications on diesel, heavy fuel oil, and bunker fuels.

- The worldwide move to eliminate MTBE as an octane enhancer. The Government has mandated that MTBE be phased out by 2008 and that ethanol be used as the replacement. This means that Petrojam must upgrade its gasoline storage, blending and delivery facilities in order to meet this requirement.
- 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 currently underway to secure financing for the project, concurrent with development of the basic engineering design. A front end engineering design (FEED) study commenced in February 2006, and is expected to be completed over a twelve (12) month period.

9.0 Strategic Objectives and Major Projects

During strategy planning sessions for Financial Year 2006/2007, six (6) main strategic themes evolved from mapping the strategic linkages between the critical success factors across all perspectives of the Balanced Scorecard as follows:

9.1 Ensure Long Term Competitiveness

Efforts to secure the future viability of the Petrojam refinery will continue to be a priority item, given its key role in the national strategy to ensure security of supply for the country. In this regard, the refinery upgrade project is expected to address most of the external threats and opportunities identified, including introduction of LNG, removal of CET, stringent specifications for diesel sulphur. The upgrade is expected to result in improved profitability through greater capacity utilization and improved product yield structure (higher valued products).

9.2 Improve Plant Reliability

Reliability refers to the operating availability or on-stream service factor of the refining facilities. High reliability is fundamental for nearly all aspects of the business, impacting upon the ability to optimize the refinery margin. Low levels of reliability result in increased demurrage and maintenance expenses; it also increases the risk of supply shortages, damages external stakeholder perception, and results in fatigue, low morale and low productivity of staff. Many of the critical success factors and strategic initiatives revolve around improving the Reliability and Maintenance Management systems.

9.3 Meet and Exceed Customer Needs

Petrojam has to consistently supply its customers with products at the specified quality, the best price and in the required quantities in order to ensure that customers receive the best value for money at all times. As more customers seek to explore alternative supply options, it is imperative that Petrojam maintains good customer relationships and high service standards in order to retain key customers. To this end, a Customer Relationship Management system has been implemented, including establishment of a customer service unit and development and deployment of service standards.

9.4 Maintain and Expand Market Share

Although Petrojam's market share has gradually increased over the years to its present level of about 85%, the company still faces the threat of significant competition from alternative fuels and alternative suppliers. A primary objective will therefore be to consolidate existing business and pursue market opportunities including increasing exports, especially of marine bunker fuels.

9.5 Increase Business Process Efficiency and Cost Savings

Several critical success factors identified were centered on improving the efficiency of various internal processes, in keeping with the thrust to benchmark favorably against Petrojam's peers. The supporting initiatives include continued attainment of best practices in all areas, leveraging Information Technology to improve workflow and productivity, implementing an alternative dock option geared towards reducing demurrage expenses, and other projects aimed towards improving the refining margin and reducing losses.

9.6 Strengthen Organizational Support

Human Capital Development, and Health, Safety and Environment Compliance (HSE), are critical organizational supports for the core business processes. The critical success factors identified in these areas centered on ensuring alignment of human resources to the strategic plan through a comprehensive manning and development plan, as well as focus on employee retention through restructuring the current compensation system.

For HSE compliance, a key initiative includes constructing the facilities to improve the quality of the waste water effluent.

A list of the major initiatives and capital projects for Financial Year 2006/2007 is outlined in Table 9.1.

9.7 Capital Projects

Table 9.1: Summary of Major Capital Projects for 2006/2007

Strategic Theme	Major Projects	Investment req'd (est'd.)	Expected Benefit/Impact
Long term competitiveness and survival	Basic Engineering Design for the Refinery Upgrade Project	US\$ 20 M	The refinery upgrade project will enhance competitiveness of the refinery and secure long term viability. It will also result in foreign exchange savings.
	Introduction of ethanol in gasoline pilot project	J\$ 20 M	To ultimately reduce reliance on petroleum imports, and reduce foreign exchange outflow, while achieving improved environmental impact.
Meet and exceed customer needs	Expand emulsion asphalt storage capacity, relocate asphalt and bunker blending facilities	J\$ 41.5 M	Increased export volumes and greater efficiency and reliability of product supply.
	Major Tank Maintenance	J\$103 M	Ensure maximum availability of storage capacity
	Upgrade CCTV system and other security devices/systems	J\$19.5 M	Improve security arrangement at the Industrial Loading Rack
Reliability improvement	Implement new steam generation system	J\$ 83 M	Improve reliability/ availability of steam for plant use
	Major maintenance replacement equipment programme	J\$ 221 M	Sustaining capital requirements for refining plant facilities.
	Evaluate options for providing reliable power supply	J\$ 95 M	Improved reliability of power supply
Business process efficiency improvements	Implement alternative dock option	J\$ 347 M	Risk mitigation measure, and reduction of demurrage expenses
	Provision of Information Technology enablers	J\$38.5 M	Improved efficiency and effectiveness of business process
	Construction of new tank to store 2.2% S HFO	J\$118.5 M	Facilitate the production of 2.2%S in order to close the LP gap
Organizational support improvements	Implement refinery fire, and other safety and emergency response system upgrade	J\$ 75.8 M	Improvements to emergency response systems
	Refurbish and Equip offices including new laboratory.	J\$139 M	Improved facilities and Equipment
	Outsource waste water remediation facilities selection and design	US\$ 40,000	Improve compliance with environmental regulations

10.0 Main Performance Targets for Financial Year 2006/2007

Below is a summary of the main performance targets.

Table 10.1: Performance Indicators and Targets

Performance Targets 2006/2007		
	Performance Measure	Target 2006/07
<i>FINANCIAL</i>	<i>Gross Margin Ratio</i>	<i>5.64%</i>
	<i>Profit before tax</i>	<i>\$695,959 mil</i>
	<i>ROCE</i>	<i>14%</i>
CUSTOMER/MARKET	Local Market Share	86.1%
	Export Volume	4248 Kbbbls
	Customer Satisfaction	85%
	Service Standards Compliance	85%
	Delivery Downtime	0 days
INTERNAL BUSINESS	Gross Margin	US\$3.66/b
	Productivity	98% min
	Oil Loss	0.4% max
	EII	96 max
	Service Factor	90.3% min
	Safety Index	100 min
	Environmental Compliance	66% min
	Receivables Past Due	4.0% max
	Maintenance Expenses	US\$0.18/b
	Other Admin Expenses	US\$2.0/b
ORGANIZATIONAL EFFECTIVENESS, LEARNING & GROWTH	Employee Satisfaction Index	80% min
	Training Hours per employee	40 min

11.0 Budget

Table 11.1 shows actual financial performance for Financial Year 2005/2006 and projection for Financial Year 2006/2007.

Table 11.1: Budget for Financial Years 2005/2006 & 2006/2007

Items	2005/2006 J\$M	2006/2007 J\$M
Refinery Gross Margin	3,104	4,055
Other Operating Income	61	307
Admin and Operating Expenses	(1,591)	(2,435)
Other Operating Expenses	(1,037)	(1,231)
Income From Operations	538	695
Non-operating Income	67	176
Profit/(Loss) Before Tax	605	696
Taxation	(202)	(232)
Net Profit/(Loss)	403	464
Sales Volume	15,359 kbbls	16,796kbbls

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