PETROTRIN BRIEF

OCTOBER 16, 2018

MD | MARLA DUKHARAN
CARIBBEAN ECONOMIST

CONTENT	PG

REDUCTION IN WORKFORCE

Petrotrin has approximately 4,700 employees divided between the refining and marketing business unit and the exploration and production business unit: 3,400 permanent workers and 1,300 temporary workers.

Employee terminations:

• 2,600 permanent job terminations of which, 1,400 will be offered early retirement

• 800 transitioned to Exploration and Production Unit

• 200 transitioned to the Terminalling Business Unit

The Lashley Report commissioned by GoRTT and presented June 2017 reported:

UNIT	PERMANENT	TEMPORARY	TOTAL
Petrotrin	3,841	1,481	5,322
Upstream (incl Trinmar)	1,197	479	1,676
Refining & Mktg	1,328	507	1,835
Corporate/Admin	1,055	408	1,463
President's Group	261	93	354

Estimated cost of termination packages:

• TTD2.6 billion total termination payment

• TTD1.8 billion employees under separation packages inco-llective agreement

• TTD555 million backpay

• TTD203 million vacation pay

• TTD30 million ex-gratia payments for contingent workers

The Energy Chamber estimates that subcontractors will reduce payrolls by 760 temporary and 735 permanent jobs in the sub-sector.

PETROTRIN WAGES & BENEFITS

The monthly wage bill was TTD183.0 million or TTD2.2 billion per annum. Manpower costs were estimated at over 50% of operating costs.

Medical plan annual cost was TTD245.0 million; but with very low contribution rates by the employees ranging from TTD50 to TTD80 per month.

The medical plan covers 21,000 present and past employees and unmarried family members under the age of 21 (or 23 if still in school). Employee and spouse were basically covered until death.

Employee coverage includes major medical expenses, hospitalization, dental and optical care. Retiree plan includes limited medical expenses, hospitalization for surgery only, dental and optical care.

Petrotrin has two pension plans, Petrotrin Employees Pension Plan (PEPP) and Trintopec Staff Pension Plan (SPP). The latter covers only ex-Trintopec monthly rated employees and is income-tax exempt.

Monthly and weekly paid employees contribute to the pension plan. Employees contribute 7% of base salary & wages plus cost-of-living allowance (COLA), reducing to 4% after 31 years pensionable service. The employer contribution rate is 14.0% for both plans.

Both Petrotrin Pension plans are fully funded with combined asset value of TTD10.7 billion, which according to the latest actuarial valuation (September 30, 2016) will meet all obligations and liabilities.

OWTU INJUNCTION

October 8 – injunction granted in favor of OWTU

October 10 – injunction lifted

October 15 – deadline for OWTU to file papers with IRO

October 18 – hearing resumes in appeals court

October 22 – deadline for Petrotrin to file papers with IRO

Papers to be filed with Industrial Relations Office over what the OWTU alleges is a violation of a Memorandum of Agreement signed with Petrotrin on April 3. With the injunction lifted, Petrotrin was able to continue delivering voluntary separation packages and terminating contracts. Termination packages are based upon requirements in the Retrenchment and Severance Benefits Act and the Collective Bargaining Agreement.

FINANCIALS

Deficient cash flow has led Petrotrin to seek government financing support:

• In September 2018, Petrotrin requested financial support from the Ministry of Finance for USD56 million (TTD380 million) to purchase a cargo of crude oil because the shipper required a guaranteed letter of credit to discharge the cargo.

• In late September, Petrotrin requested from Ministry of Finance financial support to refinance USD180 million (TTD1.2 billion) coming due for payment.

Petrotrin refinery has been consistently losing over TTD2.0 billion a year for the last several years (see financials below), with TTD7.97 billion in comprehensive operating losses since in the last three financial years.

Refining capacity is 140,000 bpd and the local production available for refining is 40,000 barrels. Petrotrin depended on a daily importation of 100,000 bpd, which it refined at a significant loss.

Company financials for current fiscal year (per Minister of Finance):

• Deficient working capital of $6.57 billion;

• 9-month financial loss of $1.04 billion in the refinery and marketing business units;

• Unpaid taxes, levies and royalties of $3.5 billion owed to the Government;

• Short-term loans of $5.0 billion with the company seeking a government guarantee for further short-term working capital credit support for which it had already provided guarantees of $1.6 billion;

• Upgrade and maintenance work require $7.0 billion for the aging plant and equipment at La Brea, if not, major oil spills will continue unabated;

• Declining land and marine production was taking place as investment resources were being transferred from the exploration and production division to the refinery operations, including for the purchase of approximately 100,000 barrels of crude oil per day, at a cost of TTD47 million a day, the refining of which resulted in a loss of USD3.00 for each barrel of oil refined, or TTD3.0 million per day; and

• Escalating manpower costs accounting for almost 50 percent of recurrent expenditure.

Financial Overview

FIGURES IN TTD MILLIONS	2010	2011	2012	2013	2014	2015	2016	2017	% '17/'16	CAGR '17/'10
Revenue	25,942	36,910	37,562	31,880	29,251	19,752	16,581	20,035	21%	-4%
Cost of Sales	22,797	30,834	33,771	29,896	27,398	19,254	16,117	18,927	17%	-3%
Gross Profit (loss)	3,146	6,076	3,791	1,984	1,853	498	464	1,108	139%	-14%
Gross profit margin %	12.1%	16.5%	10.1%	6.2%	6.3%	2.5%	2.8%	5.5%	2.7pts	
Operating Profit (loss)	1,009	4,756	2,849	976	690	-750	-809	-681	-16%	-195%
Operating Profit (loss) margin %	3.9%	12.9%	7.6%	3.1%	2.4%	-3.8%	-4.9%	-3.4%	1.5pts	
Comprehensive Income	-167	2,401	446	112	-361	-1,221	-4,337	-2,412	-44%	46%
Comprehensive income margin %	-0.6%	6.5%	1.2%	0.4%	-1.2%	-6.2%	-26.2%	-12.0%	14.1pts	

Revenue Overview

FIGURES IN TTD MILLIONS	2010	2011	2012	2013	2014	2015	2016	2017	% '17/'16	CAGR '17/'10
Revenue	25,942	36,910	37,562	31,880	29,251	19,752	16,581	20,035	21%	-4%
Revenue - Refined Product Sales	24,262	34,729	35,504	30,178	27,274	18,496	15,891	19,169	21%	-3%
Revenue - Natural Gas Sales	617	734	778	459	714	489	205	271	32%	-11%
Revenue - Crude Oil Sales	432	518	479	464	445	269	202	224	11%	-9%
Revenue - Royalty Income	615	834	763	715	737	456	268	356	33%	-8%
Revenue - Natural Gas Liquids Sales	15	94	38	64	79	40	11	14	26%	-1%
Revenue - Other Revenue	1	1	0	0	1	1	3	1	-58%	1%
Revenue - Non-Refined Product Sales	1,681	2,181	2,057	1,702	1,977	1,255	689	866	26%	-9%

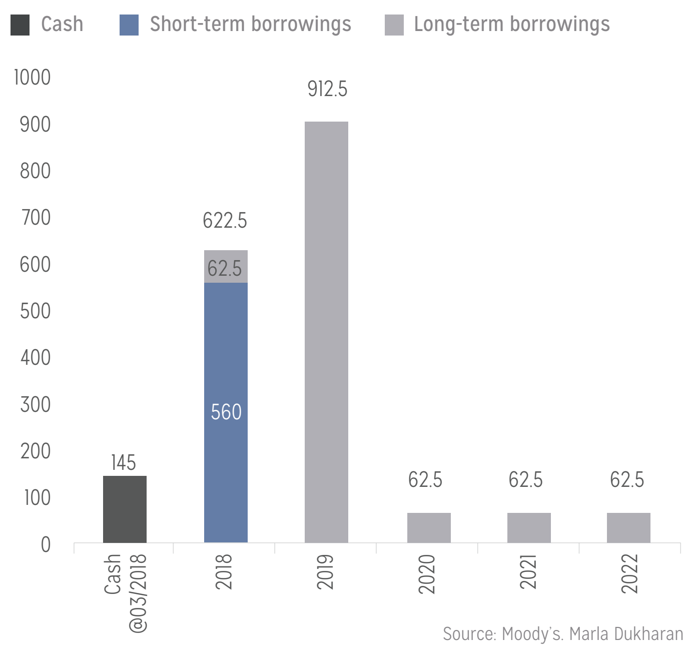
DEBT

Petrotrin debt burden is TTD12.0 billion, of which TTD5.780 billion in due August 2019.The USD850 million bond is due in the form of a single payment, with debt maturities indicating a high liquidity risk for 2018-2019 according to Moody's. Moody's assumes a very high level of government support in its credit assessment of Petrotrin, raising the company's caal baseline credit assessment (an indication of its standalone credit quality) by three notches. Petrotrin's rating is B1 – (on review for downgrade). Government has shown its support through a short-term loan guarantee and allowing Petrotrin to defer tax payments.

Liabilities to Government: Petrotrin has TTD3.5 billion in taxes and royalty payments outstanding to be paid to government, and has procured government guarantees of TTD1.5 billion for loans from financial institutions.

Petrotrin Debt Maturities: Moody's Assessment

USD millions

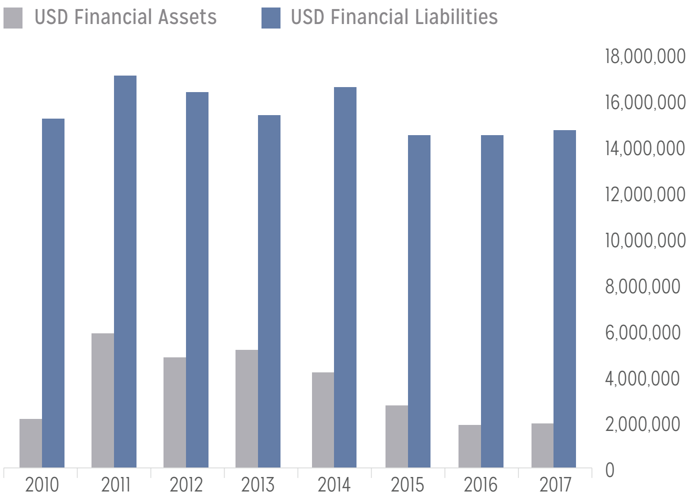


Source: Moody's. Marla Dukharan

Foreign currency exposure is another issue facing the company, with USD financial assets valued at less than 14% of the value of USD financial liabilities at the end of financial year 2017. USD next exposure was equivalent to 63% of total revenue in 2017.

Petrotrin USD Assets & Liabilities: Trinidad & Tobago

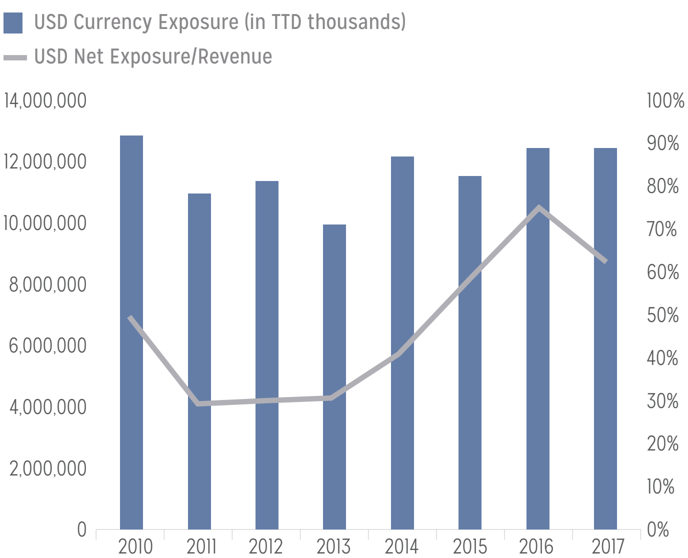
TTD thousands



Source: Central Bank of Trinidad and Tobago. Marla Dukharan

Net USD Exposure/Revenue: Petrotrin

TTD thousands. Net USD exposure/revenue %



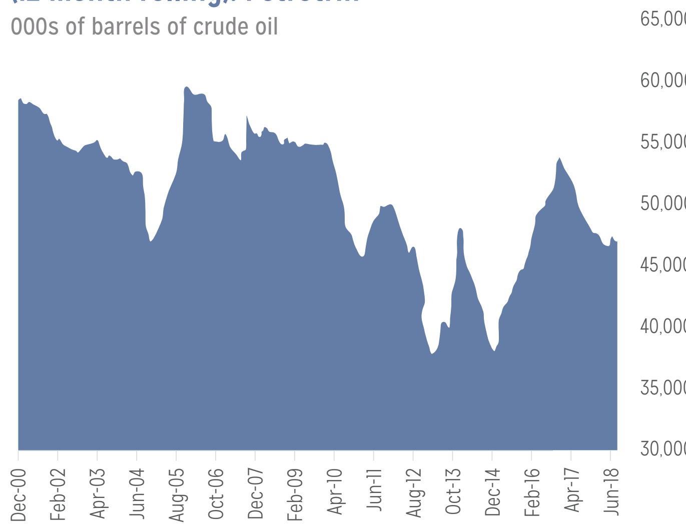
Source: Petrotrin Financial Statements. Marla Dukharan

CAPITAL INVESTMENTS

Crude oil refinery throughput has averaged 3,955 thousand barrels over the 12 months to August 2018, accumulating only 47,457 thousand barrels on a 12-month rolling total basis.

Crude Oil Refinery Throughput (12 month rolling): Petrotrin

000s of barrels of crude oil



Source: Central Bank of Trinidad and Tobago. Marla Dukharan

To continue operating its present state, Petrotrin would require an immediate cash injection of TTD25.0 billion. Under a break-even refinery production scenario, TTD7.0 billion would be required to finance a reduction in personnel, improve efficiencies, and undertake minimum infrastructure upgrades.

Past Capital Investment Programs have been unsuccessful:

The Gasoline Optimization Programme:

- Initial cost estimated at USD350 million in 2005 ~ approximately TTD2.450 billion
- Project was completed in 2013 at USD1.8 billion ~ approximately TTD12.6 billion

Gas to Liquid Plant Project:

- Initial cost estimated at USD165 million ~ approximately TTD1.155 billion
- Was abandoned after Petrotrin had incurred in excess of USD450 million, ~ approximately TTD$3.150 billion.

• Assets were recently sold for USD35 million ~ approximately TTD$245 million.

Ultra-Low Sulphur Diesel Project:

• Initial cost estimate USD113 million ~ approximately TTD791 million

• Petrotrin has expended USD413 million ~ approximately TTD2.891 billion to date.

• Though 98% mechanically completed it cannot be operated because the structural specifications were not adhered to, meaning the foundation is faulty and cannot be used.

• The cost to rectify this omission is estimated at USD350 million ~ approximately TTD2.450 billion.

RESTRUCTURING

Trinidad and Tobago consumes less than 25,000 barrels of refined products a day (gasoline, diesel, jet fuel, etc.). Government prefers to export the 40,000 barrels of oil production and import the 25,000 bpd of fuel.

Two new companies will be put in place to run operations:

1. Exploration & Production (Heritage Petroleum).

2. Fuel logistics/energy trading - Terminalling through imports (Paria Fuel Trading).

Refining and marketing business unit will be closed. E&P will now focus on increasing the production of barrels of oil for external sale on the open market.

Refining assets will now be put in a separate company and government has said it will entertain any viable offer from any investor who might wish to utilize the assets. Government has also said the OWTU would be given the first option to own and operate the refinery on the most favorable terms.

Next steps under government-announced plans:

• Closing the refinery with the 40,000 barrels of local crude to be exported in open market operations;

• The exploration and production activity will be aggressively pursued to increase production from the current low level of 40,000 barrels per day to minimum of 60,000 barrels per day.

• The petroleum-based products produced by the refinery will now be imported through the establishment of a Terminalling Business Unit and those products distributed to local and regional markets at profitable levels (motor gasoline, diesel, aviation fuel, liquefied petroleum gas and other derived and refined products).

Main challenges addressed in Lashley report:

• Cash flow risks must be addressed immediately

• Deficient Asset Integrity TTD7 billion estimated for the required upgrade and maintenance work for plant, equipment and installations.

• Declining land and marine production- company used cash resources to purchase of approximately 100,000 barrels of crude oil per day, instead of exploration and production.

• Manpower - overstaffed and there were deficiencies in technical competencies in key disciplines. Manpower costs ~47% of recurrent expenditure.

• Financial Forecasts delivered by management were removed from reality.