

Chairman's Address at 54th Annual General Meeting of CPCL

Dear Esteemed Shareholders,

It is my privilege to welcome you all to the 54th Annual General Meeting of CPCL which is being held on the virtual platform due to the ongoing pandemic. I trust that all of you and family members are taking all the necessary precautions and staying safe.

The notice convening the meeting, the Directors' Report and the Audited Annual Accounts have already been mailed to you and with your permission, I take them as read.

In a departure from the regular sequence of the AGM address, I would like to begin by complimenting the entire team of CPCL for the extraordinary steps taken to not only cope with unprecedented Covid-19 crisis but also for keeping the operations going even during the lockdown to ensure essential supplies of products to our customers in South India.

ECONOMIC OVERVIEW

As per IMF data, growth in the global economy in 2019 has been muted with a lower growth rate of 2.9% as compared to the growth rate of 3.6% in 2018. India registered a lower GDP growth rate of 4.2% in 2019-20 as compared to 6.1% in 2018-19. In 2020 it is predicted that global GDP growth rate will be severely impacted by COVID-19 and will register a degrowth of 4.9%. COVID-19 pandemic is set to impact the India growth story, the Indian economy could in fact shrink by 4.5% in 2020-21. However, it is expected to improve in 2021-22.

OIL & GAS SCENARIO

The impact of COVID-19 on Global Oil Demand was immediately evident due to curtailment in mobility, freight movement, and aviation, the sectors which account for nearly 60% of the global oil demand. The demand for other fuels such as Coal and Natural Gas is also expected to be lower in 2020. However, the demand for renewable energy is expected to increase due to lower operating costs.

During the year FY2019-20, the petroleum products consumption in India has increased marginally to 213.7 MMT from 213.2 MMT in the year 2018-19, registering a growth rate of 0.2 %. Similarly, the production of petroleum products has also marginally increased from 262.4 MMT in 2018-19 to 262.9 MMT in 2019-20, a growth rate of 0.2%. However, there was no increase in the refining capacity of 249.4 MMT during the year 2019-20.

The Indian crude oil basket price has witnessed wide fluctuations during the year 2019-20. The average price for the year 2019-20 was \$ 60.47 per barrel, which is lower than the previous year's average price of \$ 69.9 per barrel.

Global peak demand for transport fuels is projected around 2035, however unlike the OECD countries, the demand for transport fuels in India is projected to keep growing and peak much later. In fact, demand for refined petroleum products is expected to witness robust growth in India- making it a growth hub for oil demand in the long term.

As per the recent Annual World Energy Outlook, India's oil demand is expected to grow at a CAGR of 2.71% and will reach up to 420 Million Metric Ton from the 2018 level of 233 MMT.

Thus, India is all set to experience the fastest oil demand growth rate over the long term. While oil demand is expected to peak in the advanced economies before 2030, India's demand is expected to be more robust.

The impact on demand for petroleum products due to the COVID-19 pandemic is expected to be of short term only and the long-term projections are expected to remain almost the same as earlier with minor adjustments.

PERFORMANCE DURING 2019-20

Operational Performance

I would like to highlight some of the major achievements during the year 2019-20:

- Your Company achieved crude oil throughput of 10.16 million metric tonnes (MMT) at Manali Refinery in 2019-20 as compared to 10.27 MMT in 2018-19 despite the planned shutdown of Crude Distillation Unit (CDU-I) and Diesel Hydro Treater Units (DHDT) and COVID-19 impact during the year.
- Highest ever distillate yield of 77.6% was achieved as against the previous best of 74.4% in 2018-19.

- Highest ever ATF production of 1016 TMT was achieved against the previous best of 794.6 in 2017-18
- Highest ever Hexane production of 19.7 TMT was also achieved against the previous best of 14.9 TMT in 2018-19
- Supply of BS-VI MS and HSD started from 1st Dec'19, well ahead of the mandated timeline of 1st April 2020.
- Manali Refinery achieved operational availability of 97.64% against the MoU target of 97%.
- The Specific Energy consumption of 81.4 in terms of MBN was also the lowest against the previous lowest of 83.1 in the year 2018-19.
- Successfully produced High Flash HSD with NATO grade specification and IMO grade LS FO (0.5 % S).
- Imported Power through Indian Energy Exchange (IEX) started from 1st December 2019 in Desalination Plant, at an average of 3.4 MW/hr which resulted in savings of Rs 173 Lakhs till March 2020.

Financial Performance

Your Company's turnover registered a decrease to Rs 48,624 crore during 2019-20 as compared to Rs. 52,177 crore in the previous year mainly due to a reduction in product prices from Jan 2020 to Mar 2020 and due to comparatively lower crude throughput.

As you are all aware, energy markets witnessed high volatility in the year 2019-20, with crude oil prices fluctuating from a high of \$ 71/ bbl in April 2019 to a low of \$ 33.36/ bbl in March 2020 due to the unprecedented COVID-19 pandemic in the world and consequent weak global economic growth. The sudden and steep fall in crude prices in March 2020 entailed a significant write-down of inventory following the requirements of Ind-AS (Indian Accounting Standard). The year was also beset with unfavorable product cracks due to various factors including the COVID pandemic. The benchmark Singapore refining margin for the year 2019-20 was significantly lower at around \$3.2/bbl as compared to around \$4.9/bbl in FY 2018-19. The same trend was reflected in India.

Due to the above-mentioned factors and on account of the huge drop of crude and product prices in Q4 of 2019-20, the GRM for the year 2019-20

was (-) \$ 1.18 / bbl as compared to \$ 3.70 / bbl in the year 2018-19. Your company was constrained to post a net loss of Rs. 2078 crore during FY 2019-20 as compared to a loss of Rs.213 crore for the year 2018-19, mainly due to extraneous factors beyond control.

It is however heartening that your Company's profitability has improved in the first quarter of 2020-21 with a PBT of Rs.430 crore with improved crude prices though the product margins continue to be below the economic level and the demand is only 70 - 75% of the normal demand. We expect the demand to significantly improve by Q3 of 2020-21.

Your Company's physical performance continues to be robust, more particularly in terms of distillate yield improvement, optimization of the crude mix, and energy efficiency. Your company has initiated many measures to improve profitability and reduce operating costs and with good physical performance combined with these new measures, we are confident of better financial performance in the current fiscal.

Dividend

Given the losses incurred during the year, your Company has not recommended any dividend for the year. The preference dividend in

respect of 6.65% non-convertible cumulative redeemable preference shares (50 crore shares outstanding as on 31.03.2020) issued to Indian Oil Corporation Ltd., our holding company will be paid with arrears along with the next declaration of dividend. However, the same has been accounted for as part of the finance cost in line with IndAS requirements.

PROJECTS

Your Company has achieved CAPEX expenditure of Rs.960.6 crore during the year. The details of projects which are under implementation include:

I. Quality Upgradation Project:

- New FCC Gasoline Desulphurization unit of 0.6 MMTPA capacity. Mechanical completion of the unit is expected soon and commissioning is expected during the 3rd quarter of 2020-21.

- New Sulphur Recovery Block - The unit is expected to be mechanically completed by the 4th quarter of 2020-21.

II. Regassified Liquefied Natural Gas (R-LNG) Project

I am happy to inform you that your Company has completed R-LNG conversion in Refinery-III furnaces, in one of the Hydrogen Generation Unit, 3 out of 5 Gas Turbines, and 3 out of 6 Utility Boilers as fuel and feed. R-LNG conversion in balance Gas Turbines, balance Utility Boilers, and in the second Hydrogen Generation Unit is expected to be completed by the 4th quarter of 2020-21 in a phased manner. R-LNG conversion will have a positive impact on the Carbon footprint with a reduction in CO2 emissions and will reduce Specific Feed & Fuel consumption for the production of Hydrogen. The total cost of the project is estimated to be about Rs. 350 Crore.

Future Projects– 9 MMTPA Cauvery Basin Refinery

Your Company along with IndianOil, the holding company, proposes to set up a 9.0 MMTPA Refinery complex at Cauvery Basin Refinery, Nagapattinam. The project would be an integrated state-of-the-art modern Refinery cum Petrochemical complex, including a Polypropylene unit, to start with. The process packages have been finalized and the Detailed Feasibility Report (DFR) for the project has been completed. The Board of

Directors of your company at the meeting held on 03.06.2020 recommended the project to the Board of IndianOil for investment approval.

The project would also benefit from the land already in possession by CPCL. The proximity to highways and coastal location of the refinery are added advantages for the project. The project is in line with the expected growth in demand for petroleum products in the Southern Region. However, in view of COVID-19, supply-demand outlook is now being reviewed. Meanwhile, the Expert Appraisal Committee of Ministry of Environment and Forests and Climate Change (MOEF&CC) has reviewed our 9MMTPA project proposal and has sent its recommendations for Environmental clearance to MOEF&CC.

The Cauvery Basin 9 MMTPA Refinery project would also stand as an anchor for feedstock generation for downstream industries.

SAFETY

Your Company continuously strives to attain all-round improvement in safety performance by adhering to the best safety standards. During the year, man-hours lost due to accidents as a percentage of total man-hours was 0.004%. There were only two reportable accidents involving contract

workers. Major initiatives on safety management undertaken during the year include the following:

- Near Miss Incident (NMI) System modified to improve its effectiveness in tracking liquidation. Total NMIs reported during the year were 6882 nos. High Potential NMIs were identified by a standing committee and appropriate actions were taken.
- Onsite emergency mock-drills were conducted every quarter in the presence of officials from the Directorate of Industrial Safety & Health and mutual aid members MFL & TPL.
- Monthly mock-drills were conducted by creating different emergency scenarios as per the Emergency Response and Disaster Management Plan (ERDMP).

In wake of the Covid-19 pandemic, your Company has also initiated stringent measures for the protection of employees. The initiatives are in compliance with the various Covid-19 related advisories and directives from Government of India, the State Government, Ministries and Statutory bodies.

To ensure adequate safety precautions and strict adherence to guidelines especially during the lockdown period and for smooth and safe Refinery Operations, a high-level committee was instituted which is meeting regularly to monitor the situation and plan the course of actions as per the Covid-19 protocol. A detailed SOP is in place for conducting Operations; it is mandatory that employees and the contract workers wear masks while entering the company premises, provision for disinfecting and sanitizing has been made and the number of contract workmen has been restricted to the bare minimum and only need-based deployment is being ensured; Committees with cross-functional team members have been formed to ensure the safety of employees in various units.

HUMAN RESOURCES

Your company believes that the employees play a vital role in meeting the challenges from the emerging competitive scenario in the industry. Towards this, many HR initiatives have been introduced for the development and growth of the employees to face future challenges. Some of these initiatives include:

People Capability Maturity Model Study audit was carried out and System improvements are being made to enhance the HR practices; Employee Satisfaction Survey to understand the needs of employees; During the year 2019-20, your Company achieved 3.61 average Training man-days against the target of 2.5 man-days;

Memorandum of Settlement under section 18 (1) and 2(p) of the Industrial Disputes Act 1947 on Work-Related Items / Facilities for workmen was signed between the Management and the Chennai Petroleum Employees Union (CPEU) on 17.05.2019.

CORPORATE SOCIAL RESPONSIBILITY (CSR)

Your company's Corporate Social Responsibility (CSR) Vision has been defined as "Strive for Educated, Healthy, Economically Developed and Environmentally Protected community around the Refineries". To achieve your company's CSR vision, CSR projects are designed to positively impact the economic and social conditions of the communities in which it operates, to make efforts towards the self-sustainability of CSR projects, and to take initiatives on environmental sustainability.

During the year 2019-20, your Company spent Rs.16.71 crore on community development activities. The programs and projects are primarily being undertaken in the vicinity of the Company's major installations & establishments to improve the quality of life of the local communities.

Of this, about Rs.10.20 crore was spent on various CSR activities in Nagapattinam near the Cauvery Basin Refinery, which includes rural development initiative i.e adoption of 3 villages in Nagapattinam District to benefit 1700 families to improve their social, environmental, and economic conditions. Further, your company has spent more than 60% of the annual CSR expenditure for thematic programme of school education, healthcare & nutrition during the year.

CORPORATE GOVERNANCE

Your Company complied with the Corporate Governance guidelines issued by SEBI and the Department of Public Enterprises except the clause relating to the appointment of additional Independent Directors. The appointment of additional Independent Directors is under the consideration of the Government of India.

The certificate received from the Auditors of the Company regarding compliance of conditions of corporate governance, as required under SEBI (LODR) Regulations 2015, as well as compliance with the guidelines on corporate governance issued by the Department of Public Enterprises, Government of India, is provided in the Annual Report 2019-20.

A separate section giving further details on Corporate Governance in your company is provided in the Annual Report 2019-20.

AWARDS & RECOGNITIONS

In recognition of its various CSR initiatives, your Company has been honoured with the following awards during the year:

-Golden Peacock Award for Corporate Social Responsibility (GPACSR) in Oil Refining category by Institute of Directors, New Delhi

- “Best Practices in CSR Award 2020” in Rural Development category by the Institute of Public Enterprises, Hyderabad

THE WAY FORWARD

Your Company has undertaken many new initiatives to improve operational performance and quality of products to meet future demands. Some of the major initiatives include the following:

I. Enhancement of Products Value

Presently your company produces one grade of Naphtha. To further improve margin realization, a Naphtha Splitter Unit is being installed in Crude Unit -II to split the Naphtha into Light and Heavy grades. This initiative will improve margin realization of Naphtha through exports and also help to consume part of the production within India as also contribute to improve GRM of your company.

Your company has also initiated action to manufacture LSFO which has a better margin as compared to other products. CPCL is also planning to increase the production of Hexane from the current level of 20,000 MT to 36,000 MT per year during 2021-22 and later scale it up by an additional 15000 MT per year in the near future. These efforts are expected to improve profitability by about Rs. 90 crore per year.

II. Production of Group-II LOBS Products

Your company has facilities to produce Group-1 Lube Oil Base Stock products. The production performance of LOBS from existing facilities has gone up by 50% from 10 TMT to 15 TMT per month. This will further increase the profitability of your company as margins from LOBS are quite high.

CPCL is also planning production of Group-II LOBS products which at present are imported in large quantities. Our entry into this profitable segment will further improve the revenue stream and profitability as it has a high potential for de-risking the uncertainty in the POL business.

III. Digital Initiatives

Your company is making efforts to adopt new technologies for improving performance. These technologies include usage of drones for inspection of pipelines and equipment at heights thus reducing the time taken to complete the jobs. CPCL is also in the process of identifying opportunities for digitalisation of processes and data analytics and artificial intelligence utilisation for better decision making and improving

reliability of operations which are expected to improve company's performance and employee productivity.

IV. Sustainable Development

Your company is also committed towards reducing its carbon footprint. We have already replaced usage of FO and Naphtha in some parts of the refinery with environment friendly RLNG in our efforts to reduce carbon intensity in our operations. We have also implemented a 50 KW roof-top solar project and are planning to implement an additional solar unit of 70 KW.

ACKNOWLEDGEMENTS

On behalf of the CPCL Board, I acknowledge with sincere appreciation the unstinted support and co-operation of all the employees of CPCL for the excellent work done during the COVID-19 lockdown period to ensure an uninterrupted supply of petroleum products and meet the energy needs of the people in Tamil Nadu and neighboring states.

The Board is extremely grateful to the Government of India particularly our parent ministry the Ministry of Petroleum & Natural Gas.; our holding

company Indian Oil Corporation Ltd. and Naftiran Intertrade Company Ltd., an affiliate of the National Iranian Oil Company, for their continued valuable support and guidance.

Our sincere thanks to the Government of Tamil Nadu; the Union Ministry of Road Transport and Highways; the Union Ministry of Environment & Forests; Comptroller & Auditor General of India; Central Vigilance Commission; Petroleum Planning and Analysis Cell; Oil Industry Development Board; Oil Industry Safety Directorate; Centre for High Technology; Petroleum & Explosives Safety Organization; other regulatory and statutory authorities; banks and financial institutions for their guidance and valuable support.

I also express my gratitude to all our customers, contractors, and vendors for their patronage and support to the Company during the year.

The CPCL Board members also wish to place on record their deep appreciation of the valuable contributions made by Mr Sanjiv Singh, Mr. Mrutunjay Sahoo, Dr.P.B.Lohiya, Mr.G.Aravindan during their tenure on the Board.

I also thank each one of you, our valued shareholders and look forward to your continued support in strengthening and improving your Company's performance in the coming years.