

Chennai Petroleum Corporation Limited
Chairman's Address – 52nd Annual General Meeting

(24th August, 2018 at 3.00 pm, Kamaraj Arangam, Chennai)

Dear Shareholders of CPCL, Ladies & Gentlemen:

On behalf of the Board of Directors and on my own behalf, I extend a warm welcome to the valued shareholders at the 52nd Annual General Meeting of your Company here today.

I am very happy to inform you all that your Company continued to perform well during the year 2017-18, even exceeding the previous record levels of performance in many physical and financial parameters. I thank all our shareholders for their continued support, which enabled your Company to improve its profitability during the year as compared to the previous year.

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

Economic Overview

The global economy registered growth of 3.8% during the year 2017-18, higher than the 3.6% achieved in the previous year. As per the International Monetary Fund (IMF) report of April 2018, the growth in GDP was mainly due to higher growth in United States, China, India and Japan, and economic recovery in European countries. As per *BP Energy Outlook 2040*, global GDP growth is expected to improve further to 3.9% in the current year and grow at an average rate of 3.2% till the year 2040, with major contributions from India, China and African countries.

During the year 2017-18, the Indian economy registered a growth rate of 6.7%, which was higher in comparison to global GDP growth rate. Moreover, the growth of 7.7% registered in the fourth quarter of the year demonstrated the sustained economic strength and the aspirations of the people for development. With the introduction of GST, the Indian economy is expected to improve further in the coming years.

According to the recent IMF report, the growth of the Indian economy is expected to be higher at 7.4% in 2018-19 and 7.8% in 2019-20, which is much higher than the projected growth rates of other Asian nations.

The Indian economy has also done well on the inflation front, registering an increase of only 4.28% in Consumer Price Index (CPI) as on March 2018; this is expected to improve private consumption growth in 2018-19, leading to all-round economic growth. Continuous implementation of people-oriented schemes such as Pradhan Mantri

Ujjwala Yojana, Swachh Bharat Abhiyan, Skill India and direct transfer of benefits are expected to improve the quality of life for many BPL families, bringing them into the mainstream of economy.

In addition, efforts being made under Make in India initiative are likely to provide more employment to the people. These schemes and initiatives will enable more and more people enjoy the fruits of economic growth in the coming years.

OIL & GAS SCENARIO

With the expected strong growth in global economy in the coming years, the demand for energy is envisaged to go up further, predominantly driven by increasing prosperity in fast-growing emerging economies and increasing world population. Though technological disruptions, such as emergence of electric mobility, and focus on energy efficiency will have an impact on conventional transport fuels, the overall growth in primary energy demand is expected to be strong at 1.3% CAGR till 2040, as per BP Energy Outlook 2018.

In absolute terms, the demand for primary energy is expected to increase from 13,000 million tonnes oil equivalent (MTOE) at present to about 18,000 MTOE by the year 2040, an additional demand of about 5,000 MTOE. Creation of necessary infrastructure to generate and distribute such a huge quantum of energy is a challenging task and needs huge investments. This creates an opportunity for the existing refiners to invest in setting up new capacities and product distribution facilities.

On the petroleum front, the global demand for crude oil is expected to increase from about 4,400 MTOE at present to about 4,800 MTOE by the year 2040. At the same time, the demand for natural gas is expected to rise from 3,200 MTOE at present to 4,700 MTOE by 2040, making it almost as important as oil in the long-term. This clearly indicates that oil & gas together will continue to play a significant role in meeting the energy needs of people all over the world.

On the other hand, global demand for coal is expected to remain stagnant at 3,700 MTOE, mainly on account of environmental concerns about coal-based power plants.

One significant trend will be the expanding role of renewable energy in the overall energy mix. Within the basket of renewable energy sources, solar power generation is projected to increase five-fold, from the current level of about 500 MTOE to about 2,500 MTOE by the year 2040. Its share in the overall demand will reach 14%, making it a critical energy input in the future.

Among end-user sectors, the industry sector at 44% will continue to lead energy demand in future, followed by the buildings sector, at 30%. The transport sector is

expected to account for 19% energy consumption in future. Despite the likely increase in demand for electric and CNG-driven cars, oil is expected to continue as a major source of fuel for the transport sector, with trucks accounting for a big chunk of growth.

As per the data available with Petroleum Planning & Analysis Cell (PPAC), Govt. of India, petroleum products consumption in India has increased from 194.6 million metric tonnes (MMT) in the year 2016-17 to 204.9 MMT in 2017-18, registering a growth rate of 5.3%. Similarly, production of petroleum products has increased from 243.5 MMT in 2016-17 to 254.4 MMT in 2017-18, at a growth rate of 4.5%. Refining capacity has gone up from 230.5 MMT as on March 2017 to 247.6 MMT during the year 2017-18 due to expansion of refining capacity by Reliance Industries at their SEZ, BPCL's Kochi Refinery and Bathinda Refinery.

There is also increase in crude oil processed in Indian refineries from 245.4 MMT in 2016-17 to 251.9 MMT in 2017-18. With nearly stagnant domestic crude oil production in India, Indian refineries continue to depend on crude oil imports from other countries. However, natural gas production has registered a marginal increase from 31.9 billion cubic metres (BCM) in 2016-17 to 32.6 BCM in 2017-18. The overall natural gas consumption in India also has increased to 58.1 BCM during the year as compared to 55.5 BCM in the previous year.

The price of the Indian basket of crude oil went up from July 2017, reaching US\$63.8 per barrel by March 2018. The average price for the year 2017-18 was \$56.43 per barrel, higher than the previous year's average of \$47.56 per barrel. Crude oil price in the international market has crossed \$ 70 per barrel during the first quarter of 2018-19 and is likely to be range-bound at the same level for the rest of the year due to supply restrictions by OPEC countries and geo-political conditions. Higher crude oil prices do impact refinery margins in general.

PERFORMANCE DURING 2017-18

I am happy to inform you that your Company has performed well during the year 2017-18 and I would like to highlight some of the major achievements:

Operational Performance

Your Company achieved an excellent physical performance during the year 2017-18 and some of the salient features of its operations are:

- Highest ever crude oil throughput of 10.789 million metric tonnes per annum (MMTPA) as against the previous best of 10.779 MMTPA during 2014-15.

- Highest ever distillates yield of 73.2% as compared to the previous best of 72.6% in 2016-17.
- Lowest ever Energy Intensity Index (EII) of 100.7 for Manali Refinery as against the previous lowest of 101.3 in the year 2016-17.
- Highest ever MS production of 1,107 thousand metric tonnes (TMT) as compared to the previous best of 1,105 TMT in 2016-17.
- Highest ever HSD production of 4,599 TMT as against the previous best of 4,474 TMT in 2014-15.
- Energy conservation measures implemented during the year resulted in an annualised benefit of 11,000 SRFT (standard refinery fuel tonnes).
- Production and sale of petcoke was commenced in December 2017 with the commissioning of Delayed Coker Unit.

Financial Performance

I am happy to inform that your Company has further improved its financial performance as compared to the previous year, mainly on account of robust operational performance, active support of the holding company Indian Oil Corporation, and favourable market and price conditions. The major highlights of financial performance during the year 2017-18 are as under:

- An increase of 9% in turnover at Rs.44,135 crore, compared to Rs. 40,586 crore in the previous year, on account of increase in both the quantity of products sold and price variation.
- Profit Before Tax of Rs. 1,458 crore as compared to Rs. 1,365 crore in the year 2016-17.
- Gross Refining Margin improved to \$ 6.42 per barrel as compared to \$ 6.05 per barrel in the previous year.
- Book Value per share improved considerably to Rs. 258.98 as on 31st March, 2018 as against Rs. 222.54 as on 31st March, 2017.
- Reserves and Surplus of the Company increased to Rs. 3,707.50 crore as on 31st March, 2018 as compared to Rs. 3,164.80 crore as on 31st March, 2017.

Dividend

Your Board is happy to recommended a dividend of 185% on equity share capital for the financial year 2017-18, which works out to Rs. 18.5 per equity share of Rs.10/-.

The Board has also recommended a preference dividend of 6.65% payable to Indian Oil Corporation Ltd., the holding company, as per the terms and conditions of the offer

document, on the paid-up Preference Share Capital of the Company for the financial year 2017-18. This amounts to Rs. 0.665 per preference share, and the same has been accounted for as part of Finance Cost in line with IndAS requirements.

Digital India Initiative

In line with the directives of the Government of India, your Company has been taking initiatives to identify opportunities for implementation of new digital technologies to improve the efficiency and safety of its operations. I am happy to inform you that your Company registered over 77,000 digital transactions during the financial year 2017-18.

COMPLETED PROJECTS

Resid Upgradation Project

Your Company has successfully implemented the Resid Upgradation Project comprising mainly of new secondary processing units like Delayed Coker, Sulphur Recovery Unit and Revamp of Once-through Hydrocracker Unit (OHCU), at a cost of Rs. 3,110 crore. This project was implemented to enhance distillate yield and maximise processing of high-sulphur, heavy crudes.

The unit was dedicated to the nation by the Hon'ble Union Minister of Petroleum & Natural Gas & Minister of Skill Development and Entrepreneurship in February 2018.

Diesel Hydro-Desulphurisation (DHDS) unit Revamp Project:

Your Company has successfully revamped the existing DHDS unit at Manali Refinery with capacity expansion from 1.80 MMTPA to 2.34 MMTPA at a cost of Rs. 310 crore. This has enabled production of diesel meeting Bharat Stage IV (BS-IV) quality norms. The revamped unit was commissioned in February 2018.

PROJECTS UNDER IMPLEMENTATION

Manali Refinery

New Crude Oil Pipeline

Your Company is laying a new crude oil pipeline to replace the existing 46-year-old pipeline between Chennai Port and Manali Refinery. The project, estimated to cost

Rs. 258 crore with state-of-the art safety features, is slated for commissioning during the third quarter of 2018-19.

BS-VI Auto Fuels Quality Project

As part of BS-VI auto fuels quality upgradation project, your Company is revamping the existing Diesel Hydro-Treating (DHDT) unit to increase its capacity from 1.8 to 2.4 MMTPA along with a new Sulphur Recovery Unit. A new 0.6 MMTPA capacity FCC gasoline desulphurisation unit with associated facilities is also being installed to comply with the directives of the Government of India for supply of diesel and petrol meeting BS-VI quality norms with effect from 1st April, 2020. The estimated cost of the project is Rs. 1,858 crore, and it is expected to be mechanically completed by Sept. 2019.

Re-gassified LNG (RLNG) Project

Your Company is implementing a *regassified LNG* project at an estimated cost of Rs. 421 crore to utilise R-LNG as feed in the Hydrogen Generation Units, and as fuel in Hydrogen Reformer, Gas Turbines, Utility Boilers & Process Heaters. The project is expected to be mechanically completed in phases from November 2018 onwards. Significant financial and environmental benefits are envisaged on commissioning of this project.

FUTURE PROJECTS

Cauvery Basin Refinery

9 MMTPA Refinery at Cauvery Basin

Your Company has obtained in-principle approval to set up a 9.0 MMTPA refinery at Cauvery Basin refinery in Nagapattinam at an estimated cost of about Rs. 27,000 crore, for meeting the growing energy needs of Tamil Nadu. A detailed feasibility study is being carried out by M/s. Engineers India Limited.

SAFETY

Your Company is committed to the highest standards of safety in operations and projects implementation. Your Company also ensures that best safety practices are followed and statutory guidelines are complied with in respect of employees as well as contractors, customers and other stakeholders.

Major initiatives on safety management undertaken during the year include:

- Fire-fighting capabilities were augmented by procuring a foam-nurser of 16,000 litres capacity.
- Audits were carried out to ensure 100% usage of spark arrestors approved by the Petroleum and Explosives Safety Organisation (PESO) for all vehicles, including bitumen trucks and contractors' vehicles entering the refinery.
- Internal safety audits were carried out by in-house multidisciplinary teams and their recommendations were implemented in a time-bound manner.
- Pre-commissioning safety audits were carried out by OISD teams for the Resid DCU, SRU plants and revamped DHDS units.
- External safety audit was carried out by a five-member OISD team during the first week of Feb.'18 and an action plan was drawn to implement its recommendations.
- On-site emergency mock-drills were conducted at Manali Refinery in October 2017 and February 2018. Monthly mock-drills were also conducted by creating different emergency scenarios.

HUMAN RESOURCES

Your Company believes that its human resources play a vital role in meeting the challenges of emerging competitive scenario in the oil industry. Accordingly, many initiatives have been taken for the development and growth of the employees to face future challenges.

Active participation of Functional Directors in meetings with the Employees' Union, Officers Association and other welfare bodies on various occasions helped to promote a cordial industrial relations climate.

Your Company gives special focus to women development plans and programmes. International Women's Day 2018 was celebrated by the women employees of CPCL in March, 2018 with the theme 'Face Adversity, Walk Dauntless.' One of your Company's woman employees, Mrs. Rajeswari Arunachalam, has won the "Women Achievers Award" at the Indian Women Convention 2017.

Your Company is committed to prevention of sexual harassment of women at the workplace and takes prompt action in the event of reporting of such incidents. In this regard, an Internal Complaints Committee has been constituted to deal with sexual harassment complaints and to conduct enquiries, if any. Further, a hand-book on Sexual Harassment of Women at Workplace (Prevention, Prohibition and Redressal) Act, 2013 released by the Ministry of Women and Child Development, Government of India, has been hosted on the intranet to sensitise all employees about the provisions of the Act. There were no complaints of sexual harassment during the year.

Your Company gives utmost importance to training & development of its employees. During the year 2017-18, your company has achieved an overall training performance of 2.56 average mandays per employee, conducting a number of training programmes that include talent management, executive development, safety and technical skill development.

CORPORATE SOCIAL RESPONSIBILITY (CSR) AND SUSTAINABLE DEVELOPMENT (SD)

As part of its CSR agenda, your Company focuses on improving the lives of the poor and needy. Accordingly, a number of initiatives were taken up during the year, in provision of safe drinking water, healthcare, sanitation, education & employment-enhancing vocational skills, empowering women and socially & economically backward groups, environment sustainability, etc. Such programmes are predominantly undertaken in the vicinity of the Company's major installations and establishments to improve the quality of life of the communities living in these areas.

Under *Swachh Vidyalaya* Programme, your Company supported maintenance of school premises and toilets at 57 schools in Chennai and Nagapattinam areas. LPG connections were provided to 2,000 poor families in and around Manali Refinery with the assistance of Indian Oil Corporation.

During the year, your Company spent an all-time high amount of Rs. 918 lakh on community development activities. An amount of Rs. 446.79 lakh, constituting 48.66% of the total budget, was spent on *Swachh Bharat Abhiyan initiatives*, as against the requirement of 33% as per DPE guidelines.

In recognition of its various CSR initiatives, your Company was conferred the Humanitarian Award sponsored by Thakkar Bapa Vidyalaya Samithi and the same was presented by Shri M. Venkaiah Naidu, Hon'ble Vice President of India.

CORPORATE GOVERNANCE

Your Company makes concerted efforts to ensure financial prudence and compliance with the regulatory framework. Transparent processes and reporting systems are maintained to meet the higher level of standards of Corporate Governance.

Your Company complies with the Corporate Governance Guidelines issued by SEBI and the Department of Public Enterprises except for the clause relating to appointment of additional Independent Directors.

The Board of Directors of Chennai Petroleum Corporation Limited appointed Mr.D.Durai Ganesan as an Independent Director on the Board. The appointment is effective from 14.08.2018, the date of allotment of DIN by the Ministry of Corporate Affairs. 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 (Listing Obligations and Disclosure Requirements) 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 2017-18.

AWARDS & RECOGNITIONS

In recognition of its efforts to minimise energy consumption, your Company has been adjudged the winner for 'Boilers and Furnaces Efficiency' by the Centre for High Technology, Ministry of Petroleum and Natural Gas. The award was given away at the 21st Refinery Technology Meet held at Visakhapatnam in April 2017.

For outstanding performance in the Public Sector category, your company received "Top Exporter – Southern Region Export Excellence Award(Gold)" for the year 2016-17 and Silver for the year 2015-16 from the Federation of Indian Export Organisations.

THE WAY FORWARD

Your company is taking number of new initiatives to improve competitiveness and quality to meet the future demands. These include:

1. Setting up necessary facilities to produce BS VI compliant MS and Diesel products by 2020 as stipulated by the Govt of India.
2. Implementation of energy conservation projects to reduce the energy consumption by about 20,000 SRFT on annualized basis.
3. Implementation of a project to utilize RLNG as feedstock and as fuel in refinery operations, to improve profitability.

I am happy to inform that your company is also planning to set up a 9.0 MMTPA Refinery at Cauvery Basin to meet the future energy needs of Tamilnadu.

ACKNOWLEDGEMENTS

On behalf of the Board of Directors, I would like to place on record the excellent support and guidance provided by all the stakeholders, in particular IndianOil and the Ministry of Petroleum and Natural Gas.

My sincere thanks to Naftiran Intertrade Company Ltd., an affiliate of National Iranian Oil Company, for their support and guidance.

I would like to place on record my heartfelt thanks to the Ministry of Petroleum & Natural Gas, the Government of Tamil Nadu; the Ministry of Road Transport and Highways; the Ministry of Environment & Forests; the Comptroller & Auditor General of India; the Central Vigilance Commission; Petroleum Planning and Analysis Cell; Oil Industry Development Board; Oil Industry Safety Directorate; Centre for High Technology; Petroleum and Explosives Safety Organisation; other regulatory and statutory authorities; banks and financial institutions for their guidance and valuable support.

I also express my sincere gratitude to all our customers, contractors and vendors for ensuring better performance of the Company during the year.

I would like to place on record the Board's well-deserved compliments to all employees of CPCL for their dedicated efforts and valuable contribution in the robust physical and financial performance of the Company.

I express my sincere thanks to all my colleagues on the Board for their continuous support, guidance and excellent contribution.

I would also like to place on record the Board's appreciation of the excellent contribution made by past Directors, Mr.Gautam Roy, Managing Director; Mr.S.Krishna Prasad, Director (Finance); Mr. U.Venkata Ramana, Director (Technical); Mr. K.M.Mahesh, Director (MOP&NG); and Mr.S.M.Vaidya, IndianOil, during their tenure on the Board.

I thank each and every one of you present here and look forward to your support in further enhancing the Company's performance in the coming years.

Thank you.