

*Chennai Petroleum Corporation Limited*

MINUTES OF THE 47<sup>th</sup> ANNUAL GENERAL MEETING OF THE SHAREHOLDERS OF THE COMPANY HELD AT 03.00 P.M. ON WEDNESDAY, THE 21<sup>ST</sup> AUGUST 2013 AT NARADA GANA SABHA, 314, TTK ROAD, CHENNAI-600 018

PRESENT

Mr.R.S.Butola, Chairman; Mr.A.S.Basu, Managing Director; Mr.S.Venkataramana, Director (Operations); Mr.T.S.Ramachandran, Director (Technical); Mr.L.Sabaretnam, Director and also the Chairman of the Audit Committee; Mr.RajKumar Ghosh, Director; Mr.Venkatraman Srinivasan, Director; and Mr.M.Sankaranarayanan, Company Secretary.

On behalf of Indian Oil Corporation Limited, Mr.Raju Ranganathan, Company Secretary, Indian Oil Corporation Limited, was present.

Mr.M.H.Ghodsi, Director represented Naftiran Inter-trade Company Limited.

Apart from the above, 1482 shareholders and 4 proxies attended.

PROCEEDINGS

- I. Chairman welcomed the shareholders and declared that quorum was present.
- II. The Notice convening the meeting was taken as read.
- III. Chairman addressed the shareholders. In his address, he informed that the global economy weakened significantly with growth slipping to 3.1% in 2012 from 3.9% in 2011. He added that while the sovereign debt troubles in the European Union continued, on the upside there was acceleration in the GDP growth in the US & Japan and deceleration in the growth of the advanced economies group.

It was further informed that the major worry during the year was deceleration in the growth of emerging economies which slowed down from 6.2% in 2011 to 5% in 2012.

Chairman remarked that the Indian economy's GDP growth slipped to a decade low of 5% and during 2012-13, India's external account was highly stressed. He added that during the third quarter of 2012-13, Current Account Deficit spiked to 6.7% of GDP although for the full year it was contained at 4.8%. He further informed that the Rupee experienced record depreciation not only against the US \$ but against all the major currencies and the only good news was the easing of inflation price, which witnessed a declining trend.

It was also informed that while the year saw the crude oil prices softening from the high of 2011-12, the market was fraught with volatility and geo-political disturbances. The average Brent Crude oil prices fell by about US\$ 4.5/bbl during the year from US\$114.6/bbl in 2011-12 to about US\$ 110.1/bbl.

It was stated that in the domestic market, the demand for refined petroleum products although buoyant showed signs of deceleration, with growth rate of consumption slipping marginally to 4.9% in 2012-13 from 5% in 2011-12. However, there was deceleration in consumption growth in major product categories viz., HSD, MS, ATF and LPG. He informed that though a series of steps like limiting a number of subsidized LPG cylinders, small but steady increase in HSD prices coupled with deregulation of bulk HSD market etc, affected the consumption growth marginally, the trend was symptomatic of general decline in the economy. On the supply side, the crude oil production saw marginal fall from 38.09 MMT in 2011-12 to 37.86 MMT in 2012-13.

Chairman highlighted the performance of the Corporation and informed that during the year, the Corporation achieved a throughput of 9.742 MMT and the secondary processing units viz., FCCU and OHCU achieved a throughput of 0.9 MMT and 1.803 MMT, respectively. He further added that the thruput was lower as compared to 10.557 MMT in the previous year as one of the Crude Distillation Units was under planned shutdown which took away 73 days of processing of crude oil during the year. He informed that improving energy efficiency is one of the goals of the Corporation and the Corporation achieved the lowest ever energy index of 66.6 MBTU/BBL/NRGF during the year against 68 MBTU/BBL/NRGF in the previous year.

Further, the Fuel and Loss for the year was 9.49 percent as compared to 9.60 percent in the previous year.

Chairman mentioned that the Corporation achieved the highest ever turnover of Rs.46, 842 crore during the year but the overall operations resulted in a net loss of Rs. 1766.84 crore and the losses were primarily on account of a number of unfavorable external factors beyond its control.

Chairman added that the Corporation initiated actions on key performance improvement measures including identification of superior crude mix to maximize GRM; reduction of Energy consumption, optimising crude inventory levels, minimising interest cost by replacing high cost loans with low cost loans and other measures to increase distillates yield .He expressed confidence that with all these initiatives, the Corporation's bottom-line will improve.

Chairman briefly explained the details of various projects completed by the Corporation like the Auto Fuel Quality Upgradation Project at an estimated cost of Rs. 2615.69 crore and CDU II revamp project for optimized production of Euro IV quality products at a cost of Rs. 333.99 Crore, both at Manali Refinery.

Chairman also briefly explained the details of projects under implementation viz., Mounded Bullet Storage facility for LPG and Petrochemical feedstock at an estimated cost of Rs.279 Crore at its Manali Refinery, Resid upgradation project, one of the most important projects to maximize the distillate yield of the Manali refinery and increase the percentage of High Sulphur Crude processing at an estimated cost of Rs. 3110.36 Crores and the 42" Crude Oil Pipeline Project at an estimated cost of Rs.126 Crore from Chennai Port to Manali Refinery.

Details of the new projects viz., a project to increase the capacity of Manali Refinery by 6.0 MMTPA and Single Point Mooring facility off Ennore Port to facilitate crude oil transportation through Very Large Crude Carriers were also explained.

The Health, Safety and Environment initiatives undertaken by the Corporation during the year were highlighted. It was informed that the ban on Manali Industrial area was yet to be lifted and

all efforts are being made in coordination with other companies in Manali area, to improve CEPI by implementation of a series of initiatives and action plans.

Chairman informed that the important milestone in the Corporation's industrial relations scenario achieved during the year was the settlement with the workers for revision of pay and allowances and with this settlement and many other policy decisions taken during the year, the alignment of HR policies of CPCL with those of parent Company were achieved to a significant extent. This included revision of weekly working hours from 42 hours a week to 48 hours a week.

Chairman further informed that as part of Corporate Social Responsibility, the Corporation implemented many social projects focusing on creation of facilities for Education, Health improvement, Skills development, Environment protection, Sanitation and Women welfare etc. and spent a sum of Rs. 199.43 lakhs on various CSR programmes during the year.

While concluding his address, Chairman thanked the Ministry of Petroleum & Natural Gas, Ministry of Environment & Forest and other Ministries/Departments of Govt. of India, Govt. of Tamil Nadu, Naftiran Intertrade Co. Limited, Shareholders, Central Vigilance Commission, Banks and Financial Institutions for their constant support and guidance.

IV. The Auditors' Report was read out by the Company Secretary.

#### ORDINARY BUSINESSSES

Chairman then invited members to raise and confine their queries to the Annual Accounts, the Directors Report and the agenda of the Meeting, as mentioned in the notice convening the meeting. With a view to facilitate participation of more members and to provide equal opportunities to speak, the Chairman requested members to be brief.

Members raised various queries, sought clarifications and made observations relating to the performance of the Corporation, which inter alia, included the following:

- Reasons for Losses during the last financial year and steps taken to improve profitability.
- Outlook for the year 2013-2014

- Prospects of declaring Interim Dividend
- Details of proposals cleared by Projects Committee
- Possibility of merging Chennai Petroleum Corporation Limited with its holding company Indian Oil Corporation Limited
- Prospects of issuing Bonus Shares and Bonds by the company
- Concerns on increase in the Debt Equity Ratio, reduction in Book Value, Earnings Per Share and Net Worth of the Corporation
- Current status of Subsidy Burden and mechanism to share profit between the Stand-Alone Refineries and Oil Marketing Companies
- Appointment of Additional Independent Directors to fill the vacancies
- Appreciation for Corporate Social Responsibility Activities undertaken by the Corporation
- Concerns for not remitting dividend to Naftiran Intertrade Company Limited for the year 2010-2011 and 2011-2012 due to sanctions imposed by USA / European Union on IRAN.
- Suggestion to delist the shares from Madras Stock Exchange Limited
- Hedging initiatives taken up by the Corporation
- Other specific issues relating to items appearing in the Annual Report 2012-2013

The Chairman, thereafter, replied to most of the above queries, observations and clarifications sought by the members on the various issues raised as enumerated above. He thanked the members for the observations and suggestions.

The Chairman, thereafter, moved the Annual Accounts for adoption and requested members to propose and second the resolution.

1. Proposed by Mr.S.Padmanabhan (CLID No. 10308922) and seconded by Mr. M.S.Raghunathan (CLID No. 10227412), the following ordinary resolution was passed unanimously:

*"RESOLVED that the Audited Statement of Profit & Loss Account of the Company for the period from 1<sup>st</sup> April 2012 to 31<sup>st</sup> March 2013 and the Audited Balance Sheet as at 31<sup>st</sup> March 2013 together with the Directors' Report and the Auditors' Report thereon, be and are hereby adopted."*

2. Proposed by Mr.L.Prabhu (CLID No. 60026924) and seconded by Mr.K.Panneerselvam (CLID No. 40154652), the following ordinary resolution was passed unanimously:

*"RESOLVED that Mr.S.Venkataramana be and is hereby re-appointed as a Director of the Company."*

Mr.R.S.Butola, Chairman of the meeting vacated the chair and requested Mr.A.S.Basu, Managing Director to chair the meeting since he was interested in the resolution appointing him as one of the Directors of the company. Mr.A.S.Basu took the chair and conducted the proceeding.

3. Proposed by Mr.Ramalingam Vidya Sankar (CLID No. 1204470005731511) and seconded by Mr.M.Varadan (CLID No. 40972353), the following ordinary resolution was passed unanimously:

*"RESOLVED that Mr.R.S.Butola be and is hereby re-appointed as a Director of the Company."*

Then Mr.A.S.Basu handed over the chair back to Mr.R.S.Butola.

4. Proposed by Mr.K.K.Morarji (CLID No. 60028197) and seconded by Mr.N.Ramakrishnen (CLID No. MRL002267) the following ordinary resolution was passed unanimously:

*"RESOLVED that Mr.T.S.Ramachandran be and is hereby re-appointed as a Director of the Company."*

5. Chairman thanked the Members present and declared the Meeting closed.

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*Chennai Petroleum Corporation Limited*

**Chairman's Address - 47<sup>th</sup> Annual General Meeting**

**Dear Shareowners of CPCL ,**

Ladies and Gentlemen

Very Good Afternoon to all of you

On behalf of the Board of CPCL, it is my pleasure to extend a very warm welcome to the shareholders to the 47<sup>th</sup> Annual General Meeting of the Corporation. I would like to thank each one of you for sparing your valuable time to attend this meeting. The Notice convening the meeting, the Directors' Report and the audited Annual Accounts have been already mailed to you and with your permission, I take them as read.

**Global Economic Scenario**

During the year, the overall global economic environment was quite challenging. Growth momentum of the global economy, weakened significantly, with global growth slipping to 3.1 percent in 2012 from 3.9 percent in 2011. While the sovereign debt troubles in the European Union continued, on the upside there was acceleration in the GDP growth in the US & Japan. However, it was not substantial enough to compensate the output decline in the EU, and therefore, on the whole growth decelerated in the advanced economies group. A major source of worry during the year was the deceleration in the growth of the emerging economies group. Growth in the emerging economies, as a whole slowed down from 6.2 percent in 2011 to about 5 percent in 2012.

## **Indian Economic Scenario**

For the Indian economy, the year was marked by slipping of GDP growth to a decade low of 5 percent, with industrial performance being particularly sluggish. During 2012-13, India's external account was highly stressed. Current Account Deficit spiked to 6.7 percent of GDP in the third quarter of 2012-13, although for the full year it was contained at 4.8 percent of GDP. However, even at 4.8 percent, it was significantly higher than 4.2 percent of GDP in 2011-12. During the year, Rupee depreciated against all major currencies. The rupee depreciation against the US Dollar was as high as above 12 percent. The trend of Rupee depreciation has continued through the current year as well. Although, most of the emerging economies have suffered a fall against the dollar ever since the US Federal Reserve Bank's announcement in May that its outstanding \$ 85 billion a month asset purchase programme will be tapered later this year, the fall has been significantly much more pronounced in case of India pointing to the deeper problems prevailing here. The only good news was on the inflation price which had witnessed a declining trend but with the food inflation having reached very high, the trend seems to be susceptible to rise. The Government has taken a series of measures to curb imports and improve investment climate and hopes that a combination of all these measures should help improve the outlook for the Indian economy.

## **Oil Sector**

While the year saw softening of international crude oil prices from the highest of 2011-12, the market was fraught with volatility and geo-political disturbances. The average Brent crude oil price fell by about



US\$4.5/bbl during the year from US\$114.6/ bbl in 2011-12, about US\$110.1/bbl.

In the domestic market, the demand for refined petroleum products although buoyant, yet it showed signs of deceleration. Consumption growth slipped marginally to 4.9 percent from 5 percent recorded in 2011-12. However, there was deceleration in consumption growth in major product categories such as HSD, which showed decline in growth from 7.8 percent in 2011-12 to 6.8 percent in 2012-13. Similarly MS growth declined marginally from 5.6 percent to 5.0 percent, ATF growth from 9.0 percent to a negative of 4.8 percent and LPG growth from 7.1 percent to 1.6 percent. While a series of steps such as limiting a number of subsidized LPG cylinders, small but steady increase in HSD prices coupled with deregulation of bulk HSD market might have affected the consumption growth to some extent but largely the trend is symptomatic of general decline in the economy. On the supply side, the crude oil production saw marginal fall from 38.09 MMT in 2011-12 to 37.86 MMT in 2012-13. The refinery thruput and Crude oil imports however were unaffected.

#### **Business Performance, Initiatives & Prospects**

On the whole for the downstream sector and refining companies like your corporation, the gains whichever were there were eroded by depreciation of rupee and high volatility in the crude oil market. In spite of the marginal slow down of consumption growth, the Indian energy market is set to be at the centre-stage of the global energy over the medium and long-term. Along with China, India will account for a sizeable share of the incremental global energy demand. Petroleum products will continue to be a major

energy source for the country, and their demand in India is projected to grow at rates way above the world average. As a petroleum refiner, this presents ample growth opportunities to your Corporation.

#### *Operational Performance*

During the year, your Corporation achieved a throughput of 9.742 MMT. The secondary processing units viz., FCCU and OHCU achieved a throughput of 0.9 MMT and 1.803 MMT, respectively. The thruput was lower as compared to 10.557 MMT in the previous year as one of the main crude distillation unit was under planned shutdown which took away 73 days of processing of crude oil and maintenance shutdown of hydrocracker and FCC Units during the year. Improving energy efficiency is one of the goals your corporation has been pursuing with a view to contain costs. Your corporation's efforts got further strengthened as it achieved the lowest ever energy index of 66.6 MBTU/BBL/NRGF during the year against 68 MBTU/BBL/NRGF in the previous year. Further, the Fuel and Loss for the year was 9.49 percent as compared to 9.60 percent in the previous year.

With the successful execution of the major revamp of the CDU-II unit of Manali Refinery, your corporation is much better placed to optimise production of Euro IV quality products and benefit therefrom.

Your Corporation has been working on optimizing of its Crude mix with a view to optimize the cost and product values. As a result, 10 numbers of new crudes were added to the crude oil basket of Manali refinery increasing from 27 to 37. In line with this, Manali refinery processed two new crudes viz., Kissanje from Angola and Essider from Libya during the

year. The Manali refinery achieved another new milestone during the year by way of successfully carrying out trial run of co-processing Vegetable oil (Jatropha) along with Diesel, in association with IndianOil R&D centre.

Also, the Cauvery Basin Refinery (CBR), processed Ravva plus KG onshore crude oil for the first time during the year. CBR achieved the highest total distillate yield of 87.5 percent and the lowest ever Fuel & loss (post expansion to 1 M M TPA capacity) of 4.04 percent wt on crude processed as against the previous best of 4.09 wt percent in 2005-06.

As you are aware, major portion of your corporation's products are marketed by IndianOil. The specialty products are however directly marketed by your corporation. Despite the decline in sales due to lower refinery throughput, your corporation was able to register 15 new customers for supply of Sulphur, Hexane and Propane.

#### *Financial Performance*

Your Corporation achieved the highest ever turnover of Rs.46,842 crore during the year, the overall operations resulted in a net loss of Rs.1766.84 crore. The losses were primarily on account of a number of unfavorable external factors beyond its control. Some of the adverse factors were :

- High Volatility in crude and product prices resulting in lower effective cracks.
- Adventitious loss on crude and finished goods inventory (Rs.656 crore) leading to adverse margins.

- Unprecedented depreciation of the Indian Rupee against the US Dollar and volatility in foreign exchange market resulting in exchange fluctuation loss(Rs.341 crore).
- Higher interest cost due to increased working capital needs, inadequate internal accruals and servicing of loans availed for Euro IV project from which commensurate returns are not being realised in view of the meagre compensation as provided by the pricing mechanism (Rs.162 crore).
- Lower crude throughput during the year due to extended shutdown of Refinery II, unplanned shutdown of Refinery III for packing replacement and reduced distillate yields(Rs.476 crore).

The borrowings of the corporation increased to Rs. 5905.45 crore as compared to Rs. 3672.34 crore in the previous year and , a small portion of the short term borrowings had to be utilized for funding the Capital expenditure as a short term interim arrangement. All this resulted in the increased financing cost.

In order to meet the long term fund requirements, as your corporation is implementing a number of projects, 10,000 numbers of 8.85 percent Secured Redeemable Non-Convertible Debentures of Rs. 10 Lakhs each redeemable at par, were issued during February 2013 on a private placement basis leading to availability of long term funds of Rs.1000 crore.

During the year, your Corporation contributed a sum of Rs. 4716.85 crore to the exchequer by way of excise/VAT/Taxes etc.,

## *Projects*

Investment for growth is a key thrust area for your Corporation. The investments are planned for process and product quality improvement as well as for capacity scale up.

### Projects Completed

The Auto Fuel Quality Upgradation project that your corporation had undertaken at an estimated cost of Rs. 2615.69 crore in its Manali Refinery to produce MS/HSD meeting Euro-IV specifications for Chennai and Bangalore and Euro-III equivalent specifications for the rest of the locations, was successfully completed during the year, with the commissioning of Hydrogen Generation Units, Utilities and Nitrogen production facilities.

As mentioned earlier the CDU II revamp project for optimized production of Euro IV quality products involving replacement of main crude column, modifications in vacuum column, heaters, new technological structure with additional heat exchangers, pumps and laying of 15.6 km pipeline was successfully completed and commissioned in October 2012 at a cost of Rs. 333.99 Crore.

### Projects under implementation

Presently, a number of important projects are under implementation.

**Mounded Bullet Storage:** Your Corporation is currently implementing a mounded bullet storage facility for LPG and Petrochemical feedstock at an estimated cost of Rs.279 Crore at its Manali Refinery. The project has been

taken up as a risk reduction measure and also to provide safe environment. The project was taken up in April 2013 and will be mechanically completed by end October 2014.

**Resid Upgradation Project:** This is one of the most important projects your corporation was targeting for improving its profitability. The Resid upgradation project is aimed to maximize the distillate yield of the Manali refinery and increase the percentage of High Sulphur Crude processing. The project is being implemented at an estimated cost of Rs. 3110.36 Crores. This project would increase the Distillate yield by about 7 percent leading to improvement in the bottom line. The Ministry of Environment and Forests accorded the Environment Clearance to the project in March 2013. This project is scheduled to be completed by the end of December 2015.

**New Crude Oil Pipeline:** A 42" Crude Oil Pipeline Project at an estimated cost of Rs.126 Crore from Chennai Port to Manali is also slated for implementation. This new crude pipeline with enhanced safety features will ensure reliable and faster crude transfer from Port, thereby bringing down berth occupancy and demurrage charges. All engineering activities have been completed. The project has been reviewed by Expert Appraisal Committee of Ministry of Environment and Forest and recommended for Coastal Regulatory Zone (CRZ) Clearance. We are awaiting final environmental clearance of the project.

### New Projects

Your corporation is contemplating a project to increase the capacity of Manali Refinery by 6.0 MMTPA with a view to address the projected supply - demand gap for the Petroleum products in the CPCL fed zone and to retain / enhance the market share. The process configuration has been finalised and further evaluation is in progress.

Another proposal to install a Single Point Mooring facility off Ennore Port to facilitate crude oil transportation through Very Large Crude Carriers is also being conceptualized for further evaluation. The project estimated to cost about Rs.863 Crore is aimed at optimising the transportation cost.

### **Competitive Edge Drivers**

*Your Corporation has been and is committed to nurturing areas which are the drivers of long term competitive edge.*

### Health, Safety and Environment

Being a significant player in the process industry, your corporation recognizes that safety is a prime concern and accordingly monitors safety performance with stringent standards. I am pleased to inform that your corporation had smooth major accident free operations during the year 2012-13.

Priority is also accorded for maintenance of good health condition of employees through regular Master health Check-ups, advise on nutritional foods and monitoring of noise and other environment factors at regular

intervals. During the year, your Corporation won the prestigious Golden peacock award for Occupational Health and Safety.

The environmental impact of the refineries is monitored constantly and any issue related to environment is addressed on priority. The quality of air is monitored through AAQM systems and effluents are treated as per norms to conserve precious water resources.

The ban on Manali Industrial area is yet to be lifted and all efforts are being made in coordination with other companies in Manali area, to improve CEPI by implementation of a series of initiatives and action plans. Continuous follow up is being made with Ministry of Environment and Forests to lift the ban as the CEPI in Manali Industry at present is reported to be below the threshold level of 70.

#### Human Resources

Your Corporation highly values its human resource assets and accordingly is committed to developing their skills and capabilities in a structured manner. An important milestone in the Corporation's industrial relations scenario was achieved during the year when the Management entered into a settlement with the workers for revision of pay and allowances. With this settlement and many other policy decisions taken during the year, the alignment of HR policies of CPCL with those of parent Company have been achieved to a significant extent. This included revision of weekly working hours from 42 hours a week to 48 hours a week.

With the objective of shared values among employees, your Corporation conducted five communication meetings with officers and 16 structured



meetings with collectives during the year to interact on the current business scenario and the challenges faced by organization.

#### Corporate Governance

Your Corporation complied with all the mandatory requirements of the Corporate Governance Guidelines issued by the Securities & Exchange Board of India and the Department of Public Enterprises, Government of India, for the year 2012-13, except the clause relating to the appointment of Independent Directors, which is under the consideration of Government of India. Your Corporation has scored "Excellent" scoring in complying with the DPE guidelines on corporate governance for the year 2012-13.

The various mechanisms like Independent External Monitoring of major tenders transparency in dealings, public grievance and tender grievance redressal are in place and implemented in letter and spirit.

#### Corporate Social Responsibility

As part of Corporate Social Responsibility, your Corporation has implemented many social projects focussing on creation of facilities for Education, Health improvement, Skills development, Environment protection, Sanitation and Women welfare.

Your Corporation spent a sum of Rs. 199.43 lakhs on various CSR programmes during the year.

## Sustainable Development

Your Corporation is committed to sustainable business practices. Towards this, rain water harvesting facilities project setting up Solar lighting system and demonstration trial for co processing of non-edible Vegetable Oil with diesel for use as fuel have been completed. A series of training programmes to create awareness among employees on the relevance of sustainable development and how to integrate such sustainable development practices with the Company's regular operations have also been initiated.

## **Future Outlook**

During the first quarter of the current year, Your Corporation achieved a crude throughput of 2.818 MMT as against the target of 2.831 MMT despite crude availability problem at Cauvery Basin Refinery. The distillates yield showed improvement at 68.7 percent and Fuel & Loss was contained at 8.8 percent.

Your Corporation has initiated actions on key performance improvement measures including identification of superior crude mix to maximize GRM, reduction of Energy consumption, optimising crude inventory levels, minimising interest cost by replacing high cost loans with low cost loans and other measures to increase distillates yield. I am confident that with all these initiatives, your Corporation's bottom -line will improve.

### Acknowledgement

Before I conclude, I would like to thank all the shareholders for the confidence reposed in your Corporation. I sincerely thank all our customers and other stakeholders for their support. I would also thank all our employees for their hard work, commitment and contribution to improve performance of the Corporation. I extend my thanks to my colleague Directors on the Board for their support and keen sense of involvement. ~~I would like to express my gratitude on behalf of the Board~~ of Directors, to the Ministry of Petroleum & Natural Gas, Ministry of Environment & Forest, other Ministries/Departments of Govt. of India, Govt. of Tamil Nadu, National Iranian Oil Company, Central Vigilance Commission, Banks and Financial Institutions for their constant support and guidance. I look forward to their continued support & cooperation for all time to come.

Thank You,

Jai Hind !!!