



Address of the Chairman & Managing Director at the 59th Annual General Meeting held on 22nd Sept 2011 at Mumbai

Good morning, Ladies and Gentlemen.

It gives me great pleasure to welcome all the shareholders on behalf of the Board of Directors to the 59th Annual General Meeting of HPCL.

Before I speak about the performance in the year that has just gone by and the business plans, permit me to outline the major developments that have taken place in the Indian economy during the last year.

Developments in the Indian economy & Oil Sector

The Indian economy has recovered swiftly from the slowdown resulting from the financial crisis of 2008-09. The GDP growth rate was 8.5% in 2010-11 compared to 8% in 2009-10. The growth, however, was accompanied by persistently high inflation which has remained above 8% throughout the year, and is a cause of worry.

Global oil prices, which had remained stable within the \$75-85 per barrel range during the initial part of 2010, started to rise in the latter part of 2010 and reached \$115 per barrel by March 2011. Behind the rise was the strong growth in the global oil demand.



Demand for Oil increased by 3.1% in 2010, which was more than twice the ten-year average. The developed world also saw an increase in demand after four years of continuous decline; however the bulk of the increase still occurred in the developing countries. Oil production, on the other hand, was affected by the turmoil in the Middle-East.

The consumption of petroleum products in India increased by about 3% in 2010-11, and about 142 MMT of petroleum products were consumed during the year. Petrol and diesel consumption recorded a growth rate of 11% and 7% respectively, boosted by rising vehicle ownership. Gas made further inroads in the industrial segment replacing oil demand. Demand for industrial fuels such as FO/LSHS declined. Turnaround in the aviation sector was apparent in the double digit increase in ATF demand. Bitumen demand declined with the completion of major planned projects under the NHAI / NHDP program.

HPCL Performance

The turnover of your company increased by 22% to ₹1,32,670 crores during the year. Profit after tax increased to ₹1539 crores during 2010-11 from ₹1301 crores in the previous year even after absorbing under recovery of ₹1509 crores on sales of sensitive petroleum products. Although borrowings have increased, the interest cost has been brought down through prudent treasury management.

Your company refineries processed 14.75MMT of crude oil achieving nearly 100% capacity utilization despite shutdown of key units for revamp and turnaround activities



undertaken for handling additional throughput and improve flexibility in handling different varieties of crude oil. Gross Refinery Margins doubled to \$5-6 per barrel as compared to previous year.

We have continued to build on our product pipeline capabilities. Your company has achieved mechanical completion of 250 km long Bathinda – Ramanmandi – Bahadurgarh pipeline. This will give a major boost to our marketing activities in North India after the commissioning of HMEL Refinery. Our product pipelines have achieved a throughput of about 13 MMT against a target of 10 MMT.

The sales in 2010-11 reached 27 MMT, including exports. In the domestic market we have grown by 5.5% recording a growth of about 3% above Industry and achieved sales of 25.5 MMT. We have institutionalized number of process innovation resulting in double digit growth rates in Petrol and Diesel sales, well above the industry growth rates. We have also increased sales of LPG, FO/LSHS and LDO. However, Naphtha sales were impacted by the availability & usage of Natural Gas.

Your company is the second largest lube marketer in the country. We are the first company in the country to introduce Nano particle based lubricating oils, viz., “HP Numaro Uno” in Engine Oil category and “HP Rhino” in Gear Oil category.

Recognizing the potential in City Gas Distribution, we have made inroads in this business with participation in Ahmedabad and through JVs in Andhra Pradesh and Madhya Pradesh. We see great opportunity in city gas distribution and have submitted



bids for city gas distribution for 4 cities during the year. Your company is also in discussions with state government of West Bengal to implement the CGD project in the city of Kolkata through a Joint Venture company.

To build and establish a significant presence in the Natural Gas infrastructure segment, your company has formed a consortium with GSPC & others, for bidding in gas trunk pipelines notified by PNGRB. The consortium has been successful in winning all the three bids for Pipelines i.e. (1) Mallavaram-Bhilwara, (2) Mehsana-Bathinda and (3) Bathinda-Srinagar. A formal authorization from PNGRB is awaited.

In upstream business, your company has been awarded 2 blocks in the ninth round of NELP of the Government of India in March 2011. As of 31st March 2011, your company has participating interests in a total 25 blocks including 4 overseas blocks.

As a step to establish presence in the growing field of alternate energy, your company has commissioned additional 25 MW capacity in Wind Farm project taking the total capacity to 50 MW of power generation.

Your company is setting up a state of the art Green R&D Centre at Bengaluru at an investment of ₹210 crores for absorption of new technologies, product & process development to strengthen refineries and marketing function.



Your company has leveraged ICT tools and the platform provided by the ERP extensively to bring in process efficiency, better control and transparency during the year.

The Joint Venture companies and subsidiaries of HPCL have also performed very well during the year 2010-11.

Projects completed during the year

Your company has identified infrastructure development as key element to give thrust to growth. In line with the same, several projects were successfully completed during the year. We have commissioned a new Fluidized Catalytic Cracking Unit (FCCU-II) of capacity 1.45 MMTPA at Mumbai Refinery and revamped the second FCCU at Visakh Refinery increasing capacity from 0.6 to 1.0 MMTPA. These projects will help in maximizing production of MS and LPG, thus reducing our dependence on imports.

I am happy to convey that your company achieved a major milestone with the commissioning of the Lube Oil Base Stock (LOBS) project during the year enhancing LOBS production capacity to 400 TMTPA. Your company will now be able to produce base oil conforming to API Group – I, II / III grades as per requirement.

Another landmark achievement by your company on the East coast is the commissioning of the Single Point Mooring (SPM) facilities at Visakh which has enabled



Visakh refinery to receive Very Large Crude Carriers (VLCCs) which will result in freight savings.

Your company has commissioned during the year country's largest, fully automated Oil terminal at Visakhapatnam exclusively handling Black oil.

Another land mark and Industry's first achievement by your company is the commissioning of the World's largest Flex Speed Carousel at Cherlapally LPG plant. It is a 66 Head Carousel with a filling capacity of 3,600 cylinders/hour and it can be operated at variable speed.

The LPG bottling capacity has been augmented by **135 TMT** and storage capacity increased by 3.6 TMT.

The Sugar Mills at Sugauli & Lauriya have been commissioned in March 2011 by our subsidiary HPCL Biofuels Ltd. The construction of the Cogen and Ethanol plants is in advance stage and commissioning is expected during 2011–12.

Guru Gobind Singh Refinery project at Bathinda of M/s HMEL, our joint venture company, is nearing completion and commissioning is expected in the current financial year. The project is our first refining project in the north of the country and will ease product availability issues in the region.

Business Plans



A large number of infrastructure projects are under various stages of implementation in line with our focus area of strengthening infrastructure for achieving growth and profits. While these have been detailed in the Management, Discussion and Analysis (MDA) section of the Annual report, I will like to dwell briefly on the business plans which are aimed at building on our strengths.

In Retail, the focus is on providing differentiated customer experience, selective expansion of network and growth. Your company is the first to implement NANO (No Automation No Operation) for ensuring that fuels of right quality are delivered in right quantity through our retail outlets. We will continue to leverage technology for ensuring delivery of Quality products and services through Automation of outlets, web based grievance redressal mechanism, NP Tool for expansion of network, implementing other initiatives and Standard Operating practices (SOP) at retail outlets.

In I&C, we are focusing to improve sales volumes and profitability by delivering superior customer experience through key account management and capturing the small and medium enterprises (SME) opportunity.

In lubricants, the focus is on product development and product innovation to meet customer needs. We plan to leverage our strong infrastructure and marketing tie-ups to grow in this profitable segment of business.

In Aviation, we are aiming at balancing domestic and international portfolio and exploring strategic tie-ups for participation in Greenfield / airport modernisation projects.



In LPG, we are focused on strengthening infrastructure and increasing the rural penetration in line with Vision 2015 of MOP&NG. We are committed to safety of LPG customers and have plans for various initiatives for ensuring safety in the kitchen.

On the refinery front, we will be expanding the existing Visakh Refinery to 15 MMT. During my address in the previous AGM, I had shared the plans for new Maharashtra refinery. We are actively engaged and currently focused on identifying suitable land and getting environmental clearance.

In the upstream business, we plan to convert the existing joint venture company M/s Prize Petroleum Ltd into a 100% subsidiary of your company and leverage the subsidiary for participating in the E&P business.

In Natural gas, apart from participation in the CGD and pipeline transportation as already detailed, your company is looking to develop sourcing capabilities and develop infrastructure through partnerships. This will help us in meeting the internal demand for our refineries and also participate in this growing segment of energy business.

Human Resources

The mainstay of your company performance is its employees. All the employees are fully aware of the challenges and fully aligned to the organizational objectives. A number of initiatives have been introduced to provide a productive working environment and ensure that our people continue to deliver the best performance in the current challenging environment. We believe in thought leadership and team culture for



achieving excellence and continuous performance improvement. Competency Mapping and Development Centers are being utilized to identify and enhance employee potential. Your company has embarked upon a comprehensive and structured process for development of leadership competencies across levels of organizational hierarchy to translate our aspiration into a reality.

Health, Safety and Environment

Your company is committed to conducting business by preserving the environment. The focus is on sustainable development, providing safe work place and enrichment of the quality of life of employees, customers and the community.

To ensure safe and reliable operations, HPCL along with other PSU Oil companies has taken up implementation of M B Lal Committee recommendations. We are committed to do all we can to prevent fire and accidents at our operating locations.

At HPCL, we had adopted a 'Climate Change Policy' to reduce carbon foot print and incorporate a green perspective in all the key organizational initiatives and processes. A benchmark assessment of 'Carbon foot print' at both Visakh and Mumbai refineries has been carried out.

Corporate Social Responsibility

As part of our CSR initiatives, we have taken up various initiatives towards building social capital, skill development, community development and care of the girl child. We



stand committed to further contribute to the “Agenda of Government for inclusive growth”.

Risk Management

Risk is an inherent part of Oil & Gas business. Hence, your company has institutionalized Risk evaluation and management as an on-going process. During the year, all the possible risks have been evaluated and fresh Risk register has been finalized. Action plan to mitigate the identified risks has also been institutionalized.

Corporate Governance

Your Company has complied with all the mandatory provisions of Clause 49 of the Listing Agreement of SEBI relating to the Corporate Governance requirements as well as guidelines of Corporate Governance for Central Public Sector Enterprises (CPSEs), issued by DPE, except the requirement of requisite number of Independent Directors on the Board of the Company. Your Company is pursuing with the Administrative Ministry for appointment of additional number of Independent Directors on the Board.

Future outlook

In the current year, the Indian economic growth is expected to be moderate as a tight monetary policy is being followed to control inflation.

The demand for petroleum products in the country is expected to grow at a Compounded Annual Growth Rate (CAGR) of 4.5%.



As far as oil prices are concerned, it is likely that the current high oil prices will continue. IMF has increased the baseline projections for crude oil to be in the range of US \$ 105 to 110. The consequent under recoveries will adversely affect liquidity leading to increased borrowings and higher interest cost. The government is discussing various options to reform the subsidy regime including direct transfer. I am confident that efforts will lead to a suitable solution to compensate your company for under recoveries.

Our Appreciation

Ladies and Gentlemen, before I conclude, I would like to express my sincere appreciation, on behalf of the Board of Directors, to the Ministry of Petroleum & Natural Gas and other Ministries/Departments of the Government of India and the various State Governments for their constant guidance and counsel, and look forward to their continued support.

My fellow directors and I are thankful to our shareholders – individuals and institutions for the support and confidence reposed in us. I thank you for being here today. We look forward to your continued association with us. I also extend my sincere thanks to my colleagues on the Board for their involvement and mature counsel.

I sincerely thank all our customers and business associates for their continued support. I would also like to thank all our employees for their commitment, hard work and contribution to the Company's performance.



I assure you that your corporation will continue to scale greater heights and uphold the faith and trust placed by all the stakeholders. We have set very high objectives during the coming years for creating sustainable value and thereby reward your loyalty.

I thank you all for giving us an opportunity to build HPCL as a strong organization in the future.

Place: Mumbai

Subir Roy Choudhury

Dated: September 22, 2011

Chairman & Managing Director

Management Team



From Left: Shri **K Murali**, Director- Refineries, Dr. **V Viziasaradhi**, Director-Human Resources, Shri. **S Roy Choudhury**, Chairman & Managing Director, Shri. **B. Mukherjee**, Director- Finance and **Ms. Nishi Vasudeva**, Director- Marketing