Hindustan Petroleum Corporation Limited

57th Annual General Meeting of Shareholders
in Mumbai on August 28, 2009

Left to Right Shri B. Mukherjee, Director - Finance, Shri S. Roy Choudhury, Director - Marketing, Shri Arun Balakrishnan, Chairman & Managing Director, Shri V. Viziasaradhi, Director - Human Resources and Shri K. Murali, Director - Refineries

Ladies & Gentlemen,

It gives me great pleasure to welcome you to the 57th Annual General Meeting of your company.

Fiscal 2008-09 is a year that will be remembered by the rich and poor alike for the rest of this century. Iconic institutions tumbled like nine pins and millions of people across the world lost their livelihoods. Some attribute these events to greed, while others say that the world of finance had become too complex for its own good. Budding economists will produce tomes of literature and many a magnum opus will receive prestigious awards for the myriad of interpretations and analysis about the happenings of the year. Fortunately for us, the impact was bearable.

Our operating environment fluctuated wildly last year. Slowdown of the world economy due to credit crisis morphed into a full blown global recession by the third quarter of 2008. Fears of inflationary pressures were replaced by fears of deflation. Oil price went on a roller coaster ride- touching $147 per barrel in July 2008, crashing to $34 per barrel in December 2008 before rising again to current levels of about $70 per barrel. Growth in the Indian economy also decelerated sharply in the third quarter in response to the uncertain economic climate. Domestic fuel prices, which were raised in June/July of last year consequent to the steep rise in oil prices, were revised downwards in December 2008/January 2009 to pass on the benefit of low prices to consumers.

Oil consumption in the country was affected by high prices as well as the slowdown in the economy with growth rate halving to 3.5% compared to 7% in 2007-08. Consumption of petrol, diesel and LPG has held up while demand for ATF, FO/LSHS etc. fell. This divergence can partially be explained by the variations in domestic retail price trends of controlled and free trade products as compared to international price movements. Of course, the slowdown in the economy also affected the demand.

Under these unusual circumstances, we achieved a sales turnover of about one lakh sixteen thousand crore rupees. We processed more than 16 million metric tonnes of crude. Sales including exports exceeded 25 million tonnes. Sales Growth of petrol and diesel was in double digits and higher than that of our competitors.

However, net profit for 2008/09 at Rs. 575 crores was lower compared to previous year due to constraints on pricing resulting in large under recoveries. We had to resort to higher borrowing to fund the working capital as compensation was not received within the expected time frame. As a result, interest costs in 2008/09 jumped by about 170% over the previous year. Even under such circumstances, we have recommended a reasonable return on your holdings.

Oil prices have firmed up recently in the wake of OPEC output cuts and the faint signs of economic recovery. On the supply side, the International Energy Agency (IEA) estimates that upstream capital expenditure has been slashed by about 21% in 2009 which would affect future production capacity. Thus, the outlook for oil supply/demand balance in the short-to-medium term is unclear. And this is getting reflected in the volatile oil prices.

The current business environment is challenging. The narrowing gap between crude and product prices is being reflected in lower Gross Refining Margins of our Refineries. While dieselization of personal transport, to improve fuel efficiency, had started almost a decade ago in Europe, the Indian automobile sector also appears to be following suit. Over a third of the cars sold in India are reportedly with diesel engines. This is primarily due to skewed pricing of petrol because of the high incidence of Excise Duty. The inter-se price between petrol and diesel needs to be corrected to bring about parity lest refinery margins on petrol disappear due to low demand and mandatory addition of ethanol.

Significant new discoveries of oil and gas have been made in India. These can reduce pressure on global oil and prices when our imports start declining. However, greater availability of gas in the country has reduced the demand for naphtha resulting in it trading at price levels lower than crude oil.

We are keeping our focus on the long-term and managing the short-term turbulence by maximizing operational excellence to meet these challenges. Our experienced team of officers is actively shaping the future for us.

On the positive side, cooling of overheated project equipment market and price collapse of commodities such as steel and cement due to global slowdown has helped us on the cost front in the many projects at hand.

India is a growing economy and with increasing prosperity, per capita oil consumption is bound to increase, as has happened in China and other Asian economies. Hence, demand for petroleum products in the country will necessarily go up. Our strategy is to ensure steady capital investment for long-term growth and reduce the impact of volatility through rigorous scrutiny of costs.

Our Refinery Upgrade projects for producing cleaner fuels are on track. Production of Euro III quality petrol has commenced at Mumbai Refinery and is expected shortly at Visakha Refinery. Euro IV quality petrol at both refineries will be available latest by year end. Diesel Hydrotreater projects to produce Euro III/IV quality diesel are under implementation. However, production of Euro III diesel at both the refineries is expected to commence early next year from existing facilities by effecting change of catalyst. The new secondary processing unit (FCCU) at Mumbai Refinery is half way through and on completion by mid next year will boost production of LPG and auto fuels. All these projects will result in better refinery profitability besides producing world class products. The Single Point Mooring (SPM) facility at Visakha to facilitate use of super tankers

(VLCCs) for crude import is expected by early next year. This will give us the twin benefits of lower freight and port charges.

Addition of the Mundra-Delhi pipeline to our pipeline network has strengthened our distribution infrastructure. It is a matter of immense satisfaction for us that this pipeline has achieved 100% capacity utilization much before schedule. Last year, our three product pipelines together achieved the highest ever throughput of 10.58 million tonnes.

Our focus on improving offerings to consumers to build loyalty to our brand continues. Technology is being used effectively to provide quantity and quality assurance. One such initiative is “HP GAS ANYTIME”; an SMS based real time 24x7 booking and complaint redressal service to LPG customers on a pilot basis in Kerala through a single number. This facility will soon be rolled out in the rest of the country.

Modern, state of the art infrastructure is being set up in States which had missed the development bandwagon earlier, but now have elaborate policies in place for transforming their economies. HPCL had only marginal presence in these parts of the country and these new investments are expected to yield rich dividends. We propose to aggressively tap the rural market through special format retail outlets that can cater to the needs of rural customers. 'Club HP', the synonym for quality, quantity and high service levels, has become the leading brand in auto fuel retailing in the country by registering highest growth rates for petrol and diesel in the last 5 years.

Apart from liquid transport fuels, demand has also been growing for LPG and CNG as auto fuels, partly as a result of policy mandates and partly due to price-differential. We plan to take advantage of this trend by augmenting our Auto LPG and CNG network.

Information technology has become the core of your company's operation. The Enterprise Resource Planning (ERP) system has provided essential support to the main business processes of the Corporation. The availability of on-line and real time information in these systems enables speedy decision making, improved responsiveness, reduced cycle times and better customer service. IT enabled solutions are also being used to simplify and improve processes and bring in more transparency in operations.

Construction of the 9 million tonnes per year grass-root Guru Gobind Singh Refinery at Bathinda in Punjab, and the 1000 Km crude pipeline from Mundra to Bathinda is progressing at a fast pace and is scheduled to be mechanically completed in the last quarter of fiscal 2010-11. As you may be aware, this project is being implemented through our joint venture company M/s. HPCL-Mittal Energy Ltd (HMEL). This partnership has been very synergistic with the strengths of two great companies converging into a strong management team at HMEL. The pipeline to evacuate the products from the Refinery is also progressing satisfactorily.

Demand for energy in India is growing as its economy grows. In the last 10 years, energy consumption increased at an average annual rate of about 5%. At this rate, energy demand doubles every 14 years. This growth has a carbon footprint which will affect the environment we live in. The cover page of our Annual Report reflects this theme. Renewable energy is one of the ways of reconciling these two conflicting objectives. We have made a modest entry in this segment. Wind farm projects of 25 MW capacities have been commissioned in the states of Maharashtra and Rajasthan. Another 25 MW is proposed to be implemented during the year. Work on two ethanol production units in Bihar is progressing well. Our ambitious Jatropha plantation program in Chhattisgarh along with the State government is also advancing satisfactorily. These projects, while providing profitable opportunities for us, also act as catalysts for new investments in these states.

The commitment, experience and hard work of our employees have been essential parts of our success. High attrition rates, which had become a source of concern for us in the last couple of years, have not only slowed but also enabled a larger pool for recruitment of our future leaders. We are continuously improving capabilities of our people through training and sharing of expertise available within the Corporation. Job rotation and succession planning for critical positions continue to draw the attention of your Board. HR initiatives like Balanced Scorecard, Competency Mapping, and Six Sigma have enhanced the competency and productivity levels across the organization. Our employees demonstrated their dedication and commitment by continuing work during the strike by officers of some Oil PSUs. Thus our employees ensured that consumer distress was minimized to the extent possible.

Developments in the last year have also raised issues of corporate governance. It is a matter of pride for us that your Company is ranked 311 amongst Global Fortune 500 Companies, 1002 amongst Forbes Global 2000 Companies and 112 in the list of World's Most Reputed Companies brought out by the Global Reputation Institute. We conduct our business with highest standards of corporate governance. We have implemented the “Right to Information (RTI) Act” in letter and spirit, thereby providing information within stipulated time in almost all cases. We have also implemented the Integrity Pact in liaison with “Transparency International”, thereby enabling faster redressal of grievances of our business partners.

As a responsible corporate citizen, we have reached out to Society in general and the underprivileged in particular through our Corporate Social Responsibility (CSR) initiatives by providing for education, health, water, sanitation, rural development, vocational training and income generating schemes to make the beneficiaries self-reliant. We have resolved to keep aside 2% of our Profit after tax for CSR activities from the current year onwards.

During last year, Shri M. A. Tankiwala, Director (Refineries) superannuated from the services of the Company. Shri K Murali was appointed by the Government as his successor with effect from February 02, 2009. Shri T.L. Sankar, a member of our Board since January 1999, ceased to be the Director with effect from December 1, 2008. Tenure of Shri I.M. Pandey, Director on the Board since December 2005 ended on December 8, 2008. The Board of Directors places on record its appreciation of the valuable services rendered by Shri M. A. Tankiwala, Shri T. L. Sankar and Shri I.M. Pandey during their tenure with the Corporation.

Shri L.N. Gupta, Joint Secretary - Refineries, MOP & NG, joined HPCL Board as Part-time Director on 25th June, 2008. As per the provisions of Section 256 of the Companies Act, 1956, S/Shri P.V. Rajaraman, Prakash G. Apte and V. Vizia Saradhi are the Directors who will retire by rotation at this Annual General Meeting and are eligible for reappointment.

Ladies and Gentlemen, before I conclude, I would like to place on record 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 each of our one lakh shareholders for the confidence reposed in us. We look forward to your continued association with us. The Corporation will always endeavour to perform well and meet the expectations of its large family of shareholders. I also extend my sincere thanks to my colleagues on the Board for their involvement and mature counsel.

I would also like to thank all our employees for their continued dedication, hard work and contribution to the Company's performance.

Place : Mumbai

Dated : August 28, 2009

Arun Balakrishnan

Chairman & Managing Director

This does not purport to be a record of the proceedings of the Annual General Meeting.