



56th AGM Address of Chairman & Managing Director

Good Morning, Ladies & Gentlemen.

It gives me great pleasure to welcome you all to our 56th Annual General Meeting of your company. The Annual accounts and other management reports which have been circulated are in the annual report and with your permission I take them as read.

There were two major developments of note in the last year that had an impact on our business. One, Indian economy recorded a growth of 9% for the third consecutive year. Second, crude oil price breached 100 dollars per barrel mark. Petroleum products demand increased in response to growing economy. While demand for all products went up by 7%, demand for petrol, diesel and LPG recorded a double digit growth. These three products account for half the demand barrel. Further, prices of all three products are controlled. Thus although high economic growth and consequently high demand for petroleum products is positive for our business, high crude oil price puts our financials under pressure in view of limited pass-through to end-product prices. What is interesting is that demand for products, that are not part of price controls, has risen despite high prices. For example, demand for Bitumen and ATF increased by 14-17% in the last financial year.



56th AGM Address of Chairman & Managing Director

Both the factors are reflected in our performance. We achieved highest ever crude thruput of about 17 million metric tonnes with 129% capacity utilization. Total sales were about 24 million tonnes with about 22 million tonnes sold domestically. Today, the turnover of the Company is more than one lakh crore rupees. Despite massive under-recoveries, a net profit of Rs. 1135 crores was achieved for the year 2007-08 partly due to sharing of losses by upstream public sector oil companies and the Government of India.

In the current year, the economic environment is quite turbulent. The global economy is facing two major crisis- inflationary commodity price storm and deflationary financial crisis. Turmoil in the financial markets coupled with high commodity prices as fallout of sub-prime crisis has dampened the growth prospects in a number of advanced economies while raising fears of inflationary spiral. Inflation in advanced economies is at a highest level since 1992 while average inflation rate in developing countries is around 9%. Initial sanguinity about the limited impact of sub-prime crisis turned out to be quite misplaced and it appears that global economy is heading towards a slowdown. Fears of slowdown seem to have affected oil prices as well. Oil prices hovered around \$150 per barrel recently before retreating to about \$95 per barrel.

In India, a concern about inflationary pressures has forced the Reserve Bank of India to follow a tight monetary policy. Resultant dampening of demand will moderate GDP growth. Growth prospects for the Indian economy are also vulnerable to trade and financial spillovers from the anticipated slowdown in the advanced economies. While



56th AGM Address of Chairman & Managing Director

demand slowdown may affect petroleum product demand negatively, fall in oil prices, if sustained, will reduce the under-recoveries incurred by us. Gas from Krishna-Godavari Basin is expected to start flowing in the current financial year. The price at which this gas is expected to be marketed is highly competitive and may impact demand for products that are used as substitutes for gas such as Naphtha.

In recent past, projects costs have gone up sharply due to high commodity prices, tight market in specialized equipment and shortfall in qualified engineering resources. If raw material prices cool down in response to weak economic climate, outlook for project costs and schedule would improve. Recent depreciation of the Rupee is a cause of concern for us as it would push up import costs. Shortage of engineering skills has impacted us through attrition as well. A continuing stream of trained manpower is leaving us for prospects within and outside the country. Apart from engineers, other professionals are also leaving for employment in the booming private sector. Sixth pay commission has recently come out with its recommendations for central government employees. Salary revisions in public sector enterprises are also expected in immediate future. This will create additional expenditure for the company.

We have been facing severe liquidity problems resulting in increased short and medium term borrowings which have become alarming. This has necessitated realignment of capital and revenue expenditure without compromising on long-term profitability. While the Corporation is going ahead with much needed improvements in infrastructure, it is



56th AGM Address of Chairman & Managing Director

taking a fresh look at other expenditure which can be either scaled down or postponed. Revenue expenditure is being cut to the extent feasible.

Current cyclical developments notwithstanding, underlying fundamentals of our business remain intact. Modern energy including oil underpins every aspect of life as we know it today- food supply, potable water, cooling & heating, transportation, trade, health care and technology etc. Higher the income, greater the demand for energy. As India's one billion plus population moves up the income scale demand for petroleum products would go up.

As far as supply is concerned, the country is dependent on imports for three-fourths of its oil requirements and the dependence is likely to increase in future. Trends indicate that production of easy to extract conventional oil is flattening as many existing fields are maturing. New oil is likely to be from the deep offshore, Arctic and unconventional sources like oil sands. These projects are complex, require multi-billion investments and hence, the oil that comes on market would be expensive.

Greater consumption of fossil fuel means that emissions of carbon dioxide will rise with adverse consequences for climate. Changing climate patterns can have catastrophic consequences for life-systems and thus, solutions are required to reduce the carbon content of energy.



56th AGM Address of Chairman & Managing Director

These are the basic parameters that define business environment for us viz. rising demand, high oil prices and environmental concerns. We aim to consolidate our core competence while positioning the company to take advantage of emerging opportunities. Last year we completed cross-country 1000 kilometer Mundra - Bahadurgarh product pipeline. The pipeline would consolidate HP's presence in Northern India by improving product availability. We also commissioned the LPG cavern storage facility in Visakh with a capacity to store 60,000 metric tonnes of LPG. The project, implemented in joint venture with M/s Total of France, is first of its kind in South Asia and would enable us to save freight costs through import of larger parcels as well as ease LPG shortage in the country.

We are providing value addition in our retail outlets through ATMs, cafes, convenience stores etc. We hope to create a niche for ourselves in the market through these efforts. We are penetrating rural markets with low-cost 'Hamara Pump' to meet the requirements of farmers besides catering to the new found prosperity in these areas. All our efforts will be guided by sound business principles and adoption of a robust revenue model for our innovations. We are also focusing on plugging leakages in the distribution system through automation of retail outlets, satellite tracking of fuel trucks and introduction of marker in kerosene.

Environmental imperatives demand cleaner fuels. HP refineries have undertaken projects to produce cleaner fuels. The Green Fuels Project for production of Euro III/IV Petrol is nearing completion at both the Refineries. Work has been initiated for putting



56th AGM Address of Chairman & Managing Director

up Diesel Hydro Treater facilities for production of Euro III/IV diesel. Up-gradation of Lube Refinery to produce Group II/III base oils and construction of a second FCCU at Mumbai Refinery is underway. Upgradation of Lube refinery would enable us to maintain and strengthen our lead in the lubricants business through higher grade value-added products. Our refineries face the challenge of being engulfed by unlimited urban development posing severe safety hazards in addition to limiting avenues for expansion of capacity or installing new plant and equipment. Additional land has been acquired through outright purchase and lease at both refineries to ease the land constraint.

The work for grass-root refinery at Bhatinda in joint venture with M/s Mittal Energy Investments Pte Limited is progressing at a satisfactory pace. During the year, HPCL - Mittal Energy Ltd, incorporated a wholly owned subsidiary, M/s HPCL-Mittal Pipelines Limited, for developing facilities relating to crude oil receipt, storage and transportation. The refinery is expected to ease product availability for our marketing network in the Northern market. With the commissioning of this project, we will be in a position to aggressively pursue marketing opportunities in the region.

High dependence on imported oil and hence, oil security considerations coupled with concerns about climate change provide a favorable environment for alternate fuels like bio-diesel. After initial euphoria about bio-fuels, there has been growing backlash against biofuels on environmental grounds and, more significantly, because they compete with other agricultural activities for land use and water. Our focus, however, is on Jatropha cultivation. It does not displace existing food production and thrives on any type of soil.



56th AGM Address of Chairman & Managing Director

High oil prices improve the viability of projects considered marginal in an era of low prices thereby expanding portfolio of upstream assets. We have started a new Department for Exploration and Production activities. Though a high risk, long gestation activity requiring large investment, we are continuing with our initiatives after assessing each potential opportunity carefully and in association with reputed and experienced partners. The focus is to acquire a balanced portfolio of assets comprising exploration, development and producing fields.

The commitment, experience and talent of our employees are critical for our growth. Therefore attrition of experienced manpower is a matter of concern for us. On an average, over 150 officers leave every year for better opportunities elsewhere. Large scale recruitment and training appears to be the only solution.

A number of HR initiatives have been introduced to make HP a great place to work. The 'Balanced Scorecard' tool to set up performance targets and evaluation, Competency Mapping and Development Centres to enhance employee capabilities and Six Sigma for quality improvement have yielded rich dividends and are being constantly upgraded to higher levels of sophistication.

Managing in turbulent times with associated uncertainties is always challenging. Some of the changes are cyclical while others represent structural change. Our endeavor is to manage the cyclical nature of our business while positioning for opportunities thrown up by structural changes. We have a very able team to guide us through these changes.



56th AGM Address of Chairman & Managing Director

During last year, Director Finance, Shri Ramulu, superannuated from the services of the Corporation. Shri B Mukherjee succeeded him with effect from February 01, 2008. Shri Prabh Das resigned from the HPCL Board with effect from March 05, 2008. Shri L N Gupta, Joint Secretary, Ministry of Petroleum & Natural Gas has been appointed as a Part time Director with effect from June 25, 2008. S/Shri Rajesh. V. Shah and M. Nandagopal, who joined the Board on January 21, 1999 as part-time non-official Directors, ceased to be Directors from August 23, 2007. S/Shri T. L. Sankar, I. M. Pandey, P.V.Rajaraman, and Prakash. G. Apte continues to be part-time non-official Directors of the Corporation.

The Board of Directors place on record its appreciation of the valuable services rendered by S/Shri C Ramulu, Prabh Das, Rajesh. V. Shah and M. Nandagopal during their tenure with the Corporation.

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.

The Directors are thankful to all of you and other shareholders for the confidence you have reposed in us. We look forward to your long association with us. The Corporation



56th AGM Address of Chairman & Managing Director

will always endeavor 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.

Mumbai

September 22, 2008

Arun Balakrishnan

Chairman & Managing Director

Management Team



Seated L to R: Shri V Vizia Saradhi , Director – Human Resources, Shri S Roy Choudhury, Director – Marketing , Shri Arun Balakrishnan, Chairman & Managing Director, Shri M. A Tankiwala, Director –Refineries, and Shri B. Mukherjee, Director – Finance