

CHAIRMAN'S SPEECH IN
AGM

Good morning, Ladies and Gentlemen,

It gives me great pleasure to welcome all the shareholders on behalf of the Board of Directors to the 60th Annual General Meeting of Hindustan Petroleum Corporation Limited. The year that has just gone by has been a significant year for your Company and witnessed several historic moments and milestone achievements.

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It is a matter of great pride for us that the 9 MMTPA Guru Gobind Singh Refinery of our Joint Venture Company at Bathinda has been dedicated to the Nation by Hon'ble Prime Minister of India, Dr. Manmohan Singh on April 28, 2012. The refinery will help us in meeting the product demand in north India and is the important first step towards realizing our objective of achieving product sufficiency.

I would like to take a brief moment to talk about the major developments that have taken place in the Indian economy during 2011-12 which have an impact on your Company, before sharing with you the details of the performance and our business plans.

Developments in the Indian economy & Oil Sector The growth in Indian economy slowed down perceptibly in 2011 -12, partly due to the state of the global economy. The GDP growth was estimated to be 6.5% during 2011-12 compared to 8.4% in 2010-11. The economy witnessed slowdown in agricultural & manufacturing sectors, increasing inflation and weakening of the Indian rupee.

Throughout the year 2011-12, global crude prices remained above US \$ 100 per barrel, fluctuating in the \$100/bbl to \$125/bbl range. The high oil prices have contributed to the widening of the country's trade and current account deficit.

Global oil consumption grew by 0.7% over historical to reach 88 million barrels per day. Consumption in Asia-Pacific grew by 2.7%. India contributed to 4% of the world's oil consumption. The world oil production increased by 1.3% over historical to 83.6 million barrels per day. The decline in production in Libya was off-set by increase in production from other OPEC members in the Middle-east. World natural gas consumption growth was limited to 2.2% during 2012 compared to growth of 7.6% in 2011 mainly due to decline in European Union gas consumption.

The consumption of petroleum products in India increased by 4.9% in 2011-12 to 151 MMT. Consumption of all products except SKO, LDO, FO and LSHS increased. Growth rate for MS consumption decreased to 5.7% in 2011-12 compared to 11% in 2010-11, while growth rate for HSD increased to 8% from 7% during the same period. LPG and Naphtha consumption increased by 7.5% and 5.6% respectively. Consumption of ATF increased by 9% while there was marginal growth of about 2% in Bitumen consumption.

HPCL Performance

The Gross sales of your Company increased by an impressive 32% to ₹1,88,131 Crore during the year 2011-12. Profit after tax decreased to ₹911 Crore during 2011-12 from ₹1539 Crore in the previous year. The lower PAT is due to higher interest cost which increased to ₹2,139 Crore from ₹892 Crore in 2010-11. The higher interest cost was on account of higher borrowings for funding working capital needs, due to the delay in compensation of the increased under-recoveries on sales of sensitive petroleum products.

Your Company's refineries processed 16.19 MMT crude oil achieving 109% capacity utilization. The throughput has been increased by 1.4 MMT during

2011-12 compared to previous year. The Lube Oil Refinery at Mumbai has achieved highest ever Lube Oil Base Stock (LOBS) production of 382 TMT during 2011-12 representing an increase of 82 TMT over previous year and the growth of 27%. Mumbai Lube Refinery can now produce value added grades of Group II and Group III Base Oils to meet the domestic and international demand. The Gross Refinery Margins averaged at \$3 per barrel as compared to \$5-6 per barrel during the previous year.

Your refineries have maximized the MS production of Euro III and Euro IV fuel specifications through newly commissioned Clean Fuels Projects. During 2011-12, production of high value products of MS, LPG, propylene and Bitumen has been increased at your Refineries. Both the refineries have sourced and processed high sulphur crudes to maximize GRMs.

During 2011-12, your refineries have undertaken various measures and carried innovations to convert low value streams to high value products, increase throughput, improve flexibility to handle different grades of crude oil and enhance profitability.

Your company has expanded the pipeline network during the year. The 30 km long Ramanmandi-Bathinda pipeline has been commissioned during December 2011 to transport Bathinda Refinery product to the consumption zone.

Our product pipelines have achieved a record throughput of about 13.62 MMT during 2011-12 against a target of 11 MMT. I am happy to share with all of you that the state-of-the-art 250 km cross country pipeline running from Ramanmandi at Guru Gobind Singh Refinery to our existing Bahadurgarh Terminal has been commissioned on August 23, 2012.

The sales of your company including exports increased by 9% in 2011-12 to reach 29.48 MMT. In the domestic market we have grown by 7.9% recording a growth of about 3% above Industry and achieved sales of 27.8 million tonnes. Your company has achieved a gain in market share by 0.50%. The robust performance is a result of consistent implementation of best practices, institutionalization of a number of strategic initiatives and employee involvement.

In 2011-12, Retail sales growth of MS and HSD by your company at 7.5% and 14.7% respectively, were far ahead of the industry growth rates. The accelerated growth in Retail is mainly due to innovative measures and initiatives for differentiated customer experience. To cater to the needs of the growing rural market, your company has commissioned 329 new outlets in the rural areas.

Your company is the second largest lube marketer in the country. The value added lube sales (excluding base oil sales) increased by 10% to 267 TMT during 2011-12. We increased our bitumen sales by 17% during 2011-12 compared to about 2% growth by industry.

Your company continues to be the second largest LPG marketer in the country with a market share of 26.5% during 2011-12. LPG sales were in line with industry growth rate of about 7%. In the highly competitive non-domestic bulk LPG segment, we have a leadership position with 40% market share.

Your company achieved the highest ever sales of 768 TMT in Aviation during the year 2011-12 with growth of 10% compared to industry growth of 9%.

In upstream business, a significant achievement during 2011-12 has been the takeover of M/s Prize Petroleum Company Limited (Prize), a Joint Venture Company of HPCL making it a Wholly Owned Subsidiary, effective December

22, 2011. The Joint Venture companies and subsidiaries of your Company have also performed very well during the year 2011-12.

Projects completed during the year

To cater to the increasing demand and support the growth, your company lays significant thrust on infrastructure development.

Your company reached a significant milestone at Visakh Refinery with the dedication of the Clean Fuel project to the nation by Hon'ble Minister of Petroleum & Natural Gas on February 20, 2012.

A significant milestone for movement of the GGSR product is the mechanical completion of a new terminal at Tikrikalan for handling MS, HSD, SKO and Ethanol along with two 12 km long product feeder pipelines from Bahadurgarh Terminal to Tikrikalan Terminal.

I am happy to convey that the first fully automated White Oil Terminal at Visakhapatnam and a new White Oil Terminal at Ennore have been mechanically completed in December 2011. OISD inspection is complete at Visakhapatnam and planned at Ennore. These Terminals will be commissioned during the current year and will help in meeting the market demand.

Another landmark achievement which has strengthened LPG infrastructure is the commissioning of new LPG Bottling Plants at Visakhapatnam on the East Coast and at Bathinda in the North. Further, a new LPG Bottling Plant at Hazira of 150 TMT capacity has been mechanically completed in December 2011. During 2011-12, the LPG bottling capacity has been augmented by 675 TMT to 3,610 TMT and bulk LPG storage capacity increased by 10.8 TMT to 92.3 TMT.

As part of your Company's initiatives in biofuels, integrated sugar-cum-ethanol plants have been set up at Sugauli and Lauriya in Bihar and which have started commercial production of sugar, ethanol and power during the crushing season of 2011-12.

Business Plans

A number of infrastructure projects which are under construction have been detailed in the Management Discussion and Analysis (MDA) section of the Annual report. All these projects will contribute to future earnings growth. I will now briefly share our future business plans.

In Retail, the focus is on improving the productivity of network by leveraging technology and providing differentiated customer experience consistently across the network. In Direct Sales, the focus is on strengthening infrastructure, margin improvement, long term business tie-ups, key account management, product development and product innovation.

I am happy to share with you that your company during the year 2012-13 has won the bid for two major pipeline projects i.e., (1) Rewari-Kanpur Pipeline, (2) Awa-Salawas Pipeline. The formal communication from PNGRB is awaited. We have also submitted Expression of Interest to PNGRB for the Mangalore-Hassan-Bangalore-Mysore LPG Pipeline.

Your Company is also participating in three natural gas pipelines notified by PNGRB through the consortium formed with GSPC & others namely (1) Mallavaram-Bhilwara, (2) Mehsana-Bathinda and (3) Bathinda-Srinagar gas pipelines.

Your company has plans to expand the existing Visakh Refinery to 15 MMT. M/s NEERI is carrying out Environmental Impact Assessment Studies for the project. In respect of new Maharashtra Refinery Project, the land acquisition process is

currently on hold in view of Environmental moratorium which has been extended up to December 2012.

Your Company is also exploring the option of setting up a 9 MMTPA refinery at Barmer, Rajasthan in collaboration with other partners. The proposal is at preliminary stage and configuration & detailed feasibility study has been initiated.

To meet the requirements of the BS-IV quality diesel as specified in the Auto Fuel Policy, both Mumbai and Visakh refineries are setting up Diesel Hydro Treater (DHT) Units of 2.2 MMTPA each with associated facilities.

Both the refineries at Mumbai and Visakh are part of the benchmarking study being organized by the Centre for High Technology in arrangement with M/s Solomon Associates, USA.

We shall focus on improving the identified areas for overcoming the disadvantages in O & M perspectives.

In the upstream business, M/s Prize Petroleum Company Limited shall be the upstream arm of your Company which shall carry out all the exploration and production activities.

Human Resources

The strength of your Company is the employees who are dedicated, competent, capable and committed to deliver cutting edge performance. All the employees are fully conscious of their responsibilities, the organizational objectives, the challenges and fully aligned to be a significant contributor to the success of your Company.

At HPCL, we have embraced the cultural motto of 'HP First' in all our endeavors. 'HP First' underlines the need to take long term and sustainable decisions by laying stress on organizational interest over the personal aspirations in all the professional engagements for every employee of the Corporation.

One of the key achievements for the year 2011-12 was the finalisation of a Long Term Settlement with the representatives of our unionised staff. The duration of the settlement is for 10 years. The non-management staff of our Corporation play a critical role in the success of the Corporation. This settlement was finalised very amicably after discussions with different unions with productivity improvements and proactive contribution as focus. While on the subject, I would also like to place on record that we had no incident of strike in the last 2 decades. I must compliment our union representatives for their commitment to the Corporations' objectives.

Another important initiative rolled out in 2011-12 was Project Akshay. Akshay in Sanskrit means Eternal. This project is a comprehensive leadership development initiative spread across 9 months and is aimed at developing an eternal leadership pipeline in your Corporation. During the year, 21 officers from senior management and 104 officers in middle management underwent this program which saw deployment of multiple leadership development methodologies like executive coaching, experiential learning, mentoring etc.

Health, Safety and Environment

Your Company is committed to conducting operations in a safe manner and preserving the environment. The focus is on sustainable development, providing safe work place and enrichment to the quality of life of employees, customers and the community.

To ensure safe and reliable operations, your Company along with other PSU Oil companies has taken up implementation of M B Lal Committee recommendations.

As part of commitment for protection of environment, your Company is implementing Flue Gas Desulphurization (FGD) projects at both the refineries for removal of Sulphur from the flue gases of the Fluidized Catalytic Cracking Units (FCCUs).

Your Company has adopted the Climate Change Policy for ensuring sustainable development. During 2011-12, Carbon Footprint assessment under Scope 1, 2 & 3 under GHG Protocol Standards was completed for 15 POL installations including recommendations for carbon footprint reduction.

Corporate Social Responsibility

As part of CSR initiatives, your Company has undertaken various projects in partnership with specialized NGOs/Implementation partners with focus on sustainable livelihood, child care, education, health care and community development.

Risk Management

Risk being an inherent part of Oil & Gas business, a structured Risk Management process has been embedded in your Company. The identified Risks are being monitored & action taken as per mitigation plans.

Corporate Governance

Your Company has complied with the mandatory provisions of Clause 49 of the Listing Agreement relating to the Corporate Governance requirements as well as DPE guidelines of Corporate Governance for the Central Public Sector Enterprises.

Future outlook

Energy is an essential driver of the modern economy. Oil is a preferred source of energy because of its high energy density. A look at the long term trends indicates that there are two basic trends in oil demand in the country. Growth in the economy is leading to increasing demand for oil. However, this demand is coming mainly from transport and residential sectors vis-à-vis other sectors.

In the last decade, the Indian economy has grown at an annual average rate of about 7.6% while demand for oil has increased at an annual average rate of about 3.5% and nearly 60% of the incremental demand was for diesel. Diesel, petrol and LPG are the major components of the demand barrel. We remain committed to ensuring reliable and affordable supply of fuel products.

In the year 2012, the Indian economic growth is projected to be at 6.9% compared to global growth of 3.5% by IMF. The demand for petroleum products in our country is expected to grow at a growth rate of 6.1%

The global economy is facing an uncertain outlook with sub-par recovery in the US, crisis in the Euro-zone and ripple effect of the same in the developing world. India is vulnerable to global economic uncertainty in view of high current account deficit.

Global commodity prices could decline in response to weak economic activity and slowdown in the Chinese economy. The global oil consumption is lagging the production during 2012 and could lead to moderation in oil prices.

The downgrading of India's outlook by International Rating Agencies, higher interest cost due to high borrowing levels and higher G-Sec yields caused by

the government's effort to bridge the fiscal deficit resulting in lower realizable value for Oil Bonds, under recoveries are some of the concerns that could affect the future performance of your Company.

Recent decisions by Government of India will lead to relief for oil sector as well as the economy.

The core issue was and still is the country's desire to keep prices of products of mass consumption stable and affordable in the face of increasing dependence on oil imports and high and volatile international oil prices. I am confident that further appropriate macro solutions will emerge to make the financial results mirror the physical performance of your Company.

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 myself, 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.

We have set very high objectives for the coming years to ensure that your Company will continue to scale greater heights, create sustainable value and thereby live up to the commitments of the shareholders, the customers and the society.

I thank you all for your support and for giving us an opportunity to build HPCL to be a World Class Energy Company.

Place: Mumbai

Dated: September 18, 2012

This does not purport to be a record of the proceedings of the 60th Annual General Meeting.

Subir Roy Choudhury
Chairman & Managing Director

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