

Hindustan Petroleum Corporation Limited

61st Annual General Meeting of Shareholders

In Mumbai on September 5, 2013



Left to Right: Shri B. K. Namdeo, Director – Refineries, Shri Pushp Kumar Joshi, Director - Human Resources, Shri Subir Roy Choudhury, Chairman & Managing Director, Ms. Nishi Vasudeva, Director – Marketing and Shri K. V. Rao, Director – Finance

Good morning, Ladies and Gentlemen.

It is a great honor and privilege for me to address all of you on behalf of the Board of Directors and I am delighted to welcome all the shareholders to the 61st Annual General Meeting of HPCL.

The year 2012-13, has been significant as your Corporation completed 39 years since formation and entered into the 40th year in July 2013. During the year 2012-13, many historical milestones have been achieved by your Corporation in the downstream of Refining & Marketing and the emerging business of Natural Gas.

I am happy to share with you that your Company has obtained 'Excellent' rating in terms of the MoU signed with the Government of India for the year



2011-12, with a MoU score of 1.037 which is the best score amongst all the PSUs under MoP&NG.

During the year, the Board of your Company was strengthened. S/Shri G.K.Pillai, A.C.Mahajan and G.Raghuram have joined HPCL Board on 9th April 2012 as Part-time Non Official Directors and Dr. Gitesh K Shah rejoined the Board effective February 26th, 2013. Dr. S.C.Khuntia, Additional Secretary & Financial Advisor, MoP&NG joined HPCL Board on August 3, 2012 and Shri R K Singh, Joint Secretary (Refineries), MoP&NG joined the board on June 26, 2013 as Ex-Officio Part-Time Directors. Shri K V Rao and Shri B K Namdeo were appointed to the Board as Director-Finance and Director-Refineries, respectively.

Now, with your permission, I would like to dwell on the developments in the Indian economy and Oil sector.

Developments in Indian Economy & Oil Sector

The slowdown in Indian economy continued during 2012-13, reflecting the slowing global economic growth. India's GDP recorded a growth of 5% which is the lowest growth rate in the last decade. All the three sectors viz. agriculture, industry and services recorded a lower growth rate compared to previous year. Apart from a weak global economy, monetary tightening to contain inflation and slowdown in investment has contributed to moderation in growth in India.

Inflation and high fiscal deficit in the current economic scenario are major concerns. International oil prices averaged above USD 100 per barrel during 2012-13. To correct the fiscal deficit, Government of India initiated measures for



increasing diesel price and introduced policy changes by capping the number of subsidized LPG cylinders at 9 and linking bulk Diesel sales for consumers to market determined prices.

The rupee per US dollar fluctuated significantly, depreciating from Rs. 51 per dollar at the end of March 2012 to touch a low of Rs. 68+ per dollar towards end August 2013. Depreciating rupee continues to be a growing concern and Govt. of India has initiated policy changes and measures to reduce the Current Account Deficit and provide impetus for healthy economic growth.

During 2012, Global oil consumption grew by 0.9% over historical to reach 90 million barrels per day. Consumption grew in the Regions of Middle-east, Africa and Asia-Pacific while it decreased in Europe and North America. The decline in Europe and North America is mainly due to efficient use of energy. India contributed to 4.2% of the world's oil consumption.

During 2012, the world oil production increased by 2.2% over historical to about 88 million barrels per day mainly due to increased production from US, Canada and Libya. These countries along with Saudi Arabia, Iraq and Kuwait increased production to offset the loss due to disruptions in Iran, Sudan and Syria.

World Natural Gas consumption growth remained at 2.2% during 2012. The year also witnessed the highest ever production of tight oil (shale) in the US. This reduced the dependency of US on West African crude which contributed in pressurizing Brent and diverting oil flows to Asia.



The consumption of petroleum products in India increased by about 5% in 2012-13 to reach 155 MMT. Diesel, the largest component of demand barrel, increased by about 7% and was the main driver of the growth, accounting for 60% of the incremental demand, followed by Petcoke, Petrol and LPG. Petrol demand increased by about 5% despite the slowdown and periodic increase in prices indicating growing purchasing power of our country's population.

Kerosene consumption has declined by 8% due to regulatory interventions. During the last decade SKO sales decreased by about 3 MMT to register sales of 7.5 MMT in 2012-13. FO consumption has also declined by 18% due to shift to Natural gas. Demand for ATF declined reflecting the slowdown in the Aviation industry. Bitumen demand increased only marginally owing to slowdown in the pace of construction of new highways.

HPCL Performance

I along with Senior Management team of your Company have shared a vision in 2010 to outline the objectives for your Corporation till the dawn of 2017. I am happy to share with you that this co-created vision christened "Target Shikhar" has been the nucleus for the higher than Industry performance by your Corporation.

Your Company continued the trend of achieving superior performance in 2012-13 also and the Gross sales increased by about 15% to reach Rs. 2,15,675 Crores. Profit after Tax was Rs. 905 Crore during the year, marginally lower than last year mainly due to higher provision for tax. Your Company has also improved the Fortune 500 ranking to 260 from 267 rank in the previous year.



Your Company's refineries achieved a combined refining throughput of 15.78 MMT with a capacity utilization of 107%. Mumbai Refinery has achieved highest ever crude throughput of 7.75 MMT surpassing the previous highest of 7.51 MMT achieved in 2011-12.

The Lube Oil Refinery at Mumbai has achieved an annual production of 362 TMT of base oils comprising of 320 TMT of Group I base oils and 42 TMT of Group II base oils.

Gross refinery margins averaged at \$2 per barrel as compared to \$3 during the previous year.

To meet the domestic demand, your Company refineries achieved highest ever annual production of LPG, MS and Bitumen at 818 TMT, 2619 TMT and 1042 TMT respectively. With the commissioning of Joint Venture refinery at Bathinda, the self-sufficiency in refining capacity increased to 80% of sales for your Company.

During my address in the last AGM, I had shared the plans for Rajasthan Refinery. I am happy to share with you that your Company has concluded a Joint Venture Agreement with Govt. of Rajasthan for setting up a 9 MMTPA Refining-cum-Petrochemical complex in Rajasthan. The proposed refinery will be designed with high complexity factor to process both the locally available Rajasthan crude and other crudes.



HPCL R&D has undertaken collaborative R&D projects in research areas related to Nano Catalysts, Residue upgradation, Improved Lubricants, Bio Fuels development and Development of catalysts for Refinery processes.

Your Corporation continued to record robust physical sales growth during the financial year by implementing effective marketing strategies. The Corporation has registered a total Products sale of 30.32 MMT as against sales of 29.48 MMT recorded in 2011-12. It has indeed been a significant year for your Corporation, with a growth of 4.7% in Marketing Sales over the sales volume of previous year. This performance has enabled the Corporation to improve its market share amongst Public Sector Oil companies to 20.19% against 19.96% in 2011-12.

In Retail sales, your Company increased market share in combined petrol and diesel segments for the 9th consecutive year with an increase of 0.14% in the current year to reach 25.20%.

In Direct Sales, your Company achieved a marketing sales volume of about 4 MMT and recorded positive growth of 0.4% and market share gain of 0.2% mainly due to focus on Bitumen and consumer diesel product segments. In the competitive Bitumen sales segment, your Company achieved growth of 13 % and reached the milestone sales of 1 MMT. In the Aviation business line, your Corporation achieved sales of 567 TMT during the year.

Your Company continues to be the second largest lube marketer in the country. The value added lube sales (excluding Base oil sales) increased by 11% to reach 296 TMT during 2012-13.



In LPG, your Company maintained No. 2 position in overall LPG Sales with market share of 26.77 % by focusing on initiatives for enhancing customer satisfaction, strengthening of infrastructure and improving productivity. To make LPG available in rural India, your Corporation commissioned 243 distributors under the Rajiv Gandhi Gramin LPG Vitaran Yojana.

During 2012-13, your Company achieved a record combined throughput of 14.04 MMT in product pipelines. Pipelines continue to be the most efficient and cost effective mode of transportation of petroleum products.

In the area of renewable energy, your Company has achieved wind energy generation of 77.4 Million KWH from the first phase of 50.5 MW Wind Farm Projects set up in Maharashtra and Rajasthan.

The Joint Venture companies and Subsidiaries of your Company have also performed very well during 2012-13.

Projects completed during the year

Your Company has commissioned several state of the art projects and facilities at various locations across the country undertaken as part of long term perspective planning.

The 9 MMTPA Guru Gobind Singh Refinery of HPCL-Mittal Energy Limited (HMEL) at Bathinda was commissioned and dedicated to the nation on April 28, 2012 by the Hon'ble Prime Minister of India. The refinery operations have



stabilized during the year and helped in ensuring product availability for your Company in the North.

To meet the requirements of Euro IV HSD in the country, the DHT units at Mumbai refinery and Visakh refinery have been mechanically completed and commissioning activities have commenced. Several important projects at Vizag refinery including GCU revamp at FCCU-1, CDU-III capacity enhancement and revamp of Propylene recovery unit have been completed during 2012-13.

Another significant achievement during the year was the physical commissioning of the 250 km long Ramanmandi - Bahadurgarh multiproduct cross-country pipeline.

To strengthen the primary distribution and logistics, your Corporation has commissioned additional product tankages at Loni Terminal (Pune) and new Tank Truck gantries in Depots located at Raipur, Bathinda, Ajmer and Jaipur. To augment Quality Control infrastructure new QC laboratories at Bathinda, Irumpanam (Kochi) and Loni Terminal (Pune) have been commissioned.

The green-field supply depots at Bihta (Patna) and Tikrikalan (Delhi) have achieved mechanical completion which will augment storage & supply infrastructure in the states of Bihar and Delhi.

Your Corporation has strengthened LPG infrastructure by commissioning Hazira Bottling Plant, storage facility at Pampore Bottling Plant and augmented bottling capacity at Mysore, Hubli and Hazarwadi plants. With the completion of these



projects, LPG bottling capacity has been increased to 3610 TMTPA and LPG storage capacity increased to 93 TMT.

Strategy & Business Plans

The results of the year 2012-13, that has just gone by are a pointer that we are on the right strategy with well-defined objectives and goals.

The details of the initiatives for achieving operational excellence & growth and the on-going infrastructure projects have been detailed in the Management Discussion and Analysis (MDA) section of the Annual report. Your Corporation is focused on scaling the strategic initiatives for accelerated growth and completing the projects for realizing the earnings & growth potential. I will now briefly share the future plans of your Corporation.

Your Corporation will continue to focus on strengthening the core businesses of Refining and Marketing, diversifying into new energy business lines and delivering superior financial performance in line with the short term plan christened “Target Shikhar” to achieve 2016-17 objectives.

Beyond Target Shikhar, your Corporation has developed “Udaan 2030”, a scenario-planning based long term perspective plan detailing the directional targets up to 2030.

The initiatives and actions taken as part of “Target Shikhar” and “Udaan 2030” will shape the future of your Corporation. To aid in achieving the strategic objectives, your Corporation has taken the assistance of professional experts.



I have already shared the planned details for Rajasthan Refinery. This is a major project and will help in bridging the demand deficit for your Company and aid in diversification into petrochemicals.

In Retail, your Corporation has identified initiatives of Sales force efficiency, forecourt excellence, Dealer management and leveraging technology for increasing productivity of network. In Direct Sales, the plans are to Strengthen infrastructure at strategic locations, Focus on Bunkering and high value Products, Product development and facilitate timely evacuation of refinery products. In LPG, the plans are to strengthen infrastructure, operational excellence and market development in line with Vision 2015 of MoP&NG.

New pipeline projects planned include the 440 km Rewari-Kanpur Pipeline 92 km Awa-Salawas Pipeline for transporting white oils and the 356 km Mangalore-Hassan-Bangalore-Mysore LPG Pipeline for which PNGRB authorization has been received and the projects are under implementation.

To participate in the emerging business line of Natural gas and cater to the growing demand, your Company has entered into agreements and become equity partner in the two subsidiary companies of GSPL viz., GSPL India Transco Limited (GITL) and GSPL India Gasnet Limited (GIGL). GITL & GIGL will lay the three cross country natural gas pipelines from Mallavaram to Bhilwara, Mehsana to Bhatinda and Bathinda to Srinagar.



In a major step to meet customer needs for Natural gas, your Company has signed a Joint Venture Agreement with M/s S P Ports Private Limited, a Company belonging to Shapoorji Pallonji Group for setting up a 5 MMTPA LNG Re-gasification Terminal at Chhara, Gujarat as a Joint Venture with 50% equity partnership.

The focus at both the Mumbai and Visakh refineries will be on improvement in flexibility of the refineries in handling different varieties of crude oil and achieving operational excellence.

Human Resources

Your Company firmly believes that its employees are its most valuable asset and this belief is strongly translated into action through a number of initiatives for improvement of employee engagement, capability building, leadership development and promotion of industrial harmony for meeting strategic objectives of the Corporation and enhancing the value to all the stakeholders.

“Project Akshay” - the unique leadership development program undertaken last year has been continued during this year too. In the second year 27 officers from senior management and 108 officers in middle management underwent this program for development of leadership pipeline thereby ensuring robust succession planning.

There has been dramatic change in the employee demographics with almost 35% of the officers below the age of 35. A unique program called 'Yuvantage' has been recently launched to provide the young officers a platform to showcase their strengths.



During the previous AGM, I have shared with you the details of 'HP First' - our cultural motto of laying stress on organization interest in all professional engagements. To create synergy, enhance employee engagement and collaborate for 'HP First', your Corporation has taken a unique initiative to form an "IR Council" comprising members from Senior Management drawn from the Business units and Human Resources together with senior office bearers from each of the representative unions operating in the Corporation for achieving the Corporation's objectives.

The Memoranda of Settlement with the representatives of the unionized staff was completed during the year and revised salary implemented. I take the opportunity to acknowledge the efforts, commitment and proactive support by our unions and union representatives in ensuring safe and productive operations for achieving your Company's objectives and collaboration for introduction of new technology and best practices.

To align the human resources across levels of organizational hierarchy, your Corporation is undertaking cultural interventions to enhance collaboration, capabilities and competencies for executing the Corporation's strategy Target Shikhar and long term plan Udaan 2030.

Health, Safety and Environment

Safety as a culture is an integral part of your Corporation's business. We believe that no work or service or activity is so important or urgent that safety be overlooked or compromised. Your Company is continually endeavoring to promote the health of vital "Human Resource", essential for productivity and



effectiveness of the Corporation. Your Corporation lays emphasis in conducting operations which are compatible with environment and economic development of the community.

The safety enhancement measures identified by the M B Lal Committee are being implemented at Refineries, Terminals and Installations. Your Company is the first in Industry to implement the recommendations at the Ennore and Visakh White Oil terminals.

The Flue Gas Desulphurization (FGD) facility for removal of sulphur from the flue gases of the Fluidized Catalytic Cracking Units has been commissioned in both Mumbai and Visakh Refineries.

Your Corporation has adopted the Climate Change Policy to reduce carbon footprint. Your Company has completed the Carbon Footprint Assessment according to GHG global protocols at 25 POL Installations across the country and undertaken rollout of measures for carbon footprint reduction.

Sustainability

Your Corporation commenced annual sustainability reporting on triple-bottom-line performance from the Financial Year 2011-12. The sustainability performance report for the year 2011-12 in accordance with Global Reporting Initiative (GRI) guidelines and externally assured, has been published. The report for 2012-13 in accordance with GRI guidelines is also ready.

Corporate Social Responsibility



Your Corporation is continually working to be a model for excellence in meeting the commitment to our society. To make a meaningful and long-term impact on the community with which we engage and interact, your Corporation has undertaken projects as a part of CSR initiatives in partnership with specialized NGOs/Implementation partners with focus on Child-Care, Education, Health Care, Skill Development and Community Development.

Risk Management

Risk is an inherent part of Oil & Gas business. Your Corporation has put in place a properly defined Risk Management framework for risk assessment and minimization. This system is being implemented as an integral part of all business processes and operations. To facilitate effective Risk Management and adoption of best practices, your Corporation has also engaged the services of independent experts.

Corporate Governance

Your Company has substantially complied with all the mandatory provisions provided in Clause 49 of the Listing Agreement of SEBI relating to the Corporate Governance requirements and also complied with the stipulated guidelines on Corporate Governance for Central Public Sector Enterprises (CPSEs) issued by the Department of Public Enterprises, Government of India.

Outlook

The International Energy Outlook 2013 projects global energy consumption to grow at an average rate of 1.5% annually over the next three decades.



Although renewables and unconventional energy sources are anticipated to grow rapidly in the near future, oil and natural gas are expected to stay as the primary energy sources catering to approx. 50% of the global energy needs in 2040.

Backed by India's strong anticipated annual real GDP growth rate of 6.1%, and increasing demand in transportation and residential sectors, energy consumption in India is expected to grow at 2.8% annually till 2040. The demand for diesel, petrol and LPG is expected to increase steadily in the long-run and your Company remains committed to fulfilling the nation's demand for these products in the most reliable and affordable manner possible.

In the near term, though global economic prospects have improved, recovery in advanced economies is likely to be slow and a number of uncertainties remain. Thus, main impetus for growth has to be domestic demand. Government of India has taken a number of steps to stem the slowdown.

Under-recoveries from sale of the three regulated fuels of Diesel, LPG and Kerosene still remain a significant challenge. Last year, the government took some measures in reducing the under-recoveries, including pilot projects of Direct Benefit Transfer (DBT) of subsidies. However, these measures are expected to only partially reduce estimated under-recoveries.

Oil prices are expected to soften in medium term as supply growth is expected to slightly exceed growth in demand. This should reduce pressure on India's current account and also reduce the subsidy/under-recovery burden on the government and OMCs. However, this may be counteracted by the



continuous depreciation of the rupee due to a high Current Account Deficit and volatile capital flows. High and rising petroleum subsidies and deterioration in the fiscal position has made fuel pricing reform crucial. The Government is engaged in finding suitable solutions to reform the subsidy regime and has initiated steps to provide relief to Oil sector as well as the economy.

Your Company will continue to play an influential role in the nation building by not only earning wealth but by also seeking to promote local suppliers and forge partnerships with companies in energy related sector which will channelize capital, technology and knowhow to our country. This will generate employment and develop skilled work force in the Oil sector and thereby spread the economic benefits of a competitive oil sector to the nation.

Our Appreciation

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

My fellow directors and I are thankful to all the shareholders - both individuals and institutions for the support and confidence reposed in us. I thank you all for being here today. We look forward to your continued association.

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. The Board wishes to place on record its appreciation for the commendable performance of our employees, the contributions made by Shri B. Mukherjee and Shri K. Murali, whole time Directors, who superannuated recently. I also thank the contribution of Shri L N Gupta, Joint Secretary (Refineries) who was Director on Board till recently as the Govt. of India nominee.

I would like to take this opportunity to thank both my colleagues on the Board and fellow directors for their mature counsel, involvement and commitment to build your Company to be a world class energy Company.

Place: Mumbai

Dated: September 5, 2013

Subir Roy Choudhury

Chairman & Managing Director