

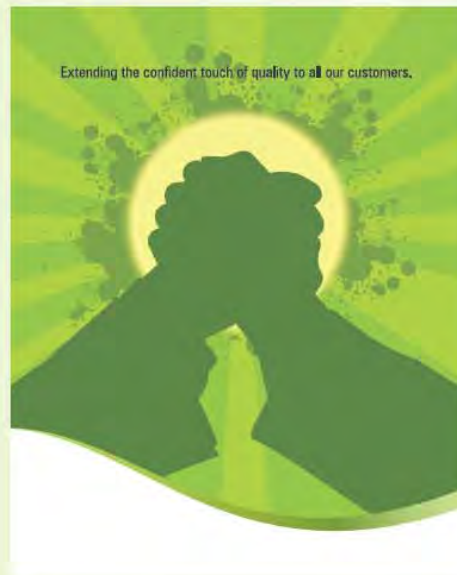
Extending the confident touch of quality to all our customers.

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वार्षिक रिपोर्ट २००७-०८ | Annual Report 2007-08

हिन्दुस्तान पेट्रोलियम कॉर्पोरेशन लिमिटेड | HINDUSTAN PETROLEUM CORPORATION LIMITED



Cover Theme

"Our hands form an integral part of our sensory perception. Through them, we experience a myriad of emotions. A touch conveys feeling. A warm handshake indicates a bond."

"HPPCL bonds with its Customers / Stakeholders with its steadfast endeavour to provide highest quality products and services. It also reflects the way HPPCL extend its range of other services with the highest degree of professionalism and passion to meet the expectations of its Customers / Stakeholders. HPPCL exhibits its concern to Society by ensuring compliance to Regulations and thru its various CSR initiatives."

"The overall green background is symbolic of HPPCL's concern for the environment and nature".

Recent Events



Her Excellency, The Hon'ble President of India, Smt. Pratibha Devisingh Patil presenting the Award for Energy Conservation in Petroleum Sector for the year 2007, for Visakh Refinery, to C&MD Shri Arun Balakrishnan



His Excellency, Dr. A.P.J. Abdul Kalam, Former President of India, presenting the 'empi – Indian Express Indian Innovation Award 2006', for being a pioneer in Retail Automation to C&MD, Shri Arun Balakrishnan



Hon'ble Minister of Petroleum & Natural Gas, Shri Murli Deora flagging off the PCRA Car Rally at Mumbai



Former Secretary- MOP & NG, Shri M.S. Srinivasan Inaugurates Bahadurgarh POL Terminal

Recent Events



C&MD Shri Arun Balakrishnan at the CEO Round Table during Global Emotional Intelligence Forum being hosted by HPCL and TISS



Hon'ble Chief Minister of Chhattisgarh, Dr Raman Singh along with C&MD Shri Arun Balakrishnan, Director – Finance Shri B Mukherjee and other Officials of State Government during MOU Signing Ceremony (between State Government of Chhattisgarh, HPCL & CREDA) for Bio Diesel at Raipur

C&MD Shri Arun Balakrishnan, Director – Finance Shri B Mukherjee and other Senior Officials of HPCL meets the Governor of Mizoram, Lt. Gen (Retd.) Shri M.M.Lakhera on their visit to Mizoram



Contents

Chairman's Message	4
Our Directors	9
Senior Management Team	10
Offices, Auditors & Bankers	13
Notice of AGM	14
Performance Profile	20
Directors' Report	28
Annexure to Directors' Report	34
Management Discussion & Analysis Report	47
Special Focus Areas	58
Auditors' Report	64
Balance Sheet	68
Profit & Loss Account	69
Schedules to Accounts	70
Cash Flow Statement	98
C & AG's Comments	101
Joint Venture Companies	102
Consolidated Financial Statements	106
Corporate Governance Report	124

Chairman's Message



Dear Shareholders,

A very eventful year has passed since I had the privilege of meeting some of you at our 55th Annual General Meeting at Mumbai last September. At the completion of a full year, it is time now to share with you details of our performance for the Financial Year 2007-08.

Growth in the Indian economy remained strong in 2007-08 with increase in output of 9%. Expansion was led by the services sector with double digit growth. The industrial sector grew by about 9%. The growth in agriculture sector was a healthy 4.5%. All these indices clearly indicate a satisfactory year for the economy.

High inflation at the beginning of the financial year was contained through a series of measures including hike in interest rates. This had an impact on the consumption of durable goods. Supply concerns, rising demand, falling dollar and speculation continue to push up world oil prices. The price of Brent crude increased by about 45% during the financial year, breaching the USD100 per barrel mark in February 2008. The Indian crude basket price reached USD99 per barrel by the end of the financial year. The Indian government has continued to exercise control over domestic fuel prices with a view to containing inflationary pressures.

Although exports increased by about 23% during 2007-08, faster growth in imports widened the trade deficit. Strong growth in invisible earnings, however, reduced the impact of higher trade deficit on current account balance. Capital flows, especially portfolio investments, were quite strong. FII investments were about USD 29 billion during 2007- 2008 compared with USD 7 billion in 2006-07. FDI also doubled to 100 billion US dollars. Foreign exchange reserves at the end of March 2008 exceeded 300 billion US dollars. Large capital inflows also caused the rupee to appreciate against dollar by about 12% during 2007-08, marginally mitigating the impact of higher import price of oil.

The oil consumption in the country seems to show signs of revival and is slated to grow by 7% for the second consecutive year. Consumption of automotive fuels (petrol and diesel) grew by 11% while Bitumen and Aviation Turbine Fuel increased by 17% and 14% respectively during 2007-08. Demand for Naphtha declined by about 4% on account of increased availability of natural gas (through LNG imports).

The Global economy faces difficult times ahead due to stress in western capital markets and rapid decline in the fortunes of its Financial Institutions caused by the sub-prime crisis. The spiralling price of commodities such as metals and food grains, the possibility of further shocks to the oil market and consequent inflationary risk have further added to the world's woes. While initially the impact of financial turmoil in the western world

Chairman's Message

on India has been limited, inflation has started raising its ugly head in India due to rising commodity prices and increases effected in the price of automotive fuels. Growth prospects for the Indian economy are vulnerable to trade and financial spillovers from the anticipated slowdown in the advanced economies. On the upside, continuing strong investments could provide support to growth.

Physical Performance :

Despite the dismal economic scenario, it is a matter of pride for us that your Corporation was able to record outstanding physical performance for the Financial Year 2007-08 as summarized below:

- Highest ever turnover – Rs.1,03,837 crores
- Highest Refinery Crude Thruput – 16.77 (capacity utilization – 129%)
- Highest LOBS Production – 351 TMT
- Highest Pipeline Thruput – 7.8 MMT
- Highest Market Sales – 22.18 MMT
- HPCL Market Growth – 11.9% vs Industry Growth – 7.6%
- Highest Export Sales – 2.28 MMT (2006-07 – 1.91 MMT)
- Best Regional Jet Marketer for the second consecutive year
- Market Leader in Non Domestic LPG – 313 TMT

The Corporation was ranked 290 in the “Fortune 500” global rankings based on revenues for 2008, a remarkable improvement from last year's ranking of 336.

As a Public Sector Organization, your Corporation has the obligation to work within the parameters of the policies and directions of the Government of India. The Government has to balance a number of economic parameters and also meet the expectations of citizens for an affordable price for commonly used petroleum products. While kerosene is used in rural areas for lighting, LPG is the preferred urban cooking medium and Diesel is used for transporting goods across markets. Steep increase in prices of these products in line with increase in the price of crude oil would naturally have detrimental effects on the economy as well as in the lives of people. Hence such products are made available at an affordable price, which is lower than the manufacturing cost incurred by the oil companies resulting in huge under recoveries to the oil marketing companies.

The Government is fully seized of the matter and has taken measures to mitigate the deteriorating financials of the downstream companies. These include issuance of oil bonds by the Government, sharing part of their profits by upstream companies (ONGC and OIL) and the balance to be borne by the downstream companies from the profits they make from free trade products. Thanks to these measures, your Corporation recorded a net profit of Rs.1135 crores for the year 2007-08.

Since such reimbursements are received intermittently, your Corporation has 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 its projects for upgrading the Refineries to meet Euro III / IV quality fuels and certain much needed improvements in infrastructure, it is taking a fresh look at other expenditure



Chairman's Message

which can be either scaled down or postponed. Revenue expenditure is being cut to the extent feasible.

Growth Focus :

It is a matter of satisfaction that the following major projects were completed during the Financial Year 2007-08. Some major projects are nearing completion.

- Commissioning of the Rs.1756 crores, 1050 km long Mundra to Bahadurgarh (near Delhi) Product Pipeline of 5 MMTPA capacity. This has improved the availability of petrol, diesel and kerosene in northern India.
- The Green Fuels Projects at both Mumbai and Visakh Refineries are nearing completion, which when fully completed would enable us to produce and market Euro III/IV quality petrol.
- South Asia LPG Co. Pvt. Ltd., our Joint Venture with M/s. Total of France, commissioned the LPG Cavern storage facility at Visakh. The project, completed at a cost of Rs.333 crores, is the first of its kind in South Asia with a capacity to store 60,000 MT of LPG in a man made cavern at a depth of 160 metres below ground level. This is considered as the safest way to store LPG. This facility enables LPG to be brought in VLGC's (Very Large Gas Carriers) thus saving on freight costs.
- The other major project in hand is the 9 MMTPA Grass Root Refinery Project at Bathinda in Punjab. With the L.N.Mittal Group joining us as the JV partner and the formation of the new company M/s. HPCL - Mittal Energy Ltd (HMEL) for implementation of this project, the project has gained tremendous momentum and is scheduled for completion by early 2011.

Your Corporation continues to look for profitable opportunities in the Oil & Gas as well as Energy sectors. These include entry in Exploration and Production, Gas distribution, Alternate Fuels such as Ethanol and Biodiesel, and Wind Energy. Such activities are being undertaken either on our own or through joint ventures / association with reputed companies. The initial assessment of these projects indicate positive outcomes and hence are being pursued with great care.

Marketing :

The Retail SBU, which markets petrol and diesel across the country, continues to focus on delivery of Quality and Quantity to customers. After having achieved adequate representation in Cities and on Highways, the focus during the year has been on penetrating rural markets with low-cost 'Hamara Pump' to meet the requirements of farmers besides catering to the new found prosperity in these areas.

With a view to discourage mal-practices in the Retail trade, interventions in the form of automation of high selling Petrol Pumps, satellite tracking of trucks transporting fuels from company depots, introduction of 'Marker' in kerosene to detect its addition in auto fuels have been put in place.

The Retail identity program of this SBU has made your Company's Petrol Pumps the best in class in the country. This has been supplemented by the Convenience Stores, automation and training of 'Island Boys' to deliver service with a smile, making our Pumps the first choice of all classes of motorists.

Aggressive marketing in the area of Lubricants, Aviation fuels, Bitumen and Industrial and Auto LPG are also being undertaken as these are not covered under the price-controlled regime.



Chairman's Message

Refining :

Our Refineries at Mumbai and Visakh have performed remarkably well in 2007-08 and have contributed significantly to the profitability of your Corporation. Performance parameters have been detailed elsewhere in the Annual Report and the highlights have been recorded earlier in this message. The major focus at both Mumbai and Visakh Refineries have been on projects that would enhance product quality and improve profitability.

The Green Fuels Project for Euro III/IV Petrol (MS) is nearing completion at both the Refineries. Work has been initiated for putting up facilities (Diesel Hydro Treater) for production of Euro III/IV Diesel at these Units. Upgradation of Lube Refinery to produce Group II/III Base Oils and construction of a second FCCU at Mumbai Refinery is underway.

Both the Refineries face the challenge of being engulfed by unlimited Urban development which is posing severe safety issues besides limiting avenues for expansion of capacity or installing new plant and equipment. Adjacent land available have been purchased at Mumbai and at Visakh have been leased from the Port Trust.

Exploration and Production :

A new Department was started for channelising investments 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 property carefully and in association with reputed and experienced partners. Investments are routed through HPCL on its own, HPCL with its JV Prize Petroleum, HPCL in association with other major E&P Companies.

Your Corporation currently has 22 properties of which one each are in Australia and Oman, the balance being within our shores.

Human Resources :

Attrition of experienced manpower continues to be of concern. On an average, over 150 officers leave every year for better opportunities both within and outside the country. Large scale recruitment and training appears to be the only solution.

A number of HR initiatives have been introduced to make the Corporation 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. Such initiatives gives your Management the confidence to take on bigger challenges in its pursuit of growth.

A significant HR event of the period was the conduct of an International Program on 'Emotional Intelligence' in association with TISS wherein a large number of professionals and students participated and appreciated the program. The Corporation continues to give utmost importance to training by nominating employees both for in-house and external programmes.

The Employee Portal also offers a number of self-learning programs which prepares the employee to take on technical and behavioural challenges. Officers are also sponsored for part-time MBA programs of reputed Institutions.



Chairman's Message

Shareholders :

Our Shareholder family is large and is presently over one lakh. You have shown your trust and confidence in the Corporation by remaining with us and we thank you for reposing your faith in the management. We have always endeavoured to reward our shareholders with attractive dividends. The record of the Corporation in this regard is creditable.

The current financial constraint has been due to factors beyond our control. This has resulted in a lower payout of dividend as compared to previous years. However, we feel that this is a passing phase and the Corporation will soon have the freedom to price its products. Such freedom will be exercised responsibly by the management and would include the interests of its customers, shareholders and stakeholders.

Our Stakeholders :

We are also grateful to all our dealers, vendors, contractors, business associates, employees and all others who have reposed their faith in HPCL.

Your Corporation which has completed over 50 years of operation will not feel daunted by the current scenario but will continue to endeavour to meet the challenges posed by unprecedented levels of crude oil prices.

In these difficult times, your Board of Directors has played a significant role in guiding the affairs of your Corporation. The Independent directors have been a source of inspiration with their wide knowledge and experience. The Government directors were our conduits to the Ministry and their guidance have been exceptional. The functional directors are respected professionals in the oil sector and have all been acting in tandem to take your company forward.

Our Administrative Ministry, the Ministry of Petroleum & Natural Gas, has been providing continuous guidance and support in all our efforts. We, on our part, would continue to take HPCL further towards growth and profitability by meeting the challenges that we face and capitalizing on the opportunities that arise.

At the time of writing this message, there are welcome signs of reduction in crude oil prices. Global efforts are continuing to conserve energy and also look at areas to develop alternate and cheaper form of energy. Global warming has also given a further urgency to such efforts. A positive outcome would benefit everyone by improving the quality of the air we breathe and reducing the cost of energy which in some form or other touches every human life.

We look forward to your continued support in this ongoing journey.

Thank you,

Arun Balakrishnan