



THE CORPORATE THAT CARES

वार्षिक रिपोर्ट २००५-०६ ANNUAL REPORT 2005-2006

हिन्दुस्तान पेट्रोलियम कॉर्पोरेशन लिमिटेड | HINDUSTAN PETROLEUM CORPORATION LIMITED



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OUR VISION.....

- ★ HPCL delights customers by superior understanding and fulfilling their stated and latent needs with innovative product and services.
- ★ HPCL commands highest reputation and is known for its sensitivity and responsiveness for concerns of its customers and other stakeholders.
- ★ HPCL always acts faster than the competitors in the most cost effective way.
- ★ HPCL is the highest performer in Rate of Growth and Return on Investment.
- ★ HPCL is a Learning and Innovative Organization.
- ★ HPCL provides an environment of trust, pride and camaraderie



Our Corporate Headquarters at Mumbai

OUR ANTHEM.....

एच. पी. गीत

दसों दिशाएँ नाच उठीं, जाग उठीं, नाच उठीं
जन - जन का मन हर्षाया, एच. पी. ने जब कदम
बढ़ाया, कदम बढ़ाया
ऊर्जा का सागर लहराया

दसों दिशाएँ नाच उठीं जन - जन का मन हर्षाया,
एच. पी. ने जब कदम बढ़ाया, ऊर्जा का सागर लहराया,

हिन्दुस्तान पेट्रोलियम, तू ऊर्जा का एक नाम
देश के कोने कोने में जो फूंक रहा है प्राण
आज देश की धड़कन है, कल जग को धड़काएगी
हम एच.पी. वालों की उमंग एक नया सवेरा लाएगी

हिन्दुस्तान पेट्रोलियम, एक नई सुहानी भोर
ऊर्जामय कल की ओर, ऊर्जामय कल की ओर,
ऊर्जामय कल की ओर



At a Glance

Dear Shareholder

It gives me pleasure to present before you the following significant details of your Corporation :

HOW YOUR CORPORATION PERFORMED :

Area of Performance	2005-06	2004-05
Crude Thruput (MMT)	13.82	13.94
Market Sales (MMT)	19.48	20.09
Gross Sales (Rs. Crores)	74,044	64,690
Gross Profit (Rs. Crores)	1,134.07	2,382
Net Profit (Rs. Crores)	405.63	1,277
Dividend (%age)	30	150
Net Worth (Rs. Crores)	8,736	8,441
Earnings Per Share (Rs.)	11.97	37.69

YOUR CORPORATION'S INFRASTRUCTURE :

Refineries at Mumbai & Visakhapatnam	Depots	- 92
Product Pipelines-	ASFs	- 13
*Mumbai-Pune	Retail Outlets	- 7313
*Visakh-Vijayawada-Secunderabad	SKO/LDO Dealers	- 1648
Regional Office - 85	LPG Distributors	- 2202
Terminals/Installations/TOPs - 37	LPG Customers	- 2.28 (crores)

CURRENT MAJOR PROJECTS :

- Upgradation of facilities at Mumbai & Visakh Refineries of an expenditure of Rs. 4000 Crores.
- New Pipeline between Mundra & Delhi and Extension of Mumbai-Pune Pipeline to Solapur of an expenditure of Rs. 1960 Crores.
- Upgradation, Automation and New facilities for the Marketing Division to strengthen marketing infrastructure at an expenditure of Rs. 1400 Crores.
- Expansion and Diversification on own and through ventures and tie-ups.

Important current activities, future plans and detailed overview of HPCL as well as Petroleum Sector have been covered by me separately.

Your Corporation would continue to perform strongly and thereby instill confidence in you to continue your association for a long time.

M. B. Lal

Recent Events



Hon'ble Minister of Petroleum & Natural Gas, Shri Murli Deora, Hon'ble Chief Minister of Maharashtra, Shri Vilasrao Deshmukh, Secretary - MOP&NG, Shri M.S. Srinivasan, C&MD, HPCL, Shri M.B. Lal, C&MD, BPCL, Shri Ashok Sinha, seen together at a recent industry related meeting.

Hon'ble Minister of Petroleum & Natural Gas, Shri Murli Deora coordinating relief activities for the bomb blast victims at Mumbai



Hon'ble Minister of Petroleum & Natural Gas , Shri Murli Deora is seen inaugurating a renovated garden at Chembur. Also seen in the photograph are Shri Gurudas Kamat, Hon'ble Member of Parliament, Shri M.B. Lal, C&MD, HPCL.

Shri M B Lal C&MD receiving the Honorary Fellowship of The Energy Institute, which is the highest level of professional recognition that the Energy Institute awards. It is reserved for those who have made a notable & distinguished contribution to the Energy Industry in their particular field of expertise.





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Chairman's Message

Dear Shareholder,

Your Corporation recorded a net profit of Rs.406 crores for the financial year 2005-06 as against Rs.1277 crores for the earlier year 2004-05. The major factors that impacted the profitability were the steep and unprecedented increase in crude oil prices. The Indian Basket of Crude Oil Prices moved up almost by 25% between March 2005 and March 2006 with continuing under-recoveries on major product lines like Motor Spirit (MS), High Speed Diesel Oil (HSD), Liquefied Petroleum Gas (LPG) and Superior Kerosene Oil (SKO). I must however, hasten to add, that, the Government has contributed in no small measure towards sharing the burden of subsidy in these products. This has helped your company in posting a profit at the end of the year despite the losses in the first three quarters of 2005-06.

Your Corporation, however, recorded positive operational performance reflecting its core strengths in Refining and Marketing. These have been covered in the subsequent sections. Though the year 2005-06 was a year of planned turnaround and shut-down for routine maintenance at both Mumbai and Visakh refineries, the refineries achieved 106% of their capacities. Similarly, in Marketing, our main line products like MS and HSD registered the best growth amongst the PSUs in a highly competitive market. The turnover during 2005-06 was Rs.76920 crores as against Rs.65218 crores in 2004-05, registering an increase of 18%.

In its drive to achieve operational excellence, the Corporation has been constantly focusing its attention on areas like infrastructure enhancement, productivity improvement, cost reduction, all aimed at achieving enhanced contribution and global standards. The endeavour always has been towards nurturing and developing HPCL as a Company, which is fundamentally strong and transparent in its operations and caring for its "Customers and its Stakeholders".

Your Corporation is also taking several initiatives for sustaining growth by foraying into various revenue streams to meet the challenges in the existing business lines. Some of these include efforts towards matching our refining capacities with marketing requirements, venturing into E&P and Gas Sectors, new / export markets and developing capabilities to enhance the production of value added products.

REFINING

During 2005-06 our Refineries at Mumbai and Visakh recorded a combined thruput of 13.82 MMT against a capacity of 13 MMT per annum. As already explained, this is only marginally lower than the thruput of last year



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despite the long turnarounds and other factors mentioned earlier. The strong refinery performance post shutdown can be judged from the thruput achieved during the six months period January – June 2006 which is 8.25 MMT corresponding to an annualized thruput of 16.5 MMT.

In pursuit of our goal of delivering best value from our existing assets, concerted efforts were made to enhance the output and contribution from our Refineries. With this objective in mind, steps were taken to de-bottleneck and achieve higher capacities with relatively minor changes in plant operations and capabilities. Not only did we achieve higher thruputs in our plants but also achieved significant enhancements in yields of superior value products such as LPG and MS in Mumbai Refinery. The increase in LPG production has been approx. 25% over the past and that in MS is about 35% from the secondary units.

With the refining segment continuing to record positive contributions, steps are also being taken to enhance the current infrastructure of both Mumbai Refinery and Visakh Refinery. Both the Refineries are currently implementing the Green Fuel Projects at a total cost of Rs.4000 crores and which, when completed, would enable them to produce Motor Spirit to meet the new Euro III specifications. The refineries are already producing HSD of Euro III Specifications.

In Visakh Refinery, we have been able to increase the proportion of the less expensive High Sulphur crude in the total crude mix by about 20%, which has helped in enhancing gross margins of Refineries. Several Energy efficiency measures have been implemented which has contributed to significant savings in energy consumption. Measures taken for cost efficiency included reduced Specific Fuel Consumption in captive power plants, use of improved catalysts and additives in Secondary Processing Units, optimization of crude freight by use of VLCCs for long haul crude, development of local vendors for import substitution of critical spares, preventive maintenance measures for critical equipment and optimizing consumption of chemicals by implementing low cost improvement schemes. Another significant initiative during the year has been the commencement of Oil Price Risk Management (OPRM). We have imparted technical training to select staff for trading and hedging activities and initiated the process for a hands-on experience. Eventually upon implementation on a full scale, OPRM will help us to manage the Oil Price Risks.

MARKETING

Lesser product availability due to the major refinery turnarounds resulted in marketing volumes at 19.48 MMT which were marginally lower than the previous year volumes of 20.09 MMT. However, it is heartening to note that, with the renewed focus on the customer, the Corporation has been able to achieve the following :

- Highest growth rate amongst PSUs in the highly competitive Retail Sector viz. MS and HSD.
- Highest growth in Aviation for the second year in succession.
- Highest growth rate in Lube Sales amongst all PSUs.

Your Corporation today is known for its high quality products and services and for its commitment to provide "Total Customer & Vehicle Care." In our continuing efforts to realize our Vision of "Customer Delight", we have been paying special attention to "Quality & Quantity"(Q&Q) and "Customer-Centric-Approach" in all our endeavours. In fact "Q&Q" assurance has become our guiding philosophy and not just a business or market requirement. In order to fulfill this basic hygiene factor of Q&Q, we have rolled out number of initiatives, many of them first of its kind in the Industry.

- HPCL is a leader in the automation of retail outlets. In addition to the 425 retail outlets currently being automated, we have plans to roll out the same to over 1000 outlets by March 2007.
- All our 150 company tank trucks are today fitted with Vehicle Management Systems using Global Positioning System(GPS), which facilitate monitoring of the tank trucks right from the moment the tank truck leaves the supply point till it reaches the intended destination. Plans are also under implementation for installing the same on dealer owned as well as contractor tank trucks in a phased manner.
- In addition to surprise inspections and sample testing through our mobile Labs and Certification of our outlets through M/S Bureau Veritas, we also have an independent quality control cell that conducts surprise



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inspections for combating adulteration and ensuring quality of our deliveries.

- Improving the customer conveniences and value added propositions, technical support to our major industrial customers and the desire to benchmark our service standards to international levels have been the other major thrust areas.

All these initiatives have been very well received in the market and HPCL's volume growth rates reinforce fully the belief in our brands. These initiatives have started bearing fruit, not only in the form of prestigious awards and recognitions but also as reflected in market share for both MS, HSD, Aviation fuel and Lubes.

Business opportunities in the area of "Allied Retail Business" are being constantly explored for generating additional income and meeting customer needs. The Corporation has entered into several strategic alliances with best in class non fuel partners viz. MacDonald's, Kamath Group of Hotels, Marry Brown, Caffe Coffee Day, US Pizza etc.

New Lubes SBU

Lubricant is a product which is in the free pricing segment in our business. In fact, lubes was the first segment that was taken out of the Administered Pricing Mechanism. This is a growing market, both at the lower end as well as in the niche segment. Having regard to the fact that the Lubes business line needs a focused attention, it was decided to set up a separate SBU for Lubes. This SBU is endeavouring for blending and marketing high quality lubricants, higher market share from core sectors like Railways, Defence etc., specialized tie-ups with Original Equipment Manufacturers (OEM) and with reputed automobile companies. These steps have already shown positive results and the SBU expects to register an even more improved performance in the year 2006-07.

MAJOR ONGOING PROJECTS

The Green Fuels Projects under implementation at Mumbai and Visakh Refineries for upgradation of processing facilities at a total cost of Rs.4000 crores are being targeted for completion around the first half of 2007.

The two major pipeline Projects one between Mundra and Delhi and the other which is an extension of Mumbai Pune Pipeline (MPPL) up to Solapur are estimated to cost nearly Rs.2000 crores and scheduled for completion by May 2007 and December 2006 respectively

The proposed 9 MMTPA grass-root Refinery Project at Bhatinda, in Punjab which is being implemented by our Subsidiary Company Guru Gobind Singh Refineries Limited (GGSRL) is in the process of achieving financial closure. While infrastructure facilities like land, roads, lighting are already in place, the other preliminary activities like selection of process licensors etc. are currently progressing. This project is targeted for completion by 2010.

HUMAN RESOURCES

We believe that the key to the success of any business strategy lies in an energized and aligned work force, alive to the changing customer needs and requirements. By providing customer delight and satisfaction, organizations can hope to achieve the goal of maximizing shareholder value.

In line with this belief, the Organisational Transformation initiative that has been going on for the last two years in a phased manner has almost covered all the main functions. This has resulted in greater coordinated effort and improved focus on common goals such as "Q&Q" and "Customer Service & Conveniences". One aspect that gets emphasized in all these initiatives has been the need for all Line and Staff Functions to own and appreciate the "Customer Perspective" while discharging their roles and responsibilities in their respective jurisdiction.

HR Initiatives like "Competency Mapping" to enhance employee capabilities, "Balanced Scorecard" to fix performance targets and evaluation of performance so as to achieve the strategic intent of the organisation, "Six Sigma approach" for quality improvement are continuing and will cover most of the functions within the Corporation.

Today we can all feel proud of the achievements of our colleagues in HPCL, be it in Refining, Marketing or Support Functions and together we aspire with renewed confidence to make HPCL an organization which not



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only meets, but also exceeds the expectations of its stakeholders arising out of its status as a 'Navratna'.

STRATEGIC INITIATIVES :

For continued long term growth, apart from the ongoing projects, several new initiatives are on the anvil.

Your Corporation is taking several initiatives in the existing and new business lines for sustaining value and achieving growth. The major projects include:

- Green field refinery at Bhatinda of 9 MMTPA capacity integrated with value added petrochemical products
- Brownfield expansion of Visakh Refinery to 15 MMTPA Capacity
- LOBS upgradation to Group II at Mumbai Refinery
- Delayed Coker Unit at Visakh Refinery for upgradation of heavy ends.
- Aromatics Projects being developed for implementation at Visakhapatnam.
- Production of mixed Xylenes at Mumbai and Visakh Refineries.
- Production of Propylene at Mumbai Refinery and enhancement of Propylene production at Visakh Refinery.

We are also taking steps to play a lead role in Visakhapatnam and its vicinity as an anchor developer of the location (SEZ) short listed by the Government of Andhra Pradesh for Petrochemical and Petroleum Investment.

Entry into E&P and overseas markets through foreign collaborations / tie ups has been yet another major area of thrust for us. Some of the significant development in this area are:

- Our Joint Venture Company M/s. Prize Petroleum, having acquired the status of an independent upstream Operator for onshore fields, has been successful in enhancing production in the marginal oil wells of ONGC awarded to it in the State of Gujarat .
- HPCL in consortium with M/s. Prize Petroleum and M/s. Trenergy of Malaysia has been awarded cluster 7 off shore marginal field by ONGC.
- HPCL has also secured a maiden share in an on-shore oil block in Oman along with other joint bidders.
- HPCL has also bid for an off-shore block in Australia in consortium with other partners.
- MOUs have been entered into with M/s.OILEX, Australia, and M/s.GAIL(INDIA) LTD., to jointly explore and bid for opportunities in upstream.
- MOU has also been signed with Chinese Oil major M/s. Sinopec for jointly exploring opportunities in upstream, R&D, Crude sourcing , product trading and consultancy.

Gas is emerging as the fuel of the future and is also eco friendly. Your corporation has taken initiatives to enter in this business line through collaborative partnership with GAIL(India) Limited. Your Corporation is already marketing gas through its joint venture, M/s. Bhagyanagar Gas Limited in the state of AP. A new company, M/s. Aavantika Gas, has been incorporated for gas distribution in the State of MP, (initially at Indore). We are also in discussion to form a JVC for similar business ventures in the State of Rajasthan.

Your Corporation has already commissioned one mother station and nine daughter stations at existing retail outlets in Ahmedabad for CNG distribution by sourcing the gas from M/s. GSPCL.

Your corporation intends to expand the business in newer high potential markets abroad and as a first step, has signed an MOU with M/s. Petrosen of Senegal for setting up of retail outlets in Senegal.

We are noticing positive outcome from the above initiatives. When these projects are scaled up and start contributing, your Corporation would see diverse revenue flows which would balance the current uncertainties.

CORPORATE SOCIAL RESPONSIBILITY

Your Corporation strongly believes that no business organization can exist in a vacuum without looking at the needs of the larger society in which it exists and from which it derives its sustenance.

As in previous years, your Corporation has continued to carry out a number of Welfare / Developmental activities for SC/ST / Weaker Sections of the society and spent over Rupees four crores during 2005-06 for such causes. The activities include support for Primary / Secondary, Graduation and Post Graduation education,



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Health care, Augmentation of drinking water facilities, Family welfare, Vocational training, Income generating schemes, Rehabilitation of persons with disabilities, Scholarships to students, Provision of computers to Educational Institutes etc.

As a measure of our commitment to the society, we have enhanced our outlay and activities for social causes. We have also embarked upon a new initiative as a part of CSR by distinctly identifying Projects touching the various needy sections of the society with a defined target. These projects relate to AIDS prevention, Vocational training for unemployed youth, education of rural children, computer training, education for rural girl children, health care facilities for weaker section of the society etc. In order that these Projects receive continued focus, a 'HPCL Foundation' has been set up with a corpus of Rupees seven crores to finance these Projects. The Foundation would also monitor implementation of these schemes. Reputed service organizations and NGOs are co-partnering us in this unique effort.

AWARDS/RECOGNITION

I am pleased to inform that your Corporation has been a proud recipient of many accolades and awards in all related fields such as Environment, Safety, Innovation, Brand, Customer orientation etc. From the Government side, OISD award from MOP&NG for the best performer in Group III (LPG marketing organization) for the year 2003/04 and in Group VII (Best performer in Lube oil Blending) for the years 2003/04 and 2004/05 and Indira Gandhi Rajbhasha Puraskar for outstanding contribution in usage of Hindi have been received during the year. While the long list of the awards are covered in detail separately, I would like to make a mention of some of the awards viz., **"Platts Global energy Awards 2005"** – Good fuel promise campaign, **"Most Trusted Brand 2006"** Platinum Award from Readers Digest and the recent **"Awaaz Consumer Award 2006"** from CNBC TV for India's Most Preferred Auto Fuel. You may be pleased to note that all these awards were based on surveys in the market and feed back from customers. I am sure that this will give immense satisfaction to you as our shareholders, as it has given to all of us as employees.

THE FUTURE

The future is full of challenges and opportunities. The Oil and Energy Sector would continue to witness a dynamic environment in periods to come in all components of the sector viz. Exploration & Production, Gas, Downstream, Refining and Marketing. The impact of unabated surge in the crude prices, the issues involved in gas sourcing / pricing, storage / distribution, the huge investments that are required for Exploration & Production activities are some of the major challenges that we need to address through our strategies. At the same time the integration and globalization of the economies and new technological inventions provide us ample opportunity to grow into the diverse fields highlighted above. In addition, alternate energy sources like Bio-diesel and Wind Power are also areas which would continue to be looked at seriously.

Initial steps have been taken on different fronts as explained will be scaled up based on the outcome of such efforts. These will be undertaken either on our own or through JV / Consortium arrangement with known and reputed parties. Your Corporation is looking at the right mix of these options to sustain its growth momentum and profitability.

YOUR SUPPORT

We are grateful to all our esteemed shareholders, our stakeholders like dealers, customers, vendors, contractors, business associates, employees and all others who have reposed their faith in HPCL. Our Administrative Ministry, Ministry of Petroleum & Natural Gas, has been providing continuous guidance and support in our efforts. We, on our part, would continue to take HPCL further towards growth and profitability by meeting the challenges that we face and on capitalizing the opportunities that arise. We look forward to your continued support in this ongoing journey.

Thank you,

M.B. LAL