



GAIL (India) Limited

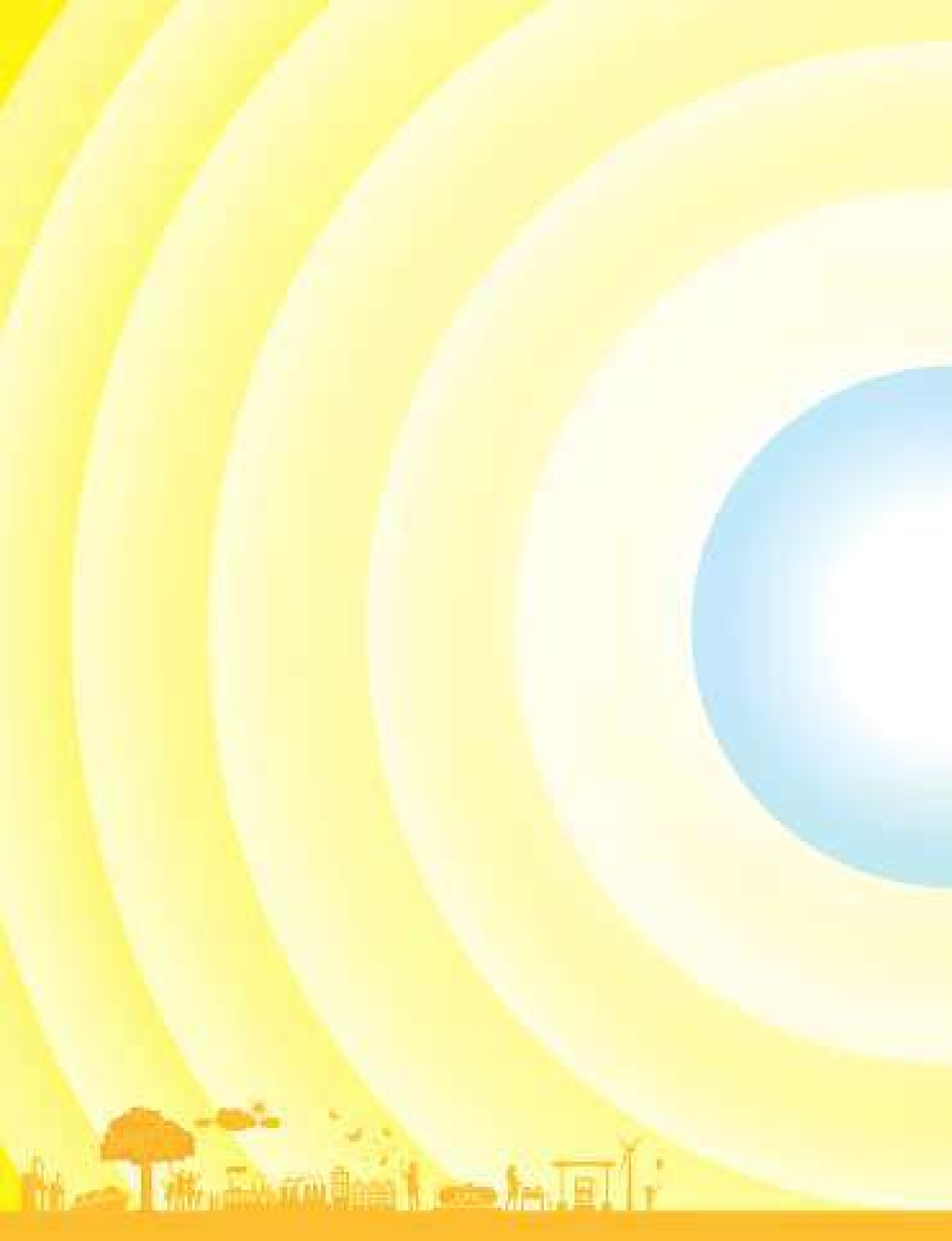
India's **Youngest** Maharatna

India's
No.1
Natural
GAS
Company

Annual Report
2016-17



Rejuvenate • Resonate • Redefine




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Message from CMD

“I am confident that your Company's close knit working with the policy makers as a pioneer of the gas industry in India, would help expand and mature the gas based economy in the country in an equitable and transparent manner.”

A portrait of Shri B. C. Tripathi, a middle-aged man with dark hair and a mustache, wearing a dark blue suit, white shirt, and a red patterned tie. He is seated with his hands clasped in front of him, wearing a gold ring on his left hand. The background is a neutral, light-colored wall.

Shri B. C. Tripathi
Chairman & Managing Director

Dear Shareholders,

GAIL (India) Limited registered record profits during the last fiscal year reflecting growth across business segments. The petrochemicals segment delivered doubling of marketed volumes with additional volumes from Pata expansion and Assam subsidiary. Successful re-negotiation of the long-term LNG contracts with suppliers brought stability and growth in the gas markets. The year was significant for GAIL as it was authorized the prestigious 'Pradhan Mantri Urja Ganga' pipeline project in East India for implementation by 2020. This encouraging development has unleashed a fresh wave of capex cycle by GAIL to capitalize upon promising opportunity of growth in newer markets.

Operating Environment

Last fiscal year, your Company's business continued to operate in an uncertain environment on many accounts triggered by domestic and international factors. The Asian marker price for LNG hovered around \$5.5/mmbtu during CY 2016, signifying an average drop of 40% in LNG spot trade prices over the previous year. Newer markets across the globe and Asia in particular seized the opportunity to grow LNG consumption by 5% on a year-on-year basis supported by copious flow of volumes from sources in Australia and USA. Influence of a fragile understanding of OPEC members to control flow of crude oil had little to negligible impact on the LNG trade as gas flowed in surplus. Globally, the industry rued lack of sufficient interest by participants to embark upon the next cycle of capex as the end consumers have settled into a here-and-now decision making approach for buying gas/LNG. Industry for now remains on a wait-and-watch mode.

On several accounts, markets remained on tenterhooks due to geopolitical developments such as Britain's exit from the European Union, changes in outlook on trade policy of USA marked by a transition in the political leadership and growing universal fondness for electric vehicles and solar power.

On the back of the bullish buying spree by Asian economies, India too imported a record 19 MMTPA of LNG supported by consumption in the power sector under the PSDF scheme and registered a near equal share of domestic and imported gas consumption during the fiscal period. Gas consumers in India, cutting across categories, are now mirroring global trend of contracting supplies for short to medium term basis. Alongside, domestic producers are experimenting auction based marketing of gas from newer finds on medium term basis. At the same time, the nodal Ministry is also keen to establish a gas trading hub. These developments, though at an exploratory stage, signify a movement towards structural shift for natural gas business in India.

Growth was witnessed in the petrochemicals portfolio of your Company amidst short-term volatility triggered by game-changing policies by Government of India (GoI) spanning across

industries to usher greater transparency and ease of doing business. Also, the much anticipated transition towards Goods & Service Tax (GST) based tax code necessitated operational changes during the year to gear-up for imminent change-over. Consumer sentiments prevailing in the market during closing quarter of the year against the backdrop of macro-economic developments led to buoyant sales of petrochemicals and created new record.

Growth amidst Odds

Amidst the uncertainties and challenges, the year gone by has been path-breaking and eventful on several fronts for your Company. Physical performance across all the business segments registered an impressive uptrend over the previous year and contributed to the growth in the Company's net profit by about 73%. Several cost optimization and revenue maximization efforts too yielded healthy returns. Your Company had to re-work the sales strategy such as re-opening exports market options in the wake of demonetization to maintain growth momentum in the segment and achieve record sales. GAIL having switched to electronic payment system in the earlier years welcomes the digitalization drive of GoI. The digital infrastructure that your Company has nurtured over the years has also enabled easier switch-over of operations in the GST regime.

In a historic move, GAIL received an approval for construction of the prestigious 'Pradhan Mantri Urja Ganga' natural gas pipeline project spanning 2600 kilometers from Jagdishpur to Haldia-Bokaro-Dhamra covering five States with a thrust to connect eastern India with the gas grid network. GoI accorded 40% capital grant for financially supporting the project, a first of its kind move in the natural gas infrastructure development in the country. Additionally, city gas distribution at seven locations enroute the pipeline and an in-principle nod for suitable implementation of unified tariff mechanism for the pipeline grid of GAIL were also included in the comprehensive package to ensure high rate of utilization from the very commissioning of the project. Execution of the pipeline network is underway in phases and is expected to be within schedule to connect the three fertilizer plants under revival mode at Gorakhpur, Barauni and Sindri and also the urea manufacturing unit at Durgapur. GAIL has initiated synchronous measures to ensure adequate flow of gas from both ends of the pipeline by tying up 1.5 MMTPA liquefaction capacity at the upcoming regas terminal at Dhamra, Odisha and also upgrading the Vijaipur-Auraiya-Phulpur section for ensuring feed at times from the western coast sources. Along with these projects in east India, GAIL is pursuing completion of other major pipeline projects including Kochi-Mangaluru segment and has an aggregate capital outlay of over ₹17,000 crores to be executed by 2020. This wave of common carrier pipeline infrastructure addition of your Company shall be a significant engine of growth once completed, as it tends to expand market base for natural gas in the country.



The year also brought renewed hope for the RLNG segment with novel and market savvy contract structuring for supply of gas to fertilizer sector and for RGPPL in the power sector. Your Company also exploited the current conditions prevailing in the shipping market to put in place a swap contract concept for reducing charter rates to India from the upcoming volumes from USA to ensure competitive delivery of LNG for Indian consumers. Initiatives have also been taken to de-risk exposure of USA contracted LNG by tying up innovative time-swap options with international parties for significant volumes. At the same time, GAIL strives to orient customer relationships led by shifting realities underpinning the market so as to provide unmatched service based on trust and maintenance of contractual sanctity that form the bedrock of international trade practices in this industry.

Your Company's petrochemicals division clocked over 70% higher sales during the year over the earlier fiscal on the back of additional ramp-up volumes available from the new capacity at Pata and BCPL, Assam. Development of niche grades is underway and in the quarters to come, GAIL shall continue to roll-out products for niche applications to consumers across India and overseas. Petrochemical exports to the neighbouring Asian countries were resumed by your Company to strategically spread into international markets as we continue to deeply engage and create value for home-grown consumers. Your Company is currently engaged in examining the next wave of investments into the petrochemicals business in southern India, as the expansion at Pata unit and green-field BCPL plant have now stabilized operations post their commissioning.

Leveraging Growth Opportunities

Considering the incremental gas in the main grid system, your Company is taking several operational measures to enhance extraction of rich hydrocarbons for expanding market-share of mainly LPG and Propane products. Your Company is also engaged in exploring setting-up greenfield value added petrochemicals plant around Kakinada area, Andhra Pradesh in collaboration with other partners. New project investments across NG/LPG pipelines, petrochemicals, regasification terminals and coal gasification project for Talcher Fertilizer revival are expected to run concurrent in the ensuing wave of capex cycle, under active consideration.

Authorisation of city gas distribution at seven towns/cities of eastern India to your Company and the recent inauguration of the Bengaluru city gas project by the Hon'ble Minister of State (I/C) for Petroleum & Natural Gas, denote the growing thrust of GoI for ensuring rapid reach of natural gas for consumption by the general public as a clean and convenient fuel.

The apex think-tank institution, NITI Aayog has envisioned in its series reports released during the recent months that natural gas will inevitably make progressive strides for usage as a fuel for domestic cooking and transport sectors in the medium to long-term. This serves as an encouraging reference for the industry's growth story in serving India's energy mix. During the last year, gas retailing segment constituting PNG and CNG recorded

double digit growth, ranging 12-15% in consumption of gas across various distribution companies. An impressive spell is expected from this sunrise sector to upstage gas consumption by the power sector. Sixty-five times over-subscription of your Company's joint venture company - Mahanagar Gas Limited - during the last fiscal year and currently trading at 2.5X its offer price is an encouraging sign for the promise that the sector, as a whole, is going forward.

Your Company is also actively involved in supporting and shaping policies for spur growth of natural gas in the country across various sectors including the anchor industry segments of power and fertilizers. Your Company has also been submitting various reports to the GoI for inclusion of natural gas under the reformist GST structure since transmission services are already covered for ensuring competitiveness of the environment friendly fuel vis-à-vis other polluting fuels. I am confident that your Company's close knit working with the policy makers as a pioneer of the gas industry in India, would help expand and mature the gas based economy in the country in an equitable and transparent manner.

Continuing Trust & Investments for Value Creation

In this exciting journey of your Company in the midst of uncertainties around the gas markets in an increasingly competitive landscape, I express my gratitude for your unshaken faith in continuing your investments in the Company's management and employees. 'NIL' report for the eighth successive year by the Comptroller & Auditor General of India is yet another convincing fact on the accounting standards devoutly followed by your Company.

I would like to place on record my indebtedness to the various communities that we engage across the country and for their overwhelming response to the 'Hawa Badlo' awareness campaign that has now swelled to over two million strong advocates for natural gas.

Your Company appreciates the unwavering faith of the consumers to continue with their conviction of using our diverse range of natural gas, petrochemicals, liquid hydrocarbon products and transmission services towards the creation of a better tomorrow.

As the Board strives to create value for the enterprise, on behalf of the entire Board, I take the opportunity to acknowledge the support of central and state governments, regulators, vendors, partners and other stakeholders for supporting our devout push to expand clean energy solutions.

On behalf of the Board, I record my appreciation to all the employees for their invaluable contribution in shaping growth of your Company.

B. C. Tripathi

Chairman & Managing Director

Vision

Be the Leading Company in Natural Gas and Beyond, with Global Focus, Committed to Customer Care, Value Creation for all Stakeholders and Environmental Responsibility



Mission

To accelerate and optimise the effective and economic use of Natural Gas and its fractions to the benefit of national economy

Encompassing the Entire Gas Value Chain

A commitment to environment friendly India



Natural Gas

- Over 11,000 Km of network (206 MMSCMD)
- Pursuing for expansion to 15,000 Km
- Participation in RGPPL (5 MMTPA LNG Regasification Facility)
- Long-term Import Portfolio: 14 MMTPA



Petrochemicals

- Domestic market share ~ 15%
- Petrochemical Plant in Pata (UP) with capacity of 0.81 MMTPA
- Participation in BCPL & OPAL



City Gas Distribution

- Serving over 19 lakh vehicles & 19 lakh households through Subsidiary & Joint Ventures
- GAIL Gas Limited, 100% subsidiary, has set up CGD networks in Bengaluru, Dewas, Sonapat, Kota, Meerut & Taj Trapezium zone



Power & Renewables

- 118 MW Wind Power Plant and 5 MW Solar Power Plant
- Participation in RGPPL (Capacity 1,967 MW)

Liquid Hydrocarbons

- 6 Gas Processing Plants producing LPG, Propane, Pentane, Naphtha, etc.
- LPG Transport Capacity 3.8 MMTPA (2,038 Km)



Exploration & Production

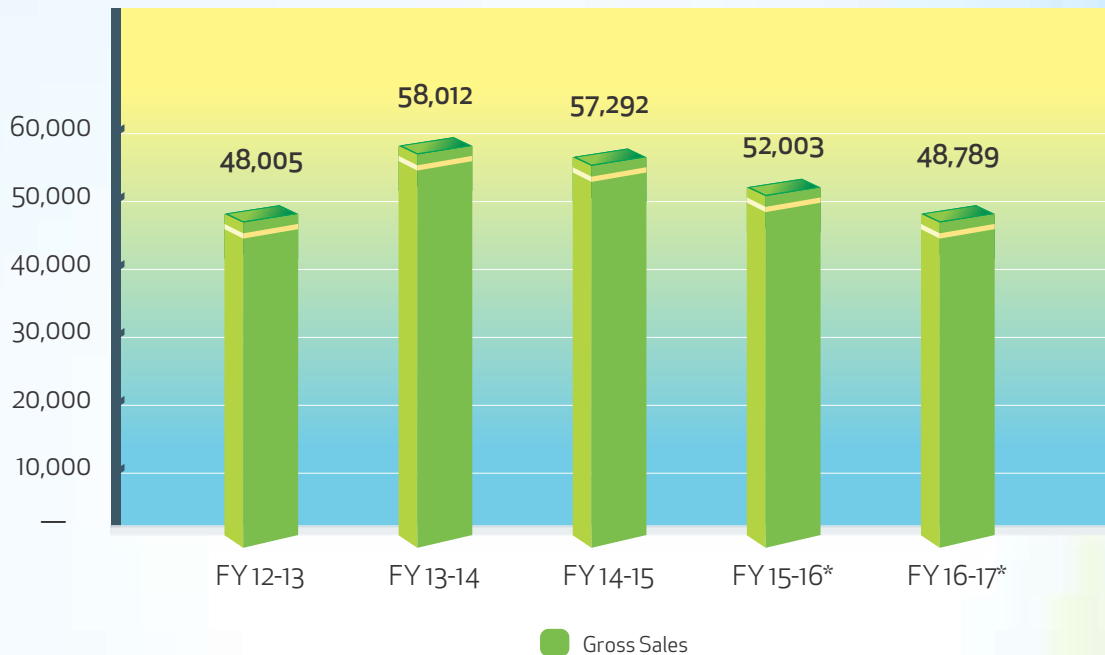
- Participation in 12 blocks (operator-1 block)
- Presence in Myanmar & US



Key Financial Highlights

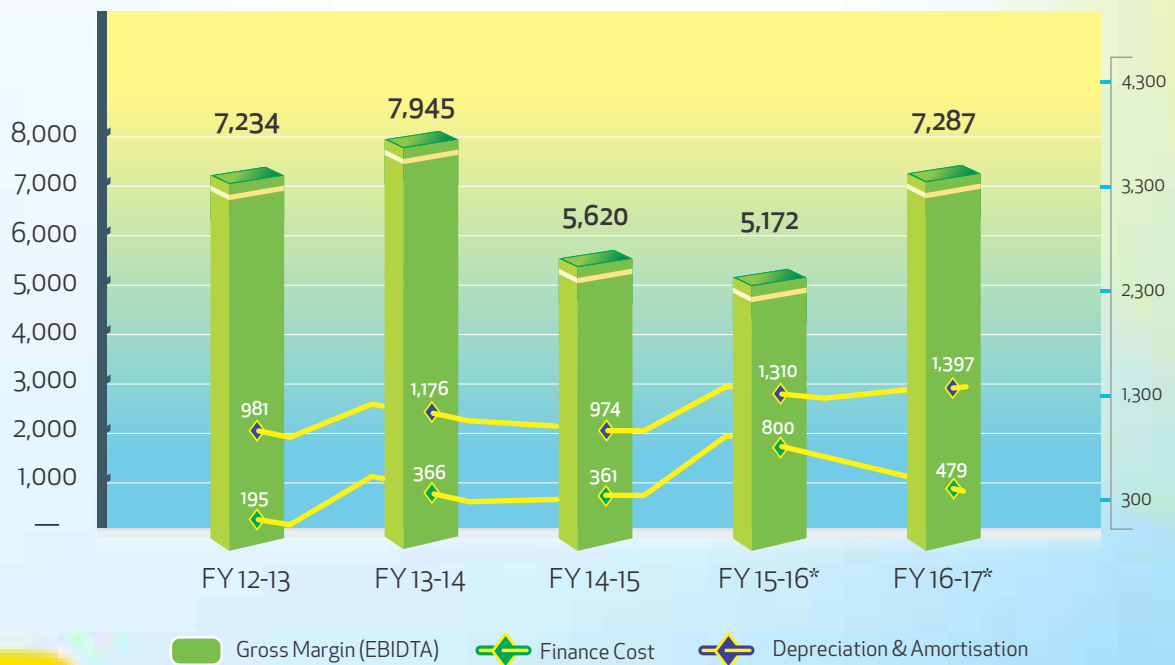
Gross Sales

[in ₹ Crores]



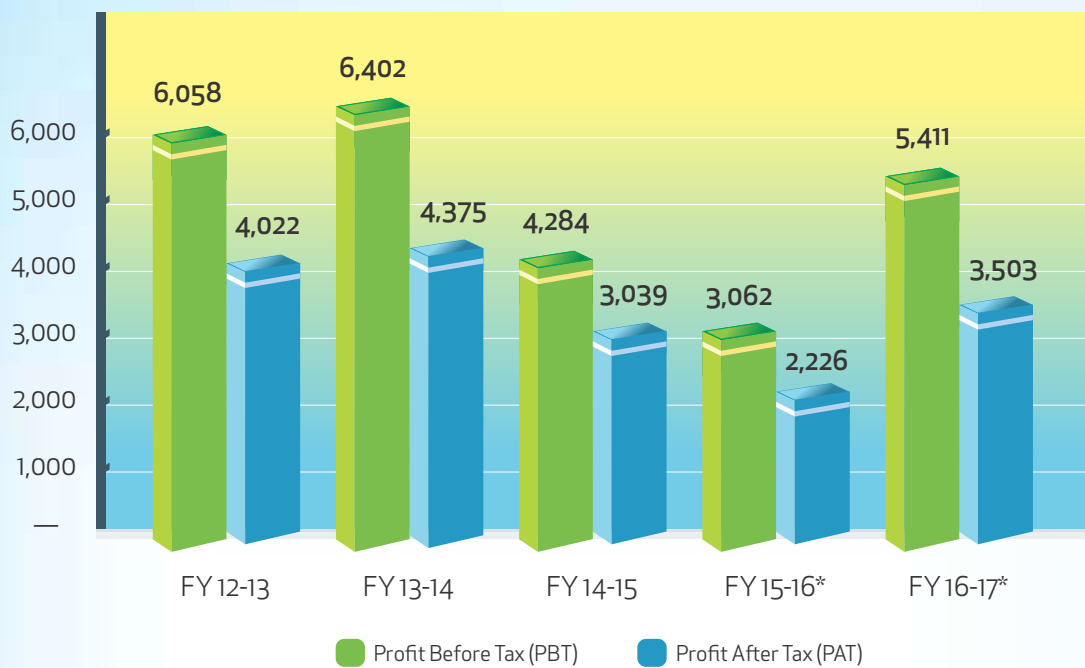
Gross Margin (EBIDTA)

[in ₹ Crores]



Profitability

[in ₹ Crores]



Shareholder's Fund

[in ₹ Crores]

