



Building
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20th Annual Report
2003-2004



GAIL (India) Limited

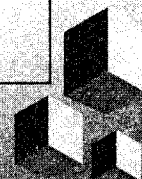
Gae & Beyond



ERP implementation is underway to enable new levels of business process and technology integration, while ensuring faster and efficient service to both the employee and in turn, to the valued customer.

Contents

Board of Directors	4
Directors' Report	6
Five Year Profile	39
Annual Accounts	43
Balance Sheet Abstract and Company's General Business Profile	78
Accounting Policies	80
Cash Flow Statement	82
Auditors' Report to the Shareholders	84
Schedule of Fixed Assets - Township	87
Income and Expenditure - Township etc.	88
Comments and Review of Accounts by C&AG	89





VISION

Vision

...the art of seeing
the unseen.

Vision Statement

"Be the Leading Company in Natural Gas and Beyond, with Global Focus, Committed to Customer Care, Value Creation for All Stakeholders and Environment Responsibility."

Mission Statement

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



Board of Directors



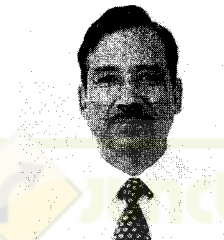
Sh. Proshanto Banerjee
Chairman & Managing Director



Sh. J.K. Jain
Director (Finance)



Sh. S. P. Rao
Director (Projects)



Sh. B. S. Negi
Director (Planning)



Sh. M. R. Hingnikar
Director (HR)
(from 28.07.2003)



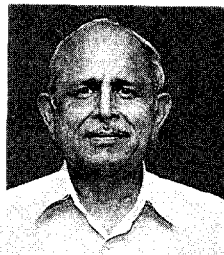
Dr. U. D. Choubey
Director (Marketing)
(from 06.05.2004)



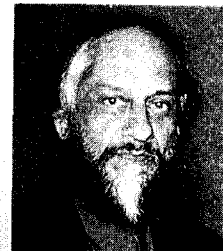
Sh. V. S. Prasad
Director
(from 18.08.2003)



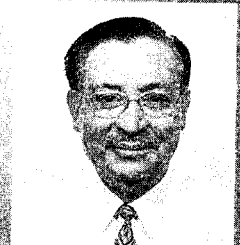
Dr. Amit Mitra
Director



Dr. A. K. Kundra
Director
(from 18.08.2003)



Dr. R. K. Pachauri
Director
(from 18.08.2003)



Sh. B. C. Bora
Director
(from 18.08.2003)



20th Annual Report
2003 - 2004

Statutory Auditors

M/s S. Mann & Co.

Chartered Accountants
New Delhi

Branch Auditors

M/s Nripendra & Co.

Chartered Accountants
Kanpur

M/s L.K. Maheswari & Co.

Chartered Accountants
Bhopal

Company Secretary

Sh. N. K. Nagpal

Stock Exchanges where the Shares/ GDRs of the Company are listed

The Delhi Stock Exchange
Association Ltd.

DSE House, 3/1, Asaf Ali Road
New Delhi- 110 002

The Stock Exchange, Mumbai

Phiroze Jeejeebhoy Towers
Dalal Street, Mumbai- 400 001

National Stock Exchange
of India Ltd.

'Exchange Plaza'
Bandra Kurla Complex
Bandra (E), Mumbai- 400 051

London Stock Exchange
(GDRs)

10, Paternoster Square
London - EC4M 7LS (U.K.)

Registrars and Share Transfer Agents

MCS Limited

Sri Venkatesh Bhawan,
W - 40, Okhla Industrial Area
Phase-II, New Delhi - 110 020

Banks

State Bank of India

Corporate Accounts, Group Branch
Vijaya Building, Barakhamba Road
New Delhi - 110 001

Bank of India

Overseas Branch
Vijaya Building, Barakhamba Road
New Delhi - 110 001

Bank of Baroda

Bhikaiji Cama Place, R. K. Puram
New Delhi - 110 066

Indian Overseas Bank

Prakash Deep Building, Tolstoy Marg
New Delhi - 110 001

ICICI Bank Ltd.

9A, Phelps Building, Connaught Place
New Delhi - 110 001

HDFC Bank Ltd.

G-3/4 Surya Kiran Building
19, Kasturba Gandhi Marg
New Delhi - 110 001

Registered Office

16, Bhikaiji Cama Place, R. K. Puram
New Delhi-110 066

DIRECTORS' REPORT

To
The Members,

Your Directors have pleasure in presenting the 20th Annual Report of your 'Navratna' Company together with Audited Accounts for the year ended 31st March, 2004.

Your Company has completed yet another successful year and recorded an overall growth in operations and sales.

Physical Performance

	<u>2003-04</u>	<u>2002-03</u>
Sale of Gas (BCM)	21,013	21,129
LPG Production (MTs)	10,88,686	11,14,423
Pentane/Propane/SBP Solvents Production (MTs)	2,74,473	1,88,162
Polymer Production (MTs)	2,63,720	2,91,829
LPG Transmission (MTs)	18,40,538	15,25,159

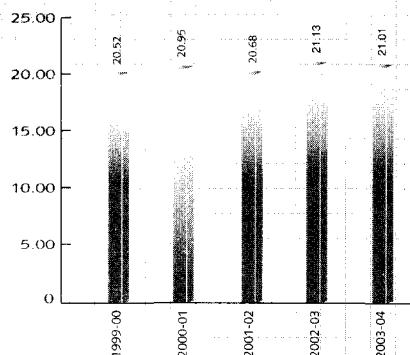
Financial Performance

During the year, the turnover of your Company has increased to Rs.11,942 Crores from Rs.11,343 Crores over the previous year and Profit after Tax is Rs.1,869 Crores as against Rs.1,639 Crores of previous year.

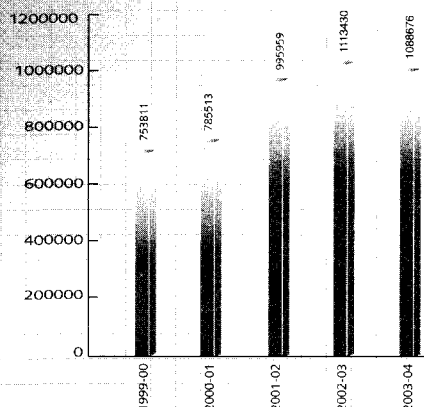
Salient financial parameters during the year under review as compared to the previous year are mentioned below:

	<u>2003-04</u>	<u>2002-03</u>
Turnover(Net of ED & including internal consumption)	11,942	11,343
Stock Adjustments	39	7
Other Income	244	319
Total Revenue	12,225	11,669
Cost of Sales	8,612	8,321
Gross Margin	3,613	3,348
Interest	138	186
Depreciation/ Write off	661	644
Profit Before Tax	2,814	2,518
Provision for Tax	945	879
Profit After Tax	1,869	1,639
Proposed Dividend (including Interim Dividend)	676	592
Provision for Dividend Tax	87	43
Transfer to Reserves	219	164
Profit & Loss A/c balance	887	840

Sales Quantity: Gas
in BCM



Sales Quantity: LPG
in MT





20th Annual Report 2003 - 2004

Dividend

An Interim Dividend of 40% on the paid up Equity Share capital for the year 2003-2004 was approved by the Board and the same has already been paid to the members of the Company.

The Directors feel privileged to recommend for approval of the members, a total dividend of 80% (excluding Corporate Dividend Tax) which includes final dividend of 40%. The total dividend for the year 2003-04 is 80% of the paid up Equity Share capital, as against 70% of the paid up Equity Share capital last year.

Gas Sector Scenario

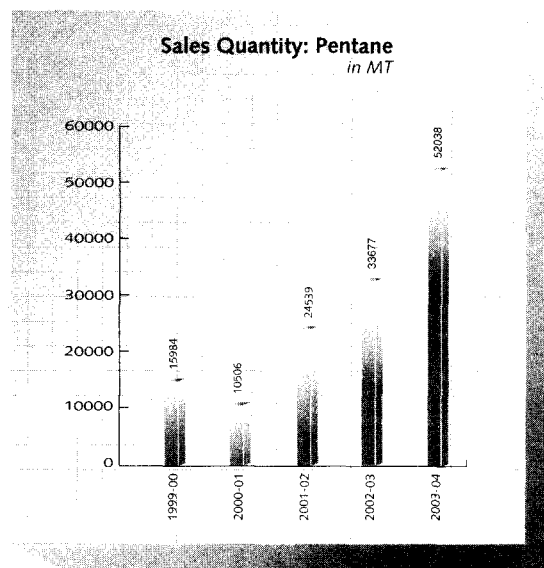
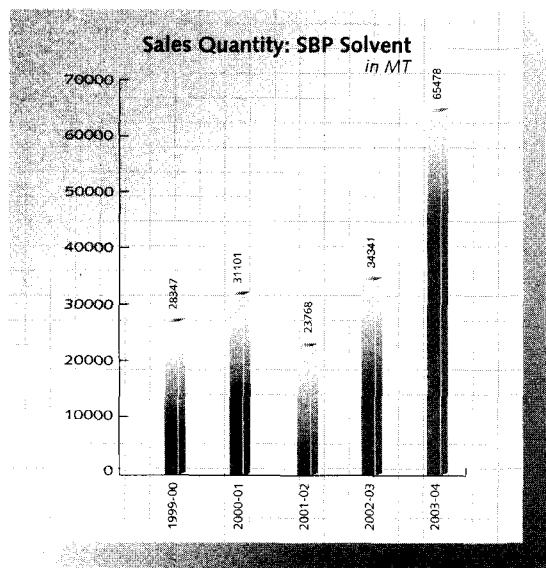
The Indian Gas market, traditionally, has been a supply constrained market. However, the supply side scenario is rapidly changing. The intensification of domestic exploration activities under the New Exploration and Licensing Policy (NELP) has started bearing fruits and new oil and gas reserves of considerable magnitude have been discovered. The gas discoveries in the Eastern offshore by companies and growing exploitation of oil and gas discoveries have converted the eastern offshore into a significant hydrocarbon province. The deepwater campaign in Western offshore as well as exploration in on-land blocks is also expected to yield favourable results.

With the commissioning of Petronet LNG Limited's (PLL) Dahej terminal in March 2004, India joined the select band of LNG importing countries. Another terminal at Hazira, being set up by Shell, is expected to be

commissioned by April, 2005. Over the next 3-4 years, the Dabhol LNG facilities may become operational. In addition, LNG terminals in South Western and South Eastern region may also become a reality. The outcome of limited Coal Bed Methane (CBM) activities undertaken so far, is encouraging. The feasibility of transnational gas pipelines from West as well as East, is being examined with a new perspective of regional co-operation and therefore, such projects have now a better visibility. With the fast changing supply scenario in the Indian gas market supported by E&P, LNG imports, it is necessary to undertake expansion of traditional markets, development of new markets as well as development of pipeline infrastructure, to connect supplies to the emerging markets.

The current share of gas in primary energy consumption is about 8% and this is bound to rise as supplies emerge in geographically dispersed parts of the country. Macro economic policies would drive the gas demand growth in the coming years predominantly from huge capacity creation required in power sector as well as from other forms of energy. The industrial sector has a large appetite for gas and new supplies would move in, to satisfy its need. The growing urban pollution would require greater penetration of CNG in the transport sector in the cities. Similarly, unconventional gas use for desalination of water, agro based industries and allied sectors would add to the demand build up.

Whereas the gas supply sources are getting geographically dispersed, the country lacks the inter-state pipeline infrastructure for supply of gas to the markets. It is in this context, that the National Gas Grid proposal



has been conceptualised by your Company to provide the critical connectivity of gas sources and the gas market. Your Company has made considerable progress on the implementation of National Gas Grid, covering RoU acquisition, preparation of feasibility reports, identification of potential markets, procurement of gas management system and study of global tariff determination practices. Your Company, strongly believes that announcement of National Gas Grid project and entrusting your Company with the responsibility of implementing, owning and operating the same would provide multiple benefits in the form of (a) intensification in E&P particularly, commercialisation of conventional and unconventional gas reserves (b) determination of location of future power plants and fertiliser plants and other mega industrial projects, and (c) better integration of supply sources for balanced regional development in the country.

Policy and Regulatory Framework

At the policy front, Government of India is already finalising the Petroleum Regulatory Board Bill as well as the Gas Pipeline Policy. These policy documents would have profound impact on the business portfolio of your Company as well as the business practices to be adopted. Growing competition in the market, gas to gas competition and emergence of new markets would require a different approach to business and overall business strategies. Your Company has been actively monitoring and watching the developments in the external environment.

Business Development Activities

The E&P portfolio has already had initial success in the form of significant gas find in Block A-1 in Myanmar and discovery of oil and

gas in the Cambay block. Other blocks are now getting upgraded to the drilling stage and favourable results from some of these are also likely to come. Your Company has been working for many years on the transnational gas pipelines from West as well as East of India and is confident of a leading position, should these projects reach maturity stage. Your Company is also in the process of sourcing gas from other E&P players in the country and this would receive greater emphasis in coming years.

Your Company has also adopted the inorganic growth model with growing emphasis on acquisition activities. As an outcome, your Company has successfully secured participation in two retail gas companies in Egypt i.e. Fayum Gas Company and Shell CNG, Egypt, both these companies are managed by Shell Group. Similarly, your Company is acquiring a major participating interest in Tripura Natural Gas Company and similar process is underway with Greater Calcutta Gas Supply Company Limited. The Board approved equity participation in Haldia Petrochemicals Limited and as per the procedure this has been put up for PIB approval. Many similar opportunities are under evaluation. Your Company, has been approached by many international companies and investment bankers for overseas opportunities in the gas sector projects. These are being pursued in a selective manner and would receive greater attention of the management in coming years. In the overall context of improving security of gas supply, your Company would secure equity gas and equity LNG in the projects earmarked for supplies to Indian markets. The globalisation of business thus would constitute a distinct business strategy.

India would need 1,50,000 MW of power generation capacity out of which 50,000 MW is expected to come from tapping hydro resources, the balance 1,00,000 MW would be pre-dominantly thermal where gas

