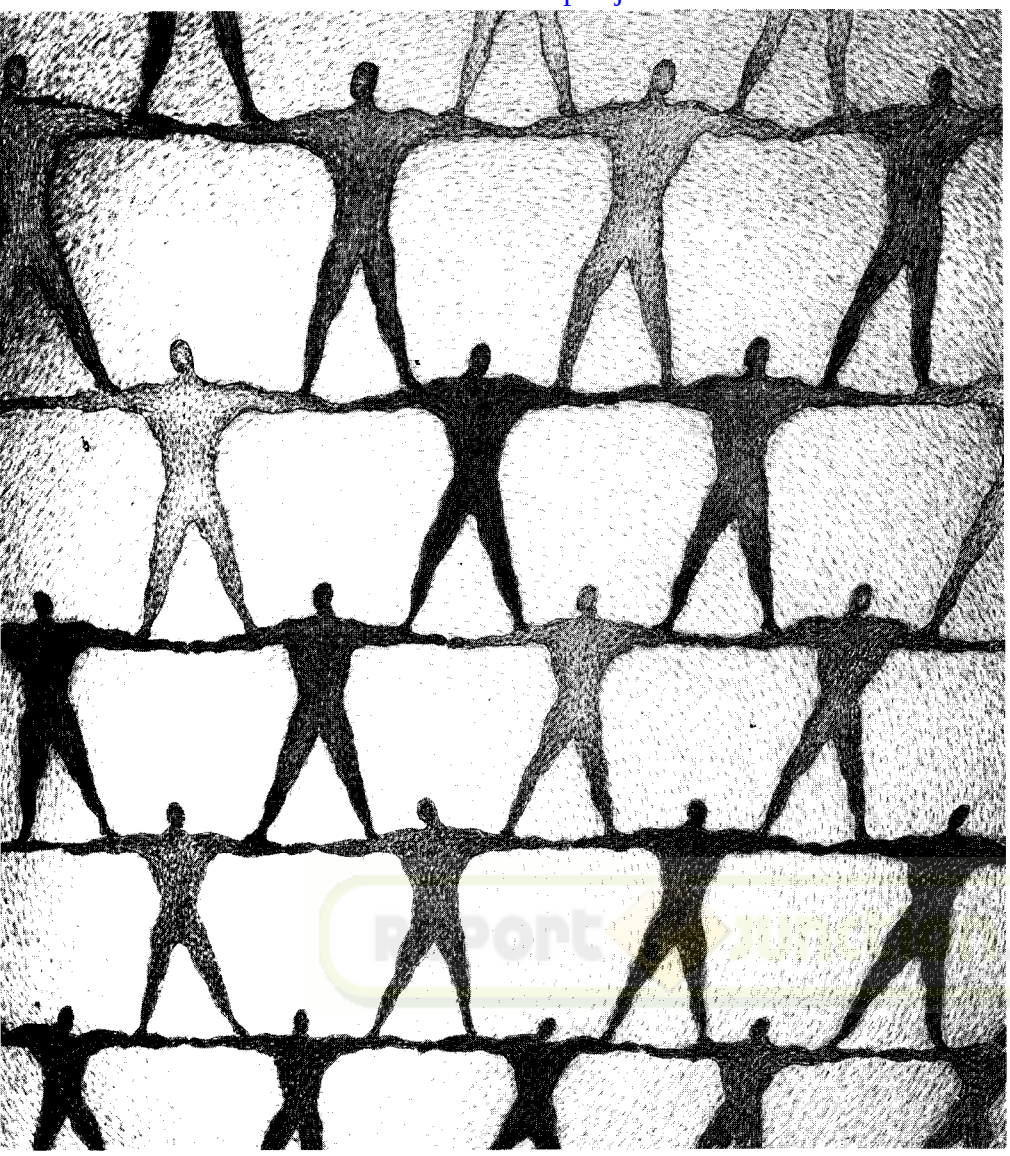
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21st ANNUAL REPORT 2004-2005

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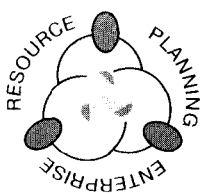
Gas & Beyond

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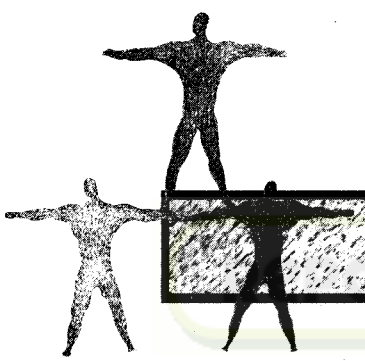
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ERP implementation at
GAIL will enable new levels
of business process and
technology integration,
while ensuring faster and
efficient service to both the
employee and in turn,
to the valued customer.



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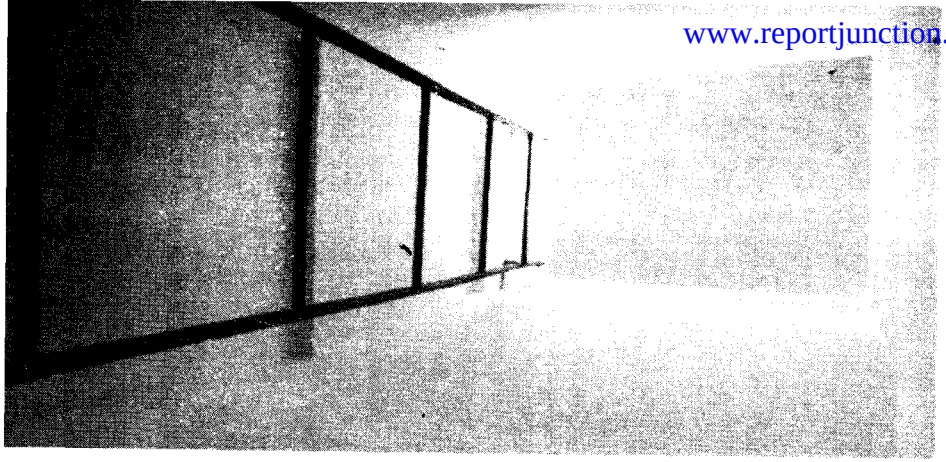


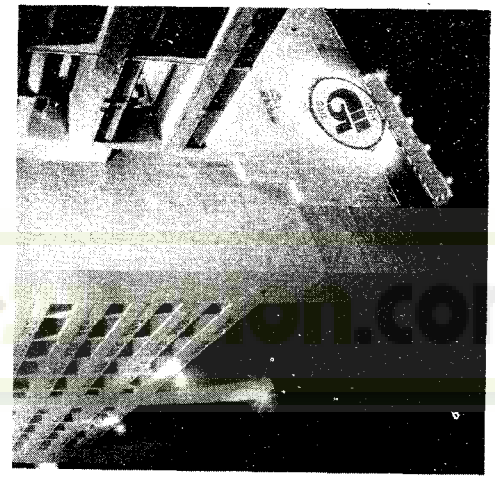
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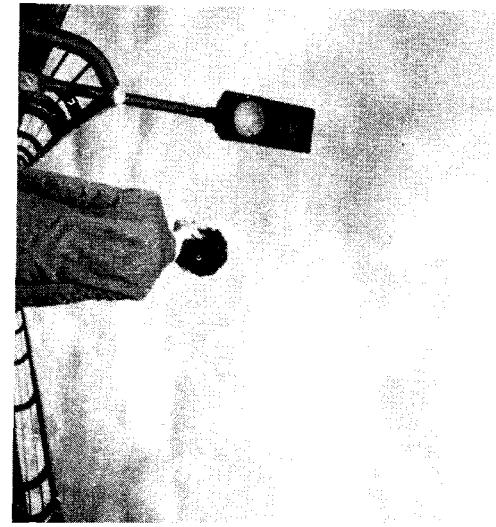
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"To accelerate and optimize the effective and economic use of Natural Gas and its fractions to the benefit of national economy."

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

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Board of Directors



Shri Proshanto Banerjee
Chairman & Managing Director



Shri J.K. Jain
Director (Finance)



Shri S.P. Rao
Director (Projects)



Shri B.S. Negi
Director
(Business Development)



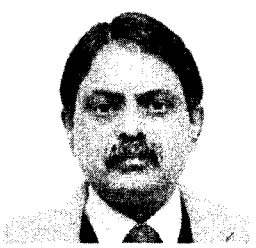
Shri M.R. Hingnikar
Director (HR)



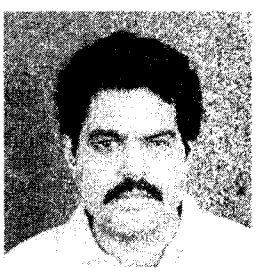
Dr. U.D. Choubey
Director (Marketing)



Shri M.S. Srinivasan, IAS
Director
(From 28.01.2005)



Shri P.K. Sinha, IAS
Director
(From 20.12.2004)



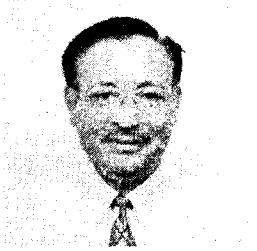
Shri Ajay Tyagi, IAS
Director
(From 20.04.2005)



Dr. Amit Mitra
Director



Dr. A. K. Kundra
Director



Shri B.C. Bora
Director

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Statutory Auditors

M/s. S. Mann & Co.	Chartered Accountants New Delhi

Branch Auditors

M/s. Nripendra & Co.	Chartered Accountants Kanpur
M/s. Chhajer & Co.	Chartered Accountants Bhopal

Company Secretary

Shri N. K. Nagpal

Stock Exchanges where Shares/ GDRs of the Company are listed

The Delhi Stock Exchange Association Limited	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 Limited	'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 Agent

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

Bankers

State Bank of India	Corporate Accounts Group Branch Jawahar Vyapar Bhavan, 11th & 12th Floors, Tolstoy Marg, 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

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Directors' Report

To,

The Members

The Directors have pleasure in presenting the 21st Annual Report of your "Navratna" Company together with Audited Accounts for the year ended 31st March, 2005.

Your Company has completed yet another successful year and we are happy to present the performance of GAIL in the past year, which brought an overall growth in financial and physical performances.

PHYSICAL PERFORMANCE

The physical performance of GAIL showed growth in all its businesses as compared with last year. The sale of Gas has increased by 8.7% over the previous year to 22.835 BCM from 21.013 BCM. Similarly, our Liquid Hydrocarbon Production, which comprises of products like Pentane, Propane and SBP Solvents, increased by the same margin of 8.7% to 298264 MT as compared to the last year's production of 274473 MT. Although our LPG production registered a marginal 1% increase over the previous year to 1094835 MT, Polymer production registered an impressive 13.3% growth from 263720 MT to 298787 MT and our LPG Transmission business has sold 16% more capacity over the previous year.

	2004-05	2003-04
Sale of Gas (BCM)	22.835	21.013
LPG Production (MTs)	10,94,835	10,88,686
Pentane/Propane/SBP Solvents Production (MTs)	2,98,264	2,74,473
Polymer Production (MTs)	2,98,787	2,63,720
LPG Transmission (MTs)	21,37,504	18,40,538

BCM : Billion Cubic Meters; MT: Metric Tonnes

FINANCIAL PERFORMANCE

During the year under review, the Turnover of your Company, which includes revenue generated from sale of products and services, has increased to Rs.12,412 Crores from Rs.10,826 Crores (Net of ED and excluding internal consumption) thereby registering a growth of 14.6% over the previous year.

HIGHLIGHTS 2004-05

Numbers speak
- Turnover up by 14.6%
- 4.6% increase in PAT despite 166% increase in subsidy burden
- Net Worth up by 15.5%
- Book Value/share up by 15% to Rs. 101.22
- Reserves up by 17.8% to Rs. 7780.46 Crores

Truly Gas & beyond
- Gas discovery in Mynamar
- Oil discovery in Cambay block

GAIL Global
- 100 % subsidiary in Singapore
- 15 % equity stake in Natgas, Egypt
- 8.5 % particpating interest in China Gas Holding Company

Anything for a blue sky
- City gas distribution implemented in 5 cities
- JV's in place for 4 more cities

Energizing Maharashtra
- GAIL to source LNG for Ratnagiri Gas and Power Pvt Ltd

Spreading Wings
- Ethylene production capacity at Pata increased from 2,60,000 TPA to 3,10,000 TPA
- GAILTEL completes Meerut-Hapur and Greater Noida fiber loop
- South – Gujarat & Narimanam – Kuthalam Pipeline Project completed
- GAIL permitted to market LPG w.e.f. April '06

Kudos to HR & Project teams
- 'Best Employers in India 2004' by Hewitt Associates-CNBC
- NPMP award for excellence in Project Management

Healthy, Wealthy & Wise
- Rated Best PSU by Department of Public Enterprises (DPE)
- 12th amongst 30 Indian companies in the list of Forbes 2000 - the world's wealthiest companies '05

Techno-savvy GAIL
- Final stage of implementation of Enterprise Resource Planning
- Successfully commissioned the Gas Management System

(Rs. in Crores)

	2004-05	2003-04
Turnover (Net of ED and Internal consumption)	**12,412**	**10,826**
Other Income	**349**	**244**
Cost of Sales (Excluding Interest & Depreciation)	**8,811**	**7,456**
Gross Margin (EBIDTA)	**3,950**	**3,614**
Interest	**134**	**138**
Depreciation/Write Off	**945**	**662**
Profit Before Tax	**2,871**	**2,814**
Provision for Tax (including Deferred Tax)	**917**	**945**
Profit After Tax	**1,954**	**1,869**

However, the Profit After Tax is Rs.1,954 Crores as against Rs.1,869 Crores of previous year, a growth of 4.6%. This growth in the profitability of your Company has been achieved in spite of a significant increase in the subsidy burden of 166% from Rs. 428 Crores in 2003-04 to Rs. 1,137 Crores in 2004-05, which GAIL shared towards under recoveries on Domestic LPG and PDS Kerosene as per Government of India directives.

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Furthermore, the book value of your Company has increased from Rs. 88 per share to Rs. 101 per share and the EPS of your Company is Rs. 23.11 in FY-05 as compared to Rs. 22.11 in the previous year. The Return on Invested Capital (ROIC), a parameter on which GAIL was rated as the No. 1 Company among global gas utility companies as per Platts in FY-03, has increased from 19.17% in FY-04 to 19.75% in FY-05 and is higher than the cost of capital, thereby reflecting the value creating capabilities of the Company.

Consolidation of Accounts

During the year, your Company has incorporated a 100% subsidiary, GAIL Global (Singapore) Pte. Ltd. Therefore, due to regulatory requirement of Listing Agreement with Stock Exchanges, Company has to consolidate the accounts incorporating the accounts of Subsidiary, Joint Venture and Associate companies. Hence, your Company has prepared the consolidated accounts during the year.

Total Income is Rs. 14,207 Crores and Net Profit is Rs. 2,039 Crores. Total Gross Assets is Rs. 14,786 Crores and Total Reserves and Surplus is Rs. 7,964 Crores.

Returns

On the overall valuations of your Company, the Net Worth has gone up by 15.5% to Rs. 8,560 Crores in FY -05, generating a Return on Net Worth (RONW) of 22.83% and the Return on Capital Employed (ROCE) of 27.87%, both of which indicate healthy returns in the business.

The Company has total reserves worth Rs. 7,780 Crores as on FY-05, which is an addition of Rs. 1,180 Crores, from the previous year. While the gross block on assets has gone up by Rs. 637 Crores to Rs.14,222 Crores in FY-05, while the net block has come down by Rs. 297 Crores due to higher depreciation.

Dividend

In addition to an Interim Dividend @ Rs. 4 per share for the year 2004-05, the Directors now feel privileged to recommend for approval of the members, payment of final dividend @ Rs. 4 per share at a dividend payout ratio of 39%. The total payout to shareholders in 2004-05 is Rs. 676 Crores.

With this, the total dividend payment for the year 2004-05 stands at 80% of the paid up equity capital, i.e. Rs. 8 per share, maintaining the rate during the previous year.

Policy and Regulatory Framework

Policy documents relevant to India's natural gas sector namely Natural Gas Pipeline Policy and Petroleum and Natural Gas Regulatory Board Bill, both of which aim to streamline the growth of the gas economy in India, are yet to be released by Government of India. Both the documents are reported to be under finalization and expected to be cleared for implementation soon. Needless to mention that the new policies will have significant impact on business of your Company in terms of growing competition, emergence of new markets and more importantly, to follow different business practices. Your Company has already taken several pro-active actions towards compliance of the possible measures envisaged in the policies. The business development activities, discussed below would reflect the Company's preparedness and growth focused areas.

CORPORATE STRATEGY

The strategic direction of your Company focuses on integration across the gas value chain, which includes, exploration and production and gas sourcing in the upstream segment, gas trading, gas transmission pipelines, gas processing and petrochemicals in the mid stream segment and retail gas distribution in the downstream segment.

Your Company intends to lay significant thrust in natural gas pipeline expansion, exploration and production, gas sourcing and gas marketing. City gas business is also an important area of interest. Besides globalization in various business verticals would also increase leverage and minimize risks associated with value chain integration. Your Company also considers petrochemicals business as a growth driver and plans to leverage unconventional technologies to achieve competitiveness.

BUSINESS DEVELOPMENT INITIATIVES

Natural Gas

Indian gas market has already entered the growth phase, primarily driven by commencement of LNG imports in the western part of the country. The scenario looks brighter with the new and encouraging gas finds in eastern offshore. As a market leader in gas business, your Company has taken several initiatives to steer through the competitive situation in future to retain its leadership position in the business.

Exploration and Production (E&P)

E&P is a key growth driver for your Company. At present, your Company has 11 blocks through unincorporated Joint Ventures, in partnerships with various exploration operators with a total acreage of over 67,000 km^2. Your Company has seven blocks in the east coast of India, three blocks in the west coast of India and one in Myanmar. These blocks have been acquired through bidding and through the farm-in route.

The E&P initiative of the Company has already had initial success in form of gas discovery in Myanmar A-1 block and Oil in Cambay block. Exploration work programme in E&P blocks during 2004-05 consisted of 2D seismic data reprocessing of 340 lkm, acquisition of 2,355 km^2 3D seismic data, drilling of two onland wells and 4 offshore wells and geological and geophysical interpretation of the available data.

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Exploration, development and operations of all the blocks would entail significant capital expenditure in the future. Furthermore, your Company also plans to globalize its E&P ventures by participating in opportunities in foreign countries and growth in the E&P business would be pursued both organically and inorganically.

Globalisation

The inorganic growth model of your Company has resulted in a number of acquisition activities. During the year under review, your Company, through its subsidiary GAIL Global (Singapore) Pte. Limited, acquired 15% equity stake in National Gas Company (Natgas), one of the largest local distribution companies in Egypt. Going forward, your Company's foot prints made its way to China by way of acquisition of about 8.5% participating interest in China Gas Holding Company, a fast growing retail gas company in China having exclusive concessions in more than 40 cities for Piped Natural Gas supply to residential, industrial and commercial sectors. Your Company has agreed to form separate Joint Ventures for undertaking CNG projects in certain cities/towns in China. Your Company visualizes this as a significant opportunity to build its CNG related expertise. The globalization of business has become a distinct business strategy for your Company.

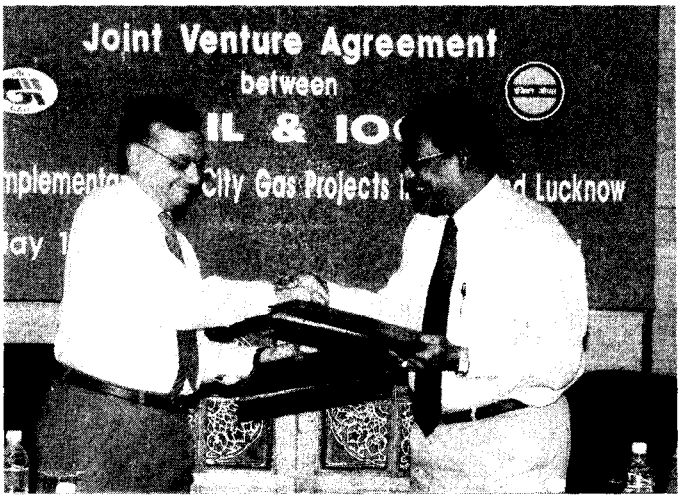


Signing of Agreement between GAIL and China Gas Holding Company

Retail Gas Business (City Gas and CNG)

The success stories of two Joint Venture companies of GAIL, viz., Mahanagar Gas Limited (MGL) and Indraprastha Gas Limited (IGL) in Mumbai and Delhi respectively, for city gas distribution in domestic and automotive sectors are well known to all of you. GAIL, therefore, is forming more Joint Ventures with Oil Marketing Companies (OMCs) for supply of natural gas to domestic and commercial consumers and CNG to the transport sector in various cities like Kanpur, Lucknow, Bareilly, Agra, Pune, Gwalior, Indore etc.

Retail Gas business has unique complexities, different from those of bulk natural gas business. With the retail gas segment expected to grow at a very high pace in the near future, several retail Gas



Joint Venture Agreement between GAIL and IOCL

Companies, which will be promoted by GAIL, will be faced with the challenge of creating and operating the city gas business. To address these needs, GAIL has promoted joint venture companies and other retail gas companies in India and abroad. Your Company has taken the initiative for developing a retail gas software solution with Infosys Technologies Ltd., Bangalore.

Power

In addition, the Government of India is now in the process of revival of Dabhol Power Company. You will be pleased to note that GAIL has been selected as a partner with National Thermal Power Corporation Limited (NTPC) and Indian Financial Institutions to form a project Special Purpose Vehicle (SPV) with equity participation. The SPV has been registered as Ratnagiri Gas and Power Private Limited. The primary responsibility of GAIL will be to source LNG and to undertake the operation of the regasification terminal. Your Company visualizes this initiative as an attractive opportunity with considerable growth potential in both natural gas trading and transportation in coming years.

Petrochemicals

In the Petrochemicals business sector, your Company has performed remarkably well during the year under review by increasing sales volume by 20% over last year. De-bottlenecking of the downstream plants has resulted in the production capacity increase of 19% from 2,60,000 TPA to 3,10,000 TPA. Your Company now is also looking to the opportunities for further expansion in the Petrochemical sector through organic and inorganic routes. While the ethylene production capacity at Pata Plant is further being increased to a level of 4,40,000 TPA, possibilities of setting up petrochemical plants in Kochi (Kerala), Assam and Iran are also being explored.

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