



## Winning Momentum

Annual Report 2005-06





#### IT'S ALL ABOUT WINNING

Winning reassures us.

Winning motivates us.

Winning lifts us.

Winning pushes us ahead of others.

Winning brings us responsibility.

Winning makes us smile.

Winning makes us travel extra miles.

Winning keeps us alert.

Winning makes us carefree.

And at GAIL, Winning has become a habit.

We draw inspiration from every aspect of life.

Which is why, this year's Annual Report features the Nehru Trophy Boat Race held in Kerala in August 2005, an event sponsored by GAIL - an event which is splendid example of synchronised team work and winning momentum.

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*“Art of  
winning”*



*Vision*

“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*

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



*“Winning takes talent but it takes character to keep winning!”*



## CHAIRMAN'S MESSAGE

## Winning Momentum

Dear Shareholder,

Today, as we progress towards GAIL's 23rd year, I am proud of the fact that **building our corporate character** remains the organization's prime focus. Winning, through tireless endeavours, has only strengthened this commitment.

At GAIL, each one of us is inspired by a **winning momentum** that motivates us to work towards creating new intellectual capital within an enduring value system. I take this opportunity to give you a glimpse into the enriching corporate character that encourages us at GAIL to adopt the highest standards of corporate governance.

Recognized for our Industrial **Leadership** by the PLATTS Global Energy Award, GAIL has also found a prominent position within the top 15 largest listed gas utility firms in the Oil & Gas industry, in terms of Market Capitalization by the recent PFC Energy rankings. These accolades have further strengthened our efforts to carve a niche in the global energy market.

**Evolving a global outlook**, in this era where geographical, linguistic and cultural boundaries are almost fading away, is an integral part of our vision for the future. We have already invested US \$ 70 million by making significant forays in exploring growth ventures and entering new markets across the world, such as China, Myanmar, Egypt and recently by being awarded Block 56 in Oman for exploration and production of hydrocarbons. Coal Bed Methane (CBM) opportunities are

being explored in association with expertise from Australia and Sweden. We are venturing into new forays such as bidding for gas fields in Ethiopia and setting up LPG plants in Uzbekistan.

Today, the energy sector in India is booming and natural gas is living up to its epithet of being the 'fuel of the future'. This lays more emphasis on our efforts to effectively harness the immense potential of this valuable fuel. In this context, we are spurred by a strategy to expand our business profile by developing into an **integrated company across the natural gas value chain** and making our presence felt across the gamut from exploration and production (E&P) to gas transportation and processing.

An emphasis on **innovation** has always been the cornerstone of all our efforts. We have notched up some interesting achievements that I want to share with you. This year, for the first time ever, we started production of crude oil in the Cambay Oil Basin. With this development, our foray into E&P activities started yielding revenues. The setting up of the National Gas Management Centre (NGMC) is the first Infohub of its kind in India that allows for round-the-clock monitoring and control of all the company's transmission assets spread throughout the country from one single location.

Another 'first' of its kind, is our initiative to promote preventive health care through the Air Pollution Related Disease Diagnostic Centers (APRDCs) set up in association with premier Hospitals across the nation. The APRDCs are an integral part of our **Corporate Social Responsibility (CSR)** Programme called Hridaya under the aegis of which we attempt to address myriad issues- be it that of education, sanitation, pollution or infrastructure development. As a **caring corporate**, we have consolidated our firm commitment to society by dedicating 1%



of our PAT (Profit After Tax) for our CSR activities.

A major development in the energy sector in India has been the passing of the **Petroleum and Natural Gas Regulatory Board Act** that envisages the institution of a Regulatory Board to oversee the activities of the downstream petroleum sector. This is a step towards liberalization of the petroleum and natural gas sector that offers newer vistas for us along with bringing in **healthy competition**. Competition is something we look forward to as it motivates us to reflect within and constantly goads us to perform better.

Another year has gone by, ushering in myriad opportunities, new partnerships, exciting ventures while also heralding in a brand new year- one with more promises to keep, higher goals to achieve and more and more smiles to bring, on the faces of all those associated with us. We reaffirm our commitment to excellence as we look forward to another year with a determination to sustain our momentum and success.

**Proshanto Banerjee**  
Chairman & Managing Director



**The uptrend continues...**

- Turnover up by 16%, PAT up by 18%

**Impressive Business growth...**

- Gas transmission volumes up by 10% to 78.87 MMSCMD, owing to increase in RLNG volumes from Dahej
- Crude oil production from Cambay Oil Basin started 6<sup>th</sup> September, 2005
- GAILTEL's optic fibre network more than 13,000 kms, up from 8,500 kms last year
- Ethylene production capacity increased by 100,000 TPA with the addition of new cracker furnace

**Globally yours...**

- GAIL Global (Singapore) Pte. Limited recorded a profit of Rs. 2.16 Crores during the year under review.
- GAIL bags the PLATT's Global Energy Award for Industry Leadership.

**Quality wise...**

- Only Company in India where the top management team has adopted a unique top down methodology by involving all plant heads in Operation & Maintenance and Zonal General Managers in the Six Sigma journey
- "LAST MILE" Product Quality Audit of Petrochemical and Liquid Hydrocarbon products by external testing of randomly picked products
- All labs are NABL (National Accreditation Board for Testing & Calibration Laboratories) accredited. All plants and work centres are ISO certified

**Customer is the queen...**

- Only Company in polymer industry giving Ton-to-Ton replacement and door delivery for its domestic customers
- Customer Complaints & Concern management system (3C) in place to attend the concerns and complaints of the customers of all businesses of GAIL

**Responsible corporate...**

- Set up Air Pollution Related Disease Diagnostic Centres (APRDCs) in 18 cities
- Silver Plate award from Help Age India

**Unearthing potential from deep within...**

- 3 blocks awarded in the NELP-V round of bidding in Gujarat, Assam and Andaman offshore with reputed consortium partners
- One E&P block awarded in Oman

**Dreams in the Pipeline...**

- Commissioned the Narimanam – Kuthalam Pipeline Project
- 5 other pipeline projects under execution

**In control, 24 x 7 x 365 ...**

- World class National Gas Management Center (NGMC) for round- the-clock monitoring and control of all transmission assets of the Company from a single location
- State-of-the-art GAILTEL Network Management Center (NMC) to enable centralized monitoring and control of the entire network
- Enterprise Management System (EMS) software solution implemented for monitoring and controlling IT infrastructure all across GAIL



# Highlights

## 2005-2006







*“A Winning  
Combination”*



**Shri Proshanto Banerjee**  
Chairman & Managing Director



**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 R.K. Goel**  
Director (Finance)  
(From 01.11.2005)



**Shri Anil Razdan, IAS**  
Director  
(From 17.02.2006)



**Shri Ajay Tyagi, IAS**  
Director



**Dr. Amit Mitra**  
Director



**Dr. A.K. Kundra**  
Director



**Shri B.C. Bora**  
Director

# Board of Directors

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Statutory Auditors

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

Branch Auditors

M/s SCJ Associates Chartered Accountants  
Agra

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

Bombay Stock Exchange Limited Floor 1, PJ 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.)

Registrar 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

ICICI Bank Ltd. 9A, Phelps Building  
Connaught Place  
New Delhi-110 001

HDFC Bank Ltd. 1st Floor, Kailash Building  
26, Kasturba Gandhi Marg  
New Delhi-110 001

Registered Office

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

“A Winning  
Statement”



Directors’ Report



To,  
The Members

The Directors have pleasure in presenting the 22<sup>nd</sup> Annual Report of your “Navratna” Company together with the Audited Accounts for the year ended 31<sup>st</sup> March, 2006.

Your Company has witnessed yet another successful year of operations which recorded an overall growth in the financial and physical parameters. The Directors are glad to share with you that the Enterprise Resource Planning (ERP) project was successfully implemented across the entire organization during the year and this has enabled us to present the Annual Accounts to you earlier than last year.

#### HIGHLIGHTS 2005–2006

During the year under review, your Company has performed well in terms of physical and financial parameters.

#### PHYSICAL PERFORMANCE

Revenue drivers	2005-06	2004-05
Gas transmission (MMSCMD)	78.87	71.56
LPG production (MTs)	10,42,219	10,94,835
Pentane/Propane/SBP Solvents production (MTs)	2,83,484	2,98,264
Polymer production (MTs)	3,11,469	2,98,787
LPG transmission (MTs)	22,28,568	21,37,504

During the year under review, the gas transmission volumes have gone up by 10% owing to increase of Regasified LNG (RLNG) volumes from Dahej. Besides, for the first time ever, your Company has started the production of crude oil in its Cambay Oil Basin from 6<sup>th</sup> September 2005, which was discovered in September 2004.

# DIRECTORS' REPORT



#### FINANCIAL PERFORMANCE

During the year under review, the Turnover of your Company increased to Rs.14,459 Crores from Rs.12,412 Crores (Net of ED and internal consumption), an increase of 16% over the previous year and registered a Profit After Tax (PAT) of Rs.2,310 Crores as against a PAT of Rs.1,954 Crores in the previous year which is an increase of 18%.

The salient financial parameters during the year under review as compared to the previous year are as under:

Particulars	2005-06	2004-05
(Rs.in Crores)		
Turnover (Net of ED and internal consumption)	14,459	12,412
Internal Consumption	1,892	1,179
Other Income	456	349
Cost of Sales (excluding Interest and Depreciation and including extraordinary items)	12,853	9,990
Gross Margin	3,954	3,950
Interest	117	134
Depreciation	560	945
Profit Before Tax	3,277	2,871
Provision for Tax	967	917
Profit After Tax	2,310	1,954
Dividend		
– Interim (already paid)	676	338
– Final (Proposed)	169	338
Corporate Dividend Tax	119	93
Transfer to Reserves	263	228
Profit & Loss A/c balance	1083	957

#### DIVIDEND

The Board of Directors of the Company had earlier approved payment of an interim dividend @ Rs.6 and special interim dividend @ Rs.2 per equity share of Rs.10 each, for the year 2005-2006, which has since been paid to the members of the Company.

The Directors are now privileged to recommend for approval of the members, payment of final dividend @ Rs.2 per Equity Share of Rs.10 each for the year 2005-2006. With this, the total dividend payment for the fiscal 2005-2006 stands at 100% of the paid up equity capital, an increase of 25% over the previous year.

#### CORPORATE PLAN

During the last few years, the dynamics of gas business have been influenced by several change drivers such as a burgeoning demand-supply gap, partial deregulation of gas pricing, multi-player competition and the enactment of the Petroleum and Natural Gas Regulatory Board Bill. Thus, a need was felt to re-visit the long term Corporate Strategic Plan.

Your Company had formulated a long term Corporate Strategic Plan, which was in line with the Corporate Vision and Mission statement. The Corporate Plan aims to create a robust and growth-oriented long term business portfolio that would maximize returns to the stakeholders and it was evolved

taking into consideration the future business environment and the value creating potential of the Company's businesses on a value-based matrix.

The mid-course revision of your Company's Corporate Strategic Plan took cognizance of the likely changes in the future business environment as well as the opportunities for growth in your Company's areas of business.

Broadly, the revised Corporate Strategic Plan of your Company has identified the following key growth drivers:

- Protection and strengthening of the gas transmission and marketing business.
- Increased gas sourcing from domestic fields and import of gas through cross-border pipelines and LNG to secure gas supplies for transmission and trading businesses.
- In the E&P front, your Company has stake in 16 Exploration Blocks and intends to participate aggressively in the upcoming E&P opportunities. To strengthen its presence in the operation of the blocks, it has plans to acquire a small/medium International E&P Company.
- Pursue margin enhancing businesses namely, petrochemicals and city gas projects.

#### BUSINESS PERFORMANCE

##### GAS TRADING

During the year under review, your Company has transmitted a volume of 78.87 MMSCMD of gas, which is an increase of 10% over the previous year volume of 71.56 MMSCMD. The increase in volume has been as a result of the sale of Regasified LNG during the year, which doubled in comparison to that of the previous year. This is due to the commencement of supply of the second tranche of 2.5 MMTPA of LNG from Qatar to Petronet LNG Limited at Dahej.

Out of the above transmitted volume of 78.87 MMSCMD, your Company has traded a volume of 67.63 MMSCMD of gas.

##### PETROCHEMICALS

During the year under review, the production of Polymers (HDPE/LLDPE) has been 3,11,469 MTs as against the production of 2,98,787 MTs in the year 2004-2005 which represents an increase of 4% over the previous year.

