

25th ANNUAL REPORT

GUJARAT GAS COMPANY LIMITED



Recognition as one of India's
Top 13 Best Managed
Companies*

6 new CNG stations
promise a greener tomorrow

A 2000 km long
journey into customers' hearts

Smiles that speak volumes of
1.5 million scmd retail sales

A rewarding year in many ways

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Resolve...Results... Recognition

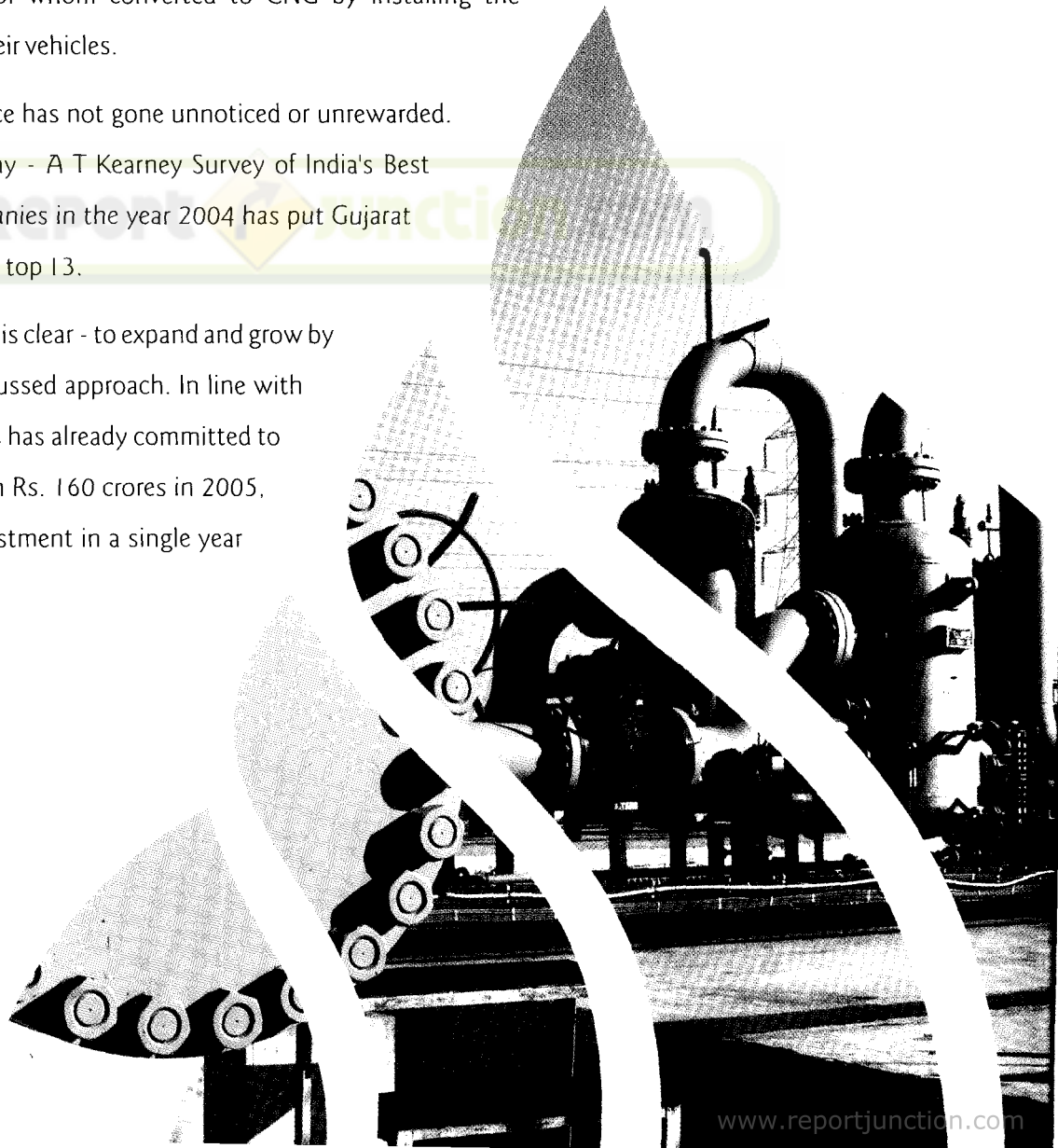
The year has been a significant one for Gujarat Gas, thanks largely to the direction laid out by the company's vision, 'We make natural gas the safe and preferred energy solution.'

It has been a year of endeavour and achievement - on many fronts. From record retail sales volumes to one of the longest pipeline networks for a private sector gas distribution company and additional Compressed Natural Gas (CNG) stations, the company has been taking rapid strides. Along with its product, natural gas, the company has been making major inroads into the consumer psyche. Especially that of petrol vehicle owners, many of whom converted to CNG by installing the required kit in their vehicles.

Such performance has not gone unnoticed or unrewarded.

A Business Today - A T Kearney Survey of India's Best Managed Companies in the year 2004 has put Gujarat Gas amongst the top 13.

The way forward is clear - to expand and grow by sticking to a focussed approach. In line with this, Gujarat Gas has already committed to invest more than Rs. 160 crores in 2005, the highest investment in a single year for the company.



Areas of growth

Leading the way

Gujarat Gas' retail business has grown in the past year. Piped Natural Gas (PNG) sales volumes exceeded the mark of 1.5 million standard cubic metres per day (scmd), the highest ever in the history of Gujarat Gas.

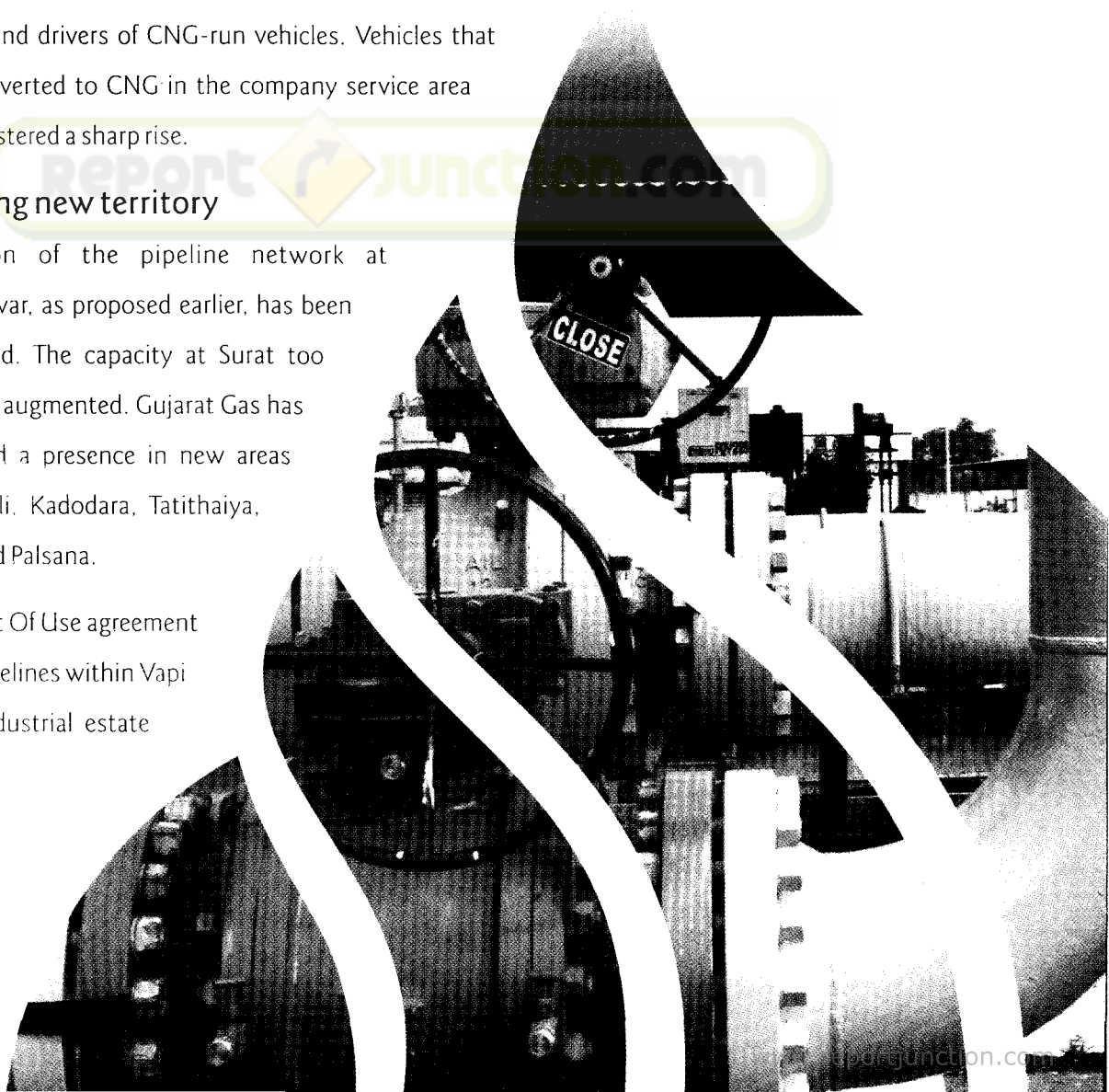
Driving home the advantages

Six new CNG filling stations were commissioned in Surat, Bharuch and Ankleshwar, easing availability and access for owners and drivers of CNG-run vehicles. Vehicles that have converted to CNG in the company service area have registered a sharp rise.

Covering new territory

Expansion of the pipeline network at Ankleshwar, as proposed earlier, has been completed. The capacity at Surat too has been augmented. Gujarat Gas has registered a presence in new areas like Vareli, Kadodara, Tatithaiya, Jolwa and Palsana.

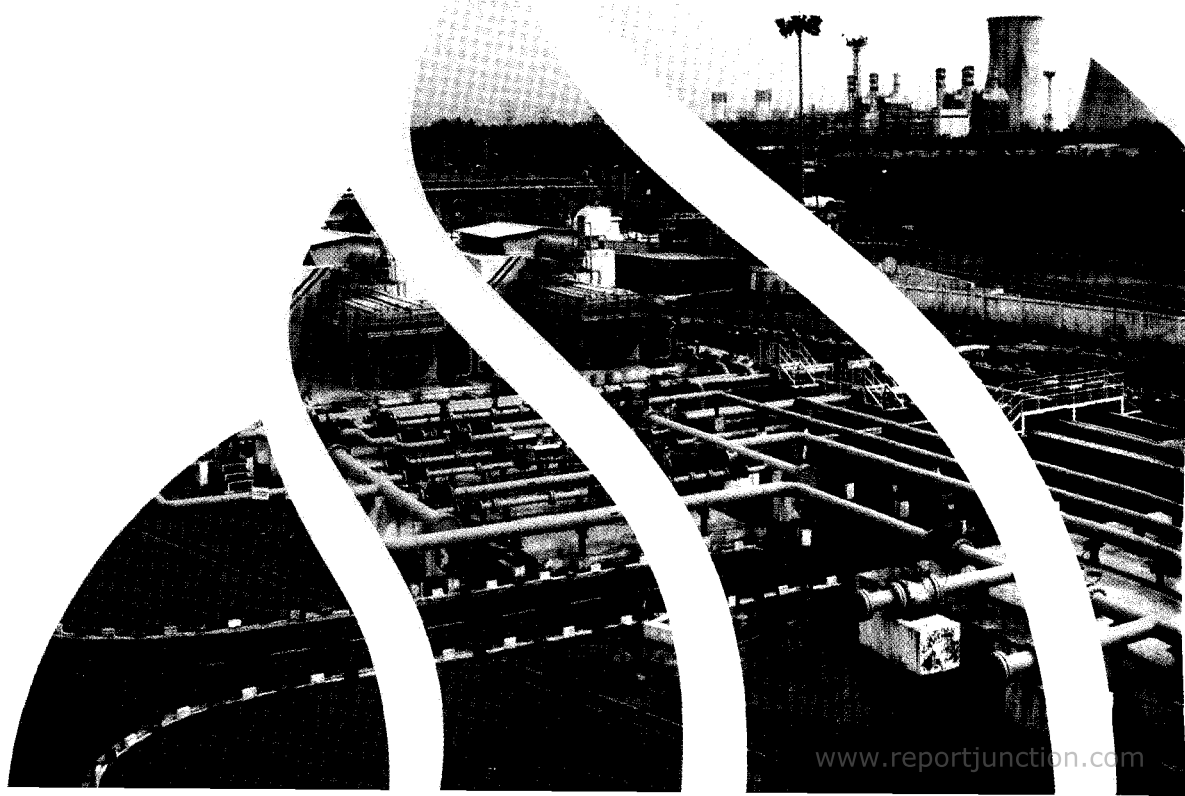
The Right Of Use agreement to lay pipelines within Vapi GIDC industrial estate



opens up a new segment of industrial consumers in the near future. Gujarat Gas, along with interested customers, filed a petition for a Captive Group Power Plant with Gujarat Electricity Regulatory Commission to set up a power plant on a co-operative basis. This is the first such petition filed with the regulator in India.

Growing family of users

11,000 new customers have joined the Gujarat Gas fraternity. The year saw the company signing 3,77,000 scmd of additional gas supply contracts with retail customers. This includes more than 28 MW of Combined Heat and Power (CHP) load.





GUJARAT GAS COMPANY LIMITED

BOARD OF DIRECTORS

HASMUKEH SHAH, *Chairman*

NIGEL SHAW

ANTONY SEIGEL

PROF. PRADIP KHANDWALLA

JAL PATEL

AJIT KAPADIA

HASMUKEH ADHIA, IAS (from 4 May 2004)

ANIL MUKIM, IAS (upto 3 April 2004)

B. S. SHANTHARAJU, *Managing Director*

RAJIV SHAH, *Company Secretary*

BANKERS

HDFC Bank Limited

Standard Chartered Bank

AUDITORS

PRICE WATERHOUSE

Chartered Accountants

P-1, Aditya Vihar

Saidulajab

Mehrauli-Badarpur Road

Opp. D Block, Saket

New Delhi-110030

CORPORATE & REGISTERED OFFICE

2, Shantisadan Society

Near Parimal Garden

Ellis Bridge

Ahmedabad 380 006, India

OFFICES

SURAT

Plot No.87-88

Mayavanshi Mohallo

Adajan Gam

Surat

ANKLESHWAR

Surati Bhagol, Umarwada Road

Near Piraman Naka, Ankleshwar

GROUP HEADS

AKHIL MEHROTRA, *Director - Power*

ALLAN PERRIN, *Director - Technical*

EMMANUEL DAVID, *Director - Human Resources*

NISHITH DAVE, *Director - Management Services*

P. P. G. SARMA, *Director - Business Development*

PARTHA CHOUDHURY, *Director - Finance*

SUBROTO CHAKRABORTY, *Director - Commercial*

DILIP JOSHI, *General Manager (Internal Audit)*

H. K. UPADHYAY, *General Manager (External Affairs)*

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25th Annual General Meeting

Date: 6 May 2005

Day: Friday

Time: 10.00 a.m.

Venue: H. T. Parekh Convention Centre

Ahmedabad Management Association

ATIRA, Dr. Vikram Sarabhai Marg

Vastrapur, Ahmedabad – 380 015

**NOTICE**

NOTICE is hereby given that the Twenty Fifth Annual General Meeting of the Members of Gujarat Gas Company Limited will be held on Friday, 6 May 2005 at 10.00 a.m. at H.T. Parekh Convention Centre, Ahmedabad Management Association, ATIRA, Dr. Vikram Sarabhai Marg, Vastrapur, Ahmedabad 380 015 to transact the following business:

ORDINARY BUSINESS

1. To consider and adopt the Directors' Report, the audited Profit and Loss Account and Cashflow statement for the year ended on 31 December 2004, the Balance Sheet as at that date and the Auditors' Report thereon.
2. To declare the dividend on equity shares.
3. To appoint a director in place of Mr. Jal Patel, who retires by rotation and being eligible, offers himself for re-appointment.
4. To appoint a director in place of Mr. Nigel Shaw, who retires by rotation and being eligible, offers himself for re-appointment.
5. To appoint auditors to hold office from the conclusion of this meeting until the conclusion of the next annual general meeting and to fix their remuneration.

SPECIAL BUSINESS

6. To consider and if thought fit, to pass with or without modification(s), the following resolution as an Ordinary Resolution:
"RESOLVED THAT Mr. Hasmukh Adhia, IAS who was appointed as an additional director of the company under Section 260 of the Companies Act, 1956 read with Article 79 of the Articles of Association of the company and who holds office till conclusion of this annual general meeting and in respect of whom the company has received a notice from a member proposing his candidature for the office of director, be and is hereby appointed as a director of the company."
7. To consider and if thought fit, to pass with or without modification(s), the following resolution as an Ordinary Resolution:
"RESOLVED THAT pursuant to the provisions of Clause 49 of the Listing Agreement with the stock exchanges, the company hereby approves payment of sitting fees to the directors for attending meetings of the Board of Directors and committees thereof, as may be decided by the Board of Directors from time to time, within the limits prescribed under the provisions of Section 309, 310 and other applicable provisions if any, of the Companies Act, 1956, rules made thereunder and any modifications thereof."

By Order of the Board

RAJIV SHAH
COMPANY SECRETARY

Registered Office

2, Shantisadan Society,
Near Parimal Garden, Ellisbridge,
Ahmedabad – 380 006

Date: 10 March 2005

Notes:

1. A MEMBER ENTITLED TO ATTEND AND VOTE IS ENTITLED TO APPOINT A PROXY TO ATTEND AND VOTE INSTEAD OF HIMSELF ON A POLL AND THAT A PROXY NEED NOT BE A MEMBER.
2. The relevant Explanatory Statement pursuant to Section 173 (2) of the Companies Act, 1956 is annexed hereto and forms part of this Notice.
3. Members/proxies should bring the attendance slip duly filled in for attending the meeting.
4. Members desirous of getting any information about the accounts and operations of the company are requested to address their queries to the Company Secretary at the registered office so as to reach him at least seven days before the date of the meeting to enable the management to keep the required information readily available at the meeting.

ANNEXURE TO NOTICE**EXPLANATORY STATEMENT PURSUANT TO SECTION 173(2) OF THE COMPANIES ACT, 1956****ITEM NO. 3**

Mr. Jal Patel, Director retires by rotation and being eligible offers himself for re-appointment.

Brief resume and nature of expertise

Mr. Jal Patel is an Associate Member of the Institute of Chartered Accountants of India and an Associate Member of the Institute of Company Secretaries of India. He possesses professional experience of more than 42 years.

Since 1962, he was associated with the German FAG group of Bearing companies and handled various managerial functions. In 1977, he took over as the Managing Director. Subsequently, he was promoted as Vice Chairman and Managing Director before retiring in 2000. His areas of expertise include Finance, Accounts and Administration.

He is also actively involved with various social and welfare associations and federations as well as various trusts.

Mr. Jal Patel is on the Board of your company from March 2001. He is the Chairman of the Audit Committee and a member of the Shareholders' Grievances Committee of your Company from April 2001.

Apart from Gujarat Gas Company Limited, Mr. Patel holds directorship and membership of the following companies / committees.

Directorship

| Sr. No. | Name of the Company | Designation |
|---------|----------------------------------------|-------------|
| 1 | ABC Bearings Limited | Director |
| 2 | Coronet Products Private Limited | Director |
| 3 | Mipco Seamless Rings (Gujarat) Limited | Director |
| 4 | Shri Dinesh Mills Limited | Director |
| 5 | Tata Finance Limited | Director |

**Membership of Committees**

| Sr. No. | Name of the Company | Committee | Designation |
|---------|----------------------------------------|------------------------------------|-------------|
| 1 | ABC Bearings Limited | Audit Committee | Chairman |
| 2 | Mipco Seamless Rings (Gujarat) Limited | Audit Committee | Member |
| 3 | Shri Dinesh Mills Limited | Shareholders' Grievances Committee | Member |
| 4 | Tata Finance Limited | Audit Committee | Member |
| 5 | Tata Finance Limited | Remuneration Committee | Member |

Your directors recommend re-appointment of Mr. Jal Patel as a director.

No director other than Mr. Jal Patel is in any way interested or concerned in the said resolution.

ITEM NO. 4

Mr. Nigel Shaw, Director retires by rotation and being eligible offers himself for re-appointment.

Brief resume and nature of expertise

Mr. Nigel Shaw graduated in Economics from University College, London in 1975. A qualified Accountant, he obtained a Masters in Economics from Birkbeck College, London in 1979. He is also a member of the Chartered Institute of Management Accountants.

Mr. Shaw began his career with the UK Government's Economic Service in 1975. In 1979, he joined BG Group (then British Gas) as an Economist and worked in a number of finance and planning roles before joining the Finance Department as a Financial Analyst in 1988.

In 1989, he became Group Financial Planning Manager before taking up the position of Head of Regulatory Policy for the Group in 1991 involving high level dealings with the Regulator of Gas Supply and the Office of Fair Trading. He was also a member of the team established to work on the 1992 referral to the Monopolies and Mergers Commission to open up Britain's gas supply market over 25,000 therms.

In 1994, he was appointed Director of Storage, where he was responsible for the commercial development and growth of the gas storage business in Great Britain.

Mr. Shaw became the Commercial Director of Transco in 1996 working on issues surrounding the liberalisation of the domestic supply market in Great Britain including development of the Network Code – the rules governing gas supply, pricing and investment.

In July 1999, Mr. Shaw was appointed Vice President, Ireland and UK- Downstream with responsibility for BG Group's assets in the UK including Seabank Power, a power station in the south west of England, and three businesses in Northern Ireland – Phoenix Natural Gas, a gas distribution company; Premier Power, Northern Ireland's largest generating power station and Premier Transmission which operates an interconnector

transmission pipeline.

Mr. Shaw took up the position of Vice President, BG India in September, 2001. He has the responsibility for the strategic direction of BG's assets in India including Gujarat Gas Company Limited, BG Exploration and Production India Limited, Mahanagar Gas Limited and BG's Broadband business in India. He is also responsible for identifying new areas of growth for the BG Group in India.

Mr. Shaw is on the Board of your company from September 2001. He is also a member of the Audit Committee of your company from March 2003.

Apart from Gujarat Gas Company Limited, Mr. Shaw holds directorship and membership of the following companies / committees:

Directorship

| Sr.No. | Name of the Company | Designation |
|--------|--------------------------------------------------------|-------------|
| 1. | British Gas India Private Limited | Director |
| 2. | BG LNG Regas India Private Limited | Director |
| 3. | BG Exploration and Production India Limited | Director |
| 4. | Iqara HITS Conditional Access Services Private Limited | Director |
| 5. | Iqara Telecoms India Private Limited | Director |
| 6. | Mahanagar Gas Limited | Director |

Membership of Committees

Mr. Nigel Shaw is not a member of any committee in any other company.

Your directors recommend re-appointment of Mr. Nigel Shaw as a director.

The following promoter-directors of the company are deemed to be interested:

- Mr. Hasmukh Shah
- Mr. Nigel Shaw
- Mr. B. S. Shantharaju
- Mr. Antony Seigel

ITEM NO. 6

Mr. Hasmukh Adhia, IAS, an independent director, was appointed as an additional director by the Board of Directors in its Meeting held on 4 May 2004. As per the provisions of Section 260 of the Companies Act, 1956, he holds office of director till the conclusion of this annual general meeting. A notice under Section 257 of the Companies Act, 1956 alongwith the requisite deposit has been received from a shareholder signifying his intention to propose the candidature of Mr. Adhia for appointment as a director of the company.

Brief resume and nature of expertise

Mr. Hasmukh Adhia, IAS is a senior member of the Indian Administrative Service (IAS 1981 batch), at present working as Principal Secretary to the Chief Minister of Gujarat. In addition to this assignment, he is also Director General of Sardar Patel Institute of Public Administration and Ex-Officio Secretary to Government, General Administration Department (NRI &



Administrative Reforms and Training Division). He is also holding charge of the Managing Director, Gujarat State Financial Services Limited. Mr. Adhia is also a member of the Board of Governors of the Indian Institute of Management, Ahmedabad.

Mr. Adhia has got a basic degree in Accountancy with a Post Graduate Diploma from Indian Institute of Management, Bangalore. He has been awarded a gold medal for academic excellence in the two-year Post Graduate Programme in Public Policy and Management by the Indian Institute of Management, Bangalore in the year 2004. Prior to his current assignment, Mr. Adhia has held important assignments as follows:

- Director in the Ministry of Industry, New Delhi
- Secretary, Finance Department, Government of Gujarat
- The Industries Commissioner, Gujarat
- Vice-Chairman & Managing Director, Gujarat Industrial Development Corporation.

For promotion of industrial and infrastructure investment in India, Mr. Adhia has travelled widely around the world.

Apart from Gujarat Gas Company Limited, Mr. Adhia holds directorship and membership of the following companies / committees:

Directorship

| Sr.No. | Name of the Company | Designation |
|--------|------------------------------------------|-------------------|
| 1 | Gujarat State Financial Services Limited | Managing Director |
| 2 | Sardar Sarovar Narmada Nigam Limited | Director |

Membership of Committees

| Sr. No. | Name of the Company | Committee | Designation |
|---------|--------------------------------------|-----------------|-------------|
| 1 | Sardar Sarovar Narmada Nigam Limited | Audit Committee | Member |

Your directors recommend appointment of Mr. Hasmukh Adhia, IAS as a director.

No director other than Mr. Hasmukh Adhia is in any way interested or concerned in the said resolution.

ITEM NO. 7

Rule 10 (B) of the Companies (Central Government's) General Rules and Forms, 1956 permits payment of sitting fees upto Rs.20,000 per meeting for attending meetings of the Board of Directors or a committee thereof, in case of companies with a paid-up share capital and free reserves of Rs.10 crores and above or turnover of Rs.50 crores and above.

Your company is in compliance of the above criteria and is, therefore, permitted to pay sitting fees upto Rs.20,000 per meeting of the Board of Directors or a committee thereof. Article 75 of the Articles of Association of the company permits payment of sitting fees as approved by the Board of Directors, to directors other than a whole-time director.

Your company is presently paying sitting fees to the Chairman and independent directors for attending meetings of the Board of Directors and its Committees viz. Audit Committee and

Shareholders' Grievances Committee, as stated below.

| | |
|----------------------------------------------------------------------|-----------------------|
| For attending meetings of the Board of Directors | Rs.17,000 per meeting |
| For attending meetings of the committee(s) of the Board of Directors | Rs.15,000 per meeting |

Securities & Exchange Board of India, has by its circular dated 29 October 2004 revised Clause 49 of the Listing Agreement pertaining to corporate governance. Revised Clause 49 *inter-alia* provides that all fees / compensation paid to non-executive directors including independent directors shall be fixed by the Board of Directors and shall require previous approval of shareholders in a general meeting.

Your directors recommend approval of the resolution.

The following non-executive directors are deemed to be interested:

- Mr. Hasmukh Shah
- Mr. Jal Patel
- Prof. Pradip Khandwalla
- Mr. Ajit Kapadia
- Mr. Hasmukh Adhia, IAS

By Order of the Board

RAJIV SHAH
COMPANY SECRETARY

Registered Office
2, Shantisadan Society,
Near Parimal Garden, Ellisbridge,
Ahmedabad – 380 006

Date: 10 March 2005

**DIRECTORS' REPORT****DEAR SHAREHOLDERS,**Your directors have pleasure in presenting the 25th Annual Report and the audited accounts for the year ended 31 December 2004.**1. FINANCIAL RESULTS**

(Rs. in crores)

| Particulars | Consolidated Financials | | Stand-alone Financials | |
|------------------------------------------------|-------------------------|---------------|------------------------|---------------|
| | Current Year | Previous Year | Current Year | Previous Year |
| Total income | 664.53 | 726.77 | 568.66 | 527.08 |
| Gross profit before interest and depreciation | 145.01 | 131.90 | 125.88 | 116.58 |
| Less: Interest | 0.11 | 2.05 | 0.09 | 1.95 |
| Depreciation | 21.43 | 18.23 | 17.89 | 15.99 |
| Profit before tax | 123.47 | 111.62 | 107.90 | 98.64 |
| Tax expenses | 46.33 | 39.88 | 39.47 | 34.19 |
| Net Profit | 77.14 | 71.74 | 68.43 | 64.45 |
| Minority Interest | 0.23 | 1.06 | - | - |
| Profit attributable to Group | 76.91 | 70.68 | - | - |
| Add: Undistributed profit of earlier years | 96.44 | 70.87 | 82.80 | 62.82 |
| Add: Transfer and other adjustments | (1.20) | 37.24 | - | 37.50 |
| Balance available for Appropriation | 172.15 | 178.79 | 151.23 | 164.77 |
| Less: Appropriations: | | | | |
| Transfer to general reserve | 7.85 | 68.31 | 7.00 | 67.50 |
| Special reserve as stipulated by RBI | 0.15 | 0.70 | - | - |
| Share of loss of joint venture carried forward | (1.01) | (1.20) | - | - |
| Proposed dividend | 12.83 | 12.83 | 12.83 | 12.83 |
| Corporate dividend tax | 1.74 | 1.71 | 1.67 | 1.64 |
| Surplus retained | 150.59 | 96.44 | 129.73 | 82.80 |
| Earning per Share (Rs.) | 59.97 | 55.11 | 53.36 | 50.25 |

2. DIVIDEND

Your directors recommend for consideration of the shareholders at the Annual General Meeting, payment of dividend of Rs.10 per share, involving total payout of Rs.14.50 crores, including corporate dividend tax of Rs.1.67 crores.

3. MANAGEMENT ANALYSIS**3.1 Industry Structure**

Gujarat Gas Company Limited (GGCL), a premium downstream player in the Indian gas industry, is engaged in the integrated business of transmission and distribution of natural gas. GGCL buys gas from multiple sources to enhance supply security for its customers. Its current suppliers include Cairn Energy led consortium, Gujarat State Petroleum Corporation Limited, NIKO Resources Limited and GAIL (India) Limited. GGCL is also the only distribution company in India to offer its customers a choice of wide range of contracts viz. Bulk contract, Spot contract, Cash & Carry contract. GGCL distributes gas in the cities of Surat, Bharuch and Ankleshwar and surrounding industrial areas.

3.2 Developments

During the year under review, one of the significant developments in the industry was the import of Liquefied Natural Gas (LNG) at Dahej in Gujarat. LNG is regasified and supplied through pipelines as natural gas to the customers. Commencement of LNG import has augmented the availability of gas and opened up opportunities for

importing more gas into India.

In another significant development, the Government of Gujarat has reduced the sales tax on Natural Gas to 12% from 20% earlier. This is a significant development as it will make gas more competitive for end consumers and increase the consumption of Natural Gas, which will benefit the environment. GGCL, in an endeavour to support the Government's initiative of sales tax reduction, has passed on the entire sales tax benefit to the end consumers.

In another development worth noting, the Hon'ble Supreme Court of India, while ruling on a Presidential Reference, judged that Natural Gas is a Union subject. With this clarity, the Central Government, which was drafting the 'Petroleum Regulatory Board Bill 2002', has now expanded the scope and added Natural Gas to this Bill. The Bill has, accordingly, been renamed as the Petroleum and Natural Gas Regulatory Board Bill, 2004. The Bill, once approved by the Group of Ministers, might be introduced in the Parliament in the coming months.

Finally, it is worth noting that, the Government of Gujarat is in the process of enacting the 'Gujarat Motor Vehicle (Use of Fuel) Regulation Act, 2004'. The State Cabinet has recently approved the bill and has sent it to the Central Government for its approval. The Act, when implemented will provide an impetus to use of environment friendly fuels like CNG.



3.3 Opportunities and Challenges

The above developments open up new opportunities and also pose exciting challenges for GGCL.

Gujarat, with its vast industrial base offers immense opportunity for gas transmission and distribution. GGCL, with its operations in the Golden Corridor of Gujarat, is well poised to play a significant role in these developments. The Government of Gujarat is also encouraging the use of this clean fuel and as mentioned earlier, has approved the relevant Bill on clean fuel.

The Dahej LNG import facility will see an expansion to double the LNG capacity in the year 2005. Another LNG terminal is also expected to become operational at Hazira, near Surat in Gujarat during this period. Similarly, the fields at Panna / Mukta and Tapti near Gujarat, are also expanding their capacity and Joint Venture partners have been allowed to sell gas at market determined price. These developments are likely to result in significant additional volumes of gas being available in Gujarat and consequently this is likely to present opportunities for GGCL to buy more gas.

Another emerging opportunity is to expand the value added businesses like CNG and Power. CNG has already gained wide acceptance as a cost-effective and environment friendly fuel and over the last one year, the CNG customer base of GGCL has increased by 500%. GGCL continues to expand the number of CNG outlets and enactment of the Gujarat Motor Vehicle (Use of Fuel) Regulation Act, 2004 will provide an impetus to the use of CNG. GGCL is also expanding the Combined Heat & Power (CHP) business and the Electricity Act, 2003 has opened up opportunities for Captive Group Power (CGP) generation.

3.4 Operations and Market Performance

During the year under review, one of the milestones achieved was crossing 1.5 million standard cubic meters of gas per day (mmscmd) sales to the retail sector. This denotes around 50% increase in the sales to the retail customers in two years. This was possible primarily due to new contracts of approximately 0.37 mmscmd signed with retail industrial customers in year 2004, which is the highest quantity contracted by GGCL in a year on top of 0.27 mmscmd contracted in 2003.

The year also witnessed GGCL setting up six new CNG stations in Surat, Bharuch and Ankleshwar. These CNG stations coupled with conversion of more than 5000 vehicles to run on CNG has resulted in sales exceeding 20,000 standard cubic meters of gas per day to this segment. GGCL has announced plans to set up six more CNG stations in the year 2005.

GGCL added more than 15000 new domestic customers during the year and continued to expand its operations in existing and new areas of Surat, Bharuch and Ankleshwar.

During the year, GGCL faced supply constraints due to technical reasons. One of the major suppliers is drilling additional wells and this is likely to increase the volume of gas available to GGCL. GGCL shall continue to strive to

provide supply security to its customers.

During 2004, GGCL entered into a Right of Use Agreement with Gujarat Industrial Development Corporation to set up a gas distribution network in Vapi GIDC. This will be a new geographical zone for GGCL and management continues to strive to establish gas distribution network in newer geographical areas.

The Consolidated Income from operations decreased from Rs. 708.86 crores to Rs. 653.07 crores, a decrease of 7.87%. The decrease in sales was primarily due to supply constraints, as evidenced by the volume of gas sold. The volume of gas sold decreased from 773 mmscm to 695 mmscm, a decrease of 10.09%. In spite of decrease in volume of gas sold, the profit before depreciation, interest and tax increased by 9.94% from Rs.131.90 crores to Rs.145.01 crores and the profit after tax increased from Rs.71.74 crores to Rs 77.14 crores, an increase of 7.53% over the previous year. This is on account of better sales mix and lower costs. The transportation volume decreased from 975 mmscm to 808 mmscm, a decrease of 17%.

3.5 Future Outlook

Additional volumes of gas are likely to be available in Gujarat in the near future and GGCL will strive to play an active role in bringing some of this gas to the market. This will not only help mitigate the supply constraints faced over the last year, but will also provide increased supply security to customers and grow the business. To this end, your company has committed plans to invest more than Rs.160 crores in the year 2005 to expand the network and in CNG infrastructure.

Growing the business needs not only to sell more gas to existing customers, but to also bring more applications and to expand geographically. Applications like CNG for vehicles and natural gas based Combined Heat & Power are increasingly gaining acceptance. The Gujarat Motor Vehicle (Use of Fuel) Regulation Act, 2004 is expected to be passed in the current year and is likely to result in a rapid increase in the number of vehicles running on CNG. GGCL is also pursuing other applications of gas including Captive Group Power (CGP) generation. GGCL, along with its other customers in this regard, is first to file a petition with the Gujarat Electricity Regulatory Commission to establish a CGP facility.

GGCL has, during the year under review, entered into a Right of Use agreement with Gujarat Industrial Development Corporation (GIDC) to set up Gas Distribution Network in Vapi GIDC. Initial work of laying the pipelines will begin shortly and gas is likely to flow in around one and a half years.

With the proposed advent of Value Added Tax (VAT), GGCL is taking all appropriate steps for effectively adapting to the changes in the sales tax rules and rates as and when VAT is implemented in Gujarat.

3.6 Risk Management & Internal Control System

GGCL has a well-defined system for identifying and mitigating risks. The risks identified are classified into