

26th ANNUAL REPORT

Investing for the
FUTURE



GUJARAT GAS COMPANY LIMITED

Investing in INFRASTRUCTURE



The year 2005 was a year of investing for the future at Gujarat Gas - investing not only in the physical infrastructure and new applications, but also in processes and capabilities of our human resource.

During 2005, Gujarat Gas invested more than Rs.160 crores in upgrading the existing pipeline network, expanding the network as well as the CNG infrastructure. This was the largest investment in any single year ever in the history of the company.

As a part of this capital expenditure, one of the major projects undertaken was to upgrade the core network in Surat city. This network was designed around 15 years back and during these years the city has grown and the demand for gas has also grown manifold. Hence, the company took upon an initiative to upgrade the network of the city. This has increased the capacity of the core Surat network by approximately 3 times which will enable the company to satisfy the increased gas demand.

The capital expenditure plan also included the laying of pipeline networks in geographical areas near our core business establishments. This included areas like Kim-Karanj on the outskirts of Surat. Gujarat Gas is planning to tap more such areas during the year 2006.



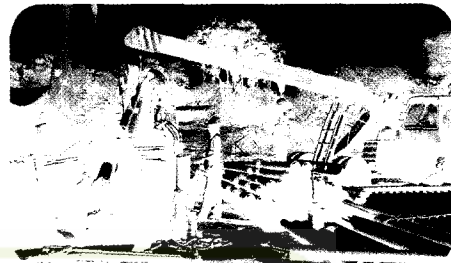
Highlights

Invested more than Rs. 160 crores in a single year.

Reached landmark of 1 Million SCMD gas sales in Surat LDZ and 0.8 Million SCMD gas sales in Ankleshwar LDZ.

The year 2005 was a year of investing for the future at Gujarat Gas - investing not only in the physical infrastructure and new applications, but also in processes and capabilities of our human resource.

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Gujarat Gas also started work on laying pipelines in the Vapi G.I.D.C. area. The main trunk pipeline

Highlights

Signed new contracts in excess of 5,00,000 SCMD in Industrial Retail Segment.

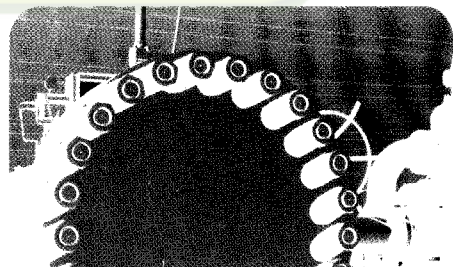
Investing in new APPLICATIONS

One of the major focus areas for the company has been the identification and commercialisation of new gas based applications.



One such application identified during the year 2005 was the Yarn Heat Setting (YHS), an application for the textile industry. Conventionally, YHS used other fuels for heating purpose, but Gujarat Gas, with its dedicated efforts, developed the YHS application to use Natural Gas.

Another such application identified by Gujarat Gas was Co-generation. 'Co-generation' is the combined generation of electrical power and heat, the heat in turn used for generation of steam or for cooling. Gujarat Gas has been concentrating on this application. Recently, Gujarat Gas has announced plans to acquire the business of BG India Energy Services Pvt. Ltd., who is currently carrying out the co-generation business. This business would involve entering into lease transactions with the customers utilising co-generation units.



Gujarat Gas continues to pursue viable business opportunities for sustained growth.

Highlights

Connected 125 Industrial Connections 20000 Domestic connections and 18000 CNG customers.

Achieved a milestone of 1 lakh SCMD gas sales in the CNG segment.

Investing in new PROCESSES AND PEOPLE

Gujarat Gas has developed processes and systems to handle a wide range of customers and suppliers.

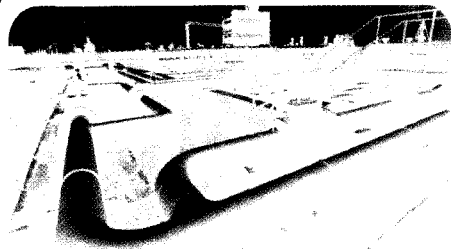


The company offers wide range of contracts viz. Bulk, Spot contract, Cash and Carry and Retail. This offers flexibility to its customers.

Gujarat Gas is also the only gas distribution company in India to buy gas from multiple sources thus providing improved supply security to its customers.

Gujarat Gas continued attracting new talent and upgrading its human resource to a more qualified team. The average age of employees has reduced and the qualification of the employees has increased.

All these investments have already started yielding results. Gujarat Gas recently crossed the milestone of sale of 2 million standard cubic meters per day to the retail segment. The number of CNG customers also increased from around 6000 to around 22000 and CNG volumes crossed 1 lakh scmd.



Gujarat Gas's two pronged strategy of 'Moving up the value chain' and 'Building Materiality' to drive business growth continues.

Highlights

Launched the Yarn Heat Setting application for the Textile industry.

Asset Integrity Management System Audit carried out by an independent team.

Investing in a BRIGHTER FUTURE

Health, Safety, Security & Environment (HSSE) performance is at the core of the business of Gujarat Gas and all the employees are accountable for it.



The company has a formal HSSE policy and system in place which reflects the best industry practices and also seeks to deliver continual improvement by ensuring that lessons are learnt from any internal / external incidents. Some of the highlights of the year were

- 1) "Safe Control of Operations" established to ensure safe operations of gas installations & networks.
- 2) Gujarat Gas received the Certificate of Honour for achieving more than 3 million accident free man hours of operations.
- 3) Behaviour Based Safety (BBS) process established.

The company has been actively contributing to the society. During 2005 'Prakriti', an environment education bus, was launched by the Hon. Chief Minister of Gujarat. This was followed by the launch of a 'Mobile ICU Unit' dedicated to the people of Ahmedabad.



Highlights

Runners Rotating Shield for Good Safety Performance from the Gujarat Safety Council.

Launched environment education bus 'Prakriti' in partnership with BG India and Centre of Environment Education.



GUJARAT GAS COMPANY LIMITED

BOARD OF DIRECTORS

HASMUKH SHAH, *Chairman*

WILLIAM ADAMSON (from 28 July 2005)

NIGEL SHAW (upto 18 July 2005)

ANTONY SEIGEL

PROF. PRADIP KHANDWALLA

JAL PATEL

AJIT KAPADIA

HASMUKH ADHIA, IAS

B. S. SHANTHARAJU, *Managing Director*

RAJIV SHAH, *Company Secretary*

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*
(upto 30 November 2005)

PARTHA CHOUDHURY, *Director - Finance*

SHALEEN SHARMA, *Director - Commercial*

DILIP JOSHI, *General Manager (Internal Audit)*

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

BANKERS

HDFC Bank Limited

ICICI Bank Limited

Standard Chartered Bank

State Bank of India

AUDITORS

PRICE WATERHOUSE

Chartered Accountants

P-1, Aditya Vihar

Saidulajab

Mehrauli-Badarpur Road

Opp. D Block, Saket

New Delhi-110 030

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

VAPI

Chandralok Complex

Nr. Cinepark Multiplex

Selvas Vapi Main Road

Chanod, Vapi

26th Annual General Meeting

Date: 24 April 2006

Day: Monday

Time: 10.00 a.m.

Venue: H. T. Parekh Convention Centre
Ahmedabad Management Association
ATIRA, Dr. Vikram Sarabhai Marg
Vastrapur, Ahmedabad – 380 015

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**NOTICE**

NOTICE is hereby given that the Twenty Sixth Annual General Meeting of the Members of Gujarat Gas Company Limited will be held on Monday, 24 April 2006 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 2005, 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 Prof. Pradip Khandwalla, who retires by rotation and being eligible, offers himself for re-appointment.
4. To appoint a director in place of Mr. Hasmukh Shah, 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. William Adamson 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 Section 94 and other applicable provisions, if any of the Companies Act, 1956, the authorised share capital of the company be increased from Rs. 25,00,00,000 divided into 2,50,00,000 equity shares of Rs. 10 each to Rs. 45,00,00,000 divided into 2,80,00,000 equity shares of Rs.10 each and 1,70,00,000 preference shares of Rs.10 each."

"RESOLVED FURTHER THAT Clause V of the Memorandum of Association of the company be amended to read as under:

The Authorised Share Capital of the company shall be Rs. 45,00,00,000 (Rupees Forty Five Crore) divided into 2,80,00,000 (Two Crore Eighty Lac) equity shares of Rs.10 each and 1,70,00,000 (One Crore Seventy Lac) preference shares of Rs. 10 each with power to the company to increase or reduce from time to time its capital and to issue any shares in the equity or preference capital and to attach to any class of such shares any preferences, rights, privileges or priorities in payment of dividends or distribution of assets or other matters or to subject the same to any restrictions, limitations or conditions and to vary the regulations of the company

as may be necessary to give effect to the same.

8. To consider and if thought fit, to pass with or without modification(s), the following resolution as a Special Resolution:

"RESOLVED THAT pursuant to the provisions of Section 31 and other applicable provisions, if any of the Companies Act, 1956, the first para of the Article 3 (i) of the Articles of Association of the company be amended to read as under:

The Authorised Share Capital of the company is Rs. 45,00,00,000 (Rupees Forty Five Crore) divided into 2,80,00,000 (Two Crore Eighty Lac) equity shares of Rs.10 each and 1,70,00,000 (One Crore Seventy Lac) preference shares of Rs.10 each with power to increase and/or reduce capital of the company for the time being and to sub-divide the capital into several classes and to attach thereto respectively such preferential, deferred, guaranteed, qualified or special rights, privileges and conditions as may be determined by or in accordance with the Articles of Association of the company and to vary, modify, amalgamate or abrogate any such rights, privileges or conditions in such manner as may for the time being be provided by the Articles of Association of the company.

9. To consider and if thought fit, to pass with or without modification(s), the following resolution as a Special Resolution:

"RESOLVED THAT pursuant to the provisions of Section 81 (1A) and other applicable provisions, if any of the Companies Act, 1956, Securities & Exchange Board of India guidelines, Listing Agreement with the stock exchanges, Foreign Exchange Management Act, 1999, Reserve Bank of India guidelines and regulations made thereunder, relevant provisions of the Memorandum and Articles of Association of the company and subject to such approvals, permissions and consents that may be required and which may be agreed to by the Board of Directors, consent and approval of the company be and is hereby accorded to the Board of Directors of the company to create, issue and allot upto 1,70,00,000 (One Crore Seventy Lac), 7.5 % Redeemable Cumulative Non-convertible Preference Shares (RCNPS) of Rs.10 each at par aggregating to Rs. 17,00,00,000 (Rupees Seventeen Crore only) on preferential basis to BG Asia Pacific Holdings Private Limited, a company incorporated in Singapore."

"RESOLVED FURTHER THAT RCNPS shall be subject to the following terms, conditions and rights:

1. The said RCNPS shall carry a fixed cumulative dividend at the rate of 7.5% per annum on the capital for the time being paid up thereon. The dividend shall be payable annually for the year ending on 31st December of each year. The dividend for the period ending on 31 December 2006 shall be payable on a pro-rata basis with the entitlement commencing from the date of allotment of RCNPS. Shareholders shall at the annual general meetings declare payment of dividend on RCNPS on the dividend being recommended by the Board of Directors. The payment of dividends shall be subject to the deduction of income tax as per the Income Tax Act and other applicable statutes or statutory modification or re-enactment thereof for the time being in force.



2. The said RCNPS shall be redeemable at par by the company at any time after 5 (five) years from the date of allotment but prior to the expiry of 20 (twenty) years from the date of such allotment, as mutually agreed between the shareholder(s) and the company, subject to applicable laws.
3. In the event of winding up, the said RCNPS shall carry preferential rights as regards repayment of capital and arrears of dividend, whether declared or not, upto the commencement of winding up, in priority to equity shares but shall not be entitled to any further participation in profits or assets.

"RESOLVED FURTHER THAT the Board of Directors of the company be and is hereby authorised to prescribe with respect to the said RCNPS such other terms and conditions as deemed fit and to do such acts and deeds as may be necessary and incidental for giving effect to the above resolutions including listing of the RCNPS on the stock exchange(s)."
10. 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 Section 198, 269, 309 and 310 read with Schedule XIII to the Companies Act, 1956 and subject to such approvals as may be necessary under various statutes, the company hereby approves increase in the remuneration of Mr. B. S. Shantharaju, Managing Director from Rs. 95,00,000 per annum to an amount not exceeding Rs. 1,13,00,000 for the year commencing from 1 April 2005, as detailed in the explanatory statement annexed to this notice, with an authority to the Board of Directors to decide the remuneration payable under each head, as may be agreed to between the Board of Directors and Mr. B. S. Shantharaju, Managing Director."

"RESOLVED FURTHER THAT the Board of Directors be and is hereby authorised to increase the remuneration referred above by upto 15% for the year commencing from 1 April 2006."

"RESOLVED FURTHER THAT the remuneration in respect of the financial year(s) referred above shall be paid as minimum remuneration in case of absence or inadequacy of profits in the said financial year(s), subject to such approvals as may be necessary."

By Order of the Board
RAJIV SHAH
COMPANY SECRETARY

Date: 23 February 2006

Place: Surat

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

Prof. Pradip Khandwalla, Director retires by rotation and being eligible offers himself for re-appointment.

Brief resume and nature of expertise

Prof. Pradip Khandwalla is an Associate Member of the Institute of Chartered Accountants of India. He has done his MBA from Wharton, Pennsylvania and Ph.D. from Carnegie-Mellon, USA.

Prof. Khandwalla's research and teaching contributions have been in organisational theory and design and restructuring of organisations for management of excellence, innovative turnaround management, effective management of public enterprises and governmental organisations, and creativity and innovation. He has been a consultant to many Indian and international organisations in the areas of team building, innovative excellence, management and organisational restructuring and creativity training.

He taught at McGill University, Canada for several years. He was associated with the Indian Institute of Management, Ahmedabad as a professor from 1975 to 2002. He was L&T Chair Professor of Organisational Behaviour at IIMA from 1985 to 1991 and then the Director of IIMA up to 1996.

He has made excellent contribution in the areas of management, organisational sciences etc. by authoring over a dozen books and 80 papers and articles in Indian and foreign journals and learned anthologies. He has served on the editorial/advisory boards of several Indian and international journals. Recently, he has been awarded the 'Lifetime Achievement Award in the field of HR' by the World HRD Congress for his immense contributions in enriching the field of management science, organisational behaviour and leadership.

He has served on the boards of numerous companies and on the governing councils of several institutions. He has served as a member of Government of India's National Renewal Fund and as trustee of India Brand Equity Fund Trust. He has won many international and Indian awards. Several international Who's Who carry his biographical entry.

Prof. Pradip Khandwalla does not hold any shares or beneficial interest in any shares of your company. He is on the Board of your company from March 2001. He is also the Chairman of the Shareholders' Grievances Committee and a member of the Audit Committee of your company from April 2001.

Apart from Gujarat Gas Company Limited, Prof. Khandwalla holds



directorship and membership of the following companies / committees:

Directorship

Sr. No.	Name of the Company	Designation
1	Bank of Baroda	Director
2	Micro Inks Limited	Director
3	Grow Talent Company Limited	Director
4	Gujaratgas Trading Company Limited	Director

Membership of Committees

Sr. No.	Name of the Company	Committee	Designation
1	Micro Inks Limited	Audit Committee	Member
2	Bank of Baroda	IT and Strategy Committee	Member
3	Bank of Baroda	HR Strategy Committee	Member

Your directors recommend re-appointment of Prof. Pradip Khandwalla as a director.

No director other than Prof. Pradip Khandwalla is in any way interested or concerned in the said resolution.

ITEM NO. 4

Mr. Hasmukh Shah, Chairman of the company retires by rotation and being eligible offers himself for re-appointment.

Brief resume and nature of expertise

Mr. Hasmukh Shah is holding the office of the Chairman of the company since 1999. Mr. Shah was earlier the Chairman and Managing Director of Indian Petrochemicals Corporation Limited. He has also held various important positions like Joint Secretary to the Prime Minister of India, Secretary of Post and Telegraph Board, Chairman of Gujarat Industrial Investment Corporation Limited, Vice Chairman of GE Capital (India), Advisor to General Electric Company, Chairman of Gujarat Industrial Research & Development Agency, Gujarat Ecology Commission and National Institute of Design.

Mr. Shah has made significant contribution in social, cultural and rural development activities like leprosy eradication, water management, conservation and management of man-made and other natural heritage.

Mr. Shah does not hold any shares or beneficial interest in any shares of your company. Apart from Gujarat Gas Company Limited, Mr. Shah holds directorship and membership of the following companies / committees:

Directorship

Sr. No.	Name of the Company	Designation
1.	Shaily Engineering Plastics Limited	Chairman
2.	Supreme Petrochem Limited	Director
3.	Dinesh Remedies Limited	Director
4.	Micro Inks Limited	Director
5.	Oswal Multimedia KID Limited	Chairman
6.	Sun Pharmaceutical Industries Limited	Director
7.	Atul Limited	Director
8.	Deepak Nitrite Limited	Director
9.	Cosmo Films Limited	Director

Membership of Committees

Sr. No.	Name of the Company	Committee	Designation
1	Sun Pharmaceutical Industries Limited	Audit Committee	Member
2	Micro Inks Limited	Audit Committee	Member
3	Dinesh Remedies Limited	Audit Committee	Member
4	Sun Pharmaceutical Industries Limited	Shareholders' Grievances Committee	Chairman
5	Micro Inks Limited	Shareholders' Grievances Committee	Chairman
6	Cosmo Films Limited	Remuneration Committee	Member
7	Supreme Petrochem Limited	Remuneration Committee	Chairman
8	Atul Limited	Remuneration Committee	Chairman

Your directors recommend re-appointment of Mr. Hasmukh Shah as a director.

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

- Mr. Hasmukh Shah
- Mr. William Adamson
- Mr. B. S. Shantharaju
- Mr. Antony Seigel

ITEM NO. 6

Mr. William Adamson was appointed as an additional director by the Board of Directors in its Meeting held on 28 July 2005. 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. Adamson for appointment as a director of the company.

Brief Resume and nature of expertise

Mr. William Adamson studied at the University of Salford, completing an Honours Degree in Gas Engineering. Since then Mr. Adamson has completed both a middle management course and an executive management programme at Durham University and Manchester Business School respectively. Mr. Adamson is a Chartered Engineer.

Mr. Adamson has more than 40 years' experience in the gas industry mainly in Great Britain. He joined BG as a sponsored student engineer before moving into marketing, with a focus on home maintenance services. In 1993, he was appointed as the Director of Customer Services for BG, responsible for all aspects of delivery of service engineering in Great Britain. After a brief assignment as the Director of Sales for the Retail Appliance Sales Business Unit, he was seconded to MetroGas, Buenos Aires, Argentina. In MetroGas, he worked as the Chief Executive Officer and then the Chairman and CEO of the operating and holding companies from 1996 to 2002. MetroGas, listed