



GUJARAT GAS COMPANY LIMITED

BOARD OF DIRECTORS

HASMUKH SHAH, *Chairman*

KAPIL GARG

WILLIAM ADAMSON (*upto 26 November 2007*)

RAJEEV KHANNA (*from 31 January 2008*)

PROF. PRADIP KHANDWALLA

JAL PATEL

AJIT KAPADIA

B. S. SHANTHARAJU, *Managing Director (upto 30 June 2007)*

SHALEEN SHARMA, *Managing Director (from 1 July 2007)*

RAJESHWARI SHARMA, *Company Secretary*

GROUP HEADS

AKHIL MEHROTRA, *Director - Regulatory Affairs & Cogen Business*

JOE MCGOWAN, *Director - Technical*

L. BALASUNDARAM, *Director-Human Resource*

PRIYARANJAN SEKHON, *Legal Counsel*

RAHUL BHATIA, *Director-Commercial*

SADHAN BANERJEE, *Director - Management Services*

SUGATA SIRCAR, *Director - Finance*

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
Building 8, 7th & 8th Floor
Tower B, DLF Cyber City
Gurgaon-122 022, Haryana

CORPORATE & REGISTERED OFFICE

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

OFFICES

SURAT

Plot No.87-88
Mayavanshi Mohallo
Adajan Gam, Surat

ANKLESHWAR

Surati Bhagol, Umarwada Road
Near Piraman Naka, Ankleshwar

BHARUCH

Anand Mangal Society
Son Talavdi, Bharuch

VAPI

Chandralok Complex
Nr. Cinepark Multiplex
Selvas Vapi Main Road, Chanod, Vapi

28th Annual General Meeting

Date: 2 May 2008

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

CONTENTS	PAGES
Notice	1
Directors' Report	5
Auditors' Report on Corporate Governance	13
Corporate Governance Report	14
Information for Investors	20
Auditors' Report (Consolidated)	23
Balance Sheet (Consolidated)	24
Profit & Loss Account (Consolidated)	25
Schedules to the Accounts (Consolidated)	28
Auditors' Report (GGCL)	48
Balance Sheet (GGCL)	51
Profit & Loss Account (GGCL)	52
Schedules to the Accounts (GGCL)	55
Statement relating to Subsidiary Company (GTCL)	79
Statement relating to Subsidiary Company (GFSL)	80
Directors' Report of Subsidiary Company (GTCL)	81
Auditors' Report of Subsidiary Company (GTCL)	83
Accounts of Subsidiary Company (GTCL)	86
Directors' Report of Subsidiary Company (GFSL)	97
Auditors' Report of Subsidiary Company (GFSL)	99
Accounts of Subsidiary Company (GFSL)	103



NOTICE

NOTICE is hereby given that the Twenty Eighth Annual General Meeting of the Members of Gujarat Gas Company Limited will be held on Friday, 2 May 2008 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 2007, the Balance Sheet as at that date and the Auditors' Report thereon.
2. To declare dividend on preference shares.
3. To declare dividend on equity shares.
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 the 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. Rajeev Khanna 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 the 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 Mr. Shaleen Sharma 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 the Director be and is hereby appointed as a Director of the company."
8. 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, 310 read with Schedule XIII and other applicable provisions, if any, of the Companies Act, 1956 and subject to such approvals as may be necessary under various statutes, the company hereby approves appointment of Mr. Shaleen Sharma as the Managing Director of the company for a period of five years with effect from 1 July 2007 on terms and conditions of employment including remuneration as detailed in the explanatory statement annexed to the Notice, with the liberty to the Board of Directors to alter and vary the terms and conditions including remuneration as may be agreed to between the Board of Directors and Mr. Shaleen Sharma."

"RESOLVED FURTHER THAT Mr. Shaleen Sharma shall not be liable to retire by rotation in accordance with Section 255 read with Article 98(ii) of 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 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 the increase in the remuneration of Mr. B. S. Shantharaju, former Managing Director with an authority to the Board of Directors to decide the remuneration payable under each head as agreed to between the Board of Directors and Mr. B. S. Shantharaju, such that the total remuneration payable shall not exceed Rs. 1,40,00,000, for the period of 1 April 2007 to 28 February 2008, as detailed in the explanatory statement annexed to this notice."

"RESOLVED FURTHER THAT the increase in his remuneration paid for the period from 1 April 2007 to 30 June 2007 be and is hereby approved."

By Order of the Board

Rajeshwari Sharma
Company Secretary

Date : March 21, 2008

Place : Ahmedabad

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 the 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 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. 4

Mr. Hasmukh Shah, Director 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. Earlier, Mr. Shah was Chairman & Managing Director, Indian Petrochemicals Corporation Ltd (IPCL); Joint Secretary to the Prime Minister; Secretary, Posts & Telegraph Board; Founder Chairman, Gujarat Institute of Desert Ecology; Chairman, Gujarat Industrial Investment Corporation (GIIC); Chairman, National Institute of Design for 11 years; Vice Chairman, GE Capital (India); Advisor, General Electric Co.; Chairman, Gujarat Industrial Research & Development Agency (GIRDA); Chairman, Vikram A. Sarabhai Community Science Centre; Member Board of Governors of IIT (Mumbai); Chairman, Gujarat Ecology Commission; Jt. Director, Bureau of Public Enterprise, Govt. of India; headed several government committees.

Mr. Shah does not hold any shares and 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	Micro Inks Limited	Director
4	Sun Pharmaceuticals Industries Limited	Director
5	Atul Limited	Director
6	Deepak Nitrite Limited	Director
7	Cosmo Films Limited	Director
8	Dinesh Remedies Limited	Director

Membership of Committees

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

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. Kapil Garg
- Mr. Rajeev Khanna
- Mr. Shaleen Sharma

ITEM NO. 6

Mr. Rajeev Khanna was appointed as an Additional Director by the Board of Directors in its meeting held on 31 January 2008. As per the provisions of section 260 of the Companies Act, 1956, he holds office of the director till the conclusion of this Annual General Meeting. A notice under Section 257 of the Companies Act, 1956 alongwith requisite deposit has been received from a shareholder signifying his intention to propose the candidature of Mr. Rajeev Khanna for appointment as a Director of the company.

Brief resume and nature of expertise

Mr. Rajeev Khanna graduated in petroleum engineering from the Indian School of Mines, Dhanbad. He is an MBA from the Faculty of Management Studies of the University of Delhi. He also holds a Diploma in Petroleum Resource Management from the College of Petroleum Studies, Oxford, U.K.

Mr. Khanna has a total experience of more than 33 years in the Indian petroleum industry and the Government of India. He joined the BG Group in May 2006 from Gas Authority India Ltd. (GAIL), where he was Executive Director, Business Development. He was responsible for the development of GAIL's domestic and overseas business, diversification



strategy and created a global face for GAIL. Prior to that, he has worked with the Planning Commission as Joint Advisor - Petroleum (Ministry of Planning and Programme Implementation), Oil India Limited, Oil and Natural Gas Commission where he held responsible positions.

Mr. Rajeev Khanna heads BG India's Policy and Corporate Affairs department. His overall responsibility is to align BG India's Government Relations strategy with the business strategy, provide support in new business initiatives and enhancing the corporate image. Mr. Khanna also manages BG India's relationships with external stakeholders on policy matters, Regulation, internal and external communications, branding and marketing, corporate responsibility programme and BG India's endeavours towards sustainable development.

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

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 India Energy Services Private Limited	Director
4	BG India Energy Solutions Private Limited	Director

Your directors recommend appointment of Mr. Rajeev Khanna as a director.

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

- Mr. Has Mukh Shah
- Mr. Kapil Garg
- Mr. Rajeev Khanna
- Mr. Shaleen Sharma

ITEM NO. 7 & 8

Mr. Shaleen Sharma was appointed as an Additional Director by the Board of Directors with effect from 1 July 2007. 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. Sharma for appointment as a director of the company.

In terms of Article 98 (i) of the Articles of the Association of the company, BG Asia Pacific Holdings Pte. Limited, Singapore has nominated Mr. Shaleen Sharma as the Managing Director of the company to take over from Mr. B. S. Shantharaju. Your directors have appointed Mr. Shaleen Sharma as the Managing Director of the company with effect from 1 July 2007, subject to such

approval as may be necessary under various statutes including approval of the shareholders.

Brief resume and nature of expertise

Mr. Shaleen Sharma holds an MBA from Lucknow and has over 27 years of industrial marketing experience, the last 24 of which have been in natural gas marketing with major oil and gas companies of India.

Mr. Sharma was involved in marketing natural gas for ONGC for 12 years, initially in the Upper Assam area and later in Gujarat. He was closely involved with ONGC's effort to secure a Supreme Court decision in favour of ONGC in 1990 on a major gas pricing case.

In 1996, he moved to GAIL and co-ordinated the negotiations and execution of agreements for purchase of Panna-Mukta Tapti gas. In April 1998, he was deputed to Petronet LNG Limited where he was actively associated in a pioneering bid process for procuring LNG and then with finalising the LNG Sale Purchase Agreement for 7.5 mtpa with RasGas of Qatar.

He has been with BG India for over 8 years and has been associated with a variety of assignments including LNG marketing, representing BG on the Operator Board of the Panna-Mukta, Tapti (PMT) Joint Venture and leading BG's effort to market PMT gas directly to identified buyers from April 2005.

In June 2005, Mr. Shaleen Sharma moved to Ahmedabad to head commercial activities of Gujarat Gas Company Limited, which includes gas sourcing, marketing, transmission and CNG. Appointment of Mr. Shaleen Sharma as the Managing Director would help the company to consolidate its position as the leading private sector gas company in India.

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

Directorship

Sr. No.	Name of the Company	Designation
1	Gujarat Gas Financial Services Limited	Chairman
2	Gujaratgas Trading Company Limited	Director

Membership of the Committee

Sr. No.	Name of the Company	Committee	Designation
1	Gujarat Gas Financial Services Limited	Audit Committee	Chairman



TERMS AND CONDITIONS OF APPOINTMENT AS THE MANAGING DIRECTOR INCLUDING REMUNERATION:

I. TENURE

Five years starting from 1 July 2007.

II. REMUNERATION

Total remuneration payable to Mr. Shaleen Sharma shall not exceed Rs. 1,30,00,000 per annum as detailed below with authority to the Board of Directors to decide the remuneration payable under each head from time to time:

a. Salary, house rent allowance, performance bonus, contribution to provident fund and superannuation fund, leave travel allowance and medical reimbursement:

Not exceeding Rs. 1,20,00,000 per annum.

b. Other perquisites and allowances (including contribution towards gratuity):

Other perquisites and allowances (including contribution towards gratuity) not exceeding Rs.10,00,000 per annum shall be allowed in addition to salary, etc. stated at (a) above.

III. OTHER TERMS AND CONDITIONS

1. Mr. Shaleen Sharma would report to the Board of Directors of the company and his powers and responsibilities would be decided by the Board of Directors from time to time.
2. In terms of Section 255 of the Companies Act, 1956 and Article 98 (ii) of the Articles of Association of the company, Mr. Shaleen Sharma shall not be liable to retire by rotation during his tenure as the Managing Director.
3. No sitting fees shall be paid to the Managing Director for attending the meetings of the Board of Directors or any committee thereof.

Your directors recommend appointment of Mr. Shaleen Sharma as the Director and the Managing Director of the Company.

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

- a) Mr. Hasmukh Shah
- b) Mr. Kapil Garg
- c) Mr. Rajeev Khanna
- d) Mr. Shaleen Sharma

ITEM NO. 9

The former Managing Director Mr. B. S. Shantharaju's appointment for a period of five years w.e.f. 1 March 2003, was approved by the shareholders at the Twenty Third Annual General Meeting of the company held on 15 May 2003. The terms of appointment including remuneration were also approved. The remuneration payable to Mr. B. S. Shantharaju for the financial years 2005-06 and 2006-07 was increased by the Board of Directors of the company at its meeting held on 6 May 2005 and approved by the shareholders at Twenty Sixth Annual General Meeting held on 24 April 2006. In the

Board meeting held on 6 May 2005, the Board had also decided to review the remuneration payable to him for the remainder of his term in due course of time.

The Board of Directors at its meeting held on 30 April 2007, increased his remuneration for the period 1 April 2007 to 28 February 2008 subject to such approvals as may be necessary under various statutes including approval of the shareholders at the general meeting.

The variation of the terms of his appointment is as under:

Total remuneration payable to Mr. B. S. Shantharaju for the period of 1 April 2007 to 28 February 2008 shall not exceed Rs. 1,40,00,000 as detailed below, with an option to the Board of Directors to decide the remuneration payable under each head from time to time:

a. Salary, house rent allowance, performance bonus, contribution to provident fund, leave travel allowance and medical reimbursement:

Not exceeding Rs. 1,29,00,000

b. Other perquisites and allowances (including gratuity):

Other perquisites and allowances (including gratuity) not exceeding Rs. 11,00,000 shall be allowed in addition to salary, etc. as stated in (a) above.

Prior to the aforesaid revision of remuneration, Mr. B. S. Shantharaju was eligible for remuneration not exceeding Rs. 1,13,00,000 per annum for the year 2005-06 and Rs. 1,29,95,000 per annum for the year 2006-07 divided into various heads.

Other terms and conditions

- No sitting fees shall be paid to the Managing Director for attending the meeting of the Board of Directors or any committee thereof.
- All other terms and conditions of appointment shall remain unchanged.

Mr. B. S. Shantharaju has resigned as the Director and the Managing Director effective from 1 July 2007.

Your directors recommend approval of increase in remuneration of Mr. B. S. Shantharaju for the period 1 April 2007 to 30 June 2007.

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

- a) Mr. Hasmukh Shah
- b) Mr. Kapil Garg
- c) Mr. Rajeev Khanna
- d) Mr. Shaleen Sharma

By Order of the Board

Rajeshwari Sharma
Company Secretary

Date : March 21, 2008
Place : Ahmedabad



December 2007

28th ANNUAL REPORT

DIRECTORS' REPORT

DEAR SHAREHOLDERS,

Your directors have pleasure in presenting the 28th Annual Report and the audited accounts for the year ended on 31 December 2007.

1. FINANCIAL RESULTS

(Rs. in crores)

Particulars	Consolidated	Financials	Stand-alone	Financials
	Current Year	Previous Year	Current Year	Previous Year
Total income	1,262.12	984.65	1,214.69	844.75
Gross profit before interest, depreciation and tax	268.78	165.36	272.88	161.02
Less: Interest	0.10	2.20	0.19	3.02
Depreciation	38.44	31.87	37.08	29.60
Profit before tax	230.24	131.29	235.61	128.40
Tax expenses	76.57	43.13	76.52	39.50
Net Profit	153.67	88.16	159.09	88.90
Minority Interest	0.72	0.64	-	-
Profit attributable to Group	152.95	87.52	-	-
Add: Undistributed profit of earlier years	279.14	221.42	257.03	196.07
Balance available for Appropriation	432.09	308.94	416.12	284.97
Less: Appropriations:				
Transfer to general reserve	16.13	9.53	16.00	8.89
Special reserve as stipulated by RBI	0.48	0.42	-	-
Preference dividend	1.08	0.68	1.08	0.68
Proposed Equity dividend	19.23	16.03	19.23	16.03
Corporate dividend tax	4.01	3.14	3.95	2.34
Surplus retained	391.16	279.14	375.86	257.03
Earning per Share (Rs.)	23.65	13.53	24.61	13.74

2. DIVIDEND

Your directors recommend for consideration of the shareholders at the Annual General Meeting, payment of 150 % dividend i.e. Rs. 3 per equity share of Rs. 2 each and 7.50% dividend i.e. Rs. 0.75 per Redeemable Cumulative Non-convertible Preference Share of Rs. 10 each, involving total payout of Rs. 23.77 crores, including corporate dividend tax of Rs. 3.45 crores.

3. MANAGEMENT ANALYSIS

3.1. Industry Structure

Your company continues to remain the largest city gas distribution company in India. It operates as the main distributor of natural gas in the industrial, commercial, domestic and automobile (CNG) segments in South Gujarat.

The Government allows producers of natural gas to sell gas from the new fields at market determined prices. The gap between the demand for natural gas and its availability has been widening over

the last few years. This has pushed up the prices at which gas is sold by the producers. Your company purchases more than 95% of its gas from producers at market prices.

Your company has always endeavoured to purchase gas from multiple sources thus reducing the risk of disruption and providing supply security to its customers. The company purchased gas from the Panna, Mukta and Tapti consortium, Cairn Energy, Gujarat State Petroleum Corporation Limited, NIKO Resources and Gas Authority of India Limited, during the year. However, production constraints at some of these sources led to the increase in share of one of the sources in the company's gas purchase portfolio.

3.2. Developments

During the year, the Central Government notified the establishment of the Petroleum & Natural Gas Regulatory Board with effect from 1st October 2007. On the same day government also brought the



provisions of the Petroleum & Natural Gas Regulatory Board Act, 2006 ("the Act") except Section 16.0 in force. The Regulatory Board is empowered to regulate the activities of refining, processing, storage, transportation, distribution, marketing and sale of petroleum products and natural gas.

The Act provides for the authorization of entities for laying, building, operating or expanding common carrier, or contract carrier or city or local natural gas network infrastructure. The Board in the interim has released the draft regulations for Authorisation, Exclusivity and Tariff Determination for city gas companies. Additionally, they have also released the draft regulations on principles of contract & common carrier, authorization of pipelines and affiliate code of conduct. Your company has provided inputs to the Regulatory Board as and when required. Your company has also studied the implications of the draft Regulations and is putting in place processes and systems to comply with the same. Clarity on the Regulatory provisions is expected to emerge during 2008, when they are released in the final form.

The price of crude oil has remained high almost throughout the year. This has raised the operating cost for consumers of crude based fuels. On the other hand, cost of power supplied by the grid has not changed during the year. A significant portion of the company's gas sales is in applications to generate power and hence competes with the cost of grid power. The company therefore has adopted a balanced approach to gas pricing bearing in mind the cost trends of competitive fuel.

Another significant development during the year was the strengthening of the Indian Rupee against the US Dollar. The company buys most of its gas at dollar denominated prices and hence was able to compensate the gas price increases through this route.

As per certain reports, the Government has appointed GAIL as its nominee for marketing the gas produced by the Panna, Mukta and Tapti fields. If this arrangement is effected, the company may have to buy the PMT gas from GAIL.

3.3. Opportunities and Challenges

The above developments along with the following factors have opened up new opportunities and challenges for your company.

The large scale industrialization in Gujarat together with strong awareness about the advantages of using natural gas have led to very strong demand for gas. Enhancement of the gas transmission network in the state is further

augmenting the demand. This continues to provide the opportunity to the company to grow its sales.

The availability of gas is expected to remain short of demand in the coming year. This poses a challenge to the company in sourcing adequate gas. It also provides an opportunity to optimize the sales portfolio so as to maximize profits while considering the long term growth strategies.

It is critical for the company to contract additional sources of gas to meet the growth in demand over a longer term. The company is focused in its efforts in this direction and continues to use its expertise for building a multi source portfolio.

The cost of gas purchased by the company is expected to remain high in the coming year. The portfolio cost may also be impacted by the purchase of LNG, which may have to be purchased at high cost in short term contracts.

While opportunities exist to grow the business and add value for the stakeholders, challenges revolve around gas sourcing. Gas on gas competition is also expected in segments of large volume customers.

3.4. Operations and Market Performance

The company's focus on the retail business has ensured robust growth in this sector. The company continues to meet the demand growth in this sector by contracting gas ahead of demand and diverting the same to retail as the demand grows.

Additional quantities of gas were available from the Tapti Expansion field of PMT, starting October, which was ramped up to an average of 1.43 mmscmd in the fourth quarter. Supplies from Cairn Energy however declined during the year as the producers were facing certain problems in their wells. The gas supply contract with GSPC came to an end in June 2007, thus affecting the purchase volumes. LNG was purchased in small quantities to augment retail demand in certain months.

Your company had crossed the significant milestone of 1 billion cubic meters of gas sales, in the year 2006. Overall sales in the year 2007 were 10% higher than the previous year. Sales to the retail sectors grew by 20%, the additional demand being met by balancing the sourcing portfolio.

The retail sector of the company is mainly constituted by industrial units. Gas supplied by the company is used in various applications in these units. Robust manufacturing performance and growth in the company's markets ensured strong demand in this sector. Margins, which were severely affected by increase in gas costs and the weakening of the Indian Rupee in the latter half of 2006, could be largely recovered in 2007.



Supply of gas to the Vapi GIDC was affected by the delay in working out a gas transportation arrangement for the area. Volumes to this area were therefore marginal during the year.

Investments in the CNG business over the last few years have yielded considerable returns. The company has succeeded in converting more than 18,000 vehicles to CNG during the year, taking the total converted vehicles to above 60,000 in its markets. The sales growth in this segment was more than 30% over the previous year.

The company signed and commenced gas supply to more than 25,000 households during the year. This is a significant increase over the earlier year and has taken the total number of households supplied by the company to more than 230,000.

The company had started a Cogeneration business in the year 2006. This business grew in 2007 and there were Cogen installations of 10.59 MW by the end of 2007. As large investments are involved in this business, the company has a risk balanced approach in this segment.

With these positive developments, the consolidated income increased from Rs. 984.65 crores to Rs. 1262.12 crores, an increase of approximately 28%. The volume of gas sold increased from 1089 mmSCM to 1196 mmSCM. The profit before depreciation, interest and tax has increased from Rs. 165.36 crores in the previous year to Rs. 268.78 crores. Increase in sales, stronger margins and one time take or pay income from certain customers who could not meet their contractual obligations, were the main contributors to the increase in profits. The profit after tax has increased from Rs. 88.16 crores to Rs. 153.67 crores.

3.5. Future outlook

Industrial growth continues to remain robust in the state of Gujarat. While existing units have largely been enhancing their scale of capacities, new units and industrial clusters are being set up.

The company will focus on growing its retail market, in the existing areas as well as in clusters around the existing areas.

Considerable investments were made in Jhagadia over the last few years. More than 0.4 mmSCM of gas was being supplied to the area by end 2007. This is expected to increase significantly in 2008.

Your company continues its efforts to work out a solution to supply gas to the Vapi GIDC area. However, constraints on availability of gas in the near term may delay the business growth in this area to a two to three years time frame, even after a transportation solution is in place.

The company expects to invest in network

infrastructure in 2008 to enable it to receive gas from the Krishna Godavari Basin, from 2009. Investments are also planned to augment infrastructure in the existing areas of operations which will ensure enhanced supply securities and redundancy.

Your company adopts a long term approach to its business growth and continues to invest for achieving the same.

3.6 Internal Control System and Risk Management

GGCL has effective internal controls, checks and systems in place commensurate with the size of the company and nature of its business. A well-defined budget monitoring process, other standard operating processes and a detailed authorisation matrix form the basis of effective financial controls. During the year under review, BG Group Audit team carried out process reviews of key business activities, leading to enhanced assurance. GGCL also has in place a focussed internal audit programme.

GGCL has a well-defined system of identifying and mitigating risks. Risk identification process starts at the department level. Risks identified at the department level are collated in the company-level risk register for review and discussion by the Executive Management. On the basis of discussion and review, risk ratings and mitigation plans are finalised and documented in the Risk Register. For each key risk, responsibility is assigned to the concerned manager. Risk Register containing key risks, mitigation plan and responsibility assigned for the risks is presented to the Audit Committee for review and discussion. To further improve effectiveness of the risk register and consequently internal controls environment, GGCL conducted a risk management workshop with the assistance of BG Group during the year under review.

Your company has also implemented a Value Assurance Framework (VAF) for all major projects. This involves rigorous scrutiny of all aspects of a project right from feasibility to commissioning. Also, operational effectiveness of various internal controls was tested to facilitate certification by the CEO and CFO in compliance with Clause 49 of the Listing Agreement. GGCL also carried out self-assessment of its governance processes and has formalised action plans for the improvement areas.

3.7 Health, Safety, Security and Environment

Outstanding business performance requires outstanding Health, Safety, Security & Environment (HSSE) performance. At GGCL, ensuring the adherence to HSSE standards is the responsibility of every single employee. Each employee has the duty to intervene to prevent



unsafe actions and to reinforce safe behavior. GGCL's HSSE policy and systems are communicated continuously among employees, in various forms. The Asset Integrity Management System is an integral part of the design, erection and operation of the company's pipeline network and equipments, and reflects the best industry practices. In addition to the employees, key personnel of contractors working for GGCL are trained in technical skills and competency.

Strong leadership in HSSE and commitment to its standards are spread across the organization. The company seeks to deliver continual improvement in safe behaviour by setting measurable HSSE goals with leading performance indicators being regularly reviewed and monitored by the senior management team. This framework provides and facilitates a broad set of expectations to help line managers focus on critical HSSE needs, forecast and allocate resources, set direction for HSSE activities and consistently deliver improved HSSE performance.

GGCL was declared the winner of the BG Chairman's award for exemplary efforts during the floods in Surat. The company was also the winner of the Gujarat State Safety Award, the G Cube award and received the Prashanshaptra from the National Safety Council during the year for its performance in the fields of safety and environment.

As a part of its annual plan, GGCL carried out the following activities and initiatives:

- During the year, Hazard and Operability Study and Quantitative Risk assessment were carried out for new and modified gas installations and CNG stations.
- The Safety intervention process and Behaviour Based Safety (BBS) process with focus on root cause analysis improved safe behaviour and culture across the organisation.
- Employees are encouraged to report "Near Miss" and "Hazards", which raise awareness and help to minimize the HSSE risks. A total of 2,423 'Hazard' reports and 1,263 'Near Miss' reports were received during 2007. Most of the actions emerging out of these, were completed.
- About 1200 GGCL's contract staff were involved in Health & Safety programmes by an initiative - "Project Takshashila – Let us get basics right" to reinforce adherence to basic safety rules at site. This has improved the compliance to HSSE standards at work sites.

- GGCL management systems – Occupational Health and Safety Management System and Environmental Management System were recertified with reference to international standards OHSAS 18001 and EMS 14001:2004 by an independent body, M/s DNV. Their suggestions are being implemented.
- A team of HSSE experts from BG carried out an audit at GGCL. A detail action plan has been made out to implement improvements suggested by them.
- GGCL carried out an Emergency Simulation Exercise involving external agencies to test its Emergency response and the Business Continuity plan.
- Various need based training programmes were imparted to external stakeholders. This included defensive driving training for Gujarat State Road Transport Corporation, Road safety programme for families and the general public, fire fighting training to the employees of another company, etc.. HSSE training was also imparted to customers.
- A community health programme was organised by GGCL. About 300 people at Ankleshwar were covered under this programme.

Contribution to Society

During the year, your company's focus has been on developing a comprehensive strategy for CSR based on the gaps in development and expectations of stakeholders in the company's areas of operations. Studies were commissioned by the company for this purpose. These were undertaken by reputed experts.

The company has now developed a comprehensive CSR strategy based on the recommendations of these experts. The main objective of the strategy is to enhance skills of identified groups so as to build potential and capacity in the society.

In the meantime, your company focused on CSR initiatives during the year 2007. This mainly involved the installation of computers in schools, solar lighting, building civic amenities and supporting education.

Contribution to Environment

Operation of natural gas network and its associated installations, like other modern industrial processes, generates some amount of waste that needs to be minimised and disposed off appropriately. Recognising this obligation, GGCL carried out its waste disposal operations in a safe and controlled manner.



Besides this, GGCL has also undertaken or contributed indirectly in various initiatives during the year. This includes:

1. Reduction in vehicular pollution in Surat district and Bharuch district by establishing CNG stations. During the year, five new CNG stations were established and two CNG station were upgraded.
2. Reduced waste generation and improved waste management by developing and implementing an Environment Plan with focus on the areas of improvement like 'Total Waste Accounting'.
3. The Green House Gas emission reduction strategy was implemented and the target of reduction of 84.02 Tonne CO₂ Equivalent was achieved.
4. 1900 saplings were planted and the company engaged its contractors and customers to plant trees at Kim, Kosamba and Ankleshwar. GGCL also carried out plantation activities in coordination with Ankleshwar Industries Association, Central Industrial Security at Ankleshwar and the District Forest Office at Palsana.
5. An Environment awareness Rally was organised by the company in Surat on 5th June.

4. SUBSIDIARIES

4.1 Gujaratgas Trading Company Limited (GTCL)

GTCL, a wholly-owned subsidiary of GGCL, is engaged in the business of selling natural gas to select customers in the State of Gujarat.

During the year, GTCL earned a total income of Rs. 157.91 crores compared to Rs. 394.32 crores in the previous year. This decrease is on account of decrease in the sales volumes. Profit after tax during the year under review is (Rs. 1.21 crores) from Rs. 5.27 crores in the previous year. The main reason for loss is increase in purchase price of Cairn which could not be passed to Essar Steel due to fixed price contract.

The accounts of GTCL are a part of this annual report.

4.2 Gujarat Gas Financial Services Limited (GFSL)

GFSL, another subsidiary of GGCL, is providing financial services and selling domestic and commercial connections to GGCL customers. During the year under review, the net income was Rs. 5.31 crores as compared to Rs. 6.00 crores in the year 2006. The connections undertaken have increased from 20,697 in the year 2006 to 25,011

during the year under review. The profit after tax was Rs. 2.40 crores.

The accounts of GFSL are a part of this annual report.

5. FINANCE

Your company continued to have a healthy cash flow. Your company has also made adequate provisions for all contingencies, bad debts and diminution in value of investments. During the year under review, GGCL has not invited any fixed deposits within the meaning of Section 58A of the Companies Act, 1956.

6. STATUTORY INFORMATION

As required under Section 212 of the Companies Act, 1956, the audited accounts for the year ended on 31 December 2007 and Auditors' Report thereon along with the Directors' Reports of Gujaratgas Trading Company Limited and Gujarat Gas Financial Services Limited, subsidiaries of GGCL, are attached to GGCL's balance sheet.

GGCL does not have any employee stock option plan. Similarly, GGCL has not passed any resolution for buy-back of shares.

6.1 Energy, Technology and Foreign Exchange

Since the company is not a scheduled industry, the details in respect of Form A pursuant to Rule 2 of the Companies (Disclosure of Particulars in the Report of Board of Directors) Rules, 1988 are not required to be furnished. However, the details in respect of Form B pursuant to Rule 2 are submitted as Annexure-1 and forms part of this report.

6.2 Human Relations and Particulars of Employees

Your company employed 547 persons as on 31 December 2007.

The company has a strong focus on developing its team and various initiatives were undertaken during the year towards this end. A programme on Gas Value Chain was organized in association with a reputed school in petroleum studies, where a team of employees were coached in various aspects of value enhancement in the gas business over a nine month period.

Your company has a strong set of values. These are imbibed in the employees through various processes. New recruits are initiated to these values through Value Alignment exercises.

A competency model was developed during the year. This was designed to assess the development needs of the management staff and to build plans to improve their skills and managerial ability.

Particulars of employees in receipt of remuneration exceeding the limits prescribed under the