

**BOARD OF DIRECTORS**

HASMUKH SHAH, *Chairman*

DEREK ALAN FISHER (w.e.f. 21 November 2008)

KAPIL GARG (upto 21 November 2008)

RAJIV KHANNA

PROF. PRADIP KHANDWALLA

JAL PATEL

AJIT KAPADIA

BIKASH C. BORA (w.e.f. 23 October 2008)

SHALEEN SHARMA, *Managing Director*

RAJESHWARI SHARMA, *Company Secretary*

**GROUP HEADS**

AKHIL MEHROTRA, *Director – Business Development & Regulatory Affairs*

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*

HIMANSHU K. UPADHYAY, *General Manager – Policy & Corporate Affairs*

SANJEEV GUPTA, *General Manager – Internal Audit*

**BANKERS**

HDFC Bank Limited  
ICICI Bank Limited  
Standard Chartered Bank  
State Bank of India

**AUDITORS**

PRICE WATERHOUSE  
Chartered Accountants  
Building 8, 7<sup>th</sup> & 8<sup>th</sup> Floor  
Tower B, DLF Cyber City  
Gurgaon – 122 022  
Haryana

**CORPORATE OFFICE**

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

**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 Talavadi, Bharuch

**VAPI**

Chandralok Complex,  
Near Cinepark Multiplex,  
Selvas Vapi Main Road,  
Chanod, Vapi

**29<sup>th</sup> Annual General Meeting**

Date : 30 April 2009

Day : Thursday

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	16
Corporate Governance Report	17
Information for Investors	24
Auditors' Report (Consolidated)	27
Balance Sheet (Consolidated)	28
Profit & Loss Account (Consolidated)	29
Schedules to the Accounts (Consolidated)	32
Auditors' Report (GGCL)	53
Balance Sheet (GGCL)	56
Profit & Loss Account (GGCL)	57
Schedules to the Accounts (GGCL)	60
Statement relating to Subsidiary Company (GTCL)	87
Statement relating to Subsidiary Company (GFSL)	88
Directors' Report of Subsidiary Company (GTCL)	89
Auditors' Report of Subsidiary Company (GTCL)	91
Accounts of Subsidiary Company (GTCL)	94
Directors' Report of Subsidiary Company (GFSL)	103
Auditors' Report of Subsidiary Company (GFSL)	106
Accounts of Subsidiary Company (GFSL)	110



GUJARAT GAS

December 2008

29<sup>th</sup> ANNUAL REPORT

## NOTICE

NOTICE is hereby given that the Twenty Ninth Annual General Meeting of the Members of Gujarat Gas Company Limited will be held on Thursday, 30 April 2009 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 2008, 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. Jal Patel, who retires by rotation and being eligible, offers himself for re-appointment.
5. To appoint a Director in place of Prof. Pradip Khandwalla, who retires by rotation and being eligible, offers himself for re-appointment.
6. 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

7. To consider and if thought fit, to pass with or without modification(s), the following resolution as an Ordinary Resolution:  
"RESOLVED THAT Mr. Bikash C. Bora 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, liable to retire by rotation."
8. To consider and if thought fit, to pass with or without modification(s), the following resolution as an Ordinary Resolution:  
"RESOLVED THAT Mr. Derek Alan Fisher 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, liable to retire by rotation."
9. To consider and if thought fit, to pass with or without modification(s), the following resolution as a Special Resolution:  
"RESOLVED THAT subject to such approvals as may be necessary, the Chairman and independent directors of

the Company, be paid commission for the financial year 2008, as set out in the Explanatory Statement annexed to this Notice convening the Twenty Ninth Annual General Meeting.

RESOLVED FURTHER THAT the above commission shall not exceed one percent of the net profits of the Company as provided under section 309(4) of the Companies Act, 1956 ("the Act"), and computed in the manner referred to in section 198 of the Act, or any amendment or re-enactment thereof, in addition to the fees for attending the meetings of the Board of Directors of the Company or any Committee thereof."

**By Order of the Board**

Rajeshwari Sharma  
Company Secretary

Date : 26 March 2009

Place : Ahmedabad

### NOTES:

1. The relevant Explanatory Statement pursuant to Section 173(2) of the Companies Act, 1956, is annexed hereto and forms part of the Notice.
2. 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. Proxies, in order to be effective, must be received at the Registered Office of the Company, not less than forty eight hours before the commencement of the Annual General Meeting.
3. Members/proxies are requested to bring the attendance slip duly filled in for attending the meeting along with copy of the Annual Report for financial year 2008.
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 Twenty Ninth Annual General Meeting.
5. Dividend for the financial year ended 31 December 2001, which remains unpaid or unclaimed, will be due for transfer to the Investor Education and Protection Fund of the Central Government ('IEPF') later this year, pursuant to the provisions of Section 205A of the Companies Act, 1956.
6. Members who have not encashed their dividend warrants for the financial year ended on 31 December 2001, or any subsequent financial year(s) are requested to lodge their claim with the Company Secretary. In respect of dividend for the financial year ended on 31 December 2001, it will not be possible to entertain the claims received by the Company Secretary after 27 June 2009. Members are advised that, in terms of the provisions of section



GUJARAT GAS

December 2008

29<sup>th</sup> ANNUAL REPORT

205C of the Companies Act, 1956 no claim shall lie with respect to unclaimed dividend once it is transferred by the Company to IEPF.

7. Members, holding the shares in physical form and wishing to avail the nomination facility, are requested to send the duly filled nomination form to the Karvy Computershare Pvt. Ltd, Hyderabad, the Registrar and Share Transfer Agent. Members may download the nomination form from the Company's website [www.gujaratgas.com](http://www.gujaratgas.com) under investor section.
8. Pursuant to SEBI circular, the shareholders holding shares in physical form are requested to submit the notarised copy of the PAN in compliance of the KYC norms. Please ensure that the duly notarized copy must bear the document serial no. and date as per notary register, name, signature and stamp of notary.

#### EXPLANATORY STATEMENT

Annexed to the Notice convening the Twenty Ninth Annual General Meeting to be held on Thursday, 30 April 2009:

#### ITEM NO. 4

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 46 years.

Since 1962, he was associated with the German FAG Group of Bearing Companies and has handled various managerial functions. In 1977, he took over as the Managing Director. Subsequently he was promoted as the Vice Chairman and Managing Director before retiring in the year 2000. His area of expertise includes 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 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 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. Jal Patel holds directorships and memberships of the following companies / committees.

#### Directorships

Sr. No.	Name of the Company	Designation
1	ABC Bearings Limited	Director
2	Mipco Seamless Rings (Gujarat) Limited	Director
3	Shri Dinesh Mills Limited	Director
4	INEOS ABS (India) Limited	Director
5	Akshar Elemech Private Limited	Director
6	Jewel Consumer Care Private 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' Grievance Committee	Member
4	INEOS ABS (India) Limited	Audit Committee Shareholders Grievance Committee	Member Chairman

Your directors recommend the re-appointment of Mr. Jal Patel, as a Director of the Company.

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

#### ITEM NO. 5

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 an 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. 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 Board of Directors 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 the trustee of India



GUJARAT GAS

December 2008

29<sup>th</sup> ANNUAL REPORT

Brand Equity Fund Trust. He has won many international and Indian awards. Several international Who's Who carry his biographical entry.

Prof. Khandwalla does not hold any shares or beneficial interest in any shares of your Company. He is on the Board of Directors of your Company since March 2001. He is also the Chairman of the Shareholders' Grievance Committee and a member of the Audit Committee of your Company since April 2001.

Apart from Gujarat Gas Company Limited, Prof. Khandwalla holds directorships of the following companies / committees.

#### Directorships

Sr. No.	Name of the Company	Designation
1	Gujaratgas Trading Company Limited	Director
2	Cadila Pharmaceuticals Limited	Director
3	Baroda Pioneer Asset Management Company Limited	Director
4	Grow Talent Limited	Director
5	Micro Inks Limited	Director
6	Aga Khan Rural Support Programme (India)	Director

#### Membership of Committees

Sr. No.	Name of the Company	Committee	Designation
1	Micro Inks Limited	Audit Committee	Member
2	Micro Inks Limited	Remuneration Committee	Chairman
3	Cadila Pharmaceuticals Limited	Audit Committee	Member

Your directors recommend the re-appointment of Prof. Pradip Khandwalla, as a Director of the Company.

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

#### ITEM NO. 7

Mr. Bikash C. Bora was appointed as an Additional Director by the Board of Directors in its meeting held on 23 October 2008. As per the provisions of section 260 of the Companies Act, 1956, and the Articles of Association of the Company, 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 the intention to propose his candidature for appointment as a director of the Company.

#### Brief resume and nature of expertise

Mr. Bikash C. Bora, 68, Graduate in Mechanical Engineering and a Fellow of the Institution of Engineers (India), has been associated with the oil and gas industry for more than four decades.

After superannuation in 2001 from ONGC, of which he was the Chairman & Managing Director from 1995 to 2001, he has been a Consultant and Advisor to a number of companies

engaged in the energy sector through his wholly owned consultancy company, Enercon.

Mr. Bora started his career with Oil India Ltd., as a Production Engineer in 1962 and rose to become the Chairman & Managing Director of the company in 1992, a position he held until 1995, when he moved to ONGC. He was actively involved with a number of important committees and task forces of the Government of India, related to the hydrocarbon and energy industries. He was also associated with a number of technical, social and sports organisations in the country as an important office bearer.

Mr. Bora does not hold any shares or beneficial interest in any shares of your Company.

Apart from Gujarat Gas Company Limited, Mr. Bora holds directorships of the following companies / committees.

#### Directorships

Sr. No.	Name of the Company	Designation
1	Interlink Petroleum Limited	Director
2	Assam Hydrocarbon and Energy Company Limited	Director

Your directors recommend the appointment of Mr. Bikash C. Bora, as a Director of your Company.

No director other than Mr. Bikash C. Bora is in any way interested or concerned in the said resolution.

#### ITEM NO. 8

Mr. Derek Alan Fisher was appointed as an Additional Director of the Company, with effect from 21 November 2008, by the Board of Directors at its meeting held on 16 December 2008. As per the provisions of section 260 of the Companies Act, 1956, and the Articles of Association of the Company, 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 the intention to propose his candidature for appointment as a director of the Company.

#### Brief resume and nature of expertise

Mr. Derek Alan Fisher graduated from Purdue University, US, with a Bachelor Degree in Science in Electrical Engineering, and from Northeastern University, US, with a Master Business Administration Degree.

He is President and Managing Director, BG India and is responsible for both upstream / downstream business of BG in India.

He joined the BG Group from General Electric, where he held management positions in their aerospace, aero place engines, satellite and communications businesses. This involved assignments in Singapore, Taiwan and Dubai as well as in the US.

He has been with BG Group for eleven years, the last four years of which, as the Asset General Manager (AGM) in



GUJARAT GAS

December 2008

29<sup>th</sup> ANNUAL REPORT

Tunisia, which is one of BG's large E&P operating assets. He was the AGM for South-East Asia, responsible for operations in Thailand (E&P), Philippines and Malaysia (Power) and Indonesia (LNG) between 1998 -2004.

He does not hold any shares or beneficial interest in any shares of your company.

Apart from Gujarat Gas Company Limited, Mr. Fisher holds directorships of the following companies / committees.

#### Directorships

Sr. No.	Name of the Company	Designation
1	BG Exploration and Production India Limited	Director
2	BG India Energy Private Limited	Director
3	BG LNG Regas India Private Limited	Director
4	BG India Energy Services Private Limited	Director
5	BG India Energy Solution Private Limited	Director
6	Mahanagar Gas Limited	Director

He is the promoter-director and your directors recommend appointment of Mr. Derek Alan Fisher as a Director of the Company.

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

- Mr. Derek Alan Fisher
- Mr. Hasmukh Shah
- Mr. Rajeev Khanna
- Mr. Shaleen Sharma

#### ITEM NO. 9

At present, the Chairman and the independent directors of the Company are being paid sitting fees for attending the meetings of the Board of Directors and its Committees. The directors have steered the Company through a significant growth phase over the years. The Company has a clear strategy and its business model is robust. The Board of Directors of the Company recognise that the rich experience and the expertise of the directors enables them to significantly contribute to the business of the Company.

In order to bring the remuneration of the Chairman and the independent directors in line with current trends and ensuring that their remuneration is commensurate to the time devoted and the contribution made by them, the Board at its meeting held on 26 February, 2009, has proposed to pay them remuneration by way of the commission for the financial year 2008, subject to necessary approvals as stated below, in addition to the sitting fees being paid:

Hasmukh Shah	Chairman	Rs 6.0 lakhs
Jal Patel	Independent Director	Rs 4.5 lakhs
Prof. Pradip Khandwalla	Independent Director	Rs 4.5 lakhs
Ajit Kapadia	Independent Director	Rs 3.0 lakhs
Bikash C. Bora	Independent Director	Rs.3.0 lakhs

The above commission shall not exceed one percent of the net profits of the Company as provided under section 309(4) of the Companies Act, 1956 ("the Act"), and computed in the manner referred to in section 198 of the Act, or any amendment or re-enactment thereof. The Commission is recommended to be paid for their attendance and contribution at the Board and its Committee Meetings as well as time spent on operational matters other than at the meetings.

Your directors recommend this Special Resolution for your approval. The following directors of the Company are deemed to be concerned / interested:

- Hasmukh Shah
- Jal Patel
- Prof. Pradip Khandwalla
- Ajit Kapadia
- Bikash C. Bora

#### By Order of the Board

Rajeshwari Sharma  
Company Secretary

Date : 26 March 2009  
Place : Ahmedabad





GUJARAT GAS

December 2008

29<sup>th</sup> ANNUAL REPORT

## DIRECTORS' REPORT

### DEAR SHAREHOLDERS,

Your directors have pleasure in presenting the 29<sup>th</sup> Annual Report and the audited accounts for the year ended on 31 December 2008.

### 1. FINANCIAL RESULTS

(Rs. in crores)

Particulars	Consolidated Financials		Stand-alone Financials	
	Current Year	Previous Year	Current Year	Previous Year
Total income	1,342.46	1,262.12	1,335.77	1,214.69
Gross profit before interest, depreciation and tax	276.45	268.78	271.20	272.88
Less: Interest	0.11	0.10	0.11	0.19
Depreciation	41.80	38.44	40.44	37.08
Profit before tax	234.55	230.24	230.65	235.61
Tax expenses	73.03	76.57	71.84	76.52
Net Profit	161.52	153.67	158.81	159.09
Minority Interest	0.87	0.72	-	-
Profit attributable to Group	160.65	152.95	-	-
Add: Undistributed profit of earlier years	391.16	279.14	375.86	257.03
Balance available for Appropriation	551.81	432.09	534.67	416.12
Less: Appropriations:				
Transfer to general reserve	16.15	16.13	16.00	16.00
Special reserve as stipulated by RBI	0.58	0.48	-	-
Preference dividend	1.08	1.08	1.08	1.08
Proposed Equity dividend	19.24	19.23	19.24	19.23
Corporate dividend tax	3.50	4.01	3.45	3.95
Surplus retained	511.26	391.16	494.90	375.86
Earning per Share (Rs.)	24.86	23.65	24.57	24.61

### 2. DIVIDEND

Your directors recommend for consideration of the shareholders at the Annual General Meeting, payment of 150 % dividend i.e. Rs.3.00 per equity share of Rs. 2 each and 7.50 % dividend i.e. Re. 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.

gas is expected to constitute 23% of the primary energy basket by the year 2020, up from its current share of 8%.

The gap between demand and supply of natural gas is expected to be mitigated to a large extent with the advent of gas from the Krishna Godavari (KG) basin off the Indian East Coast. While this additional gas is expected to start flowing in April 2009, the exact date and quantum of availability of this gas, especially for the Gujarat market, is yet to be firmed up.

### 3. MANAGEMENT ANALYSIS

#### 3.1. Industry Structure

The demand for natural gas continues to sustain and grow in India. However, availability of natural gas from indigenous sources continues to fall significantly short of demand while RLNG from the two LNG import terminals is not adequate to meet the shortfall. The current demand is predominantly from the priority sectors of fertilizer and power, while the demand from the city gas distribution and petrochemicals sectors is comparatively lower. In the long-term, however, natural

Notwithstanding the gas supply-demand scenario, the relationship between the price at which gas is available and the demand for gas, cannot be ignored. Market driven gas prices have been moving upwards over the last few years. The sharp fall in the price of crude oil recently witnessed has not impacted the gas prices in India as price of indigenous gas, unlike LNG, is by and large, not related to international crude oil prices. The additional gas from KG basin is expected to be available at competitive prices to LNG and could therefore play a



significant role in reducing the gap between demand and supply.

Your Company continues to remain India's largest private sector entity in city gas distribution by volume. It is the main distributor of natural gas in the industrial, commercial, domestic and automobile (CNG) segments in South Gujarat. More than 95% of the gas sold by your Company is purchased at market prices. Your Company has, therefore, established a robust business model which is viable at market driven prices.

Certain other companies have forayed into gas distribution and several others have expressed their interest in the sector. The Petroleum and Natural Gas Regulatory Board (PNGRB), set up with effect from 1<sup>st</sup> October 2007, has issued regulations which now apply to the natural gas industry. Companies, once authorized by the PNGRB, have to operate within these guidelines.

### 3.2. Developments

Your Company had contracts with the Panna-Mukta, Tapti (PMT) JV and BG Exploration and Production India Limited to purchase a total of 3.05 mmscmd of gas. The Ministry of Petroleum and Natural Gas (MoPNG), Government of India issued a directive under which the entire gas produced from the PMT fields was to be sold by the producers to GAIL, which was nominated by the Government to market the gas, with effective from 1<sup>st</sup> April 2008. After prolonged engagement with GAIL, and with significant support from BG, your Company was allocated 2.13 mmscmd of gas for which a Term Sheet was signed with GAIL effective for supply of gas from 1<sup>st</sup> April 2008. The Term Sheet is valid till 31<sup>st</sup> March, 2019 and is expected to be converted into a definitive Gas Sale and Transportation Contract. The availability of gas to your Company was significantly affected as a result of the aforementioned change.

Your Company has made applications under the appropriate sections of the Regulatory provisions for the grant of authorization to operate in and around the areas of Surat, Bharuch, Ankleswar and Vapi. In the meantime, the MoPNG has written to the PNGRB confirming that your Company has been authorized by the Government of India to operate in the cities of Surat, Bharuch and Ankleswar. Separately, the PNGRB has permitted the Company to continue capital works in the specified areas, while the applications are scrutinized in detail. Your Company has also filed "Expression of Interest" applications before the PNGRB for certain areas in eastern Kutch and Bhavnagar in Gujarat.

The price of crude oil has been highly volatile in 2008. While Brent crude oil peaked at \$ 140 per barrel in June 2008, it was down at \$ 40 per barrel in December 2008. Natural gas distributed by your Company is mainly used in industrial applications, where customers have converted from other sources of energy like grid power, fuel oil and other solid fuels to natural gas. While the grid power cost is yet unaffected by changes in the crude price, the fuel oil prices have moved down. Gas sold in the CNG segment competes with liquid automobile fuels and LPG. While the prices at which natural gas is sold by the Company remain competitive in all segments and applications, the Company continues to monitor the prices of competitive fuels very closely.

The Indian Rupee depreciated against the US Dollar from Rs. 39.4/USD in January 2008 to Rs. 48.5/USD in December 2008. The Company buys most of its gas at dollar denominated rates and hence the weakening of the rupee pushed up the Company's gas cost.

### 3.3. Opportunities and Challenges

The developments outlined hereinabove along with the following factors have opened up new opportunities and raised new challenges for your Company.

The demand for natural gas remains strong in the Company's markets. While the economic downturn has affected certain industrial units, customers continue to value the advantages of using natural gas. The overall demand has therefore been sustained and is seen to be growing, though the Company does not as yet have adequate supplies to meet the full demand of its customers. The strong industrial growth in Gujarat and rapid urbanization in and around Surat has ensured that demand for natural gas remains robust.

The opportunity of growing demand can only be met by procuring additional gas. It is expected that significant volumes of gas will flow into Gujarat from the KG basin off the Indian East Coast through a recently constructed trunk gas pipeline system. However, the Company awaits the readiness of the producers/sellers of KG basin gas to enter into gas sales contracts. The Company also continues to explore other sources of gas. The contract with Niko, which is currently supplying about 0.25 mmscmd of gas, has been renewed with effect from 1<sup>st</sup> April 2009, though the volume is expected to be lower from April. The Company is also exploring opportunities with Cairn Energy to augment its current supplies. While regasified LNG is another source which is continuously explored, its high price and intermittent availability pose a constraint in using it as a stable source of supply.



GUJARAT GAS

December 2008

29<sup>th</sup> ANNUAL REPORT

The CNG segment continues to grow strongly, with the efforts made by the Company in converting vehicles to natural gas.

The Company expects the grant of regulatory license in the areas that it has applied for. With this, the Company plans to invest significantly in pipeline network in order to connect household and industrial customers, and to set up new CNG stations.

Prices of several commodities have fallen in the current economic scenario. The Company has developed a focused cost optimization plan with the objective of obtaining maximum value in the current environment. Notwithstanding the challenge of catering to a growing business, the Company expects to optimise its cost per unit of gas sold.

### 3.4. Operations and Market Performance

There was a strong demand for natural gas in the Company's markets during the year. However, the curtailment in gas availability from the PMT fields, following the Government of India directive as explained above, created a serious shortage in the Company's supply of gas. Your Company prioritized the household and CNG segments and continued to distribute the remaining gas among industrial customers on an equitable basis. The industrial customers of the Company went through considerable difficulties as the gas supplied was not adequate to meet their demand.

The cost of gas to your Company increased partly due to the change in supplier and also due to the impact of the Indian rupee against the US dollar. More than 95% of the gas is purchased by your Company at dollar denominated rates. While a part of this was passed on to customers through price increases, the exchange rate impact was significant in the period after the price increase was implemented.

Your Company optimized the market mix to the extent feasible. The annual revenue therefore shows some growth, in spite of the reduction in volumes sold. The CNG segment grew at 30% during the year due to a high rate of conversion of vehicles. The dispensing capacity was enhanced by adding four new CNG stations and by upgrading two compressors. More than 86,000 vehicles now run on CNG in the Company's markets.

Operating Costs increased by about 16% mainly due to wage inflation.

More than Rs. 100 crores were invested in capital projects during the year. Apart from CNG infrastructure, the investments were mainly in pipeline network.

Certain old issues which were pending with a gas transporter for some years were finally resolved and an amount of Rs. 10.5 crores was received in settlement.

The Cogen business segment operated with its existing contracts. Growth outlook in this segment remains conservative due to potential credit risks.

Your Company had an average investment of Rs. 293 crores of surplus funds during the year. The Company's investment strategy is designed to obtain the best possible returns, while ensuring high safety of its funds. The investments earned a reasonable post tax return of about 8%, while special care was taken to preserve the entire corpus especially in the volatile market conditions.

There were significant decisions by appellate authorities in the Company's favour on certain Income Tax cases. A total amount of Rs. 10.5 crores was received as refund of income tax during the year, as a result of resolution of old issues.

While investments have been made in laying a pipeline infrastructure in the Vapi GIDC area, your Company awaits authorization from PNGRB to operate in this area.

The Company signed and commenced gas supply to more than 25,000 households during the year, taking the total number of connected household customers to 246,000.

The consolidated income increased from Rs. 1,261.9 crores to Rs. 1,342.4 crores. Gas sales volume was 1089 mmscm, compared to 1196 mmscm in the previous year, due to reduced availability of PMT gas. The PBT increased from Rs. 230.3 crores to Rs. 234.5 crores mainly due to market optimization and receipt of settlement proceeds. The profit after tax increased from Rs. 153.7 crores to Rs. 161.5 crores.

### 3.5. Future outlook

The natural gas regulations are now a reality and the guidelines for authorization and determination of network tariff have been laid down. The industry will have to operate within this framework. Your Company stands committed to the plan submitted to the PNGRB. The growth of your Company, as of the entire industry, depends on the availability of additional gas. The management expects that gas from KG basin will be available to the Company. The gas allocation policy, when finally issued, should encourage the growth of city gas distribution, which will enable the use of gas by households, vehicles and small industrial customers. The Company believes that the PNGRB, as well as the MoPNG, will follow transparent procedures and play a





promotional role in enhancing gas utilization in city gas distribution.

The demand for gas in the industrial segment remains strong and is expected to sustain and grow in spite of the slow down in general economic growth. CNG continues to remain a vibrant business segment. Rapid increase in the vehicular population and a rapid rate of conversion to CNG are ensuring a high rate of growth in this segment.

The growth plan submitted to the PNGRB includes laying pipeline network in a number of areas which have been identified for growth in customer potential. Your Company has developed the expertise to execute such projects over the years and is in a vantage position to carry them out efficiently. The Company has chalked out a comprehensive contracting strategy to engage and develop appropriate contractors, so that they scale up to deliver these projects at the required standards.

### 3.6 Internal Control System and Risk Management

Your Company has an effective internal control environment that continuously assures the efficiency of operations and security of assets through a well defined system of adequate checks and balances. A sound budgetary control process coupled with standard operating processes and a detailed authorisation matrix effectively measure the reliability of financial controls and the degree of compliance with applicable laws.

Your Company has an independent internal audit function, empowered to review and examine the compliances with the plans, policies and statutory requirements. The BG Group Audit team also carries out periodic process reviews of key business activities, leading to enhanced assurance. The Audit Committee monitors the internal control environment within the Company and ensures that the internal audit recommendations are effectively implemented.

Your Company has a strong process for business risk management. There is an extensive risk identification process which helps in compiling significant risks in all areas of operation. These are deliberated upon, to formulate mitigation plans with clear timelines and accountability. A periodic review by senior management ensures that the process is consistently followed and that the mitigation plan acted upon. The Business Risk Register is also reviewed regularly by the Audit Committee of the Board.

Your Company has implemented a Value Assurance Framework (VAF) for all major projects, which provides independent assessment of whether the risks and

opportunities associated with each project are being effectively managed. This involves rigorous scrutiny of all aspects of a project, from conceptualisation to commissioning.

### 3.7 Health, Safety, Security and Environment

Your Company remains committed to Health, Safety, Security & Environment (HSSE). The company measures its HSSE performance with the help of a number of parameters. A steady improvement is evident in most of these parameters, over the last few years.

The management sets goals, develops improvement plans, monitors implementation of plans and reviews the HSSE performance regularly using leading and lagging indicators. There is a strong self assurance process as well as an independent audit process to ensure that controls are in place to manage HSSE risks effectively. Learning from potential incidents in the Company and in other organizations is used to improve the HSSE awareness.

The HSSE performance of your Company has been recognized during the year by various bodies. Your company was awarded the Gujarat Safety Council Safety Award, the Greentech Gold Safety Award 2007 and the National Safety Council Safety Award - Prashansa Patra.

The following activities were carried out as a part of HSSE improvement initiatives:

- Road Safety Week and National Safety Week were celebrated; various awareness campaigns and competitions were organized.
- The senior management team undertook HSSE tours of various worksites to review effectiveness of controls and to recognize good practices.
- The Behavior Based Safety (BBS) process was strengthened during the year. This process attempts to analyze root causes of non compliant behavior and to address the same to achieve a step improvement in HSSE culture.
- An HSSE Leadership Program was conducted for the senior management team by an expert faculty from the BG Group.
- An HSSE road show was organized in Surat for contractors to educate and promote Safety.
- Business Continuity Plans were reviewed.
- The Company participated in the development of the "Code of Practice for ERDMP – Emergency Response and Disaster Management Plan" for gas industries formulated by the PNGRB.



GUJARAT GAS

December 2008

29<sup>th</sup> ANNUAL REPORT

- M/s DNV conducted Integrated Management System audits during the year and GGCL's Occupational Health & Safety Management System was upgraded to OHSAS 18001: 2007.

The security of employees and the protection of company's assets is an important objective of your Company. Measures were taken to further strengthen the security systems.

#### Contribution to Environment

Your Company is an ISO14001: 2004 certified company and has a firm commitment to ensure minimum impact to environment through its operations. Operation of natural gas networks and its associated installations, like other modern industrial processes, generates some amount of waste that needs to be minimised and disposed off appropriately. Your Company is focused in carrying out its waste disposal operations in a safe and controlled manner.

Your Company has also undertaken or contributed indirectly in various initiatives during the year. This includes:

- Reduction in vehicular pollution in Surat and Bharuch districts by establishing new CNG stations and upgrading the existing ones.
- Various Green House Gas (GHG) emission reductions projects were implemented and a reduction of 109.16 tonnes CO<sub>2</sub> equivalent was achieved.
- World Environment Day was celebrated at all the locations to raise awareness.
- Tree plantation was carried out at all the locations.

#### 3.8 Contribution to Society

During the year, your Company focused on a comprehensive strategy for Corporate Social Responsibility (CSR). CSR initiatives during the year were mainly in education, health, building of civic amenities and flood amenities.

During the year under review, GGCL supported the Gujarat Education Society in creating a learning centre for children with special needs. The Company supported an initiative to promote school enrolment of children from economically weak background and provided computers to schools. The Company also contributed towards the renovation of a school in a tribal area.

Your Company supported the building and upgradation of the Regional Blood Transfusion Centre at Surat and worked with various organisations and the Government for flood relief in Bihar.

#### 4. SUBSIDIARIES

##### 4.1 Gujaratgas Trading Company Limited (GTCL)

Gujaratgas Trading Company Limited (GTCL), a wholly-owned subsidiary of your Company, is engaged in the business of selling natural gas to select customers in the State of Gujarat.

During the year under review, GTCL achieved sales of Rs. 83.52 crores as against Rs. 156.25 crores during the previous year. Volumes were lower compared to the previous year, leading to lower sales. Total income for the year ended 31 December 2008 was Rs. 84.66 crores including other income of Rs. 1.14 crores as against total income of Rs. 157.91 crores including other income of Rs. 1.66 crores during the previous year.

Profit before tax (PBT) was Rs. 1.17 crores during the year under review as against a Loss of Rs. 1.91 crores in the previous year. GTCL also received an amount of Rs. 0.50 crores pertaining to interest income on income tax refunds received during the current year.

The accounts of GTCL are a part of this Annual Report.

##### 4.2 Gujarat Gas Financial Services Limited (GFSL)

Gujarat Gas Financial Services Limited (GFSL), another subsidiary of your Company, is selling domestic and commercial connections to GGCL customers. GFSL has effectively changed the mode of business from lease financing to sale of gas connection, from April 2007. During the year under review, the income was Rs. 33.07 crores as compared to Rs. 28.18 crores in the year 2007. The connections undertaken have increased from 25,011 in the year 2007 to 26,011 during the year under review. During the year under review, the profit after tax was Rs. 2.88 crores, as compared to Rs. 2.40 crores for the previous year.

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, as applicable. During the year under review, your Company 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 2008 and Auditors' Report thereon, along with the Directors' Reports of Gujaratgas Trading Company Limited and Gujarat Gas Financial Services Limited, the subsidiaries of Gujarat Gas Company Limited (GGCL), are attached to GGCL's balance sheet.