

8th Annual Report



Gujarat State Petronet Limited

Registered Office : GSPC Bhavan, Sector 11, Gandhinagar 382 011.



GUJARAT STATE PETRONET LIMITED

8th ANNUAL REPORT 2005-06

BOARD OF DIRECTORS

Shri Balwant Singh, IAS, Chairman
Shri H K Dash, IAS
Shri P K Pujari, IAS
Shri Hasmukh Adhia, IAS
Shri N J Jhaveri
Shri U Sundararajan
Shri Suresh Mathur
Shri Luis Miranda
Shri D J Pandian, IAS, Managing Director

Shri Darius Pandole (upto 2nd December, 2005)
Shri Jayant Parimal, IAS (upto 29th March, 2006)

STATUTORY AUDITORS

T. N. Shah & Co., Chartered Accountants
Gandhinagar.

INTERNAL AUDITORS

KPMG
Mumbai.

COMPANY SECRETARY

Shri Sandeep Dave

CORPORATE & REGISTERED OFFICE

GSPC Bhavan, Sector-11,
Gandhinagar – 382 011.

BANKERS

Allahabad Bank
Bank of Baroda
Bank of India
Central Bank of India
Corporation Bank
Dena Bank
HDFC Bank Ltd.
IDBI Ltd.
Karur Vysya Bank
Oriental Bank of Commerce
Punjab National Bank
South Indian Bank Ltd.
State Bank of India
State Bank of Bikaner & Jaipur
State Bank of Travancore
UCO Bank
Union Bank of India
UTI Bank Ltd.
Vijaya Bank

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GUJARAT STATE PETRONET LIMITED

NOTICE

Notice is hereby given that 8th Annual General Meeting of the members of Gujarat State Petronet Limited will be held on Thursday, the 28th September, 2006 at 3.00 p.m. at Town Hall, Sector-17, Nr. Gh-4 Circle, Opp. Udyog Bhavan, Gandhinagar – 382 017 to transact the following business:

ORDINARY BUSINESS

1. To receive, consider and adopt the Audited Annual Accounts for the year ended on 31st March, 2006, Auditors' Report, Report of the Comptroller and Auditor General of India and Directors' Report thereon.
2. To declare Dividend on Equity Shares.
3. To appoint a Director in place of Shri P K Pujari, IAS, Director who retires by rotation and being eligible offers himself for re-appointment.
4. To fix remuneration of Statutory Auditors of the Company in terms of provisions of section 224 (8)(aa) of the Companies Act, 1956.

SPECIAL BUSINESS

To consider and if thought fit, to pass with or without modification(s), the following resolutions as Ordinary Resolutions:

5. "RESOLVED THAT Shri Luis Miranda, who was appointed as an Additional Director of the company pursuant to section 260 of the Companies Act, 1956 read with Article 148 and 267 of the Articles of Association of the Company and who holds office till the conclusion of this Annual General Meeting, be and is hereby appointed as a Director of the Company, liable to retire by rotation."
6. "RESOLVED THAT Shri U Sundararajan, who was appointed as an Additional Director of the company pursuant to section 260 of the Companies Act, 1956 read with Article 148 of the Articles of Association of the Company and who holds office till the conclusion of this Annual General Meeting, be and is hereby appointed as a Director of the Company, liable to retire by rotation."
7. "RESOLVED THAT Shri N J Jhaveri, who was appointed as an Additional Director of the company pursuant to section 260 of the Companies Act, 1956 read with Article 148 of the Articles of Association of the Company and who holds office till the conclusion of this Annual General Meeting, be and is hereby appointed as a Director of the Company, liable to retire by rotation."
8. "RESOLVED THAT Shri Suresh Mathur, who was appointed as an Additional Director of the company pursuant to section 260 of the Companies Act, 1956 read with Article 148 of the Articles of Association of the Company and who holds office till the conclusion of this Annual General Meeting, be and is hereby appointed as a Director of the Company, liable to retire by rotation."
9. "RESOLVED THAT Shri Hasmukh Adhia, IAS who was appointed as an Additional Director of the company pursuant to section 260 of the Companies Act, 1956 read with Article 141(a) and 148 of the Articles of Association of the Company and who holds office till the conclusion of this Annual General Meeting, be and is hereby appointed as a Director of the Company, liable to retire by rotation."

By order of the Board of Directors,
Sandeep Dave
Company Secretary

Date : 22nd August, 2006

Place: Gandhinagar

Registered Office

GSPC Bhavan, Sector-11,
Gandhinagar – 382 011.

Notes:

1. **A MEMBER ENTITLED TO ATTEND AND VOTE AT THE MEETING IS ENTITLED TO APPOINT A PROXY TO ATTEND AND VOTE ON A POLL INSTEAD OF HIMSELF AND THE PROXY NEED NOT BE A MEMBER OF THE COMPANY. THE INSTRUMENTS APPOINTING PROXY TO BE VALID AND EFFECTIVE MUST REACH TO THE REGISTERED OFFICE OF THE COMPANY MINIMUM 48 HOURS BEFORE THE COMMENCEMENT OF THE MEETING.**
2. Corporate members intending to send their authorized representatives to attend the meeting are requested to send a certified copy of the Board Resolution authorizing their representative to attend and vote on their behalf at the meeting.
3. Members / proxies are requested to bring their attendance slip along with their copy of Annual Report to the meeting.
4. An Explanatory Statement pursuant to Section 173(2) of Companies Act, 1956 is annexed hereto.
5. Members desirous of getting any information related to accounts or operations of the Company are requested to send in their queries so as to reach the company's registered office atleast 7 days in advance before the date of meeting to enable the management to keep the information ready.
6. The register of members and share transfer books of the Company shall remain closed from Tuesday, September 19, 2006 to Thursday, September 28, 2006 (both days inclusive) for the purpose of payment of the dividend. The dividend, if declared at the ensuing Annual General Meeting shall be paid, on or after September 28, 2006 to those members of the Company whose names appear (a) as beneficial owners as on September 18, 2006 as per the list to be furnished by the depositories in respect of the shares held in electronic form; and (b) as members in the register of members of the Company as on September 18, 2006, after giving effect to all valid share transfers in physical form received on or before September 18, 2006.
7. All transfer deeds, requests for change of address, bank particulars/mandates/ECS mandates, PAN should be lodged with Company's Registrar and Share Transfer Agents, Karvy Computershare Private Limited, "Karvy House", 46, Avenue 4, Street No.1, Banjara Hills, Hyderabad - 500 034, in case of shares held in physical form on or before September 18, 2006. The above details in respect of the shares held in electronic form should be sent to the respective depository participants by the shareholders well in time.



8. Members are requested to furnish the registrar / depository participants, the name and branch of the bank and account number to enable the Company to distribute dividend through Electronic Clearing Services (ECS). In the absence of ECS facility with the shareholder's bank, the bank account details will be printed on the dividend warrants, if available.
9. As stipulated under Clause 49 of the listing agreement with stock exchanges, profile of directors seeking re-appointment / appointment is provided under Section "Board of Directors" of the corporate governance report, which forms an integral part of this Annual Report.

ANNEXURE TO NOTICE

Explanatory Statement Pursuant to Section 173 (2) of the Companies Act, 1956

Item No. 5

Mr. Luis Miranda was appointed as an Additional Director of the company by the Board of Directors with effect from December 2, 2005 in accordance with the provisions of Article 267 and 148 of Articles of Association of the Company. As per the provisions of Section 260 of the Companies Act, 1956, he holds office till the conclusion of this Annual General Meeting. The Company has received a notice from a member in writing proposing the candidature of Mr. Luis Miranda for appointment as a Director of the Company. The Board recommends the appointment of Mr. Luis Miranda as a Director of the Company in accordance with the provisions of Article 267 of Articles of Association of the Company.

No other director except Mr. Luis Miranda is in any way concerned or interested in the said resolution.

The Members are requested to approve the resolution.

Item No.6

Mr. U Sundararajan was appointed as an Additional Director of the company by the Board of Directors with effect from October 13, 2005. As per the provisions of Section 260 of the Companies Act, 1956, he holds office till the conclusion of this Annual General Meeting. The Company has received a notice from a member in writing proposing the candidature of Mr. U Sundararajan for appointment as a Director of the Company.

The Board recommends the appointment of Mr. U Sundararajan as a Director of the Company.

No other director except Mr. U Sundararajan is in any way concerned or interested in the said resolution.

The Members are requested to approve the resolution.

Item No.7

Mr. N J Jhaveri was appointed as an Additional Director of the company by the Board of Directors with effect from October 1, 2005. As per the provisions of Section 260 of the Companies Act, 1956, he holds office till the conclusion of this Annual General Meeting. The Company has received a notice from a member in writing proposing the candidature of Mr. N J Jhaveri for appointment as a Director of the Company.

The Board recommends the appointment of Mr. N J Jhaveri as a Director of the Company.

No other director except Mr. N J Jhaveri is in any way concerned or interested in the said resolution.

The Members are requested to approve the resolution.

Item No.8

Mr. Suresh Mathur was appointed as an Additional Director of the company by the Board of Directors with effect from December 2, 2005. As per the provisions of Section 260 of the Companies Act, 1956, he holds office till the conclusion of this Annual General Meeting. The Company has received a notice from a member in writing proposing the candidature of Mr. Suresh Mathur for appointment as a Director of the Company.

The Board recommends the appointment of Mr. Suresh Mathur as a Director of the Company.

No other director except Mr. Suresh Mathur is in any way concerned or interested in the said resolution.

The Members are requested to approve the resolution.

Item No.9

Mr. Hasmukh Adhia, IAS was appointed as an Additional Director of the company by the Board of Directors with effect from March 29, 2006 in accordance with the provisions of Article 141(a) and 148 of Articles of Association of the Company. As per the provisions of Section 260 of the Companies Act, 1956, he holds office till the conclusion of this Annual General Meeting. The Company has received a notice from a member in writing proposing the candidature of Mr. Hasmukh Adhia, IAS for appointment as a Director of the Company.

The Board recommends the appointment of Mr. Hasmukh Adhia, IAS as a Director of the Company in accordance with the provisions of Article 141(a) of Articles of Association of the Company.

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

The Members are requested to approve the resolution.

**By order of the Board of Directors,
Sandeep Dave
Company Secretary**

Date : 22nd August, 2006

Place : Gandhinagar

Registered Office

GSPC Bhavan, Sector -11,
Gandhinagar - 382 011.



DIRECTORS REPORT

To,
The Members
Gujarat State Petronet Limited

The Directors have pleasure in presenting 8th Annual Report and Audited Accounts of the company for the year ended 31st March, 2006.

This is our first report to the shareholders since GSPL's debut in the equity segment of the capital market. Our initial Public Offering met with a resounding success demonstrating investor community's confidence in the company. This has further strengthened your Board's resolve for enhancing shareholders' value continually.

Financial Highlights

(Rs. in crore)

Particulars	2004-05	2005-06
1. Net Sales / Income from Operations	203.49	263.47
2. Other Income	2.01	4.47
	205.50	267.94
3. Total Expenditure		
a) (Increase) / decrease in stock in trade	0.00	0.00
b) Gas Transportation Charges	45.37	19.23
c) Connectivity Charges	11.34	22.15
d) Staff Cost	2.59	2.74
e) Administration, O & M and other expenses	14.84	25.07
	74.14	69.19
4. Interest Charges	36.34	41.28
5. Depreciation	65.64	79.06
6. Profit Before Tax	29.38	78.41
7. Provision for Taxation		
- Income Tax	1.47	---
- Deferred Tax	11.86	31.51
- Fringe Benefit Tax	-	0.22
Net Profit	16.05	46.68

Major Achievements

- PAT increased from Rs.16.05 crores to Rs.46.68 crores in previous year, recording increase of 191%.
- Since last Directors' Report, the Pipeline under operations have increased from 433 kms to 550 kms.
- Successfully completed IPO of Rs. 372.60 crores for part funding the expansion projects.
- Executed Gas Transmission Agreement with Torrent Power for transmission of 4.9 MMSCMD of gas for a period of 20 years.
- Executed short term gas transmission agreement with Hazira LNG Pvt. Ltd. for transportation of gas up to 3 MMSCMD of gas to NTPC, Kawas.
- 99.6% pipeline grid availability.
- "Accident free" year of operations.
- Successfully implemented mySAP ERP Package.
- ISO-9001/2000 Quality Management System Certification for company's operation and maintenance activities.
- Constructed Mora Gas Terminal, which has facilities to handle multi-source and multi-customer integration at different pressures.

CAPITAL

During the financial year the Authorized Share Capital of the Company was increased by Rs.350 Crores from Rs.350 Crores to Rs.700 Crores.

During the year, your company made an Initial Public Offering of 13.80 Crores equity shares with a price band of Rs.23/- to Rs.27/- for which the subscription was opened from 24th January, to 28th January, 2006. The issue received an overwhelming response from the investors. The price was fixed at the upper band of Rs.27/- per equity share of Rs.10/-. On 16th February 2006, the Equity Shares were listed on the National Stock Exchange of India Limited and The Stock Exchange, Mumbai.

With the allotment of 13.80 Crores equity shares to the public and 5.43 Crores equity shares through private placement, the paid up share capital of the Company has increased from Rs.349.95 Crores to Rs.542.24 Crores.

DIVIDEND

Keeping in view the fund requirements for expansion projects, the Board of Directors of the Company is pleased to recommend dividend @ 2.50% for the Financial Year 2005-06.

Gas Transmission Services

The Company has signed long term GTAs for transporting 22.08 MMSCMD of gas to various customers (Previous year 13.67 MMSCMD).

GAS GRID PROJECT

The Government of Gujarat has always played a proactive role in the development of energy value chain. Gujarat is the first state to plan and execute a state wide Gas Grid on open access principle.

The pipeline grid has been designed as per international benchmarks to cater the peak loads without any modifications.

Projects commissioned:

Since last Directors' Report the Company has successfully commissioned following pipeline projects :

- Ankla-Dhuvaran pipeline project (ADPL). Commissioning of ADPL has made it possible to transport gas to Gujarat State Electricity Company Ltd., Dhuvaran.
- Ambapur-Gandhinagar pipeline project (AGPL). AGPL has enabled transportation of Gas for City Gas Distribution Network in Gandhinagar.
- Kalol-Himmatnagar pipeline project (KHPL). KHPL has enabled GSPL to transport gas for Ceramic Industry in Himmatnagar region.
- Spurline to NTPC, Kavas. This spurline has enabled GSPL to transport Gas to NTPC, Kavas.
- Mora-ONGC, Hazira. Commissioning of this pipeline has provided connectivity to landfall point of Panna Mukta Tapti (PMT) field.

The current span of the Grid under operation is approx. 550 kms and gas is flowing from Hazira / Dahej to various industries in Surat, Bharuch, Baroda, Anand, Ahmedabad and Sabarkantha districts.

Projects on Hand

Your Directors are pleased to inform that the Company has taken initiative for developing pipeline infrastructure in the State of Gujarat. Currently the following projects are in advanced stage of completion:

- **Mora-Vapi** Pipeline Project (30" x 138 kms)
- **Anand-Rajkot** Pipeline Project (24" x 225 kms + 18" x 69 kms spurline)
- **Kalol-Mehsana** Pipeline Project (18" x 47 kms)
- **Torrent Spur line** (24" x 22 kms)
- **NTPC-Jhanore Spur line** (24" x 12 kms)
- Further, the Company has initiated activities for developing several spur lines (approx. 200 kms X 6" to 24") to connect Industrial clusters and medium size customers along the pipeline network. The Company has taken up development of spur lines in Vapi, Morbi, Mehana and Baroda regions on priority basis.

Future Plans

The Company is working on future expansion plans. The pipelines, which may be taken up for implementation in future includes:-

- Dharod - Jafrabad.
- Rajkot - Jamnagar
- Bhadbhut - Gana
- Morbi - Mundra
- Baroda - Godhra

**Operation & Maintenance activities**

The Company has transported 3821.38 MMSCM (Previous year: 3017.548 MMSCM) of gas during the Financial Year under review. The Gas Grid is being operated as per International Safety Standards and Set Systems and Maintenance Procedures so as to achieve 100% availability of Gas Grid with zero accidents and meeting customer satisfaction.

HEALTH, SAFETY AND ENVIRONMENT

The Company attaches great importance to Health, Safety and Environmental aspects. The Company is expanding and managing its business operations in a safe and environmentally sustainable manner. The environment and safety features have been integrated into design, construction and O&M operations to have utmost safety for the facilities, local community and the environment. Further, Disaster Management plan is reviewed and updated regularly.

The Company is ensuring effectiveness of HSE Management systems through regular audit and review.

FIXED DEPOSITS

During the year the company has not accepted any Fixed Deposits from the public.

DIRECTORS

During the year, Shri Darius Pandole and Shri Jayant Parimal, IAS ceased to be the Directors of the Company. Your Directors wish to place on record appreciation of the services rendered by Shri Darius Pandole and Shri Jayant Parimal, IAS as Directors of the Company.

Shri Luis Miranda, Shri U Sundararajan, Shri N J Jhaveri, Shri Suresh Mathur and Shri Hasmukh Adhia, IAS were appointed as Additional Directors to hold office till the ensuing Annual General Meeting.

Pursuant to the provisions of section 256 of the Companies Act, 1956 Shri P K Pujari, IAS shall retire by rotation at the ensuing Annual General Meeting and being eligible, offers himself for re-appointment.

A brief resume of the Directors retiring by rotation/seeking appointment at the ensuing Annual General Meeting, nature of their expertise in specific functional areas and names of companies in which they hold Directorship and Membership/Chairmanship of committees of the Board, are given in the Corporate Governance report forming part of the Directors' Report.

STATUTORY & CAG AUDIT

Your Company being a Government Company, the Statutory Auditors are appointed by the Comptroller & Auditor General of India (CAG). Accordingly, CAG has appointed M/s T. N. Shah & Co, Chartered Accountants, Gandhinagar as Statutory Auditors of the Company for the Financial Year 2005-06.

CAG office has given NIL comment report for the Financial Year 2005-06.

Review of accounts of the Company for the Financial Year ended 31st March, 2006 carried out by the office of CAG is annexed and forms part of Directors' Report.

AUDIT COMMITTEE

Audit Committee of Directors of the Company at its meeting held on 21st June, 2006 approved the Annual Accounts for the financial year ended on 31st March, 2006 and recommended the same for approval of the Board.

DIRECTORS' RESPONSIBILITY STATEMENT

Pursuant to the provisions of section 217 (2AA) of the Companies Act, 1956, the Directors hereby confirm that,

- (i) in the preparation of the annual accounts, the applicable accounting standards had been followed along with proper explanation relating to material departures.
- (ii) accounting policies are selected and applied consistently and judgments and estimates are reasonable and prudent so as to give a true and fair view of the state of affairs of the company at the end of the financial year and of profit of the company for that period.
- (iii) proper and sufficient care for the maintenance of adequate accounting records in accordance with the provisions of the Companies Act, 1956 for safeguarding the assets of the company and for preventing and detecting fraud and other irregularities is taken.
- (iv) the annual accounts are prepared on a going concern basis.

MANAGEMENT DISCUSSION & ANALYSIS

This Annual Report contains a separate section on the Management Discussion and Analysis (Annexure-I) which forms part of the Directors' Report.

CORPORATE GOVERNANCE

The Company believes that good governance is voluntary and self disciplining with the strongest impetus coming from the Directors and the Management themselves and that good Corporate Governance alone will take the Company to achieve its ultimate goal of maximizing value to all its stakeholders.

The company has always been proactive in adopting good Corporate Governance practices. The Board of Directors recognizes its accountability to all the stakeholders of the company.

A Report on Corporate Governance as required under clause 49 of the listing agreement is incorporated as a part of the Directors' Report (Annexure – II). A compliance certificate by the practicing company secretary is also attached to the Directors' Report.

GSPL EMPLOYEES STOCK OPTION PLAN ("ESOP"):

The company instituted ESOP Scheme in October 2005 to provide an incentive to attract, retain and reward the employees and enable them to participate in future growth and financial success of the Company. Each such option shall confer a right upon the Employee to apply for one Equity Share of the Company.

Statutory disclosures regarding ESOP scheme are enclosed as Annexure-III to the Directors' Report.

PARTICULARS OF EMPLOYEES

During the period under review, none of the employees were drawing remuneration, which require disclosure under Section 217 (2A) of the Companies Act, 1956, read with the Companies (Particulars of Employees) Rules, 1975.

CONSERVATION OF ENERGY, TECHNOLOGY ABSORPTION, FOREIGN EXCHANGE EARNINGS AND OUTGO

Conservation of Energy

During the period under review, there is no consumption of energy requiring disclosure.

Technology Absorption

The Company has not imported any technology. However, the Company has engaged consultants/advisors of international repute to make available latest technology for Project implementation.

Foreign Exchange Earnings & Outgo

Foreign Exchange Earnings	- Rs.NIL
Foreign Exchange Outgo	- Rs.4.91crore

ACKNOWLEDGEMENTS

The Directors convey their sincere appreciation of the valuable services rendered by employees at all levels, without whose contribution the excellent performance of the Company would not have been possible.

The Directors take this opportunity to convey appreciation for confidence, support and co-operation of the valued customers and look forward to this mutually supportive relationship in future.

The Directors are extremely grateful for all the support given by the Government of Gujarat at all levels. Their guidance, encouragement and moral support enabled the Company to expand the Pipeline Grid Network in a professional manner. We take this opportunity to convey our sincere appreciation for the support given by the Ministry of Environment & Forest, Foreign Investment Promotion Board, SEBI, BSE and NSE.

The Directors place on record their sincere thanks to the investors for their valuable support, trust and confidence in the Company and overwhelming response to the IPO of the Company.

For and on behalf of Board of Directors

Balwant Singh, IAS
Chairman

Date : 22nd August, 2006
Place: Gandhinagar

**ANNEXURE – I**

Management Discussion and Analysis forming part of the Directors' Report for the year ended on 31st March, 2006

A. Industry structure and developments :

The importance of natural gas, as a fuel and a feedstock has increased significantly over the past two decades. Natural gas is used in a variety of applications, such as feedstock in fertilizer and petrochemical industry and as fuel in the power generation, manufacturing of steel, textile, ceramic, glass and other industrial products. Natural Gas is the fuel of the future.

Gas Scenario

According to EIA International Energy Outlook, the world consumption of natural gas is expected to increase at an average annual rate of 2.3% during the period 2002 to 2025 and India's natural gas consumption is projected to grow at an average annual rate of 5.1% from 25.2 billion cubic meters in 2002 to 78.4 billion cubic meters in 2025.

Indian industry used to get only domestic gas supply till 2004. However, with gas supplies falling well short of the demand, several new supply sources have emerged. The commissioning of PLL's (Petronet LNG) Terminal at Dahej heralded the entry of LNG in the Indian markets in April 2004.

Major developments in the natural gas sector in India are summarized below:-

- Announcement of major gas discoveries in the Krishna-Godavari basin.
- Petronet LNG has increased import of LNG to 5 million metric tonne per annum.
- Commissioning of LNG Terminal at Hazira.
- Panna Mukta and Tapti (PMT) consortium has been allowed to market gas produced by them directly to customers at market price. Prior to this, PMT gas had to be sold to Government of India's nominee viz., GAIL.
- Spot Cargos of LNG being brought at PLL and Hazira LNG Terminals and acceptance of spot LNG at global prices by the Indian market.

Gujarat, with its large industrial base and growing energy needs, is likely to benefit from these developments.

The demand from the industrial segment is growing very rapidly. According to CRISIL, natural gas demand in the State is expected to increase from 54.1 mmstd in 2005 to 94.5 mmstd by 2010. Growth in Natural Gas Demand is attributable to many industries switching over to gas for their fuel and feedstock requirements, expansion of existing projects and setting up of new Industries in Gujarat. This is further being facilitated by the expansion of the gas grid into new markets.

Keeping in view the demand potential for natural gas, the Company has built in additional capacity in its pipeline network to cater to the future demand. The Company will be benefited by transmission of additional volumes due to increased demand and availability on account of increased supply of natural gas in the state.

Regulatory Framework :

The Petroleum and Natural Gas Regulatory Board Act, 2006 (the Act), provides for setting up of a Regulatory Board for regulating refining, processing, storage, transportation, distribution, marketing and sale of petroleum products and natural gas.

The Act inter-alia provides for common carrier principle and open access. The Act has put in place a broad framework for accessing pipelines by various players. The Act also provides for Affiliate Code of Conduct. If an entity is engaged in both marketing of natural gas and laying, building, operating or expanding the pipeline for transportation of natural gas, the Regulator may require such entity to separate the activities of marketing of natural gas and the transportation services.

B. Opportunities and Challenges:

Your Company will strive to take full advantage of the new opportunities arising out of the above developments in the Industry.

The Company owns and operates the second largest natural gas transmission network in India. The Company is the first and only pure natural gas transmission company in India for transmission of natural gas on an "open access" basis, which means that the Company makes gas transmission capacity available to any shipper on nondiscriminatory basis. The unique business model of "Pure Transmission Services and Open Access" adopted by the Company are in line with the spirit of new regulatory regime.

C. Outlook

There is a huge unsatisfied demand for natural gas and the Company believes that the domestic gas/LNG would flow in to meet the unsatisfied demand. The power and fertilizer sectors will drive the growth in demand in the state as well as in the country. The industrial clusters and the domestic distribution networks would also boost the demand for natural gas.

The Company expects that natural gas will continue to be a favoured fuel and feedstock because of economic and environmental advantages over alternative fuels.

D. Segment wise or product wise performance

Being in the service industry, no disclosure is required to be given for classifying segment or product wise performance.

E. Operations and Financial Performance

Total Income has increased from Rs.205.50 Crores to Rs. 267.93 Crores recording increase of 30% as compared to previous year.

Further, Net Worth of the Company has increased from Rs.402.60 Crores to Rs.895.18 Crores as compared to previous year. Gross Block of Assets has increased from Rs.872.73 Crores to Rs. 980.51 Crores and consequently there has been an increase in depreciation from Rs. 65.64 Crores to Rs.79.06 Crores. The company provides depreciation @8.33% on its pipeline assets

F. Risk Management and Internal Control Systems

The company has designed a risk management system for identifying the risks in consultation with M/s KPMG. The Board of Directors of the Company has adopted a Risk Management Policy, reviewed the Risk Register and put in place a framework for reviewing the major risks on regular basis.

Main objectives of the Risk Management Policy include :

- to identify and manage existing and new risks in a planned and coordinated manner with the minimum disruption and cost.
- to develop a "risk culture" that encourages all employees to identify risks and associated opportunities and to respond to them with effective actions.

There are adequate internal systems, controls and checks in place commensurate with the size of the company and nature of its business. The Company has appointed M/s KPMG as Internal Auditors who conduct internal audit for various activities. The reports of Internal Auditors are submitted to the Management and Audit Committee of Directors which further review the adequacy of internal control system.

G. Human Resources

During the year, the Company did not experience any strikes or lockouts. The Company employed 86 employees as on 31st March, 2006.

The Company is committed to recruit and sustain the best talent in the industry. The company believes that training and development of employees is of vital importance to capitalize on emerging business opportunities. During the year all its employees were sent for various training programmes and seminars in line with the Annual Training Calendar to enhance employees' skills.

The Company has managed to achieve substantial growth with a lean organization structure.

Forward Looking Statements :

This Annual Report contains forward-looking statements, which may be identified by words like will, believes, plans, expects, intends, estimates or other words of similar meaning. All statements that address expectations or projections about the future, including but not limited to statements about the company's strategy for growth and market position are forward-looking statements. Forward-looking statements are based on certain assumptions and expectations of future events. The company cannot guarantee that these assumptions and expectations are accurate or will be realized. The company's actual results, performance or achievements could differ materially from those projected in any such forward looking statements. The company assumes no responsibility to amend, modify or revise any forward looking statements, on the basis of any subsequent developments, information or events.