



Gujarat State Petronet Limited

**ANNUAL REPORT
2008 - 2009**

The Energy Lifeline of Gujarat

Report  tion.com

Board of Directors

Shri D Rajagopalan, IAS, **Chairman**
 Shri S Jagadeesan, IAS (w.e.f. 2nd March, 2009)
 Shri P K Pujari, IAS
 Shri Hasmukh Adhia, IAS
 Shri Tapan Ray, IAS
 Shri U Sundararajan (upto 23rd July, 2009)
 Shri Suresh Mathur
 Shri D J Pandian, IAS, *Managing Director*

Shri N J Jhaveri (upto 2nd February 2009)
 Shri N Venkiteswaran (upto 2nd February, 2009)
 Shri M M Srivastava, IAS (upto 2nd March, 2009)

Company Secretary

Ms. Reena Desai

Bankers

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

Statutory Auditors

P Singhvi & Associates,
 Chartered Accountants
 Gandhinagar

Internal Auditors

KPMG, Mumbai

Registered Office

GSPC Bhavan, Behind
 Udyog Bhavan, Sector-11,
 Gandhinagar-382011, Gujarat.

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GUJARAT STATE PETRONET LIMITED

NOTICE

Notice is hereby given that 11th Annual General Meeting of the members of Gujarat State Petronet Limited will be held on Thursday, the 3rd day of December, 2009 at 11.30 a.m. at Assembly Hall, GSPC Bhavan, Behind Udyog Bhavan, Sector-11, Gandhinagar-382011 to transact the following business:

ORDINARY BUSINESS

1. To receive, consider and adopt the Audited Balance Sheet as at March 31, 2009, the Profit and Loss Account for the year ended on that date and the Reports of the Board of Directors and Auditors 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 appoint a Director in place of Shri Tapan Ray, IAS, Director who retires by rotation and being eligible offers himself for re-appointment.
5. 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 resolution as an Ordinary Resolution:

6. "RESOLVED THAT Shri S Jagadeesan, 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,
Reena Desai
Company Secretary

Date: 23rd October, 2009
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 Saturday, 28th November, 2009 to Thursday, 3rd December, 2009 (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 3rd December, 2009 to those members of the Company whose names appear (a) as beneficial owners as at the close of business hours on 27th November, 2009 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 28th November, 2009, after giving effect to all valid share transfers in physical form received on or before 27th November, 2009.
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, Plot No 17-24, Vittal Rao Nagar, Madhapur, Hyderabad-500 081, in case of shares held in physical form on or before 27th November, 2009. 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 details regarding the name and address of the branch of the bank, MICR code of the branch, type of account 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 appointment / re-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. 6

Shri S Jagadeesan, IAS was appointed as an Additional Director of the Company by the Board of Directors with effect from 2nd March, 2009 in accordance with the provisions of Article 141(a) and 148 of Articles of Association. 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 Shri S Jagadeesan, IAS for appointment as a Director of the Company.

The Board recommends the appointment of Shri S Jagadeesan, IAS as a Director of the Company in accordance with the provisions of Article 141(a) of Articles of Association.

No other director except Shri S Jagadeesan, 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,
Reena Desai
Company Secretary

Date: 23rd October, 2009
Place: Gandhinagar

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



DIRECTORS' REPORT

Directors' Report

To,

The Members

Gujarat State Petronet Limited

The Directors have pleasure in presenting 11th Annual Report and audited accounts of the Company for the year ended 31st March, 2009.

Mehsana – Bhatinda (approx. 900 Kms), Bhatinda – Jammu – Srinagar (approx. 770 Kms) and Surat – Paradip Pipeline (approx. 1600 Kms). These projects may be offered for bidding by PNGRB during the current year.

- Enhanced strategic equity stake in GSPC Gas Company Limited, which is developing City Gas Distribution Network in the State of Gujarat.

FINANCIAL HIGHLIGHTS

| | (Rs. in crore) | |
|---------------------------------|----------------|---------------|
| Particulars | 2007-08 | 2008-09 |
| Total Income | 447.28 | 511.81 |
| Manpower Expenses | 7.63 | 10.94 |
| Gas Transmission Charges | 1.45 | 3.58 |
| Connectivity Charges | 11.22 | 9.08 |
| Admin, O&M & other Expenses | 33.12 | 38.97 |
| Total Operating Expenses | 53.42 | 62.57 |
| Gross Margin | 393.86 | 449.24 |
| Interest (after capitalization) | 81.51 | 86.99 |
| Depreciation | 163.22 | 170.49 |
| Prior Period Expenses | 0.02 | (0.41) |
| Profit Before Tax | 149.15 | 191.35 |
| Tax including Deferred Tax | 49.23 | 67.94 |
| Profit After Tax | 99.92 | 123.41 |

MAJOR ACHIEVEMENTS

The year was marked by several accomplishments, both in terms of physical and financial performance. Your Company has maintained an upward trend in all performance parameters as follows,

- Total Income increased from Rs. Rs.447.28 crores in previous year to Rs.511.81 crores, recording increase of 14%.
- EBIDTA increased from Rs. 396.85 crores in previous year to Rs.452.23 crores, recording increase of 14%.
- PAT increased from Rs.99.92 crores in previous year to Rs.123.41 crores, recording increase of 24%.
- 100% pipeline grid availability and “accident free” year of operations.
- Company is currently carrying 31 MMSCMD of gas which is 50% more than peak volumes achieved previously.
- PNGRB has initiated process of public consultation by inviting comment on GSPL request to grant authorization to GSPL existing pipelines.
- The Company has acquired equity stake in Krishna Godavari Gas Network Limited(KGGNL). KGGNL is incorporated for developing gas transmission and distribution network in the State of Andhra Pradesh.
- The Company has filed Expression of Interest (EOI) for development of cross country gas transmission pipeline network from Mallavaram – Bhilwara (approx. 1400 Kms),

CAPITAL

During the year, paid up share capital of the Company has increased from Rs.562.01 crore to Rs.562.11 crore on account of allotment of shares to eligible employees under the ESOP Scheme.

DIVIDEND

Keeping in view the fund requirements for expansion projects, the Board of Directors of the Company is pleased to recommend dividend @ Re. 0.75 (i.e. 7.5 %) per equity share of the face value of Rs. 10 each for the Financial Year 2008-09.

GAS TRANSMISSION SERVICES

The Company has signed Firm GTAs for transporting 31.99 MMSCMD of gas to various customers and interruptible / short term GTA for 11.17 MMSCMD (Previous year : Firm GTAs - 29.27 MMSCMD & interruptible GTAs – 7.53 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 gas grid has been designed as per the highest international standards with inbuilt flexibility to cater to varying loads.

The gas grid map is enclosed herewith as Annexure-IV.

Projects Commissioned

Since last Directors' Report, the Company has successfully commissioned various pipeline projects like Bhadbhut- Gana, Rajkot-Jamnagar, Padmala Halol, Suzlon Spur, etc.

The current span of the Grid under operation is approx. 1420 kms and gas is flowing from Hazira / Dahej / Vapi to various industries and City Gas Distribution Networks located in Surat, Bharuch, Baroda, Anand, Ahmedabad, Gandhinagar, Sabarkantha, Kalol, Mehsana, Morbi, Surendranagar, Rajkot, Jamnagar, Navsari, Vapi and Valsad districts.

Projects on Hand

Your Directors are pleased to inform that the Company continues to develop pipeline infrastructure in the State of Gujarat. The following pipeline sections are being developed on priority basis:-

- Gana – Hadala Pipeline Project (30" x 85 kms)
- Darod – Jafrabad Pipeline Project (24" x 220 kms)
- Morbi – Mundra Pipeline Project (18" x 130 kms)
- Olpad – GESC, Utran Pipeline Project (12" x 17 kms)

Further, the Company also continues to develop several spur lines to connect Industrial clusters and medium size customers along the pipeline network, which include regions like Tarapur, Vilayat, Dahej, Silvasa, Bhavnagar, Amreli, Veraval, Gandhidham, Anjar, Mundra, Jafrabad region.

Future Plans

The Company is working on future expansion projects. The Company has participated in the bidding for cross country gas transmission pipeline and CGD project offered for bidding by PNGRB. Above initiations reflect Company's long term vision of growth through expansion of business within and outside Gujarat.

Operation & Maintenances Activities

The Company has transported 5428.48 MMSCM (Previous year: 6144.91 MMSCM) of gas during the Financial Year under review.

To safeguard pipeline assets and optimize efficiency of the pipeline system, the Company is giving utmost importance to efficient operations and preventive maintenance.

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 to have utmost safety for the facilities, local community and the environment. Further, Disaster Management plans are reviewed and updated regularly.

The Company is ensuring effectiveness of HSE Management Systems through training, regular audits and review mechanism. HSE is everyone's responsibility and each employee is encouraged to act in accordance with HSE policy. All contractors are required to adhere to our HSE policies while executing the Company work.

The Company has already obtained ISO 9001/2000 certification for its O&M activities. Further the Company has obtained ISO-14001 and OHSAS-18001 certification during the year under review.

FIXED DEPOSITS

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

CORPORATE SOCIAL RESPONSIBILITY

During the year, the Company focused on CSR initiatives. This mainly involved organizing blood donation camps, promoting use of environmentally friendly fuel, creating

awareness for conservation of energy, promotion of educational activities, etc.

DIRECTORS

Since last Directors Report, Shri M M Srivastava, IAS, Shri N Venketiswaran, Shri N J Jhaveri and Shri U Sundararajan ceased to be the Directors of the Company. Your Directors wish to place on record appreciation of the services rendered by them as Directors of the Company.

Shri S Jagadeesan, IAS, was appointed as Additional Director to hold office till the ensuing Annual General Meeting. It is proposed to regularize his appointment in the 11th Annual General Meeting.

Pursuant to the provisions of section 256 of the Companies Act, 1956 Shri P K Pujari, IAS and Shri Tapan Ray, IAS shall retire by rotation at the ensuing Annual General Meeting and being eligible, offer themselves 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 are given in the Corporate Governance Report forming part of the Directors' Report.

STATUTORY AND C&AG AUDIT

Your Company being a Government Company, the Statutory Auditors are appointed by the Comptroller & Auditor General of India (C&AG). Accordingly, C&AG has appointed M/s P Singhvi & Associates, Chartered Accountants, Gandhinagar as Statutory Auditors of the Company for the Financial Year 2008-09.

The Company has received comments of Comptroller and Auditor General of India (C&AG) on the accounts of the Company for the Financial Year 2008-09. The Report of C&AG and Management Explanation to the comments of C&AG forms part of the Directors' Report.

AUDIT COMMITTEE

Audit Committee of Directors of the Company at its meeting held on 27th June, 2009 approved the Annual Accounts for the financial year ended on 31st March, 2009 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,

- in the preparation of the annual accounts, the applicable accounting standards had been followed along with proper explanation relating to material departures.
- 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 (Annexure-I) on the Management Discussion and Analysis, which forms part of the Directors' Report.

CORPORATE GOVERNANCE

Corporate Governance denotes the framework for companies to conduct their business in an ethical and responsible manner. It is determined primarily by the approach that a company has towards its stakeholders as well as to the environment in which it operates. It stems from the belief and realization that corporate citizenship has a set of responsibilities, which must be fulfilled for a company to progress and succeed over the long term.

The Company believes that only good governance can deliver continuous good business performance. A Report on Corporate Governance as required under clause 49 of the listing agreement is incorporated as a part of this 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 to enable them to participate in future growth and financial success of the Company. Each such option has conferred 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 this Directors' Report.

PARTICULARS OF EMPLOYEES

During the year 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. The Company has developed (PAMS) software with the help of GIPL – SECON.

Foreign Exchange Earnings & Outgo

Foreign Exchange Earnings - Nil

Foreign Exchange Outgo - Rs. 11,520,619/-

ACKNOWLEDGEMENTS

The Directors appreciate the continued support received from the valued customers and look forward to this mutually supportive relationship in future.

The Directors place on record their 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 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 Network in a professional manner.

The Directors place on record their sincere thanks to the Shareholders and Lenders for their valuable support, trust and confidence in the Company.

For and on behalf of Board of Directors

Date : 23rd October, 2009

Place: Gandhinagar

D Rajagopalan, IAS

Chairman

Annexure - I

Management Discussion and Analysis forming part of the Directors' Report for the year ended on 31st March, 2009

A. INDUSTRY STRUCTURE AND DEVELOPMENTS :

India is currently world's fourth largest economy in purchasing power parity terms and fifth largest energy consumer with its GDP of USD 1.23 trillion. The rapid growth of the Indian Economy has greatly contributed to the development of the Indian Energy Sector as a whole and provided major triggers for the growth of the gas sector in particular.

The demand for natural gas is increasing due to various reasons like,

- The steep rise in spot price of Oil in each year between 2003 and 2008 when it touched the level of @ \$147 per barrel during mid July 2008. After reaching the July 2008 high mark, oil prices fell sharply due to global recession. But the oil prices have rebound from their early 2009 level.
- Implementation of national or regional plans by Governments to reduce greenhouse gas emissions.

Hence more and more consumers are opting for natural gas due to its inherent environment friendly nature, greater efficiency and cost effectiveness over other fossil fuels. As a result, natural gas remains a key energy source in the industrial sector as well as for electricity generation.

The world natural gas transmission industry is primarily being driven by the level of demand for natural gas and other fossil fuels in regions that lack energy resources and assets. The demand for natural gas is a huge impetus for world pipeline industry as it will require new Pipelines and increased Pipeline Transmission Capacities.

As per EIA International Energy Outlook Report 2009, Global Natural Gas consumption is estimated to increase from about 104 trillion cubic feet in 2006 to 153 trillion cubic feet in 2030 @ 1.6% per year.

In World Gas Sector, the Asian Gas Markets are leading the growth, with specific investment focus on countries like India and China. The demand for natural gas in India has already exceeded supply. As per the Report of the Working Group on Petroleum & Natural Gas Sector for the XI Plan, demand for natural gas in India is estimated to increase from 179 million cubic meter per day in 2007-08 to 280 million cubic meter per day in the year 2011-12.

To cope up with the growing demand of natural gas, Government of India is considering and implementing no. of schemes including both LNG and Pipeline Projects. Several Gas Pipelines are planned for development all over world in next few years including cross country pipelines like Iran-Pakistan-India Pipeline, Myanmar India Pipeline, Trans-Afghan Pipeline, Central Asia Gas Pipeline, Nabucco Gas Pipeline etc.

Major developments in the natural gas sector in India are summarized below,

- Natural gas production from Reliance Industries Ltd's (RIL) Krishna Godavari (KG) fields has commenced during the current year.
- Expansion of capacity of LNG Terminals by Petronet LNG and Hazira LNG has been completed.
- Commencement of work for setting up LNG Terminal in Kochi.
- LNG processing Plant at Dabhol would also be commencing during the current year.
- PNGRB has completed two rounds of bidding for CGD (covering around 13 cities) which is likely to be followed by many more cities.
- GSPC group has started development of LNG terminal at Mundra through GSPC LNG Ltd, a special purpose vehicle (SPV) formed by the joint venture of Gujarat State Petroleum Corporation Ltd (GSPC) and the Adani Group.

Gujarat, with its large industrial base, growing energy needs and proactive government approach, has emerged as a Vibrant Hub for gas industry.

As per CRISIL's report, natural gas demand in the State is expected to increase from 54.1 mmscmd in 2005 to 94.5 mmscmd by 2010. This is mainly due to the fact that many industries are switching over to gas for their fuel and feedstock requirements. The expansion of the gas grid into new markets has resulted in substantial increase in the demand for gas through expansion of capacities of existing projects, setting up of new Industries and development of CGD networks in Gujarat.

Keeping in view the demand potential of 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 available on account of increase in supply of natural gas in the State.

B. REGULATORY FRAMEWORK :

Regulatory Board under the Petroleum and Natural Gas Regulatory Board Act, 2006 (the Act), is set up and the Board has finalized the regulation for gas transmission and distribution business. It has granted authorization to several CGDs and is in the process of granting authorization to GSPL. Notice for public consultation in this regard has already been issued.

C. OPPORTUNITIES AND CHALLENGES :

With production of oil and gas moving to remote areas, away from consumption centers, there has been a surge in demand for greater pipeline capacity to bring the supply to market. Further noticeable increase in development activities for setting up cross country transmission pipelines / City Gas Distribution (CGD) Networks in & across various States in India is major



boost for the development of the Natural Gas Transmission Companies.

However your Company believes that lower operational cost of transportation per unit of gas, feasibility to transport higher capacities and oil & gas prices will remain the deciding factors for expansion and growth of Natural Gas Transmission Companies.

Your Company is well poised to take full advantage of the new opportunities arising out of the developments happening in the gas industry.

The Company owns and operates one of the largest natural gas transmission networks in India. The Company is the first 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 a 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.

Further the Company has also enhanced its equity investment in GSPC Gas Company Ltd and Sabarmati Gas Limited which are developing CGD Network in the State of Gujarat.

D. OUTLOOK :

Your Company believes that the main driver for the development of the gas transmission network shall be the availability of the natural gas/R-LNG in required volumes against the unsatisfied demand.

The commencement of production of natural gas from Reliance Industries Ltd's (RIL) Krishna Godavari (KG) fields from April 2009 and potential development of discoveries announced by GSPC and ONGC will provide a major boost to the domestic oil and gas sector and consequently to gas pipeline operators.

The power and fertilizer sectors along with the domestic distribution networks will keep driving the growth in demand in the State as well as in the country.

The Company believes that natural gas will continue to be a favoured fuel and feedstock to industry as well as to domestic and transport sectors due to its economic and environmental advantages over alternative fuels.

E. SEGMENT WISE OR PRODUCT WISE PERFORMANCE :

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

F. OPERATIONS AND FINANCIAL PERFORMANCE :

The Company has managed to achieve fast track growth in a short period of time with a lean manpower strength on account of its well thought out strategy of developing major pipeline projects on EPC (Engineering, Procurement and Construction) Model. EPC Model adopted by the Company envisages development of projects at a lump sum fixed price within a given time frame.

The Net Worth of the Company has increased from Rs.

1134.62 crore to Rs. 1211.86 crore as compared to previous year. Gross Block of Assets has increased from Rs. Rs.2019.05 crores to Rs. 2421.18 crores and consequently there has been an increase in depreciation from Rs. 163.22 crore to Rs.170.49 crore.

There was no deviation in the purpose for which the funds have been raised through preferential allotment to IFC in the year 2007 and the utilization of the funds."

G. RISK MANAGEMENT AND INTERNAL CONTROL SYSTEMS :

The Company has a well-defined risk management framework. 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. The Company is focusing on development of a "risk culture" that encourages all employees to identify risks and associated opportunities and to respond to them with effective actions.

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 reviews the adequacy of internal control system.

H. HUMAN RESOURCES :

During the year, the Company did not experience any strikes or lockouts. The Company employed 152 employees as on 31st March, 2009 (Previous year 140 employees).

The Company believes that training and personal development is of vital importance to create a climate where people maximize their technical skills and inner potential which can help the Company in capitalizing the emerging business opportunities through their involvement. During the year, employees were sent for various training programmes and seminars in line with the Annual Training Calendar to enhance employee skills/knowledge.

The Company has in place an attractive policy of performance linked incentive to encourage and reward employee performance.

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 can not guarantee that the 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.

Annexure - II

Corporate Governance Report

1. COMPANY'S PHILOSOPHY ON CORPORATE GOVERNANCE

Gujarat State Petronet Limited (GSPL) is committed to do business in an efficient, responsible, honest and ethical manner. The core values of the Company's governance process include independence, integrity, accountability, transparency, responsibility and fairness. The Company is committed to transparency in all its dealings and places high emphasis on business ethics. The basic philosophy of Corporate Governance in the Company is to achieve business excellence and dedication to increase long-term shareholders' value.

2. BOARD OF DIRECTORS

A. Composition of the Board:-

The present Board structure of the Company maintains an optimum mix of Executive, Non Executive Directors. However, due to resignation of two Independent Directors viz. Shri N. J. Jhaveri and Shri N. Venkiteswaran, w.e.f. 2nd February, 2009, the proportion of Independent Directors has been reduced to one-fourth of the total strength of the Board. Except this, the Composition of the Board is in conformity with the listing requirements. The Company proposes to appoint Independent Directors in place of the outgoing Independent Directors.

The detailed composition of the Board as on 31st March 2009 with category and the no. of directorship in companies and membership/chairmanship in the committees of the Directors are given below:-

| Sr No. | Name of the Director(s) | Position/Category ++ | * Number of Directorship as on 31/03/2009 including GSPL | ** Number of Membership / Chairmanship in Board Committee as on 31/03/2009 including GSPL | |
|--------|--------------------------|--|--|---|--------------|
| | | | | Membership+ | Chairmanship |
| 1 | Shri D Rajagopalan, IAS | Non Executive Chairman (GSPC ¹ Nominee) | 5 | Nil | Nil |
| 2 | Shri S Jagadeesan, IAS | Non Executive Director (GSPC ¹ Nominee) | 15 | 1 | 3 |
| 3 | Shri P K Pujari, IAS | Non Executive Director (GSPC ¹ Nominee) | 6 | 2 | Nil |
| 4 | Shri Hasmukh Adhia, IAS | Non Executive Director (GSPC ¹ Nominee) | 4 | 2 | Nil |
| 5 | Shri Tapan Ray, IAS | Non Executive Director (GSPC ¹ Nominee) | 12 | 3 | 1 |
| 6 | Shri U.Sundararajan, IAS | Independent Director | 6 | 1 | 3 |
| 7 | Shri Suresh Mathur | Independent Director | 5 | 2 | 1 |
| 8 | Shri D J Pandian, IAS | Managing Director (GSPC ¹ Nominee) | 11 | 2 | Nil |

1. Gujarat State Petroleum Corporation Limited

+ Membership excludes Chairmanship

* Excluding directorship held in Private Limited Companies, Foreign Companies and Section 25 Companies.

** Indicates Membership/Chairmanship in the Audit Committee and Shareholders/Investors Grievance Committee (excluding Private Limited Companies, Foreign Companies and Section 25 Companies).

++ None of the Directors of the Company are related inter-se.

B. Board Meetings held during the year 2008-2009:-

During the year 2008-2009, the Board met 5 (Five) times on 25th April 2008, 27th June 2008, 25th July 2008, 24th October 2008 and 2nd February 2009.