

ANNUAL REPORT 2010-2011

CLEAN ENERGY



Gujarat State Petronet Limited
The Energy Lifeline of Gujarat

Board of Directors

Shri A K Joti, IAS	Chairman
Shri D J Pandian, IAS	
Shri Atanu Chakraborty, IAS	
Shri Suresh Mathur	
Shri J K Jain	
Shri R Vaidyanathan	
Shri N K Mitra	
Shri Tapan Ray, IAS	Managing Director

Company Secretary

Ms. Reena Desai

Bankers

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

Contents

1. Board of Directors.....	02
2. Quality, Health, Safety and Environment Policy	04
3. Notice	05
4. Directors' Report.....	07
5. Management Discussion and Analysis.....	10
6. Corporate Governance Report	14
7. CEO & CFO Certification.....	22
8. Corporate Governance Compliance Certificate	23
9. Disclosure regarding GSPL Employee Stock Option	24
10. GSPL Gas Grid Map	30
11. Auditors' Report	33
12. Balance Sheet.....	36
13. Profit & Loss Account.....	37
14. Schedules forming part of the Accounts	38
15. Significant Accounting Policies and Notes on Accounts...	47
16. Cash Flow Statement.....	57
17. Attendance Slip and Proxy Form.....	63

Board of Directors



Shri A K Joti, IAS, *Chairman*

Shri A K Joti, IAS has Graduated in Science from Delhi University and has completed his Masters in Chemistry from Delhi University. Shri A K Joti, IAS has earlier worked as Managing Director, Sardar Sarovar Narmada Nigam Ltd. He has wide experience of over 37 years in various departments including Revenue, Finance, Home, Water Supply and Education Departments. He has also served as Chairman of Kandla Port Trust. He is also Chairman of GNFC, GSFC, GSPC and GACL. Presently he is Chief Secretary, Government of Gujarat.



Shri D J Pandian, IAS, *Non Executive Director*

Shri D J Pandian, IAS holds degree in Master of Business Administration from Madras University. He is a senior IAS officer having administrative and corporate experience spanning more than 28 years. Shri D J Pandian, IAS has worked on deputation with the World Bank in Washington, D.C. He was Director, External Commercial Borrowing, Ministry of Finance, Government of India from 1995 to 1997. In addition, Shri D J Pandian, IAS has also held various appointments in the Government of Gujarat. He previously headed Gujarat Lease Finance Limited from 1993 until 1994. Shri D J Pandian, IAS was Managing Director of GSPCL as well as GSPL from 2004 to 2009. Presently he is Principal Secretary, Energy & Petrochemicals Department, Government of Gujarat.



Shri Atanu Chakraborty, IAS, *Non Executive Director*

Shri Atanu Chakraborty, IAS is BE (Electronics and Communication) and has also done Post Graduate Diploma in Business Finance and MBA from U.K. Shri Atanu Chakraborty, IAS has earlier worked as Managing Director of Gujarat State Financial Services Ltd., Drinking Water & Infrastructure, Gujarat and State Civil Supplies Corporation Ltd., Gujarat. Shri Atanu Chakraborty, IAS has a wide experience of over 23 years in various Government Departments including Revenue, Finance, Home, Water Resources and Education Departments. Presently he is Managing Director of Gujarat State Fertilizers & Chemicals Limited. Prior to that he served as Principal Secretary, Finance Department (Economic Affairs), Government of Gujarat.



Shri Suresh Mathur, *Independent Director*

Shri Suresh Mathur is a Chartered Accountant from the Institute of Chartered Accountants of India. He has experience spanning more than 45 years in the Oil Industry. He has handled varied assignments in the fields of Finance, Marketing, Operations, Strategic Planning, International Oil Trading and Project Execution. He was the Managing Director of Petronet LNG Limited from 1998 to 2005. He was also Director (Finance) of Indian Oil Corporation from 1994 to 1998. He was also Advisor to the Essar Group.



Shri R Vaidyanathan, *Independent Director*

Shri R Vaidyanathan is a Science Graduate from the Loyola College, Madras and has done Masters from the Indian Statistical Institute, Calcutta and has also obtained Fellow in Management (Doctorate) from the Indian Institute of Management, Calcutta. He is Professor of Finance and Control at the IIM, Bangalore and UTI Chair Professor in the area of Capital Markets. He was also a visiting Fulbright Fellow at the Georgia State University at Atlanta and International Insurance Foundation at Washington D. C. during 2003 and studied the Pension Systems in the USA. He has been appointed as a Trustee for the New Pension System by the Pension Fund Regulatory and Development Authority of India. He is known for his commendable contributions in the areas of Corporate Finance, Risk Management, Pensions, etc.



Shri J K Jain, *Independent Director*

Shri J K Jain is a Chartered Accountant and has over 31 years of experience as a Finance Executive both in Private and Public Sector. He was Director (Finance) in GAIL from 1996 to 2005. He also held the additional charge of the Chairman and Managing Director of GAIL in the year 2001. Shri J K Jain has extensive experience in the areas of Finance, Investment, Funding, Compliance, Corporate Governance, Risk Management etc.



Shri N K Mitra, *Independent Director*

Shri N K Mitra has done B.Sc. (Honours) and Petroleum Engineering from Indian School of Mines, Dhanbad. Shri N K Mitra has served the upstream oil & gas industry in this part of the world for more than 37 years. Shri N K Mitra was associated with ONGC from 1973 and was holding senior positions like Chief Engineer (Production), General Manager (Production) and Executive Director (Offshore). Shri N K Mitra's contribution in managing offshore infrastructures, logistics, inputs and manpower, early exploitation of oil & gas from small, marginal and deep water fields are well acknowledged in industry circle. Shri N K Mitra has superannuated as the Director (Offshore) as well as Director-I/c Marketing of Oil & Natural Gas Corporation Ltd. He has been conferred best 'Offshore Oil & Gas Professional from India' by IORS and the longest serving 'distinguished SPE member' by Society of Petroleum Engineers.



Shri Tapan Ray, IAS, *Managing Director*

Shri Tapan Ray, IAS holds Degree in Mechanical Engineering from Indian Institute of Technology, Delhi, Post Graduate in Public Policy from Woodrow Wilson School, Princeton University USA, Master of Public Administration from Maxwell School, Syracuse University, USA and Degree in Law with various Diplomas. He is a senior IAS officer having wide administrative and corporate experience of more than 30 years. He has also served as Principal Secretary, Finance Department, Government of Gujarat from June 2006 to November 2009. Shri Tapan Ray, IAS, is appointed as Managing Director of GSPL effective from November 2009 and is looking after the entire GSPC Group.

QUALITY, HEALTH, SAFETY AND ENVIRONMENT POLICY

GSPL commits a high level of QHSE performance to ensure effective and efficient management of Operation and Maintenance of Natural Gas Grid with continual improvements so as to provide reliable natural gas transmission in a safe working environment.

GSPL is committed to:

- Maintain an organizational culture of Health, Safety & Environmental excellence by conducting its business in a manner that will promote consistent development.
- Safe work, resource conservation, waste management and emergency response measures for continual improvement in QHSE performance.
- Design, construct, operate & maintain its facilities while assuring the best material and service quality and operate in a way that mitigates and minimizes risks and hazards.
- Prevention of ill-health, injuries and pollution by adopting best practices, carrying out periodic risk assessments, audits, reviews, inspections and providing awareness to employees and concerned stakeholders.
- Comply with legal, regulatory and other requirements applicable for natural gas transportation business as a responsible corporate.
- Provide appropriate resources and PPEs to its employees.
- Focusing on teamwork and customer satisfaction, adopting new technologies in O&M activities, maintaining availability of Gas Grid to meet customer requirements and reviewing of process and performance of QMS on regular basis.
- Encourage associates and stakeholders to demonstrate the same level of commitment for continuous improvement in HSE performance.
- Ensure compliance with the policy through a process of training and competence, review and audit.
- Communicate openly with Government agencies, employees, contractors and the general public on effective safety and environmental management issues.
- Delegate power to employees to implement the company's policy on health, safety, environment and loss control.

NOTICE

Notice is hereby given that 13th Annual General Meeting of the members of Gujarat State Petronet Limited will be held on Friday, the 23rd day of September, 2011 at 4.00 p.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 31st March, 2011, 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 D J Pandian, IAS who retires by rotation and being eligible offers himself for re-appointment.
4. To appoint a Director in place of Shri A K Joti, IAS 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 the provisions of Section 224 (8) (aa) of the Companies Act, 1956.

By order of the Board of Directors

Reena Desai

Company Secretary

Date: 9th August, 2011

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. 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.
5. The Register of Members and Share Transfer Books of the Company shall remain closed from Saturday, 17th September, 2011 to Friday, 23rd September, 2011 (both days inclusive) for the purpose of payment of dividend. The dividend, if declared at the ensuing Annual General Meeting shall be paid, on or after 23rd September, 2011 to those members of the Company whose names appear (a) as beneficial owners as at the close of business hours on 16th September, 2011 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 17th September, 2011, after giving effect to all valid share transfers in physical form received on or before 16th September, 2011.
6. All transfer deeds, requests for change of address, bank particulars/mandates/ECS mandates, PAN should be lodged with the Company's Registrar and Share Transfer Agent, M/s 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 16th September, 2011. The above details in respect of the shares held in electronic form should be sent to the respective Depository Participants by the members well in time.



7. Members are requested to furnish the Registrar / Depository Participants, 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 National Electronic Clearing Services (NECS). In the absence of NECS facility with the member's bank, the bank account details will be printed on the dividend warrants, if available.
8. The Securities and Exchange Board of India has mandated the submission of Permanent Account by every participant in securities market. Members holding shares in electronic mode are, therefore, requested to submit the PAN details to their Depository Participants with whom they are maintaining their demat accounts. Members holding shares in physical form can submit their PAN details to our Registrar & Share Transfer Agent M/s Karvy Computershare Private Limited.
9. As stipulated under Clause 49 of the Listing Agreement with Stock Exchanges, profile of Directors seeking re-appointment / appointment is provided under the Section "Board of Directors" of the Corporate Governance Report, which forms an integral part of this Annual Report.

DIRECTORS' REPORT

Directors' Report

To,
The Members
Gujarat State Petronet Limited

The Directors have pleasure in presenting the 13th Annual Report and Audited Accounts of the Company for the year ended 31st March, 2011.

FINANCIAL HIGHLIGHTS

	(Rs. in Crore)	
Particulars	2009-10	2010-11
Total Income	1016.72	1068.15
Manpower Expenses	9.94	15.29
Gas Transmission Charges	0.36	NIL
Admin, O&M & other Expenses	49.14	62.10
Miscellaneous Expenditure Written Off	2.79	0.10
Total Expenses	62.23	77.49
PBDIT	954.49	990.67
Interest (after Capitalization)	93.83	96.06
Depreciation	236.49	153.30
Prior Period Adjustments	(2.72)	23.70
Profit Before Tax	626.89	765.00
Tax including Deferred Tax	213.12	258.62
Profit After Tax	413.77	506.38

MAJOR ACHIEVEMENTS

Your Company has maintained an upward trend in all performance parameters. The physical and financial performance of the Company is summarized as follows:

- Total Income increased from Rs. 1016.72 crore in previous year to Rs.1068.15 crore, recording an increase of 5.06%.
- PBDIT increased from Rs. 954.49 crore in previous year to Rs. 990.67 crore, recording an increase of 3.80%.
- PAT increased from Rs. 413.77 crore in previous year to Rs. 506.38 crore, recording an increase of 22.38%.
- 99.90% pipeline grid availability and “accident free” year of operations.
- During the year, the Company transported an average of 35.64 mmcmd of gas.
- Letters of Authorization have been awarded by Petroleum and Natural Gas Regulatory Board to the GSPL led consortium (BPCL, HPCL and IOCL as other consortium members) for developing three cross-country natural gas transmission pipelines, viz, Mallavaram - Vijapur - Bhilwara (approx 1585 kms) pipeline, Mehsana - Bhatinda (approx 1670 kms) pipeline and Bhatinda - Jammu - Srinagar (approx 740 kms) pipeline.

CAPITAL

During the year, paid up share capital of the Company has increased from Rs. 562.45 crore to Rs. 562.58 crore on account of allotment of shares to eligible employees under the ESOP - 2005.

DIVIDEND

Keeping in view the fund requirements for expansion projects, the Board of Directors of the Company is pleased to recommend dividend @ Re. 1 (i.e. 10%) per equity share of the face value of Rs. 10 each for the Financial Year 2010-11.

GAS TRANSMISSION SERVICES

The Company has signed firm GTAs for transporting 32.76 mmcmd of gas to various customers and interruptible / short term GTAs for 6.16 mmcmd (Previous year: firm GTAs 35.46 mmcmd and interruptible GTAs 6.49 mmcmd).

GAS GRID PROJECT

Government of Gujarat has always played a pro-active role in the development of the energy value chain in the State. Gujarat is the first State to plan and execute a State-wide Gas Grid on an open access principle.

The pipeline grid has been designed as per the highest international standards with inbuilt flexibility to cater to varying loads.

The pipeline grid map of GSPL for Gujarat is enclosed as Annexure - V.

The map showing the proposed cross-country natural gas transmission pipelines to be implemented by GSPL is enclosed as Annexure - VI.

Projects commissioned

During the year, the Company has successfully completed commissioning of approx 250 kms of pipelines under various pipeline projects namely: Darod - Jafrabad, various spurs connecting customers like Sumangal Glass, Nirma, GACL Dahej Connectivity (Roxul), IOCL, IPCL, Ajanta, EOL (Refinery), Met Trade.

Current grid operations account for approx 1874 kms. Gas is flowing from Hazira / Dahej / Vapi to various industries and City Gas Distribution (“CGD”) Networks located in various districts of Gujarat including Surat, Bharuch, Baroda, Anand, Ahmedabad, Gandhinagar, Sabarkantha, Bhavnagar, Amreli, Mehsana, Surendranagar, Rajkot, Jamnagar, Navsari, Kutchh, Panchmahal, Kheda, Valsad.

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:

- Tana - Amreli pipeline (approx 75 kms)
- Mehsana - Palanpur pipeline (approx 70 kms)
- Nano connectivity pipeline (approx 37 kms)
- Sterling SEZ pipeline (approx 26 kms)
- Spurline to Botad (approx 24 kms)

Further, the Company continues to develop several other trunk and spurlines to connect new industrial clusters and medium sized customers along the pipeline network, which include regions like Bhavnagar, Sikka, Vilayat, Dahej and Amreli.

WIND POWER PROJECT

Your Company being committed to promote clean and green energy has successfully commissioned wind power project of 52.5 MW in the areas of Maliya - Miyana, Rajkot and Gorsar - Adodar, Porbandar.

FUTURE PLANS

The Company is working on future expansion projects. The Company is planning to develop pipeline infrastructure of approx 1102 kms in the next two years. The Company is also participating in the bids invited by PNGRB for the Surat - Paradip pipeline (approx 1500 kms). Above initiations reflect Company's long term vision of growth through expansion of business within and outside Gujarat.

OPERATION & MAINTENANCE ACTIVITIES

The Company has transported 13009 mm scm of gas during the Financial Year 2010 - 11 (Previous year: 11673 mm scm).

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, in order to fulfill its commitment towards health, safety and environment, has taken active steps towards establishment of Safety Management Systems (SMS). Environment and safety features have been integrated into design, construction and O&M operations of the Company for ensuring utmost safety for the facilities, local community and the environment. The same is also being reflected in the QHSE policy of the Company. The concept of asset integrity for enhancement of SMS is being incorporated. The Company is expanding and managing its operations in a manner which is safe and environmentally sustainable.

For developing effectiveness of Safety Management Systems, training of all employees across the Company is ensured through various training programs. The same is being monitored through internal audit teams and delegation of safety management upto the local level. Further, emergency management plans are being reviewed and updated regularly. Moreover, contractors' adherence to Company's QHSE policy is also assured through regular site visits and external audits. Contract employees are subjected to training programs like safety induction, defensive driving,

Personal Protective Equipment Policy etc. Regular site visits ensure the enhancement of behavioral aspects of the contract employees and enhancement of safety culture which has also ensured the safe commissioning of the new projects. To achieve the highest quality of safety systems, the Company has moved towards international recognition with the corporate membership of British Safety Council. The Company is proud to maintain its target of 'zero accident' year with full commitment of its employees and management. The Company won International Safety award by the British Safety Council based on its performance of zero accident in 2010.

The Company is already certified to Integrated Management Systems (QMS, EMS & OHSAS). Effectiveness of these certifications is being assured through planned audits of the system. Continuous improvement is visible in various O&M systems. Predictive maintenance schedules are being adhered to with the updating of records. Emergency response plans are updated as a part of routine function and their respective effectiveness is verified by regular mock drills as per intervals identified by respective work bases.

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, mainly for promoting use of environment friendly fuel, creating awareness for conservation of energy, promotion of educational activities, etc.

DIRECTORS

Pursuant to the provisions of Section 256 of the Companies Act, 1956, Shri D J Pandian, IAS and Shri A K Joti, IAS Directors of the Company shall retire by rotation at the ensuing Annual General Meeting and being eligible, offers themselves for reappointment.

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 details regarding the companies in which they hold directorship, membership/ chairmanship of committees of the Board are given in the Corporate Governance Report forming part of this Directors' Report.

STATUTORY AND C&AG AUDIT

As your Company is a Government Company, the Statutory Auditors are appointed by the Comptroller & Auditor General of India (C&AG). Accordingly, the C&AG has appointed M/s P Singhvi & Associates, Chartered Accountants as Statutory Auditors of the Company for the Financial Year 2010-11.

C&AG has given NIL Comment Report for the Financial Year 2010-11. The NIL Comment Report is enclosed as Annexure - VII.