



**GAIL (India) Limited**

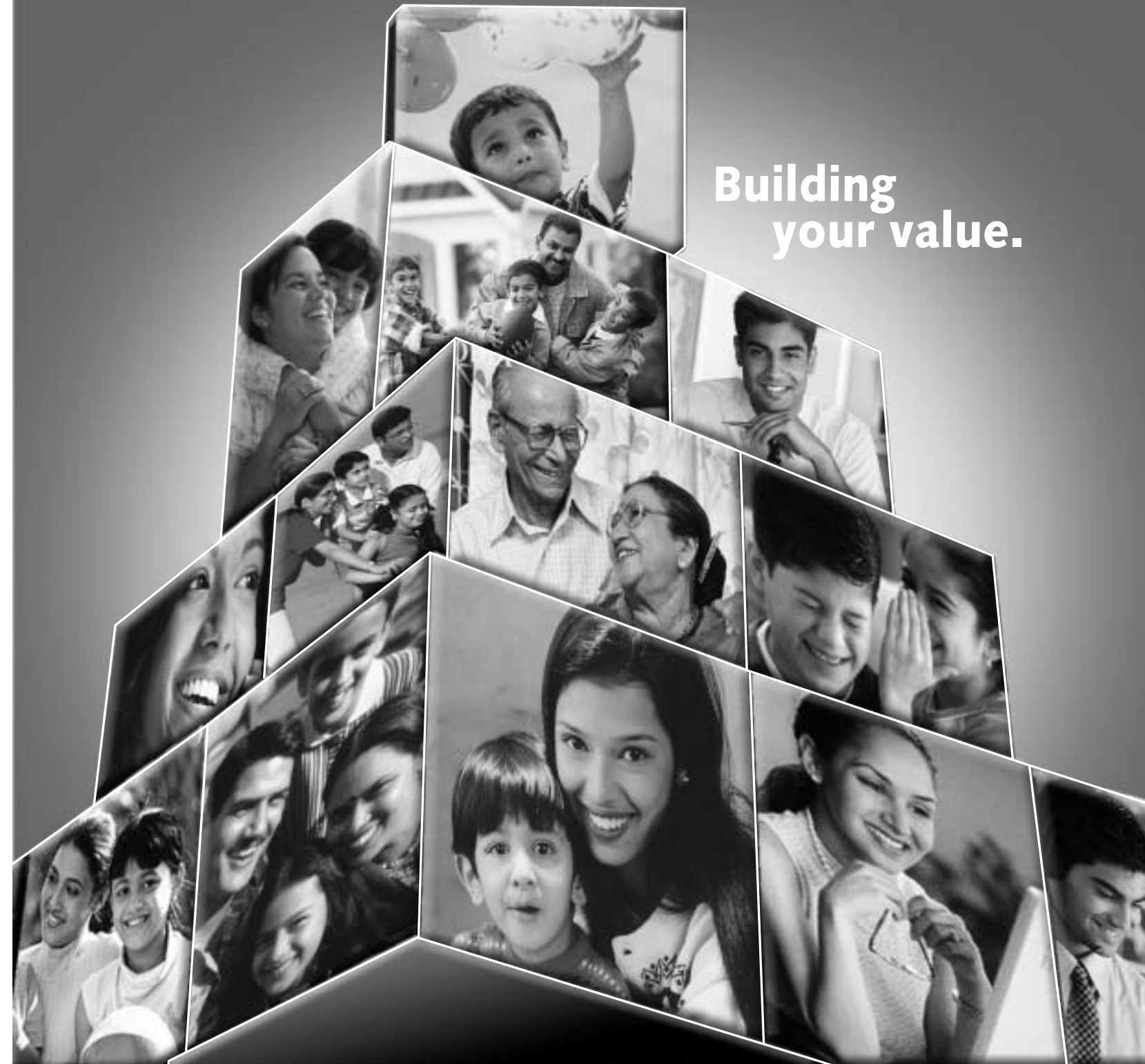
*Gas & Beyond*

**GAIL (India) Limited**

Regd. Office: GAIL Bhawan, 16, Bhikaiji Cama Place, R.K. Puram, New Delhi-110 066, India

Tel.: + 91 - 11 - 26182955, 26172580

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**Building  
your value.**

**20th Annual Report**

2003-2004



**GAIL (India) Limited**

*Gas & Beyond*



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ERP implementation is underway to enable new levels of business process and technology integration, while ensuring faster and efficient service to both the employee and in turn, to the valued customer.



## Vision

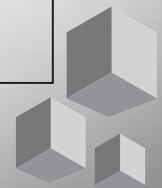
...the art of seeing  
the unseen.

### **Vision Statement**

"Be the Leading Company in Natural Gas and Beyond, with Global Focus, Committed to Customer Care, Value Creation for All Stakeholders and Environment Responsibility."

### **Mission Statement**

"To accelerate and optimise the effective and economic use of Natural Gas and its fractions to the benefit of national economy."



# Vision

## Board of Directors



Sh. Proshanto Banerjee  
Chairman & Managing Director



Sh. J.K. Jain  
Director (Finance)



Sh. S. P. Rao  
Director (Projects)



Sh. B. S. Negi  
Director (Planning)



Sh. M. R. Hingnikar  
Director (HR)  
(from 28.07.2003)



Dr. U. D. Choubey  
Director (Marketing)  
(from 06.05.2004)



Sh. A.K. Srivastava, IAS  
Director  
(from 10.09.2003)



Dr. Amit Mitra  
Director



Dr. A. K. Kundra  
Director  
(from 18.08.2003)



Dr. R. K. Pachauri  
Director  
(from 18.08.2003)



Sh. B. C. Bora  
Director  
(from 18.08.2003)

### Statutory Auditors

M/s S. Mann & Co.

Chartered Accountants  
New Delhi

### Branch Auditors

M/s Nripendra & Co.

Chartered Accountants  
Kanpur

M/s L.K. Maheswari & Co.

Chartered Accountants  
Bhopal

### Company Secretary

Sh. N. K. Nagpal

### Stock Exchanges where the Shares/ GDRs of the Company are listed

The Delhi Stock Exchange  
Association Ltd.

DSE House, 3/1, Asaf Ali Road  
New Delhi- 110 002

The Stock Exchange, Mumbai

Phiroze Jeejeebhoy Towers  
Dalal Street, Mumbai- 400 001

National Stock Exchange  
of India Ltd.

'Exchange Plaza'  
Bandra Kurla Complex  
Bandra (E), Mumbai- 400 051

London Stock Exchange  
(GDRs)

10, Paternoster Square  
London - EC4M 7LS (U.K.)

### Registrars and Share Transfer Agents

MCS Limited

Sri Venkatesh Bhawan,  
W - 40, Okhla Industrial Area  
Phase-II, New Delhi - 110 020

### Bankers

State Bank of India

Corporate Accounts, Group Branch  
Vijaya Building, Barakhamba Road  
New Delhi - 110 001

Bank of India

Overseas Branch  
Vijaya Building, Barakhamba Road  
New Delhi - 110 001

Bank of Baroda

Bhikaji Cama Place, R. K. Puram  
New Delhi - 110 066

Indian Overseas Bank

Prakash Deep Building, Tolstoy Marg  
New Delhi - 110 001

ICICI Bank Ltd.

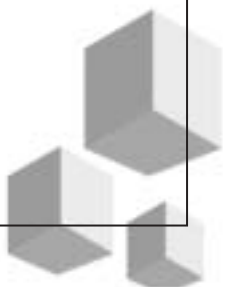
9A, Phelps Building, Connaught Place  
New Delhi - 110 001

HDFC Bank Ltd.

G-3/4 Surya Kiran Building  
19, Kasturba Gandhi Marg  
New Delhi - 110 001

### Registered Office

16, Bhikaji Cama Place, R. K. Puram  
New Delhi-110 066



## DIRECTORS' REPORT

To  
The Members,

Your Directors have pleasure in presenting the 20<sup>th</sup> Annual Report of your 'Navratna' Company together with Audited Accounts for the year ended 31<sup>st</sup> March, 2004.

Your Company has completed yet another successful year and recorded an overall growth in operations and sales.

## Physical Performance

	2003-04	2002-03
Sale of Gas (BCM)	21,013	21,129
LPG Production (MTs)	10,88,686	11,14,423
Pentane/Propane/SBP Solvents Production (MTs)	2,74,473	1,88,162
Polymer Production (MTs)	2,63,720	2,91,829
LPG Transmission (MTs)	18,40,538	15,25,159

## Financial Performance

During the year, the turnover of your Company has increased to Rs.11,942 Crores from Rs.11,343 Crores over the previous year and Profit after Tax is Rs.1,869 Crores as against Rs.1,639 Crores of previous year.

Salient financial parameters during the year under review as compared to the previous year are mentioned below:

	2003-04	2002-03
Turnover(Net of ED & including internal consumption)	11,942	11,343
Stock Adjustments	39	7
Other Income	244	319
Total Revenue	12,225	11,669
Cost of Sales	8,612	8,321
Gross Margin	3,613	3,348
Interest	138	186
Depreciation/ Write off	661	644
Profit Before Tax	2,814	2,518
Provision for Tax	945	879
Profit After Tax	1,869	1,639
Proposed Dividend (including Interim Dividend)	676	592
Provision for Dividend Tax	87	43
Transfer to Reserves	219	164
Profit & Loss A/c balance	887	840

## Dividend

An Interim Dividend of 40% on the paid up Equity Share capital for the year 2003-2004 was approved by the Board and the same has already been paid to the members of the Company.

The Directors feel privileged to recommend for approval of the members, a total dividend of 80% (excluding Corporate Dividend Tax) which includes final dividend of 40%. The total dividend for the year 2003-04 is 80% of the paid up Equity Share capital, as against 70% of the paid up Equity Share capital last year.

## Gas Sector Scenario

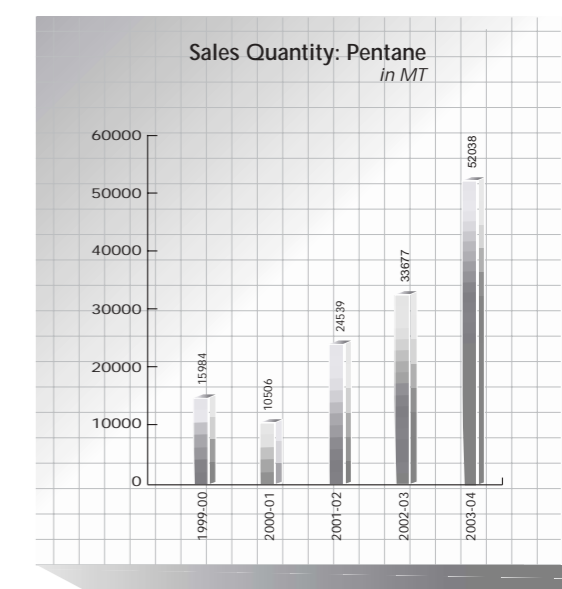
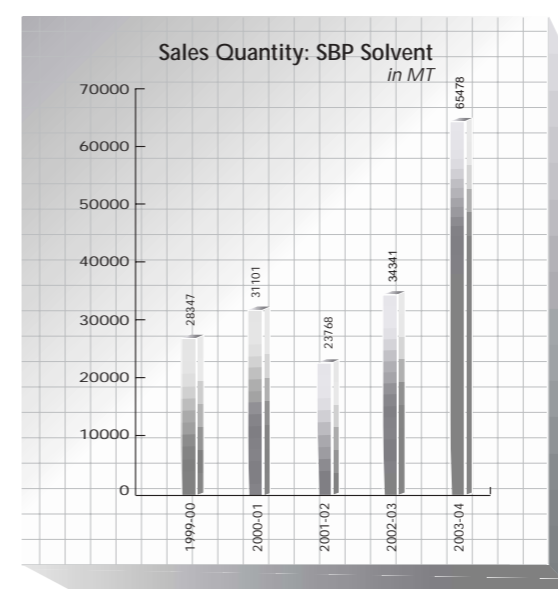
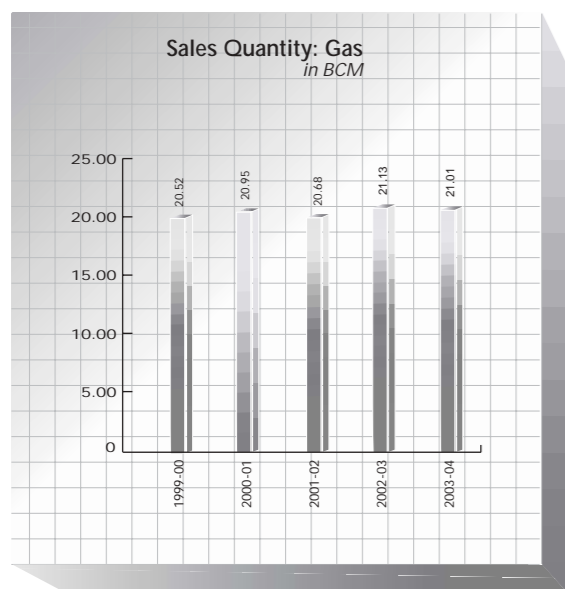
The Indian Gas market, traditionally, has been a supply constrained market. However, the supply side scenario is rapidly changing. The intensification of domestic exploration activities under the New Exploration and Licensing Policy (NELP) has started bearing fruits and new oil and gas reserves of considerable magnitude have been discovered. The gas discoveries in the Eastern offshore by companies and growing exploitation of oil and gas discoveries have converted the eastern offshore into a significant hydrocarbon province. The deepwater campaign in Western offshore as well as exploration in on-land blocks is also expected to yield favourable results.

With the commissioning of Petronet LNG Limited's (PLL) Dahej terminal in March 2004, India joined the select band of LNG importing countries. Another terminal at Hazira, being set up by Shell, is expected to be

commissioned by April, 2005. Over the next 3-4 years, the Dabhol LNG facilities may become operational. In addition, LNG terminals in South Western and South Eastern region may also become a reality. The outcome of limited Coal Bed Methane (CBM) activities undertaken so far, is encouraging. The feasibility of transnational gas pipelines from West as well as East, is being examined with a new perspective of regional co-operation and therefore, such projects have now a better visibility. With the fast changing supply scenario in the Indian gas market supported by E&P, LNG imports, it is necessary to undertake expansion of traditional markets, development of new markets as well as development of pipeline infrastructure, to connect supplies to the emerging markets.

The current share of gas in primary energy consumption is about 8% and this is bound to rise as supplies emerge in geographically dispersed parts of the country. Macro economic policies would drive the gas demand growth in the coming years predominantly from huge capacity creation required in power sector as well as from other forms of energy. The industrial sector has a large appetite for gas and new supplies would move in, to satisfy its need. The growing urban pollution would require greater penetration of CNG in the transport sector in the cities. Similarly, unconventional gas use for desalination of water, agro based industries and allied sectors would add to the demand build up.

Whereas the gas supply sources are getting geographically dispersed, the country lacks the inter-state pipeline infrastructure for supply of gas to the markets. It is in this context, that the National Gas Grid proposal



has been conceptualised by your Company to provide the critical connectivity of gas sources and the gas market. Your Company has made considerable progress on the implementation of National Gas Grid, covering RoU acquisition, preparation of feasibility reports, identification of potential markets, procurement of gas management system and study of global tariff determination practices. Your Company, strongly believes that announcement of National Gas Grid project and entrusting your Company with the responsibility of implementing, owning and operating the same would provide multiple benefits in the form of (a) intensification in E&P particularly, commercialisation of conventional and unconventional gas reserves (b) determination of location of future power plants and fertiliser plants and other mega industrial projects, and (c) better integration of supply sources for balanced regional development in the country.

### Policy and Regulatory Framework

At the policy front, Government of India is already finalising the Petroleum Regulatory Board Bill as well as the Gas Pipeline Policy. These policy documents would have profound impact on the business portfolio of your Company as well as the business practices to be adopted. Growing competition in the market, gas to gas competition and emergence of new markets would require a different approach to business and overall business strategies. Your Company has been actively monitoring and watching the developments in the external environment.

### Business Development Activities

The E&P portfolio has already had initial success in the form of significant gas find in Block A-1 in Myanmar and discovery of oil and

gas in the Cambay block. Other blocks are now getting upgraded to the drilling stage and favourable results from some of these are also likely to come. Your Company has been working for many years on the transnational gas pipelines from West as well as East of India and is confident of a leading position, should these projects reach maturity stage. Your Company is also in the process of sourcing gas from other E&P players in the country and this would receive greater emphasis in coming years.

Your Company has also adopted the inorganic growth model with growing emphasis on acquisition activities. As an outcome, your Company has successfully secured participation in two retail gas companies in Egypt i.e. Fayum Gas Company and Shell CNG, Egypt, both these companies are managed by Shell Group. Similarly, your Company is acquiring a major participating interest in Tripura Natural Gas Company and similar process is underway with Greater Calcutta Gas Supply Company Limited. The Board approved equity participation in Haldia Petrochemicals Limited and as per the procedure this has been put up for PIB approval. Many similar opportunities are under evaluation. Your Company, has been approached by many international companies and investment bankers for overseas opportunities in the gas sector projects. These are being pursued in a selective manner and would receive greater attention of the management in coming years. In the overall context of improving security of gas supply, your Company would secure equity gas and equity LNG in the projects earmarked for supplies to Indian markets. The globalisation of business thus would constitute a distinct business strategy.

India would need 1,50,000 MW of power generation capacity out of which 50,000 MW is expected to come from tapping hydro resources, the balance 1,00,000 MW would be pre-dominantly thermal where gas

would have a large share. The bankability of the Indian power sector has improved and would continue to do so in view of the Electricity Act, 2003 and Policy on Power Tariff. New gas-based power generation capacities would be created in the catchment area of gas pipeline infrastructure, both existing and proposed, and this will provide new type of business opportunities to your Company including the participation in gas-based power plants. In view of distinct business thrust and growing convergence between gas and power sector in the mature energy markets and with the same trend evident in the Indian market too, your Company would pursue power generation projects on selective basis to add value to the overall business portfolio.

Adoption of new technologies for developing a new shelf of projects continues to be part of overall business strategy. Your Company has been pursuing studies relating to transportation of CNG by ships, gasification of coal including in situ coal gasification as well as hydrogen based technologies. Your Company strongly believes that such technologies have immense relevance to the fuel and feedstock requirements of the Indian market.

### Exploration

For augmentation of gas supply, your Company is participating in Exploration Blocks in consortium with other E&P companies consisting of oil sector PSUs and Indian and foreign companies. With award of 2 blocks in NELP-IV to GAIL consortium, your Company is participating in 12 E&P blocks. Out of 12 blocks, one is in Myanmar where gas

discovery has been made in the recent past after drilling of first exploratory well.

### Performance of Joint Ventures

#### Mahanagar Gas Limited (MGL)

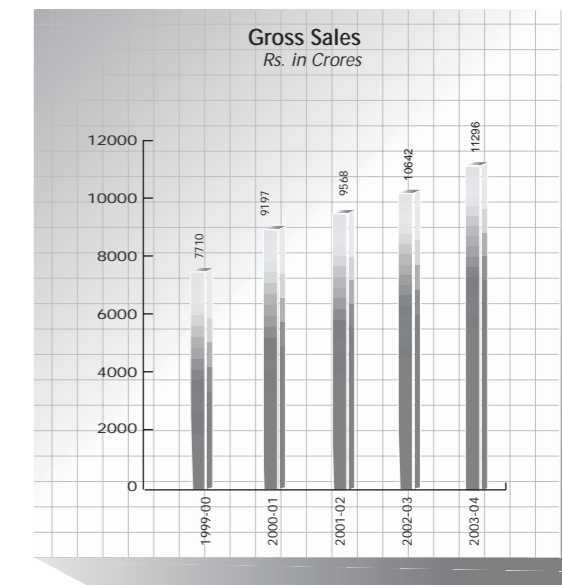
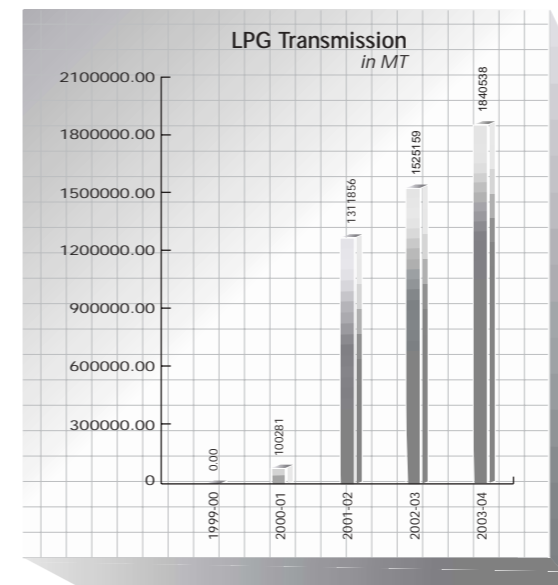
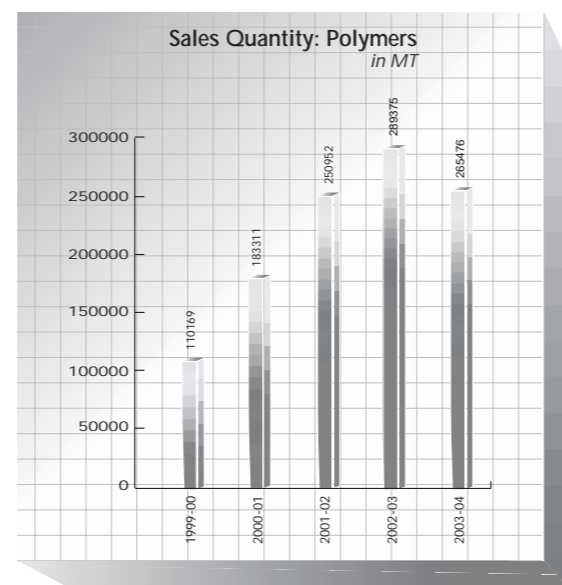
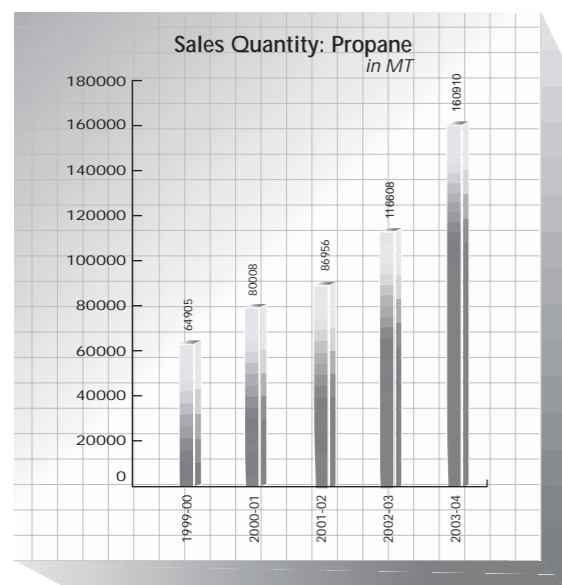
A Joint Venture with British Gas, which was incorporated in May, 1995 to supply gas to domestic, commercial and small industrial consumers and CNG to the transport sector in Mumbai. Currently, MGL is supplying piped gas to over 1,95,000 domestic consumers, 570 commercial consumers and 42 industrial consumers and CNG to over 1,21,000 vehicles in Mumbai through 75 CNG outlets spread across the city.

#### Indraprastha Gas Limited (IGL)

A Joint Venture Company of GAIL, Government of National Capital Territory (NCT) of Delhi and BPCL, which was formed in December, 1998 to supply gas to domestic and commercial consumers and CNG to the transport sector in NCT of Delhi. Presently, IGL is supplying piped gas to more than 12,000 domestic consumers, 110 commercial consumers and CNG to over 88,000 vehicles including DTC buses through 120 CNG outlets spread across the city. During the year, a Public Offer for Sale of Equity Shares was made which received huge public response.

#### Petronet LNG Limited (PLL)

A Joint Venture of IOCL, ONGC, BPCL and GAIL, which was formed for setting up of LNG import facilities. PLL has signed a long term LNG supply contract with Ras Gas, Qatar for import of 5 MMTPA at Dahej and 2.5 MMTPA at Kochi. The Dahej Terminal was inaugurated in February, 2004. It has become functional with commencement of regular supply of LNG and evacuation of re-gasified LNG into GAIL's



Dahej-Vijaipur pipeline. An Initial Public Offering (IPO) for sale of Equity Shares was made which received a large public response.

### Bhagyanagar Gas Limited (BGL)

A Joint Venture Company of GAIL and HPCL, which was incorporated in August, 2003 for distribution and marketing of auto LPG and CNG for vehicles, and natural gas for domestic, commercial and small industrial consumers in cities of Andhra Pradesh. Initial infrastructure development work for distribution of auto LPG has been taken up in the twin cities of Hyderabad and Secunderabad and for Gas and CNG in Vijayawada.

## Projects - Commissioned

### Dahej-Vijaipur Pipeline

Your Company has successfully completed the 610-km long, 42" Dahej-Vijaipur Pipeline, around six months ahead of schedule. The pipeline is designed to supply around 23.9 MMSCMD of re-gasified LNG at a pressure of 87 kg/cm<sup>2</sup> from PLL's re-gasification Terminal at Dahej, to various consumers in the states of Gujarat, Madhya Pradesh, Rajasthan & NCR of Delhi, with the help of existing pipeline network.

### Vizag - Secunderabad LPG Pipeline

Your Company mechanically completed the 580-km long Vizag-Secunderabad LPG Pipeline in June, 2003, around 2 months before the target date of completion. However, the commissioning of the project got delayed due to non-availability of adequate quantum of LPG from Oil Marketing Companies. The pipeline is designed for a maximum throughput of 1.16 MMTPA of LPG from Vizag to Secunderabad via Vijayawada.

### Jamnagar-Loni LPG Pipeline - Phase-II

Your Company has upgraded the Jamnagar-Loni LPG Pipeline from a capacity of 1.7 MMTPA to 2.5 MMTPA by successfully commissioning the 68.50-km long Kandla to Samakhiali linkage. The linkage has been designed to evacuate around 0.8 MMTPA of LPG from Kandla.

### Chainsa-Maruti Pipeline

Your Company has successfully commissioned the 60-km long, 16" pipeline from Chainsa to Gurgaon to meet additional demand for NG to various consumers in Delhi and to secure uninterrupted gas supply to IGL. The capacity of the existing pipeline is around 2.25 MMSCMD.

### Kalol-Ramol Pipeline

Your Company has successfully commissioned the 44-km long, 12" Kalol to Ramol pipeline network for supplying 0.8 MMSCMD of NG along- with two spur lines - 3 kms long 4" line from Ranasan to Naroda and 4 kms long, 6" line from Ramol to Vatwa.

### Agra-Ferozabad Loopline

Your Company has successfully commissioned the 35-km long, 10" pipeline from Agra to Ferozabad for augmenting the supply of 1.2 MMSCMD gas to industries in Agra and Ferozabad in accordance with the directives of the Hon'ble Supreme Court of India.

### GAILTEL Project

Your Company has successfully completed Phase-I & II of its GAILTEL Projects. It provides national communication backbone using OFC based telecom system installed along GAIL's pipeline infrastructure and establishes redundant OFC based DWDM communication network in the prime Delhi-Mumbai route. Under Phase-I and II of GAILTEL

Project, Delhi, Mumbai and other 71 cities falling en route have been inter-connected through a network of 8,000 kms.

## Projects-Undergoing Execution Phase

### Dahej-Hazira-Uran Pipeline

Your Company has undertaken the 490-km long, 30"/24"/18" Dahej-Hazira-Uran Pipeline project, to connect PLL's LNG terminal at Dahej and Shell's LNG terminal at Hazira, to Uran market currently encountering gas shortfall. The pipeline has been designed to transport 12 MMSCMD Natural Gas including LNG, which will be made available from PLL's Dahej terminal and Shell's Hazira terminal in the near future. The service areas include consumers in the South Gujarat Region (HVJ ex-Hazira consumers facing gas shortfall), Trombay (North of Uran), Thal and Salav (South of Uran) including the existing consumers in Uran and Taloja.

### Petrochemical Expansion Project

Owing to the increasing polymer demand in the country, your Company has undertaken capacity enhancement of Petrochemical project at Pata, by de-bottlenecking of existing Swing Plant in the first phase and by setting up one additional cracker furnace and a new downstream polymer plant alongwith the additional utilities, to bring up the plant to global benchmark in capacity terms and achieve economies of scale. The polymer capacity would be increased to 4,40,000 TPA. The project is going ahead well and is expected to be completed by mid-2006.

### Project Blue Sky - CNG & City Gas Distribution

Your Company has entered into Joint Venture Agreements with Bharat Petroleum Corporation Limited (BPCL) for supply of gas to domestic and commercial consumers and CNG to the transport sector in the cities of Kanpur and Pune.

Further, your Company is in discussion with Indian Oil Corporation Limited for formation of Joint Venture for supply of NG in the cities of Lucknow, Bareilly and Agra.

### South Gujarat Pipeline

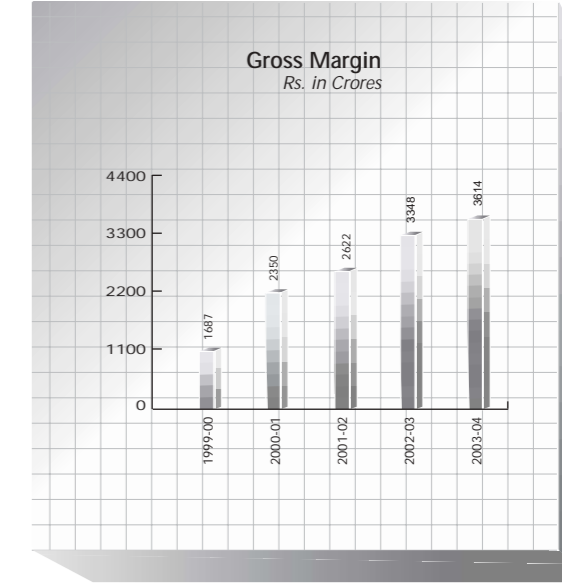
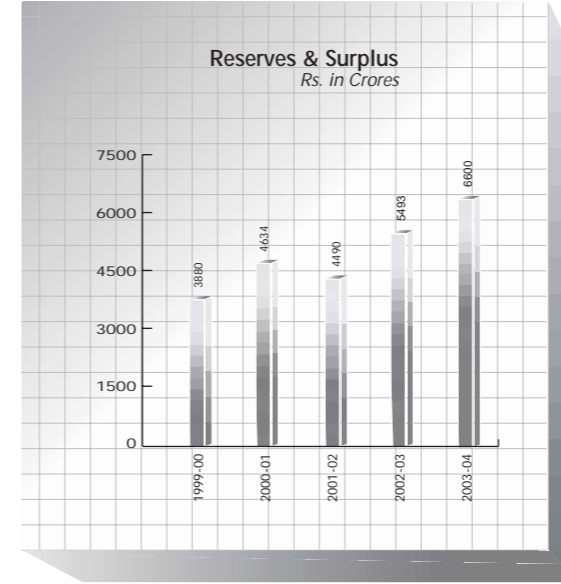
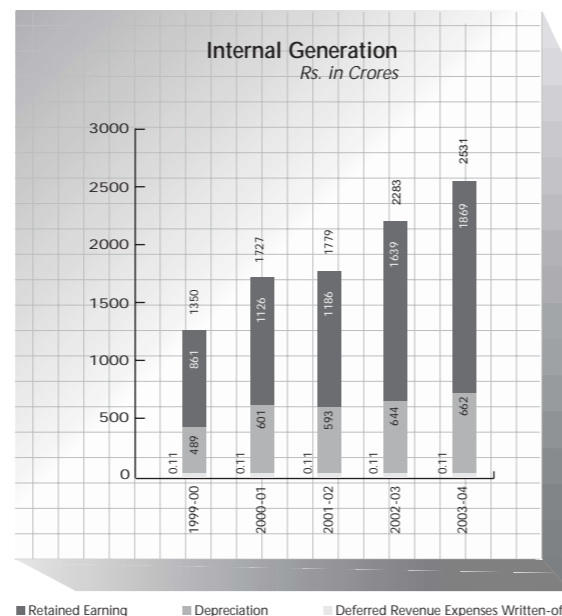
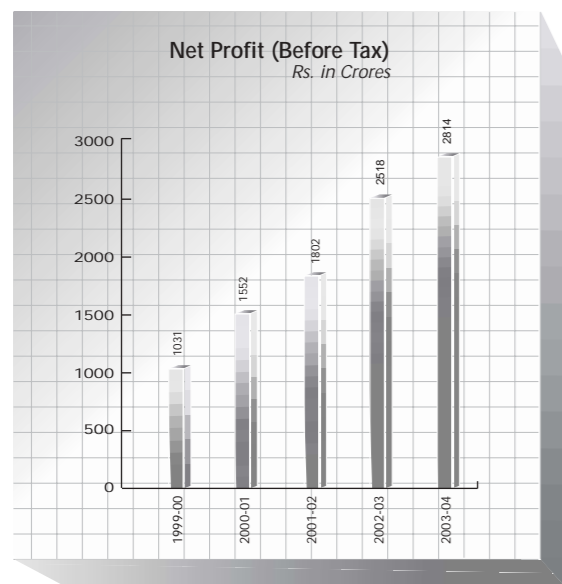
Your Company has taken up the execution of 37 kms long South Gujarat Pipeline for supplying 9.72 MMSCMD of re-gasified LNG to the consumers in South Gujarat region from tap-off points on Dahej - Vijaipur Pipeline at Ankot, Samni and Vaghodia. The project is progressing well and gas supply is expected to commence by May, 2004.

### Vijaipur-Kota Pipeline

Your Company has taken up laying of the 192-km long pipeline from Vijaipur to Kota for transportation of re-gasified LNG in Rajasthan Sector.

### Dadri-Panipat Pipeline (HVJ - III)

Your Company has taken up laying of the 129-km long, 28" Dadri-Panipat pipeline to evacuate and transport 4.8 MMSCMD of gas from PLL's LNG terminal at Dahej, for consumers in Punjab region. The project forms a part of HVJ - III and is progressing well with expected completion in March, 2005.



### Thulendi-Phulpur Pipeline (HVJ – III)

Your Company has taken up laying of the 139-km long, 18" Thulendi-Phulpur pipeline to evacuate and transport 2.8 MMSCMD of gas from PLL's LNG terminal at Dahej, for consumers in UP region.

The project forms part of HVJ – III and is progressing well with expected completion in 2005.

### Awards & Accolades

- National Petroleum Management Programme (NPMP) Award for Excellence in Project Management and Human Resource Development
- Gold Trophy of SCOPE Award for Excellence and Outstanding Contribution to the Public Sector Management for the year 2002-03 in the institutional category

### Global Recognition

- Platts declares GAIL as first among Global Gas Utilities based on Return on Invested Capital (ROIC) in its Worldwide Survey of Top 250 Energy Companies in 2004
- GAIL joins Top 10 Club of Global Energy Companies based on Return on Invested Capital (ROIC) in Platts Worldwide Survey of Top 250 Energy Companies in 2004

### Standing Tall among India Inc.

- ET 500 ranks GAIL among Top 10 Indian Companies
- GAIL ranked 8th amongst the 27 Indian Companies which featured in Forbes 2000 list.

### The Glow of a Navratna

Public Enterprises Survey 2002-03 ranks your Company among the Top 10 PSEs in terms of various criteria like Turnover, Pre-Tax Profits, Net Profit, Gross Block etc.

### Information Technology (IT) Initiatives

IT is an important and integral component of your Company's overall strategy. The IT initiatives are spread across different functional areas with the objective of using IT to the extent possible, keeping in view the paradigm shift in the way the business is conducted globally. In line with this objective, your Company has evolved the motto- 'Squeeze technology to its limit'.

All the major work centres and sites have been connected through LAN and WAN, to enable 100% connectivity. PC penetration has reached 100% level and e-mail accessibility has been provided to all employees. Various web-based systems like investment of surplus funds, Bill Watch System, File Watch System, Complaint Handling for Petrochemicals etc., have been implemented.

Your Company has implemented various web-based initiatives such as e-Banking, covering e-Receivables and e-Payments, e-Tendering, e-PMS (Performance Management System). The Company's web site has been revamped to meet the needs of the stakeholders. Further, the Company is also in the process of implementing Enterprise Resource Planning (ERP) system.

### Implementation of Official Language

Your Company has been making vigorous efforts to propagate and successfully implement the Official Language Policy of the Government of India. The Official Language Implementation Committees at Corporate, Regional and Unit level monitor and review the progress made in achieving the targets fixed in the Annual Programme.

In the endeavour to remove hesitation of employees in using Hindi for official purposes, several workshops were organised at various work centres. To enlist greater participation of employees for accepting and implementing the message of Official Language in letter and spirit, the incentive schemes were made more attractive.

With a view to create greater awareness and consciousness among employees, Hindi Diwas was observed on 15<sup>th</sup> September, 2003 and Hindi Fortnight was organised from 15<sup>th</sup> to 29<sup>th</sup> September, 2003. Various competitions, cultural activities, seminars, Kavi Sammelan, Hindi skits and exhibition on Hindi activities were organised at different projects/regional offices and the employees participated with great enthusiasm.

### Change Initiatives

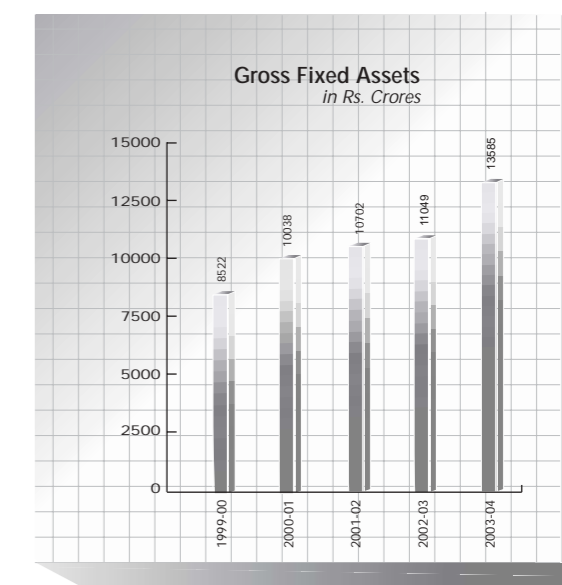
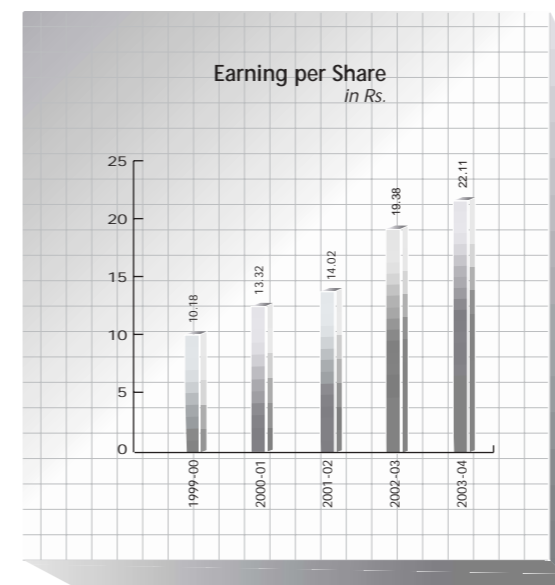
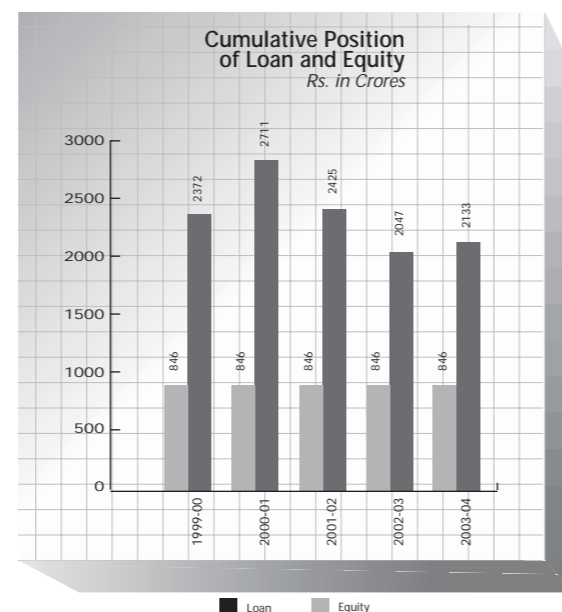
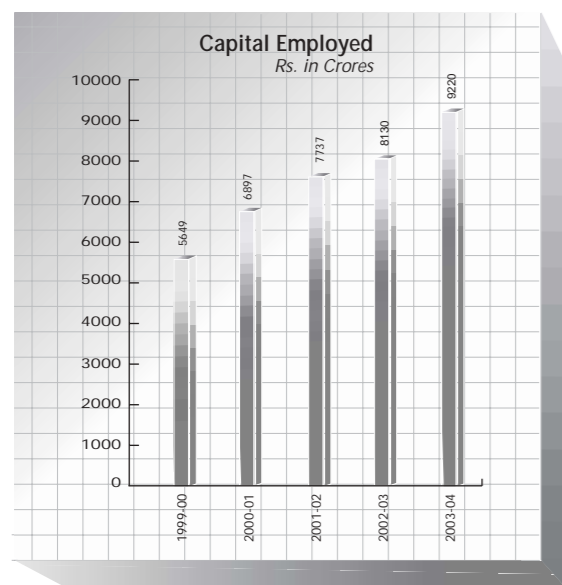
To face the realities of a changing external environment and to prepare itself for the open market scenario, GAIL has embarked upon several path-breaking initiatives such as Benchmarking, Business Process

Re-engineering, Organisational Restructuring, Enterprise Resource Planning, Quality Management, Strategic Change Management, Organisational Transformation through 'Project Parivartan' and IT enablement through e-Payments, e-Banking, e-Receivables, e-Performance Management System, e-Gas Management System, e-Human Resource Information System etc. Your Company believes in introducing best-in-class technology practices like Customer Relationship Management (CRM), Supply Chain Management (SCM), Knowledge Management (KM) etc. for its human capital to yield value-addition in different functional areas and at the same time be more responsive to the customers. Your Company has also undertaken various globalisation initiatives by expanding business horizons in Egypt and Myanmar and at the same time, has signed a Memorandum of Understanding and Alliance Agreements with several companies in Iran, France and Korea.

### HRD Initiatives

### Industrial Relations and Employee Welfare

Industrial scenario in general during the year 2003-04 remained harmonious and cordial. There was no strike or lock-out during the year and as such no man-hours were lost. GAIL continues to focus on various employee welfare activities like the single window mechanism of Employee Services Group, whose coverage is gradually being expanded to more work centres.





#### HR initiatives to meet future business challenges

- e-Performance Management System based on KPA/KPIs
- Standard manning as per global benchmarks and competency mapping
- e-opinion poll/survey on HRD issues of concern like promotion and transfers
- Implementation of a robust new suggestion scheme
- Introduction and operation of Bill Management System/Bill Watch system to facilitate vendors to track their bills

#### Project 'Parivartan'

Project 'Parivartan' is under way with the objective to achieve the following organisational goals:

- Bring awareness to all employees about change imperatives
- Involve employees for future and visioning, convergence of vision with top management team
- Training of human catalysts
- Implementation of change initiatives

#### Grievance Handling System

A formal well defined and time-bound grievance handling system is in place in the Company through the systems of Transfer Petition Committee, Grievance Redressal Scheme, Employees' Service Group and CMD's Open House.

#### Welfare Schemes

- Statutory welfare schemes like Provident Fund, Gratuity etc.
- Non-statutory welfare schemes like Benefit Fund, Death Relief Fund which is unique to GAIL, in both public and private sector, where all employees contribute for dependents/family members.

- Under the Financial Assistance Scheme, employees who are totally and permanently disabled are granted financial assistance.
- Under the Group Personal Accident Insurance Scheme, employees posted in North-Eastern Region are provided 24 hours accident insurance coverage.
- Under the Post-Retirement Scheme, the retired employees, their spouse and disabled children are provided medical reimbursement.

#### Representation Of SC/ST/OBC and Minorities

The manpower of the Company as on March 31, 2004, was 3,374, out of which, 15.6% belong to SC, 6% to ST, 14.7% to OBC, 8.2% to Minorities and 1.3% to Physically Handicapped. Your Company is continuing with its efforts to further reduce the shortfall of SC/ST/OBC representation.

The representation of women employees is 4.7%. Second Women Executives Meet was organised at New Delhi on 29th September, 2003 to share their views and experiences with the top management team.

#### Training Initiatives

In order to prepare the Company to face the challenges of the emerging market environment, it is imperative to prepare the human resource to stay ahead in terms of multi-skilling, negotiation skills and risk management practices. Developing leaders across levels is part of the agenda of training initiatives.

Accordingly, your Company has identified training as a thrust area. A comprehensive training policy has been developed with the objective of minimum 'One training programme per year per Employee'. It also envisages

exposure of senior management personnel to international best practices by participating in leading institutes like Kellogg, Harvard, LBS and Wharton once in every four years.

Landmark MOUs have been signed with Energy Delta Institute, Netherlands and Indian School of Business, Hyderabad, envisaging partnership among these institutes in offering training to both GAIL employees and external participants. GAIL Training Institute (GTI) has been empanelled by the Asian Development Bank for offering consultancy services and training in Gas Sector, wherein GAIL has the expertise.

Special training programmes on the basis of business strategies and company's goal have been included in the annual training calendar like 'Young GAIL Unlimited' at IIMs wherein focus has been to align the young executives with the strategic thought process of the management. 'Leadership in the Market Focused Company', at ISB, Hyderabad for senior level executives has been more towards strategic thinking.

#### Conservation of Energy, Technology Absorption

Information relating to Environment, Health, Safety, Conservation of Energy, Technology Absorption and Corporate Social Responsibility forms part of the Annual Report.

#### Foreign Exchange Earnings and Outgo

During the year, Foreign Exchange earnings were Rs. 21.71 Crores which was mainly on account of export of Polymers.

Expenditure in Foreign Currency was Rs.1,718 Crores which was mainly on project related imports.

#### Disinvestment by Government of India

During the year under review, the Government of India divested its shareholding in your Company to the extent of 10% of the fully diluted post-offer paid up share capital of your Company.

#### Corporate Governance

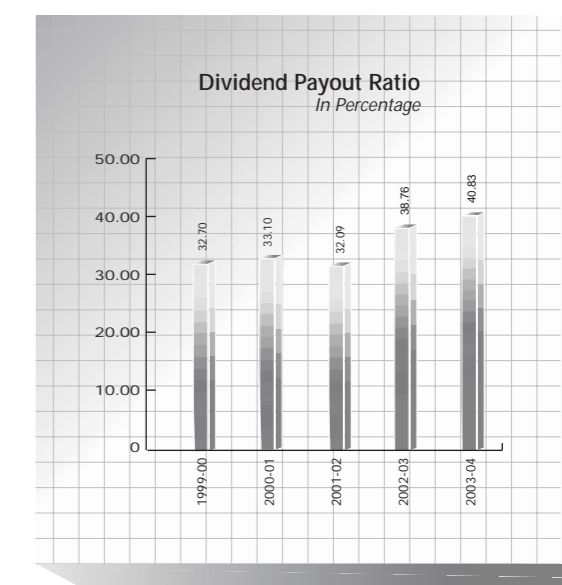
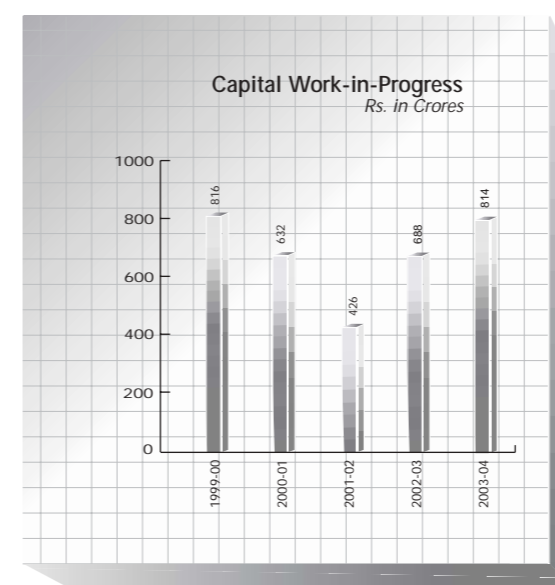
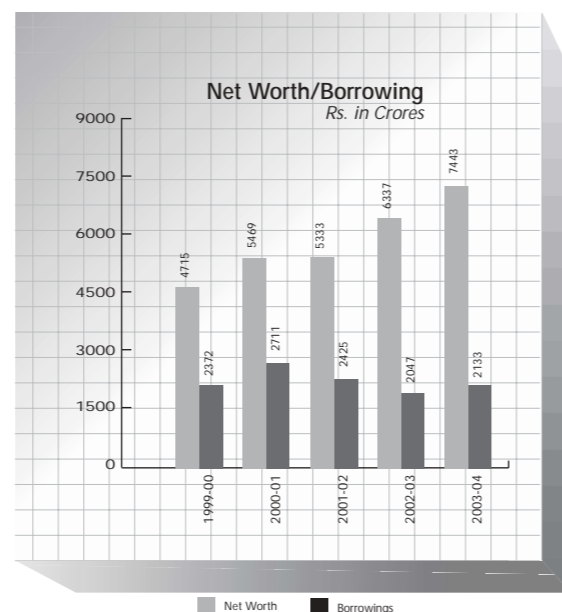
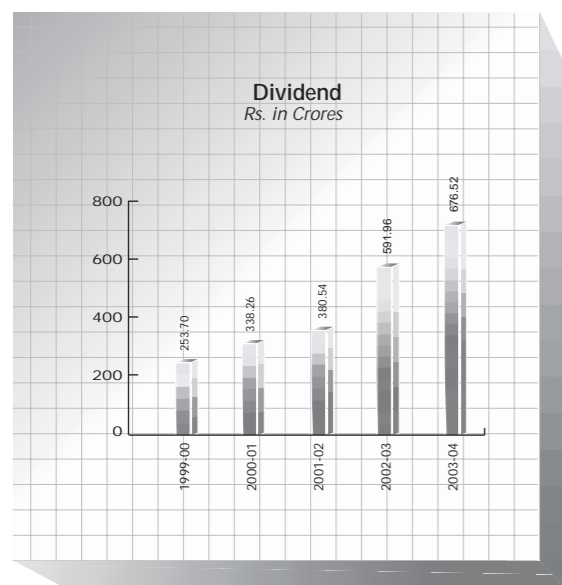
Pursuant to Clause 49 of the Listing Agreement with the Stock Exchanges, Corporate Governance Report and Auditor's Certificate regarding compliance of conditions of Corporate Governance forms part of the Annual Report.

#### Particulars of Employees under Section 217(2A) of the Companies Act, 1956

The particulars of employees u/s 217 (2A) of the Companies Act, 1956, read with Companies (Particulars of Employees) Rules, 1975 is 'nil'.

#### Expenditure on Entertainment, Foreign Tours and Publicity

During the year, the Company has incurred expenditure of Rs.6.31 Crores on foreign tours, foreign training, seminars & conferences, Rs.18 Lakhs on entertainment and Rs.26.65 Crores on advertising and publicity.





## Directors

The Government of India, during the year under review, nominated Dr. R. K. Pachauri, Dr. A. K. Kundra and Shri B. C. Bora as non-official, part-time Directors w.e.f. 18<sup>th</sup> August, 2003, in place of Shri M. C. Bagrodia and Shri K. S. Govindarajan.

During the year under review, Shri Badal K. Das, Additional Secretary & Financial Advisor, MoP&NG and Shri A. K. Srivastava, Joint Secretary, MoP&NG were appointed as Directors on the Board of Directors of your Company w.e.f. 2<sup>nd</sup> September, 2003 and 10<sup>th</sup> September, 2003, respectively.

Dr. U. D. Choubey joined the Board as Director (Marketing) w.e.f. 6<sup>th</sup> May, 2004.

During the year under review, Shri S. Vijayaraghavan ceased to be a Director of the company w.e.f. 2<sup>nd</sup> September, 2003. Shri Badal K. Das ceased to be Director w.e.f. 30<sup>th</sup> June, 2004.

## Board Meetings and General Meeting

During the year under review, 17 meetings of the Board of Directors were held. The 19<sup>th</sup> Annual General meeting of the members of the Company was held on 30<sup>th</sup> September, 2003.

## Directors' Responsibility Statement

Pursuant to the requirement of Section 217 (2AA) of the Companies Act, 1956 with respect to Directors' Responsibility Statement, it is hereby confirmed that:

1. In the preparation of the annual accounts for the financial year ended 31<sup>st</sup> March 2004, the applicable accounting standards had been followed along with proper explanation relating to material departures;
2. The Directors had selected such accounting policies and applied them consistently and made judgements and estimates that 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 ended 31<sup>st</sup> March, 2004 and of the profit of the Company for the said period;
3. The Directors had taken 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;
4. The Directors had prepared the annual accounts for the financial year ended 31<sup>st</sup> March, 2004 on a 'going concern' basis.

## Auditors

The Government of India, Office of the Comptroller & Auditor General of India, has appointed vide its letter no. CA.V/COY/CENTRAL GOVT., GAIL (3)/146 dated 10<sup>th</sup> November, 2003, M/s S. Mann & Co., Chartered Accountants, New Delhi as Statutory Auditors of the Company. M/s Nripendra & Co., Chartered Accountants, Kanpur as Branch Auditors for U. P. Petrochemicals Complex at Pata and M/s. L. K. Maheswari & Co., Chartered Accountants, Bhopal, as Branch Auditors for LPG Plant at Vijaipur for the year 2003-04.

## Acknowledgement

The Board of Directors highly appreciate the valuable services and dedicated effort of the employees of the Company who have ensured the accomplishment of excellent results and achievement by the Company. The Board of Directors also wishes to thank the Government of India and various State Governments for their valuable guidance and support.

The Board of Directors wishes to place on record its highest appreciation of the significant contribution made by Shri M. C. Bagrodia, Shri K. S. Govindarajan, Shri S. Vijayaraghavan and Shri Badal K. Das during their tenure as Director on the Board of Directors of the Company.

For and on behalf of the Board

Proshanto Banerjee

Place: New Delhi

Dated: 30<sup>th</sup> July, 2004



20th Annual Report  
2003 - 2004

Form A and B



**FORM-A**

Form for Disclosure of Particulars with respect to Conservation of Energy:

A. Power & Fuel Consumption	Current Year 2003-2004	Previous Year 2002-2003
<b>1. Electricity</b>		
(a) Power Purchased from State Grid		
Purchased Units (KWH)	131206836	117715947
Total Amount (Rs. in Lakhs)	6321.11	5613.30
Rate / Unit (Rs./ KWH)	4.82	4.76
(b) Own Generation		
(i) Through Diesel Generator		
Power Generated (KWH)	567643	527262
Units / Litres of Diesel (KWH/Litres)	2.70	2.27
Cost / Unit (Rs./ KWH)	8.55	8.45
(ii) Through GTG / GEG / STG		
Power Generated (KWH)	279434522	312254700
Units (KWH) / 1000 SCM of gas	3157.52	2925
Cost / Unit (Rs./ KWH)	1.79	1.87
<b>2. Coal</b>	NIL	NIL
<b>3. Furnace Oil</b>	NIL	NIL
<b>4. Others/internal generation</b>	NIL	NIL
<b>B. Consumption per unit of production</b>		
<b>Ethylene production (MT)</b>	275610	311995
(i) Electricity (KWH/MT)	66.27	63.57
(ii) Fuel Gas (MT/MT)	0.26	0.25
(iii) Steam (MT/MT)	1.37	1.59
<b>HDPE production (MT)</b>	96670	109444
(i) Electricity (KWH/MT)	327.48	310.91
(ii) Fuel gas (MT/MT)	-	-
(iii) Steam (MT/MT)	0.92	0.94
<b>LLDPE production (MT)</b>	167050	182466
(i) Electricity (KWH/MT)	295.14	309
(ii) Fuel gas (MT/MT)	0.07	0.08
(iii) Steam (MT/MT)	0.66	1.30

**FORM-B**

Form for Disclosure of Particulars with respect to Absorption:

**Research & Development (R&D)**

- Specific areas in which R&D carried out by the Company
  - Setting up of Flaker Pilot plant at GAIL, Pata
  - Development of technology for separation of paraffins and olefins by adsorption, with IIT, Kanpur
  - Development of technology for inhibition of coke in the gas cracker furnaces
  - Development of Process Engineered Fuels (PEF) from plastic waste with Shriram Institute for Industrial Research, Delhi
  - Development of online property prediction model at LLDPE plant GAIL, Pata with IIT, Kharagpur
  - Synthesis of fine chemicals from CO<sub>2</sub> and Natural Gas, with IIT, Kharagpur
  - Up-scaling of Field Applied Coatings technology
  - Development of leak detection method for Natural Gas pipelines, with IIT, Chennai



2. Benefits derived as a result of the above R&D

- The Flaker plant unit demonstrated safe conversion of low molecular weight polyethylene wax lumps to flakes, resulting in a value added product
- The proposed technology for separation of paraffins and olefins by adsorption process has the potential to reduce the energy costs in separation of gas mixtures into pure components in comparison to the conventional distillation processes. Project under progress
- By using the technology for inhibition of coke, the run lengths in gas cracker furnaces are expected to be improved resulting in higher production. The pilot plant studies are in progress at GAIL, Pata to validate the Laboratory scale studies conducted by IIT, Kanpur
- The Process Engineered Fuels technology would help in making solid fuels from plastic waste in combination with non-plastic waste such as paper waste, leaf waste, coal etc. Project under progress
- A model for online decision making for LLDPE plant would help in optimisation of operating conditions and thus decrease off-grade production resulting in improved profitability of the plant. Project under progress
- The catalyst developed under the 'Synthesis of Fine Chemicals' project would convert CO<sub>2</sub> to value added chemicals. Project under progress
- The Field Applied Coatings technology developed jointly with GTI, Chicago is being upgraded from lab scale to field application
- The proposed indigenous leak detection model to predict leaks in natural gas pipelines using operating data from SCADA is expected to be faster and cheaper. Project under progress.

3. Future plan of action

- Development of technology for Internal Coating in Natural Gas pipelines, with IFP, France
- To participate in research activities undertaken with Hydrogen Corpus fund and develop technologies for utilisation of CNG/Hydrogen mixed fuel in automobiles
- To work in the area of Natural Gas storage technologies for providing strategic reserves of Natural Gas for 15 days
- To participate in the development of bio-degradable plastics
- To study various technologies for recovery of petro-chemical grade Cyclohexane and Hexane from SBPS
- To work on development of insect repellent plastic nets
- To study the techno-economic feasibility of transportation of Natural Gas by sea in CNG containers/ships
- To work on conversion of plastic waste to Liquid Fuels





4. Expenditure on R&D

(i) Capital	Rs.16.04 Lakhs
(ii) Recurring	Rs.81.89 Lakhs
(iii) Total	Rs.97.93 Lakhs
(iv) Total R&D	0.0078%
Expenditure as a percentage of total turnover	

**Technology Absorption, Adaptation and Innovation**

• Efforts, in brief, made towards technology absorption, adaptation and innovation	-
• Benefits derived as a result of the above efforts	-
• Technology imported during last five years	
(a) Technology imported	-
(b) Year of import	-
(c) Has technology been fully absorbed?	NA
(d) If not absorbed, plan of action	NA

**Report on Corporate Governance Forming Part of Directors' Report**

**A Statement on Company's Philosophy on Corporate Governance Code**

Corporate governance has attracted a good deal of public interest due to its importance for the economic health of corporate entities and the welfare of society, in general. The concept of corporate governance potentially covers the entire gamut of activities having direct or indirect influence on the financial health of the corporate entities. Your company firmly adhere to the principles and practice of good corporate governance.

**Board of Directors**

The total strength of the Board (as on 31.03.2004) is 11 Directors comprising of 5 Whole Time Directors including Chairman & Managing Director and 6 Non-Executive/ Independent Directors. The Non-Executive Directors include 2 officials of Government of India.

During the year 17 times the Board meetings were held on 17<sup>th</sup> April, 30<sup>th</sup> April, 5<sup>th</sup> May, 20<sup>th</sup> June, 28<sup>th</sup> July, 26<sup>th</sup> August, 26<sup>th</sup> September, 30<sup>th</sup> October, 20<sup>th</sup> November, 19<sup>th</sup> December, 2003, 8<sup>th</sup> January, 19<sup>th</sup> January, 22<sup>nd</sup> January, 5<sup>th</sup> February, 17<sup>th</sup> February, 23<sup>rd</sup> March, and 29<sup>th</sup> March, 2004.

The attendance record of each Director in the Board Meetings and the last Annual General Meeting is detailed herein below:

Name of the Director	No. of Board Meetings attended	Attendance Record at the last AGM held on 30.09.2003
<b>(A) Executive Directors</b>		
Shri Proshanto Banerjee, Chairman & Managing Director	17	Yes
Shri J K Jain, Director (Finance)	16	Yes
Shri S P Rao, Director (Project)	15	Yes
Shri B S Negi, Director (Planning)	17	Yes
Shri M R Hingnikar, Director (HR) w.e.f. 28.07.2003	11	Yes
Shri S Niyogi, Director (HR) till 30.06.2003	4	N.A.
<b>(B) Non Executive/Independent Directors</b>		
Shri S Vijayaraghavan, Government Nominee upto 02.09.2003	4	N.A.
Dr. Surajit Mitra, Government Nominee up to 16.07.2003	4	N.A.
Shri M C Bagrodia up to 18.08.2003	4	N.A.
Dr. Amit Mitra	9	No
Shri K S Govindarajan up to 18.08.2003	5	N.A.
Shri B K Das, Government Nominee w.e.f. 02.09.2003	7	No
Shri A K Srivastva, Government Nominee w.e.f. 10.09.2003	11	No
Shri A K Kundra w.e.f. 18.08.2003	11	Yes
Shri B C Bora w.e.f. 18.08.2003	9	No
Dr. R K Pachauri w.e.f. 18.08.2003	3	No

Number of other Board/ Board Committees in which the Directors are Members/ Chairman as on 31.03.2004

Name	Directorship	Membership	Chairmanship
Shri Proshanto Banerjee, C&MD	2	--	--
Shri J K Jain, Director (Finance)	1	1	--
Shri S P Rao, Director (Projects)	1	--	--
Shri B S Negi, Director (Planning)	2	2	--



Name	Directorship	Membership	Chairmanship
Shri M R Hingnikar, Director(HR), appointed w.e.f. 28.07.2003	1	1	--
Dr. Amit Mitra	3	--	--
Shri B K Das, Government Nominee, w.e.f. 02.09.2003	3	--	--
Shri A K Srivastva, Government Nominee, w.e.f. 10.09.2003	3	--	--
Shri A K Kundra w.e.f. 18.08.2003	--	--	--
Shri B C Bora w.e.f. 18.08.2003	1	--	--
Dr. R K Pachauri w.e.f. 18.08.2003	2	1	--

#### Remuneration to Directors

GAIL (India) Limited being a Government Company, the remuneration of the Whole-time Directors is fixed by the Government of India. Non Executive Directors are not entitled to any remuneration except sitting fee paid to them for attending the meeting(s) of the Board of Directors and Committee(s) thereof and expenses incidental thereto.

#### Remuneration Paid to Whole Time Directors and Sitting Fees Paid to Non Executive Directors During the Financial Year 2003-2004 are as under:

	(Rs. in Lakhs)
a) Salary & Allowances	54.35
b) Contribution to Provident, Gratuity & Other Funds	15.33
c) Other benefits and Perquisites	1.95
d) Sitting fee to Non Executive Directors	3.85

#### Audit Committee

The Audit Committee of the Company, constituted in accordance with the provisions of the Listing Agreement and the Companies Act, 1956, comprises solely of Non Executive Directors. The quorum of the Audit Committee is two members. The Company Secretary acts as the Secretary to the Committee.

#### The details of the Audit Committee meeting(s) are given below:

Date of Meeting(s)	Dr. A K Kundra (w.e.f. 18.08.2003)	Sh. B K Das (w.e.f. 02.09.2003)	Sh. M C Bagrodia (upto 18.08.2003)	Dr. Surajit Mitra (upto 16.07.2003)	Dr. Amit Mitra	Sh. B C Bora (w.e.f. 18.08.2003)
13.06.2003	--	--	Present	Present	Not Present	--
30.10.2003	Present	Not Present	--	--	Not Present	Present
19.01.2004	Present	Not Present	--	--	Present	Not Present

#### Brief terms of reference of Audit Committee

The terms of reference of Audit Committee include, inter-alia, the following:

- a) Oversight of the Company's financial reporting process and disclosure of its financial information to ensure that the financial statement is correct.

- b) Reviewing with the management annual financial statement before submission to the Board.  
c) Reviewing with the management, the external and internal auditor, the adequacy of internal control systems.

- d) Reviewing the adequacy of internal audit functions.  
e) Discussion with internal auditors, and any significant findings and follow up thereon.  
f) Reviewing the findings of any internal investigations by the internal auditors into the matter where there is suspected fraud or irregularity or a failure of internal control system of material nature and reporting the same to the Board.  
g) Reviewing the Company's financial and risk management policies.  
h) Recommending the fixation of audit fee.

The Audit Committee Meetings were also attended by Director (Finance), head of Internal Audit Department and by the Statutory Auditors.

#### Shareholder's/Investor's Grievances Committee

The Board has constituted a Shareholder's/Investor's Grievance Committee, in accordance with the requirements of clause 49 of the Listing Agreement.

#### The details of the Shareholder's/Investor's Grievances Committee meetings are given below :

Date of Meetings	Sh. K S Govindarajan (up to 18.08.2003)	Sh. S P Rao	Dr. R K Pachauri (w.e.f. 18.08.2003)	Sh. M R Hingnikar (w.e.f. 28.07.2003)
28.07.2003	Present	Present	--	--
20.11.2003	--	Present	Present	Present

Sh. N K Nagpal, Company Secretary, Sh. K C Sharma, Asstt. Co. Secretary and MCS Limited, Registrars and Share Transfer Agents, New Delhi is/are the Compliance Officer(s) of the Company. During the year under review 511 complaints/requests were received. All complaints/requests have been resolved. The company has been

taking all steps to ensure that shareholders related activities are given due priority and matters/issues are resolved at the earliest. All valid share transfers received during the year were transferred. There was no pendency of transfer of shares as on 31.03.2004.

#### General Body Meeting

##### The detail of last three AGMs is as mentioned below:-

For the year	2000-2001	2001-2002	2002-2003
Date & Time	28.09.2001 10.30 AM	24.9.2002 10.30 AM	30.09.2003 4.00 PM
Venue	Scope Convention Centre, Scope Complex, Lodhi Road, New Delhi	FICCI Golden Jubilee Auditorium, Tansen Marg, New Delhi	FICCI Golden Jubilee Auditorium, Tansen Marg, New Delhi

#### Disclosures

During the year, no material significant transaction with the promoters, directors or the management, their subsidiaries or relatives etc. have taken place which have potential conflict with the interest of the Company.

There has been no non-compliance of the provisions/ requirements of Stock Exchanges/ SEBI by the company. No penalties/ strictures have been imposed on the Company by the Stock Exchanges or SEBI or any other statutory authority on any matter relating to Capital Market during the last three years.

#### Means of Communication.

The quarterly/half yearly results of the Company are announced within a month of the end of the respective quarter. The audited financial results are announced within 3 months of the end of the financial year. The audited/unaudited results are published in leading national daily newspapers. The Company also hosts the financial results on the Company's Website i.e. www.gailonline.com. In addition to the above, the Company issues news release(s) on significant corporate decision(s) and activities and also posts them on the Website.

The Management's Discussions and Analysis forms part of the Annual Report

General Shareholders Information

AGM – Day, Date ,Time & Venue : Thursday, the 30<sup>th</sup> September, 2004 at 10:30 AM  
Siri Fort Cultural Complex, Khel Gaon Marg, Siri Fort Road,  
New Delhi- 110 016

Financial Calendar : April 1, 2003 to March 31, 2004

Date of Book Closure : 15<sup>th</sup> September to 30<sup>th</sup> September, 2004 (both days inclusive)

Dividend Payment Date : 40% Dividend (exclusive of 40% interim dividend already paid) recommended for approval. If approved, the same will be paid within 30 days from the date of AGM

Listing Details

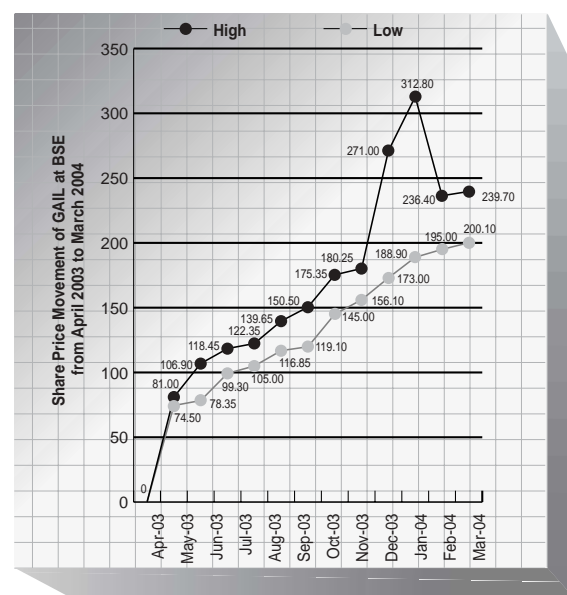
The securities of your company are listed at Delhi Stock Exchange Association Limited; The Stock Exchange, Mumbai ; The National Stock Exchange of India Limited and the Global Depository Receipts (GDR's) are listed at London Stock Exchange. The bonds of the Company are listed at the WDM segment of the National Stock Exchange of India Limited. The Annual listing fee in relation to the listed Equity Shares/Bonds of the company has been paid to the concerned stock exchanges on demand.

Stock Code at BSE: 532155  
Stock symbol at NSE: GAILEQ  
GDR symbol at London Stock Exchange are as: GAID

Market Price Data: High, Low during each month in last financial year

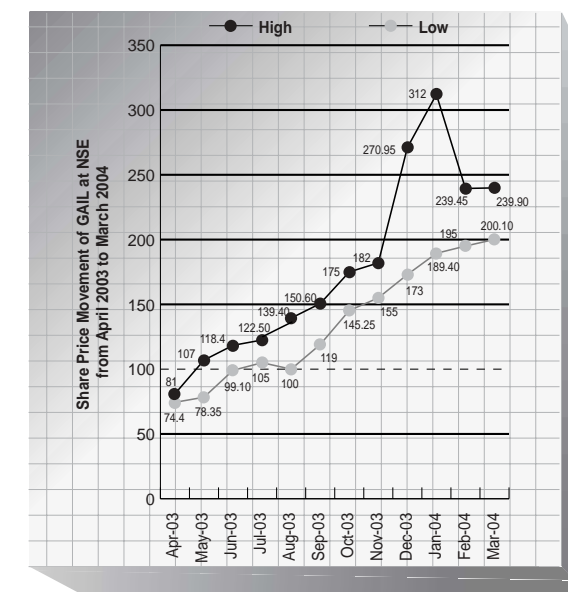
Share Price Movement of GAIL at BSE

Month	High	Low
April 2003	81.00	74.50
May 2003	106.90	78.35
June 2003	118.45	99.30
July 2003	122.35	105.00
Aug. 2003	139.65	116.85
Sep. 2003	150.50	119.10
Oct. 2003	175.35	145.00
Nov. 2003	180.25	156.10
Dec. 2003	271.00	173.00
Jan. 2004	312.80	188.90
Feb. 2004	236.40	195.00
Mar. 2004	239.70	200.10



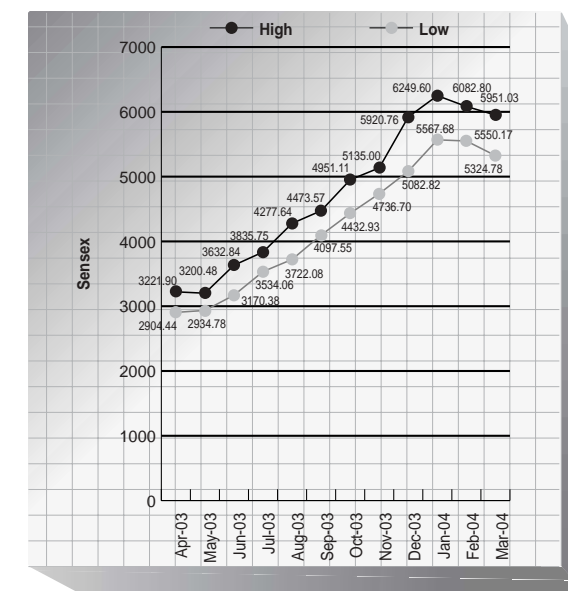
Share Price Movement of GAIL at NSE

Month	High	Low
April 2003	81.00	74.40
May 2003	107.00	78.35
June 2003	118.40	99.10
July 2003	122.50	105.00
Aug. 2003	139.40	100.00
Sep. 2003	150.60	119.00
Oct. 2003	175.00	145.25
Nov. 2003	182.00	155.00
Dec. 2003	270.95	173.00
Jan. 2004	312.00	189.40
Feb. 2004	239.45	195.00
Mar. 2004	239.90	200.10



BSE SENSEX

MONTH	HIGH	LOW
April 2003	3221.90	2904.44
May 2003	3200.48	2934.78
June 2003	3632.84	3170.38
July 2003	3835.75	3534.06
Aug. 2003	4277.64	3722.08
Sep 2003	4473.57	4097.55
Oct. 2003	4951.11	4432.93
Nov. 2003	5135.00	4736.70
Dec. 2003	5920.76	5082.82
Jan. 2004	6249.60	5567.68
Feb. 2004	6082.80	5550.17
Mar. 2004	5951.03	5324.78



Registrars and Share Transfer Agents

MCS Limited  
Sri Venkatesh Bhawan  
W-40, Okhla Industrial Area,  
Phase-II, New Delhi-110020  
Tel. No. - 26384909-11  
Fax No. - 26384907



#### Share Transfer System

The shares of the company are being compulsorily traded in dematerialized form w.e.f. 15.2.99. Shares received in physical form are transferred within a period of 30 days from the date of lodgment of valid share transfer deed along with share certificate. MCS Limited,

a SEBI approved Registrar and Share Transfer Agent has been appointed to effect the transfer of shares and other related jobs. The transfer of share in physical mode are approved by the Share Transfer Committee, comprising of Functional Directors including C&MD.

#### Distribution of Shareholding

The distribution of shareholding of the company as on 31.03.2004 is as detailed below:

No. of Shareholders	% to Total	Shareholding of nominal value of Rs. 10	No. of Shares	Amount (in Rs.)	% to Total
371192	96.47	Upto 5000	30666522	306665220	3.63
6967	1.81	5001 to 10000	5297639	52976390	0.63
3498	0.91	10001 to 20000	5047900	50479000	0.60
972	0.25	20001 to 30000	2446605	24466050	0.29
448	0.12	30001 to 40000	1604145	16041450	0.19
323	0.08	40001 to 50000	1510084	15100840	0.18
542	0.14	50001 to 100000	3997155	39971550	0.47
823	0.21	100001 and above	795081550	7950815500	94.0
<b>384765</b>	<b>100.00</b>	<b>TOTAL</b>	<b>845651600</b>	<b>8456516000</b>	<b>100.00</b>

#### Dematerialisation of shares & liquidity:

The trading and holding of shares have been made compulsorily in Demat form w.e.f. 15.2.1999.

#### Outstanding GDRs/ADRs/Warrants or any convertible instruments, conversion dates and likely impact on equity

The Government of India disinvested 135 million Equity Shares out of its holding in the international market through GDR mechanism in 1999-2000. A total number of 22.5 million GDRs were issued, one GDR comprising six equity shares. As on 31.03.2004, total number of 96,90,478 GDRs were outstanding. The conversion of GDRs into Equity Shares have no impact on equity.

#### Major Plant Locations

1. U P Petrochemical Complex, PATA P.O. Pata-206241 Distt. Auraiya (U.P.)
2. LPG Recovery Plant, Usar P.O. Malyan-402203 Tal. Alibagh, Distt. Raigad (Maharashtra)
3. LPG Recovery Plant, Vijaipur GAIL Complex, Vijaipur-473112, Distt. Guna (M.P.)
4. LPG Recovery Plant, Vaghodia GIDC Industrial Estate Vaghodia-391760 Distt. Baroda (Gujarat)
5. LPG Recovery Plant Lakwa, Sivasagar-785688 (Assam)
6. LPG Recovery Project, Gandhar Vill- Rozantankaria, Tal: AMOD Distt- Bharuch 392140 (Gujarat)

#### Address for Correspondence

GAIL(India) Limited  
16, Bhikaji Cama Place  
R.K. Puram, New Delhi-110 066  
Tel.No. 26172580, 26182955  
Fax No. 011-26185941

### Auditor's Certificate on Corporate Governance

To  
The Shareholders of GAIL (India) Limited

We have read the report of the Board of Directors on Corporate Governance and have examined the relevant records relating to the compliance of the conditions of Corporate Governance by GAIL (India) Limited for the year ended March 31, 2004 as stipulated in clause 49 of the Listing Agreement of the said Company with the Stock Exchanges.

The compliance of the conditions of the Corporate Governance is the responsibility of the management. Our examination was limited to the procedure and implementation thereof adopted by the Company for ensuring compliance with the conditions of Corporate Governance. It is neither an audit nor an expression of opinion of the financial statements of the Company.

In our opinion and to the best of our information and according to the explanations given to us, the Company has complied with the conditions of Corporate Governance as stipulated in clause 49 of the above mentioned Listing Agreement.

We state that no investor grievance(s) is/ are pending for a period exceeding for one month against the Company as per the records maintained by the Shareholders/ Investors Grievances Committee.

We further state that such compliance is neither an assurance as to the future viability of the Company nor efficiency or the effectiveness with which the management has conducted the affairs of the Company.

For M/s S Mann & Co.  
Chartered Accountants

Subhash Mann  
(Partner)  
Membership No. 80500

Place: New Delhi  
Dated: June 30, 2004





## Management Discussion and Analysis

### Industry Structure and Developments

The Oil and Natural Gas industry has traditionally been regulated by the Government of India (GoI). The regulation has been in the form of state ownership of industry participants, consumer and producer prices and the allocation of resources to distributors and end-users.

The Ministry of Petroleum and Natural Gas (MoP&NG) oversees the entire chain of activities from exploration and production of crude oil and Natural Gas (NG), refining, distribution and marketing of petroleum products and NG, export and import of crude oil and petroleum products.

The share of gas in total energy consumption has remained low primarily because of limited domestic availability of gas. The situation is likely to remain unchanged unless new gas fields are discovered, gas is imported or alternate sources of gas become commercially available.

In the long term, the incentives for additional exploration embodied in the GoI's exploration licensing policy provide significant and operating incentives to exploration and production companies to search for new gas fields in Indian territorial water.

### Opportunities, Threats, Risks and Concerns

The Company is dependent upon key suppliers for NG. Over 80% of NG is purchased directly from Oil and Natural Gas Corporation Limited (ONGC). Further, the gas supply is provided by Oil India Limited and three Joint Ventures, where ONGC is a consortium member. Fertiliser plants and Power generation facilities are the predominant consumers of NG accounting for 90% of NG consumed. Ten largest customers, most of which are government-controlled entities, account for one-third of sale of NG.

The petrochemical business is competitive and it has shown a historical pattern of price cycles. The polymer industry also faces competition from imports.

The GoI after disinvestment of its equity to the extent of 10% in the domestic market in March, 2004, is holding 57.35% of share capital of the Company. The major decisions like fixation of price of NG, fixation of tariff for HVJ Pipeline are taken by GoI. The GoI has been considering a possible upward revision of NG prices which will impact the cost base of LPG, petrochemical businesses and transmission business on HVJ.

The claims against the Company shown as contingent liabilities mainly arise from excise duty, sales tax, customs, income tax, consumer disputes etc. for which legal proceedings are pending at different levels of adjudication before various courts and tribunals.

The Company does not maintain insurance to cover the replacement of pipelines because it is believed, over the period of time, the cost of replacement of a segment in the event of loss would be less than the cost of applicable insurance premiums on entire pipeline.

MoP&NG is the administrative ministry for the Company as well as the primary administrator of the oil and gas industry in India. The Petroleum Regulatory Board Bill, 2002 was placed before the Parliament before its dissolution, which sought to regulate the business of NG transmission and refining, processing, storage, transportation, distribution and marketing. The draft policy for Development of Gas Pipelines Network calls for the appointment of a regulator to oversee the transmission, distribution, supply and storage of NG and to promote development of NG Sector. The draft policy calls for application of common carrier principles and any Company will be able to apply for approval to construct a pipeline. The mechanism for sharing LPG under-recovery of the oil marketing companies in the year 2003-04 affected Profit before Tax to the extent of Rs.428 Crores.

Your Company has taken several initiatives to minimise the risks, which include:

- **Re-gasified LNG (RLNG)** – Your Company co-promoted Petronet LNG Limited (PLL) to import LNG at Dahej and Cochin. As per Gas Sale and Purchase agreement, GAIL will market 60% of 5 MMTPA of RLNG available at Dahej. In order to evacuate RLNG, construction of the Dahej-Vijaipur Pipeline (DVPL) connecting the Dahej terminal with the existing network in Gujarat and HVJ customers has been completed and supplies have commenced. The project was completed six months ahead of schedule resulting in savings of over Rs.600 Crores.
- **Expansion of the Petrochemical Complex** – The Petrochemical Complex at Pata is being expanded in two stages, which will help reduce average cost of production due to economies of scale. In the first phase, the Swing Plant has been de-bottlenecked to increase its capacity from 1,60,000 TPA to 2,10,000 TPA. In the second stage of expansion, the ethylene capacity will be increased from 3,00,000 TPA to 4,40,000 TPA by increasing the number of cracker furnaces from four to five and increase of capacity of HDPE from 1,00,000 TPA to 2,00,000 TPA.



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- **LPG Pipeline** – A 580 km long LPG pipeline, having a designed capacity of 1.16 MMTPA from Vizag to Secunderabad via Vijayawada in the state of Andhra Pradesh has been commissioned in July, 2004. The pipeline will transport LPG imported at Vizag port and produced at HPCL's Vizag refinery, to the bottling plants of BPCL, HPCL and IOC.
- **National Gas Grid** – Your Company has conceptualised the development and construction of a National Gas Grid (NGG) for developing primary high pressure inter-state gas pipeline networks to provide gas to all parts of the country, by linking sources and supply of NG to end subscribers. The grid shall comprise pipelines in 12 sectors over a total estimated length of over 8,000 kms and shall supply NG to the energy deficient industrial belts across 14 states of the country. The pre-project activities are underway and your Company is in the process of planning the construction of pipeline segments to satisfy regional gas customer demand under the NGG. The pipeline sector from Dahej to Vijaipur is already commissioned. Project activities are underway in some of the other sectors.
- **Oil and Gas Exploration and Production** – With a view to augment gas supply, your Company is participating in exploration blocks in consortium with other E&P companies consisting of oil sector PSUs and Indian and foreign companies. With the award of 2 blocks in NELP-IV to GAIL consortium, your Company is participating in 12 E&P Blocks. Out of 12 Blocks, one is in Myanmar (Block A-1) where recently gas has been discovered upon drilling of the first exploratory well and further appraisal drilling programme is planned. Exploration work programme in E&P blocks during 2003-04 consisted of reprocessing of 300 LKM seismic data, acquisition of 1600 Km<sup>2</sup> 3D seismic data, drilling of 4 onland wells and 1 offshore well and geological and geophysical interpretation of the available data.
- **City Gas Distribution** – Your Company has entered into joint ventures to supply and market NG to retail and domestic customers. At present, your Company distributes Compressed Natural Gas (CNG) to the transport sector through joint ventures in the cities of Delhi, Mumbai and Hyderabad. There are plans to form joint venture companies for distribution of Piped Natural Gas (PNG) and CNG in the cities of Lucknow, Agra, Kanpur and Pune under Project Blue Sky. Agreement has been signed for JVs at Kanpur and Agra with BPCL.
- **Telecommunications** – Your Company's telecommunications service arm, GAILTEL, provides both internal telecommunication services and commercial bandwidth services to customers. There are plans to invest Rs.300 Crores to expand the network from 8,000 kms to 18,000 kms as part of the proposed NGG project and to create an IP-MPLS network connecting 10 cities in the country.
- **Marketing Infrastructure** – Liberalisation of the Gas Sector, together with the likelihood that additional NG supplies will become available, will lead to greater competition in core business. This will require more focus on marketing activities. Experience in petrochemicals and propane marketing coupled with dedication to customer service as co-ordinated by eleven zonal marketing offices will enhance competitiveness. A Technical Services Cell has been created to help consumers to use NG more efficiently.
- **Overseas Expansion** – Increasing gas demand globally and in India has led to increased activity in gas sector projects. In view of the limited nature of gas reserves of India, the Company is expanding its business activities overseas with a focus on gas sector projects and gas-based value added projects. At present, the Company is targeting Myanmar, Bangladesh, Iran, Egypt and the Philippines as possible destinations for investment. Opportunities in the Central Asian Republics, Turkey and some African countries are under study. Your Company has acquired a participating interest in an offshore block in Myanmar in the year 2001, where gas has recently been discovered and where further exploration and appraisal of the discovery is being planned. In addition, your Company has signed agreements with Shell Gas, B.V. and acquired equity for city gas distribution and CNG projects in Egypt.

### Segment-wise performance

#### Natural Gas Business

Your Company has a network of 5,374 kms of pipelines spread across the length and breadth of the country. The 2,785-km HVJ Pipeline System which runs from Hazira on the western Coast of India through Vijaipur to Jagdishpur in North India and links to Delhi, forms the backbone of the NG transmission system in India.

The HVJ Pipeline has an installed capacity of 33.4 MMSCMD as on 31<sup>st</sup> March, 2004 and gas throughput during the year was 32.23 MMSCMD. Gas transmission accounted for 72% of revenues of the Company.



### Liquefied Petroleum Gas Production Business

The Company operates seven plants at six locations, which process NG to produce LPG and other liquid hydrocarbons. In addition to LPG production, these plants also produce Propane, SBP solvents and Pentane etc. For Fiscal 2004, net sales of over Rs.2,300 Crores was attributable to these products, representing over 17% of the revenues.

In view of the government directives, LPG produced by the Company is not allowed to be sold to the end consumers. Instead, the same is sold to various Public Sector Oil companies at import parity prices, who in turn sell LPG to ultimate end-users. However, the Company is permitted to sell Propane directly to industrial and commercial customers.

The Company has approached the MoP&NG to grant permission to the Company to market LPG directly to the bulk industrial, packed commercial, auto and domestic LPG segments.

### Petrochemical Business

Your Company's petrochemical plant which produces HDPE and LLDPE, is the only petrochemical plant in North-Central India. The petrochemical complex has a production capacity of 2,60,000 TPA of Polyethylene. Your Company has entered into a strategic marketing alliance with Haldia Petrochemicals Limited (HPL) which includes the marketing of Polypropylene and the swapping of Polyethylene to achieve cost efficiency in logistics.

Petrochemical business comprises over 9% of revenue stream of the Company.

### LPG Transportation Business

Your Company constructed a 1,300 km long LPG pipeline system from Jamnagar and Kandla in Western India to Loni, near Delhi in Northern India. The system has a capacity of transportation of 2.5 MMTPA of LPG. This business comprises 2% of revenue generation for the Company.

### Telecom Business

The pipeline systems need dedicated telecommunications system for proper control. In order to optimally utilise the bandwidth available, telecommunication service arm called GAILTEL was envisaged. Commercial bandwidth service under Infrastructure Provider Category II and Internet Service Provider Licences was started. This business provided only marginal contribution to the revenues.

### Outlook

The Company's core business is supply of NG, which is the fuel of future. There is a gap between the demand and supply position of NG in India and therefore, GAIL, being the dominant player in the market, has the responsibility and role to bridge the gap by way of increasing supplies either through internal sources within India or abroad. The Company's strategy is to maintain its leading position in the business in India.

The main elements of the Company's strategy have been to:

- Configure capacity to match the demand and supply situation
- Integrate backward to secure access to additional gas supply
- Integrate forward into profitable value added businesses
- Overseas expansion
- Acquisition and diversification

### Internal control systems and their adequacy

The Company has developed internal control systems commensurate to its size and business. The Company also has an in-house Internal Audit Department which ensures adequacy of internal control systems and reports to the Audit Committee, which further reviews the adequacy of internal control systems.

### Financial performance with respect to operational performance

Gas business accounted for 72% of the turnover followed by LPG comprising 17% of the total turnover of Rs.11,942 Crores(net of ED). Petrochemical business comprised 9% of the turnover of the Company. The earning per share crossed Rs.22/-. The debt-equity ratio came down to 0.29. The book value per share stood at Rs.88.02 as on 31<sup>st</sup> March, 2004.

### Material developments in Human Resources and Industrial Relations front

Industrial scenario in general during the year 2003-04 remained harmonious and cordial. There was no strike or lock-out during the year and as such no man-hours were lost. As on 31<sup>st</sup> March, 2004 there were 3,374 employees on the rolls of the Company.

## Environment, Health & Safety and Energy Management Initiatives

### Environment

#### Corporate EHS Policy

Your Company is committed to promote highest level of safety in all areas of working with clear emphasis on improving the environment. The safety and health of its employees are also of paramount importance to the Company and all these attributes are embedded within the core organisational values of the Company. In keeping with Corporate Safety, Health & Environment Policy, the objective is to:

- 1) Design, construct, operate and maintain its facilities as per the best practices available to ensure safety of public, employees, plant & equipment
- 2) Comply with all statutory rules and regulations in safety, health and environment
- 3) Impart training to its employees for safe operation of its facilities and quick response during emergency
- 4) Carry out safety audits of its facilities on regular basis to ensure systems are in place, updated and followed
- 5) Provide Personal Protective Equipments (PPEs) to its employees
- 6) Conduct regular medical checkup of its employees for occupational health hazards
- 7) Comply with statutory rules and regulations in respect of plant emissions and effluent
- 8) Promote eco-friendly initiatives
- 9) Provide a good communication system at all its facilities for safe operations
- 10) Delegate power to employees to implement the Company's policy on safety, health & environment

In order to attain sustainable development, your Company has given topmost priority to environment protection in all activities including the phases of technology selection, process design, project execution and operation. There is a full-fledged Corporate Safety, Health and Environment department. The department maintains effective communication in matters of Safety, Occupational Health, Environment and Loss prevention throughout the different installations of GAIL. At the O&M locations there are qualified Fire, Safety, Occupational Health, Environment and Loss Prevention executives who advise local management on the promotion of high standards of Safety, Health, Environment and Loss prevention at site.

#### EHS Certification

All LPG Plants, petrochemical plant and major pipeline systems have been certified for Environment Management System (ISO 14001). Implementation of Occupational Health and Safety Management System (OHSAS 18001) has also been completed at three LPG plants

& Jamnagar-Loni pipeline. Remaining installations are in the process of implementation and expecting the OHSAS 18001 certification during next year.

#### Environmental Awards

Greentech Environment Excellence Award for 2001-2002 was given to Vaghodia LPG Plant, Vijaipur, Lakwa, Usar by Greentech Foundation, New Delhi. This foundation is supported by Ministry of Environment and Forests, Government of India and Centre for International Transfer of Environmental Technologies, Germany. The award is in recognition of the care for Environment adopted by your Company.

#### Ensuring Compliance

Your Company fulfils the required statutory requirements of Central and State Pollution Control Boards. Major parameters as required are being regularly monitored and reported to the concerned statutory/regulatory bodies, viz., CPCB, SPCB, MoEF. GAIL's environmental performance is well within the emissions limits in statutory guidelines for all operations.

#### Greenbelt Development

Your Company has continually endeavoured towards sustainable development in line with the Corporate EHS Policy. As a result, the area in and around the Petrochemical Complex at Pata has turned from barren infertile land into a green oasis. More than five lakh trees of various species have been planted after extensive treatment of soil with gypsum and good earth replacement for their optimum growth. The green cover is now over 200 Ha. within the petrochemical complex of 585 Ha. This green cover together with large water bodies in the complex has created an ideal ecological habitat for birds and animals.

#### Water & Waste Water Management

Apart from creating an ideal ecological habitat, the petrochemical complex at Pata has always strived to conserve the natural resources. Over Rs.20 Crores have been invested to set up comprehensive wastewater management facilities at Pata primarily to ensure that wastewater is treated so as to maintain the quality at the discharge point.

The comprehensive wastewater management comprises of oil removal facilities, chemical treatment and biological treatment facilities with extended aeration process. The treated wastewater is being recycled and used for horticulture and firewater makeup purposes. Continuous efforts are made to maximise recycle of treated wastewater. Conservation of this precious resource is ensured by treating wastewater to the best quality for sustenance.



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### Solid Waste Management

The solid wastes in the petrochemical complex are collected, stored and handled in a manner, which has no detrimental effects on the environment. A secured landfill construction is already underway for disposing of oily sludge from wastewater management facilities in a secured manner. Feasibility studies for installation of incinerator to burn tarry residue from gas cracker unit is being undertaken.

### Air Pollution Management

One of the major advantages of the operations is the use of natural gas as feedstock, which is environmentally friendly among fossil fuels. All facilities have the facility of monitoring the stack air and the ambient air on a continuous basis. Each ambient air monitoring shelter is capable of monitoring sulphur dioxide, oxides of nitrogen, hydrocarbons, carbon monoxide and noise on a continuous basis.

### Zero Discharge Project

Petrochemical Plant at Pata is carrying out the modifications in the pipeline network in order to recycle maximum quantity of treated wastewater for horticulture purposes. The scheme and modifications shall contribute to recycle almost 30% of treated wastewater by the end of the year 2004.

### Ecological Park Development

Taking advantage of the natural terrain and with extensive de-silting operations, GAIL has converted a small pond into a lake. All around the lake, extensive plantation has helped to create an ideal ecological park with various species of birds visiting during different seasons. A peripheral embankment has been created for a nature walk for all the visitors.

### Health and Safety

GAIL has always accorded topmost priority and importance to safety in pipelines, enroute installations and process plants at every stage, from design through to operation and maintenance. Considerable efforts are made at all levels to strengthen safety systems so as to minimise accidents and undesirable events to the extent possible. GAIL's goal has always been to achieve zero-accident level.

### Safety Awards

Five Star Health & Safety Management System Audit was conducted by British Safety Council, U.K. wherein LPG recovery plants at Vijaipur, Lakwa and Usar were awarded Five Star rating. LPG Plants, Vijaipur & Lakwa also received 'Sword of Honour' for their outstanding performance. LPG Plant, Vijaipur received the 'Sword of Honour' for the third consecutive year.

LPG recovery Plants at Usar & Auraiya received 1st & 2nd 'Oil Industry Safety Awards' respectively in the category 'Other Processing Organisations' and Jamnagar – Loni Pipeline received 2nd prize under the category 'Cross country pipelines'. Your Company has also received special award 'No Fatality Award' from OISD for its excellent safety record.

Greentech Safety Award for 2003-04 was awarded to Pata Petrochemical Plant & Vaghodia LPG Plant by Greentech Foundation, New Delhi. The award was presented in recognition and commendation of the services rendered by GAIL, for the cause of safety.

### Emergency Preparedness

Your Company has developed and implemented emergency response and preparedness programmes at all the O&M locations. This includes emergency response plans, procedures for using, inspecting, testing and maintaining emergency response equipment, fire safety measures, alarms and equipment and training for all the employees.

### Energy Management Services

#### Formation of Energy Management Services Group

GAIL has created Energy Management Services (EMS) Group to undertake various activities pertaining to energy efficient solutions to customers. A dedicated team of 11 engineers has been constituted and posted at Zonal/Branch offices, who would visit industries that use Natural Gas and provide guidance on the efficient use and thereby conservation of the fuel. The EMS Group would help users in identifying the areas of inefficient use of Natural Gas and suggest measures that when implemented would bring down such losses. The EMS group has undergone exhaustive training at ASCI Hyderabad, NPC New Delhi & Advantica UK. The EMS group has also undertaken hands-on training on Energy Audit with PCRA and NPC and appeared in the BEE examination so as to qualify as individual accredited energy auditors from Bureau of Energy Efficiency, Ministry of Power, Government of India.

The aims and objectives of the EMS Group are:

- To promote measures for accelerating conservation of Natural Gas leading to environmental protection, energy security and sustainable development
- To create awareness amongst the industries/users about the importance, benefits and methods of conserving Natural Gas by disseminating information
- To promote research & development aimed at conservation, environmental protection, facilitate adoption and dissemination of fuel efficient technologies

- To establish synergistic institution linkages at the national and international levels in the areas of conservation
- To provide training and technical services designed to achieve economy and efficiency of Gas use
- To function as a 'Think Tank' for proposing strategies

### Natural Gas Conservation Programme

Your Company launched the nation-wide first Natural Gas Conservation Programme on 15th December, 2003 at New Delhi. The programme, meant to spread the word of conservation of this precious natural resource, is the beginning of a movement pioneered by GAIL.

To encourage the gas conservation efforts, GAIL has instituted the 'Award for Excellence' for efficient use of Natural Gas by major gas using industries including fertiliser, power, petrochemicals, sponge iron, fractionation units and gas compressor stations. Tata Chemicals, NTPC, Essar Steel, Vaghodia LPG Plant, Hazira Compressor Station were the winners in their respective sectors.

### Technology Meets

GAIL organised various technology meets at Agra, Khurja, Ferozabad and other locations in association with Confederation of Indian Industries (CII). The meets were aimed at confronting issues pertaining to the efficient use of Natural Gas, the technological changes needed and the best practices required for ensuring the product quality, reducing wastage while using Natural Gas efficiently.

### Climate Change Initiatives

Your Company recognises that the risk of climate change and its potential impact on society and ecosystems may prove to be significant. GAIL proactively undertakes innovative measures to manage and reduce GHG emissions at all the locations. At Pata Plant, presently Carbon Dioxide (CO<sub>2</sub>) being produced during the Gas processing stage is being vented out into the atmosphere. With the objective of arresting the environmental pollution due to Green House Gases Emissions, a project for the supply of this CO<sub>2</sub> to Fertiliser plants is under active consideration. Detailed Feasibility Study for laying the facilities required for the supply of CO<sub>2</sub> to Fertiliser plants has also been prepared by a reputed consultant. This project is being considered as a Clean Development Mechanism project under Kyoto Protocol. In nutshell, this is an opportunity not to just reduce carbon emissions but to earn carbon credits to finance as an innovative development tool to make the project techno-economically attractive available.



## Energy Conservation

Your Company continues in its mission of conservation of natural gas and all form of energy at all of its O&M locations and buildings. During the year, the Company has taken the following initiatives for conservation of energy:

### Petrochemical Complex, Pata

Energy audit of the entire complex facilities has been undertaken and actions initiated on the following activities that would improve specific energy consumption and reduce environmental pollution:

- Inspection of steam traps and their rectification
- Replacement of motors with steam turbine drives for pumps/fans
- Benchmarking for processes
- New technologies introduced in existing operations:
  - C4 hydrogenation unit in gas cracker plant successfully commissioned
  - Commissioning of gas processing unit (absorber trays change over, replacement of molecular sieves, regenerator column trays changeover along with pre-stripper column)
  - Commissioning of new ethylene emergency vaporiser
  - Commissioning of new bagging line 'C' in LLDPE unit

### LPG Recovery Plant, Usar

- Trimming of impeller of 125 KW cooling water circulation pump by 25 mm without effecting the plant cooling water flow and pressure requirements
- Installation of precision temperature controller in centralised A/C unit of main control room
- Optimisation of flow settings and nitrogen consumption of the PSA-N<sub>2</sub> plant
- Optimisation of operation of 2 MVA power distribution transformer of PMCC-302

### LPG Plant, Vaghodia

- Installation of solar heating system providing 100 Ltr. hot water everyday in canteen
- Installation of 100 nos. electronic choke in FTL fitting in LPG control room and substation
- Stopping IA comp CW pump and radiator fan by diverting NTGG cooling water

- Installation of 50 nos. 2 x 9 W CFL in place of 2 x 36 W FTL in administration building
- Enhancement of HT capacitor
- Installation of 100 nos. electronic choke in FTL fitting in GREP control room

#### LPG Plant, Vijaipur

Energy audit of the LPG recovery & compressor stations has been carried out and actions initiated on the following activities that would improve specific energy consumption and reduce environmental pollution

- Reduction in number of cooling water re-circulation pumps by regulating water flow of heat exchanger
- Optimisation of usage of cooling water make up pump.

#### LPG Plant, Gandhar

- Optimisation of transformer operation
- Replacement of 600 nos. of normal tube lights with energy efficient tube lights



## Corporate Social Responsibility (CSR)

Your Company is committed to operate the core business in a socially responsible way, complemented by investment in communities to produce an overall positive impact on society and environment. In line with the directives of the Government of India and Company's policy guidelines, GAIL has been taking up meaningful social welfare programmes aiming at welfare and development of the weaker sections of the society and protection and maintenance of environmental balance in the areas adjoining its work centres and offices across the country.

Accordingly, GAIL's approach towards social welfare programmes have been re-designed. New policy frameworks have been created to make the CSR programmes more effective and meaningful. In order to fulfill the social obligations under CSR, all the work centres and Zonal Offices are identifying social welfare programmes in consultation with local/statutory/social groups like Gram Panchayat/Revenue Offices/Collectors/State authorities/District authorities, CMOs, Headmasters/Principals of the local schools and so on.

Your Company has carved out clear-cut policy guidelines approved by its Board, that envisages:

- Overall annual budget on CSR is allocated to the work centres & Corporate Office
- Organisation's focus on CSR programmes are envisaged in a 3-tier arrangement, i.e. national, zonal and work centre level
- National and Zonal level programmes are executed by Corporate Office and/or Zonal Offices, while the work centres execute the programmes as envisaged and planned by them
- Budget is sub-allocated in the ratio of National : Work Centres : 1:3, i.e. 25% of the overall budget is allocated to national level programmes executed by Corporate/Zonal Offices and 75% is allocated to the work centres
- The programmes are identified, aligned and taken up in the following broad heads/areas so as to focus GAIL's efforts to specific thrust areas

Some of the major projects taken up during 2003-04 are:

- Augment drinking water facilities in Abu Road and Ajmer in Rajasthan and in East Godavari district in Rajahmundry (Andhra Pradesh). Initially, 60 nos. 5000 litre capacity water tanks have been distributed to over 50 villages in Ajmer district that helped hundreds of poor villagers during the water scarce days. All out actions have been taken to provide such 5000 litre capacity water tanks in over

140 villages to cover almost all the villages in Ajmer district. Water-filled tankers were also arranged by work centre at Nasirabad to fill up these storage water tanks.

- Provide tube wells, bore wells and hand pumps to the villages having scarcity of natural water reservoir at Agra and Pata in UP, Rajahmundry in AP and Vijaipur in MP.
- Merit scholarship distributed to the meritorious school children by 20 work centres across the country covering over 40 schools and over 2500 children in Standard II to XII.
- Empowered physically handicapped persons by providing motorised tricycle, tricycle rickshaws, personal computers with relevant software for visually impaired children at Delhi, Agra and Vaghodia.
- Provided sewing machines, vocational training for food processing and preservation, legal awareness, health and hygiene to women belonging to socially and economically under-privileged categories at Delhi, Vijaipur, Rajahmundry and some other work centers.
- Grant to Bharuch Civil hospital for development of a burn ward A 50-bed hospital at AV Road, Guna, MP is under construction.
- Extensive health/family welfare/nutritional/family planning camps organised across the work centres in slum areas of Delhi and Gurgaon, Pata, Vijaipur, Vaghodia and Baroda.
- Adopted 100 senior citizens in association with Help Age at Kolkata, Chennai and Springdales, Delhi.
- Sponsored 500 cases of cataract surgery with IOL implant for senior citizen in association with Help Age all over India.
- Provided state-of-the-art Mobile Medicare Units (MMUs) for rendering healthcare services to the people living in unreachable places where elementary health/medical facilities are scarce. GAIL donated MMUs to Rama Krishna Mission, Haridwar, Help Age at Jaipur and Jhabua.



In addition to CSR programmes depicted above, some of the new initiatives envisaged and taken up in the current year are:

- (i) Setting up Air Pollution Related Disease Diagnostic Centres in 22 cities/locations which are highly polluted and where GAIL has planned to establish CNG/PNG installations.
- (ii) Use of waste plastic for construction of road as an alternative to Coal Tar (Bitumen).
- (iii) Tele-medicine facilities in the very interior villages at Vijaipur and Pata.
- (iv) Distribution of anti-malaria-agent treated HDPE-based bed nets (mosquito nets) through MCD schools in and around Delhi.
- (v) Distribution of polymer bins in prominent public places in hill and plain regions of UP and Uttaranchal States to restrict litter of wastes.
- (vi) Promotion of plastic compostable bags for domestic use and segregation of biodegradable and non-biodegradable wastes.
- (vii) Conversion of conventional crematorium into Natural Gas based in Mumbai, etc.

Your Company has also organised a study aiming at benchmarking CSR Activities. The study encompassed ten leading and premier business houses in private and public sectors like TISCO, WIPRO, Infosys, ITC, BPCL, IOCL, HPCL, NTPC and BHEL on comparative platform. The study has provided valuable insights on the locus standi of GAIL on CSR pragmatics and practices, and the roadmap to travel.



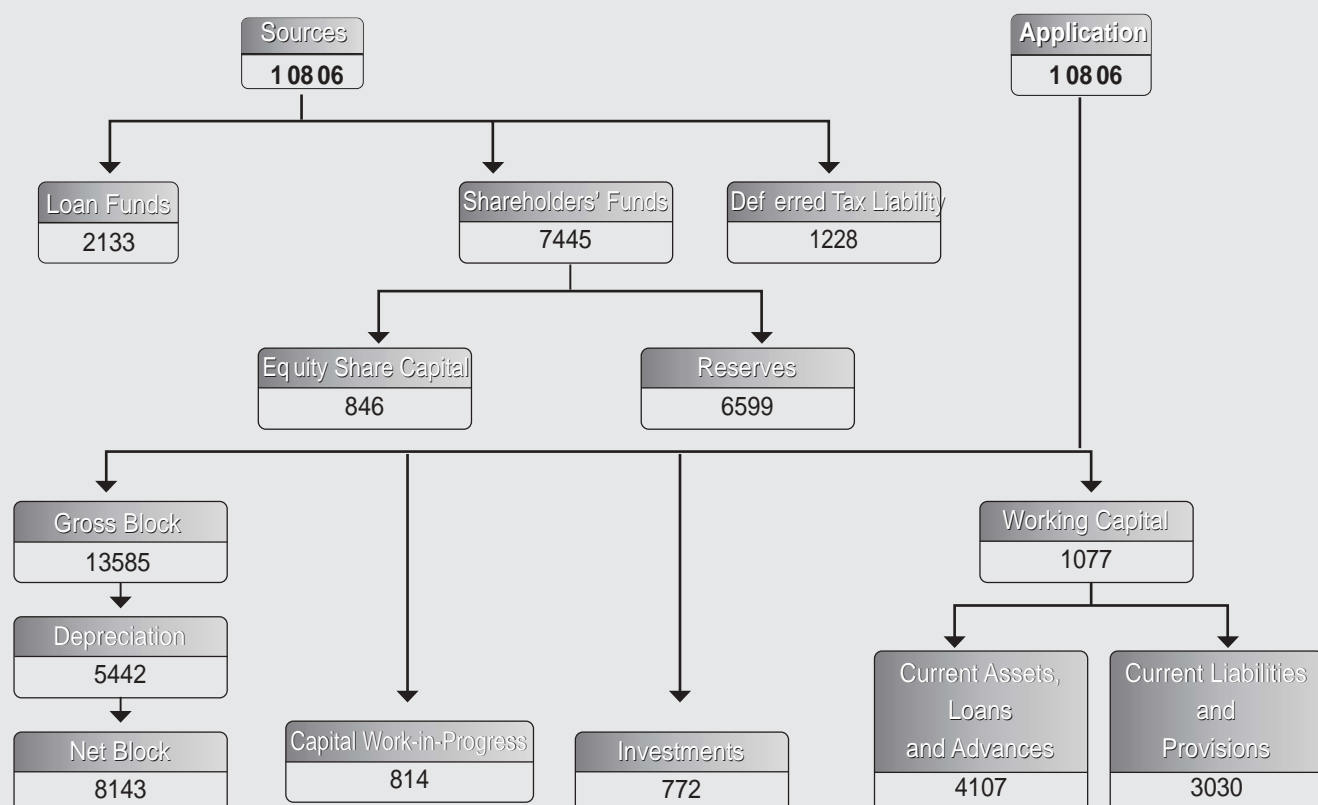
Five Year Profile

(A) Financial

(Rs. in Crores)

Sources and Application of Funds  
as at March 31, 2004

(Rs. in Crores)



	1999-2000	2000-2001	2001-02	2002-03	2003-2004
Paid-up Capital	845.65	845.65	845.65	845.65	845.65
Reserves & Surplus	3,879.58	4,634.40	4,489.79	5,493.48	6,599.50
Secured Loans	658.62	661.17	397.63	163.95	1,655.52
Unsecured Loans	1,713.86	2,049.72	2,027.18	1,883.17	477.96
Deferred Tax Liability (Net)	-	-	1,090.74	1,119.75	1,227.58
	<u>7,097.71</u>	<u>8,190.94</u>	<u>8,850.99</u>	<u>9,506.00</u>	<u>10,806.21</u>
Represented by :					
Gross Block	8,522.36	10,037.91	10,701.94	11,048.71	13,584.73
Less : Depreciation	<u>2,967.62</u>	<u>3,568.87</u>	<u>4,167.06</u>	<u>4,786.61</u>	<u>5,441.85</u>
Net Fixed Assets	5,554.74	6,469.04	6,534.88	6,262.10	8,142.88
Capital Work-in-progress	815.51	632.23	425.70	688.14	814.47
Investments	632.45	661.45	688.21	687.94	771.99
Net Current Assets	94.57	427.88	1,201.98	1,867.71	1,076.87
Miscellaneous Expenditure	0.44	0.34	0.22	0.11	-
	<u>7,097.71</u>	<u>8,190.94</u>	<u>8,850.99</u>	<u>9,506.00</u>	<u>10,806.21</u>
Gross Sales	7,710.17	9,197.44	9,567.50	10,641.99	11,295.67
Gross Margin	1,686.84	2,349.98	2,622.05	3,348.31	3,614.10
Depreciation	488.65	600.52	593.16	643.54	661.60
Preliminary / Deferred Revenue					
Expenses Written-off	0.11	0.11	0.11	0.11	0.11
Interest	166.81	197.14	226.88	186.37	137.97
Profit / (Loss) Before Tax	1,031.27	1,552.21	1,801.90	2,518.29	2,814.42
Profit / (Loss) After Tax	<u>861.27</u>	<u>1,126.17</u>	<u>1,185.84</u>	<u>1,639.11</u>	<u>1,869.34</u>
Dividend Including Interim Dividend	253.70	338.26	380.54	591.96	676.52
Corporate Dividend Tax	27.91	34.50	-	43.34	86.68
Internal Generation	1,350.03	1,726.80	1,779.11	2,282.76	2,531.05
Net Worth	4,715.11	5,468.61	5,332.65	6,336.57	7,442.82
Capital Employed	5,649.31	6,896.92	7,736.86	8,129.81	9,219.75



## Five Year Profile

### (B) Gas Throughput/Production

	1999-2000	2000-2001	2001-02	2002-03	2003-2004
Natural Gas (MMSCMD)	60.27	61.75	61.60	63.40	62.84
LPG (M/T)	756140.41	784591.28	998235.65	1114423.41	1088686.04
SBP Solvent (M/T)	29183.49	31269.83	23453.94	34507.83	65298.28
Pentane (M/T)	16820.89	10494.90	24253.44	33466.30	51872.15
Propane (M/T)	64576.06	79415.82	87434.69	120187.81	157303.26
Ethylene (M/T)	153440.70	213716.00	272048.30	311995.00	275610.00
HDPE / LLDPE (M/T)	118807.45	194587.16	250287.94	291828.51	263719.91

### (C) Financial Ratios

Net Worth Per Rupee of Paid-up Capital (Rs.)	5.58	6.47	6.31	7.49	8.80
Borrowings to Net Worth	0.50	0.50	0.45	0.32	0.29
Profit Before Tax to Capital Employed (%)	18.25	22.51	23.29	30.98	30.53
Profit Before Tax to Net Worth (%)	21.87	28.38	33.79	39.74	37.81
Profit Before Tax to Gross Sales (%)	13.38	16.88	18.83	23.66	24.92
Profit Before Tax to Gross Fixed Assets (%)	12.10	15.46	16.84	22.79	20.72
Gross Sales to Capital Employed (%)	136.48	133.36	123.66	130.90	122.52
Earning Per Share (Rs.)	10.18	13.32	14.02	19.38	22.11
Dividend Per Share (Rs.)	3.00	4.00	4.50	7.00	8.00
Dividend Payout Ratio (%)	32.70	33.10	32.09	38.76	40.83

## Annual Accounts 2003-2004



Balance Sheet as at March 31, 2004

		(Rs. in Crores)			
	SCHEDULE NO.	AS AT MARCH 31, 2004	AS AT MARCH 31, 2003	AS AT MARCH 31, 2003	
<b>SOURCES OF FUNDS</b>					
<b>Shareholders' Funds</b>					
Capital	1	845.65	845.65		
Reserves and Surplus	2	<u>6,599.50</u>	<u>5,493.48</u>	6,339.13	
<b>Loan Funds</b>					
Secured Loans	3	1,655.52	163.95		
Unsecured Loans		<u>477.96</u>	<u>1,883.17</u>	2,047.12	
Deferred Tax Liability (Net)			<u>1,227.58</u>	1,119.75	
			<u>10,806.21</u>	<u>9,506.00</u>	
<b>APPLICATIONS OF FUNDS</b>					
<b>Fixed Assets</b>					
Gross Block	4	13,584.73	11,048.71		
Less : Depreciation		<u>5,441.85</u>	<u>4,786.61</u>		
Net Block		<u>8,142.88</u>	<u>6,262.10</u>		
Capital Work-in-Progress	5	<u>814.47</u>	<u>688.14</u>	6,950.24	
<b>Investments</b>					
	6		<u>771.99</u>	687.94	
Carried Forward		<u>9,729.34</u>	<u>7,638.18</u>		

Balance Sheet as at March 31, 2004

		(Rs. in Crores)			
	SCHEDULE NO.	AS AT MARCH 31, 2004	AS AT MARCH 31, 2003	AS AT MARCH 31, 2003	
<b>Brought Forward</b>					
<b>Current Assets, Loans and Advances</b>					
Inventories	7	474.91	418.59		
Sundry Debtors		720.69	709.51		
Cash and Bank Balances		1,567.95	2,346.27		
Other Current Assets		3.28	14.82		
Loans and Advances		<u>1,340.25</u>	<u>1,154.47</u>		
		<u>4,107.08</u>	<u>4,643.66</u>		
<b>Less : Current Liabilities and Provisions</b>					
Current Liabilities	8	2,296.25	1,993.14		
Provisions		<u>733.96</u>	<u>782.81</u>		
		<u>3,030.21</u>	<u>2,775.95</u>		
Net Current Assets		<b>1,076.87</b>		1,867.71	
Miscellaneous Expenditure (To the extent not written off or adjusted)					
Deferred Revenue Expenditure				0.11	
<b>TOTAL</b>		<u><b>10,806.21</b></u>	<u><b>9,506.00</b></u>		
<b>Contingent Liabilities Not Provided for (Refer Schedule 14)</b>					
Notes on Accounts	14				
Schedules 1 to 14 and Accounting Policies form part of Accounts					
N.K.Nagpal Secretary	J.K. Jain Director (Finance)	S.P. Rao Director (Projects)	Proshanto Banerjee Chairman & Managing Director	As per our separate Report of even date For M/S S. MANN & COMPANY Chartered Accountants	
Place : New Delhi Dated : June 30, 2004				Subhash Mann (Partner) Membership No. 80500	





**Profit & Loss Account for the year ended March 31, 2004**

	SCHEDULE NO.	YEAR ENDED MARCH 31, 2004	YEAR ENDED MARCH 31, 2003
<b>INCOME</b>			
Sales		11,011.01	10,415.23
Add: Accretion to Stock			
Closing Stock	131.45		92.84
Less : Opening Stock	92.84	38.61	85.43
		11,049.62	10,422.64
Less : Excise Duty		471.83	424.46
LPG Transmission Charges		264.38	215.11
Internal Consumption of Gas / Polymers		1,118.69	1,125.68
Income from Telecom		20.28	11.65
Other Income	9	244.03	318.76
<b>TOTAL</b>		<b>12,225.17</b>	<b>11,669.38</b>
<b>EXPENDITURE</b>			
Purchase of Gas / Polymers		6,703.58	6,398.95
Manufacturing, Transmission, Administration			
Selling & Distribution and Other Expenses	10	1,923.80	1,950.10
Depreciation	4	663.97	642.59
		2,587.77	2,592.69
Less : Incidental Expenditure during construction transferred to Capital Work-in-Progress	11	16.09	18.77
Deferred Revenue Expenditure written off		0.11	0.11
<b>TOTAL</b>		<b>9,275.37</b>	<b>8,972.98</b>
Profit Before Interest and Finance Charges		2,949.80	2,696.40
Interest and Finance Charges	12	157.32	186.43
Less : Interest and Finance Charges transferred to Capital Work-in-Progress	11	19.35	0.06
<b>Profit for the year</b>	Carried Forward	<b>2,811.83</b>	<b>2,510.03</b>

**Profit & Loss Account for the year ended March 31, 2004**

	SCHEDULE NO.	YEAR ENDED MARCH 31, 2004	YEAR ENDED MARCH 31, 2003
<b>INCOME</b>			
Brought Forward		2,811.83	2,510.03
Less : Prior Period Adjustments (Net)	13	(2.59)	(8.26)
<b>Profit Before Tax</b>		<b>2,814.42</b>	<b>2,518.29</b>
Provision for Taxation - Current	837.25		850.17
- Deferred	107.83	945.08	29.01
<b>Profit After Tax</b>		<b>1,869.34</b>	<b>1,639.11</b>
Amount Available for Appropriation		1,869.34	1,639.11
<b>APPROPRIATIONS</b>			
Interim Dividend		338.26	253.70
Proposed Dividend		338.26	338.26
Corporate Dividend Tax		86.68	43.34
Bond Redemption Reserve		32.12	-
General Reserve		186.93	163.91
<b>Balance Carried to Balance Sheet</b>		<b>887.09</b>	<b>839.90</b>
<b>TOTAL</b>		<b>1,869.34</b>	<b>1,639.11</b>
<b>Details of Earning Per Share</b>			
A. Profit After Tax		1,869.34	1,639.11
B. Weighted Average No. of Equity Shares		845,651,600	845,651,600
C. Nominal Value per Equity Share (Rs.)		10/-	10/-
D. Basic and Diluted Earning per Share (Rs.)		22.11	19.38

Notes on Accounts 14  
Schedules 1 to 14 and Accounting Policies form part of Accounts

N.K.Nagpal  
Secretary

J.K.Jain  
Director (Finance)

S.P. Rao  
Director (Projects)

Proshanto Banerjee  
Chairman &  
Managing Director

As per our separate Report of even date  
For M/s S. MANN & COMPANY  
Chartered Accountants

Place : New Delhi  
Dated : June 30, 2004

Subhash Mann  
(Partner)  
Membership No. 80500



### Schedule 1 - Share Capital

	(Rs. in Crores)	(Rs. in Crores)
	AS AT MARCH 31, 2004	AS AT MARCH 31, 2003
<b>AUTHORISED</b>		
100,00,00,000 Equity Shares of Rs. 10/- each	<u>1000.00</u>	<u>1000.00</u>
<b>ISSUED, SUBSCRIBED AND PAID-UP</b>		
84,56,51,600 (Previous Year : 84,56,51,600)	845.65	845.65
Equity Shares of Rs.10/- each fully paid up		
<b>TOTAL</b>	<u>845.65</u>	<u>845.65</u>

### Schedule 2 - Reserves and Surplus

	(Rs. in Crores)		(Rs. in Crores)	
	AS AT MARCH 31, 2004	AS AT MARCH 31, 2003	AS AT MARCH 31, 2004	AS AT MARCH 31, 2003
<b>Capital Reserve</b>				
(Grant received from Danish Government for construction of Gas Technology Institute at Noida)				
As per Last Account	2.45	2.57	2.45	2.45
Less : Transferred to Profit & Loss Account	<u>0.12</u>	<u>0.12</u>	<u>0.12</u>	2.45
<b>Share Premium Account</b>	0.26	0.26	0.26	0.26
<b>Investment Allowance (Utilised) Reserve</b>	266.61	266.61	266.61	266.61
<b>Bonds Redemption Reserves</b>	32.12	-	-	-
<b>General Reserve</b>				
As per Last Account	780.86	616.95	616.95	780.86
Add : Transferred from Profit & Loss Account	<u>186.93</u>	<u>163.91</u>	<u>163.91</u>	780.86
	967.79	780.86	780.86	780.86
<b>Profit and Loss Account</b>				
As per Last Account	4,443.30	3,603.40	3,603.40	4,443.30
Add : Transferred from Profit & Loss Account	<u>887.09</u>	<u>839.90</u>	<u>839.90</u>	4,443.30
	5,330.39	4,443.30	4,443.30	4,443.30
<b>TOTAL</b>	<u>6,599.50</u>	<u>5,493.48</u>	<u>5,493.48</u>	<u>5,493.48</u>



**Schedule 3 - Loan Funds**

	AS AT MARCH 31, 2004	(Rs. in Crores) AS AT MARCH 31, 2003
<b>SECURED LOANS</b>		
<b>Loan from ICICI Bank Ltd.</b> (Secured by a pari passu charge with ADB Loan drawn for LPG Pipeline project by way of hypothecation of movables including movable machinery, machinery spares, tools & accessories, present & future of Jamnagar - Kandla - Loni LPG Pipeline Project (including Rs.40.00 (Previous Year: Rs. 40.00) due for payment within one year)	43.33	116.67
<b>Loan from Bank of India, Tokyo</b> (Secured by hypothecation of Steam Turbine Cracked Gas, Ethylene and Propylene Compressors procured from M/s EBARA, Tokyo and installed at UPPC Pata). (Including Rs.12.19 (Previous Year: Rs.19.13) due for payment within one year)	12.19	32.28
<b>Loan from Bank of India</b> (Secured by hypothecation of all tangible movable plant & machinery (both present and future), whether installed or not and whether lying loose or in cases, at site or in transit to LPG Usar Project) (including Rs.Nil (Previous Year: Rs.15.00) due for payment within one year)	-	15.00
<b>Loan from Bank of India</b> (Secured by hypothecation by way of first charge on pari passu basis of movable plant & machinery, machinery spares, equipment, tools & accessories & other movables, both present & future, whether installed or not and lying loose or in stores of Dahej Vijaipur Pipeline project) including Rs.Nil (Previous Year: Rs.Nil) due for payment within one year)	500.00	-
<b>Bonds Series -I</b> (6.10% Secured non-convertible redeemable Bonds -Series -I are redeemable in 5 equal installments commencing from the end of the 8 <sup>th</sup> year up to the end of the 12 <sup>th</sup> year from the deemed date of allotment August 22, 2003. Bonds are secured on 23.06.04 by charge on immovable residential building and movable plant & machinery situated at Hazira, Vaghodia, Gandhar and Vadodara in Gujarat.)	500.00	-
<b>Bonds Series -II</b> (5.85% Secured non-convertible redeemable Bonds -Series -II are redeemable in 5 equal installments commencing from the end of the 6 <sup>th</sup> year up to the end of the 10 <sup>th</sup> year from the deemed date of allotment - March 25, 2004. Bonds are secured on 23.06.04 by charge on immovable residential building and movable plant & machinery situated at Hazira, Vaghodia, Gandhar, Vadodara & DVPL Project in Gujarat.)	600.00	-
<b>Carried Forward</b>	<u>1,655.52</u>	<u>163.95</u>

**Loan Funds**

	AS AT MARCH 31, 2004 1,655.52	(Rs. in Crores) AS AT MARCH 31, 2003 163.95
<b>Brought Forward</b>		
<b>UNSECURED LOANS</b>		
<b>Other Loans and Advances</b>		
<b>From Banks:</b>		
- State Bank of India, London (including Rs.14.13 (Previous Year: Rs.13.34) due for payment within one year)	49.09	60.02
<b>Against Guarantees by Government of India:</b>		
- Japan Bank for International Co-operation, Japan (Formerly known as EXIM Bank, Japan) (including Rs.Nil (Previous Year: Rs.23.81) due for payment within one year)	-	261.91
- Asian Development Bank, Manila (including Rs.Nil (Previous Year : Rs.58.74) due for payment within one year)	-	1,066.62
	<u>49.09</u>	<u>1,388.55</u>
<b>From others</b>		
- Oil Industry Development Board (including Rs.65.75 (Previous Year: Rs.65.75) due for payment within one year)	<u>428.87</u>	<u>494.62</u>
<b>TOTAL</b>	<u>477.96</u> <u>2,133.48</u>	<u>1,883.17</u> <u>2,047.12</u>

**Schedule 4 - Fixed Assets**

(Rs. in Crores)

DESCRIPTION	GROSS BLOCK (AT COST)			DEPRECIATION					NET BLOCK	
	As at 01.04.2003	Additions/ Adjustments during the year	Sales/ Adjustments during the year	As at 31.3.2004	Upto 31.3.2003	For the Year	Adjustments during the year	As at 31.3.2004	As at 31.3.2004	As at 31.3.2003
<u>Tangible Assets</u>										
Land:										
Freehold	68.62	(9.49)	-	59.13	-	-	-	-	59.13	68.62
Leasehold	68.08	1.55	-	69.63	4.01	0.58	0.01	4.60	65.03	64.07
Right of Use	13.71	3.71	-	17.42	-	-	-	-	17.42	13.71
Building:										
Office/Others	334.52	29.47	-	363.99	49.39	9.84	2.28	61.51	302.48	285.13
Residential	247.49	5.63	-	253.12	27.60	4.83	(0.03)	32.40	220.72	219.89
Bunk Houses	1.62	-	-	1.62	1.56	0.02	-	1.58	0.04	0.06
Plant and Machinery	10,020.96	2,473.07	4.96	12,489.07	4,612.60	624.30	(9.40)	5,227.50	7,261.57	5,408.36
Railway Lines & Sidings	5.47	-	-	5.47	3.18	0.26	-	3.44	2.03	2.29
Electrical Equipment	101.14	19.41	0.16	120.39	23.28	5.84	(0.12)	29.00	91.39	77.86
Furniture, Fixtures and other Equipment	182.96	19.78	0.86	201.88	62.71	18.00	(0.39)	80.32	121.56	120.25
Transport Equipment	4.14	0.07	1.80	2.41	2.28	0.21	(1.08)	1.41	1.00	1.86
<u>Intangible assets</u>										
Software / Licences	-	0.60	-	0.60	-	0.09	-	0.09	0.51	-
<b>TOTAL</b>	<b>11,048.71</b>	<b>2,543.80</b>	<b>7.78</b>	<b>13,584.73</b>	<b>4,786.61</b>	<b>663.97</b>	<b>(8.73)</b>	<b>5,441.85</b>	<b>8,142.88</b>	<b>6,262.10</b>
Previous Year	10,701.94	369.85	23.08	11,048.71	4,167.06	642.59	(23.04)	4,786.61	6,262.10	6,534.88



### Schedule 5 - Capital Work-in-Progress

	(Rs. in Crores)	
	AS AT MARCH 31, 2004	AS AT MARCH 31, 2003
Linepipe Construction and related facilities including	57.98	64.80
Cathodic Protection	-	2.91
Despatch / Receiving Terminals	-	4.25
Compressor Stations	156.82	4.36
Telecom / Telesupervisory System	33.02	326.51
LPG Pipeline Project	362.72	2.85
LPG Projects	1.17	41.36
Petrochemicals	56.23	78.96
Telecom Projects	13.36	7.97
Others	32.59	0.10
Exploratory Well in Progress	19.51	
Buildings	4.16	2.54
Less: Provision for abandonment of Work in progress	1.77	1.09
		1.45
Linepipes, Capital Items in Stock / Transit (including materials with Contractors: Rs.0.44 (Previous Year: Rs.0.86))	76.00	142.16
Less: Provision for losses / obsolescence	1.47	1.68
Advance for Capital Expenditure (Unsecured - Considered Good)	4.15	12.14
(Unsecured - Considered Doubtful)	1.39	2.75
	5.54	14.89
Less: Provision for Doubtful Advances	1.39	2.75
	4.15	12.14
<b>TOTAL</b>	<b>814.47</b>	<b>688.14</b>



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### Schedule 6 - Investments

	(Rs. in Crores)	
	AS AT MARCH 31, 2004	AS AT MARCH 31, 2003
<b>LONG-TERM INVESTMENTS</b>		
<b>A. Trade Investments</b>		
<b>Quoted * -</b>		
570,600 Equity Shares of Rs.10/- each fully paid up in Gujarat Industries Power Co. Ltd. (includes 1,90,200 Equity Shares acquired during the year 1996-97 at a premium of Rs.15/- per share)	0.86	0.86
Nil (Previous Year: 63,400) 18% Secured, Redeemable Non-Convertible Debentures of Rs.45/- each fully paid up in Gujarat Industries Power Co. Ltd.	-	0.28
3,42,66,845 (Previous Year: 3,42,66,845) Equity Shares of Rs.10/- each fully paid up in ONGC Ltd. (Acquired during 1999-2000 at a price of Rs.162.34 per share)	556.29	556.29
6.96 % Oil Companies GOI Special Bonds 2009 (Alloted in lieu of claims pending with Oil Co-ordination Committee)	6.00	6.00
3,15,00,000 (Previous Year: 3,15,00,000 ) Equity Shares of Rs. 10/- each fully paid-up in Indraprastha Gas Ltd. (a Joint Venture Company)	31.50	31.50
9,37,43,705 (Previous Year: 45) Equity Shares of Rs.10/- each fully paid up in Petronet LNG Ltd. (a Joint Venture Company ) includes 1,00,00,000 equity shares allotted at a premium of Rs. 5/- per share	98.75	-
Advance against allotment of Equity Shares of Petronet LNG Ltd.	-	27.50
* Aggregating market value of the above mentioned quoted securities Rs. 3,151.24 (Previous Year: Rs. 1,223.97)		
<b>Unquoted - At cost</b>		
4,44,49,960 (Previous Year: 4,44,49,960) Equity Shares of Rs.10/- each fully paid up in Mahanagar Gas Ltd. (a Joint Venture Company)	44.45	44.45
2,07,60,000 (Previous Year: 2,07,60,000) Equity Shares of Rs.10/- each fully paid up in Gujarat State Electricity Generation Ltd.	20.76	20.76
15,200 (Previous Year: Nil) Equity Shares of LE 500/- per share partly paid up LE 125/- per share in Fayum Gas Company registered in Egypt. Equity share has acquired at a premium of LE 598.68 per Equity Share	8.09	-
<b>Carried Forward</b>	<b>766.70</b>	<b>687.64</b>

**Schedule 6 - Investments**

		(Rs. in Crores)	(Rs. in Crores)
	AS AT MARCH 31, 2004	AS AT MARCH 31, 2003	AS AT MARCH 31, 2003
Brought Forward	766.70	687.64	
12,497 (Previous Year: Nil) Equity shares of Rs. 10/- each fully paid up in Bhagyanagar Gas Ltd. (a Joint Venture Company)	0.01	-	
Advance against allotment of Equity Shares of Bhagyanagar Gas Ltd.	4.98	4.99	-
3 (Previous Year: 3) 12% 2006, GEB Bonds of Rs. 10,00,000/- each (Transferred by GIPCO in lieu of redemption of 1/3 <sup>rd</sup> 18% redeemable Non-Convertible Debenture)	0.30	0.30	
<b>B. Non Trade Investments - Others</b>			
<b>Unquoted - At cost</b>			
(a) i). 30 shares of Rs.50/- each fully paid up in Darpan Co-operative Housing Society Ltd., Vadodara	-	-	-
ii). 50 shares of Rs.50/- each fully paid up in Ashoka Apartments Co-operative Housing Society Ltd., Vadodara	-	-	-
iii). 30 shares of Rs.50/-each fully paid up in Panchvati Apartments Co-operative Housing Society Ltd., Surat	-	-	-
iv). 400 shares of Rs.10/- each fully paid up in Sanand Members Association, Ahmedabad	-	-	-
v). 35 shares of Rs.50/- each fully paid up in Green Fields (B) Co-operative Housing Society Ltd., Mumbai	-	-	-
<b>TOTAL</b>	<b>771.99</b>	<b>687.94</b>	

**Schedule 7 - Current Assets, Loans and Advances**

		(Rs. in Crores)	(Rs. in Crores)
	AS AT MARCH 31, 2004	AS AT MARCH 31, 2003	AS AT MARCH 31, 2003
<b>A. CURRENT ASSETS</b>			
<b>INVENTORIES</b>			
(As Certified by the Management)			
Stores & Spares*	319.28	296.66	
Less : Provision for Losses / Obsolescence	6.06	7.98	
	313.22	288.68	
Construction Surplus - Capital / Stores	58.65	66.26	
Less : Provision for Losses / Obsolescence	28.41	29.19	37.07
	30.24	37.07	
Stock of Gas** / Polymers / LPG and Other Products	131.45	92.84	418.59
	474.91		
<b>SUNDRY DEBTORS</b>			
Debts outstanding for a period exceeding six months			
- Unsecured, Considered Good	101.15	126.76	
- Unsecured, Considered Doubtful	124.44	120.47	247.23
Other Debts			
- Secured, Considered Good	-	0.15	
- Unsecured, Considered Good	619.54	582.60	
- Unsecured, Considered Doubtful	0.81	-	582.75
	845.94	829.98	
Less : Provision for Doubtful debts	125.25	120.47	709.51
	720.69		
<b>CASH AND BANK BALANCES</b>			
Cash in hand	0.11	0.17	
Cheques / Stamps in hand	8.92	19.81	
Remittance in transit	0.42	0.72	20.70
	9.45		
<b>BANK BALANCES (SCHEDULED BANKS)</b>			
On Current Account (includes Corporate Liquid Term Deposit Rs.180.91 (Previous Year : Rs.37.67))	364.25	88.84	
On Current Account - Gas Pool Money	-	0.03	
On Current Account - JV Consortium	-	0.01	
On Short Term Deposit	534.09	1,802.01	
On Short Term Deposit - Gas Pool Money (includes interest accrued but not due Rs.1.23 (Previous Year : Rs.0.82))	377.71	220.41	
On Short Term Deposit - JV Consortium (includes interest accrued but not due Rs.3.56 (Previous Year : Rs.2.35))	282.45	214.27	2,325.57
	1,558.50	2,346.27	
<b>OTHER CURRENT ASSETS</b>			
Interest accrued but not due on Deposits	3.28	14.82	
Carried Forward	2,766.83	3,489.19	

### Schedule 7 - Current Assets, Loans and Advances

		(Rs. In Crores)	
		AS AT MARCH 31, 2004	AS AT MARCH 31, 2003
Brought Forward		2,766.83	3,489.19
<b>B. LOANS AND ADVANCES</b>			
<b>Loans to Employees</b>			
- Secured, Considered Good	101.15	81.50	
- Unsecured, Considered Good	23.73	32.71	
(including dues from Directors Rs.0.07 (Previous Year: Rs.0.09)) (Maximum amount due at any time during the year: Rs.0.11 (Previous Year: Rs.0.15))			
Others	4.18	0.02	114.23
(Unsecured, Considered Good)			
<b>Advances recoverable in cash or in kind or for value to be received</b>			
- Unsecured, Considered Good	1,167.55	995.74	
(includes Rs.915.13 (Previous Year: Rs.729.43) paid / adjusted against Income Tax demand under protest. (includes Rs.3.36 (Previous Year: Rs.3.01) on account of disinvestment of Govt. Equity by way of GDR / Domestic Tranche/Offer for Sale)			
- Unsecured, Considered Doubtful	1.15	1.44	
	1,168.70	997.18	114.23
Less : Provision for Doubtful Advances	1.15	1.44	995.74
<b>Claims Recoverable</b>			
- Unsecured, Considered Good	8.92	6.80	
- Unsecured, Considered Doubtful	0.12	0.12	
	9.04	6.92	
Less : Provision for doubtful claims	0.12	0.12	6.80
<b>Deposits with Customs, Port Trust and Others</b>			
(Unsecured, Considered Good)	34.72	37.70	
(Unsecured, Considered Doubtful)	0.31	-	
	35.03	37.70	
Less : Provision for doubtful claims	0.31	-	37.70
	34.72	-	1,154.47
<b>TOTAL</b>		<b>4,107.08</b>	<b>4,643.66</b>

\* includes Rs.20.51 (Previous Year : Rs.11.21) in transit.

\*\*after adjustment of calorific value

### Schedule 8 - Current Liabilities and Provisions

		(Rs. in Crores)	
		AS AT MARCH 31, 2004	AS AT MARCH 31, 2003
<b>A. CURRENT LIABILITIES</b>		1,268.76	1,186.58
Sundry Creditors (Includes due to Small Scale Undertakings: Rs.-- (Previous Year : Rs.--))			
Deposits/Retention Money from Contractors and others	184.36	124.66	
Other Liabilities	276.11	276.02	
Other Liabilities - Gas Pool Money	534.51	376.72	
Unclaimed Dividend	0.86	0.34	
Interest accrued but not due on loans	31.65	28.82	1,993.14
<b>B. PROVISIONS</b>			
Provision for taxation	3,504.26	2,667.02	
Less: Advance Tax	3,585.02	2,646.39	
Less: Adjustment of Refunds	390.41	347.98	368.61
	3,194.61	2,298.41	
Provision for Proposed Dividend	338.26	338.26	
Provision for Corporate Dividend Tax	43.34	43.34	
Provision for Gratuity	22.39	17.60	
Provision for Leave Encashment and Post Retirement Medical Benefits	20.32	15.00	
	733.96	782.81	
<b>TOTAL</b>		<b>3,030.21</b>	<b>2,775.95</b>

### Schedule 9 - Other Income

	(Rs. in Crores)	
	YEAR ENDED MARCH 31, 2004	YEAR ENDED MARCH 31, 2003
Dividend (Tax deducted at source : Rs.Nil ( Previous Year :Rs.11.85))	104.32	112.90
Interest on :		
- Bonds/Debentures	0.50	0.54
- Deposits with Banks	56.66	113.50
- Others	9.53	25.54
	<u>66.69</u>	<u>139.58</u>
(Tax deducted at source: Rs.10.93 (Previous Year : Rs.24.07))		
Less : Transferred to Incidental Expenditure during construction (Schedule 11)	<u>2.39</u>	<u>0.24</u>
Export Incentives	8.02	13.79
Miscellaneous Income (Tax deducted at source: Rs.0.10 (Previous Year: Rs.0.48))	67.64	53.06
Less : Transferred to Incidental Expenditure during construction (Schedule 11)	<u>0.25</u>	<u>0.33</u>
<b>TOTAL</b>	<u><b>244.03</b></u>	<u><b>318.76</b></u>

### Schedule 10 - Manufacturing, Transmission, Administration, Selling & Distribution and other Expenses

	(Rs. in Crores)	
	YEAR ENDED MARCH 31, 2004	YEAR ENDED MARCH 31, 2003
Raw Material consumed	819.60	815.18
<b>Employees Remuneration and Benefits*</b>		
Salaries, Wages and Allowances	130.08	118.48
Contribution to Provident and Other Funds	16.33	13.41
Welfare Expenses	<u>27.77</u>	<u>26.58</u>
Power, Fuel and Water Charges	381.90	380.87
Stores and Spares consumed	174.96	141.31
Rent	13.12	12.68
Rates and Taxes	5.17	5.32
Licence Fees - Telecom	3.04	1.65
Bandwidth Consumption	2.76	0.31
<b>Repairs and Maintenance</b>		
Plant & Machinery	98.84	48.60
Buildings	11.43	9.26
Others	<u>12.15</u>	<u>9.17</u>
Insurance	21.32	21.05
Communication Expenses	7.39	6.14
Printing and Stationery	2.84	2.31
Travelling Expenses	30.87	20.72
Books and Periodicals	0.72	0.52
Advertisement and Publicity	<u>26.65</u>	<u>11.91</u>
Carried Forward	<u><b>1,786.94</b></u>	<u><b>1,645.45</b></u>





**Schedule 10 - Manufacturing, Transmission, Administration, Selling & Distribution and other Expenses**

	(Rs. in Crores)	
	YEAR ENDED MARCH 31, 2004	YEAR ENDED MARCH 31, 2003
Brought Forward	1,786.94	1,645.47
<b>Payment to Auditors</b>		
Audit Fees	0.08	0.07
Tax Audit Fee	0.05	0.04
Management Services	0.08	0.04
Out of Pocket Expenses	<u>0.07</u>	<u>0.09</u>
Entertainment Expenses	0.18	0.18
Recruitment and Training Expenses	8.24	3.76
Vehicle Hire and Running Expenses	13.00	12.39
Survey Expenses	14.06	13.10
Consultancy Charges	12.49	14.78
Data Processing Expenses	1.17	8.25
Donation	0.57	0.91
Research and Development Expenses	0.34	2.97
Loss on sale / written off of assets (net)	1.62	1.26
Bad Debts / Claims / Advances / Stores written off	1.02	4.10
Dry Well Expenses written off	-	9.80
Provision for Doubtful Debts, Advances, Claims, Deposits and	2.40	136.58
Obsolescence of Stores and Capital Items		
Expenses on Enabling Facilities	4.81	2.16
Selling & Distribution Expenses	7.13	16.82
Discount on Sales	7.59	9.43
Commission on Sales	10.07	9.30
Security Expenses	22.61	19.65
Other Expenses	29.28	38.95
<b>TOTAL</b>	<u>1,923.80</u>	<u>1,950.10</u>

\* Includes :

- l) 1) Rs.5.32 (Previous Year: Rs.3.11) on account of retirement benefits viz. Leave encashment and Medical.

**Schedule 11 - Incidental Expenditure during Construction**

	(Rs. in Crores)	
	YEAR ENDED MARCH 31, 2004	YEAR ENDED MARCH 31, 2003
<b>Employees Remuneration and Benefits</b>		
Salaries, Wages and Allowances	4.11	5.88
Contribution to Provident and Other Funds	0.28	0.59
Welfare Expenses	<u>0.53</u>	<u>1.09</u>
Power, Fuel and Water Charges	1.34	0.29
Stores and Spares consumed	0.58	-
Rent	0.80	1.45
Rates and Taxes	0.18	0.05
<b>Repairs and Maintenance</b>		
Plant & Machinery	0.20	0.15
Buildings	0.18	0.15
Others	<u>0.29</u>	<u>0.22</u>
Insurance	0.28	0.28
Communication Expenses	0.20	0.45
Printing and Stationery	0.08	0.08
Travelling Expenses	1.38	1.72
Books and Periodicals	-	0.01
Advertisement and Publicity	0.08	0.63
Recruitment and Training Expenses	0.01	0.07
<b>Carried Forward</b>	<u>10.52</u>	<u>13.11</u>

### Incidental Expenditure during Construction

	(Rs. in Crores)	
	YEAR ENDED MARCH 31, 2004	YEAR ENDED MARCH 31, 2003
Brought Forward	10.52	13.11
Vehicle Hire and Running Expenses	0.96	1.81
Interest and Finance Charges	19.35	0.06
Survey Expenses	0.12	-
Consultancy Charges	0.03	0.52
Data Processing Expenses	-	0.25
Other Expenses	1.54	2.43
Depreciation	2.92	0.65
	<u>35.44</u>	<u>18.83</u>
Less :		
- Interest Income	2.39	0.24
- Miscellaneous Income	0.25	0.33
	<u>2.64</u>	<u>0.57</u>
Net Expenditure	32.80	18.26
Less : Transferred to Capital Work-in-progress		
a) Manufacturing, Transmission, Administration, Selling & Distribution and Other Expenses	16.09	18.77
b) Interest & Finance Charges	19.35	0.06
c) Other Income	(2.64)	(0.57)
	<u>32.80</u>	<u>18.26</u>
Balance Carried over to Balance Sheet	<u>NIL</u>	<u>NIL</u>

### Schedule 12 - Interest and Finance Charges

	(Rs. in Crores)	
	YEAR ENDED MARCH 31, 2004	YEAR ENDED MARCH 31, 2003
Interest on Term Loans		
Foreign Currency Loans	61.30	80.74
Other Loans	<u>80.28</u>	<u>88.52</u>
Commitment and other Finance Charges	15.74	17.17
<b>TOTAL</b>	<u>157.32</u>	<u>186.43</u>

### Schedule 13 - Prior Period Adjustments

	(Rs. in Crores)	
	YEAR ENDED MARCH 31, 2004	YEAR ENDED MARCH 31, 2003
Purchase of Gas	(24.77)	(0.01)
Raw Material	-	(5.62)
Salaries, Wages and Allowances	0.14	0.12
Welfare Expenses	-	0.01
Power, Fuel and Water Charges	(0.96)	2.58
Stores and Spares consumed	(1.98)	0.62
Rent	2.22	0.03
Rates and Taxes	-	(0.24)
Depreciation (Net)	0.55	1.60
Repairs and Maintenance	1.15	0.93
Communication Expenses	-	0.06
Travelling Expenses	-	(0.02)
Advertisement and Publicity	-	0.05
Vehicle Hire and Running Expenses	0.04	0.08
Interest	0.17	(0.07)
Consultancy Charges	-	0.22
Data Processing	(0.03)	-
Other Expenses	<u>0.68</u>	<u>(6.58)</u>
<b>TOTAL</b>	<b>(22.79)</b>	<b>(6.24)</b>
Less :		
- Sales	(20.11)	-
- Interest Income	(0.06)	0.79
- Miscellaneous Income	<u>(0.03)</u>	<u>1.23</u>
<b>TOTAL (NET)</b>	<b><u>(2.59)</u></b>	<b><u>2.02</u></b>
		<b><u>(8.26)</u></b>

## Notes on Accounts

## SCHEDULE 14 - NOTES ON ACCOUNTS

1. Estimated amount of Contracts remaining to be executed on Capital Account and not provided for:
  - i) For Joint Ventures: Nil (Previous Year: Nil).
  - ii) Share in Capital Commitment of Joint Ventures based on their audited/unaudited statement of accounts: Rs.106.93 Crores (Previous Year: Rs.143.79 Crores).
  - iii) Company's own unexecuted Capital Commitment: Rs.167.54 Crores (Previous Year: Rs.1,646.51 Crores).
2. Contingent Liabilities :-
  - I. Claims against the Company not acknowledged as debts: Rs.8,058.93 Crores (Previous Year: Rs.7,087.87 Crores), which mainly include:
    - (a) Claims of ONGCL for Rs.375.84 Crores (Previous Year: Rs.216.84 Crores) on account of interest for delayed payment and MGO, etc. Out of these MGO claims of Rs.56.08 Crores (Previous Year: Rs.55.46 Crores) are recoverable on back-to-back basis.
    - (b) Income Tax demand of Rs.915.58 Crores (Previous year: Rs.729.88 Crores relating to the assessment years 1996-97, 1997-98, 1998-99, 1999-2000 and 2000-01) relating to assessment years 1996-97, 1997-98, 1998-99, 1999-2000, 2000-01 and 2001-02. The Income tax assessment of the company has been completed up to the assessment year 2001-02. Against the total demand, the company has paid/adjusted Rs.915.13 Crores (Previous Year: Rs.729.43 Crores) under protest. Based upon the decision of the appellate authorities and the interpretation of the provisions of the Income Tax Act, the company has been legally advised that the demand is likely to be either deleted or it may be substantially reduced. The company has filed an appeal against the demand for the assessment years 1996-97, 1997-98, 1998-99 and 1999-2000 with ITAT. Against the demand for the assessment year 2000-01 and 2001-02, appeals of the Company are pending before Commissioner of Income Tax (Appeals).
    - (c) Sales Tax demand of Rs.2,349.60 Crores (Previous Year: Rs.1,950.89 Crores) and interest thereon Rs.995.24 Crores (Previous Year: Rs.995.24 Crores) for Hazira unit in Gujarat State: Sales Tax Authorities, Ahmedabad have treated the transfer of Natural Gas by the company from the state of Gujarat to other states during the period April, 1994 to March, 2000 as inter-state sales under Section 3 (a) of the Central Sales Tax Act. The company has been paying sales tax under section 12 of the Gujarat Sales Tax Act against Form 17 since inception (1987) and accordingly the sales tax assessments up to the financial year 1992-93 have been completed. Based on the interpretation of the provisions of the Sales Tax Act and legal advice from the experts, the company has filed writ petition and special leave petition with the Supreme Court of India, as the company feels that such demand is not sustainable. The Company has obtained the stay and the case is pending with the Supreme Court of India.
    - (d) Commissioner of Customs, Ahmedabad has issued show cause notices wherein a sum of Rs.581.22 Crores (Previous year: Rs.581.22 Crores) for the period 22.06.97 to 10.02.2002 has been demanded, by treating GAIL as importer under Section 2(26) of the Customs Act, 1962 on account of purchase of gas from Tapti and Panna-Mukta fields from Joint Venture of British Gas Exploration and Production (I) Limited (formerly Enron Oil & Gas India Limited), RIL and ONGCL (JVCs). The Company is of the view that as it is purchasing gas from JVCs at Hazira at the downstream flange of ONGCL's gas processing facilities along with other natural gas coming from South Basin, it is not liable to Customs Duty. The replies to Show cause notice have already been sent to the Commissioner of Customs in consultation with the Consultants on 14.06.2002. No further response has been received.
    - (e) Customs duty demand of Rs.305.53 Crores (Previous year: Rs.305.53 Crores): Custom Authorities, Mumbai have raised differential duty demand against Project Imports for Pata Plant on account of non-submission of reconciliation statement as required under Project Import Regulations, 1986. An appeal was filed before CESTAT on the ground that demand is premature as the last consignment is yet to be received and as per the Project Import Regulations, the reconciliation statement has to be submitted within three months from the date of clearance of last consignment of goods. CESTAT has remanded the matter to DC (Customs) for readjudication.
    - (f) Excise duty demand of Rs.1,491.54 Crores (Previous year: Rs.811.41 Crores): Excise Authorities have raised demands at Vijapur, Usar and Vaghodia by treating lean gas as gaseous hydrocarbon and denying exemption available to lean gas, which has all along been treated as an exempted product. Replies to show cause notices have been sent to Excise Authorities. CESTAT has dismissed the demand raised at Vijapur amounting to Rs.1,382.12 Crores vide its order dated 26.05.2004. However, Contingent Liability has been retained as Excise Authorities have right to appeal against the order to Supreme Court.
  - II. Bonds executed, Letters of Credit and Guarantees/Counter Guarantees: Rs.109.46 Crores (Previous Year: Rs.109.53 Crores).
  - III. Guarantees given in relation to interest in Joint Ventures: The Company along with three other promoters has issued Corporate Guarantees in favour of banks and financial institutions for short term loan taken by Petronet LNG Limited from such banks and financial institutions. The Company share in the Guarantee is Rs.350 Crores (Previous year: Rs.350 Crores), being one fourth share of total guarantees of Rs.1,400 Crores (Previous year: Rs.1,400 Crores) issued as on 31.03.2004. The short term loan outstanding in the books of Petronet LNG Limited as on 31st March, 2004 is Rs.1,024.04 Crores (Previous year: Rs.1,019.62 Crores).
  - IV. Share in Contingent Liabilities of Joint Ventures based on their audited/unaudited statement of accounts: Rs.57.19 Crores (Previous Year: Rs.18.08 Crores).
3. (a) Freehold land acquired for Jhansi Maintenance Base and Sectionalising Valves in Jamnagar – Loni Pipeline: Rs.1.05 Crores (Previous Year: Rs.13.77 Crores) and Leasehold Land acquired for Lakwa and Vaghodia project: Rs.7.84 Crores (Previous Year: Rs.8.15 Crores) are valued/capitalised on provisional basis.
  - (b) Title deeds for freehold land, valuing Rs.2.16 Crores (Previous Year: Rs.14.39 Crores) and leasehold land valuing Rs.26.63 Crores (Previous year: Rs.26.31 Crores) are pending execution.
  - (c) Title Deeds in respect of ten residential flats at Asiad Village, New Delhi, valuing Rs.1.17 Crores (Previous Year: Rs.1.17 Crores) are still in the name of ONGCL. Concerned authorities are being pursued for getting the same transferred in the name of the Company.
  - (d) The cost of Right of Use (RoU) amounting to Rs.17.42 Crores as on 31.03.2004 (Previous year Rs.13.71 Crores) has been capitalised as land. The Company has perpetual Right of Use but has no ownership of land.
4. (a) Liability under Gas Pool Account includes Gas Pool Money for January - March 2004 quarter amounting to Rs.62.16 Crores (Previous Year: Rs.61.64 Crores) which shall become due for deposit in succeeding quarter.
  - (b) Deposit in Gas Pool Money Account is exclusive of claim amounting to Rs.94.63 Crores (Previous Year: Rs.94.63 Crores) for compensation for higher cost of gas purchased from JV Companies from Ravva and Tapti fields from April, 1997 to September, 1997.
  - (c) Purchase of gas includes Rs.250 Crores (Previous year: Rs.250 Crores) on account of Gas Pool Account.
  - (d) Liabilities on account of Gas Pool Money amounting to Rs.534.51 Crores (Previous year: Rs.376.72 Crores) and 10% retention from JV consortium amounting to Rs.282.45 Crores (Previous year: Rs.214.28 Crores) includes interest (net of TDS) amounting to Rs 25.15 Crores (Previous year: Rs.28.18 Crores) on short term deposits. This interest income does not belong to the Company hence not accounted as income.
5. Cost of Fixed Assets (including Capital Work-in-Progress) has been decreased by an amount of Rs.38.97 Crores (Previous Year: Rs.0.70 Crores) due to exchange rate variation. An amount of Rs.0.87 Crores (Previous Year: Charged Rs.4.10 Crores) has been credited to Profit & Loss account due to exchange rate variation.
6. The Company had entered into a swap transaction with HDFC Bank for loan drawn from the Asian Development Bank (for the Gas Rehabilitation and Expansion Project), to the extent of USD 29.39 million. The swap transaction has resulted in fixing the foreign exchange liability at Rs.44.6925 / USD in respect of the above loan for which the company would have to pay a premium @ 3.66 % on each repayment date. As part of debt restructuring plans, the said loan was prepaid and accordingly the swap deal was closed during the year. At closure, the mark to market calculation indicated a credit of Rs.1.11 Crore in Company's favour.
7. MoP&NG vide its notification no P-20012/28/97-PP dated 30.10.2003 had issued scheme for mechanism of sharing the under recoveries of Oil Marketing Companies on account of non-revision in selling price of PDS Kerosene and domestic LPG during 2003-04. The Company has given discounts to Oil marketing Companies amounting to Rs.428 Crores on dispatches to them for sharing subsidies during 2003-04.
8. (a) Prices of Natural Gas for the period April 1, 2000 to March 31, 2004 is under review by MoP&NG. Pending finalisation of such prices, payments/accruals of purchase of gas are being made based on the rate specified in the MoP&NG letter dated September 18, 1997. Additional liability or its effect on profits if any, arising out of the aforesaid revision will be recognised when the prices are finalised. However, the management does not expect the price increase to be retrospective.
  - (b) The Company is raising provisional invoices for sale of RLNG as the supplier PLL is also raising provisional invoices on the Company since customs duty on import of LNG by PLL has been assessed on provisional basis.
9. With effect from April 1, 2002, Liquefied Petroleum Gas prices has been deregulated and is now based on the import parity prices fixed by the Oil Companies. However, the pricing mechanism is provisional and is pending finalisation. Additional asset/liability or impact on profits, if any, arising due to such change, will be recognised on finalisation of pricing mechanism.
10. In compliance of Accounting Standard 17 on 'Segment Reporting' issued by Institute of Chartered Accountants of India, the required information is given as per Annexure – A & B to this schedule. The Company has adopted Business segments as its primary reportable segment and Geographical segments as its secondary reportable segment.
  - (a) Business Segments: The business segments have been identified as (i) Gas Processing and Sales, (ii) LPG Transmission and (iii) Others (Telecom). Gas Processing and Sales segment comprises of processing of Natural Gas to manufacture LPG & other Liquid hydrocarbons, Polymers and sales thereof and sale of Natural Gas. The financial information about business segments are presented in Annexure - A.
  - (b) Geographical Segments: The Company sales are mainly based in India except for certain portion of exports of petrochemical products. The details of location-wise sales, carrying amount of geographical segment assets and cost incurred during the year in acquisition of segment assets by geographical location are presented in Annexure- B.

11. In compliance of Accounting Standard 18 on 'Related Party Disclosures' issued by Institute of Chartered Accountants of India, the name of related parties, nature of relationship and details of transaction entered therewith are given in Annexure - C.

12. In compliance of Accounting Standard 22 on 'Accounting for taxes on Income' issued by Institute of Chartered Accountants of India, the Company has provided Accumulated net deferred tax liability in respect of timing difference as on 31st March, 2004 amounting to Rs.1,227.58 Crores (Previous year: Rs.1,119.75 Crores). Net Deferred tax expense for the year of Rs.107.83 Crores (Previous year: Rs.29.01 Crores) has been charged to Profit & Loss Account. The item-wise details of deferred tax liability are as under:

	(Rs. in Crores)	
	As on 31st March, 2004	As on 31st March, 2003
Deferred tax liability:		
a) Depreciation	1298.16	1186.25
b) Others	-	0.04
Less: Deferred Tax Assets:		
a) Provision for Gratuity and Retirement Benefits	13.93	7.38
b) Provision for Doubtful Debts/Claims/Advances	56.65	59.11
c) Others	-	0.05
Deferred tax Liability (net)	<u>1227.58</u>	<u>1119.75</u>

13. In Compliance of Accounting Standard 27 on 'Financial Reporting of Interests in Joint Ventures' issued by Institute of Chartered Accountants of India, brief description of Joint Ventures of the Company are:

(a) **Mahanagar Gas Limited:** A Joint venture with British Gas Plc. to supply gas to domestic, commercial and small industrial consumers and CNG for transport sector in Mumbai. The Company has invested Rs.44.45 Crores for acquiring 444,49,960 equity shares of Rs.10/- each of the Company, presently being 49.75% of the Paid up capital. Directors of the Company on the Board of MGL are Shri M. R. Hingnikar and Shri Proshanto Banerjee as Chairman.

(b) **Indraprastha Gas Limited:** A Joint venture with BPCL and Government of National Capital territory (NCT) of Delhi to supply gas to domestic, commercial units and CNG for transport sector in Delhi. The Company has invested Rs.31.50 Crores for acquiring 315,00,000 equity shares of Rs.10/- each of the Company, presently being 22.50% of the paid up capital. Director of the Company on the Board of IGL is Shri

Proshanto Banerjee as Chairman.

(c) **Petronet LNG Limited:** A Joint venture with BPCL, IOCL and ONGCL for setting up LNG imports facilities. The Company has been allotted 937,43,705 equity shares of Rs.10/- each in PLL. Director of the Company on the Board of PLL is Shri B.S. Negi. The Company along with Joint Venture partners has issued Corporate Guarantees in favour of banks and financial institutions for short term loan taken by Petronet LNG Limited from banks and financial institutions amounting to Rs.1,400 Crores. The sale of 5 million tonnes per annum of LNG which would be imported by PLL, a period of 25 years under Sale and Purchase agreement with Ras Gas, has been fully tied up through Gas Sales and Purchase Agreement with three off takers GAIL (India) Limited, IOCL and BPCL.

(d) **Bhagyanagar Gas Limited:** A Joint Venture Company with HPCL for distribution and marketing of CNG, Auto LPG, Natural Gas and other gaseous fuels in Andhra Pradesh. The Company has been allotted 12497 equity shares of Rs.10/- each in BGL. The Company has further paid Rs.4.99 Crores as an advance against allotment of equity shares.

The Company share of assets and liabilities as at 31st March 2004 and the Income and expenditure for the year in respect of above Joint ventures as furnished by them is as follows:

	(Rs. in Crores)	
	2003 - 04	2002 - 03
A. Assets		
Long Term Assets	276.28	206.27
Current Assets	153.48	61.56
B. Current Liabilities & Provisions	122.05	83.02
C. Income	242.98	175.34
D. Expenditure	149.14	137.89
E. Contingent Liability	57.19	18.08

14. The Company has participated in joint bidding under the Government of India New Exploration Licensing Policy and had been allotted 10 Blocks for which the Company has entered into Production Sharing Contract with Government of India along with other partners for Exploration & Production of Oil and Gas. As per the Production Sharing Contract, the Company has a minimum work programme commitment of Rs.138.63 Crores (Previous Year: Rs.106.37 Crores).

The Company is acting as non-operator and would have to share in expense/Income/Assets/Liabilities based upon its percentage in production sharing contract. The participating interest of the Company in these Joint ventures under NELP-Blocks are as under:

	Joint Venture under NELP Blocks	Participating Interest
1)	MN-OSN-97/3	15%
2)	NEC-OSN-97/1	50%
3)	MN-OSN-2000/2	20%
4)	GS-DWN-2000/2	15%
5)	MB-DWN-2000/2	15%
6)	KK-DWN-2000/2	15%
7)	CB-ONN-2000/1	40%
8)	MN-ONN-2000/1	20%
9)	CY-ONN-2002/1	50%
10)	AA-ONN-2002/1	80%

In addition, the Company has farm-in as non-operator with minimum work programme commitment of Rs.11.30 Crores (Previous Year: Rs.9.33 Crores) in the following blocks:

	Blocks	Participating Interest
1)	A-1, Myanmar	10%
2)	CY-OS/2	25%

The Company's share of assets and liabilities as at 31st March 2004 and the Income and the expenditure for the year in respect of joint operations project blocks has been incorporated in the Company financial statements based upon unaudited statement of accounts submitted by the operators as follows:

	(Rs. in Crores)	
	2003-04	2002-03
Income	-	-
Expenses	14.29	23.45*
Fixed Assets	0.36	0.16
Other Assets	21.14	2.02
Current Liabilities	16.51	16.62

\*Includes Rs.9.80 Crores on account of Dry Well Expenditure written off.

15. Due to change in Accounting Policy:

(a) During the year, the Company has changed its Accounting Policy of disclosure of unexecuted capital commitment from total amount to amount exceeding Rs.0.05 Crores in each case. Due to this, unexecuted capital commitment has decreased by Rs.1.03 Crores. This change has no impact on Profit & Loss Account for the year.

(b) During the year, the Company has changed its Accounting Policy of disclosure of Contingent Liabilities from total amount to amount exceeding Rs.0.05 Crores in each case. Due to this, Contingent Liabilities have decreased by Rs.3.15 Crores. This change has no impact on Profit & Loss Account for the year.

(c) During the year, the Company has changed its Accounting Policy of allocation of expenditure common to operations and construction activity to Profit and Loss account and Incidental Expenditure during construction in proportion to amount of sales to accretion to CWIP to charging of all common expenses to Profit & Loss Account. Due to this, fixed assets including Capital Work-in-Progress has decreased by Rs.52.80 Crores with consequent decrease in profits by Rs.52.80 Crores.

16. An amount of Rs.9.22 Crores (Previous Year: Rs.8.53 Crores) has been claimed on account of the adjustment for CENVAT (Previously MODVAT) in respect of Pata, LPG Plants at Usar, Vijapur, Vaghodia, Gandhar and Lakwa. Such claims are adjustable out of excise duty payable on goods produced from these plants.

17. No amount (Previous Year: Nil) is outstanding for more than 30 days in respect of SSI units as on 31.03.2004.

18.(a) The price of gas purchased from Joint Venture Consortium (JVC) (Indian and Foreign Partners) from Ravva / Ravva Satellite, Tapti and Panna-Mukta fields are denominated in USD per MMBTU. The liability in USD has been converted at Bills Buying rate, TT selling rate and TT buying rate, prevailing as on 31.03.2004 or on the date of payment, as the case may be.

(b) Imports have been accounted for at the exchange rate prevalent as on the date of retirement of documents being the date of transaction.

19. Following Government of India's approval, the shareholders of the Company in the Annual General Meeting held on 15<sup>th</sup> September 1997 approved the transfer of all the assets including Plant and Machinery, accessories and other related assets which are part of Lakwa Project valued at Rs.246.92 Crores as on 31.03.2004 (Previous Year: Rs.244.92 Crores) to Assam Gas Cracker Complex at a price to be determined by an independent Agency and on terms and stipulations as the Board may in its discretion deem fit.

20. A proposed Joint Venture with Indian Oil Corporation Ltd. for the transmission, distribution network in Agra - Ferozabad has not been formed. Part of the Project has since been commissioned and hence part of the expenses Rs.129.39 Crores (Previous year: Rs.113.30 Crores) have been capitalised and the balance amount of expenditure Rs.5.56 Crores (Previous Year: Rs.11.67 Crores) on the Project has been considered as construction work in progress of the Company like other ongoing Projects. Expenditure/Income, if any, has been accounted for along with other expenditure/income of the Company.

(Value Rs.in Crores)

21. Pending issue of suitable notification by the Government of India specifying the period and applicable rate at which cess on turnover is payable under Section 441A of Companies Act, 1956 the Company has not provided for the same.
22. Deposits made with the concerned authorities for railway crossings, forest crossings, removal and laying of electric/ telephone poles and lines have been accounted for, under Capital Work-in-Progress on the basis of work done/ confirmation from the concerned department.
23. Balances grouped under Material with Contractors, Sundry Debtors, Loans and Advances, Deposits and Sundry Creditors, etc. are subject to confirmation.
24. A sum of Rs.118.74 Crores (Previous year: Rs.118.74 Crores) is recoverable from M/s Essar Steel Limited against gas supply. The matter is sub judiced and provision for bad debts has been made during 2002-03. Hon'ble Supreme Court of India vide its Order, dated 22.06.2004 directed M/s Essar Steel Limited to file an Undertaking before Registrar General within 2 days to pay Rs.40 Crores within two weeks and GAIL to resume gas supply. The matter has been posted for next hearing on 07.07.2004. As the matter is still sub judiced and Hon'ble Supreme Court has to pass its final order, no adjustment in accounts has been made on this account.
25. The value of pipelines and related facilities taken over in
26. The Profit & Loss Account includes: -  
 (a) Expenditure on Public Relations amounting to Rs.25.95 Crores (Previous Year: Rs.10.55 Crores). The ratio of annual expenditure on Public Relations and Publicity to the annual turnover is 0.002:1 (Previous Year: 0.001:1).  
 (b) Research and Development Expenses Rs.0.34 Crores (Previous Year: Rs.2.97 Crores).  
 (c) Entertainment Expenses Rs.0.18 Crores (Previous Year: Rs.0.18 Crores).
27. Previous year's comparative figures have been regrouped and recast to the extent practicable, wherever necessary. Figures in brackets indicate deductions.
28. **Information Required as per Schedule VI of the Companies Act, 1956 is mentioned below**

**I. Quantitative Information**

(Value Rs.in Crores)

	OPENING STOCK		PURCHASES@		SALES @		INTERNAL CONSUMPTION		CLOSING STOCK	
	QTY	VALUE	QTY	VALUE	QTY	VALUE	QTY	VALUE	QTY	VALUE
<b>Natural Gas (MMSCM) *</b>										
Year Ended 31.03.2004	67.54	17.88	23030.49	6626.40	21012.55	7450.63	1988.67	1118.25	91.58	47.30
Year Ended 31.03.2003	73.21	19.03	23222.18	6398.95	21129.49	7181.35	2011.49	1120.61	67.54	17.88
<b>LPG (M/T)</b>										
Year Ended 31.03.2004	8086.31	6.92	-	-	1088675.54	1774.49	-	-	8167.58	7.04
Year Ended 31.03.2003	7279.97	6.06	-	-	1113429.71	1747.73	-	-	8086.31	6.92
<b>Pentane (M/T)</b>										
Year Ended 31.03.2004	502.82	0.40	-	-	52038.03	87.01	-	-	317.60	0.44
Year Ended 31.03.2003	713.88	0.52	-	-	33677.36	55.01	-	-	502.82	0.40
<b>Propane (M/T)</b>										
Year Ended 31.03.2004	4582.25	4.49	-	-	160909.62	321.84	-	-	855.49	0.83
Year Ended 31.03.2003	1025.21	0.90	-	-	116607.77	221.87	-	-	4582.25	4.49
<b>SBP Solvent(M/T)</b>										
Year Ended 31.03.2004	552.88	0.68	-	-	65478.12	126.34	-	-	453.41	0.70
Year Ended 31.03.2003	1441.13	1.22	-	-	34341.15	68.61	-	-	552.88	0.68

	OPENING STOCK		PURCHASES@		SALES @		INTERNAL CONSUMPTION		CLOSING STOCK	
	QTY	VALUE	QTY	VALUE	QTY	VALUE	QTY	VALUE	QTY	VALUE
<b>Polymers (M/T)</b>										
Year Ended 31.03.2004	20028.76	48.06	14475.48	77.18	265475.85	1179.36	8067.97	0.44	24671.32	65.05
Year Ended 31.03.2003	19443.40	45.66	-	-	289375.11	1107.50	1868.05	5.07	20028.76	48.06
<b>C2/C3 (M/T)</b>										
Year Ended 31.03.2004	3955.00	2.55	-	-	-	-	-	-	1648.00	1.09
Year Ended 31.03.2003	1412.00	0.96	-	-	-	-	-	-	3955.00	2.55
<b>Ethylene (M/T)</b>										
Year Ended 31.03.2004	7483.00	7.94	-	-	-	-	-	-	1910.00	2.35
Year Ended 31.03.2003	6563.00	7.14	-	-	-	-	-	-	7483.00	7.94
<b>Butene-1 (M/T)</b>										
Year Ended 31.03.2004	475.00	0.92	-	-	1346.14	6.40	-	-	133.00	0.37
Year Ended 31.03.2003	1084.00	2.27	-	-	1976.70	6.84	-	-	475.00	0.92
<b>Other Products(M/T)</b>										
Year Ended 31.03.2004	2581.03	3.00	-	-	20168.58	64.94	-	-	5618.19	6.28
Year Ended 31.03.2003	1070.05	1.67	-	-	18286.77	26.32	-	-	2581.03	3.00

- Note: (i) Difference in reconciliation of opening stock, purchases, sales and closing stock of Gas Quantity is on account of measurement tolerance.  
 (ii) Rs.52.40 Crores (Previous Year: Rs.56.68 Crores ) has been deducted at Source u/s 194C of the Income Tax Act from the Gas sales invoices raised during the year.  
 (iii) Internal consumption of polymers included 7822.96 MT for manufacture of other products.  
 (iv) @Excluding Prior Period adjustments.  
 \* Includes gas after processing.

**II. CIF Value of Imports**

	2003-04	2002-03
i) Capital Goods	86.63	97.45
ii) Spare parts & Components	121.16	80.63

**III. a) Expenditure in Foreign Currency**

	2003-04	2002-03
i) Interest/Commitment Charges	60.94	81.04
ii) Technical/Consultancy/License Fee/Engineering	15.62	9.73
III) Others	1641.53	581.55

**b) Earnings in Foreign Currency**

	2003-04	2002-03
I) Sales	19.03	146.63
II) Others (Including Tender fee)	2.68	0.08

**IV. Remuneration paid/payable to Whole-time Directors including**

	2003-04	2002-03
<b>Chairman &amp; Managing Director:</b>		
Salaries & Allowances	0.54	0.44
Contribution to Provident, Gratuity and Other Funds	0.15	0.12
Other Benefits and Perquisites	0.03	0.07
	<u>0.72</u>	<u>0.63</u>

In addition to above remuneration, Whole-time Directors are allowed the use of Staff cars including for private journeys up to a ceiling of 1000 Kms per month on payment in accordance with the Bureau of Enterprises Circular.

**V. Licensed Capacity, Installed Capacity and Actual Production**

	CURRENT YEAR 2003-04				PREVIOUS YEAR 2002-03			
	Licensed Capacity	Installed Capacity	Gas Throughput	Production	Licensed Capacity	Installed Capacity	Gas Throughput	Production
i (a) Natural Gas (HVJ) (MMSCMD)	33.400	33.400	32.23	-	33.400	33.400	33.03	-
(b) Natural Gas (Others) (MMSCMD)	-	-	30.61	-	-	-	30.37	-
ii LPG (M/T)	1168844	1168844	-	1088686.04	1168844	1168844	-	1114423.41
iii Propane (M/T)	201085	201085	-	157303.26	201085	201085	-	120187.81
iv Ethylene (M/T)	300000	300000	-	275610.00	300000	300000	-	311995.00
v HDPE/LLDPE (M/T) (Swing Plant)	160000	160000	-	167060.31	160000	160000	-	182289.16
HDPE (M/T)	100000	100000	-	96659.60	100000	100000	-	109539.35

**Notes :**

1. Production of Pentane 51872.15 MTs (Previous Year: 33466.30 MTs). SBP Solvent 65298.28 MTs (Previous Year: 34507.83 MTs)
2. Licensed and Installed Capacity of C2/C3 400000 MTs (Previous Year: 400000 MTs) and actual Production 366418.50 MTs (Previous Year: 418559 MTs)
3. Licensed and Installed Capacity of Butene-1 10000 MTs (Previous Year: 10000 MTs) and actual Production 7036.42 MTs (Previous Year: 8238.32 MTs)

**VI. Value of Raw Materials, Stores/Spares and Components consumed during the year**

	CURRENT YEAR 2003-04			PREVIOUS YEAR 2002-03		
	Qty.	Rs. in Crores	%	Qty.	Rs. in Crores	%
i) Raw Material Consumed - Gas (MMSCM)						
- Indigeneous	1091.45	819.60	100.00	1115.37	815.18	100.00
- Imported	-	-	-	-	-	-
<b>Subtotal</b>	<b>1091.45</b>	<b>819.60</b>	<b>100.00</b>	<b>1115.37</b>	<b>815.18</b>	<b>100.00</b>
ii) Stores, Spares Components Consumed						
- Indigeneous	-	75.83	43.34	-	56.80	40.20
- Imported	-	99.13	56.66	-	84.51	59.80
<b>Sub total</b>		<b>174.96</b>	<b>100.00</b>		<b>141.31</b>	<b>100.00</b>
<b>Total</b>		<b>994.56</b>			<b>956.49</b>	

N.K.Nagpal Secretary	J.K. Jain Director (Finance)	S.P. Rao Director (Projects)	Prashanto Banerjee Chairman & Managing Director	As per our separate Report of even date For M/s S. MANN & COMPANY Chartered Accountants Subhash Mann (Partner) Membership No. 80500
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 Place : New Delhi  
Dated : June 30, 2004

**(Annexure - A) INFORMATION ABOUT BUSINESS SEGMENTS**

SL SEGMENTS NO.	(Rs. in Crores)									
	GAS PROCESSING & SALES		LPG TRANSMISSION		OTHERS (TELECOM)		UNALLOCATED		CONSOLIDATED TOTAL	
	2003-04	2002-03	2003-04	2002-03	2003-04	2002-03	2003-04	2002-03	2003-04	2002-03
<b>1. REVENUE</b>										
External Sales	11011.01	10415.23	264.38	215.11	20.28	11.65	0.00	0.00	11295.67	10641.99
Intersegment Sales	-	-	-	-	-	-	-	-	-	-
<b>Total Revenue</b>	<b>11011.01</b>	<b>10415.23</b>	<b>264.38</b>	<b>215.11</b>	<b>20.28</b>	<b>11.65</b>	<b>0.00</b>	<b>0.00</b>	<b>11295.67</b>	<b>10641.99</b>
<b>2. RESULTS</b>										
Segment Result (Profit before Interest & Tax)	2788.33	2478.75	119.29	72.65	(8.79)	0.93	0.00	0.00	2898.83	2552.33
Unallocated Expenses							115.06	99.91	115.06	99.91
Operating Profit	2788.33	2478.75	119.29	72.65	(8.79)	0.93	(115.06)	(99.91)	2783.77	2452.42
Interest Expenses							137.97	186.37	137.97	186.37
Interest/ Dividend Income							168.62	252.24	168.62	252.24
Provision for Taxation							945.08	879.18	945.08	879.18
Profit/ (Loss) from Ordinary Activities	2788.33	2478.75	119.29	72.65	(8.79)	0.93	(1029.49)	(913.22)	1869.34	1639.11
Extraordinary Items									-	-
<b>Net Profit/(Loss)</b>	<b>2788.33</b>	<b>2478.75</b>	<b>119.29</b>	<b>72.65</b>	<b>(8.79)</b>	<b>0.93</b>	<b>(1029.49)</b>	<b>(913.22)</b>	<b>1869.34</b>	<b>1639.11</b>
<b>3. OTHER INFORMATION</b>										
Segment Assets	8599.66	6728.12	898.25	905.95	256.76	112.20	-	-	9754.67	7746.27
Unallocated Assets	-	-	-	-	-	-	2495.29	3159.49	2495.29	3159.49
<b>Total Assets</b>	<b>8599.66</b>	<b>6728.12</b>	<b>898.25</b>	<b>905.95</b>	<b>256.76</b>	<b>112.20</b>	<b>2495.29</b>	<b>3159.49</b>	<b>12249.96</b>	<b>10905.76</b>
Segment Liabilities	1553.12	1333.09	41.97	76.07	32.25	43.71	-	-	1627.34	1452.87
Unallocated Liabilities	-	-	-	-	-	-	1402.87	1323.08	1402.87	1323.08
<b>Total Liabilities</b>	<b>1553.12</b>	<b>1333.09</b>	<b>41.97</b>	<b>76.07</b>	<b>32.25</b>	<b>43.71</b>	<b>1402.87</b>	<b>1323.08</b>	<b>3030.21</b>	<b>2775.95</b>
Cost to acquire Fixed Assets	2289.90	268.61	96.90	(12.86)	150.63	104.48	6.37	9.62	2543.80	369.85
Depreciation*	549.11	537.68	97.74	95.77	10.61	5.48	3.60	3.01	661.06	641.94
Non Cash Expenses other than Depreciation*	5.04	140.09	-	1.85	-	-	-	9.80	5.04	151.74

\* Excluding Prior Period Adjustments



**(Annexure - B) - INFORMATION ABOUT GEOGRAPHICAL SEGMENTS**

(Rs. in Crores)

GEOGRAPHICAL LOCATION	Sales		Carrying Amount of Segment Assets		Addition to Fixed Assets	
	2003-04	2002-03	2003-04	2002-03	2003-04	2002-03
<b>Within India</b>						
- Central	6408.59	5780.58	6659.56	4516.92	2394.22	226.09
- Western	3299.95	3464.73	2311.75	2396.85	90.35	11.83
- Southern	1384.74	1092.26	460.30	451.17	46.43	115.55
- North East	183.36	157.79	308.99	371.24	6.43	6.76
<b>Outside India</b>						
	19.03	146.63	14.07	10.09	-	-
<b>Total</b>	<b>11295.67</b>	<b>10641.99</b>	<b>9754.67</b>	<b>7746.27</b>	<b>2537.43</b>	<b>360.23</b>

**(Annexure - C) - RELATED PARTY DISCLOSURES**

**I) Relationship**

**A) Joint Venture Companies:**

- 1) Mahanagar Gas Limited
- 2) Indraprastha Gas Limited
- 3) Petronet LNG Limited
- 4) Bhagyanagar Gas Limited

**B) Whole-time Directors:**

- 1) Shri Proshanto Banerjee, Chairman and Managing Director
- 2) Shri J. K. Jain
- 3) Shri S. P. Rao
- 4) Shri B. S. Negi
- 5) Shri M. R. Hingnikar
- 6) Shri S. Niyogi (upto 30.06.2003)

**C) Unincorporated Joint Venture for Exploration & Production Activities:**

- 1) NEC - OSN - 97/1 (Non-operator with participating interest: 50%)
- 2) CB - ONN - 2000/1 (Non-operator with participating interest: 40%)
- 3) A-1, Myanmar (Non-operator with participating interest: 10%)
- 4) CY-OS/2 (Non-operator with participating interest: 25%)
- 5) AA-ONN - 2002/1 (Non-operator with participating interest: 80%)
- 6) CY-ONN - 2002/1 (Non-operator with participating interest: 50%)

**II) The following transactions were carried out with the related parties in the ordinary course of business:**

**A) Details relating to parties referred to in item no. I (A) above:**

	2003-04	2002-03
1) Sales	270.95	190.43
2) Outstanding as at Balance Sheet date for Sales	16.63	11.82
3) Purchases	23.15	-
4) Amount payable as at Balance Sheet date for (3) above	15.32	-
5) Reimbursement for other expenditure received/receivable	3.52	3.33
6) Amount receivable as at Balance Sheet date for (5) above	3.71	0.97

**B) Details relating to parties referred to in item no. I (B) above:**

	2003-04	2002-03
1) Remuneration *	0.72	0.63
2) Interest bearing outstanding loans receivable	0.06	0.09
3) Interest accrued on loans given	0.07	0.05

\*Remuneration includes Basic, allowances, reimbursements, contribution to P.F. and Perquisites.

In addition, Whole-time Directors are allowed the use of Staff Cars including for private journeys up to a ceiling of 1000 Kms per month on payment in accordance with the Bureau of Enterprises Circular.

**C) Details relating to parties referred to in item no. I (C) above:**

	2003-04	2002-03
1) Minimum work programme commitment	94.90	53.22
2) Survey and other expenses	7.55	8.20
3) Other assets	21.38	1.78
4) Amount outstanding on Balance Sheet date	9.38	2.97
5) Amounts written off - Dry Well Expenditure	-	9.80



## Balance Sheet Abstract and Company's General Business Profile

I. Registration Details  
Registration No.

0 1 8 9 7 6

State Code 5 5

Balance Sheet  
Date

3 1 0 3 2 0 0 4  
Date Month Year

II. Capital raised during the year (Rs. in Lakhs)

Public Issue

NIL

Right Issue

NIL

Bonus Issue

NIL

Private Placement

NIL

III. Position of Mobilisation and Deployment of Funds (Rs. in Lakhs)

Total Liabilities

- 1 0 8 0 6 2 1

Total Assets

- 1 0 8 0 6 2 1

Sources of Funds

Paid-up Capital

- - 8 4 5 6 5

Reserves and Surplus

- - 6 5 9 9 5 0

Secured Loans

- - 1 6 5 5 5 2

Unsecured Loans

- - 4 7 7 9 6

Deferred Tax Liability

- - 1 2 2 7 5 8

Application of Funds

Net Fixed Assets

- - 8 9 5 7 3 5

Investment

- - 7 7 1 9 9

Net Current Assets

- - 1 0 7 6 8 7

Miscellaneous Expenditure

N I L

Accumulated Losses

N I L

IV. Performance of the Company (Amount in Rs. Lakhs)

Turnover

- 1 2 2 2 5 1 7

Total Expenditure

- - 9 4 1 0 7 5

Profit/Loss Before Tax

(+) (-)  
(+) - - 2 8 1 4 4 2

Profit/Loss After Tax

(+) (-)  
(+) - - 1 8 6 9 3 4

Earning per Share in Rs.

Rs. P.  
2 2 1 1

Dividend

8 0 %

V. Generic Names of the Principal Products/Services of the Company (as per monetary terms)

Item Code No.  
(ITC Code)

2 7 1 1 2 1 0 0

Product Description

N A T U R A L G A S

Item Code No.  
(ITC Code)

2 7 1 1 1 9 0

Product Description

L P G

Item Code No.  
(ITC Code)

3 9 0 1 2 0

Product Description

P O L Y E T H E L E N E

Item Code No.  
(ITC Code)

2 7 1 1 2 0 0

Product Description

P R O P A N E

N.K. Nagpal  
Secretary

J.K. Jain  
Director (Finance)

S.P. Rao  
Director (Projects)

Proshanto Banerjee  
Chairman &  
Managing Director

As per our separate Report of even date  
For M/S S. MANN & COMPANY  
Chartered Accountants

Place : New Delhi  
Dated : June 30, 2004

Subhash Mann  
(Partner)  
Membership No. 80500

## ACCOUNTING POLICIES

### A BALANCE SHEET

#### 1. Fixed Assets and Capital Work-in-Progress

Fixed Assets are valued at historical cost on consistent basis. In the case of commissioned assets where final payment to the Contractors is pending, capitalisation is made on provisional basis, including provisional liability pending approval of Competent Authority, subject to necessary adjustment in cost and depreciation in the year of settlement.

2. Cost of Right-of-Use (RoU) of land for laying pipelines is capitalised as land.
3. Crop compensation is accounted for under Capital Work-in-Progress on the basis of actual payments/estimated liability, as and when work commences where RoU is acquired.
4. The Capital Work-in-Progress includes value of materials /equipment, etc. received at site for use in the Projects.
5. Borrowing cost of the funds specifically borrowed for the purpose of obtaining qualifying assets and eligible for capitalisation along with the cost of the assets, is capitalised up to the date when the asset is ready for use after netting off any income earned on temporary investment of such funds.

#### 6 Depreciation/Amortisation

- I. Depreciation on Fixed Assets other than those mentioned below is provided in accordance with the rates as specified in Schedule XIV of the Companies Act, 1956, on straight line method on pro-rata basis (monthly pro-rata for bought out assets).
  - a. Assets costing upto Rs.5,000/- are depreciated fully in the year of capitalisation.
  - b. Bunk Houses are amortised on assumption of five years life.
  - c. Computers at the residence of the employees are depreciated at the rate of 23.75 per cent.
  - d. Cost of the leasehold land not exceeding 99 years is amortised over the lease period.
  - e. Depreciation due to price adjustment on account of foreign exchange rate variations or otherwise in the original cost of fixed assets is charged prospectively.
  - f. Capital expenditure on the assets (enabling facilities), the ownership of which is not with the Company, is charged off to Revenue.
  - g. Software / Licences are amortised in 5 years on straight line method.
- II. Capital assets installed at the consumers premises on the land whose ownership is not with the company, has been

depreciated on SLM basis in accordance with the rates as specified in Schedule XIV of the Company's Act, 1956.

#### 7 Foreign Currency Translation

- a. Loans/other liabilities involving foreign currency are translated at the rate of exchange (BC Selling) prevailing at the year end. All exchange difference in respect of foreign currency transaction are dealt with in the Profit and Loss Account except those relating to acquisition of fixed assets, which are adjusted in the cost of the assets.
- b. Deposits in Foreign Currency are valued at the rate of exchange (TT Buying) prevailing at the year end.

#### 8. Investments

- a. Quoted investments are valued at cost or market value, whichever is lower.
- b. Unquoted investments are valued at cost.
- c. Long term investments are valued at cost. Provision is made to recognise a decline, other than temporary, in the value of investments.

#### 9. Inventories

- a. Raw materials are valued at cost or net realisable value, whichever is lower.
- b. Finished products are valued at cost or net realisable value, whichever is lower.
- c. Stock in process is valued at cost or net realisable value, whichever is lower. It is valued at cost where the finished products in which these are to be incorporated are expected to be sold at or above cost.
- d. Stores and spares and other material for use in production of inventories are valued at weighted average cost or net realisable value, whichever is lower. It is valued at weighted average cost where the finished products in which they will be incorporated are expected to be sold at/or above cost.
- e. Surplus/Obsolete Stores and Spares are valued at cost or net realisable value, whichever is lower.
- f. Surplus/Obsolete Capital Stores, other than held for use in construction of a capital assets, are valued at lower of cost or net realisable value.

10. Machinery spares, which can be used only in connection with an item of fixed asset and their use is expected to be irregular, are capitalised with the cost of that fixed asset and are depreciated during the remaining useful life of that asset.

#### 11. Grants

In case of depreciable assets, the cost of the assets is shown at gross value and grant thereon is taken to Capital Reserve which is recognised as income in the Profit and Loss Account over the useful life period of the asset.

### B. PROFIT & LOSS ACCOUNT

12. Sale proceeds are accounted for based on the consumer price inclusive of Statutory Levies and charges up to the place where ownership of goods is transferred.
13. The interest allocable to operations in respect of assets commissioned during the year is worked out by adopting the average of debt equity ratios at the beginning and closing of that year and applying the average ratio of debt thus worked out to the capitalised cost.
14. Pre-project expenditure relating to projects which are considered unviable/closed, is charged off to Revenue over a period of five years.
15. Retirement Benefits
  - a. Provision for Gratuity is made on the basis of actuarial valuation made at the end of the Financial Year.
  - b. Liability towards leave encashment and post retirement medical benefits to employees as at the end of the year is assessed on the basis of actuarial valuation and provided for.
  - c. Contribution to Provident Fund as per the rules of the Company is accounted for on accrual basis.
16. Taxes on Income  
Current tax represents the amount of tax payable in respect of taxable income for the period. Deferred tax liability represents the tax difference between taxable and accounting income which originate in one period and are capable of reversal in one or more subsequent periods.
17. R & D Expenditure  
All expenditure, other than on capital account, on research and development are charged to Profit and Loss Account.
18. Yearly reconciliation of Natural Gas is made within a limit of  $\pm 1\%$ . In case of variation beyond  $\pm 1\%$  value of excess quantity is kept in a separate Account 'Tolerance Fluctuation Adjustment Account' for adjustments in future.

N.K.Nagpal  
Secretary

J.K.Jain  
Director (Finance)

S.P. Rao  
Director (Projects)

Place : New Delhi  
Dated : June 30, 2004

#### 19. Exploration and Development Costs

- a. Survey Costs are expensed in the year in which these are incurred.
- b. Costs of successful / undecided exploratory wells (except for undecided for more than 5 years) is carried as wells in progress till the time producing property is created or is expensed in the year when finally determined to be dry.
- c. All wells appearing as 'wells in progress' the status of which remains undecided for more than 5 years are charged off to Profit and Loss Account.

#### 20. Contingent Liabilities and Capital Commitments

- a. Contingent Liabilities are disclosed in each case above Rs.5 Lakhs.
- b. Estimated amount of contracts remaining to be executed on capital accounts are disclosed in each case above Rs.5 Lakhs.

### C. GENERAL

21. Prepaid expenses and prior period expenses/income up to Rs.1,00,000/- in each case are charged to relevant heads of account of the current year.
22. Liquidated Damages, if any, are accounted for as and when recovery is effected and the matter is considered settled by the Management. Liquidated damages, if settled, after capitalisation of assets are charged to revenue, if below Rs.50 Lakhs in each case otherwise adjusted in the cost of relevant assets.
23. Insurance claims are accounted for on the basis of claims admitted by the insurers.
- 24 a. Custom Duty and other claims (including interest on delayed payments) are accounted for on acceptance in principle.
  - b. Liability in respect of MGO is not provided for where the same is secured by MGO recoverable from customers. Payments/receipts during the year on account of MGO are adjusted on receipt basis.
  - c. Minimum charges relating to transportation of LPG are accounted for on receipt basis.

Proshanto Banerjee  
Chairman &  
Managing Director

As per our separate Report of even date  
For M/S S. MANN & COMPANY  
Chartered Accountants

Subhash Mann  
(Partner)  
Membership No. 80500



**CASH FLOW STATEMENT FOR THE FINANCIAL YEAR ENDED MARCH 31, 2004**

	(Rs. in Crores)	
	2003-04	2002-03
<b>A. CASH FLOW FROM OPERATING ACTIVITIES</b>		
1. NET PROFIT BEFORE TAX AND EXTRAORDINARY ITEMS	2814.42	2518.29
2. ADD:		
DEPRECIATION	661.60	643.54
DEFERRED REVENUE EXPENDITURE	0.11	0.11
CAPITAL RESERVE	(0.12)	(0.12)
EXCHANGE RATE VARIATION	(0.87)	4.10
INTEREST EXPENDITURE	137.97	186.37
DIVIDEND INCOME ON INVESTMENTS	(104.32)	(112.90)
INTEREST INCOME	(64.30)	(139.34)
PROFIT/LOSS ON SALE OF ASSETS (NET)	<u>1.61</u>	<u>0.87</u>
	631.68	582.63
3. OPERATING PROFIT BEFORE WORKING CAPITAL CHANGES (1+2)	3446.10	3100.92
4. CHANGES IN WORKING CAPITAL (EXCLUDING CASH & BANK BALANCES)		
TRADE AND OTHER RECEIVABLES	(196.96)	(123.11)
INVENTORIES	(56.32)	5.64
TRADE AND OTHER PAYABLES	<u>311.26</u>	<u>(9.54)</u>
	57.98	(127.01)
5. CASH GENERATED FROM OPERATIONS (3+4)	3504.08	2973.91
6. DIRECT TAXES PAID	(896.21)	(806.10)
<b>NET CASH FROM OPERATING ACTIVITIES (5+6)</b>	<b>2607.87</b>	<b>2167.81</b>
BALANCE CARRIED FORWARD...	2607.87	2167.81

**CASH FLOW STATEMENT FOR THE FINANCIAL YEAR ENDED MARCH 31, 2004**

	(Rs. In Crores)	
	2003-04	2002-03
BALANCE BROUGHT FORWARD...	2607.87	2167.81
<b>B. CASH FLOW FROM INVESTING ACTIVITIES</b>		
PURCHASE OF FIXED ASSETS	(2692.35)	(632.33)
SALE OF FIXED ASSETS	0.59	1.24
REDEMPTION OF DEBENTURES	0.28	0.00
INVESTMENT IN OTHER COMPANIES	(84.33)	0.27
INTEREST RECEIVED	78.23	136.43
DIVIDEND RECEIVED	104.32	112.90
<b>NET CASH FROM INVESTING ACTIVITIES</b>	<b>(2593.26)</b>	<b>(381.49)</b>
<b>C. CASH FLOW FROM FINANCING ACTIVITIES</b>		
PROCEEDS FROM LONG TERM BORROWINGS	1600.00	0.00
REPAYMENT OF LONG TERM BORROWINGS	(1475.24)	(380.95)
INTEREST PAID	(154.49)	(187.29)
DIVIDEND PAID	(763.20)	(634.24)
<b>NET CASH FROM FINANCING ACTIVITIES</b>	<b>(792.93)</b>	<b>(1202.48)</b>
<b>NET INCREASE IN CASH AND CASH EQUIVALENTS (A+B+C)</b>	<b>(778.32)</b>	<b>583.84</b>
<b>CASH AND CASH EQUIVALENTS AS AT 01.04.2003 (OPENING BALANCE)</b>	<b>2346.27</b>	<b>1762.43</b>
<b>CASH AND CASH EQUIVALENTS AS ON 31.03.2004 (CLOSING BALANCE)</b>	<b>1567.95</b>	<b>2346.27</b>

N.K.Nagpal  
Secretary

J.K.Jain  
Director (Finance)

S.P. Rao  
Director (Projects)

Proshanto Banerjee  
Chairman &  
Managing Director

As per our separate Report of even date  
For M/S S. MANN & COMPANY  
Chartered Accountants

Place : New Delhi  
Dated : June 30, 2004

Subhash Mann  
(Partner)  
Membership No. 80500

## Auditors' Report to the Shareholders

We have audited the attached Balance Sheet of GAIL (India) Limited as at 31st March, 2004, the Profit and Loss Account and Cash Flow Statement of the company for the year ended on that date annexed thereto in which are incorporated the accounts of two units audited by Branch Auditors. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in India. Those Standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As required by the Companies (Auditor's Report) Order, 2003 issued by the Central Government of India in terms of sub-section (4A) of Section 227 of the Companies Act, 1956, we enclose in the Annexure hereto a statement on the matters specified in paragraphs 4 and 5 of the said Order.

Further to our comments in the Annexure referred to above, we report that :

- (a) We have obtained all the information and explanations, which to the best of our knowledge and belief were necessary for the purposes of our audit;
- (b) The allocation of work amongst the auditors has been followed as per the directions contained in letter addressed to

GAIL (India) Ltd. by the office of the Comptroller & Auditor General of India, New Delhi;

- (c) In our opinion, proper books of account as required by law have been kept by the Company so far as appears from our examination of those books. The Branch Auditor's Report have been forwarded to us and have been appropriately dealt with;
- (d) The Balance Sheet and Profit & Loss Account and the Cash Flow Statement dealt with, by this report are in agreement with the books of account;
- (e) In our opinion, the Balance Sheet and Profit and Loss Account and the Cash Flow Statement dealt with, by this report comply with the accounting standards referred to in sub-section (3C) of Section 211 of the Companies Act, 1956;
- (f) On the basis of written declaration received from the Directors, as on 31st March, 2004, and taken on record by the Board of Directors, we report that none of the directors is disqualified as on 31st March, 2004 from being appointed as a director in terms of Section 274(1)(g) of the Companies Act, 1956.
- (g) In our opinion and to the best of our information and according to the explanations given to us, the said financial statements read together with the significant accounting policies and notes thereon give the information required by the Companies Act, 1956, in the manner so required and give a true and fair view in conformity with the accounting principles generally accepted in India:
  - a) in the case of the Balance Sheet, of the state of affairs of the Company as at 31st March, 2004
  - b) in the case of the Profit & Loss Account, of the profit for the year ended on that date and
  - c) in the case of the Cash Flow Statement, of the cash flow of the company for the year ended on that date.

For M/s S. Mann & Co.  
Chartered Accountants

Subhash Mann  
(Partner)

Membership No. 80500

Place: New Delhi  
Date: June 30, 2004

## Annexure to the Auditor's Report

The Annexure referred to in the Auditor's Report to the Shareholders of GAIL (India) Limited for the year ended March 31, 2004. We report that :

1. The Company has maintained proper records showing full particulars including quantitative details and situation of fixed assets.

According to the information and explanation given to us, there is a regular programme of verification of fixed assets which, in our opinion, is reasonable having regard to the size of the company and the nature of its assets. All fixed assets have been physically verified by the management during the year and no material discrepancies were noticed on such verification.

Fixed assets disposed off during the year were not substantial and therefore do not affect the going concern status of the company.

2. According to the information and explanations given to us, the stock of stores and spares were physically verified by the Management, except those lying with Engineers India Ltd. and other contractors at the end of the year. We have been explained that the stock of gas at the end of the year has been taken with reference to reading of Turbine Flow Meter/Gas Chromatograph installed at Terminals, Stock of LPG/ Pentane/ SBP Solvent are determined with reference to Tank Level Gauge measurement which are converted into tonnage by measurement of density and applying correction factor for temperature. LPG vapour volume is converted to tonnage by standard formulae.

In our opinion and according to the information and explanations given to us, the procedures of physical verification of stock followed by the management are reasonable and adequate in relation to the size of the Company and nature of its business.

According to the information and explanations given to us, no material discrepancies have been noticed on physical verification of stock of stores and spares as compared to the books and records.

3. The Company has neither granted nor taken any loans secured or unsecured, to or from companies, firms or other parties

covered in the register maintained under Section 301 of the Companies Act, 1956.

4. In our opinion, and according to information and explanations given to us, there is an adequate internal control procedure commensurate with the size of the company and the nature of its business for the purchases of inventory and fixed assets and for the sale of goods. During the course of our audit, no major weakness has been noticed in the internal controls.
5. On the basis of our examination of the books of accounts, the Company has not entered into any transactions in respect of any party during the financial year that needs to be entered in the register pursuant to Section 301 of the Companies Act, 1956.
6. The Company has not accepted any deposits from the public during the year and consequently, the directive issued by the Reserve Bank of India and the provisions of Section 58A and 58AA of the Companies Act, 1956, and the rules framed there under are not applicable.
7. In our opinion, the Company's internal audit system is commensurate with its size and nature of its activities. However, it requires further strengthening due to increase in the activities of the Company in recent past.
8. As certified by the management and independent Cost Accountants, in our opinion, the Company is maintaining the prescribed cost accounts and records pursuant to the rules made by the Central Government for the maintenance of cost records under Section 209(1)(d) of the Companies Act, 1956.
9. According to the records of the company, the company is generally regular in depositing undisputed statutory dues including Provident Fund, Income Tax, Sales Tax, Wealth Tax, Custom Duty, Excise Duty and any other statutory dues with the appropriate authorities. According to the information and explanation given to us, no undisputed amounts payable in respect of Income Tax, Sales Tax, Custom Duty, Excise Duty and other statutory dues were outstanding at the year end for a period of more than six months from the date they become payable.

As per the information given to us, the dues of Excise Duty, Custom Duty, Entry Tax, Sales Tax and Other Taxes which have not been deposited on account of disputes and the forum where the dispute is pending, are given below, requisite disclosure is being made under the head Contingent Liability.

Issue	Subject matter of dispute	(Rs. in Crores)	
		Amount	Status - Forum
1. Entry Tax	Entry Tax on market value of Natural Gas instead of its purchase price	45.90	Allahabad High Court
2. Sales Tax	1. CST on stock transfer of Natural Gas from Hazira	3344.84	Supreme Court
	2. Non acceptance of declaration form for concessional Sales Tax	2.83	Dy. Commissioner (Appeals), Surat

### Schedule of Fixed Assets (Township)

(Rs. in Lakhs)

DESCRIPTION	GROSS BLOCK (AT COST)				DEPRECIATION				NET BLOCK	
	As at 01.04.2003	Additions / Adjustments during the Year	Sales / Adjustments during the Year	As at 31.03.2004	Up to 31.03.2003	For the Year	Adjustments during the Year	As at 31.03.2004	As at 31.03.2004	As at 31.03.2003
Land : Freehold	2,370.86	589.34	0.00	2,960.20	54.85	30.03	0.00	84.88	2,875.32	2,316.01
Land : Leasehold	345.84	0.00	0.00	345.84	21.33	3.69	0.00	25.02	320.82	324.51
Building, Roads, etc.	24,006.29	707.78	0.00	24,714.07	2,697.32	469.95	22.51	3,189.78	21,524.29	21,308.97
Drainage, Sewage & Water Supply Sys., etc.	1,088.94	19.91	0.00	1,108.85	369.47	60.54	(3.02)	426.99	681.86	719.47
Furniture, Fixtures & Other Equipment	1,189.90	125.20	(10.97)	1,304.13	499.60	78.76	(32.59)	545.77	758.36	690.30
Transport Equipment	16.20	0.58	(13.14)	3.64	10.25	0.40	(9.10)	1.55	2.09	5.95
<b>Total</b>	<b>29,018.03</b>	<b>1,442.81</b>	<b>(24.11)</b>	<b>30,436.73</b>	<b>3,652.82</b>	<b>643.37</b>	<b>(22.20)</b>	<b>4,273.99</b>	<b>26,162.74</b>	<b>25,365.21</b>

- |                |  |         |  |
|----------------|--|---------|--|
|                | 3. CST on transmission charges                         | 1.06    | Tribunal, Chennai                      |
|                | 4. Demand against adjustments of past period tax       | 0.74    | Dy. Commissioner (Appeals), Gwalior    |
|                | 5. Resale tax on Natural Gas                           | 2.71    | Madras High Court                      |
| 3. Customs     | 1. Project import – Pata                               | 305.53  | Dy. Commissioner of Customs, Mumbai    |
|                | 2. Demand of duty denying exemption to software import | 4.88    | Commissioner of Customs, Delhi         |
|                | 3. Demand of duty on Panna- Mukta Gas                  | 581.22  | Commissioner of Customs, Ahmedabad     |
| 4. Excise      | 1. Modvat credit and duty on Horton sphere             | 1.58    | CESTAT                                 |
|                | 2. Duty on Lean Gas                                    | 1491.54 | CESTAT                                 |
|                | 3. Duty on Lean Gas – 57CC                             | 319.63  | Supreme Court                          |
|                | 4. Disputed Modvat of Pata                             | 9.99    | CESTAT                                 |
|                | 5. Duty on NGL   | 9.18    | CESTAT                                 |
|                | 6. Duty on Lean Gas – 57CC                             | 56.10   | Commissioner of Central Excise, Raigad |
|                | 7. Duty on Lean Gas by denying exemption               | 169.87  | Commissioner, Vadodara                 |
|                | 8. Pentane re-classification                           | 2.43    | Asstt. Commissioner, Gwalior           |
| 5. Other taxes | Notified area tax on revised value                     | 1.55    | Ahmedabad High Court                   |
10. The Company has no accumulated losses at the end of the financial year and it has not incurred any cash losses in the current and immediately preceding financial year.
11. Based on our audit procedure and on the information and explanations given by the management, we are of the opinion that the company has not defaulted in repayment of dues to a financial Institution, bank and debenture holders.
12. The Company has granted loans and advances on the basis of securities to its employees and adequate documents and records are maintained for the same.
13. The Company is not a chit fund, nidhi, mutual benefit fund or a society. Accordingly, clause 4 (xiii) of the Order not applicable.
14. According to the information and explanation given to us, the Company is not dealing or trading in shares, securities, debentures and other investments. Accordingly, clause 4 (xiv) of the order is not applicable.
15. The Company along with other promoters has issued corporate guarantee in favour of banks and financial institutions for short term loan taken by Petronet LNG Limited from such banks and financial institutions, the terms and conditions whereof are not prejudicial to the interest of the company.
16. According to the information and explanation gives to us, the term loans have been applied for the purpose for which these were obtained.
17. We have been informed by the management that the funds raised on short term basis have not been used for long term investment and vice-versa.
18. The Company has not made any preferential allotment of shares to parties or companies covered in the register maintained under Section 301 of the Companies Act, 1956.
19. The Company has issued 1000 secured, non-convertible, redeemable bonds series I aggregating Rs.500 Crores and 1200 secured, non-convertible, redeemable bonds series II aggregating Rs.600 Crores on 22.8.2003 & 25.3.2004 respectively. The securities for these bonds have been created on 23.06.2004.
20. During the year, the Government of India has divested the 10% of the fully diluted post offer paid up capital of the Company by 100% book building process of 84565160 Equity Shares of Rs.10/- each. The Company has not received any proceeds from the said offer.
21. According to the information and explanations given to us, no fraud on or by the Company has been noticed or reported during the year.

For M/S S. MANN & COMPANY  
Chartered Accountants

Subhash Mann  
(Partner)  
Membership No. 80500

## Income and Expenditure Account

INCOME AND EXPENDITURE ACCOUNT FOR THE YEAR ENDED 31ST MARCH, 2004 ON PROVISIONS OF TOWNSHIP, EDUCATION, MEDICAL AND OTHER FACILITIES.

S.NO.	PARTICULARS	(Rs. in Lakhs)	
		YEAR ENDED 31ST MARCH, 2004	YEAR ENDED 31ST MARCH, 2003
<b>INCOME</b>			
1	RECOVERY OF HOUSE RENT	49.55	52.40
2	RECOVERY OF UTILITIES	59.34	52.45
3	OTHER RECOVERIES	6.72	10.82
4	EXCESS OF EXPENDITURE OVER INCOME	2,326.87	2,193.17
	<b>TOTAL</b>	<b>2,442.47</b>	<b>2,308.84</b>
<b>EXPENDITURE</b>			
1	SALARIES, WAGES & PF CONTRIBUTION	257.73	260.62
2	CONSUMABLES, STORES & MEDICINES	34.21	25.20
3	SUBSIDIES FOR SOCIAL & CULTURAL ACTIVITIES	98.81	118.29
4	REPAIRS & MAINTENANCE	469.49	450.00
5	DEPRECIATION	626.42	618.59
6	UTILITIES: POWER, GAS & WATER	429.99	364.17
7	LAND RENT	9.05	9.06
8	WELFARE - SCHOOL	116.17	96.32
9	BUS HIRE CHARGES	153.07	117.63
10	CLUB & RECREATION	2.86	4.32
11	MISC EXPENSES - TAXES, LICENSE FEES, INS ETC.	127.31	122.42
12	HORTICULTURE EXPENSES	117.35	126.77
	<b>TOTAL</b>	<b>2,442.47</b>	<b>2,313.39</b>

1. Comments of C&AG u/s 619(4)  
of the Companies Act, 1956  
2. Review of Accounts by C&AG



## Addendum to the Director's Report

Management Replies to the Comments of the Comptroller and Auditor General of India under Section 619 (4) of the Companies Act, 1956 on the accounts of GAIL (India) Limited, New Delhi, for the year ended March 31, 2004.


Para. No.	COMMENTS OF THE COMPTROLLER AND AUDITOR GENERAL OF INDIA	MANAGEMENT REPLIES
1.	<p><b>Balance Sheet</b></p> <p><b>Fixed Assets : (Schedule-4)</b></p> <p><b>Tangible Assets (Gross Block): Rs.13584.13 Crores</b></p> <p>The above includes Rs.17.42 Crores being cost of Right of Use (ROU) of land for laying pipelines which should have been classified under the head " Intangible Assets" in terms of AS-26. This has resulted in overstatement of Fixed Assets and understatement of Intangible Assets by Rs.17.42 Crores.</p> <p>Further, the Company has also not disclosed the Intangible Assets distinctly and sharing of ROU with other Oil Companies in the Balance Sheet.</p>	<p>ROU is shown separately in Fixed Asset Schedule and no depreciation is charged being perpetual in nature in terms of the opinion of Expert Advisory Committee of The Institute of Chartered Accountants of India. However, the matter will be reviewed in the current financial year for appropriate classification and disclosure.</p>
2.	<p><b>Current Liabilities and Provisions (Schedule-8)</b></p> <p><b>Current Liabilities: Rs. 2296.25 Crores</b></p> <p><b>Other Liabilities: Gas Pool Money: Rs.534.51 Crores</b></p> <p>The above does not include an amount of Rs.35.28 Crores towards interest liability on Rs.94.63 Crores retained by the Company from Gas Pool Money towards settlement of its claim without approval of the Government. This has resulted in overstatement of Profit and understatement of Current Liabilities – Gas Pool Money to the extent of Rs.35.28 Crores.</p>	<p>MOP&amp;NG vide its letter No.L-12015/1/94-GP (VIII) dated 4.7.97 stated that GAIL will not be put to any loss on account of compensation towards higher price of JV Gas. Accordingly, Gas Pool Money was transferred to a separate bank account after retaining Rs.94.63 Crores which is being communicated to MOP&amp;NG regularly. Hence no interest liability is considered to be created by the management</p>

3. ( i)	<p><b>Notes on Accounts (Schdule-14)</b></p> <p><b>Note No. 1</b></p> <p>Estimated amount of Contracts remaining to be executed on Capital Account and not provided for Company's own unexecuted Capital Commitment: Rs.167.54 Crores</p> <p>This does not include two Purchase Orders amounting to Rs.10.46 Crores (UOP India Limited for Rs.6.63 Crores and Manior Industries for Rs.3.83 Crores) whose Fax of Intent (FOI) were issued before 31.03.2004.</p>	Noted
3. ( ii)	<p><b>Note No. 15(c)</b></p> <p>The changed Accounting Policy for treatment of common expenditure to the assets under construction has not been disclosed in the Schedule of Accounting policies though the fact and impact of change has been disclosed by way of note. The disclosure is not complete in terms of AS1.</p>	The company has changed its accounting policy in the financial year 2003-04 in compliance with Accounting Standard (AS-10) which has been suitably disclosed in the Notes to Accounts. However, disclosure in accounting policy would be reviewed in the financial year 2004-05.
3.( iii)	<p><b>Note No. 21</b></p> <p>The Company has not disclosed the dues recoverable from M/s. Chennai Petroleum Corporation Limited (CPCL) amounting to Rs.9.69 Crores for want of finalisation of Agreement.</p>	The accounting has been done in accordance with accounting policy of the company and in accordance with the AS-9. Accordingly no separate disclosure is considered necessary by management.

Sd/-  
(Vijaya Moorthy)  
Principal Director of Commercial Audit  
& Ex-Officio Member Audit Board - II

Place : New Delhi  
Dated : 27.08.2004

For and on behalf of the Board of Directors

  
(Proshanto Banerjee)  
Chairman & Managing Director

Place : New Delhi  
Dated : 28.08.2004



REVIEW OF THE ACCOUNTS OF GAIL (INDIA) LIMITED, NEW DELHI, FOR THE YEAR ENDED MARCH 31, 2004 BY THE COMPTROLLER & AUDITOR GENERAL OF INDIA

(This Review of Accounts has been prepared without taking into account comments under Section 619 (4) of the Companies Act, 1956 and qualifications contained in the Statutory Auditor's Report )

1. FINANCIAL POSITION

The table below summarises the financial position of the Company under broad headings for the last three years :

	2001 - 2002	2002 - 2003	(Rs. in Crores) 2003 - 2004
<b>Liabilities</b>			
a) Paid-up Capital			
i) Government	569.50	569.50	484.94
ii) Others	276.15	276.15	360.71
b) Reserves and Surplus			
i) Free Reserves & Surplus	4486.96	5490.77	6596.91
ii) Share Premium Account	0.26	0.26	0.26
iii) Capital Reserve	2.57	2.45	2.33
c) Borrowings			
i) From Government of India	-	-	-
ii) From Financial Institutions	150.00	-	-
iii) Foreign Currency Loans	1541.31	1420.83	61.28
iv) Others	733.50	626.29	2072.20
d) (i) Current Liabilities & Provisions	2726.05	2758.35	3007.82
(ii) Provision for Gratuity	14.32	17.60	22.39
e) Deferred Tax Liability	1090.74	1119.75	1227.58
<b>TOTAL</b>	<b>11591.36</b>	<b>12281.95</b>	<b>13836.42</b>
<b>Assets</b>			
f) Gross Block	10701.94	11048.71	13584.73
g) Less: Depreciation	4167.06	4786.61	5441.85
h) Net Block	6534.88	6262.10	8142.88
i) Capital Work-in-Progress	425.70	688.14	814.47
j) Investments	688.21	687.94	771.99
k) Current Assets, Loans and Advances	3942.35	4643.66	4107.08
l) Miscellaneous Expenditure not written off	0.22	0.11	-
<b>TOTAL</b>	<b>11591.36</b>	<b>12281.95</b>	<b>13836.42</b>
m) Working Capital ( k-d(i) )	1216.30	1885.31	1099.26
n) Capital Employed (h+m)	7751.18	8147.41	9242.14
o) Net Worth ( a+b(i)+b(ii)-l )	5332.65	6336.57	7442.82
p) Net Worth Per Rupee of Paid-up Capital (in Rs.)	6.31	7.49	8.80

The Working Capital of the Company for the years 2001-02 and 2002-03 were Rs.1,216.30 Crores and Rs.1,885.31 Crores. However, thereafter declined to Rs. 1,099.26 Crores mainly because of decrease in Short term deposits.

The Capital Employed has increased from Rs.7,751.18 Crores in 2001-02 to Rs.9,242.14 Crores in 2003-04 due to increase in Net Fixed Assets.

Net Worth increased from Rs.5,332.65 Crores in 2001-02 to Rs.7,442.82 Crores in 2003-04 mainly because of increase in Reserves and Surplus due to higher profitability.

2. WORKING RESULTS

	2001 - 2002	2002 - 2003	(Rs. in Crores) 2003 - 2004
i) Sales (incl. LPG Transmission Charges)	9567.50	10641.99	11295.67
(ii) Less: Excise Duty	263.94	424.46	471.83
(iii) Net Sales	9303.56	10217.53	10823.84
(iv) Other / Miscellaneous Income	209.59	318.76	244.03
(v) Profit/(Loss) Before Tax and Prior Period Adjustments	1792.70	2510.03	2811.83
(vi) Prior Period Adjustments	9.19	8.26	2.59
(vii) Profit/(Loss) Before Tax	1801.89	2518.29	2814.42
(viii) Tax Provisions	616.06	879.18	945.08
(ix) Profit After Tax	1185.83	1639.11	1869.34
(x) Proposed / Interim Dividend	380.54	591.96	676.52

The sales of the Company has increased from Rs.10,641.99 Crores in 2002- 03 to Rs.11,295.67 Crores in 2003-04, which is increased by 6.14%. While Profit After Tax has increased from Rs.1,639.11 Crores in 2002-03 to Rs.1,869.34 Crores in 2003-04 which is increased by 14.05% due to higher sales.

Other Income has increased from Rs.209.59 Crores in 2001-02 to Rs.318.76 Crores in 2002-03 but decreased to Rs.244.03 Crores 2003-04 mainly due to decrease in interest income from short term deposit with banks.





### 3. RATIO ANALYSIS

Some important financial ratios on the financial health and working of the Company at the end of last three years are as follows :-

	(In Percentages)		
	2001-2002	2002-03	2003-04
<b>A. Liquidity Ratio</b>	144.62	168.35	136.55
Current Ratio (Current Assets to Current Liabilities & Provisions but excluding Provision for Gratuity) (k / (d(i)))			
<b>B. Debt Equity Ratio</b>	45.47	32.31	28.66
Long term debt to Net Worth (c (i to iv but excluding short term loans)/ o)			
<b>C. Profitability Ratios</b>			
a) Profit Before Tax to			
i) Capital Employed	23.25	30.91	30.45
ii) Net Worth	33.79	39.74	37.81
iii) Sales	18.83	23.66	24.92
b) Profit After Tax to Equity	140.23	193.83	221.05
c) Earning Per Share (in Rs.)	14.02	19.38	22.11

The percentage of Liquidity Ratio, which is a measure of solvency, has decreased from 168.35 in 2002-03 to 136.55 in 2003-04 due to decrease in Working Capital.

The percentage of Debt-Equity Ratio is showing decreasing trend. It has declined to 28.66 in 2003-04 from 45.47 in 2001-02 because of repayment of borrowed funds.

The percentage of Profit Before Tax to Sales was varied from 18.83 in 2001-02, 23.66 in 2002-03 and 24.92 in 2003-04, which shows an increasing trend.

### 4. SOURCES AND USES OF FUNDS

Funds amounting to Rs. 3517.39 Crores were generated from internal and external sources and utilised during the year 2003 -2004 as follows:

		(Rs. in Crores)
		2003 - 2004
<b>Sources of Funds</b>		
Funds from operations		
Profit After Tax	1869.34	
Add: Loss on Sale of Fixed Assets (Net)	<u>1.62</u>	
Add: Depreciation / write off	1870.96	
Add: Deferred Tax liability provided for	660.94	
	<u>107.83</u>	
	2639.73	
Less: Capital Reserve write of	<u>0.12</u>	
		2639.61
Sale of Fixed Assets		0.58
Increase in Borrowed Funds		86.36
Decrease in Working Capital		790.84
Total		<u>3517.39</u>
<b>Utilisation of Funds</b>		
Increase in Fixed Assets	2543.81	
Add : Increase in Capital Work-in-Progress	<u>126.33</u>	
		2670.14
Increase in Investments		84.05
Dividend Paid incl. Dividend Tax		763.20
Total		<u>3517.39</u>



## 5. INVENTORY LEVELS

The inventory levels at the end of the last three years are given below :

	(Rs. in Crores)		
	2001 - 2002	2002 - 2003	2003 - 2004
Stores and Spares	338.97	325.75	343.46
Stock of Gas / LPG / Polymers & other products	85.43	92.84	131.45

The Stock of Stores and Spares was equivalent to 23.91 months consumption for production requirements in 2003-04 as compared to 27.54 months consumption in 2002-03 and 30.17 months consumption in 2001-02.

The Stock represented 0.14 months sales during 2003-04 as compared to 0.10 months sales in 2002-03 and 0.11 months sales in 2001-02.

## 6. SUNDRY DEBTORS

(i) The percentage of Sundry Debtors to Sales during the last three years is given below :

(Rs. in Crores)					
As on 31st March	Considered Good	Considered Doubtful	Total Debtors	Sales	Percentage of Sundry Debtors to Sales
2002	764.26	1.43	765.69	9,567.50	8.00
2003	709.51	120.47	829.98	10,641.99	7.80
2004	720.69	125.25	845.94	11,295.67	7.49

The Sundry Debtors represents 0.90 months sales in 2003-04 as compared to 0.94 months sales in 2002-03 and 0.96 months sales in 2001-02

(ii) Period-wise Sundry Debtors as on 31.3.2004 are given below:

(Rs. in Crores)				
	Govt. Depts.	Govt. Companies	Private Parties	Total
<b>Debts Outstanding</b>				
(i) Upto one year	61.73	394.61	189.43	645.77
(ii) More than 1 year but less than 2 years	1.65	16.79	3.89	22.33
(iii) 2 years or more but less than 3 years	3.17	5.91	12.33	21.41
(iv) 3 years or more	47.40	0.61	108.42	156.43

(a) The dues from Government, Government Companies and Private parties constitute 13.47%, 49.40% and 37.13% of the total Sundry Debtors respectively.

(b) The dues outstanding for or more than 3 years constitute 18.49% of the total Sundry Debtors.

( Vijaya Moorthy)

PRINCIPAL DIRECTOR OF COMMERCIAL AUDIT  
& EX-OFFICIO MEMBER, AUDIT BOARD-II.

Place: New Delhi

Dated: 27.08.2004