Blueprint for a Greener Tomorrow

Rs. 50,000 crore revenue planned by 2011

CHAIRMAN'S ADDRESS

23rd Annual General Meeting
3rd September, 2007

Dear Shareowners,

On behalf of the Board of Directors and on my own behalf, I extend a very warm welcome to all of you during this 23rd Annual General Meeting of your navratna company. The Director's Report and the Audited Accounts for the year 2006-07 are already with you, and with your permission, I take them as read.

Recognitions

Your company has earned national and international recognition in the year under review for its of overall performance, project execution, cost management, social responsibility and environmental initiatives. Taking forward its consistent record of achieving 'excellent' rating for the MoUs signed with the Government, your company has once again scored an 'excellent' rating for the MoU-2005-06.

The coveted 'Quality Excellence Award 2007' was conferred on your company by the Hon'ble President of India in recognition of its high standards of quality control initiatives. For the third time in a row, your company has received the National Award for Excellence in Cost Management from The Institute of Cost and Works Accountants of India (ICWAI).

In the field of project management, your company was awarded the silver medal in the mega projects category by the International Project Management Association (IPMA) for the Dahej-Vijaipur Pipeline Project.

Your company has won the 'International Safety Award' from the British Safety Council, U.K. for the seventh consecutive year for maintaining the highest standards of industrial safety. Further, the Oil Industries Safety Directorate (OISD) conferred the 'Best Performer 2006-07' award to your company for its gas processing unit at Vijaipur and for the HVJ pipeline. Your company has also been awarded the top two 'Greentech Safety Awards 2007' – Platinum and Gold Awards – for its Pata and Gandhar plants, respectively.

Corporate Social Responsibility (CSR) has been a focus area for GAIL. Your company was conferred the 'Social Responsibility Award' by Her Excellency Smt. Pratibha Patil, Hon'ble President of India and the then Governor of Rajasthan, for commendable contribution towards improving the quality of life of the disadvantaged elderly. Your company also received the 'Gold Medal and Certificate of Merit' from the Hon'ble Governor of Andhra Pradesh for making a contribution towards the welfare of physically challenged children at Kakinada, East Godavari.

- "Excellent" rating for the MoU-2005-06
- Conferred with 'Quality Excellence Award 2007'
- Awarded Silver Medal by IPMA

Economic Outlook and Energy Markets

Domestic energy demand is growing at a rapid rate in sync with a real GDP growth of 9.4% recorded during 2006-07. An average 8% GDP growth rate will push up the total primary commercial energy demand in 2031-32 to five times the consumption level in 2003-04. Bridging this energy deficit and providing reliable access to clean energy would then be two key imperatives for inclusive growth.

These challenges present new growth opportunities for your company. For instance, the recent major oil and gas finds in India have spurred fresh demand for pipeline infrastructure which is a business opportunity for your company.

During the year, your company constructed and commissioned over 1150 km of natural gas pipeline. Among them, the completion of the 581 km Dahej-Dabhol Pipeline Project was a landmark in itself as it brought to life the Dabhol Power Project and was completed without any cost overruns.

The Ministry of Petroleum and Natural Gas, Government of India, has given your company the permission to lay five new natural gas trunk pipelines in the country. Your company will also be laying three additional pipelines within the existing Right of Usage to augment the capacities of Dahej-Vijaipur pipeline, Vijaipur-Dadri pipeline and Vijaipur-Auraiya-Jagdishpur pipeline.

- Constructed & commissioned over 1150 km of natural gas pipeline
- Completed the landmark 581 km Dahej-Dabhol Pipeline Project

Several changes drive such as burgeoning demand - supply gap, potential deregulation of gas pricing, multi-price competition, enactment of the capital Petroleum and Natural Gas Regulatory Board Act, notification of the Policy for Development of Natural Gas Pipeline and City Gas Distribution Networks have also opened up new opportunities for your company. There is general shift towards market-driven gas pricing and the Indian market has accepted spot RLNG, first imported into the country by your company.

Green Growth

Your company has transformed itself into an integrated energy company with a clear focus to usher in clean fuel industrialisation. We are all set to create a green quadrilateral of clean energy corridors in India, connecting major consumption centres with major gas fields, LNG terminals and other cross-border gassourcing points.

We have drawn up a growth strategy for your company which shall steer it to revenues of Rs. 50,000 crore plus by 2011 from Rs. 16,947 crore in the year under review. I shall make a brief mention of the salient features of this multi-pronged strategy:

- Aggressively pursue gas sourcing options both from new domestic sources as well as through international sources by way of pipelines and LNG route in order to secure gas supplies for transmission and trading businesses.
- Secure own sources of gas through participation on the E&P front : your company already has stake in 29 E&P blocks which include three overseas blocks and three CBM blocks and intends to participate aggressively in the upcoming E&P opportunities including NELP VII.
- Protect and strengthen the core competencies of gas transmission, distribution and marketing businesses.
- Pursue margin enhancing businesses, namely petrochemicals and city gas projects. Use first-mover advantage to strategic benefit in gas retailing and evolve a partnership-based business model with gas producers. Similarly, diversify downstream presence in gas-based LPG and petrochemicals plants.
- Selectively pursue global diversification opportunities in the areas having synergy with existing business.
- Increase consumer focus by continuously augmenting marketing skill sets.

To achieve the above stated goals, your company has placed particular emphasis on leveraging the HR potential through various training programmes.

Transmission Infrastructure

Your company is moving in a time bound manner to complete the eight new gas pipelines in two phases, targeting 100% completion by 2011. These will form part of an integrated gas grid in the country, spread over more than 5,000 km at an estimated capital expenditure of Rs. 20,000 crore. This would increase your company's natural gas transmission capacity to around 300 MMSCMD and almost double your company's existing trunk pipeline network to over 11,500 km.

Gas Sourcing

To ensure gas availability beyond the present quantities, your company has entered into partnerships with the oil and gas fraternity by signing MoUs/contracts with IOCL, ONGC, HPCL, BPCL, RIL, Shell, Indian Institute of Petroleum and others. Your company is also engaged in active discussions with international suppliers for gas sourcing in addition to tying up domestic supply sources.

Gas Retailing

The next decade belongs to city gas distribution. GAIL was the first company to introduce city gas projects in India for supply of PNG and CNG by forming JV companies. GAIL has formed eight JV companies for city gas projects in various parts of the country and has approached the Government for granting approval to pursue such projects in 200 cities across the country.

- Registered 11% growth
- Profit at Rs. 2,387 after tax in 2006-07
- Gas sales increased to 68.35 MMSCMD
- Polymer production increased by 14%

Global Presence

Your company has initiated several dialogues to develop transnational trunk pipelines, city gas distribution projects and gas-based petrochemical plants in gas-rich countries. Significant progress is seen in the discussions with Iran and Pakistan governments to bring gas from Iran to India through the IPI pipeline under the trilateral framework. Your company is making active efforts to establish two gas-based petrochemical plants outside India, apart from making strategic equity and partnership investments in high return city gas projects in China and Egypt. To pursue CNG opportunities in mainland China, GAIL has acquired stake in China Gas Holdings Limited which holds over 40 exclusive permits to pursue CGD opportunities in cities across China.

Petrochemicals

In the area of petrochemicals too, your company proposes to add significant capacities through new plants in partnership with public/private sector, both in India and abroad. One of these, the Brahmaputra Cracker and Polymer Limited in Assam, has been formed as a subsidiary of your company with 70% equity stake. Your company is also expanding the capacity of the Pata Petrochemical plant to 410,000 TPA from the present 310,000 TPA.

- 1% of profit after tax earmarked for CSR programmes
- Implementing 'Integrity Pact Programme' actively
- Made ERP systems fully operational across all its work centres

Performance in 2006-07

Financial year 2006-07 was another successful year for your company with the turnover registering an 11% growth to Rs. 16,947 crore over Rs. 14,459 crore in financial year 2005-06. This was achieved despite the severe floods disrupting gas supply for a month and higher burden of LPG subsidy during the year. Profit after tax for the financial year 2006-07 was Rs. 2,387 crore as against Rs. 2,319 crore in the previous year.

The financial strength of the company continues to be robust with a debt-equity ratio of 0.12 and EPS of Rs. 28, compared to Rs. 27 in the previous year. NOCE was a healthy 28% during the year.

Natural gas remains the core business of your company. During the financial year 2006-07, gas sales increased marginally to 68.35 MMSCMD from 67.63 MMSCMD in the previous year. Total liquid hydrocarbon production including LPG was over 1.343 million MT compared to 1.325 million MT in the previous year.

Polymer production increased by 14% to 3.54 lakh MT over 3.11 lakh MT the previous year. Polymer sales too increased by 11% in the year under review.

Other Enabling Initiatives

Your company has set high standards of discharging social responsibilities by earmarking 1% of profit after tax of the previous financial year on CSR programmes.

We successfully demonstrated a technology for converting natural gas liquid (NGL) into value-added products like LPG-rich stream, gasoline blending stock and diesel blending stock. This was jointly developed with the Indian Institute of Petroleum (IIP), Dehradun.

To reduce GHG emissions, your company has signed a contract with Apollo Tyres for sale of steam through waste heat recovery at its Vaghodia processing plant. This project will help save 835 million kilo calories by utilising the waste heat and thereby curb release of 50,000 tons of CO_2 per annum.

Further, your company has signed an MoU with Transparency International India (TII) to implement the 'Integrity Pact Programme' to ensure operational transparency in its contracts and procurements process. This reflects your company's continued emphasis on promoting world-class corporate governance standards.

Also, your company has made ERP systems fully operational across all its work centres, thus enhancing efficiency and automation by integrating all business processes.

Acknowledgement

In conclusion, I take this opportunity to express my gratitude to our customers for their continued support to foster a strong business partnership.

On behalf of the Board of Directors and on my own behalf, I extend sincere gratitude for the valuable guidance and support received from Government of India, in particular the Ministry of Petroleum and Natural Gas (MoP&G) and various state governments.

I also acknowledge my deep and sincere thanks for the cooperation and assistance received from bankers, financial institutions, and suppliers.

I would like to place on record appreciation for the hardwork, commitment and unstinting efforts put in by your company's past and present employees at all levels.

My special thanks to all of you and the large family of GAIL shareholders for their continued trust and confidence in us. I am sure, with the support of each one of you, as always, GAIL would scale new and greater heights in future.

Thank you very much ladies and gentlemen.

New Delhi
3rd September, 2007

Sr. U.D. Choubey
Chairman & Managing Director

Note: Excerpts from the Chairman's Speech at the 23rd Annual General Meeting held on the 3rd September, 2007 at New Delhi. This does not purport to be a record of the proceedings of the Annual General Meeting.

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