

**MANAGEMENT  
DISCUSSION & ANALYSIS**



## MANAGEMENT DISCUSSION AND ANALYSIS

### INDIAN ECONOMY & OUTLOOK

Indian economy has witnessed impact of the turbulent global economic environment, particularly headwinds faced in the Eurozone and a sovereign crisis being faced by Portugal, Italy, Ireland, Greece, and Spain (PIIGS) countries. Worries are abound of Chinese economy slow down as well as swings of the US economy growth. Indian economy is projected to grow in FY 2012-13 below the 8.5% GDP growth witnessed in XI<sup>th</sup> five year plan. Decline in the investment cycle coupled with a stubbornly high inflation, the first half of the current fiscal may as well show signs of stagflation. With the cooling of global oil prices, easing of the monetary policy and the interest rate cycle by the Central Bank and of course a projected 'normal monsoon' spell, the economy is expected to look up from the second half of the current fiscal. Notwithstanding the widening trade deficit as well as the high fiscal deficit, the global factors leading to the strengthening of the US Dollar against major currencies has been a major contributor to a depreciation of the Indian currency as well.

With a slew of fiscal and monetary policy measures and initiatives by Government of India and RBI respectively, the trajectory of over 8 % GDP growth may be attainable in the medium term.

### Indian Energy Sector

India is expected to be the 3<sup>rd</sup> largest energy consumer by 2025 after USA and China with favorable economic and social developments. Currently, India stands as the 4<sup>th</sup> largest energy consumer with over 4% of the world's total annual energy consumption.

#### Projected Primary Energy Consumption in 2025

Rank	Country	Energy Consumption (Mtoe)	Percentage of World Consumption
1	China	4055	24%
2	U.S	2722	16%
<b>3</b>	<b>India</b>	<b>980</b>	<b>6%</b>
4	Russia	814	5%
5	Japan	597	4%

**Total World Consumption: 16922 Mtoe**

Source: India Energy Book 2012, World Energy Council

India's per capita energy consumption is significantly lower at 500 Kgoe compared to the current world average hovering in the range of 1,800 Kgoe. At a GDP growth rate over 8% by 2031-32, it is expected that India's per capita energy consumption to be over 1,100 Kgoe.

The share of natural gas in India's energy mix is around 11% against a world average of around 24%. Given the growth plans in the power, fertilizer and the Industrial segments, there exists huge potential for increased consumption of natural gas in India. India's consumption of natural gas has grown faster than

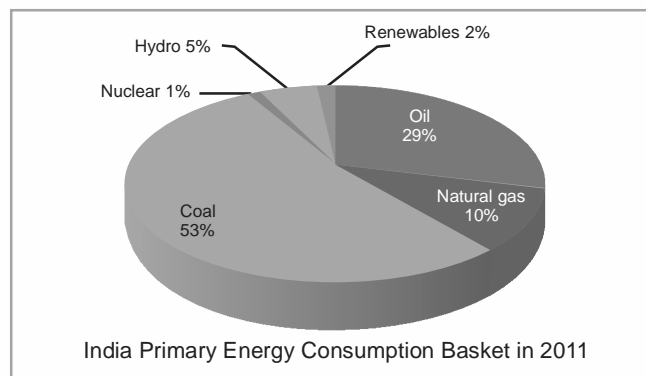
any other fossil fuel in recent years. Natural gas consumption in the country has witnessed an impressive CAGR of about 11.5% in the last few years. Power, Fertilizer, LPG, Steel and Petrochemicals have been the key consumption drivers of natural gas.

### Natural Gas Demand-Supply Outlook

The demand for natural gas is largely met through domestic production with imports contributing around 30% of the total gas consumption as compared to over 75% imports in case of oil.

Going forward, given the advantages of natural gas in terms of efficiency, price and environmental impact, the demand for natural gas in the country may reach up to 600 MMSCMD by the end of XIII<sup>th</sup> five year plan (2022) offering several opportunities for the development of the gas industry in India. In this scenario, India will have to augment its domestic production as well as create sufficient infrastructure for LNG imports during this period.

The share of natural gas in Indian energy basket stands at 10% for the year 2011 as shown in the figure.



Source: BP Statistical Review of World Energy 2012

### Natural Gas Infrastructure

Gas transmission infrastructure plays a crucial role in the gas industry for efficient delivery of gas to end consumers. Your Company's major strength has been development of gas transmission infrastructure in the country and several new pipelines are at different stages of execution in various parts of the country, which will lead to doubling of the existing pipeline length in the next five years.

### Policy Initiatives

In the context of high global energy prices, the Government of India has adopted a multi-pronged strategy to enhance availability of natural gas in the country, consisting inter-alia the following:

- Intensifying domestic E&P activities through NELP.
- Developing underground coal gasification.
- Target unconventional sources like Shale gas, Gas Hydrates, CBM, etc.



Investors &amp; Analysts Meet, Mumbai

Also, to negate the impact of high prices of imported LNG, Government is considering various options across the value chain. Some of them are downstream policy initiative for the Fertilizer sector, reforms in power sector, Pooling of gas etc. All such reforms and policy initiatives are aimed at increasing the availability of natural gas in the Indian energy basket.

The year also saw developments on cross-border pipeline based natural gas imports such as the Turkmenistan-Afghanistan-Pakistan-India (TAPI) natural gas pipeline project. Agreements with respect to Transit fee and Transportation tariff are also likely to be concluded soon. Your Company is playing a lead role in the discussions on the project.

#### OPPORTUNITIES, THREATS, RISKS, CONCERNS AND MITIGATION

##### Transmission of Natural Gas

Your Company is the market leader in the transmission of natural gas with about 9,500 Km of pipeline network and has a market share of 74% in natural gas volume.

Your Company embarked on a pipeline network augmentation for laying another 7,500 Km of pipelines at an investment of about ₹ 30,000 crore, out of which around 2,500 kms have been completed so far. These pipelines are being built on an open access and common carrier principle and when commissioned, the total length of the pipeline network of your Company will be over 14,500 kms with a total transmission capacity of

about 300 MMSCMD. With this pipeline network addition, your Company will be creating access to newer demand centers for the major domestic source points and the LNG re-gasification facilities. This will further strengthen your Company's position as India's premier natural gas transmission Company and will lead to higher growth.

##### Sourcing of Gas

It is imperative that market development through huge investments in gas infrastructure has to be supplemented with supply addition. The supply addition can be from existing gas fields or from new domestic discoveries (both conventional and non-conventional sources like shale gas, CBM etc) and from gas imports through trans-national pipelines and LNG. According to MoP&NG's statistics, India has approximately 1,241 BCM of natural gas reserves as of 01.04.2011, which at current consumption level yields an R/P (Reserves to Production) ratio of approximately 30 years. There are possibilities of new discoveries from the blocks awarded in NELP rounds and future shale gas exploration, which may increase the availability of natural gas from domestic sources.

Your Company has been taking proactive steps for sourcing gas to meet the ever increasing needs of the Indian customers, thereby maintaining and increasing its market share. Your Company has got the mandate from MoP&NG for sale & transportation of additional 7.23 MMSCMD of gas from new fields of ONGC's nominated blocks.

Inadequate supply addition from domestic

sources over the years has brought in the need for more gas imports. Your Company pioneered the efforts to bring in the first shipment of LNG in the year 2004 at Dahej, Gujarat, through its Joint Venture Company. Your Company is also playing a key role in developing a 5 MMTA LNG terminal through its Joint Venture Company, RGPPL at Dabhol, Maharashtra and is going to commission it shortly.

Your Company has signed a 20-year Sales and Purchase Agreement (SPA) with Sabine Pass Liquefaction LLC, a unit of Cheniere Energy Partners, for the supply of 3.5 million tonnes/year of LNG. Supplies are expected to commence from 2016-17.

Your Company has also entered into short and medium term agreements to buy LNG from international suppliers. Your Company is receiving gas under the medium term deal with Marubeni Corporation to source 0.5 MMTA gas for 3 years. Further, your Company has also imported about 1 MMTA of LNG in FY 2011-12 from various international sellers on spot basis including sourcing of one spot RLNG cargo of around 80 MMSCM from Petronet LNG Limited (PLL).

Further, your Company is also in discussion with several global sellers and domestic players with a long-term objective to secure additional supplies to meet the short-fall in demand over the next few decades. Your Company has also signed a Gas Sales Purchase Agreement with Turkmengaz for supply of 38 MMSCMD of natural gas through trans-national pipeline from Turkmenistan.

##### Inter-State Gas Grid

Your Company is implementing the following Natural Gas Pipelines which have been authorized by MoP&NG:

1. Dabhol – Bengaluru Pipeline
2. Kochi-Mangalore/ Bengaluru Pipeline
3. Jagdishpur-Haldia Pipeline

The Dabhol- Bengaluru and Kochi – Kootanad-Bengaluru/ Mangalore pipelines would increase your Company's presence in newer market areas in southern states of Karnataka, Tamil Nadu and Kerala. The quantum of gas marketed and transported would increase with the commissioning of these projects.

As a part of these pipelines, your Company is also executing spur-line connectivity to Chittorgarh in

Rajasthan, Moradabad in UP and Kashipur, Rudrapur, Roorkee, Haridwar & Rishikesh in Uttarakhand. Your Company is also upgrading its pipeline network in K G Basin & Cauvery Basin. All these pipelines are at various stages of execution.

In addition to the above, your Company is also planning to lay offshore pipeline from Kochi LNG terminal to NTPC Kayamkulam for supplying gas to NTPC power plant. With this, the pipeline projects are concurrently being executed in 16 States, 2 Union Territories spanning across 90 Districts.

In the FY 2011-12, PNGRB has authorized the company to build a bi-directional cross-country natural gas pipeline of about 1,500 kms from Surat (Gujarat) to Paradip (Orissa). This pipeline passes through the states of Orissa, Chhattisgarh, Maharashtra and Gujarat. The pre-project activities of this pipeline are being undertaken.

#### **E&P**

Your Company has been constantly building its E&P portfolio with an objective to strengthen upstream linkages to the core natural gas transmission business. Currently, your Company has participating interest in 31 Oil and Gas E&P blocks including 4 blocks awarded under NELP-IX bidding round.

As unconventional resources are expected to play an important role in the near future, your Company intends to develop technological know-how for participation in the upcoming domestic shale gas bidding rounds as and when they are announced. With this objective, your Company has acquired its first shale gas asset in USA through its wholly owned subsidiary, GAIL Global (USA) Inc. This subsidiary has 20% interest in Eagle Ford Shale acreage of Carrizo Oil & Gas Inc, a Houston, USA based NASDAQ listed Energy Company actively engaged in exploration, development and production of oil & gas. Your Company is further scouting for other such opportunities.

Your Company has been continuously strengthening its capabilities in E&P through recruitment of experienced E&P personnel, engagement of Advisors in the field of Geophysics, Drilling & Petrophysics and purchase of advanced hardware and software for Geological and Geophysical interpretation, well test data interpretation and well planning and designing.

#### **Petrochemicals**

Petrochemical business is emerging as an important element in your Company's overall growth. Recognizing this aspect, the company is trying to strengthen its position in the domestic petrochemical market through equity participation in various petrochemical projects, capacity expansion and diversification of its petrochemical product slate.

The petrochemical capacity addition exercise currently undertaken by your Company in form of Pata expansion and greenfield capacity addition through Brahmaputra Cracker and Polymer Limited (BCPL) and ONGC Petro-additions Limited (OPAL) is expected to increase your Company's market share in domestic petrochemical business in the coming years.

#### **Renewables**

With technological advances, government incentives and environmental imperatives driving rapid growth in renewable energy, your Company is taking keen interest in the renewables particularly in wind and solar energy. In the area of wind energy from being a captive producer, your Company has graduated to commercial producer after commissioning 98.75 MW of wind energy projects in the states of Tamil Nadu and Karnataka. Your Company's total wind energy capacity stands at 117.95 MW. Further, your Company intends to expand its wind energy portfolio in the coming years.

In the area of solar energy, your Company is currently implementing 5 MW of Solar PV project in Rajasthan awarded under Jawaharlal Nehru National Solar Mission (JNNSM). Further, possibilities of setting up a hybrid power project with natural gas are also being explored.

#### **Regulatory Framework**

The Petroleum and Natural Gas Regulatory Board (PNGRB) Act, 2006, provides a legal framework for regulating the refining, processing, storage, transportation, distribution, marketing and sale of petroleum, petroleum products and natural gas, but excluding the activities of production of crude oil and natural gas, so as to protect the interests of consumers and entities engaged in these activities.

The main functions of PNGRB, inter-alia, include (a) granting authorizations for laying, building, operating or expanding new common carrier or contract carrier pipelines and for laying, building,

operating or expanding new city gas distribution networks, (b) declaring pipelines as common carrier or contract carrier (c) regulating access to common carrier or contract carrier pipelines and (d) regulating transportation rates of common carrier or contract carrier pipelines and CGD networks.

PNGRB has notified several Regulations pertaining to Natural Gas Pipelines, City Gas Distribution (CGD) networks and Petroleum Product Pipelines.

#### **Prices of Natural Gas & other products**

Price of Natural Gas produced from nominated fields of Oil and Natural Gas Corporation Limited (ONGC) and Oil India Limited (together called as National Oil Companies/NOC) is governed by orders from Ministry of Petroleum and Natural Gas (MoP&NG) from time to time. As per the extant order, prevailing APM gas prices (gas sold to Power, Fertilisers, Small Customers with allocation up to 50,000 SCMD and those directed by Supreme Court Order) are US\$ 2.52/MMBTU for consumers in North-East and US\$ 4.2/MMBTU for consumers in other regions. Non-APM price of natural gas produced from nominated fields by NOC's (for all other customers) is US\$ 5.25/MMBTU for Western & Northern Zone (covering Maharashtra, Gujarat and other States covered by HVJ/DVPL), US\$ 4.5/MMBTU for K. G. Basin, US\$ 4.75/MMBTU for Cauvery Basin, US\$ 4.2/MMBTU for North East Region and US\$ 5/MMBTU for Rajasthan, South Gujarat and isolated customers in Gujarat.

Further as per extant MoP&NG order, your Company is allowed to levy a marketing margin of ` 200/MSCM on the gas sold at APM/Non-APM prices. At present, the total volume of APM & Non-APM gas from NOC is around 50 MMSCMD. This shall help your Company to recover costs associated with the marketing of APM gas also.

Presently, price of gas supplied from Ravva Satellite in Offshore K. G. Basin is US\$ 4.30/MMBTU, from HOEC's field in Offshore Cauvery Basin is US\$ 3.75/MMBTU, from Focus Energy's Onshore field in Rajasthan is US\$ 4.11/MMBTU, from Panna-Mukta in Offshore Cambay Basin is US\$ 5.73/MMBTU and from Tapti in Offshore Cambay Basin is US\$ 5.57/MMBTU. RLNG is sold at external price as declared by PLL on monthly basis. Further, Term RLNG is also being supplied on cost plus basis based on term contracts from the supplier.

Petrochemical, LPG and Other LHC prices are influenced by global demand supply position and vary from time to time.

**Pipeline Tariff**

In terms of the Petroleum and Natural Gas Regulatory Board (Determination of Natural Gas Pipeline Tariff) Regulations, 2008, your Company has already submitted financial costs and data of its various natural gas pipelines viz. KG Basin Network, Cauvery Basin Network, Gujarat Regional Network, Chainsa – Jhajjar – Hissar and Dadri – Bawana – Nangal -Pipeline to PNGRB for determination of pipeline tariffs.

The initial provisional tariff orders for the HVJ-GREP-DVPL system, DUPL-DPPL pipeline system, Mumbai Regional Network and Agartala Regional Pipeline have already been issued by PNGRB and are implemented by your Company w.e.f. 20.11.2008. Further, in respect of DVPL-GREP Upgradation system also, the initial provisional tariff orders have been issued by PNGRB and the same has been implemented w.e.f. 01.04.2010. The final computations in respect of the initial unit natural gas pipeline tariff for the HVJ-GREP-DVPL and its Up-gradation system, has been submitted to PNGRB after considering the adjustments required for, inter-alia, actual capital and operating costs etc. As per regulations, your Company shall adjust with customers the difference between the provisional tariff and the final tariff, retrospectively.

Based on the Natural Gas Transmission revenue details for the year 2011-12, approximately 85% of Natural Gas Transmission revenue comes from the regulated tariff.

Further, in terms of the Petroleum and Natural Gas Regulatory Board (Determination of Petroleum and Petroleum Products Pipeline Transportation Tariff) Regulations, 2010 your Company has submitted the tariff for Jamnagar – Loni LPG Pipeline (JLPL) and Vizag – Secunderabad LPG Pipeline (VSPL). Further, PNGRB has issued tariff order for VSPL determining the applicable LPG transportation tariff for VSPL and the same is applicable w.e.f. 27.12.2010.

**Sharing of Under Recoveries**

Government of India is a major shareholder of your Company. Decision on sharing of under recoveries on petroleum products given as discount to Oil Marketing Companies (OMCs) are governed by the Government of India.

As per Government of India's directives, in order to make LPG affordable to domestic consumers, your Company is sharing the under-recovery of the National OMCs, since the year 2003-04, aggregating to an amount of `13,833 crore. During the year under review, your Company has provided ` 3,183 crore on account of sharing under-recovery of OMCs.

**Risk Management Framework**

Your Company has established an Integrated Risk Management Framework (Policy & Procedures) to protect & add value to the Organization & its stakeholders with the objective to:

- Ensure sustainable business growth.
- Establish ownership throughout the Organization & embed Risk Management as an integral part of the business.
- Ensure that all the current & expected risk responses of the Organization are identified, qualitatively & quantitatively evaluated & appropriately managed.
- Ensure compliance with relevant legal & regulatory requirement.
- Assure demonstrable achievement of objectives & improvement of financial stability of the Organization.

The risks are evaluated, quantified & prioritized and mitigation plans are reviewed & monitored at various stages. The Corporate Level Risk Steering Committee has been established to oversee the implementation of the Risk Management Policy & Procedures. The policy & procedures are periodically reviewed & monitored by Functional Directors, Audit Committee & Board.

For the year 2012-13, Key Corporate Level Risks have been identified & mitigation plans to control these risks are put in place. The key risks are related to product sourcing, demand sensitivity, regulatory, E&P, Forex, Project execution etc.

**Foreign Exchange Risk Management**

Your Company is also exposed to the foreign markets by way of imports of capital goods for various new projects, import for operation & maintenance, loans for meeting the capex requirement and investments abroad. This has increased your Company's exposure to the foreign exchange variation and interest rate risk. To manage the forex exposure your Company's Board has recently approved the revised Forex policy in line with the changing market dynamics.

Revised Forex Policy came into implementation w.e.f. 02.01.2012. The main objectives of the policy are:

- To identify the forex variation risks and interest rate risk.
- To decide the process of management of these risks through a variety of risk management tools.
- To establish processes to monitor and control the risk as per the process.
- Determine an appropriate level of risk tolerance.
- To create an efficient process for reporting the key parameters measuring the risks and performance of the Risk Management Operations.

To establish a procedure for computing, recording and reporting foreign currency exposure.

**OPERATIONAL PERFORMANCE**

	2011-12	2010-11
Natural Gas Throughput (MMSCMD)	117.62	117.91
Natural Gas Trading	84.17	83.23
Liquid Hydrocarbon Sales (TMT)	1441	1373
Polymers Sales (TMT)	448	420
LPG Transported (TMT)	3362	3337

- Natural Gas Throughput has decreased due to significant decrease in the RIL throughput. Although, largely the negative impact has been set off with the increase in RLNG and Spot volumes traded during the year.
- The Liquid Hydrocarbon sales increased by 5% from 1,373 TMT to 1,441 TMT during FY 2011-12. Similarly, Petrochemical sales showed a growth of 7% during the period

**FINANCIAL PERFORMANCE**

- Sales (net of ED) increased by 24% from ` 32,549 crore during FY 2010-11 to ` 40,281 crore in FY 2011-12. Profit after Tax has increased by 3% from ` 3,561 crore during FY 2010-11 to ` 3,654 crore in FY 2011-12
- The revenue from Natural Gas Trading has registered a growth of 29% and this is primarily due to sale of Spot LNG cargoes and the full year affect of the upward revision of gas price for APM customer from USD 1.8/MMBTU to USD 4.2/MMBTU w.e.f. June 2010 and



applicability of Marketing Margin @ ` 200/ MSCM on sale of APM Gas w.e.f. June 2010.

- During FY 2011-12, tariff revisions on Natural Gas pipeline networks of KG Basin, South Gujarat, Chainsa - Jhajar Pipeline and Mumbai had a negative impact to the tune of ` 255 crore during FY 2011-12.
- In terms of the decision of the Government of India to share the under recoveries on account of LPG sales by OMCs, the Company has provided discount of ` 3,183 crores for FY 2011-12 (Previous year: ` 2,111 Crores) on the sale of Domestic LPG.
- The revenue from LPG transmission has a negative impact of ` 21 crores for FY 2011-12 due to downward revision of PNGRB tariff w.e.f. 20.12.2010
- Dividend Income earned during FY 2011-12 was ` 252 crore against ` 301 crore during FY 2010-11 from ONGC and other JVs.
- Survey Expenses and write off of Dry well Expenditure in Exploration & Production (E&P) were ` 277 crores for the FY 2011-12 (Previous year: ` 136 Crores). Further, E&P Segment generated revenue of ` 81 crores during FY 2011-12 on account of rising crude oil prices (Previous year: ` 41 Crores)
- With increase in Borrowings during the year for financing the Capex, interest expense increased to ` 116 crore for FY 2011-12.
- During FY 2011-12, an amount of ` 2,397 crores towards Dahej - Vijapur Pipeline (DVPL - II), ` 592 crores towards Wind Power Projects and ` 473 crores towards new compressors at Jhabua was capitalized.

#### SEGMENT-WISE PERFORMANCE

Segment Wise Turnover (Net of ED)

S. No.	PARTICULARS	2011-12	2010-11
1	Transmission Services		
	a) Natural Gas	3,564	3,544
	b) LPG Transmission	454	475
2	Gas Trading	29,671	22,654
3	Petrochemicals	3,378	2,939
4	LPG & Other Liquid Hydrocarbons	3,090	2,786
5	Unallocated	124	61
	<b>TOTAL SALES</b>	<b>40,281</b>	<b>32,459</b>



Dr. Manmohan Singh, Hon'ble Prime Minister of India dedicating GAIL's 2200 Kms. Dahej - Vijapur - Dadri - Bawana- Nangal - Bhatinda Pipeline to the Nation during Asia Gas Partnership Summit -2012

#### SHAREHOLDERS' FUNDS

The reserves and surplus increased to ` 20,356 crore at the end of the current financial year as compared to ` 17,985 crore in the corresponding previous year. As on 31<sup>st</sup> March 2012, net worth of the Company stood at ` 21,449 crore, as compared to ` 19,054 crore as on 31<sup>st</sup> March, 2011.

#### RATIO ANALYSIS

Return to Net Worth (PAT/Net Worth) for the Company during the current financial year stood at 17.03%. Return on Capital Employed (ROCE) was 19% for FY 2011-12. Debt-Equity ratio is at a very comfortable position of 0.25:1 as on 31<sup>st</sup> March, 2012. Debt Service Coverage Ratio was at 7 times at the year end. EPS has gone up to ` 29 during the year 2011-12 from ` 28 per share for the period ended on 31<sup>st</sup> March 2012.

#### CASH FLOW

PARTICULARS	2011-12	2010-11
Cash Flow from Operating Activities	4,487.74	3,077.25
Cash Flow from Investing Activities	(7,141.56)	(4729.49)
Cash Flow from Financing Activities	1,453.80	(387.92)
Net Increase in Cash & cash Equivalents	(1,200.02)	(2040.16)

#### CAPEX & BORROWINGS

During FY 2011-12, the capital expenditure was ` 6,75,2.84 crores mainly towards pipeline projects such as Dabhol-Bengaluru pipeline, Kochi-Koottanad Pipeline, Bengaluru/Mangalore pipeline, Bawana-Nangal pipeline Project, Dahej-Vijapur Ph-II pipeline Project etc., E&P, equity investment in BCPL and Petrochemical Expansion. This Capex was funded with a mix of Internal generation and Borrowings during the year. During FY 2011-12, your Company has drawn a loan from OADB (` 675 Cr), HDFC (` 375 Cr) and ECB (USD 450 mn). As on 31<sup>st</sup> March 2012, the total long-term borrowings of your Company were ` 5346.85 Crore (including current maturities on long term loans of ` 457.50 crores).

#### SEGEMENTAL OUTLOOK

The entire value chain in the Natural Gas sector has a huge investment potential to the tune of approximately ` 2.7 lac crore and ` 2.4 lac crore in 12<sup>th</sup> and 13<sup>th</sup> Five Year Plan respectively. But this will only be possible with supportive policy initiatives. With the enabling policies in place, it is expected that Natural Gas will play a very important role in India's energy security and its share in our energy basket will grow beyond the 11% given the potential opportunity to support India's Green growth.

- Natural Gas Business

Major focus for your Company is to maintain its dominant position in the gas transmission segment, support existing customer

relationships and add more customers. Therefore, your Company is constantly expanding its transmission network to transport and supply natural gas to various sectoral customers in Power, Fertilizer, Refinery, Industries, CGD projects etc. The network augmentation comprises of adding trunk pipelines, spurlines and inter-connecting pipelines between trunklines to facilitate a grid. The pipelines being laid by your Company would help in achieving the objective of an Integrated National Gas Grid.

- Gas Sourcing

Considering the challenges being faced by the domestic sources to boost gas production, your Company is increasing focus on import of LNG as well as natural gas through trans-national pipeline. Your Company has imported about 1 MMTPA of LNG in this financial year from various international sellers on spot basis to supplement the shortfall in domestic production during the year. Further, your Company is also receiving gas under the medium term deal with Marubeni Corporation to source 0.5 MMTPA gas for three years. Your Company also sourced around 80 MMSCM of Spot RLNG in 2011-12 from its Joint Venture Petronet LNG Limited (PLL). Further, agreements for procurement of spot LNG have been executed with 23 international sellers. In addition, discussions are on with various prospective suppliers for long term tie-up of LNG.

It is expected that production of gas from Krishna-Godavari basin D6 block of Reliance Industries Limited (RIL) may further fall in the FY 2012-13. The fall in production is a big challenge as it directly impacts your Company's transmission business. Considering the challenges being faced by the domestic sources to boost gas production, your Company is increasingly focused on import of gas. Your Company is playing lead role in the discussions on cross border Turkmenistan - Afganistan - Pakistan - India (TAPI) natural gas pipeline project and has recently executed the Gas sales and Purchase Agreement (GSPA).

#### INVESTOR RELATION MANAGEMENT

The motto of Investor Relation Management is to reach out maximum number of Investors from both Domestic & Global Markets and ensure dissemination of Financial and Non-financial

information about the company at regular intervals.

Your Company organized three Analyst Meets for the FY 2011-12, out of which one Analyst meet was held at Mumbai and was presided by CMD of your's Company. Other meets were done through conference calls from Corporate Office. Senior officials of your Company attended / participated in several other conferences & meetings organized by some of the renowned brokerage houses and equity research firms during the year for ensuring interaction with global and domestic investors. Further, your Company has intimated financial results; presentation made to research analysts, etc. to the stock exchanges and simultaneously hosted the same on website of the Company.

#### INTERNAL CONTROL SYSTEMS & THEIR ADEQUACY

Your Company has further strengthened Internal Control System in its various business processes, commensurate with its size & nature of business to help achieve company's objectives.

Your Company has an independent in-house Internal Audit Department functionally reporting to Audit Committee and is considered as global best practice. Internal Audit carries out risk based auditing as per the annual audit plan approved by Audit Committee. Further Internal Audit Department is ISO 9001 certified which ensures standardization of system & procedures.

Internal Audit Department consists of professionally qualified executives from various disciplines who carry out audit of financial, technical and other business activities of your Company besides reviewing the adequacy of Internal Control Systems, risk management process etc, under the Internal Audit Charter, which contains best global practices in the profession of Internal Auditing.

#### HUMAN RESOURCES AND INDUSTRIAL RELATIONS

Company's Industrial Relations climate remained congenial and constructive. There were no Man Days or Man Hours lost on account of any sort of Industrial conflict. Long Term Settlement (LTS) as entered into with Unions representing Company's workmen was implemented during FY 2011-12.

The key highlights in Human Resource and Industrial Relations were:

1. Introduction of Work Place Policy on HIV/AIDS Prevention and Control in GAIL
2. Notification of Whistle Blower Policy
3. Review and enhancement of employees entitlement for various benefits viz., Hospitalisation/ Conveyance Advance/ House Building Advance
4. Anomalies arising out of implementation of pay revision of workmen was amicably settled



Shri S L Raina, Director (HR) receives ICWA Award for JLPL from Dr. M.Veerappa Moily, Hon'ble Minister for Corporate Affairs



## SUSTAINABLE DEVELOPMENT

In the Sustainable Development (SD) arena, your Company has taken a significant step by releasing its maiden Sustainability Report for FY 2010-11. Moving further, your Company became a signatory to United Nations Global Compact (UNGC) in May 2011 to align our operations & strategies with the ten universally accepted principles of UNGC (w.r.t. human rights, labour standards, environment and anti-corruption).

Your Company has been proactive in taking up its sustainability issues and has shown its commitment through active involvement of the Board-level SD sub-committee headed by Independent Director for periodic monitoring of the sustainability initiatives and performance. This committee is supported by SD Steering Committee headed by Director (Business Development) to plan, oversee and implement on-ground sustainability projects and activities. Your company has framed Sustainable Development Policy to streamline the efforts towards sustainability in the years to come.

Under the gamut of Sustainability Development, your Company has identified various projects under sustainable development plan some of which forms part of Memorandum of understanding with MoPNG. These projects include GHG accounting, water management, energy efficiency, watershed management and Biodiversity management, Renewable energy, etc. Further, GAIL has won the bid for a 5 MW solar PV project in Rajasthan under the Jawaharlal Nehru National Solar mission Phase II. The project

to be implemented in 2012-13 at an estimated cost of around ₹ 62 crore, is another manifestation of your Company's commitment towards sustainable development.

Your Company believes that Sustainability in an organization can be ingrained and made a part of the work culture only through the most important stakeholder, i. e. employees. For this, proactive steps have been taken to train, create awareness and sensitize the employees to create a better understanding and appreciation of various aspects of sustainability. Your Company plans to enhance stakeholder engagement & strives to involve more employees to adopt sustainable business practices and promote sustainability across the organization

## ENVIRONMENT PROTECTION AND CONSERVATION/ RENEWABLE ENERGY DEVELOPMENTS/ FOREIGN EXCHANGE CONSERVATION

Your Company is committed to operational excellence in all its business activities with a focus on continuous efforts to improve environmental performance and sensitive to the needs of the environment in all its actions.

With ISO 9001 and ISO 14001 and OHSAS 18001 accreditations at most of the units, your Company is committed towards creating, maintaining and ensuring a safe and clean environment. Your polymer products are environment-friendly and fully recyclable. The manufacturing process and quality systems ensure that the product conforms to the technical specifications, backed by

competent services to provide complete confidence to the customers.

Your Company's core business is processing, trading and transporting natural gas which is a Green Fuel. Your Company through its wholly owned subsidiary, GAIL Gas Limited, and other joint ventures, are promoting the use of CNG in transport sector, which replaces petrol and diesel usage and thereby reducing pollution.

Your Company is an environmentally-conscious Company and has developed processes to ensure the conduct of business in a fair and transparent manner with minimal impact on natural resources. Your Company has taken significant measures to make operational processes leaner and cleaner. Various green initiatives have been taken from time to time which are testimony towards our endeavour of being an environmental responsible Company. Your Company has launched its first sustainability report during the year for FY 2010-11.

### • Clean Technologies

In line with its commitment towards sustainable development, your Company has given topmost priority to environmental considerations throughout the various phases of the project such as Technology selection, process design and project execution.

In your Company, all the Gas Processing Units, Petrochemical Plant and Compressors are state-of-the-art and are from world renowned process licensors. Some of the biggest names in the field of hydrocarbon industry and renowned for clean technologies are associated with your Company.

### • Conservation of energy

Conventional sources of energy such as Petroleum and Natural Gas are available in limited quantities as per the present estimates and shall not last forever. There is a strong need to conserve fuel consumption for the cause of prolonging the availability of these non-renewable fuels. Various initiatives are taken for conservation of energy in the Company viz.

- Resizing the fan blades, target lighting, maximum possible usage of direct sunlight, etc. CFLs are used extensively. Equipments are run in optimum numbers and for optimum time.
- The concept of natural lighting is being



Hon'ble President of India Smt. Pratibha Devisingh Patil presenting the Scope Award for Corporate Governance to Shri B.C. Tripathi, CMD, GAIL



incorporated in new offices. Solar energy is being increasingly utilized for water-heating and street lighting.

- Wind energy power project with installed capacity of 117.75 MW has been commissioned and is utilized for captive consumption in Gujarat and commercial production in Tamil Nadu & Karnataka. It is planned to increase the installed capacity of wind energy projects.

• **Training and awareness**

In your Company, training is a comprehensive exercise. Specific training is imparted to individuals concerned in environmental activities. Specific training on wastewater treatment plant operations, Water Management and Air pollution control and Environmental Legislation is imparted to employees from time to time.

• **Legal Compliance**

Your Company follows and complies with the guidelines and stipulations issued by the concerned Indian Statutory Agencies and Regulatory Bodies with regards to environment.

• **Greenbelt Development**

Your Company had complied with the statutory requirements of development of forest at its various sites. Your Company has so far developed a green belt of over 1 million trees and the process of encouraging tree plantations in the barren areas is continuing.

• **Water Conservation**

Your Company is always looking for avenues for reducing water footprint by deploying water conservation measures and using technological improvements to tap and utilize rainwater. Your Company is now recycling more than 50% on average during all seasons. The comprehensive wastewater management facilities comprise oil removal facilities, chemical treatment and biological treatment facilities with extended aeration process. Treated wastewater is used for firewater use.

• **Rainwater Harvesting**

"Rainwater Harvesting" is being undertaken at most of the work centers, to recharge the groundwater aquifer effectively. Rain water is stored and utilized for captive consumption.

• **Air Monitoring**

Your Company implemented flaring system at various important sites to prevent discharge of hydrocarbons directly into the atmosphere and all the boiler and furnace stacks are also equipped with on-line analyzers for monitoring stack air quality on a continuous basis. The levels of pollutants are maintained below the stipulated norms.

• **Solid Waste Management**

In your Company's process plants, hazardous solid waste is stored or disposed off as per the laid down norms of the licensing authority. The solid wastes are collected, stored and handled, in a manner which causes no detrimental effect on the ground water and the environment.

**CORPORATE SOCIAL RESPONSIBILITY**

Your Company has set high standards for discharging Corporate Social Responsibility (CSR).

**Flagship Programmes**

The Flagship Programmes undertaken by your Company have its long term commitment to various social initiatives in the areas of Education / Literacy Enhancement, Skill Development/ Empowerment and Healthcare/Medical facilities. These programmes are intended to make a long term and sustainable impact on the lives of the children & youth of the disadvantaged segment of society.

Striving hard to realize the dreams of thousands of children, "Padho aur Badho" initiative of your Company, through the 200 Non-Formal Education Centers across the 143 slums of East Delhi, South Delhi, Noida and Ghaziabad provides Non-Formal Education to 6,000 children, mainly ragpickers and intends to mainstream all of them. So far, more than 3000 children have been mainstreamed into the formal schooling system. In order to ensure that the children mainstreamed through this programme do not fall back into the vicious circle of child labour, the mothers of the Padhoaur Badho children are being trained in sewing, zardosi work, etc to inculcate self-reliance and generate a fair income from the skill learned.

Your Company has been imparting specialized coaching for IIT/JEE entrance examination for underprivileged children at Kanpur, UP for the students of adjoining districts under the GAIL Utkarsh programme. For the year 2011-12, 100 students were identified for this programme through a meticulous selection process. The

success of the programme is evident from the fact that in the last two years itself, 84 students have been selected in the engineering institutions of great repute including IITs, NITs, ISRO etc.

After the successful pilot phase of GAIL & IL&FS Skill School in Guna, set up to provide Employment Linked Skill Development to under privileged youth in trades of retail and hospitality, your Company has partnered with IL&FS Clusters to set up two more GAIL & IL&FS Multi Skill Schools in the tribal regions of Dediapada (Distt. Narmada, Gujarat) and Tandur (Distt. Ranga Reddy, Andhra Pradesh). So far, more than 1,100 youth were trained and provided placement assistance in the sectors of retail, trade, hospitality, BPO Service, Facility Management etc. The integrated 'Backward and Forward' linkages pertaining to training and employment provided through these schools make them unique and inimitable in its approach towards creation of sustainable livelihood.

Consolidating the erstwhile segmented efforts in the area of Health Care/Medical, your Company collaborated with Wockhardt foundation for providing medical outreach service at 4 major workcentres of GAIL viz. Pata, Vijapur, Jhabua & Khera. The Pilot project has already extended healthcare support to over 1.6 lac people across various villages surrounding its work centres, apart from generating awareness and sensitizing people towards a healthy living.

**Other CSR initiatives**

**Activities taken up by the GAIL Charitable and Education (C&E) Trust**

The GAIL C&E Trust set up in the year 2009 to extend financial assistance to school children by providing scholarships to children of 25 schools across its work centres, selected on need-cum-merit basis. The Trust has also extended scholarship to the successful candidates of its Utkarsh programme for supporting their education in the IITs post selection through the IIT-JEE exam.

**Programmes under Identified Thrust Areas**

In addition to the flagship programmes as above, your Company has also undertaken several programmes at the grass root level during the course of the year, under the identified Thrust areas, as captured below:

• **Literacy Enhancement/Education**

The E-shiksha mobile unit, which has been successfully operating for the last 3-4 years



Shri R.D. Goyal, Director (Projects) receiving Dun & Bradstreet Corporate Award-2011 from Shri Kapil Sibbal, Hon'ble Minister of HRD & Minister of Communication & Information Technology

has been providing computer literacy, thereby, enhancing employability for nearly 1,500 youths of district Guna, M.P. Your Company is also helping government schools to develop infrastructure in the form of construction of class rooms, laboratories, libraries, smart classes, hostels, toilets and drinking water facilities for the Govt. schools of rural India. Your Company has also contributed for renovation and refurbishing and construction of new laboratories of Kasturba Balika Vidyalaya, New Delhi which has a historic importance, being set up by Late Smt. Kasturba Gandhi way back in the 1930's.

- **Community Development**

Your Company firmly believes in development of the community as a whole since it promotes a feeling of oneness amongst the community members thereby strengthening community roots and values. With this in view, your Company has extended its support for reconstruction & renovation of numerous public utilities.

For the sustainable development of the whole community, your Company has also supported integrated development programmes in villages through village adoption and employment generation. Anganwadis and Balwadis have been constructed to create infrastructure for Early Childhood Care and Education. Your Company is also providing vehicles for distribution of Mid-Day Meal for under-privileged children. Your Company has taken up Solar lighting drive and have been supporting alternate energy initiatives in the rural areas since nearly half a decade through installation of Solar Street Lights and illuminating 14 villages with Solar Lanterns in collaboration with TERI's Lighting a Billion Lives Initiative.

- **Drinking Water/Sanitation**

Water and its unavailability have come across as a chronic concern for the people around the various GAIL work centres. Apart from providing bore-wells, tube-wells, hand-pumps, overhead tanks as well as storage

facilities across various villages in different parts of the country where your Company has its presence to meet the water requirements of the local community, your Company is also promoting Rain Water Harvesting across various work centres to increase sustainability in terms of meeting the water needs.

Your Company has taken up a long-term project for the holistic development of the selected villages of Guna and Auraiya in the field of Sanitation (with sensitization being a significant aspect) in collaboration with Sulabh Sanitation Mission Foundation. Your Company has also constructed public toilets and sewerage drains to provide hygienic conditions of living to the villagers, at the same time educating them on the need for sanitation and hygiene.

- **Environment Protection**

Your Company's commitment towards the Environment forms an implicit part of its Vision statement and through its CSR initiatives; it has promoted this cause through specific environment-friendly programmes. Projects related to rain water harvesting, water recharging and ground water reuse system have been supported aptly by your Company. Lending its support towards green energy, your Company is in the process of building a Gas based Crematorium at Ghazipur and contributed towards installation of Biogas plants and associated distribution networks. 1,000 number of solar lights were installed in various villages adjoining major work centers of your Company during the year 2011-12.

Understanding the value of the biological environment, your Company has contributed towards provision of Mobile Veterinary Services to address Wildlife emergencies in the States of Assam and Arunachal Pradesh.

- **Health care/Medical Care**

Your Company has organized numerous outreach medical/ Health camps in rural areas for TB, cancer patients, thalassemia screening, eye screening & cataract operation and provided mobile medical physiotherapy units for poor & differently abled villagers. Your Company realizes the significance of expert advice as required in certain specific cases. In order to provide for the same, your Company has also upgraded the Telemedicine Centre in

a Government Hospital in UP, wherein the patients and the doctors can seek expert advice from the most reputed hospitals and medical experts of the country. Your Company has also made a provision of ambulances, sound proof rooms, audio centres, diagnostic equipment, Computerized ECG equipment, bio-chemistry analyzer to various hospitals.

• **Infrastructure**

Creation of Infrastructure is one of the oldest areas of intervention for your Company around its work centres. Your Company has contributed to improving the connectivity between various villages and also to the towns and cities by means of construction of village roads, community centres, approach roads, culverts, community toilets & other facilities in identified villages for sustainable development of the villages. Majority of the infrastructure works are carried out in the field of Education and Health with an objective of creating long term sustainable impact.

• **Skill Development/Empowerment**

Education can be the means to an end. The end, however, is employment so that an

individual can sustain self and family without being dependent on anyone for any kind of economic help and assistance. Your Company has attempted to address the issues of un-employability through skill development and vocational training programmes undertaken at several locations. Livelihood opportunities are being afforded to the people from under privileged and tribal regions in the form of specialized vocational training with employment linkages in the form of training in Dari designing, blanket weaving, plumbing, house wiring, bee keeping, mushroom production etc., for effective empowerment and self-reliance. The fact that all these trainings renders them effective and much sought after amongst the beneficiaries as they are linked to employability.

Empowerment of differently abled and physically challenged persons has also been promoted through several ways such as providing necessary medical aids, equipment and infrastructural support. Your Company in collaboration with implementing partners which impart Training (Sewing & tailoring training) & Special education (procurement of computer based visual speech training

equipment & Audio Visual Projector) for the neglected disabled children and backward people. Your Company with the aim of providing self-sufficiency in the lives of the differently abled people has distributed specialized motor vehicles for making them self-reliant.

**CAUTIONARY STATEMENT**

***Statements in the Directors' Report and Management Discussion & Analysis, describing the Company's objectives, projections and estimates, expectations, predictions etc. may be "forward looking statements" within the meaning of the applicable laws and regulations. Forward looking statements contained herein are subject to certain risks and uncertainties that could cause actual results to differ materially from those reflected in the forward-looking statements. Actual results, performances or achievements may vary materially from those expressed or implied, economic conditions, Government policies and other incidental factors such as litigation and industrial relation. Readers are cautioned not to place undue conviction on the forward looking statements.***