

Management Discussion & Analysis



MANAGEMENT DISCUSSION AND ANALYSIS

ECONOMIC OVERVIEW

Global economic growth largely remained subdued across major countries during 2012-13. The US showed signs of slow recovery, on account of improvements in housing sector and employment. Recessionary conditions in the Euro Zone continued due to deteriorating industrial production, weak exports and low domestic demand. Emerging economies grew marginally from moderation in 2012, as domestic demand rose and investments picked-up. Among the BRICS countries, Brazil and South Africa experienced acceleration in growth. Whereas, other member countries like Russia, China and India grew at a slower rate year on year.

As per advance estimate of Central Statistics Office (CSO), India's GDP growth for 2012-13 is pegged at 5% from 6.6% a year ago. The decline is mainly due to weakness in industrial production aggravated by domestic supply bottlenecks and slowdown in the services sector reflecting weak external demand.

Countering this slowdown, RBI relaxed its monetary policy by reducing the Repo rate, SLR and CRR by 100 bps, 100 bps and 75 bps respectively on a cumulative basis. Inflation has moderated in recent months; but it still remains close to or above the tolerance level. This is coupled with concerns over the fiscal deficit and the current account deficit. In this context, RBI faces the challenge to maintain a balance between regulating inflation and promoting growth.

On the back of a pessimistic demand outlook, crude oil prices eased in March-April 2013 from the elevated levels prevailing through 2012. Various reform measures were taken up by the Government of India such as postponement of GAAR (General Anti Avoidance Rules) by two years, partial deregulation of diesel prices, liberalised FDI limits for certain sectors, rise in FII limits in corporate debt and government securities market and announcement of fiscal consolidation measures.

• Outlook

As per the World Economic Outlook for April 2013, the annual growth forecast for advanced economies in 2013 is a modest 1.25%. For Asia as a whole, growth will pick up modestly to about 5.75% in 2013, largely due to recovering external demand and continued domestic demand. On a long term perspective, developing countries like India and China would play a key role in shaping the world economy.

Government of India has taken measures to bring fiscal deficit to acceptable levels through various reforms and policies but many of the steps like fuel price hike come along with the anticipated price inflation. In the short term, uncertainty for Indian economy still persists, but in the long term, Indian government is confident of bringing economy to previous levels of over 8% GDP growth.

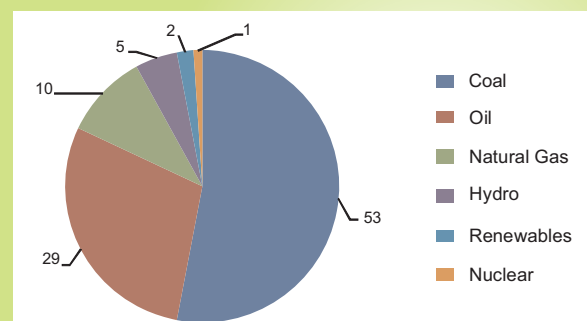
INDIA ENERGY SECTOR OVERVIEW

Planning commission estimates that commercial energy supplies growth will have to be more than 6.5% to ensure GDP growth rate of 9%. In the preceding year, India overtook Japan to obtain the position of fourth highest primary energy consuming country after US, China and Russia. India is expected to be the 3rd largest energy consumer by 2025 after USA and China with favorable economic and social developments. Energy industry is no more in isolation for any country; with the advent of all time high trade of oil and gas, the world has come closer.

The current per capita energy consumption of India is 0.5 tonne of Oil Equivalent (toe) as compared to the world average of 1.9 toe, and this indicates a high potential for energy consumption. Per capita

consumption of India is expected to reach 1.22 toe by 2030. China and India are two Asian nations which are expected to show highest energy consumption growth rate in coming years, owing to rapid urbanization and consequent high demand.

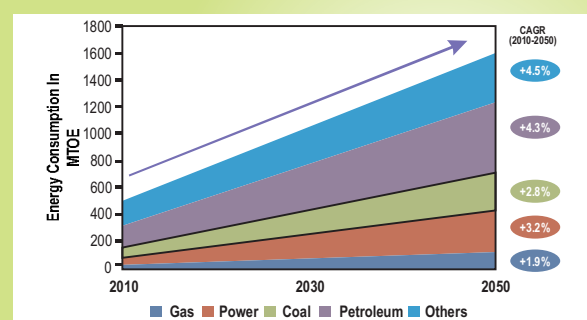
Energy Consumption Basket



• Outlook

The total energy consumption in India is estimated to grow by 3% per annum till 2050. Of this, gas consumption in India is expected to grow the fastest at 4.5% per annum till 2050. (Source: McKinsey Global Energy Perspective 2050).

Energy Consumption in India



NATURAL GAS SECTOR OVERVIEW

• Natural Gas Demand and Supply

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.

The share of natural gas in India's primary energy consumption is around 10% 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. India's natural gas consumption growth rate (CAGR) during 2001 to 2011 is around 8.75%. Power, Fertilizer, LPG, Steel and Petrochemicals have been the key consumption drivers of natural gas.



The demand for natural gas is expected to reach more than 450 MMSCMD by end of 12th five year plan ending 2017 and over 600 by the end of 13th Five year plan ending 2022. In such a scenario, India will have to augment its domestic production as well as create sufficient infrastructure for LNG imports during this period.

Year	(MMSCMD)				
	2012-13	2013-14	2014-15	2015-16	2016-17
Demand	293	371	405	446	473
Supply	134.28	184.59	198.72	249.11	305.41
Gap	158.72	186.41	206.28	196.89	167.59

(Source: Report Of the Working Group on Petroleum and Natural Gas Sector for the 12th Five Year Plan (2012-17), MoPNG, November 2011).

• 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.

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.

• Outlook

As per Report of the Working Group on Petroleum and Natural Gas Sector for the 12th Five Year Plan (2012-17), MoP&NG, November 2011, 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 12th and 13th 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 energy basket will grow beyond the current share of 10% in line with its capability to power India's green growth.

ORGANIZATION OVERVIEW

After having started as a natural gas transmission company during the late eighties, your Company has grown organically by building large network of Natural Gas Pipelines, LPG Pipelines, Gas Processing Plants for production of LPG and other Liquid Hydrocarbons and a gas based integrated Petrochemical plant.

Keeping in mind the requirement of growth and consolidation as well as opportunities arising out of NELP of Government of India, the company has moved into upstream of gas value chain i.e. Exploration & Production and currently has stakes in 30 E&P blocks including 2 blocks overseas.

As a part of its initiative towards reducing carbon footprint and creating a

path of sustainable growth, your Company is building a portfolio of renewable businesses.

The Company also has 70% equity share in Brahmaputra Cracker and Polymer Limited (BCPL) which is setting up a 280,000 TPA polymer plant in Assam. Further, your Company is a co-promoter with 15.50% equity stake in ONGC Petro-additions Limited (OPaL) which is implementing a green field petrochemical complex of 1.4 MMTPA Polymer capacity at Dahej in the State of Gujarat. Your Company has 32.86% stake along with NTPC as equal partner in RGPPL which operates largest gas based power generation facility in the country and LNG Terminal of 5 MMTPA design capacity.

Your Company is a pioneer in City Gas Distribution (CGD) business in India, with Indraprastha Gas Limited (IGL) in Delhi and Mahanagar Gas Limited (MGL) in Mumbai being its biggest success stories. Your Company has set up several JVs for CGD to supply gas to households, transport sector & commercial consumers in more than 30 cities. In 2008, your Company incorporated a wholly owned subsidiary, GAIL Gas Limited (GAIL Gas) to exclusively focus on city gas distribution business.

• Global Presence

As a strategy of going global and further expanding global footprint, your Company has a wholly-owned subsidiary company, GAIL Global (Singapore) Pte Limited in Singapore for pursuing overseas business opportunities including LNG & petrochemical trading. Your Company has also established a wholly owned subsidiary, GAIL Global (USA) Inc. in Texas, USA which has acquired 20% working interest in the Eagle Ford shale acreage of Carrizo Oil & Gas Inc in the state of Texas. GAIL Global (USA) LNG LLC, a wholly owned subsidiary of GAIL Global (USA) Inc., was formed during 2012-13 which has entered into contractual agreements with Dominion Cove Point LNG, LP for booking of LNG tolling capacity of 2.3 MMTPA in its LNG terminal located at Lusby in the state of Maryland and for booking capacity in its associated Pipeline.

Your Company is an equity partner in a retail gas company involved in city gas and CNG business in China – China Gas Holdings Limited. Besides, your Company is also an equity partner in two retail gas companies in Egypt, namely Fayum Gas Company and National Gas Company.

Your Company is a part of consortium in two offshore E&P blocks in Myanmar and also holds participating interest in the joint venture company – South East Asia Gas Pipeline Company Limited incorporated for transportation of gas to be produced from two blocks in Myanmar to China.

Your Company has signed a Memorandum of Understanding (MOU) with EDF Trading North America, LLC (EDFT) for cooperation in the areas of North American upstream equity gas investments, gas supply to export facilities and LNG supply optimization.

• Transmission of Natural Gas

Your Company is the market leader in the transmission of natural gas having 10,700 Km of pipeline network.

Your Company sought Expression of Interest from potential shippers for booking of capacity in its various upcoming natural gas pipelines to ensure utilization of your Company's pipeline infrastructure. Your Company has received good response from various shippers for booking of capacity along various upcoming natural gas pipelines. Further, your Company has taken a number of initiatives to broaden the natural gas market in India including hiring of specialized agencies to carry out demand estimation exercise in various states. Sale of natural gas through CNG cascades/tankers to customers located away from pipeline network is new initiative undertaken by your Company during 2012-13.

During the year 2012-13, your Company has signed Gas Transmission Agreements (GTAs) with around 11 shippers. Further, agreements were executed with Independent Power Producers in Andhra Pradesh to transport and supply gas through swapping mechanism to meet their shortfall of gas for power production. Besides, new tie-ups (on upcoming pipelines) were executed to ensure utilization of pipelines owned and operated by your Company. In respect of LNG, execution of GTAs with many more shippers is under progress to transport the gas.

• **Inter-State Gas Grid**

Your Company is implementing the following major Natural Gas pipelines:

1. Kochi-Kootanand-Bengaluru/Mangalore Pipeline (Phase-II)
2. Jagdishpur-Haldia Pipeline
3. Surat-Paradip Pipeline

With the commissioning of the Dabhol-Bengaluru pipeline project (Phase-I), your Company entered into the newer market in southern states of Karnataka and Goa. The Kochi-Kootanood-Mangalore- Bengaluru project (Phase-I) has also been completed and as the Kochi LNG terminal gets commissioned, Kerala state will also be added in the portfolio.

Apart from these pipelines, your Company is also executing Vijaipur-Kota Pipeline & Spurlines to Kota/Chittorgarh in Madhya Pradesh and Rajasthan, Kashipur-Rudrapur Pipeline in Uttaranchal, BNPL Spurline Phase-II in Uttaranchal, Capacity

Augmentation of Auraiya-Jagdishpur Pipeline Project and connectivity to KFCL (Kanpur Fertilizers Company Limited) in Uttar Pradesh. Your Company is also upgrading its pipeline network in KG Basin. All these pipelines are under various stages of completion.

• **Sourcing & Trading of Gas**

The report of the Working Group on Petroleum and Natural Gas Sector for the 12th Five-Year Plan (2012-17) has envisaged that about 264 MMSCMD of natural gas needs to be imported in 2016-17 and 363 MMSCMD by 2021-22 to meet the overall demand of natural gas in India. In May 2012, the domestic supply figures during the 12th Plan were further downgraded by about 9 BCM in 2012-13 and 20 BCM in 2016-17 and accordingly the supply-demand gap increased to about 318 MMSCMD by 2016-17.

Your Company, as the industry leader in natural gas, had taken a slew of constructive measures to meet the increasing demand requirements of India. After executing 3.5 MMTPA long-term LNG supply contract with Sabine Pass Liquefaction LLC on FOB basis and the Gas Sales Purchase Agreement with TurkmenGaz for import of 38 MMSCMD of natural gas through TAPI pipeline, your Company also executed a long-term LNG supply contract for 2.5 MMTPA on DES basis from Russia with Gazprom Marketing and Trading Singapore Limited. These deals were a testimony to your Company's commitment towards developing the Indian Gas market and helping India to achieve energy security

in the long run. The critical aspect of consideration in these deals is augmenting your Company's strategy to secure LNG supplies from a much diversified supply sources to mitigate geo-political risks; diversified indexations to mitigate pricing risks; FOB and DES contracts to provide supply flexibility etc. This augurs well with your Company's commitment to serve our customers in the best way possible.

Your Company has contracted 1.33 MMTPA LNG supply from various International LNG sources, during this financial year, to encounter the immediate concerns of domestic supply shortage. In addition your Company imported spot cargoes equivalent to 0.36 MMTPA from time-to-time, during this financial year.

Your Company highly values the importance of developing supporting infrastructure to accelerate LNG market development in India. LNG terminal at Dabhol, Maharashtra having design capacity of 5 MMTPA was commissioned in January 2013 as Owner's Engineer. Your Company has underwritten the terminal capacity and will be the Commercial Operator of Dabhol terminal for 25 years. Dabhol Terminal will act as a gateway to meet the gas demand of consumers in Maharashtra, Goa and Karnataka. Your Company also entered into an understanding with Petronet LNG Limited for reserving exclusive 2.5 MMTPA in the planned Dahej Expansion LNG terminal in Gujarat to meet ever increasing demand along its existing pipeline networks. Your Company is planning to underwrite capacity in the proposed Floating, Storage and Regasification Unit (FSRU) by a JV of GAIL Gas Limited along the coast of Andhra Pradesh to meet the demand of customers in Andhra Pradesh and other adjoining states. Further, your Company is studying to set up a FSRU in offshore Orissa in the East Coast. Besides, your Company is formulating a 'Shipping Strategy' for shipping LNG from Sabine Pass and Dominion Cove Point LNG terminals in US.

Your Company is also focusing on making upstream investments in gas assets, liquefaction facilities and LNG shipping to have presence in entire LNG value chain to help achieve the twin objectives of (i) the national priority of energy security and (ii) providing better value to its customers.

• **Petrochemicals**

In order to further your Company's strength in the Petrochemicals sector, your Company is doubling the existing polymer production capacity of 410,000 TPA. In addition, it is also



Shri S. Venkatraman, Director (BD), GAIL receiving Golden peacock award for GPU Gandhar-2013 from Dr. M. Veerappa Moily, Hon'ble Minister of Petroleum & Natural Gas

in the process of setting up a green-field 2,80,000 TPA Petrochemical Complex at Lepetkata in District Dibrugarh, Assam, through BCPL and furthermore, it is also a co-promoter in ONGC Petro-additions Limited (OPaL), which is implementing a green-field petrochemical complex of 1.4 MMTPA Polymer capacity at Dahej in the state of Gujarat.

• LPG and Other Liquid Hydrocarbons

Your Company has 7 LPG plants in the country which have a production capacity of 1.40 Million MT of LPG and other liquid hydrocarbons viz., Propane, Pentane and Naptha.

Your Company also owns and operates exclusive pipelines for LPG transmission for use by third parties. It operates two LPG pipeline transmission systems with a capacity to transport upto 3.8 MMTPA of LPG and network length of 2038 km.

• Exploration & Production

Your Company has participating interest in 30 E&P blocks of which Hydrocarbon discoveries are in place in 7 E&P blocks. Development activities have started in 2 E&P blocks in Myanmar, whereas one block in Cambay basin is in commercial production. Appraisal activities are in progress in Mahanadi Offshore block and Tripura onland block.

Your Company has been building skills for 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. Moreover, specialized trainings are being provided through in-house programs and nominations in external conferences, seminars etc.

• 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 100 MW of wind energy projects in the states of Tamil Nadu and Karnataka. Your Company's total wind energy capacity stands at about 118 MW. Further, your Company intends to expand its wind energy portfolio in the coming years.

5 MW Solar Plant under Jawaharlal Nehru National Solar Mission located in Rajasthan was commissioned in February 2013 and is generating 30,000 – 35,000 Kwh per day.

FINANCIAL PERFORMANCE

• Sales (Net of ED)

Sales (net of ED) increased by 18% from ₹40,281 Crore during 2011-12 to ₹47,333 Crore in 2012-13 majorly due to increase in average exchange rate from about ₹47/\$ during 2011-12 to about ₹54/\$ during 2012-13. Higher price realization on Liquid hydrocarbons & Petrochemical products along with lower level of subsidy shared by your Company from ₹3,183 Crore in 2011-12 to ₹2,687 Crore in 2012-13.

• Profit after Tax (PAT)

Profit after Tax has increased by 10% from ₹3654 Crore during 2011-12 to ₹4022 Crore in 2012-13 is primarily due to higher price realization on liquid hydrocarbons & Petrochemical products, decrease in subsidy by ₹496 Crores.

• Earnings per Share (EPS)

In view of increase in PAT, EPS has gone up to ₹32 during the year 2012-13 from ₹29 per share during the year 2011-12.

• Shareholders' Funds

The reserves and surplus increased to ₹22,959 Crore at the end of the current financial year as compared to ₹20,357 Crore in the corresponding previous year. As on 31st March 2013, net worth of the Company stood at ₹24,038 Crore, as compared to ₹21,449 Crore as on 31st March, 2012.

• Debt and Interest (Debt Equity, Debt Service Coverage Ratios)

Debt-Equity ratio is at a very comfortable position of 0.38 as on 31st March, 2013. Debt Service Coverage Ratio was at 5 times at the year end.

• Ratio Analysis (RONW / ROCE)

Return to Net Worth (PAT/Net Worth) for the Company during the current financial year stood at 17%. Return on Capital Employed (PBIT/Capital Employed) was 18% for 2012-13.

• Cash Flow

(₹ in Crore)

Particulars	2012-13	2011-12
Cash Flow from Operating Activities	5,033.41	4,487.74
Cash Flow from Investing Activities	(5,472.15)	(7,141.56)
Cash Flow from Financing Activities	1,865.35	1,453.80

Net Increase in Cash & Cash Equivalents **1,426.61 (1,200.02)**

SEGMENT-WISE PERFORMANCE

• Segment Wise Turnover (Net of ED)

(₹ in Crore)

Particulars	2012-13	2011-12
Transmission Services		
a) Natural Gas	3,066	3,564
b) LPG Transmission	294	454
Gas Trading	35,596	29,671
Petrochemicals	3,744	3,378
LPG & Other Liquid Hydrocarbons	4,434	3,090
Unallocated	199	124
Total	47,333	40,281

• Physical performance

Particulars	2012-13	2011-12
Natural Gas Throughput (MMSCMD)	104.90	117.62
Natural Gas Trading (MMSCMD)	81.44	84.17
Liquid Hydrocarbon Sales (TMT)	1371	1441
Polymers Sales (TMT)	427	448
LPG Transported (TMT)	3136	3362

RISKS, CHALLENGES AND MITIGATION

• 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 sensitive petroleum products affordable to domestic consumers. Since 2003-04, your Company has shared the under-recovery of OMCs aggregating to an amount of ₹16,519 crore. During the year under review, your Company has provided ₹2,687 crore (Previous year: ₹3,183 Crores) on account of sharing under-recovery of OMCs.

• Regulatory Framework

Government of India had notified the Petroleum and Natural Gas Regulatory Board (PNGRB) Act in the year 2006. 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 determines transportation tariffs for Natural Gas and LPG Pipelines which may impact the transmission revenues of your Company.

According to the Tariff Regulations, Transmission Tariff for all the pipelines existing/authorized prior to PNGRB are to be calculated based on Discounted Cash Flow methodology for the economic life of the pipeline to provide Twelve percent (12%) post-tax return on capital employed. After the establishment of PNGRB, new pipelines are authorized by PNGRB through a bidding process wherein transmission tariff to be charged to the customer is one of the bidding criteria. The entities submitting the bid is free to determine their rate of return on the proposed investment and accordingly submits the bid. The Transmission Tariff, as per the successful bid, shall be applicable for the entire economic life of the pipeline.

PNGRB also notified PNGRB (Determination of Petroleum and Petroleum products Pipeline Transportation Tariff) Regulations, 2010 (Tariff Regulations) on 20th December 2010. As per said tariff regulation, tariff of JLPL and VSPL LPG pipelines is being determined by benchmarking against alternate mode of transport, i.e. rail at a level of one hundred percent on a train load basis for equivalent rail distance along the petroleum and petroleum pipeline route.

• Prices of Natural Gas

Your Company is currently marketing natural gas procured from domestic as well as international sources.

The prices of domestic natural gas are either approved by Government of India or are as per the provisions of Production Sharing Contracts (PSCs). Your company purchases Natural Gas from ONGC and OIL from the nominated fields at the prices approved by Government of India. Further, it also purchases domestic Natural Gas from Private Joint Ventures at a price as per the provisions of PSCs. The selling price of such domestic Natural Gas is equal to the purchase price. It earns the marketing margin on sale of domestic Natural Gas.

In addition to above, your Company purchases imported natural gas mainly from Petronet LNG Limited (PLL) at Dahej, Gujarat. The purchase price and selling price

of such Natural Gas (RLNG) is based on international crude price. Further, it also directly imports the Natural Gas through cryogenic ships (LNG) and gets it regasified either at PLL's regasification terminal at Dahej, Gujarat or at Ratnagiri Gas and Power Private Limited (RGPPL) regasification terminal at Dabhol, Maharashtra. Such LNG import is either under a medium term agreement ranging up to three years or under spot cargo purchases. Under medium term import, the selling price is based on the purchase price. However, under spot cargo imports the selling price is dependent upon demand and supply scenario within the country and customer affordability. The import of spot cargo is made based on through assessment of the affordability of the customer, availability of natural gas in international as well as domestic market and customer's natural gas requirement.

• Polymer products, LPG and other Liquid Hydro-carbons (LHC)

Your company is also marketing own produced products like Petrochemical, LPG and Other LHC products. The prices of these products are influenced and determined by global and national demand supply position and vary from time to time.

• Foreign Exchange Risk

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 has an approved forex policy in line with the changing market dynamics. 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.

• Natural or Man-made Calamity Risk

Various risks are associated with Gas transmission and distribution like blowout of pipelines, earthquake, tsunami, terrorist activities, etc.

These risks are being mitigated right from the designing stage of these projects. However, such natural or man-made risks are emergent events and cannot be totally eliminated. If such an event occurs, it will incur significant liabilities for the Company.

• 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 2013-14, Key Corporate Level Risks have been identified & mitigation plans to control these risks are put in place. The key risks are related to Natural gas (NG) sourcing, product & NG demand sensitivity, regulatory, E&P, Forex, Project execution etc.

INVESTOR RELATIONS AND ENGAGEMENT

In line with the Guidelines issued by Department of Disinvestment, Ministry of Finance, Government of India, on Investor Relations for Listed Central Public Sector Enterprises, your Company framed Analyst / Investor Relation Management Guidelines.

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



information about the company at regular intervals to meet the concerns of stakeholders. Accordingly, your Company has been taking several initiatives from time to time towards disseminating information to investors & analysts at right time and from the senior management which has been recognized & appreciated by the Investor and Analyst Community.

During 2012-13, your Company has organized two analysts/investors meet. First Analysts/ Investors meet was held in Mumbai immediately after announcement of Financial Results which was presided by CMD of your Company and second was done through conference call from the Corporate Office. Besides these meetings, senior officials of your Company attended/ participated in several other conferences & meetings organized by some of the renowned brokerage houses and equity research firms for ensuring interaction with global and domestic investors. In order to appraise the Petrochemical Expansion at Pata to investors/analyst community, your Company organized a plant visit to Pata Petrochemical Plant for Investors/ Analysts on 15th March 2013. In addition to these initiatives, your Company has intimated financial results and presentation made to research analysts etc. to the stock exchanges and simultaneously hosted the same on website of the Company for timely dissemination of information to all stakeholders including the investors.

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.

To meet the ever changing business requirements and to maintain sustainable competitive advantage, review of HR policies is being done on continuous basis to align the HR Strategy with the Organizational Strategy. During the year, benchmarking of various HR policies on employee compensation, welfare, performance management and general terms and conditions of service were undertaken to position your Company as an 'Employer of Choice'.

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

Your Company is an inherently environment friendly organization. Transportation & marketing of natural gas; manufacture and sale of liquid hydrocarbons like LPG, Propane, Naptha & Polymers; promoting the use of



Shri B.C. Tripathi, CMD GAIL and Shri R.D. Goyal Director (Projects), GAIL receiving Oil Industry Safety Award from Dr. M. Veerappa Moily, Hon'ble Minister of Petroleum & Natural Gas & Smt. Panabaaka Lakshmi, Hon'ble Minister of State for Petroleum & Natural Gas

Piped Natural Gas in households and CNG in transport sector has not only contributed in reducing pollution but has also been instrumental in reducing the demand for other conventional fuel.

Your Company is committed to operational excellence in all its business activities with a focus on continuous efforts to improve environmental performance. Adopting the Integrated Management System approach for combining ISO 9001, ISO 14001 and OHSAS 18001 accreditations, your Company is committed towards creating, maintaining and ensuring quality for its products with a safe and clean environment.

Your Company is sensitive to the needs of the community development and environment at large while carrying out its business operations. Its 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.

While your Company takes pride in leading market position in the natural gas industry and strives to maintain the same, it is committed to mitigate environmental impacts of its operations. Your Company's environmental mission includes reducing energy, material and water consumptions, mitigating climate change impacts and air emissions, sensitivity to biodiversity and managing its operations in an environmentally sound manner.

Your Company is an environmentally-conscious

and have 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 its processes leaner and cleaner. Various green initiatives have been taken from time to time which are testimony towards its endeavour to be seen as an environmentally responsible company.

• **Clean Technologies**

Your Company gives topmost priority to environmental considerations during various phases of its project such as technology selection, process design and project execution.

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

• **Conservation of Energy**

Your Company is committed to efficient and optimal use of energy resources. There is a strong need to conserve fuel so as to ensure continued availability of these non renewable fuels. Measures undertaken by your Company for conservation of energy:

- ❖ Your Company is a leading player in the country in promoting usage of energy efficient equipment duly certified with Bureau of Energy Efficiency (BEE) ratings.
- ❖ Your Company regularly conducts energy



audits of its installations. Internal energy audits are conducted regularly and the recommendations implemented.

- ❖ Vijaipur unit of your Company has embarked upon a project to use Flare Recovery System as source for supply of Piped Natural Gas (PNG) for the purpose of meeting township gas demands. This will not only release the burden on LPG but also contribute towards environment protection through reduced emissions.
- ❖ Your Company has replaced Closed Cycle Vapor Turbines (CCVT) with Solar PV cells at Radio Repeater (RR) Stations along its cross-country pipelines resulting in significant energy saving and enhancing the safety of the installation.
- ❖ New solar water heaters for domestic use at the GAIL township have been installed to reduce the consumption of electricity for heating of water.
- ❖ The upcoming office building of your Company at Noida has been designed as a green certified building and adopts natural lighting & energy efficient equipment.
- ❖ Your Company has installed eco ventilators in its stores and warehouses which use natural draft of air ventilation. This has stopped the use of electrical exhaust ventilations system.

• Training and awareness

Training in your Company is at the core of its belief system as a mean to continuously upgrade and refresh employees on specific aspects of subject training and latest management techniques. Specific training on HSE modules is imparted to all employees at sites including special training modules for fresh appointees.

• Green belt Development

Extensive greening is a pre-requisite for environment improvement and also aesthetic considerations. Many tree planting and horticulture related improvement programmes have been implemented and these are ongoing processes in your Company to enhance the pollution-free environment in and around its units. The green cover, together with large water bodies in its units, has created an ideal habitat for birds. Your Company has so far developed a green belt spanning over 17.2 million square meters, which is approximately 41% of our total land holdings - much beyond regulatory requirements.

• Water Conservation

Water is a precious resource and your Company has taken significant steps towards its conservation. As part of the Integrated Management Systems, water auditing at its installations is a regular feature. Close monitoring of water consumption and waste water discharges is done for all the units across your Company. Your Company has undertaken specific water conservation projects at two of its installations. "Beheti Dhara" Project at Vijaipur is a conversion of open canal to piped supply resulting in water savings of 20 million cubic meter of water per annum. "Jaldhara" Project at Vijaipur is a watershed management project spread over 500 Hectares of area involving water audit, contour survey, rain water harvesting measures etc. At Pata Petrochemical Complex, the treated sewage is being further treated to use the sewage for sports complex and horticulture purpose.

Your Company is always looking for avenues for reducing its water footprint by deploying water conservation measures and using technological improvements to tap and utilize rain water. Continuous efforts are made to maximize recycle of treated wastewaters. Your Company is now recycling more than 50% of treated wastewater on average during all seasons. The comprehensive wastewater management facilities comprise oil removal facilities, chemical treatment and biological treatment facilities with extended aeration process. Your Company makes continuous efforts to maximize recycling of treated wastewater. By treatment of

wastewater, your Company ensures conservation of this precious resource and in turn improves sustainability.

• Rainwater Harvesting

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

• Air Monitoring

Usage of natural gas virtually rules out Suspended Particulate Matters (SPM) and Oxides of Sulphur (SOX) in air emissions. Your Company implemented flaring system at various important sites to prevent discharge of hydrocarbons directly into the atmosphere. All the boiler and furnace stacks are also equipped with on-line analysers for monitoring stack flue gas quality on continuous basis. Your Company continuously monitors ambient air quality by State of the Art Ambient Air Quality Monitoring Stations at various process plants. The levels of pollutants are maintained below the stipulated norms. Flare stacks are designed for smokeless burning and adequate stack height has been provided as per statutory requirements for effective dispersion of the pollutants.

• Solid Waste Management

In your Company's process plants, hazardous solid waste is stored and disposed off as per the best available environment practices. The solid wastes are collected, stored and handled, in a manner which has no detrimental effect on the ground water and the environment.



Shri B.C. Tripathi, CMD GAIL and Shri Prabhat Singh Director (Marketing) receiving Company of the Year Petrofed Award 2012 under Environmental Sustainability Category from Dr. M. Veerappa Moily, Hon'ble Minister of Petroleum & Natural Gas

CORPORATE SOCIAL RESPONSIBILITY

In alignment with vision of your Company, CSR initiatives strive to enhance value creation in the society and in the community in which it operates, through its services, conduct & initiatives, so as to promote sustained growth for the society and community. CSR performance indices have been included in the MoU signed with the MoPNG.

In line with the Government guidelines, your Company allocates two percent of its Net Profit after Tax (PAT) of the previous financial year for its CSR activities. CSR initiatives are executed under seven identified major thrust areas, viz- Education/ Literacy Enhancement, Community Development, Infrastructure, Skill Development/ Empowerment, Drinking Water/ Sanitation, Healthcare/ Medical Facility and Environment Protection/ Horticulture. For the year 2012-13, your Company has committed ₹ 92 Crore approximately for a variety of projects, programmes and initiatives in and around its major work centres. CSR in your Company has evolved as a distinct function, with a dedicated team, operating within the framework of a well-structured CSR Policy.

Your Company follows a project based approach in implementing its CSR projects with a well laid down system for identifying and implementing programs, with distinct timelines and project milestones, in terms of a standardised agreement signed with every external executing partner. Efforts are made to take up programs with an in-built system of monitoring till project completion and thereafter in ensuring their sustainability once these are completed. This 'Innovation in Process' of CSR Project-implementation is an achievement of your Company and the CSR team is striving to further hone these systems and processes, through professional guidance from an academic partner of repute in this domain.

• Flagship Programmes

The Flagship Programmes undertaken by your Company have long term commitment for social initiatives in the areas of Education / Literacy Enhancement, Skill Development / Empowerment, Healthcare/ Medical.

Project Padho aur Badho, through the 250 Non Formal Education (NFE) centres across various slums of East Delhi, West Delhi, South Delhi, Noida and Ghaziabad has provided Non-Formal Education to 7500 children in 2012-13, mainly rag pickers and intends to mainstream all of them. So far, more than 8900 children have been mainstreamed into the formal schooling system since the initiation of the project.



Dr. M. Veerappa Moily, Hon'ble Minister of Petroleum & Natural Gas launching Gas-in for Bengaluru city

Your Company has been imparting specialised coaching for IIT/JEE entrance examination (for admission to IITs, NITs, ISRO etc.) for underprivileged children at Kanpur, UP for the students of adjoining districts under the GAIL Utkarsh programme under mentorship of Sh. Abhayanand, IPS. For the year 2012-13, 100 students were identified for this programme through a meticulous selection process. Out of these 100, 23 students have secured admission in various IITs and 7 have qualified IIST (ISRO).

GAIL- IL&FS Skill Schools with integrated 'Backward and Forward' linkages, in the regions of Dediapada (District Narmada, Gujarat), Guna (Madhya Pradesh) and Tandur (District Ranga Reddy, Andhra Pradesh), provide Employment linked Skill Training to disadvantaged youth. Over 2800 youth have been successfully trained in the year 2012-13 in the sectors of retail, sales, hospitality and BPO Service.

In the area of Health Care/Medical, your Company has collaborated with Wockhardt foundation for providing Medical outreach service at 4 major workcentres of your Company viz. Pata in Auraiya (Uttar Pradesh) and Vijaipur, Jhabua & Khera in Madhya Pradesh. The project has extended healthcare support to over 2 Lac people across 240 villages of the two states.

Project Anhad Gram in Jhabua (MP) focuses on creation and promotion of livelihood opportunities through self-employment to 25 tribal villages of the district. The major activities include Organic Farming for

sustainable agriculture development, animal rearing activities such as Goatery and Poultry, usage of smokeless fuel through Briquette Making. Women Self Help Groups (SHG) have been formed with over 2000 beneficiaries who have gained employment through indigenous training. Watershed Management Initiatives such as deepening of ponds and construction of check - dams have also been undertaken to augment villager's access to water. The success and goodwill generated from the initiative has inspired your Company to take up a long term Integrated Watershed Development and Management Project, Project Jaldhar in the 2013-14.

Your Company firmly believes that empowering a woman means empowerment of the entire family. With this intent, Project Garima was initiated by your Company for mothers and sisters of children studying in the NFE Centres established under Project Padho aur Badho, in the slums of Delhi/NCR, in order to ensure that women earn their own livelihood and sustain their families. In 2012 - 13, more than 2000 women were provided Skills Training in embroidery, stitching and tailoring, apparel/dress making, handicrafts and beauty culture etc. to promote income generation through self-employment.

• 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 provided scholarships to children of



various 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**

Your Company is furthering the cause of quality education through initiatives like the E-Shiksha mobile unit which provides computer literacy in Guna, M.P. helping Government schools to develop infrastructure in the form of construction of school buildings, class rooms, laboratories, libraries, smart classes, school bus and drinking water facilities for the Government schools of rural India.

- **Community Development**

Your Company has extended its support for construction & renovation of numerous public utilities/building which provide better conditions of living for the respective villages. Your Company has supported integrated development programmes in villages through village adoption, construction of anganwadis and balwaadis to create infrastructure for early childhood care and education, undertaking a solar lighting drive through installation of solar street lights. Your Company has undertaken a development works project in the backward district of Bhandara.

- **Drinking Water/Sanitation**

Water and its unavailability have come across as a chronic concern of the people around the various work centres. Your Company has provided bore-wells, tube-wells, hand-pumps as well as storage facilities across various villages in different parts of the country where the Company has its presence to meet the water requirements of the community. Your Company has taken up a long term project for the holistic development of selected villages of Guna and Auraiya in collaboration with Sulabh Sanitation Mission Foundation, which includes construction of public toilets and sewerage drains.

- **Environment Protection**

Your Company's commitment towards the

environment forms an implicit part of its Vision statement; it has promoted this cause through specific environment-friendly CSR programmes. Your Company has undertaken wildlife protection initiatives and environment conservation initiatives by improving the drinking water facilities for the endangered species and wildlife of Vedaranyam Range in Kodiakarai Wildlife Sanctuary, Tamil Nadu. In order to conserve the cultivated land of Khadar area on Sonali River, Haridwar, Uttarakhand flood protection activities were undertaken by your Company.

- **Health care/Medicine**

Your Company has organised numerous outreach medical/ health camps in rural areas for tuberculosis thalassaemia screening, eye screening & spectacle distribution. Your Company has contributed towards augmentation of cancer treatment services as also provisioned for improved bio mass based cook stoves to under-privileged households in Uttarakhand Region to improve the respiratory health conditions of the women. Your Company has also made a provision of ambulances, diagnostic equipment, computerised ECG equipment, bio-chemistry analyser to various hospitals and has established a Vitreo - Retinal Unit in Eye hospital in M.P. Your Company understands the role and significance of transporters/ drivers/truckers in furthering their business operation. In order to address the perennial problem of HIV/AIDS associated with this segment of the population, your Company is running an STI Clinic in M.P. and also organised HIV/AIDS awareness camps in U.P. and M.P.

- **Infrastructure**

Creation of infrastructure is one of the oldest areas of CSR intervention for your Company. Your Company has contributed towards 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 around its work centres for sustainable development of the villages.

- **Skill Development/Empowerment**

Education can be the means to an end. The end, however, is employment so that an individual can sustain himself/herself and the family. Your Company has undertaken skill development and vocational training programmes in dari designing, blanket weaving, plumbing, house wiring, bee keeping

etc, for effective empowerment and self-reliance. Empowerment of persons with disabilities has also been promoted through several means, such as providing them with necessary medical aids, equipment and infrastructural support, providing specialised motorised vehicle for making them self-reliant.

INTERNAL CONTROL SYSTEMS & THEIR ADEQUACY

Your Company has developed Internal Control Systems in its various business processes, commensurate with size & nature of business to help achieve its objectives.

Your Company has an in-house Internal Audit Department functionally reporting to Audit Committee which 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, commercial, technical and other business activities of your Company besides reviewing the adequacy of Internal Control Systems, Risk Management Framework in line with Board approved Internal Audit Charter/ Manual which contains best global practices in the profession of Internal Auditing.

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.