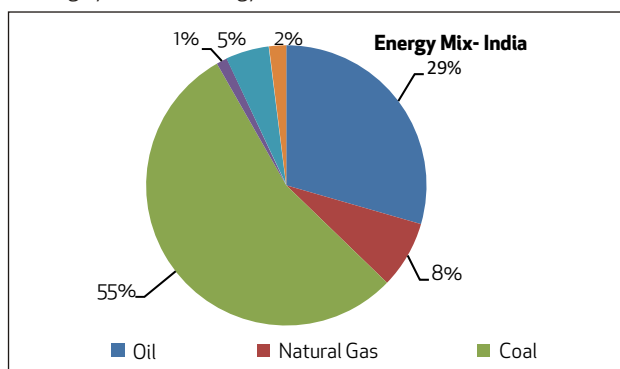


MANAGEMENT DISCUSSION AND ANALYSIS

1. INDIA ENERGY SECTOR OVERVIEW

India is the fourth largest primary energy consumer, after China, USA and Russia. It accounts for more than 4.5% of the total global annual energy consumption. In India, 818 million people, or around two-thirds of the population, rely on traditional biomass – almost twice as many as in China, which is ranked second in world. As per India Energy Congress (IEC)-2013 on Securing Tomorrow's Energy Today - Policy & Regulations, if India grows at the rate of 8% or more, higher than average demand for energy will persist.

The Indian economy over the period has seen an upward trend and despite the recent slowdown, the energy consumption has been rising. Coal is the mainstay of India's energy sector and accounts for over 50% of primary commercial energy supply as well as the total power generated in the country, 73.8% of which comes from coal based thermal power stations. The next big share of energy portfolio in India is dominated by hydrocarbons and less than 10% of energy comes from other sources like hydro, renewables and nuclear. Natural gas accounts for roughly 8% of the energy mix of India.



(Source: BP Statistical Review)

As per the International Energy Agency (IEA) - Energy Outlook, India will become the second-largest coal consumer – surpassing the United States – and the largest coal importer by 2025. Oil demand in India will reach more than 8mb/d (million barrels/day) in 2035, with road transport taking the largest share. Demand is expected to grow briskly in India to over 110 Billion Cubic Metre (BCM) of natural gas. Residential demand for liquefied petroleum gas (LPG) and kerosene will also account collectively for nearly 1mb/d. Between 2020 and 2035, solar capacity will also increase rapidly in India by about 75 GW. After 2025, the focus of energy demand shall shift within developing Asia towards India and, to a lesser extent, towards Southeast Asia.

Energy demand (MTOE)						
	1990	2011	2020	2025	2030	2035
Coal	103	326	425	499	588	681
Oil	61	167	224	273	325	380
Gas	11	50	72	94	116	143
Nuclear	2	9	21	32	43	53
Hydro	6	11	15	20	26	32
Bioenergy	133	185	202	208	210	213
Other renewables	0	2	12	19	28	38
Total	317	750	971	1146	1336	1539

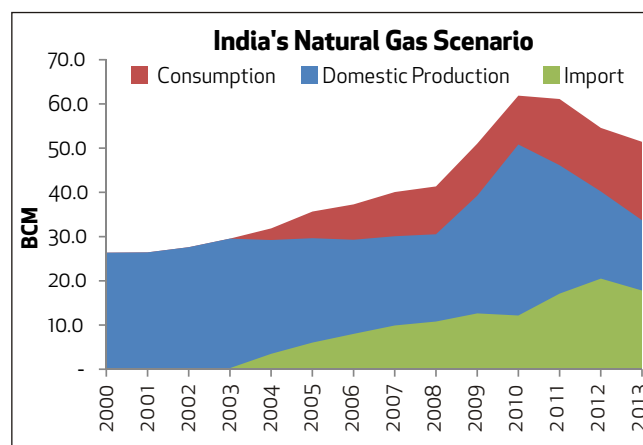
Source: International Energy Agency (IEA) - Energy Outlook - 2013

2. NATURAL GAS SECTOR OVERVIEW

Demand and Supply

For the period 2008-13, India's natural gas consumption consistently exceeded domestic gas production, leading to increased dependence on LNG imports to meet the shortfall. While India's total consumption of natural gas rose from 41.3 BCM (113.16 MMSCMD) in 2008 to 51.4 BCM (161 MMSCMD) in 2013, the domestic production over the same period was 30.5 BCM (83.57 MMSCMD) in 2008 and 33.7 BCM (92 MMSCMD) in 2013. Power, Fertilizer, LPG, Steel and Petrochemicals have been the key consumption drivers of natural gas.

The total LNG imports required to meet the demand-domestic supply gap was 10.79 BCM (29.56 MMSCMD) in 2008 which further rose to 17.8 BCM (48.8 MMSCMD) in 2013. Qatar has historically been the main supplier of LNG to India contributing 86.3% of volumes imported in 2013 and Nigeria remains the second largest supplier with 5.2% of volumes in 2013. Yemen contributed close to 4% of imported LNG in 2013. Other countries such as Norway, Algeria, Egypt, and Brunei supplied the remaining of India's import needs.



(Source: BP Statistical Review)

Policy Initiatives

In order to deal with the widening demand-supply gap for gas, and with an aim to attract investments in the gas sector, the central government is taking the following steps:

- Intensification of domestic E&P activities through NELP Round X.
- Domestic Natural Gas price hike
- Development of LNG terminals
- Approval of shale gas and oil exploration policy

Outlook

Gas Consumption

As per IEA Energy Outlook 2013 for India, gas consumption is expected to remain constrained in the short to medium term due to reduced domestic gas production and the high cost of imported LNG. However, consumption shall pick up again in the later part of the decade, as the supply situation improves, with the power sector leading the way and accounting for almost half of total gas use by 2035 (80 BCM out of a total of 170 BCM). Consumption in the transport sector is also set to increase strongly, to reach 18 BCM. India is already one of the global pace-setters for natural gas vehicles.



Gas availability - 12th and 13th five year plans (MMSCMD)

Year	Domestic Sources	LNG Imports	Gas Imports(Cross border Pipelines)	Total gas Availability
2012-13	101.1	44.6	0	145.7
2013-14	102.5	64.4	0	166.9
2014-15	110.9	85	0	195.9
2015-16	120.4	123.6	0	244
2016-17	156.7	143	0	299.7
2017-18	161.4	188	30	379.4
2018-19	166.2	188	30	384.2
2019-20	171.2	188	30	389.2
2020-21	176.4	188	30	394.4
2021-22	181.6	188	30	399.6

(Reference: "Vision 2030" Natural Gas Infrastructure in India, Report by Industry Group for Petroleum & Natural Gas Regulatory Board, June 2013)

» **Pipeline**

India has ambitious plans to expand the pipeline network over the 12th and 13th five year plans and expects the total operational network length to reach 32,727 kms by 2030. Of this 29 gas pipelines representing 15,928 kms of additional network is expected to be operational by the end of the 12th plan itself.

(Reference: "Vision 2030" Natural Gas Infrastructure in India, Report by Industry Group for Petroleum & Natural Gas Regulatory Board, June 2013)

» **Regasified-liquid Natural Gas (RLNG)**

RLNG capacity is expected to double within the next 2-3 years. India currently has 4 RLNG terminals, along the west coast, with 21.2 MMTPA of regasification capacity. There are plans for significant capacity expansion along existing terminals and with new terminals planned at Ennore, Mundra, Gangavaram and a FSRU at Kakinada. Plans for adding additional capacity to existing terminals, if fully met, will increase the total regasification capacity at the four terminals to 40 MMTPA.

3. ORGANIZATION OVERVIEW

» **Global Presence**

Your Company is constantly expanding its global presence through its participation along the natural gas value chain. It is also evaluating various global opportunities with the prime objective of securing gas supplies for the energy security of the country and acquiring technical know-how in the upstream sector.

Your Company is a part of consortium in two offshore E&P blocks (A-1 & A-3) in Myanmar. The gas production from these two blocks started in January 2014 and July 2013 respectively. Around 8 MMSCMD of gas is being produced and supplied from these blocks to China through the South East Asia Gas Pipeline Company Limited (SEAGP) in which your Company is also an equity partner. Your Company has achieved a major milestone of becoming a gas producer as well as a supplier outside India.

Your Company also has a wholly-owned subsidiary namely, GAIL Global (Singapore) Pte Ltd (GG SPL) in Singapore. The trading modalities of GG SPL would be based upon leveraging GAIL's long term LNG portfolio and margin value creation by trading of LNG to the third parties.

Your Company has also established its wholly-owned subsidiary namely, GAIL Global (USA) Inc., during FY 2011-12 to monitor investments made in the Eagle Ford Shale acreage of Carrizo Oil & Gas Inc; in the State of Texas and further explore other business opportunities related to the natural gas sector in North America. Through this investment, your Company is in the process of acquiring shale gas technology by deputing its employees in Carrizo Oil & Gas Inc. The technical know-how gained by GAIL shall be effectively utilized for shale gas exploration in India.

Further, GAIL Global (USA) LNG LLC, a step-down subsidiary under GAIL Global (USA) Inc; entered into a Terminal Service Agreement (TSA) with Dominion Cove Point LNG LP for booking 2.3 MMTPA liquefaction capacity in the Cove Point LNG liquefaction terminal project located at Lusby in the state of Maryland in the US. It is envisaged that capacity booking would provide a platform for your Company to participate along the entire gas value chain in the US gas market. Discussion with potential suppliers for sourcing and transportation of gas to Cove Point LNG liquefaction terminal is underway and the agreement is expected to be concluded shortly.

Your Company is also playing a lead role in Turkmenistan-Afghanistan-Pakistan-India (TAPI) natural gas project for import of gas to India from Turkmenistan. Various agreements related to gas supply and transportation have already been concluded.

Your Company holds equity interest in two retail gas companies in Egypt, namely Fayum Gas Company (FGC) and National Gas Company (Natgas), the city gas distribution companies involved in supply of gas to residential, commercial and small industrial customers in Egypt. The investment in Natgas was made through GGSPL.

Your Company is also an equity partner in China Gas Holdings Limited (China Gas), a retail gas company involved in city gas and CNG business in China.

» **Natural Gas Transmission**

Your Company is the market leader in the transmission of natural gas with around 11,000 kms of pipeline network. Based on feedback received from existing shippers, your Company is taking steps to make transmission services more user friendly. Further, your Company also sought Expression of Interest from potential shippers for booking of capacity in its various upcoming natural gas pipelines to ensure utilization of its pipeline infrastructure. It has received a good response from various shippers for booking of capacity along various upcoming natural gas pipelines. Your Company has also 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.

Agreements were executed with various shippers 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. With respect to LNG, execution of GTAs with number of shippers is under progress to transport the gas.

» **Inter-State Gas Grid**

Your Company is implementing the following major Natural Gas pipelines:

1. Kochi - Koottanad- Bengaluru/ Mangalore Pipeline (Phase-II) (Length-895kms)
2. Jagdishpur - Haldia Pipeline (Length-2050kms)
3. Surat - Paradip Pipeline Projects (Length-1990kms)

Apart from these pipelines, your Company is also executing spurlines connectivity to Chittorgarh in Rajasthan, Rishikesh and Dehradun in Uttarakhand. It is also upgrading its pipeline network in the KG Basin.

To make effective use of the commissioned trunk pipelines, execution of the last mile consumer connectivity is also being carried out. During the year 2013-14, under Last Mile consumer connectivity, approximately 112 kms of pipeline has been extended to 66 number of consumers for supplying 5.55 MMSCMD of Natural Gas.

Under the Last Mile connectivity plan for the year 2014-15, your Company is targeting for laying of around 120 kms pipelines.

» Sourcing & Trading of Gas

Your Company, as the industry leader in natural gas, has contracted gas supplies to put in place a diversified long-term import portfolio of approx. 86 MMSCMD. This includes import of LNG through multiple deals from Qatar, Australia, USA, and Russia as well as import of natural gas from Turkmenistan through transnational pipeline to meet the ever increasing demand for natural gas in India. These deals are a testimony to your Company's commitment towards developing the Indian Gas market and helping India 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 diversified sources to mitigate geo-political risks; diversified indexations to mitigate pricing risks; and FOB and DES contracts to provide supply flexibility etc. This augurs well with your Company's commitment to serve its customers in the best way possible.

Your Company has imported 25 LNG cargoes (equivalent to approximately 1.50 MMTPA of LNG) in this financial year from various International sources on short term as well as spot basis to meet immediate domestic gas requirement.

Your Company values the importance of developing supporting infrastructure to accelerate the LNG market development in India. Your Company shall be commercial operator of the LNG terminal at Dabhol, Maharashtra having a design capacity of 5 MMTPA for 25 years. Dabhol Terminal will act as a gateway to meet the gas demand of consumers in Maharashtra, Goa and Karnataka. Your Company has executed regasification agreement with Petronet LNG Limited for reserving exclusive 2.5 MMTPA in the planned Dahej Expansion LNG terminal in Gujarat to meet the ever increasing demand along its existing pipeline networks. Your Company is planning to underwrite capacity in the proposed Floating, Storage and Regasification Unit (FSRU) through 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 an FSRU in offshore Odisha in the East Coast. Your Company has entered into an MoU with Paradip Port Trust Limited for setting up an LNG terminal at Paradip in Odisha.

Your Company has entered into an MoU with Shipping Corporation of India for cooperation in shipping LNG. Besides, your Company is in the process of finalizing shipping arrangements for shipping LNG from Sabine Pass and Dominion Cove Point LNG terminals in the USA.

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



Shri Prabhat Singh, Director (Mktg.) addressing the gathering during PETROTECH 2014

» Petrochemicals

The robust growth in petrochemicals business in India provides an opportunity for your Company to expand its petrochemical business further. Over the last 15 years, your Company has emerged as one of the leading petrochemical companies with a pan-India marketing network. In order to strengthen the petrochemical business, it is proposed to increase petrochemical capacity through brown and green field projects and also expand product portfolio.

With this strategy, your Company has entered into the elastomer business by approving the project for setting up 110,000 tonnes per annum capacity Poly Butadiene Rubber (PBR) Plant at a cost of ₹ 2,575 crore. The plant would be set up through a Special Purpose Vehicle (SPV) with the participation of ONGC. GAIL would be playing the lead role in executing the project. PBR, mainly consumed in the tyre industry would be sold in the domestic market. This step would reduce India's dependency on PBR imports. The feedstock for the PBR plant would come from the petrochemical plant being set up by ONGC Petro additions Limited (OPaL), which is promoted by ONGC and GAIL.

Your company is doubling the Petrochemical production capacity of Pata plant to 900,000 TPA. The project is nearing completion & production is likely to start this year. Green field petrochemical projects promoted by your Company through Brahmputra Cracker and Polymer Limited (BCPL) and ONGC Petro-additions Limited (OPaL) are in advanced stage of completion. With the commissioning of these plants, your Company would be able to achieve a petrochemical portfolio of 1.7 MMTPA for marketing in India and abroad.

» LPG and Other Liquid Hydrocarbons

Your Company has seven 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 Naphtha.

Your Company also owns and operates exclusive pipelines for LPG transmission for third-party usage. It operates two LPG pipeline transmission systems with a network length of 2038 kms and capacity to transport up to 3.8 MMTPA of LPG.

» Exploration & Production

Your Company is participating in 20 E&P blocks (18 in India and 2 overseas in Myanmar). While production has been initiated in 4 blocks,

appraisal activities are in progress in 3 blocks, where hydrocarbon discoveries have been made.

Low prospective exploration assets have been reviewed during this year to balance the portfolio mix and gradually move towards more assets under production and development while maintaining E&P as the key focus area under Strategy 2020 of the Company.

Your Company is also evaluating acquisition of overseas assets, primarily those with hydrocarbon discoveries that are either under production or likely to start production in the short term.

▶▶ Renewables

With technological advances, and 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. 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.

A 5 MW solar plant under the Jawaharlal Nehru National Solar Mission, located in Rajasthan, was commissioned last year and is generating 25000–28000 kWh per day.

4. FINANCIAL PERFORMANCE

▶▶ Sales (Net of ED)

Sales (net of ED) increased by 21% from ₹ 47,333 crore during 2012-13 to ₹ 57,245 crore in 2013-14 mainly due to an increase in price realization of Petrochemicals & LHC, and higher utilization of new pipelines etc.

▶▶ Profit after Tax (PAT)

Profit after Tax has increased by 9% from ₹ 4,022 crore during 2012-13 to ₹ 4,375 crore in 2013-14 primarily due to an increase in price realization of Petrochemicals & LHC, higher utilization of new pipelines, and profit on sale of equity shares of Chinagas etc.

▶▶ Earnings per Share (EPS)

In view of the increase in PAT, EPS has gone up to ₹ 34.49 during the year 2013-14 from ₹ 31.71 per share during the year 2012-13.

▶▶ Price Earning (PE) Ratio

In view of the increase in market price of share and PAT, PE has gone up to ₹ 11 during the year 2013-14 from ₹ 10 per share during the year 2012-13.

▶▶ Shareholders' Funds

The reserves and surplus increased to ₹ 25,804 crore at the end of the current financial year as compared to ₹ 22,959 crore in the corresponding previous year. As on 31st March 2014, net worth of your Company stood at ₹ 26,858 crore, as compared to ₹ 24,038 crore as on 31st March, 2013.

▶▶ Debt and Interest

Debt–Equity ratio is at a very comfortable position of 0.38 as on 31st March, 2014. Debt Service Coverage Ratio stood at 4 times at the year end.

▶▶ Ratio Analysis

Return to Net Worth (PAT/Net Worth) for your Company during the current financial year stood at 16.30%. Return on Capital Employed (PBIT /Capital Employed) was 16.96% for 2012-13.

▶▶ Cash Flow (₹ in Crore)

Particulars	2013-14	2012-13
Cash Flow from Operating Activities	4,472.89	5,033.41
Cash Flow from Investing Activities	(3,231.73)	(5,472.15)
Cash Flow from Financing Activities	(948.12)	1,865.35
Net Increase in Cash & Cash Equivalents	293.04	1,426.61

▶▶ Segment-Wise Performance

Turnover (Net of ED) (₹ in Crore)

Particulars	2013-14	2012-13
Transmission Services		
a) Natural Gas	3,828	3,066
b) LPG Transmission	418	294
Gas Trading	42,623	35,596
Petrochemicals	4,537	3,744
LPG & Other Liquid		
Hydrocarbons	5,462	4,434
Unallocated	377	199
Total Sales	57,245	47,333

▶▶ Physical Performance

Particulars	2013-14	2012-13
Natural Gas Throughput (MMSCMD)	96.22	104.90
Natural Gas Trading (MMSCMD)	79.18	81.44
Liquid Hydrocarbon Sales (TMT)	1,307	1,371
Polymers Sales (TMT)	445	427
LPG Transported (TMT)	3,145	3,136

▶▶ Consolidated Financial Statements

In accordance with the Accounting Standards issued by the Institute of Chartered Accountants of India, your Company has prepared the Consolidated Financial Statements of its subsidiaries and joint venture entities. The highlights of the Consolidated Financial Results are as follows:

(₹ in Crore)

Particulars	2013-14	2012-13
Turnover	61,644	50,893
Profit Before Tax	6,922	6,558
Profit After Tax	4,728	4,317

5. RISKS, CHALLENGES AND MITIGATION

▶▶ Sharing of Under Recoveries

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

As per the Gol'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 ₹ 18,419 crore. During the year under review, your Company has provided ₹ 1,900 Crore (Previous year: ₹ 2,687 Crores) on account of sharing under-recovery of OMCs. Your Company has been requesting MoPNG from time to time for exemption from the burden of sharing the under-recoveries claimed by the OMCs.

» Regulatory Framework

Since 1st October, 2007, the Petroleum & Natural Gas Regulatory Board (PNGRB) has been established by the Central Government for carrying out the various provisions of the PNGRB Act, 2006. The PNGRB Act 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.

During the financial year 2013-14, PNGRB has notified seven (7) nos. Regulations/Amendments in respect of Natural Gas Pipelines, two (2) nos. Regulations/Amendments in respect of CGD networks and has also issued various authorizations/orders/decisions in respect of Natural Gas Pipelines, Petroleum Product Pipelines and CGD networks.

Any changes in laws and regulations made by PNGRB or any interpretation thereof can cause actual results to differ materially from your Company's expectations. Any changes in laws and regulations or any interpretation thereof can also have a material adverse effect on your Company's business, results of operations and financial condition.

The timing and content of any final changes in regulations made by the Regulator is not in your Company's control.

However, regular participation in public consultation exercises conducted by the Regulatory Board and making submissions to the Regulator in writing helps us to anticipate or to minimise our risks associated with any sudden or unforeseen changes in regulations.

» Natural Gas Prices

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 the Gol or are as per the provisions of Production Sharing Contracts (PSCs). Your Company purchases Natural Gas from ONGC and Oil India Limited from the nominated fields at the prices approved the Gol. 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 its purchase price. Your Company earns the marketing margin on sale of domestic Natural Gas.

In addition to the 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 the demand and supply scenario within the country and customer affordability. The import of spot cargo is made based on thorough 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, LPG and other LHCs

Your company is also marketing its own produced products like Petrochemical, LPG and other LHCs from the natural gas being purchased by GAIL from various sources. The sale prices of these products are influenced and determined by global and national demand supply position and vary from time to time. During recent times, the prices of imported natural gas have been increasing (being linked to international crude prices) and similarly the prices of end products, i.e. Petrochemicals, LHC and LPG have also been increasing.

» Foreign Exchange Risk

Your Company is 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 & Interest Rate Risk Management policy in line with the changing market dynamics. The policy is reviewed on a continuous basis.

» Natural or Man-made Calamity Risk

Various risks such as blowout of pipelines, earthquake, tsunami, terrorist activities etc. are associated with the transmission and distribution of gas.

Your Company has taken steps to mitigate these risks right from their designing stage. However, such natural or man-made risks are emergent events and cannot be fully eliminated. An occurrence of any such event may incur significant liabilities for your Company.

» Risk Management Framework

Your Company has established an approved Risk Management Policy & Procedure to protect & add value to the Organization and its stakeholders with the following objectives:

- ▶ To establish a risk intelligence framework for the organization;
- ▶ To establish ownership throughout the Organization and embed risk management as an integral part of the business rather than a stand-alone system
- ▶ To help the decision makers of the organization explicitly take account of uncertainty, the nature of that uncertainty, and work towards a solution to address it
- ▶ To ensure that all the current and expected risk exposures of the organization are identified, qualitatively and quantitatively evaluated, analysed and appropriately managed
- ▶ To enable compliance with the relevant legal and regulatory requirements and international norms
- ▶ To assure demonstrable achievement of objectives and 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. Policy & procedures are periodically reviewed & monitored by Functional Directors, Audit Committee & Board.

Key corporate level risks have been identified & mitigation plans to control them are being ratified/updated/revised from time to time. The key risks are related to natural gas sourcing, logistics & port facilities, natural gas demand sensitivity & market affordability, and polymer marketability. Regulatory framework, limited capabilities in E&P, Forex exposure, and Force Majeure in project execution etc., are deliberated in various committees.

6. INVESTOR RELATIONS AND ENGAGEMENT

The objectives of GAIL's investor relations activities are to develop a long-term relationship of trust with stakeholders by fulfilling its responsibilities not only to shareholders but also to all other stakeholders including investors and analysts, through fair disclosure of information, and also to obtain their confidence and esteem through bilateral communication. In order to pursue these objectives at all times, GAIL continuously discloses necessary information and conducts various investor relations activities. The investor presentation(s) are placed on the website of your Company and the stock exchanges are also informed.

One of the highlights of Investor Relation Management Activity during 2013-14 was an Independent Equity Research conducted by ICRA wherein GAIL has been rated at Fundamental Grade "5" and Valuation Grade "B". The Fundamental Grade "5" assigned to GAIL implies that the company has "Very Strong Fundamentals". The Valuation Grade "B" assigned to GAIL implies that the company is "Moderately Undervalued" on a relative basis which reflects the investment potential in the GAIL's share.

During 2013-14, to pursue the objective of effective communication with investors, your Company organized an Analyst Meet & Conference call immediately after the announcement of the financial results for FY13 & H1 FY14 respectively. Besides organizing such meets & arranging office meetings with investors, GAIL also attended 4 domestic investor conferences organized by top brokerage houses of the country and one international meet in New York. All these meetings/conferences were attended by the Top Management/Senior Executives from Finance, Marketing, Business Development & Projects departments, besides executives from site offices.

All such initiatives by your Company towards disseminating information to investors & analysts at the right time and from the right people has been recognized & appreciated by the Investor and Analyst Community from time to time.

7. HUMAN RESOURCE AND INDUSTRIAL RELATIONS

Your Company looks at diversity from various dimensions, viz., gender, religion, caste and community. It gives equal opportunity to all the citizens in regard to employment & career opportunities within the organization. As a result, the employee composition is a heterogeneous mix, comprising of people from almost all the regions of the country and sections of society.

The Industrial/Employee relations climate remained congenial and constructive. There were no Man Days or Man Hours lost on account of any sort of industrial conflict.

In an endeavour to meet the ever changing business requirements and to maintain sustainable competitive advantage your Company redefined its Corporate HR Strategy in alignment with the Organizational Strategy.

Your Company is making a concerted effort to attract, acquire and deploy the best human capital and keep the resources motivated and

engaged. Your Company has been constantly focussing on identifying and bridging the skill gaps of its talent pool. Your Company constantly review its HR processes & policies to benchmark them vis-à-vis the best process & policies in the industry. During the year, your Company undertook the review of HR policies with respect to employees compensation, welfare, recruitment, and general terms and condition of service. The HR function and processes have been updated with the latest technology to ensure greater efficiency and transparency.

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

Your Company is always committed to environment protection. Various measures have been adopted across all business lines for environment protection & its conservation. Over the past few years, your Company has ventured into new business ventures while following the Triple E approach, i.e. Ethics, Economy & Environment. Amongst the new businesses, your Company's City Gas Distribution (CGD) business is helping many cities keep their environment clean. The supply of Natural Gas to our customers is helping us contribute towards a cleaner environment. Continuous endeavours towards energy conservation measures in existing operations help your Company in conserving precious natural resources.

Your Company continuously strives to minimize adverse environmental impacts from its operations, products & services by using processes, practices, materials and products that avoid, reduce and control pollution. Your Company published its third Sustainability Report in 2013 towards its commitment for transparency to all its stakeholders.

With ISO 9001, ISO 14001 and OHSAS 18001 accreditations, all major installations of your Company are committed towards creating, maintaining and ensuring a safe and clean environment. All products of your company viz. Natural Gas, LPG and Polymers are environment-friendly. Recently, GAIL, Gandhar GPU has been certified for ISO : 50001, the new International Energy Management Standard, which shall be replicated throughout GAIL gradually.

Your Company is inherently an environment friendly organization. We not only take care of our environment but also educate and assist our customers to ensure minimum environmental damages during the



Shri S Venkatraman, Director (BD), receiving Corporate Governance Award



GAIL Board Level Interaction with Global Reporting Initiative (GRI)

business transaction. You would be happy to know that one of your Company's products natural gas has played an instrumental role in afforestation by reducing the demand for wood.

Your Company is sensitive to the needs of the community development and environment at large while carrying out its business operations. Our 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 dominant market position in the natural gas industry, it is also committed to mitigate environmental impacts of its operations. Your Company's environmental mission includes reducing our energy, material and water consumptions, mitigating climate change impacts and air emissions, sensitivity to biodiversity and managing our operations in an environmentally sound manner.

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 our processes leaner and cleaner. Various green initiatives have been taken from time to time by your Company 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 the project such as technology selection, process design and project execution.

All the gas processing units, petrochemical plant and cross-country pipelines in your Company adopt state-of-the-art technology. Various plants of petrochemical unit have world renowned process licensors. Some of the renowned names in the field of hydrocarbon industry and known for clean technologies are associated with your Company.

» Global Methane Initiative

Global Methane Initiative (GMI), and Natural Gas STAR International is

a voluntary partnership between the United States Environmental Protection Agency (US EPA) and the international oil and natural gas industry to identify and promote cost-effective technologies and practices to reduce methane emissions. Your Company has joined the Natural Gas STAR International Program. In doing so, GAIL has agreed to work with the US EPA in identifying and implementing projects to cost effectively reduce methane emissions. Projects are being taken up based on the findings of the study to mitigate fugitive methane emissions.

» Training and Awareness

Training in your Company is at the very core of our belief system as a means to continuously upgrade and refresh employees on specific aspects of subject training and latest management techniques. Specific trainings are imparted to all employees at sites including 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 on-going processes in your Company to enhance the pollution-free environment in and around its units. The green cover, together with large water bodies in our units, has created an ideal habitat for birds.

» Water Conservation

Water is a precious resource and your Company has taken significant steps towards conservation of this precious resource. As part of the Integrated Management Systems, water auditing at our installations is a regular practice. 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 Vijaiapur is a conversion of open canal to piped supply resulting in water savings of 20 million cubic metres of water per annum. "Jaldhara" Project at Vijaiapur 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 purposes.



Dignitaries on dias during Asia Gas Partnership Summit, New Delhi

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. Continuous efforts are made to maximize recycle of treated waste waters. Your Company is now recycling more than 50% of treated waste water 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 centres, to recharge the groundwater strata effectively. Rain water is stored and utilized for captive consumption.

» **Air Monitoring**

Your Company is inherently a very environment friendly company using the cleanest feedstock and fuel available in the country. 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 the 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 of 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.

» **Quality Circle (QC) Projects**

Your Company has undertaken 137 nos of QC projects at various work centres of GAIL which have resulted in financial savings of ₹ 826.49 lacs (tangible gains) from these projects for the FY 2013-14.

On the renewable energy front, your Company has installed wind energy projects of 118 MW capacity. Further, your Company has entered into solar power generation by commissioning a 5 MW Solar Plant located in Rajasthan in February 2013 and is generating 25000 – 28000 kWh per day.

On the conservation of foreign exchange front, your Company has formulated Forex & Interest Rate Risk Management Policy. With the risk management policy in place, Forex and interest rate risks arising from business operations are proactively identified and managed within the risk appetite of the Company. As on date, weighted average cost of your Company’s long term foreign currency loan portfolio on hedged basis is 7.19% p.a. approx. which is far below the average cost of domestic borrowings. This shows that your Company has optimal hedging portfolio and has achieved increasingly efficient hedging.

9. CORPORATE SOCIAL RESPONSIBILITY

In alignment with the 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 2013-14, the company has committed ₹ 91 crore (approx.) for a variety of projects, programs 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 programmes, with distinct timelines and project milestones, in terms of a standardized Agreement signed with every external executing partner. Efforts are made to take up programmes 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 institution of repute in this domain.

FY 2013-14 also saw the passing of the landmark legislation with implications for Corporate Social Responsibility i.e. the Companies Act 2013. As per the provisions of the Act, Section 135 deals with the mandatory compliances to be adhered to with regard to Corporate Social Responsibility w.e.f 01.04.2014. GAIL in order to comply with the provisions of said Section 135 and the accompanying Rules is currently in the process of revisiting and redrawing its Corporate Social Responsibility Policy as also modifications in the existing approval process, structure and CSR allocation FY 2014-15 onwards.

In FY 2013-14, Your Company was recognized for its CSR initiatives and was awarded:

- CSR Gold Award, Greentech foundation for Project Anhad Gram, Jhabua.
- Best Rural Outreach Programme, World CSR Congress for Project Anhad Gram, Jhabua.
- Best Community Action Programme, World CSR Congress for Padho aur Badho.

» 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 and Healthcare / Medical.

Your Company has been imparting specialized 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. For the year 2013-14, 100 students were identified for this programme through a meticulous selection process. 39 students have been selected in IITs, whereas 52 others are on their way to securing admissions in other prestigious institution of the country.

Project Padho aur Badho, through the 250 NFE Centres across various slums of East Delhi, West Delhi, South Delhi, Noida and Ghaziabad provides Non Formal Education and Learning Support to 10,000 children, mainly ragpickers. So far more than 16,000 children have been mainstreamed into formal education in the slums of Delhi/NCR.

GAIL- IL & FS Skill Schools with integrated 'Backward and Forward' linkages, in the regions of Dediapada (Distt. Narmada, Gujarat), Guna (Madhya Pradesh) and Tandur (Distt. Ranga Reddy, Andhra Pradesh), provide employment linked skill training to disadvantaged youth. Two thousand six hundred and thirty youth have been successfully trained in the year 2013-14 in the sectors of retail sales, general engineering (welding, fitting etc.), F & B, BPO Non - voice, Masonry etc. Also, the GAIL-IL & FS Skill School at Dediapada, Gujarat was adjudged the 'Best Centre' by National Skill Development Centre.

In the area of Health Care/Medical, your Company is undertaking Project Arogya to provide medical outreach service through 16 Mobile Medical Units across 6 states Uttar Pradesh, Madhya Pradesh, Uttarakhand, Gujarat, Haryana and Punjab.

The success and goodwill generated from the erstwhile Project Anhad Gram in Jhabua, MP, inspired your Company to take up a long term Integrated Watershed Development and Management Project, Project Jaldhara in the FY 2013-14. Project 'Jaldhara' endeavours to address water requirements of 40 villages of the drought prone region of Jhabua over the next five years. All milestones pertaining to the project in FY 2013-14, were achieved in time including preparation of a primary database related to soil quality, water quality and topography of Jhabua Watershed, Organizing community meetings for project awareness and community participation, identification of sites for development/management of watershed structures, plantation of saplings, formation of self-help groups and Structured Village Planning Committee/Watershed Committee/ Farmer's Club and Village Co-operative Societies.

Your Company firmly believes that empowering a woman means empowerment of the entire family. With this very 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 the year 2013-14, more than 3000 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/wage employment under this initiative.

» Other CSR initiatives

Your Company has set up the GAIL Charitable and Education (C&E) Trust 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. GAIL has also extended scholarship to 500 violence affected children in violence affected regions of Jammu & Kashmir and Assam.

Further, the Trust is undertaking the CSR Programme 'Search for Gandhi' for promotion of value and moral education through Gandhian principles using advanced communication techniques across schools of Delhi/NCR, with specific attention to those who are under privileged, neglected and/or marginalised.

In addition to the flagship programmes, your Company has also undertaken several programmes at the grass root level during the course of the year, under the identified thrust areas which have been mentioned in a separate section of Annual Report.

» 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 seven identified Thrust areas, as captured below:

- Innovative Waste Management and Livelihood Generation Programme in GAIL work centres in Delhi/NCR. Under this initiative more than 2930 kgs of waste generated from GAIL has been recycled so far.



- Your Company in FY 2013-14 has also initiated Project Shreejan-Long Term Relief and Rehabilitation Project focusing on Livelihood promotion and capacity building for women and youth in flood affected regions in Rudraprayag, Uttarakhand
- Your Company has also partnered with National Safai Karamchari Finance and Development Corporate, a GoI undertaking, for extending training of over three hundred poor and educated unemployed Safai Karamchari youth in vocational skills such as Garment Construction Technique and Industrial Sewing Machine at 09 centres in Delhi/NCR, UP and MP.
- Training has been provided to thirty beneficiaries from the under privileged community in the Plastic industry related trades through Central Institute of Plastics Engineering and Technology (CIPET), Ahmedabad and sixty additional students are undergoing training at CIPET, Guwahati.
- Empowerment of persons with disabilities has also been promoted through several means, such as providing them with the necessary medical aids, equipment and infrastructural support, as well as providing specialized motorised vehicle for making them self-reliant.

Your Company also realizes the importance of the involvement of all stakeholder groups in the CSR process and for the same your Company organized 5 multi-stakeholder meetings for various CSR projects in FY 2013-14 and also furthered the CSR agenda by providing CSR related training to employees for over 970 man-hours in FY 2013-14.

10. INTERNAL CONTROL SYSTEMS & THEIR ADEQUACY

Your Company has developed Internal Control System 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 (Sub-Committee of Board) 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 9001-2008 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.

Corporate Finance and Risk Management (ICoFR) is also audited by third party (Independent Auditors) from time to time.

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.