Winning Momentum

Annual Report 2005-06

IT'S ALL ABOUT WINNING

Winning reassures us.
Winning motivates us.
Winning lifts us.
Winning pushes us ahead of others.

Winning brings us responsibility.
Winning makes us smile.
Winning makes us travel extra miles.

Winning keeps us alert.
Winning makes us carefree.

And at GAIL, Winning has become a habit. We draw inspiration from every aspect of life. Which is why, this year's Annual Report features the Nehru Trophy Boat Race held in Kerala in August 2005, an event sponsored by GAIL - an event which is splendid example of synchronised team work and winning momentum.

CONTENTS

"Art of winning"

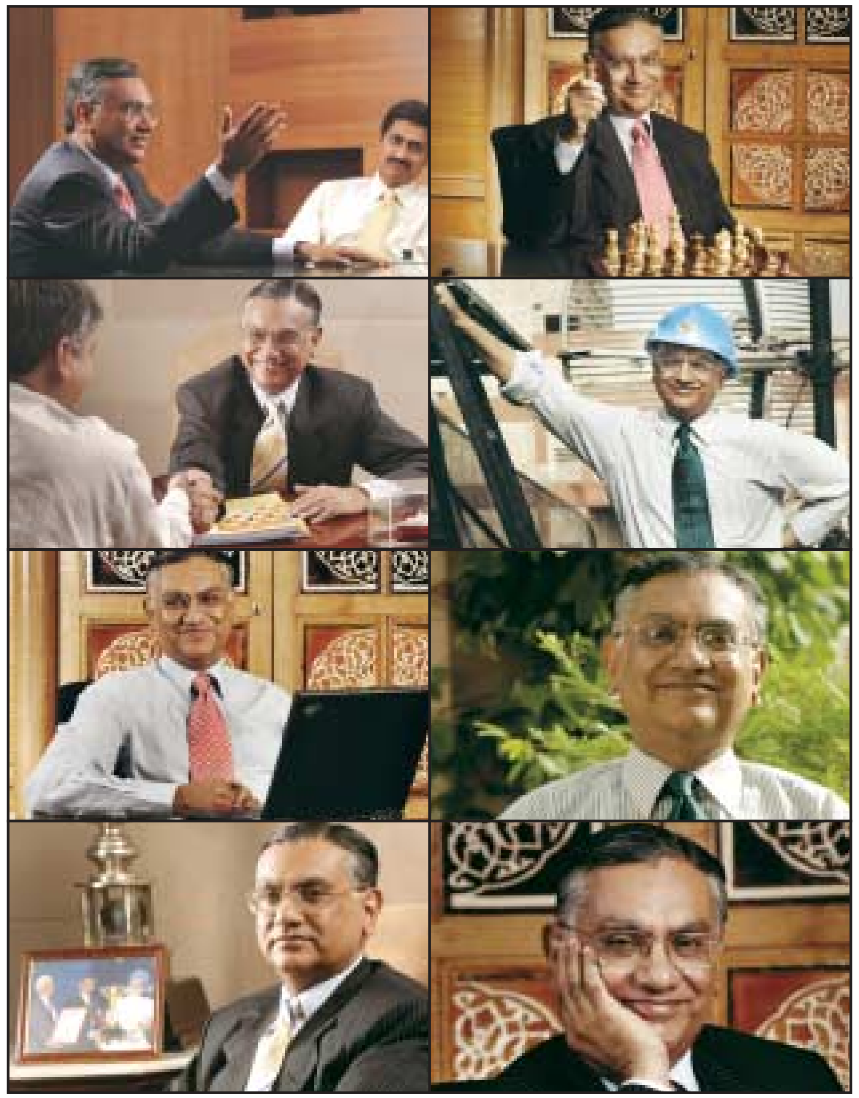
Vision

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

Mission

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

"Winning takes talent but it takes character to keep winning!"



CHAIRMAN'S MESSAGE

Winning Momentum

Dear Shareholder,

Today, as we progress towards GAIL's 23rd year, I am proud of the fact that **building our corporate character** remains the organization's prime focus. Winning, through tireless endeavours, has only strengthened this commitment.

At GAIL, each one of us is inspired by a **winning momentum** that motivates us to work towards creating new intellectual capital within an enduring value system. I take this opportunity to give you a glimpse into the enriching corporate character that encourages us at GAIL to adopt the highest standards of corporate governance.

Recognized for our Industrial **Leadership** by the PLATTS Global Energy Award, GAIL has also found a prominent position within the top 15 largest listed gas utility firms in the Oil & Gas industry, in terms of Market Capitalization by the recent PFC Energy rankings. These accolades have further strengthened our efforts to carve a niche in the global energy market.

Evolving a global outlook, in this era where geographical, linguistic and cultural boundaries are almost fading away, is an integral part of our vision for the future. We have already invested US $ 70 million by making significant forays in exploring growth ventures and entering new markets across the world, such as China, Myanmar, Egypt and recently by being awarded Block 56 in Oman for exploration and production of hydrocarbons. Coal Bed Methane (CBM) opportunities are being explored in association with expertise from Australia and Sweden. We are venturing into new forays such as bidding for gas fields in Ethiopia and setting up LPG plants in Uzbekistan.

Today, the energy sector in India is booming and natural gas is living up to its epithet of being the 'fuel of the future'. This lays more emphasis on our efforts to effectively harness the immense potential of this valuable fuel. In this context, we are spurred by a strategy to expand our business profile by developing into an **integrated company across the natural gas value chain** and making our presence felt across the gamut from exploration and production (E&P) to gas transportation and processing.

An emphasis on **innovation** has always been the cornerstone of all our efforts. We have notched up some interesting achievements that I want to share with you. This year, for the first time ever, we started production of crude oil in the Cambay Oil Basin. With this development, our foray into E&P activities started yielding revenues. The setting up the National Gas Management Centre (NGMC) is the first Infohub of its kind in India that allows for round- the-clock monitoring and control of all the company's transmission assets spread throughout the country from one single location.

Another 'first' of its kind, is our initiative to promote preventive health care through the Air Pollution Related Disease Diagnostic Centers (APRDCs) set up in association with premier Hospitals across the nation. The APRDCs are an integral part of our **Corporate Social Responsibility** (CSR) Programme called Hriday under the aegis of which we attempt to address myriad issues- be it that of education, sanitation, pollution or infrastructure development. As a **caring corporate,** we have consolidated our firm commitment to society by dedicating 1% of our PAT (Profit After Tax) for our CSR activities.

A major development in the energy sector in India has been the passing of the **Petroleum and Natural Gas Regulatory Board Act** that envisages the institution of a Regulatory Board to oversee the activities of the downstream petroleum sector. This is a step towards liberalization of the petroleum and natural gas sector that offers newer vistas for us along with bringing in **healthy competition.** Competition is something we look forward to as it motivates us to reflect within and constantly goads us to perform better.

Another year has gone by, ushering in myriad opportunities, new partnerships, exciting ventures while also heralding in a brand new year- one with more promises to keep, higher goals to achieve and more and more smiles to bring, on the faces of all those associated with us. We reaffirm our commitment to excellence as we look forward to another year with a determination to sustain our momentum and success.

Proshanto Banerjee
Chairman & Managing Director

Highlights 2005-2006

The uptrend continues...

- Turnover up by 16%, PAT up by 18%

Impressive Business growth...

- Gas transmission volumes up by 10% to 78.87 MMSCMD, owing to increase in RLNG volumes from Dahej
- Crude oil production from Cambay Oil Basin started 6th September, 2005
- GAILTEL's optic fibre network more than 13,000 kms, up from 8,500 kms last year
- Ethylene production capacity increased by 100,000 TPA with the addition of new cracker furnace

Unearthing potential from deep within...

- 3 blocks awarded in the NELP-V round of bidding in Gujarat, Assam and Andaman offshore with reputed consortium partners
- One E&P block awarded in Oman

Dreams in the Pipeline...

- Commissioned the Narimanam – Kuthalam Pipeline Project
- 5 other pipeline projects under execution

In control, 24 x 7 x 365 ...

- World class National Gas Management Center (NGMC) for round- the-clock monitoring and control of all transmission assets of the Company from a single location
- State-of-the-art GAILTEL Network Management Center (NMC) to enable centralized monitoring and control of the entire network
- Enterprise Management System (EMS) software solution implemented for monitoring and controlling IT infrastructure all across GAIL

Globally yours...

- GAIL Global (Singapore) Pte. Limited recorded a profit of Rs. 2.16 Crores during the year under review.
- GAIL bags the PLATT's Global Energy Award for Industry Leadership.

Quality wise...

- Only Company in India where the top management team has adopted a unique top down methodology by involving all plant heads in Operation & Maintenance and Zonal General Managers in the Six Sigma journey
- "LAST MILE" Product Quality Audit of Petrochemical and Liquid Hydrocarbon products by external testing of randomly picked products
- All labs are NABL (National Accreditation Board for Testing & Calibration Laboratories) accredited. All plants and work centres are ISO certified

Customer is the queen...

- Only Company in polymer industry giving Ton-to-Ton replacement and door delivery for its domestic customers
- Customer Complaints & Concern management system (3C) in place to attend the concerns and complaints of the customers of all businesses of GAIL

Responsible corporate...

- Set up Air Pollution Related Disease Diagnostic Centres (APRDCs) in 18 cities
- Silver Plate award from Help Age India

"A Winning Combination"

Shri Proshanto Banerjee
Chairman & Managing Director

Board of Directors

Shri S.P. Rao
Director (Projects)

Shri B.S. Negi
Director
(Business Development)

Shri M.R. Hingnikar
Director (HR)

Dr. U.D. Choubey
Director (Marketing)

Shri R.K. Goel
Director (Finance)
(From 01.11.2005)

Shri Anil Razdan, IAS
Director
(From 17.02.2006)

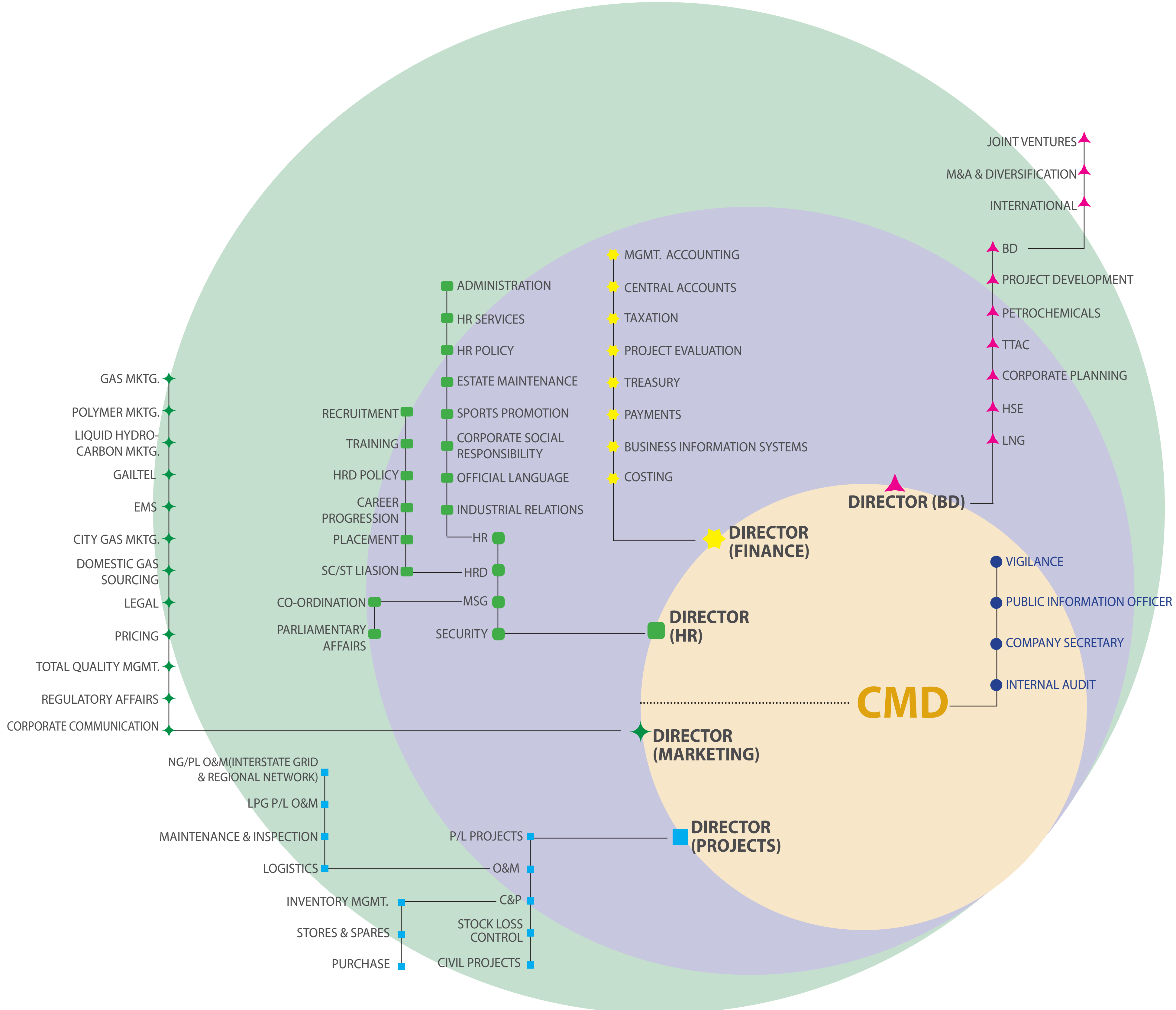
Shri Ajay Tyagi, IAS
Director

Dr. Amit Mitra
Director

Dr. A.K. Kundra
Director

Shri B.C. Bora
Director

Functional Structure



Board Structure

Functional Directors
Proshanto Banerjee
S. P. Rao
B. S. Negi
M. R. Hingnikar
Dr. U. D. Choubey
R. K. Goel

Govt. Nominated Directors
Anil Razdan
Ajay Tyagi

Independent Directors
Amit Mitra
A. K. Kundra
B. C. Bora

Sub Committees of the Board

Audit Committee
Dr. A.K. Kundra (Chairman) • Dr. Amit Mitra • B.C. Bora

Shareholders / Investors Grievances Committee
B.C. Bora (Chairman) • S.P. Rao • M.R. Hingnikar

Share Transfer Committee
Proshanto Banerjee (Chairman) • S. P. Rao • B.S. Negi • M.R. Hingnikar • Dr. U. D. Choubey • R.K. Goel

Business Development & Marketing Committee
B.C. Bora (Chairman) • B.S. Negi • Dr. U.D. Choubey • R. K. Goel

Empowered C & P Committee
• Proshanto Banerjee (Chairman) • S.P. Rao • B.S. Negi • M.R. Hingnikar • Dr. U.D Choubey • R.K. Goel

Compensation Committee
R.K. Goel (Chairman) • M.R. Hingnikar • Dr. A.K. Kundra • B.C. Bora

Project Appraisal Committee
Proshanto Banerjee (Chairman) • R.K. Goel • Ajay Tyagi • Dr. A.K. Kundra • B.C. Bora • Concerned Functional Director

H.R. Committee
Proshanto Banerjee (Chairman) • S.P. Rao • B.S. Negi • M.R. Hingnikar • Dr. U.D. Choubey • R.K. Goel • Dr. Amit Mitra • Dr. A.K. Kundra

Redressal of Vendors Grievance Committee
B.C. Bora (Chairman) • S.P. Rao • R.K. Goel • Ajay Tyagi

Zonal Office Performance & Profitability
Dr. A.K. Kundra (Chairman) • Dr. U.D. Choubey • B.C. Bora

BD	BUSINESS DEVELOPMENT
C&P	CONTRACTS & PROCUREMENT
EMS	ENERGY MANAGEMENT SERVICES
HR	HUMAN RESOURCES
HRD	HUMAN RESOURCES DEVELOPMENT
HSE	HEALTH, SAFETY & ENVIRONMENT
MSG	MANAGEMENT SERVICES GROUP
O&M	OPERATION & MAINTENANCE
TTAC	TECHNOLOGY TRANSFER & APPLICATION CELL

Statutory Auditors

M/s S. Mann & Co. — Chartered Accountants, New Delhi

Branch Auditors

M/s SCJ Associates — Chartered Accountants, Agra

M/s Chhajer & Co. — Chartered Accountants, Bhopal

Company Secretary

Shri N.K. Nagpal

Stock Exchanges where Shares/ GDRs of the Company are listed

The Delhi Stock Exchange Association Limited
DSE House, 3/1, Asaf Ali Road
New Delhi-110 002

Bombay Stock Exchange Limited
Floor 1, PJ Towers
Dalal Street, Mumbai-400 001

National Stock Exchange of India Limited
'Exchange Plaza'
Bandra Kurla Complex
Bandra (E), Mumbai-400 051

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

Registrar and Share Transfer Agent

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

Bankers

State Bank of India
Corporate Accounts Group Branch
Jawahar Vyapar Bhavan
11th & 12th Floors
Tolstoy Marg
New Delhi-110 001

Bank of India
Overseas Branch
Vijaya Building
Barakhamba Road
New Delhi-110 001

ICICI Bank Ltd.
9A, Phelps Building
Connaught Place
New Delhi-110 001

HDFC Bank Ltd.
1st Floor, Kailash Building
26, Kasturba Gandhi Marg
New Delhi-110 001

Registered Office

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

"A Winning Statement"

Directors' Report

DIRECTORS' REPORT

To,
The Members

The Directors have pleasure in presenting the 22nd Annual Report of your "Navratna" Company together with the Audited Accounts for the year ended 31st March, 2006.

Your Company has witnessed yet another successful year of operations which recorded an overall growth in the financial and physical parameters. The Directors are glad to share with you that the Enterprise Resource Planning (ERP) project was successfully implemented across the entire organization during the year and this has enabled us to present the Annual Accounts to you earlier than last year.

HIGHLIGHTS 2005–2006

During the year under review, your Company has performed well in terms of physical and financial parameters.

PHYSICAL PERFORMANCE

Revenue drivers	2005-06	2004-05
Gas transmission (MMSCMD)	78.87	71.56
LPG production (MTs)	10,42,219	10,94,835
Pentane/Propane/SBP Solvents production (MTs)	2,83,484	2,98,264
Polymer production (MTs)	3,11,469	2,98,787
LPG transmission (MTs)	22,28,568	21,37,504

During the year under review, the gas transmission volumes have gone up by 10% owing to increase of Regasified LNG (RLNG) volumes from Dahej. Besides, for the first time ever, your Company has started the production of crude oil in its Cambay Oil Basin from 6th September 2005, which was discovered in September 2004.

FINANCIAL PERFORMANCE

During the year under review, the Turnover of your Company increased to Rs.14,459 Crores from Rs.12,412 Crores (Net of ED and internal consumption), an increase of 16% over the previous year and registered a Profit After Tax (PAT) of Rs.2,310 Crores as against a PAT of Rs.1,954 Crores in the previous year which is an increase of 18%.

The salient financial parameters during the year under review as compared to the previous year are as under:

(Rs.in Crores)

Particulars	2005-06	2004-05
Turnover (Net of ED and internal consumption)	14,459	12,412
Internal Consumption	1,892	1,179
Other Income	456	349
Cost of Sales (excluding Interest and Depreciation and including extraordinary items)	12,853	9,990
Gross Margin	3,954	3,950
Interest	117	134
Depreciation	560	945
Profit Before Tax	3,277	2,871
Provision for Tax	967	917
Profit After Tax	2,310	1,954
Dividend		
– Interim (already paid)	676	338
– Final (Proposed)	169	338
Corporate Dividend Tax	119	93
Transfer to Reserves	263	228
Profit & Loss A/c balance	1083	957

DIVIDEND

The Board of Directors of the Company had earlier approved payment of an interim dividend @ Rs.6 and special interim dividend @ Rs.2 per equity share of Rs.10 each, for the year 2005-2006, which has since been paid to the members of the Company.

The Directors are now privileged to recommend for approval of the members, payment of final dividend @ Rs.2 per Equity Share of Rs.10 each for the year 2005-2006. With this, the total dividend payment for the fiscal 2005-2006 stands at 100% of the paid up equity capital, an increase of 25% over the previous year.

CORPORATE PLAN

During the last few years, the dynamics of gas business have been influenced by several change drivers such as a burgeoning demand-supply gap, partial deregulation of gas pricing, multi-player competition and the enactment of the Petroleum and Natural Gas Regulatory Board Bill. Thus, a need was felt to re-visit the long term Corporate Strategic Plan.

Your Company had formulated a long term Corporate Strategic Plan, which was in line with the Corporate Vision and Mission statement. The Corporate Plan aims to create a robust and growth-oriented long term business portfolio that would maximize returns to the stakeholders and it was evolved taking into consideration the future business environment and the value creating potential of the Company's businesses on a value-based matrix.

The mid-course revision of your Company's Corporate Strategic Plan took cognizance of the likely changes in the future business environment as well as the opportunities for growth in your Company's areas of business.

Broadly, the revised Corporate Strategic Plan of your Company has identified the following key growth drivers:

- Protection and strengthening of the gas transmission and marketing business.
- Increased gas sourcing from domestic fields and import of gas through cross-border pipelines and LNG to secure gas supplies for transmission and trading businesses.
- In the E&P front, your Company has stake in 16 Exploration Blocks and intends to participate aggressively in the upcoming E&P opportunities. To strengthen its presence in the operation of the blocks, it has plans to acquire a small/medium International E&P Company.
- Pursue margin enhancing businesses namely, petrochemicals and city gas projects.

BUSINESS PERFORMANCE

GAS TRADING

During the year under review, your Company has transmitted a volume of 78.87 MMSCMD of gas, which is an increase of 10% over the previous year volume of 71.56 MMSCMD. The increase in volume has been as a result of the sale of Regasified LNG during the year, which doubled in comparison to that of the previous year. This is due to the commencement of supply of the second tranche of 2.5 MMTPA of LNG from Qatar to Petronet LNG Limited at Dahej.

Out of the above transmitted volume of 78.87 MMSCMD, your Company has traded a volume of 67.63 MMSCMD of gas.

PETROCHEMICALS

During the year under review, the production of Polymers (HDPE/LLDPE) has been 3,11,469 MTs as against the production of 2,98,787 MTs in the year 2004-2005 which represents an increase of 4% over the previous year.

LIQUID HYDROCARBONS

The total Liquid Hydrocarbon Production during 2005-2006 is 13,25,703 MTs. The total product mix includes 10,42,219 MTs of LPG, 1,73,920 MTs of Propane, 53,346 MTs of Pentane and 56,218 MTs of Special Boiling Point Solvent (SBPS) for the year 2005-2006.

LPG TRANSMISSION

In the LPG transmission business, your Company has transported 2.23 MMT LPG in current fiscal year as compared to 2.14 MMT in 2004-2005 which represents an increase of 4% as compared to the previous year.

GAILTEL

During the year, GAILTEL expanded its optical fibre cable network in the southern part of the country to the extent of 4,000 kms. in the states of Karnataka, Andhra Pradesh, Tamilnadu and Kerala. As a part of the expansion plan, more than 500 kms of optic fibre network has also been added in the states of Uttar Pradesh and Uttaranchal. As a result of these measures, your Company's optic fibre network has grown from 8,500 kms. to more than 13,000 kms.

EXPLORATION AND PRODUCTION (E&P)

In line with your Company's Gas Sourcing strategy, E&P activities continued to remain in focus during the year. Your Company tasted the success in the E&P business, as commercial production of crude oil started in September 2005 from the Cambay Block in Gujarat, where your Company holds 50% participating interest.

LPG MARKETING

In January 2006, the authorization for direct marketing of LPG, which was granted in February 2005, has been kept in abeyance by the Government of India. Your Company has requested the MoP&NG for an early review of its decision so that GAIL could take further necessary action to commence LPG marketing.

BUSINESS INITIATIVES

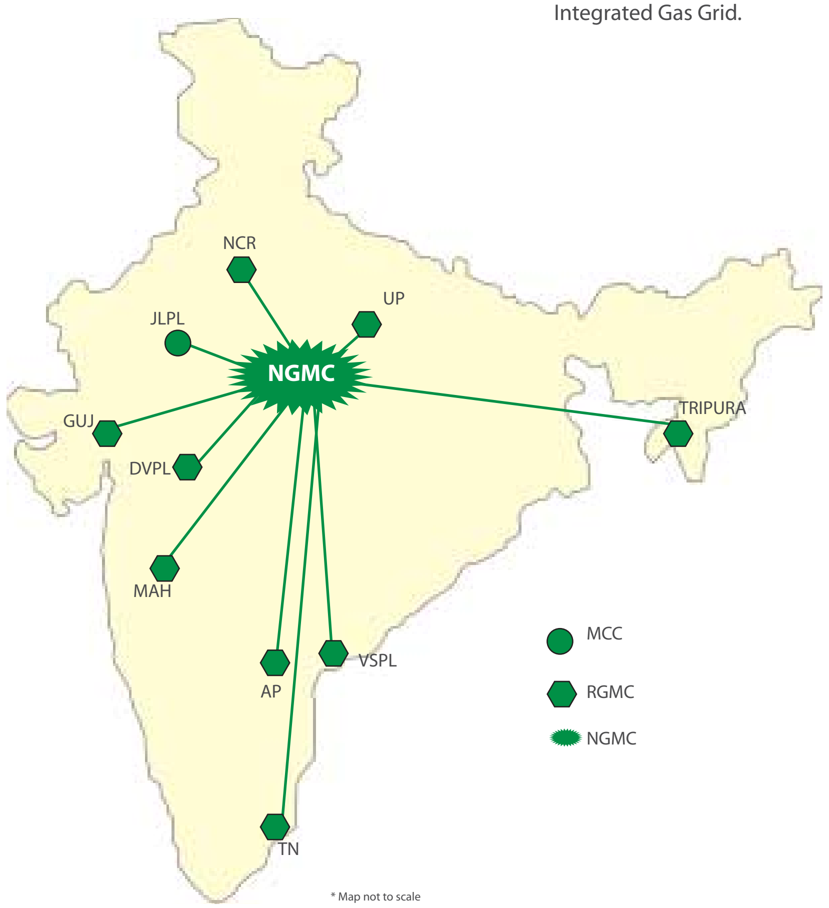
GAS TRANSMISSION

NATIONAL GAS MANAGEMENT CENTRE

Your Company has established a World Class National Gas Management Center (NGMC) this year with an objective of round- the-clock monitoring & control of all transmission assets of the Company from a single location.

NGMC deals with GAIL's natural gas transportation and LPG transmission business throughout India in which live data is available at a centralized location for monitoring of pipeline and delivery conditions of all major customers' terminals.

The NGMC would help your Company to manage the complexities of Demand-Supply variations in gas supplies efficiently and in real time, involving Multiple Sources, Multiple Delivery Terminals with Different Gas Specifications and Variable prices in an Integrated Gas Grid.



The NGMC will be connected to and supported by Regional Gas Management Centers (RGMCs). The RGMCs are equipped to carry out round-the-clock monitoring and regulation of quantity & quality of Gas, control the operational and safety aspects of pipelines in the region and provide remote access to customer terminals with capability to remotely configure, regulate and monitor flow rates and volumes of gas supplied to major consumers.

'Where there is MONITORING, there can be CONTROL' - is the Motto of our O&M activities.

The state of the art monitoring capabilities through Satellite linked communication network and Supervisory Control and Data Acquisition (SCADA) with:

- 24x7 monitoring of major assets, operations and associated customer facilities.
- 7 exclusive Regional Gas Management Centers (RGMC) for monitoring, control and real time data logging.
- Master Control Centers (MCC) for three cross country.
- National Gas Management Centre (NGMC) for connecting all control centers at one place for centralized monitoring and management decision making.

PIPELINE INTEGRITY MANAGEMENT

Your Company has given highest importance to the implementation of pipeline integrity management this year. In 2005-2006, your Company has conducted Intelligent pigging of major pipeline asset base (HVJ & GREP). Your Company has also conducted the coating integrity survey in all major pipelines by international reputed agencies. Both the studies indicate that the gas pipelines are healthy and well protected against external corrosion. Further, the cleaning pigging operation has also been undertaken and this has resulted in improvement of pipeline efficiency and cleaner gas supply to customers.

Your Company is committed to the pipeline integrity management activities so as to maintain and improve transmission efficiency as well as in enhancing health and life of pipeline systems.

METERING AUDIT

In the present gas market, where pipelines are being used by various shippers and customers for gas of different specifications, your Company recognizes the need to enhance and ensure transparency and confidence level among our valued customers. For this purpose your Company is conducting third party audit of metering units by an internationally reputed external agency. This audit has already been started and is expected to be completed by August 2006.

CITY GAS

DEVELOPMENT OF RETAIL GAS SOLUTION

Keeping in view the complexities of the retail gas business and expected growth of this business segment in the near future, your Company has entered into a Solution Collaboration Agreement (SCA) with Infosys Technologies Limited for developing a retail gas software solution.

CNG INSTITUTE

Leveraging on the opportunities to integrate CNG related activities and impart CNG sector specific training, your Company is setting up a CNG Institute at NOIDA. The Institute will be engaged in training, vendor development and research and development activities in the area of CNG.

PETROCHEMICALS

This year, your Company has enhanced its ethylene production capacity from 300,000 TPA to 400,000 TPA by addition of new cracker furnace of 100,000 TPA capacity. Simultaneously, the polymer capacity is being increased by setting up a new HDPE Unit of 100,000 TPA.

LPG TRANSMISSION

Your Company is exploring the possibility to use the LPG pipelines as multi-product pipeline for better capacity utilization.

GAILTEL

Your Company has joined hands and signed a MOU with Power Grid Corporation and Rail Tel for co-operation in telecom sector. Your Company is also in the process of acquiring National Long Distance (NLD) license, which would throw open the lucrative corporate and government segment. This shall mean a significant increase in the size of the addressable market.

Your Company has installed a countrywide GAILTEL Network Management Center, (NMC) which is a state-of-the-art telecom network management facility, enabling centralized monitoring and control of the entire GAILTEL network. This network management centre is designed for 24x7 operations with world class facilities to ensure reliability, safety and security of the operational systems. The NMC houses high-end NMS servers, which allows centralized control over the entire telecom assets in the areas of real time fault management, remote configuration management, network performance management and asset security management.

With this infrastructure, GAILTEL has adopted the best practices of the industry to manage its operations. More importantly, the NMC has enabled GAILTEL to scale up its operations in future without proportionate increase in costs.

E&P

Your Company has "farmed-in" in the Myanmar A-3 Block with a 10% participating interest, while continuing with the exploration activities in the A-1 block in Myanmar. Your Directors are glad to share with you the success of your Company in the NELP-V round of bidding wherein three Blocks in Gujarat, Assam and Andaman offshore were awarded through partnerships with reputed consortium partners. Your Directors are also happy to share with you that an E&P block has been awarded to GAIL in Oman recently.

COAL BED METHANE

Coal Bed Methane is a relatively new source of gas and its exploitation started about two decades back in USA. Unlike conventional oil and gas fields, coal seams act as both source and reservoir for coal bed methane. So far commercial CBM production is reported from 3 countries; USA, Australia and China. The major producer of CBM is USA where it contributes about 10% of the total natural gas production of USA.

Government of India has already awarded 16 CBM blocks under two rounds of bidding including two blocks on nomination basis. Major Indian CBM players are ONGC, RIL, Essar Oil Ltd. and GEECL.

GAIL has done various studies in the past for pursuing business opportunities in the CBM sector. Services of Mineral Exploration Corporation Limited and one reputed U. S. consultancy company were engaged for a broad CBM resource assessment study, covering several coal fields of India. DGH and GAIL organized the first CBM conference in India in collaboration with US Department of Energy. GAIL some how did not participate in CBM-I Bidding Round. GAIL participated in CBM-II bidding round in two blocks in consortium with Coal India Ltd. (CIL) but unfortunately the consortium failed to win any block.

Presently Government of India has offered 10 CBM blocks under CBM-III bidding round in different coalfields in India. GAIL intends to participate in the bidding round in consortium with technically and financially competent companies.

PIPELINE PROJECTS

PROJECTS COMMISSIONED

During the year, your Company commissioned the **Narimanam – Kuthalam Pipeline Project** in the Cauvery basin region, the pipelines connecting GVK – Vemagiri & KCJP – GVK Loop line, Konaseama and Gautami Power Plant in the Krishna Godavari basin and spur lines to consumers in the National Capital Region in its endeavor to supply gas to the customers.

PROJECTS UNDER EXECUTION

Your Company is currently executing the following major pipeline projects:

Dahej - Uran Pipeline Project : This is a part of the proposed Inter-State Gas Grid. This pipeline will extend the availability of gas to consumers in the states of Gujarat & Maharashtra.

Thulendi – Phulpur Pipeline Project : To supply gas to IFFCO.

Jagoti-Dewas-Pithampur Pipeline : To supply R-LNG to Consumers in Ujjain, Indore, Dewas, Dhar & Pithampur.

Kelaras-Malanpur Pipeline : To supply R-LNG to Consumers in Malanpur region.

DUPL – II (Pipeline from Dabhol to Panvel) : To connect Dabhol LNG Terminal to DUPL.

SUBSIDIARIES & JOINT VENTURES

SUBSIDIARIES

As reported earlier, your Company has already formed a wholly owned overseas subsidiary Company, namely, GAIL Global (Singapore) Pte. Limited. A profit of Rs.2.16 Crores has been made by this Company during the year under review. Your Company is looking for more business opportunities from this subsidiary.

JOINT VENTURES

DOMESTIC

Your Company has a participating interest in various domestic joint venture companies. The highlights of your Company's participation in these domestic joint venture companies are as under:

PETRONET LNG LIMITED (PLL):

PETRONET LNG LIMITED

PLL is a joint venture Company between GAIL, BPCL, IOCL, ONGCL, Gaz De France and ADB. Your Company holds 12.5% equity at an investment of Rs.98.75 Crores. PLL was formed for setting up of LNG import and regasification facilities. PLL has a long term LNG supply contract with Ras Gas, Qatar for import of 7.5 MMTPA. PLL recently has signed shipping contract for adding 3rd LNG tanker for Dahej terminal which is being expanded to 10 MMTPA. Presently terminal is under operation to its full capacity of 5 MMTPA. PLL is listed at the National Stock Exchange of India Limited and the Bombay Stock Exchange Limited. The share price of PLL on the National Stock Exchange was Rs.54.90 as on 31st March, 2006.

MAHANAGAR GAS LIMITED (MGL):

MGL, a Joint Venture with British Gas (BG) and Government of Maharashtra, was incorporated in May 1995. It has a set up of 118 CNG stations catering to over 1,70,000 vehicles besides supplying PNG to 2,51,000 domestic, 790 commercial and industrial consumers. Your Company holds a 49.75% stake in the Company at an investment of Rs.44.45 Crores.

INDRAPRASTHA GAS LIMITED (IGL):

IGL, a Joint Venture with Bharat Petroleum Corporation Limited (BPCL) and Government of National Capital Territory (NCT) of Delhi was formed in December 1998. Your Company holds 22.5% stake in the Company at an investment of Rs.31.50 Crores. IGL is supplying piped gas to 44,350 domestic, 219 commercial consumers and CNG to over 1,06,000 vehicles through 144 CNG Stations. IGL is catering to the world's largest CNG bus fleet in Delhi. It is also listed on the National Stock Exchange of India Limited, having a share price of Rs.145.55 on 31st March, 2006.

BHAGYANAGAR GAS LIMITED (BGL):

BGL is a Joint Venture with Hindustan Petroleum Corporation Limited (HPCL) incorporated in August 2003. BGL is currently operating 3 Auto LPG stations in Hyderabad and 1 Auto LPG stations in Tirupathi. Besides this, it is also operating 3 CNG stations in the city. Your Company holds 22.5% stake in the Company. At present an investment of Rs.9.99 Crores has been made in the Company.

TRIPURA NATURAL GAS COMPANY LIMITED (TNGCL):

TNGCL is a Joint Venture of Tripura Industrial Development Corporation and Assam Gas Limited and was acquired by GAIL by taking 29% equity stake in August 2005. TNGCL is presently supplying gas to 6001 domestic, 103 commercial & industrial consumers in Agartala city. The Company is also setting up CNG stations for transport sectors in Agartala city.

CENTRAL U.P. GAS LIMITED (CUGL):

CUGL is a Joint Venture of GAIL and Bharat Petroleum Corporation Limited (BPCL) and was incorporated in February 2005 for implementation of City Gas Projects in Kanpur city. It is currently under the process of development of infrastructure. Your Company has a 22.5% stake in the Company. At present an investment of Rs.5.01 Crores has been made in the Company (including advance).

GREEN GAS LIMITED (GGL):

GGL is a Joint Venture Company of GAIL and Indian Oil Corporation Limited (IOCL) and was incorporated in October 2005 for implementation of City Gas Projects in Agra & Lucknow cities. It is currently under the process of development of infrastructure. Your Company has a 22.5% stake in the Company.

MAHARASHTRA NATURAL GAS LIMITED (MNGL):

MNGL is a Joint Venture of GAIL and Bharat Petroleum Corporation Limited (BPCL) and was incorporated in January 2006 for implementation of City Gas Projects in Pune city. It is currently under the process of development of infrastructure. Your Company has a 22.5% stake in the Company.

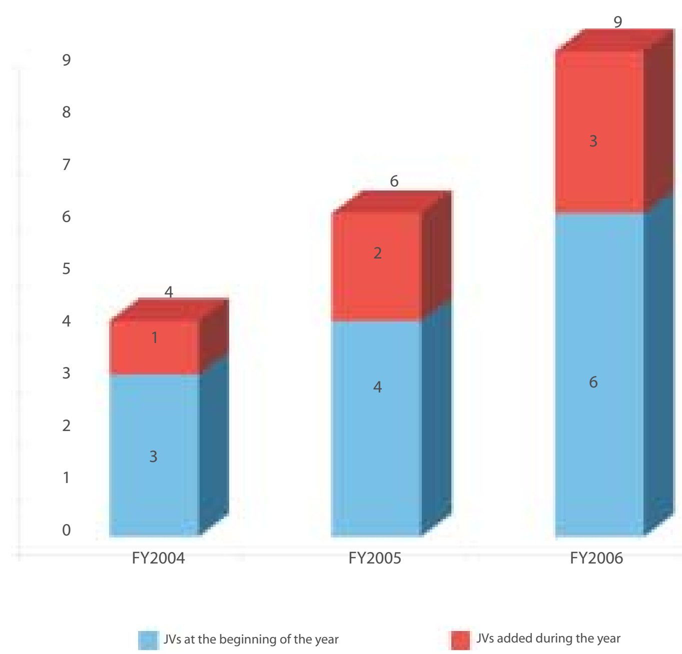
RATNAGIRI GAS AND POWER PRIVATE LIMITED (RGPPL):

Your Company has been pursuing Mergers and Acquisitions (M&A) opportunities in various businesses it operates. A noteworthy outcome in this direction has been the acquisition of assets of the Dabhol Power project by a new Joint Venture Company, namely, Ratnagiri Gas and Power Private Limited (RGPPL), where your Company has 28.5% participating interest. The Company has paid Rs.500 Crores as advance pending allotment of equity shares.

The Dabhol project is an integrated facility, i.e., gas based power plant of 2,184 MW and a linked LNG import and re-gasification facility. Commissioning of this project will offer an opportunity to your Company to import 2.9 MMTPA of LNG for merchant sales. The project provides a unique growth prospect for your Company to enable it to expand its gas pipeline infrastructure and to deliver the growing demand of gas in the Indian market.

In addition to above, your Company is also in process of formation of JVCs to implement City Gas Projects and has already executed Joint Venture Agreement with HPCL for state of Madhya Pradesh. GAIL has also signed MOU with HPCL for formation of joint ventures for Rajasthan and Gujarat and with BPCL for Kerala and Karnataka.

Expansions through Joint Ventures



GLOBALIZATION

As part of its globalization initiative, your Company has acquired equity in China Gas Holding Limited, a Company which is emerging as one of the significant retail gas players in China. China Gas, which already has a substantial customer base, holds concessions for 47 city/towns, of which 24 are already operational. As part of the broader understanding with China Gas, a Joint Venture Agreement is under discussion for introduction of CNG in some of the cities of China in which China Gas has concessions. With the policy support for CNG in transport sector by the Chinese Government, CNG business could offer business opportunities to your Company.

In view of the growing role of China and India in the global hydrocarbon scenario, your Company has entered into Memorandum of Understanding with oil and gas majors of China i.e. Sinopec, CNOOC and Beijing Gas Company to pursue business in the areas of E&P, LNG, Petrochemicals and retail gas marketing.

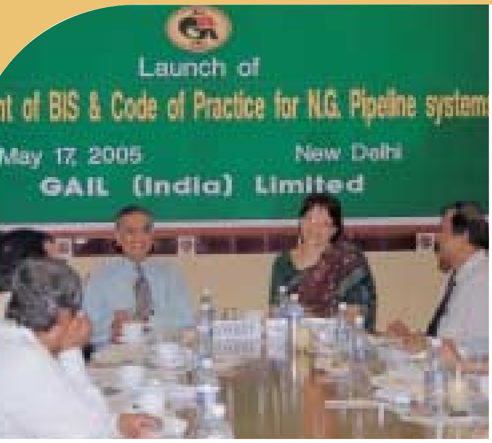
TOWARDS CUSTOMER DELIGHT

TQM INITIATIVES

A dedicated TQM Group is working to assure Company wide implementation of Quality Policy and initiatives.

QUALITY CIRCLE

This concept has taken root in all our workplaces. These small groups take up a handful of issues at a time and analyze them using the QC concepts and techniques and come up with creative solutions. Advent of QC's has resulted in continuous improvement in all processes for better results and has ensured total employee involvement.



SIX SIGMA

Six Sigma has helped your Company in measurement of variations in all its processes, products and services. Communication workshops were conducted across the country, wherein projects centered on reducing variation were selected and analyzed. Through this initiative, Rs.40 Crores is expected to be saved annually.

GAIL is the only Company in India where top management team has adopted a unique top down methodology by involving all plant heads in Operation & Maintenance and Zonal General Managers in the Six Sigma journey.

Some of the other initiatives adopted by your Company are as follows:-

- Under the aegis of the Total Quality Management (TQM) group, the endeavor has been to maximize the value delivered to the customer. Customer Satisfaction Index is sampled every quarter based on the direct interview/survey with the customer. Survey results are thoroughly analyzed and necessary improvements incorporated in the product or service.
- GAIL has introduced a Customer Complaints & Concern management system (3C) to attend the concerns and complaints of the customers of all businesses of GAIL.
- GAIL has evolved third party Customer Value Management audit by reputed consultants, the feedback of which is then translated for improvement in future projects.
- In order to ensure that the product reaching the customers is of highest quality, GAIL conducts "LAST MILE" Product Quality Audit of Petrochemical and Liquid Hydrocarbon products by external testing of randomly picked products.
- GAIL is the only Company in polymer industry giving Ton-to-Ton replacement.
- Polymer products are door delivered to all the customers in the domestic market.
- All labs of your Company have been NABL (National Accreditation Board for Testing & Calibration Laboratories) accredited, implying world class and robust process of testing and reporting, to ensure that only quality products go out of GAIL.
- GAIL has obtained ISO certifications for all its plants and work centers including Zonal Offices and Corporate Office.
- The development of National Standards and Code of Practices in 14 different areas of High Pressure Natural Gas Pipeline and Liquid Hydrocarbon Systems is being done by the Bureau of Indian Standards (BIS). Your Company has played a key role in the development of the BIS standards.

IT INITIATIVES

ERP

Your Company has implemented internet based SAP CRM service, where-in customers can lodge complaints regarding products purchased. The status of the complaint can be viewed online.

In CRM internet sales, customers can place indents for buying various products from GAIL through internet which can be processed online for dispatch after due verification.

BUSINESS INFORMATION SYSTEM (BIS)

For better and structured infrastructure management, analysis of usage pattern, preventive and pro-active warning resulting into better IT service to the organization, a centralized Enterprise Management System (EMS) software solution has been implemented for monitoring and controlling IT infrastructure all across GAIL.

HR INITIATIVES

Your Company recognizes the contribution of human resource in the success of any endeavor. Accordingly, a lot of initiatives have been undertaken in the Human Resource Development front to nurture talent.

An employee engagement survey was conducted with the help of M/s. Hewitt Associates for an objective assessment of employee's engagement level and their perception about Company's processes and policies. The overall engagement at GAIL was 83%, with executives having 78% and non-executives having 87% engagement score.

Industrial Relations scenario during the year 2005-2006 continued to remain harmonious and cordial.

REPRESENTATION OF SC/ST/OBC AND MINORITIES

The total manpower of the Company as on 31st March, 2006 stood at 3443, out of which 16.26% belong to SC, 6.71% to ST, 15.65% to OBC, 7.41% to Minorities and 2.09% to physically challenged. Your Company is continuing with its efforts to further reduce the shortfall of ST/OBC representation.

REPRESENTATION OF WOMEN EMPLOYEES

There were 165 women employees (91 executives and 74 non-executives) as on 31st March, 2006 in the Company.

TRAINING INITIATIVES

Your Company continued to lay focus on imparting training to the employees in the areas of strategy leadership, management, operational, technical and behavioral development programs. Keeping in view the rapidly changing business environment training policy was laid down to impart atleast, one training to each employee every year. In order to bring about objectivity the senior executives were given training based on their identified needs through comprehensive assessment tool of SMDC conducted by M/s Mercer HR Consulting.

The senior management and technical personnel were exposed to foreign training on managerial and technical programs. The "Young GAIL Unlimited" program was pursued during the year under review too. More than 400 executives were trained during the year to groom them to face future business challenges. Further, in order to sharpen the skill levels of staff, the Jaipur campus of GAIL Training Institute was made operational. Your Company has also taken an initiative of starting "Looking Beyond" lecture series wherein eminent people from various sections of the society are invited to share their experiences with the employees.

IMPLEMENTATION OF OFFICIAL LANGUAGE

Your Company has made vigorous efforts for the propagation and successful implementation of the Official Language Policy of the Government of India.

- Several Hindi workshops were organized at all the work centers including the workshops for the senior level executive.
- The incentive schemes were made more attractive.
- Hindi Diwas was observed on 14th September, 2005 and Hindi Fortnight was organized from 14th to 28th September, 2005.
- Various innovative and interesting competitions, cultural activities, seminars, Kavi Sammelan, Hindi skits and exhibition on Hindi activities were organized across the Company. Hindi magazine was also brought out on the occasion of Hindi Diwas.
- Microsoft Office XP bilingual software was provided at all GAIL offices.
- Annual Rajbhasha Sammelan was also organized in February 2005, which witnessed a very encouraging participation.

The Official Language Implementation Committees at corporate, regional and unit level held their quarterly meetings to monitor and review the progress made in achieving the targets fixed in the annual programme.

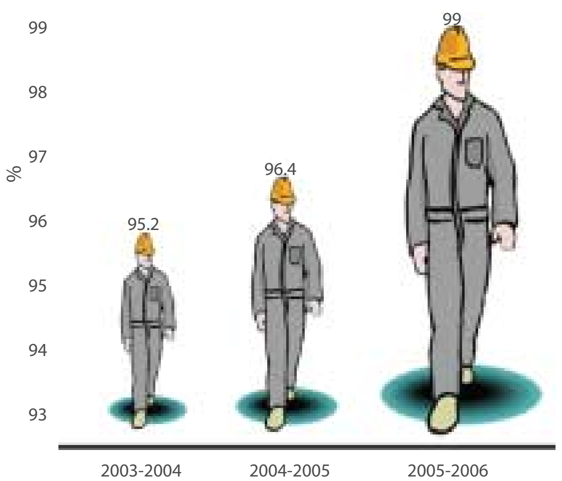
SAFETY, HEALTH & ENVIRONMENT REPORT

Your Company has a well established Health, Safety & Environment (HSE) policy. The policy aims to ensure safety of public, employees, plant & equipment, ensure compliance with all statutory rules and regulations, impart training to its employees, carry out safety audits of its facilities, conduct regular medical check up of its employees and promote eco-friendly activities.

SAFE PERFORMANCE OF THE COMPANY

During the year 2005-2006, your Company has achieved excellent MOU target of HSE index. GAIL has continued to demonstrate excellent safety performance. Safety Indices are meticulously monitored with the aim of continuous improvement. The rising trend of safety index is an indicator of continual improvement.

HSE Index



Safety Data

Year	Frequency Rate	Severity Rate	Incidence Rate
2003-04	0.18	15.43	0.47
2004-05	0.09	6.69	0.25
2005-06	0.13	7.11	0.35

Frequency Rate = No. of Accidents * 10^6/Total Manhours worked

Severity Rate = Mandays lost* 10^6/ Total Manhours worked

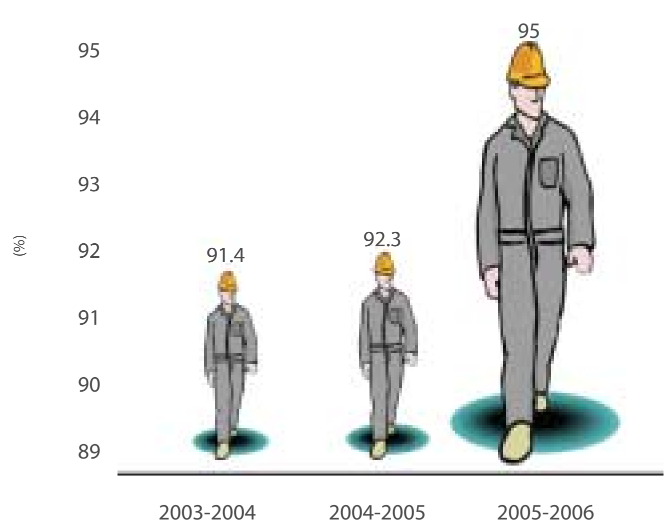
Incidence Rate = No. of Accidents * 1000/ Total Manpower (Manpower is inclusive of causal workers)

PARAMETERS OF HSE INDEX EVALUATION

SAFETY TRAINING

Your Company continues to give utmost importance to train the employees on HSE aspects. Apart from employees, spouses, children, contract workers, tanker drivers etc. have also been imparted safety training.

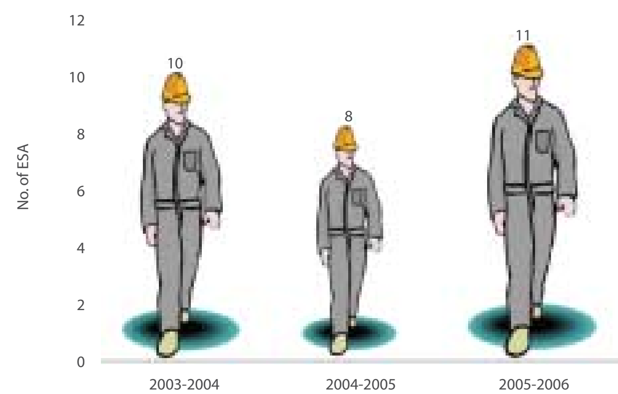
% of employees who have undergone safety training



EXTERNAL SAFETY AUDITS (ESA)

During the year under review, your Company's safety practices and systems were rated by global auditors- British Safety Council-UK.

Number of safety audits done in a year



NEW CERTIFICATIONS

As reported earlier LPG plants, petrochemical plant and major pipeline systems have been certified for Environment Management System (ISO 14001), Quality Management System (ISO 9001) and Occupational Health and Safety Management System (OHSAS 18001). During the year 2005-2006, Vizag – Secunderabad LPG Pipeline (VSPL) has obtained certification for Integrated Management System which combines all the three management systems. Similarly petrochemical complex at Pata has also been certified for Integrated Management System.

ENVIRONMENTAL PERFORMANCE OF THE COMPANY

ENSURING COMPLIANCE

Your Company continues to recognize the importance of all the national & international regulations. GAIL's environmental performance is well within the emission limits in statutory guidelines.

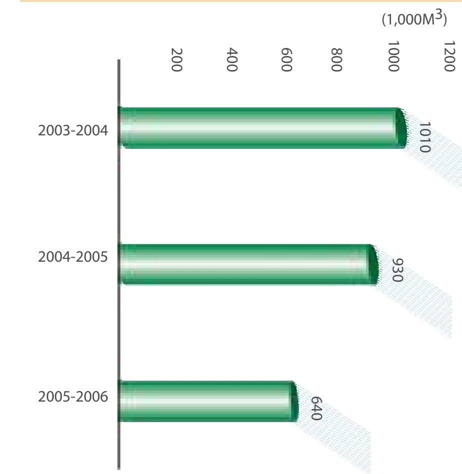
GREENBELT DEVELOPMENT

Your Company constantly endeavors to minimize the direct and indirect environmental impact of its business operations and strives to enrich the environment wherever possible. In continuous endeavour to develop greenbelt in and around GAIL premises, plantation of about 2 Lakh trees has been done during 2005-2006.

SAVING PRECIOUS WATER

To conserve natural resources, your Company continues to make efforts in maximizing recycle of treated wastewater and through rain water harvesting. Treated wastewater is used for horticulture and firewater use. With these measures effluent discharge has decreased.

Effluent discharge from Pata Petrochemical complex



OCCUPATIONAL HEALTH

During the year 2005-2006, employees of the Company were medically examined. Besides, contract workers, CISF personnel, villagers from nearby areas were also covered in the program.

CORPORATE SOCIAL RESPONSIBILITY

COMMUNITY DEVELOPMENT INITIATIVES

Your Company has set high standards of discharging corporate social responsibilities. Your Company has made laudable efforts to recruit physically challenged persons as per the provision of the Persons With Disability (PWD) Act,1995. Your Company has been serving the cause of community development and to name a few, following initiatives have been undertaken:

- Sponsored 350 reconstructive surgeries of leprosy patients through Leprosy Mission Trust, Delhi, Kolkata, Allahabad and Mirag.
- Donated 11 nos. of motorized tri-wheelers to the physically challenged persons.
- Contributed for training in screw pine craft and mushroom cultivation to orthopaedically challenged women in Kerala and M.P. respectively.
- Supported the Centre for Open Door Education towards the empowerment of Autistic children.
- Donated Rs.7 Lakhs to Bhagwan Mahavir Viklanga Sahayta Samiti, duly engaged in making Jaipur foot which is the world's largest prosthesis provider, with more than 16,000 prosthetic fittings per year for calipers appliances, and other aids fabricated by GAIL polymer.
- Contributed to Directorate of Ex-Servicemen Affairs for special scholarship scheme to render educational assistance to the wards of naval personnel who died during the active service.
- Provided computer, sewing machines, knitting machines, embroidery machines, furniture, instructor and consumable along with raw material to build self esteem of war widows and also imparted training in arts and craft for value added life to them.
- Distributed Long Lasting Insecticide Impregnated Mosquito Nets (LLIN) in malaria prone and tsunami affected areas.
- Proactive initiative of your Company for setting up of APRDCs in 23 cities has been successfully accomplished.

A one day workshop on CSR activities was organized for HR in-charges of all the work centers for understanding of CSR in modern context and approach for implementation of CSR schemes in your Company.

The dedication, commitment and initiatives shown by your employees to implement CSR activities have been applauded and your Company has received "Silver Plate" award from Help Age India.

Your Company's CSR's efforts were well recognized by Oil Industry Development Board and it had approved Rs.20 Lakhs towards drinking water project of IPS, Nasirabad and Rs.5 Lakhs towards sanitation project at Usar.

Womenfolk have been highly benefited by this as the distance for fetching the water has drastically reduced by installation of water tanks in 75 villages in drought affected areas of Rajasthan District.

CSR REPORT

Hriday
GAIL Community Initiatives
2005 – 2006

LAURELS

LAURELS IN 2005-2006

During the year under review, your Company was the proud recipient of several honors. Some of the significant awards conferred upon your Company are as under:

CORPORATE RANKING

- PLATT's Global Energy Award for Industry Leadership Award.
- PFC Energy ranked GAIL as 11^{th} among top 15 world's largest listed gas utilities firms in the Oil & Gas industry, in terms of Market Capitalization.
- Oil & Gas Conservation Fortnight Award for "Best Overall Performance amongst Upstream Sector Oil Companies".
- WISITEX International Excellence Award for IT Infrastructure Provider.
- Golden Icon Award (Kerala) for e-Governance initiatives.

HSE

- Institute of Directors' Golden Peacock Award for "Training & Environment Management".
- GREENTECH Environment Excellence Award for the year 2005 to Pata, Vijaipur, Gandhar, Vaghodia, Hazira and NCR Gas O&M units.

- GREENTECH Safety Gold Award for the year 2005-2006 to Pata, Vijaipur, Gandhar, Vaghodia, Hazira and VSPL Pipeline.
- British Safety Council's -
  - a) 5 Star Rating for Safety Management for Vijaipur, Gandhar & JLPL units.
  - b) Sword of Honor-2005 for Vijaipur Plant & Gandhar.
- International Safety Award- 2005 awarded by British Safety Council to GAIL Pata and GAIL NCR.
- GAIL Vijaipur has been awarded with Sarvashrestha Suraksha Puraskar Award 2005 by National Safety Council.
- "Suraksha Puraskar" by National Safety Council for the year 2005 to Lakwa.
- "Prashansha Patra" by National Safety Council for the year 2005 to Dibiyapur Compressor Station & GPU Usar.
- GreenTech Safety Silver Award for NCR, Jhabua and Lakwa.

TRAINING

- **Golden Peacock Training Award**

Training activities of GTI has been recognized for its best practices and the Golden Peacock Quality Award has been awarded for the year 2004-2005.

PERFORMANCE

- National Award for Excellence in Cost Management, 2005 for JLPL (Service Sector) and GPU, Gandhar (Manufacturing Sector) by the Institute of Cost and Works Accountants of India (ICWAI).
- Oil Industries Safety Directorate (OISD) has awarded Best Performer 2004-2005 award to GPU Usar in the category 'Other Processing Plants' and HVJ Pipeline under the category 'Cross country pipeline'.

MANAGEMENT DISCUSSION AND ANALYSIS

The detailed Management Discussion and Analysis of the financial condition and results of operations separately form part of this report.

ENERGY CONSERVATION, TECHNOLOGY ABSORPTION

Details of conservation of energy, technology absorption in accordance with Companies (Disclosure of Particulars in the Report of Board of Directors) Rules, 1988 are annexed.

FIXED DEPOSITS

We have not accepted any Fixed Deposits and, as such, no amount of principal or interest was outstanding as of the balance sheet date.

FOREIGN EXCHANGE EARNINGS AND OUTGO

During the year, foreign exchange earnings were Rs.23 Crores which was mainly on account of export of polymers.

Expenditure in foreign currency was Rs.802 Crores which was mainly on purchase of gas from JVCs.

PARTICULARS OF EMPLOYEES UNDER SECTION 217 (2A) OF THE COMPANIES ACT, 1956

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

EXPENDITURE ON ENTERTAINMENT, FOREIGN TOURS AND PUBLICITY

During the year, the Company has incurred expenditure of Rs.166 Lakhs on foreign tours, foreign training, seminars & conferences, Rs.118 Lakhs on entertainment and Rs.2974 Lakhs on advertising & publicity.

CORPORATE GOVERNANCE

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

DIRECTORS

During the year under review, Shri R.K. Goel and Shri Anil Razdan were appointed as Directors on the Board of Directors of your Company w.e.f. 1^{st} November, 2005 and 17^{th} February, 2006 respectively.

During the year under review, Shri J.K. Jain, Shri M.S. Srinivasan and Shri P.K. Sinha ceased to be Directors of the Company w.e.f. 31^{st} October, 2005, 2^{nd} January, 2006 and 17^{th} February, 2006 respectively.

BOARD MEETINGS AND GENERAL MEETING

During the year under review, fifteen meetings of the Board of Directors of the Company were held. The 21^{st} Annual General Meeting of the Members of the Company was held on 28^{th} September, 2005.

CODE OF CONDUCT

It is hereby confirmed that all Board members and senior management personnel have affirmed compliance with the code of conduct during the financial year ending 31^{st} March, 2006.

DIRECTORS' RESPONSIBILITY STATEMENT PURSUANT TO SECTION 217 (2AA) OF THE COMPANIES ACT, 1956

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

- in the preparation of the annual accounts for the financial year ended 31^{st} March, 2006, the applicable accounting standards have been followed along with proper explanation relating to material departures;
- the Directors have selected such accounting policies and applied them consistently and made judgments and estimates that are reasonable and prudent so as to give a true and fair view of the state of affairs of the Company at the end of the financial year and of the profit of the Company for the year under review;
- the Directors have taken proper and sufficient care for the maintenance of adequate accounting records in accordance with the provisions of the Companies Act, 1956 for safeguarding the assets of the Company and for preventing and detecting fraud and other irregularities;
- the Directors have prepared the annual accounts for the financial year ended 31^{st} March, 2006 on a going concern basis.

AUDITORS

The Office of Comptroller & Auditor General of India vide its letter no. CA.V/COY/CENTRAL GOVT. 167 GAIL (3)/69 dated 22^{nd} August, 2005 has appointed M/s S. Mann & Co., Chartered Accountants, New Delhi as Statutory Auditors of the Company, M/s. SCJ Associates, Chartered Accountants, Agra as Branch Auditors for U.P. Petrochemicals Complex at Pata and M/s. Chhajer & Co., Chartered Accountants, Bhopal as Branch Auditors for LPG Plant at Vijaipur for the year 2005-2006.

ACKNOWLEDGMENT

The Board of Directors wish to place on record their sincere appreciation for the valuable services and dedicated efforts of the employees of the Company, who have ensured the accomplishment of excellent result and achievement of the Company. The Board also wishes to thank the Government of India and various state governments for their valuable guidance and support.

The Board of Directors also placed on record their highest appreciation of the significant and invaluable contribution made by Shri J.K. Jain, Shri M.S. Srinivasan and Shri P.K. Sinha during their tenure as Director on the Board of Directors of the Company.

For and on behalf of the Board

Place : New Delhi
Dated : 12.06.2006

Proshanto Banerjee
Chairman & Managing Director

ANNEXURE TO THE DIRECTORS' REPORT ON CONSERVATION OF ENERGY, TECHNOLOGY ABSORPTION AND FOREIGN EXCHANGE EARNINGS & OUTGO AS PER SECTION 217 (1) (e) OF THE COMPANIES ACT, 1956, READ WITH COMPANIES (DISCLOSURE OF PARTICULARS IN THE REPORT OF BOARD OF DIRECTORS) RULES, 1988

A. CONSERVATION OF ENERGY:-

(a) Energy conservation measures taken:

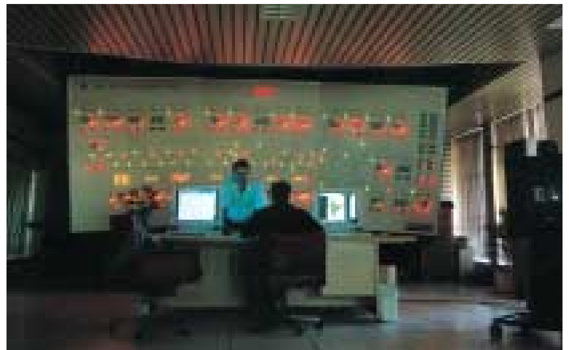
1. **Energy Audit** has been carried out at HVJ, Dibiyapur by M/s PCRA at a total cost of Rs.5.25 Lakhs and for UPPC, Pata, M/s Forbes Marshall carried out Energy Audit for steam traps and condensate recovery system. Based on the recommendation of the audit, around 300 steam traps have been replaced and the recommendations for condensate recovery are under implementation. Besides above, various other steam conservation measures as taken including optimization of amine flow in GSU carried out in December 2005 have resulted into reduction in steam consumption of the complex by 22100 MTs compared to 2004-2005. The additional savings on account of steam conservation as compared to 2004-2005 is @ Rs.88.4 Lakhs.

2. **Benchmarking** as established for various parameters of energy conservation is being closely monitored to control and reduce the specific energy consumption. The present Benchmark is now under review for further improvement.

3. **Variable Frequency Drive (VFD) system** implemented at GPU, Gandhar for cooling water make up pump, AHU of main control room AC & Administrative Building, at HVJ-Jhabua for two GAC fan motor & at GPU-Usar for cooling tower fan motor has resulted in energy savings monthly/yearly @ 38393 KWH / 460716 KWH with a corresponding cost savings of monthly/yearly @ Rs.1.42 Lakhs/ Rs.17.04 Lakhs. The total savings during 2005-2006 achieved-Energy – 166.7 MWH , Cost-Rs.6.2 Lakhs.

4. **Modification done in lighting systems** by installation of energy efficient lighting devices and controls, installation of energy efficient UPS systems and solar heater at Gandhar, PATA, Vijaipur & various stations of JLPL & HVJ have resulted in energy savings monthly/yearly @ 30845 KWH / 370141 KWH and cost savings monthly/yearly @ Rs.1.43 Lakhs/ Rs.17.1 Lakhs. The total savings during 2005-2006 achieved-Energy – 279.53 MWH , Cost - Rs.12.85 Lakhs.

5. **Installation of additional p.f. improvement equipments and maintaining p.f. in the range between 0.98 to 1.0** at various locations of JLPL have resulted into prevention of losses of electrical energy. A substantial additional monthly/yearly savings of Rs.3.32 Lakhs/ Rs.39.92 Lakhs is now being achieved towards rebate from Electricity Board. Additional rebate achieved during 2005-2006 is Rs.23.95 Lakhs.



6. **The awareness campaign to save energy, modifications carried out on the static and rotary equipments and their controls and effort for optimal utilization and proper maintenance of the static /rotating equipments** at PATA , Vijaipur and Hazira have resulted into substantial energy savings of 381.36 MWH/month (4576.32 MWH /year) and 28799 MKcal/month (345588 MKcal/year), the corresponding cost savings of which is around Rs.1.65 Crores/ month (Rs.19.8 Crores/year). Total savings achieved during 2005-2006 on account of energy is 3784.3 MWHR plus 249210 MKcal and corresponding cost savings achieved Rs.13.54 Crores.

(b) Additional investments and proposals, if any, being implemented for reduction of consumption of energy:

1. Variable speed drive(VSD) for hot oil circulation pump motor at Usar have been taken up for implementation at an estimated cost of Rs.3.0 Lakhs and the same expected to be commissioned during 1st quarter of 2006-2007. With the implementation of the above, the monthly /yearly reduction in consumption of energy would be 8500 Kwh /100000 Kwh and the cost reduction would be around Rs.0.29 Lakhs/3.45 Lakhs.

2. Modification in the lighting system by installation of energy efficient lighting devices and installation of energy efficient UPS system and Capacitor Bank for p.f. improvement are being taken up at various work centres of JLPL and HVJ-Vijaipur during 2005-2006 at an estimated investment of Rs.33.16 Lakhs, which would result in energy savings of monthly/ yearly @ 44.64 Mwh/535.7 Mwh and cost savings monthly/ yearly Rs.2.33 Lakhs/Rs 27.95 Lakhs.

3. Additional investments as proposed to be made towards various modifications of the equipments and their controls and proper maintenance of the same for optimal operation and saving of energy during 2006-2007 is around Rs.4.55 Crores . The total energy savings as estimated would be 307.5 MWH/month (Electricity) plus 4825.8 MKcal (Fuel) with a corresponding savings of cost around Rs.36.95 Lakhs /month.

Besides above, various energy saving measures have been planned/ approved and are being implemented to enhance operational efficiency and thereby save cost as detailed below.

PATA:

1. **Flare Gas Recovery Project:** This project, is aimed at recovering flare gases going into flare system for ultimate use as fuel gas in boilers. The project, consisting of gas compression system and associated piping etc. is being implemented through an EPCM consultant M/s Lurgi India. The estimated expenditure of the project is Rs.10.72 Crores. The implementation of the project would result into fuel savings to the tune of 132894 MKcal/year with corresponding cost savings of Rs.6.5 Crores per annum.

2. **Installation of additional STG:** Installation of a 9 MW extraction type STG unit with an investment of Rs.18 Crores has been approved. The installation of extraction type STG would enable efficient use of VHP steam to produce HP steam and also in power generation which will reduce dependence on state grid and make savings of Rs.7 Crores per annum.

3. **Advanced Process Control (APC):** This project is under implementation for upstream units (GPU/GCU/LPG) with an investment of Rs.7.5 Crores after implementation of the project, it is expected to reduce the specific energy consumption to the tune of 3% in these units.

4. **Ethylene boil off gas diversion to HDPE units:** This project will reduce recycling cost of ethylene by diverting it to HDPE units. The project comprises of a compressor and associated piping etc. The project costing Rs.9.85 Crores will result into energy savings of 19328 MWH/year and cost savings of Rs.5.3 Crores annually. Additionally, ethylene production will increase, resulting into more polymer production equivalent to production benefit of Rs.10.8 Crores.

5. **Diversion of sphere vapor to HDPE units:** Ethylene vapor from sphere which is presently being recycled back to GCU will be diverted towards HDPE units to save recycling energy cost to the tune of Rs.4.1 Crores per annum. Energy savings per year will be 9091 MWH. Additionally, ethylene production will increase, resulting into more polymer production equivalent to production benefit of Rs.8.0 Crores.

6. **Hydraulic pressure turbocharger in Gas Processing Unit (GPU):** This project is envisaged to recover pressure energy from amine stream in GPU employing the latest technology. The project is under approval with an estimated cost of Rs.6.76 Crores. This would yield energy savings of 5040 MWH/year and cost savings of Rs.2.82 Crores per annum.

VIJAIPUR

7. Vapour absorption refrigeration system of airconditioning has been undertaken at Vijaipur at an estimated cost of Rs.70 Lakhs. On implementation of the project, the expected savings of energy would be @ 1148 MWH and the corresponding cost savings would be approximately Rs.56.6 Lakhs.
8. Installation of MEEFOG system is presently under implementation at Hazira at an estimated cost of Rs.250 Lakhs. On completion of the project it is expected to save energy to the tune of 28382 MKcal /year . The corresponding cost savings would be around Rs.1.29 Crores /year.

(c) Impact of the measures at (a) and (b) above for reduction of energy consumption and consequent impact on the cost of production of goods:

Energy conservation measures taken so far have resulted in an improvement in energy efficiency as detailed at (a) and (b) above.

(d) Total energy consumption and energy consumption per unit of production:

Necessary information in Form – A annexed.

B. TECHNOLOGY ABSORPTION:-

(e) Efforts made in technology absorption

Necessary information in Form – B annexed.

C. FOREIGN EXCHANGE EARNINGS AND OUTGO:-

(f) Activities relating to exports; initiatives taken to increase exports; development of new export markets for products and services; and export plans:

Since commencement of production in 1999, GAIL has been consistently exporting the polymer grades HDPE & LLDPE to export markets depending upon the international demand supply scenario. During the year 2005-2006, the domestic demand had been ample and the inventory was all time low and hence exports had been Rs.19 Crores only. However, during the year 2006-2007, GAIL is planning to export various grades of polymers on a regular basis to different countries like China, Vietnam, U.A.E, etc.

g) Total foreign exchange used and earned:

During the year, foreign exchange earnings were Rs.22.65 Crores which was mainly on account of export of polymers.

Expenditure in foreign currency was Rs.802 Crores which was mainly on purchase of gas from JVCs.

FORM – A

FORM FOR DISCLOSURE OF PARTICULARS WITH RESPECT TO CONSERVATION OF ENERGY

A. POWER & FUEL CONSUMPTION

	2005-06	2004-05
1. ELECTRICITY		
a. Purchased (from State Grid)		
Unit (KWH)	**139063760**	134081400
Total Amount (Rs.in Lakhs)	**6289.78**	6476.58
Rate/Unit (Rs./KWH)	**4.52**	4.83
b. Own Generation		
(i) Through Diesel Generator		
Unit (KWH)	**510946.7**	664809.6
Units per litre of Diesel Oil (KWH/Litres)	**2.54**	2.75
Cost/Unit (Rs./KWH)	**13.72**	9.6
(ii) Through Steam Turbine/Generator		
(GTG/GEG/STG)		
Units (KWH)	**282657071**	292848219
Units per 1000 SCM of gas	**2663.77**	2490.78
Cost/Unit	**2.25**	1.74
2. COAL		
(Specify quality and where used)	**NIL**	NIL
3. FURNACE OIL	**NIL**	NIL
4. OTHERS/INTERNAL GENERATION		
(Please give details)	**NIL**	NIL

B. CONSUMPTION PER UNIT OF PRODUCTION

	2005-06	2004-05
ETHYLENE		
Production (MT)	**325807**	319290
Electricity (KWH/MT)	**52.46**	57.13
Furnace Oil	**NIL**	NIL
Coal (Specify quality)	**NIL**	NIL
Others - Fuel Gas (MT/MT)	**0.28**	0.25
- Steam (MT/MT)	**1.23**	1.19

HDPE		
Production (MT)	**111305**	109158
Electricity (KWH/MT)	**317.94**	290.04
Furnace Oil	**NIL**	NIL
Coal (Specify quality)	**NIL**	NIL
Others - Steam (MT/MT)	**0.77**	0.83
LLDPE		
Production (MT)	**200164**	189586
Electricity (KWH/MT)	**265.61**	267.13
Furnace Oil	**NIL**	NIL
Coal (Specify quality)	**NIL**	NIL
Others - Fuel Gas (MT/MT)	**0.043**	0.05
- Steam (MT/MT)	**0.42**	0.59

FORM B

FORM FOR DISCLOSURE OF PARTICULARS WITH RESPECT TO ABSORPTION

RESEARCH & DEVELOPMENT (R&D)

1. Specific areas in which R&D carried out by the Company

- Leak detection software development for Natural Gas pipelines.
- Technology development for Adsorptive separation of Light hydrocarbons gas mixtures.
- Study on internal coatings for Natural Gas pipelines.
- Exploration & Production of gas from Hydrates in Goa offshore under National Gas Hydrate Program (NGHP).

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

- The indigenous leak detection software implemented in LANCO- TATIPAKA Pipeline. Implementation in other pipelines planned. Typical cost savings per P/L is Rs.30-50 Lakhs.
- Energy savings to the tune of 40% is expected in this novel process of Adsorption separation compared to conventional distillation separations such as Methane-Ethane.
- Internal coating in pipelines reduces compression costs for Natural gas transportation by way of reducing drag. 7~8% flow enhancement is possible with internal coating.
- Based on the Geo-Scientific investigations, Natural Gas Hydrate is the future energy source in the form of Methane if it can be economically produced.

3. Future plan of action

- Pilot / Demo scale studies on Adsorption technology for Light hydrocarbon gas mixture separation.
- Develop technology for conversion of waste plastic to liquid fuel.
- Pilot / Demo scale studies for storage and transportation of Natural Gas Hydrate Technology, which is estimated to be 20 % cheaper than LNG mode for small volume stranded gas fields.

4. Expenditure on R&D

(a) Capital	:	Nil
(b) Recurring	:	Rs.84.4 Lakhs
(c) Total	:	Rs.84.4 Lakhs
(d) Total as a percentage of total turnover	:	0.006 %

TECHNOLOGY ABSORPTION, ADAPTATION AND INNOVATION

1. Efforts, in brief, made towards technology absorption, adaptation and innovation

(a) MOU for on-board Liquefied Natural Gas (LNG) Regasification Technology.

(b) Assessment of Methanol to Olefins (MTO) technology of UOP, USA and Methanol to Propylene (MTP) technology of Lurgi, Germany to produce Ethylene and Propylene from Methanol.

(c) Pre-feasibility study and pilot plant for underground coal gasification at Barmer, Rajasthan is planned.

2. Benefits derived as a result of the above efforts, e.g., product improvement, cost reduction, product development, import substitution, etc.

(a) A Detail Feasibility Study is being commissioned to evaluate the amount of cost reduction and other advantages of on-board LNG re-gasification compared to conventional land based LNG storage and re-gasification.

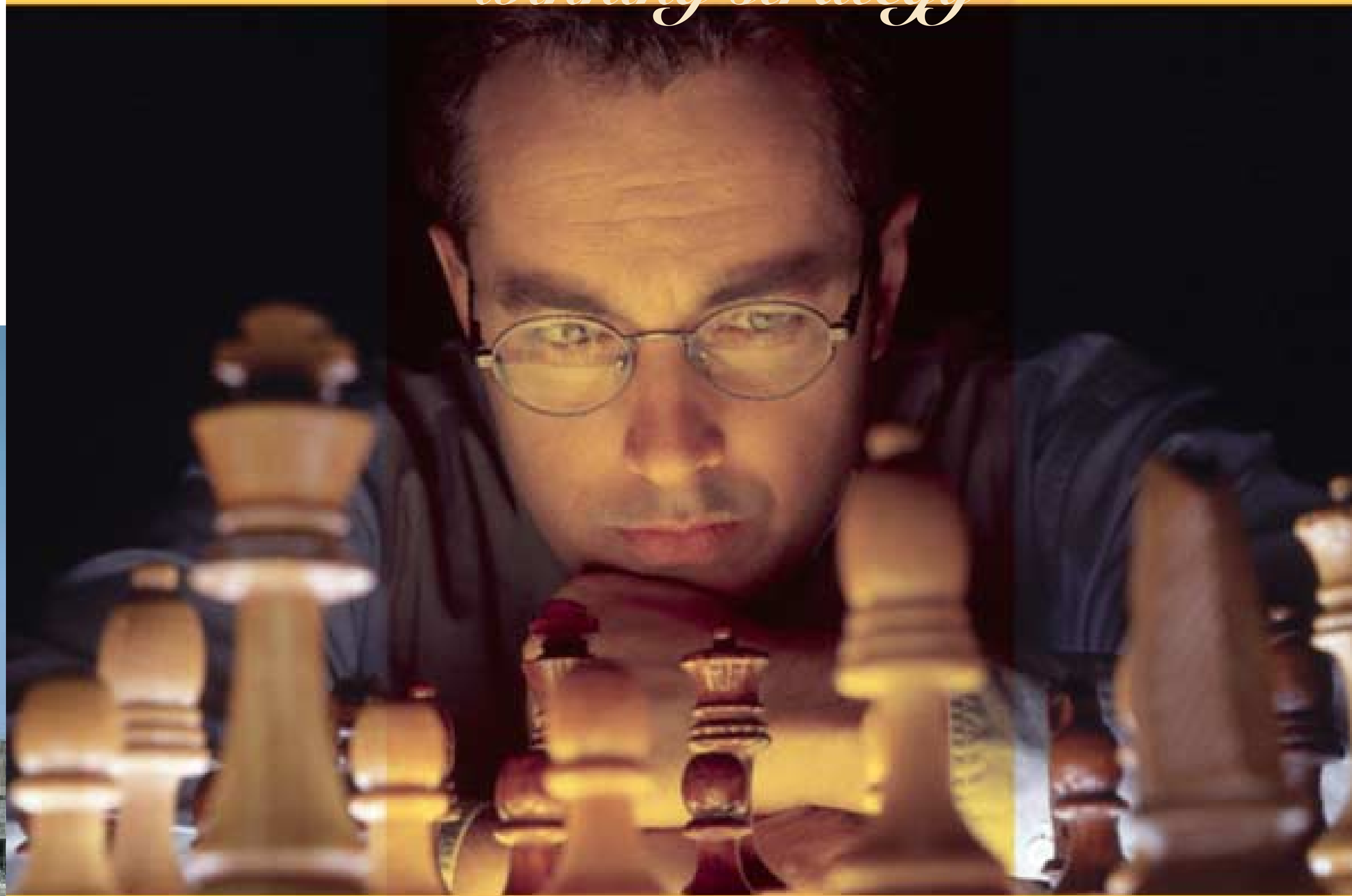
(b) Detail Feasibility Studies are being commissioned to evaluate viability of MTO and MTP technologies. These technologies will provide alternative routes for petrochemical production to tackle depleting availability of Ethane and Propane as feedstock.

(c) Potential of 25 Sq. Km. lignite field at Barmer, Rajasthan can be explored to generate an estimated power of 1000 MW for 110 years.

3. In case of imported technology (imported during the last five years reckoned from the beginning of the financial year), following information may be furnished:

a. Technology imported	:	(i) HDPE technology, from Mitsui Chemical Inc., Japan for GAIL Petrochemical Complex expansion, 100 KTA capacity. (ii) Ethylene cracker technology, from SWEC, USA for GAIL Petrochemical Complex expansion for addition of 100 KTA ethylene capacity.
b. Year of import	:	(i) 2005 (ii) 2005
c. Has technology been fully absorbed?	:	(i) Plant under construction. (ii) Yes.
d. If not fully absorbed, areas where this has not taken place, reasons therefor and future plans of action	:	NA

"Planning a winning strategy"



Management Discussion & Analysis

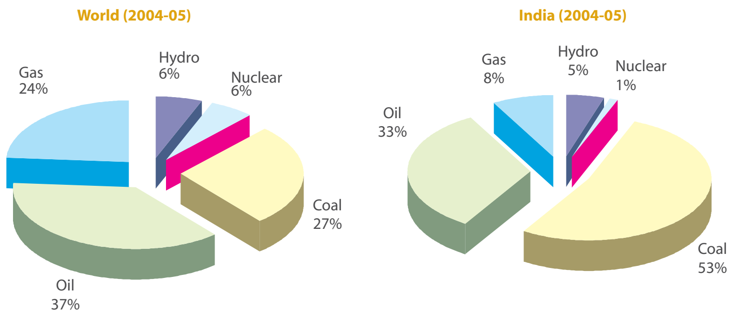
INDIAN GAS SECTOR - PERSPECTIVE OF THE INDIAN GAS INDUSTRY

The natural gas industry has conventionally been regulated by the Government of India (GOI) in the form of state ownership of industry participants, control over consumer and producer prices and the allocation of resources to distributors and end-users.

CONSUMPTION AND DEMAND

Currently natural gas contributes to the extent of 8% to the primary energy basket in the Indian Scenario as against 24% the world over.

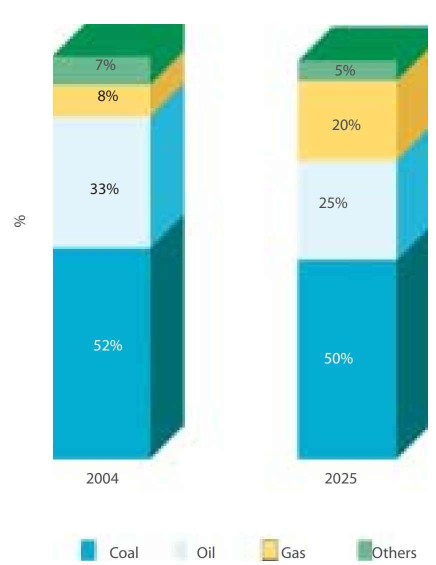
Primary Energy Consumption (India vs. World)



Source : Petrofed

The share is expected to increase to 14% by 2011-12 and further to 20% in the year 2025 as per the Hydrocarbon Vision 2025 and BP Statistical Review.

Primary Energy Consumption by Fuel Source



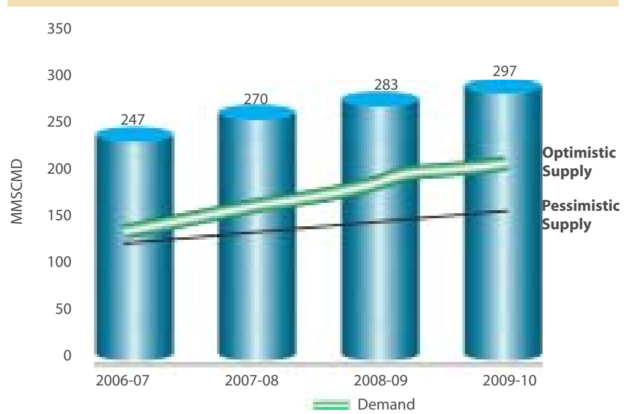
Source : BP Statistical Review and Hydrocarbon Vision 2025

The main drivers of growth will be the emphasis on infrastructure and utility sectors such as power and fertilizers. Presently the demand structure is such that power sector dominates demand by accounting for ~40% of total natural gas consumption in the country followed by fertilizer industry accounting for another ~28%. Power sector is expected to drive natural gas demand on account of additional capacity being created in the sector. The demand from the sector is also likely to go up because of replacement demand of liquid fuel (Naphtha and fuel oil) due to their higher and volatile prices as well as substitution for solid fuels (Coal) on account of environmental issues.

Furthermore, the demand of gas from the fertilizer sector, which is dependent on Government regulations, price of gas vis-à-vis price of the alternative liquid feed stock and financial strength of the players in the fertilizer sector, is also estimated to increase.

Natural gas is also expected to command a significant share in the retail market in the form of Compressed Natural Gas (CNG) in the automotive sector and Piped Natural Gas (PNG) in domestic households in view of advantages over competing fuels.

Natural Gas – Demand-Supply Balance



Source : Infraline & MDRA Report, 2003

The sum total of this is that the total demand for natural gas in the country is expected to grow at a CAGR of 16% to about 300 MMSCMD by 2009-2010. It is expected to go over 300 MMSCMD by 2010-2011 and to 391 MMSCMD by 2024-2025 as per the Hydrocarbon Vision 2025.

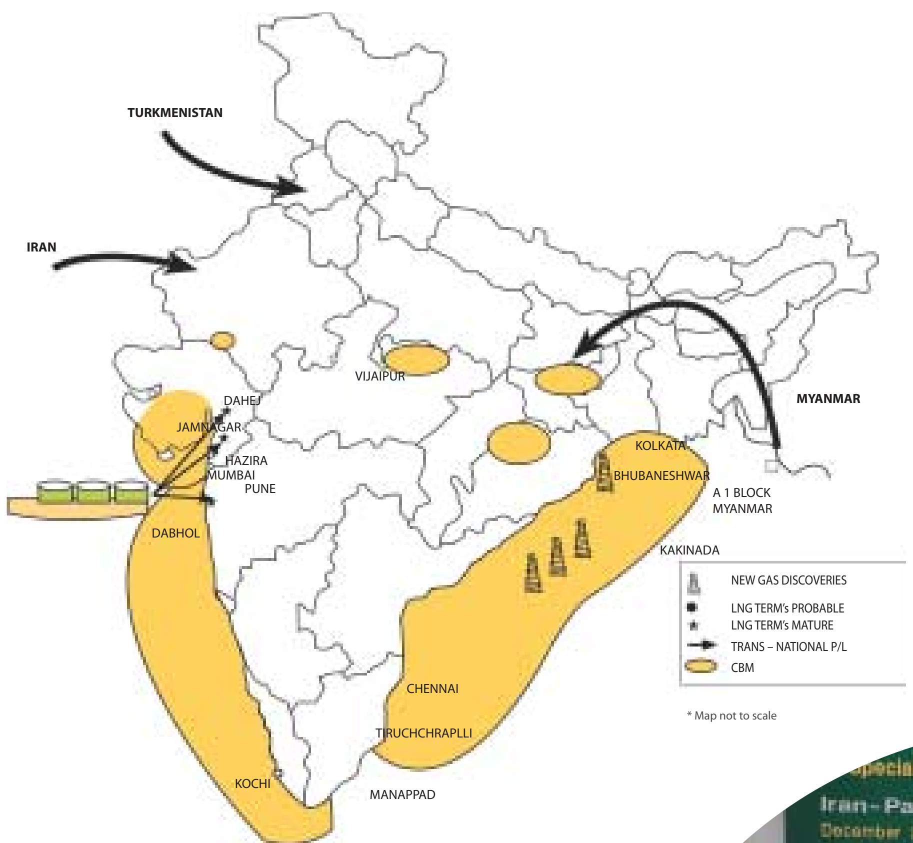
SUPPLY

On the supply side, currently, the two major PSU producers of natural gas in India, account for about 79% of total natural gas production in India.

This situation is likely to change because of large discoveries of gas under the New Exploration and Licensing Policy (NELP) in the eastern coast. Availability of gas from the KG basin in the near future is expected to provide great opportunities for growth of gas based industries.

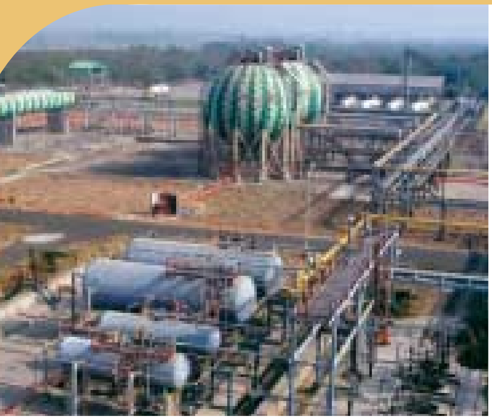
The domestic production of natural gas is expected to be insufficient to meet the entire demand and hence exploring alternative energy sources such as import of LNG from the international markets and import of gas through Transnational Pipelines like Iran-India; Myanmar-India and Turkmenistan-India would be imperative.

Natural Gas - Supply Outlook



High LNG regasification capacities are being planned in the near term, which signals a trend of increasing demand for LNG in the country. Besides, the firm quantities of LNG contracted is far less than the capacities envisaged for creation. Your Company, therefore, strongly believes that sourcing of additional volume of gas from international sources will be a key driver for growth in the near term.

Cross border gas trade through transnational pipelines are longer term projects and have unique issues inherently such as legal issues, financing issues and most importantly, geo-political issues, which require involvement of Governments. The proposed Myanmar-India pipeline and the Iran-Pakistan-India pipeline are being dealt at the commercial level by Companies and at the geo-political level by the Government of India.



The global crude oil markets remained highly volatile throughout the year, with prices ranging from 48 to 67 US$/barrel. Further the crude price has gone beyond US$70/barrel in the month April 2006. The gas price also moved to new highs, in tandem with the oil price, setting higher benchmarks.

However, the news on domestic gas front was encouraging as more E&P players have struck rich gas reserves in KG Basin (AP). The oil and gas finds in Mahanadi-NEC, Rajasthan, Tripura and Myanmar were of significant importance. The gas is likely to be available from the new finds after another 2-3 years time.

ENERGY SECURITY

The Government of India, as part of its policy initiatives, has taken several measures to boost the Indian economy. The GDP is poised to grow at around 8%, which is expected to increase the demand for energy to attain higher levels of industrial activities. Oil and gas would continue to play an important role in the development of Indian economy. Towards this end, the Government of India is working on an "Energy Security" plan to meet the long term energy requirements of the nation.

In order to achieve energy security, MoP&NG has worked out a long term strategy in the petroleum sector, on the following lines:

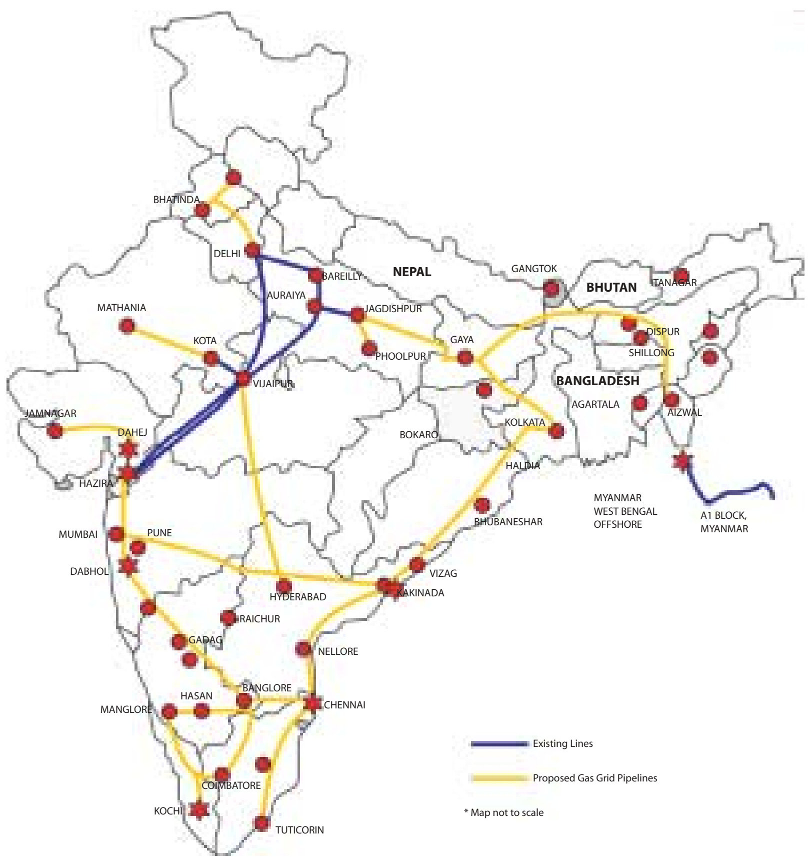
- accelerated E&P activities within the country under NELP policy, to attract investment and latest technology from global and local E&P players
- participation by Indian Companies in the E&P activities of other countries
- enter into long term contract for gas supplies from Iran, Oman, Qatar, Myanmar through cross-border pipeline or LNG imports
- deregulation and opening up of the oil and gas sector.

OPPORTUNITIES IN NATURAL GAS TRANSMISSION

Your Company is the market leader in the field of transmission, distributing ~80% of the entire gas available and owning a pipeline network of about 5600 Kms. To expand its infrastructure, your Company has already conceptualized the blue print of an Inter-State Gas Grid to provide connectivity to various gas sources and geographically dispersed markets.

The Grid has been conceptualized to enable gas shippers to pump gas at any point in the main grid and take delivery from any point in the grid, thereby providing an optimal and economical solution for cross country transportation in India.

INTER-STATE GAS GRID DEVELOPMENT PLAN



Your Company is also actively focusing on innovative gas transportation technologies such as CNG by ships for bulk transportation and modular LNG and CNG transportation technologies by trucks and transportation of gas as natural gas hydrates, particularly from stranded sources to gas consumers.

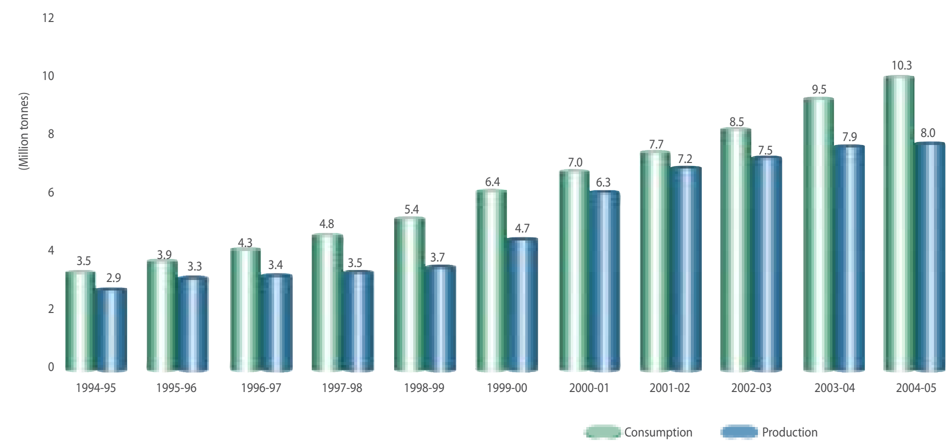
LPG – DOMESTIC MARKET OVERVIEW

LPG currently commands a significant position amongst all fuels for domestic consumption in the country. Due to this primacy the industry has been regulated in terms of retail prices.

There is a substantial gap in the LPG Demand – Supply in the country. The gap in consumption and domestic production is currently being met by imports.

Domestic use of LPG accounts for 92% of total consumption while remaining 8% is accounted for by commercial and industrial uses. Currently, there are ~85 million customers for LPG, of which ~70 million are urban customers, thus rural area poses as a lucrative market for LPG penetration.

Production- Consumption Trends of LPG in India



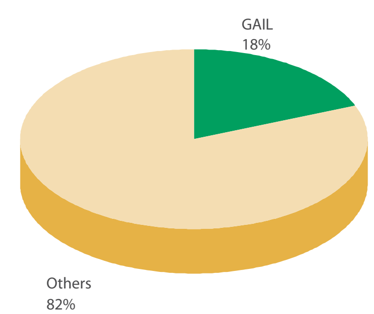
Source : Oil Industry

For the next few years LPG Demand is expected to be driven by increasing penetration in rural market and substitution of SKO as domestic fuel.

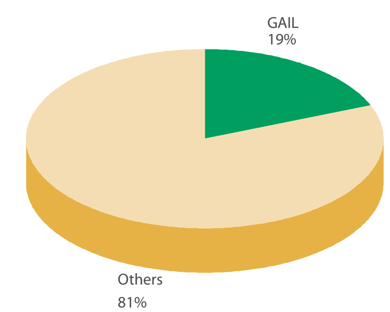
PSU refineries and fractionators account for almost 69% of LPG production and LPG marketing is entirely dominated by PSU Companies with almost 96% of the total market share.

PETROCHEMICALS INDUSTRY – AN OVERVIEW

Domestic Polyethylene Production Capacity

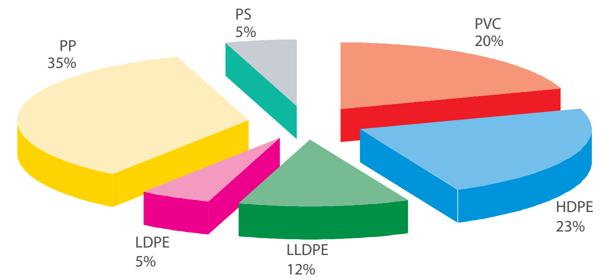


Domestic Market Share Polyethylene



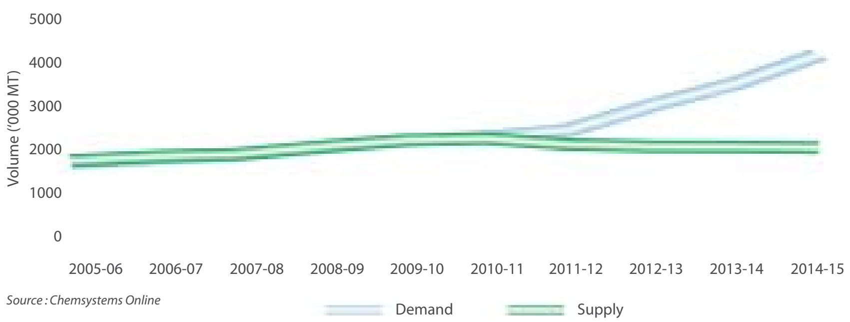
Polyethylene market in India is dominated by the domestic producers like IPCL (Division of RIL), RIL, GAIL and HPL. Commodity wise HDPE / LLDPE / LDPE constitute 40% of the commodity polymers in India.

Consumption Dynamics – Commodity Polymers in India



Source : Ingref

Demand vs Supply in India – HDPE/LLDPE



Source : Chemsystems Online

The market is tending towards an increasing demand supply gap of polymers in the next few years.Currently, Polypropylene accounts for majority of the market share.

The polyethylene production capacity of Petrochemical Complex at Pata is being increased from 3,10,000 TPA to 4,10,000 TPA to achieve economies of scale. Your Company is also considering setting up Petrochemical plants in Assam & Kerala. Furthermore, GAIL is also exploring setting up a gas based Petrochemical complex in Iran.

GAIL'S OUTLOOK

Your Company is an Integrated Gas Company and has made its presence felt in all areas of the value chain, from Supply and Sourcing (E&P and PLL) to Demand (GSEG & Dabhol; City Gas) including the midstream segment of gas transportation & gas processing (Liquid Hydro Carbons & Petrochemicals).

In the E&P business, your Company has started realizations from sale of oil from the Cambay basin block and is looking forward to its commercial operations. The prospect from the A-3 Block in Myanmar is encouraging following the results of drilling of the first well, which encountered and tested natural gas. Besides, drilling activities in the Block-26 in the Bay of Bengal is also expected to begin in the next fiscal i.e. 2006-2007. Your Company plans to spend Rs.900 Crores in the next two years to further its stake in the business with a view to secure supplies.

On the LNG front, your Company is focused on increasing its gas trading business by augmenting supplies through LNG imports. LNG is expected to become a major gas sourcing alternative and this would drive Indian companies to participate in all parts of the LNG value chain i.e. LNG liquification, LNG transportation and LNG regasification.

Through Gujarat State Electricity Generation Ltd. (GSEG) and Ratnagiri Gas & Power Private Limited (RGPPL), your Company is seeking to vertically integrate its operations and to further improve its margins. The investment in Dabhol would provide GAIL an opportunity to import 2.9 MMTPA of LNG for merchant sales.

The City Gas Distribution ventures of your Company are an attempt to stake a claim in a market which has good potential and an ability to drive up margins.

CORPORATE STRATEGY

The industry has robust fundamentals, there already is a strong gas demand and at the same time there are also new gas sources. The importance of natural gas is expected to increase in the Indian Energy basket. High prices of the competing fuels and growing environmental concerns across the globe would lead to a shift of preference towards natural gas as fuel since gas is a cleaner fuel than most of the liquid fuels. However the demand of gas will be sensitive to the changes in price of gas vis'-a-vis' competing fuels. The same will impact the other related sectors your Company has a presence in.

In a very dynamic scenario, your Company looks forward with a focus on its gas transmission business and with a vision towards the upstream and the down stream sectors of the gas value chain.

Key Strategic plans of GAIL

Strategic move	Rationale....
Protect core business	– Protect margins and market share
Move upstream	– Secure supply – Grow profitability
Diversify downstream presence	– Reduce cost to serve – Increase sources of revenue – Monetise upstream investments (captive uses such as power)
Explore international opportunities	– Create growth despite reducing domestic growth opportunities

OPPORTUNITIES, THREATS, RISKS & CONCERNS

As an Internal assessment, your Company's threats, risks and concerns along with the unique set of strengths and opportunities can be summarized as under:

INDUSTRY FIT AND SKILLS

GAIL is a leader in Indian Gas sector and enjoys the first mover advantage. Your Company has been through the development of the gas sector in India in the last 22 years. It has first hand knowledge of the industry and has developed its expertise to cater to the Gas markets of the country.

Your Company owns the largest gas pipeline infrastructure network in the country. The Industry has a strong entry barrier as far as the Transmission Assets base is concerned and the relatively new assets of your Company coupled with intensive operations & maintenance programs add to the advantage to your Company.

INTERNAL RESOURCE AVAILABILITY

Your Company has a lean and youthful human capital with a proven track record of good Project Management, an aspect, which has been commended by reputed agencies. Your Company also has strong operations experience in all its businesses and extensive marketing network.

Your Company enjoys robust financials with a high net worth. The financial health of your Company is reflected in the Low Debt to Equity Ratio (D/E Ratio ~ 0.19) and healthy credit rating of LAAA from ICRA and your Company is also in the process of obtaining International Rating from M/s Moody's.

SYNERGIES AND GROWTH

Your Company enjoys significant synergies amongst all its businesses. Looking at the future growth model, your Company is focused towards further integration in Gas & related sectors with 16 Domestic / International E&P Blocks in its business portfolio.

Your Company also has plans for inorganic growth through mergers and acquisitions and organic growth through investments in expansion of existing capacities in Petrochemical and gas transmission. The key factor is synergy in gas based businesses in the natural gas value chain.

DOMESTIC GAS SUPPLY

The country is facing a rapid decline of domestic Gas volumes from existing sources. Your Company sources most of the gas it sells from Oil and Natural Gas Corporation Limited under a Memorandum of Understanding between the two Companies. The Gas Sale agreement between ONGC and GAIL is under finalization.

GAIL has signed the gas sale term sheet on the 29th March, 2006 with the Panna-Mukta-Tapti (PMT) Joint Venture Company. With the agreement, GAIL has secured gas supplies of 5 MMSCMD for a further period of two years. Your Company is the Government of India nominee for the gas it purchases from the PMT JV.

INTERNATIONAL GAS SOURCING

Your Company has a strong focus on securing gas supplies from international markets also. Cross border gas trade takes place either through pipeline as gas or through ships as LNG. Your Company is focused on international gas sourcing in the form of gas as well as LNG.

Currently the international LNG market is supply constrained in the face of rising demand of LNG across the globe and due to firm long term contracts, already committed by LNG suppliers. Additional supplies of LNG can be available from the LNG spot market, from which supplies are dependent on operational exigencies encountered by LNG suppliers during fulfillment of their firm supply contracts. Besides, LNG prices are linked to the global crude price, which implies that any change in the global crude prices would impact the purchase price of LNG from the spot market.

On the downstream side, the sale of LNG in the Indian market is dependent on the ability of customers to pay for gas at international prices, which are significantly higher than the administered price of domestic gas.

Therefore, the increase in gas sales by your Company is dependent on its ability to source gas from the international market, which, in turn, is dependent on the ability of Indian gas customers to pay prices comparable with global gas prices as well as the price volatility of the global crude trade.

REGULATORY POLICIES

The Natural Gas sector has been, to a large extent, regulated by the Government of India. However, in the recent past, the Government has moved towards partial deregulation of gas prices after the new Gas Pricing Order effective from July 2005.

The Petroleum and Natural Gas Regulatory Board Bill was passed in the Parliament in the budget session of 2006. The Act envisages the institution of a Petroleum and Natural Gas Regulatory Board to oversee the activities of the downstream petroleum sector. As per the Act, Petroleum and Natural Gas Regulatory Board, which would act as the regulator, shall institutionalize an affiliate code of conduct, which would be applicable to all entities engaged in the transportation and marketing of natural gas. The Board may also require gas transmission and marketing companies to separate the activities of marketing and transportation in a manner and within a period, which will be defined in the regulations to be framed by the regulator.

While the regulator may separate the activities of gas marketing and gas transmission to enable better regulation, your Company would require a reasonable and assured rate of returns from its transmission business and a reasonable margin on trading of natural gas for the trading entity for the sustainability of each business. Currently, your Company is allowed to earn trading margins on 17% of the total gas that it sells.

PRICING

The administered price of natural gas is decided by the Government of India, which has recently issued the new Gas Pricing Order in June 2005, with effect from 1st July, 2005, and increased the price of natural gas. This has had an adverse impact on the cost of production of Liquid Hydrocarbons and Petrochemicals. Moreover the prices of Petrochemicals and Liquid Hydrocarbons vary from time to time as they are influenced by global demand and supply positions. The pricing of LPG, other Liquid Hydrocarbons and Petrochemicals Products is market determined.

SHARING OF UNDER-RECOVERIES ON LPG AND KEROSENE

Your Company is sharing the subsidy burden on account of under-recoveries on domestic LPG and PDS Kerosene, which has had an impact on the profitability of your Company in the last three years.

Impact of sharing of under-recoveries

(Rs. in Crores)

Particulars	2005-2006		2004-2005		2003-2004	
	With subsidy	Without subsidy	With subsidy	Without subsidy	With subsidy	Without subsidy
Revenue	14,459	**15,523**	12,412	**13,549**	10,824	**11,252**
PBT	3,277	**4,341**	2,871	**4,008**	2,814	**3,242**

GAIL has borne a subsidy of Rs.428 Crores in FY2004, Rs.1137 in FY2005 and Rs.1064 Crores in the year under review.

The Committee on Pricing and Taxation of Petroleum Products, set up by the Government of India in October 2005 and headed by Dr. C. Rangarajan, has submitted its report (The Rangarajan Committee Report) to the Government. The Committee was set up to look into the various aspects of pricing and taxation of petroleum products with a view to stabilizing/ rationalizing their prices. As per the recommendations of the committee, GAIL is expected to be kept out of the subsidy net.

TARIFF REVIEW

The Government of India has referred review of tariff for HVJ & DVPL to the Tariff Commission. The Tariff Commission has submitted its recommendations to the Government.

Currently, the transmission tariffs of your Company are partly regulated and partly non-regulated. While the interstate gas pipelines i.e. HVJ and DVPL are regulated, the transmission tariffs of the regional gas pipelines and the LPG pipelines are not regulated.

E&P

Your Company holds a participating stake in 16 blocks with a focus on augmentation of gas supplies for the future pipelines. The basic nature of the business is such that the availability and extent of reserves is highly uncertain.

DEREGULATION

The Deregulation / Liberalization of Petroleum and Natural Gas Sector will open up newer avenues for your Company. The Introduction of competition will help your Company to further improve.

At present there is a huge need for Gas Infrastructure in view of emerging gas supply prospects. Notwithstanding the competition, your Company has a first mover advantage to tap the opportunities that arise out of a growing gas sector.

DIVERSIFICATION

Your Company has employed new business models and synergistic diversifications across the gas value chain in the form of Joint Ventures, Strategic Alliances and Acquisitions.

LPG & CNG / PNG Marketing / Retailing will not only help your Company to grow but will also help your Company become a house hold name. Your Company is not only diversifying but also securing its supplies through LNG Sourcing. Cross-border gas trading opportunities have opened up a new sphere of supply and demand.

EMERGING TECHNOLOGIES

Your Company is making forays in the exploitation of emerging gas transportation technologies like CNG by ships, as gas hydrates, CNG by trucks and LNG by trucks, all of which are relevant for transportation of stranded gas. Besides, your Company is focusing on Coal Gasification technologies like in-situ lignite gasification and above-ground coal gasification. In the area of petrochemicals, your Company is exploring emerging technologies, which aims to produce petrochemicals from lean natural gas so as to reduce the petrochemical business dependence on rich fractions of natural gas.

MATERIAL DEVELOPMENTS IN HR AND INDUSTRIAL RELATIONS

The total employee strength of your Company stood at 3443 employees as on 31st March, 2006.

Industrial Relations scenario in general during the year under review continued to remain harmonious and cordial. There was no unrest on account of 'strike' or 'work to rule' or 'Go slow' or 'lockout' during the year and no man hours lost on this count.

There has been continuous thrust on enhancing the employee motivation and development through various mechanisms. GAIL continues to focus on various employee oriented initiatives with a view to harness potential of employees for their self development and organizational growth as well. Some of the major initiatives undertaken during the year include formulation of terms and conditions of deputation for foreign assignments, providing interest free loans to employees affected by the earthquake in Jammu & Kashmir and unprecedented rains in Maharashtra and Gujarat, institutionalizing long service awards and constitution of a Gender budgeting cell.

OVERVIEW OF THE FINANCIAL PERFORMANCE AND OPERATIONAL PERFORMANCE

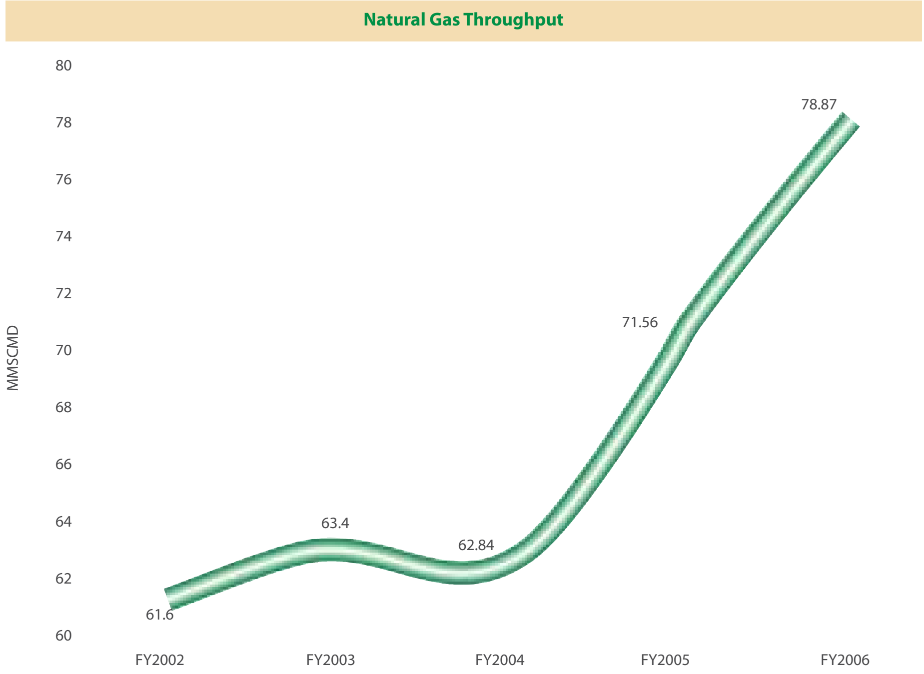
OPERATIONAL PERFORMANCE – A SNAPSHOT

Quantity Produced/ Transmitted	2005-06	2004-05	Growth as compared to previous year	Last 5 year CAGR
Natural Gas transmitted (MMSCMD)	78.87	71.56	10%	5%
LPG (MTs)	1,042,219	1,094,835	(5%)	6%
Petrochemical (MTs)	311,469	298,787	4%	10%
Propane/Pentane/SBPs (MTs)	283,484	298,264	(5%)	19%
LPG transmission (MTs)	2,228,568	2,137,504	4%	-

GAS TRANSMISSION

OPERATIONAL HIGHLIGHTS

The previous five year trend of Natural Gas throughput (in MMSCMD) including RLNG is as below:

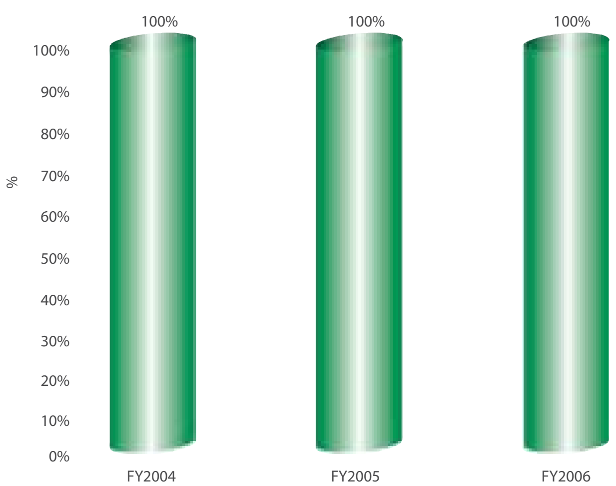


During the year under review, your Company was able to market the additional RLNG available from the LNG regasification terminal at Dahej well in advance, through long term contracts.

AVAILABILITY

Your Company has a robust maintenance program to ensure complete availability of the pipeline network. Besides, your Company engages in rigorous pipeline integrity tests to enhance the economic life of its assets. For the last three years, your Company has been able to ensure 100% uninterrupted supply hours for major NG trunk pipelines for year 2005-2006.

Availability of HVJ-DVPL



ENERGY EFFICIENCY

With the rising costs of gas and increased short fall in its availability, it is matter of paramount importance that systems are operated at a level comparable with the operational performance of global peers. Your Company has benchmarked its operational performance in line with the global standards and has set internal performance targets as per the global benchmarks. For financial year 2005-2006, the fuel consumption with respect to the gas handled in energy terms is 2%, lower by 2.2% as compared to the previous year which resulted in a saving of around Rs.3.0 Crores.

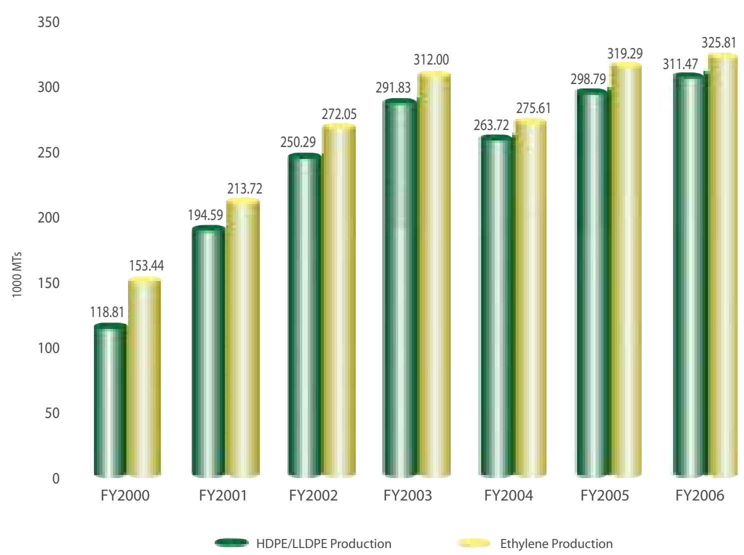
COST EFFICIENCY

Better control and monitoring in various activities pertaining to maintenance and General Administration has helped in bringing down the maintenance cost and General and Administration costs with respect to gross block. The implementation of improvements in gas measurement systems brought down the average unaccounted gas to (-) 0.067% in year 2005-2006 as compared to (-) 0.12% in year 2004-2005.

PETROCHEMICALS

Your Company's polymer production has been rising consistently since its inception. The trend of HDPE/LLDPE and Ethylene production is as follows:-

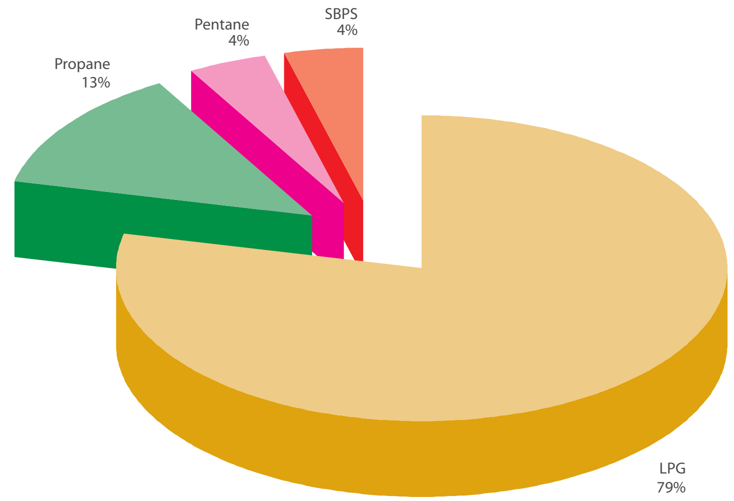
HDPE/LLDPE & Ethylene Production Trend



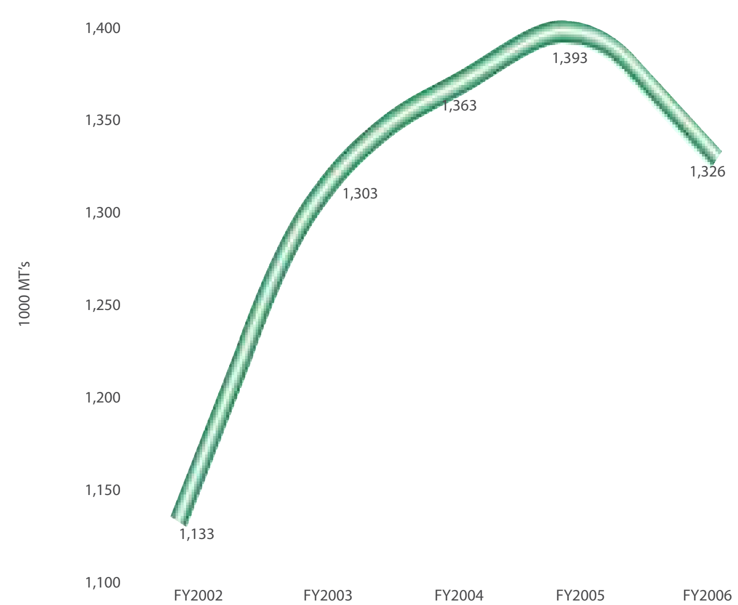
LPG AND OLHC PRODUCTION

The total Liquid Hydrocarbon Production during 2005-2006 is 1325703 MT which is 102% of excellent MOU target, set by the Government of India. The total product mix includes 1042219 MT of LPG, 173920 MT of Propane, 53346 MT of Pentane and 56218 MT of SBPS for the year 2005-2006.

Liquid Hydrocarbon Product Mix



Liquid Hydrocarbon Production



COST EFFICIENCY

In the case of Liquid Hydrocarbon production, the total Liquid Hydrocarbon Stock Loss of all plants has been brought down to 0.005% in financial year 2005-2006 as compared to 0.009% in financial year 2004-2005. This has increased our sale of Liquid Hydrocarbon and has contributed to increase in our realization and margins.

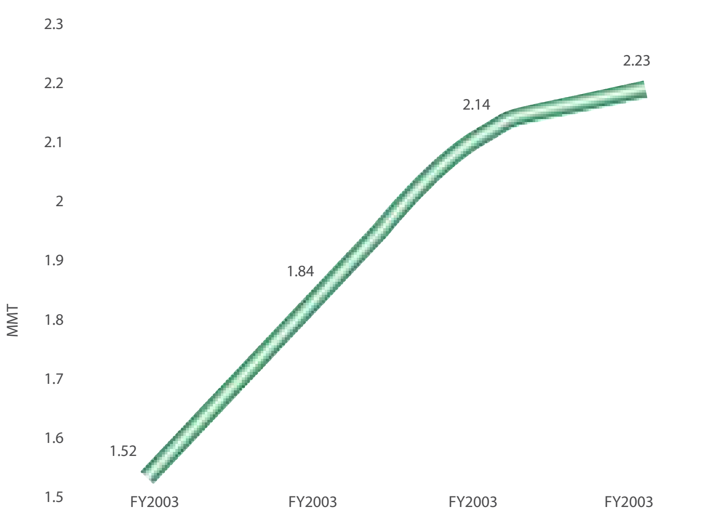
LPG MARKETING

Your Company has initiated action for development of the required infrastructure and distribution network to market LPG to all categories of customers such as domestic, commercial-packed and in bulk to industrial customers. Meanwhile, in January 2006, MoP&NG has conveyed that authorization for marketing of LPG is under review and pending this, direct marketing of LPG is not permitted till further advice. Your Company has requested MoP&NG for early review of its decision so that GAIL could take further necessary action to commence LPG marketing.

LPG TRANSMISSION

Your Company owns the world's longest exclusive LPG pipeline from Jamnagar (in Gujarat) to Loni (in UP). In addition, your Company also transports LPG through its Vizag-Secunderabad Pipeline (VSPL). The pipelines cater to the product transportation needs of the Oil Marketing Companies.

LPG Throughput



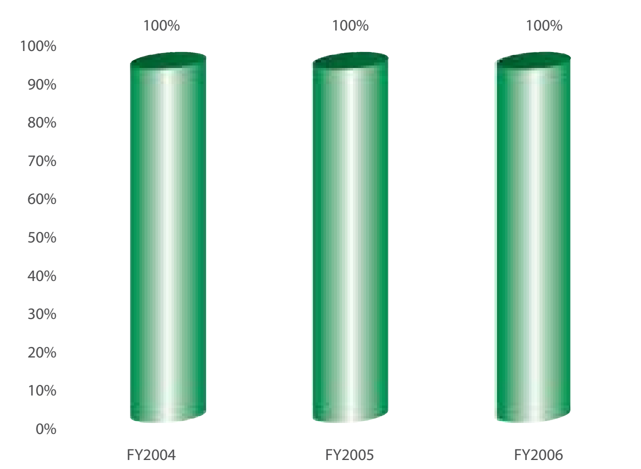
In this new age of multi tasking, the prospects of multi product pumping through our LPG pipelines is also being looked at for better capacity utilization.

Your Company has transported 2.23 MMT LPG in current fiscal year as compared to 2.14 MMT in 2004-2005.

AVAILABILITY OF LPG PIPELINES:

The careful monitoring and control have once again ensured uninterrupted transmission of LPG of both the LPG pipelines to 100% during the current fiscal year.

Uninterrupted Supply of JLPL/VSPL

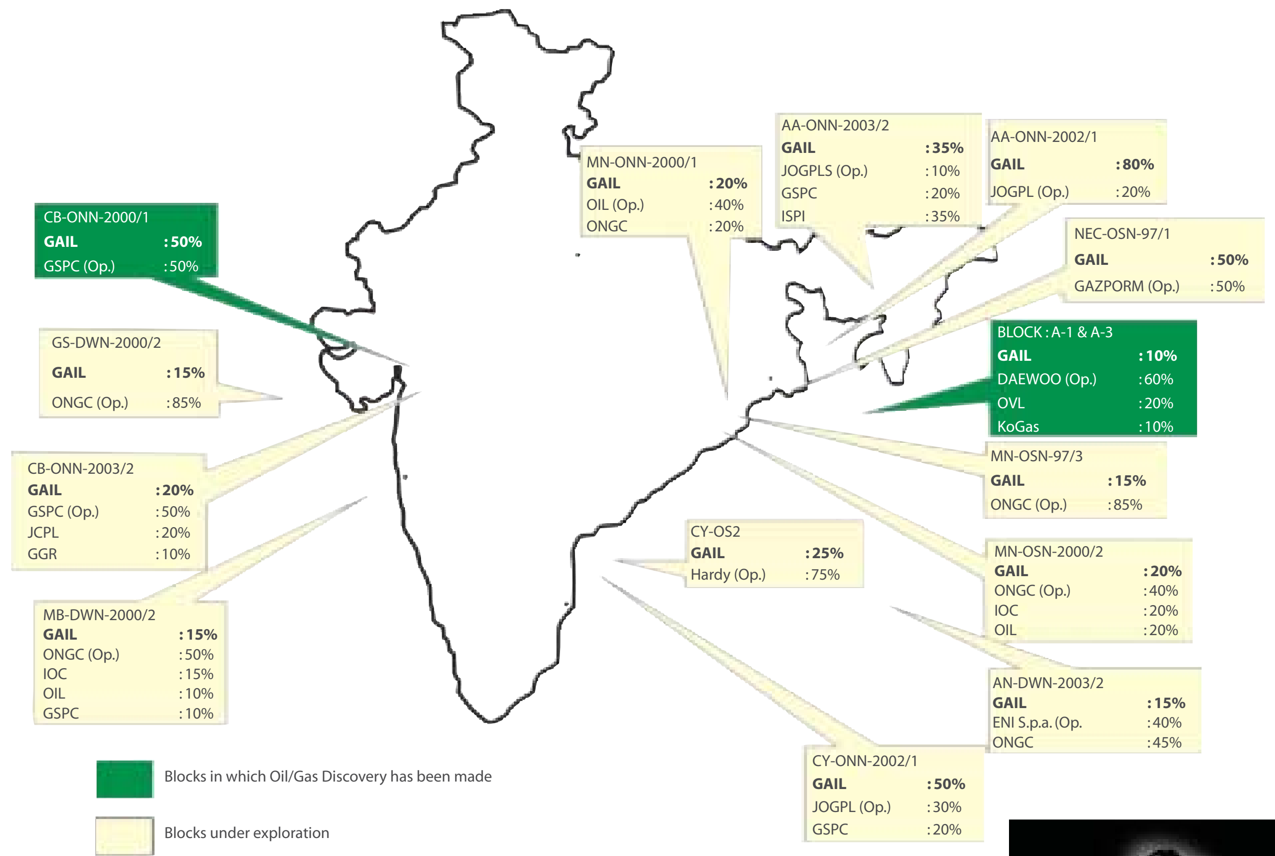


EXPLORATION & PRODUCTION

Your Company has been participating in exploration blocks in consortium with other E&P Companies. At present your Company holds participating interests in 16 Blocks. There has been gas discovery in block A-1 in Myanmar and oil discovery in the Cambay basin. Adjacent to the A-1 block in Myanmar is the A-3 block, which, during exploration has encountered gas in its first well. Your Company has recently won a bid in an on shore exploration block in Oman, in which it has 25% stake.

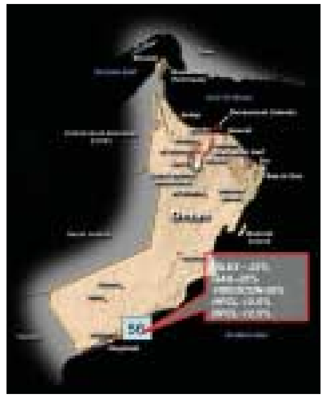
Your Company on one hand would pursue domestic E&P opportunities with active participation in NELP-VI and CBM-3 bidding rounds whereas on the other hand pursue overseas E&P opportunities on a selective basis.

Existing E&P Blocks of GAIL at a Glance (Indian Subcontinent)



Domestic Blocks	–	13
Blocks in Myanmar	–	02
Blocks in Oman	–	01

* Map not to scale



GAILTEL

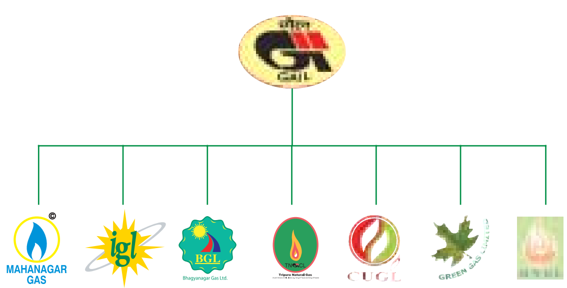
GAIL's telecommunications service arm, GAILTEL, provides both internal telecommunication services and commercial bandwidth services to customers. Your Company has created 13000 kms. Optical fiber cable network that connects over 100 cities, including 7 of the 8 metros and is spread over 12 states including Union Territories in northwest, central and southern regions of the country.

CITY GAS DISTRIBUTION

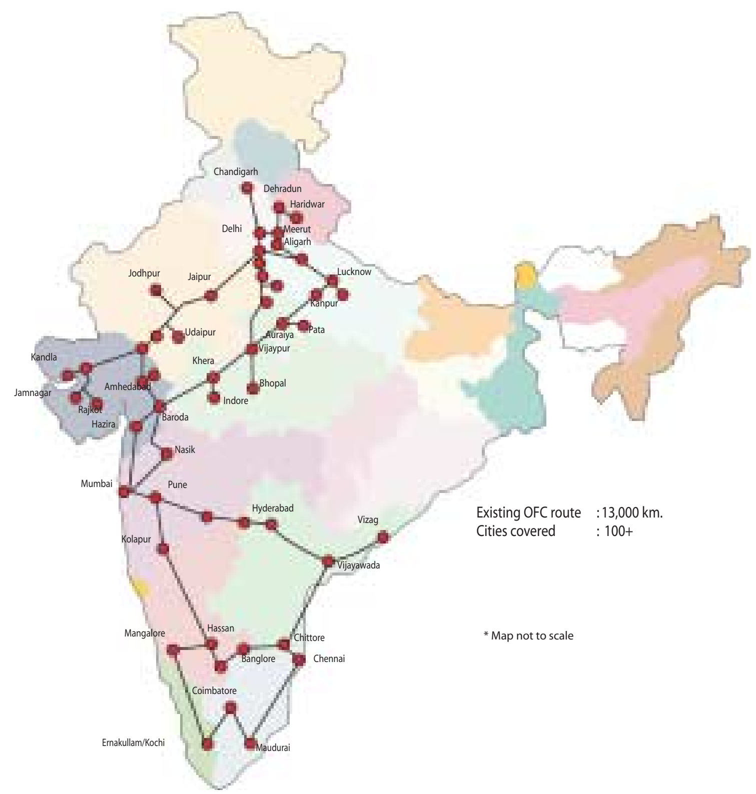
Natural Gas is being pushed as the new age domestic fuel as Piped Natural Gas (PNG). The opportunities available as an automotive fuel through Compressed Natural Gas (CNG) and as domestic fuel (PNG), which is in operation successfully in Mumbai and Delhi, are also substantial.

Your Company has been instrumental in identifying this opportunity and has already formed joint ventures with other oil marketing Companies for city gas distribution.

Your Company has plans to go ahead with the City Gas Distribution System in other cities also. Beyond the Indian sub-continent, GAIL is planning to set up Joint Venture partnerships with Chinese Companies for CNG and city gas distribution projects in mainland China through China Gas Holdings.



GAILTEL Network



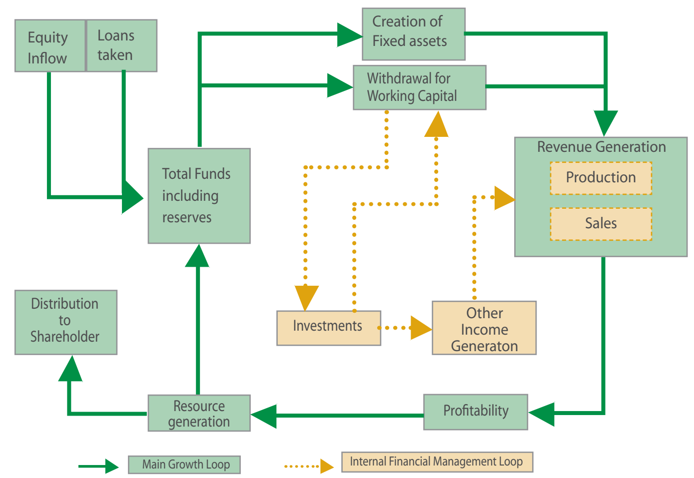
Your Company plans to expand the network from 13,000 kms. to 20,000 kms. as part of the proposed Inter-State Gas Grid project and city gas JVs in the country.

GAILTEL has four access partners in Maharashtra, Delhi and Gujarat and currently serves 24 customers which include the leading telecommunication companies in India.

DYNAMICS OF GAIL'S BUSINESS

The funds of the Company have been utilized mainly for the purpose of creating fixed assets which have led to generation of revenue, profitability and ultimately the value creation for the shareholder. In the course of business there have also been investments made by your Company as a part of strategic business initiative or as a part of effective utilization of funds. However this investment is a very small part of the total investments which signifies the thrust of your Company on its core business.

Dynamics of Business

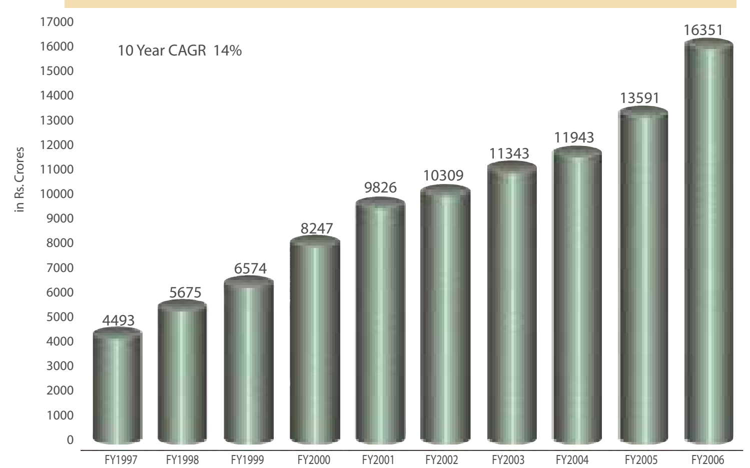


OVERALL FINANCIALS

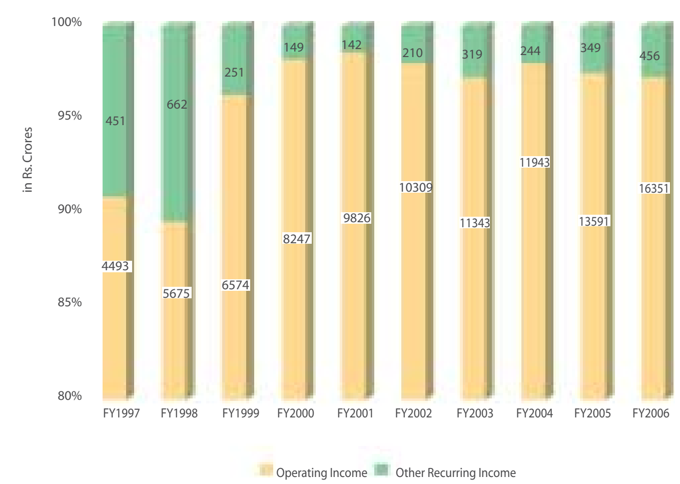
INCOME

The total operating income (including internal consumption and net of excise duty) of the Company for the FY 2006 was Rs.16351 Crores which represents a 20% growth as compared to the previous year. Your Company's total operating income has grown over the past ten years at a CAGR of 14%.

Total Operating Income



Operating Income & Other Income



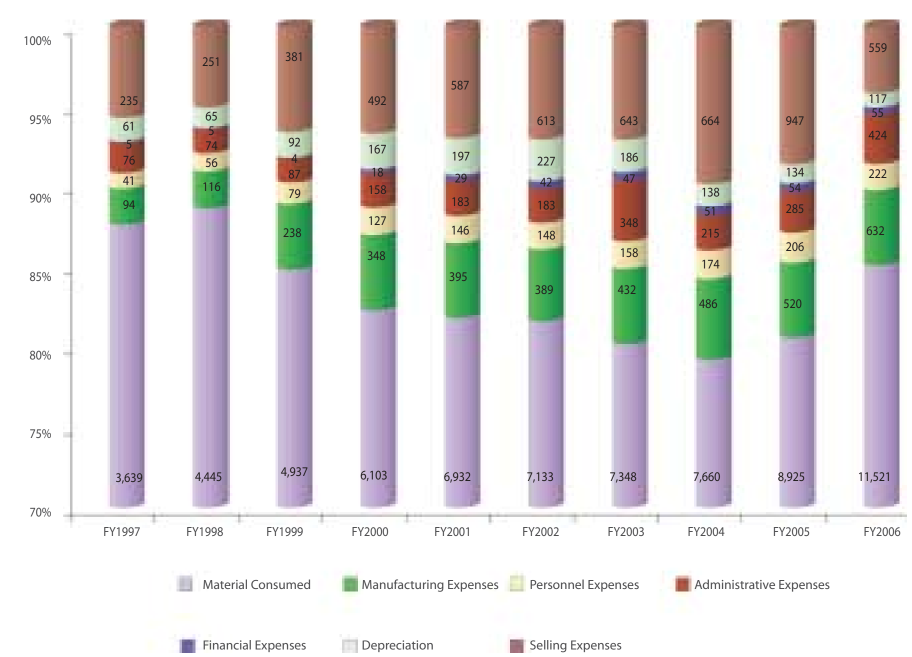
The other income represents a very small amount of the total earnings of your Company. This is limited to around 2 to 3% of the total earnings, which implies that the earnings of your Company are more sensitive towards the ability to maximize the production and marketing of products.

COST OF SALES

Cost of Sales

The cost of sales (including Depreciation, Interest and extraordinary items) of your Company for the FY 2006 is Rs.13530 Crores which is 22% more than the previous year figure of Rs.11069 Crores. The increase in cost has been primarily due to increase in Gas Cost vide the pricing order which came into effect from the 1st July, 2005.

Break-up of Cost of Sales



The major cost of the Company is variable in nature (nearly 90%) which comprises of Gas cost and cost of raw material consumed.

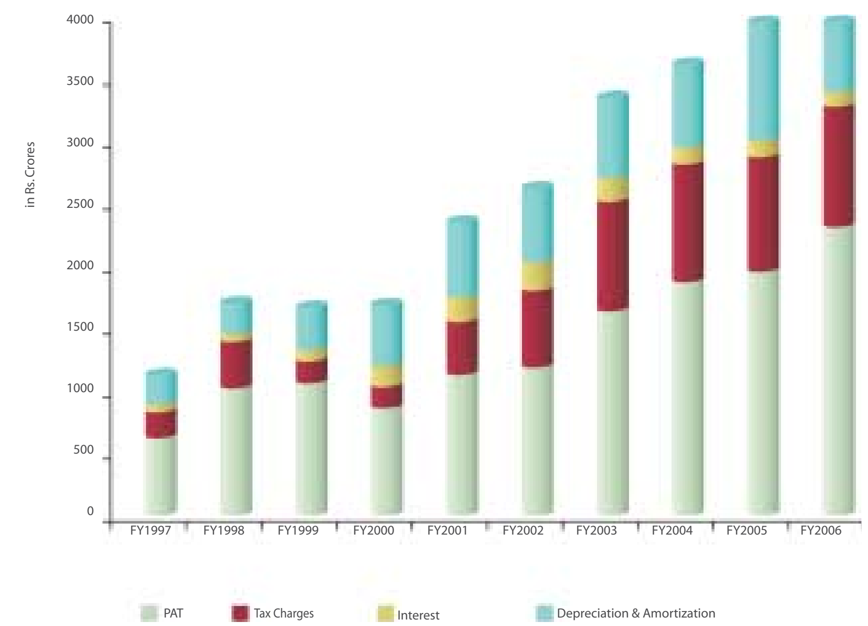
The administrative cost of your Company has gone up by 49% over the previous year mainly due to increase in Survey Expenses, Repairs and Maintenance, restatement of trading profits by way of Prior Period expenditure and Other Expenses.

The interest cost of your Company has reduced by 13% due to effective fund management.

The depreciation has reduced by 40% as compared to the previous year due to decrease in the rate of depreciation on natural gas pipelines from 10.34% to 3.17% per annum.

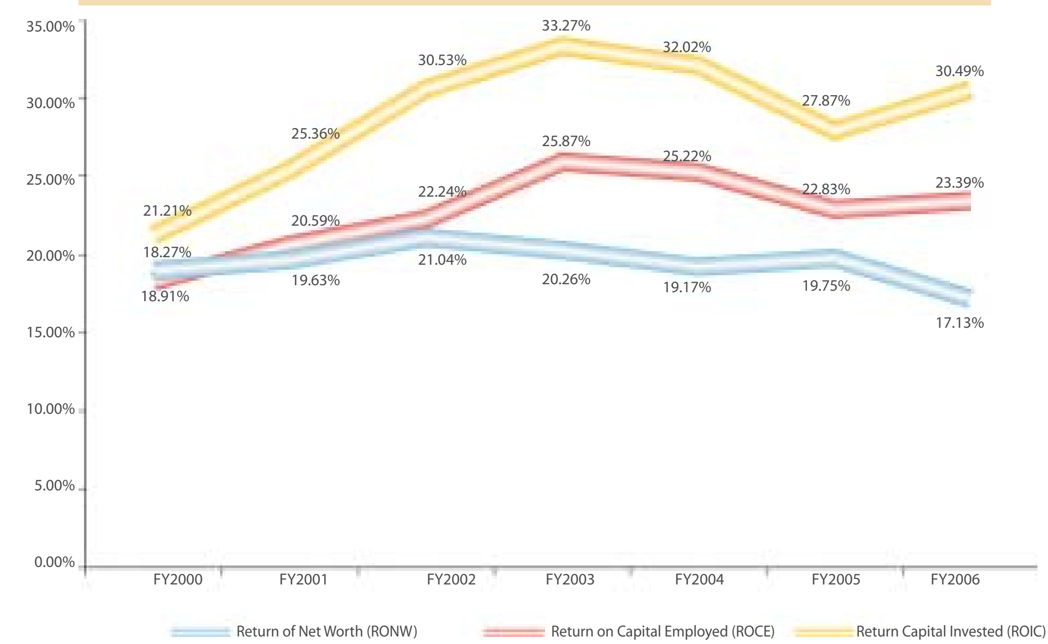
PROFITABILITY AND RETURNS

Profitability



A very small portion of 3% of Earnings before Interest, Depreciation and Tax (EBIDTA) goes towards interest payments. With an effective tax rate of 29.5%, 24% of EBIDTA goes towards the tax payments. The contribution of depreciation in EBIDTA is 14% which has reduced due to reduction in depreciation rate on natural gas pipeline. The Profit After Tax (PAT) represents a majority portion of 59% of your Company's EBIDTA.

Returns



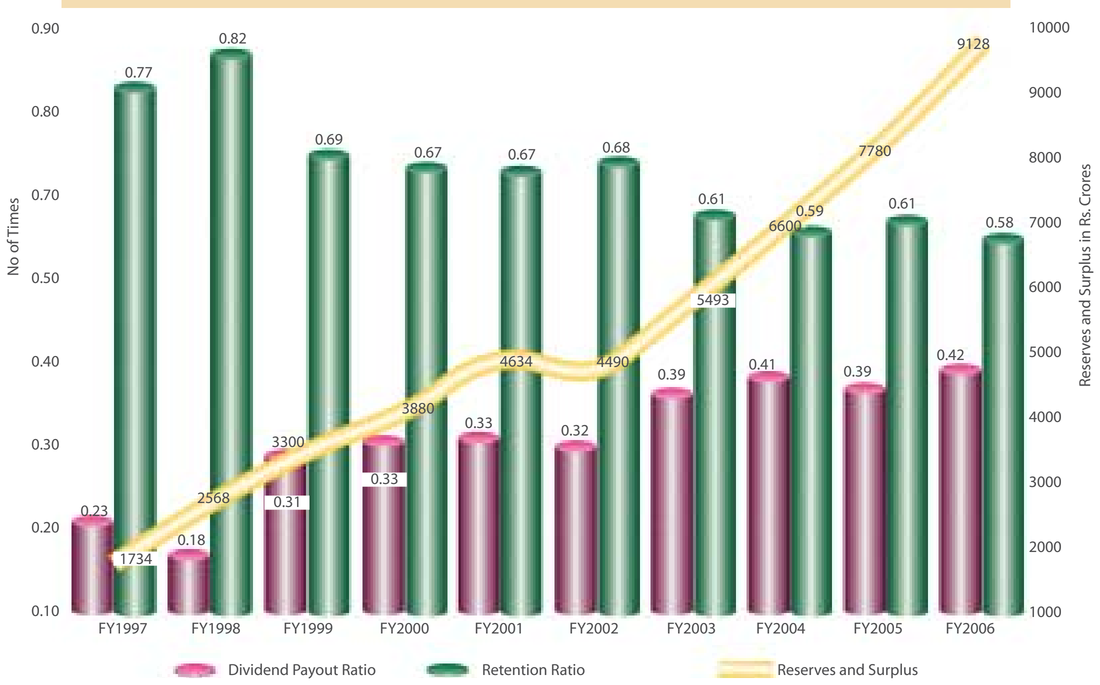
Your Company has been earning a consistently high rate of return over the past seven years as depicted above. The returns earned by your Company have been mainly in the high 20% region in the past 7 years representing your Company's financial health.

SHAREHOLDERS' FUND

EPS and Book Value per Share

The EPS of your Company has risen at a CAGR of 16% and your Company has driven the Book Value per share at a CAGR of 17% over the last 10 years.

Share Holders Funds

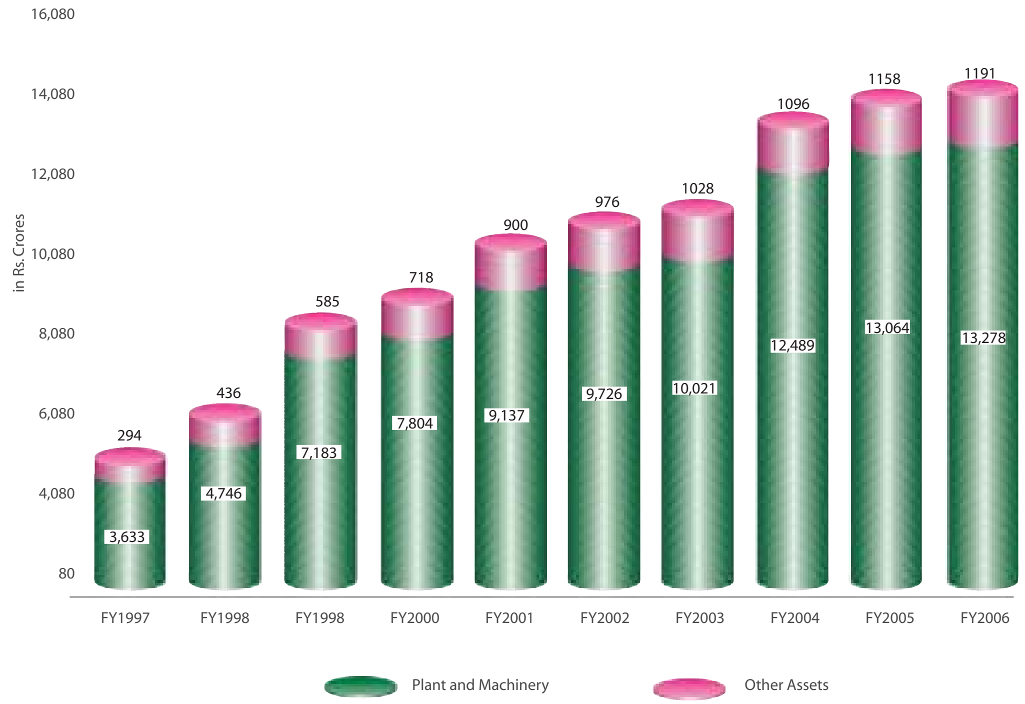


This has resulted in building up of over 5 times the reserves and surplus in the past 10 years. However at the same time your Company has maintained consistent growth in the dividend payout ratio.

Your Company has not only retained sufficient amounts for its future projects but has also made a sincere attempt to remunerate the shareholders.

FIXED ASSETS

Break-up of Fixed Assets (Gross Block)



Your Company has invested more in value adding assets such as Plant and Machinery than other assets such as land, building, furniture etc. As on date the proportion of plant and machinery is more than 90% of the total asset base.

Some of the other ratios with respect to the Fixed Asset and Depreciation are as follows:

Particulars	2005-2006	2004-2005
Depreciation as % of Gross Block	4%	7%
Accumulated Depreciation as % of Gross Block	48%	45%
Net Fixed Assets Turnover (net of ED) Ratio	1.91	1.58

SUNDRY DEBTORS

The debtors (net of provision) of your Company as on 31st March, 2006 stood at Rs.753.47 Crores.

Particulars	2005-2006	2004-2005	Change
Sundry Debtors (Rs in Crores)	753.47	822.86	(8%)
Debtors collection period	20 days	23 days	3 days
Debtors as a % of Turnover (net of ED)	5%	7%	-

There has been a marginal decrease in debtors outstanding as compared to the previous year. The collection period from debtors has also reduced by 3 days.

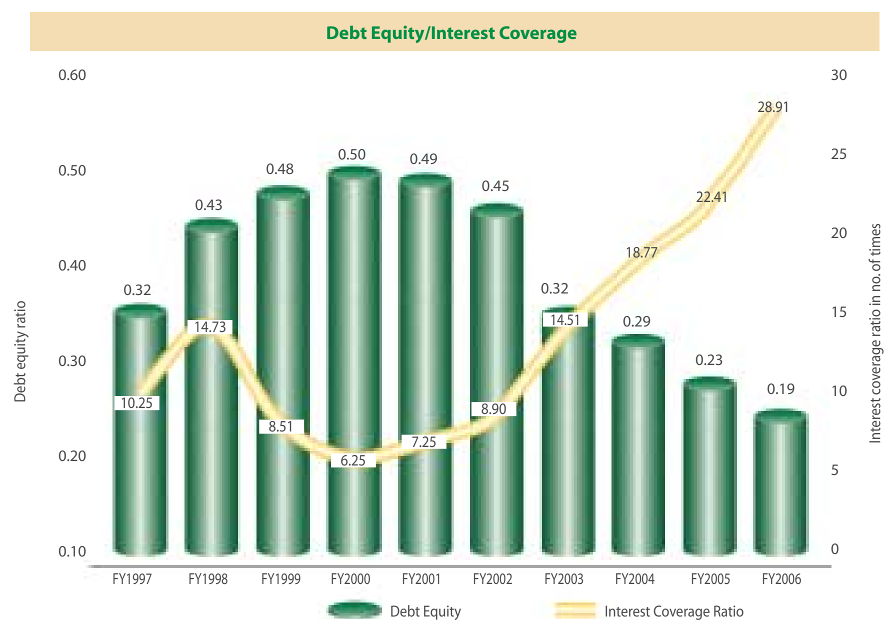
CASH AND BANK BALANCES

The growth of your Company has been largely financed through cash generated from operations and to a lesser extent from external proceeds. Your Company's cash and bank balances as at the end of 2005-2006 were Rs.4496 Crores as against Rs.3447 Crores in 2004-2005 which represents a 30% increase. Your Company has maintained higher cash and bank balances in order to meet the future CAPEX plans. Your Company's treasury policy calls for investing the surplus funds with the highly rated banks for short term maturities. Your Company has earned Interest on Deposits with banks of Rs.221 Crores which has increased by 100% as compared to the previous year figure of Rs.100.5 Crores. Investments made by your Company are through the e-investment mode which is quick and transparent.

Particulars	2005-06	2004-05
Cash and cash equivalents as % of total assets	27%	22%
Cash and cash equivalents as % of revenue	31%	28%

DEBT AND EQUITY

The Debt-Equity ratio of your Company has been generally below 0.5 and in the current year it is as low as 0.19. This clearly signifies the fund raising capacity of your Company.



The interest coverage ratio provides a quick picture of a Company's ability to pay the interest charges on its debt and the safety margin a Company has towards its interest payments. Your Company has maintained a high coverage ratio of 29 due to its low dependency on external borrowings and higher profitability.

STOCK MARKET PERFORMANCE

Your Company's stock has performed exceedingly well in the last three years. The market capitalization of GAIL stands at Rs.26913 Crores (NSE) as on 31st March, 2006 at a Price to Earnings ratio of 11.66.

The average daily quantity traded at NSE in 2005-2006 has been 1148463 shares as compared to 2561147 shares in the year 2004-2005. On the other hand the average daily turnover at NSE in the year 2005-2006 has been Rs.2933 Lakhs as compared to Rs.5196 Lakhs in the year 2004-2005.

VALUE ADDED STATEMENT

The Value Added Statement summaries the total wealth created and shows how it was shared between employees, government, providers of capital and retained by your Company. The value added statement enables us to show the social components of sustainable enterprise in a more transparent manner. It shows the social value that the Company creates through its activities. A value added statement of your Company is summarized below: -

VALUE ADDED STATEMENT

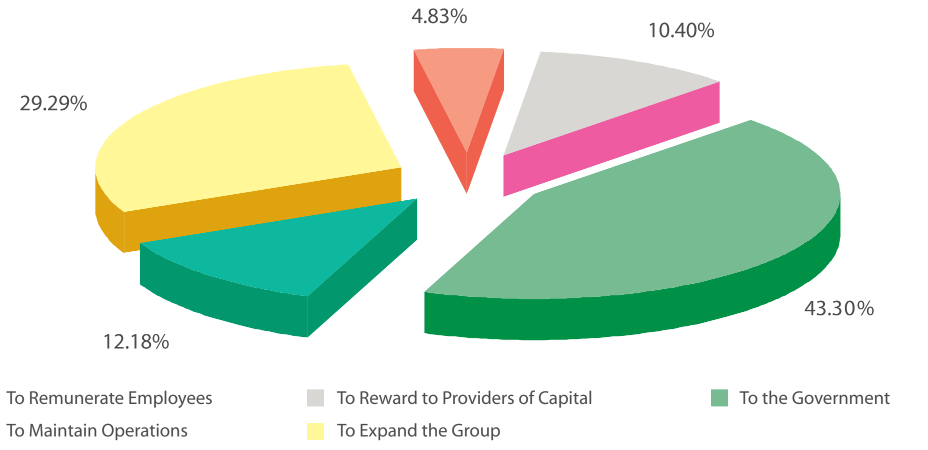
(Rs. in Crores)

FY 2006

Particulars	Amount	%	%
Turnover	14,413.11		
LPG Transmission	444.13		
Income from Telecom	18.25		
Internal Consumption	1,891.88		
Increase or decrease in Stock	24.93		
Subtotal	16,792.30		
Less: Suppliers of material and services	12,652.45		
Add: Other income	455.54		
Total value created	**4,595.39**		
Applied as follows:			
To remunerate employees			
Salaries and other benefits	221.83	4.83%	4.83%
To reward to providers of capital			
Interest on loans	117.30	2.55%	10.40%
Dividend to ordinary shareholders	360.75	7.85%	
To the Government			
Dividend	484.90	10.55%	
Company taxation*	1,386.70	30.17%	43.30%
Dividend Tax	118.60	2.58%	
To maintain operations			
Depreciation and amortization	559.49	12.18%	12.18%
To expand the group			
Net earnings retained	1,345.82	29.29%	29.29%
Total value applied/retained	**4,595.39**	**100.00%**	**100.00%**

* Amounts towards sales tax, service tax, customs duty have not been considered above.

Value Added Statement 2005-06



SHAREHOLDER VALUE CREATION

Over the years, your Company has consistently created value for the shareholders. Your Company believes in the fact that shareholder value is created when the returns generated from the business are higher than the cost of capital. This can be measured through EVC (Economic Value Creation). During the year 2005-06, your Company's EVC was Rs. 811 Crores.

INTERNAL CONTROL SYSTEMS AND THEIR ADEQUACY

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

CONCLUSION

Your Company has clearly shown that it has been successful in creating value not only for the shareholders but for all the stake-holders in general. The initiatives taken by your Company focuses on competitiveness both internally and externally.

Internal capability building to outperform competitors in the near and long terms is being gradually enhanced through several initiatives such as the e-initiatives for increasing the business process efficiency and training for increasing employee competencies. On the external front your Company is now poised to strengthen its base in the international markets via its global businesses in the coming years.

The challenges in the Oil & Gas industry are many. Increase in crude oil prices threaten competitiveness and pose marketing challenges. Besides, the Indian Natural Gas market is maturing and is expected to grow rapidly, bringing newer opportunities. New regulations would govern the new paradigm of the domestic gas industry. Being the market leader, your Company is better prepared financially and intellectually to drive on the growing Indian gas economy.

CAUTIONARY STATEMENT

Statements in the Directors' Report and Management Discussion and Analysis describing the Company's objectives, projections, estimates, expectations, predictions etc. may be "Forward Looking Statements" within the meaning of applicable laws and regulations. Actual results, performances or achievements may vary materially from those expressed or implied, depending upon economic conditions, government policies and other incidental factors.

CORPORATE GOVERNANCE REPORT

1. BRIEF STATEMENT ON COMPANY'S PHILOSOPHY ON CODE OF GOVERNANCE

'Corporate Governance' is about managing business in an ethical and responsible manner, focusing on sustainable value creation for the stakeholders, within the prevalent regulatory framework. Codification of Corporate Governance principles in any business entity is not an end but is in fact a tool, to demonstrate commitment to the principles of integrity and transparency in business processes. It is beyond doubt, 'transparency' and 'accountability' are two pillars on which the Corporate Governance edifice rests.

Corporate Governance in the Company is not mere compliance of the provisions of the laws or the Listing Agreement of Stock Exchanges. Going forward, it is practiced in a manner, such that an ethical tone underlines all business processes.

2. BOARD OF DIRECTORS

i. Composition and category of Directors

GAIL (India) Limited being a Government Company, all the Directors are appointed/nominated by the President of India, through the Ministry of Petroleum & Natural Gas (MoP&NG). The Articles of Association of the Company stipulate that the number of Directors shall be not less than three and not more than twenty.

As on 31st March, 2006, there were eleven Directors on the Board, comprising of six Whole-time Directors, including the Chairman & Managing Director and five Part-time Directors, including two officials of the Government of India and three Independent Directors. During the year 2005-2006, the composition of the Company's Board of Directors was as follows:

S. No.	Name of the Director (S/Shri)	Designation held
I. Whole-time Directors		
1.	Proshanto Banerjee	Chairman & Managing Director
2.	S.P. Rao	Director (Projects)
3.	B.S. Negi	Director (Business Development)
4.	M.R. Hingnikar	Director (HR)
5.	Dr. U.D. Choubey	Director (Marketing)
6.	R.K. Goel (w.e.f. 01.11.2005)	Director (Finance)
7.	J.K. Jain (upto 31.10.2005)	Director (Finance)
II. Part-time Directors (Government Nominee)		
8.	M.S. Srinivasan Secretary, MoP&NG (upto 02.01.2006)	Director
9.	Anil Razdan Additional Secretary, MoP&NG (w.e.f. 17.02.2006)	Director
10.	P.K. Sinha Joint Secretary & Financial Advisor, MoP&NG (upto 17.02.2006)	Director
11.	Ajay Tyagi Joint Secretary, MoP&NG (w.e.f. 20.04.2005)	Director
III. Part-time Non-official Directors (Independent)		
12.	Dr. Amit Mitra	Director
13.	Dr. A.K. Kundra	Director
14.	B.C. Bora	Director

None of the Part-time Directors (Government Nominee) or Part-time Non-official Directors (Independent) hold any equity shares in the Company.

ii. **Attendance of each Director at the Board meetings and the last AGM**

The attendance of Directors at the Board meetings held during 2005-2006 and the Annual General Meeting held on 28.09.2005, is as below:

S. No.	Name of the Director (S/Shri)	Date of appointment	Date of cessation	No. of Board meetings attended (out of 15)	Attendance at 21st AGM held on 28.09.2005 (Yes / No)
1.	Proshanto Banerjee	27.08.2001	---	12	Yes
2.	S.P. Rao	22.10.1999	---	14	Yes
3.	B.S. Negi	01.01.2003	---	13	Yes
4.	M.R. Hingnikar	28.07.2003	---	14	Yes
5.	Dr. U.D. Choubey	06.05.2004	---	14	No
6.	R.K. Goel	01.11.2005	---	6	---
7.	J.K. Jain	22.01.1996	31.10.2005	9	Yes
8.	M.S. Srinivasan	28.01.2005	02.01.2006	7	No
9.	Anil Razdan	17.02.2006	---	1	---
10.	P.K. Sinha	20.12.2004	17.02.2006	12	Yes
11.	Ajay Tyagi	20.04.2005	---	10	No
12.	Dr. Amit Mitra	29.04.1999	---	9	No
13.	Dr. A.K. Kundra	18.08.2003	---	15	Yes
14.	B.C. Bora	18.08.2003	---	13	No

iii. **Number of other Boards or Board Committees in which a Director is a Member or Chairman**

As on 31.03.2006, the Directors of the Company held the following directorships and committee positions in other Companies:

S. No.	Name of the Director (S/Shri)	No. of Directorship(s) held in other Companies and name of the Company	No. of Membership(s) in Committees of Board of other Companies	Chairmanship(s) in Committees of Board of other Companies
1.	**Proshanto Banerjee**	**Nil**	**Nil**	**Nil**
2.	**S.P. Rao**	**1** Bhagyanagar Gas Limited	**Nil**	**Nil**
3.	**B.S. Negi**	**4** Petronet LNG Limited Ratnagiri Gas & Power Pvt. Limited Shell CNG, Egypt Fayum Gas Company, Egypt	**Nil**	**Nil**
4.	**M.R. Hingnikar**	**1** Mahanagar Gas Limited	**1** Audit Committee-Mahanagar Gas Limited	**Nil**
5.	**Dr. U.D. Choubey**	**6** Central U.P. Gas Limited Green Gas Limited Mahanagar Gas Limited Tripura Natural Gas Company Limited Ratnagiri Gas & Power Pvt. Limited GAIL Global (Singapore) Pte. Limited	**Nil**	**Nil**
6.	**R.K. Goel**	**1** Ratnagiri Gas & Power Pvt. Limited	**Nil**	**Nil**
7.	**Anil Razdan**	**2** Oil & Natural Gas Corporation Limited Indian Oil Corporation Limited	**Nil**	**Nil**
8.	**Ajay Tyagi**	**1** Bharat Petroleum Corporation Limited	**Nil**	**Nil**
9.	**Dr. Amit Mitra**	**2** Steel Authority of India Limited Bata India Limited	**1** Audit Committee-Bata India Limited	**Nil**
10.	**Dr. A.K. Kundra**	**1** Punjab Alkalies & Chemicals Limited	**Nil**	**Nil**
11.	**B.C. Bora**	**Nil**	**Nil**	**Nil**

iv. Number of Board meetings and dates

The details of Board meetings of the Company, held during 2005-2006, are as follows:

S. No.	Board Meeting	Date of Board Meeting
1.	222nd	01.04.2005
2.	223rd	25.04.2005
3.	224th	29.04.2005
4.	225th	13.05.2005
5.	226th	21.06.2005
6.	227th	22.07.2005
7.	228th	27.07.2005
8.	229th	13.09.2005
9.	230th	27.10.2005
10.	231st	12.01.2006
11.	232nd	18.01.2006
12.	233rd	27.01.2006
13.	234th	03.02.2006
14.	235th	15.02.2006
15.	236th	20.03.2006

3. AUDIT COMMITTEE

i. Brief description of terms of reference

The terms of reference of Audit Committee include overseeing the Company's financial reporting process and the disclosure of its financial information; reviewing with the management, the quarterly and annual financial statements before submission to the Board for approval; reviewing, with the management, the performance of statutory and internal auditors and adequacy of internal control systems and all other matters specified under Clause 49 of the Listing Agreement of Stock Exchanges.

ii. Composition, name of members and Chairman

During the year 2005-2006, the composition of Audit Committee of the Company was as follows:

S. No.	Name of the Director (S/Shri)	Designation
1.	Dr. A.K. Kundra	Chairman
2.	Dr. Amit Mitra	Member
3.	B.C. Bora	Member
4.	P.K. Sinha (upto 17.02.2006)	Member

All the members of the Audit Committee are financially literate. The Chairman of the Committee, Dr. A.K. Kundra (IAS) holds a Masters Degree in Economics, and is a Ph. D from JNU; thus being an expert in accounting and financial management.

Besides the above, the following are permanent invitees to the meetings of Audit Committee:

1. Director (Finance)
2. Statutory Auditors of the Company
3. Head of Internal Audit

The Company Secretary acts as the Secretary to the Committee.

iii. Meetings and attendance during the year

During the financial year 2005-2006, 12 meetings of Audit Committee were held, the details of which are as below:

S. No.	Meeting No.	Date of Meeting(s)
1.	37th	26.04.2005
2.	38th	29.04.2005
3.	39th	14.06.2005
4.	40th	21.06.2005
5.	41st	27.07.2005
6.	42nd	20.09.2005
7.	43rd	27.10.2005
8.	44th	24.11.2005
9.	45th	23.12.2005
10.	46th	12.01.2006
11.	47th	07.03.2006
12.	48th	16.03.2006

Out of the above meetings, Dr. A.K. Kundra, Dr. Amit Mitra, Shri B.C. Bora and Shri P.K. Sinha (upto 17.02.2006) attended 12, 2, 11 and 5 meetings respectively.

4. REMUNERATION COMMITTEE

GAIL being a Government Company, the remuneration of its Whole-time Directors is determined by the President of India, through Ministry of Petroleum & Natural Gas. The Part-time Directors (Government Nominees) do not receive any remuneration from the Company. Further, the Part-time Non-official Directors (Independent) were paid a sitting fee of Rs.10,000/- for attending each meeting of the Board of Directors and Committee(s) thereof, alongwith expenses incidental thereto.

The details of remuneration paid to Whole-time Directors of the Company for the financial year 2005-2006, is as below:

(Rs.in Lakhs)

S. No.	Name of the Director (S/Shri)	Salary & Allowances	Contribution to PF, Gratuity and other Funds	Other benefits and pre-quisites	Performance Linked Incentives	Total
1.	Proshanto Banerjee Chairman & Managing Director	6.81	1.84	0.71	1.19	10.55
2.	S.P. Rao Director (Projects)	6.26	1.20	0.67	1.05	9.18
3.	B.S. Negi Director (Business Development)	6.59	1.47	0.36	1.13	9.55
4.	M.R. Hingnikar Director (HR)	6.21	1.37	2.00	1.07	10.65
5.	Dr. U.D. Choubey Director (Marketing)	6.35	1.11	3.02	1.04	11.52
6.	R.K. Goel Director (Finance)	6.20	1.00	2.54	1.04	10.78
7.	J.K. Jain Director (Finance) upto 31.10.05	3.51	4.68	6.96	1.00	16.15

The payment made to Whole-time Directors of the Company includes performance linked incentives, as per the policy of the Company which is applicable to all the employees of the Company. The service contract is for five years (or till superannuation, whichever is earlier) and is renewable for further similar periods. The notice period is for three months or salary in lieu thereof is required for severance of service. The Company has not introduced any stock-option scheme.

The details of sitting fees paid to the Part-time Non-official Directors (Independent), for attending the meetings of the Board of Directors and Committees thereof, are given below:

S. No.	Name of the Director (S/Shri)	Amount (in Rs.)
1.	Dr. Amit Mitra	1,20,000
2.	Dr. A. K. Kundra	3,30,000
3.	B.C. Bora	3,50,000

5. SHAREHOLDERS / INVESTORS GRIEVANCE COMMITTEE

During the year 2005-2006, the composition of the Shareholders / Investors Grievance Committee of the Company was as follows:

S. No.	Name of the Director (S/Shri)	Designation
1.	B.C. Bora	Chairman
2.	S.P. Rao	Member
3.	M.R. Hingnikar	Member

Shri N.K. Nagpal, Company Secretary, acts as the Compliance Officer of the Company.

During the year 2005-2006, 475 complaints were received from the shareholders / investors, through SEBI / Stock Exchanges, which pertained to matters like non-receipt of dividend, non-allotment of shares through Offer for Sale by Government of India, etc. Out of the above, 427 complaints were resolved to the satisfaction of shareholders. As on 31.03.2006, 48 nos. of complaints were pending.

The Company has taken various steps to ensure that the shareholder-related matters are given due priority and the matters/issues raised are resolved at the earliest.

6. GENERAL BODY MEETINGS

Location and time, where last three AGMs were held

The location and time of last three AGMs are as follows:

For the Year	2002-03	2003-04	2004-05
AGM	19th	20th	21st
Date & Time	30.09.2003 4.00 p.m.	30.09.2004 10.30 a.m.	28.09.2005 10:30 a.m.
Venue	FICCI Golden Jubilee Auditorium Tansen Marg New Delhi	Siri Fort Cultural Complex, Khel Gaon Marg, Siri Fort Road New Delhi	Siri Fort Cultural Complex, Khel Gaon Marg, Siri Fort Road New Delhi

Whether any special resolutions passed in the previous 3 AGMs

The details of special resolutions passed during the previous three AGMs, are as follows:

AGM	Special Resolution passed	Details
19th	None	---
20th	Change in place of keeping, and inspection of, Registers and Returns (u/s 163 of the Companies Act, 1956)	To authorize the Registrar & Transfer Agent, i.e., MCS Limited, to keep the Register of Members, Index of Members and Returns at their new address.
21st	None	---

Whether any special resolution was passed last year through postal ballot – details of voting pattern

During the last year, no item warranted the postal ballot as stipulated under the Companies Act, 1956.

Whether any special resolution is proposed to be conducted through postal ballot

No resolution is proposed to be conducted through postal ballot in the forthcoming AGM.

7. DISCLOSURES

i. During the year, there have been no materially significant related party transactions that may have potential conflict with the interest of the Company at large. The details of "Related Party Disclosures" are being disclosed in Notes no. 9 of schedule 14 to the accounts in the Annual Report.

ii. The CEO/CFO of the Company have certified the specified matters to the Board, as required under Clause 49 V.

iii. All the Board members and senior management personnel have affirmed compliance with the Code of Conduct of the Company for the financial year ending on 31st March, 2006.

iv. None of the Non-executive Directors had any pecuniary relationship or transactions with the Company during the financial year ending 31st March, 2006.

v. The Company has complied with the requirements of the SEBI, Stock Exchanges or any regulatory authorities on 'Capital Market' related activities as applicable from time to time. During the last three years, there has been no non-compliance to the provisions/ requirements of SEBI, Stock Exchanges or any regulatory authorities related to the capital market. The Company has also opted for voluntary Secretarial Audit from a practicing Company Secretary.

vi. The Company has put in place a suitable machinery to act on complaints from "whistle blowers", in terms of Ministry of Personnel, Public Grievances and Pensions Resolution no. 371/12/2002-AVD-III dated 21st April, 2004.

vii. The Company has complied with the mandatory requirements of Clause 49 of the Listing Agreement, save and except composition of the Board of Directors. The Government of India is in the process of selecting Independent Directors through a process of Search Committee and will take some time before the Government nominates more number of Independent Directors on the Board of GAIL. The Company has so far adopted the applicable non-mandatory requirements of new clause 49 of the listing Agreement with stock exchanges except w.r.t. training of Board members.

8. MEANS OF COMMUNICATION

In order to attain maximum shareholder-reach, the quarterly and half-yearly results of the Company, during the year 2005-2006, were published in leading newspapers (English & Hindi), viz., The Economics Times, The Hindustan Times, The Times of India, Navbharat Times and Hindustan.

The "Limited Review" reports of the financial results for the quarters ended 30th June, 2005, 30th September, 2005 and 31st December, 2005 were obtained from the statutory auditors of the Company and filed with the stock exchange(s).

The Company also displays its Financial Results on its website, i.e., **www.gailonline.com.** The Company also posts its Shareholding Pattern and Financial Results in the EDIFAR section of SEBI website.

To facilitate prompt correspondence with investors relating to their queries and grievances, the Company has a dedicated email-id, viz., **investorqueries@gail.co.in.**

Besides the above, press releases of the Company and presentations made to analysts are also displayed on the Company's website.

9. GENERAL SHAREHOLDER INFORMATION

i. Forthcoming AGM : Date, time and venue

The 22nd Annual General Meeting of the Company is scheduled for Monday, the 14th August, 2006 at 10.30 a.m. at Air Force Auditorium, Subroto Park, New Delhi-110010

ii. Financial year

The Company's financial year was from 1st April, 2005 to 31st March, 2006.

iii. Date of Book closure and Dividend Payment Date

During the financial year 2005-2006, the Board of Directors approved the payment of dividend, for which the respective record date(s)/book closure period(s) and dividend payment date(s) were as follows:

S. No.	Dividend Declared	Dividend (%)	Record Date/ Book Closure	Dividend Payment Date
1.	Interim Dividend	60	17.01.2006	18.01.2006
2.	Special Interim Dividend	20	21.02.2006	22.02.2006
3.	Final Dividend (Proposed)	20	To be declared at the 22nd AGM	

Further, the Register of Members shall remain closed from Tuesday, 1st August, 2006 to Monday, 14th August, 2006 (both days inclusive) for the purpose of determining the eligibility of the members/beneficial owners of the Company for the payment of Final Dividend @ 20% on equity shares, for the year ended 31st March, 2006, if approved by the shareholders at the ensuing Annual General Meeting. With this, the Company has paid a total dividend of 100% on the paid-up equity share capital, for the year ended 31st March, 2006.

iv. Listing on Stock Exchanges

The equity shares of the Company are listed at:

1. The National Stock Exchange of India Limited (NSE)
2. Bombay Stock Exchange Limited (BSE)
3. The Delhi Stock Exchange Association Limited (DSE)

The proposal for de-listing the equity shares of the Company from DSE has been put up in the Notice of the forthcoming AGM, for consideration of the shareholders.

In addition to the above, the Global Depository Receipts (GDRs) of the Company are listed at the London Stock Exchange.

Further, the Bonds (Series I & II) of the Company are listed at the Wholesale Debt Market (WDM) segment of NSE.

The Annual listing fees for the listed Equity Shares and Bonds of the Company, pertaining to the year 2005-2006, has been paid to the concerned Stock Exchanges on demand. The Company has also made the payment of the Annual Custody Fees to National Securities Depository Limited (NSDL) and Central Depository Services (India) Limited (CDSL), for the financial year 2006-2007, based on the folio/ISIN positions as on 31.03.2006.

v. Stock Codes

The stock codes of the Company's securities are as follows:

Stock Exchange(s)	Security Code	Type of Security
National Stock Exchange of India Limited (NSE)	GAILEQ	Equity Shares
Bombay Stock Exchange Limited (BSE)	532155	Equity Shares
The Delhi Stock Exchange Association Limited (DSE)	---	Equity Shares
London Stock Exchange (LSE)	GAID LI GAILY US	GDRs

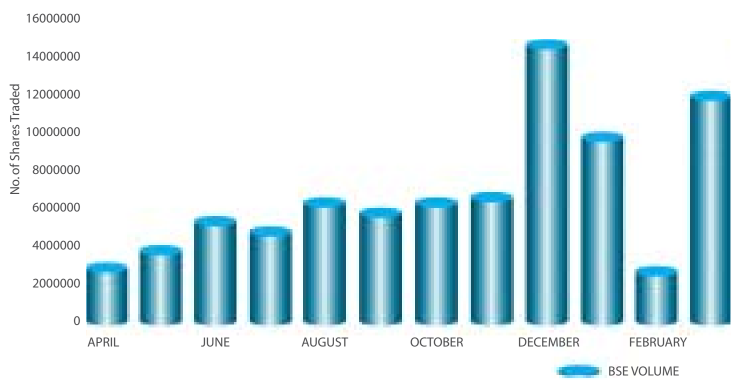
vi. Market Price Data: High, Low during each month in last financial year

MONTH(S) 2005-06	BSE			NSE			MARKET INDEX	
	HIGH (in Rs.)	LOW (in Rs.)	VOLUME (No. of Shares)	HIGH (in Rs.)	LOW (in Rs.)	VOLUME (No. of Shares)	BSE SENSEX	NIFTY
APRIL	221.70	198.70	3364732	221.45	198.50	14695458	6649	2084
MAY	236.00	202.00	4110526	233.20	203.00	20295760	6772	2099
JUNE	229.80	210.00	5597145	229.80	210.05	17373291	7228	2226
JULY	232.40	208.00	5025405	231.80	208.00	15446006	7708	2332
AUGUST	245.95	221.00	6938923	276.00	221.50	23525049	7921	2426
SEPTEMBER	270.20	231.00	6530142	270.50	231.00	21183650	8722	2633
OCTOBER	287.50	231.00	7094999	287.40	230.60	25202440	8821	2669
NOVEMBER	277.70	235.10	7776758	277.80	232.50	24493895	9033	2727
DECEMBER	282.00	250.55	15282032	281.70	231.90	35921838	9442	2857
JANUARY	293.10	264.05	10496442	293.50	263.55	21674237	9945	3005
FEBRUARY	297.00	270.00	3537048	299.00	269.15	15447550	10422	3090
MARCH	325.20	267.50	12687480	325.70	267.00	51937120	11356	3433

vii. Performance in comparison to broad-based indices such as BSE Sensex, CRISIL index etc.

BSE Sensex Vs GAIL High for the period 2005-06

Volume of GAIL's Shares traded on BSE for the period 2005-06

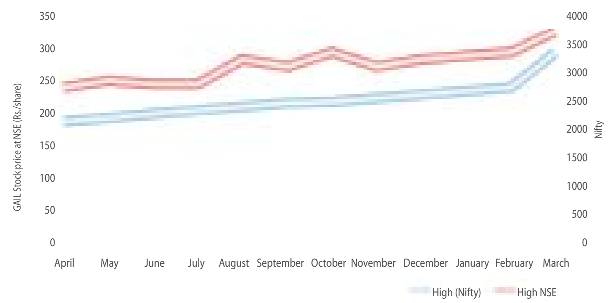


viii. Registrar and Share Transfer Agent

The Registrar & Share Transfer Agent of the Company is MCS Limited, New Delhi, who can be contacted at the following address:

MCS Limited
Sri Venkatesh Bhawan
W-40, Okhla Industrial Area, Phase-II
New Delhi - 110020
Phone: 91-11-41406150 / 52
91-11-41609386
Fax: 91-11-26384907

Nifty Vs GAIL High for the period 2005-06



Volume of GAIL's Shares Traded on NSE for the period 2005-06

ix. Share Transfer System

The shares of the Company are being compulsorily traded in dematerialized form w.e.f. 15.02.1999. Shares in physical form, received for transfer, are transferred within a period of 30 days from the date of lodgment of valid share transfer deed along with share certificate. These requests are processed through the Company's Registrar & Share Transfer Agent, i.e., MCS Limited.

The Company has a Share Transfer Committee comprising of all the Whole-time Directors, including C&MD, which considers the requests for transfer/transmission of shares, issue of duplicate share certificates, re-materialization, etc.

During the year, half-yearly certificate(s), confirming due compliance of the share transfer formalities by the Company [Clause 47(c) of the Listing Agreement]; and Secretarial Audit Report(s) [under SEBI (Depositories and Participants) Regulations, 1996] for reconciliation of total admitted capital with both the depositories, were obtained from a Practicing Company Secretary and the same were also submitted with the stock exchanges within the stipulated time.

x. Distribution of shareholding

The distribution of shareholding of the Company as on 31.03.2006 is detailed below:

No. of Share-holders	% to Total	Shareholding of nominal value of Rs.10	No. of Shares	Amount (in Rs.)	% of Total
191306	99.7336	Upto 5000	22016771	220167710.00	2.6035
172	0.0897	5001 to 10000	1280388	12803880.00	0.1514
87	0.0454	10001 to 20000	1302157	13021570.00	0.1540
33	0.0172	20001 to 30000	825740	8257400.00	0.0976
17	0.0089	30001 to 40000	609229	6092290.00	0.0720
13	0.0068	40001 to 50000	609004	6090040.00	0.0720
37	0.0193	50001 to 100000	2687436	26874360.00	0.3178
152	0.0792	100001 and above	816320875	8163208750.00	96.5316
191817	**100.00**	**TOTAL**	**845651600**	**8456516000.00**	**100.00**

xi. Dematerialization of shares and liquidity

The shares of the Company are compulsorily traded in dematerialized form w.e.f. 15.02.1999. As on 31st March, 2006, 99.97% of the shares held by shareholders (excluding the shares held by the President of India), were held in dematerialized form. The demat ISIN of the Company's equity shares is INE129A01019.

xii. Outstanding GDRs/ADRs/Warrants or any Convertible instruments, conversion date and likely impact on equity

The Government of India had disinvested 135 million Equity shares out of its holding in the international market through GDR mechanism in 1999-2000. A total no. of 22.5 million GDRs were issued, one GDR representing six underlying equity shares. As on 31.03.2006, a total no. of 8372853 GDRs were outstanding. The conversion of GDRs into Equity shares has no impact on total equity capital.

xiii. Plant Locations

The following are the major plant locations of the Company:-

U.P. Petrochemical Complex
PATA
P.O. Pata – 206 241
Distt. Auraiya (U.P.)

LPG Recovery Plant
Usar
P.O. Malyan – 402 203
Tal. Alibagh
Distt. Raigad (Maharashtra)

LPG Recovery Plant
Vijaipur
GAIL Complex
Vijaipur – 473 112
Distt. Guna (M.P.)

LPG Recovery Plant, Vaghodia
GIDC Industrial Estate
Vaghodia – 391 760
Distt. Baroda (Gujarat)

LPG Recovery Plant
Lakwa
Sivasagar – 785 688
Assam

LPG Recovery Project
Gandhar
Village Rozantankaria
Tal. AMOD
Distt. Bharuch – 392 140
Gujarat

xiv. Address for correspondence

GAIL (India) Limited
16, Bhikaiji Cama Place
R.K. Puram
NEW DELHI - 110 066
Phone: 91-11-26172580
91-11-26182955
Fax No.: 91-11-26185941

Auditor's Certificate on Corporate Governance

To

The Shareholders of GAIL (India) Limited

We have read the report of the Board of Directors on Corporate Governance and have examined the relevant records relating to the compliance of the conditions of Corporate Governance by GAIL(India) Limited for the year ended March 31,2006 as stipulated in clause 49 of the Listing Agreement of the said Company with the Stock Exchanges.

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

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

We state that no investor grievance(s) is/are pending for a period exceeding for one month except the grievance relating to offer for sale of equity shares upto 10% and/or constrained by incomplete documentation and/or legal impediments against the Company as per the certificate of the Registrar & Transfer Agent of the Company.

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

For S Mann & Co.
Chartered Accountants

Subhash Mann
Partner
Membership No. 80500

New Delhi
April 28, 2006

HUMAN RESOURCES VALUATION

Human Resources (HR) (or Human Capital) valuation refers to identifying and measuring the value of human resources of a company. In several cases, the market value of a company exceeds the book value of a company. This is partly due to the market's different valuation of the assets on the balance sheet, and more importantly due to the fact that the market values assets, that are not shown in the balance sheet, according to current conventions. Employees are not identified as assets on the balance sheet, but financial decision makers most likely take into consideration human resource information in their evaluations of an organization.

The value of the competence of the employees is becoming more and more important to the company in relation to the value of its activities. It is also observed that in the recent past, many of the listed Indian companies have started reporting Human Resources (HR) valuation in their annual reports.

Key Reasons for Valuing Human Resources

- **Better Disclosure:** The return on Human Capital can be better understood by shareholders
- **Other Stake Holders interest:** Vital stake holders in the company, other than shareholders, such as customers and employees themselves benefit from this. While customers draw a comfort that the company has strong human capital to service their demands, employees get more motivated that they are assets of the company and not expense.
- **Performance Benchmark:** Apart from key market and internal benchmarks for performance evaluation, HR valuation has become a new performance metric in the industry

Valuation Approaches

Broadly there are two key approaches to value Human Resources. These are cost based and economic approaches.

Cost Based Approach

Cost based approach can be further classified into three:

- **Historical cost method:** The human resource costs are current sacrifices for obtaining future benefits and therefore to be treated as assets. The method suggests capitalising the firm's expenditure on recruitment, selection, training and development of employees and treating them as assets for the purpose of human resource accounting. However, capitalisation of costs may not reflect value.
- **Replacement cost method:** This method involves assessment of replacement cost of individuals, and rebuilding cost of the organisation to reflect HR asset value of both the individuals and the organisation. However, the replacement cost may not reflect either the actual costs or the contribution associated with HR.
- **Opportunity cost method:** This model envisages computation of monetary value and allocation of people to the most promising activity and thereby to assess the opportunity cost of key employees through competitive bidding among investment centers. It may be practically difficult to implement and measure.

Since cost based approach uses historical data and does not focus on future and future earnings, these are not widely used.

Economic Approach Model

The ***Economic Approach Model*** is a widely used model for valuing human resources of an organization. The model relates an employee's expected economic value to the firm to his future earnings for his remaining active service life, until retirement in that enterprise. The growth rate of earnings or cost to company (CTC) of each employee till retirement is determined based on current earnings, grade of each employee, company policy, industry trends and sustainable growth rates. Based on the growth rate, each employee's CTC is forecasted and discounted by the weighted average cost of capital of the company to arrive at the value of Human Resources. Thus, the value of the total human resources of a company is the present value of aggregated future earnings of all employees.

HR Valuation of GAIL (India) Limited

The Human Resource value for GAIL has been estimated by Grant Thornton, a leading international accounting firm, based on their report dated 9 June 2006. The Economic Approach Model has been used to compute the value of the human resources of GAIL (India) Limited as of March 31, 2006.

GAIL (India) Limited has 18 different grades of employees. There are 3443 employees (including Directors) currently working for GAIL, based at different locations. The cost to company (CTC) of each of the employee has been analysed and future earnings of the employees has been projected till retirement, based on expected growth in CTC. The retirement age is 60 years as per company policy.

The projected earnings of all employees till retirement is aggregated and discounted at GAIL's cost of capital, which is determined as follows:

- Weighted Average Cost of Capital (WACC) is estimated at 13.27% for GAIL based on the weighted average cost of equity and debt. To arrive at cost of equity, the Capital Asset Pricing Model (CAPM) is used based on the formula ke= rf + ß (rm -rf) where

  ke= Cost of Equity,.
  rf = Risk free Return,
  rm= Market Rate of Return and
  ß = Measure of Market Risk

- Risk free return (rf) – Yield on long term Government of India Securities is taken as risk free rate

- Market rate of return – Long term rate of return in the stock market

Based on the above, the human resources value for GAIL (India) Limited is estimated at Rs 3,456 crores.

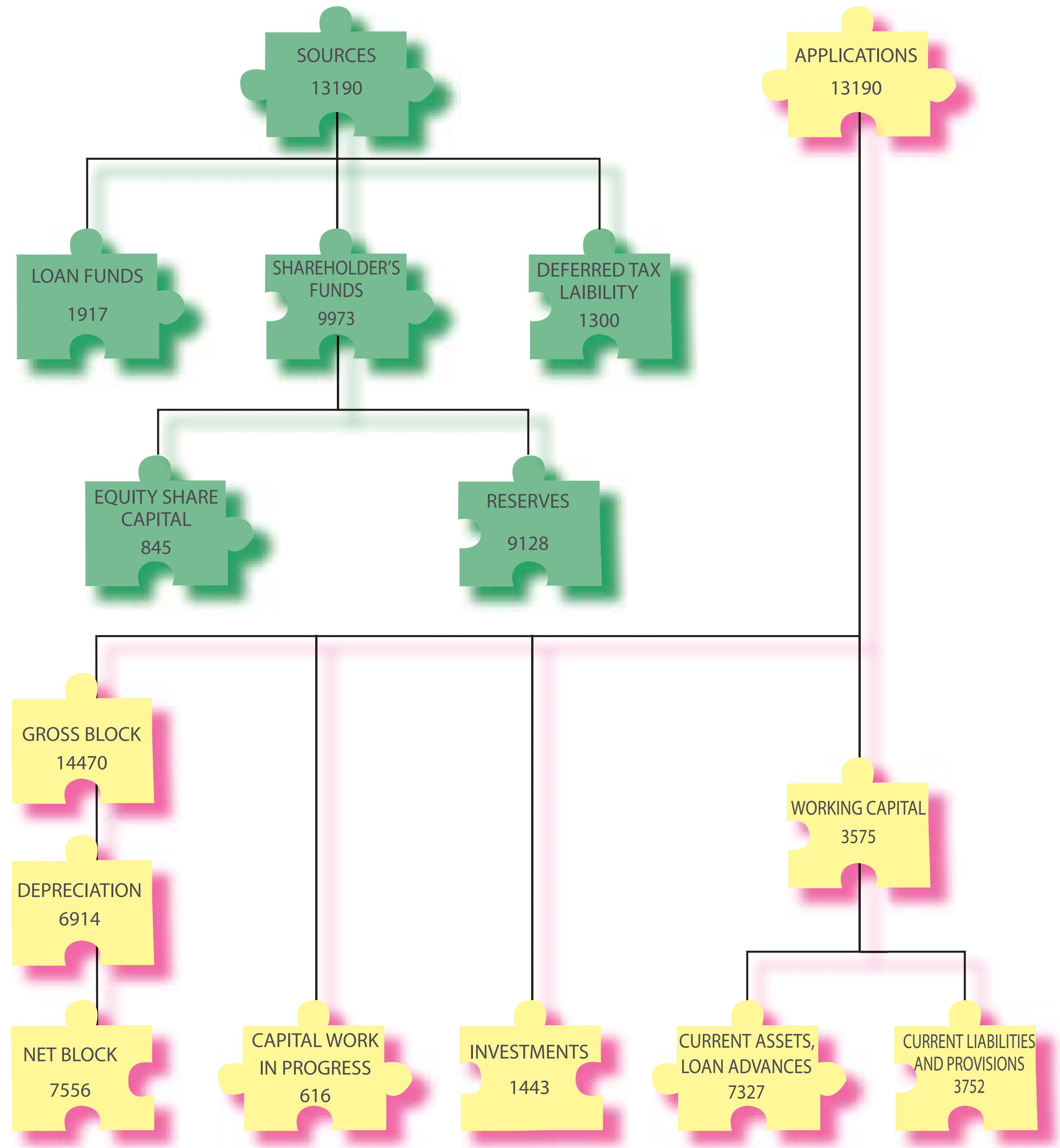
Particulars	2005-06
Number of employees	3,443
Total value of Human Resources	Rs.3,456 Crores
Value of Human Resources per employee	Rs.1.00 Crores

"A Consistent winning performance"

Five Year Profile

SOURCES AND APPLICATION OF FUNDS AS AT 31ST MARCH, 2006

(Rs.in Crores)



Five Year Profile

(A) FINANCIAL

(Rs.in Crores)

	2001-02	2002-03	2003-04	2004-05	2005-06
PAID-UP CAPITAL	845.65	845.65	845.65	845.65	845.65
RESERVES & SURPLUS	4489.79	5493.48	6599.50	7780.46	9127.64
SECURED LOANS	397.63	163.95	1655.52	1600.00	1600.00
UNSECURED LOANS	2027.18	1883.17	477.96	397.40	316.56
DEFERRED TAX LIABILITY (NET)	1090.74	1119.75	1227.58	1255.23	1299.70
	8850.99	**9506.00**	**10806.21**	**11878.74**	**13189.55**
REPRESENTED BY :					
GROSS BLOCK	10701.94	11048.71	13584.73	14222.35	14469.48
LESS : DEPRECIATION	4167.06	4786.61	5441.85	6376.47	6913.52
NET FIXED ASSETS	6534.88	6262.10	8142.88	7845.88	7555.96
CAPITAL WORK-IN-PROGRESS	425.70	688.14	814.47	309.08	615.59
INVESTMENTS / ADVANCES FOR INVESTMENT (PENDING ALLOTMENT)	688.21	687.94	771.99	783.95	1443.35
NET CURRENT ASSETS	1201.98	1867.71	1076.87	2939.83	3574.65
MISCELLANEOUS EXPENDITURE	0.22	0.11	-	-	-
	8850.99	**9506.00**	**10806.21**	**11878.74**	**13189.55**
GROSS SALES	9567.50	10641.99	11295.67	12927.07	14875.49
GROSS MARGIN	2622.05	3348.31	3614.10	3950.37	3954.38
DEPRECIATION	593.16	643.54	661.60	944.89	560.46
PRELIMINARY/DEFERRED REVENUE					
EXPENSES WRITTEN-OFF	0.11	0.11	0.11	-	-
INTEREST	226.88	186.37	137.97	134.09	117.30
PROFIT/(LOSS) BEFORE TAX	1801.90	2518.29	2814.42	2871.39	3276.62
PROFIT/(LOSS) AFTER TAX	1185.84	1639.11	1869.34	1953.91	2310.07
DIVIDEND INCL. INTERIM DIVIDEND	380.54	591.96	676.52	676.52	845.65
CORPORATE DIVIDEND TAX	-	43.34	86.68	92.51	118.60
INTERNAL GENERATION	1779.11	2282.76	2531.05	2898.80	2870.53
NET WORTH	5332.65	6336.57	7410.70	8559.65	9874.81
CAPITAL EMPLOYED	7736.86	8129.81	9219.75	10785.71	11130.61

Five Year Profile

(B) GAS THROUGHPUT/PRODUCTION

	2001-02	2002-03	2003-04	2004-05	2005-06
NATURAL GAS (MMSCMD)	61.60	63.40	62.84	71.56	78.87
LPG (M / T)	998236	1114423	1088686	1094835	1042219
SBP SOLVENT (M / T)	23454	34508	65298	58876	56218
PENTANE (M / T)	24253	33466	51872	57525	53346
PROPANE (M / T)	87435	120188	157303	181863	173920
ETHYLENE (M / T)	272048	311995	275610	319290	325808
HDPE/LLDPE (M/T)	250288	291829	263720	298787	311469

(C) FINANCIAL RATIOS

	2001-02	2002-03	2003-04	2004-05	2005-06
NET WORTH PER RUPEE OF PAID-UP CAPITAL (RS.)	6.31	7.49	8.76	10.12	11.68
BORROWINGS TO NET WORTH (RS.)	0.45	0.32	0.29	0.23	0.19
PROFIT BEFORE TAX TO CAPITAL EMPLOYED (%)	23.29	30.98	30.53	26.62	29.44
PROFIT BEFORE TAX TO NET WORTH (%)	33.79	39.74	37.98	33.55	33.18
PROFIT BEFORE TAX TO GROSS SALES (%)	18.83	23.66	24.92	22.21	22.03
PROFIT BEFORE TAX TO GROSS FIXED ASSETS (%)	16.84	22.79	20.72	20.19	22.65
GROSS SALES TO CAPITAL EMPLOYED (%)	123.66	130.90	122.52	119.85	133.64
EARNING PER SHARE (RS.)	14.02	19.38	22.11	23.11	27.32
DIVIDEND PER SHARE (RS.)	4.50	7.00	8.00	8.00	10.00
DIVIDEND PAYOUT RATIO (INCLUDING DIVIDEND TAX)	32.09	38.76	40.83	39.36	41.74

"Achieving winning heights"

Annual Accounts

Auditor's Report to the Shareholders

We have audited the attached Balance Sheet of GAIL (India) Limited as at 31st March, 2006, the Profit and Loss Account and Cash Flow Statement of the Company for the year ended on that date annexed thereto in which are incorporated the accounts of two units audited by branch auditors. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

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

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

a. We have obtained all the information and explanations, which to the best of our knowledge and belief were necessary for the purposes of our audit;

b. The allocation of work amongst the auditors has been followed as per the directions contained in letter addressed to GAIL (India) Ltd. by the office of the Comptroller & Auditor General of India, New Delhi.

c. In our opinion, proper books of account as required by law have been kept by the Company so far as appears from our examination of those books. The Branch Auditor's Report have been forwarded to us and have been appropriately dealt with;

d. The Balance Sheet and Profit & Loss Account and the Cash Flow Statement dealt with by this report are in agreement with the books of account;

e. In our opinion, the Balance Sheet, Profit and Loss Account and the Cash Flow Statement dealt with by this report comply with the Accounting Standards referred to in sub-section (3C) of Section 211 of the Companies Act, 1956;

f. On the basis of written declaration received from the Directors, as on 31st March, 2006, and taken on record by the Board of Directors, we report that none of the directors is disqualified as on 31st March, 2006 from being appointed as a director in terms of clause (g) of sub-section (1) of section 274 of the Companies Act, 1956;

g. Attention is invited to Note No. 14 (a) of Schedule 14 regarding change in depreciation rate of Gas Pipeline which reduced the depreciation charged to Profit & Loss Account amounting to Rs.406.49 Crores with subsequent increase in PBT.

h. *Subject to the foregoing,* in our opinion and to the best of our information and according to the explanations given to us, the said financial statements read together with the significant accounting policies and notes thereon give the information required by the Companies Act, 1956, in the manner so required and give a true and fair view in conformity with the accounting principles generally accepted in India:

a) in the case of the Balance Sheet, of the state of affairs of the Company as at 31st March, 2006,

b) in the case of the Profit & Loss Account, of the profit for the year ended on that date and

c) in the case of the Cash Flow Statement, of the cash flow of the Company for the year ended on that date.

For S. Mann & Co.
Chartered Accountants

Subhash Mann
(Partner)
Membership No. 80500

New Delhi
April 28, 2006

Annexure to the Auditor's Report

The Annexure referred to in the auditor's report to the shareholders of GAIL (India) Limited for the year ended March 31, 2006. We report that :

(i) (a) The Company has generally maintained proper records showing full particulars including quantitative details and situation of fixed assets.

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

In our opinion, there was no substantial disposal of fixed assets during the year.

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

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

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

(iii) The Company has neither granted nor taken any loans secured or unsecured, to or from companies, firms or other parties covered in the register maintained under Section 301 of the Companies Act, 1956.

(iv) In our opinion, and according to information and explanations given to us, there are adequate internal control procedure commensurate with the size of the Company and the nature of its business for the purchase of inventory and fixed assets and for the sale of goods. During the course of our audit no major weakness has been noticed in the internal controls.

(v) On the basis of our examination of the books of accounts, the Company has not made any transactions in respect of any party during the financial year that needs to be entered in the register pursuant to the section 301 of the Companies Act, 1956.

(vi) The Company has not accepted any deposits from the public during the year and consequently, the directive issued by the Reserve Bank of India and the provisions of section 58A and 58AA of the Companies Act, 1956, and the rules framed there under are not applicable.

(vii) In our opinion, the Company's internal audit system is commensurate with its size and nature of its activities. However, it requires further strengthening due to increase in the activities of the Company in recent past.

(viii) As certified by the management and independent Cost Accountants, in our opinion, the Company is maintaining the prescribed cost accounts and records pursuant to the rules made by the Central Government for the maintenance of cost records under clause (d) of sub-section (1) of section 209 of the Companies Act, 1956.

(ix) (a) According to the records of the Company, the Company is generally regular in depositing undisputed statutory dues including Provident fund, Investor Education and Protection Fund, Employees' State Insurance, Sales tax, Wealth tax, Service Tax, Custom duty, Excise duty, cess and any other statutory dues with the appropriate authorities. According to the information and explanation given to us, no undisputed amounts payable in respect of Sales tax, Service Tax, Custom duty, Excise duty and other statutory dues were outstanding at the year end for a period of more than six months from the date they become payable except income tax, amounting to Rs.7.74 Crores on account of TDS

Further, since the Central Government has till date not prescribed the amount of cess payable under Section 441A of the Companies Act, 1956, we are not in a position to comment upon the regularity or otherwise of the Company in depositing the same.

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

(Rs.in Crores)

Sl.No.	Issue	Subject matter of dispute	Amt.	Status - Forum
1.	Entry Tax	Entry Tax on market value of natural gas instead of its purchase price	95.28	Allahabad High Court
2.	Sales Tax	a. Non acceptance of declaration form for concessional sales tax	2.83	Dy. Commissioner (Appeals), Surat
		b. CST on transmission charges	7.77	Tribunal, Chennai
		c. Demand against adjust-ment of past period tax	0.20	Dy. Commissioner (Appeals), Gwalior
		d. Sales Tax Demand	4962.22	Refer Note on 2 (c) of Schedule 14.
3.	Income Tax	Penalty demands against cases pending at ITAT *(Refund of Rs.51.93 Crore adjusted by Deptt against this demand)	* 234.12 (Net 182.19)	CIT(A)
4.	Customs	a. Demand of duty on Panna-Mukta Gas	581.22	Commissioner of Customs, Ahmedabad
5.	Excise	a. Duty on Lean Gas	137.84	CESTAT dismissed the demand. Order not yet received .
		b. Duty on Lean Gas – 57CC	333.77	Supreme Court
		c. Disputed Modvat of Pata	4.67	Dy.Commissioner, Agra
		d. Duty on Lean Gas – 57CC	55.44	Commissioner of Central Excise, Raigad
		e. LPG valuation	37.42	CESTAT/Commissioner
		f. Pentane reclassification	3.26	CESTAT
		g. Modvat on Comp - Pata	43.30	Commissioner (A)
6.	Other taxes	Notified area tax on revised value	2.02	Ahmedabad High Court

(x) The Company has no accumulated losses at the end of the financial year and it has not incurred any cash losses in the current and immediately preceding financial year.

(xi) Based on our audit procedure and on the information and explanations given by the management, we are of the opinion that the Company has not defaulted in repayment of dues to a financial Institution, bank and debenture holders.

(xii) In our opinion, the Company has not granted loans and advances on the basis of security by way of pledge of shares, debentures and other securities other than to its employees. In our opinion, the Company has maintained adequate documents and records in respect of such loans.

(xiii) The Company is not a chit fund, nidhi, mutual benefit fund or a society. Accordingly, clause 4(xiii) of the order not applicable.

(xiv) According to the information and explanation given to us, the Company is not dealing or trading in shares, securities, debentures and other investments. Accordingly, clause 4 (xiv) of the order is not applicable.

(xv) According to the information and explanation given to us, the Company has not given any guarantee for loans taken by other banks and financial institutions during the year.

(xvi) According to the information & explanation given to us, the term loans have been applied for the purpose for which these were obtained.

(xvii) We have been informed by the management that the funds raised on short term basis have not been used for long term investment and vice-versa.

(xviii) The Company has not made any preferential allotment of shares to parties or companies covered in the register maintained under section 301 of the Companies Act, 1956.

(xix) The Company has not issued any debentures during the year.

(xx) During the year no money has been raised by public issues.

(xxi) According to the information and explanations given to us, no fraud on or by the Company has been noticed or reported during the year.

For S. Mann & Co.
Chartered Accountants

Subhash Mann
(Partner)
Membership No. 80500

New Delhi
April 28, 2006

Balance Sheet as at 31st March, 2006

(Rs.in Crores)

	SCHEDULE NO.		AS AT 31st March, 2006		AS AT 31st March, 2005
SOURCES OF FUNDS					
Shareholder's Funds					
Capital	1	**845.65**		845.65	
Reserves and Surplus	2	**9,127.64**	**9,973.29**	7,780.46	8,626.11
Loan Funds	3				
Secured Loans		**1,600.00**		1,600.00	
Unsecured Loans		**316.56**	**1,916.56**	397.40	1,997.40
Deferred Tax Liability (Net)			**1,299.70**		1,255.23
			13,189.55		11,878.74
APPLICATIONS OF FUNDS					
Fixed Assets	4				
Gross Block		**14,469.48**		14,222.35	
Less : Depreciation		**6,913.52**		6,376.47	
Net Block		**7,555.96**		7,845.88	
Capital Work in Progress	5	**615.59**	**8,171.55**	309.08	8,154.96
Investments	6		**927.56**		778.11
Advances for Investments (Pending Allotment)	6A		**515.79**		5.84
Carried Forward			**9,614.90**		8,938.91

Balance Sheet as at 31st March, 2006

(Rs.in Crores)

	SCHEDULE NO.		AS AT 31st March, 2006		AS AT 31st March, 2005
Brought Forward			**9,614.90**		8,938.91
Current Assets, Loans and Advances	7				
Inventories		**483.19**		481.44	
Sundry Debtors		**753.47**		822.86	
Cash and Bank Balances		**4,495.94**		3,446.84	
Other Current Assets		**39.65**		26.98	
Loans and Advances		**1,554.63**		1,635.86	
		7,326.88		6,413.98	
Less : Current Liabilities and Provisions	8				
Current Liabilities		**3,164.62**		2,716.13	
Provisions		**587.61**		758.02	
		3,752.23		3,474.15	
Net Current Assets			**3,574.65**		2,939.83
TOTAL			**13,189.55**		11,878.74
Contingent Liabilities not provided for (Refer Schedule 14)					
Notes on Accounts	14				

Schedules 1 to 14 and Accounting Policies form part of Accounts

N.K.Nagpal	R.K.Goel	S.P. Rao	Proshanto Banerjee	As per our separate Report of even date
Secretary	Director(Finance)	Director(Projects)	Chairman & Managing Director	For M/S S.MANN & COMPANY
				Chartered Accountants

Subhash Mann
(Partner)
Membership No. 80500

Place : New Delhi
Dated : April 28, 2006

Profit & Loss Account for the Year Ended 31st March, 2006

(Rs.in Crores)

	SCHEDULE NO.	Year Ended 31st March, 2006			Year Ended 31st March, 2005		
INCOME							
Sales		14,413.11			12,552.16		
Less : Excise Duty		416.08			514.87		
			13,997.03			12,037.29	
LPG Transmission / RLNG Shippers Charges			444.13			356.49	
Income from Telecom			18.25			18.42	
			14,459.41			12,412.20	
Add : Accretion to Stock							
Closing Stock		129.52			104.59		
Less : Opening Stock		104.59	24.93		131.45	(26.86)	
				14,484.34			12,385.34
Internal consumption				1,891.88			1,179.18
Other Income	9			455.54			349.05
TOTAL				16,831.76			13,913.57
EXPENDITURE							
Purchases				9,450.51			7,603.23
Gas Pool Account				459.05			250.00
Manufacturing, Transmission, Administration, Selling & Distribution and other Expenses	10		2,894.40			2,108.26	
Depreciation	4		559.49			946.65	
			3,453.89			3,054.91	
Less : Expenditure during construction period transferred to Capital Work-in-Progress	11		0.78	3,453.11		0.93	3,053.98
TOTAL				13,362.67			10,907.21
Profit before Interest and Finance Charges				3,469.09			3,006.36
Interest and Finance Charges	12		117.39			134.09	
Less : Interest and Finance Charges transferred to Capital Work-in-Progress	11		0.09	117.30		-	134.09
Profit for the year	**Carried Forward**			3,351.79			2,872.27

(Rs.in Crores)

	SCHEDULE NO.	Year Ended 31st March, 2006		Year Ended 31st March, 2005	
Brought Forward			3,351.79		2,872.27
Less : Prior Period Adjustments (Net)	13		75.17		0.88
Profit before Tax			3,276.62		2,871.39
Provision for Taxation - Current		916.61		889.83	
- Deferred		44.47		27.65	
- FBT		5.47	966.55	-	917.48
Profit after Tax			2,310.07		1,953.91
Amount available for appropriation			2,310.07		1,953.91
APPROPRIATIONS					
Interim Dividends			676.52		338.26
Proposed Final Dividend			169.13		338.26
Corporate Dividend Tax			118.60		92.51
Bond Redemption Reserve			32.13		32.13
General Reserve			231.01		195.39
Balance Carried to Balance Sheet			1,082.68		957.36
TOTAL			2,310.07		1,953.91
Details of Earning Per Share					
A. Profit after tax			2,310.07		1,953.91
B. Weighted Average No. of Equity Shares			845,651,600		845,651,600
C. Nominal Value per Equity Share (Rs.)			10/-		10/-
D. Basic and Diluted Earning Per Share (Rs.)			27.32		23.11
Notes on Accounts	14				

Schedules 1 to 14 and Accounting policies form part of Accounts

N.K.Nagpal	R.K.Goel	S.P. Rao	Proshanto Banerjee	As per our separate Report of even date
Secretary	Director(Finance)	Director(Projects)	Chairman & Managing Director	For M/S S. MANN & COMPANY
				Chartered Accountants

Subhash Mann
(Partner)
Membership No. 80500

Place : New Delhi
Dated : April 28, 2006

Schedule 1 – Share Capital

(Rs.in Crores)

	AS AT 31st March, 2006	AS AT 31st March, 2005
AUTHORISED		
100,00,00,000 Equity Shares of Rs.10/- each	**1,000.00**	1,000.00
ISSUED, SUBSCRIBED AND PAID-UP		
84,56,51,600 (Previous Year : 84,56,51,600) Equity Shares of Rs.10/- each fully paid up	**845.65**	845.65
TOTAL	**845.65**	845.65

Schedule 2 – Reserves and Surplus

(Rs.in Crores)

	AS AT 31st March, 2006		AS AT 31st March, 2005	
Capital Reserve				
(Grant Received from Danish Govt. for construction of Gas Technology Institute at Noida)				
As per Last Account	**2.21**		2.33	
Less : Transferred to Profit & Loss Account	**0.11**	**2.10**	0.12	2.21
Share Premium Account		**0.26**		0.26
Investment Allowance (Utilised) Reserve				
As per Last Account	**266.61**		266.61	
Less : Transferred to General Reserve	**15.30**		-	
		251.31		266.61
Bonds Redemption Reserves				
As per Last Account	**64.25**		32.12	
Add : Transferred from Profit & Loss Account	**32.13**		32.13	
		96.38		64.25
Foreign Currency Translation Reserves		**(2.33)**		(3.80)
General Reserve				
As per Last Account	**1,163.18**		967.79	
Add : Transferred from Investment Allowance(Utilised) Reserve	**15.30**		-	
Add : Transferred from Profit & Loss Account	**231.01**		195.39	
		1,409.49		1,163.18
Profit and Loss Account				
As per Last Account	**6,287.75**		5,330.39	
Add : Transferred from Profit & Loss Account	**1,082.68**		957.36	
		7,370.43		6,287.75
TOTAL		**9,127.64**		7,780.46

Schedule 3 – Loan Funds

(Rs.in Crores)

	AS AT 31st March, 2006	AS AT 31st March, 2005
SECURED LOANS		
Loan from Bank of India	**500.00**	500.00
(Secured by hypothecation by way of first charge on pari passu basis of movable plant & machinery, machinery spares, equipment, tools & accessories & other moveables, both present & future, whether installed or not & lying loose or in stores of Dahej Vijaipur Pipeline project) (including Rs.NIL (Previous Year : Rs.NIL) due for payment within one year)		
Bonds Series - I	**500.00**	500.00
(6.10% Secured Non-convertible redeemable Bonds -Series - I are redeemable in 5 equal installment commencing from the end of the 8th year upto the end of the 12th year from the deemed date of allotment August 22, 2003. Bonds are secured by charge on immovable residential building and movable plant & machinery situated at Hazira, Vaghodia, Gandhar and Vadodara in Gujarat.)		
Bonds Series - II	**600.00**	600.00
(5.85% Secured Non-convertible redeemable Bonds -Series - II are redeemable in 5 equal installment commencing from the end of the 6th year upto the end of the 10th year from the deemed date of allotment March 25, 2004. Bonds are secured by charge on immovable residential building & movable plant & machinery situated at Hazira, Vaghodia, Gandhar, Vadodara & DVPL Project in Gujarat.)		
Carried Forward	**1,600.00**	1,600.00

(Rs.in Crores)

	AS AT 31st March, 2006	AS AT 31st March, 2005
Brought Forward	**1,600.00**	1,600.00
UNSECURED LOANS		
Other Loans and Advances		
From Banks :		
- State Bank of India, London	**19.18**	34.28
(including Rs.12.79 (Previous Year : Rs.13.71) due for payment within one year)		
From others		
- Oil Industry Development Board		
(including Rs.65.75 (Previous Year : Rs.65.75) due for payment within one year)	**297.38**	363.12
TOTAL	**1,916.56**	1,997.40

Schedule 4 – Fixed Assets (Tangible/Intangible Assets)

(Rs.in Crores)

DESCRIPTION	GROSS BLOCK (AT COST)				DEPRECIATION				NET BLOCK	
	As at 01.04.2005	Additions/ Adjustments during the year	Sales / Adjustments during the year	**As at 31.03.2006**	Upto 31.03.2005	For the Year	Adjustments during the year	**As at 31.03.2006**	**As at 31.03.2006**	As at 31.03.2005
Tangible Assets (A)										
Land : Freehold	59.33	(0.01)	-	**59.32**	-	-	-	**-**	**59.32**	59.33
Leasehold	71.51	0.45	-	**71.96**	5.18	0.68	0.28	**6.14**	**65.82**	66.33
Building : Office/Others	368.81	4.63	-	**373.44**	71.28	9.80	0.01	**81.09**	**292.35**	297.53
Residential	253.42	3.98	-	**257.40**	37.31	4.95	-	**42.26**	**215.14**	216.11
Bunk Houses	1.62	-	-	**1.62**	1.62	-	-	**1.62**	**-**	-
Plant and Machinery	13,064.44	218.94	4.99	**13,278.39**	6,128.20	507.97	(13.37)	**6,622.80**	**6,655.59**	6,936.24
Railway Lines & Sidings	5.47	-	-	**5.47**	3.71	0.26	-	**3.97**	**1.50**	1.76
Electrical Equipments	124.01	2.24	0.64	**125.61**	34.84	8.75	(0.43)	**43.16**	**82.45**	89.17
Furniture, Fixtures and other Equipments	227.71	19.53	10.39	**236.85**	91.13	20.62	(8.93)	**102.82**	**134.03**	136.58
Transport Equipments	2.22	-	-	**2.22**	1.38	0.13	-	**1.51**	**0.71**	0.84
Total (A)	14,178.54	249.76	16.02	**14,412.28**	6,374.65	553.16	(22.44)	**6,905.37**	**7,506.91**	7,803.89
Intangible Assets (B)										
Right of Use	17.38	1.01	-	**18.39**	-	-	-	**-**	**18.39**	17.38
Softwares / Licences	26.43	12.38	-	**38.81**	1.82	6.33	-	**8.15**	**30.66**	24.61
Total (B)	43.81	13.39	-	**57.20**	1.82	6.33	-	**8.15**	**49.05**	41.99
TOTAL (A+B)	**14,222.35**	**263.15**	**16.02**	**14,469.48**	**6,376.47**	**559.49**	**(22.44)**	**6,913.52**	**7,555.96**	7,845.88
Previous Year	13,584.73	646.65	9.03	**14,222.35**	5,441.85	946.65	(12.03)	**6,376.47**	**7,845.88**	8,142.88

Schedule 5 – Capital Work-in-Progress

(Rs.in Crores)

		AS AT 31st March, 2006		AS AT 31st March, 2005
Linepipe Construction and related facilities including Cathodic Protection		136.89		81.08
Compressor Stations		2.03		-
Telecom/Telesupervisory System		0.63		5.71
LPG Pipeline Project		1.52		2.02
LPG Projects		0.30		0.89
Petrochemicals		53.05		46.55
Telecom Projects		5.05		1.07
Others		28.78		29.30
Exploratory Well in Progress		130.26		42.99
Buildings	12.66		7.83	
Less : Provision for abandonment of Work in Progress	2.82	9.84	2.64	5.19
Linepipes, Capital Items in Stock/Transit (including materials with Contractors : Rs.0.01 (Previous Year : Rs.0.27)	243.62		93.13	
Less : Provision for losses/obsolescence	0.07	243.55	1.24	91.89
Advance for Capital Expenditure				
(Unsecured - Considered Good)	3.69		2.39	
(Unsecured - Considered Doubtful)	1.39		1.39	
	5.08		3.78	
Less : Provision for Doubtful Advances	1.39	3.69	1.39	2.39
TOTAL		615.59		309.08

Schedule 6 – Investments

(Rs.in Crores)

	AS AT 31st March, 2006	AS AT 31st March, 2005
LONG-TERM INVESTMENTS		
A. Trade Investments		
Quoted * -		
570,600 (Previous Year : 570,600) Equity Shares of Rs.10/-each fully Paid-up in Gujarat Industries Power Co. Ltd.(includes 1,90,200 Equity Shares acquired during the year 1996-97 at a premium of Rs.15/- per share)	0.86	0.86
3,42,66,845 (Previous Year : 3,42,66,845) Equity Shares of Rs.10/- each fully paid up in ONGC Ltd. (Acquired during 1999-2000 at a price of Rs.162.34 per Share)	556.29	556.29
6.96 % Oil Companies GOI Special Bonds 2009 (Alloted in lieu of claims pending with Oil Co-ordination Committee)	6.00	6.00
7 % Oil Companies GOI Special Bonds 2012 (Alloted in lieu of claims pending with Oil Co-ordination Committee)	9.59	-
3,15,00,000 (Previous Year : 3,15,00,000) Equity Shares of Rs.10/- each fully paid-up in Indraprastha Gas Ltd. (a Joint Venture Company)	31.50	31.50
9,37,50,000 (Previous Year : 9,37,50,000) Equity Shares of Rs.10/- each fully paid up in Petronet LNG Ltd. (a Joint Venture Company) (includes 1,00,00,000 equity shares alloted at a premium of Rs.5/- per share)	98.75	98.75
21,00,00,000 (Previous Year : Nil) Equity Shares of HK$ 0.01/- each fully paid up in China Gas Holding Ltd.China, acquired at a premium of HK$ 1.148 / share	136.32	-
3,62,100 units of 6.75% Tax Free US 64 Bonds of Rs.100/- each guaranteed by GOI, having maturity date on 01.06.2008. (Pledged to GAIL in lieu of Security Deposits by consumer which has been transferred in the name of company due to default by the party on the terms of agreement)	3.62	-
* Aggregating market value of the above mentioned quoted securities Rs.5,672.21 (Previous Year : Rs.3,736.27)		
Carried Forward	842.93	693.40

(Rs.in Crores)

		AS AT 31st March, 2006		AS AT 31st March, 2005
Brought Forward		**842.93**		693.40
Unquoted - At cost				
4,44,49,960 (Previous Year : 4,44,49,960) Equity shares of Rs.10/- each fully paid up in Mahanagar Gas Ltd. (a Joint Venture Company)		**44.45**		44.45
12,497 (Previous Year : 12,497) Equity shares of Rs.10/- each fully paid up in Bhagyanagar Gas Ltd. (a Joint Venture Company)		**0.01**		0.01
25,000 (Previous Year : Nil) Equity shares of Rs.10/- each fully paid up in Central UP Gas Ltd. (a Joint Venture Company)		**0.03**		-
12,500 (Previous Year : Nil) Equity shares of Rs.10/- each fully paid up in Green Gas Ltd. (a Joint Venture Company)		**0.01**		-
25,000 (Previous Year : Nil) Equity shares of Rs.10/- each fully paid up in Maharastra Natural Gas Ltd. (a Joint Venture Company)		**0.03**		-
2,07,60,000 (Previous Year : 2,07,60,000) Equity Shares of Rs.10/- each fully paid-up in Gujrat State Electricity Generation Ltd.		**20.76**		20.76
19,000 (Previous Year : 19,000) Equity shares of LE 100/- each fully paid up in Fayum Gas Company registered in Egypt.		**8.09**		8.09
2,20,000 (Previous Year : 2,20,000) Equity Shares of LE 10/- each fully paid up in Shell Compressed Natural Gas Company, Egypt registered in Egypt.		**1.61**		1.61
21,00,000 (Previous Year : 21,00,000) Equity Shares of USD 1 each fully paid up in GAIL Global (Singapore) Pte. Ltd., incorporated in Singapore (100% subsidiary company)		**9.64**		9.64
Nil (Previous Year : 3) 12% 2006, GEB Bonds of Rs.10,00,000/- each. (Transferred by GIPCO in lieu of redemption of 1/3rd 18% redeemable Non - Convertible Debenture.)		**-**		0.15
B. Non Trade Investments - Others				
Unquoted - At cost				
i). 30 Shares of Rs.50 each fully paid up in Darpan Co-operative Housing Society Ltd., Vadodara	-		-	
ii). 50 Shares of Rs.50 each fully paid up in Ashoka Apartments Co-operative Housing Society Ltd., Vadodara	-		-	
iii). 30 Shares of Rs.50 each fully paid up in Panchvati Apartments Co-operative Housing Society Ltd., Surat	-		-	
iv). 400 Shares of Rs.10 each fully paid up in Sanand Members Association,Ahmedabad.	-		-	
v). 35 Shares of Rs.50/-each fully paid up in Green Fields(B) Cooperative Housing Society Ltd., Mumbai	-	-	-	-
TOTAL		**927.56**		778.11

Schedule 6A – Advances for Investments (Pending Allotment)

(Rs.in Crores)

	AS AT 31st March, 2006	AS AT 31st March, 2005
Joint Venture Companies		
i). Ratnagiri Gas & Power Pvt. Ltd.	**500.00**	-
ii). Bhagyanagar Gas Ltd.	**9.98**	4.98
iii). Tripura Natural Gas Company Ltd.	**0.83**	0.83
iv). Central UP Gas Ltd.	**4.98**	0.03
TOTAL	**515.79**	5.84

Schedule 7 – Current Assets, Loans and Advances

(Rs.in Crores)

		AS AT 31st March, 2006			AS AT 31st March, 2005	
A. CURRENT ASSETS						
INVENTORIES						
(As Certified by the Management)						
Stores and Spares *	313.92			346.78		
Less : Provision for Losses/Obsolescence	2.02			6.92		
		311.90			339.86	
Construction Surplus - Capital / Stores	82.57			69.52		
Less : Provision for Losses/Obsolescence	40.80			32.53		
		41.77			36.99	
Stock of Gas**/Polymers/LPG and Other Products		129.52	483.19		104.59	481.44
SUNDRY DEBTORS						
Debts outstanding for a period exceeding six months						
- Unsecured, Considered Good	98.06			221.69		
- Unsecured, Considered Doubtful	120.29	218.35		120.25	341.94	
Other Debts						
- Unsecured, Considered Good		655.41			601.17	
		873.76			943.11	
Less : Provision for Doubtful debts		120.29	753.47		120.25	822.86
CASH AND BANK BALANCES						
Cash in hand	0.16			0.09		
Cheques/Stamps in hand	0.04			0.02		
Remittance in transit	-	0.20		11.49	11.60	
BANK BALANCES(SCHEDULED BANKS)						
On Current Account (includes Corporate Liquid Term Deposit Rs.58.73 (Previous Year : Rs.17.79))	134.01			82.50		
On Current Account -Gas Pool Money	-			0.01		
On Current Account -JV Consortium	-			0.01		
On Short Term Deposit	3,667.52			2,426.21		
On Short Term Deposit -Gas Pool Money (includes interest accrued but not due Rs.1.32 (Previous Year : Rs.1.77))	308.11			566.89		
On Short Term Deposit -JV Consortium (includes interest accrued but not due Rs.4.17 (Previous Year : Rs.3.52))	386.10	4,495.74	4,495.94	359.62	3,435.24	3,446.84
OTHER CURRENT ASSETS						
Interest accrued but not due on Deposits / Bonds			39.65			26.98
Carried Forward			5,772.25			4,778.12

(Rs.in Crores)

		AS AT 31st March, 2006			AS AT 31st March, 2005	
Brought Forward			5,772.25			4,778.12
B. LOANS AND ADVANCES						
Loans/Advances to Subsidiaries		77.18			76.94	
GAIL Global (Singapore) Pte. Ltd. (100% subsidiary company incorporated in Singapore)						
Loans to Employees						
- Secured, Considered Good	141.89			136.83		
- Unsecured, Considered Good (including dues from Directors Rs.0.12 (Previous Year : Rs.0.14)) (Maximum amount due at any time during the year : Rs.0.21) (Previous Year : Rs.0.20))	19.37			16.18		
Others (Unsecured, Considered Good)	4.60	165.86		4.29	157.30	
Advances recoverable in cash or in kind or for value to be received						
- Unsecured, Considered Good (includes Rs.1105.34 (Previous Year : Rs.1024.52) paid / adjusted against Income tax demand under protest. (includes Rs.3.11 (Previous Year : Rs.3.11) on account of disinvestment of Govt. Equity by way of GDR / Domestic Tranche/ offer for sale)	1,262.25			1,334.03		
- Unsecured, Considered Doubtful	0.42			1.08		
	1,262.67			1,335.11		
Less : Provision for Doubtful Advances	0.42	1,262.25		1.08	1,334.03	
Claims Recoverable						
- Unsecured, Considered Good	13.41			36.92		
- Unsecured, Considered Doubtful	0.12			0.42		
	13.53			37.34		
Less : Provision for doubtful claims	0.12	13.41		0.42		36.92
Deposits with Customs, Port Trust and Others						
- Unsecured, Considered Good	35.93			30.67		
- Unsecured, Considered Doubtful	0.31			0.31		
	36.24			30.98		
Less : Provision for doubtful claims	0.31	35.93	1,554.63	0.31	30.67	1,635.86
TOTAL			7,326.88			6,413.98

*** includes Rs.35.71 (Previous Year : Rs.60.78) in transit.**
**** after adjustment of calorific value**

Schedule 8 – Current Liabilities and Provisions

(Rs.in Crores)

				AS AT 31st March, 2006				AS AT 31st March, 2005
A. CURRENT LIABILITIES								
Sundry Creditors (Includes due to Small Scale Undertakings : Rs.0.15 (Previous Year : Rs.0.15))			**1,520.24**				1,360.26	
Deposits/Retention Money from Contractors and others			**123.91**				136.40	
Other Liabilities			**762.93**				463.83	
Other Liabilities - Gas Pool Money			**726.67**				723.18	
Unclaimed Dividend			**1.96**				1.28	
(Amount due for credit to Investor Education Fund is Rs.Nil (Previous Year : Nil)								
Interest accrued but not due on loans			**28.91**	**3,164.62**			31.18	2,716.13
B. PROVISIONS								
Provision for taxation / FBT		**5,316.15**				4,394.08		
Less: Advance Tax	**5,475.66**				4,487.32			
Less: Adjustment of Refunds	**513.90**	**4,961.76**	**354.39**		433.16	4,054.16	339.92	
Provision for Proposed Dividend			**169.13**				338.26	
Provision for Corporate Dividend Tax			**23.72**				47.44	
Provision for Leave Encashment and			**40.37**				32.40	
Post Retirement Medical Benefits				**587.61**				758.02
TOTAL				**3,752.23**				3,474.15

Schedule 9 – Other Income

(Rs.in Crores)

		YEAR ENDED 31st March, 2006		YEAR ENDED 31st March, 2005
Dividend		**174.44**		119.34
Interest on :				
- Bonds/Debentures	**0.89**		0.45	
- Deposits with Banks	**221.00**		100.50	
- Others	**15.83**		45.05	
	237.72		146.00	
(Tax deducted at source :Rs.45.97 (Previous Year : Rs.16.16))				
Add : Transferred to Expenditure during construction period (Schedule 11)	**(0.03)**	**237.69**	-	146.00
Export Incentives		**3.34**		3.92
Miscellaneous Income		**40.07**		79.79
(Tax deducted at source : Rs.0.02 (Previous Year : Rs.0.01))				
TOTAL		**455.54**		349.05

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

(Rs.in Crores)

		YEAR ENDED 31st March, 2006		YEAR ENDED 31st March, 2005
Raw Material consumed		**1,475.83**		899.15
Employees Remuneration and Benefits*				
Salaries, Wages and Allowances	**151.05**		140.85	
Contribution to Provident and Other Funds	**18.75**		20.64	
Welfare Expenses	**52.03**	**221.83**	44.29	205.78
Power, Fuel and Water Charges		**523.07**		399.25
Stores and Spares consumed		**160.61**		145.31
Rent		**17.57**		14.10
Rates and Taxes		**2.92**		3.28
Licence Fees - Telecom		**1.15**		1.56
Bandwidth Consumption		**0.19**		1.03
Repairs and Maintenance				
Plant and Machinery	**106.37**		117.61	
Buildings	**19.38**		12.10	
Others	**11.00**	**136.75**	12.17	141.88
Insurance		**27.44**		22.59
Communication Expenses		**7.94**		8.06
Printing and Stationery		**3.33**		3.64
Travelling Expenses		**31.90**		29.16
Books and Periodicals		**0.52**		0.60
Advertisement and Publicity		**29.74**		23.62
Carried Forward		**2,640.79**		1,899.01

(Rs.in Crores)

		YEAR ENDED 31st March, 2006		YEAR ENDED 31st March, 2005
Brought Forward		**2,640.79**		1,899.01
Payment to Auditors				
Audit Fees	**0.17**		0.16	
Management Services	**0.04**		0.04	
Out of Pocket Expenses	**0.08**	**0.29**	0.04	0.24
Entertainment Expenses		**1.18**		0.22
Recruitment and Training Expenses		**9.46**		10.28
Vehicle Hire and Running Expenses		**13.22**		14.49
Survey Expenses		**65.20**		26.88
Consultancy Charges		**19.26**		15.53
Data Processing Expenses		**1.20**		2.86
Donation		**0.85**		5.25
Research and Development Expenses		**0.27**		0.40
Loss on sale / written off of assets(net)		**3.93**		2.10
Bad Debts/Claims/Advances/Stores written off		**0.37**		1.26
Dry Well Expenses written off		**30.46**		11.98
Provision for Doubtful Debts, Advances, Claims, Deposits and obsolescence of Stores and Capital Items		**1.84**		3.00
Excise Duty on Stock (net)		**0.04**		(10.21)
Expenses on Enabling Facilities		**2.48**		3.04
Selling & Distribution Expenses		**5.63**		9.28
Discount on Sales		**8.67**		9.46
Commission on Sales		**11.36**		11.59
Security Expenses		**27.64**		25.14
Other Expenses		**50.26**		66.46
TOTAL		**2,894.40**		2,108.26

*** Includes :**

Rs.7.97 (Previous Year : Rs.12.08) on account of retirement benefits viz. Leave encashment and Medical.

Schedule 11 – Expenditure During Construction Period

(Rs.in Crores)

	YEAR ENDED 31st March, 2006		YEAR ENDED 31st March, 2005	
Employees Remuneration and Benefits				
Salaries, Wages and Allowances	**0.40**		0.49	
Contribution to Provident and Other Funds	**0.04**		-	
Welfare Expenses	**0.08**	**0.52**	0.08	0.57
Power, Fuel and Water Charges		**-**		0.02
Stores and Spares consumed		**0.08**		-
Rent		**0.01**		0.04
Repairs and Maintenance				
Plant and Machinery	**-**		0.02	
Others	**0.01**	**0.01**	-	0.02
Insurance		**-**		0.02
Communication Expenses		**0.01**		0.04
Travelling Expenses		**0.09**		-
Recruitment and Training Expenses		**0.01**		-
Vehicle Hire and Running Expenses		**-**		0.02
Interest and Finance Charges		**0.09**		-
Other Expenses		**0.05**		0.09
Depreciation		**-**		0.11
		0.87		0.93
Less : Interest Income		**0.03**		-
Net Expenditure		**0.84**		0.93
Less :Transferred to Capital Work-in-progress				
a) Mfg., Transmission, Admn., Selling & Distribution and Other Expenses	**0.78**		0.93	
b) Interest & finance Charges	**0.09**		-	
c) Other Income	**(0.03)**	**0.84**	-	0.93
Balance Carried over to Balance Sheet		**NIL**		NIL

Schedule 12 – Interest and Finance Charges

(Rs.in Crores)

	YEAR ENDED 31st March, 2006		YEAR ENDED 31st March, 2005	
Interest on Term Loans				
Foreign Currency Loans	**0.45**		0.73	
Other Loans	**50.94**	**51.39**	67.54	68.27
Bonds		**65.60**		65.60
Commitment and other Finance Charges		**0.40**		0.22
TOTAL		**117.39**		134.09

Schedule 13 – Prior Period Adjustments

(Rs.in Crores)

	YEAR ENDED 31st March, 2006		YEAR ENDED 31st March, 2005	
Purchase of Gas		**65.45**		-
Salaries, Wages and Allowances		**(0.04)**		(0.12)
Power, Fuel and Water Charges		**0.35**		0.66
Stores and Spares consumed		**(0.82)**		0.03
Rent		**2.00**		(0.69)
Rates and Taxes		**0.09**		-
Depreciation(Net)		**0.97**		(1.65)
Repairs and Maintenance		**2.07**		0.21
Insurance		**(0.02)**		-
Recruitment and Training Expenses		**0.05**		-
Vehicle hire and Running Expenses		**(0.02)**		-
Interest		**0.04**		-
Consultancy Charges		**(0.24)**		0.71
Profit and Loss on sale of Assets		**1.03**		-
Other Expenses		**0.11**		0.92
TOTAL		**71.02**		0.07
Less :				
- Sales	**(4.04)**		(0.03)	
- Interest Income	**(0.15)**		(0.14)	
- Miscellaneous Income	**0.04**	**(4.15)**	(0.64)	(0.81)
TOTAL(NET)		**75.17**		0.88

Cash Flow Statement for the Financial Year ended 31st March, 2006

(Rs. in Crores)

		2005-06		2004-05
A. CASH FLOW FROM OPERATING ACTIVITIES				
1 NET PROFIT BEFORE TAX AND EXTRAORDINARY ITEMS		**3276.62**		2871.39
2 ADD :				
DEPRECIATION	**560.46**		944.89	
CAPITAL RESERVE	**(0.11)**		(0.12)	
EXCHANGE RATE VARIATION	**(0.60)**		(0.07)	
INTEREST EXPENDITURE	**117.30**		134.09	
DIVIDEND INCOME ON INVESTMENTS	**(174.44)**		(119.34)	
INTEREST INCOME	**(237.69)**		(146.00)	
PROFIT/LOSS ON SALE OF ASSETS (NET)	**2.15**		0.52	
		267.07		813.97
3 OPERATING PROFIT BEFORE WORKING CAPITAL CHANGES (1+2)		**3543.69**		3685.36
4 CHANGES IN WORKING CAPITAL (EXCLUDING CASH & BANK BALANCES)				
TRADE AND OTHER RECEIVABLES	**137.41**		(397.78)	
INVENTORIES	**(1.75)**		(6.53)	
TRADE AND OTHER PAYABLES	**459.33**	**594.99**	409.24	4.93
5 CASH GENERATED FROM OPERATIONS (3+4)		**4138.68**		3690.29
6 DIRECT TAXES PAID		**(907.61)**		(859.56)
NET CASH FROM OPERATING ACTIVITIES (5+6)		**3231.07**		2830.73
BALANCE CARRIED FORWARD		**3231.07**		2830.73

Cash Flow Statement for the Financial Year ended 31st March, 2006

(Rs. in Crores)

		2005-06		2004-05
BALANCE BROUGHT FORWARD		**3231.07**		2830.73
B. CASH FLOW FROM INVESTING ACTIVITIES				
PURCHASE OF FIXED ASSETS	**(581.08)**		(147.15)	
SALE OF FIXED ASSETS	**1.17**		0.63	
REDEMTION OF BONDS/DEBENTURES	**0.15**		0.15	
INVESTMENT IN OTHER COMPANIES	**(646.34)**		(12.11)	
INTEREST RECEIVED	**225.02**		122.30	
DIVIDEND RECEIVED	**174.44**		119.34	
NET CASH FROM INVESTING ACTIVITIES		**(826.64)**		83.16
C CASH FLOW FROM FINANCING ACTIVITIES				
PROCEEDS FROM LONG TERM BORROWINGS	-		-	
REPAYMENT OF LONG TERM BORROWINGS	**(78.66)**		(135.51)	
INTEREST PAID	**(119.57)**		(134.56)	
DIVIDEND PAID	**(1157.10)**		(764.93)	
NET CASH FROM FINANCING ACTIVITIES		**(1355.33)**		(1035.00)
NET INCREASE IN CASH AND CASH EQUIVALENTS (A+B+C)		**1049.10**		1878.89
CASH AND CASH EQUIVALENTS AS AT 01.04.2005 (OPENING BALANCE)		**3446.84**		1567.95
CASH AND CASH EQUIVALENTS AS AT 31.03.2006 (CLOSING BALANCE)		**4495.94**		3446.84

As per our separate report of even dae

N.K.Nagpal
Secretary

R.K.Goel
Director (Finance)

S. P. Rao
Director(Projects)

Proshanto Banerjee
Chairman & Managing Director

For M/s S. MANN & COMPANY
Chartered Accountants

Subhash Mann
(Partner)
Membership No. 80500

Place : New Delhi
Dated : April 28, 2006

ACCOUNTING POLICIES

A. BALANCE SHEET

1. Fixed Assets

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

2. Intangible Assets

Intangible assets like software, licenses and right-of-use of land including sharing of ROU with other entities which are expected to provide future enduring economic benefits are capitalized as Intangible Assets.

3. Capital Work in Progress

a. Crop compensation is accounted for under Capital Work-in-Progress on the basis of actual payments/estimated liability, as and when work commences where ROU is acquired.

b. The Capital Work-in-Progress includes value of materials/ equipments, etc. received at site for use in the Projects.

4. Borrowing Cost

Borrowing cost of the funds specifically borrowed for the purpose of obtaining qualifying assets and eligible for capitalization along with the cost of the assets, is capitalized upto the date when the asset is ready for use after netting off any income earned on temporary investment of such funds.

5. Expenses Incurred During Construction Period

All revenue expenditure incurred during the year, which is exclusively attributable to acquisition / construction of fixed assets, is capitalized at the time of commissioning of such assets.

6. Depreciation/Amortisation

I. Depreciation on Fixed Assets other than those mentioned below is provided in accordance with the rates as specified in Schedule XIV of the Companies Act, 1956, on straight line method on pro-rata basis (monthly pro-rata for bought out assets).

a. Assets costing upto Rs.5,000/- are depreciated fully in the year of capitalisation.

b. Bunk Houses are amortised on assumption of five years life.

c. Oil and Gas Pipelines including other related facilities are depreciated @ 3.17% per annum based on useful life of 30 years

d. Computers at the residence of the employees are depreciated @ 23.75% per annum. Furniture, Electric Equipments and Mobiles provided for the use of employees are depreciated @ 15% per annum.

e. Cost of the leasehold land not exceeding 99 years is amortised over the lease period.

f. Depreciation due to price adjustment on account of foreign exchange rate variations or otherwise in the original cost of fixed assets is charged prospectively.

g. Capital expenditure on the assets (enabling facilities), the ownership of which is not with the Company, is charged off to Revenue.

h. Software / Licences are amortised in 5 years on straight line method.

i. No depreciation is being charged on ROU being perpetual in nature

j. After impairment of assets, if any, depreciation is provided on the revised carrying amount of the assets over its remaining useful life.

II. Capital assets installed at the consumers premises on the land whose ownership is not with the Company, has been depreciated on SLM basis in accordance with the rates as specified in Schedule XIV of the Company's Act, 1956.

7. Foreign Currency Translation

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

b. Deposits in Foreign Currency are valued at the rate of exchange (TT Buying) prevailing at the year end.

8. Investments

a. Quoted investments are valued at cost or market value, whichever is lower.

b. Unquoted investments are valued at cost.

c. Long term investments are valued at cost. Provision is made to recognise a decline, other than temporary, in the value of investments.

9. Inventories

a. Raw materials are valued at cost or net realisable value, whichever is lower.

b. Finished products are valued at cost or net realisable value, whichever is lower

c. Stock in process is valued at cost or net realisable value, whichever is lower. It is valued at cost where the finished products in which these are to be incorporated are expected to be sold at or above cost.

d. Stores and spares and other material for use in production of inventories are valued at weighted average cost or net realisable value, whichever is lower. It is valued at weighted average cost where the finished products in which they will be incorporated are expected to be sold at/or above cost.

e. Surplus / Obsolete Stores and Spares are valued at cost or net realisable value, which ever is lower

f. Surplus / Obsolete Capital Stores, other than held for use in construction of a capital assets, are valued at lower of cost or net realisable value.

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

11. Grants

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

B. PROFIT & LOSS ACCOUNT

12. Sale proceeds are accounted for based on the consumer price inclusive of Statutory Levies and charges upto the place where ownership of goods is transferred.

13. The interest allocable to operations in respect of assets commissioned during the year is worked out by adopting the average of debt equity ratios at the beginning and closing of that year and applying the average ratio of debt thus worked out to the capitalised cost.

14. Pre-project expenditure relating to Projects which are considered unviable / closed, is charged off to Revenue over a period of five years.

15. Retirement Benefits

a. Liability towards Gratuity is paid to a fund maintained by the Company which is administered through a separate trust set up by the Company. Difference between the fund balance with the trust and the accrued liability as at the end of the year as per actuarial valuation is charged to Profit and Loss Account.

b. Liability towards leave encashment and post retirement medical benefits to employees as at the end of the year is assessed on the basis of actuarial valuation and provided for.

c. Contribution to Provident Fund as per the rules of the Company is accounted for on accrual basis.

16. Taxes on Income

Current tax represents the amount of tax payable in respect of taxable income for the period. Deferred tax liability represents the tax in respect of difference between taxable and accounting income which originate in one period and are capable of reversible in one or more subsequent periods.

17. R&D Expenditure

All expenditure, other than on capital account, on research and development are charged to Profit and Loss Account.

18. Yearly reconciliation of Natural Gas is made within a limit of ±1%. In case of variation beyond ±1% value of excess quantity is kept in a separate Account "Tolerance Fluctuation Adjustment Account" for adjustments in future.

19. Exploration and Development Costs :-

Successful Efforts Method is being followed for accounting of Oil & Gas exploration and production activities which includes -

a. Survey Costs are expensed in the year in which these are incurred.

b. Cost of exploratory wells is carried as "Exploratory wells in progresses". Such exploratory wells in progress are capitalized in the year in which the producing property is created or is expensed in the year when determined to be dry / abandoned.

c. All wells appearing as "exploratory wells in progress" which are more than two years old from the date of completion of drilling are charged to Profit and Loss Account except those wells which have proved reserves and the development of the fields in which the wells are located has been planned. Such wells, if any are written back on commencement of commercial production.

20. Contingent Liabilities and Capital Commitments

a. Contingent Liabilities are disclosed in each case above Rs.5 Lakhs.

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

21. Impairment

The Carrying amounts of assets are reviewed at each Balance Sheet date if there is any indication of impairment based on Internal / External factors, an Impairment loss is recognized wherever the carrying amount of an asset exceeds its recoverable amount.

GENERAL

22. Prepaid expenses and prior period expenses/ income upto Rs.1,00,000/- in each case are charged to relevant heads of account of the current year.

23. Liquidated Damages, if any, are accounted for as and when recovery is effected and the matter is considered settled by the Management. Liquidated damages, if settled, after capitalization of assets are charged to revenue, if below Rs.50 Lakhs in each case otherwise adjusted in the cost of relevant assets.

24. Insurance claims are accounted for on the basis of claims admitted by the insurers.

25. a. Custom Duty and other claims (including interest on delayed payments) are accounted for on acceptance in principle.

b. Liability in respect of MGO of Natural gas is not provided for where the same is secured by MGO recoverable from customers. Payments/receipts during the year on account of MGO are adjusted on receipt basis.

c. Minimum charges relating to transportation of LPG are accounted for on receipt basis.

As per our separate report of even date

N.K.Nagpal
Secretary

R.K.Goel
Director (Finance)

S. P. Rao
Director(Projects)

Proshanto Banerjee
Chairman & Managing Director

For M/s S. MANN & COMPANY
Chartered Accountants

Subhash Mann
(Partner)
Membership No. 80500

Place : New Delhi
Dated : April 28, 2006

Schedule 14 - Notes on Accounts

1. Estimated amount of Contracts remaining to be executed on Capital Account and not provided for :

i) For Joint Ventures: Nil (Previous Year: Nil).

ii) Share in Capital Commitment of Joint Ventures based on their unaudited statement of accounts: Rs.187.55 Crores (Previous Year: Rs.92.08 Crores).

iii) Company's own unexecuted capital commitment: Rs.873.53 Crores (Previous Year: Rs.265.60 Crores).

2. Contingent Liabilities :-

I. Claims against the Company not acknowledged as debts: Rs.9933.68 Crores (Previous Year: Rs.9225.29 Crores), which mainly include:

(a) Claims of ONGCL for Rs.401.48 Crores (Previous Year: Rs.248.46 Crores) on account of interest for delayed payment and MGO, etc. Out of these MGO claims of Rs.53.78 Crores (Previous Year: Rs.49.23 Crores) are recoverable on back-to-back basis.

(b) Income Tax demand of Rs.1289.74 Crores (Previous Year: Rs.1026.81 Crores relating to the assessment years 1996-97 to 2002-03) relating to assessment years 1996-97 to 2003-04. This includes penalty demand of Rs.234.12 Crores (Previous Year Rs.NIL) under section 271 (1) (C) of the Income Tax Act, 1961 for which stay application has been filed with CIT (A) and Delhi High Court. The Income tax assessment of the Company has been completed up to the assessment year 2003-04. Against the total demand, the Company has paid/adjusted Rs.1105.34 Crores (Previous Year: Rs.1024.52 Crores) under protest. Based upon the decision of the appellate authorities and the interpretation of the provisions of the Income Tax Act, the Company has been legally advised that the demand is likely to be either deleted or it may be substantially reduced. The Company has filed appeals against the demand for the assessment years 1996-97 to 2002-03 with ITAT and for assessment year 2003-04 with CIT (A).

(c) Sales Tax demand of Rs.3449.18 Crores (Previous Year: Rs.3449.18 Crores) and interest thereon Rs.1513.04 Crores (Previous Year: Rs.1513.04 Crores) for Hazira unit in Gujarat State: Sales Tax Authorities, Ahmedabad have treated the transfer of Natural Gas by the Company from the state of Gujarat to other states during the period April, 1994 to March, 2001 as inter-state sales under Section 3(a) of the Central Sales Tax Act. The Company has been paying sales tax under section 12 of the Gujarat Sales Tax Act against Form 17 since inception (1987) and accordingly the sales tax assessments have been completed. Based on the interpretation of the provisions of the Sales Tax Act and legal advice from the experts, the Company had filed writ petition and special leave petition in the Supreme Court of India. In February, 2005 the case was transferred by Hon'ble Supreme Court to Gujarat Sales Tax Tribunal for decision. The Tribunal has given its judgment on 16.05.2005 accepting the contention of the Company for interstate transportation of Natural Gas as branch transfer and not the interstate sale and set aside the demand under section 41-B of the Gujarat Sales Tax Act. The Hon'ble Tribunal has given further instruction to the Assessing Authority to assess Company and decide tax liability in accordance with the law for the period 1998-1999 to 2000-2001 considering interstate transfer of natural gas as branch transfer.

(d) Commissioner of Customs, Ahmedabad has issued show cause notices where in a sum of Rs.581.22 Crores (Previous year: Rs.581.22 Crores) for the period 22.06.1997 to 10.02.2002 has been demanded, by treating GAIL as importer under Section 2(26) of the Customs Act, 1962 on account of purchase of gas from Tapti and Panna-Mukta fields from Joint Venture of British Gas Exploration and Production (I) Limited, RIL and ONGCL (JVCs). The Company is of the view that as it is purchasing gas from JVCs at Hazira at the downstream flange of ONGCL's gas processing facilities along with other natural gas coming from South Basin, it is not liable to Customs Duty. The replies to Show cause notice have already been sent to the Commissioner of Customs in consultation with the Consultants on 14.06.2002. No further response has been received.

(e) Excise duty demand of Rs.137.84 Crores (Previous year: Rs.123.63 Crores): Excise Authorities have raised demands at Vijaipur, by treating lean gas as gaseous hydrocarbon and denying exemption available to lean gas, which has all along been treated as an exempted product. The Company has obtained favourable orders against past and subsequent demands. This demand also has been set aside and pronounced in the open court by the CESTAT on 19.04.2006. Written Order is yet to be received.

II. Bonds executed, Letters of Credit : Rs.27.58 Crores (Previous Year: Rs.13.40 Crores).

III. Share in Contingent Liabilities of Joint Ventures based on their unaudited statement of accounts: Rs.90.35 Crores (Previous Year: Rs.83.03 Crores).

3 (a) Freehold land acquired for Jhansi Maintenance Base and Sectionalising Valves in Jamnagar – Loni Pipeline Rs.0.55 Crores (Previous Year: Rs.0.93 Crores) and Leasehold Land acquired for Lakwa & Vijaipur projects Rs.8.63 Crores (Previous Year :Rs 7.82 Crores) are valued / capitalized on provisional basis.

(b) Title deeds for freehold land, valuing Rs.0.57 Crores (Previous Year: Rs.1.52 Crores) and leasehold land valuing Rs.27.34 Crores (Previous year: Rs.26.76 Crores) are pending execution.

(c) Title Deeds in respect of ten residential flats at Asiad Village, New Delhi, valuing Rs.1.17 Crores (Previous Year: Rs.1.17 Crores) are still in the name of ONGCL. Concerned authorities are being pursued for getting the same transferred in the name of the Company.

(d) The cost of right of use (ROU) amounting to Rs.18.39 Crores as on 31.03.2006 (Previous year Rs.17.38 Crores) has been capitilised as intangible asset. The Company has perpetual Right of Use but has no ownership of land.

4. (a) Liability under Gas Pool Account includes gas pool money for January-March 2006 quarter amounting to Rs.37.50 Crores (Previous Year: Rs.61.64 Crores) which shall become due for deposit in succeeding quarter.

(b) Liabilities on account of Gas Pool Money amounting to Rs.726.67 Crores (Previous year: Rs.723.18 Crores) and 10% retention from JV consortium amounting to Rs.386.10 Crores (Previous year: Rs.359.63 Crores) includes interest (net of TDS) amounting to Rs.47.38 Crores (Previous year: Rs.32.30 Crores) on Short term deposits for the year. The TDS amounting to Rs.9.56 Crores (Previous Year: Rs.7.09 Crores) have been deducted by the bankers on the interest earned on Short term deposits. This interest income and TDS does not belong to the Company hence not accounted for.

5. Cost of Fixed Assets (including capital work in progress) has been decreased by an amount of Rs.1.50 Crores (Previous Year: Rs.0.74 Crore) due to exchange rate variation. An amount of Rs.0.07 Crore (Previous Year: Rs.0.07 Crore credited) has been debited to Profit & Loss account due to exchange rate variation.

6. MOP&NG had issued scheme for mechanism of sharing the under recoveries of Oil marketing Companies on account of non-revision in selling price of PDS Kerosene and domestic LPG. During the year, the Company has given discounts to Oil marketing Companies amounting to Rs.1063.60 Crores (Previous Year: Rs.1136.90 Crores) on dispatches to them for sharing subsidies. Corresponding adjustment on account of CST amounting to Rs.21.32 Crores (Previous Year Rs.20.54 Crores) has been made.

7. a) The Company is raising provisional invoices for sale of R-LNG as the supplier PLL is also raising provisional invoices on the Company since customs duty on import of LNG by PLL has been assessed on provisional basis.

b) With effect from April 1, 2002, Liquefied Petroleum Gas prices has been deregulated and is now based on the import parity prices fixed by the Oil Companies. However, the pricing mechanism is provisional and is pending finalisation. Additional asset/liability or impact on profits, if any, arising due to such change, will be recognized on finalization of pricing mechanism.

8. In compliance of Accounting Standard 17 on "Segment Reporting" issued by Institute of Chartered Accountants of India, the required information is given as per Annexure – A to this schedule. The Company has adopted following Business segments as its reportable segment.

(i) Transmission services
 a) Natural Gas
 b) LPG

ii) Natural Gas Trading

iii) Petrochemicals

iv) LPG and other Liquid Hydrocarbons

v) GAILTEL

vi) Unallocated

There are no geographical segments.

9. In compliance of Accounting Standard 18 on "Related party Disclosures" issued by Institute of Chartered Accountants of India, the name of related parties, nature of relationship and details of transaction entered therewith are given in Annexure – B.

10. In compliance of Accounting Standard 22 on "Accounting for taxes on Income" issued by Institute of Chartered Accountants of India, the Company has provided accumulated net deferred tax liability in respect of timing difference as on 31st March, 2006 amounting to Rs.1299.70 Crores (Previous year: Rs.1255.23 Crores). Net Deferred tax expense for the year of Rs.44.47 Crores (Previous year: Rs.27.65 Crores) has been charged to Profit & Loss Account. The item- wise details of deferred tax liability are as under:

(Rs. in Crores)

	As on 31st March, 2006	As on 31st March, 2005
Deferred tax liability:		
a) Depreciation & others	**1374.09**	1375.16
Less: Deferred Tax Assets:		
a) Provision for Gratuity and Retirement Benefits	**15.53**	15.93
b) Provision for Doubtful Debts/ Claims/Advances	**56.63**	60.65
c) Others	**2.23**	43.35
Deferred tax Liability (net)	**1299.70**	1255.23

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

a. **Mahanagar Gas Limited:** A Joint venture with British Gas Plc. and Government of Maharashtra to supply gas to domestic, commercial and small industrial consumers and CNG for transport sector in Mumbai. The Company has invested Rs.44.45 Crores for acquiring 444,49,960 equity shares of Rs.10 each of the Company, presently being 49.75% of the paid up capital.

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

c. **Petronet LNG Limited:** A Joint venture with BPCL, IOCL and ONGCL for setting up LNG imports facilties. The Company has invested Rs.98.75 Crores for acquiring 937,50,000 equity shares of Rs.10 each of the Company, presently being 12.50% of the paid up capital.

d. **Bhagyanagar Gas Limited:** A Joint Venture Company with HPCL for distribution and marketing of CNG, Auto LPG, Natural Gas and other gaseous fuels in Andhra Pradesh with the equity participation of 22.50% of the paid up capital. The Company has been allotted 12497 equity shares of Rs.10 each of the Company. The Company has further paid Rs.9.98 Crores as advance pending allotment of equity shares.

e. **Tripura Natural Gas Company Limited :** A Joint Venture Company with Assam Gas Company Limited and Tripura Industrial Development Corporation for transportation and distribution of natural gas through pipelines in Tripura with the equity participation of 29% of the paid up capital. The Company has paid Rs.0.83 Crores as advance pending allotment of equity shares.

f. **Central UP Gas Limited:** A Joint Venture Company with BPCL to supply gas to domestic, commercial and small industrial consumers and CNG for transport sector in Kanpur, Uttar Pradesh with the equity participation of 22.50% of the paid up capital. The Company has been allotted 25000 equity shares of Rs.10 each of the Company. The Company has further paid Rs.4.98 Crores as advance pending allotment of equity shares.

g. **Green Gas Limited:** A Joint Venture Company with IOCL to supply gas to domestic, commercial and small industrial consumers and CNG for transport sector in Agra & Lucknow, Uttar Pradesh with the equity participation of 22.50% of the paid up capital. The Company has been allotted 12500 equity shares of Rs.10 each of the Company.

h. **Maharashtra Natural Gas Limited:** A Joint Venture Company with BPCL to supply gas to domestic, commercial and small industrial consumers and CNG for transport sector in Pune, Maharashtra with the equity participation of 22.50% of the paid up capital. The Company has been allotted 25000 equity shares of Rs.10 each of the Company.

i. **Ratnagiri Gas and Power Private Limited:** A Joint Venture Company promoted by GAIL, NTPC, MSEB and other Financial Institutions for the revival of the Dabhol Project.

The Company has paid Rs.500.00 Crores as advance pending allotment of equity shares.

The Company share of assets and liabilities as at 31st March, 2006 and the Income and expenditure for the year in respect of above Joint ventures based on unaudited statements of accounts as furnished by them is as follows:

(Rs. in Crores)

		2005-06	2004-05
A.	Assets		
	Long Term Assets	**616.75**	563.80
	Current Assets	**130.65**	179.81
B.	Current Liabilities & Provisions	**119.69**	173.15
C.	Income	**835.58**	539.09
D.	Expenditure	**660.94**	425.65
E.	Contingent Liability	**90.35**	83.03

12. The Company has participated in joint bidding under the Government of India New Exploration Licensing Policy and had been allotted 12 Blocks for which the Company has entered into Production Sharing Contract with Government of India along with other partners for Exploration & Production of Oil and Gas. As per the Production Sharing Contract, the Company has a minimum work program commitment of Rs.551.61 Crores (Previous Year: Rs.137.18 Crores). The Company is acting as non-operator and would have to share in Expense/Income/Assets/ Liabilities based upon its percentage in production sharing contract. The participating interest in the following twelve NELP - Blocks as on 31st March, 2006 is as under:

Joint Venture under NELP Blocks		Participating Interest
1)	MN-OSN-97/3	15%
2)	NEC-OSN-97/1	50%
3)	MN-OSN-2000/2	20%
4)	GS-DWN-2000/2	15%
5)	MB-DWN-2000/2	15%
6)	CB-ONN-2000/1	50%
7)	MN-ONN-2000/1	20%
8)	CY-ONN-2002/1	50%
9)	AA-ONN-2002/1	80%
10)	AA-ONN-2003/2	35%
11)	CB-ONN-2003/2	20%
12)	AN-DWN-2003/2	15%

In addition, the Company has farm-in as non – operator with minimum work program commitment of Rs.41.80 Crores (Previous Year: Rs.11.24 Crores) in the following blocks:

	Blocks	Participating Interest
1)	A-1, Myanmar	10%
2)	CY-OS/2	25%
3)	A-3, Myanmar	10%

The Company's share of assets and liabilities as at 31st March, 2006 and the Income and the expenditure for the year in respect of joint operations project blocks has been incorporated in the Company financial statements based upon unaudited statement of accounts submitted by the operators as follows:

(Rs. in Crores)

	2005-06	2004-05
Income	-	-
Expenses	101.28	37.79
Fixed Assets	1.42	1.05
Other Assets	139.95	45.25
Current Liabilities	76.67	33.53

13. In compliance with amended Clause 32 of the Listing Agreement with Stock Exchanges, the required information are given in Annexure – C.

14. Due to change in Accounting policy

a) Depreciation rate on the Oil & Gas Pipelines has been changed from 10.34% per annum to 3.17% per annum based on useful life of 30 years w.e.f. 01.04.2005 in terms of approval of Ministry of Company affairs vide its letter no 45/4/2003-CL-III dated 31.08.2005. Accordingly, the Company has depreciated the unamortized depreciation over the remaining useful life of pipe lines. Due to change in depreciation rate, there is a reduction in depreciation charged to Profit and Loss Account amounting to Rs.406.49 Crores with consequent increase in PBT.

b) During the year, the Company has changed its accounting policy of capitalizing the difference between cost and Net Realisable Value of left over construction surplus material to charging off to P&L Account. Due to this change in policy, there is decrease in Profit Before Tax by Rs.3.37 Crores.

15. The CENVAT amount on construction surplus will be ascertained and reversed at the time of their actual disposal and removal from plant as per rule 3(5) of CENVAT CREDIT RULES, 2004. The amount so reversed will be recovered from the buyers/customers and therefore, there is no financial impact on the Company.

16. An amount of Rs.19.22 Crores (Previous Year: Rs.4.95 Crores) has been claimed on account of the adjustment for CENVAT in respect of GAILTEL, Pata, LPG Plants at Usar, Vijaipur, Vaghodia, Gandhar and Lakwa, HVJ units. Such claims are adjustable out of excise duty/service tax payable on goods and services.

17. Rs.0.15 Crore (M/s. New Fire Engineers Pvt. Ltd. & M/s New Engineering) (Previous Year: Rs.0.15 Crore) (M/s. New Fire Engineers Pvt. Ltd.) is outstanding for more than 30 days in respect of SSI units as on 31.03.2006.

18. a) The price of Gas purchased from Joint Venture Consortium (JVC) (Indian and Foreign Partners) from Ravva / Ravva Satellite, Tapti and Panna–Mukta fields are denominated in USD per MMBTU. The liability in USD has been converted at Bills Buying rate, TT selling rate and TT buying rate, prevailing as on 31.03.2006 or on the date of payment, as the case may be.

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

19. Following Government of India's approval, the shareholders of the Company in the Annual General Meeting held on 15th September, 1997 approved the transfer of all the assets including Plant and Machinery, accessories and other related assets which are part of Lakwa Project valued at Rs.245.97 Crores as on 31.03.2006 (Previous Year: Rs.246.91 Crores) to Assam Gas Cracker Complex at a price to be determined by an independent Agency and on terms and stipulations as the Board may in its discretion deem fit. However, Assam Gas Cracker Complex has not come up as per plan and LPG Lakwa Project has not been transferred to it. Therefore, a fresh proposal has been put up to Govt of India to establish Assam Gas Cracker project by GAIL and LPG Lakwa Project will be part of that Assam Gas Cracker project. Government of India is in advance stage in establishing the Assam Gas Cracker Project.

20. Pending issue of suitable notification by the Government of India specifying the period and applicable rate at which cess on turnover is payable under section 441A of Companies Act, 1956 the Company has not provided for the same.

21. Deposits made with the concerned authorities for railway crossings, forest crossings, removal and laying of electric/ telephone poles and lines have been accounted for under Capital Work-in-Progress on the basis of work done/ confirmation from the concerned department.

22. Balances grouped under Material with Contractors, Sundry Debtors, Loans and Advances, Deposits and Sundry Creditors, etc. are subject to confirmation.

23. a) The Company has incurred an expenditure of Rs.0.75 Crore (Previous year Rs.7.26 Crores) on account of City gas projects which is accounted under Capital Work in progress. This amount would be recoverable from the proposed Joint ventures to be formed for city gas distribution projects in India.

b) The value of pipelines and related facilities taken over in Southern and North-eastern region in February 1992 and Western Region in May 1992 is provisional, based on intimation from ONGCL. Adjustments, if any, for taxes, duties, ROU and other claims would be made as and when ascertained. Depreciation on the assets taken over from ONGCL has been provided for as per the accounting policy of the Company on the transfer value of such assets. Pending installation of custody transfer meters, the purchase of Gas is accounted for on the basis of metering done at the consumer's end.

24. The Profit & Loss Account includes: -

(a) Expenditure on Public Relations amounting to Rs.29.74 Crores (Previous Year: Rs.23.62 Crores). The ratio of annual expenditure on Public Relations and Publicity to the annual turnover is 0.002:1 (Previous Year: 0.002:1).

(b) Research and Development Expenses Rs.0.27 Crore (Previous Year: Rs.0.40 Crore).

c) Entertainment Expenses Rs.1.18 Crores (Previous Year: Rs.0.22 Crore).

25. Previous year's comparative figures have been regrouped and recast to the extent practicable, wherever necessary. Figures in brackets indicate deductions.

26. INFORMATION REQUIRED AS PER SCHEDULE VI OF THE COMPANIES ACT,1956

I.Quantitative Information

(Value Rs. in Crores)

	OPENING STOCK		PURCHASES@		SALES @		INTERNAL CONSUMPTION		CLOSING STOCK	
	QTY	VALUE	QTY	VALUE	QTY	VALUE	QTY	VALUE	QTY	VALUE
Natural Gas including RLNG (MMSCM) *										
Year Ended 31.03.2006	**115.21**	**57.31**	**24848.84**	**9909.56**	**22718.55**	**10295.13**	**1966.99**	**1881.25**	**120.52**	**59.56**
Year Ended 31.03.2005	91.58	47.30	25895.79	7828.35	22835.45	8878.80	2021.99	1167.87	115.21	57.31
LPG (M/T)										
Year Ended 31.03.2006	**14007.67**	**8.65**	**-**	**-**	**1038970.05**	**1341.94**	**-**	**-**	**16926.07**	**17.63**
Year Ended 31.03.2005	8167.58	7.04	-	-	1089066.16	1093.55	-	-	14007.67	8.65
Pentane (M/T)										
Year Ended 31.03.2006	**676.26**	**0.88**	**-**	**-**	**53457.28**	**139.84**	**-**	**-**	**587.86**	**1.23**
Year Ended 31.03.2005	317.60	0.44	-	-	57177.88	129.50	-	-	676.26	0.88
Propane (M/T)										
Year Ended 31.03.2006	**2572.05**	**2.64**	**-**	**-**	**172524.73**	**519.99**	**-**	**-**	**3790.80**	**5.10**
Year Ended 31.03.2005	855.49	0.83	-	-	180159.12	453.86	-	-	2572.05	2.64
SBP Solvent(M/T)										
Year Ended 31.03.2006	**493.20**	**0.86**	**-**	**-**	**56338.64**	**178.88**	**-**	**-**	**380.26**	**0.87**
Year Ended 31.03.2005	453.41	0.70	-	-	58854.09	158.95	-	-	493.20	0.86
Polymers (M/T)										
Year Ended 31.03.2006	**8747.93**	**22.73**	**-**	**-**	**311092.57**	**1842.35**	**1283.50**	**0.88**	**7841.26**	**25.24**
Year Ended 31.03.2005	24671.32	65.05	4362.90	24.88	318613.91	1774.17	459.73	0.31	8747.93	22.73
C2/C3 (M/T)										
Year Ended 31.03.2006	**3811.69**	**2.44**	**-**	**-**	**-**	**-**	**-**	**-**	**2735.56**	**2.88**
Year Ended 31.03.2005	1648.00	1.09	-	-	-	-	-	-	3811.69	2.44
Ethylene (M/T)										
Year Ended 31.03.2006	**991.01**	**1.09**	**-**	**-**	**-**	**-**	**-**	**-**	**1016.00**	**1.69**
Year Ended 31.03.2005	1910.00	2.35	-	-	-	-	-	-	991.01	1.09
Butene-1 (M/T)										
Year Ended 31.03.2006	**307.86**	**0.70**	**-**	**-**	**156.77**	**0.97**	**-**	**-**	**308.15**	**0.92**
Year Ended 31.03.2005	133.00	0.37	-	-	205.87	1.19	-	-	307.86	0.70
Other Products(M/T)										
Year Ended 31.03.2006	**6463.11**	**7.29**	**-**	**-**	**35371.83**	**94.01**	**8187.08**	**9.75**	**9056.23**	**14.40**
Year Ended 31.03.2005	5618.19	6.28	-	-	28444.45	62.14	7379.00	10.66	6463.11	7.29

Notes: (i) Difference in reconciliation of opening stock,purchases,sales and closing stock of Gas Quantity is on account of measurement tolerance.

(ii) Rs.72.02 Crores(Previous Year: Rs.54.38 Crores) has been deducted at Source u/s 194C of the Income Tax Act from the Gas sales invoices including shipper, LPG Transmission & Telecomunication raised during the year.

(iii) Internal consumption of Polymers includes 869.07 M/T for manufacture of other products.

(iv) @Excluding Prior Period adjustments.

* Includes gas after processing.

(Rs in Crores)

	2005-06	2004-05
II. CIF Value of Imports		
i) Capital Goods	**38.25**	38.18
ii) Spare Parts & Components	**64.00**	58.63
iii) Raw materials (Polymers)	-	1.16
III. a) Expenditure in Foreign Currency		
i) Interest/Commitment Charges	**0.45**	0.81
ii) Technical/Consultancy/License Fee/Engineering	**11.50**	21.41
iii) Others	**790.47**	836.79
b) Earnings in Foreign Currency		
I) Sales	**18.58**	76.95
ii) Others (Including Tender fee)	**4.07**	1.92
IV. Remuneration paid/payable to whole time Directors including Chairman & Managing Director :		
Salaries & Allowances	**0.49**	0.49
Contribution to Provident,Gratuity and Other Funds	**0.13**	0.16
Other Benefits and Perquisites	**0.16**	0.08
	0.78	0.73

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

V. Licensed Capacity, Installed Capacity and Actual Production

	CURRENT YEAR 2005-06				PREVIOUS YEAR 2004-05			
	Licensed Capacity	**Installed Capacity**	**Gas Throughput**	**Production**	Licensed Capacity	Installed Capacity	Gas Throughput	Production
i) Natural Gas including RLNG (MMSCMD)								
a) HVJ,GREP & DVPL	**53.40**	**53.40**	**47.15**	-	53.40	53.40	47.29	-
b) Others			**20.48**	-	-	-	20.81	-
c) RLNG Shipper			**11.24**	-	-	-	3.46	-
ii) LPG (M /T)	**1168844**	**1168844**	-	**1042218.83**	1168844	1168844	-	1094835.00
iii) Propane (M/T)	**201085**	**201085**	-	**173920.38**	201085	201085	-	181863.47
iv) Ethylene (M/T)	**400000**	**400000**	-	**325807.97**	300000	300000	-	319289.86
v) HDPE/LLDPE (M/T)	**310000**	**310000**	-	**311469.41**	310000	310000	-	298787.35

Notes :

1. Production of Pentane 53346.32 MTs (Previous year : 57524.74 MTs). SBP Solvent 56217.87 MTs (Previous Year: 58875.59 MTs).
2. Licensed and Installed Capacity of C2/C3 400000 MTs(Previous Year: 400000 MTs) and actual Production 437330.25 MTs (Previous Year: 426994.01 MTs).
3. Licensed and Installed Capacity of Butene-1 10000 MTs (Previous Year : 10000 MTs) and actual Production 7333.55 MTs (Previous Year: 7989.27 MTs).

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

	CURRENT YEAR 2005-06			PREVIOUS YEAR 2004-05		
	Qty.	**Rs in crores**	**%**	Qty.	Rs in crores	%
i) Raw Material Consumed :						
a) Gas (MMSCM)						
- Indigeneous	**1127.51**	**1466.08**	**100.00**	1150.72	888.49	100.00
- Imported	-	-	-	-	-	-
b) Propylene (MT)						
- Indigeneous	**221.42**	**0.81**	**100.00**	147.60	0.43	100.00
- Imported	-	-	-	-	-	-
c) C4 Mix (MT)						
- Indigeneous	**3777.68**	**8.94**	**100.00**	5,170.77	10.23	100.00
- Imported	-	-	-	-	-	-
Sub total		**1475.83**			899.15	
ii) Stores , Spares Components Consumed						
- Indigeneous	-	**76.33**	**46.40**	-	71.05	48.90
- Imported	-	**84.28**	**53.60**	-	74.26	51.10
Sub total		**160.61**	**100.00**		145.31	100.00
Total		**1636.44**			1044.46	

N.K.Nagpal
Secretary

R.K.Goel
Director(Finance)

S.P. Rao
Director(Projects)

Proshanto Banerjee
Chairman & Managing Director

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

Subhash Mann
(Partner)
Membership No. 80500

Place : New Delhi
Dated : April 28, 2006

(Annexure -A)

Information About Business Segments For Financial Year 2005-06

(Rs.in Crores)

Sl. No.	Segments	Transmission Services** Natural Gas	Transmission Services** LPG	Natural Gas Trading**	Petro Chemicals	LPG & Liquid Hydrocarbons	GAILTEL	Unallocated ***	Consolidated Total
1.	**REVENUE**								
	External Sales	2063.11	308.18	8400.67	1930.83	2201.74	18.32	408.18	15331.03
	Intersegment Sales	-	-	-	-	-	-	-	-
	Total Revenue	**2063.11**	**308.18**	**8400.67**	**1930.83**	**2201.74**	**18.32**	**408.18**	**15331.03**
2.	**RESULTS**								
	Segment Result (Profit before Interest &Tax)	1721.41	157.66	59.07	711.05	603.12	(1.82)	-	3250.49
	Unallocated Expenses	-	-	-	-	-	-	268.73	268.73
	Operating Profit	1721.41	157.66	59.07	711.05	603.12	(1.82)	(268.73)	2981.76
	Interest Expenses	-	-	-	-	-	-	117.30	117.30
	Interest/ Dividend Income	-	-	-	-	-	-	412.16	412.16
	Provision for Taxation	-	-	-	-	-	-	966.55	966.55
	Profit/(Loss) from Ordinary Activities	1721.41	157.66	59.07	711.05	603.12	(1.82)	(940.42)	2310.07
	Extraordinary Items	-	-	-	-	-	-	-	-
	Net Profit/(Loss)	**1721.41**	**157.66**	**59.07**	**711.05**	**603.12**	**(1.82)**	**(940.42)**	**2310.07**
3.	**OTHER INFORMATION**								
	Segment Assets	4372.63	1144.77	-	2435.64	1026.94	50.21	-	9030.19
	Unallocated Assets	-	-	-	-	-	-	5852.65	5852.65
	Total Assets	**4372.63**	**1144.77**	**-**	**2435.64**	**1026.94**	**50.21**	**5852.65**	**14882.84**
	Segment Liabilities	1615.84	36.92	-	460.34	89.59	19.43	-	2222.12
	Unallocated Liabilities	-	-	-	-	-	-	1530.11	1530.11
	Total Liabilities	**1615.84**	**36.92**	**-**	**460.34**	**89.59**	**19.43**	**1530.11**	**3752.23**
	Cost to acquire fixed assets	167.22	4.58	-	67.43	13.31	0.94	9.67	263.15
	Depreciation*	247.28	68.97	-	137.65	89.11	8.11	8.37	559.49
	Non Cash expenses other than Depreciation*	4.89	(0.31)	-	5.37	(4.24)	-	30.89	36.60

* Excluding Prior period adjustments

** Assets & Liability of Gas Trading Business included in Gas Transmission Business

*** unallocated includes Corporate Office, Zonal Office, GTI, E&P, Power etc.

Information About Business Segments For Financial Year 2004-05

(Rs.in Crores)

Segments	Transmission Services Natural Gas	Transmission Services LPG	Natural Gas Trading	Petro Chemicals	LPG & Liquid Hydrocarbons	GAILTEL	Unallocated ***	Consolidated Total
REVENUE								
External Sales	1923.80	301.84	7130.16	1842.05	1837.48	18.42	222.37	13276.12
Intersegment Sales	-	-	-	-	-	-	-	-
Total Revenue	**1923.80**	**301.84**	**7130.16**	**1842.05**	**1837.48**	**18.42**	**222.37**	**13276.12**
RESULTS								
Segment Result (Profit before Interest &Tax)	1193.54	89.54	210.80	804.24	609.00	(1.07)	-	2906.05
Unallocated Expenses	-	-	-	-	-	-	165.91	165.91
Operating Profit	1193.54	89.54	210.80	804.24	609.00	(1.07)	(165.91)	2740.14
Interest Expenses	-	-	-	-	-	-	134.09	134.09
Interest/ Dividend Income	-	-	-	-		-	265.34	265.34
Provision for Taxation	-	-	-	-	-	-	917.48	917.48
Profit/(Loss) from Ordinary Activities	1193.54	89.54	210.80	804.24	609.00	(1.07)	(952.14)	1953.91
Extraordinary Items	-	-	-	-	-	-	-	-
Net Profit/(Loss)	**1193.54**	**89.54**	**210.80**	**804.24**	**609.00**	**(1.07)**	**(952.14)**	**1953.91**
OTHER INFORMATION								
Segment Assets	4626.47	1209.44	57.31	2120.58	1466.32	57.98	-	9538.10
Unallocated Assets	-	-	-	-	-	-	4721.76	4721.76
Total Assets	**4626.47**	**1209.44**	**57.31**	**2120.58**	**1466.32**	**57.98**	**4721.76**	**14259.86**
Segment Liabilities	1891.95	38.73	16.49	96.36	123.98	26.48	-	2193.99
Unallocated Liabilities	-	-	-	-	-	-	1280.16	1280.16
Total Liabilities	**1891.95**	**38.73**	**16.49**	**96.36**	**123.98**	**26.48**	**1280.16**	**3474.15**
Cost to acquire fixed assets **	303.00	436.52	-	57.59	0.50	(197.33)	46.37	646.65
Depreciation*	560.44	140.41	-	136.80	95.08	7.67	6.25	946.65
Non Cash expenses other than Depreciation*	4.76	(0.20)	-	0.06	1.74	-	11.98	18.34

* Excluding Prior period adjustments

** Assets of GAILTEL has been rationalised during the year

*** unallocated includes Corporate Office, Zonal Office, GTI, E&P, Power etc.

(Annexure - B)

RELATED PARTY DISCLOSURES

I) Relationship

A) Joint Venture Companies:

1) Mahanagar Gas Limited
2) Indraprastha Gas Limited
3) Petronet LNG Limited
4) Bhagyanagar Gas Limited
5) Tripura Natural Gas Company Limited
6) Central UP Gas Limited
7) Green Gas Limited
8) Maharashtra Natural Gas Limited
9) Ratnagiri Gas and Power Pvt. Ltd.

B) Whole time Directors:

1) Shri Proshanto Banerjee, Chairman and Managing Director
2) Shri J. K. Jain (up to 31.10.2005)
3) Shri R. K. Goel (w.e.f. 01.11.2005)
4) Shri S. P. Rao
5) Shri B.S. Negi
6) Shri M. R. Hingnikar
7) Dr U. D. Choubey

C) Unincorporated Joint venture for Exploration & Production Activities:

1)	NEC - OSN - 97/1	(Non-operator with participating interest: 50%)
2)	CB - ONN - 2000/1	(Non-operator with participating interest: 50%)
3)	A-1, Myanmar	(Non-operator with participating interest: 10%)
4)	CY-OS/2	(Non-operator with participating interest: 25%)
5)	AA-ONN-2002/1	(Non-operator with participating interest: 80%)
6)	CY-ONN-2002/1	(Non-operator with participating interest: 50%)
7)	AA-ONN-2003/2	(Non-operator with participating interest: 35%)
8)	CB-ONN-2003/2	(Non-operator with participating interest: 20%)
9)	AN-DWN-2003/2	(Non-operator with participating interest: 15%)
10)	A-3, Myanmar	(Non-operator with participating interest: 10%)

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

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

(Rs.in Crores)

		2005-06	2004-05
1)	Sales	335.34	293.14
2)	Amount receivable as at Balance Sheet Date for (1) above	15.71	14.60
3)	Purchases	2361.35	1187.71
4)	Amount payable as at Balance Sheet Date for (3) above	75.20	66.65
5)	Reimbursement for other expenditure received/receivable	0.13	1.23
6)	Amount receivable as at Balance Sheet Date for (5) above	0.09	1.17

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

		2005-06	2004-05
1)	Remuneration *	0.78	0.73
2)	Interest bearing outstanding loans receivable	0.12	0.14
3)	Interest accrued on loans given	0.08	0.09

* Remuneration includes Basic, Allowances, reimbursements, contribution to PF and perquisites.

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

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

		2005-06	2004-05
1)	Minimum work program commitment	536.78	94.39
2)	Survey and other expenses	67.24	22.07
3)	Other assets	141.14	46.13
4)	Amount outstanding on Balance Sheet date	59.97	17.32
5)	Amount written Off- Dry well expenditure	16.26	2.22

(Annexure -C)

Disclosure as required by Clause 32 of the Listing Agreement

(Rs.in Crores)

	Current Year		Previous Year	
	Amount as on 31.03.2006	Maximum amount outstanding during year ended 31.03.2006	Amount as on 31.03.2005	Maximum amount outstanding during year ended 31.03.2005
1. Loans and advances in the nature of loans:				
a. To subsidiary Company: GAIL (Global) Singapore Pte. Limited	77.18	77.18	76.94	76.94
b. To Companies in which Directors are interested	Nil	Nil	Nil	Nil
c. Where there is no repayment schedule or repayment beyond seven years or no interest or interest below Section 372A of Companies Act	Repayment of Loan would be five years from the date of drawl i.e. 24/9/2004. Rate of interest on loan is 6 months LIBOR + 100 basis points		Repayment of Loan would be five years from the date of drawl i.e. 24/9/2004. Rate of interest on loan is 6 months LIBOR + 100 basis points	
2. Investment by the Subsidiary Company in the shares of GAIL (India) Limited and its subsidiaries	Nil	Nil	Nil	Nil

Balance Sheet Abstract and Company's General Business Profile

I. Registration Details

Registration No. 0 1 8 9 7 6 — State Code 5 5

Balance Sheet Date: Date 3 1, Month 0 3, Year 2 0 0 6

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

Public Issue	Right Issue
NIL	NIL

Bonus Issue	Private Placement
NIL	NIL

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

Total Liabilities	Total Assets
- - 1 3 1 8 9 5 5	- - 1 3 1 8 9 5 5

Sources of Funds :

Paid up Capital	Reserves and Surplus
- - - - 8 4 5 6 5	- - - 9 1 2 7 6 4

Secured Loans	Unsecured Loans
- - - 1 6 0 0 0 0	- - - - 3 1 6 5 6

Deferred Tax Liability
- - - 1 2 9 9 7 0

Application of Funds

Net Fixed Assets	Investments/Advances for Investments
- - - 8 1 7 1 5 5	- - - 1 4 4 3 3 5

Net Current Assets	Misc. Expenditure
- - - 3 5 7 4 6 5	N I L

Accumulated losses
N I L

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

Turnover (Net of ED)	**Total Expenditure**
- - 1 4 9 3 9 8 8	- - 1 1 6 6 3 2 6
Profit/Loss before Tax	**Profit/Loss after Tax**
(+) (-)	(+) (-)
(+) - - - 3 2 7 6 6 2	(+) - - - 2 3 1 0 0 7
Earning per share in Rs.	**Dividend (%)**
Rs. 2 7 P. 3 2	1 0 0

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

Item Code No.: (ITC Code)	2 7 1 1 2 1 0 0
Product Description	N A T U R A L G A S
Item Code No.: (ITC Code)	2 7 1 1 1 9 0 0
Product Description	L P G
Item Code No.: (ITC Code)	3 9 0 1 2 0
Product Description	P O L Y E T H Y L E N E
Item Code No.: (ITC Code)	2 7 1 1 2 0 0
Product Description	P R O P A N E

N.K.Nagpal
Secretary

R.K.Goel
Director (Finance)

S. P. Rao
Director(Projects)

Proshanto Banerjee
Chairman & Managing Director

For M/s S. MANN & COMPANY
Chartered Accountants

Subhash Mann
(Partner)
Membership No. 80500

Place : New Delhi
Dated : April 28, 2006

Statement pursuant to Section 212(1)(e) of the Companies Act, 1956 relating to Company's interest in the Subsidiary Company

	Name of the subsidiary Company	GAIL Global Singapore (Pte) Limited
1.	The financial year of the subsidiary Company ended on	31.03.2006
2.	Date from which it became subsidiary Company	14.09.2004
3.a)	Number of Shares held by GAIL (India) Limited alongwith its nominees in the subsidiary at the end of financial year of the subsidiary Company	2,100,000 equity shares of USD 1 per share
3.b)	Extent of Shareholding	100%
4.	The net aggregate amount of Subsidiary Company profit so far it concerns the members of Holding Company:	
a)	Not dealt within the Holding Company Accounts:	
	i) for the financial year ended 31.03.2006 (Rs.in Crores)	2.16
	ii) for previous financial years of the subsidiary Company since it became the holding Company subsidiary	2.26
b)	Dealt within the Holding Company Accounts:	
	i) for the financial year ended 31.03.2006	Nil
	ii) for previous financial years of the subsidiary Company since it became the holding Company subsidiary	Nil

N.K.Nagpal
Secretary

R.K.Goel
Director(Finance)

S.P. Rao
Director(Projects)

Proshanto Banerjee
Chairman & Managing Director

Place : New Delhi
Dated : April 28, 2006

Schedule of Fixed Assets (Township)

(Rs.in Lakhs)

DESCRIPTION	GROSS BLOCK (AT COST)				DEPRECIATION				NET BLOCK	
	As at 01.04.2005	Additions / Adjustments during the year	Sales / Adjustments during the year	**As at 31.03.2006**	Up to 31.03.2005	For the year	Adjustments during the year	**As at 31.03.2006**	**As at 31.03.2006**	As at 31.03.2005
LAND : FREEHOLD	2,850.01	13.00	-	**2,863.01**	90.84	10.57	6.12	**107.53**	**2,755.48**	2,759.17
LAND : LEASEHOLD	347.44	41.37	-	**388.81**	28.79	12.34	0.43	**41.56**	**347.25**	318.65
BUILDING, ROADS ETC.	24,492.12	(2.24)	74.40	**24,564.28**	3655.00	450.54	(8.95)	**4096.59**	**20,467.69**	20,837.12
DRAINAGAE, SEWAGE & WATER SUPPLY SYS. ETC.	1,169.46	15.05	-	**1,184.51**	491.32	55.57	(0.78)	**546.11**	**638.40**	678.14
FURNITURE,FIXTURES & OTHER EQP.	1,345.15	41.58	(25.96)	**1,360.77**	560.66	81.63	36.06	**678.35**	**682.42**	784.49
TRANSPORT EQUIPMENTS	0.58	0.56	-	**1.14**	0.14	0.06	0.46	**0.66**	**0.48**	0.44
TOTAL	30,204.76	109.32	48.44	**30,362.51**	4,826.75	610.71	33.34	**5,470.80**	**24,891.72**	25,378.01

Income and Expenditure Account

INCOME AND EXPENDITURE ACCOUNT FOR THE YEAR ENDED 31st MARCH,2006 ON PROVISIONS OF TOWNSHIP, EDUCATION, MEDICAL AND OTHER FACILITIES.

(Rs.in Lakhs)

S.No.	Particulars	Year Ended 31st March, 2006	Year Ended 31st March, 2005
Income			
1.	Recovery of House Rent	**69.10**	54.68
2.	Recovery of Utilities	**73.06**	34.09
3.	Other Recoveries	**7.21**	8.77
4.	Excess of Expenditure Over Income	**2,446.28**	2,548.62
	Total	**2,595.66**	2,646.16
Expenditure			
1.	Salaries, Wages & PF Contribution	**316.30**	328.23
2.	Consumables, Stores & Medicines	**59.74**	32.66
3.	Subsidies for Social & Cultural Activities	**225.55**	157.25
4.	Repairs & Maintenance	**404.08**	505.92
5.	Depreciation	**634.52**	655.60
6.	Utilities : Power, Gas & Water	**351.68**	360.08
7.	Land Rent	**9.15**	9.14
8.	Welfare - School	**126.56**	99.09
9.	Bus Hire Charges	**145.94**	204.95
10.	Club & Recreation	**6.43**	7.05
11.	Misc Expenses - Taxes, License Fees, Ins. etc.	**188.44**	146.10
12.	Horticulture Expenses	**127.26**	140.11
	Total	**2,595.66**	2,646.16

Addendum to the Directors' Report

Management Replies to the Comments of the Comptroller and Auditor General of India under Section 619(4) of the Companies Act, 1956 on the Accounts of GAIL (India) Limited for the year ended March 31, 2006

Para No.	Comments of the Comptroller and Auditor General of India	Management Replies
1.	**Balance Sheet** **Current Liabilities and Provisions (Schedule-8)** **Current Liabilities** **Other Liabilities - Rs.762.93 Crores** The above includes Rs.3.62 Crores towards share of other Oil Marketing Companies for publication in various newspapers regarding launching of a serial initiative "The Maha Suraksha Yojna". This has resulted into overstatement of other liabilities and understatement of profits by Rs.3.62 Crores.	Noted and corrective action taken.
2.	**Current Assets, Loans and Advances (Schedule-7)- Rs.7326.88 Crores** The above includes the following amounts which have not been separately disclosed. (i) An amount of Rs.49.29 Crores outstanding from Assam State Electricity Board for the period 1991-92 to November 2002 for which the proposed tripartite agreement for securitization scheme by the Government of India has not materialized so far. (ii) Rs.3.01 Crores spent on GDR issue in 1999 which has not been paid by the Ministry of Disinvestment for last seven years.	(i) Noted (ii) Noted
3.	**Fixed Assets (Schedule 4)** **Gross Block** **i) Land and Building - Rs. 762.12 Crores** This includes Rs.4.85 Crores in respect of Land and Building lying idle at various locations for which disposal action duly approved by the Board of Directors has been initiated by the Company. The Company has not disclosed these assets separately as per provisions of Accounting Standard – 10.	Although the assets are held for disposal but has not been retired from active use. Therefore, no seprate disclosure has been made. However, the observation of the audit has been noted.

Sd/- **(A. K. Singh)** **Principal Director of Commercial Audit** **& Ex.-Officio Member Audit Board – II** **Place: New Delhi** **Dated: June 20, 2006**	**For and on behalf of the Board of Directors** **(Proshanto Banerjee)** **Chairman & Managing Director** **Place: New Delhi** **Dated: June 30, 2006**

COMMENTS OF C&AG

Review of the Accounts of GAIL (India) Limited, New Delhi, for the Year Ended 31st March, 2006 by the Comptroller & Auditor General of India

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

1. FINANCIAL POSITION

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

(Rs.in Crores)

			2003-04	2004-05	2005-06
Liabilities					
a)	Paid-up Capital				
	i)	Government	484.94	484.94	**484.94**
	ii)	Others	360.71	360.71	**360.71**
b)	Reserves and Surplus				
	i)	Free Reserves & Surplus	6596.91	7777.99	**9125.28**
	ii)	Share Premium Account	0.26	0.26	**0.26**
	iii)	Capital Reserve	2.33	2.21	**2.10**
c)	Borrowings				
	i)	From Government of India	-	-	**-**
	ii)	From Financial Institutions	-	-	**-**
	iii)	Foreign Currency Loans	61.28	34.28	**19.18**
	iv)	Others	2072.20	1963.12	**1897.38**
d)	(i)	Current Liabilities & Provisions	3007.82	3474.15	**3752.23**
	(ii)	Provision for Gratuity	22.39	-	**-**
e)	Deferred Tax Liability		1227.58	1255.23	**1299.70**
	TOTAL		13836.42	15352.89	**16941.78**
Assets					
f)	Gross Block		13584.73	14222.35	**14469.48**
g)	Less: Depreciation		5441.85	6376.47	**6913.52**
h)	Net Block		8142.88	7845.88	**7555.96**
i)	Capital Work-In-Progress		814.47	309.08	**615.59**
j)	Investments / Advances for Investment		771.99	783.95	**1443.35**
k)	Current Assets,Loans and Advances		4107.08	6413.98	**7326.88**
l)	Miscellaneous Expenditure not written off		-	-	**-**
	TOTAL		13836.42	15352.89	**16941.78**
m)	Working Capital (k-d(i))		1099.26	2939.83	**3574.65**
n)	Capital Employed (h+m)		9242.14	10785.71	**11130.61**
o)	Net Worth (a+b(i)+b(ii)-l)		7442.82	8623.90	**9971.19**
p)	Net Worth Per Rupee of Paid-up Capital (in Rs.)		8.80	10.20	**11.79**

The Working Capital of the Company for the years 2003-2004, 2004-2005 and 2005-06 were (+) Rs.1099.26 Crores, (+) Rs.2939.83 Crores and (+)Rs.3574.65 Crores respectively. The working capital has increased mainly due to increase in Short term deposit.

The Capital Employed has increased from Rs.10785.71 Crores in 2004-05 to Rs.11130.61 Crores in 2005-06 due to increase in Net Current Assets.

Net Worth increased from Rs.8623.90 Crores in 2004-05 to Rs.9971.19 Crores in 2005-06 mainly because of increase in Reserves and Surplus.

2. WORKING RESULTS

(Rs.in Crores)

		2003 - 04	2004 - 05	2005 - 06
(i)	Sales (incl. LPG Transmission charges)	11295.67	12927.07	**14875.49**
(ii)	Less:Excise Duty	471.83	514.87	**416.08**
(iii)	Net Sales	10823.84	12412.20	**14459.41**
(iv)	Other /Miscellaneous Income	244.03	349.05	**455.54**
(v)	Profit/(Loss) before Tax and Prior Period Adjustments	2811.83	2872.27	**3351.79**
(vi)	Prior Period Adjustments	2.59	(0.88)	**(75.17)**
(vii)	Profit/(Loss) before Tax	2814.42	2871.39	**3276.62**
(viii)	Tax Provisions	945.08	917.48	**966.55**
(ix)	Profit after Tax	1869.34	1953.91	**2310.07**
(x)	Final /Interim Dividend	676.52	676.52	**845.65**

The sales of the Company has increased from Rs.12927.07 Crores in 2004 - 05 to Rs.14,875.49 Crores in 2005-06, which is increased by 15.07%. While Profit After Tax has increased from Rs.1953.91 Crores in 2004-05 to Rs.2310.07 Crores in 2005-2006 which is increased by 18.23% due to higher sales & reduction in depreciation on Gas Pipeline & related facilities.

Other Income has increased from Rs. 349.05 Crores in 2004-05 to Rs. 455.54 Crores in 2005-06 due to increase in interest income from short term deposit with banks and higher dividend Income from Investments.

3. RATIO ANALYSIS

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

(In Percentages)

		2003-04	2004-05	2005-06
A.	**Liquidity Ratio** Current Ratio (Current Assets to Current Liabilities & Provisions but excluding Provision for Gratuity) (k / (d(i))	136.55	184.62	**195.27**
B.	**Debt Equity Ratio** Long term debt to Net Worth (c (i to iv but excluding short term loans) / o)	28.66	23.16	**19.22**
C.	**Profitability Ratios**			
	a) Profit before Tax to			
	i) Capital Employed	30.45	26.62	**29.44**
	ii) Net worth	37.81	33.30	**32.86**
	iii) Sales	24.92	22.21	**22.03**
	b) Profit after Tax to Equity	221.05	231.05	**273.17**
	c) Earning per Share (in Rs.)	22.11	23.11	**27.32**

The percentage of Liquidity Ratio,which is a measure of solvency,has increased from 184.62 in 2004-05 to 195.27 in 2005-06 due to increase in Working Capital.

The percentage of Debt Equity Ratio is showing decreasing trend. It has declined from 28.66 in 2003 - 04 to 23.16 in 2004-05 and further 19.22 in 2005-06 because of repayment of borrowed funds & increase in Net worth due to higher profits.

The percentage of Profit after Tax to Equity has increased from 231.05 in 2004-05 to 273.17 in 2005-06, which shows an increasing trend.

4. SOURCES AND USES OF FUNDS

Funds amounting to Rs.2908.97 Crores were generated from internal and external sources and utilised during the year 2005-2006 as follows :

(Rs. in Crores)

		2005-06
Sources of Funds		
Funds from operations		
Profit after Tax	2310.07	
Add:Loss on Sale of Fixed Assets(net)	2.14	
	2312.21	
Add : Depreciation/write off	549.76	
Add : Deferred Tax liability provided for	44.47	
	2906.44	
Less : Capital Reserve write off	0.11	
Less : Foreign Currency Translation Reserve	(1.47)	
		2907.80
Sale of Fixed Assets		1.17
Total		2908.97
Utilisation of Funds		
Increase in Fixed Assets	263.15	
Add : Increase in Capital Work-in-Progress	306.51	569.66
Decrease in Borrowed funds		80.84
Increase in Investments		659.40
Increase in Working Capital		441.97
Dividend Paid incl. Dividend Tax		1157.10
Total		2908.97

5. INVENTORY LEVELS

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

(Rs. in Crores)

	2003-04	2004-05	2005-06
Stores and Spares	343.46	376.85	353.67
Stock of Gas/LPG/Polymers & other Products	131.45	104.59	129.52

6. SUNDRY DEBTORS

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

(Rs. in Crores)

As on 31st March	Considered Good	Considered Doubtful	Total Debtors	Sales	Percentage of Sundry Debtors to Sales
2004	720.69	125.25	845.94	11295.67	7.49
2005	822.86	120.25	943.11	12927.07	7.30
2006	**753.47**	**120.29**	**873.76**	**14875.49**	**5.87**

The Sundry Debtors represents 0.70 months sales in 2005-2006 as compared to 0.88 months sales in 2004-2005 and 0.90 months sales in 2003-04.

(ii) Period - wise Sundry Debtors as on 31.3.2006 are given below :

(Rs. in Crores)

		Govt. Depts.	Govt. Companies	Private Parties	Total
Debts Outstanding					
(I)	Upto one year	6.68	333.78	321.64	662.10
(ii)	More than 1 year but less than 2 years	0.00	12.80	0.31	13.11
(iii)	2 Years or more but less than 3 years	0.00	13.20	0.26	13.46
(iv)	3 years or more	0.00	64.95	120.14	185.09

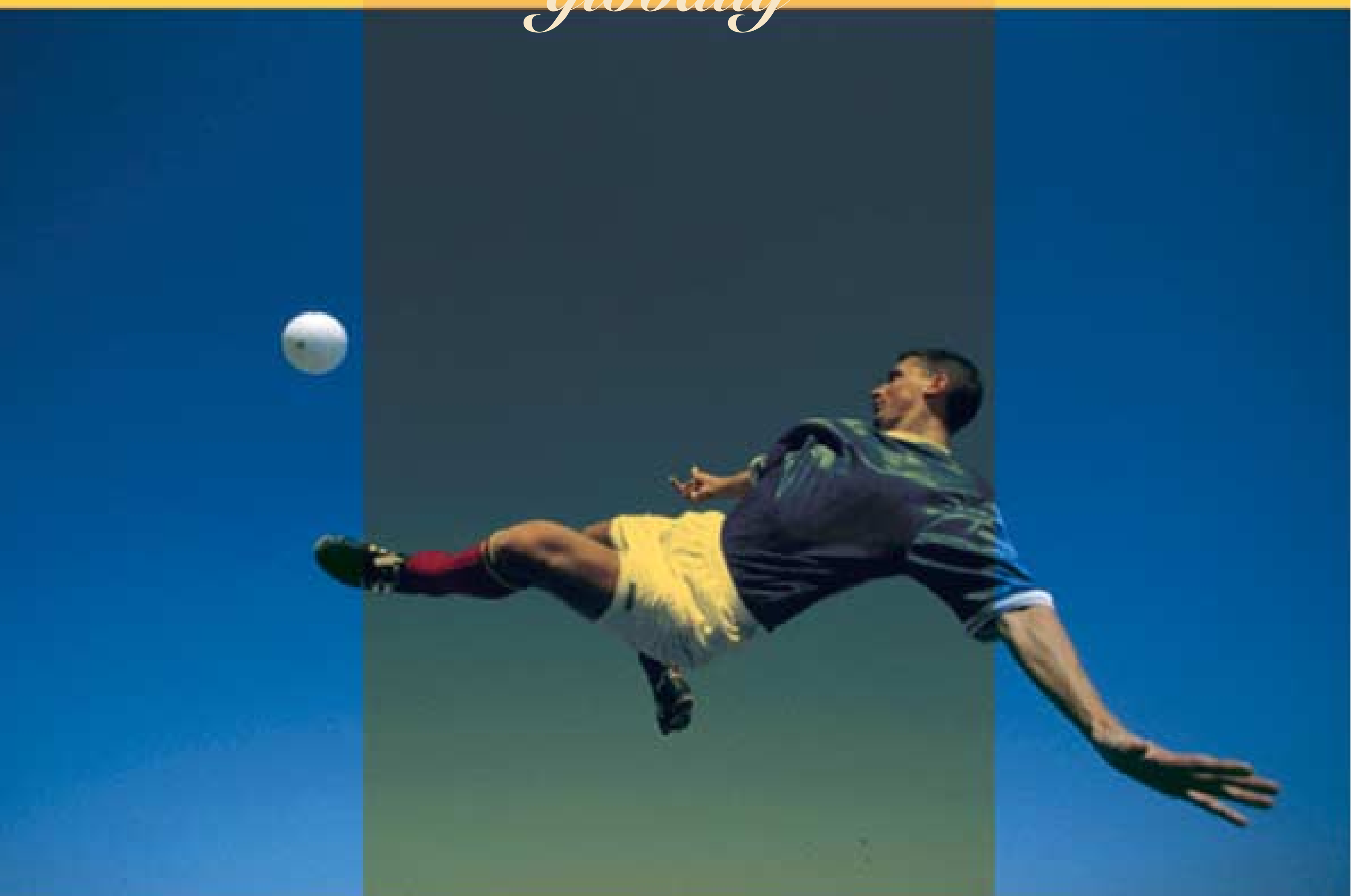
a) The dues from Government, Government Companies and Private parties constitute 0.76%, 48.61% and 50.63% of the total Sundry Debtors respectively.

b) The dues outstanding for more than 3 years increased from 16.35% during 2004-05 to 21.18% of the total Sundry Debtors in the year 2005-06.

(A. K. SINGH)
PRINCIPAL DIRECTOR OF COMMERCIAL AUDIT
& EX-OFFICIO MEMBER, AUDIT BOARD-II

Place: New Delhi
Dated: 20.06.2006

"Winning performance globally"



GAIL Global (Singapore) Pte. Ltd.

DIRECTORS' REPORT

Annual Report for the year ended 31st March, 2006

We, the undersigned directors, on behalf of all the directors of the Company, submit the annual report to the members together with audited accounts of the Company for the year ended 31st March, 2006.

Directorate

The directors in office at the date of this report are as follows:

Upendra Dutta Choubey
Kirpa Ram Vij
Rajeev Khanna

Arrangements for Directors to Acquire Shares or Debentures

At no time during the financial year was the Company a party to any arrangements to enable the directors to acquire benefits by means of the acquisition of shares in or debentures of the Company or any other body corporate.

Directors' Interests in Shares or Debentures

According to the register kept by the Company for the purposes of Section 164 of the Companies Act, Cap. 50, particulars of interests of directors who held office at the end of the financial year in shares or debentures in the Company and in related corporations are as follows:-

	Holdings in the name of the director or nominee		Other holdings in which the director is deemed to have an interest	
	At beginning of the year	At end of the year	At beginning of the year	At end of the year
	Ordinary Shares of Rs 10/- each fully paid			
Holding Company GAIL (India) Limited				
Upendra Dutta Choubey	-	-	-	-
Rajeev Khanna	270	270	-	-

Except as disclosed in this report, no director who held office at the end of the financial year had interests in shares or debentures of the Company or of related corporations either at the beginning of the financial year or at the end of the financial year.

Directors' Contractual Benefits

Since the end of the previous financial year, no director has received or become entitled to receive a benefit by reason of a contract made by the Company or a related corporation with the director or with a firm of which he is a member or with a company in which he has a substantial financial interest.

Share Options

During the financial year, there were:-

(i) no options granted by the Company to any person to take up unissued shares in the Company.

(ii) no shares issued by virtue of any exercise of option to take up unissued shares of the Company.

As at the end of the financial year, there were no unissued shares of the Company under option.

Auditors

The auditors, Nexia Tan & Sitoh, have indicated their willingness to accept re-appointment.

For and on behalf of the Board

(Dr.) U. D. Choubey
Director

Rajeev Khanna
Director

Place: New Delhi
Dated: 24th April, 2006

We, (Dr.) U. D. Choubey and Rajeev Khanna, being directors of GAIL Global (Singapore) Pte. Ltd., do hereby state that in our opinion:

(a) the accounts set out on pages 5 to 18 are drawn up so as to give a true and fair view of the state of affairs of the Company as at 31st March 2006 and of the results of the business, changes in equity and cash flows of the Company for the year ended on that date;

(b) at the date of this statement there are reasonable grounds to believe that the Company will be able to pay its debts as and when they fall due.

Signed on behalf of the Board of Directors

(Dr.) U. D. Choubey
Director

Rajeev Khanna
Director

Place: New Delhi
Dated: 24th April, 2006

Nexia Tan & Sitoh
Certified Public Accountants

Report of the Auditors to the Members of GAIL Global (Singapore) Pte. Ltd.

We have audited the accompanying financial statements of GAIL Global (Singapore) Pte. Ltd. as set out on pages 5 to 18 for the financial year ended 31st March, 2006. These financial statements are the responsibility of the Company's directors. Our responsibility is to express an opinion on these financial statements based on our audit.

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

In our opinion,

a) the financial statements are properly drawn up in accordance with the provisions of the Companies Act, Cap 50 ("the Act") and Singapore Financial Reporting Standards so as to give a true and fair view of the state of affairs of the Company as at 31st March, 2006 and the results, changes in equity and cash flows of the Company for the year then ended on that date; and

b) the accounting and other records (excluding registers) required by the Act to be kept by the Company have been properly kept in accordance with the provisions of the Act.

Certified Public Accountants
Place: Singapore
Dated: 24th April, 2006

Balance Sheet As At 31st March, 2006

	Notes	2006 US$	2005 US$	2006 Rs.in Crores	2005 Rs.in Crores
Available for Sale-Financial Assets	3	**19,065,966**	19,065,966	**85.70**	83.45
Current Assets					
Trade Receivable	4	**1,316,250**	1,038,062	**5.92**	4.55
Cash at Bank		**91,864**	194,342	**0.41**	0.85
		1,408,114	1,232,404	**6.33**	5.40
Current Liabilities					
Accrued operating expenses		**15,403**	54,946	**0.07**	0.26
Amounts due to holding company (non - trade)	5	**775,754**	434,940	**3.49**	1.88
Provision for Taxation		**40**	537	**-**	-
		791,197	490,423	**3.56**	2.14
Net Current Assets		**616,917**	741,981	**2.77**	3.26
Non-Current Liabilities					
Loan from holding company (non trade)	6	**16,588,275**	17,200,000	**77.18**	76.94
		3,094,608	2,607,947	**11.29**	9.77
Representing					
Share Capital	7	**2,100,000**	2,100,000	**9.64**	9.64
Unappropriated profit		**994,608**	507,947	**4.41**	2.26
Foreign Currency Translation Reserve		**–**	–	**(2.76)**	(2.13)
		3,094,608	2,607,947	**11.29**	9.77

The notes set out on pages 9 to 18 form part of these accounts.

Profit and Loss Account for the Year ended 31st March, 2006

	Notes	2006 US$	For the period from 14.09.2004 (date of incorporation) to 31.03.2005 US$	2006 Rs.in Crores	For the period from from 14.09.2004 (date of incorporation) to 31.03.2005 Rs.in Crores
Revenue	8	**1,316,250**	1,038,062	**5.84**	4.62
Other Income	9	**848**	8,892	**-**	0.04
Administrative Expenses		**(35,141)**	(249,127)	**(0.15)**	(1.11)
Profit from Operations	10	**1,281,957**	797,827	**5.69**	3.55
Finance Cost	11	**(795,260)**	(289,343)	**(3.53)**	(1.29)
Profit from ordinary activities before taxation		**486,697**	508,484	**2.16**	2.26
Taxation	12	**(36)**	(537)	**-**	-
Profit from ordinary activities after taxation		**486,661**	507,947	**2.16**	2.26
Carried Forward					

The notes set out on pages 9 to 18 form part of these accounts.

Statement of Changes in Equity for year ended 31st March, 2006

	Share Capital US$	Unappropriated Profit US$	Total US$
As at 14th September 2004	2,100,000	-	2,100,000
Profit for the Period	–	507,947	507,947
As at 31st March 2005	2,100,000	507,947	2,607,947
Profit for the Year	–	486,661	486,661
As at 31st March 2006	2,100,000	994,608	3,094,608

	Share Capital Rs.in Crores	Unappropriated Profit Rs.in Crores	Total Rs.in Crores
As at 14th September 2004	9.64	-	9.64
Profit for the Period	-	2.26	2.26
As at 31st March 2005	9.64	2.26	11.90
Profit for the Year	–	2.16	2.16
As at 31st March 2006	9.64	4.42	14.06

The notes set out on pages 9 to 18 form part of these accounts.

Cash Flow Statement for the year ended 31st March, 2006

		2006 US$	For the period from 14th September 2004 (date of incorporation) to 31.03.2005 US$	2006 Rs.in Crores	For the period from 14th September 2004 (date of incorporation) to 31.03.2005 Rs. in Crores
Cash Flow From Operating Activities					
Profit before tax		**486,697**	508,484	**2.16**	2.26
Adjustment for non cash items:					
Call deposit interest income		**(848)**	(8,892)	**-**	(0.04)
Loan interest expenses to a holding company		**795,260**	289,343	**3.53**	1.29
Operating profits before working capital changes		**1,281,109**	788,935	**5.69**	3.51
(Increase) / Decrease In :					
Trade receivable		**(278,188)**	(1,038,062)	**(1.22)**	(4.55)
(Increase) / Decrease In:					
Accrued operating expenses		**(39,543)**	54,946	**(0.19)**	0.26
Amount due to holding company (non-trade)		**340,814**	434,940	**1.61**	1.88
Exchange Fluctuation		**-**	-	**(0.07)**	(2.14)
Cash Generated from Operation		**1,304,192**	240,759	**5.82**	(1.04)
Income Tax Paid		**(533)**	-	**-**	-
Net Cash Inflows From Operating Activities		**1,303,659**	240,759	**5.82**	(1.04)
Cash Flows From Investing Activities					
Purchase of Investment		**-**	(19,065,966)	**-**	(83.45)
Call deposit interest income		**848**	8,892	**-**	0.04
Net Cash Inflow / (Outflows) From Investing Activities		**848**	(19,057,074)	**-**	(83.41)
Cash Flows From Financing Activities					
Proceeds from application of new shares		**-**	2,100,000	**-**	9.64
Repayment of loan from holding company (non-trade)		**(711,725)**	-	**(3.16)**	-
Loan from a holding company (secured)		**100,000**	17,200,000	**0.44**	76.94
Loan interest expenses to a holding company		**(795,260)**	(289,343)	**(3.53)**	(1.29)
Net Cash Inflows From Financing Activities		**(1,406,985)**	19,010,657	**(6.25)**	85.29
Net (decrease) / increase in cash and cash equivalents		**(102,478)**	194,342	**(0.43)**	0.84
Cash and Cash equivalent at beginning of the year		**194,342**	-	**0.84**	-
Cash and Cash equivalent at end of the year	13	**91,864**	194,342	**0.41**	0.84

The notes set out on pages 9 to 18 form part of these accounts.

Notes on the Accounts for the year ended 31st March, 2006

These notes form an integral part of and should be read in conjunction with the accompanying accounts.

1. Corporate Information

The financial statements of the Company for the year ended 31st March, 2006 were authorised for issue in accordance with resolution of the directors on 19th April, 2006.

GAIL Global (Singapore) Pte. Ltd. is a Company incorporated in Singapore with its place of business at

10 Collyer Quay #19-08 Ocean Building Singapore 049315.

The principal activities of the Company, which is incorporated in the Republic of Singapore, have been those relating to the business of investment holding companies.

The holding company is GAIL (India) Limited, a listed company incorporated in India, New Delhi.

2. Summary of Significant Accounting Policies

(a) Basis of preparation

The financial statements are prepared in accordance with the historical cost convention.

The financial statements have been prepared in accordance with Singapore Financial Reporting Standards ("FRS"), including related interpretation promulgated by the Council on Corporate Disclosure and Governance.

The preparation of financial statements is in conformity with FRS requires the use of estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the financial year. Although these estimates are based on management's best knowledge of current events and actions, actual results may ultimately differ from these estimates.

In 2005, the Company adopted the following new/revised FRS which are relevant to its operations:

FRS 1 (revised 2004) Presentation of Financial Statements

FRS 8 (revised 2004) Accounting Policies, Changes in Accounting Estimates and Errors

FRS 10 (revised 2004) Events After the Balance Sheet Date

FRS 21 (revised 2004) The Effects of Changes in Foreign Exchange Rates

FRS 24 (revised 2004) Related Party Disclosure

FRS 32 (revised 2004) Financial Instruments: Disclosure and Presentation

FRS 36 (revised 2004) Impairment of Assets

FRS 39 (revised 2004) Financial Instruments: Recognition and Measurement

There is no material effect on the financial statements on the adoption of the above FRS.

(b) Trade and Other Receivables

Trade and other receivables are stated at their cost less allowance for doubtful receivables. Bad debts are written off when identified.

(c) Cash and Cash Equivalents

Cash and cash equivalents comprise cash balances and bank deposits. For the purpose of the statement of cash flows, cash and cash equivalents are presented net of bank overdrafts which are repayable on demand and which form an integral part of the Company's cash management.

(d) Investment in Financial Asset

GAIL Global (Singapore) Pte Ltd classifies its investment in financial asset in the category of available-for-sale financial asset. The classification depends on the purpose for which the assets were acquired. GAIL Global (Singapore) Pte. Ltd. determines the classification on its financial assets at initial recognition and re-evaluates this designation at every reporting date, with the exception that the designation of financial assets at fair value through profit and loss is not revocable.

Available-for-sale Financial Assets

Available-for-sale financial assets are non-derivatives that are either designated in this category or not classified in any of the other categories. They are included in non-current assets unless GAIL Global (Singapore) Pte Ltd intends to dispose of the assets within 12 months after the balance sheet date.

Available-for-sale financial assets are recognised at fair value plus transaction cost and subsequently carried at fair value. Unrealised gains and losses arising from changes in the fair value of investments classified as available-for-sale are recognised in the fair value reserve within the equity. When investments classified as available-for-sale are sold or impaired, the accumulated fair value adjustments in the fair value reserve within equity are included in the income statement.

(e) Provisions

Provisions are recognised when the Company has a present legal or constructive obligation as a result of past event, it is probable that an outflow of resources will be required to settle the obligation and a reliable estimate of the amount can be made.

(f) Deferred Taxation

Deferred tax is provided in full, using liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. Temporary differences are not recognised for goodwill not deductible for tax purposes and the initial recognition of assets or liabilities that affect neither accounting nor taxable profit. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted at the balance sheet date.

Deferred income tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

(g) Income Recognition

Provided it is probable that the economic benefits will flow to the Company and the revenue and costs, if applicable, can be measured reliably, revenue is recognised in the profit and loss account as follows:

(i) Dividend Income

Dividend income from quoted investments is recognised when dividend has been declared and right to receive dividend has been established.

(ii) Interest income

Interest income is recognised on an accrual basis.

(h) Related Parties

Related parties are entities with common director, indirect shareholders and/or directors. Parties are considered to be related if one party has the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making financial and operating decisions. Parties are also considered to be related if they are subject to common control or common significant influence.

(i) Foreign Currencies Translations

(i) Measurement currency

Items included in the financial statements of each entity in the Company are measured using currency that best reflects the economic substance of the underlying events and circumstances relevant to that entity. The financial statements of the Company are presented in United States Dollars, which is the measurement currency of the Company.

(ii) Foreign currency transaction

Monetary assets and liabilities in foreign currencies are translated into United States Dollars at rates of exchange approximating to those ruling at the balance sheet date. Translations in foreign currencies are transacted at rates ruling on transaction dates. Transaction differences are included in the profit and loss statement.

(j) Impairment

The carrying amounts of the Company's assets, other than inventories, are reviewed at each balance sheet date to determine whether there is any indication of impairment. If such indication exists, the asset's recoverable amount is estimated. For intangible assets that are not yet available for use, the recoverable amount is estimated at each balance sheet date.

An impairment loss is recognised whenever the carrying amount of an asset or its cash generating unit exceeds its recoverable amount. Impairment losses are recognised in the profit and loss account.

(i) Calculation of recoverable amount

The recoverable amount is the greater of the asset's net selling price and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For an asset that does not generate cash inflows largely independent of those from other assets, the recoverable amount is determined for the cash-generating unit to which the asset belong.

(ii) An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised. A reversal of an impairment loss in respect of land and buildings or investment property carried at revalued amount is recognised in the same way as a revaluation increase. All other reversals of impairment are recognised in the profit and loss account.

(k) Employee Benefits

Defined contribution plans

Contributions to post employment benefits under defined contribution plans are recognised as an expense in the profit and loss account as incurred.

3. Available-for-sale Financial Assets

	2006 US $	2005 US $
Balance at beginning		
- At cost	**19,065,966**	19,065,966
- Effect of adoption of FRS 39 on 1st January 2005	**-**	-
As restated	**19,065,966**	19,065,966
Additions	**-**	-
Fair value gains transferred to equity	**-**	-
Balance at end	**19,065,966**	19,065,966

	2006 Rs.in Crores	2005 Rs.in Crores
Balance at beginning		
- At cost	**85.70**	85.70
- Effect of adoption of FRS 39 on 1st January 2005	**-**	-
As restated	**85.70**	85.70
Additions	**-**	-
Fair value gains transferred to equity	**-**	-
Balance at end	**85.70**	85.70

Quoted shares as at 31st March, 2006 have been reclassified into "available-for-sale financial assets" so as to conform to the presentation adopted in 2005. Available-for-sale financial assets are measured in accordance with accounting policy as set out in Note 2 (e) only with effect from 1st January, 2005.

Available-for-sale financial assets include the following:

	2006 US $ At fair value	2005 US $ At fair value	US $ At cost
Quoted equity shares	19,065,966	19,065,966	19,065,966

	2006 Rs. in Crores At Fair Value	2005 Rs. in Crores At Fair Value	Rs. in Crores At Cost
Quoted equity shares	85.70	85.70	85.70

Shares are quoted on the Cairo & Alexandria Stock Exchanges.

4. Trade Receivable

	2006 US$	2006 Rs. in Crores	2005 US$	2005 Rs. in Crores
Dividend receivable	1,316,250	5.92	1,038,062	4.55
	1,316,250	5.92	1,038,062	4.55

The carrying amount of trade receivable approximates its fair value.

5. Amounts Due To A Holding Company (Non-Trade)

These amounts are unsecured, interest-free and have no fixed term of repayments.

6. Loan From Holding Company (Secured)

	2006 US$	2005 US$
Long term loan	16,588,275	17,200,000

	2006 Rs. in Crores	2005 Rs. in Crores
Long term loan	77.18	76.94

The interest bearing bank loan bears interest of 6-months LIBOR as per Telerate page plus one hundred basis points (bps). During the year, the interest is charged at 4.71% (2005: 1.68%). The repayment period is 5 years.

These loan are secured by 15% paid up capital in National Gas Company S.A.E Egypt (Natgas) with investment cost of $19,065,966 as at 31st March, 2005 (Note 3).

	Carrying amounts 2006 US$	Fair values 2005 US$
Long term loan	17,200,000	15,825,267

	Carrying amounts 2006 Rs.in Crores	Fair values 2005 Rs.in Crores
Long term loan	76.94	70.79

The fair values are determined from the discounted cash flow analysis, using a discounted rate based upon the 6-months LIBOR as per Telerate page plus one hundred basis points (bps) as at the balance sheet date. The loan amount is denominated in United States Dollar.

7. Share Capital

	2006 US$	2005 US$
Authorised:		
At beginning and end of year 20,000,000 ordinary shares	20,000,000	20,000,000
Issued and paid-up capital: At beginning and end of year - 2,100,000 ordinary shares of US$ 1 each	2,100,000	2,100,000

	2006 Rs. in Crores	2005 Rs. in Crores
Issued and paid-up capital: At beginning and end of year - 2,100,000 ordinary shares of Rs.10/- each	9.64	9.64

8. Revenue

	2006 US$	2005 US$
Dividend income	1,316,250	1,038,062

	2006 Rs. in Crores	2005 Rs. in Crores
Dividend income	5.84	4.62

9. Other Income

	2006 US$	2005 US$
Call deposit interest income	848	8,892

	2006 Rs. in Crores	2005 Rs. in Crores
Call deposit interest income	-	0.04

10. Profit From Operations

The profit from operations is determined:

	Note	2006 US$	2006 Rs. in Crores	2005 US$	Rs. in Crores
After charging:					
Non-Audit fees paid to auditors		926	-	908	-
Preliminary expenses	2(f)	-	-	2,245	0.01
After crediting:					
Call deposit interest income		848	-	8,892	0.04

11. Finance Costs

	2006 US$	2005 US$
Loan interest expense to holding company	795,260	289,343

	2006 Rs. in Crores	2005 Rs. in Crores
Loan interest expense to holding company	3.53	1.29

12. Taxation

Income tax expenses

	2006 US$	2005 US$
Current taxation		
- current	40	537
- Prior Year Overprovision	(4)	-
	36	537

	2006 Rs. in Crores	2005 Rs. in Crores
Current taxation		
- current	-	-
- Prior Year Overprovision	-	-
	-	-

The tax (income) / expense on profit differ from the amount that would arise using the Singapore standard rate of income tax due to the following:-

	2006 US$	2005 US$
Profit before tax	486,697	508,484
Tax calculated at a tax rate of 20%	97,339	101,697
Income not subject to income tax	(97,179)	(100,017)
Tax exemption	(120)	(1,143)
Over/provision for prior year tax	(4)	-
	36	537

	2006 Rs. in Crores	2005 Rs. in Crores
Profit before tax	2.16	2.26
Tax calculated at a tax rate of 20%	0.43	0.45
Income not subject to income tax	0.43	0.44
Tax exemption	-	0.01
Over/provision for prior year tax	-	-
	-	-

13. Cash and cash equivalents

	2006 US$	2005 US$
Cash at bank and in hand	91,864	194,342

	2006 Rs. in Crores	2005 Rs. in Crores
Cash at bank and in hand	0.41	0.85

The carrying amounts of cash and cash equivalents approximate their fair values and are denominated in the following currencies:

	2006 US $	2005 US $
Singapore Dollar	10,845	-
United States Dollar	78,723	194,341
Egyptian pounds	2,296	-
	91,864	194,342

The effective interest rates per annum relating to cash and cash equivalents at the balance sheet date for the Company are 0.69%. Interest rates re-price within a period of twelve months. The exposure of cash and cash equivalents to interest rate risks is disclosed in note 15(c).

14. Related Party Transactions

(i) Some of the directors have interest in the related parties. Parties are considered to be related to the Company if the Company has the ability, directly or indirectly, to control the party or exercise significant influence over the party in making financial and operating decisions, or vice versa, or where the Company and the party are subject to common control or common significant influence. Related parties may be individuals or other entities.

(ii) In addition to the related party information disclosed elsewhere in the accounts, there were the following significant related party transactions took place during the year on terms agreed between the parties:

	2006 US$	2005 US$
Holding Company		
GAIL (India) Limited		
Loan (note a)	100,000	17,200,000
Loan interest expense (note a)	795,260	289,343
Reimbursement of legal expense	-	183,772

	2006 Rs. in Crores	2005 Rs. in Crores
Holding Company		
GAIL (India) Limited		
Loan (note a)	**0.445**	76.94
Loan interest expense (note a)	**3.53**	1.29
Reimbursement of legal expense	-	0.83

Note:

(a) The loan from a holding company amounting to US$17,200,000 (Rs. 76.94 Crores) as set out in note 6, is secured and repayable in full on 24th September, 2009. Interest is payable based upon the 6- months LIBOR as per Telerate page plus one hundred basis points (bps).

15. Financial Instruments and Risk Management

(a) Financial risk management objectives and policies

The Company's overall treasury and funding policies focus on minimising foreign currency and interest rate exposures in a cost-efficient manner and maximising the yields on surplus cash based on a prudent assessment of the risks of investments. Treasury matters are governed by policies approved by the Board of Directors and are implemented by the management on a day to day basis.

(b) Credit risk

Management has a credit policy in place and the exposure to credit risk on receivables is monitored on an ongoing basis. Credit evaluation is performed on all customers requiring credit over a certain amount and credit terms. At balance sheet date, there were no significant concentrations of credit risk. The maximum exposure to credit risk is represented by the carrying amount of each financial asset in the balance sheet.

(c) Interest rate risk

The Company's exposure to market risk for changes in interest rates relate primarily to debt obligations. The Company's debt obligations are denominated mainly in United States Dollars at interest rate of 6-months LIBOR as per Telerate page plus one hundred basis points (bps). Periodic reviews are carried out by the management on the proportion of market rates taking into account the cash flows and the nature of debt obligations of the Company and the market outlook.

(d) Foreign currency risk

The Company incurs foreign currency risk on its investments and expenses that are denominated in a currency other than United States Dollars. The currency giving rise to this risk is primarily Egyptian pounds and Singapore dollars.

(e) Liquidity risk

The Company monitors its liquidity risk and maintains a level of cash and cash equivalents deemed adequate by management to finance the Company's operations and to mitigate the effects of fluctuations in the cash flows.

(f) Effective interest rates and repricing analysis

In respect of interest-bearing financial assets and liabilities, the following table indicates their effective interest rates at balance sheet date and the years in which they are repriced.

	Effective Interest Rate %	Total $	Within 1 year $	1 to 5 years $
Financial Assets				
2005				
Cash and cash equivalents	0.92	91,864	91,864	-
Financial Liabilities				
2005				
Loan from a holding company (secured)	4.71	16,588,275	-	16,588,275

	Effective Interest Rate %	Total $	Within 1 year $	1 to 5 years $
Financial Assets				
2004				
Cash and cash equivalents	0.69	194,342	194,342	-
Financial Liabilities				
2004				
Loan from a holding company (secured)	1.68	17,200,000	-	17,200,000

	Effective Interest Rate %	Total Rs.in Crores	Within 1 year Rs.in Crores	1 to 5 years Rs.in Crores
Financial Assets				
2005				
Cash and cash equivalents	0.92	0.41	0.41	-
Financial Liabilities				
2005				
Loan from a holding company (secured)	4.71	77.18	-	77.18

	Effective Interest Rate %	Total Rs.in Crores	Within 1 year Rs.in Crores	1 to 5 years Rs.in Crores
Financial Assets				
2004				
Cash and cash equivalents	0.69	0.84	0.84	-
Financial Liabilities				
2004				
Loan from a holding company (secured)	1.68	76.94	-	76.94

(g) Fair value of financial assets and liabilities

The fair value of financial assets and financial liabilities of the Company at the balance sheet date comprise mainly monetary assets and liabilities and the directors are of the opinion that reported in the balance sheet approximates their carrying amount except as disclosed elsewhere.

PETRONET LNG LIMITED

MAHANAGAR GAS

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BGL
Bhagyanagar Gas Ltd.

TNGCL
Tripura Natural Gas

CUGL

GREEN GAS LIMITED

MNGL

"Making a winning move"

Consolidated Financial Statements

Auditor's Report To The Board Of Directors Of GAIL (India) Limited On Consolidated Financial Statements Of GAIL (India) Limited, Its Subsidiary, Joint Ventures And Associates.

We have examined the attached Consolidated Balance Sheet of GAIL (INDIA) LTD. ("the Company"), its subsidiary, joint ventures and associates as at 31st March, 2006 and the Consolidated Profit and Loss Account and the Consolidated Cash Flow Statement for the year ended on the date annexed thereto. These financial statements are the responsibility of the management of the Company. Our responsibility is to express an opinion on these financial statements based on our audit.

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

2. We did not audit the financial statements of subsidiary namely GAIL Global (Singapore) Pte. Ltd., whose financial statements reflect total assets of Rs.92.05 Crores as at March 31, 2006 and total revenue of Rs.5.84 Crores and net cash out flows of Rs.0.44 Crore for the year ended on that date. Our opinion, in so far as it relates to the amount included in respect of the subsidiary, is based on the unaudited Financial Statements.

3. We did not audit the financial statements of associates namely Fayum Gas, Shell Compressed Natural Gas Egypt, Gujarat State Electricity Generation, National Gas Company "NATGAS" and China Gas Holding. These financial statements have been audited by other auditors, except for Gujarat State Electricity Generation and China Gas Holding, whose financial statements are unaudited. In the case of audited financial statements, the reports or certificate have been furnished to us. Our opinion, in so far as it relates to the amount included in respect of these associates, is based solely on the report of the other auditors and unaudited financial statements, as the case may be.

4. We did not audit the financial statements of Joint Ventures, whose financial statement reflect total assets of Rs.3726.07 Crores, total liabilities of Rs.1634.57 Crores as at March 31, 2006 and total revenue of Rs.4861.88 Crores, total expenditure of Rs.4202.72 Crores for the year ended on that date. Our opinion, in so far as it relates to the amount included in respect of these joint ventures, is based on the unaudited Financial Statements.

5. We report that the consolidated financial statements have been prepared by the Company's management in accordance with the requirements of Accounting Standard (AS) 21, viz, "Consolidated Financial Statements" Accounting Standard (AS) 23, viz "Accounting for Investments in Associates in Consolidated Financial Statements" and Accounting Standard (AS) 27, viz "Financial Reporting of Interests in Joint Ventures", issued by The Institute of Chartered Accountants of India.

6. We further report that subject to Note No.15 to 21 and 26 of Notes to Accounts to Consolidated Financial Statements of the Company and on the basis of the information and explanations given to us and on the consideration of separate audit reports on individual audited financial statements of the Company, its subsidiary, joint ventures and associate companies.

7. Attention is invited to Note No. 13 (a) of Schedule 14 of Consolidated notes regarding change in depreciation rate of Gas Pipeline which reduced the depreciation charged to Profit & Loss Account amounting to Rs.406.49 Crores with subsequent increase in profit before tax.

Subject to the foregoing, we are of opinion that the said consolidated financial statements give a true and fair view in conformity with the accounting principles generally accepted in India:

(a) in the case of the Consolidated Balance Sheet, of the consolidated state of affairs of the Company as at 31st March, 2006;

(b) in the case of Consolidated Profit and Loss Account, of the consolidated results of operations of the Company for the year on that date and

(c) in the case of Consolidated Cash Flow Statement, of the consolidated cash flows of the Company for the year ended on that date.

For S. Mann & Co.
Chartered Accountants

Subhash Mann
(Partner)
Membership No. 80500

Place : New Delhi
Date : April 28, 2006

GAIL (India) Limited – New Delhi
Consolidated Balance Sheet as at 31st March, 2006

(Rs.in Crores)

	SCHEDULE NO.		AS AT 31st March, 2006		AS AT 31st March, 2005
SOURCES OF FUNDS					
Shareholder's Funds					
Capital	1	845.65		845.65	
Reserves and Surplus	2	9,419.97	10,265.62	7,964.42	8,810.07
Loan Funds	3				
Secured Loans		1,772.83		1,787.91	
Unsecured Loans		323.05	2,095.88	415.89	2,203.80
Deferred Tax Liability (Net)			1,341.49		1,285.45
TOTAL			13,702.99		12,299.32
APPLICATIONS OF FUNDS					
Fixed Assets	4				
Gross Block		15,087.02		14,786.22	
Less : Depreciation		7,040.86		6,461.83	
Net Block		8,046.16		8,324.39	
Capital Work in Progress	5	697.31		371.86	
		8,743.47			8,696.25
Investments	6		901.56		709.11
Advances for Investments (Pending Allotment)	6A		500.83		0.86
Current Assets, Loans and Advances	7				
Inventories		504.10		501.50	
Sundry Debtors		783.20		848.71	
Cash and Bank Balances		4,539.88		3,491.28	
Other Current Assets		39.73		27.03	
Loans and Advances		1,501.72		1,637.47	
		7,368.63		6,505.99	
Less : Current Liabilities and Provisions	8				
Current Liabilities		3,224.86		2,797.20	
Provisions		587.27		819.36	
		3,812.13		3,616.56	
Net Current Assets			3,556.50		2,889.43
Miscellaneous Expenditure					
(To the extent not written off or adjusted)					
Preliminary Expenditure			0.63		3.67
TOTAL			13,702.99		12,299.32

Contingent Liabilities not provided for (Refer Schedule 14)

N.K.Nagpal	R.K.Goel	S. P. Rao	Proshanto Banerjee	For M/s S. MANN & COMPANY
Secretary	Director (Finance)	Director(Projects)	Chairman & Managing Director	Chartered Accountants

Subhash Mann
(Partner)
Membership No. 80500

Place : New Delhi
Dated : April 28, 2006

GAIL (India) Limited – New Delhi
Consolidated Profit & Loss Account for the Year Ended 31st March, 2006

(Rs.in Crores)

	SCHEDULE NO.		AS AT 31st March, 2006		AS AT 31st March, 2005
INCOME					
Sales		14,875.77		12,880.19	
Less : Excise Duty		459.39	14,416.38	552.10	12,328.09
LPG Transmission Charges/RLNG Shipper Charges			444.13		356.49
Income from Telecom			18.25		18.42
Increase (decrease) in Inventories					
Closing Stock		128.76		101.11	
Less : Opening Stock		104.66	24.10	131.50	(30.39)
Internal consumption			1,891.89		1,179.18
Other Income	9		463.02		355.52
TOTAL			17,257.77		14,207.31
EXPENDITURE					
Purchases			9,167.57		7,462.89
Gas Pool Account			459.05		250.00
Manufacturing, Transmission, Administration					
Selling & Distribution and other Expenses	10	3,368.63		2,379.73	
Depreciation	4	601.88		982.52	
		3,970.51		3,362.25	
Less : Incidental Expenditure during construction					
transferred to Capital Work-in-Progress	11	0.78	3,969.73	0.93	3,361.32
Deferred Revenue Expenditure written off			3.04		0.38
TOTAL			13,599.39		11,074.59
Profit before Interest and Finance Charges			3,658.38		3,132.72
Interest and Finance Charges	12	134.14		150.92	
Less Interest and Finance Charges transfered		0.09	134.05	-	150.92
to Capital Work-in-Progress					
Profit for the year before Tax	Carried Forward		3,524.33		2,981.80

(Rs.in Crores)

	SCHEDULE NO.		AS AT 31st March, 2006		AS AT 31st March, 2005
Profit for the year before Tax	Brought Forward		3,524.33		2,981.80
Provision for Taxation - Current/FBT		970.62		927.54	
- Deferred		54.80	1,025.42	30.91	958.45
Net profit before prior period items			2,498.91		2,023.35
Less : Prior Period Adjustments (Net)	13		75.17		0.88
Net profit			2,423.74		2,022.47
Add: Share of Profit/(Loss) in Associates for the year			15.31		16.41
Group Profit after Tax			2,439.05		2,038.88
Amount available for appropriation			2,439.05		2,038.88
APPROPRIATIONS					
Interim Dividend			676.52		338.26
Proposed Dividend			169.13		338.26
Corporate Dividend Tax			120.50		91.74
Bond Redemption Reserve			32.13		32.13
General Reserve			237.82		197.78
Balance Carried to Balance Sheet			1,202.95		1,040.71
TOTAL			2,439.05		2,038.88
Details of Earning Per Share					
A. Group Profit after tax			2,439.05		2,038.88
B. Weighted Average No. of Equity Shares			845,651,600		845,651,600
C. Nominal Value per Equity Share (Rs.)			10/-		10/-
D. Basic and Diluted Earning Per Share (Rs.)			28.84		24.11
Notes on Accounts	14				

Schedules 1 to 14 and Accounting policies form part of Accounts

N.K.Nagpal	R.K.Goel	S. P. Rao	Proshanto Banerjee	For M/s S. MANN & COMPANY
Secretary	Director (Finance)	Director(Projects)	Chairman & Managing Director	Chartered Accountants

Subhash Mann
(Partner)
Membership No. 80500

Place : New Delhi
Dated : April 28, 2006

Schedule 1 – Share Capital

(Rs.in Crores)

	AS AT 31st March, 2006	AS AT 31st March, 2005
AUTHORISED		
100,00,00,000 Equity Shares of Rs.10/- each	**1,000.00**	1,000.00
ISSUED, SUBSCRIBED AND PAID-UP		
84,56,51,600 Equity Shares of Rs.10/- each fully paid up	**845.65**	845.65
TOTAL	**845.65**	845.65

Schedule 2 – Reserves and Surplus

(Rs.in Crores)

		AS AT 31st March, 2006		AS AT 31st March, 2005
Capital Reserve				
(Grant received from Danish Govt. for construction of Gas Technology Institute at Noida)				
As per Last Account	**2.21**		2.33	
Less : Transferred to Profit & Loss Account	**0.11**	**2.10**	0.12	2.21
Share Premium Account		**14.69**		14.69
Investment Allowance (Utilised) Reserve				
As per Last Account	**266.61**		266.61	
Less : Transferred to General Reserve	**15.30**	**251.31**	-	266.61
Bonds Redemption Reserves				
As per Last Account	**64.25**		32.12	
Add : Transferred from Profit & Loss Account	**32.13**	**96.38**	32.13	64.25
General Reserve				
As per Last Account	**1,173.73**		975.95	
Add : Transferred from Profit & Loss Account	**237.82**		197.78	
Add : Transferred from Investment Allowance (Utilised) Reserve	**15.30**		-	
Add: Adjustment due Joint Venture Regrouping	**7.46**		-	
		1,434.31		1,173.73
Foreign Currency Translation Reserve		**(5.09)**		(5.95)
Profit and Loss Account				
As per Last Account	**6,448.88**		5,407.55	
Add: Profit During the Year	**1,202.95**		1,040.71	
Add: Adjustment due Joint Venture / Associate Regrouping	**(25.56)**		0.62	
		7,626.27		6,448.88
TOTAL		**9,419.97**		7,964.42

Schedule 3 – Loan Funds

(Rs.in Crores)

		AS AT 31st March, 2006		AS AT 31st March, 2005
SECURED LOANS				
Loan from Bank of India		**500.00**		500.00
(Secured by hypothecation by way of first charge on pari passu basis of movable plant & machinery, machinery spares, equipment, tools & accessories & other moveables, both present & future, whether installed or not & lying loose or in stores of Dahej Vijaipur Pipeline project) including Rs. Nil due for payment within one year.)				
Loan from HSBC		-		10.80
Bonds Series - I		**500.00**		500.00
(6.10% Secured Non-convertible redeemable Bonds -Series - I are redeemable in 5 equal installment commencing from the end of the 8th year upto the end of the 12th year from the deemed date of allotment August 22, 2003. Bonds are secured by charge on immovable residential building and movable plant & machinery situated at Hazira Vaghodia, Gandhar and Vadodara in Gujarat.)				
Bonds Series - II		**600.00**		600.00
(5.85% Secured Non-convertible redeemable Bonds -Series - II are redeemable in 5 equal installment commencing from the end of the 6th year upto the end of the 10th year from the deemed date of allotment March 25, 2004. Bonds are secured by charge on immoveable residential building and movable plant & machinery situated at Hazira Vaghodia,Gandhar,Vadodara & DVPL Project in Gujarat.)				
Term Loan				
External Commercial Borrowing		**9.95**		12.44
(Repayable within one year Rs.2.48 (Previous Year Rs. 2.49)				
From Financial Institution		**5.39**		7.18
(Repayable within one year Rs.1.90 (Previous Year Rs. 0.02)				
From Banks		**131.36**		131.36
From Others		**26.13**		26.13
UNSECURED LOANS				
From Banks :				
- State Bank of India, London	**19.18**		34.28	
(including Rs.12.79 (Previous Year Rs. 13.71) due for payment within one year)				
- Other Banks	-		7.46	
(repayable within one year)				
- Buyers' Credit	-		4.77	
	19.18		46.51	
From others				
- Oil Industry Development Board				
(including Rs.65.75 (Previous Year Rs. 65.75) due for payment within one year)	**297.38**		363.12	
- Sales Tax Deferred	**5.52**		5.47	
Deposit From Customers	**0.97**		0.79	
(Deposits from commercial customers of natural gas refundable on termination of the gas sales agreements)		**323.05**		415.89
TOTAL		**2,095.88**		2,203.80

Schedule 4 – Fixed Assets

(Rs.in Crores)

DESCRIPTION	GROSS BLOCK (AT COST)				DEPRECIATION				NET BLOCK	
	As at 01.04.2005	Additions/ Adjustments during the year	Sales / Adjustments during the year	**As at 31.03.2006**	As at 31.03.2005	For the Year	Adjustments during the year	**As at 31.03.2006**	**As at 31.03.2006**	As at 31.03.2005
Tangible Assets										
Freehold	59.34	0.71	-	**60.05**	-	-	-	**-**	**60.05**	59.34
Leasehold	76.82	0.54	-	**77.36**	5.95	0.83	(0.29)	**7.07**	**70.29**	70.87
Building : Office/Others	397.94	5.67	-	**403.61**	73.37	10.74	(0.01)	**84.12**	**319.49**	324.57
Residential	253.42	3.98	-	**257.40**	37.31	4.95	-	**42.26**	**215.14**	216.11
Roads and Fences	0.71	0.06	-	**0.77**	0.07	0.02	-	**0.09**	**0.68**	0.64
Electrical Installations	0.46	0.04	-	**0.50**	0.06	0.02	-	**0.08**	**0.42**	0.40
Bunk Houses	1.62	-	-	**1.62**	1.62	-	-	**1.62**	**-**	-
Plant and Machinery	13,583.88	270.27	5.04	**13,849.11**	6,207.63	548.22	13.77	**6,742.08**	**7,107.03**	7,376.25
Railway Lines & Sidings	5.47	-	-	**5.47**	3.71	0.26	-	**3.97**	**1.50**	1.76
Communication Systems	0.29	0.04	-	**0.33**	0.07	0.02	-	**0.09**	**0.24**	0.22
Electrical Equipments	128.13	2.29	0.67	**129.75**	36.59	9.33	0.46	**45.46**	**84.29**	91.54
Furniture, Fixtures and other Equipments	229.85	19.70	10.40	**239.15**	91.72	20.78	8.94	**103.56**	**135.59**	138.13
Office Equipments	1.39	0.09	-	**1.48**	0.22	0.07	-	**0.29**	**1.19**	1.17
Vehicles	0.44	0.03	0.01	**0.46**	0.24	0.01	-	**0.25**	**0.21**	0.20
Transport Equipments	2.22	-	-	**2.22**	1.38	0.16	-	**1.54**	**0.68**	0.84
Intangible Assets										
Right of Use	17.38	1.12	-	**18.50**	-	-	-	**-**	**18.50**	17.38
Softwares / Licences	26.86	12.87	0.49	**39.24**	1.89	6.47	(0.02)	**8.38**	**30.86**	24.97
Total	**14,786.22**	**317.41**	**16.61**	**15,087.02**	**6,461.83**	**601.88**	**22.85**	**7,040.86**	**8,046.16**	8,324.39
Share in Joint Venture Assets included above	**563.80**	**53.05**	**0.10**	**616.75**	**85.36**	**42.39**	**0.43**	**127.32**	**489.43**	478.44
Previous Year	13,847.30	948.26	9.34	**14,786.22**	5,491.36	982.52	12.05	**6,461.83**	**8,324.39**	8,355.94
Share in Joint Venture Assets included above	262.57	301.60	0.31	**563.86**	49.51	35.86	0.01	**85.36**	**478.50**	213.06

Schedule 5 – Capital Work-in-Progress

(Rs.in Crores)

		AS AT 31st March, 2006		AS AT 31st March, 2005
Linepipe Construction and related facilities including Cathodic Protection		**136.89**		81.08
Despatch/Receiving Terminals		**2.03**		-
Telecom/Telesupervisory System		**0.63**		5.71
LPG Pipeline Project		**1.52**		2.02
LPG Projects		**0.30**		0.89
Petrochemicals		**53.05**		46.55
Telecom Projects		**5.05**		1.07
Others		**89.14**		63.77
Survey,Studies and other service-Cochin		**1.25**		0.94
Solid Cargo Port		**0.09**		0.09
Engineering/project construction		**13.49**		8.85
Building		**0.31**		0.04
Exploratory Well in Progress		**130.26**		42.99
Construction of CNG Station	**1.74**		0.39	
Add: Incidental Expenditure During Construction	**0.37**	**2.11**	-	0.39
Preoperative expenditure, pending allocation in respect of Jointly controlled Entity		**0.20**		0.59
Buildings	**12.66**		7.83	
Less : Provision for abandonment of Work in Progress	**2.82**	**9.84**	2.64	5.19
Linepipes, Capital Items in Stock/Transit	**247.50**		110.54	
(including materials with Contractors : Rs.0.01 (Previous Year Rs. 0.27)				
Less : Provision for losses/obsolescence	**0.07**	**247.43**	1.24	109.30
Advance for Capital Expenditure				
(Unsecured - Considered Good)	**3.72**		2.39	
(Unsecured - Considered Doubtful)	**1.39**		1.39	
	5.11		3.78	
Less : Provision for Doubtful Advances	**1.39**	**3.72**	1.39	2.39
TOTAL		**697.31**		371.86

Schedule 6 – Investments

(Rs.in Crores)

		AS AT 31st March, 2006		AS AT 31st March, 2005
LONG-TERM INVESTMENTS				
A. Trade Investments				
Quoted * -				
570,600 (Previous Year : 570,600) Equity Shares of Rs.10/-each fully Paid-up in Gujarat Industries Power Co. Ltd.(includes 1,90,200 Equity Shares acquired during the year 1996-97 at a premium of Rs.15/- per share)		**0.86**		0.86
3,42,66,845 (Previous Year : 3,42,66,845) Equity Shares of Rs.10/- each fully paid up in ONGC Ltd. (Acquired during 1999-2000 at a price of Rs.162.34 per Share)		**556.29**		556.29
6.96 % Oil Companies GOI Special Bonds 2009 (Alloted in lieu of claims pending with Oil Co-ordination Committee)		**6.00**		6.00
7 % Oil Companies GOI Special Bonds 2012 (Alloted in lieu of claims pending with Oil Co-ordination Committee)		**9.59**		-
362100 units of 6.75% Tax Free US64 Bonds of Rs. 100/- each guaranted by GOI, having maturity date on 01.06.2008. (Pledged to GAIL in lieu of Security Deposits by consumer which has been transferred in the name of company due to default by the party on the terms of agreement)		**3.62**		-
21,00,00,000 (Previous Year : Nil) Equity Shares of HK$ 0.01/- each fully paid up in China Gas Holding Ltd., registered in China acquired at a premium of HK$ 1.148/-	**51.84**		-	
Add: Goodwill	**84.48**		-	
Add: Share of Profit in Associate	**5.76**	**142.08**	-	-
Mutual Fund Scheme				
Birla Quarterly FMP		**13.43**		1.00
Reliance Quarterly FMP		**-**		1.00
Unquoted - At Cost				
25,000 (Previous Year : Nil) Equity shares of Rs.10/- each fully paid up in Maharastra Natural Gas Ltd. (a Joint Venture Company)		**0.03**		-
2,07,60,000 (Previous Year : 2,07,60,000) Equity Shares of Rs.10/- each fully paid-up in Gujrat State Electricity Generation Ltd.	**20.76**		20.76	
Add: Share of Profit in Associate	**13.58**	**34.34**	10.68	31.44
19,000 (Previous Year : 19,000) Equity shares of LE 100/- each fully paid up in Fayum Gas Company registered in Egypt.	**4.59**		4.59	
Add: Goodwill	**3.50**		3.50	
Add: Share of Profit in Associate	**1.50**		0.69	
Less: Dividend received	**-**	**9.59**	3.09	5.69
Carried Forward		**775.83**		602.28

(Rs.in Crores)

		AS AT 31st March, 2006		AS AT 31st March, 2005
Brought Forward		**775.83**		602.28
2,20,000 (Previous Year : 2,20,000) Equity Shares of LE 10/- each fully paid up in Shell Compressed Natural Gas Company, Egypt registered in Egypt.	**0.33**		0.33	
Add: Goodwill	**1.28**		1.28	
Add: Share of Profit in Associate	**0.01**		0.03	
		1.62		1.64
3,000,000 Equity shares of LE 5/- per share in Natgas	**21.21**		21.21	
Equity share has acquired at a premium LE 34.5 per Equity Share				
Add: Goodwill	**62.24**		62.24	
Add: Share of Profit in Associate	**11.49**		5.63	
		94.94		89.08
Nil (Previous Year : 3) 12% 2006, GEB Bonds of Rs.10,00,000/- each. (Transferred by GIPCO in lieu of redemption of 1/3rd 18% redeemable Non - Convertible Debenture.)		–		0.15
B. Non Trade Investments - Others				
Unquoted - At cost				
(i) 30 Shares of Rs.50 each fully paid up in Darpan Co-operative Housing Society Ltd., Vadodara	–		-	
(ii) 50 Shares of Rs.50 each fully paid up in Ashoka Apartments Co-operative Housing Society Ltd., Vadodara	–		-	
(iii) 30 Shares of Rs.50 each fully paid up in Panchvati Apartments Co-operative Housing Society Ltd., Surat	–		-	
(iv) 400 Shares of Rs.10 each fully paid up in Sanand Members Association, Ahmedabad.	–		-	
(v) 35 Shares of Rs.50/-each fully paid up in Green Fields(B) Cooperative Housing Society Ltd, Mumbai	–	–	-	-
C: INVESTMENTS (Current Investments-Non-Trade)				
Investments in Mutual Fund Scheme		**29.17**		13.72
91 days Treasury bills		–		2.24
TOTAL		**901.56**		709.11

Schedule 6A – Advances for Investments (Pending Allotment)

(Rs.in Crores)

	AS AT 31st March, 2006	AS AT 31st March, 2005
Joint Venture Companies		
(i) Ratnagiri Gas & Power Pvt. Ltd.	**500.00**	-
(ii) Tripura Natural Gas Company Ltd.	**0.83**	0.83
(iii) Central UP Gas Ltd.	–	0.03
TOTAL	**500.83**	0.86

Schedule 7 – Current Assets, Loans and Advances

(Rs.in Crores)

			AS AT 31st March, 2006			AS AT 31st March, 2005
A. CURRENT ASSETS						
INVENTORIES						
(As Certified by the Management)						
Raw Material (LNG)		7.02			11.06	
Raw Material in Transit		4.52			4.42	
CNG and Natural Gas in Pipeline	0.06			0.05		
Stores and Spares including Construction Surplus*	406.62			424.35		
Less : Provision for Losses/Obsolescence	42.82			39.45		
		363.86			384.95	
Stock of Traded items		-			0.01	
Stock of Gas**/Polymers/LPG and Other Products		128.70			101.06	
			504.10			501.50
SUNDRY DEBTORS						
Debts outstanding for a period exceeding six months						
- Unsecured, Considered Good	99.35			223.34		
- Secured, Considered Good	0.01			-		
- Unsecured, Considered Doubtful	136.34	235.70		135.23	358.57	
Other Debts						
- Secured, Considered Good	22.68			19.48		
- Unsecured, Considered Good	645.13			590.97		
- Unsecured, Considered Doubtful	-	667.81		-	610.45	
		903.51			969.02	
Less : Provision for Doubtful debts		120.31	783.20		120.31	848.71
CASH AND BANK BALANCES						
Cash in hand	0.54			0.37		
Cheques/Stamps in hand	0.04			0.02		
Remittance in transit	-	0.58		11.49	11.88	
BANK BALANCES WITH SCHEDULED BANKS						
On Current Account (includes Corporate Liquid Term Deposit Rs 58.73 (Previous Year Rs 17.79))	138.81			87.38		
On Current Account -Gas Pool Money	-			0.01		
On Current Account -JV Consortium	-			0.01		
On Fixed Deposit Account	1.49			1.15		
On Short Term Deposit	3,704.38			2,463.49		
On Short Term Deposit -Gas Pool Money (includes interest accrued but not due Rs.1.32 (Previous Year Rs 1.77))	308.11			566.89		
On Short Term Deposit -JV Consortium (includes interest accrued but not due Rs.4.17 ((Previous Year Rs 3.52))	386.10	4,538.89		359.62	3,478.55	
BANK BALANCES WITH OTHER BANKS						
On current accounts		0.41			0.85	
			4,539.88			3,491.28
OTHER CURRENT ASSETS						
Interest accrued but not due on Deposits			39.65			26.98
Interest accrued on Fixed Deposits			0.08			0.05
Carried Forward			5,866.91			4,868.52

(Rs.in Crores)

			AS AT 31st March, 2006			AS AT 31st March, 2005
Brought Forward			5,866.91			4,868.52
B. LOANS AND ADVANCES						
Loans to Employees						
- Secured, Considered Good	141.89			136.83		
- Unsecured, Considered Good (including dues from Directors Rs.0.12 (Previous Year : Rs.0.14)) (Maximum amount due at any time during the year : Rs.0.21) (Previous Year : Rs.0.20))	19.37			16.18		
Others (Unsecured, Considered Good)	1.67	162.93		2.41	155.42	
Advances recoverable in cash or in kind or for value to be received						
- Unsecured, Considered Good (includes Rs.1105.34 (PY 1024.52) paid / adjusted against Income tax demand under protest. (includes Rs.3.11 (PY Rs 3.11) on account of disinvestment of Govt. Equity by way of GDR/Domestic Tranche/ Offer for sale)	1,277.69			1,401.79		
Others	6.02			5.39		
- Unsecured, Considered Doubtful	0.42			1.08		
	1,284.13			1,408.26		
Less : Provision for Doubtful Advances	0.42	1,283.71		1.08	1,407.18	
Claims Recoverable						
- Unsecured, Considered Good	13.41			36.92		
- Unsecured, Considered Doubtful	0.22			0.52		
	13.63			37.44		
Less : Provision for doubtful claims	0.22	13.41		0.52	36.92	
Deposits with Customs, Port Trust and Others						
- Unsecured, Considered Good	36.66			33.89		
- Unsecured, Considered Doubtful	0.31			0.31		
	36.97			34.20		
Less : Provision for doubtful deposits	0.31	36.66	1,496.71	0.31	33.89	1,633.41
Trade and Security Deposits						
- Unsecured, Considered Good			5.01			4.06
TOTAL			7,368.63			6,505.99

Note:

*** includes Rs.35.71 (Previous Year Rs.60.78) in transit.**

****after adjustment of calorific value**

Schedule 8 – Current Liabilities and Provisions

(Rs.in Crores)

			AS AT 31st March, 2006			AS AT 31st March, 2005
A. CURRENT LIABILITIES						
Sundry Creditors		1,562.14			1,430.09	
Deposits/Retention Money from Contractors and Others		123.94			136.40	
Other Liabilities		764.72			464.88	
Due to Promoter Companies		0.34			0.25	
Other Liabilities - Gas Pool Money		726.67			723.18	
Unclaimed Dividend		1.96			1.28	
Interest accrued but not due on loans		29.06			31.18	
Trade and Security Deposits		16.03			9.94	
			3,224.86			2,797.20
B. PROVISIONS						
Provision for taxation	5,353.84			4,475.04		
Less: Advance Tax	5,515.92			4,509.68		
Add: Adjustment of Refunds	513.90			433.15		
		351.82			398.51	
Provision for Proposed Dividend		169.13			338.26	
Provision for Corporate Dividend Tax		25.59			49.88	
Provision for Gratuity		0.07			0.19	
Provision for Wealth Tax		0.01			0.01	
Provision for Leave Encashment and Post Retirement Medical Benefits		40.65	587.27		32.51	819.36
TOTAL			3,812.13			3,616.56

Schedule 9 – Other Income

(Rs.in Crores)

		Year Ended 31st March, 2006		Year Ended 31st March, 2005
Dividend		180.34		122.15
Interest on :				
- Bonds/Debentures	0.89		0.45	
- Deposits with Banks	223.55		102.23	
- Others	12.38		43.80	
		236.82		146.48
Surplus on Disposal of Investments		0.60		0.33
Export Incentives		3.34		3.92
Liabilities/Provisions no longer required written back		0.11		1.12
Miscellaneous Income		41.81		81.52
TOTAL		463.02		355.52

Schedule 10 – Manufacturing, Transmission, Administration, Selling & Distribution and Other Expenses

(Rs.in Crores)

		Year Ended 31st March, 2006		Year Ended 31st March, 2005
Raw Material consumed		1,882.52		1,111.16
Employees Remuneration and Benefits				
Salaries, Wages and Allowances	158.71		147.66	
Contribution to Provident and Other Funds	19.34		21.10	
Welfare Expenses	52.61		44.84	
Secondment charges	0.62		0.67	
		231.28		214.27
Power, Fuel and Water Charges		541.74		414.81
Stores and Spares consumed		167.60		149.57
Rent		20.57		16.20
Rates and Taxes		3.88		4.00
Licence Fees - Telecom		1.15		1.56
Bandwidth Consumption		0.19		1.03
Repairs and Maintenance				
Plant and Machinery	111.86		124.56	
Buildings	20.11		12.46	
Others	12.14	144.11	12.81	149.83
Insurance		29.90		25.08
Communication Expenses		7.95		8.06
Printing and Stationery		3.33		3.64
Travelling Expenses		34.37		31.32
Books and Periodicals		0.52		0.60
Advertisement and Publicity		30.62		24.42
Carried Forward		3,099.73		2,155.55

(Rs.in Crores)

		Year Ended 31st March, 2006		Year Ended 31st March, 2005
Brought Forward		**3,099.73**		2,155.55
Payment to Auditors				
Audit Fees	**0.18**		0.17	
Management Services	**0.04**		0.04	
Out of Pocket Expenses	**0.08**	**0.30**	0.04	0.25
Entertainment Expenses		**1.18**		0.22
Recruitment and Training Expenses		**9.46**		10.28
Vehicle Hire and Running Expenses		**14.24**		15.42
Equipment Hire charges		**0.67**		1.09
CNG Transportation		**0.79**		0.89
CNG Dispensing Charges		**1.14**		1.00
Operating Expenses at CNG Stations		**2.44**		2.08
Lease Charges		**2.05**		2.37
Survey Expenses		**65.20**		26.88
Consultancy Charges		**19.37**		15.53
Legal and Professional charges		**2.09**		3.25
Data Processing Expenses		**1.20**		2.86
Donation		**0.85**		5.25
Research and Development Expenses		**0.27**		0.40
Directors fees		**0.01**		-
Loss on sale / written off of assets(net)		**3.99**		2.13
Bad Debts/Claims/Advances/Inventories written off		**0.37**		1.26
Dry Well Expenses written off		**30.46**		11.98
Provision for Doubtful Debts, Advances, Claims and Deposits		**1.86**		3.15
Excise Duty on Stock (Net)		**0.04**		(10.21)
Expenses on Enabling Facilities		**2.48**		3.04
Selling & Distribution Expenses		**6.15**		9.59
Discount on Sales		**8.67**		9.46
Commission on Sales		**11.36**		11.59
Dealers' Commission		**0.78**		0.58
Security Expenses		**28.27**		25.60
Expenses during construction period written off		**-**		0.14
Vessel hire charges		**-**		1.44
Other Miscellaneous Expenses		**55.36**		70.88
Less: Transfer to Capital Work in Progress				
Employees Remuneration and Benefits		**1.84**		2.29
Operating and Other Expenses		**0.31**		1.93
TOTAL		**3,368.63**		2,379.73

Schedule 11 – Incidental Expenditure During Construction

(Rs.in Crores)

		Year Ended 31st March, 2006		Year Ended 31st March, 2005
Employees Remuneration and Benefits				
Salaries, Wages and Allowances	**0.50**		0.49	
Contribution to Provident and Other Funds	**0.04**		-	
Welfare Expenses	**0.08**	**0.62**	0.08	0.57
Power, Fuel and Water Charges		**0.09**		0.02
Rent		**0.02**		0.04
Repairs and Maintenance				
Plant and Machinery	**-**		0.02	
Others	**0.01**	**0.01**	-	0.02
Insurance		**-**		0.02
Communication Expenses		**0.01**		0.04
Vehicle Hire and Running Expenses		**-**		0.02
Consultancy Charges		**-**		0.09
Other Expenses		**0.49**		0.11
		1.24		0.93
Less :				
- Interest Income		**0.03**		-
Net Expenditure		**1.21**		0.93
Less :Transferred to Capital Work-in-progress	**0.37**		0.93	
Mfg., Transmission, Admn., Selling & Distribution and Other Expenses	**0.78**		-	
Interest & finance Charges	**0.09**		-	
Other Income	**(0.03)**	**1.21**	-	0.93
Balance Carried over to Balance Sheet		**-**		-

Schedule 12 – Interest and Finance Charges

(Rs.in Crores)

		Year Ended 31st March, 2006		Year Ended 31st March, 2005
Interest				
Foreign Currency Loans	**0.45**		0.73	
On term loans	**14.82**		15.13	
Other Loans	**51.43**	**66.70**	134.21	150.07
Other Interest		**66.12**		0.13
Bank Charges		**0.92**		0.50
Commitment and other Finance Charges		**0.40**		0.22
TOTAL		**134.14**		150.92

Schedule 13 – Prior Period Adjustments

(Rs.in Crores)

		Year Ended 31st March, 2006		Year Ended 31st March, 2005
Purchase of Gas		**65.45**		-
Salaries, Wages and Allowances		**(0.04)**		(0.12)
Power, Fuel and Water Charges		**0.35**		0.66
Stores and Spares consumed		**(0.82)**		0.03
Rent		**2.09**		(0.69)
Depreciation(Net)		**0.97**		(1.65)
Repairs and Maintenance		**2.07**		0.21
Consultancy Charges		**(0.24)**		0.71
Other Expenses		**1.19**		0.92
TOTAL		**71.02**		0.07
Less :				
- Sales	**(4.04)**		(0.03)	
- Interest Income	**(0.15)**		(0.14)	
- Miscellaneous Income	**0.04**	**(4.15)**	(0.64)	(0.81)
TOTAL (NET)		**75.17**		0.88

Schedule 14: Consolidated Notes on Accounts for the Year Ended 31.03.2006

SIGNIFICANT ACCOUNTING POLICIES

I. BASIS OF PREPARATION

The Consolidated Financial Statements (CFS) relate to GAIL (India) Limited (hereinafter referred as the "Company") and its subsidiary, Joint Ventures and Associates. The accounts are prepared on historical cost basis and in accordance with the applicable accounting standards and other applicable relevant statues.

II. PRINCIPLES OF CONSOLIDATION

The consolidated Financial Statements have been prepared in accordance with the applicable Accounting standards on the following basis:-

i. The Financial Statements of the Company and its subsidiary Companies are combined on a line-by-line basis by adding together the book values of like items of assets, liabilities, income and expenses after fully eliminating intra-group balances and intra-group transactions resulting in unrealized profits or losses in accordance with Accounting Standard (AS) 21-"Consolidated Financial Statements" issued by The Institute of Chartered Accountants of India.

ii. The financial statements of Joint Venture Company have been combined by applying proportionate consolidation method on a line by line basis on items of assets, liabilities, income and expenses after eliminating proportionate share of unrealized profits or losses in accordance with Accounting Standard (AS) 27 on "Financial Reporting of Interests in Joint Ventures" issued by the Institute of Chartered Accountants of India.

iii. The consolidated Financial Statements are prepared using uniform accounting policies for like transactions and other events in similar circumstances and are presented to the extent possible, in the same manner as the Company's separate Financial Statements except as otherwise disclosed in the Notes to Accounts.

iv. The excess of the cost to the Company of its investment in Subsidiaries and Joint Ventures over its proportionate share in the equity of the investee Company as at the date of acquisition of stake is recognized in the financial statements as Goodwill. In case the cost of investment in a subsidiary or Joint Venture is less than the proportionate share in the equity of the investee as on the date of the investment, the difference is treated as Capital reserve.

v. Investments in Associates have been accounted for using the equity method in accordance with Accounting Standard AS-23-"Accounting for investment in Associates in Consolidated Financial Statements" issued by The Institute of Chartered Accountants of India. The excess/deficit of cost of investment over the proportionate share in equity of the Associate as at the date of the acquisition of stake has been identified as Goodwill/Capital reserve and included in the carrying value of the investment in Associate and disclosed separately. The carrying amount of the investment is adjusted thereafter for the post acquisition change in the share of net assets of the Associate.

vi. The accounts of all Group Companies are drawn upto the same reporting date as the parent entity (i.e. Financial Year ended March 31, 2006) except for overseas Associates. In respect of Fayum Gas, Shell Compressed Gas and Nat Gas, the accounts drawn up as at December 31, 2005 have been used, and in respect of China Gas Holding Limited, the financial statement for six months as on September 30, 2005 have been used, in the absence of audited / unaudited accounts for the year ending as on 31.03.2006. No adjustments have been done for the period subsequent to that date, since there are no significant transactions.

vii. In China Gas Holding GAIL's Share on the date of acquisition i.e. 29.05.2005 was 9.35% which was subsequently reduced to 8.49% on 30.09.2005 and as on 31.03.2006 it is 7.50%. The reduction of GAIL's Share is due to dilution in share capital by further issue of Share Capital by China Gas Holding.

viii. The financial statements of the Subsidiary-GAIL (Global) Singapore Pte Limited are prepared in accordance with Singapore Financial Reporting Standards and converted in Indian Rupees as per Accounting Standard (AS 11) .

ix. The financial statements of Fayum Gas, Shell Compressed Gas and NatGas have been prepared in accordance with the Egyptian Accounting Standards and relevant Egyptian Laws and regulations and according to the historical cost basis assuming the Company is a going concern. While the financial statements of China Gas Holding Limited has been prepared in accordance with the Hongkong Accounting Standards and relevant Hongkong Laws and regulations and according to the historical cost basis assuming the Company is a going concern.

III. Investment other than in Subsidiaries and Associates have been accounted for as per Accounting Standard (AS) 13 on "Accounting for Investments" issued by The Institute of Chartered Accountants of India.

IV. OTHER SIGNIFICANT ACCOUNTING POLICIES:

These are set out under " Significant Accounting Policies" as given in the respective Financial Statements of the Company and its Subsidiary.

NOTES TO THE ACCOUNTS

1. The Consolidated Financial Statements represent consolidation of accounts of the Company (GAIL India Limited), its subsidiaries, joint venture Companies and associates as detailed below:

Name of Company	Country of Incorporation	Relation	Proportion of ownership interest
GAIL Global (Singapore) Pte. Ltd.	Singapore	Subsidiary	100%
Mahanagar Gas Limited	India	Joint Venture	49.75%
Indraprastha Gas Limited	India	Joint Venture	22.50%
Petronet LNG Limited	India	Joint Venture	12.50%
Bhagyanagar Gas Limited	India	Joint Venture	22.50%
Central UP Gas Limited	India	Joint Venture	22.50%
Green Gas Limited	India	Joint Venture	22.50%
Fayum Gas	Egypt	Associate	19.00%
Shell Compressed Natural Gas Egypt	Egypt	Associate	22.00%
Gujarat State Electricity Generation(GSEG)	India	Associate	12.85%
Natural Gas Company "Nat Gas"	Egypt	Associate	15.00%
China Gas Holding Limited	Bermuda	Associate	7.50%

2. In view of different sets of environment in which the subsidiaries/Joint Ventures are operating, the accounting policies followed by the subsidiaries/ Joint Ventures are different from the accounting policies of the Company in respect of the following. Such different accounting policies have been adopted in respect of the following:

(Rs.in Crores)

Particulars	Name of Joint Venture	Accounting Policies		Proportion of GAIL's share (Gross Amount)
		GAIL (India) Ltd.	Joint Venture	
Inventories				
Valuation of Stores and spares	Mahanagar Gas Limited/ Petronet LNG Ltd.	Valued at cost or NRV, whichever is lower	Valued at weighted average cost.	6.00
Valuation of Raw materials	Petronet LNG Limited	Raw materials are valued at cost or net realisable value, whichever is lower.	Valuation of Raw Materials is done at weighted average cost.	11.54
Valuation of Stores and Spares	Indraprastha Gas Ltd.	Valued at weighted average cost or net realizable value, whichever is lower	Valued at lower of cost on First In First Out (FIFO) basis or Net Realizable Value.	4.13
Depreciation rates				
Software / Licences	Mahanagar Gas Limited	Software / Licences are amortized in 5 years on straight line method	Software / Licences are amortized in 6 years on straight line method	1.05 (Gross Block)
Software / Licences	Petronet LNG Ltd.	Software / Licences are amortized in 5 years on straight line method	Software/Licenses are amortised in 3 years on Straight Line Method.	0.43 (Gross Block)
Capital Work in Progress	Bhagyanagar Gas Limited	Indirect expenditure incurred during construction period has been charged off to revenue.	Indirect expenditure incurred during construction period has been shown under pre-operative expenditure pending allocation which will be apportioned to Fixed Assets as and when they are completed.	0.20
Retirement Benefits				
Liability towards Gratuity	Mahanagar Gas Limited	Liability towards Gratuity is paid to a fund maintained by the Company which is administered through a separate trust set up by the Company. Difference between the fund balance with the trust and the accrued liability as at the end of the year as per actuarial valuation is charged to Profit and Loss Account	Gratuity liability is covered under LIC Group Gratuity Scheme.	9.33
Tolerance Fluctuation	Mahanagar Gas Limited/ Petronet LNG Ltd.	Yearly reconciliation of Natural Gas is made within a limit of $\pm$1%. In case of variation beyond $\pm$1% value of excess quantity is kept in a separate Account "Tolerance Fluctuation Adjustment Account" for adjustments in future.	Technical variation in Gas quantity loss or gain is taken to respective years revenue account.	2.96
Investment	Mahanagar Gas Limited	Quoted investments are valued at cost or market value, whichever is lower	Investments are carried at lower of weighted average cost or market value.	13.43
Preliminary Expenses	Mahanagar Gas Limited	Preliminary expenditure and deferred revenue expenditure is charged to revenue.	Preliminary expenditure and deferred revenue expenditure is amortized over a period of ten years.	0.11

3. Estimated amount of Contracts remaining to be executed on Capital Account and not provided for is amounting to Rs.1057.30 Crores (Previous Year : Rs.357.68 Crores) which includes an amount of Rs.183.77 Crores (Previous Year Rs.92.08 Crores) related to joint ventures.

4. Contingent Liabilities :-

   I. Claims against the Company not acknowledged as debts: Rs.9933.68 Crores (Previous Year: Rs.9225.29 Crores), which mainly include:

   (a) Claims of ONGCL for Rs.401.48 Crores (Previous Year: Rs.248.46 Crores) on account of interest for delayed payment and MGO, etc. Out of these MGO claims of Rs.53.78 Crores (Previous Year: Rs.49.23 Crores) are recoverable on back-to-back basis.

   (b) Income Tax demand of Rs.1289.74 Crores (Previous Year: Rs.1026.81 Crores relating to the assessment years 1996-97 to 2002-03) relating to assessment years 1996-97 to 2003-04. This includes penalty demand of Rs.234.12 Crores (Previous Year Rs.NIL) under section 271 (1) (C) of the Income Tax Act, 1961 for which stay application has been filed with CIT (A) and Delhi High Court. The Income tax assessment of the Company has been completed up to the assessment year 2003-04. Against the total demand, the Company has paid/adjusted Rs.1105.34 Crores (Previous Year: Rs.1024.52 Crores) under protest. Based upon the decision of the appellate authorities and the interpretation of the provisions of the Income Tax Act, the Company has been legally advised that the demand is likely to be either deleted or it may be substantially reduced. The Company has filed appeals against the demand for the assessment years 1996-97 to 2002-03 with ITAT and for assessment year 2003-04 with CIT (A).

   (c) Sales Tax demand of Rs.3449.18 Crores (Previous Year: Rs.3449.18 Crores) and interest thereon Rs.1513.04 Crores (Previous Year: Rs.1513.04 Crores) for Hazira unit in Gujarat State: Sales Tax Authorities, Ahmedabad have treated the transfer of Natural Gas by the Company from the state of Gujarat to other states during the period April, 1994 to March, 2001 as inter-state sales under Section 3(a) of the Central Sales Tax Act. The Company has been paying sales tax under section 12 of the Gujarat Sales Tax Act against Form 17 since inception (1987) and accordingly the sales tax assessments have been completed. Based on the interpretation of the provisions of the Sales Tax Act and legal advice from the experts, the Company had filed writ petition and special leave petition in the Supreme Court of India. In February, 2005 the case was transferred by Hon'ble Supreme Court to Gujarat Sales Tax Tribunal for decision. The Tribunal has given its judgment on 16.05.2005 accepting the contention of the Company for interstate transportation of Natural Gas as branch transfer and not the interstate sale and set aside the demand under section 41-B of the Gujarat Sales Tax Act. The Hon'ble Tribunal has given further instruction to the Assessing Authority to assess Company and decide tax liability in accordance with the law for the period 1998-99 to 2000-2001 considering interstate transfer of natural gas as branch transfer.

   (d) Commissioner of Customs, Ahmedabad has issued show cause notices where in a sum of Rs.581.22 Crores (Previous year: Rs.581.22 Crores) for the period 22.06.97 to 10.02.2002 has been demanded, by treating GAIL as importer under Section 2(26) of the Customs Act, 1962 on account of purchase of gas from Tapti and Panna-Mukta fields from Joint Venture of British Gas Exploration and Production (I) Limited, RIL and ONGCL (JVCs). The Company is of the view that as it is purchasing gas from JVCs at Hazira at the downstream flange of ONGCL's gas processing facilities along with other natural gas coming from South Basin, it is not liable to Customs Duty. The replies to Show cause notice have already been sent to the Commissioner of Customs in consultation with the Consultants on 14.06.2002. No further response has been received.

   (e) Excise duty demand of Rs.137.84 Crores (Previous year: Rs.123.63 Crores): Excise Authorities have raised demands at Vijaipur, by treating lean gas as gaseous hydrocarbon and denying exemption available to lean gas, which has all along been treated as an exempted product. The Company has obtained favourable orders against past and subsequent demands. This demand also has been set aside and pronounced in the open court by the CESTAT on 19.04.2006. Written Order is yet to be received.

   II. Bonds executed, Letters of Credit : Rs.27.58 Crores (Previous Year: Rs.13.40 Crores).

   III. An amount of Rs.90.35 Crores (Previous Year : Rs.83.03 Crores) relate to joint ventures and an amount of Rs.NIL (Previous Year : Rs.2.44 Crores) relate to associates.

5 (a) Liability under Gas Pool Account includes gas pool money for January-March 2006 quarter amounting to Rs.37.50 Crores (Previous Year: Rs.61.64 Crores) which shall become due for deposit in succeeding quarter.

   (b) Liabilities on account of Gas Pool Money amounting to Rs.726.67 Crores (Previous year: Rs.723.18 Crores) and 10% retention from JV consortium amounting to Rs.386.06 Crores (Previous year: Rs.359.63 Crores) includes interest (net of TDS) amounting to Rs.47.38 Crores (Previous year: Rs.32.30 Crores) on Short term deposits for the year. The TDS amounting to Rs.9.56 Crores (Previous Year: Rs.7.09 Crores) have been deducted by the bankers on the interest earned on Short term deposits. This interest income and TDS does not belong to the Company hence not accounted for.

6. MoP&NG had issued scheme for mechanism of sharing the under recoveries of Oil marketing Companies on account of non-revision in selling price of PDS Kerosene and domestic LPG. During the year, the Company has given discounts to Oil marketing Companies amounting to Rs.1063.60 Crores (Previous Year: Rs.1136.90 Crores) on dispatches to them for sharing subsidies. Corresponding adjustment on account of CST amounting to Rs.21.32 Croers (Previous Year Rs.20.54 Crores) has been made.

7 a) The Company is raising provisional invoices for sale of R-LNG as the supplier PLL is also raising provisional invoices on the Company since customs duty on import of LNG by PLL has been assessed on provisional basis.

   b) With effect from April 1, 2002, Liquefied Petroleum Gas prices has been deregulated and is now based on the import parity prices fixed by the Oil Companies. However, the pricing mechanism is provisional and is pending finalisation. Additional asset/ liability or impact on profits, if any, arising due to such change, will be recognized on finalization of pricing mechanism.

8. a) The price of Gas purchased from Joint Venture Consortium (JVC) (Indian and Foreign Partners) from Ravva / Ravva Satellite, Tapti and Panna Mukta fields are denominated in USD per MMBTU. The liability in USD has been converted at Bills Buying rate, TT selling rate and TT buying rate, prevailing as on 31.03.2006 or on the date of payment, as the case may be.

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

9. Following Government of India's approval, the shareholders of the Company in the Annual General Meeting held on 15th September, 1997 approved the transfer of all the assets including Plant and Machinery, accessories and other related assets which are part of Lakwa Project valued at Rs.245.97 Crores as on 31.03.2006 (Previous Year: Rs.246.91 Crores) to Assam Gas Cracker Complex at a price to be determined by an independent Agency and on terms and stipulations as the Board may in its discretion deem fit. However, Assam Gas Cracker Complex has not come up as per plan and LPG Lakwa Project has not been transferred to it. Therefore, a fresh proposal has been put up to Govt of India to establish Assam Gas Cracker project by GAIL and LPG Lakwa Project will be part of that Assam Gas Cracker project. Government of India is in advance stage in establishing the Assam Gas Cracker project.

10. Pending issue of suitable notification by the Government of India specifying the period and applicable rate at which cess on turnover is payable under section 441A of Companies Act, 1956 the Company has not provided for the same.

11. Balances grouped under Material with Contractors, Sundry Debtors, Loans and Advances, Deposits and Sundry Creditors, etc. are subject to confirmation.

12. The value of pipelines and related facilities taken over in Southern and North-eastern region in February 1992 and Western Region in May 1992 is provisional, based on intimation from ONGCL. Adjustments, if any, for taxes, duties, ROU and other claims would be made as and when ascertained. Depreciation on the assets taken over from ONGCL has been provided for as per the accounting policy of the Company on the transfer value of such assets. Pending installation of custody transfer meters, the purchase of Gas is accounted for on the basis of metering done at the consumer's end.

13. Due to change in Accounting policy

a) Depreciation rate on the Oil & Gas Pipelines has been changed from 10.34% per annum to 3.17% per annum based on useful life of 30 years w.e.f. 01.04.2005 in terms of approval of Ministry of Company affairs vide its letter no 45/4/2003-CL-III dated 31.08.2005. Accordingly, the Company has depreciated the unamortized depreciation over the remaining useful life of pipe lines. Due to change in depreciation rate, there is a reduction in depreciation charged to Profit and Loss Account amounting to Rs.406.49 Crores with consequent increase in profit before tax.

b) During the year, the Company has changed its accounting policy of capitalizing the difference between cost and Net Realisable Value of left over construction surplus material to charging off to P&L Account. Due to this change in policy, there is decrease in Profit Before Tax by Rs.3.37 Crores.

14. In respect of Subsidiary and Joint Ventures, the following additional notes to accounts are disclosed.

I. Petronet LNG LTD.

i). The Company has executed the LNG Port Terminal Concession Agreement (Concession Agreement) with Gujarat Maritime Board (GMB) and the Government of Gujarat on 20.12.2005. The Company had paid waterfront royalty in respect of LNG vessels arrived at its port at Dahej to GMB as per their existing Schedule of waterfront royalty applicable to all vessels calling on port. Pursuant to execution of the Concession Agreement, the Company is required to pay waterfront royalty at concessional rates specified in the Concession Agreement and entitled for the adjustment of excess waterfront royalty paid earlier. The Company has therefore adjusted Rs.17.49 Crores from cost of goods sold towards refund of waterfront royalty for cargoes arrived upto 31.03.2005.

ii). In terms of the provisions contained in the LNG Port Terminal Concession Agreement, the Company has to develop a solid Cargo Port along with LNG Terminal. The Company is required to take 50% Equity in the Joint Venture Company formed for implementation of the solid cargo project. Expenses to the extent of Rs.2.38 Crores have been incurred on this account which includes a deposit of Rs.1.70 Crores with Gujarat Industrial Development Corporation classified under "Loans & Advances".

iii) The Company raised Rs.391.47 Crores through public issue of shares in the 2003-2004 and till 31.03.2006 had utilized Rs.236.47 Crores (Previous Year 217.88 Crores) for project payments and balance Rs.155.00 Crores deposited in debt based mutual funds (Previous Year 173.59 Crores) in short term deposits with a scheduled bank.

II. Bhagyanagar Gas Limited

i). During the year, the Company commenced commercial operations relating to Auto LPG business. As regards CNG business, it has commenced construction activities for setting up of CNG stations and related infrastructure at Vijayawada which are at different stages of progress.

III. Indraprastha Gas Limited

i). Compressed Natural Gas has been added as an excisable commodity under the central Excise Tariff Act from March 1, 2001. Due to unique nature of its business, it is not possible for the Company to comply with certain provisions/procedures as required under the Act. The Company has filed applications with the Deputy Commissioner (Tech), commissioner – Central Excise, Chief Commissioner – Central Excise for modification/ simplification of the provisions/ procedures.

IV. Mahanagar Gas Ltd.

i). Company has taken on lease few equipments / machines for some CNG Retail Outlets. Lease charges are dependent on sale of CNG at these outlets and hence there are no minimum lease payments. The term of the contract is three years, renewable for a further period of three years at the discretion of the Company. The Company can exercise purchase option at the end of the contract. The contract does not impose any restrictions concerning dividend, additional debt and further leasing.

V. Central UP Gas Limited

i) Title deeds of lands for CNG stations at Fazalganz, Juhi and Makadikheda amounting to Rs.3.00 Crores have not been executed till date. State Government Authorities are being pursued to get the title deeds registered in favour of the Company.

VI. Green Gas Limited

i) The accounts have been prepared for a period of 5 months and 25 days i.e. from the date of incorporation 07.10.2005 to 31.03.2006. This being the first accounting period, previous year's figures are not applicable.

15. Unaudited financial statements of joint venture – Petronet LNG Ltd., Indraprastha Gas Limited, Mahanagar Gas Limited, Bhagyanagar Gas Limited, Central UP Gas Limited, Green Gas Limited have been included in consolidation in absence of the audited financial statements. The figures included in the consolidated financial statements relating to these unaudited joint venture Company are as under:

i. Total assets are Rs.747.40 Crores (Previous Year :Rs.633.65 Crores) and total liabilities of Rs.747.40 Crores (Previous Year : Rs.633.65 Crores) and

ii. Total revenues of Rs.858.58 Crores (Previous Year :Rs.383.92 Crores) and total expenditure of Rs.660.94 Crores (Previous Year :Rs.209.20 Crores)

16. Unaudited financial statements of an associate – GSEG, have been included in consolidation in absence of the audited financial statements.

17. Unaudited financial statements for six months as on 30th September, 2005 of an associate - China Gas Holding, have been included in consolidated statements in the absence of audited / unaudited financial statement for the year ending on 31st March, 2006.

18. JV Company has entered into agreements for taking on lease and license basis certain residential / office premises, certain equipments, vehicles and premises for office use under operating lease agreements. All the agreements contain a provision for its renewal. Lease payments recognized in the profit and loss account for the year is Rs.12.24 Crores (Previous Year :Rs.14.52 Crores) Lease obligations under non-cancelable periods are as follows:

Future lease rental obligation under these leases:

i) Not later than one year	Rs.7.33 Crores
ii) Later than one year and not later than five years	Rs.2.05 Crores

19. The consolidated Financial Statements are prepared using uniform accounting policies for like transactions and other events in similar circumstances and are presented to the extent possible, in the same manner as the Company's separate Financial Statements. However, there are some differences in certain accounting policies followed by the Company, subsidiary, joint ventures and associates but the impact of the same is not material.

20. In case of joint venture Company, Maharastra Natural Gas Ltd. (MNGL), the accounts have not been incorporated in consolidation as the first accounts will be prepared as on 31.03.2007.

21. In case of joint venture Companies, Ratnagiri Gas and Power Pvt Ltd. (RGPPL) and Tripura Natural Gas Company Ltd. (TNGCL) the shares have not been allotted till March 31, 2006. Hence, GAIL (India) Ltd. does not obtain any shareholding right with respect to the advance given against share capital. Such right would accrue only on allotment of shares, hence, RGPPL & TNGCL accounts have not been considered in the Consolidated of Financial Statement.

22. In compliance of Accounting Standard 17 on "Segment Reporting" issued by Institute of Chartered Accountants of India, the required information is given as per Annexure – A to this schedule. Business Segments: The business segments have been identified as

(i) Transmission services

a) Natural Gas

b) LPG

ii) Natural Gas Trading

iii) Petrochemicals

iv) LPG and other Liquid Hydrocarbons

v) GAILTEL

vi) City Gas Distribution

vii) Unallocated

23. In compliance of Accounting Standard 18 on " Related party Disclosures" issued by Institute of Chartered Accountants of India, the name of related parties, nature of relationship and details of transaction entered therewith are given in Annexure – B.

24. In compliance of Accounting Standard 22 on "Accounting for taxes on Income" issued by Institute of Chartered Accountants of India, the Company has provided Accumulated net deferred tax liability in respect of timing difference as on 31st March, 2006. The item- wise details of deferred tax liability as on 31.03.2006 are as under:

(Rs. in Crores)

		2005-06	2004-05
Deferred Tax Liability			
a)	Depreciation	**1408.89**	1407.65
b)	Differences between carrying assets in the financial statements & Income tax	**20.44**	26.80
Less :- Deferred Tax Assets			
a)	Provision for Gratuity & Retirement Benefits	**15.59**	15.96
b)	Provision for Doubtful Debts / Claims / Advances	**57.12**	61.14
c)	Preliminary Expenses & others	**15.13**	71.90
Deferred Tax Liability (net)*		**1341.49**	1285.45

* It includes an amount of Rs.NIL (Previous Year :Rs.1.77 Crores) (Deferred Tax Assets) which has been netted of with Deferred Tax Liability.

25. In Compliance of Accounting Standard 27 on "Financial Reporting of Interests in Joint Ventures" issued by Institute of Chartered Accountants of India, the required information is as under :

Jointly controlled Operations:

The Company has participated in joint bidding under the Government of India New Exploration Licensing Policy and had been allotted 12 Blocks for which the Company has entered into Production Sharing Contract with Government of India along with other partners for Exploration & Production of Oil and Gas. As per the Production Sharing Contract, the Company has a minimum work program commitment of Rs.551.61 Crores (Previous Year: Rs.137.18 Crores). The Company is acting as non-operator and would have to share in Expense/Income/Assets/Liabilities based upon its percentage in production sharing contract. The participating interest in the following twelve NELP - Blocks as on 31st March, 2006 is as under:

	Joint Venture under NELP Blocks	Participating Interest
1)	MN-OSN-97/3	15%
2)	NEC-OSN-97/1	50%
3)	MN-OSN-2000/2	20%
4)	GS-DWN-2000/2	15%
5)	MB-DWN-2000/2	15%
6)	CB-ONN-2000/1	50%
7)	MN-ONN-2000/1	20%
8)	CY-ONN-2002/1	50%
9)	AA-ONN-2002/1	80%
10)	AA-ONM-2003/2	35%
11)	CB-ONM-2003/2	20%
12)	AN-DWN-2003/2	15%

In addition, the Company has farm-in as non – operator with minimum work program commitment of Rs.41.80 Crores (Previous Year : Rs.11.24 Crores) in the following blocks:

	Blocks	Participating Interest
1)	A-1,Myanmar	10%
2)	CY-OS/2	25%
3)	A-3, Myanmar	10%

The Company's share of assets and liabilities as at 31st March, 2006 and the Income and the expenditure for the year in respect of joint operations project blocks has been incorporated in the Company financial statements based upon unaudited statement of accounts submitted by the operators as follows:

(Rs. in Crores)

	2005-06	2004-05
Income	-	-
Expenses	**101.28**	37.79
Fixed Assets	**1.42**	1.05
Other Assets	**139.95**	45.25
Current Liabilities	**76.67**	33.53

Jointly controlled Entity:

GAIL (India) Limited share in assets, liabilities, income, expenses contingent liabilities and capital commitments of jointly controlled entities as per Annexure - C

26. Un-audited financial statements of a Subsidiary Company – GAIL Global (Singapore) Pte. Ltd. have been included in the consolidation in the absence of the audited financial statements. The figures included in the consolidated financial statements relating to the un-audited accounts of subsidiary Company are as under:

    i. Total assets are Rs.92.03 Crores (PY Rs.88.85 Crores) and total liabilities of Rs.92.03 Crores (PY Rs.88.85 Crores) and

    ii. Total revenues of Rs.5.84 Crores (PY Rs.4.66 Crores) and total expenditure of Rs.3.68 Crores (PY Rs.2.39 Crores)

N.K.Nagpal Secretary	R.K.Goel Director (Finance)	S.P. Rao Director (Projects)	Proshanto Banerjee Chairman & Managing Director	As per our separate Report of even date For M/s S. MANN & COMPANY Chartered Accountants

Subhash Mann
(Partner)
Membership No. 80500

Place : New Delhi
Dated : April 28, 2006

(Annexure - A)

Information About Business Segments For The Financial Year 2005-06

(Rs in Crores)

Sl. No.	Segments	Transmission Services Natural Gas	Transmission Services LPG	Natural Gas Trading (Note 1)	Petro chemicals	LPG & Liquid Hydro carbons	GAILTEL	City Gas Distribution (Note 2)	Un allocated (Note 3)	Consolidated Total
1.	**REVENUE**									
	External Sales	2063.11	308.18	8587.58	1930.83	2201.74	18.32	277.39	414.02	15801.17
	Intersegment Sales	-	-	-	-	-	-	-	-	-
	Total Revenue	**2063.11**	**308.18**	**8587.58**	**1930.83**	**2201.74**	**18.32**	**277.39**	**414.02**	**15801.17**
2.	**RESULTS**									
	Segment Result (Profit before Interest & Tax)	1721.41	157.66	109.90	711.05	603.12	(1.82)	127.77	-	3429.09
	Unallocated Expenses	-	-	-	-	-	-	-	263.04	263.04
	Operating Profit	1721.41	157.66	109.90	711.05	603.12	(1.82)	127.77	(263.04)	3166.05
	Interest Expenses	-	-	-	-	-	-	-	134.05	134.05
	Interest/ Dividend Income	-	-	-	-	-	-	-	417.16	417.16
	Provision for Taxation	-	-	-	-	-	-	-	1025.42	1025.42
	Profit/(Loss) from Ordinary Activities	1721.41	157.66	109.90	711.05	603.12	(1.82)	127.77	(1005.35)	2423.74
	Extraordinary Items	-	-	-	-	-	-	-	-	-
	Net Profit/(Loss)	**1721.41**	**157.66**	**109.90**	**711.05**	**603.12**	**(1.82)**	**127.77**	**(1005.35)**	**2423.74**
3.	**OTHER INFORMATION**									
	Segment Assets	4372.63	1144.77	272.33	2435.64	1026.94	50.21	327.48	-	9630.00
	Unallocated Assets	-	-	-	-	-	-	-	5784.79	5784.79
	Total Assets	**4372.63**	**1144.77**	**272.33**	**2435.64**	**1026.94**	**50.21**	**327.48**	**5784.79**	**15414.79**
	Segment Liabilities	1615.84	36.92	12.16	460.34	89.59	19.43	44.75	-	2279.03
	Unallocated Liabilities	-	-	-	-	-	-	-	1533.10	1533.10
	Total Liabilities	**1615.84**	**36.92**	**12.16**	**460.34**	**89.59**	**19.43**	**44.75**	**1533.10**	**3812.13**
	Cost to acquire fixed assets	167.22	4.58	4.16	67.43	13.31	0.94	50.10	9.67	317.41
	Depreciation	247.28	68.97	12.62	137.65	89.11	8.11	29.77	8.37	601.88
	Non Cash expenses other than Depreciation	4.89	(0.31)	0.01	5.37	(4.24)	-	0.07	30.89	36.68

Notes

1. Includes JV Petronet LNG Limited
2. Includes JVs IGL, BGL, MGL, CUGL, GGL
3. Includes Subsidiary GAIL (Global) Singapore Pte. Limited and Associate Company share

Information About Business Segments For The Financial Year 2004-05

(Rs in Crores)

Sl No	Segments	Transmission Services Natural Gas	Transmission Services LPG	Natural Gas Trading (Note 1)	Petro chemicals	LPG & Liquid Hydro carbons	GAILTEL	City Gas Distribution (Note 2)	Un allocated (Note 3)	Consolidated Total
1	**REVENUE**									
	External Sales	1923.80	301.84	7226.52	1842.05	1837.48	18.42	233.48	227.03	13610.62
	Intersegment sales	-	-	-	-	-	-	-	-	-
	Total revenue	**1923.80**	**301.84**	**7226.52**	**1842.05**	**1837.48**	**18.42**	**233.48**	**227.03**	**13610.62**
2	**RESULTS**									
	Segment Result (Profit before Interest &Tax)	1193.54	89.54	219.17	804.24	609.00	(1.07)	94.73	-	3009.15
	Unallocated expenses	-	-	-	-	-	-	-	145.94	145.94
	Operating Profit	1193.54	89.54	219.17	804.24	609.00	(1.07)	94.73	(145.94)	2863.21
	Interest Expenses	-	-	-	-	-	-	-	150.92	150.92
	Interest/ Dividend Income	-	-	-	-	-	-	-	268.63	268.63
	Provision for Taxation	-	-	-	-	-	-	-	958.45	958.45
	Profit/(Loss) from Ordinary Activities	1193.54	89.54	219.17	804.24	609.00	(1.07)	94.73	(986.68)	2022.47
	Extraordinary items									-
	Net Profit/(Loss)	**1193.54**	**89.54**	**219.17**	**804.24**	**609.00**	**(1.07)**	**94.73**	**(986.68)**	**2022.47**
3	**OTHER INFORMATION**									
	Segment Assets	4528.40	1209.44	364.01	2120.58	1466.32	57.98	356.49	-	10103.22
	Unallocated Assets	-	-	-	-	-	-	-	4727.16	4727.16
	Total Assets	**4528.40**	**1209.44**	**364.01**	**2120.58**	**1466.32**	**57.98**	**356.49**	**4727.16**	**14830.38**
	Segment Liabilities	1887.47	38.73	61.30	96.36	123.98	26.48	117.61	-	2351.93
	Unallocated Liabilities	-	-	-	-	-	-	-	1264.63	1264.63
	Total Liabilities	**1887.47**	**38.73**	**61.30**	**96.36**	**123.98**	**26.48**	**117.61**	**1264.63**	**3616.56**
	Cost to acquire fixed assets	303.00	436.52	237.09	57.59	0.50	(197.33)	64.52	46.37	948.26
	Depreciation	560.44	140.41	12.10	136.80	95.08	7.67	23.77	6.25	982.52
	Non Cash expenses other than Depreciation	4.76	(0.20)	0.13	0.06	1.74	-	0.05	11.98	18.52

Notes

1 Includes JV Petronet LNG Limited

2 Includes JVs IGL, BGL and MGL

3 Includes Subsidiary GAIL (Global) Singapore Pte. Limited and Associate Company share

(Annexure - B)

Related Party Disclosures

I) Relationship

A) Joint Venture Companies / Associates / Subsidiary:

1) Mahanagar Gas Limited
2) Indraprastha Gas Limited
3) Petronet LNG Limited
4) Bhagyanagar Gas Limited
5) Tripura Natural Gas Company Limited
6) Central UP Gas Limited
7) Green Gas Limited
8) Maharastra Natural Gas Ltd.
9) Ratnagiri Gas and Power Pvt. Ltd.
10) Shell Compressed Natural Gas
11) Gujarat State Electricity Generation Ltd.
12) National Gas Company " Nat Gas"
13) Fayum Gas Company
14) China Gas Holdings Limited
15) GAIL Global (Singapore) Pte. Ltd.

B) Whole time Directors:

1) Shri Proshanto Banerjee, Chairman and Managing Director
2) Shri R. K. Goel
3) Shri S. P. Rao
4) Shri B.S. Negi
5) Shri M. R. Hingnikar
6) Dr U. D. Choubey
7) Shri A.K.De
8) Shri C.N.Trivedi
9) Shri A.K.Purwaha
10) Shri M.M.Mandal
11) Shri T. K. Mazumdar
12) Shri J. K. Singh Teotia
13) Shri S. Narayan
14) Shri B. K. Singh
15) Shri Rajeev Khanna

C) Unincorporated Joint venture for Exploration & Production Activities:

1)	NEC - OSN - 97/1	(Non-operator with participating interest: 50%)
2)	CB - ONN - 2000/1	(Non-operator with participating interest: 50%)
3)	A-1, Myanmar	(Non-operator with participating interest: 10%)
4)	CY-OS/2	(Non-operator with participating interest: 25%)
5)	AA-ONN-2002/1	(Non-operator with participating interest: 80%)
6)	CY-ONN-2002/1	(Non-operator with participating interest: 50%)
7)	AA-ONN-2003/2	(Non-operator with participating interest: 35%)
8)	CB-ONN-2003/2	(Non-operator with participating interest: 20%)
9)	AN-DWN-2003/2	(Non-operator with participating interest: 15%)
10)	A-3, Myanmar	(Non-operator with participating interest: 10%)

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

(Rs. in Crores)

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

	2005-06	2004-05
1) Sales	**335.34**	293.14
2) Amount receivable as at Balance Sheet Date for (1) above	**15.71**	14.60
3) Purchases	**2361.35**	1187.71
4) Amount payable as at Balance Sheet Date for (3) above	**75.20**	66.65
5) Reimbursement for other expenditure received/receivable	**0.13**	1.23
6) Amount receivable as at Balance Sheet Date for (5) above	**0.09**	1.17

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

	2005-06	2004-05
1) Remuneration *	**1.44**	1.36
2) Interest bearing outstanding loans receivable	**0.23**	0.33
3) Interest accrued on loans given	**0.14**	0.16

* Remuneration includes Basic, Allowances, reimbursements, contribution to PF and perquisites.
In addition, Whole time Directors are allowed the use of Staff cars including for private journeys upto a ceiling of 1000 Kms. per month on payment in accordance with the Bureau of Public Enterprises Circular.

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

	2005-06	2004-05
1) Minimum work program commitment	**536.78**	94.39
2) Survey and other expenses	**67.24**	22.07
3) Other assets	**141.14**	46.13
4) Amount outstanding on Balance Sheet date	**59.97**	17.32
5) Amount written Off- Dry well expenditure	**16.26**	2.22

Annexure - C

Share of GAIL in assets, liabilities, income, expenses contingent liabilities and capital commitments of jointly controlled entities

Rs.in Crores

S.N.	Description	Mahanagar Gas Limited		Indraprastha Gas Limited		Petronet LNG Limited		Bhagyanagar Gas Limited		Green Gas Ltd.		Central UP Gas Ltd.	
		2005-06	2004-05	**2005-06**	2004-05	**2005-06**	2004-05	**2005-06**	2004-05	2005-06	2004-05	2005-06	2004-05
1.	**Loan Funds**												
i.	Secured Loans	**15.34**	19.62	-	10.80	**157.49**	157.49	-	-	-	-	-	-
ii.	Unsecured Loans	**5.52**	17.70	**0.97**	-	-	-	-	-	-	-	-	-
2.	**Reserves and Surplus**	**150.78**	102.65	**62.62**	38.81	**40.24**	19.43	**0.02**	0.05	-	-	-	-
3.	**Current Liabilities**	**40.17**	32.88	**13.30**	10.91	**18.26**	44.66	**2.52**	0.69	**1.80**	-	**1.04**	-
4.	**Provisions**	**13.77**	72.09	**(0.66)**	7.28	**(0.11)**	0.15	**(0.01)**	0.01	-	-	-	-
5.	**Fixed Assets**												
i.	Gross Block	**246.13**	217.25	**125.04**	107.43	**242.78**	238.60	**2.60**	0.53	**0.14**	-	**0.84**	-
ii.	Depreciation	**59.44**	42.88	**42.82**	30.11	**24.98**	12.37	**0.10**	0.01	-	-	-	-
	Net Block	**186.69**	174.37	**82.22**	77.32	**217.80**	226.23	**2.50**	0.52	**0.14**	-	**0.84**	-
iii.	CWIP	**55.62**	27.36	**6.82**	6.98	**15.05**	10.05	**0.61**	0.98	**1.70**	-	**1.92**	-
6.	**Investments**	**13.43**	1.99	**9.56**	13.72	**19.61**	2.24	-	-	-	-	-	-
7.	**Current Assets**												
i.	Inventories	**4.55**	3.71	**4.19**	4.06	**12.99**	15.83	**0.01**	-	-	-	-	-
ii.	Sundry Debtors	**23.91**	21.04	**4.66**	2.66	**15.97**	6.63	**0.01**	-	-	-	-	-
iii.	Cash and Bank balances	**6.13**	3.33	**2.48**	1.52	**31.33**	37.25	**1.54**	1.49	**0.77**	-	**1.28**	-
iv.	Loans and Advances	**5.58**	5.91	**5.72**	4.41	**4.38**	3.58	**0.13**	0.02	**0.28**	-	**0.06**	-
v.	Other current assets	-	-	-	-	**0.08**	-	-	-	-	-	-	-
8.	**Income**												
i.	Sales	**230.22**	188.27	**117.20**	101.26	**479.65**	94.70	**2.81**	0.16	-	-	-	-
ii.	Other Income	**2.20**	2.73	**1.03**	1.75	**2.43**	1.66	**0.02**	0.09	-	-	-	-
9.	**Expenses**												
i.	Purchase	**74.43**	7.87	**50.73**	0.12	**406.69**	-	**2.43**	0.14	-	-	-	-
ii.	Manufacturing, Transmission, Administration, Selling & Distribution and other Expenses	**53.84**	29.79	**31.04**	17.08	**24.56**	224.35	**0.43**	0.03	-	-	-	-
iii.	Interest and Finance Charges	**2.19**	2.36	**0.61**	0.78	**13.95**	13.67	-	-	-	-	-	-
10.	**Contingent Liabilities**	**2.17**	10.16	**0.50**	-	**87.19**	72.87	**0.02**	-	**0.24**	-	**0.23**	-
11.	**Capital Commitments**	**31.12**	52.58	**11.52**	12.76	**137.07**	24.78	**1.09**	1.96	**2.97**	-	**4.00**	-

Consolidated Cash Flow Statement for the Financial Year ended 31st March, 2006

(Rs.in Crores)

		2005-06		2004-05
A. CASH FLOW FROM OPERATING ACTIVITIES				
1. NET PROFIT BEFORE TAX AND EXTRAORDINARY ITEMS		**3464.47**		2980.92
2. ADD :				
DEPRECIATION	**602.85**		980.77	
DEFERRED REVENUE EXPENSES W/O	**3.04**		(0.73)	
CAPITAL RESERVE	**(0.11)**		(0.12)	
EXCHANGE RATE VARIATION	**(0.60)**		(0.07)	
INTEREST EXPENDITURE	**134.05**		151.79	
DIVIDEND INCOME ON INVESTMENTS	**(180.34)**		(120.32)	
INTEREST INCOME	**(236.82)**		(148.10)	
PROFIT/LOSS ON SALE OF ASSETS (NET)	**2.15**		0.53	
		324.22		863.75
3. OPERATING PROFIT BEFORE WORKING CAPITAL CHANGES (1+2)		**3788.69**		3844.67
4. CHANGES IN WORKING CAPITAL (EXCLUDING CASH & BANK BALANCES)				
TRADE AND OTHER RECEIVABLES	**188.05**		(506.60)	
INVENTORIES	**(2.60)**		(5.27)	
TRADE AND OTHER PAYABLES	**438.40**		448.62	
		623.85		(63.25)
5. CASH GENERATED FROM OPERATIONS (3+4)		**4412.54**		3781.42
6. DIRECT TAXES PAID		**(1016.07)**		(896.57)
NET CASH FROM OPERATING ACTIVITIES (5+6)		**3396.47**		2884.85
BALANCE CARRIED FORWARD		**3396.47**		2884.85

Consolidated Cash Flow Statement for the Financial Year ended 31st March, 2006

(Rs.in Crores)

		2005-06		2004-05
BALANCE BROUGHT FORWARD		**3396.47**		2884.85
B. CASH FLOW FROM INVESTING ACTIVITIES				
PURCHASE OF FIXED ASSETS	**(672.81)**		(453.63)	
SALE OF FIXED ASSETS	**1.17**		0.64	
REDEMPTION OF BONDS/DEBENTURES	**3.41**		0.15	
INVESTMENT IN OTHER COMPANIES	**(682.62)**		(94.25)	
INTEREST RECEIVED	**224.12**		124.62	
DIVIDEND RECEIVED	**180.34**		120.32	
ADJUSTMENT IN CWIP / PRE-OPERATIVE EXP	-		208.26	
NET CASH FROM INVESTING ACTIVITIES		**(946.39)**		(93.89)
C. CASH FLOW FROM FINANCING ACTIVITIES				
PROCEEDS FROM APPLICATION OF NEW SHARES	-		9.34	
PROCEEDS FROM LONG TERM BORROWINGS	-		216.80	
REPAYMENT OF LONG TERM BORROWINGS	**(105.74)**		(224.75)	
INTEREST PAID	**(136.17)**		(152.26)	
DIVIDEND PAID	**(1159.57)**		(782.79)	
NET CASH FROM FINANCING ACTIVITIES		**(1401.48)**		(933.66)
NET INCREASE IN CASH AND CASH EQUIVALENTS (A+B+C)		**1048.60**		1857.30
CASH AND CASH EQUIVALENTS AS AT 01.04.2005 (OPENING BALANCE)		**3491.28**		1633.98
CASH AND CASH EQUIVALENTS AS AT 31.03.2006 (CLOSING BALANCE)		**4539.88**		3491.28

As per our separate report of even date

N.K.Nagpal Secretary	R.K.Goel Director (Finance)	S. P. Rao Director(Projects)	Proshanto Banerjee Chairman & Managing Director	For M/s S. MANN & COMPANY Chartered Accountants

Subhash Mann
(Partner)
Membership No. 80500

Place : New Delhi
Dated : April 28, 2006

GLOSSARY

Gas Industry specific terminologies

CBM	Coal Bed Methane
CNG	Compressed Natural Gas
DGH	Director General Hydro-carbon
DVPL	Dahej-Vijaipur Pipeline
E&P	Exploration and Production
ESA	External Safety Audits
GPU	Gas Processing Unit
GTI	GAIL Training Institute
HDPE	High Density Polyethelyene
HSE	Health Safety and Environment
HVJ	Hazira Vijaipur Jagdishpur
JLPL	Jamnagar-Loni Pipeline
LLDPE	Linear Low Density Polyethelyene
LNG	Liquified Natural Gas
LPG	Liquified Petroleum Gas
MMSCMD	Metric Million Standard Cubic Meters Per Day
MMT	Metric Million Tonne
MMTPA	Metric Million Tonne Per Annum
MOP&NG	Ministry of Petroleum and Natural Gas
MOU	Memorandum of Understanding
MTs	Metric Tonnes
MW	Mega-Watt
NELP	New Exploration & Licensing Policy
O&M	Operation and Maintenance
OLHC	Other Liquid Hydro-Carbon
PNG	Piped Natural Gas
SBPS	Special Boiling Point Solvent
TPA	Tonnes Per Annum
VSPL	Vizag-Secunderabad Pipeline

General Abbreviations

BIS	Business Information System
CSR	Corporate Social Responsibility
ERP	Enterprise Resource Planning
HRD	Human Resource Development
JVCs	Joint Venture Companies
PSU	Public Sector Unit
QC	Quality Circle
SCADA	Supervisory Control and Data Acquisition
TQM	Total Quality Management

Financial terms

BSE	Bombay Stock Exchange
CAGR	Compounded Annual Growth Rate
CAPEX	Capital Expenditure
EBIDTA	Earnings Before Interest Depreciation Tax and Amortization
ED	Excise Duty
EPS	Earnings Per Share
GDP	Gross Domestic Product
NSE	National Stock Exchange
PAT	Profit After Tax
PBIDTA	Profit Before Interest Depreciation Tax and Amortization
PBIT	Profit Before Interest and Tax
PBT	Profit Before Tax
ROCE	Return on Capital-Employed
ROIC	Return on Invested-Capital
RONW	Return on Net-Worth

CNG supplied by GAIL (India) Limited

PNG supplied by GAIL (India) Limited

LNG supplied by GAIL (India) Limited

PROPANE

GAILTEL

G-Lene

G-Lex

GAIL (India) Limited

Gas & Beyond

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