



GUJARAT GAS COMPANY LIMITED

BOARD OF DIRECTORS

HASMUKH SHAH, *Chairman*
WILLIAM ADAMSON
ANTONY SEIGEL (upto 14 December 2006)
KAPIL GARG (from 15 December 2006)
PROF. PRADIP KHANDWALLA
JAL PATEL
AJIT KAPADIA
D. RAJAGOPALAN, IAS (upto 15 March 2007)
HASMUKH ADHIA, IAS (upto 30 June 2006)
B. S. SHANTHARAJU, *Managing Director*

RAJIV SHAH, *Company Secretary*

GROUP HEADS

AKHIL MEHROTRA, *Director - Power*
JOE MCGOWAN, *Director - Technical*
PRIYARANJAN SEKHON, *Legal Counsel*
SADHAN BANERJEE, *Director - Management Services*
SHALEEN SHARMA, *Director - Commercial*
SUGATA SIRCAR, *Director - Finance* (from 1 April 2007)
DILIP JOSHI, *General Manager - Internal Audit*
H. K. UPADHYAY, *General Manager - External Affairs*
L. BALASUNDARAM,
General Manager - Human Resources

BANKERS

HDFC Bank Limited
ICICI Bank Limited
Standard Chartered Bank
State Bank of India

AUDITORS

PRICE WATERHOUSE
Chartered Accountants
Building 8, Tower B
8th Floor, DLF Cyber City
Gurgaon-122 022

CORPORATE & REGISTERED OFFICE

2, Shantisadan Society
Near Parimal Garden
Ellis Bridge
Ahmedabad 380 006, India

OFFICES

SURAT

Plot No.87-88
Mayavanshi Mohallo
Adajan Gam, Surat

ANKLESHWAR

Surati Bhagol, Umarwada Road
Near Piraman Naka, Ankleshwar

BHARUCH

Anand Mangal Society
Son Talavdi, Bharuch

VAPI

Chandralok Complex
Nr. Cinemark Multiplex
Selvas Vapi Main Road
Chanod, Vapi

27th Annual General Meeting

Date: 30 April 2007
Day: Monday
Time: 10.00 a.m.
Venue: H. T. Parekh Convention Centre
Ahmedabad Management Association
ATIRA, Dr. Vikram Sarabhai Marg
Vastrapur, Ahmedabad – 380 015

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NOTICE

NOTICE is hereby given that the Twenty Seventh Annual General Meeting of the Members of Gujarat Gas Company Limited will be held on Monday, 30 April 2007 at 10.00 a.m. at H. T. Parekh Convention Centre, Ahmedabad Management Association, ATIRA, Dr. Vikram Sarabhai Marg, Vastrapur, Ahmedabad - 380 015 to transact the following business:

ORDINARY BUSINESS

1. To consider and adopt the Directors' Report, the audited Profit and Loss Account and Cashflow statement for the year ended on 31 December 2006, the Balance Sheet as at that date and the Auditors' Report thereon.
2. To declare the dividend on preference shares.
3. To declare the dividend on equity shares.
4. To appoint a director in place of Mr. Jal Patel, who retires by rotation and being eligible, offers himself for re-appointment.
5. To appoint a director in place of Mr. Ajit Kapadia, who retires by rotation and being eligible, offers himself for re-appointment.
6. To appoint auditors to hold office from the conclusion of this meeting until the conclusion of the next annual general meeting and to fix their remuneration.

SPECIAL BUSINESS

7. To consider and if thought fit, to pass with or without modification(s), the following resolution as an Ordinary Resolution:
"RESOLVED THAT Mr. Kapil Garg who was appointed as an additional director of the company under Section 260 of the Companies Act, 1956 read with Article 79 of the Articles of Association of the company and who holds office till conclusion of this annual general meeting and in respect of whom the company has received a notice from a member proposing his candidature for the office of director, be and is hereby appointed as a director of the company."
8. To consider and if thought fit, to pass with or without modification(s), the following resolution as an Ordinary Resolution:
"RESOLVED THAT pursuant to the provisions of Section 94 (1)(d) and other applicable provisions, if any of the Companies Act, 1956 and pursuant to Article 3(i) of the Articles of Association of the company and such other approvals and consents as may be required from the stock exchanges, the depositories and other statutory authorities, the consent of the company be and is hereby accorded to sub-divide 1,28,25,000 equity shares of Rs. 10 each comprising the fully paid up equity share capital of the company into 6,41,25,000 equity shares of Rs. 2 each fully paid."
"RESOLVED FURTHER THAT the Board of Directors be and is hereby authorised to take such actions as

may be necessary and incidental and to agree to such terms and conditions, if any as may be prescribed by the stock exchanges, the depositories and other statutory authorities and delegate all or any of the powers hereby vested in the Board for the purposes of implementing sub-division of the equity share capital referred above."

9. To consider and if thought fit, to pass with or without modification(s), the following resolution as an Ordinary Resolution:
"RESOLVED THAT pursuant to the provisions of Section 94 and other applicable provisions, if any of the Companies Act, 1956, Clause V of the Memorandum of Association of the company be hereafter replaced by the following Clause V:
V. The authorised share capital of the company shall be Rs. 45,00,00,000 (Rupees Forty Five Crore) divided into 14,00,00,000 (Fourteen Crore) equity shares of Rs. 2 each and 1,70,00,000 (One Crore Seventy Lac) preference shares of Rs. 10 each with power to the company to increase or reduce from time to time its capital and to issue any shares in the equity or preference capital and to attach to any class of such shares any preferences, rights, privileges or priorities in payment of dividends or distribution of assets or other matters or to subject the same to any restrictions, limitations or conditions and to vary the regulations of the company as may be necessary to give effect to the same."
10. To consider and if thought fit, to pass with or without modification(s), the following resolution as a Special Resolution:
"RESOLVED THAT pursuant to the provisions of Section 31 and other applicable provisions, if any of the Companies Act, 1956, the existing Article 3 (i) of the Articles of Association of the company be hereafter replaced by the following Article 3 (i):
i) The Authorised Share Capital of the company is Rs. 45,00,00,000 (Rupees Forty Five Crore) divided into 14,00,00,000 (Fourteen Crore) equity shares of Rs. 2 each and 1,70,00,000 (One Crore Seventy Lac) preference shares of Rs. 10 each with power to increase and/or reduce capital of the company for the time being and to sub-divide the capital into several classes and to attach thereto respectively such preferential, deferred, guaranteed, qualified or special rights, privileges and conditions as may be determined by or in accordance with the Articles of Association of the company and to vary, modify, amalgamate or abrogate any such rights, privileges or conditions in such manner as may for the time being be provided by the Articles of Association of the company.
The Company may, from time to time by passing such resolution as stipulated under the law, increase the Authorised Share Capital by such





sum to be divided into shares of such amount as may be specified in the resolution subject to the provisions of Section 94 of the Companies Act, 1956."

By Order of the Board
Rajiv Shah
Company Secretary

Date: 21 March 2007
Place: Ahmedabad

Notes:

1. A MEMBER ENTITLED TO ATTEND AND VOTE IS ENTITLED TO APPOINT A PROXY TO ATTEND AND VOTE INSTEAD OF HIMSELF ON A POLL AND THAT A PROXY NEED NOT BE A MEMBER.
2. The relevant Explanatory Statement pursuant to Section 173 (2) of the Companies Act, 1956 is annexed hereto and forms part of this Notice.
3. Members/proxies should bring the attendance slip duly filled in for attending the meeting.
4. Members desirous of getting any information about the accounts and operations of the company are requested to address their queries to the Company Secretary at the registered office so as to reach him at least seven days before the date of the meeting to enable the management to keep the required information readily available at the meeting.
5. **Mr. D. Rajagopalan, IAS has submitted his resignation from the Board of Directors of the Company effective from 16 March 2007. Hence, a resolution regarding his appointment as a Director is not proposed for approval of the shareholders.**

ANNEXURE TO NOTICE

EXPLANATORY STATEMENT PURSUANT TO SECTION 173(2) OF THE COMPANIES ACT, 1956

ITEM NO. 4

Mr. Jal Patel, Director retires by rotation and being eligible offers himself for re-appointment.

Brief resume and nature of expertise

Mr. Jal Patel is an Associate Member of the Institute of Chartered Accountants of India and an Associate Member of the Institute of Company Secretaries of India. He possesses professional experience of more than 44 years.

Since 1962, he was associated with the German FAG group of Bearing companies and has handled various managerial functions. In 1977, he took over as the Managing Director. Subsequently, he was promoted as the Vice Chairman and Managing Director before retiring in 2000. His areas of expertise include Finance, Accounts and Administration.

He is also actively involved with various social and welfare associations and federations as well as various trusts.

Mr. Jal Patel does not hold any shares or beneficial interest in any shares of your company. He is on the Board of your company from March 2001. He is also the Chairman of the Audit Committee and a member of the Shareholders' Grievances Committee of your Company from April 2001.

Apart from Gujarat Gas Company Limited, Mr. Patel holds directorship and membership of the following companies / committees.

Directorship

Sr. No.	Name of the Company	Designation
1	ABC Bearings Limited	Director
2	Coronet Products Private Limited	Director
3	Lanxess ABS Limited	Director
4	Mipco Seamless Rings (Gujarat) Limited	Director
5	Shri Dinesh Mills Limited	Director

Membership of Committees

Sr. No.	Name of the Company	Committee	Designation
1	ABC Bearings Limited	Audit Committee	Chairman
2	Lanxess ABS Limited	Audit Committee	Member
3	Mipco Seamless Rings (Gujarat) Limited	Audit Committee	Member
4	Shri Dinesh Mills Limited	Shareholders' Grievances Committee	Member

Your directors recommend re-appointment of Mr. Jal Patel as a director.

No director other than Mr. Jal Patel is in any way interested or concerned in the said resolution.

ITEM NO. 5

Mr. Ajit Kapadia, Director retires by rotation and being eligible offers himself for re-appointment.

Brief resume and nature of expertise

Mr. Ajit Kapadia, after completing B.Sc. (Hons.) from Bombay University in 1960, proceeded to the U.S.A. and joined the University of Louisville, KY and completed M. Che. (Chemical Engineering) in 1963. Immediately, he joined Girdler Corporation in Louisville as a Process Engineer. During the four year tenure at Girdler, Mr. Kapadia was involved in design of fertilizer plants (Ammonia, Urea, etc.) and Methanol. In 1966, as a part of the Girdler technical team, Mr. Kapadia spent nine months assisting Fertilizer Corporation of India in commissioning their first methanol plant. In 1966, he joined Fluor Corporation in Houston, Texas. At Fluor, Mr. Kapadia got the first exposure to hydrocarbon processing and especially natural gas processing. Having been offered the position of Supervising Engineer with Engineers India Limited (EIL) to participate





in process design of the naphtha cracker plant for Indian Petrochemicals Corporation Limited, he returned to India in 1971.

With EIL, Mr. Kapadia had full involvement with Bombay High's development plan and especially with natural gas processing and transportation. In 1982, he was appointed as the Head of the Gas Task Force, a group formed by the Petroleum Ministry to review the entire country's natural gas availability and utilization pattern. In 1984, Mr. Kapadia was appointed as the first Director (Planning) with Gas Authority of India Limited (GAIL). After three years at GAIL, he joined Hindustan Oil Exploration Company Limited (HOEC) as the first employee and was soon invited to join the Board as the Managing Director. He has spent seventeen years establishing HOEC as the first private sector oil company in India.

Mr. Ajit Kapadia does not hold any shares or beneficial interest in any shares of your company. He is on the Board of your company from July 2003. Apart from Gujarat Gas Company Limited, Mr. Kapadia holds directorship and membership of the following companies /committees:

Directorship

Sr. No.	Name of the Company	Designation
1	Paramount Limited	Director
2	Rubamin Limited	Director
3	Spectra Dynamics Limited	Director

Membership of Committee

Sr. No.	Name of the Company	Committee	Designation
1	Rubamin Limited	Audit Committee	Chairman

Your directors recommend re-appointment of Mr. Ajit Kapadia as a director.

No director other than Mr. Ajit Kapadia is in any way interested or concerned in the said resolution.

ITEM NO. 7

Mr. Kapil Garg was appointed as an additional director by the Board of Directors in its Meeting held on 14 December 2006. As per the provisions of Section 260 of the Companies Act, 1956, he holds office of director till the conclusion of this annual general meeting. A notice under Section 257 of the Companies Act, 1956 alongwith the requisite deposit has been received from a shareholder signifying his intention to propose the candidature of Mr. Garg for appointment as a director of the company.

Brief resume and nature of expertise

Mr. Kapil Garg holds a Masters degree in Chemical Engineering from the Indian Institute of Technology, Roorkee. He has a wide experience of Well Engineering, Production and Project Management.

Mr. Garg began his career with Oil and Natural Gas Corporation Limited (ONGC) and has held various positions in the area of operations. In 1995, he joined Enron Oil and Gas India Limited (EOGIL) and led the field operations team which took charge of operations of the Panna, Mukta and Tapti fields from ONGC. He was appointed as the Operations Manager and then was promoted as the General Manager, Operations. When BG Group acquired EOGIL in 2002, Mr. Garg was promoted as the Director, Operations and Development.

Following a seven month secondment to BG Group's headquarters in UK where he worked as the Technical Director for the Asia and Middle East Region, Mr. Garg was appointed as the Managing Director of BG Exploration and Production India Limited from 1 January 2005. As the Managing Director of BG Exploration and Production India Limited, Mr. Garg is responsible for leading the management and development of BG Group's 30 percent interest in the Panna/Mukta oil and gas fields and the Tapti gas field. He is also spearheading BG Group's upstream business development opportunities in India.

Mr. Kapil Garg does not hold any shares or beneficial interest in any shares of your company. Apart from Gujarat Gas Company Limited, Mr. Garg is the Managing Director of BG Exploration and Production India Limited. He is not a member of any committee of any company.

Your directors recommend appointment of Mr. Kapil Garg as a director.

The following promoter-directors of the company are deemed to be interested:

- a) Mr. Has Mukh Shah
- b) Mr. William Adamson
- c) Mr. B. S. Shantharaju
- d) Mr. Kapil Garg

ITEM 8, 9 AND 10

The present authorised equity share capital of the company is Rs. 28,00,00,000 divided into 2,80,00,000 equity shares of Rs. 10 each. The paid up equity share capital is Rs. 12,82,50,000 divided into 1,28,25,000 equity shares of Rs. 10 each.

During the last three years, the price of equity shares of your company has increased nearly three times. While shareholders would like to take advantage of the growth, the high price per equity share and low trading volumes sometimes make it difficult for the shares to be traded freely. It is felt that a reduction in the nominal value of equity shares will improve the liquidity of the shares and enable a larger number of shareholders and other investors to trade in the equity shares of your company.

Hence, it is proposed to sub-divide the equity shares of your company from the present denomination of Rs. 10 per equity share to Rs. 2 per equity share. With the





proposed sub-division of equity shares, the equity share capital shall be as stated below:

Authorised equity share capital

Number of shares	14,00,00,000
Face value per share	Rs.2
Total Rs.	28,00,00,000

Paid up equity share capital

Number of shares	6,41,25,000
Face value per share	Rs.2
Total Rs.	12,82,50,000

The record date for sub-division of equity shares shall be decided after obtaining shareholders' approval at the ensuing annual general meeting and would be communicated to the shareholders and the stock exchanges.

The sub-division of equity shares would also require amendment of the share capital clause of the Memorandum and Articles of Association of the company.

A copy of the Memorandum and Articles of Association incorporating the proposed amendments is available for inspection at the registered office of the company on all working days upto the date of Annual General Meeting.

Your directors recommend the resolutions for approval of the shareholders. None of the directors is in any way interested or concerned in the resolutions.

By Order of the Board
Rajiv Shah
Company Secretary

Date: 21 March 2007
Place: Ahmedabad





DIRECTORS' REPORT

DEAR SHAREHOLDERS,

Your directors have pleasure in presenting the 27th Annual Report and the audited accounts for the year ended on 31 December 2006.

1. FINANCIAL RESULTS

(Rs. in crores)

Particulars	Consolidated Financials		Stand-alone Financials	
	Current Year	Previous Year	Current Year	Previous Year
Total income	984.62	775.19	844.72	634.36
Gross profit before interest, depreciation and tax	165.36	175.83	161.02	155.24
Less: Interest	2.20	2.92	3.02	2.91
Depreciation	31.87	27.37	29.60	21.80
Profit before tax	131.29	145.54	128.40	130.53
Tax expenses	43.13	46.74	39.50	40.14
Net Profit	88.16	98.80	88.90	90.39
Minority Interest	0.64	0.67	-	-
Profit attributable to Group	87.52	98.13	-	-
Add: Undistributed profit of earlier years	222.73	150.59	196.07	129.73
Add: Share of loss of joint venture brought forward	(1.31)	(1.02)	-	-
Balance available for Appropriation	308.94	247.70	284.97	220.12
Less: Appropriations:				
Transfer to general reserve	9.53	10.10	8.89	9.30
Special reserve as stipulated by RBI	0.42	0.44	-	-
Share of loss of joint venture carried forward	(1.31)	(1.31)	-	-
Proposed preference dividend	0.68	-	0.68	-
Proposed equity dividend	16.03	12.83	16.03	12.83
Corporate dividend tax	3.14	2.91	2.34	1.92
Surplus retained	280.45	222.73	257.03	196.07
Earning per Share (Rs.)	67.64	76.51	68.71	70.48

2. DIVIDEND

Your directors recommend for consideration of the shareholders at the Annual General Meeting, payment of 125% dividend i.e. Rs.12.50 per equity share of Rs.10 each and 7.50% dividend on pro-rata basis i.e. Rs.0.47 per Redeemable Cumulative Non-convertible Preference Share of Rs.10 each, involving total payout of Rs.19.05 crores, including corporate dividend tax of Rs. 2.34 crores.

3. MANAGEMENT ANALYSIS

3.1 Industry Structure

The oil and gas industry can broadly be categorised under three heads – Upstream, Midstream and Downstream. The upstream sector in the gas business consists of the exploration and production business, the midstream consists of the transportation business and the downstream business relates to supply of gas to the end consumer such as city gas distribution.

Your company operates primarily in the downstream segment and distributes close to 4 million standard

cubic meters of gas per day (mmscmd) to the industrial, commercial, domestic and Compressed Natural Gas (CNG) customers in South Gujarat. This makes it the largest city gas distribution company in India.

Initially, gas in India was sold under the Administered Price Mechanism but with the liberalisation in early 90's, the Government allowed gas producers to sell gas from new gas fields at the market determined price under the New Exploration and Licensing Policy (NELP). Your company today buys more than 95% of the gas at market price from such new fields.

Another unique feature of Gujarat Gas business model is that your company buys gas from multiple sources thus providing supply security to the customers. The suppliers include the Panna, Mukta and Tapti consortium where BG is a partner, Cairn Energy, Gujarat State Petroleum Corporation Limited, NIKO Resources and Gas Authority of India Limited.





3.2 Developments

During the year, the Petroleum and Natural Gas Regulatory Board Act, 2006 ("the Act") has been enacted. The Act provides for setting up of a Regulatory Board for regulating refining, processing, storage, transportation, distribution, marketing and sale of petroleum products and natural gas. The Ministry of Petroleum has issued the Pipeline Policy providing the direction for the development of the sector.

The Act provides for authorisation of entities for laying, building, operating or expanding common carrier or contract carrier or city or local natural gas network infrastructure. It has put in place broad principles for accessing pipelines by various players, determination of transportation rate, Affiliate Code of Conduct for entities involved in transportation and marketing activities. GGCL during the year has studied the implications of the regulations and has put forth systems to face the regulatory challenges.

Another major development over the last year has been the firming up of the gas price in India. Over the last few years, the gas price in India was stable due to the increased availability of natural gas from indigenous and imported sources. However, over the next one to two years, no major new gas sources are seen to be available in Gujarat. This and the continued high international crude oil price has increased the cost of gas for new contracts.

During the year under review, the Government of Gujarat implemented the Value Added Tax or VAT regime. Whereas VAT will ensure that most of the eligible customers will be able to get credit for the tax paid on gas purchased by them, still consumers using gas for producing their own power are not getting the input credit.

3.3 Opportunities and Challenges

The above developments, coupled with the following factors, have opened up new opportunities and challenges for your company.

The Government of Gujarat has pronounced its intention to make Gujarat a gas based economy. This offers immense opportunity for gas based companies like your company and the company is investing in infrastructure to seize this opportunity.

Gujarat, with its large industrial base and significant reserves of natural gas has developed a vibrant natural gas industry. Establishment of a gas transmission network on a common carrier principle has ensured easier access to gas and a move towards a gas based economy. This, together with the increased awareness about the advantages of natural gas, has resulted in higher demand for gas. Given this scenario, securing competitively priced gas would be a challenge.

While all these measures will bring in new opportunities, they will also bring in gas on gas

competition for a segment of customers using large volumes of gas. Your company is geared to ensure competitively priced gas and a high level of customer service to ensure growth of the business.

3.4 Operations and Market Performance

Your company has been focusing on growing the business, especially in the retail segment.

In order to grow the business, availability of gas is crucial given the current industry scenario. It is my pleasure to inform you that your company entered into two contracts to procure additional gas from the Panna, Mukta and Tapti consortium. The first contract for a volume of 16.5 lac standard cubic meters per day (scmd) would ensure gas availability from the third quarter of 2007 and the second contract for another 7 lac scmd with immediate effect. It is indeed my pleasure to share with you that on the back of these two contracts with the Panna, Mukta and Tapti Consortium, the total volume of gas sold has now crossed 4 mmscmd. This is indeed a commendable growth considering that till the end of 2002, your company was selling only around 1 mmscmd of gas.

It is also my pleasure to inform you that during the year under review, your company sold more than 100 crore (or 1 billion) cubic meters of gas. This is the first time that any city gas distribution company in India has crossed the milestone of selling 1 billion cubic meters of gas in a year.

In order to sustain this growth momentum, your company has been investing in network expansion, network upgradation and in CNG infrastructure. During 2005, your company invested more than Rs. 160 crores and followed it up with an investment of more than Rs. 135 crores in 2006. During 2006, your company also invested in acquisition of the cogeneration business.

These investments have not only been in expanding the network but also in upgradation. This included building redundancy in the pipeline network and ensuring increased supply security for the customers.

The year under review saw the worst ever floods in the city of Surat, the main operation area of your company. More than 90% of the city was at a complete standstill and the main office and gas receiving station of your company in Surat was inundated under more than 12 feet of water. In spite of such adverse circumstances, your company continued gas supply throughout the period. The investments made by your company, in building business continuity systems in the pipeline network, to increase the supply security made this possible. Last year, your company had invested in alternative gas receiving stations and when the main receiving station was submerged under the flood water, the alternative gas receiving station continued to supply gas to Surat city. Similarly, the main control





room for Surat, located at Mora was also cut off and the control room at Ankleshwar, through Satellite communication ensured uninterrupted and safe supply of gas to Surat city.

This would not have been possible without the support of suppliers of gas like Cairn Energy, Gujarat State Petroleum Corporation Limited and NIKO Resources. I would like to express my thanks to the gas suppliers and the Government of Gujarat for helping us to ensure continuous gas supply to the citizens of Surat during the period of flood.

However, the sales of the company was affected by lower off-take by certain customers during the floods. This, together with the fact that the company had to source expensive gas during the period, impacted the profits of the company by Rs. 4 crores pre-tax.

During the year under review, another significant development was the acquisition of the cogeneration business. Cogeneration is the generation of electricity with simultaneous recovery of heat normally rejected from the exhaust gases and jacket water to increase the overall efficiency of the power plant. During the year under review, your company acquired the business of leasing gas based cogeneration equipment from BG India Energy Services Private Limited at a cost of Rs.10.97 crores. The installed base of the business is as per plan and reached 14.69 MW.

You may be pleased to know that the third largest fleet of CNG vehicles in India are run in the areas serviced by your company. The CNG business continues to perform well with more than 45,000 vehicles now running on this clean and green fuel. Your company has established 8 CNG stations and upgraded 1 CNG station during the year under review taking the total number of CNG stations to 20. The investment in building CNG infrastructure will continue in the current year.

With these positive developments, the consolidated income increased from Rs. 775.19 crores to Rs. 984.62 crores, an increase of approximately 27%. The volume of gas sold increased from 813 mmscm to 1089 mmscm, an increase of approximately 34%. The profit before depreciation, interest and tax has reduced by approximately 6% from Rs. 175.83 crores to Rs. 165.36 crores. In the previous year, there was an extraordinary pre-tax income of Rs. 12.71 crores on account of settlement of a dispute with one of the gas suppliers and a gain of Rs. 5.60 crores due to lower deferred tax liability on account of change in the tax regime. The transmission revenue has reduced from Rs.28.60 crores to Rs. 11.40 crores, a decrease of 60%. The profit after tax has reduced from Rs. 98.80 crores to Rs. 88.16 crores, a reduction of approximately 11% over the previous year.

3.5 Future Outlook

The state of Gujarat, with its pro-active government policies and other favorable factors has always been at the forefront of industrialisation. A large number of new industrial houses are currently considering fresh investments in Gujarat. This will also ensure sustained growth in the demand for gas.

Your company expects to commence gas supply in Vapi G.I.D.C. during the first half of 2007. Work on laying the pipeline network is almost complete and the gas receiving station is under construction.

Jhagadia, a large industrial area around 25 kilometres from Ankleshwar, is another location which your company has identified and has already commenced investments. Your company has laid a pipeline connecting Ankleshwar to Jhagadia primarily to supply gas to a major customer in Jhagadia. The company took active steps to expand this network and started attracting good industries to this industrial estate. As a result the volumes are growing and with more industries expected to invest in the area, your company is investing to develop pipeline network.

After the successful reinforcement of Surat LDZ, your company has now undertaken reinforcement of Ankleshwar LDZ to further consolidate its impressive sales growth in the area. The investment would result in increased network capacity in Ankleshwar GIDC, Panoli and Valia areas. The phase-wise reinforcement project would include reinforcing the pipeline network in the area and installation of new City Gas Station at Valia.

With all the measures outlined above, your company is confident of being able to grow the business over the next 1-2 years.

3.6 Risk Management and Internal Control System

GGCL has a well-defined risk management system. All risks are identified at department level and are collated in the risk register for review and discussion by the Executive Management. On the basis of discussion and review, risk ratings and mitigation plans are finalised and documented in the Risk Register. For each key risk, responsibility is assigned to the concerned manager. Risk Register containing key risks, mitigation plan and responsibility assigned for the risks is presented to the Audit Committee for review and discussion.

There are adequate internal systems, controls and checks in place commensurate with the size of the company and nature of its business. Financial controls are exercised through a well-defined budget monitoring process, other standard operating processes and through a detailed authorisation matrix. In addition to the internal audit programme being conducted in house, process reviews of key business activities were





carried out by the BG Group Audit team during the year, leading to enhanced assurance. Various initiatives were also implemented during the year for ensuring and upgrading integrity of pipeline network.

GGCL has implemented Value Assurance Framework (VAF) for all major projects resulting in rigorous scrutiny of all aspects of the project life cycle right from feasibility to commissioning of the projects. All the projects of cogeneration business are subjected to VAF process. Similarly, all CNG stations commissioned in the second half of 2006 and all major gas purchase and sales contracts entered into during 2006 were scrutinised through VAF. Also, operational effectiveness of various internal controls was tested to facilitate certification by CEO and CFO in compliance with Clause 49 of the Listing Agreement. GGCL also carried out self-assessment of its governance processes and has formalised action plans for improvement areas.

3.7 Health, Safety, Security and Environment

Outstanding business performance requires outstanding Health, Safety, Security and Environment (HSSE) performance. At GGCL, HSSE is everyone's responsibility and each employee has a duty to intervene to prevent unsafe actions and to reinforce good behavior. GGCL has a formal HSSE policy and systems in place. Sound HSSE management system is an integral part of the design, project, operation and maintenance aspects and reflects the best industry practices. Employees and key employees of contractors in GGCL are trained in technical skills and competency.

With strong leadership and commitment, GGCL seeks to deliver continual improvement by setting measurable HSSE goals with leading performance indicators regularly reviewed and monitored by the senior management team. This framework provides and facilitates a broad set of expectations to help line managers focus on critical HSSE needs, forecast and allocate resources, set direction for HSSE activities and consistently deliver improved HSSE performance.

As a part of its annual plan, GGCL carried out the following activities and initiatives:

- During the year, Hazard and Operability Study and Quantitative Risk assessment was carried out for new and modified gas installations and CNG stations.
- GGCL was awarded two Greentech Silver Awards during the year for safety performance and environment performance.
- Behaviour Based Safety (BBS) process was kicked off at Vapi location to cover the entire organization.

- On the journey of HSSE culture, employees and contractors' employees are encouraged and motivated towards importance of Nearmiss and Hazard reporting. A total of 3,118 'Hazard' reports and 1,485 'Near Miss' reports were received in the year 2006. Actions were taken on most of these reports.
- GGCL management systems – Occupational Health and Safety Management System and Environmental Management System were recertified with reference to international standards OHSAS 18001 and EMS 14001 by independent certification body, M/s DNV. This results in independent checks and ensures that GGCL continues to meet the requirements of international standards continuously.
- Similarly, "Pandemic plan" was developed which complements the Business Continuity Plan.
- Various need based training programmes were imparted to the external stakeholders. This included defensive driving training for Gujarat State Road Transport Corporation, fire fighting training to the employees of another company, etc.
- HSSE training was imparted to the contract employees.

Contribution to Society

During the year 2006, GGCL undertook a number of community development projects with the objective of contributing to the society:

- GGCL assisted communities of Surat city during the flood period in various ways like distribution of flood relief supplies, organising medical check-up camps, etc.
- A programme was conducted with the help of Automotive Research Association of India, Pune to educate Road Transport officers of the Government of Gujarat, officials of Gujarat State Road Transport Corporation, Transport Division of the Ahmedabad Municipal Corporation and CNG kit fitters to improve their knowledge about alternative vehicular fuels.
- "Science is fun" week was organised in partnership with BG India and Vikram A. Sarabhai Community Science Centre at Ahmedabad and Surat for promoting interest in study of pure science among school children.

Contribution to Environment

Operation of natural gas network and its associated installations, like other modern industrial processes, generates some amount of waste that needs to be minimised and disposed off appropriately. Recognising this obligation, GGCL carries out its operations in a safe and controlled manner.





Besides this, GGCL has also undertaken or contributed indirectly on various initiatives during the year. This includes:

1. Reduction in vehicular pollution in Surat city by establishing CNG stations. During the year, eight new CNG stations were established and one CNG station was upgraded.
2. Reduced waste generation and improved waste management by developing and implementing environment plan with focus on the areas of improvement like "Total Waste Accounting".
3. GGCL carried out detailed emission source identification at the beginning of the year by calculating the fugitive emission sources based on existing network data and used this input to set Green House Gas emission target for the year, and achieved the target successfully.
4. GGCL planted 1800 plants and engaged its contractors to plant trees across the route of Vadoli-Kim-Karanj pipeline project. GGCL also carried out plantation activities in coordination with the District Forest Office at Palsana.
5. GGCL organised a CNG Rally to promote the use of CNG for cleaner environment.

4. SUBSIDIARIES

4.1 Gujaratgas Trading Company Limited (GTCL)

GTCL, a wholly-owned subsidiary of GGCL, is engaged in the business of selling natural gas to select customers in the State of Gujarat. During the year, GTCL earned a total income of Rs. 394.32 crores compared to Rs. 303.46 crores in the previous year. This increase is on account of increase in the sales volumes. However, on account of higher gas purchase costs and one time pre-tax income of Rs. 7.02 crores in the previous year on account of settlement of dispute with one of the gas suppliers, profit after tax has decreased during the year under review to Rs. 5.27 crores from Rs. 7.86 crores in the previous year.

The accounts of GTCL are a part of this annual report.

4.2 Gujarat Gas Financial Services Limited (GFSL)

GFSL, another subsidiary of GGCL, is providing financial services to GGCL customers. During the year under review, the total income was Rs.6 crores as compared to Rs.7.10 crores in the year 2005. The change in the method of accounting brought in by the Accounting Standard 19, impacts the quantum of lease income accounted for as revenue. This is the main reason for the total income being lower in the year 2006 as compared to the previous year. The connections undertaken have increased

from 20,238 in the year 2005 to 20,697 during the year under review. The profit after tax was Rs.2.13 crores.

The accounts of GFSL are a part of this annual report.

5. FINANCE

Your company continued to have a healthy cash flow. Your company has also made adequate provisions for all contingencies, bad debts and diminution in value of investments. During the year under review, GGCL has not invited any fixed deposits within the meaning of Section 58A of the Companies Act, 1956.

During the year under review, your company acquired the cogeneration business of BG India Energy Services Private Limited. The business involves entering into lease transactions with the customers utilising cogeneration units. Undertaking of leasing activities for Cogeneration business qualifies as a non-banking financing activity under the Foreign Exchange Management (Transfer or Issue of Security by a Person Resident outside India) Regulations (the "Regulations") requiring compliance with the capitalisation requirements specified thereunder. Your company has issued 7.5% Redeemable Cumulative Non-convertible Preference Shares of Rs. 14.40 Crores to its holding company, BG Asia Pacific Holdings Pte. Limited, Singapore in compliance with the capitalisation requirements specified under the Regulations.

Your company proposes to sub-divide its equity shares from the present nominal value of Rs.10 per equity share to Rs.2 per equity share.

6. STATUTORY INFORMATION

As required under Section 212 of the Companies Act, 1956, the audited accounts for the year ended on 31 December 2006 and Auditors' Report thereon along with the Directors' Reports of Gujaratgas Trading Company Limited and Gujarat Gas Financial Services Limited, subsidiaries of GGCL, are attached to GGCL's balance sheet.

GGCL does not have any employee stock option plan. Similarly, GGCL has not passed any resolution for buy-back of shares.

6.1 Energy, Technology and Foreign Exchange

Since the company is not a scheduled industry, the details in respect of Form A pursuant to Rule 2 of the Companies (Disclosure of Particulars in the Report of Board of Directors) Rules, 1988 are not required to be furnished. However, the details in respect of Form B pursuant to Rule 2 are submitted as Annexure-1 and forms part of this report.





6.2 Human Relations and Particulars of Employees

Enhancing the capacity of its human resources continued to receive focus and the manpower as on 31 December 2006 was 542. This was supplemented by a comprehensive induction programme into the natural gas business. Learning continued to receive thrust and various national and international training initiatives have been facilitated. The participation of GGCL employees and their families in the celebration of various achievements as well as get-togethers like the family meet have helped weave the GGCL culture into a vibrant one. To utilize business opportunities successfully, the company has carefully invested in developing the capacity, capability and culture of its manpower.

Particulars of employees in receipt of remuneration exceeding the limits prescribed under the provisions of Section 217 (2A) of the Companies Act, 1956 read with the Companies (Particulars of Employees) Rules, 1975 as amended are given at Annexure-2. The company did not experience any strike or lock-outs during the year.

6.3 Directors' Responsibility Statement

Your directors hereby state

- i. that in the preparation of the annual accounts, the applicable accounting standards have been followed along with proper explanation relating to material departures;
- ii. that the directors have selected such accounting policies and applied them consistently and made judgements and estimates that are reasonable and prudent so as to give a true and fair view of the state of affairs of the company as on 31 December 2006 and of the profit of the company for the year ended on that date;
- iii. that 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;
- iv. that the directors have prepared the annual accounts on a going concern basis.

6.4 Report on Corporate Governance

As stipulated by Clause 49 of the Listing Agreement, the Report on Corporate Governance is given separately in this Annual Report and forms part of this Report. The certificate of Price Waterhouse, Statutory Auditors of the company regarding compliance with the Corporate Governance Code is enclosed therewith.

7. AUDITORS AND AUDITORS' REPORT

Price Waterhouse, Statutory Auditors of the company, retire at the ensuing Annual General Meeting and are eligible for re-appointment.

The notes to the accounts referred to in the Auditors' Report are self-explanatory and, therefore, do not call for any further comments.

8. DIRECTORS

Mr. Antony Seigel and Mr. Hasmukh Adhia, IAS resigned during the year under review. The Board of Directors places on record its sincere appreciation for the valuable services rendered by them during their tenure.

Mr. Kapil Garg and Mr. D. Rajagopalan, IAS have been appointed as additional directors since the last Annual General Meeting and hold office till the conclusion of the forthcoming Annual General Meeting. Your company has received a notice under Section 257 of the Companies Act, 1956 proposing their candidature as directors.

Mr. Jal Patel and Mr. Ajit Kapadia retire by rotation at the ensuing Annual General Meeting. Being eligible, they have offered themselves for re-appointment.

For perusal of the shareholders, a brief resume of each of the directors being appointed or re-appointed, nature of their expertise, their shareholding in the company, the names of the companies in which they hold directorship and the details of membership of the committees of the Board are given in the explanatory statement to the Notice. The Board of Directors recommends their appointment/re-appointment.

9. APPRECIATION

Your directors appreciate the continued support received from the customers. Your directors place on record their appreciation to the employees for their dedicated performance.

Your directors wish to acknowledge the support and assistance received from Cairn Energy led consortium, GAIL, ONGC, GSPCL, NIKO, Panna, Mukta and Tapti consortium, the Central and the State Governments, suppliers, CNG franchisees and the financial institutions namely HDFC Bank, ICICI Bank, State Bank of India, and Standard Chartered Bank.

Your directors express their gratitude to its promoter viz. BG Group for their valuable contribution throughout the year. Directors also thank all the shareholders for their continuing support to the company.

For and on behalf of the Board

HASMUKH SHAH
CHAIRMAN

Date : 23 February 2007
Place : Ahmedabad





ANNEXURE – 1

COMPANIES (DISCLOSURE OF PARTICULARS IN THE REPORT OF BOARD OF DIRECTORS) RULES, 1988 FORM - B

Sr. No.	Particulars	Action taken	
1	Research and Development (R&D)		
A	Specific areas in which R&D carried out by the company	<ul style="list-style-type: none"> • Performance testing and product improvement of pressure regulators • Quantifiable risk assessment of societal risk of high pressure pipelines • Analysis of asset integrity and performance • Use of Adsorbed Natural Gas (ANG) in road transport vehicles • Safe working on the live gas network • Developments in combined heat and power technology • PE Pipe locating devices (RFID) • Metallurgy of pipes • Domestic air conditioning 	
B	Benefits derived as a result of the above R&D	<ul style="list-style-type: none"> • Enhanced capacity and improved performance of the network and increase in safety of the network • Possibilities for developing new business opportunities 	
C	Future plan of action	<ul style="list-style-type: none"> • ANG applications • RFID Technology • Domestic air conditioning units • New applications for the use of gas in the Textile industry • Storage vessels for adsorbed natural gas usage in road transport vehicles • Gas network modeling • Metering and demand estimation • Reliability centered maintenance • Domestic water heating applications 	
D	Expenditure on R&D		
	a. Capital	Nil	
	b. Recurring	Nil	
	c. Total	Nil	
	d. Total R&D expenditure as a percentage of total turnover	Nil	
2	Technology absorption, adaptation and innovation		
A	Efforts in brief, made towards technology absorption, adaptation and innovation	<ul style="list-style-type: none"> • Gas supply network performance monitoring • Advanced metering technology • Geographical information systems • CNG dispensing arrangements • Fiber optic cables for data transmission 	
B	Benefits derived as a result of the above efforts	<ul style="list-style-type: none"> • Continuity in the supply of gas and increased safety of the network • Safer working practices for our employees • Environmental benefits • Reduction in construction costs 	
C	In case of imported technology (imported during the last 5 years reckoned from the beginning of the financial year), following information may be furnished:		
	a. Technology imported	Not applicable	
	b. Year of import	Not applicable	
	c. Has technology been fully absorbed?	Not applicable	
	d. If not fully absorbed, areas where this has not taken place, reasons therefor and future plans of action	Not applicable	
3	Foreign Exchange Earnings & Outgo		
		Current Year (Rs. in thousands)	Previous Year (Rs. in thousands)
	Total Foreign Exchange earned	Nil	Nil
	Total Foreign Exchange outgo	269,214	212,243

For and on behalf of the Board
HASMUKH SHAH
CHAIRMAN

Date : 23 February 2007
Place : Ahmedabad





ANNEXURE - 2

Statement of Particulars of Employees' pursuant to the provisions of Section 217 (2A) of the Companies Act, 1956 and forming part of the Directors' Report for the year ended on 31 December 2006

Names of employees employed throughout the year and were in receipt of remuneration of not less than Rs.24,00,000 per annum or employed for a part of the year and were in receipt of remuneration of not less than Rs. 2,00,000 per month

Name and (Age)	Designation/ Nature of duties	Remuneration Rupees	Qualification & Experience (Years)	Date of Commencement of Employment	Last Employment held
Employed for part of the year					
Mr. Allan Perrin (56)	Director-Technical (Operation & HSSE)	4,949,579	Degree in Gas Engineering, Distribution & Transmission, Chartered Engineer (38)	08/01/2003	Com Gas, Brazil - Operations Manager
Mr. Joe McGowan (35)	Director-Technical (Operation & HSSE)	14,312,183	Chartered Engineer, Member of the Institution of Mechanical Engineers, Associate Member of the Association of Certified Chartered Accountants, UK, Diploma in Financial Management and Accountancy (13)	17/04/2006	Asset Manager, Republic of Ireland Gas Company (BGE), North Ireland
Sugata Sircar (43)	Finance Controller	1,407,119	F.C.A. (20)	10/07/2006	Country Financial Controller, Cabot India Limited
Raahil Burhaani (38)	Chief Information Officer	1,487,371	B.E.(Electronics) (15)	01/06/2006	GM-ISIT, Tata Teleservices Limited
Pandurang R. Shingte (41)	General Manager-HSSE	465,804	B.E. (Chemical), Diploma in Ind. Safety (19)	01/11/2006	HSSE Advisor, Bharat Shell Limited
Employed throughout the year					
Rahul Bhatia (38)	General Manager-Commercial	2,444,544	B.E.(Instrumentation) MBA (13)	22/04/2004	Business Manager-Elec., Schlumberger-RMS

Notes:

1. The Board of Directors has approved appointment of Mr. Joe McGowan for a period of two years commencing from 17th April 2006. Mr. Allen Perrin was in contractual employment of the company upto 30th April 2006. Other employees are in regular employment of the company.
2. The employees do not hold any shares in the company.
3. The employees are not related to any director of the company.

For and on behalf of the Board

HASMUKH SHAH
CHAIRMAN

Date : 23 February 2007
Place : Ahmedabad





**Auditors' Certificate
regarding compliance of conditions of Corporate Governance
under Clause 49 of the listing agreement**

To the members of Gujarat Gas Company Limited

We have examined the compliance of conditions of Corporate Governance by Gujarat Gas Company Limited, for the year ended December 31, 2006, as stipulated in Clause 49 of the Listing Agreement(s) of the said Company with stock exchange(s) in India.

The compliance of conditions of Corporate Governance is the responsibility of the Company's management. Our examination was carried out in accordance with the Guidance Note on Certification of Corporate Governance (as stipulated in Clause 49 of the Listing Agreement), issued by the Institute of Chartered Accountants of India and was limited to procedures and implementation thereof, adopted by the Company for ensuring the compliance of the conditions of Corporate Governance. It is neither an audit nor an expression of opinion on the financial statements of the Company.

In our opinion and to the best of our information and according to the explanations given to us, we certify that the Company has complied with the conditions of Corporate Governance as stipulated in the above mentioned Listing Agreement(s).

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

Anupam Dhawan

Partner

Membership Number: F-84451

For and on behalf of

Price Waterhouse

Chartered Accountants

Place: Gurgaon

Date : 23 February 2007





A REPORT ON CORPORATE GOVERNANCE

Corporate governance is globally recognized as a fundamental component for the robust operation of every corporate. It has evolved into a set of guidelines, designed to ensure a firm commitment to values and ethical conduct by corporates.

Adaptation to changing times is the key to corporate growth and long term survival. Continuous improvement is necessary in corporate governance as well. In fact, corporate governance enables companies to introduce better internal controls suitable to the changing nature of business operations, improve performance and also provides an opportunity to increase public understanding of the key activities and policies of the organisation.

Indian corporates have seized this opportunity by adopting better governance practices and demonstrating openness in their dealings with stakeholders across the board. This has been augmented by regulatory authorities introducing and improving governance practices for Indian corporates over the last decade. As a result, India has been recognized as one of the leading nations in terms of corporate governance. The adoption of the best governance practices is also reflected by the record fundflows in the Indian capital markets over the last few years.

1. Company's philosophy on corporate governance

GGCL has always maintained that corporate governance is not about systems and procedures, rules and regulations, but also about running the business in alignment with the corporate values and business principles and furthering the interests of all stakeholders in the best possible manner. The company has defined the vision and the values which drive the business principles.

GGCL, while striving to further its financial interests, follows its business principles and ethics in all its dealings and believes in customer orientation, team work, commitment, growth and trust as its corporate values. It always seeks to promote application of these principles where it operates in conjunction with third parties or with associated companies or in joint ventures.

GGCL aims to deliver customer satisfaction by offering value in terms of price, safety and quality, responding to customers' needs through continuous innovation, developing and maintaining mutually beneficial and long lasting relationship with customers.

The welfare of employees is an integral part of achieving optimal return to the shareholders. GGCL believes that a satisfied customer can only be achieved by satisfied employees. GGCL strives to provide a work environment that will augment personal career development of the employees with competitive terms of employment and progressive human resources and training arrangements.

GGCL strives to make a positive and meaningful contribution to the community activities primarily in its business areas and to behave in a socially responsible manner. GGCL recognizes that the company's sustained commercial success is only possible in the presence of a healthy social environment. Hence, GGCL always seeks to support social and economic development in the communities where GGCL does business.

Health, Safety, Security and Environment (HSSE) performance is a key area in our business and all GGCL employees are accountable for its delivery. GGCL is committed to conduct its operations in line with the best international practices in terms of HSSE management systems. It also seeks to deliver continual improvement by ensuring that lessons are learnt, shared and dissipated effectively. This is reflected in the fact that your company continued to supply gas to the city of Surat during the period it witnessed the worst ever floods.

The Board of Directors recognizes and accepts the fact that many of the company's activities are subject to regulation and seeks to comply with all applicable legal, regulatory and license requirements. GGCL aims to co-operate fully with the government and regulatory bodies and strives to work constructively with them to ensure that such regulation is conducive to the highest standards of environmental performance, safety and operational integrity, and balances the interests of investors and other stakeholders.

2. Board of Directors

GGCL Board comprises of eight directors of which seven are non-executive directors. Of these seven non-executive directors, four are independent directors. GGCL Board thus represents an optimum combination of executive and non-executive directors. Composition of the Board is in conformity with the provisions of the Corporate Governance Code of the Listing Agreement.





Details of composition of the Board, category of the directors as well as their directorship and membership in other companies/committees including those of GGCL, private and foreign companies as on 31 January 2007 are given below:

Names of the Directors	Category	Number of Directorship In Companies	Number of Membership/ Chairmanship In Board Committees	
			Membership	Chairmanship
Mr. Hasmukh Shah, Chairman	Promoter & non-executive directors	9	2	3
Mr. William Adamson		5	1	-
Mr. Antony Seigel (upto 14 December 2006)		1	-	-
Mr. Kapil Garg (from 15 December 2006)		2	-	-
Prof. Pradip Khandwalla	Non-executive and independent directors	4	2	1
Mr. Jal Patel		6	4	2
Mr. Ajit Kapadia		4	-	1
Mr. Hasmukh Adhia, IAS (upto 30 June 2006)		4	1	-
Mr. D. Rajagopalan, IAS (from 31 October 2006)		7	1	-
Mr. B. S. Shantharaju, Managing Director	Promoter and executive director	4	1	2

The above details include membership and chairmanship of the Audit Committees and Shareholders' Grievances Committees. Number of membership / chairmanship of all the directors in the Board committees is in compliance with the Corporate Governance Code.

During the year, nine Board meetings were held on 23 February 2006, 27 March 2006, 24 April 2006, 1 July 2006, 27 July 2006, 18 September 2006, 31 October 2006 and 14 December 2006.

Details of attendance of the directors at the board meetings held during the year 2006 and at the last annual general meeting are given below:

Names of the directors	Number of board meetings held while holding the office	Number of board meetings attended while holding the office	Attendance at the last AGM
Mr. Hasmukh Shah	9	7	Yes
Mr. William Adamson	9	4	No
Mr. Antony Seigel	9	3	Yes
Prof. Pradip Khandwalla	9	8	Yes
Mr. Jal Patel	9	9	Yes
Mr. Ajit Kapadia	9	9	Yes
Mr. Hasmukh Adhia, IAS	3	1	No
Mr. D. Rajagopalan, IAS	3	1	Not holding the office
Mr. B. S. Shantharaju	9	7	Yes

Brief resume of the directors proposed to be appointed or re-appointed are given in the explanatory statement annexed to the Notice convening the annual general meeting. None of the directors holds any shares in the company.

The Board meetings are normally held at the registered office of the company in Ahmedabad. Calendar of the board meetings is approved in advance for each year. The Board meets at least once a quarter with gap





between two meetings not exceeding four months. It has remained the practice of the company to place before the Board, all the matters listed in Annexure 1A to the Clause 49 of the Listing Agreement. The Board agenda papers and other explanatory notes are circulated to the directors in advance. Draft minutes of the meetings of the Board of Directors and its committees are circulated to the directors for their comments before being recorded in the Minute books. Similarly, minutes of the subsidiary companies are circulated to the directors as a part of the Board agenda. The directors also have access to all the information about the company and are free to recommend inclusion of any matter in the agenda for discussion. Senior executives are invited to attend the board meetings and provide clarifications as and when required.

3. Audit Committee

Present members of the Audit Committee are Mr. Jal Patel, Chairman, Prof. Pradip Khandwalla and Mr. William Adamson. All the members of the Committee are non-executive directors with Mr. Patel and Prof. Khandwalla being independent directors. All the members of the Committee are qualified professionals having financial management expertise. Quorum of the Committee is two members, requiring presence of both the independent directors. Mr. Jal Patel, Chairman of the Audit Committee was present at the last annual general meeting of the company.

The terms of reference and powers of the Audit Committee are in compliance with the provisions of the Corporate Governance Code of the Listing Agreement and the Companies Act, 1956. Major terms include overseeing the financial reporting process, review of financial statements, ensuring independence of external auditors, review of internal audit department and ensuring compliance with the regulatory guidelines. The Committee reviews internal audit reports and findings of the statutory auditors. The Committee also reviews the risk register recording the key risks, mitigation plan and responsibility assigned for the risks. The Committee also periodically reviews adequacy and effectiveness of internal control systems. Also, all relevant information and reports are placed before the Audit Committee in compliance with the provisions of the Corporate Governance Code.

The Committee invites senior executives of GGCL as it considers appropriate, to attend the meetings of the Committee. The internal auditor, head of finance and representative of the statutory auditors are permanent invitees at the meetings. The Company Secretary acts as Secretary to the Committee. Minutes of the Audit Committee meetings are circulated and discussed at the Board meetings.

Calendar of the meetings is approved in advance for each year. The Committee met four times during the year under review. The Committee also met to consider annual accounts for the year ended on 31 December 2006.

Details of meetings of Audit Committee and attendance

Sr. No.	Date of Meeting	Number of Members	Attendance
1	23 February 2006	3	3
2	24 April 2006	3	2
3	27 July 2006	3	3
4	31 October 2006	3	3

4. Remuneration of Directors

Mr. B. S. Shantharaju, Managing Director is the only executive director on the Board. The Board determined his remuneration on the basis of achievement of key performance indicators. The details of managerial remuneration paid to him in the year 2006 are given below:

Details of remuneration package of the Managing Director

Elements of remuneration package	Fixed component/Performance linked incentive	Amount Rs.
Basic salary	Fixed	6,585,000
Contribution to provident fund and gratuity fund		1,064,598
Perquisites & Allowances	Value of benefits with upper ceiling	
HRA, medical and other allowances		915,329
Gas, electricity and other expenses		181,631
Expenses on cook, sweeper and servant		117,300
Performance bonus	Performance linked incentive	2,705,563
Total		11,569,421





Other Details

Criteria	Details
Major criteria for performance bonus	<ul style="list-style-type: none"> • Health, Safety, Security and Environment • Profit before tax • Return on average capital employed • Volume throughput • Opex / volume • Investment (Capex)
Service contract	For a period of five years commencing from 1 March 2003
Notice period	Notice not required
Severance fees	Nil
Stock option & pension	Nil

Details of sitting fees paid during the year

Sitting fees are paid to the Chairman and independent directors for attending meetings of the Board of Directors and its committees. An amount of Rs.17,000 per meeting is paid as sitting fees for attending Board meetings and Rs.15,000 per meeting for attending committee meetings. The Managing Director is not paid sitting fees for attending the meetings of the Board of Directors and its committees. Total sitting fees paid during the year 2006 amounted to Rs. 897,000.

Non-executive directors are not paid any other compensation. In view of this, the Board has not felt the need for a separate Remuneration Committee. The Board will review this decision based on future developments.

5. Shareholders' Grievances Committee

GGCL has a Shareholders' Grievances Committee to approve share transfers and for redressal of complaints /requests received from the shareholders. Present members of the Committee are Prof. Pradip Khandwalla, Chairman, Mr. Jal Patel, Mr. B. S. Shantharaju and Mr. D. Rajagopalan, IAS (from 31 October 2006). Mr. Rajiv Shah, Company Secretary is the compliance officer.

The Committee has sub-delegated powers to the Managing Director to approve share transfers upto 10,000 shares per folio. As the shares of the company are under compulsory demat trading for all investors, this delegation is considered adequate. To facilitate smooth redressal of the shareholders' requests and complaints, the Committee has prescribed time limits for redressing various types of shareholders' requests and complaints. Share transfers and related requests are placed for approval of the Managing Director on a weekly basis. Details of the share transfer requests approved by the Managing Director are placed to the Shareholders' Grievances Committee.

The company received 48 complaints during the year 2006. All the complaints were solved to the satisfaction of the shareholders. One share transfer request received on 27 December 2006 remained pending as on 31 December 2006. Share transfer for the same was completed on 1 January 2007.

6. General Body Meetings

Location and time of the last three AGMs

Date	Time	Venue
24 April 2006	10.00 a.m.	H.T. Parekh Convention Centre, Ahmedabad Management Association, ATIRA, Vastrapur, Ahmedabad – 380 015
6 May 2005	10.00 a.m.	H.T. Parekh Convention Centre, Ahmedabad Management Association, ATIRA, Vastrapur, Ahmedabad – 380 015
4 May 2004	10.00 a.m.	H.T. Parekh Convention Centre, Ahmedabad Management Association, ATIRA, Vastrapur, Ahmedabad – 380 015

In the last three Annual General Meetings, three special resolutions were passed as per details given below:

Annual General Meeting held on 4 May 2004

1. The Articles of Association of the company were altered for inserting / modifying articles relating to Board's power to convene general meetings, provision regarding quorum for Board and general meetings and Board's authority to decide date, time and place of the adjourned general meetings. The resolution also covered modification / insertion of articles regarding presence and voting rights of authorised representatives within the meaning of Section 187 of the Companies Act, 1956 at the general meetings, manner of deciding Board agenda, chairman of the Board and general meetings, alteration of the relevant article for removing vagueness in the manner of appointment of the Managing Director / Whole-time Director and deletion of article conferring powers to financial institutions to appoint nominee directors, etc.





Annual General Meeting held on 6 May 2005

No special resolution was passed at the annual general meeting held on 6 May 2005.

Annual General Meeting held on 24 April 2006

2. The capital clause of the Articles of Association was altered for reflecting increase in the authorised share capital from Rs. 25,00,00,000 divided into 2,50,00,000 equity shares of Rs. 10 each to Rs. 45,00,00,000 divided into 2,80,00,000 equity shares of Rs. 10 each and 1,70,00,000 preference shares of Rs. 10 each. The authorized share capital was increased for enabling issue of preference shares.
3. A resolution authorising issue and allotment of upto 1,70,00,000, 7.5% Redeemable Cumulative Non-convertible Preference Shares (RCNPS) of Rs.10 each to BG Asia Pacific Holdings Pte. Limited, Singapore ("BGAPH") on a preferential basis was passed. The RCNPS of Rs. 14,40,00,000 were issued to BGAPH for meeting the capitalisation requirements prescribed under the Foreign Exchange Management (Transfer or Issue of Security by a Person Resident outside India) Regulations.

Postal Ballot

No resolution was passed through Postal Ballot in the year 2006 under the provisions of Section 192A of the Companies Act, 1956 and the Companies (Passing of the Resolutions by Postal Ballot) Rules, 2001. The postal ballot exercise shall be conducted from time to time in compliance with the provisions referred above.

7. Disclosures

Related party transactions

Related party transactions are disclosed in the Notes to Accounts forming part of this Annual Report. Transactions entered into by the company with the related parties during the year were placed to the Audit Committee for review. There are no pecuniary relationships or transactions with the non-executive directors. A procedure is in place for disclosure of interest at the beginning of the year by the senior management team.

Whistle Blower policy

GGCL has implemented a Whistle Blower policy covering the contractors and suppliers besides its employees. The policy provides access to the Managing Director and the Chairman of Audit Committee. Persons covered under the policy can lodge their complaints through anonymous e-mails besides usual means of communication like written complaints or over telephone. None of the persons covered under the policy has been denied access to the Audit Committee.

Code of Conduct

GGCL has implemented a Code of Conduct based on its business principles along with implementation framework for its directors and senior management of the company. The Code of Conduct has also been posted on GGCL website. In compliance with the Code, directors and senior management of the company have affirmed compliance with the Code for the year ended on 31 December 2006. A declaration to this effect signed by the Managing Director forms part of this Annual Report.

EDIFAR Filing

In compliance with the provisions of the Listing Agreement, GGCL files its annual report, quarterly results and shareholding pattern through Electronic Data Information Filing and Retrieval system (EDIFAR) website of SEBI.

Other disclosures

1. There are no non-compliances by the company on any matter related to capital markets, during the last three years. Similarly, there are no penalties or strictures imposed by the stock exchanges, SEBI or any statutory authority on any matter related to capital markets during the last three years.
2. The company has a detailed Business Risk Management Process which is periodically reviewed by the Board of Directors for determining its effectiveness.
3. The Board of Directors and the Audit Committee periodically review the status of compliances in respect of applicable laws and report thereon by the Internal Audit team.

8. Means of communication

The company normally publishes the quarterly results in Ahmedabad edition of The Economic Times, Financial Express or Business Standard and Mumbai edition of Hindu Business Line, Financial Express or Business Standard and other editions of leading financial newspapers.





The company has its own web site – <http://www.gujaratgas.com>, on which the quarterly results, all the official releases to the stock exchanges and presentations made to the institutional investors and analysts are displayed.

The Directors' Report deals with all the matters stipulated under the Management Discussion and Analysis Report.

GGCL has not mailed half-yearly results to the shareholders in view of the above-mentioned means of communication adopted by the company.

9. General Shareholder Information

All the required information has been furnished under the head "Information for Investors".

10. Compliance

GGCL has complied with the mandatory requirements of the Corporate Governance Code. The Board would review implementation of the non-mandatory requirements of the Corporate Governance Code in due course of time. Auditors' certificate regarding compliance with the Corporate Governance Code for the year 2006 is annexed to this report.

For and on behalf of the Board

Hasmukh Shah
Chairman

Date : 23 February 2007
Place : Ahmedabad

CERTIFICATE OF COMPLIANCE WITH THE CODE OF CONDUCT

To,
The Shareholders,
Gujarat Gas Company Limited

Gujarat Gas Company Limited has in place a Code of Conduct (the "Code") for its Board of Directors and senior management personnel. I report that the Code has been complied with by the Board of Directors and senior management of the company for the year under review.

For Gujarat Gas Company Limited

B. S. Shantharaju
Managing Director

Date : 14 February 2007
Place : Ahmedabad





INFORMATION FOR INVESTORS

1. Annual general meeting details

At 10 a.m. on Monday, 30 April 2007 at H. T. Parekh Convention Centre, Ahmedabad Management Association, ATIRA, Dr. Vikram Sarabhai Marg, Vastrapur, Ahmedabad – 380 015.

2. Financial calendar

The company follows calendar year as its financial year. Meetings of the Board of Directors of the company are scheduled on the following dates during the year 2007:

23 February 2007 (already held)	26 October 2007
30 April 2007	20 December 2007
26 July 2007	-

3. Book closure date

For Physical Segment	16 March 2007 to 20 March 2007 (both days inclusive)
For Demat Segment	At the close of business hours on 15 March 2007

Shareholders are requested to update their addresses and bank account details with the depositories if shares are held in demat form and with the registrar and share transfer agent if shares are held in physical mode.

4. Dividend payment

On or after 30 April 2007, but within the statutory time limit.

5. Listing on stock exchanges and stock code

Details of listing of shares of your company are given below alongwith stock codes:

Ahmedabad Stock Exchange Limited	20860
Bombay Stock Exchange Limited	523477
Vadodara Stock Exchange Limited	23477
National Stock Exchange of India Limited	GUJRATGAS

Listing fees have been paid for the year 2006-07 as per the Listing Agreement with the respective Stock Exchanges.

6. Market price data

Market price data on the Bombay Stock Exchange Limited, Mumbai for the year 2006 is given below:

Month	Highest (Rs.)	Lowest (Rs.)
January	1,500.00	1,340.00
February	1,530.00	1,345.00
March	1,412.00	1,220.00
April	1,399.00	1,255.00
May	1,370.00	1,200.00
June	1,269.00	959.10
July	1,045.00	920.00
August	1,099.90	930.00
September	1,407.60	980.00
October	1,350.00	1,135.00
November	1,227.00	1,080.00
December	1,355.00	1,190.00

7. Performance in comparison to BSE Sensex

Performance of share price of your company in comparison to BSE Sensex for the year 2006 is given on the inside cover page.

8. Registrar and share transfer agents and share transfer system

MCS Limited is the share transfer agent for physical segment and also acts as the depository registrar for establishing connectivity with NSDL and CDSL for demat segment. MCS Limited uses computerised share transfer system for processing transfer of shares.

Shareholders are requested to send their share transfer and other requests to MCS Limited at the following address:

MCS Limited, 101, Shatdal Complex, 1st Floor, Opp. Bata Showroom, Ashram Road, Ahmedabad – 380 009. Phone Nos. (079) 3007 0671 to 3007 0677, Fax No. (079) 3007 0678. E-mail Address: mcsamd@relianceemail.net





9. Distribution of shareholding

Distribution of shareholding as on 31 December 2006 is given below:

Category	No. of Shareholders	Shares held in physical form	Shares held in dematerialised form	Total no. of shares held	% to capital
Resident Individuals	10,474	279,196	763,097	1,042,293	8.13
Foreign Institutional Investors (FIIs)	24	1,300	2,081,642	2,082,942	16.24
Non-resident Indians (NRIs)	133	1,900	25,786	27,686	0.22
Indian Companies	274	1,601	219,189	220,790	1.72
Mutual Funds & UTI	12	0	571,714	571,714	4.46
Public Financial Institutions, Government Companies and Banks	9	300	527,400	527,700	4.11
Foreign Promoters	1	8,351,875	0	8,351,875	65.12
Total	10,927	8,636,172	4,188,828	12,825,000	100.00

During the year 2006, your company has allotted 14,400,000 Redeemable Cumulative Non-convertible Preference Shares of Rs. 10 each aggregating to Rs. 144,000,000 on preferential basis to BG Asia Pacific Holdings Pte. Limited, Singapore.

10. Dematerialisation of shares and liquidity

Shares of your company can be traded in electronic form only by all the investors. Your company has established connectivity with both the depositories viz. NSDL and CDSL.

Shares of your company are regularly traded and are included in Group "A" category of shares of the Bombay Stock Exchange Limited. 34.878% shares of the company are held by non-promoter shareholders.

11. Your company does not have any GDRs/ADRs/Warrants or any other convertible instruments.

12. Gas receiving locations

<u>Ankleshwar</u>	<u>Amboli</u>	<u>Vadoli</u>
Surati Bhagol, Umarwada Road, Near Piraman Naka, Ankleshwar	Plot No. 70 - 71, Amboli, Ankleshwar	Survey No. 546/1, Village - Vadoli, Taluka - Olpad, District - Surat
<u>Sachin</u>	<u>Palsana</u>	<u>Atodara</u>
Block No. 248, GIDC Sachin, Village - Unn, Magdalla - Sachin Road, Surat	Survey No. 168 & 168/P, Village - Lingad, Taluka - Palsana, District - Surat	R. S. No. 64/1 & 64/2, Village - Atodara, Taluka - Olpad, District - Surat
<u>Rahadpore</u>	<u>Surat</u>	<u>Jhagadia</u>
Survey No. 75 / 123, At and Post Rahadpore, Palej - Tankaria Road, Bharuch	Plot No. 87 - 88, Mayavanshi Mohallo, Adajan Gam, Surat	Plot No. - 773/A, GIDC Jhagadia, Ankleshwar, District - Bharuch
<u>Mora (Surat)</u>		
Survey No. 150, Opp. Reliance Gate No 3 - B, Surat - Hazira Road, Mora, Surat		

13. Correspondence with the company

Shareholders are requested to correspond with the company through e-mail to get faster response. Address for correspondence is:

Gujarat Gas Company Limited, 2, Shantisadan Society, Nr. Parimal Garden, Ellis Bridge, Ahmedabad - 380006, India. Telephone Numbers: (079) 26462980, 26460095, 26467876, Fax: (079) 26466249. E-mail address: contactggcl@gujaratgas.com

E-mail address of Mr. Rajiv Shah, Company Secretary and Compliance Officer is: rajiv.shah@gujaratgas.com Shareholders may lodge their complaints on this e-mail address.





14. Nomination facility

The Companies Act, 1956 provides for nomination facility to investors. As a shareholder, you have an option to nominate any person as your nominee to whom your shares shall vest in the unfortunate event of your death. It is advisable to avail of this facility especially by the shareholders who currently hold shares in their single name.

Nomination can avoid the process of acquiring right in shares through transmission by law. In case of nomination by the joint holders, such nomination will be effective only on death of all the holders. Shareholders may write to the company at the registered office for obtaining the nomination form. The nomination form is also available on the company's website viz. www.gujaratgas.com

15. Unclaimed dividend

The company has transferred unclaimed dividend for the financial years 1991-92 to 1994-95 to the General Revenue Account of the Central Government. Shareholders, who have not encashed their dividend warrants for the above years, are requested to lodge their claims with the Registrar of Companies, Gujarat, Ahmedabad. Your company has also transferred unclaimed dividend for the financial years 1995-96 to 1998-99 to the Investor Education and Protection Fund in compliance with the provisions of the Investor Education and Protection Fund (Awareness and Protection of Investors) Rules, 2001.

Your company would be transferring the unclaimed dividend for the financial period of April - December 1999 to the Investor Education and Protection Fund on or after 31 May 2007 in terms of provisions of the Investor Education and Protection Fund (Awareness and Protection of Investors) Rules, 2001.

16. Folio merging

Members who hold shares in the same order of names in more than one folio are requested to send their requests for merging all their shareholdings into one folio, along with the share certificates, in case of physical shares.





Auditors' Report To the Board of Directors of Gujarat Gas Company Limited

1. We have audited the attached consolidated balance sheet of Gujarat Gas Company Limited and its subsidiaries (the Group) as at December 31, 2006, the consolidated profit and loss account and the consolidated cash flow statement for the year ended on that date, annexed thereto, which we have signed under reference to this report. These consolidated financial statements are the responsibility of Gujarat Gas Company Limited's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audit.
2. We conducted our audit in accordance with auditing standards generally accepted in India. Those Standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are prepared, in all material respects, in accordance with an identified financial reporting framework and 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.
3. We report that the consolidated financial statements have been prepared by the company in accordance with the requirements of Accounting Standard 21, Consolidated Financial Statements, issued by the Institute of Chartered Accountants of India and on the basis of the separate audited financial statements of Gujarat Gas Company Limited and its subsidiaries included in the consolidated financial statements.
4. On the basis of the information and explanations given to us and on consideration of the separate audit reports on individual audited financial statements of Gujarat Gas Company Limited and its aforesaid subsidiaries, in our opinion, the consolidated financial statements **read with note 21(a) on schedule 22 regarding prices of natural gas being reviewed by the Ministry of Petroleum and Natural Gas, Government of India**, 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 Group as at December 31, 2006;
 - (b) in the case of the consolidated profit and loss account, of the consolidated results of operations of the Group for the year ended on that date; and
 - (c) in the case of the consolidated cash flow statement, of the consolidated cash flows of the Group for the year ended on that date.

Place: Gurgaon
Date : February 23, 2007

Anupam Dhawan
Membership No. F - 84451
Partner
For and on behalf of
PRICE WATERHOUSE
Chartered Accountants





BALANCE SHEET AS AT 31ST DECEMBER, 2006

	Schedule	Rs. in thousand	As at 31-12-2006 Rs. in thousand	As at 31-12-2005 Rs. in thousand
SOURCES OF FUNDS				
SHAREHOLDER'S FUNDS				
Share Capital	1	272,250		128,250
Reserves and Surplus	2	4,312,326	4,584,576	3,639,668
				3,767,918
Minority Interest (Refer Note 31 of Schedule 22)			31,160	26,105
LOAN FUNDS				
Secured loans	3	-		236
Unsecured loans	4	29,400	29,400	529,800
				530,036
Deferred Tax Liability (Net) (Refer Note 16 and 39 of Schedule 22)			464,869	428,618
DEPOSITS (Refer Note 29 of Schedule 22)				
From Customers		826,313		639,230
From GAIL (India) Limited		38,692		38,692
			865,005	677,922
TOTAL			5,975,010	5,430,599
APPLICATION OF FUNDS				
FIXED ASSETS				
Gross Block	5	6,269,158		5,470,680
Less : Depreciation		1,838,479		1,544,316
		4,430,679		3,926,364
Less : Lease Terminal Adjustment Account		262,857		262,857
Net Block		4,167,822		3,663,507
Capital work in progress		673,709		349,681
Capital Inventory		376,082		122,859
			5,217,613	4,136,047
Assets held for Disposal			9,130	9,130
INVESTMENTS	6		1,399,485	1,950,832
CURRENT ASSETS, LOANS AND ADVANCES				
Inventories	7	137,797		97,628
Stock on Hire	8	-		73
Lease Receivable	9	13		8,159
Sundry Debtors	10	823,506		448,990
Cash and Bank Balances	11	160,756		166,568
Loans and Advances	12	282,188		165,740
Other Current Assets	13	770		848
		1,405,030		888,006
LESS: CURRENT LIABILITIES AND PROVISIONS	14			
Current Liabilities		1,801,291		1,372,391
Provisions		288,055		238,990
		2,089,346		1,611,381
NET CURRENT ASSETS			(684,316)	(723,375)
MISCELLANEOUS EXPENDITURE (To the extent not written off or adjusted)	15		33,098	57,965
TOTAL			5,975,010	5,430,599
Significant Accounting Policies and Notes to the Consolidated Financial Statements	22			

This is the Consolidated Balance Sheet referred to in our report of even date

The Schedules referred to above form an integral part of the Consolidated Balance Sheet

For and on behalf of the Board

Anupam Dhawan
Membership No. F84451
Partner
For and on behalf of
PRICE WATERHOUSE
CHARTERED ACCOUNTANTS

Hasmukh Shah
Chairman
B.S. Shantharaju
Managing Director
Jal Patel
Director
Sugata Sircar
Finance Controller
Rajiv Shah
Company Secretary

Place : Gurgaon
Date : February 23, 2007

Place : Ahmedabad
Date : February 23, 2007





PROFIT AND LOSS ACCOUNT FOR THE YEAR ENDED 31ST DECEMBER, 2006

	Schedule	Rs. in thousand	Year ended 31-12-2006 Rs. in thousand	Year ended 31-12-2005 Rs. in thousand
INCOME:				
Income from Operations	16	9,685,009		7,468,418
Other Income	17	161,218		283,442
			9,846,227	7,751,860
EXPENDITURE :				
Material consumed/processed (Refer Note 27 (b) of Schedule 22)		7,297,891		5,331,934
Personnel Expenses	18	282,959		216,026
Operating and Other Expenses	19	586,924		420,287
Depreciation [Includes Goodwill written off Rs Nil (Previous Year Rs.245 thousand)]		318,723		273,699
Finance Charges	20	21,975		29,160
Deferred Revenue Expenditure Written off		24,858		25,354
			8,533,330	6,296,460
Profit before Taxes			1,312,897	1,455,400
Tax Expense	21		431,299	467,439
Profit after Taxes			881,598	987,961
Minority Shareholders Interest			6,429	6,671
Profit attributable to the Group			875,169	981,290
Profit brought forward			2,227,339	1,505,854
Profit/(Loss) brought forward of Joint Venture on Initial Adoption			(13,195)	(13,195)
Profit/(Loss) brought forward of Joint Venture			134	3,089
Profit available for Appropriations			3,089,447	2,477,038
APPROPRIATIONS :				
Proposed Dividend				
- Preference Shares			6,746	-
- Equity Shares			160,313	128,250
Corporate Dividend Tax on Proposed Dividend [Including Rs Nil (Previous Year Rs 1,276 thousand) for earlier year]			31,396	29,081
Special Reserve (As stipulated by RBI)			4,268	4,429
General Reserve			95,319	101,000
Share of Profit/(Loss) of Joint Venture carried forward			(13,061)	(13,061)
Profit Carried Forward			2,804,466	2,227,339
			3,089,447	2,477,038
Basic/Diluted Earnings per Share (Rs.) (Refer Note 15 and 32 of Schedule 22)			67.64	76.51

Significant Accounting Policies and Notes to the Consolidated Financial Statements 22

This is the Consolidated Profit & Loss Account referred to in our report of even date

Anupam Dhawan
Membership No. F84451
Partner
For and on behalf of
PRICE WATERHOUSE
CHARTERED ACCOUNTANTS

Place : Gurgaon
Date : February 23, 2007

The Schedules referred to above form an integral part of the Consolidated Profit & Loss Account

For and on behalf of the Board

Hasmukh Shah
Chairman
B.S.Shantharaju
Managing Director
Jal Patel
Director
Sugata Sircar
Finance Controller
Rajiv Shah
Company Secretary

Place : Ahmedabad
Date : February 23, 2007





SCHEDULES FORMING PART OF BALANCE SHEET (CONSOLIDATED)

	Rs. in thousand	As at 31-12-2006 Rs. in thousand	As at 31-12-2005 Rs. in thousand
SCHEDULE - 1			
SHARE CAPITAL			
Authorised			
28,000,000 (Previous Year 25,000,000) Equity Shares of Rs.10/- each		280,000	250,000
17,000,000(Previous year Nil) 7.5% Redeemable Preference Shares of Rs 10/- each		170,000	-
TOTAL		450,000	250,000
Issued, Subscribed and Paid up			
12,825,000 (Previous Year 12,825,000) Equity Shares of Rs. 10/- each fully paid-up [Out of above 8,351,875 (Previous Year 8,351,875) Equity Shares are held by holding company British Gas Asia Pacific Holdings Pte. Limited, the ultimate holding company being BG Group plc]		128,250	128,250
14,400,000 (Previous year Nil) 7.5% Redeemable Cumulative Non Convertible Preference Shares of Rs 10/- each fully paid up, issued to holding company British Gas Asia Pacific Holdings Pte. Limited		144,000	-
TOTAL		272,250	128,250
SCHEDULE - 2			
RESERVES AND SURPLUS			
GENERAL RESERVE			
As per last Balance Sheet		1,362,420	1,261,420
Add : Transferred from Profit and Loss Account		95,319	101,000
		1,457,739	1,362,420
SPECIAL RESERVE (AS REQUIRED BY RBI)		63,182	58,914
PROFIT AND LOSS ACCOUNT		2,804,466	2,227,339
		4,325,387	3,648,673
Share of Joint Venture:			
(a) Revenue Reserves		(13,061)	(13,061)
(b) Revaluation Reserve			
Initial Adoption of Joint Venture	4,056		4,070
Less: Adjusted to Carrying value of Investments	4,056		-
Less: Charged to Depreciation during the year	-		14
Closing Balance		-	4,056
TOTAL		4,312,326	3,639,668





SCHEDULES FORMING PART OF BALANCE SHEET (CONSOLIDATED)

	Rs. in thousand	As at 31-12-2006 Rs. in thousand	As at 31-12-2005 Rs. in thousand
SCHEDULE - 3			
SECURED LOANS			
Share of Joint Venture		-	236
TOTAL		<u>-</u>	<u>236</u>

Notes:

1 In case of Joint Venture

- i) Secured by hypothecation of inventories, book debts and other current assets by way of first charge and equitable mortgage of the company's land and buildings together with all assets permanently fixed to the land and buildings and plant and machinery appertaining or affixed thereto in favour of State Bank of India.
- ii) Secured by Hypothecation of the Vehicle by way of a first and exclusive charge in favour of Kotak Mahindra Primus Limited. (Loan for 35 months. Last Installment Date: 1st May 2008)
- iii) Secured by Hypothecation of the Vehicle by way of a first and exclusive charge in favour of HDFC Bank Limited. (Loan for 36 months. Last Installment Date: 2nd November 2005)

SCHEDULE - 4

UNSECURED LOANS

Long Term Loan from a bank *

TOTAL

		29,400	529,800
		<u>29,400</u>	<u>529,800</u>

***Notes:**

- i) Amount Due within one year Rs. 29,400 thousand (Previous Year Rs. 500,400 thousand)
- ii) Company has executed a demand promissory note of Rs. 1,500,000 thousand in favour of the Bank



SCHEDULES FORMING PART OF BALANCE SHEET (CONSOLIDATED)

SCHEDULE - 5

FIXED ASSETS

(Refer Notes 3,4,5,9,12,25 & 26 of Schedule 22)

(Rs. In thousand)

Particulars	GROSS BLOCK				DEPRECIATION			NET BLOCK		
	As at 01-01-2006	Additions For the Year	Deduction/ Adjustments For the year	As at 31-12-2006	As at 01-01-2006	For the Year	Deduction/ Adjustments For the year	As at 31-12-2006	As at 31-12-2006	As at 31-12-2005
TANGIBLE ASSETS										
Land (Refer Note 1 below)	45,751	-	1,484	44,267	-	-	-	44,267		45,751
Buildings (Refer Note 2 below)	192,961	21,507	-	214,468	27,285	4,516	-	31,801	182,667	165,676
Plant and Machinery (Refer Note 4 below)	4,139,293	583,306	15,497	4,707,102	1,094,647	278,648	965	1,372,330	3,334,772	3,044,646
Furniture, Fixtures and Fittings	40,615	3,559	-	44,174	22,338	2,409	-	24,747	19,427	18,277
Vehicles	63,376	22,872	6,205	80,043	14,342	6,829	2,605	18,566	61,477	49,034
Assets given on Finance lease (Prior to April 1, 2001)										
Plant and Machinery	870,223	-	-	870,223	353,074	9,001	-	362,075	508,148	517,149
Assets given on Operating lease (After April 1, 2001)										
Plant and Machinery	-	226,477	-	226,477	-	9,634	-	9,634	216,843	-
INTANGIBLE ASSETS										
Goodwill	1,225	-	-	1,225	1,225	-	-	1,225	-	-
Right of Use of Land	28,322	1,961	-	30,283	-	-	-	30,283		28,322
Software/Licences	45,963	4,933	-	50,896	10,415	7,686	-	18,101	32,795	35,548
	5,427,729	864,615	23,186	6,269,158	1,523,326	318,723	3,570	1,838,479	4,430,679	3,904,403
(Less)/Add : Lease Terminal Adjustment	-	-	-	-	262,857	-	-	262,857	(262,857)	(262,857)
TOTAL	5,427,729	864,615	23,186	6,269,158	1,786,183	318,723	3,570	2,101,336	4,167,822	3,641,546
Capital Work in Progress (Refer Note 6 and 7 below)									673,709	349,681
Capital Inventory									376,082	122,859
	5,427,729	864,615	23,186	6,269,158	1,786,183	318,723	3,570	2,101,336	5,217,613	4,114,086
Share of Joint Ventures	42,951	-	42,951	-	20,990	-	20,990	-	-	21,961
TANGIBLE ASSETS										
TOTAL	5,470,680	864,615	66,137	6,269,158	1,807,173	318,723	24,560	2,101,336	5,217,613	4,136,047
Previous Year	4,168,341	1,332,897	30,558	5,470,680	1,540,976	274,339	8,142	1,807,173	4,136,047	

NOTES :

- Land includes Leasehold Land Rs. 184 thousand (Previous year Rs.184 thousand).
- Cost of Building includes cost of shares of the face value of Rs.1 thousand (Previous year : Rs.1 thousand) received under the bye-laws of the society.
- Assets of Joint Venture includes assets whose historical cost worth Rs.9,233 thousand has been revalued to Rs.13,468 thousand.
- Additions during the year includes foreign exchange fluctuation of Rs.246 thousand (Previous year Rs.447 thousand).
- Fixed Assets held for disposal Rs. 9,130 thousands (Previous Year Rs. 9,130 thousand) have not been included above and have been shown separately at lower of cost and net realisable value.
- Capital Work in Progress includes Capital Advances Rs 154,255 thousand (Previous Year Rs 62,341 thousand).
- Capital Work In Progress includes Natural gas fired cogeneration units amounting to Rs 96,913 thousand (Previous Year Rs Nil) to be given on finance lease.





SCHEDULES FORMING PART OF BALANCE SHEET (CONSOLIDATED)

	Rs. in thousand	As at 31-12-2006 Rs. in thousand	As at 31-12-2005 Rs. in thousand
SCHEDULE - 6			
INVESTMENTS			
(Refer Note 6 of Schedule 22)			
A Long Term Investments (At Cost) :			
Equity Shares			
Trade -Unquoted	124,093		85,000
Less : Provision	(104,344)		(75,000)
		19,749	10,000
Shares			
Other than Trade (Quoted)			
11,600 Equity Shares of Rs.10/- each fully paid up (Previous Year 11,600 Equity Shares of Rs.10/- each)	116		116
Less: Provision for diminution in value of Investment	(116)		(116)
		-	-
Other than trade - Unquoted			
Others		4,125	4,500
		23,874	14,500
Long Term Investments (A)			
B Current Investments :			
(At Cost or Fair Value whichever is lower, determined categorywise)			
Other than Trade (Unquoted)			
Mutual Funds		1,375,611	1,936,332
Current Investment (B)		1,375,611	1,936,332
Total Investment (A+B)		1,399,485	1,950,832
Aggregate cost of Unquoted Investments		1,503,945	2,025,948
SCHEDULE - 7			
INVENTORIES			
(Refer Note 7 of Schedule 22)			
Stores and Pipe Fittings		137,797	96,147
		137,797	96,147
Share of Joint Venture		-	1,481
TOTAL		137,797	97,628
SCHEDULE - 8			
STOCK ON HIRE			
(Refer Note 40(ii) of schedule 22)			
Stock on Hire		-	73
TOTAL		-	73
SCHEDULE - 9			
LEASE RECEIVABLE			
(Refer Note 40(i) of schedule 22)			
Lease Receivable		13	8,159
TOTAL		13	8,159





SCHEDULES FORMING PART OF BALANCE SHEET (CONSOLIDATED)

	Rs. in thousand	As at 31-12-2006 Rs. in thousand	As at 31-12-2005 Rs. in thousand
SCHEDULE - 10			
SUNDRY DEBTORS			
Secured - Considered Good			
Exceeding Six Months		1,590	1,473
Others		477,184	368,827
Unsecured - Considered Good			
Exceeding Six Months		43,912	3,761
Others		300,820	69,560
Unsecured - Considered Doubtful			
Exceeding Six Months	10,516		15,134
Less : Provision for Doubtful Debt	(10,516)		(15,134)
		-	-
		823,506	443,621
Share of Joint Venture Debtors (Gross)		-	5,440
Less : Provision for Doubtful Debt		-	(71)
		-	5,369
TOTAL		823,506	448,990
SCHEDULE - 11			
CASH AND BANK BALANCES			
Cash in hand		400	395
Balances with Scheduled Banks :			
- In Current Accounts		90,981	89,415
- In Dividend Accounts		7,364	7,570
- In Fixed Deposit Account*		62,011	66,011
		160,756	163,391
Share of Joint Venture		-	3,177
TOTAL		160,756	166,568
* Includes Term Deposit in an Escrow account as stipulated by RBI Rs. 500 thousand (Previous Year Rs. 500 thousand)			





SCHEDULES FORMING PART OF BALANCE SHEET (CONSOLIDATED)

	Rs. in thousand	As at 31-12-2006 Rs. in thousand	As at 31-12-2005 Rs. in thousand
SCHEDULE - 12			
LOANS AND ADVANCES			
(Unsecured - considered good, unless otherwise stated)			
Insurance Claim Receivable		25,978	-
Advances recoverable in Cash or in kind or for value to be received		117,050	87,258
Advance payment of tax and tax deducted at source	3,221,500		2,773,376
Less : Taxation Provision	<u>(3,082,340)</u>		<u>(2,695,906)</u>
		139,160	77,470
		<u>282,188</u>	<u>164,728</u>
Share of Joint Venture		-	1,012
TOTAL		<u><u>282,188</u></u>	<u><u>165,740</u></u>
SCHEDULE - 13			
OTHER CURRENT ASSETS			
(Unsecured - considered good, unless otherwise stated)			
Interest Accrued on Investments		770	848
TOTAL		<u><u>770</u></u>	<u><u>848</u></u>
SCHEDULE - 14			
CURRENT LIABILITIES AND PROVISIONS			
(A) CURRENT LIABILITIES			
Sundry Creditors			
- Due to Small Scale Industries *	366		1,900
- Others	<u>1,737,183</u>		<u>1,315,587</u>
		1,737,549	1,317,487
Investor Education and Protection Fund shall be credited by:			
- Unpaid Dividend		7,345	7,548
- Unpaid Matured Deposits		127	127
Other Liabilities		<u>56,270</u>	<u>45,972</u>
		<u>1,801,291</u>	<u>1,371,134</u>
Share of Joint Venture		-	1,257
		<u>1,801,291</u>	<u>1,372,391</u>
* Based on the information provided by the Management			
(B) PROVISIONS			
Proposed Dividend			
[Including Corporate Dividend Tax Rs. 31,565 thousand (Previous Year Rs. 27,805 thousand)]		199,829	156,055
Gratuity and Leave Encashment		35,857	30,635
Provision for Fringe Benefit Tax (Net of Advance Tax)		3,840	2,595
Other Provisions (Refer Note 41 of Schedule 22)		<u>48,529</u>	<u>48,278</u>
		<u>288,055</u>	<u>237,563</u>
Share of Joint Venture		-	1,427
		<u>288,055</u>	<u>238,990</u>
TOTAL		<u><u>2,089,346</u></u>	<u><u>1,611,381</u></u>





SCHEDULES FORMING PART OF BALANCE SHEET (CONSOLIDATED)

	Rs. in thousand	As at 31-12-2006 Rs. in thousand	As at 31-12-2005 Rs. in thousand
SCHEDULE - 15			
MISCELLANEOUS EXPENDITURE (Refer Note 18 of Schedule 22)			
Deferred Revenue Expenditure			
a) Voluntary Retirement Scheme:			
Opening Balance	12,180		19,796
Less: Written Off during the year	(7,138)		(7,616)
		5,042	12,180
b) SAP Implementation Cost:			
Opening Balance	45,776		63,496
Less: Written Off during the year	(17,720)		(17,720)
		28,056	45,776
		33,098	57,956
Share of Joint Venture		-	9
TOTAL		33,098	57,965

SCHEDULES FORMING PART OF PROFIT AND LOSS ACCOUNT (CONSOLIDATED)

	Rs. in thousand	Year ended 31-12-2006 Rs. in thousand	Year ended 31-12-2005 Rs. in thousand
SCHEDULE -16			
INCOME FROM OPERATIONS			
Sales of Natural Gas			
- Processed(Gross)	8,014,380		5,711,422
Less: Excise Duty	(99,820)		(45,459)
- Processed(Net)		7,914,560	5,665,963
- Traded		1,450,337	1,307,518
Service and Fitting Income (Net)		54,786	67,702
Gas Transmission Income		113,997	286,077
Income from Leases	121,350		96,533
(Less)/Add : Lease Equalisation	-		(626)
Add: Surplus on lease related activity	29,975		27,576
		151,325	123,483
Income from Hire Purchase		4	24
		9,685,009	7,450,767
Share of Joint Venture		-	17,651
TOTAL		9,685,009	7,468,418





SCHEDULES FORMING PART OF PROFIT AND LOSS ACCOUNTS (CONSOLIDATED)

	Rs. in thousand	Year ended 31-12-2006 Rs. in thousand	Year ended 31-12-2005 Rs. in thousand
SCHEDULE - 17			
OTHER INCOME			
Income from Investments			
Long Term Investments			
Dividend from Trade Investment		-	3,300
Current Investments			
Dividend from Mutual Funds		102,547	85,324
Interest on Bank Fixed Deposits		5,291	3,938
[Gross, Tax deducted at source Rs. 1,226 thousand (Previous Year Rs. 762 thousand)]			
Interest on Others (Customer & Staff Advances)		5,806	5,786
[Gross, Tax deducted at source Rs. 86 thousand (Previous Year Rs 145 thousand)]			
Profit on Sale of Fixed Asset (Net)		2,327	-
Profit on Sale of Current Investments	2,527		3,420
Less : Loss on Sale of Current Investments	(442)		(874)
		2,085	2,546
Liabilities no longer required Written Back		6,076	29,387
Miscellaneous Income		37,086	152,119
(Refer Note 27(a) of Schedule 22)		161,218	282,400
Share of Joint Venture		-	1,042
TOTAL		161,218	283,442
SCHEDULE - 18			
PERSONNEL EXPENSES			
Salaries, Wages and Bonus		234,273	178,070
Contribution to Provident and Other Funds		21,831	11,278
Welfare Expenses		26,855	22,590
		282,959	211,938
Share of Joint Venture		-	4,088
TOTAL		282,959	216,026





SCHEDULES FORMING PART OF PROFIT AND LOSS ACCOUNTS (CONSOLIDATED)

	Rs. in thousand	Year ended 31-12-2006 Rs. in thousand	Year ended 31-12-2005 Rs. in thousand
SCHEDULE - 19			
OPERATING AND OTHER EXPENSES			
Stores and Chemicals consumed		13,102	22,609
Power and Fuel		85,107	41,224
Rent		17,654	17,786
Rates and Taxes		13,721	2,889
Repairs:			
- To Buildings	2,609		2,338
- To Plant and Machinery	114,387		88,489
- To Others	45,286		19,672
		162,282	110,499
Insurance		16,977	11,276
Stationery and Printing		6,952	6,490
Advertisement Expenses		7,994	8,053
Communication Expenses		17,799	18,001
Vehicle Hire Charges		19,564	13,635
Travelling Expenses		38,190	27,467
Donation		1,200	725
Legal, Professional and Consultancy		68,098	66,888
Loss on Sale of Fixed assets (Net) (Includes Rs Nil (Previous year Rs. 3690 thousand) on account of write down of assets held for disposal)		-	3,532
Bad debts / Advances written off		2,322	5,565
Loss of inventory due to flood		600	-
Other Provision (Refer Note 41 of Schedule 22)		251	247
Provision for Doubtful Debts		-	2,851
Provision for Diminution in the value of Long Term Investment		16,282	-
Assets written off		3,320	-
Inventory written off		-	4,947
Service Charges		29,948	10,861
Miscellaneous Expenses		65,561	40,801
		586,924	416,346
Share of Joint Venture		-	3,941
TOTAL		586,924	420,287





SCHEDULES FORMING PART OF PROFIT AND LOSS ACCOUNTS (CONSOLIDATED)

	Rs. in thousand	Year ended 31-12-2006 Rs. in thousand	Year ended 31-12-2005 Rs. in thousand
SCHEDULE - 20			
FINANCE CHARGES			
Interest - Unsecured Loans		20,294	27,595
Interest - Others		1,681	1,531
		<u>21,975</u>	<u>29,126</u>
Share of Joint Venture		-	34
TOTAL		<u>21,975</u>	<u>29,160</u>
SCHEDULE - 21			
TAX EXPENSE (Refer Notes 16 and 39 of Schedule 22)			
Current Income Tax		386,035	517,937
Deferred Income Tax		36,251	(56,028)
Fringe Benefit Tax		9,013	5,511
		<u>431,299</u>	<u>467,420</u>
Share of Joint Venture		-	19
TOTAL		<u>431,299</u>	<u>467,439</u>





SCHEDULE - 22

SIGNIFICANT ACCOUNTING POLICIES AND NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Significant Accounting Policies:

1. Accounting Convention:

The Financial statements have been prepared under Historical Cost Convention in accordance with applicable Accounting Standards issued by the Institute of Chartered Accountants of India and relevant provisions of the Companies Act, 1956.

2. Consolidation of Financial Statements:

These financial statements comprise a consolidation of the financial statements of Gujarat Gas Company Limited and its subsidiary undertakings and the proportionate share in its Joint Venture (collectively referred to as 'the Group').

The results of the undertakings acquired/disposed of are consolidated from/to the date when effective control passes to/from the group.

Investments in business entities over which the company exercises joint control are accounted for using proportionate consolidation method except where the control is considered to be temporary.

The financial statements have been prepared in accordance with the principles and procedures laid down in the Accounting Standard 21 'Consolidated Financial Statements' and Accounting Standard 27 'Financial Reporting of Interests in Joint Ventures' issued by the Institute of Chartered Accountants of India.

(Also Refer Note 33 of Schedule 22)

3. Goodwill:

On the acquisition of an undertaking, the difference between the purchase consideration and the value of the net assets acquired is recognised as Goodwill.

Goodwill which has a limited useful economic life is amortised over a period of five years on a straight line basis from the year of creation.

4. Fixed Assets :

(a) Fixed Assets including assets given on lease are stated at their original cost including freight, duties, customs and other incidental expenses relating to acquisition or construction.

(b) Expenditure incurred during the period of construction including all direct and indirect expenses, incidental to construction are carried forward and on completion, the costs are allocated to the respective fixed assets.

(c) Capital inventory represents items of capital nature lying in the store valued at cost on First In First Out method.

(d) Insurance spares are capitalised with the cost of the plant and machinery and depreciated over the useful life of the asset.

5. Depreciation / Amortisation:

(a) Depreciation on assets including assets given on operating lease is provided on Straight Line Method (SLM) at the rates and in the manner prescribed in Schedule XIV to the Companies Act, 1956, except for the following:

- CNG Kits and Cylinders are depreciated over a period of 3 years.
- Assets costing Rs. 5,000 or less are fully depreciated in the year of purchase.
- No depreciation is being charged on ROU being perpetual in nature.
- Licenses/Software are amortised over a period of Six years from the date of its availability for use by the Company.

(b) Depreciation on assets purchased / acquired during the year is charged from the beginning of the month of the purchase of the asset. Similarly depreciation on assets sold/discarded during the year is charged upto the end of the month of sale of asset.

(c) Depreciation on assets given on finance lease prior to April 1, 2001 is provided over the period of lease.

In respect of Joint Venture:

Depreciation is provided on "Straight Line Method" on all assets.

Depreciation rates are as per Schedule XIV of the Companies Act, 1956 as applied on prorata (daily) basis except for Moulds, Parking Shed and Scrap Yard Shed, which are depreciated at 16.21%, and Air conditioners, which are depreciated at 6.33%. Effective 1st April 2005, additions to Computers and Printers are depreciated at 33.33% and additions to Vehicles are depreciated at 25%.

6. Investments:

Long term Investments are stated at cost. Provision, if any, is made for permanent diminution in the value of investments.





Current investments are stated at lower of cost or fair market value determined category wise. Cost is determined as per weighted average cost formula.

7. Inventories:

Stores and Pipes fittings are valued at cost on First In First Out method after providing for obsolescence.

Project work in progress is valued at cost. Provision is made for estimated losses on incomplete contracts when such losses become probable based on current contract estimates.

In respect of Joint Venture:

Inventory is valued after providing for obsolescence. Raw material, components, stores are valued at First in First out basis (FIFO). Finished Goods and Work in Progress are valued at FIFO basis of raw materials and the cost of conversion thereof for bringing the inventories up to the present condition or at net estimated realisable value whichever is lower.

8. Stock on Hire:

Stock on hire is valued at installments receivable and is net of unearned hire purchase income falling due after the Balance sheet date.

Stock repossessed because of defaults in payment of hire purchase installments is valued at the installments due including those becoming due after the Balance Sheet date or net realisable value whichever is lower.

9. Foreign currency transactions:

Foreign currency transactions are accounted for at the exchange rate prevailing on the transaction date. Year-end monetary assets and liabilities in foreign currency, other than those pertaining to the acquisition of fixed assets, are translated at the applicable year-end exchange rates and the resultant difference is recognised as gain / loss for the year. Year-end translation difference in respect of liabilities pertaining to acquisition of fixed assets is added to the costs of the relevant assets.

The premium or discount arising on forward exchange contracts including those entered into to hedge the foreign currency risks of a firm commitment or highly probable forecast transaction is amortized as expense or income over the life of the contract. Exchange differences on such contracts are recognised in the statement of profit and loss in the reporting period in which the exchange rates change. Any profit or loss arising on cancellation or renewal of such forward exchange contracts is recognised as income or as expense for the year.

10. Retirement Benefits:

Contributions to provident fund are accrued in accordance with applicable statutes and deposited with the Regional Provident Fund Commissioner.

The liability in respect of gratuity is determined by actuarial valuation as on the Balance Sheet date. Contributions in respect of gratuity for the employees of Gujarat Gas Company Limited are made to the approved Gratuity Fund of the Company.

The liability in respect of Leave Encashment is provided for on the basis of actuarial valuation as on the Balance Sheet date.

The Joint Venture Company has a Superannuation and Gratuity scheme with Life Insurance Corporation of India for future payments to retiring employees. The premium thereof is paid annually in terms of said policy and charged to Profit and Loss Account.

Liability in respect of unencashed leave for the Joint Venture Company is provided on the basis of actual valuation, on the assumption that the benefits would be payable to all the employees at the end of the accounting period based on accumulated encashable leave balance of the employees on the basis of their current year salaries.

11. Revenue Recognition:

In respect of Natural Gas Business:

- (a) Revenue on sale of natural gas is recognised on transfer of title to customers at delivery point. Sales are billed bi-monthly for domestic customers, monthly for commercial and non-commercial customers and fortnightly for industrial customers. Spot sales of gas to industrial customers are billed as per the terms mutually agreed between the parties. Revenue on sale of Compressed Natural Gas (CNG) are recognised on sale of gas to customers from retail outlets.
- (b) Gas Transmission income is recognized in the same period in which the related volumes of gas are delivered to the customers.
- (c) Commitment income from customers for gas sales and gas transmission is recognized on establishment of certainty of receipt of consideration.





In respect of Financial Services Business:

- (d) Assets given on Lease:
1. In respect of assets leased before April 1, 2001:
 - i. Income from lease rentals is recognised on an accrual basis as per the terms of agreements entered into with lessees and the corresponding leased asset is capitalised in the books.
 - ii. The Group follows the recommendation of The Institute of Chartered Accountants of India contained in the Guidance Note on Accounting for Leases. Accordingly lease rentals accounted as income on finance leases are adjusted by creating lease equalisation reserve so as to recover the capital cost of the leased asset within the tenure of lease agreements or earlier as ascertained by the management.
 2. In respect of assets leased on or after April 1, 2001:
 - i. In accordance with the provisions of Accounting Standard 19 on Leases issued by the Institute of Chartered Accountants of India, the Group classifies its leases in respect of the financial services business as finance or operating leases. Accordingly for all finance leases the aggregate of minimum lease payments less unearned finance income is recognised as a receivable. Unearned finance income is arrived at, as the difference between the aggregate of minimum lease payments and its present value based on the rate of return implicit as per the terms of the agreement. Finance income is recognised over the term of the lease using the net investment method, which reflects a constant periodic rate of return.
 - ii. Income from Operating Leases has been recognised in the Profit & Loss Account on a straight line basis over the lease term.
- (e) In respect of hire purchase transactions prior to April 1, 2001, income is recognised on the declining balance, based on rates implicit in the transaction.
- (f) Initial direct costs incurred for negotiating and arranging a lease/hire purchase are recognised immediately in the profit and loss account.
- (g) Income from lease/hire purchase processing fees is recognized at the time of entering in to an agreement with the customer.
- (h) The difference between the amount charged to customers for leased gas connections capitalized and the actual consumption of materials and incidental expenses is disclosed as surplus from lease related activity under Income from lease.
- (i) In respect of the financial services business (comprising of leasing and hire purchase activities), the Group follows the prudential norms for income recognition and provides for / writes off Non-performing Assets as per the prudential norms prescribed by the Reserve Bank of India or earlier as ascertained by the management.
- (j) Dividend income is recognised when the right to receive dividend is established.
- In respect of Joint Venture:**
- (k) Sale is recognised at the time of dispatch except for consignment sale, which is recognised on receipt of statement of account from the agent. Sale is accounted excluding excise duty and sales tax, but is inclusive of packing and freight and other charges billed to the customer.

12. Borrowing Costs:

Borrowing costs attributable to the acquisition or construction of a qualifying asset is capitalised as part of the cost of the asset. Other borrowing costs are recognised as an expense in the period in which they are incurred.

13. Warranty Provision:

In respect of Joint Venture:

Warranty provision is provided on an estimated basis having regard to past trend.

14. Operating Leases:

Lease rentals are recognised as an expense on straight line basis over the term of the lease.

15. Earning Per Share (EPS):

The earnings considered in ascertaining the Group's EPS comprises the net profit after tax (after providing for dividend on Preference Shares and include the post tax effect of any extra ordinary items). The number of shares used in computing Basic EPS is the weighted average number of equity shares outstanding during the year.

16. Taxation:

Tax expense for the year, comprising current tax, deferred tax and fringe benefit tax is included in determining the net profit for the year.

A provision is made for the current tax and fringe benefit tax based on tax liability computed in accordance with relevant tax rates and tax laws. A provision is made for deferred tax for all timing differences arising between taxable





income and accounting income at substantively enacted tax rates.

Deferred tax assets are recognised only if there is reasonable certainty that they will be realised and are reviewed for the appropriateness of their respective carrying values at each balance sheet date.

17. Impairment of Assets:

Assets that are subject to amortization are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognized for the amount by which the assets' carrying amount exceeds its recoverable amount. The recoverable amount is the higher of the assets' net selling price and its value in use.

For the purpose of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash generating units).

18. Miscellaneous Expenditure:

Deferred Revenue Expenditure incurred on Voluntary Retirement Scheme (VRS) of employees is amortised in equal installments over a period of 5 financial years from the year the same is incurred. Deferred Revenue Expenditure on implementation of SAP is amortised over a period of 60 months equally commencing from the month in which it is incurred.

19. Provision and Contingencies:

The Group creates a provision when there is present obligation as a result of a past event that probably requires an outflow of resources and a reliable estimate can be made of the amount of obligation. A disclosure for a contingent liability is made when there is a possible obligation or a present obligation that probably will not require an outflow of resources or where a reliable estimate of the obligation can not be made.

20. Segment Reporting:

The accounting policies applicable to the reportable segments are the same as those used in the preparation of the consolidated financial statements as set out above.

Segment revenue and expenses include amounts which can be directly identifiable to the segment or allocable on a reasonable basis.

Segment assets and liabilities include all operating assets and liabilities related to the respective segment.

Inter segment transfers are accounted for at cost plus a reasonable mark-up.

NOTES TO ACCOUNTS

21. Contingent Liabilities:

- (a) Prices of Natural Gas for the period 1st April 2000 to 30th June 2005, were under review by the Ministry of Petroleum and Natural Gas (MoPNG), Government of India. Pending finalisation of such prices, GAIL (India) Limited one of the suppliers of the company was making a provisional billing to the company based on the rates specified in the MoPNG intimation dated September 18, 1997. Subsequent adjustments that may arise on aforesaid revision are not ascertainable at this stage. GAIL has now advised the price chargeable as from July 1, 2005 but made no reference to the prior periods referenced above. However the management does not expect any price revision for past periods.
- (b) Claims against the company not acknowledged as debts Rs. 9,856 thousand (Previous year Rs. 11,136 thousand).
- (c) Claims of Rs.19,680 thousand (Previous year Rs.17,659 thousand) against the Company have been disputed by the Company. The Company is, however, indemnified by an insurance policy.
- (d) Income tax exposures of Rs. 242,005 thousand (Previous year Rs. 223,280 thousand).

In respect of holding company, Gujarat Gas Company Limited:

- (i) Includes income tax demand of Rs.53,456 thousand relating to Assessment Years 1998-99, 1999-00 and 2000-01 due to disallowance of interest, pertaining to construction phase, on debentures borrowed for the Hazira Ankleshwar pipeline claimed as revenue expenditure. The company has paid Rs. 53,456 thousand (Previous year Rs. 53,456 thousand) out of the above demand.
CIT (Appeals) has ruled in favour of the company and deleted demand of Rs.6,866 thousand pertaining to Assessment year 2000-01, from the above demand. However, Income-tax department has preferred an appeal against the said order of CIT (Appeals).
- (ii) Includes income tax demand of Rs. 119,135 thousand (Previous year Rs.115,338 thousand) including interest on tax, relating to Assessment Years 1995-96, 1996-97, 1999-00, 2000-01, 2001-02, 2002-03, 2003-04 and 2004-05 due to disallowance of depreciation claimed on leased assets. The total amount paid by company / adjusted by tax authorities on account of above demand aggregates to Rs. 115,166 thousand (Previous year Rs.112,411 thousand). The company has claimed depreciation on leased assets for other years as well. The total tax exposure, net of interest on tax, on account of the above for all the years





aggregates to Rs.114,336 thousand (Previous year Rs 115,473 thousand). The company had filed appeals against the above income tax demands. ITAT has allowed company's claim of depreciation on leased assets for A.Y. 1995-96 and this will have consequential effect on all subsequent years.

In respect of subsidiary company, Gujarat Gas Financial Services Limited:

- (iii) Includes income tax demand of Rs. 12,557 thousand (Previous year Rs. 12,557 thousand) including interest on tax, relating to Assessment Years 1996-97 due to disallowance of depreciation claimed on leased assets. The total amount paid by company / adjusted by tax authorities on account of above demand aggregates to Rs. 12,341 thousand (Previous year Rs. 10,500 thousand). The company has claimed depreciation on leased assets for other years as well. The total tax exposure, net of interest on tax, on account of the above for all the years aggregates to Rs. 17,486 thousand (Previous year Rs. 17,486 thousand). The company had filed appeals against the above income tax demands. However CIT(A) has upheld the disallowance of depreciation claim on leased assets, but he has directed to remove deemed principal recovery included in the lease rent, and tax only the interest component. The effect for the same has been granted by department amounting to Rs. 1,137 thousand for AY. 1996-97. The Company has, however, continued its appeal at ITAT for allowance of depreciation in the respective years of disallowance as the primary ground even where principal recovery has been granted by CIT(A). Further during the current year Assistant Commissioner of Income Tax has levied a penalty under section 271(1)(c) of the Income Tax Act 1961, amounting Rs. 6,773 thousand (Previous year Rs. Nil).
- (iv) Includes income tax demand of Rs. 5,462 thousand (Previous Year Rs. 5,462 thousand) for the Assessment Year 1996-97 on account of disallowance of loss on sale of securities as business loss. The Company had filed an appeal against the above demands and CIT(A) ruled in favour of the Company and quashed the demand. However, the Income Tax Department has filed an appeal against the above order.
- (v) Includes income tax demand of Rs. 16,591 thousand (Previous Year Rs. 16,591 thousand) for the Assessment Year 2001-02 on account of disallowance of claim for bad debts (Rs. 15,170 thousand), Prior period expenses (Rs. 88 thousand) & Disallowances u/s 14A of the Income Tax Act, 1961 (Rs. 1,333 thousand). The Company had filed an appeal against the above demands and CIT (A) ruled in favour of the Company by quashing the demand aggregating to Rs. 2,169 thousand by allowing fully claims for Prior period expenses and Disallowance u/s 14A while partly allowing claim of Bad debts. The Company has paid an amount of Rs. 7,600 thousand (Previous Year Rs. 7,100 thousand) out of the above demand. Further during the current year Assistant Commissioner of Income Tax has levied a penalty under section 271(1)(c) of the Income Tax Act 1961, amounting Rs. 10,007 thousand (Previous year Rs. Nil). The company had filed appeal against the above demand. CIT (A) ruled in favour of the company and quashed the demand.
- (vi) Includes income tax demand of Rs. 14,812 thousand (Previous Year Rs. 14,812 thousand) for the Assessment Year 2002-03 on account of disallowance of claim for bad debts (Rs. 13,997 thousand) and professional expenses (Rs. 815 thousand). The total amount paid by company / adjusted by tax authorities on account of above demand aggregates to Rs. 8,826 thousand (Previous year Rs. Nil).
- (vii) Includes income tax demand of Rs. 2,855 thousand (Previous year Rs. Nil) for the Assessment Year 2003-04 on account of disallowance of claim for bad debts. The company had filed appeal against the above demand and CIT (A) ruled in favour of the company and quashed the demand.
- (viii) Includes Income tax demand of Rs. 227 thousand (Previous year Nil) for the assessment year 2004-05 on account of disallowance of claim for Bad debts.
- (e) Interest Tax exposures of Rs. 6,128 thousand (Previous Year Rs. 6,128 thousand). The Interest Tax Authorities in the assessment contented that the activities of the Company are chargeable to interest tax and had raised a total demand of Rs. 57,164 thousand for the Assessment Years 1995-96 to 2000-01. The Company had filed an appeal against the above demands and CIT(A) ruled in favour of the Company for the Assessment Years 1995-96, 1996-97, 1997-98, 1998-99 and 2000-01 and quashed the demands for these years aggregating to Rs. 50,268 thousand. However for Assessment Year 1999-2000, another CIT (A) has taken the view that interest tax is leviable on the Company and accordingly a demand of Rs. 4,146 thousand had been raised against the Company. Further during the current year, Assistant Commissioner of Income Tax has levied a penalty under section 13 of the Interest Tax Act 1974, amounting Rs. 1,982 thousand. The Company has paid an amount of Rs.1,250 thousand (Previous Year Rs. 1,000 thousand) out of the above demand. The Company filed an appeal against the above demands and CIT (A) ruled in favour of the Company and quashed the penalty demand. Department has not filed an appeal against CIT (A) order for quashing the penalty demand of Rs. 1,982 thousand.
- (f) The Company had retrenched 8 employees in the year 2002 under the provisions of The Industrial Disputes Act, 1949. The employees had filed an appeal against the above retrenchment in the labour court. 2 of the employees, who had been paid part amount during the year 2004, have been paid off the balance amount during the year





2005. Pending decision from the labour court, the Company had provided for Rs. 547 thousands, being the compensation payable under The Industrial Disputes Act, 1949.

In view of the favourable legal advice obtained by the group, no provision has been created for the above demands.

- 22.** In respect of Joint Venture, share of Gujarat Gas Company Limited
Custom duty liability (including interest) for non-fulfillment of export obligation under advance license is Rs Nil (Previous Year Rs 689 thousand).
- 23.** Estimated amount of contracts net of advances remaining to be executed on capital account and not provided for Rs. 183,242 thousand (Previous Year Rs. 300,449 thousand).
- 24.** Estimated amount of forward contracts outstanding at the year end Rs 1,482,710 thousand (USD 33,500 thousand) [Previous year Rs 1,583,400 thousand (USD 35,000 thousand)]
- 25.** The Group has constructed a building and facilities for processing and distribution of natural gas on plots allotted on lease by Surat Municipal Corporation and has paid rent accordingly. The plots are within the Town Planning Scheme approved by Government of Gujarat. However, in the year 1994, Surat Mamalatdar had issued a notice on the ground that the plots belong to Government of Gujarat. The honourable court issued an ad-interim injunction against such notice, in the year 1994. The Mamalatdar had preferred an appeal against injunction, which has been rejected by the honorable court. The management is confident of resolving the dispute without any disruption to its facilities.
- 26.** The Group has constructed a civil structure aggregating to Rs. 19,037 thousand (Previous year Rs. 19,037 thousand) on land which is not yet owned by the Group. The management is confident of obtaining the requisite approvals of the Government Authorities for transfer of ownership of land.
- 27. a)** The Other Income for previous year includes Rs. 127,124 thousand received by the group, on account of settlement of dispute with one its gas suppliers.
- b)** Material consumed includes:
- i) Rs. 1,450,337 thousand (Previous year Rs. 1,307,518 thousand) gas purchased for trading.
 - ii) Rs. 22,559 thousand (Previous year Rs.21,115 thousand) towards Internal consumption of Gas.
 - iii) Rs. 80,718 thousand (Previous year Rs.24,255 thousand) as foreign exchange fluctuations.
- 28. Obligations on Operating Leases:**
The company has taken premises for office and residential use for its employees under cancelable operating lease agreements. The total lease rentals recognized as an expense during the year under the above lease agreements aggregates to Rs 2,220 thousand (Previous year Rs 1,009 thousand). The lease agreement typically ranges from 1 to 3 years.
- 29.** Deposits from customers have been considered as a source of long term funds since the same are refundable only on termination/modification of the gas sale agreement.
- 30.** The undertakings which have been consolidated in these financial statements are as follows:

Name of the Undertaking	Relationship	Country of Incorporation	Proportionate beneficial ownership interest/voting power
Gujarat Gas Financial Services Limited	Subsidiary	India	69.88%
Gujaratgas Trading Company Limited	Subsidiary	India	100%
Sensus Metering Systems Limited* (Formerly known as Invensys Metering System Limited)	Joint Venture	India	49%

*Refer Note 33 of Schedule 22





31. Minority Interest:

Minority Interest of Rs. 31,160 thousand as at December 31, 2006 represents the interest of minority shareholders with an aggregate shareholding of 30.12% in the subsidiary company Gujarat Gas Financial Services Limited. Reconciliation of Minority Interest is given below:

	Year ended December 31, 2006 (Rs. in thousand)	Year ended December 31, 2005 (Rs. in thousand)
Opening balance	26,105	19,434
Add:		
Share in Current Year Profit	6,429	6,671
Less: Share in Proposed Dividend and Corporate Dividend Tax	1,374	-
Closing Balance	31,160	26,105

32. Earnings per share:

	Year ended December 31, 2006	Year ended December 31, 2005
Net Profit attributable to Equity Shareholders (Rs in thousand)	867,477	981,290
Weighted average number of equity shares outstanding during the year (No. in thousand)	12,825	12,825
Basic earnings per share of Rs 10/- each (in Rs.)	67.64	76.51

The Group does not have any outstanding dilutive potential equity shares. Consequently the basic and diluted earning per share of the Group remain the same.

33. Joint Venture:

- The Group's joint venture "Petroleum Infrastructure Limited" (incorporated in India with 50% stake being held by the Group) is under liquidation. Accordingly, the Group's interest in the joint venture has been accounted for in accordance with Accounting Standard 13 "Accounting for Investments" and has not been consolidated as per Accounting Standard 27 "Financial Reporting of Interest in Joint Ventures".
- The Group's joint venture "Sensus Metering Systems India Limited" (incorporated in India with 49% stake being held by the Group) has closed its operations w.e.f February 26, 2006. Accordingly, the Group's interest in the joint venture has been accounted for in accordance with Accounting Standard 13 "Accounting for Investments" in the current year whereas the same was accounted for in accordance with Accounting Standard 27 "Financial Reporting of Interest in Joint Venture" in the previous year.

34. During the current year, the company acquired the Cogeneration business of BG India Energy Services Private Limited, a company engaged in providing equipments and services in relation to natural gas fired Cogeneration units, on a slump sale basis with effect from June 2, 2006 at a consideration of Rs 109,713 thousand.

35. In May 2006, the Group allotted 14,400,000 7.5% Redeemable Cumulative Non-Convertible Preference Shares (RCNPS) of Rs. 10 each at par aggregating to Rs. 144,000 thousand on a preferential basis to BG Asia Pacific Holdings Private Limited (the Holding Company), a company incorporated in Singapore. Out of the issue proceeds, Rs. 109,713 thousand has been paid to BG India Energy Services Private Limited towards purchase of Cogeneration business and Rs.2,194 thousand has been utilized for payment of stamp duty on transfer of business. The balance proceeds of Rs. 32,093 thousand has been invested in short term funds.

36. Segmental Reporting:

The Group's operations primarily comprise of Natural Gas Business and Financial Services Business. Natural gas business involves distribution of gas through pipelines from sources of supply to centers of demand and to the end customers. The company also builds pipelines required to make the gas available to the end customer. Financial services business involves leasing of gas connections for domestic and commercial use of natural gas, leasing of natural gas fired Cogeneration units and hire purchase of vehicles and consumer goods.

Other segments involve production and sales of gas meters.

As the group is operating in a single geographical segment, the disclosures related to secondary segments are not relevant for the group.



GUJARAT GAS COMPANY LIMITED (CONSOLIDATED)

37. The following table presents the revenue, profit and assets and liabilities information relating to the business segments for the year ended December 31, 2006:

Information about Business Segments - Primary

Rs. in thousand

	Year ended December 31, 2006				Year ended December 31, 2005			
	Natural Gas Business	Financial Services Business	Other Segment	Total	Natural Gas Business	Financial Services Business	Other Segment	Total
Revenue								
External Revenue	9,567,777	162,481	-	9,730,258	7,500,185	132,088	18,693	7,650,966
Intersegment Revenue	66,334	(66,334)	-	-	64,863	(64,863)	-	-
Total	9,634,111	96,147	-	9,730,258	7,565,048	67,225	18,693	7,650,966
Result								
Segment Result	1,104,450	114,704	-	1,219,154	1,316,957	70,103	(3,147)	1,383,913
Add: Income from Investments	-	-	-	109,912	-	-	-	94,861
Add: Income from Unallocated Segments	-	-	-	5,806	-	-	-	5,786
Less: Finance Charges	-	-	-	21,975	-	-	-	29,160
Less: Taxation Expense	-	-	-	431,299	-	-	-	467,439
Profit after taxation	-	-	-	881,598	-	-	-	987,961
Other Information								
Segment Assets	6,181,259	333,511	-	6,514,770	4,620,550	348,896	33,008	5,002,454
Unallocated Assets	-	-	-	1,549,587	-	-	-	2,036,855
Total Assets	-	-	-	8,064,357	-	-	-	7,039,309
Segment Liabilities	2,612,051	86,598	-	2,698,649	1,981,834	90,232	2,684	2,074,750
Unallocated Liabilities	-	-	-	748,767	-	-	-	1,170,536
Total Liabilities	-	-	-	3,447,416	-	-	-	3,245,286
Capital Expenditure	1,441,866	-	-	1,441,866	1,601,440	-	499	1,601,939
Depreciation	296,085	22,638	-	318,723	218,000	53,782	1,917	273,699
Non cash expenditure other than depreciation	3,315	-	-	3,315	15,945	950	180	17,075

Notes:

- Unallocated assets mainly comprise of investments and advance tax.
- Unallocated liabilities include Unsecured Loans, deferred tax/current tax liabilities, contingency provisions and proposed dividends.
- Income from investments includes interest, dividend and profit on sale of investments net of provision for diminution in value of investments, investments written off, provision for contingency amounting to Rs. 251 thousand (Previous year Rs. 247 thousand).
- Segment assets are inclusive of capital work in progress and capital inventory.





38. Related Party Transactions:

The Group is controlled by British Gas Asia Pacific Holdings Pte. Limited which owns 65.12% of the Gujarat Gas Company Limited's shares. The ultimate parent of the group is BG Group plc.

The following related party transactions were carried out during the year in the ordinary course of business:

Name of the Related Party	Nature of Relationship	Nature of Transaction	Amount (Rs. in thousand)	
			Year ended December 31, 2006	Year ended December 31, 2005
BG Group plc	Ultimate holding company	Reimbursement of salary (Paid)	19,262	15,236
		Reimbursement of Expenses (Received)	3,113	103
		Amount payable at the year end	89,621	94,543
British Gas Asia Pacific Holdings Pte. Limited	Holding company	Dividend paid	83,512	83,512
		Allotment of Preference Shares	144,000	-
Petroleum Infrastructure Limited.	Joint Venture	Amount receivable at year end	118	118
Sensus Metering Systems India Limited.	Joint Venture	Expense:		
		Purchase of meters	-	144
		Repairs of Materials	102	93
		Reimbursement of Expenses (Paid)	158	164
		Reimbursement of Expenses (Received)	183	-
British Gas Energy Holding Ltd.	Under Common Control	Amount receivable at year end	183	-
		Commission on purchases	26,650	16,772
		Commission on corporate guarantee given to supplier	10,134	14,580
		Amount payable at the year end	152,319	115,535
		Contract services for laying of pipelines and domestic gas connections:		
Mahanagar Gas Limited	Under common control	Material Charges	-	749
		Provision for Doubtful Debts Due	7,138	7,138
		Amount receivable at the year end	7,138	7,138
		Income:		
		Rent	-	331
IQARA Telecoms India Private Limited (Formerly known as BG Broadband India Private Limited) (Related party till 9th June 2006)	Under common control	Expense:		
		Cost of internet access	76	1,308
		Write off of Receivables	338	-
		Amount payable/(receivable) at year end	-	(416)
		Income:		
British Gas India Private Limited	Under common control	Service charges for secondment of employees	1,005	1,363
		Expense:		
		Legal and Professional	38,250	29,438
		Reimbursement of Expenses (Paid)	8,148	4,526
		Reimbursement of Expenses (received)	2,455	1,335
BGLNG Regas India Private Limited (Formerly Known as British Gas Pipavav LNG Private Limited)	Under common control	Amount payable at the year end	61,820	13,880
		Amount receivable at the year end	5	5
B.G.Exploration and Production India Ltd.	Under common control	Income:		
		Service charges for secondment of employees	937	1,638
		Sales of Material	11,416	60,002
		Reimbursement of Expenses (Received)	27	429
		Reimbursement of Expenses (Paid)	4,382	-
BG India Energy Services Private Limited	Under common control	Amount receivable at the year end	1,150	19,550
		Acquisition of Cogeneration business	109,713	-
Panna Mukta Tapti	Under common control	Purchase of gas	757,715	328,472
B.S. Shantharaju	Key Management Personnel	Remuneration as Managing Director	11,569	10,739





39. Deferred Tax:

	Year ended December 31, 2006 (Rs. in thousand)	Year ended December 31, 2005 (Rs. in thousand)
(A) The movement in deferred tax account is as follows:		
Opening Balance	428,618	484,646
Provision for current year deferred tax asset/(liability) (Net)	36,251	(56,028)
Closing Balance	<u>464,869</u>	<u>428,618</u>
(B) Deferred tax assets and liabilities are being offset as they relate to taxes on income levied by the same governing taxation laws. The following amounts are shown in the balance sheet:		
Deferred Tax Liabilities	500,674	461,279
Deferred Tax Assets	<u>(35,805)</u>	<u>(32,661)</u>
	<u>464,869</u>	<u>428,618</u>
(C) Break up of deferred tax assets/liabilities:		
Deferred Tax Liabilities:		
Tax impact of difference between carrying amount of fixed assets in the financial statements and the income tax return	500,674	461,279
TOTAL (A)	<u>500,674</u>	<u>461,279</u>
Deferred Tax Assets:		
Provision for doubtful debts	3,540	5,094
Expenditure under section 43B of the Income Tax Act	19,918	11,055
Other Provision	1,926	1,926
Preliminary Expenditure	-	10
Others	10,421	14,576
TOTAL (B)	<u>35,805</u>	<u>32,661</u>
Net Deferred Tax Liability	TOTAL (A-B) <u>464,869</u>	<u>428,618</u>





40. Assets given on lease/hire purchase:

i) Assets given on finance lease on or after April 1, 2001:

Leasing operations of the group primarily comprise of leasing of gas connections to users of natural gas for domestic and commercial use under a finance lease arrangement. The ownership of these gas connections remains with the group throughout the life of these equipments. The lease agreement is typically for a period of 7 years with primary period varying from 2 to 3 years. After completion of the lease period, the lessee continues to use the equipment without any further payment. As per the terms of agreement, lessee is responsible for insurance, maintenance and replacement of the equipment.

(Rs. in thousand)

	Year ended December 31, 2006				Year ended December 31, 2005			
	Gross Investment in the lease	Unearned Finance Income	Service Tax	Present Value of minimum Lease payments receivable	Gross Investment in the lease	Unearned Finance Income	Service Tax	Present value of Minimum lease payments receivable
Total	14	1	-	13	8,909	680	70	8,159
Out of the above, receivable:								
Not Later than 1 year	14	-	-	13	8,909	-	-	8,159
Later than 1 year and not later than 5 years	-	-	-	-	-	-	-	-
Later than 5 years	-	-	-	-	-	-	-	-

ii) Assets given on Hire Purchase on or after April 1, 2001:

The Hire Purchase (HP) operations of the group comprise of financing of vehicles and white goods.

(Rs. in thousand)

	Year ended December 31, 2006				Year ended December 31, 2005			
	Gross Investment in the HP	Unearned Finance Income	Service Tax	Present Value of minimum HP payments*	Gross Investment in the HP	Unearned Finance Income	Service Tax	Present value of Minimum HP payments*
Total	-	-	-	-	77	4	-	73
Out of the above, receivable:								
Not Later than 1 year	-	-	-	-	77	-	-	73
Later than 1 year and not later than 5 years	-	-	-	-	-	-	-	-
Later than 5 years	-	-	-	-	-	-	-	-

* included in Stock on Hire in Schedule 8

iii) Asset given on operating lease on or after April 1, 2001

Leasing operations of the group mainly involves leasing of gas based generator sets under operating lease arrangements. The ownership of these generators remains with the group throughout the life of these generators. The lease agreement typically ranges from 6 to 12 years.

	Year ended December 31, 2006 Rs in thousand	Year ended December 31, 2005 Rs in thousand
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41. Pursuant to AS 29 - The Disclosure relating to Provisions are given below:

Opening Balance	48,278	48,031
Additions during the Year	251	247
Closing Balance	<u>48,529</u>	<u>48,278</u>

The provision relates to estimated outflow of cash expected to be paid in relation to sale of gas pipelines. Due to its very nature it is not possible to estimate the timing of resulting cash flows.





	Year ended December 31, 2006 Rs in thousand	Year ended December 31, 2005 Rs in thousand
42. Managerial Remuneration		
- Salary and Bonus	9,290	8,662
- Allowances	858	639
- Perquisites	356	538
- P.F. and Gratuity	1,065	900
	<u>11,569</u>	<u>10,739</u>

43. The provision for income tax has been calculated based on the income of the individual companies for the year ended December 31, 2006. However the tax year end being March 31, 2007 the ultimate liability for the Assessment Year 2007-08 will be determined on the total income of the individual companies for the year ending March 31, 2007.

The provision for wealth tax has been made based on the net wealth of the individual companies as on December 31, 2006. However the ultimate liability for the Assessment Year 2007-08 will be determined based on the net wealth of the individual companies as on March 31, 2007.

44. In view of the general clarification issued by the Institute of Chartered Accountants of India on Accounting Standard 21 "Consolidated Financial Statements", the consolidated financial statements do not include notes such as quantitative information, forex earnings/expense etc. which are not necessary to present true and fair view of the financial statements.

45. Previous year figures have been reclassified/regrouped wherever considered necessary to conform to the current year figures.





CASH FLOW STATEMENT FOR THE YEAR ENDED 31ST DECEMBER, 2006

	Year ended 31-12-2006 Rs. in thousand	Year ended 31-12-2005 Rs. in thousand
A. CASH FLOW FROM OPERATING ACTIVITIES		
Net Profit before Tax	1,312,897	1,455,400
Adjustments for:		
Depreciation for the year	318,723	273,699
Lease Equalisation	-	626
(Profit)/Loss on sale of Fixed Assets	(2,327)	3,536
Provision for doubtful debts	-	2,851
Provision-others	251	247
Provision for Wealth Tax	400	400
Provision for Diminution of Investments	16,282	-
Bad Debts written off	2,322	5,565
Fixed assets written off	3,320	-
Foreign Exchange Loss	38,870	21,422
Inventory written off	-	4,947
Deferred Revenue Expenditure written off	24,858	25,354
Interest Expense	21,975	29,160
Profit on sale of investment (Net)	(2,085)	(2,546)
Liabilities no longer required Written Back	(6,076)	(29,387)
Dividend Income	(102,547)	(88,624)
Interest Income	(5,831)	(9,782)
Operating Profit before working capital changes	1,621,032	1,692,868
Adjustments for changes in working capital		
(Increase)/Decrease in Sundry Debtors	(407,211)	(206)
(Increase)/Decrease in Loan and Advances	(75,227)	(45,986)
(Increase)/Decrease in Other Current Assets	78	(196)
(Increase)/Decrease in Inventories	(41,650)	(35,724)
(Increase)/Decrease in Lease Receivables	8,146	(7,082)
Increase/(Decrease) in Current Liabilities	439,849	141,072
(Increase)/Decrease in Stock on hire	73	231
Cash generated from operations	1,545,090	1,744,977
Taxes paid (Net of refunds)	(448,694)	(486,564)
Net Cash from Operating Activities	1,096,396	1,258,413
B. CASH FLOW FROM INVESTING ACTIVITIES		
Purchase of Fixed Assets		
- Addition during the year	(1,441,866)	(1,601,806)
Sale of Fixed Assets	18,622	9,751
Purchase of Investments	(8,956,949)	(6,116,635)
Sale of Investments	9,520,131	5,961,463
Interest received	5,831	9,782
Dividends received	102,547	88,624
Net Cash used in Investing Activities	(751,684)	(1,648,821)





C. CASH FLOW FROM FINANCING ACTIVITIES

	Year ended 31-12-2006 Rs. in thousand	Year ended 31-12-2005 Rs. in thousand
Issuance of Preference Share	144,000	-
Deposits accepted during the year (Net)	187,083	96,373
Payment of Long-term borrowings	-	780,236
Repayment of Long-term borrowings	(500,400)	(250,300)
Interest Paid	(21,975)	(29,159)
Dividend Paid including Tax on Dividend	(156,055)	(146,993)
Net Cash from Financing Activities	(347,347)	450,157
NET INCREASE IN CASH AND CASH EQUIVALENTS	(2,635)	59,749
Cash and Cash Equivalents at the beginning of the year	163,391	106,819
Cash and Cash Equivalents at the end of the year	160,756	166,568
Cash and Cash Equivalents comprise		
Cash in hand	400	395
Balances with Scheduled Banks :		
- In Current accounts	90,981	89,415
- In Dividend Accounts	7,364	7,570
- In Fixed Deposits Account	62,011	66,011
	160,756	163,391
Share of Joint Venture	-	3,177
Total Cash and Cash Equivalents as per Cash Flow statement	160,756	166,568

Notes to Cash Flow Statement

- Cash and cash equivalents represent cash and bank balances only.
- The above Cash Flow Statement has been prepared under the "Indirect Method" as set out in the Accounting Standard-3 on Cash Flow Statements issued by the Institute of Chartered Accountants of India.
- Purchase of fixed asset are stated inclusive of movements of capital work in progress and capital inventory are treated as part of investing activities.
- Figures in brackets indicate cash outflows.
- Previous year figures have been reclassified/regrouped wherever considered necessary to conform to the current year figures.

This is the consolidated cash flow referred to in our report of even date

Anupam Dhawan
Membership No. F84451
Partner
For and on behalf of
PRICE WATERHOUSE
CHARTERED ACCOUNTANTS

Place : Gurgaon
Date : February 23, 2007

For and on behalf of the Board

Hasmukh Shah
Chairman

B.S. Shantharaju
Managing Director

Jal Patel
Director

Sugata Sircar
Finance Controller

Rajiv Shah
Company Secretary

Place : Ahmedabad
Date : February 23, 2007





Auditors' Report to the members of Gujarat Gas Company Limited

1. We have audited the attached Balance Sheet of Gujarat Gas Company Limited, as at December 31, 2006, and the related Profit and Loss Account and Cash Flow Statement for the year ended on that date annexed thereto, which we have signed under reference to this report. 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.
2. We conducted our audit in accordance with the auditing standards generally accepted in India. 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 management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.
3. As required by the Companies (Auditor's Report) Order, 2003, as amended by the Companies (Auditor's Report) (Amendment) Order, 2004, issued by the Central Government of India in terms of sub-section (4A) of Section 227 of 'The Companies Act, 1956' of India (the 'Act') and on the basis of such checks of the books and records of the Company as we considered appropriate and according to the information and explanations given to us, we give in the Annexure a statement on the matters specified in paragraphs 4 and 5 of the said Order.
4. Further to our comments in the Annexure referred to in paragraph 3 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 purpose of our audit;
 - b) 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;
 - c) The Balance Sheet, Profit and Loss Account and Cash Flow Statement dealt with by this report are in agreement with the books of account;
 - d) In our opinion, the Balance Sheet, Profit and Loss Account and Cash Flow Statement dealt with by this report comply with the accounting standards referred to in sub-section (3C) of section 211 of the Act;
 - e) On the basis of written representations received from the directors, and taken on record by the Board of Directors, none of the directors is disqualified as on December 31, 2006 from being appointed as a director in terms of clause (g) of sub-section (1) of section 274 of the Act;
 - f) In our opinion and to the best of our information and according to the explanations given to us, the said financial statements together with the notes thereon and attached thereto give in the prescribed manner the information required by the Act and **read with Note 16(a) on Schedule 18 regarding prices of Natural Gas being reviewed by the Ministry of Petroleum and Natural Gas, Government of India** give a true and fair view in conformity with the accounting principles generally accepted in India:
 - i) in the case of the Balance Sheet, of the state of affairs of the Company as at December 31, 2006;
 - ii) in case of the Profit and Loss Account, of the profit for the year ended on that date; and
 - iii) in the case of the Cash Flow Statement, of the cash flows for the year ended on that date.

Anupam Dhawan
Membership Number: F-84451
Partner
For and on behalf of
Price Waterhouse
Chartered Accountants

Place: Gurgaon
Date: February 23, 2007





Annexure to Auditors' Report

[Referred to in paragraph 3 of the Auditors' report of even date to the members of Gujarat Gas Company Limited on the financial statements for the year ended December 31, 2006]

- i) a) The Company is maintaining proper records showing full particulars including quantitative details and situation of its fixed assets.
b) The fixed assets are physically verified by the management according to a phased programme designed to cover all the items over a period of three years, which in our opinion, is reasonable having regard to the size of the Company and the nature of its assets. Pursuant to the programme, a portion of the fixed assets has been physically verified by the management during the year and no material discrepancies between the book records and the physical inventory have been noticed.
- c) In our opinion and according to the information and explanations given to us, a substantial part of fixed assets has not been disposed off by the Company during the year.
- ii) a) The inventory has been physically verified by the management during the year. In our opinion, the frequency of verification is reasonable.
b) In our opinion, the procedures of physical verification of inventory followed by the management are reasonable and adequate in relation to the size of the Company and the nature of its business.
c) On the basis of our examination of the inventory records, in our opinion, the Company is maintaining proper records of inventory. The discrepancies noticed on physical verification of inventory as compared to book records were not material.
- iii) a) The Company has not granted any loans, secured or unsecured, to companies, firms or other parties covered in the register maintained under Section 301 of the Act.
b) The Company has not taken any loans, secured or unsecured, from companies, firms or other parties covered in the register maintained under Section 301 of the Act.
- iv) In our opinion and according to the information and explanations given to us, having regard to the explanation that certain items purchased are of special nature for which suitable alternative sources do not exist for obtaining comparative quotations, there is an adequate internal control system commensurate with the size of the Company and the nature of its business for the purchase of inventory, fixed assets and for the sale of goods and services. Further, on the basis of our examination of the books and records of the Company, and according to the information and explanations given to us, we have neither come across nor have been informed of any continuing failure to correct major weaknesses in the aforesaid internal control system;
- v) a) In our opinion and according to the information and explanations given to us, the particulars of contracts or arrangements referred to in Section 301 of the Act have been entered in the register required to be maintained under that section.
b) In our opinion and according to the information and explanations given to us, the transactions made in pursuance of such contracts or arrangements and exceeding the value of Rupees Five Lakhs in respect of any party during the year, have been made at prices which are reasonable having regard to the prevailing market prices at the relevant time.
- vi) The Company has not accepted any deposits from the public within the meaning of Sections 58A and 58AA of the Act and the rules framed there under.
- vii) In our opinion, the Company has an internal audit system commensurate with its size and nature of its business.
- viii) The Central Government of India, under clause (d) of sub-section (1) of Section 209 of the Act, has prescribed the maintenance of cost records. The company is in the process of preparing the cost records and accounts.
- ix) a) According to the information and explanations given to us and the records of the Company examined by us, in our opinion, the Company is regular in depositing the undisputed statutory dues including provident fund, investor education and protection fund, employees' state insurance, income-tax, sales-tax, wealth tax, service tax, customs duty, excise duty, cess and other material statutory dues as applicable with the appropriate authorities.
b) According to the information and explanations given to us and the records of the company examined by us, there are no dues of sales tax, wealth tax, service tax, customs duty, excise duty and cess which have not been deposited on account of any dispute. The particulars of dues of income tax as at December 31, 2006 which have not been deposited on account of a dispute are given in Note 46 on Schedule 18.





- x) The Company has no accumulated losses as at December 31, 2006 and it has not incurred any cash losses in the financial year ended on that date or in the immediately preceding financial year.
- xi) According to the records of the Company examined by us and the information and explanations given to us, the Company has not defaulted in repayment of dues to any financial institution or bank or debenture holders as at the balance sheet date.
- xii) The Company has not granted any loans and advances on the basis of security by way of pledge of shares, debentures and other securities.
- xiii) The provision of any special statute applicable to chit fund/ nidhi/ mutual benefit fund/ societies are not applicable to the Company.
- xiv) In our opinion, the Company is not a dealer or trader in shares, securities, debentures and other investments.
- xv) In our opinion, and according to the information and explanations given to us, the company has not given any guarantee for loans taken by others from banks or financial institutions during the year.
- xvi) In our opinion, and according to the information and explanations given to us, on an overall basis, the term loans have been applied for the purposes for which they were obtained.
- xvii) On the basis of an overall examination of the balance sheet of the Company, in our opinion and according to the information and explanations given to us, there are no funds raised on a short-term basis which have been used for long-term investment.
- xviii) The Company has not made any preferential allotment of shares to parties and companies covered in the register maintained under Section 301 of the Act during the year.
- xix) The Company has not issued any debentures during the year and there are no debentures outstanding as at the year end.
- xx) The Company has not raised any money by public issues during the year.
- xxi) During the course of our examination of the books and records of the Company, carried out in accordance with the generally accepted auditing practices in India, and according to the information and explanations given to us, we have neither come across any instance of fraud on or by the Company, noticed or reported during the year, nor have we been informed of such case by the management.

Place: Gurgaon
Date : February 23, 2007

Anupam Dhawan
Membership Number: F-84451
Partner
For and on behalf of
Price Waterhouse
Chartered Accountants





GUJARAT GAS COMPANY LIMITED
BALANCE SHEET AS AT 31ST DECEMBER, 2006

SOURCES OF FUNDS	Schedule	Rs. in thousand	As at 31-12-2006 Rs. in thousand	As at 31-12-2005 Rs. in thousand
SHAREHOLDER'S FUNDS :				
Share Capital	1	272,250		128,250
Reserves and Surplus	2	<u>4,006,677</u>	4,278,927	<u>3,308,214</u> 3,436,464
LOAN FUNDS :				
Unsecured loans	3		29,400	529,800
DEFERRED TAX LIABILITY (Net) (Refer Notes 12 and 32 of Schedule 18)			476,901	411,901
DEPOSITS : (Refer Note 23 of Schedule 18)				
From Customers		826,313		637,845
From GAIL (India) Limited		<u>38,692</u>		<u>38,692</u>
			865,005	<u>676,537</u>
TOTAL			5,650,233	<u>5,054,702</u>
APPLICATION OF FUNDS				
FIXED ASSETS :				
Gross Block	4	5,672,928		4,831,499
Less : Depreciation		<u>1,516,907</u>		<u>1,224,392</u>
		4,156,021		3,607,107
Less : Lease Terminal Adjustment Account		<u>118,859</u>		<u>118,859</u>
Net Block		4,037,162		3,488,248
Capital work in progress		673,709		349,681
Capital Inventory		<u>376,082</u>		<u>122,859</u>
			5,086,953	3,960,788
Assets held for Disposal			9,130	9,130
INVESTMENTS	5		786,226	1,500,927
CURRENT ASSETS, LOANS AND ADVANCES :				
Inventories	6	86,275		56,369
Sundry Debtors	7	771,123		401,814
Cash and Bank Balances	8	70,262		73,494
Loans and Advances	9	<u>231,395</u>		<u>148,680</u>
		1,159,055		680,357
LESS: CURRENT LIABILITIES AND PROVISIONS				
Current Liabilities	10	1,146,138		926,110
Provisions		<u>277,621</u>		<u>226,946</u>
		1,423,759		1,153,056
NET CURRENT ASSETS			(264,704)	(472,699)
MISCELLANEOUS EXPENDITURE (To the extent not written off or adjusted)	11		32,628	56,556
TOTAL			5,650,233	<u>5,054,702</u>
Significant Accounting Policies and Notes to Accounts				
	18			

This is the Balance Sheet referred to in our report of even date

The Schedules referred to above form an integral part of the Balance Sheet.

For and on behalf of the Board

Anupam Dhawan
Membership No. F84451
Partner
For and on behalf of
PRICE WATERHOUSE
CHARTERED ACCOUNTANTS

Hasmukh Shah Chairman
B.S Shantharaju Managing Director

Jal Patel Director
Sugata Sircar Finance Controller
Rajiv Shah Company Secretary

Place : Gurgaon
Date : February 23, 2007

Place : Ahmedabad
Date : February 23, 2007





PROFIT AND LOSS ACCOUNT FOR THE YEAR ENDED 31ST DECEMBER, 2006

	Schedule	Rs. in thousand	Year ended 31-12-2006 Rs. in thousand	Year ended 31-12-2005 Rs. in thousand
INCOME:				
Sales (Gross)	12	8,359,098		6,205,188
Less: Excise Duty on Gas		99,820		45,459
Sales (Net)		8,259,278		6,159,729
Other Income	13	187,944	8,447,222	183,886
				6,343,615
EXPENDITURE :				
Material consumed / processed (Refer Note 22 of schedule 18)		5,969,105		4,138,385
Personnel Expenses	14	279,958		209,523
Operating and Other Expenses	15	564,003		418,856
Depreciation		296,085		218,000
Finance Charges	16	30,191		29,126
Deferred Revenue Expenditure Written off		23,928		24,407
			7,163,270	5,038,297
Profit before Taxes			1,283,952	1,305,318
Tax Expense	17		395,000	401,387
Profit after Taxes			888,952	903,931
Profit brought forward			1,960,759	1,297,291
Profit available for Appropriations			2,849,711	2,201,222
APPROPRIATIONS :				
Proposed Dividend				
- Preference Shares			6,746	-
- Equity Shares			160,313	128,250
Corporate Dividend Tax [Includes Rs. Nil (Previous Year Rs. 1,226 thousand) pertaining to earlier years]			23,430	19,213
Transfer to General Reserve			88,900	93,000
Profit Carried Forward			2,570,322	1,960,759
			2,849,711	2,201,222
Basic/Diluted Earnings per Share (Rs.)				
(Refer Notes 11 and 26 of Schedule 18)			68.71	70.48
Significant Accounting Policies and Notes to Accounts	18			

This is the Profit and Loss Account referred to in our report of even date

Anupam Dhawan
Membership No. F84451
Partner
For and on behalf of
PRICE WATERHOUSE
CHARTERED ACCOUNTANTS

Place : Gurgaon
Date : February 23, 2007

The Schedules referred to above form an integral part of the Profit and Loss Account

For and on behalf of the Board

Hasmukh Shah B.S Shantharaju
Chairman Managing Director

Jal Patel Sugata Sircar Rajiv Shah
Director Finance Controller Company Secretary

Place : Ahmedabad
Date : February 23, 2007





SCHEDULES FORMING PART OF BALANCE SHEET

	As at 31-12-2006 Rs. In thousand	As at 31-12-2005 Rs. in thousand
SCHEDULE - 1		
SHARE CAPITAL		
Authorised		
28,000,000(Previous year 25,000,000) Equity Shares of Rs.10/- each	280,000	250,000
17,000,000(Previous year Nil) 7.5% Redeemable Preference Shares of Rs 10/- each	170,000	-
TOTAL	<u>450,000</u>	<u>250,000</u>
Issued, Subscribed and Paid up		
12,825,000(Previous year 12,825,000) Equity Shares of Rs.10/- each fully paid-up [Out of the above 8,351,875 (Previous year 8,351,875) equity shares are held by holding company British Gas Asia Pacific Holdings Pte. Limited, the ultimate holding company being BG Group plc.]	128,250	128,250
14,400,000 (Previous year Nil) 7.5% Redeemable Cumulative Non Convertible Preference Shares of Rs 10/- each fully paid up, issued to holding company British Gas Asia Pacific Holdings Pte. Limited	144,000	-
TOTAL	<u>272,250</u>	<u>128,250</u>
SCHEDULE - 2		
RESERVES AND SURPLUS		
GENERAL RESERVE		
As per last Balance Sheet	1,347,455	1,254,455
Add : Transferred from Profit and Loss Account	88,900	93,000
	<u>1,436,355</u>	<u>1,347,455</u>
PROFIT AND LOSS ACCOUNT		
TOTAL	<u>2,570,322</u>	<u>1,960,759</u>
	<u>4,006,677</u>	<u>3,308,214</u>
SCHEDULE - 3		
UNSECURED LOANS		
Long Term Loan from a Bank*	29,400	529,800
TOTAL	<u>29,400</u>	<u>529,800</u>

* Notes:

- i) Amount due within one year Rs. 29,400 thousand (Previous Year Rs. 500,400 thousand)
- ii) Against the loan the company has executed a demand promissory note of Rs 1,500,000 thousand in favour of the bank



SCHEDULES FORMING PART OF BALANCE SHEET

SCHEDULE- 4

FIXED ASSETS

(Refer Note 2, 3, 6, 9, 13, 19, 20 & 24 of Schedule 18)

(Rs. in thousand)

Particulars	GROSS BLOCK				DEPRECIATION				NET BLOCK	
	As at 01-01-2006	Additions For the Year	Deduction/ Adjustments For the year	As at 31-12-2006	As at 01-01-2006	For the Year	Deduction/ Adjustments For the year	As at 31-12-2006	As at 31-12-2006	As at 31-12-2005
Tangible Assets:										
Land (Refer Note 1 below)	45,751	-	1,484	44,267	-	-	-	-	44,267	45,751
Buildings (Refer Note 2 below)	192,961	21,507	-	214,468	27,285	4,516	-	31,801	182,667	165,676
Plant and Machinery	4,136,650	583,306	15,497	4,704,459	1,065,327	265,098	965	1,329,460	3,374,999	3,071,323
Furniture, Fixtures and Fittings	39,637	3,559	-	43,196	21,650	2,364	-	24,014	19,182	17,987
Vehicles	62,590	22,872	6,205	79,257	13,888	6,787	2,605	18,070	61,187	48,702
Assets given on Finance Lease (Prior to April 1, 2001)										
Plant and Machinery	279,625	-	-	279,625	85,827	-	-	85,827	193,798	193,798
Asset given on Operating Lease (After April 1, 2001)										
Plant and Machinery	-	226,477	-	226,477	-	9,634	-	9,634	216,843	-
Intangible Assets:										
Software/License	45,963	4,933	-	50,896	10,415	7,686	-	18,101	32,795	35,548
Right of use of Land	28,322	1,961	-	30,283	-	-	-	-	30,283	28,322
TOTAL	4,831,499	864,615	23,186	5,672,928	1,224,392	296,085	3,570	1,516,907	4,156,021	3,607,107
(Less)/Add :										
Lease Terminal Adjustment	-	-	-	-	118,859	-	-	118,859	(118,859)	(118,859)
TOTAL	4,831,499	864,615	23,186	5,672,928	1,343,251	296,085	3,570	1,635,766	4,037,162	3,488,248
Capital Work in Progress (Refer Notes 5 and 6 below)									673,709	349,681
Capital Inventory									376,082	122,859
TOTAL	4,831,499	864,615	23,186	5,672,928	1,343,251	296,085	3,570	1,635,766	5,086,953	3,960,788
Previous Year	3,529,401	1,332,266	30,168	4,831,499	1,133,142	218,000	7,891	1,343,251	3,488,248	

NOTES :

- Land includes Leasehold Land Rs.184 thousand (Previous year Rs.184 thousand).
- Cost of Building includes cost of shares of the face value of Rs.1 thousand (Previous year : Rs.1 thousand) received under the bye-laws of the society.
- Additions during the year includes foreign exchange fluctuation of Rs.246 thousand (Previous year Rs.447 thousand).
- Fixed Assets held for disposal Rs. 9,130 thousand (Previous Year Rs. 9,130 thousand) have not been included above and have been shown separately at lower of cost and net realisable value.
- Capital Work in Progress includes Capital Advances Rs. 154,255 thousand (Previous Year Rs. 62,341 thousand).
- Capital Work In Progress includes Natural gas fired cogeneration units amounting to Rs. 96,913 thousand (Previous Year Rs. Nil) to be given on finance lease.





SCHEDULES FORMING PART OF BALANCE SHEET

	Rs. in thousand	As at 31-12-2006 Rs. in thousand	As at 31-12-2005 Rs. in thousand
SCHEDULE - 5			
INVESTMENTS			
(Refer Notes 4 and 33 of Schedule 18)			
A Long Term Investments :			
(At Cost)			
Equity Shares			
Trade -Unquoted	139,363		139,363
Less: Provision	(104,344)		(94,594)
		35,019	44,769
Others		4,125	4,500
Long Term Investments (A)		39,144	49,269
B Current Investments :			
(At Cost or Fair Value whichever is lower, determined categorywise)			
Other than Trade (Unquoted)			
Mutual Funds		747,082	1,451,658
Current Investment (B)		747,082	1,451,658
Total Investment (A+B)		786,226	1,500,927
Aggregate cost of Unquoted Investments		890,570	15,95,521
SCHEDULE - 6			
INVENTORIES			
(Refer Note 5 of Schedule 18)			
Stores and Pipe Fittings		86,275	56,369
TOTAL		86,275	56,369
SCHEDULE - 7			
SUNDRY DEBTORS			
For Sales and Service Charges			
Secured - Considered Good			
Exceeding Six Months		1,590	1,473
Others		477,184	367,442
Unsecured - Considered Good			
Exceeding Six Months		43,912	3,761
Others		248,437	29,138
Unsecured - Considered Doubtful			
Exceeding Six Months	10,038		14,656
Less : Provision for Doubtful Debt	(10,038)		(14,656)
TOTAL		771,123	401,814
SCHEDULE - 8			
CASH AND BANK BALANCES			
Cash in hand		367	291
Balances with Scheduled Banks :			
- In Current Accounts		62,638	65,765
- In Dividend Accounts		7,257	7,438
TOTAL		70,262	73,494





SCHEDULES FORMING PART OF BALANCE SHEET

	Rs. in thousand	As at 31-12-2006 Rs. in thousand	As at 31-12-2005 Rs. in thousand
SCHEDULE - 9			
LOANS AND ADVANCES			
Unsecured - considered good, unless otherwise stated.			
Advances to Subsidiaries		10,704	11,468
Insurance Claim Receivable		25,978	-
Advances recoverable in Cash or in kind or for value to be received		85,467	85,757
Advance payment of tax and tax deducted at source	2,872,922		2,493,731
Less: Taxation Provision	(2,763,676)		(2,442,276)
TOTAL		109,246	51,455
		231,395	148,680
SCHEDULE - 10			
CURRENT LIABILITIES AND PROVISIONS			
(A) CURRENT LIABILITIES			
Sundry Creditors			1,900
- Dues to Small Scale Undertakings	366		815,342
- Other Creditors	1,030,502	1,030,868	817,242
Due to Subsidiaries		54,117	80,911
Investor Education and Protection Fund shall be credited by:			
- Unpaid Dividend		7,257	7,438
Other Liabilities		53,896	20,519
		1,146,138	926,110
(B) PROVISIONS			
Proposed Dividend		190,489	146,237
[Including Corporate Dividend tax Rs.23,430 thousand (Previous Year Rs 17,987 thousand)]			
Gratuity and Leave encashment		34,767	29,836
Provision for Fringe Benefit Tax (Net of Advance Tax)		3,836	2,595
Other Provisions		48,529	48,278
(Refer Note 34 of Schedule 18)		277,621	226,946
TOTAL		1,423,759	1,153,056
SCHEDULE - 11			
MISCELLANEOUS EXPENDITURE			
(Refer Note 14 of Schedule 18)			
Deferred Revenue Expenditure			
a) Voluntary Retirement Scheme:			
Opening Balance	10,780		17,467
Less: Written Off during the year	(6,208)	4,572	(6,687)
			10,780
b) SAP Implementation Cost			
Opening Balance	45,776		63,496
Less: Written Off during the year	(17,720)	28,056	(17,720)
TOTAL		32,628	45,776
		56,556	56,556





SCHEDULES FORMING PART OF PROFIT AND LOSS ACCOUNT

	Rs. in thousand	Year ended 31-12-2006 Rs. in thousand	Year ended 31-12-2005 Rs. in thousand
SCHEDULE - 12			
SALES(Gross)			
Natural Gas		8,014,380	5,711,422
Gas Transmission Income		180,776	359,935
Service and Fitting Income (Net)		122,320	133,765
Lease Income		41,622	66
TOTAL		8,359,098	6,205,188
SCHEDULE - 13			
OTHER INCOME			
Income from Investments			
Long Term			
Dividend from subsidiary company		70,000	5,400
Dividend from Trade Investment		-	3,300
Current			
Dividend from Mutual Funds		76,193	69,519
Interest on Inter Corporate Deposits		-	1
Interest on Bank Fixed Deposits		25	95
Interest on Others (Customers and Staff advances) [Gross, Tax deducted at source Rs 86 thousand (Previous year Rs 145 thousand)]		5,804	5,454
Profit on Sale of Current Investments	2,402		3,077
Less: Loss on Sale of Current Investments	(428)		(737)
		1,974	2,340
Liabilities no longer required Written Back		6,045	18,102
Profit on Sale of Fixed assets (Net)		2,327	-
Miscellaneous Income (Refer Note 21 of Schedule 18)		25,576	79,675
TOTAL		187,944	183,886
SCHEDULE - 14			
PERSONNEL EXPENSES			
Salaries, Wages and Bonus		231,661	175,925
Contribution to Provident and Other Funds		21,533	11,077
Welfare Expenses		26,764	22,521
TOTAL		279,958	209,523





SCHEDULES FORMING PART OF PROFIT AND LOSS ACCOUNT

	Rs. in thousand	Year ended 31-12-2006 Rs. in thousand	Year ended 31-12-2005 Rs. in thousand
SCHEDULE - 15			
OPERATING AND OTHER EXPENSES			
Stores and Chemicals consumed		13,102	22,609
Power and Fuel		85,107	41,224
Rent		17,654	17,786
Rates and Taxes		2,251	2,241
Repairs:			
- To Buildings	2,609		2,338
- To Plant and Machinery	114,387		88,489
- To Others	45,286		19,638
		162,282	110,465
Insurance		16,437	10,783
Stationery and Printing		6,942	6,490
Advertisement Expenses		7,994	8,053
Communication Expenses		17,799	18,001
Vehicle Hire Charges		19,564	13,635
Travelling Expenses		38,190	27,467
Donation		1,200	725
Legal, Professional and Consultancy		65,595	63,743
Loss on Sale of Fixed assets (Net)		-	3,527
[Includes Rs. Nil (Previous year Rs 3,690 thousand) on account of write down of assets held for disposal]			
Bad debts / Advances written off		2,322	5,565
Other Provision		251	247
(Refer Note 34 of Schedule 18)			
Provision for Doubtful Debts		-	2,851
Provision for Diminution in the value of Long Term Investments		9,750	9,000
Assets written off		3,320	-
Inventory written off		-	4,002
Service Charges		29,948	10,861
Miscellaneous Expenses		64,295	39,581
TOTAL		564,003	418,856
SCHEDULE - 16			
FINANCE CHARGES			
Interest - Unsecured Loans		20,294	27,595
Interest - Others		9,897	1,531
TOTAL		30,191	29,126
SCHEDULE - 17			
TAX EXPENSE			
(Refer Notes 12 and 32 of Schedule 18)			
Current Income tax		321,000	432,287
Deferred Income tax		65,000	(36,400)
Fringe benefit tax		9,000	5,500
TOTAL		395,000	401,387





SCHEDULE -18

SIGNIFICANT ACCOUNTING POLICIES AND NOTES TO ACCOUNTS

SIGNIFICANT ACCOUNTING POLICIES:

1. Accounting Convention:

The Financial statements have been prepared under Historical Cost Convention in accordance with applicable Accounting Standards issued by the Institute of Chartered Accountants of India and relevant provisions of the Companies Act, 1956.

2. Fixed Assets:

- (a) Fixed Assets including assets given on lease are stated at their original cost including freight, duties, customs and other incidental expenses relating to acquisition or construction.
- (b) Expenditure incurred during the period of construction including all direct and indirect expenses, incidental to construction are carried forward and on completion, the costs are allocated to the respective fixed assets.
- (c) Capital inventory represents items of capital nature lying in the store valued at cost on First In First Out method.
- (d) Insurance spares are capitalised with the cost of the plant and machinery and depreciated over the useful life of the asset.

3. Depreciation/Amortisation:

- (a) Depreciation on assets including assets given on lease is provided on Straight Line Method (SLM) at the rates and in the manner prescribed in Schedule XIV to the Companies Act, 1956 except for CNG Kits and Cylinders which are depreciated over a period of 3 years. Assets costing Rs. 5,000 or less are fully depreciated in the year of purchase.
- (b) Depreciation on assets purchased/acquired during the year is charged from the beginning of the month of the purchase of the asset. Similarly depreciation on assets sold / discarded during the year is charged upto the end of the month of sale of asset.
- (c) No depreciation is being charged on Right of Use of Land being perpetual in nature.
- (d) Licenses/Software are amortized over a period of Six years from the date of its availability for use by the Company.

4. Investments:

Long term Investments are stated at cost. Provision, if any, is made for permanent diminution in the value of investments.

Current investments are stated at lower of cost or market value determined categorywise. Cost is determined as per weighted average cost formula.

5. Inventories:

Stores and Pipes fittings are valued at cost on First In First Out method after providing for obsolescence.

Project work in progress is valued at cost. Provision is made for estimated losses on incomplete contracts when such losses become probable based on current contract estimates.

6. Foreign currency transactions:

Foreign currency transactions are accounted for at the exchange rate prevailing on the transaction date. Year-end monetary assets and liabilities in foreign currency, other than those pertaining to the acquisition of fixed assets, are translated at the applicable year-end exchange rates and the resultant difference is recognised as gain / loss for the year. Year-end translation difference in respect of liabilities pertaining to acquisition of fixed assets is added to the costs of the relevant assets.

The premium or discount arising on forward exchange contracts including those entered into to hedge the foreign currency risks of a firm commitment or highly probable forecast transaction is amortized as expense or income over the life of the contract. Exchange differences on such contracts are recognised in the statement of profit and





loss in the reporting period in which the exchange rates change. Any profit or loss arising on cancellation or renewal of such forward exchange contracts is recognised as income or as expense for the year.

7. Retirement Benefits:

Contributions to provident fund are accrued in accordance with applicable statutes and deposited with the Regional Provident Fund Commissioner.

Contributions in respect of gratuity are made to the approved Gratuity Fund of the Company. The liability in respect of gratuity is determined by actuarial valuation made as on the Balance Sheet date.

The liability in respect of Leave Encashment is provided for on the basis of actuarial valuation as on the Balance Sheet date.

8. Revenue Recognition:

(a) Revenue on sale of natural gas is recognised on transfer of title to customers at delivery point. Sales are billed bi-monthly for domestic customers, monthly for commercial and non-commercial customers and fortnightly for industrial customers. Spot sales of gas to industrial customers are billed as per the terms mutually agreed between the parties. Revenue on sale of Compressed Natural Gas (CNG) are recognised on sale of gas to customers from retail outlets.

(b) Gas Transmission income is recognized in the same period in which the related volumes of gas are delivered to the customers.

(c) Commitment income from customers for gas sales and gas transmission is recognized on establishment of certainty of receipt of consideration.

(d) Assets given on lease:

(i) In respect of Asset leased before April 1, 2001:

The Lease Rentals have been accounted on accrual basis as per the Lease Agreements entered into with the Lessees. Lease rentals recognised as income are adjusted by creating a Lease Equalisation Account to ensure recognition of income at a constant periodic rate of return on the net investment outstanding. The said policy is in accordance with the Guidance Note on Accounting for Leases issued by the Institute of Chartered Accountants of India.

(ii) In respect of asset leased after April 1, 2001:

Lease Income from Operating Leases have been recognised in the Profit & Loss Account on a straight line basis over the lease term, as required by AS – 19 on Leases.

(iii) Initial direct costs incurred for negotiating and arranging lease agreements are recognised immediately in the profit and loss account.

(e) Dividend income is recognised when the right to receive dividend is established.

9. Borrowing Costs:

Borrowing costs attributable to the acquisition or construction of a qualifying asset is capitalised as part of the cost of the asset. Other borrowing costs are recognised as an expense in the period in which they are incurred.

10. Operating Leases:

Lease rentals are recognised as an expense on straight line basis over the term of the lease.

11. Earnings Per Share (EPS):

The earnings considered in ascertaining the Company's EPS comprises the net profit after tax (after providing for dividend on Preference Shares and includes the post tax effect of any extra ordinary items). The number of shares used in computing Basic EPS is the weighted average number of equity shares outstanding during the year.

12. Taxation:

Tax expense for the year, comprising current tax, deferred tax and fringe benefit tax is included in determining the net profit for the year.





A provision is made for the current tax and fringe benefit tax based on tax liability computed in accordance with relevant tax rates and tax laws. A provision is made for deferred tax for all timing differences arising between taxable income and accounting income at substantively enacted tax rates.

Deferred tax assets are recognised only if there is reasonable certainty that they will be realised and are reviewed for the appropriateness of their respective carrying values at each balance sheet date.

13. Impairment of Assets:

Assets that are subject to amortization are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognized for the amount by which the assets' carrying amount exceeds its recoverable amount. The recoverable amount is the higher of the assets' net selling price and its value in use.

For the purpose of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash generating units).

14. Miscellaneous Expenditure:

Deferred Revenue Expenditure pertaining to Voluntary Retirement Scheme (VRS) of employees is amortised in equal installments over a period of 5 financial years from the year in which the same is incurred. Deferred Revenue Expenditure pertaining to SAP is amortised over a period of 60 months equally commencing from the month of commissioning.

15. Provision and Contingencies:

The Company creates a provision when there is present obligation as a result of a past event that probably requires an outflow of resources and a reliable estimate can be made of the amount of obligation. A disclosure for a contingent liability is made when there is a possible obligation or a present obligation that probably will not require an outflow of resources or where a reliable estimate of the obligation can not be made.

NOTES TO ACCOUNTS:

16. Contingent Liabilities:

- (a) Prices of Natural Gas for the period 1st April 2000 to 30th June 2005, were under review by the Ministry of Petroleum and Natural Gas (MoPNG), Government of India. Pending finalisation of such prices, GAIL (India) Limited one of the suppliers of the company was making provisional billing to the company based on the rates specified in the MoPNG intimation dated September 18, 1997. Subsequent adjustments that may arise on aforesaid revision are not ascertainable at this stage. GAIL has now advised the price chargeable as from July 1, 2005 but made no reference to the prior periods referenced above. However the management does not expect any price revision for past periods.
- (b) Claims against the company not acknowledged as debts Rs. 9,856 thousand (Previous year Rs. 11,136 thousand)
- (c) Claims of Rs.19,680 thousand (Previous year Rs.17,659 thousand) against the Company have been disputed by the Company. The Company is, however, indemnified by an insurance policy.
- (d) Income tax related exposures Rs.167,792 thousand (Previous year Rs. 168,929 thousand).
 - (i) Includes income tax demand of Rs.53,456 thousand relating to Assessment Years 1998-99, 1999-00 and 2000-01 due to disallowance of interest, pertaining to construction phase, on debentures borrowed for the Hazira Ankleshwar pipeline claimed as revenue expenditure. The company has paid Rs. 53,456 thousand (Previous year Rs. 53,456 thousand) out of the above demand.

CIT (Appeals) has ruled in favour of the company and deleted demand of Rs. 6,866 thousand pertaining to Assessment year 2000-01, from the above demand. However, Income-tax department has preferred an appeal against the said order of CIT (Appeals).
 - (ii) Includes income tax demand of Rs.119,135 thousand (Previous year Rs.115,338 thousand) including interest on tax, relating to Assessment Years 1995-96, 1996-97, 1999-00, 2000-01, 2001-02, 2002-03, 2003-04 and 2004-05 due to disallowance of depreciation claimed on leased assets. The total amount paid by company / adjusted by tax authorities on account of above demand aggregates to Rs. 115,166 thousand (Previous year Rs.112,411 thousand). The company has





claimed depreciation on leased assets for other years as well. The total tax exposure, net of interest on tax, on account of the above for all the years aggregates to Rs.114,336 thousand (Previous year Rs.115,473 thousand). The company had filed appeals against the above income tax demands. ITAT has allowed company's claim of depreciation on leased assets for A.Y. 1995-96 and this will have consequential effect on all subsequent years.

- (e) The Company has given a counter guarantee of Rs. 400,000 thousand (Previous year Rs. 400,000 thousand) on behalf of Gujarat Gas Trading Company Limited (GTCL), its wholly owned subsidiary, to a Bank for the guarantee given by them for performance of gas purchase contract entered with the suppliers of GTCL.
- 17.** Estimated amount of contracts net of advances remaining to be executed on capital account and not provided for Rs.183,242 thousand (Previous year Rs. 300,449 thousand).
- 18.** Estimated amount of forward contracts outstanding at the year end Rs.1,482,710 thousand (USD 33,500 thousand) [Previous year Rs.1,583,400 thousand (USD 35,000 thousand)].
- 19.** The Company has constructed a building and facilities for processing and distribution of natural gas on plots allotted on lease by Surat Municipal Corporation and has paid rent accordingly. The plots are within the Town Planning Scheme approved by Government of Gujarat. However, in the year 1994, Surat Mamalatdar had issued a notice on the ground that the plots belong to Government of Gujarat. The honorable court issued an ad-interim injunction against such notice, in the year 1994. Mamalatdar had preferred an appeal against the injunction, which has been rejected by the honorable court. The management is confident of resolving the dispute without any disruption to its facilities.
- 20.** The company has constructed a civil structure aggregating to Rs.19,037 thousand (Previous year Rs.19,037 thousand) on land which is not yet owned by the Company. The management is confident of obtaining the requisite approvals of the Government Authorities for transfer of ownership of land.
- 21.** The Other Income for previous year includes Rs.56,914 thousand received by the company, on account of settlement of dispute with one of its gas suppliers.
- 22. Material consumed includes:**
- a) Rs. 22,559 thousand (Previous Year Rs. 21,125 thousand) towards Internal consumption of Gas.
- b) Rs. 82,113 thousand (Previous Year Rs.16,438 thousand) as foreign exchange fluctuations.
- 23.** Deposits from customers have been considered as a source of long term funds since the same are refundable only on termination / modification of the gas sale agreement.
- 24. Assets given on Operating Leases :**
- Leasing operations of the company mainly involves leasing of gas based generator sets under operating lease arrangements. The ownership of these generators remains with the company throughout the life of these generators. The lease agreement typically ranges from 6 to 12 years.
- 25. Obligations on Operating Leases:**
- The company has taken premises for office and residential use for its employees under cancelable operating lease agreements. The total lease rentals recognized as an expense during the year under the above lease agreements aggregates to Rs. 2,220 thousand (Previous year Rs.1,009 thousand). The lease agreement typically ranges from 1 to 3 years.
- 26. Earnings per share (EPS):**

	Year ended December 31, 2006	Year ended December 31, 2005
Net Profit attributable to Equity Shareholders (Rs in thousand)	881,260	903,931
Weighted average number of equity shares outstanding during the year (No. in thousand)	12,825	12,825
Basic earnings per share of Rs 10/- each (in Rs.)	68.71	70.48

The Company does not have any outstanding dilutive potential equity shares. Consequently the basic and diluted earning per share of the company remain the same.





27. Segment Reporting:

The company is primarily in the business of distribution of Natural gas through pipelines from sources of supply to centers of demand and to the end customers. The company also builds pipelines required to make the gas available to the end customer. The other activity of the company comprises leasing of natural gas fired Cogeneration units, the income from which is not material in financial terms.

Further, the Company is operating in a single geographical segment. Accordingly, disclosures relating to primary and secondary business segments under the Accounting Standard on Segment Reporting (AS - 17) issued by the Institute of Chartered Accountants of India are not relevant to the Company.

28. The Company's joint venture "Petroleum Infrastructure Limited" (incorporated in India with 50% stake being held by the Company) is under liquidation and "Sensus Metering Systems India Limited" (incorporated in India with 49% stake being held by the Company) has closed its operations w.e.f February 26, 2006. Accordingly, the Company's interest in the joint ventures has been accounted for in accordance with Accounting Standard 13 "Accounting for Investments" and has not been disclosed as per Accounting Standard 27 "Financial Reporting of Interest in Joint Ventures".
29. During the current year, the company acquired the Cogeneration business of BG India Energy Services Private Limited, a company engaged in providing equipments and services in relation to natural gas fired Cogeneration units, on a slump sale basis with effect from June 2, 2006 at a consideration of Rs. 109,713 thousand.
30. In May 2006, the company allotted 14,400,000 7.5% Redeemable Cumulative Non-Convertible Preference Shares (RCNPS) of Rs. 10 each at par aggregating to Rs. 144,000 thousand on a preferential basis to BG Asia Pacific Holdings Private Limited (the Holding Company), a company incorporated in Singapore. Out of the issue proceeds, Rs. 109,713 thousand has been paid to BG India Energy Services Private Limited towards purchase of Cogeneration business and Rs. 2,194 thousand has been utilized for payment of stamp duty on transfer of business. The balance proceeds of Rs. 32,093 thousand has been invested in short term funds.





31. Related Party Transactions:

The Company is controlled by British Gas Asia Pacific Holdings Pte. Limited which owns 65.12% of the Company's shares. The ultimate parent of the group is BG Group plc.

The following related party transactions were carried out during the year in the ordinary course of business:

Name of the Related Party	Nature of Relationship	Nature of Transaction	Amount (Rs. in thousand)	
			Year ended December 31, 2006	Year ended December 31, 2005
BG Group plc	Ultimate holding company	Reimbursement of salary (Paid)	19,262	15,236
		Reimbursement Expenses (Received)	3,113	103
		Amount payable at the year end	89,621	94,543
British Gas Asia Pacific Holdings Pte. Limited	Holding company	Dividend paid	83,512	83,512
		Allotment of Preference Shares	144,000	-
Gujarat Gas Financial Services Limited (Refer Note 1)	Subsidiary	Income:		
		Service Charges for domestic Gas connections	66,334	64,863
		Interest on loans	-	1
		Amount receivable at year end	10,704	11,468
Gujaratgas Trading Company Limited (Refer Note 1)	Subsidiary	Income:		
		Service charges	1,200	1,200
		Gas transmission Charges	66,779	73,858
		Reimbursement of Transmission Charges	8,153	6,953
		Dividend	70,000	5,400
		Purchase of gas [including sales tax of Rs. 79,326 thousands (Previous year Rs. 196,276 thousand)]	2,537,325	1,831,909
		Reimbursement of Expenses	420	398
		Interest paid	8,216	-
		Counter Guarantee (Refer Note 16 (e) of Schedule 18)	400,000	400,000
		Amount payable at year end	54,117	80,911
Sensus Metering Systems India Limited (Formerly known as Invensys Metering Systems India Limited)	Joint Venture	Expense:		
		Purchase of meters	-	144
		Repairs of Materials	102	93
		Reimbursement of Expenses (Paid)	158	164
		Reimbursement of Expenses (Received)	183	-
		Amount receivable at year end	183	-
Petroleum Infrastructure Limited	Joint Venture	Amount receivable at year end	118	118
Mahanagar Gas Limited	Under common control	Contract services for laying of pipelines and domestic gas connections:		
		Material Charges	-	749
		Provision for Doubtful Debts against amount receivable	7,138	7,138
		Amount receivable at the year end	7,138	7,138
IQARA Telecoms India Private Limited (Formerly known as BG Broadband India Private Limited) (Related party till 9th June 2006)	Under common control	Income:		
		Rent	-	331
		Expense:		
		Cost of internet access	76	1,308
		Write off of Receivables	338	-
		Amount payable/(receivables) at year end	-	(416)





Name of the Related Party	Nature of Relationship	Nature of Transaction	Amount (Rs. in thousand)	
			Year ended December 31, 2006	Year ended December 31, 2005
British Gas India Private Limited	Under common control	Income:		
		Service charges for secondment of employees	1,005	1,363
		Expense:		
		Legal and Professional	38,250	29,438
		Reimbursement of Expenses (Paid)	8,148	4,526
		Reimbursement of Expenses (Received)	2,455	1,335
BGLNG Regas India Private Limited (Formerly Known as British Gas Pipavav LNG Private Limited)	Under common control	Amount payable at the year end	61,820	13,880
		Amount receivable at the year end	5	5
B.G.Exploration and Production India Ltd.	Under common control	Income:		
		Service charges for secondment of employees	937	1,638
		Sales of Material	11,416	60,002
		Reimbursement of Expenses (Received)	27	429
		Reimbursement of Expenses (Paid)	4,382	-
BG India Energy Services Private Limited	Under common control	Amount receivable at the year end	1,150	19,550
		Acquisition of Cogeneration business	109,713	-
Panna Mukta Tapi	Under common control	Purchase of gas	757,715	328,472
B.S. Shantharaju	Key Management Personnel	Remuneration as Managing Director	11,569	10,739

Notes: 1 Gujarat Gas Financial Services Limited and Gujaratgas Trading Company Limited have been using the ERP software packages implemented by Gujarat Gas Company Limited being "SAP" and "Gas Distribution and Billing System" since August 2003 and August 2004 respectively without payment of any consideration.





	Year ended December 31, 2006 (Rs. in thousand)	Year ended December 31, 2005 (Rs. in thousand)
32. Deferred Tax:		
(A) The movement in deferred tax account is as follows:		
Opening Balance	411,901	448,301
Provision for current year deferred tax liability (Net)	65,000	(36,400)
Closing Balance	<u>476,901</u>	<u>411,901</u>
(B) Deferred tax assets and liabilities are being offset as they relate to taxes on income levied by the same governing taxation laws. The following amounts are shown in the balance sheet:		
Deferred Tax Liabilities	512,178	443,962
Deferred Tax Assets	<u>(35,277)</u>	<u>(32,061)</u>
	<u>476,901</u>	<u>411,901</u>
(C) Break up of deferred tax assets/liabilities:		
Deferred Tax Liabilities:		
Tax impact of difference between carrying amount of fixed assets in the financial statements and the income tax return	512,178	443,962
Total (A)	<u>512,178</u>	<u>443,962</u>
Deferred Tax Assets:		
Tax impact of expenses charged in the financial statements but allowable as deductions in future years under income tax:		
Provision for doubtful debts	3,379	4,933
Provision for diminution of investment	6,311	3,029
Expenditure under section 43B of the Income Tax Act	25,587	24,099
Total (B)	<u>35,277</u>	<u>32,061</u>
Net Deferred Tax Liability (A-B)	<u>476,901</u>	<u>411,901</u>





	As at December 31, 2006 Rs. in thousand	As at December 31, 2005 Rs. in thousand
33. Details of Investment in Schedule 5 are:		
INVESTMENTS		
A Long Term Investments (At cost)		
Trade Investments :		
1 In Shares of Subsidiary Company (Unquoted) :		
1,397,500 Equity Shares of Rs. 10/- each fully paid in Gujarat Gas Financial Services Limited	13,995	13,995
9,000 Equity Shares of Rs. 100/- each fully paid in Gujaratgas Trading Company Limited	1,275	1,275
2 In Equity Shares of Associate Companies (Unquoted) :		
3,909,293 Equity Shares of Rs. 10/- each fully paid in Sensus Metering Systems India Limited	39,093	39,093
Less : Provision	(29,344)	(19,594)
7,500,000 Equity Shares of Rs. 10/- each fully paid in Petroleum Infrastructure Limited	75,000	75,000
Less : Provision	(75,000)	(75,000)
3 Other (Unquoted)		
Trade Investments :		
1,000,000 Equity Shares of Rs. 10/- each fully paid in Gujarat State Petroleum Corporation Limited	10,000	10,000
Non Trade Investments:		
Contribution in Gujarat Venture Capital Fund 1995 (Unquoted)	4,125	4,500
Long Term Investments (A)	39,144	49,269
B Current Investments (At cost or market value whichever is lower, determined categorywise)		
Other than Trade - Unquoted - Units of Mutual Funds	747,082	1,451,658
Current Investment (B)	747,082	1,451,658
Total Investment (A+B)	786,226	1,500,927
Notes :		
1 Aggregate cost of Unquoted Investments	890,570	1,595,521
2 Quantitative Movement of Investments from 1st January, 2006 to 31st December, 2006 is given below		





Scheme	No. of units at the beginning of the year	Opening Value (Rs in thousand)	No. of Units Purchased	No. of Units sold	No. of Units in hands at the year end	Cost of units in hand at the year end at lower of cost or market value (Rs in thousand)
Birla Cash Plus Insti. Premium.-Dividend Daily	13,215,557	132,413	86,933,729	93,417,835	6,731,451	67,446
Birla FMP Series - 2- Quarterly (Div. Payout)	-	-	2,000,000	2,000,000	-	-
Birla FMP Series - 2- Quarterly (Div. Payout)	-	-	1,997,483	1,997,483	-	-
Birla FMP- Series 2- Quarterly- (Div. Payout)	2,997,632	30,000	-	2,997,632	-	-
Birla FMP- Series 2- Quarterly- (Div. Payout)	-	-	1,994,217	-	1,994,217	20,000
Birla FTP- Series 1- Quarterly- (Div. Payout)	-	-	3,000,000	3,000,000	-	-
Birla Sun Life Cash Manager IP-(Div. Daily)	-	-	2,001,877	2,001,877	-	-
DSP Liquidity Fund Institutional (Daily Dividend)	105,105	105,126	570,794	675,899	-	-
DSP ML Fixed Term Plan- Series-1 A (Div. Payout)	2,000,000	20,000	-	2,000,000	-	-
DSP ML Fixed Term Plan- Series-I (Div. Payout)	5,000,000	50,000	-	5,000,000	-	-
DSP ML Fixed Term Plan- Series-IA (Div. Payout)	-	-	30,473	30,473	-	-
Grindlays Cash Fund Super Inst. Plan- C (Div. Dly)	4,579,846	45,798	17,923	4,597,769	-	-
Grindlays Fixed Maturity - 18th Plan- (Div. Op.)	5,000,000	50,000	-	5,000,000	-	-
Grindlays Fixed Maturity - 21st Plan- (Div. Op.)	-	-	3,028,260	3,028,260	-	-
HDFC Cash Management- Saving Plan (Div.Daily)	-	-	14,105,485	10,811,929	3,293,556	35,032
HDFC Floating Rate Income STP Dividend Option	2,288,103	22,987	34,614	1,977,242	345,475	3,472
HDFC FMP 3M - Institutional Plan Div. OP. (Div.)	-	-	2,000,000	2,000,000	-	-
HDFC FMP 3M -June 2006(1) Institutional Plan(Div)	-	-	2,000,340	2,000,340	-	-
HDFC FMP 3M May-2006(1)- Institutional Plan (Div.)	-	-	1,500,000	1,500,000	-	-
HDFC Liquid Premium Dividend Option	1,263,297	15,318	14,755	1,278,052	-	-
HSBC Cash Fund Inst Plus Dividend Option	4,346,285	43,487	23,044,380	27,390,665	-	-
HSBC Fixed Term Series - 7 (Div. Payout)	-	-	3,045,123	3,045,123	-	-
HSBC Fixed Term Series - 8 (Div. Payout)	-	-	3,000,000	3,000,000	-	-
HSBC Floating Rate STP - Inst Dividend Option	4,861,199	48,708	38,248	4,899,447	-	-
ING Fixed Maturity Series- IV (Div. Payout)	4,000,000	40,000	-	4,000,000	-	-
ING Fixed Maturity Series- X - (Div payout)	-	-	3,000,000	3,000,000	-	-
ING Fixed Maturity Series- XI- (Div payout)	-	-	3,000,000	3,000,000	-	-
ING Fixed Maturity Series-VIII (Div. Payout)	-	-	2,000,000	2,000,000	-	-
ING Floating Rate Fund-Div.Dly	76,848	769	461	77,309	-	-
ING Liquid Fund Super Institutional (Div. Daily)	4,600,958	46,021	77,130,976	68,366,035	13,365,899	133,691
ING Select Debt Fund (Quarterly Div.)	1,994,827	20,365	-	1,994,827	-	-
JM Fixed Maturity Fund Seires-II Quaterly Plan-QSA	-	-	2,000,000	2,000,000	-	-
JM Fixed Maturity Pl- Ser-III Qtrly pl- FMF- Q2(DIV.)	-	-	1,014,709	1,014,709	-	-
JM Fixed Maturity Plan- QSF7-Series-(Div. Op.)	2,000,000	20,000	23,881	2,023,881	-	-
JM Fixed Maturity Quaterly Plan- QSG7-Series-	2,000,000	20,000	-	2,000,000	-	-
JM Fixed Maturity Ser-III Quaterly PL-(Div. Payout)	-	-	2,028,643	2,028,643	-	-
JM Floater Fund Short Term Dividend Option	3,882,428	39,076	33,820	3,916,248	-	-
JM High Liquid Inst Dividend Option	17,455	175	361	17,816	-	-
K Bond Short Term Plan Dividend Option	5,287,844	53,375	45,088	5,332,932	-	-
Kotak Liquid Inst Premium Dividend Option	4,888,783	59,781	70,428,118	70,002,699	5,314,202	64,983
Kotak FMP 3M Series- 1 (Div.Payout)	-	-	3,000,000	3,000,000	-	-
Kotak FMP 3M Series- 3 (Div. Payout)	-	-	2,000,000	2,000,000	-	-
Kotak FMP 3M Series- 4 (Div. Payout)	-	-	3,044,752	3,044,752	-	-
Kotak FMP 3M Series- 7 (Div. Payout)	-	-	3,000,000	-	3,000,000	30,000
Kotak FMP Series- 19 (Div. Payout)	-	-	3,000,000	3,000,000	-	-
Kotak FMP Series- 20 - (Div. Payout)	-	-	2,000,000	2,000,000	-	-
Kotak FMP Series- 22 (Div. Payout)	-	-	3,000,000	3,000,000	-	-
Kotak FMP Series- XII- (Div. Payout)	2,000,000	20,000	-	2,000,000	-	-





Scheme	No. of units at the beginning of the year	Opening Value (Rs in thousand)	No. of Units Purchased	No. of Units sold	No. of Units in hands at the year end	Cost of units in hand at the year end at lower of cost or market value (Rs in thousand)
Kotak FMP Series- XVI- (Div. Payout)	-	-	2,500,000	2,500,000	-	-
Kotak FMP Series- XVII-(Div. Payout)	-	-	6,000,000	6,000,000	-	-
Kotak FMP Series- XVIII- (Div. Payout)	-	-	2,000,000	2,000,000	-	-
Principal Cash Management Liq. Insti. Plan	-	-	10,579,918	10,579,918	-	-
Principal Floating Rate Fund SMP Inst. Op.(Div. Daily)	-	-	12,507,979	12,507,979	-	-
Principal PNB Fixed Maturity PI-28 (91 days- July'06)	-	-	2,000,000	2,000,000	-	-
Prudential ICICI Floating Rate Plan-D-(Div. Daily)	5,259,303	52,593	70,426,232	72,950,000	2,735,535	27,355
Prudential ICICI FMP- Yearly-Series 25- (Div. Payout)	3,000,000	30,000	50,139	3,050,139	-	-
Prudential ICICI Inst STP Dividend Option	2,997,202	32,798	23,189	3,020,391	-	-
Prudential ICICI Liquid Inst Plus Dividend Option	79,900	947	1,934	81,834	-	-
Reliance Fixed Horizon Fund- (Div.Pay-out)	-	-	4,000,000	4,000,000	-	-
Reliance Fixed Horizon Fund- Mthly PI-A Ser-II (Div.)	-	-	4,000,000	4,000,000	-	-
Reliance Fixed Horizon Fund- Qtrly PI-B Ser-I (Div.)	-	-	2,000,000	2,000,000	-	-
Reliance Fixed Horizon Fund- Qtrly PI-B Ser-II (Div.)	-	-	2,000,000	2,000,000	-	-
Reliance Fixed Horizon Fund- Qtrly PI-B Ser-III (Div.)	-	-	3,500,000	3,500,000	-	-
Reliance Fixed Horizon Fund- Qtrly PI-B Ser-IV (Div.)	-	-	2,000,000	2,000,000	-	-
Reliance Fixed Horizon Fund- Qtrly PI-B Ser-V (Div.)	-	-	2,000,000	2,000,000	-	-
Reliance Fixed Horizon Fund- Qtrly PI-I Ser-I (Div.)	-	-	3,500,000	3,500,000	-	-
Reliance Fixed Horizon Fund-I - Qtrly PI- Series-II (Div.)	-	-	2,000,000	-	2,000,000	20,000
Reliance Fixed Horizon Fund-I - Qtrly PI- Series-IV (Div.)	-	-	3,000,000	-	3,000,000	30,000
Reliance Fixed Horizon Fund-I- Mthly- Ser-II (Div.)	-	-	4,000,000	4,000,000	-	-
Reliance Fixed Horizon Fund-I- Mthly- Ser-III (Div.Payout)	-	-	4,000,000	-	4,000,000	40,000
Reliance Fixed Horizon Fund-I Qtrly PI-B Ser-III (Div.)	-	-	2,000,000	-	2,000,000	20,000
Reliance Fixed Horizon Fund-Mthly-PI-A Ser-III(Div.payout)	-	-	4,000,000	4,000,000	-	-
Reliance Fixed Horizon Fund-Mthly-PI-A Ser-IV(Div.Payout)	-	-	4,000,000	4,000,000	-	-
Reliance Fixed Horizon Fund-Mthly-PI-A Ser-V (DIV.)	-	-	4,000,000	4,000,000	-	-
Reliance Fixed Horizon Fund-Mthly-PI-A Ser-VI (Div.)	-	-	4,000,000	4,000,000	-	-
Reliance Fixed Horizon Fund-Mthly-Ser-I (Div. payout)	-	-	4,000,000	4,000,000	-	-
Reliance Fixed Term Scheme-Monthly PI.VIII- SER-II (Div.)	4,000,000	40,000	-	4,000,000	-	-
Reliance Fixed Term Scheme-Monthly PI. XI- SER-II (Div.)	-	-	4,000,000	4,000,000	-	-
Reliance Fixed Term Scheme-Monthly PI. IX- SER-II (Div.)	-	-	4,000,000	4,000,000	-	-
Reliance Fixed Term Scheme-Monthly PI.X- SER-II (Div.)	-	-	4,000,000	4,000,000	-	-
Reliance Fixed Term Scheme-Qterly pl-III- SER-II(Div. Op.	-	-	2,000,000	2,000,000	-	-
Reliance Fixed Term Scheme-Qterly pl-II- SER-II(Div. Op.)	2,000,000	20,000	-	2,000,000	-	-
Reliance Floating Rate Fund- Dividend Option	-	-	3,994,381	3,994,381	-	-
Reliance Liquidity Fund - Div. Daily	1,500,535	15,009	9,189,531	10,690,066	-	-
Reliance Short Term Plan- Div. Pl.	2,106,254	21,369	2,878,888	4,985,142	-	-
RLF-Liquid Fund Cash Plan(Div. Daily)	-	-	3,326,458	3,326,458	-	-
Standard Chartered Fixed Maturity- 4th Plan- (Div. Payout)	-	-	2,007,700	2,007,700	-	-
Standard Chartered Liquidity Manager- (Div. Daily)	-	-	22,905,897	22,905,897	-	-
Standard Chartered Liquidity Manager Plus - (Div. Daily)	-	-	584,017	567,474	16,543	16,544





Scheme	No. of units at the beginning of the year	Opening Value (Rs in thousand)	No. of Units Purchased	No. of Units sold	No. of Units in hands at the year end	Cost of units in hand at the year end at lower of cost or market value (Rs in thousand)
Sundaram BNP Paribas F.T.P. Series XIV (90 Days) (Div.)	-	-	2,000,000	-	2,000,000	20,000
Sundaram BNP Paribas F.T.P. Series XVII (90 Days) (Div.)	-	-	2,000,000	-	2,000,000	20,000
Sundaram Bond Saver Inst Bonus Option	465,434	5,000	-	-	465,434	5,000
Sundaram F.M.P.- Series-1- Feb'06 (100 Days) (Div. Payout)	-	-	2,000,000	2,000,000	-	-
Sundaram F.T.P. Series IX June '06 (90 days) (Div.)	-	-	2,000,000	2,000,000	-	-
Sundaram F.T.P. Series VIII June'06 (30 Days) (Div. Payout)	-	-	2,000,000	2,000,000	-	-
Sundaram F.T.P. Series X Nov'06 (30 Days) (Div. Payout)	-	-	2,000,000	2,000,000	-	-
Sundaram F.T.P. SeriesVI June'06 (100 Days) (Div. Payout)	-	-	2,000,000	2,000,000	-	-
Sundaram Floater ST Institutional - Div. Dly	3,289,518	33,066	4,817,182	8,106,700	-	-
Sundaram Money Fund Institutional- (Div. Daily)	2,379,139	24,018	2,059,842	4,438,981	-	-
TATA Fixed Horizon Fund Series-5 Scheme-A (Div. Payout)	-	-	2,034,959	2,034,959	-	-
TATA Fixed Horizon Fund Series-5 Scheme-E (Div. Payout)	-	-	2,009,018	2,009,018	-	-
TATA Floating Rate Fund STP- Insti.Plan (Div.Dly)	1,430,849	14,324	55,188,578	50,919,868	5,699,559	57,027
TATA Liquid Super High Invest Appreciation Option	30,254	36,532	-	-	30,254	36,532
TATA Liquid Super High Invest. Div. Dly	33,476	37,309	117,924	151,400	-	-
UTI Fixed Maturity Plan- H F M P/1206 (Div. Payout)	-	-	4,000,000	-	4,000,000	40,000
UTI Fixed Maturity Plan- Q F M P/0306/II (Div. Payout)	-	-	3,000,000	3,000,000	-	-
UTI Fixed Maturity Plan- Q F M P/0506/II (Div. Payout)	-	-	5,000,000	5,000,000	-	-
UTI Fixed Maturity Plan- Q F M P/0806/II (Div. Payout)	-	-	4,000,000	-	4,000,000	40,000
UTI Fixed Maturity Plan- Q F M P/0806/II (Div. Payout)	-	-	4,000,000	4,000,000	-	-
UTI Fixed Maturity Plan- Q F M P/0906/II (Div. Payout)	-	-	2,000,000	2,000,000	-	-
UTI Fixed Maturity Plan- Q F M P/1006/II (Div. payout)	-	-	2,000,000	-	2,000,000	20,000
UTI Fixed Maturity Plan- Q F M P/II (Div. Payout)	3,000,000	30,000	-	3,000,000	-	-
UTI Fixed Maturity Plan - Q F M P/0206/II (Div. Payout)	-	-	3,000,000	3,000,000	-	-
UTI Fixed Maturity Plan - Q F M P/1205/II (Div. Payout)	5,000,000	50,000	-	5,000,000	-	-
UTI Floating Rate Fund STP- Div. Wkly	2,442,229	24,645	24,198	2,466,427	-	-
UTI Liquid Cash Plan- Institutional- Div. Dly	99,071	100,649	545,725	644,796	-	-
UTI Money Market Fund (Div. Daily)	-	-	3,187,040	3,187,040	-	-
TOTAL	115,519,331	1,451,658	664,069,239	711,596,445	67,992,125	747,082





	As at December 31, 2006 Rs. in thousand	As at December 31, 2005 Rs. in thousand
34. Pursuant to AS 29 - The Disclosure relating to Provisions are given below:		
Opening Balance	48,278	48,031
Additions during the Year	251	247
Closing Balance	<u>48,529</u>	<u>48,278</u>

The provision relates to estimated outflow of cash expected to be paid in relation to sale of gas pipelines. Due to its very nature it is not possible to estimate the timing of resulting cash flows.

	Year ended December 31, 2006 Rs. in thousand	Year ended December 31, 2005 Rs. in thousand
35. Managerial Remuneration		
- Salary and Bonus	9,290	8,662
- Allowances	858	639
- Perquisites	356	538
- P.F. and Gratuity	<u>1,065</u>	<u>900</u>
	11,569	10,739
36. Payments to Auditors		
- Audit Fees	2,550	1,850
- Other Services	37	150
- Reimbursement of Expenses (Including Service Tax)	<u>490</u>	<u>349</u>
	3,077	2,349
37. Value of Imports calculated on C.I.F. Basis		
Capital Goods	199,498	180,564
Spare parts	<u>37,619</u>	<u>26,329</u>
	<u>2,37,117</u>	<u>2,06,893</u>

38. Value of Imported & Indigenous Raw Material and Stores and spares and percentage thereof to the total consumption

	Year ended December 31 2006		Year ended December 31 2005	
	Percentage	Rs. in thousand	Percentage	Rs. in thousand
(a) Raw Materials - Natural Gas				
- Indigenous	100%	5,969,105	100%	4,138,385
(b) Stores and spares				
- Imported	12%	9,177	28%	13,321
- Indigenous	88%	70,615	72%	33,447
TOTAL	<u>100%</u>	<u>79,792</u>	<u>100%</u>	<u>46,768</u>

39. Purchases, Production / Processed and Sales :

Product	Units	Purchases		Sales	
		Production/ Processed Qty.	Rs. In thousand	Qty.(*)	Rs. In thousand
Production/Processed :					
1. Natural Gas	LSCM	8,889.58	5,969,105	8,840.14	8,014,380
	LSCM	(6,312.97)	(4,138,385)	(6,254.37)	(5,711,422)

* Excluding line loss and internal consumption of 49.44 LSCM (Previous year 58.60 LSCM)

Previous year figures are in brackets





40. Licensed and Installed Capacity :

The Company is operating on the basis of commitment made for gas purchase by its suppliers under the agreements, hence it has no relevance for capacity in respect thereof.

41. Materials Consumed / Processed :

	Unit	Qty.	Rs.in thousand
Natural Gas	LSCM	8,889.58	5,969,105
	LSCM	(6,312.97)	(4,138,385)

Previous year figures are in brackets

42. Expenditure in foreign currency

	Year ended December 31, 2006 Rs. in thousand	Year ended December 31, 2005 Rs. in thousand
(i) Travelling expenses	2,867	1,577
(ii) Subscription	8	-
(iii) Training	1,729	259
(iv) Reimbursement of Salary	14,806	-
(iv) Legal & Professional	12,687	3,514

43. Dividends remitted by company in foreign currency during the year

Particulars	Amount (Rs. in thousand)	No. of Non Resident Shareholders	No. of shares	Year Ended
Final Dividend	83,512	1	8,351,175	December 31, 2005
	(83,512)	(1)	(8,351,175)	December 31, 2004

Previous year figures are in brackets

44. The subsidiary companies Gujarat Gas Financial Services Limited and Gujarat Gas Trading Company Limited have proposed final dividends @ 20% and 6000% respectively and these will be accounted for in the books on declaration by the Companies.

45. The provision for income tax has been calculated based on income earned during the year ended December 31, 2006. However the tax year end of the Company being March 31, 2007 the ultimate liability for the Assessment Year 2007-08 will be determined based on the total income of the Company for the year ending March 31, 2007. The provision for wealth tax has been made based on the net wealth as on December 31, 2006. However the ultimate liability for the Assessment Year 2007-08 will be determined based on the net wealth as on March 31, 2007.

46. The Statement of disputed dues is given below:

Name of the Statute	Nature of Dues	Amount (Rs. in thousand)	Period to which the amount relates	Forum where dispute is pending
Income Tax Act, 1961	Penalty u/s 271(1)(c)	1,641	A.Y. 1998-99	Commissioner of Income Tax (Appeals)
	Penalty u/s 271(1)(c)	1,269	A.Y. 2000-01	Commissioner of Income Tax (Appeals)
	Penalty u/s 271(1)(c)	1,622	A.Y. 2001-02	Commissioner of Income Tax (Appeals)
	Income Tax & Interest thereon	2,253	A.Y. 2002-03	Commissioner of Income Tax (Appeals)
	Income Tax & Interest thereon	1,821	A.Y. 2003-04	Commissioner of Income Tax (Appeals)
	Income Tax & Interest thereon	2,239	A.Y. 2004-05	Commissioner of Income Tax (Appeals)

47. Previous year figures have been reclassified/regrouped wherever considered necessary to conform to the current year figures.





CASH FLOW STATEMENT FOR THE YEAR ENDED 31ST DECEMBER, 2006

	Year ended 31-12-2006 Rs. in thousand	Year ended 31-12-2005 Rs. in thousand
A. CASH FLOW FROM OPERATING ACTIVITIES		
Net Profit before Tax	1,283,952	1,305,318
Adjustments for:		
Depreciation for the year	296,085	218,000
Provision for Diminution of Long Term Investments	9,750	9,000
(Profit)/ Loss on sale of Fixed Assets (Net)	(2,327)	3,527
Provision for doubtful debts	-	2,851
Provision for Wealth Tax	400	400
Other Provisions	251	247
Bad Debts written off	2,322	5,565
Fixed assets written off	3,320	-
Inventory written off	-	4,002
Deferred Revenue Expenditure written off	23,928	24,407
Interest Expense	30,191	29,126
Profit on sale of investment (Net)	(1,974)	(2,340)
Liabilities no longer required Written Back	(6,045)	(18,102)
Dividend Income	(146,193)	(78,219)
Foreign Exchange Fluctuations	40,952	24,277
Interest Income	(5,829)	(5,550)
Operating Profit before working capital changes	1,528,783	1,522,509
Adjustments for changes in working capital		
(Increase)/Decrease in Sundry Debtors	(369,310)	(42,522)
(Increase)/Decrease in Loan and Advances	(34,437)	(34,360)
(Increase)/Decrease in Inventories	(29,906)	(21,135)
Increase/(Decrease) in Current Liabilities	190,053	156,851
Cash generated from operations	1,285,183	1,581,343
Taxes paid (Net of refunds)	(379,759)	(383,906)
Net Cash from Operating Activities	905,424	1,197,437
B. CASH FLOW FROM INVESTING ACTIVITIES		
Purchase of Fixed Assets	(1,441,866)	(1,601,308)
Sale of Fixed Assets	18,623	9,621
Purchase of Investments	(6,040,222)	(4,027,573)
Sale of Investments	6,747,147	3,920,252
ICD placed with Subsidiary	-	(2,500)
ICD refund from Subsidiary	-	2,500
Interest received	5,829	5,550
Dividends received	146,193	78,219
Net Cash used in Investing Activities	(564,296)	(1,615,239)
C. CASH FLOW FROM FINANCING ACTIVITIES		
Issuance of Preference Shares	144,000	-
Deposits accepted during the year (Net)	188,468	103,313
Proceeds from Long-term borrowings	-	780,000
Repayment of Long-term borrowings	(500,400)	(250,200)
Interest Paid	(30,191)	(29,126)
Dividend Paid (including Corporate Dividend Tax)	(146,237)	(146,237)
Net Cash from Financing Activities	(344,360)	457,750





NET INCREASE IN CASH AND CASH EQUIVALENTS

Cash and Cash Equivalents at the beginning of the year

Cash and Cash Equivalents at the end of the year

Closing Cash and Cash Equivalents comprise:

Cash in hand

Balances with Scheduled Banks :

- In Current Accounts

- In Dividend Accounts

Total Cash and Cash Equivalents as per Cash Flow statement

Notes to Cash Flow Statement:

- The above Cash Flow Statement has been prepared under the "Indirect Method" as set out in the Accounting Standard-3 on Cash Flow Statements issued by the Institute of Chartered Accountants of India.
- Purchase of fixed asset are stated inclusive of movements of capital work in progress and capital inventory is treated as part of investing activities.
- Previous Year figures have been regrouped and reclassified wherever considered necessary to conform to current year's figures.
- Figures in bracket indicate Cashoutflow.

This is the Cash Flow referred to in our report of even date

Anupam Dhawan
Membership No. F84451
Partner
For and on behalf of
PRICE WATERHOUSE
CHARTERED ACCOUNTANTS

For and on behalf of the Board

Hasmukh Shah B.S. Shantharaju
Chairman Managing Director

Jal Patel Sugata Sircar Rajiv Shah
Director Finance Controller Company Secretary

Place : Gurgaon
Date : February 23, 2007

Place : Ahmedabad
Date : February 23, 2007

Year ended 31-12-2006 Rs. in thousand	Year ended 31-12-2005 Rs. in thousand
(3,232)	39,948
73,494	33,546
70,262	73,494
367	291
62,638	65,765
7,257	7,438
70,262	73,494





**BALANCE SHEET ABSTRACT AND COMPANY'S BUSINESS PROFILE AS PER
PART IV OF SCHEDULE VI TO THE COMPANIES ACT, 1956**

I. REGISTRATION DETAILS	:	
Registration No.	:	3623
State Code	:	04
Balance Sheet Date	:	31-12-2006
II. CAPITAL RAISED DURING THE YEAR (Amount Rs. in thousand)	:	
Public Issue	:	Nil
Rights Issue	:	Nil
Bonus Issue	:	Nil
Private Placement	:	144,000
III. POSITION OF MOBILISATION AND DEPLOYMENT OF FUNDS (Amount Rs. in thousand)	:	
Total Liabilities	:	7,073,992
Total Assets	:	7,073,992
Sources of Funds	:	
Paid-up Capital	:	272,250
Reserves and Surplus	:	4,006,677
Secured Loans	:	Nil
Deferred Tax Liability	:	476,901
Unsecured Loans	:	29,400
Deposits	:	865,005
Applications of Funds	:	
Net Fixed Assets	:	5,096,083
Investments	:	786,226
Net Current Assets	:	(264,704)
Miscellaneous Expenditure	:	32,628
Accumulated Losses	:	Nil
IV. PERFORMANCE OF THE COMPANY (Amount Rs. in thousand)	:	
Total Turnover	:	8,447,222
Total Expenditure	:	7,163,270
Profit Before Tax	:	1,283,952
Profit After Tax	:	888,952
Earnings Per Share (Rs.) (Annualized)	:	68.71
Dividend Rate (%)	:	125%
V. GENERIC NAME OF PRINCIPAL PRODUCTS/ SERVICES OF THE COMPANY (As per monetary terms)	:	
Item Code No. (ITC Code)	:	-
Product Description	:	PROCESSING, TRANSMISSION & DISTRIBUTION OF NATURAL GAS





**STATEMENT PURSUANT TO SECTION 212 OF THE COMPANIES ACT,
1956 RELATING TO SUBSIDIARY COMPANY**

Name of the subsidiary	Gujaratgas Trading Company Ltd.
1. The financial year of the Subsidiary Company ended on	31 st December 2006
2. (a) No. of Equity Shares held by Gujarat Gas Company Limited in the subsidiary as on 31 st December, 2006	9,000 Equity Shares of Rs. 100/- each fully paid up. (Previous Year 9,000)
(b) Extent of interest of Gujarat Gas Company Limited in the capital of the subsidiary	100% (Previous Year 100%)
3. Net Aggregate amount of profits of the subsidiary so far as it concerns the members of Gujarat Gas Company Ltd., and is not dealt with in the Company's accounts	
(a) Profit / (Loss) for the financial year ended on 31 st December, 2006 of the subsidiary.	Rs. 45,120 Thosand (Previous Year Rs 68,782 thousand)
(b) Profit / (Loss) for the previous financial years of the subsidiary since it became subsidiary of Gujarat Gas Company Limited.	Rs. 113,844 thousand (Previous Year Rs 115,062 thousand)
4. Net Aggregate amount of Profit / (Loss) of the subsidiary so far as dealt with or provision is made for those Profit / (Loss) in Gujarat Gas Company Limited's accounts.	
(a) For the subsidiary's Financial year ended on 31 st December, 2006	Rs Nil (Previous Year Rs. Nil)
(b) For its previous financial years since it became the subsidiary of Gujarat Gas Company Ltd.	Rs 83,500 thousand (Previous Year Rs 13,500 thousand)

For and on behalf of the Board

Hasmukh Shah B.S. Shantharaju Jal Patel
Chairman *Managing Director* *Director*

Place : Ahmedabad
Date : February 23, 2007

Sugata Sircar Rajiv Shah
Finance Controller *Company Secretary*





**STATEMENT PURSUANT TO SECTION 212 OF THE COMPANIES ACT,
1956 RELATING TO SUBSIDIARY COMPANY**

Name of the subsidiary	Gujarat Gas Financial Services Ltd.
1. The financial year of the Subsidiary Company ended on	31 st December 2006
2. (a) No. of Equity Shares held by Gujarat Gas Company Limited in the subsidiary as on 31 st December, 2006	13,97,500 Equity Shares of Rs. 10/- each fully paid up. (Previous Year 13,97,500)
(b) Extent of interest of Gujarat Gas Company Limited in the capital of the subsidiary	69.88% (Previous Year 69.88%)
3. Net Aggregate amount of profits of the subsidiary so far as it concerns the members of Gujarat Gas Company Ltd., and is not dealt with in the Company's accounts	
(a) Profit for the financial year ended on 31 st December, 2006 of the subsidiary.	Rs.11,724 thousand (Previous Year Rs. 15,474 thousand)
(b) Profit for the previous financial years of the subsidiary since it became subsidiary of Gujarat Gas Company Limited.	Rs.51,994 Thousand (Previous Year Rs. 36,520 thousand)
4. Net Aggregate amount of Profit/Losses of the subsidiary so far as dealt with or provision is made for those profits / losses in Gujarat Gas Company Limited's accounts.	
(a) For the subsidiary's Financial year ended on 31 st December, 2006	Rs. Nil (Previous Year Rs.Nil)
(b) For its previous financial years since it became the subsidiary of Gujarat Gas Company Ltd.	Rs. 53,649 thousand (Previous Year Rs.53,649 thousand)

For and on behalf of the Board

Hasmukh Shah B.S Shantharaju Jal Patel
Chairman *Managing Director* *Director*

Place : Ahmedabad
Date : February 23, 2007

Sugata Sircar Rajiv Shah
Finance Controller *Company Secretary*





DIRECTORS' REPORT

Dear Shareholders,

Your directors have pleasure in presenting the 26th Annual Report together with the audited accounts for the year ended on 31 December 2006.

FINANCIAL RESULTS

Particulars	(Rs. in lac)	
	Current year ended on 31.12.2006	Previous year ended on 31.12.2005
Total income	39,431.68	30,346.42
Profit before tax	866.94	1,406.49
Tax (Current)	340.00	620.00
Profit after tax	526.94	786.49
Add: Profit brought forward from previous year	924.80	1,016.99
Profit available for appropriation	1,451.74	1,803.48
Transfer to general reserve	53.00	80.00
Proposed dividend	540.00	700.00
Corporate dividend tax	75.74	98.68
Surplus retained	783.00	924.80

DIVIDEND

Your company has adequate profits available for appropriation. Considering the availability of funds with your company, your directors have recommended a dividend of Rs. 540 lac, entailing a total payout of Rs.615.74 lac including corporate dividend tax of Rs.75.74 lac. This translates into a dividend of Rs.6,000 per share on a face value of Rs. 100 each.

OPERATIONS

Your company supplies gas to bulk customers. Your company traded 576.224 million standard cubic meters (mmscm) of gas during the year under review as compared to 457.754 mmscm of gas in the previous year, an increase of approximately 26%.

Your company earned a total income of Rs. 39,431.68 lac during the year as compared to Rs. 30,346.42 lac in the previous year, indicating an increase of approximately 30%. The profit after tax (PAT) was Rs. 526.94 lac during the year under review as compared to Rs. 786.49 lac in the previous year, a decrease of 33%. The PAT for the year 2005 included one-time impact of Rs. 445.18 lac due to income received on account of settlement of dispute with one of the gas suppliers. After adjusting the impact of one-time income received in the year 2005, PAT for the year under review shows an increase which is mainly on account of increase in sales volume.

STATUTORY INFORMATION

Energy, Technology and Foreign Exchange

As your company is a trading company, there are no reportable particulars under the Companies (Disclosure of Particulars in the Report of Board of Directors) Rules,

1988. During the year under review, foreign exchange earnings and outgoings were nil.

Particulars of Employees

Your company does not have any employee, whether employed throughout the year or any part thereof, in receipt of remuneration exceeding the limits prescribed under the provisions of Section 217 (2A) of the Companies Act, 1956 read with the Companies (Particulars of Employees) Rules, 1975 as amended.

Fixed Deposits

During the year under review, your company has not invited any fixed deposits within the meaning of Section 58A of the Companies Act, 1956.

Directors' Responsibility Statement

Your directors hereby state

- that in the preparation of the annual accounts, the applicable accounting standards have been followed along with proper explanation relating to material departures;
- that the directors have selected such accounting policies and applied them consistently and made judgements and estimates that are reasonable and prudent so as to give a true and fair view of the state of affairs of the company as on 31 December 2006 and of the profit of the company for the year ended on that date;
- that 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;
- that the directors have prepared the annual accounts on a going concern basis.

AUDITORS AND AUDITORS' REPORT

Price Waterhouse, Statutory Auditors of the company, retire at the ensuing Annual General Meeting and are eligible for re-appointment.

The notes to the accounts referred to in the Auditors' Report are self-explanatory and, therefore, do not call for any further comments.

DIRECTORS

Mr. Partha Choudhury resigned after the last annual general meeting. The Board of Directors places on record its sincere appreciation for the valuable services rendered by him during his tenure.

Mr. Sugata Sircar was appointed as an additional director since the last annual general meeting. Mr. Sircar shall hold office till the conclusion of the forthcoming annual general meeting. Your company has received a notice under Section 257 of the Companies Act, 1956 proposing his candidature as





director. Mr. B. S. Shantharaju retires by rotation at the forthcoming annual general meeting. Being eligible, he has offered himself for re-appointment. Your Directors recommend their appointment/re-appointment.

Prof. Pradip Khandwalla, an independent director on the Board of Directors of the holding company viz. Gujarat Gas Company Limited, is also a director of your company in compliance with the provisions of the Corporate Governance Code of the Listing Agreement.

APPRECIATION

Your directors appreciate the support received from the customers. Your directors wish to acknowledge the support and assistance received from Cairn Energy led consortium, GSPCL, the Central and State Governments

and its bankers viz. HDFC Bank, ICICI Bank, State Bank of India and Standard Chartered Bank.

Your directors express their gratitude to the promoters viz. Gujarat Gas Company Limited and BG Group for their valuable contribution throughout the year. Directors also thank the shareholders for their support to the company.

For and on behalf of the Board

B. S. Shantharaju
Chairman

Date : 23 February 2007
Place: Ahmedabad





Auditors' Report To the Members of Gujaratgas Trading Company Limited

1. We have audited the attached Balance Sheet of GujaratGas Trading Company Limited, as at December 31, 2006, and the related Profit and Loss Account and Cash Flow Statement for the year ended on that date annexed thereto, which we have signed under reference to this report. 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.
2. We conducted our audit in accordance with the auditing standards generally accepted in India. 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 management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.
3. As required by the Companies (Auditor's Report) Order, 2003, as amended by the Companies (Auditor's Report) (Amendment) Order, 2004, issued by the Central Government of India in terms of sub-section (4A) of Section 227 of 'The Companies Act, 1956' of India (the 'Act') and on the basis of such checks of the books and records of the Company as we considered appropriate and according to the information and explanations given to us, we give in the Annexure a statement on the matters specified in paragraphs 4 and 5 of the said Order.
4. Further to our comments in the Annexure referred to in paragraph 3 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 purpose of our audit;
 - b) 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;
 - c) The Balance Sheet, Profit and Loss Account and Cash Flow Statement dealt with by this report are in agreement with the books of account;
 - d) In our opinion, the Balance Sheet, Profit and Loss Account and Cash Flow Statement dealt with by this report comply with the accounting standards referred to in sub-section (3C) of section 211 of the Act;
 - e) On the basis of written representations received from the directors and taken on record by the Board of Directors, none of the directors is disqualified as on December 31, 2006 from being appointed as a director in terms of clause (g) of sub-section (1) of section 274 of the Act;
 - f) In our opinion and to the best of our information and according to the explanations given to us, the said financial statements together with the notes thereon and attached thereto give in the prescribed manner the information required by the Act and give a true and fair view in conformity with the accounting principles generally accepted in India:
 - i) in the case of the Balance Sheet, of the state of affairs of the Company as at December 31, 2006;
 - ii) in case of the Profit and Loss Account, of the profit for the year ended on that date; and
 - iii) in the case of the Cash Flow Statement, of the cash flows for the year ended on that date.

Place: Gurgaon
Date : February 23, 2007

Anuradha Tuli
Membership No : F - 85611
Partner
For and on behalf of
Price Waterhouse
Chartered Accountants





Annexure to Auditors' Report

[Referred to in paragraph 3 of the Auditors' report of even date to the members of Gujaratgas Trading Company Limited on the financial statements for the year ended December 31, 2006]

- i) a) The Company has not granted any loans, secured or unsecured, to companies, firms or other parties covered in the register maintained under Section 301 of the Act.
- b) The Company has not taken any loans, secured or unsecured, from companies, firms or other parties covered in the register maintained under Section 301 of the Act.
- ii) In our opinion and according to the information and explanations given to us, there is an adequate internal control system commensurate with the size of the Company and the nature of its business for the purchase and sale of gas. Further, on the basis of our examination of the books and records of the Company, and according to the information and explanations given to us, we have neither come across nor have been informed of any continuing failure to correct major weaknesses in the aforesaid internal control system.
- iii) In our opinion and according to the information and explanations given to us, there are no contracts or arrangements referred to in Section 301 of the Act which are required to be entered in the register required to be maintained under that section.
- iv) The Company has not accepted any deposits from the public within the meaning of Sections 58A and 58AA of the Act and the rules framed there under.
- v) In our opinion, the Company has an internal audit system commensurate with its size and nature of its business.
- vi) The Central Government of India has not prescribed the maintenance of cost records under clause (d) of sub-section (1) of Section 209 of the Act for any of the products of the company.
- vii) a) According to the information and explanations given to us and the records of the Company examined by us, in our opinion, the Company is generally regular in depositing the undisputed statutory dues including provident fund, investor education and protection fund, employees' state insurance, income-tax, sales-tax, wealth tax, service tax, customs duty, excise duty, cess and other material statutory dues as applicable with the appropriate authorities.
- b) According to the information and explanations given to us and the records of the company examined by us, there are no dues of income tax, sales tax, wealth tax, service tax, custom duty, excise duty and cess which have not been deposited on account of any dispute.
- viii) The Company has no accumulated losses as at December 31, 2006 and it has not incurred any cash losses in the financial year ended on that date or in the immediately preceding financial year.
- ix) According to the records of the Company examined by us and the information and explanations given to us, the Company has not defaulted in repayment of dues to any financial institution or bank or debenture holders as at the balance sheet date.
- x) The Company has not granted any loans and advances on the basis of security by way of pledge of shares, debentures and other securities.
- xi) The provisions of any special statute applicable to chit fund/ nidhi/ mutual benefit fund/ societies are not applicable to the Company.
- xii) In our opinion, the Company is not a dealer or trader in shares, securities, debentures and other investments.
- xiii) In our opinion, and according to the information and explanations given to us, the company has not given any guarantee for loans taken by others from banks or financial institutions during the year.
- xiv) The Company has not obtained any term loans.





- xv) On the basis of an overall examination of the balance sheet of the Company, in our opinion and according to the information and explanations given to us, there are no funds raised on a short-term basis which have been used for long-term investment.
- xvi) The Company has not made any preferential allotment of shares to parties and companies covered in the register maintained under Section 301 of the Act during the year.
- xvii) The Company has not issued any debentures during the year and there are no debentures outstanding as at the year end.
- xviii) The Company has not raised any money by public issues during the year.
- xix) During the course of our examination of the books and records of the Company, carried out in accordance with the generally accepted auditing practices in India, and according to the information and explanations given to us, we have neither come across any instance of fraud on or by the Company, noticed or reported during the year, nor have we been informed of such case by the management.
- xx) The other clauses of paragraph 4 of the Companies (Auditors' Report) Order 2003, as amended by the Companies (Auditor's Report) (Amendment) Order, 2004 are not applicable in the case of the company for the current year, since in our opinion there is no matter which arises to be reported in the aforesaid order.

Anuradha Tuli
Membership No : F- 85611
Partner
For and on behalf of
Price Waterhouse
Chartered Accountants

Place: Gurgaon
Date : February 23, 2007





BALANCE SHEET AS AT 31ST DECEMBER, 2006

	Schedule	Rs. in thousand	As at 31-12-2006 Rs. in thousand	As at 31-12-2005 Rs. in thousand
SOURCES OF FUNDS				
SHAREHOLDER'S FUNDS :				
Share Capital	1	900		900
Reserves and Surplus	2	104,950		113,830
			105,850	114,730
DEPOSITS :				
(Refer Note 9 of Schedule 10)				
From Customers			-	1,385
TOTAL			105,850	116,115
APPLICATION OF FUNDS				
INVESTMENTS				
	3		628,529	484,674
CURRENT ASSETS, LOANS AND ADVANCES :				
Sundry Debtors	4	106,445		121,761
Cash and Bank Balances	5	21,954		21,822
Loans and Advances	6	44,878		15,536
		173,277		159,119
LESS: CURRENT LIABILITIES AND PROVISIONS				
	7			
Current Liabilities		634,382		447,860
Provisions		61,574		79,818
		695,956		527,678
NET CURRENT ASSETS			(522,679)	(368,559)
TOTAL			105,850	116,115
Significant Accounting Policies and Notes to Accounts	10			

This is the Balance Sheet referred to in our report of even date

The Schedules referred to above form an integral part of the Balance Sheet

For and on behalf of the Board

Anuradha Tuli
Membership No. F85611
Partner
For and on behalf of
PRICE WATERHOUSE
CHARTERED ACCOUNTANTS

B.S.Shantharaju
Chairman

Sugata Sircar
Director

Shaleen Sharma
Director

Place : Gurgaon
Date : February 23, 2007

Place : Ahmedabad
Date : February 23, 2007





PROFIT AND LOSS ACCOUNT FOR THE YEAR ENDED 31ST DECEMBER, 2006

	Schedule	Rs. in thousand	Year ended 31-12-2006 Rs. in thousand	Year ended 31-12-2005 Rs. in thousand
INCOME:				
Sale of Natural Gas (Traded)		3,908,336		2,943,151
Other Income	8	34,832		91,491
			3,943,168	3,034,642
EXPENDITURE :				
Purchases		3,778,632		2,810,353
[Includes foreign exchange fluctuation of Rs. 1,395 thousand (Previous year of Rs.7,817 thousand)]				
Operating and Other Expenses	9	77,842		83,640
			3,856,474	2,893,993
Profit before Taxes			86,694	140,649
Tax Expense (Current) (Refer Note 6 of Schedule 10)			34,000	62,000
Profit after Taxes			52,694	78,649
Profit / (Loss) brought forward			92,480	101,699
Profit available for Appropriations			145,174	180,348
APPROPRIATIONS :				
Proposed Dividend			54,000	70,000
Corporate Dividend Tax [Includes Rs Nil for earlier year (Previous year Rs 50 thousand)]			7,574	9,868
General Reserve			5,300	8,000
Profit Carried Forward			78,300	92,480
			145,174	180,348
Basic/Diluted Earning per Share (Rs.) (Refer Note 5 and 8 of Schedule 10)			5,854.89	8,738.78
Significant Accounting Policies and Notes to Accounts	10			

This is the Profit and Loss Account referred to in our report of even date

The Schedules referred to above form an integral part of the Profit and Loss Account

For and on behalf of the Board

Anuradha Tuli
Membership No. F85611
Partner
For and on behalf of
PRICE WATERHOUSE
CHARTERED ACCOUNTANTS

B.S.Shantharaju
Chairman
Sugata Sircar
Director
Shaleen Sharma
Director

Place : Gurgaon
Date : February 23, 2007

Place : Ahmedabad
Date : February 23, 2007





SCHEDULES FORMING PART OF BALANCE SHEET

	As at 31-12-2006 Rs. in thousand	As at 31-12-2005 Rs. in thousand
SCHEDULE - 1		
SHARE CAPITAL		
Authorised		
10,000 (Previous Year 10,000) Equity Shares of Rs.100/- each	1,000	1,000
TOTAL	1,000	1,000
Issued, Subscribed and Paid up		
9,000 (Previous Year 9,000) Equity Shares of Rs.100/- each fully paid-up [Of the above 9,000 fully paid up shares (Previous Year 9,000) are held by holding company Gujarat Gas Company Limited and its nominees, the ultimate holding company being BG Group plc.]	900	900
TOTAL	900	900
SCHEDULE - 2		
RESERVES AND SURPLUS		
GENERAL RESERVE		
As per last Balance Sheet	21,350	13,350
Add : Transferred from Profit and Loss Account	5,300	8,000
	26,650	21,350
PROFIT AND LOSS ACCOUNT		
	78,300	92,480
TOTAL	104,950	113,830
SCHEDULE - 3		
INVESTMENTS (Refer Note 2 and 12 of Schedule 10)		
Current Investments : (At cost or Fair value whichever is lower, determined categorywise)		
Unquoted - other than trade		
Units of Mutual Funds	628,529	484,674
TOTAL	628,529	484,674
Aggregate cost of Unquoted Investments	628,529	484,674





SCHEDULES FORMING PART OF BALANCE SHEET

	Rs. in thousand	As at 31-12-2006 Rs. in thousand	As at 31-12-2005 Rs. in thousand
SCHEDULE - 4			
SUNDRY DEBTORS			
Secured - Considered Good			
Others		-	1,385
Unsecured - Considered Good			
Others		106,445	120,376
[Includes Rs. 54,117 Thousand (Previous Year Rs. 80,911 thousand) due from Gujarat Gas Company Ltd, maximum balance due during the year Rs. 725,862 thousand (Previous Year Rs. 214,417 thousand)]			
TOTAL		106,445	121,761
SCHEDULE - 5			
CASH AND BANK BALANCES			
Cash in hand		1	3
Balances with Scheduled Banks :			
- In Current Accounts		21,943	21,809
- In Fixed Deposit Account		10	10
TOTAL		21,954	21,822
SCHEDULE - 6			
LOANS AND ADVANCES			
(Unsecured - considered good, unless otherwise stated)			
Advances recoverable in Cash or in kind or for value to be received		24,936	1
Advance payment of Tax and Tax deducted at source	218,454		180,047
Less: Provision for Taxation	(198,512)		(164,512)
TOTAL		19,942	15,535
		44,878	15,536





SCHEDULES FORMING PART OF BALANCE SHEET

	Rs. in thousand	As at 31-12-2006 Rs. in thousand	As at 31-12-2005 Rs. in thousand
SCHEDULE - 7			
CURRENT LIABILITIES AND PROVISIONS			
(A) CURRENT LIABILITIES			
Sundry Creditors *		633,693	422,691
Other Liabilities		689	25,169
		<u>634,382</u>	<u>447,860</u>
(B) PROVISIONS			
Proposed Dividend		61,574	79,818
[Including Corporate Dividend tax Rs.7,574 thousand (Previous Year Rs. 9,818 thousand)]			
		<u>61,574</u>	<u>79,818</u>
TOTAL		<u>695,956</u>	<u>527,678</u>

* As per the information available with the management, there are no outstanding dues payable to small scale industrial undertakings.

SCHEDULE FORMING PART OF PROFIT AND LOSS ACCOUNT

	Rs. in thousand	Year ended 31-12-2006 Rs. in thousand	Year ended 31-12-2005 Rs. in thousand
SCHEDULE - 8			
OTHER INCOME			
Dividend from Mutual Funds (Current)		26,354	15,805
Interest from Customers		8,218	332
Profit on Sale of Current Investments	125		343
Less: Loss on Sale of Current Investments	(14)		(137)
		<u>111</u>	<u>206</u>
Liabilities no longer required Written Back		-	4,207
Miscellaneous Income (Refer Note 16 of Schedule 10)		149	70,941
TOTAL		<u>34,832</u>	<u>91,491</u>
SCHEDULE - 9			
OPERATING AND OTHER EXPENSES			
Rates and Taxes		1	1
Insurance		410	398
Stationery and Printing		10	-
Legal, Professional and Consultancy		584	719
Transmission Charges		74,932	80,811
Miscellaneous Expenses		1,905	1,711
TOTAL		<u>77,842</u>	<u>83,640</u>





SCHEDULE -10

SIGNIFICANT ACCOUNTING POLICIES AND NOTES TO ACCOUNTS

Significant Accounting Policies:

1. Accounting Convention:

The Financial statements have been prepared under Historical Cost Convention in accordance with applicable Accounting Standards issued by the Institute of Chartered Accountants of India and relevant provisions of the Companies Act, 1956.

2. Investments:

Current investments are stated at lower of cost or market value determined category wise. Cost is determined as per weighted average cost formula.

3. Foreign currency transactions:

Foreign currency transactions are accounted for at the exchange rate prevailing on the transaction date. Year-end monetary assets and liabilities in foreign currency, other than those pertaining to the acquisition of fixed assets, are translated at the applicable year-end exchange rates and the resultant difference is recognized as gain / loss for the year.

4. Revenue Recognition:

- (i) Sale of natural gas is recognized on transfer of title to customers at delivery point. Sales are billed fortnightly to industrial customers. Spot sale of gas to industrial customers is billed as per the terms mutually agreed between the parties.
- (ii) Commitment Income from customers for gas sales and gas transmission are recognized on establishment of certainty of receipt of consideration.
- (iii) Dividend income is recognized when the right to receive the dividend is established.

5. Earnings Per Share (EPS):

The earnings considered in ascertaining the Company's EPS comprises the net profit after tax (and includes the post tax effect of any extra ordinary items). The number of shares used in computing Basic EPS is the weighted average number of shares outstanding during the year.

6. Taxation:

Tax expense for the year, comprising current tax and deferred tax is included in determining the net profit for the year.

A provision is made for the current tax based on tax liability computed in accordance with relevant tax rates and tax laws. A provision is made for deferred tax for all timing differences arising between taxable income and accounting income at substantively enacted tax rates.

Deferred tax assets are recognized only if there is reasonable certainty that they will be realized and are reviewed for the appropriateness of their respective carrying values at each balance sheet date.

7. Provision and Contingencies:

The Company creates a provision when there is present obligation as a result of a past event that probably requires an outflow of resources and a reliable estimate can be made of the amount of obligation. A disclosure for a contingent liability is made when there is a possible obligation or a present obligation that probably will not require an outflow of resources or where a reliable estimate of the obligation can not be made.

Notes to Accounts

8. Earnings per share:

	Year ended 31-12-2006	Year ended 31-12-2005
Net Profit attributable to Shareholders (Rs in thousand)	52,694	78,649
Weighted average number of equity shares outstanding during the year (No. in thousand)	9	9
Basic earnings per share of Rs 100/- each (in Rs.)	5,854.89	8,738.78

The Company does not have any outstanding dilutive potential equity shares. Consequently the basic and diluted earning per share of the company remain the same.





9. **Deposits from Customers:**

Deposits from customers have been considered as a source of long term funds since the same are refundable only on termination / modification of the gas sale agreement.

10. **Segment Reporting:**

The company operates in a single segment of Natural Gas Business. Natural gas business involves distribution of gas from sources of supply to centers of demand and to the end customers.

In view of the general clarification issued by the Institute of Chartered Accountants of India for companies operating in single segment, the disclosure requirements as per Accounting Standard 17 "Segment Reporting" are not applicable to the company.

11. **Related Party Transactions:**

The company is controlled by Gujarat Gas Company Limited which is the beneficial owner of 100% shares. The ultimate parent of the group is BG Group Plc.

The following transactions were carried out during the year in ordinary course of business:

Name of the related party	Nature of Relationship	Nature of Transactions	Amount (Rs. in thousand)	
			Year ended 31-12-2006	Year ended 31-12-2005
		Expense :		
Gujarat Gas Company Ltd	Holding Company	Service charges paid	1,200	1,200
		Gas Transmission Charges	66,779	73,858
		Reimbursement of Transmission charges	8,153	6,953
		Reimbursement of Insurance expenses	410	398
		Reimbursement of other expenses	10	-
		Dividend Paid	70,000	5,400
		Income :		
		Sale of Natural Gas	2,457,999	1,635,633
		Counter Guarantee given to Bankers	400,000	400,000
		Balance Receivable	54,117	80,911
British Gas Energy Holding Ltd.	Under Common Control	Commission on purchases	26,650	16,772
		Commission on corporate guarantee given to supplier	10,134	14,580
		Balance Payable	152,319	115,535

12. **Investments :**

	As at 31-12-2006 (Rs. in thousand)	As at 31-12-2005 (Rs. in thousand)
Current Investments (Unquoted):		
- Units of Mutual Funds	628,529	484,674
Notes:		
1) Aggregate cost of unquoted investment	628,529	484,674
2) Movement in investment from 1st January, 2006 to 31st December, 2006 is given below		





Scheme	No. of units at the beginning of the year	Opening Value (Rs in thousand)	No. of Units Purchased	No. of Units sold	No. of Units in hands at the year end	Cost of units in hand at the year end at lower of cost or market value (Rs in thousand)
Birla Cash Plus Inst.Dividend Option	940,543	10,160	3,614,054	4,554,597	-	-
Birla Cash Plus Institutional Premium (Divi)	-	-	46,808,522	42,117,871	4,690,651	46,998
Birla Sun Life Cash Manager Insti. (Div. Daily)	3,054,513	30,551	4,182	3,058,695	-	-
DSP ML Floating Rate Fund Dividend Option	589,171	5,910	1,983	591,154	-	-
DSP ML Liquidity Fund- Institutional-(Div)	40,109	40,117	205,623	245,732	-	-
DSP ML Liquidity Regular - Fund- (Div.Daily)	-	-	4,306,825	4,306,825	-	-
Grindlays Cash Fund Inst.Plan-B- (Divi.)	1,671,413	17,686	3,861	1,675,274	-	-
Grindlays Fixed Maturity - 17th Plan (Div.)	2,000,000	20,000	-	2,000,000	-	-
Grindlays Fixed Maturity - 19th Plan (Div.)	-	-	2,020,280	2,020,280	-	-
Grindlays Floating Rate ST-Super Insti. Plan-C	386,599	3,866	1,893	388,492	-	-
HDFC Cash Management-Saving-(Divi-Daily)	-	-	7,296,618	5,076,905	2,219,713	23,610
HDFC Floating Rate Inc- STP- (Divi.Daily)	-	-	1,993,517	1,993,517	-	-
HDFC Floating Rate Inc- STP- Dividend Option	13,622	137	272	13,894	-	-
HSBC Fixed Term Series-7 (DIV)	-	-	2,030,082	2,030,082	-	-
ING VYSYA Liquid Fund Institutional-Div.	1,334,480	13,359	10,207	1,344,687	-	-
JM Floater Fund Short Term Plan (Divi)	2,611,761	26,296	1,014,329	3,626,090	-	-
Kotak Floater STP- Div. Wkly	984,085	9,848	4,325	988,410	-	-
Kotak Liquid Plan Inst.Premium (Divi)	4,568,835	55,869	24,482,304	24,042,983	5,008,156	61,240
Principal Deposit Fund FMP-3-20)	1,000,118	10,001	40,730	1,040,848	-	-
Principal Floating Rate SMP Insti. Div.	-	-	2,003,477	2,003,477	-	-
Prudential ICICI Floating Rate Plan-D (Div.)	5,604,595	56,046	46,002,680	42,000,000	9,607,275	96,073
Prudential ICICI Liquid Inst Plus (Divi)	883,869	10,475	3,751	887,620	-	-
Reliance Fixed Horizon Fund- Div. Op.	-	-	3,000,000	3,000,000	-	-
Reliance Fixed Horizon Fund PI-A Seri- V	-	-	3,000,000	3,000,000	-	-
Reliance Fixed Horizon Fund PI-A Seri- VI	-	-	3,000,000	3,000,000	-	-
Reliance Fixed Horizon Fund PI-A Seri-II (Div.)	-	-	3,000,000	3,000,000	-	-
Reliance Fixed Horizon Fund PI-A Seri-III(Div.)	-	-	3,000,000	3,000,000	-	-
Reliance Fixed Horizon Fund PI-A Seri-IV(Div.)	-	-	3,000,000	3,000,000	-	-
Reliance Fixed Horizon Fund- Qtrly PI-B Ser-II	-	-	2,000,000	2,000,000	-	-
Reliance Fixed Horizon Fund- Qtrly PI-B Ser-IV	-	-	2,000,000	2,000,000	-	-
Reliance Fixed Horizon Fund-I Mthly Seri- II	-	-	3,000,000	3,000,000	-	-
Reliance Fixed Horizon Fund-I Mthly Seri- III	-	-	3,000,000	-	3,000,000	30,000
Reliance Fixed Horizon Fund-I Qtr.Ser-II	-	-	2,000,000	-	2,000,000	20,000
Reliance Fixed Horizon Fund-I Seri- I (Div.)	-	-	3,000,000	3,000,000	-	-
Reliance Fixed Mat. Fund Mthly PI-IX-Series-II	-	-	3,000,000	3,000,000	-	-
Reliance Fixed Mat. Fund Mthly PI-VIII-Series-II	3,000,000	30,000	-	3,000,000	-	-
Reliance Fixed Mat. Fund Qtrt.PI-III-Series-II	-	-	2,000,000	2,000,000	-	-
Reliance Fixed Mat. Fund Qtrt.PI-II-Series-II	2,000,000	20,000	-	2,000,000	-	-
Reliance Fixed Mat Fund Mthly PI-XI-Series-II	-	-	3,000,000	3,000,000	-	-
Reliance Floating Rate Fund (Div.Daily)	-	-	4,706,939	2,037,409	2,669,530	26,860
Reliance FMP - Fund Mthly PI-X-Series-II	-	-	3,000,000	3,000,000	-	-
Reliance Liquid Cash Plan (Div. Daily)	-	-	504,481	504,481	-	-





Scheme	No. of units at the beginning of the year	Opening Value (Rs in thousand)	No. of Units Purchased	No. of Units sold	No. of Units in hands at the year end	Cost of units in hand at the year end at lower of cost or market value (Rs in thousand)
Reliance liquidity Fund- (Div. Dly)	551,807	5,519	7,310,857	5,704,403	2,158,261	21,589
Standard Chartered Liquidity Manager (Div. daily)	-	-	14,343,275	14,343,275	-	-
Standard Chartered Liquidity Manager Plus Fund	-	-	354,306	256,614	97,692	97,702
Sundaram Floater ST Institutional-(Div. Dly)	2,899,890	29,149	88,133	1,492,255	1,495,768	15,035
TATA Fixed Horizon Fund Series- 3 Scheme-B	-	-	1,015,020	1,015,020	-	-
TATA Floating Rate STP Insti. Plan (Div. Daily)	2,021,656	20,238	29,582,717	24,522,964	7,081,409	70,853
TATA Liquid Super HIF- (Div. Daily)	17,105	19,063	153,344	142,081	28,368	31,617
Templeton India Floating Rate STP (Divi.)	592,965	5,940	6,845	599,810	-	-
UTI Floating Rate Fund- STP (Div.)	2,786,248	28,088	8,501	2,794,749	-	-
UTI Liquid Cash Plan Institutional	16,096	16,356	171,354	102,156	85,294	86,952
UTI Money Market Fund- Div. Op.	-	-	4,208,828	4,208,828	-	-
TOTAL	39,569,480	484,674	248,304,115	247,731,478	40,142,117	628,529

13. Payment to Auditors :

	Year ended 31-12-2006 (Rs. in thousand)	Year ended 31-12-2005 (Rs. in thousand)
Audit fees	400	350
Reimbursement of Expenses (Including service tax)	71	48

14. Purchases and Sales of traded goods:

Product	Purchases		Sales	
	Qty. in LSCM	Rs.in thousand	Qty. in LSCM	Rs. in thousand
Natural Gas	5,762.24 (4,577.54)	3,778,632 (2,810,353)	5,762.24 (4,577.54)	3,908,336 (2,943,151)

Previous year figures are in brackets.

15. The provision for income tax has been calculated based on income earned during the year ended December 31, 2006. However the tax year end of the company being March 31, 2007, the ultimate liability for the Assessment Year 2007-08 will be determined on the total income of the company for the year ending March 31, 2007.
16. The miscellaneous income of previous year included Rs.70,210 thousand received during the previous year by the company, on account of settlement of dispute with one its gas suppliers.
17. Previous year figures have been reclassified / regrouped wherever considered necessary to conform to the current year figures.





CASH FLOW STATEMENT FOR THE YEAR ENDED 31ST DECEMBER, 2006

	Year ended 31-12-2006 Rs. in thousand	Year ended 31-12-2005 Rs. in thousand
A. CASH FLOW FROM OPERATING ACTIVITIES		
Net Profit before Tax	86,694	140,649
Adjustments for:		
Profit on sale of investment (Net)	(111)	(206)
Liabilities no longer required written back	-	(4,207)
Dividend Income	(26,354)	(15,805)
Unrealised Foreign Exchange Gain	(2,135)	(2,946)
Interest Income	(8,218)	(332)
Operating Profit before working capital changes	49,876	117,153
Adjustments for changes in working capital changes		
(Increase)/Decrease in Sundry Debtors	15,316	122,236
(Increase)/Decrease in Loan and Advances	(24,943)	(543)
Increase/(Decrease) in Current Liabilities	188,657	(98,549)
Cash generated from operations	228,906	140,297
Taxes paid (Net of refunds)	(38,399)	(69,912)
Net Cash from Operating Activities	190,507	70,385
B. CASH FLOW FROM INVESTING ACTIVITIES		
Purchase of Investments	(2,916,727)	(2,089,062)
Sale of Investments	2,772,983	2,035,811
Interest received (Net of taxes)	8,218	332
Dividends received	26,354	15,805
Net Cash from Investing Activities	(109,172)	(37,114)
C. CASH FLOW FROM FINANCING ACTIVITIES		
Deposits repaid during the year (Net)	(1,385)	(6,940)
Dividend Paid	(79,818)	(6,156)
Net Cash from Financing Activities	(81,203)	(13,096)
NET INCREASE IN CASH AND CASH EQUIVALENTS	132	20,175
Cash and Cash Equivalents at the beginning of the year	21,822	1,647
Cash and Cash Equivalents at the end of the year	21,954	21,822
Cash and Cash Equivalents comprise		
Cash in hand	1	3
Balances with Scheduled Banks :		
- In Current Accounts	21,943	21,809
- In Fixed Deposit Account	10	10
Total Cash and Cash Equivalents as per Cash Flow statement	21,954	21,822

Notes to Cash Flow Statement:

- 1 Cash and Cash equivalents represents Cash and Cash balances only.
- 2 The above Cash Flow Statement has been prepared under the "Indirect Method" as set out in the Accounting Standard-3 on Cash Flow Statements issued by the Institute of Chartered Accountants of India.
- 3 Figures in brackets indicate outflow.
- 4 Previous year figures have been reclassified/regrouped wherever considered necessary to conform to the current year figures.

This is the cash flow referred to in our report of even date

For and on behalf of the Board

Anuradha Tuli
Membership No. F85611
Partner

B.S.Shantharaju
Chairman

Sugata Sircar
Director

For and on behalf of
PRICE WATERHOUSE
CHARTERED ACCOUNTANTS

Shaleen Sharma
Director

Place : Gurgaon
Date : February 23, 2007

Place : Ahmedabad
Date : February 23, 2007





**BALANCE SHEET ABSTRACT AND COMPANY'S BUSINESS PROFILE AS
PER PART IV OF SCHEDULE VI TO THE COMPANIES ACT, 1956**

I. REGISTRATION DETAILS	:	
Registration No.	:	4091
State Code	:	04
Balance Sheet Date	:	31-12-2006
II. CAPITAL RAISED DURING THE YEAR (Amount Rs. in thousand)	:	
Public Issue	:	Nil
Rights Issue	:	Nil
Bonus Issue	:	Nil
Private Placement (Preferential Allotment)	:	Nil
III. POSITION OF MOBILISATION AND DEPLOYMENT OF FUNDS (Amount Rs. in thousand)	:	
Total Liabilities	:	801,806
Total Assets	:	801,806
Sources of Funds	:	
Paid-up Capital	:	900
Reserves and Surplus	:	104,950
Secured Loans	:	Nil
Unsecured Loans	:	Nil
Deposits	:	Nil
Applications of Funds	:	
Net Fixed Assets	:	Nil
Investments	:	628,529
Net Current Assets	:	(522,679)
Miscellaneous Expenditure	:	Nil
Accumulated Losses	:	Nil
IV. PERFORMANCE OF THE COMPANY (Amount Rs. in thousand)	:	
Total Turnover	:	3,943,168
Total Expenditure	:	3,856,474
Profit /(Loss) Before Tax	:	86,694
Profit / (Loss) After Tax	:	52,694
Earnings Per Share (Rs.) (Annualized)	:	5,854.89
Dividend Rate (%)	:	6000%
V. GENERIC NAME OF PRINCIPAL PRODUCTS/ SERVICES OF THE COMPANY (As per monetary terms)	:	
Item Code No. (ITC Code)	:	-
Product Description	:	TRADING IN NATURAL GAS





DIRECTORS' REPORT

To: Shareholders of Gujarat Gas Financial Services Limited

Your Directors take pleasure in presenting the thirteenth report together with the audited accounts for the calendar year ending on December 31, 2006.

FINANCIAL PERFORMANCE

PARTICULARS	<i>(Rupees in thousands)</i>	
	Calendar Year 2006	Calendar Year 2005
Total Income	60,031	71,002
Operating expenditure	(18,606)	(8,206)
Profits before Depreciation, Interest, provision for NPA and tax	41,425	62,796
<u>Less:</u>		
Depreciation	(9,117)	(26,739)
Interest	-	(1)
Profit before Tax	32,308	36,056
<u>Less:</u>		
Provision for Tax – current and deferred	(10,968)	(13,911)
Profit After Tax	21,340	22,145
Add: Surplus of earlier years	7,742	(9,974)
Amount available for appropriations	29,082	12,171
<u>Appropriations:</u>		
Transfer to General Reserve	1,601	-
Transfer to Reserve Fund (as stipulated by RBI)	4,268	4,429
Dividend	4,000	-
Dividend Distribution Tax	561	-
Surplus	18,652	7,742

During the year, the total income was Rs.60.031 million as compared to Rs.71.002 million last year. The change in the method of accounting brought in by the Accounting Standard 19, impacts the quantum of lease income accounted as revenue. This is the main reason for the total income being lower in 2006 as compared to the previous year. The connections undertaken by your company have gone up from 20,238 in the previous year to 20,697 during the current year. The profit after tax was Rs. 21.34 million.

DIVIDEND

In view of the overall performance and financial position of the company, the Directors are pleased to recommend payment of dividend at the rate of 20%. The proposed dividend will absorb a sum of Rs.4.56 million (inclusive of dividend distribution tax of Rs.0.56 million).

APPROPRIATIONS

As stipulated by Reserve Bank of India (RBI), 20% of the pre-dividend profits i.e. Rs.4.268 million (previous year Rs. 4.429 million) are being transferred to a separate Reserve Fund. Also, a sum of Rs.1.60 million (last year - Nil) is proposed to be transferred to General Reserves.

DISCUSSION ON OPERATIONS

Business

Your company continued to adopt a selective and cautious approach in financing and remained focused on domestic leasing business for gas connections.

The company installed 20,697 domestic and commercial

natural gas connections at a cost of Rs. 240.97 million as against 20,238 connections done at a cost of Rs. 223.18 million last year. The efficiency in connection activity was further improved, as was evidenced by a sharp decrease in the number of outstanding connections as at the year end.

Recovery

The company's continuing focus on recovery of its outstanding debts has led to an overall decrease in total outstanding. The total outstanding under the retail finance (consumer durables & vehicle finance) was Rs. 0.073 million as on end of December 2005 which had come down to zero in December 2006.

Investments

During the year, the company remained invested in bank deposits and certain government securities. At the end of 2006, the total invested portfolio in bank deposits was Rs.62 million.

HEALTH, SAFETY, SECURITY & ENVIRONMENT (HSS&E)

The HSS&E policies are being strictly implemented and progress is monitored on a continual basis. Employees were provided training in behavior based safety and safety interventions. The employees were encouraged to report hazards and near misses.

RBI REGISTRATION

Your company continues to enjoy registration from Reserve Bank of India as a Lease & Hire Purchase company and





is categorized as a 'Non-Deposit Accepting Company'.

PRUDENTIAL NORMS

Your company has complied with accounting policies in respect of income recognition. However, since the company had been categorized as a 'Non-Deposit Accepting Company', it is no longer required to comply with RBI guidelines related to public deposit mobilization like maintenance of Statutory Liquidity Ratio, Capital Adequacy Ratio and other reporting norms.

AUDIT COMMITTEE

The Audit Committee comprised of non-executive Directors of the company. Mr.B.S.Shantharaju is Chairman of the Audit Committee. The Committee met two times during the year.

FINANCE AND INSURANCE

- Your company remains a zero debt company.
- As on December 31, 2006, the unclaimed deposit amount was Rs. 0.071 million of 16 depositors. The Company has been regularly sending reminders to deposit holders about maturity of their deposits.
- During 2006, in terms of the provisions of Investor Education and Protection Fund (Awareness and Protection of Investor) Rules 2001, Rs.0.13 million of unpaid/unclaimed dividends, interest on deposits and deposits were transferred to the Investor Education and Protection Fund.
- The company's office assets, stocks, risks are adequately insured.

HUMAN RESOURCES

The number of employees as on December 31, 2006 was five.

STATUTORY INFORMATION

- There are no employees, whether employed throughout the year or any part thereof, in receipt of remuneration exceeding the limits prescribed under the provisions of Section 217 of the Companies Act, 1956 read with Companies (Particulars of Employees) Rules, 1975 as amended.
- During the period, there were no foreign exchange earnings whereas the foreign exchange outgo was to the extent of Rs. 23.20 million. Information pursuant to Part II of Schedule VI of the Companies Act, 1956, has been given in the notes to the accounts.
- Pursuant to the Non-Banking Financial Companies Auditor's Report (Reserve Bank) Directions, 1998, a report from the statutory auditors to the Board of Directors, has been received by your company. This report has certified that the company has complied with all the Directions and Prudential Norms as prescribed under the Reserve Bank of India Act.

DIRECTORS RESPONSIBILITY STATEMENT

In accordance with the requirements of Section 217 (2AA) of the Companies Act, 1956, your Directors hereby state that:

1. In the preparation of the annual accounts for year 2006, the applicable accounting standards have been followed.

2. The Directors had selected such accounting policies and applied them consistently and made judgements 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 calendar year of the profit of the company for that period.
3. The Directors had taken proper and sufficient care for the maintenance of adequate accounting records in accordance with the provisions of Companies Act, 1956 (as amended), for safeguarding the assets of the company and for preventing and detecting fraud and other irregularities.
4. The Directors had prepared the annual accounts on a going concern basis.

AUDITORS REPORT

The notes to the accounts referred to in the Auditors' Report are self-explanatory and therefore, do not call for any further comments.

AUDITORS

Price Waterhouse, the Statutory Auditors of the company retire at the Annual General Meeting and are eligible for re-appointment. The company has obtained from Price Waterhouse a written certificate to the effect that their re-appointment, if made will be in accordance with the limits specified in Section 224 (1B) of the Companies Act, 1956. The shareholders are requested to re-appoint the Auditors and fix their remuneration.

DIRECTORS

- Mr.Partha Choudhury resigned as Director from Board of the company with effect from November 1, 2006. Your Board places on record its appreciation of the contribution made by Mr.Choudhury during his tenure as Director of the company.
- In accordance with provisions of the Companies Act, 1956, Mr.B.S.Shantharaju, Director of the company, retires by rotation at the ensuing annual general meeting and being eligible offers himself for re-appointment.
- Mr.Sugata Sircar, Director of the company, holds office up to the date of ensuing Annual General Meeting. A notice has been received from a member proposing Mr.Sircar's candidature for appointment as Director of the company.

APPRECIATION

Your Directors wish to express its sincere appreciation to all its valuable customers for their continuing association with the company. The Directors wish to record their appreciation of the support being received from Gujarat Gas Company Ltd and other shareholders of the company. Your Directors express their appreciation of efforts put in by all employees and also wish to thank government agencies including Reserve Bank of India for extending support to the company's business. Your Directors acknowledge the continuing support received from the employees of Gujarat Gas Company Limited.

For & on behalf of the Board
B.S.SHANTHARAJU
CHAIRMAN

Place: Ahmedabad
Date : February 20, 2007





AUDITORS' REPORT TO THE MEMBERS OF GUJARAT GAS FINANCIAL SERVICES LIMITED

1. We have audited the attached Balance Sheet of Gujarat Gas Financial Services Limited, as at December 31, 2006, and the related Profit and Loss Account and Cash Flow Statement for the year ended on that date annexed thereto, which we have signed under reference to this report. 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.
2. We conducted our audit in accordance with the auditing standards generally accepted in India. 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 management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.
3. As required by the Companies (Auditor's Report) Order, 2003, as amended by the Companies (Auditor's Report) (Amendment) Order, 2004, issued by the Central Government of India in terms of sub-section (4A) of Section 227 of 'The Companies Act, 1956' of India (the 'Act') and on the basis of such checks of the books and records of the Company as we considered appropriate and according to the information and explanations given to us, we give in the Annexure a statement on the matters specified in paragraphs 4 and 5 of the said Order.
4. Further to our comments in the Annexure referred to in paragraph 3 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) 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;
 - (c) The Balance Sheet, Profit and Loss Account and Cash Flow Statement dealt with by this report are in agreement with the books of account;
 - (d) In our opinion, the Balance Sheet, Profit and Loss Account and Cash Flow Statement dealt with by this report comply with the accounting standards referred to in sub-section (3C) of Section 211 of the Act;
 - (e) On the basis of written representations received from the directors, and taken on record by the Board of Directors, none of the directors is disqualified as on December 31, 2006 from being appointed as a director in terms of clause (g) of sub-section (1) of Section 274 of the Act;
 - (f) In our opinion and to the best of our information and according to the explanations given to us, the said financial statements together with the notes thereon and attached thereto give in the prescribed manner the information required by the Act and give a true and fair view in conformity with the accounting principles generally accepted in India:
 - (i) in the case of the Balance Sheet, of the state of affairs of the Company as at December 31, 2006;
 - (ii) in the case of the Profit and Loss Account, of the profit for the year ended on that date.
 - (iii) in the case of the Cash Flow Statement, of the cash flows for the year ended on that date.

Anupam Dhawan
Membership Number F-84451
Partner
For and on behalf of
Price Waterhouse
Chartered Accountants

Place: Gurgaon
Date: February 20, 2007





ANNEXURE TO AUDITORS' REPORT

[Referred to in paragraph 3 of the Auditors' report of even date to the members of Gujarat Gas Financial Services Limited on the financial statements for the year ended December 31, 2006]

- i) a) The Company is maintaining proper records showing full particulars including quantitative details and situation of fixed assets.
- b) The fixed assets of the Company including those leased out are physically verified by the management according to a phased programme designed to cover all the items over a period of three years, which in our opinion, is reasonable having regard to the size of the Company and the nature of its assets. Pursuant to the programme, a portion of the fixed assets has been physically verified by the management during the year and no material discrepancies between the book records and the physical inventory have been noticed.
- c) In our opinion and according to the information and explanations given to us, a substantial part of fixed assets has not been disposed off by the Company during the year.
- ii) a) The inventory has been physically verified by the management during the year. In respect of inventory lying with third parties, these have substantially been confirmed by them. In our opinion, the frequency of verification is reasonable.
- b) In our opinion, 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.
- c) On the basis of our examination of the inventory records, in our opinion, the Company is maintaining proper records of inventory. The discrepancies noticed on physical verification of inventory as compared to book records were not material.
- iii) a) The Company has not granted any loans, secured or unsecured, to companies, firms or other parties covered in the register maintained under Section 301 of the Act.
- b) The Company has not taken any loans, secured or unsecured, from companies, firms or other parties covered in the register maintained under Section 301 of the Act
- iv) In our opinion and according to the information and explanations given to us, having regard to the explanation that certain items purchased are of special nature for which suitable alternative sources do not exist for obtaining comparative quotations, there is an adequate internal control system commensurate with the size of the Company and the nature of its business for the purchase of inventory, fixed assets and for the sale of goods and services. Further, on the basis of our examination of the books and records of the Company, and according to the information and explanations given to us, we have neither come across nor have been informed of any continuing failure to correct major weaknesses in the aforesaid internal control system;
- v) In our opinion and according to the information and explanations given to us, there are no contracts or arrangements referred to in Section 301 of the Act which are required to be entered in the register required to be maintained under that section.
- vi) The provisions of Section 58A of the Act are not applicable to the Company. However, the Company has accepted deposits from the public in earlier years, in respect of which the directives issued by Reserve Bank of India in terms of Non Banking Financial Companies Acceptance of Public Deposits (Reserve Bank) Directions, 1998, have been complied.
- vii) In our opinion, the Company has an internal audit system commensurate with its size and nature of its business.
- viii) The Central Government of India has not prescribed the maintenance of cost records under clause (d) of sub-section (1) of Section 209 of the Act for any of the Products of the Company.
- ix) a) According to the information and explanations given to us and the records of the Company examined by us, in our opinion, the Company is generally regular in depositing the undisputed statutory dues including provident fund, investor education and protection fund, employees' state insurance, income-tax, sales-tax, wealth tax, service tax, customs duty, excise duty, cess and other material statutory dues as applicable with the appropriate authorities.
- b) According to the information and explanations given to us and the records of the Company examined by us, there are no dues of sales tax, wealth tax, service tax, customs duty, excise duty and cess which have not been deposited on account of any dispute. The particulars of dues of income-tax as at December 31, 2006 which have not been deposited on account of a dispute are given in Note B 9 on Schedule 19.
- x) The Company has no accumulated losses as at December 31, 2006 and it has not incurred any cash losses in the financial year ended on that date or in the immediately preceding financial year.





- xi) According to the records of the Company examined by us and the information and explanation given to us, the Company has not defaulted in repayment of dues to any financial institution or bank or debenture holders as at the balance sheet date.
- xii) The Company has not granted any loans and advances on the basis of security by way of pledge of shares, debentures and other securities.
- xiii) The provision of any special statute applicable to chit fund/ nidhi/ mutual benefit fund/ societies are not applicable to the Company.
- xiv) In our opinion, the Company is not a dealer or trader in shares, securities, debentures and other investments.
- xv) In our opinion, and according to the information and explanations given to us, the Company has not given any guarantee for loans taken by others from banks or financial institutions during the year.
- xvi) The Company has not obtained any term loans.
- xvii) On the basis of an overall examination of the balance sheet of the Company, in our opinion and according to the information and explanations given to us, there are no funds raised on a short-term basis which have been used for long-term investment.
- xviii) The Company has not made any preferential allotment of shares to parties and companies covered in the register maintained under Section 301 of the Act during the year.
- xix) The Company has not issued any debentures during the year and there are no debentures outstanding as at the year end.
- xx) The Company has not raised any money by public issues during the year.
- xxi) During the course of our examination of the books and records of the Company, carried out in accordance with the generally accepted auditing practices in India, and according to the information and explanations given to us, we have neither come across any instance of fraud on or by the Company, noticed or reported during the year, nor have we been informed of such case by the management.

Anupam Dhawan
Membership Number F-84451
Partner
For and on behalf of
Price Waterhouse
Chartered Accountants

Place: Gurgaon
Date: February 20, 2007





The Board of Directors,
Gujarat Gas Financial Services Limited
Gujarat

Dear Sirs,

Non Banking Financial Companies Auditor's Report (Reserve Bank) Directions, 1998

We have audited the annual accounts of Gujarat Gas Financial Services Limited for the year ended December 31, 2006. As required by the Non Banking Financial Companies Auditor's Report (Reserve Bank) Directions, 1998, on the basis of such checks as we considered appropriate and as per information and explanation given to us we report that:

A. In the case of all non-banking financial companies

1. The Company has obtained a certificate of registration from Reserve Bank of India under section 45IA of the Reserve Bank of India Act, 1934.

B. In the case of a non-banking financial company not accepting public deposits

1. The Board of Directors of the Company has passed a resolution dated January 05, 2006 for the non-acceptance of any public deposits.
2. The Company has not accepted any public deposits during the year under our report.
3. The Company has complied with the prudential norms on income recognition, accounting standards, assets classification and provision for bad and doubtful debts, as specified in the directions issued by the Reserve Bank of India in the terms of the Non-banking Financial Companies Prudential Norms (Reserve Bank) Directions, 1998.

Anupam Dhawan
Membership Number F-84451
Partner
For and on behalf of
Price Waterhouse
Chartered Accountants

Place: Gurgaon
Date: February 20, 2007





**GUJARAT GAS FINANCIAL SERVICES LIMITED
BALANCE SHEET AS AT 31ST DECEMBER, 2006**

	Schedule	Rs. in thousand	As at 31-12-2006 Rs. in thousand	As at 31-12-2005 Rs. in thousand
SOURCES OF FUNDS				
Shareholders' Funds				
Share Capital	1	20,000		20,000
Reserves and Surplus	2	83,435		66,656
			103,435	86,656
			103,435	86,656
APPLICATION OF FUNDS				
Fixed Assets				
Gross block	3	593,760		593,760
Less : Depreciation		448,890		439,773
		144,870		153,987
Less : Lease Equalization		143,998		143,998
Net block			872	9,989
Investments	4		-	-
Deferred Tax Asset			55,821	35,741
(Refer Notes A11 & B11 on Schedule 19)				
Current Assets, Loans and Advances				
Inventories	5	51,522		39,778
Stock on Hire	6	-		73
Lease Receivables	7	13		8,159
Sundry Debtors	8	55		955
Cash and Bank Balances	9	68,540		68,075
Other Current Assets	10	770		848
Loans and Advances	11	16,615		11,980
		137,515		129,868
Less: Current Liabilities and Provisions	12			
Current Liabilities		85,592		89,543
Provisions		5,651		799
		91,243		90,342
Net Current Assets			46,272	39,526
Miscellaneous Expenditure	13		470	1,400
(To the extent not written off or adjusted)				
			103,435	86,656
Significant Accounting Policies and Notes to Accounts				
	19			

This is the Balance Sheet referred to in our report of even date

The schedules referred to above form an integral part of the Balance Sheet.

ANUPAM DHAWAN
Membership No. F-84451
Partner
For and on behalf of
PRICE WATERHOUSE
CHARTERED ACCOUNTANTS

For and on behalf of the Board
B.S. SHANTHARAJU SUGATA SIRCAR
CHAIRMAN DIRECTOR

HIREN VYAS SHALEEN SHARMA
SECRETARY DIRECTOR

Place : Gurgaon
Date : February 20, 2007

Place : Ahmedabad
Date : February 20, 2007





GUJARAT GAS FINANCIAL SERVICES LIMITED
PROFIT AND LOSS ACCOUNT FOR THE YEAR ENDED 31ST DECEMBER, 2006

	Schedule	Rs. in thousand	Year ended 31-12-2006 Rs. In thousand	Year ended 31-12-2005 Rs. In thousand
INCOME				
Income from operations	14	48,879		62,686
Other Income	15	11,152		8,316
			60,031	71,002
EXPENDITURE				
Personnel Expenses	16	3,001		2,415
Administration and Other Expenses	17	14,675		4,862
Finance charges	18	-		1
Depreciation		9,117		26,739
Deferred Revenue Expenditure Written off		930		929
			27,723	34,946
Profit before taxation			32,308	36,056
Tax Expense (Refer note A11, B6 & B11 on Schedule 19)				
Current Tax		31,035		23,650
Deferred Tax		(20,080)		(9,750)
Fringe Benefit Tax		13		11
			10,968	13,911
Profit after taxation			21,340	22,145
Profit/(Loss) brought forward from previous year			7,742	(9,974)
Profit available for appropriation			29,082	12,171
Appropriations				
Proposed Dividend			4,000	-
Corporate Dividend Tax on Proposed Dividend			561	-
Transferred to Special Reserve (As stipulated by RBI)			4,268	4,429
Transferred to General Reserve			1,601	-
Profit Carried Forward			18,652	7,742
			29,082	12,171
Basic / Diluted Earnings per Share (Rs.)			10.67	11.07
(Refer note A10 & B8 on Schedule 19)				
Significant Accounting Policies and Notes to Accounts	19			

This is the Profit and Loss Account referred to in our report of even date

The schedules referred to above form an integral part of the Profit and Loss Account

ANUPAM DHAWAN
Membership No. F-84451
Partner
For and on behalf of
PRICE WATERHOUSE
CHARTERED ACCOUNTANTS

For and on behalf of the Board
B.S. SHANTHARAJU SUGATA SIRCAR
CHAIRMAN DIRECTOR

HIREN VYAS SHALEEN SHARMA
SECRETARY DIRECTOR

Place : Gurgaon
Date : February 20, 2007

Place : Ahmedabad
Date : February 20, 2007





**GUJARAT GAS FINANCIAL SERVICES LIMITED
SCHEDULES FORMING PART OF ACCOUNTS**

	Rs. In thousand	As at 31-12-2006 Rs. In thousand	As at 31-12-2005 Rs. In thousand
SCHEDULE-1			
SHARE CAPITAL			
A. Authorised			
70,00,000 (Previous year 70,00,000) Equity Shares of Rs.10/- each	70,000		70,000
50,00,000 (Previous year 50,00,000) Preference Shares of Rs.10/- each	50,000	120,000	50,000
			120,000
B. Issued, Subscribed and paid up			
20,00,000 Equity Shares of Rs.10/- each fully paid up (Previous year 20,00,000 Equity Shares of Rs.10/- each)		20,000	20,000
[Out of the above 13,97,500 Shares (Previous year 13,97,500 Shares) of Rs.10/- each are held by holding Company - Gujarat Gas Company Limited, ultimate holding company being BG Group plc]			
		20,000	20,000
SCHEDULE-2			
RESERVES AND SURPLUS			
General Reserve			
Opening Balance	-		-
Add : Transferred from Profit & Loss Account	1,601	1,601	-
Special Reserve (as required by RBI)			
Opening Balance	58,914		54,485
Add : Transferred from Profit & Loss Account	4,268	63,182	4,429
			58,914
Profit & Loss Account			
Opening Balance	7,742		(9,974)
Add: Profit for the Year	21,340		22,145
	29,082		12,171
Less : Transferred to Special Reserve (As stipulated by RBI)	(4,268)		(4,429)
Less : Transferred to General Reserve	(1,601)		-
Less : Proposed Dividend and Dividend Tax	(4,561)		-
		18,652	7,742
TOTAL		83,435	66,656



SCHEDULE - 3

Fixed Assets

(Refer note A2(a) & A3 on Schedule19)

Rs. in thousand

PARTICULARS	GROSS BLOCK				DEPRECIATION				NET BLOCK	
	As at 01.01.06	Additions	Sales/Adj during the year	Balance as at 31.12.06	As at 01.01.06	Additions during the year	Sales/Adj during the year	Balance as at 31.12.06	As at 31.12.06	As at 31.12..05
A. Assets given on Lease										
Plant & Machinery	590,600	-	-	590,600	437,601	9,001	-	446,602	143,998	152,999
Total - (A)	590,600	-	-	590,600	437,601	9,001	-	446,602	143,998	152,999
B. Other Assets										
Computer	1,083	-	-	1,083	1,082	0	-	1,082	1	1
Office Equipment & Elect.Install	673	-	-	673	308	29	-	337	336	365
Furniture & Fixture	973	-	-	973	683	45	-	728	245	290
Vehicle - Car/ scooter	431	-	-	431	99	42	-	141	290	332
Total - (B)	3,160	-	-	3,160	2,172	116	-	2,288	872	988
Total -(A)+(B)	593,760	-	-	593,760	439,773	9,117	-	448,890	144,870	153,987
Lease Equalisation	-	-	-	-	143,998	-	-	143,998	(143,998)	(143,998)
Total	593,760	-	-	593,760	583,771	9,117	-	592,888	872	9,989
Previous Year	594,136	-	376	593,760	556,647	27,365	241	583,771	9,989	37,489





GUJARAT GAS FINANCIAL SERVICES LIMITED SCHEDULES FORMING PART OF ACCOUNTS

	Rs. In thousand	As at 31-12-2006 Rs. In thousand	As at 31-12-2005 Rs. In thousand
SCHEDULE - 4			
INVESTMENTS			
(Refer Note A4 and B3 on Schedule 19)			
LONG TERM - OTHERS			
Other than trade- Quoted shares			
11,600 equity shares of Rs. 10/- each fully paid up (previous year 11,600 equity shares of Rs. 10/- each)*		116	116
		116	116
Less: Provision for diminution in value of investment		116	116
TOTAL		-	-
* During the previous year Prudential Mouli Sugars Limited has issued 4 nos. of equity shares in Prudential Sargar Corporation Limited in place of 1 no. of Preference share originally held.			
SCHEDULE-5			
INVENTORIES			
(Refer Note A5 on Schedule 19)			
Stores and pipe fittings (at cost)		51,522	39,778
TOTAL		51,522	39,778
SCHEDULE-6			
STOCK ON HIRE			
(Refer Notes A6, A7 & B10(ii) on Schedule 19)		-	73
Stock on Hire		-	73
TOTAL		-	73
SCHEDULE-7			
LEASE RECEIVABLES			
(Refer Notes A2(a) & B10(i) on Schedule 19)			
Lease Receivables		13	8,159
TOTAL		13	8,159
SCHEDULE-8			
SUNDRY DEBTORS			
(Unsecured)			
Considered Good			
Other Debts	169	169	955
Considered Doubtful			
Debts outstanding for a period exceeding six months	364		478
Other Debts	-		-
	364		478
Less: Provision for Doubtful Debts	(478)	(114)	(478)
TOTAL		55	955





GUJARAT GAS FINANCIAL SERVICES LIMITED SCHEDULES FORMING PART OF ACCOUNTS

	Rs. In thousand	As at 31-12-2006 Rs. In thousand	As at 31-12-2005 Rs. In thousand
SCHEDULE-9			
CASH AND BANK BALANCES			
Cash in hand		32	101
Bank balances with Scheduled Banks			
In Current Accounts		6,400	1,841
In Term Deposit *		62,001	66,001
Unpaid Dividend Accounts		107	132
TOTAL		68,540	68,075
* Includes Term Deposit in an Escrow account as stipulated by RBI Rs. 500 thousand (Previous Year Rs. 500 thousand)			
SCHEDULE-10			
OTHER CURRENT ASSETS (Unsecured, considered good, unless otherwise stated)			
Interest accrued on :			
Investments		770	802
Others		-	46
TOTAL		770	848
SCHEDULE-11			
LOANS AND ADVANCES (Unsecured, considered good, unless otherwise stated)			
Advances recoverable in cash or in kind or for Value to be received.		6,647	1,500
Advance payment of tax and tax deducted at source	130,124		99,598
Taxation Provision	(120,152)		(89,118)
		9,972	10,480
Advance Fringe Benefit Tax	21		11
Provision for Fringe Benefit Tax	(25)		(11)
		(4)	-
TOTAL		9,968	10,480
		16,615	11,980
SCHEDULE-12			
CURRENT LIABILITIES & PROVISION			
A. Current Liabilities			
Sundry Creditors other*		25,468	23,503
Advance Installments received		54,051	61,028
Security Deposits		4,173	4,491
Investor Education and Protection Fund shall be credited by:			
Unpaid Dividend		88	110
Unpaid Matured Deposits		127	127
Other liabilities		1,685	284
		85,592	89,543
B. Provisions			
Proposed Dividend (Includes Corporate Dividend Tax Rs.561 thousand (Previous Year Rs. NIL))		4,561	-
Provision for Gratuity		635	457
Provision for Leave Encashment		455	342
TOTAL		5,651	799

* As per the information available with the management there are no outstanding dues payable to small scale industrial undertakings for more than 30 days.



**GUJARAT GAS FINANCIAL SERVICES LIMITED
SCHEDULES FORMING PART OF ACCOUNTS**

	Rs. In thousand	As at 31-12-2006 Rs. In thousand	As at 31-12-2005 Rs. In thousand
SCHEDULE-13			
MISCELLANEOUS EXPENDITURE			
(Refer Note A 13, B(1)(c) & B 7 on Schedule 19)			
Deferred Revenue Expenditure			
Opening balance	1,400		2,329
Incurring during the year	-		-
Less :Written off during the year	(930)		(929)
		470	1,400
TOTAL		470	1,400
<hr/>			
		Year ended 31-12-2006 Rs. In thousand	Year ended 31-12-2005 Rs. In thousand
SCHEDULE-14			
INCOME FROM OPERATIONS			
(Refer Note A 2 on Schedule 19)			
Income from Lease	13,394		31,604
Less : Lease Equalisation	-		(626)
	13,394		30,978
Add: Surplus From Lease Related Activities	29,975		27,576
		43,369	58,554
Income from Hire Purchase		4	24
Interest on :			
Government Guaranteed PSU Bonds [Gross, Tax Deducted at Source Nil] (Previous Year Rs. 48 thousand)]	-		72
Term Deposits [Gross, Tax deducted at source Rs.1,226 thousand (Previous Year Rs.762 thousand)]	5,266		3,843
From Customers	240		193
		5,506	4,108
TOTAL		48,879	62,686
<hr/>			
SCHEDULE-15			
OTHER INCOME			
Excess Provision Written Back		31	7,078
Miscellaneous Income		11,121	1,238
		11,152	8,316
<hr/>			
SCHEDULE-16			
PERSONNEL EXPENSES			
Salaries and Allowances		2,612	2,145
Contribution to Provident & Other Funds		298	201
Staff Welfare and other expenses		91	69
TOTAL		3,001	2,415





**GUJARAT GAS FINANCIAL SERVICES LIMITED
SCHEDULES FORMING PART OF ACCOUNTS**

	Rs. In thousand	Year ended 31-12-2006 Rs. In thousand	Year ended 31-12-2005 Rs. In thousand
SCHEDULE-17			
ADMINISTRATION AND OTHER EXPENSES			
Insurance		130	95
Repairs and Maintenance - Others		-	34
Rates and Taxes		11,469	647
Legal and Professional Charges		1,919	2,426
Inventory Written off		-	945
Loss on inventory due to flood		600	-
Loss on sale of Fixed Assets		-	5
Foreign Exchange Loss		12	23
Miscellaneous Expenses		545	687
TOTAL		14,675	4,862
SCHEDULE-18			
FINANCE CHARGES			
Interest on :			
Inter Corporate Deposits		-	1
TOTAL		-	1





SCHEDULE - 19

SIGNIFICANT ACCOUNTING POLICIES AND NOTES TO ACCOUNTS

A. SIGNIFICANT ACCOUNTING POLICIES

1 Accounting Convention

The financial statements have been prepared on accrual basis in accordance with applicable Accounting Standards issued by the Institute of Chartered Accountants of India and relevant provisions of the Companies Act, 1956 under Historical Cost Convention.

2 Revenue Recognition

(a) Assets given on Lease:

1. In respect of assets leased before April 1, 2001:

- i Income from lease rentals is recognised on an accrual basis as per the terms of agreements entered into with lessees and the corresponding leased asset is capitalised in the books.
- ii The Company follows the recommendation of The Institute of Chartered Accountants of India contained in the Guidance Note on Accounting for Leases. Accordingly lease rentals accounted as income on finance leases are adjusted by creating lease equalisation reserve so as to recover the capital cost of the leased asset within the tenure of lease agreements or earlier as ascertained by the management.

2. In respect of assets leased on or after April 1, 2001

In accordance with the provisions of Accounting Standard 19 on Leases issued by the Institute of Chartered Accountants of India, the Company has classified all its leases as finance leases. Accordingly the aggregate of minimum lease payments less unearned finance income is recognised as a receivable. Unearned finance income is arrived at, as the difference between the aggregate of minimum lease payments and its present value based on the rate of return implicit as per the terms of the agreement. Finance income is recognised over the term of the lease using the net investment method, which reflects a constant periodic rate of return.

- (b) In respect of hire purchase before April 1, 2001, income is recognised on the declining balance, based on rates implicit in the transaction.
- (c) Initial direct costs incurred for negotiating and arranging a lease/hire purchase are recognised immediately in the profit and loss account.
- (d) Income from lease/hire purchase processing fees is recognised at the time of entering in to an agreement with the customer.
- (e) The difference between the amount charged to customers for leased gas connections and the actual consumption of materials and incidental expenses is disclosed as surplus from lease related activity under Income from lease.
- (f) Dividend income is recognised when the right to receive dividend is established.
- (g) In respect of other heads of income, the Company follows the practice of accounting for such income on an accrual basis. Delayed payment charges are recognized on the basis of certainty of collection.
- (h) The Company follows the prudential norms for income recognition and provides for / writes off Non-performing Assets as per the prudential norms prescribed by the Reserve Bank of India or earlier as ascertained by the management.

3 Fixed Assets

- (a) Fixed assets including assets given on lease are stated at their original cost including freight, duties, customs & other incidental expenses relating to acquisition or construction.
- (b) Depreciation on assets excluding assets given on lease is provided on straight line method at the rates and in the manner prescribed in Schedule XIV to the Companies Act 1956. Assets costing Rs. 5,000 or less are fully depreciated in the year of purchase. Depreciation on assets purchased /acquired during the year is charged from the beginning of the month of the purchase of the asset. Similarly depreciation on assets sold / discarded during the year is charged up to the end of the month of sale of asset.
- (c) Depreciation on assets leased prior to April 1, 2001 is provided over the period of lease.
- (d) The carrying value of fixed assets which are in excess of the higher of its value in use or net realizable value is recognized as an impairment loss.





4 Investments

Securities classified as long term investments are valued at cost and permanent diminution thereof, if any, in value is appropriately adjusted.

Current investments are stated at lower of cost or market value determined category-wise. Cost is determined as per weighted average cost formula.

5 Inventories

Stores and Pipe Fittings are valued at cost arrived on First in First Out method after providing for obsolete inventories.

6 Stock on Hire

Stock on Hire is valued at installments receivable and is net of unearned hire purchase income falling due after the Balance Sheet date.

7 Repossessed Stock

Stock repossessed because of defaults in payment of hire purchase installments is valued at the installments due including those becoming due after the Balance Sheet date or net realizable value which ever is lower.

8 Retirement Benefits

Contributions to provident fund are accrued in accordance with applicable statutes and deposited with the Regional Provident Fund Commissioner.

The liability on account of gratuity and leave encashment is determined on the basis of actuarial valuation done as on the Balance Sheet date.

9 Foreign Currency Transactions

Foreign currency transactions are accounted for at the exchange rate prevailing at the transaction date. Year end monetary assets & liabilities in foreign currency, other than those pertaining to the acquisition of fixed assets, are translated at the applicable year end exchange rates and the resultant difference is recognised as gain/loss for the year. Year-end translation differences in respect of liabilities pertaining to acquisition of fixed assets are added to the costs of the relevant assets.

10 Earnings Per Share (EPS)

The earnings considered in ascertaining the Company's EPS comprises the net profit after tax (and include the post tax effect of any extra ordinary items). The number of shares used in computing Basic EPS is the weighted average number of shares outstanding during the year.

11 Taxation

Tax expense for the year, comprising current tax, deferred tax and fringe benefit tax is included in determining the net profit for the year.

A provision is made for the current tax and fringe benefit tax based on tax liability computed in accordance with relevant tax rates and tax laws. A provision is made for deferred tax for all timing differences arising between taxable income and accounting income at currently or substantively enacted tax rates.

Deferred tax assets are recognised only if there is reasonable certainty that they will be realised and are reviewed for the appropriateness of their respective carrying values at each balance sheet date.

12 Impairment

Assets that are subject to amortization are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognized for the amount by which the assets' carrying amount exceeds its recoverable amount. The recoverable amount is the higher of the assets' fair value less costs to sell and value in use.

For the purpose of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash generating units.)

13 Miscellaneous Expenditure:

Deferred Revenue Expenditure is amortised in equal installments over a period of 5 years from the year the same is incurred.





14 Provision and Contingencies

The Company creates a provision when there is present obligation as a result of a past event that probably requires an outflow of resources and a reliable estimate can be made of the amount of obligation. A disclosure for a contingent liability is made when there is a possible obligation or a present obligation that probably will not require an outflow of resources or where a reliable estimate of the obligation can not be made.

B. NOTES TO ACCOUNTS

1 Contingent Liabilities

a. Income Tax exposures of Rs. 74,213 Thousand (Previous Year Rs. 54,351 Thousand)

*Includes income tax demand of Rs. 12,557 Thousand (Previous year Rs. 12,557 Thousand) including interest on tax, relating to Assessment Years 1996-97 due to disallowance of depreciation claimed on leased assets. The total amount paid by company / adjusted by tax authorities on account of above demand aggregates to Rs. 12,341 Thousand (Previous year Rs. 10,500 Thousand). The company has claimed depreciation on leased assets for other years as well. The total tax exposure, net of interest on tax, on account of the above for all the years aggregates to Rs. 17,486 Thousand (Previous year Rs. 17,486 Thousand). The company had filed appeals against the above income tax demands. However CIT(A) has upheld the disallowance of depreciation claim on leased assets, but he has directed to remove deemed principal recovery included in the lease rent, and tax only the interest component. The effect for the same has been granted by department amounting to Rs. 1,137 Thousand for AY. 1996-97. The Company has, however, continued its appeal at ITAT for allowance of depreciation in the respective years of disallowance as the primary ground even where principal recovery has been granted by CIT(A). Further during the current year Assistant Commissioner of Income Tax has levied a penalty under section 271(1)(c) of the Income Tax Act 1961, amounting Rs. 6,773 Thousand (Previous year Rs. Nil).

*Includes income tax demand of Rs. 5,462 Thousand (Previous Year Rs. 5,462 Thousand) for the Assessment Year 1996-97 on account of disallowance of loss on sale of securities as business loss. The Company had filed an appeal against the above demands and CIT(A) ruled in favour of the Company and quashed the demand. However, the Income Tax Department has filed an appeal against the above order.

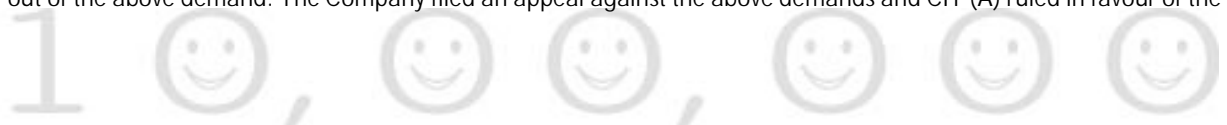
*Includes income tax demand of Rs. 16,591 Thousand (Previous Year Rs. 16,591 Thousand) for the Assessment Year 2001-02 on account of disallowance of claim for bad debts (Rs. 15,170 Thousand), Prior period expenses (Rs. 88 Thousand) & Disallowances u/s 14A of the Income Tax Act, 1961 (Rs. 1,333 Thousand). The Company had filed an appeal against the above demands and CIT (A) ruled in favour of the Company by quashing the demand aggregating to Rs. 2,169 Thousand by allowing fully claims for Prior period expenses and Disallowance u/s 14A while partly allowing claim of Bad debts. The Company has paid an amount of Rs. 7,600 Thousand (Previous Year Rs. 7,100 Thousand) out of the above demand. Further during the current year Assistant Commissioner of Income Tax has levied a penalty under section 271(1)(c) of the Income Tax Act 1961, amounting Rs. 10,007 Thousand (Previous year Rs. Nil). The company had filed appeal against the above demand CIT (A) ruled in favour of the company and quashed the demand.

*Includes income tax demand of Rs. 14,812 Thousand (Previous Year Rs. 14,812 thousand) for the Assessment Year 2002-03 on account of disallowance of claim for bad debts (Rs. 13,997 thousand) and professional expenses (Rs. 815 Thousand). The total amount paid by company / adjusted by tax authorities on account of above demand aggregates to Rs. 8,826 Thousand (Previous year Rs. Nil).

*Includes income tax demand of Rs. 2,855 Thousand (Previous year Rs. Nil) for the Assessment Year 2003-04 on account of disallowance of claim for bad debts. The company had filed appeal against the above demand CIT (A) ruled in favour of the company and quashed the demand.

*includes Income tax demand of Rs. 227 Thousand (Previous year Rs. NIL) for the assessment year 2004-05 on account of disallowance of claim for Bad debts.

b. Interest Tax exposures of Rs. 6,128 Thousand (Previous Year Rs. 6,128 Thousand). The Interest Tax Authorities in the assessment contented that the activities of the Company are chargeable to interest tax and had raised a total demand of Rs. 57,164 Thousand for the Assessment Years 1995-96 to 2000-01. The Company had filed an appeal against the above demands and CIT(A) ruled in favour of the Company for the Assessment Years 1995-96, 1996-97, 1997-98, 1998-99 and 2000-01 and quashed the demands for these years aggregating to Rs. 50,268 Thousand. However for Assessment Year 1999-2000, another CIT (A) has taken the view that interest tax is leviable on the Company and accordingly a demand of Rs. 4,146 Thousand had been raised against the Company. Further during the current year, Assistant Commissioner of Income Tax has levied a penalty under section 13 of the Interest Tax Act 1974, amounting Rs. 1,982 Thousand. The Company has paid an amount of Rs.1,250 Thousand (Previous Year Rs. 1,000 Thousand) out of the above demand. The Company filed an appeal against the above demands and CIT (A) ruled in favour of the





Company and quashed the penalty demand. Department has not filed an appeal against CIT (A) order for quashing the penalty demand of Rs. 1,982 thousand.

- c. The Company had retrenched 8 employees in the year 2002 under the provisions of The Industrial Disputes Act, 1949. The employees had filed an appeal against the above retrenchment in the labour court, 2 of the employees, who had been paid part amount during the year 2004, have been paid off the balance amount during the year 2005. Pending decision from the labour court, the Company had provided for Rs. 547 Thousand, being the compensation payable under The Industrial Disputes Act, 1949.

In view of the favourable legal advice obtained by the Company, no provision has been created for the above demands.

2. Shared services represent amounts paid to Gujarat Gas Company Limited, the holding Company, for use of office premises, common facilities and employees.
3. Details of investments as listed in Schedule 4 are as follows:

	As at 31.12.2006			As at 31.12.2005		
	Face Value Rs.	Number	Rs. in thousand	Face Value Rs.	Number	Rs. in thousand
SHARES-FULLY PAID UP						
Quoted Equity Shares of Prudential Sugar Corporation Limited (Previous Year quoted equity Shares of Prudential Mouli Sugars Limited)	10	11,600	116	10	11,600	116
TOTAL			116			116

4. Auditors' Remuneration:

	Year ended 31.12.2006 (Rs. In thousand)	Year ended 31.12.2005 (Rs. In thousand)
Audit Fees	300	300
Out of Pocket expenses (including service tax)	74	85
	374	385

5 Value of imports calculated on CIF basis:

	Year ended 31.12.2006 (Rs. In thousand)	Year ended 31.12.2005 (Rs. in thousand)
Spares	23,195	26,519

6. The provision for Income Tax has been calculated based on income earned during the year ended 31 December 2006. However, the tax year end of the Company being March 31, 2007, the ultimate liability for the Assessment year 2007-08 will be determined on the total income of the Company for the year ended March 31, 2007.

7. Deferred Revenue Expenditure represents expenditure incurred for compensation paid to employees pursuant to a Voluntary Retirement Scheme introduced by the Company.

8. Earnings Per Share (EPS):

	Year ended 31-12-2006	Year ended 31-12-2005
Net Profit attributable to Shareholders (Rs. In Thousands)	21,340	22,145
Weighted average number of equity shares outstanding during the year. (No. in Thousands)	2,000	2,000
Basic earning per share of Rs 10/- each (in Rs.)	10.67	11.07

The Company does not have any outstanding dilutive potential equity shares. Consequently, the basic and diluted earning per share of the Company remain the same.





9. The statement of unpaid disputed dues are given below :

Name of the statute	Nature of Dues	Amount (Rs. In Thousand)	Period to which the amount relates	Forum where dispute is pending
Income Tax Act, 1961	Income Tax & Interest thereon	358	A.Y. 1996-97	Income Tax Appellate Tribunal
	Penalty U/S 271(1)(C)	6,773	A.Y. 1996-97	CIT (Appeals)
	Income Tax & Interest thereon	6,822	A.Y. 2001-02	Income Tax Appellate Tribunal
	Income Tax & Interest thereon	5,986	A.Y. 2002-03	Income Tax Appellate Tribunal
	Income Tax & Interest thereon	227	A.Y 2004-05	CIT (Appeals)
Interest Tax Act, 1974	Interest Tax & Penalty	2,896	A.Y. 1999-00	Income Tax Appellate Tribunal

10. Assets given on lease/hire purchase:

i) Assets given on lease on or after April 1, 2001:

Leasing operations of the company primarily comprise of leasing of gas connections to users of natural gas for domestic and commercial use under a finance lease arrangement. The ownership of these gas connections remains with the company throughout the life of these equipments. The lease agreement is typically for a period of 7 years with primary period varying from 1 to 3 years. After completion of the lease period, the lessee continues to use the equipment without any further payment. As per the terms of agreement, lessee is responsible for insurance, maintenance and replacement of the equipment.

(Rs. in thousand)

	Year ended December 31, 2006				Year ended December 31, 2005			
	Gross Investment in the lease	Unearned Finance Income	Service Tax	Present Value of minimum Lease payments receivable	Gross Investment in the lease	Unearned Finance Income	Service Tax	Present value of Minimum lease payments receivable
Total	14	1	0	13	8,909	680	70	8,159
Out of the above, receivable:								
Not Later than 1 year	14	-	-	13	8,909	-	-	8,159
Later than 1 year and not later than 5 years	-	-	-	-	-	-	-	-
Later than 5 years	-	-	-	-	-	-	-	-

ii) Assets given on Hire Purchase on or after April 1, 2001:

The Hire Purchase (HP) operations of the company comprise of financing of vehicles and white goods.

(Rs. in thousand)

	Year ended December 31, 2006				Year ended December 31, 2005			
	Gross Investment in HP	Unearned Finance Income	Service Tax	Present Value of minimum HP payments*	Gross Investment in the HP	Unearned Finance Income	Service Tax	Present value of Minimum HP payments*
Total	-	-	-	-	77	4	0	73
Out of the above, receivable:								
Not Later than 1 year	-	-	-	-	77	-	-	73
Later than 1 year and not later than 5 years	-	-	-	-	-	-	-	-
Later than 5 years	-	-	-	-	-	-	-	-

* included in Stock on Hire in Schedule 6





11 Deferred Tax

(A) The movement in deferred tax account is as follows:

(Amount in Rs. Thousand)		
	Year ended December 31, 2006	Year ended December 31, 2005
Opening Balance	(35,741)	(25,991)
Provision for current year deferred tax (asset)/liability (Net)	(20,080)	(9,750)
Closing Balance	(55,821)	(35,741)

(B) Deferred tax assets and liabilities are being offset as they relate to taxes on income levied by the same governing taxation laws. The following amounts are shown in the balance sheet:

	Year ended December 31, 2006	Year ended December 31, 2005
Deferred Tax Liabilities	-	-
Deferred Tax Assets	(55,821)	(35,741)
	(55,821)	(35,741)

(C) Break up of deferred tax assets/liabilities:

	Year ended December 31, 2006	Year ended December 31, 2005
Deferred Tax Assets:		
Tax impact of difference between carrying amount of fixed assets in the financial statements and the income tax return	55,293	35,301
Tax impact of expenses charged in the financial statements but allowable as deductions in future years under income tax:		
Provision for doubtful debts	161	161
Expenditure under section 43B of the Income Tax Act	367	269
Preliminary Expenditure yet to be claimed under IT	-	10
Net Deferred Tax (Asset) / Liability	(55,821)	(35,741)

12. Segment Reporting under Accounting Standard 17:

The Company is engaged in the business of Lease financing, Hire purchase & Investments . Considering the nature of business, its mode of operations, reporting systems and element of risks and returns for its various activities, the company is engaged in one segment only. The company is primarily operating in the domestic market and there are no reportable geographical segments. Accordingly, information relating to segmental reporting as per Accounting Standard 17 of Institute of Chartered Accountants of India is not required to be furnished.

13. Related Party disclosures under Accounting Standard 18:

The following transaction were carried out during the year in ordinary course of business.

(Amount in Rs. Thousand)				
Name of Related Party	Nature of Relationship	Nature of Transaction	Year ended December 31, 2006	Year ended December 31, 2005
Gujarat Gas Company Limited	Holding Company	Service Charges for domestic connection	66,331	64,863
		Interest on loan	-	1
		Amount payable at year end	10,794	11,468

Note : The Company is using the ERP software packages implemented by Gujarat Gas Company Limited being "SAP" & " Gas Distribution and Billing System" since August 2003 , without payment of any consideration.





- 14 Information required in terms of Paragraph 9BB of Non-Banking Financial Companies Prudential Norms (Reserve Bank) Directions, 1998:

Particulars	(Rs. In thousand) Year Ended December 31, 2006		(Rs. In thousand) Year Ended December 31, 2005	
	Amount outstanding	Amount overdue	Amount outstanding	Amount overdue
Liabilities side				
(1) Loans and advances availed by the NBFCs inclusive of interest accrued thereon but not paid:				
(a) Debentures				
Secured	Nil	Nil	Nil	Nil
Unsecured (other than falling within the meaning of public deposits*)	Nil	Nil	Nil	Nil
(b) Deferred Credits	Nil	Nil	Nil	Nil
(c) Term Loans	Nil	Nil	Nil	Nil
(d) Inter-corporate loans and borrowing	Nil	Nil	Nil	Nil
(e) Commercial Paper	Nil	Nil	Nil	Nil
(f) Public Deposits*	127	127 **	127	127**
(g) Other Loans (specify nature)	Nil	Nil	Nil	Nil
** Indicates Amounts lying unclaimed by depositors. The company has deposited requisite amounts in an Escrow Account with RBI to cover the unclaimed liability.				
* Please see Note (a) below				
(2) Break-up of (1)(f) above (Outstanding public deposits inclusive of interest accrued thereon but not paid):				
(a) In the form of unsecured debentures	Nil	Nil	Nil	Nil
(b) In the form of partly secured debentures i.e. debentures where there is a shortfall in the value of security	Nil	Nil	Nil	Nil
(c) Other public deposits	127	127	127	127
** Indicates Amounts lying unclaimed by depositors. The company has deposited requisite amounts in an Escrow Account with RBI to cover the unclaimed liability.				
* Please see Note (a) below				
		(Rs. In thousand) Year Ended December 31, 2006	(Rs. In thousand) Year Ended December 31, 2005	
Assets side :				
		Amount outstanding	Amount outstanding	
(3) Break-up of Loans and Advances including bills receivables [other than those included in (4) below] :				
(a) Secured		Nil	Nil	
(b) Unsecured		6,647	1,500	
(4) Break up of Leased Assets and stock on hire and hypothecation loans counting towards EL/HP activities				
(i) Lease assets including lease rentals under sundry debtors :				
(a) Financial lease		546	18,593	
(b) Operating lease		Nil	Nil	
(ii) Stock on hire including hire charges under sundry debtors:				
(a) Assets on hire		-	73	
(b) Repossessed Assets		Nil	Nil	
(iii) Hypothecation loans counting towards EL/HP activities				
(a) Loans where assets have been repossessed		Nil	Nil	
(b) Loans other than (a) above		Nil	Nil	





	(Rs. In thousand) Year Ended December 31, 2006 Amount outstanding	(Rs. In thousand) Year Ended December 31, 2005 Amount outstanding
(5) Break-up of Investments :		
Current Investments :	N.A.	N.A.
1 Quoted :		
(i) Shares :		
(a) Equity		
(b) Preference		
(ii) Debentures and Bonds		
(iii) Units of mutual funds		
(iv) Government Securities		
(v) Others (please specify)		
2 Unquoted :		
(i) Shares :		
(a) Equity		
(b) Preference		
(ii) Debentures and Bonds		
(iii) Units of mutual funds		
(iv) Government Securities		
(v) Others (please specify)		
Long Term investments		
1 Quoted :		
(i) Shares :		
(a) Equity	116	116
(b) Preference	Nil	Nil
(ii) Debentures and Bonds	Nil	Nil
(iii) Units of mutual funds	Nil	Nil
(iv) Government Securities	Nil	Nil
(v) Others (please specify)	Nil	Nil
2 Unquoted :		
(i) Shares :		
(a) Equity	Nil	Nil
(b) Preference	Nil	Nil
(ii) Debentures and Bonds	Nil	Nil
(iii) Units of mutual funds	Nil	Nil
(iv) Government Securities	Nil	Nil
(v) Others (please specify)	Nil	Nil





- (6) Borrower group-wise classification of all leased assets, stock-on-hire and loans and advances :
Please see Note (b) below

Category	(Rs. In thousand) Year Ended December 31, 2006			(Rs. In thousand) Year Ended December 31, 2005		
	Secured	Unsecured	Total	Secured	Unsecured	Total
1 Related Parties **						
(a) Subsidiaries	-	-	-	-	-	-
(b) Companies in the same group	-	-	-	-	-	-
(c) Other related parties						
2 Other than related parties	68	6,647	6,715	18,188	1,500	19,688
Total	68	6,647	6,715	18,188	1,500	19,688

- (7) Investor group-wise classification of all investments (current and long term) in shares and securities (both quoted and unquoted): Please see note (c) below

Category	(Rs. In thousand) Year Ended December 31, 2006		(Rs. In thousand) Year Ended December 31, 2005	
	Market Value / Book Value (Net of Break up or fair value or NAV	Provisions)	Market Value / Break up or fair value or NAV	Book Value (Net of Provisions)
1 Related Parties **				
(a) Subsidiaries	Nil	Nil	Nil	Nil
(b) Companies in the same group	Nil	Nil	Nil	Nil
(c) Other related parties	Nil	Nil	Nil	Nil
2 Other than related parties	Nil	Nil	Nil	Nil
Total	Nil	Nil	Nil	Nil

** As per Accounting Standard of ICAI [Please see Note(c)]

- (8) Other information

Particulars	(Rs. In thousand) Year Ended December 31, 2006		(Rs. In thousand) Year Ended December 31, 2005	
	Amount	Amount	Amount	Amount
(i) Gross Non-Performing Assets				
(a) Related parties	Nil	Nil	Nil	Nil
(b) Other than related parties	478	478	478	478
(ii) Net Non-Performing Assets				
(a) Related parties	Nil	Nil	Nil	Nil
(b) Other than related parties	Nil	Nil	Nil	Nil
(iii) Assets acquired in satisfaction of debt	Nil	Nil	Nil	Nil

Notes:

- As defined in Paragraph 2(1)(xii) of the Non-Banking Financial Companies Acceptance of Public Deposits (Reserve Bank) Directions, 1998.
- Provisioning norms shall be applicable as prescribed in the Non-Banking Financial Companies Prudential Norms (Reserve Bank) Directions, 1998.
- All Accounting Standards and Guidance Notes issued by ICAI are applicable including for valuation of investments and other assets as also assets acquired in satisfaction of debt. However, market value in respect of quoted investments and break up/fair value/NAV in respect of unquoted investments should be disclosed irrespective of whether they are classified as long-term or current in column (5) above.

- 15 Previous year figures have been reclassified/regrouped wherever considered necessary to conform to the current year figures.





CASH FLOW STATEMENT FOR THE YEAR ENDED DECEMBER 31, 2006

	Year ended 31-12-2006 Rs. In thousand	Year ended 31-12-2005 Rs. In thousand
A. CASH FLOW FROM OPERATING ACTIVITIES		
Net Profit before taxation	32,308	36,056
Adjustments for:		
Depreciation	9,117	26,739
Lease Equalisation	-	626
Liabilities no longer required written back	(31)	(7,078)
(Profit)/Loss on sale of fixed assets	-	5
Inventory written off	-	945
Unrealised Foreign exchange loss / (gain)	53	38
Deferred Revenue Expenditure written off	930	929
Operating Profit Before Working Capital Changes	42,377	58,260
Adjustments for changes in working capital		
(Increase)/Decrease In Sundry Debtors	900	(340)
(Increase)/Decrease In Loans And Advances	(5,147)	(102)
(Increase)/Decrease In Other Current Assets	78	(196)
(Increase)/Decrease In Lease Receivables	8,146	(7,082)
(Increase)/Decrease In Stock On Hire	73	231
(Increase)/Decrease In Inventories	(11,744)	(17,322)
Increase/(Decrease) In Current Liabilities And Provisions	(3,682)	(9,124)
Cash generated from operations	31,001	24,325
Taxes (Paid) / Received	(30,536)	(32,727)
Net Cash from Operating Activities	465	(8,402)
B. CASH FLOW FROM INVESTING ACTIVITIES		
Proceeds from Sale of Fixed Assets	-	130
Proceeds from Sale of Investments	-	5,400
Net Cash from Investing Activities	-	5,530
C. CASH FLOW FROM FINANCING ACTIVITIES		
Receipt of Short-term borrowings	-	2,500
Repayment of Short-term borrowings	-	(2,500)
Net Cash from Financing Activities	-	-
NET INCREASE/(DECREASE) IN CASH & CASH EQUIVALENTS	465	(2,872)
Cash & Cash Equivalents at the beginning of the year	68,075	70,947
Cash & Cash Equivalents at the end of the year	68,540	68,075
Closing cash and cash equivalents comprise:		
Cash in Hand	32	101
In Current Accounts	6,400	1,841
In Term Deposit	62,001	66,001
Unpaid Dividend Accounts	107	132
Total Cash and Cash Equivalents as per cash flow statement	68,540	68,075





Notes to Cash Flow Statement:

- a) The above Cash Flow Statement has been prepared under the "Indirect Method" as set out in the Accounting Standard-3 on Cash Flow Statements issued by the Institute of Chartered Accountants of India.
- b) Term Deposit includes balance in Escrow account as stipulated by RBI Rs. 500 Thousands (Previous Year Rs. 500 thousands)
- c) Previous Year figures have been reclassified / regrouped wherever considered necessary to conform to the Current Year's figures.
- d) Figures in bracket indicate Cash outflows.

This is the Cash Flow referred to in our report of even date.

ANUPAM DHAWAN
Membership No. F-84451
Partner
For and on behalf of
PRICE WATERHOUSE
CHARTERED ACCOUNTANTS

Place : Gurgaon
Date : February 20, 2007

For and on behalf of the Board

B.S. SHANTHARAJU
CHAIRMAN

SUGATA SIRCAR
DIRECTOR

HIREN VYAS
SECRETARY

SHALEEN SHARMA
DIRECTOR

Place : Ahmedabad
Date : February 20, 2007





Information pursuant to part (IV) of the Companies Act, 1956
**BALANCE SHEET ABSTRACT AND COMPANY'S
GENERAL BUSINESS PROFILE**

I. REGISTRATION DETAILS	:	
Registration No.	:	21778 of 1994
State Code	:	04
Balance Sheet Date	:	31-12-2006
II. CAPITAL RAISED DURING THE YEAR	:	
(Amount Rs. in thousands)	:	
Public Issue	:	Nil
Rights Issue	:	Nil
Bonus Issue	:	Nil
Private Placement	:	Nil
III. POSITION OF MOBILISATION AND DEPLOYMENT OF FUNDS	:	
(Amount Rs. in thousands)	:	
Total Liabilities	:	194,678
Total Assets	:	194,678
Sources of Funds	:	
Paid-up Capital	:	20,000
Reserves and Surplus	:	83,435
Secured Loans	:	Nil
Unsecured Loans	:	Nil
Deferred Tax Liability	:	Nil
Applications of Funds	:	
Net Fixed Assets	:	872
Investments	:	Nil
Net Current Assets	:	46,272
Miscellaneous Expenditure	:	470
Accumulated Losses	:	Nil
Deferred Tax Assets	:	55,821
IV. PERFORMANCE OF THE COMPANY	:	
(Amount Rs. in thousands)	:	
Total Income	:	60,031
Total Expenditure	:	27,723
Profit Before Tax	:	32,308
Profit After Tax	:	21,340
Earnings Per Share (Rs.)	:	10.67
Dividend Rate (%)	:	20%
V. GENERIC NAME OF PRINCIPAL PRODUCTS/ SERVICES OF THE COMPANY (As per monetary terms)	:	
Item Code No. (ITC Code)	:	-
Product Description	:	Lease Financing, Hire Purchase & Investments

