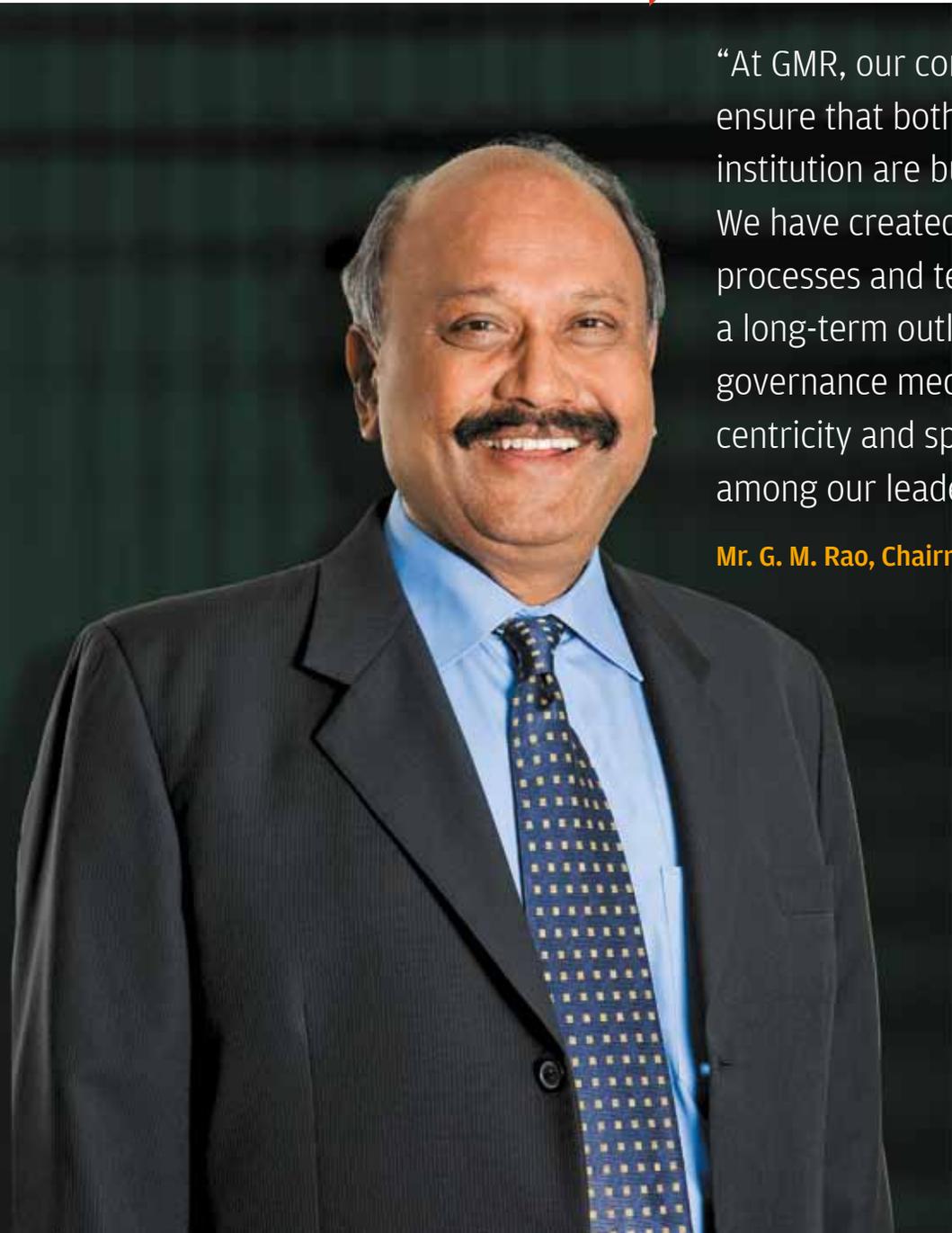


 Chairman's message

“At GMR, our core purpose is to ensure that both business and institution are built simultaneously. We have created human capital, processes and technology to ensure a long-term outlook, robust governance mechanisms, value-centricity and spiritual strength among our leadership teams.”

Mr. G. M. Rao, Chairman

Dear Shareholders,

The financial year 2011-12 was marked by a high degree of volatility and uncertainty in the macro-economy and the infrastructure sector. The Indian economy showed unfavourable and erratic movements on key parameters like exchange rate, inflation and GDP growth rate. The Indian rupee was under pressure due to increasing trade gap of USD 180 billion. This imbalance was of a structural nature with oil, gold and silver accounting for almost 45% of total imports, adversely impacting global capital availability for investments in infrastructure sector. It calls for urgent, innovative and pragmatic approaches to address the continued infrastructure deficit faced by India.

The Twelfth Five-Year Plan (2012-17), the Planning Commission has doubled the outlay for infrastructure to USD 1 trillion. In addition, there is a trend towards greater involvement of the private sector with its share slated to move from 36% to 50%. While there are 227 projects that have been put in operation, the majority (70%) of the PPP projects are still in various stages of implementation. India's experience of using the PPP approach has seen mixed results in terms of setting up a robust regulatory framework and overall acceptance of all stakeholders. The top

sectors that have seen private investments are ports, energy, highways, airports and urban infrastructure. Your Company has built core competencies among four of these sectors. We are now well poised to tap future opportunities.

The performance of your Company during the year 2011-12 was severely impacted by three principal factors:

- Delay in aeronautical tariff revision for DIAL
- Availability of gas for power, leading to lower plant load factors in operating plants
- External macroeconomic volatility in capital markets, interest rates and Indian rupee exchange rates

We now prepare our business plan with the aforementioned macroeconomic volatility already factored in. We have responded to the situation with definitive strategy to tackle the immediate challenges and to emerge stronger in the long-term. We are committed and passionate about our vision to create an 'institution in perpetuity'.

Our response to the current situation has been broadly on two dimensions. The first is to leverage our pre-eminent position in the infrastructure space to play a responsible role in policy advocacy. Your Company is actively discussing with all stakeholders to influence and resolve the

current industry crises. Simultaneously GMR is reinforcing its strong commitment to its institution building processes that have been in place for over a decade. This gives us the strength to sail through this period of uncertainty and volatility.

Public advocacy measures

The Government of India is taking initiatives to closely involve industry in highlighting key industry issues and provide perspectives to policy formulation. In October 2011, the Government of India nominated me as one of the directors of the Central Board of the Reserve Bank of India. This provided an opportunity to create a seamless link between infrastructure developers and the government by providing industry perspectives for policy formulation at the Reserve Bank of India. The discussions so far have helped in highlighting the key concerns and critical factors required for the infrastructure sector to sustain its growth. In another such move, the Prime Minister has instituted a high level committee for infrastructure finance in which I have been appointed to provide voice of industry.

On the policy and regulatory dimension there was slowdown in decision making owing to sheer complexity of the underlying issues and time required for **learning and adoption**. In order to tackle the issues in the power sector, the Association of Power

Producers of which your Company is an active member, has made several representations at the Prime Minister's Office and all other concerned ministries. Some of the recommendations that have been made to resolve the impasse due to shortage of both coal and gas are as follows:

- The extent of power purchase agreement (PPA) capacity to be tied-up should be equal to coal supply assurance/obligation, The time given to tie-up capacity of coal supply assurance on long-term basis be taken as three years from commercial operation date (COD) instead of the current arrangement of three years from issuance of provisional mega certificate
- Sequential clearance of mining and power from environmental point of view
- To resolve the mismatch in time-horizon regarding agreements for gas supply availability and standard bidding documents - The agreements for gas supply have a validity of price for five years, while the standard bidding documents (SBD) require the tariff quoted valid for a much longer term period
- Pooled price mechanism proposal for gas availability for new gas-based power plants
- Financing issues for the power sector - reforms to pension and insurance sector to make available more long-term funds.

In the **airports** sector, especially in context of DIAL, your Company has been actively engaged with AERA to obtain the revision in aeronautical charges for the control

period 2009-14 which were not revised for several years in the past. The process of tariff revision was very detailed, consultative and inclusive of all the stakeholders. This took more time than expected, delaying tariff revision. The revised tariff had to be calibrated higher because from the time of revision, there is only around two years of the allotted five left during the control period 2009-14. Going forward, we expect the tariff revision process to be streamlined well ahead of next control period in 2014 and without any adjustment or calibration for partial time during a control period.

Modernisation and expansion of infrastructure is crucial to economic growth and development. India's Civil Aviation Sector has also attempted to keep pace with the rising demands from economic growth. The National Council of Applied Economic Research (NCAER) conducted an independent study that has provided an assessment of the economic impact of Delhi International Airport on the regional and the national economies in terms of output, value addition (income) and employment. The study has illustrated significant linkages of the Civil Aviation Sector with the rest of the economy. As per the report, Delhi International Airport's operations contributed Rs 29,000 cr (which is 0.49% of GDP). Its contribution to employment both directly and as a multiplier impact is assessed to be 1.5 million jobs. This includes the jobs created during the three years of constructing the new T3 terminal.

On the **highway** sector, we are buoyed by

the pipeline of new project opportunities and improvements in the bidding process with the introduction of pre-qualification and transparency of e-bidding.

Institution building

At GMR, our purpose is to ensure that both business and the institution are built together. We have built processes to have a long term outlook, robust governance mechanism and ensuring value centricity and spiritual strength among our leadership.

One of the recognised strengths in GMR is our proactive approach to family governance. A robust family governance mechanism warrants maintenance of family connectivity, collaboration and continuity without compromising on the advantages brought through an entrepreneurial approach. This year, we implemented a planned rotation of responsibilities among the family leadership team. Done every 4 years, this ensures that each business sector has the leadership bringing in fresh perspectives and leveraging learning across other sectors.

We continue to germinate our leadership pipeline with planned interventions for development at all levels. This year we also strengthened our awareness of spirituality among the senior leadership team. I personally believe that physical fitness and spiritual strength are critical leadership attributes required to cope with the challenges and stress of today's business environment.

Our investments made towards process

excellence are fructifying. This year, the Company undertook 128 continuous improvement projects with confirmed savings of Rs. 40 cr. We are making rapid strides towards process excellence. We have recently moved to a shared services model for support services in finance and accounts and HR transactions. This is expected to transform our back-office processes through a best-in-class operating model.

We continue to strengthen our core functional competencies in procurement, finance, corporate communication, legal and enterprise IT.

Environmental measures

Our businesses continue their emphasis on long-term corporate sustainability with focus on all the three dimensions of economic, environmental and stakeholder development. Some of the key highlights are:

Energy sector

- Vemagiri plant was successfully registered for clean energy benefits clean development mechanism (CDM) of UNFCCC
- GMR Power Corporation Limited (GPCL), Chennai plant achieved SA-8000 (social accountability) and ISO 50001 (energy management) certifications
- GPCL has been certified for energy management system (EnMS) ISO 50001:2011 by DNV
- GEL Kakinada, (CDM) - Documentation was completed and host country approval obtained; voluntary carbon standard (VCS) plant audit carried out successfully; rainwater harvesting pits constructed and the water is used for greenbelt development (8000 trees

were planted in nine acres of plant area)

Airports

- DIAL is the world's first airport to get ISO 50001:2011 certification for energy management; DIAL's T3 continues to have LEED Gold rating (Leadership in Energy and Environmental Design) and it received OSHAS 18001:2007 certification for Occupational Health and Safety Management System
- GHIAL received the 'Certificate of Merit' award 2011 for energy conservation from Ministry of Power, Government of India

Highways and EPC

- The EPC division has set up a global material research centre under Prof. S.K. Rao (a retired Professor from IIT Kharagpur) to research in alternative materials for highway construction
- This year a group-wide initiative was undertaken to conserve electricity and water through project 'Bijlee' and project 'Paani', respectively, which resulted in direct savings in terms of energy and water consumption worth over Rs. 12 cr already.

Corporate Social Responsibility

GMR Varalakshmi Foundation (GMRVF) is the Corporate Social Responsibility arm of the GMR Group. Its vision is to make sustainable impact on the human development of the underprivileged communities through initiatives in education, health and livelihood. Currently, GMRVF is working in over 200 villages/urban communities across 22 locations.

In addition to performing Corporate Social Responsibility the foundation also provides

an avenue for philanthropy. Last year, I have irrevocably pledged my share of the stake that I hold in the Group, in favour of GMR Varalakshmi Foundation for charitable activities to serve the needs of the underprivileged sections of society.

In addition to the GMRVF's direct contributions, 2,450 employees participated in more than 500 community development programs impacting 60,000 people.

Acknowledgements

I express my sincere gratitude to our shareholders, investors, joint venture partners, banks and financial institutions with whom we have enjoyed cordial relationships. I would also like to thank SEBI, NSE, BSE, RBI, NHAI, TIDCO, AAI, AERA, CERC, Central and State Governments and all other regulatory bodies for providing continuous support and an enabling environment for smooth running of our business. I wish to express my appreciation to my colleagues on the Board and our employees for their thought leadership, dedication and commitment. I express my sincere appreciation to the Board of Directors and the employees of the subsidiaries for their continued support. I am indeed grateful to you all for your cooperation and the trust you have reposed in us.

With my very best regards,

G. M. Rao