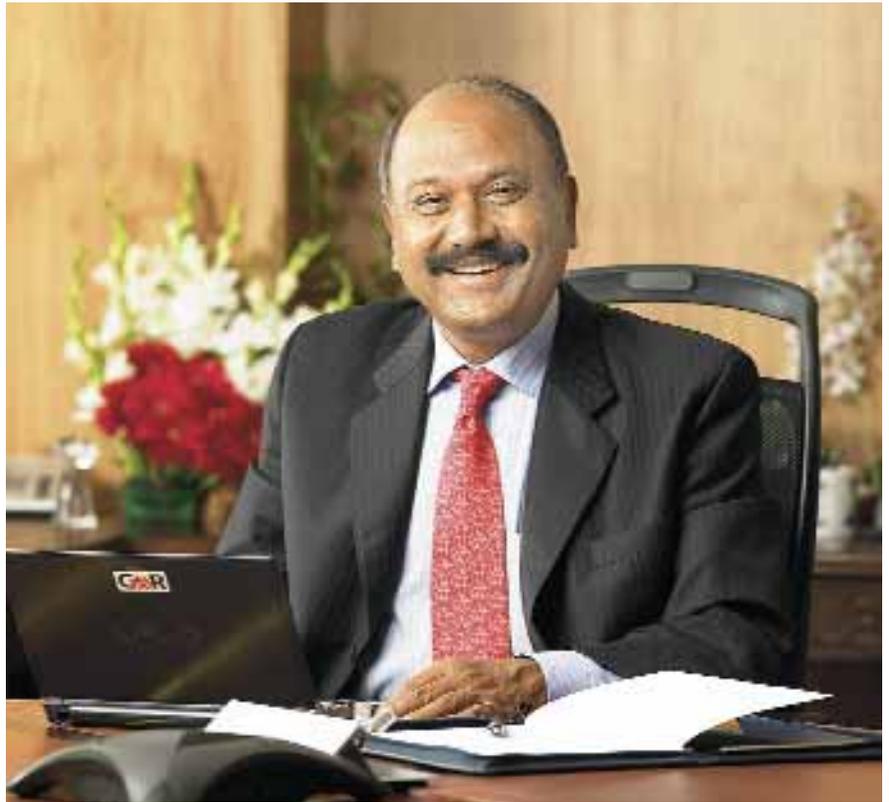


Chairman's letter to the shareholders



“Our endeavour is to build and provide state-of-the-art infrastructure assets and services.”

Dear Shareholders,

I have immense pleasure in presenting the Twelfth Annual Report of your Company.

Before I take you through the landmark achievements of your Company for the year, let me dwell upon briefly the unfolding global economic scenario and the possible impact thereof on the domestic industry, in particular on the Infrastructure Sector. The global economy is in the grip of uncertainty and downside risks persist. With the unbridled rise in crude and commodity prices, inflation has hit the levels that have not been witnessed in the last decade. The world

environment has become highly inflationary. The continued deterioration in global macros in the backdrop of the turbulence that has gripped the financial markets since mid 2007, triggered by the sub-prime mortgage crisis, had its reverberations in the growth momentum of emerging economies like China and India. Tighter monetary policies to curb the inflationary pressures have impacted the growth momentum of all economies. Global stock markets are plunging into scary depths, seriously impairing the ability of the corporates to raise equity capital. Both debt and equity investors have turned tentative in their outlook and are

increasingly becoming skeptical about future. Emerging markets like ours witnessed highly volatile equity markets and capital flows.

Back home, oil and commodity prices have driven inflation to double digit level, pushing it close to 12 per cent; prospects of moderation in the immediate term appear dim. To curb inflationary pressures, the Reserve Bank of India raised the cash reserve ratios to a high of 8.75 percent and also its key lending rate to banks, the repo rate. Commercial banks, in response, have hiked their lending rates; liquidity is becoming increasingly tighter. Global capital flows into our markets are significantly declining. GDP growth forecasts are tending southwards. Current account and fiscal deficits are on the rise. With the crude prices reaching unprecedented levels and coupled with the steeply declining investment flows and rising deficits, the rupee is coming under intense pressure. The fall out of all these macro trends has adversely impacted investors' confidence in the stock market. Indian corporates have lost nearly 40% of their market cap. Also political uncertainties are looming large. The business optimism that existed in the bullish times just six months ago appears to have ceded grounds to a cautious stance.

Life and business go through changing seasons. Business cycles come and go; tougher people survive tough times and reap the gains of boom times. In times of great stress or adversity, it is always best to focus our energy onto positive aspects, firming up on the medium term strategy and without losing sight of long term growth needs of the economy. Hence, while addressing the current challenges thrown up by the current macro-economic developments, we also need to look beyond the current pains and plan for the long term growth. The endeavour to build infrastructure assets should continue so that India will have ready-to-use infrastructure goods and services to accelerate its growth when boom times begin again. At GMR, we believe that we have to build today for tomorrow and build at a scale that will meet the demand of the future. We will, therefore, relentlessly continue to pursue our thrust in the infrastructure building of our country

even when the economy is going through this cooling off period.

Infrastructure building, needless to stress, is the much needed backbone for our economy, on which lies the future economic growth. Whatever be the times we are passing through, planning and building this spinal cord for the economy should continue without slowdown to achieve long term sustained growth. I am pleased that the policy direction for infrastructure creation is well in place. Government estimates indicate an investment of USD 494 billion (source: Planning Commission) during the Eleventh Plan on the country's infrastructure. This nation building process requires enormous capital. The current situation of expensive capital and construction commodities makes the infrastructure building expensive, making the whole economy a high cost one, impairing its competitive position in the global markets. Hence making available the capital and building material at competitive prices for infrastructure sector, particularly in the current inflationary conditions, is imperative for our long term sustained growth and competitiveness. Government should play supportive and visionary role in this regard to promote and encourage the infrastructure creation by private sector during these ongoing conditions of expensive credit and inflation. As an infrastructure development company, we are committed and privileged to contribute to this nation building process in our own measure and generate a multiplier societal impact.

Business Developments and Financials

The year that has gone by gives us a great sense of fulfillment in our long journey of deep commitment to contribute to India's growth through our projects. On 14th March, 2008, a new beginning dawned in Indian Aviation Infrastructure Sector, when the inauguration plaque was unveiled to dedicate to the nation the landmark Rajiv Gandhi International Airport in Hyderabad (RGIA), India's first Greenfield airport to be operationalized through a public-private partnership. This airport, a joint venture of GMR, MAHB Malaysia, Government of Andhra Pradesh

and the Airports Authority of India, has been benchmarked with the best airports of the world, emphasizing our commitment to provide India with infrastructure of global quality. I am confident that RGIA will gradually change the economic landscape of Hyderabad and the region and will bring new treasures of prosperity to the people.

As you are aware, your Company is in the business of building and operating infrastructure projects. We identify, develop, build and operate infrastructure assets in Airports, Energy, Highways and Urban Infra Sectors, that last for generations and form part of the foundation of sustained economic growth. Our endeavor is to build and provide state-of-the-art infrastructure assets and services in partnership with world class associates. Even as we report significant achievements over the year, we recognize that the opportunities are enormous.

To align our diverse infrastructure development capabilities on one hand and growing global opportunities on the other, as a new initiative during the year we created an International Business Division, headquartered at London. As part of this global aspiration and to further actualize our commitment to build world class assets and to access global capital and talent, we have ventured beyond the seas to set up and manage infra projects. We have won the mandate, as a consortium with Limak Insaat San Ve Tie A.S and Malaysian Airport Holding Berhad, to operate and expand Sabiha Gokcen International Airport at Istanbul, Turkey. We have also acquired 50% stake in Intergen N.V., which operates 8086 MW of installed capacity across four continents and is further developing power projects aggregating to 4680 MW. This acquisition has made us the largest private power sector player in India.

Other overseas projects and investments during the year are as under:

- Acquired 80% stake in Himal Hydro Power Company Private Limited, Nepal, which has 30 year concession to develop 250 MW Hydro Project on Marsyangdi River.
- Won a competitive bid for the development of 300 MW Upper Karnali, Nepal, and Hydro Project

We firmly believe that a global slowdown cannot stagger the growth of companies with strong core values and systems. We feel that such a slowdown will, on the contrary, serve as a business advantage; it will enable us to develop critical competencies that would otherwise not have been possible in a booming environment. The foundation of people, processes, systems and organisational flexibility will differentiate your Company from competitors.

on 30 year concession. The Company will have 73% equity stake in this project.

- Acquired 10% stake in Homeland Mining and Energy SA (Pty) Limited, South Africa, with a further option to acquire additional 40% stake.

In the domestic space, we made a foray into the SEZ Sector (Urban Infra) this year. We also built a significant pipeline of projects in the Energy Sector in India. A brief summary of this pipeline of projects and the significant developments during the year are given below:

- The Company was selected by the Tamil Nadu Industrial Development Corporation (TIDCO) to develop a 3,300-acre SEZ in Krishnagiri District. The land acquisition process is underway. We expect to procure a majority of our land requirements by October 2008. GMR Krishnagiri SEZ Limited, a Joint Venture special purpose company between the Company and TIDCO has undertaken the development of this SEZ.

- GMR Hyderabad International Airport Limited received the approval for one aviation SEZ and another Multi-product SEZ of 250 acres each.

- GMR Kamalanga Energy Limited was incorporated to take up the development of 1050 MW coal fired power project in Orissa. Since signing the PPAs for 100% capacity last year, the project has secured its fuel sourcing requirements through a coal linkage as well as coal block allocation from Ministry of Coal, Government of India (GoI).

- Won a competitive bid for the development of a 180 MW Bajoli-Holi hydro project on 40 year concession basis in Himachal Pradesh.

- The development work of 160 MW Talong Hydro Project in Arunachal Pradesh is progressing as per schedule.

- The capacity of Badrinath Hydro Project has been increased to 300 MW from the original 140 MW.

The progress of up-gradation work of Delhi Airport is on schedule. The third runway will be commissioned by September, 2008. The up-gradation work of International Terminal was completed in June 2008, while that of the Domestic Terminal will be completed in the next few months. The construction of the new

Integrated Terminal Building, scheduled to be completed by March, 2010 is progressing well on track.

All four highway projects currently under construction will be progressively commissioned by the end of 2008-09, generating steady revenues. The Highway business opportunities continue to be robust and optimistic. The National Highways Authority of India's (NHAI) outlay envisages the construction of more than 16,000 km of highways and roads up to 2010. At GMR, we are addressing this significant opportunity through strategic contractor alliances and innovative financial structuring; we will reinforce our portfolio of concessions and sustain our leadership in BOT road projects.

As part of Urban Infra Sector, the Company aspires to emerge as a differentiated property developer creating hubs around landmark infrastructure projects. For instance, we recognize that airports have historically catalyzed property development in the form of aerotropolis. Going ahead, GMR Hyderabad International Airport (GHIAL) will develop a landmark aerotropolis across a sprawling 1,000-acre property around the Hyderabad airport, while Delhi International Airport Private Limited (DIAL) will develop commercial property on a similar contiguous stretch. GMR is engaged in scaling an in-house construction division to minimize project execution risks, commission multiple infrastructure projects and deliver best-in-class quality.

Infrastructure business is capital intensive and having adequate capital on hand gives competitive advantage. To meet the requirements of various projects on hand and also to build a war chest, during the year, your Company raised Rs.3966 crore equity capital by way of QIP.

The revenue and profitability growth for the year are quite satisfactory despite Vemagiri Power continuing to be idle for most part of the year, start up costs of RGIA, Pay Commission Provisions for Airport Authority Employees etc. The Gross Revenues for the year have registered a growth of 39% from Rs.1987 crore to Rs. 2768 crore. Net

Revenues grew up by 38% from Rs.1715 crore to Rs.2365 crore. Profit after tax has risen by 8.64% from Rs.242 crore to Rs.263 crore. As more and more of your company's projects come online and existing assets consolidate over the course of the next few years, you would witness even greater revenue and profitability contributions.

Organization Development

We firmly believe that a global slowdown cannot stagger the growth of companies with strong core values and systems. We feel that such a slowdown will, on the contrary, serve as an opportunity; it will enable us to develop critical competencies that would otherwise not have been possible in a favourable environment. The foundation of people, processes, systems and organizational flexibility will differentiate your Company from competitors. Last year, we restructured the organization to create different business verticals, headed by various Business Chairmen, who are responsible for setting the strategic direction and growth agenda for their portfolio of businesses. Simultaneously, the operational management of the businesses (comprising business development, assets as well as projects) was vested with the CEOs. We believe that the exercise has helped us create an organization structure that will support ambitious long-term goals. To accelerate the institution building processes, your Company, during the year, has created a separate function - "Group Corporate Development", headed by an Executive Director. In order to build a process based organization, while providing ample room for thought leadership, we successfully implemented SAP across the businesses and locations. This initiative not only integrates the businesses but also standardizes the business processes. A strong process based organization benefits from operational security and acts as a spring board for growth. We made an impactful beginning and will continue to build on this foundation to gradually enable the leadership at various levels to focus more on value creation, while increasingly automating the operational processes. Automation of Thought leading to "Thoughtmation" is the end goal of our IT initiative.

Corporate Social Responsibility

While we pursue our journey towards business growth and excellence, we, simultaneously, keep in mind that a vast majority of Indians struggle for basic amenities, the alleviation of which cannot be addressed by the government alone. At GMR, we believe that Corporate Social Responsibility (CSR) is the continuing commitment to improve not only the quality of life of the workforce and their families, but also that of the local community and society at large. This holistic approach to business regards organizations as being full partners in the development of communities, rather than seeing them more narrowly as being in business for primarily maximizing the wealth of their shareholders. In view of this, we enhanced our corporate social responsibility through GMR Varalakshmi Foundation, focusing on education, health, hygiene, community service, empowerment and entrepreneurship development across the places of our business presence. The Foundation provides vocational training to rural youth and women, opening up employment opportunities for the underprivileged.

Acknowledgements

I express my sincere gratitude to our shareholders, investors, joint venture partners, lenders, banks, financial institutions, SEBI, NSE, BSE, RBI, NHAI, TIDCO, the Airports Authority of India, the central and state governments and other regulatory authorities/agencies for providing continuous support. I wish to express my appreciation to my colleagues on the Board and our employees for their thought leadership, unalloyed dedication and unswerving commitment. I express my sincere appreciation to the Boards of Directors and the employees of the subsidiaries for their continued support. I am grateful to you for your cooperation and the trust that you have reposed in us.

Best Regards,



G. M. Rao
Executive Chairman

At GMR, Corporate Social Responsibility (CSR) represents our continuing commitment to improve not only the quality of life of the workforce and their families, but also that of the local community and society at large. This holistic business approach embraces organisations as stakeholders in community development, rather than being merely an agent for the maximisation of shareholder wealth. In view of this, we enhanced our community social responsibility through the GMR Varalakshmi Foundation.