

Chairman's letter to the shareholders



Dear Shareholders,

The Financial Year 2010–11 saw the global economy stabilizing to a large extent; however external threats like escalating oil and commodity prices, problems in the peripheral Euro Zone (Greece & Spain) still persist. The recovery was moderated by the devastating tsunami in Japan and the sluggish US economy. Against this backdrop, the Indian economy was more resilient, though inflation is threatening to derail the growth story.

The Indian infrastructure sector registered marginally higher growth than the previous year. The Energy sector faced acute shortage of fuel, both coal and gas leading to lower capacity utilization and generation. The Roads sector did not perform as expected as the Government is still grappling with structural reforms. However, due to robust growth in passenger and cargo movement, the Airports sector witnessed a healthy growth in the fiscal.

2010-11 was very eventful for us as we completed a decade and a half in the process of nation building. We set global benchmarks in service excellence and quality, recognized through a bouquet of awards and accolades.

Our Energy business continued to fuel our growth in the last fiscal:

- Our barge-mounted 220 MW power plant was successfully moved from Mangalore to Kakinada after conversion of fuel type from naphtha to natural gas. The plant was commissioned in July 2010.

- We forayed successfully into energy transmission by winning two projects in Rajasthan.
 - We marked our entry into renewable energy by winning our first 25 MW Solar power project in Gujarat, which will be commissioned before the end of 2011; we are also setting up in Gujarat a 2.1 MW wind power plant which will be commissioned in July 2011.
 - Our power trading arm has established itself well and is now the 4th largest private power trader in the country.
 - We achieved financial closures for GMR Rajahmundry Energy Limited and GMR Chhattisgarh Energy Limited. We also obtained the Environment Clearance for our Bajoli Holi hydro project in Himachal Pradesh.
 - Our fuel supply security measures made significant progress with our mine in Indonesia getting ready for operation in a few months.
 - We obtained a favourable decision from the Appellate Tribunal on our long-pending dispute with the Tamil Nadu Electricity Board (TNEB); pending their right to appeal, we have started receiving instalments from TNEB.
 - On the flip side, due to lower gas availability for both our Vemagiri and Kakinada plants, capacity utilization was sub optimal leading to loss of generation and revenues thereof.
 - Due to the changed economic environment in overseas markets and the group's intention of renewed focus in developing large energy assets within India, we took a decision to divest our stake in InterGen N.V. We successfully divested our stake thereby releasing equity capital of Rs. 958 Crore for deployment on more profitable assets.
- Our Airports business witnessed a smart rise in revenues on the back of robust growth in passenger traffic and cargo volumes at all our airports.
- The Sabiha Gokcen Airport in Istanbul, Turkey saw a 75 % rise in passenger traffic.
 - The Rajiv Gandhi International Airport, Hyderabad (RGIA) saw a 17.6 % growth in passenger traffic over the previous year.
 - Indira Gandhi International Airport, Delhi (IGIA) recorded a passenger traffic growth of 14.7 %.

- We also won the International competitive bid to build, modernize and expand the Male International Airport in the Maldives. We have taken over operations of the airport 4 months ahead of schedule and have also achieved Financial Closure for its expansion.
- For the second consecutive year, RGIA was awarded the World's best airport in terms of service quality in the 5 to 15 mn passengers per annum category.
- In 2010, IGIA has been ranked 12th out of 154 participating airports in overall category in terms of service quality and selected for ACI (Airport Council International) Director General's Recognition Award. It has also been rated for the second consecutive time as the 4th Best Airport in the World in its category. IGIA's Terminal 3 won the Best Infrastructure and the PPP Project of the year at the KPMG Infrastructure Awards 2010; the Best International Project at the British Construction Industry Awards and the first airport in the world to be accorded LEED NC Gold Rating for Green Buildings.
- The performance of our Highways sector has been steady in the last fiscal.
- We have achieved Financial Closure of all our 3 Highway projects, namely, the Hyderabad-Vijayawada Toll highway, the Chennai Outer Ring Annuity road and the Hungund-Hospet Toll highway.
- All projects are progressing well and we are confident of completing them as per schedule.
- The Highways business is getting increasingly competitive. Going forward, we intend moving up the value chain by targeting expressways, highways of longer stretch, mega projects, etc., where we can leverage on our financial, project and managerial experience.

We are well on our way in developing part of our property around the Hyderabad Airport into an Aero SEZ.

- We have achieved Financial Closure for our MRO (Maintenance, Repair and Overhaul) facility in collaboration with Malaysian Airlines & Engineering (a subsidiary of MAS) and the construction is progressing as scheduled.
- We have inaugurated an Aircraft Engine Maintenance training centre in collaboration with CFM International, France.

- We have entered into an agreement with the Schulich School of Business of York University in Toronto, Canada, to develop a Schulich campus in Hyderabad, India. The ground-breaking ceremony for the construction of the campus has been scheduled on July 12, 2011. This will be the first full-fledged campus of a major, top-ranked International Business school in India.
- Plans are also afoot to start a tertiary care hospital in order to develop Hyderabad, specifically RGIA as a medical tourism destination.

All these aggressive growth plans need to be backed with a strong leadership team and robust business processes.

- Running seamlessly for the second successive year, our Talent Review process has enabled structured succession planning for key leadership positions and creation of a talent pipeline for the future. The outcome of Talent Review has led to focused investment in identification and development of future leaders.
- Business Excellence under Malcolm Baldrige framework to make overall improvement in our processes and systems, gathered momentum during the year.
- Our vast assets are exposed to a variety of risks which can affect our business continuity. Besides proactive Enterprise Risk Management, we also have in place advance plans to deal with material risks. We have embarked on a journey to build resilience for the organisation by enhancing strategic and tactical capabilities to plan for and respond to incidents and business disruptions. To begin with, this initiative is being rolled out at IGIA which is one of our most sensitive assets. Based on our learning in IGIA, we will develop Business Continuity Plans (BCP) for all our assets and projects across the Group.
- As a part of our 10-year Group Aspirations formulation called Sankalp 2020, we re-visited our Group's Vision to now read

"GMR Group will be an Institution in perpetuity that will build Entrepreneurial Organizations, making a difference to Society through creation of Value"

We also articulated the Aspirations of the Group in terms of geographical presence, market position, business model, brand and

organization which will form the basis for all our future plans.

Reinforcing our commitment to the society and to the environment, we have initiated Corporate Sustainability Reporting for the Group as per the globally accepted guidelines laid down by an International body called Global Reporting Initiative (GRI). Outcomes of various initiatives undertaken by our operating assets in Energy, Airports, UI&H sectors and GMR Varalakshmi Foundation (GMRVF) have been collated and a consolidated report presented to us. Going forward, this will form the measure for us to improve upon in our journey towards making GMR a sustainable enterprise.

GMR Varalakshmi Foundation, our corporate social responsibility arm continues to focus on the 4 identified areas of social development, namely education, health and sanitation, empowerment and community development. Our efforts in making a difference to the society has been recognised with the Corporate Social Responsibility Award at the CNBC-TV18 India Business Leader Awards in December 2010.

To ensure that quality healthcare is available to the people living in my home town Rajam and the neighbouring rural and backward villages, we built the Multi-Specialty GMR Varalakshmi CARE Hospital, which was inaugurated by Shri Pranab Mukherjee, Honourable Finance Minister of India. Other than offering the best of medical care at affordable costs, it will also save considerable time and efforts of patients' travelling to distant towns like Visakhapatnam for emergency and advanced medical care.

During the year, I have irrevocably pledged my share of the stake that I hold in the Group, which is

approximately worth Rupees 1540 Crore (USD 340 million) in favour of GMR Varalakshmi Foundation for charitable activities to serve the needs of the under-served sections of society.

Overall, the year was very satisfying as we continued to build a strong foundation for business and organizational growth in a holistic manner with long-term shareholder interest in mind.

Acknowledgements

I express my sincere gratitude to our shareholders, investors, joint venture partners, banks and financial institutions with whom we have enjoyed excellent 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 conduct of 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.

Best regards



G M Rao

Executive Chairman