

Chairman's Letter



Dear Shareholders,

It is with great pleasure and a sense of profound satisfaction that I present the 11th Annual Report of your company, the first report after the maiden public issue and listing. At the outset, I place on record my deep gratitude to all the shareholders for making your company's Initial Public Offer successful, amidst tough capital market conditions prevalent during that time. I immensely value your trust and we would endeavour to live up to your faith.

The last twelve months have been a period of continued growth for our economy. The GDP grew by 9.4%, one of the highest growth rates in the world. What sets India apart from the other developing economies is its vast knowledge base, significant human resources capability blended with innovation and the entrepreneurial drive. These qualities ensure that India will continue to progress along the path of prosperity. This is reflected in the planning commission forecasts, which project GDP growth in the region of 9% – 10% p.a. over the next five years.

The key to unlocking this potential is the existence of world-class infrastructure facilities. Any sound economy is built upon the platform of robust infrastructure, which acts as an enabler for a nation to realise its economic potential. Although, there has been substantial infrastructure development in our country over the last few years, it has been inadequate to support India's pace of economic development. Surveys have shown that though India as a Foreign Direct Investment (FDI) destination provides a higher return on investment than other emerging markets, even larger flows have been hindered due to lack of adequate infrastructure facilities. Frequent power cuts, poor roads and sub optimal air and seaport connectivity are viewed as major economic bottlenecks to maintain this growth momentum. It is in fact true that rather than acting as enablers to the country's economic growth, the infrastructure facilities are a bottleneck, holding us back from achieving our true potential. Our honourable Finance Minister has gone on record saying that infrastructure bottlenecks are slowing our economic growth by as much as 1.5% – 2% p.a.

It is therefore imperative, that we focus on development of world-class infrastructure facilities. The development of world-class infrastructure facilities will entail much larger investments in infrastructure. As per current estimates, we need to spend at least 7-8% of our Gross Domestic Product (GDP) on infrastructure facilities to ensure sustained economic growth. Our current spend on infrastructure is a mere 4.7% (\$ 37 billion) of GDP. This pales in comparison to China's infrastructure investments of \$200 billion or around 9% of its GDP. At the target level of around 7-8%, India would need about \$320 billion of investment (at 2005-06 prices) in various infrastructure projects over the Eleventh Five Year Plan period viz. 2007-12. Of this, power, roads and airport sectors alone would need more than \$200 billion. Acknowledging this, the Government of India (GoI) has already initiated policy measures to promote investments in the infrastructure industry. At the same time, private sector participation is being encouraged and going forward, more than half of the overall investment requirements of the country are expected to come from the private sector.

Role of your Company

I am confident your company will continue to be a key player in this arena in the years ahead. We have established ourselves firmly as leaders in the infrastructure domain with a healthy mix of operating assets and projects under development. Your company has been able to maintain its position as an industry leader by leveraging expertise from both within the organisation as well as through strategic alliances with some of the world's leading companies. This is reflected in the success achieved by your company in various spheres of the infrastructure industry.

I am delighted to share with you that the year 2006-07 was a period of growth for your company along with its subsidiaries. During the year, your company grew its consolidated gross revenues from Rs. 1,065 Crore to Rs. 1,987 Crore, an increase about 87%, buoyed by increase in revenue in Power Business and induction of new revenue streams from Airport business. During the same period, the consolidated net profit grew from Rs. 94 Crore to Rs. 242 Crore. The increase in your company's bottom line was largely driven by the increased profits of the Power and Road businesses in addition to the profits from Airport business.

The energy business witnessed better than expected performance by the Chennai and Mangalore projects. This is reflected in the improved bottomlines of these companies. During the year, your company commissioned its gas based project in Vemagiri, Andhra Pradesh. The performance of this project was adversely affected due to unavailability of natural gas.

However, your company held discussions with the various stakeholders and renegotiated the terms of the Power Purchase Agreement (PPA) to cover the losses incurred in the earlier years till the gas availability. We believe that the project will overcome these unforeseen difficulties in the coming years.

The energy business continued its growth momentum by adding Hydro and Thermal projects to our portfolio in line with your company's identified strategy for the business. The addition of these projects adds diversity to our portfolio and also goes a long way in addressing fuel security concerns. Apart from these new projects, significant progress was achieved in developing the Alaknanda Hydro project in Uttaranchal.

The Roads business performed much better than expectations with higher profitability stemming from more efficient cash management. Apart from the two operating stretches, your company is currently developing four road projects and I am happy to mention that during the year all four projects achieved financial close as scheduled. We are harnessing the best practices in all aspects of project implementation to ensure that these projects are commissioned on schedule.

The airport business started the year with the signing of the OMDA (Operations, Maintenance and Development Agreement) for the Delhi International Airport. The Delhi International Airport Private Limited (DIAL) took over operations of the airport in May 2006. I am happy to report that with the dedicated efforts of the DIAL team and the support of Airports Authority of India (AAI), we were able to ensure smooth operations of the airport even through the period of handover. Towards the end of the year, DIAL achieved another major milestone when the foundation stone for the new terminal at the airport was laid. Our other airport project viz. the Hyderabad International Airport is on course for timely completion. The first flight is expected to land by March 2008.

The developments of the last twelve months have vindicated our belief in the vast growth opportunities that await us in the infrastructure industry in India. It's my firm belief that what we are witnessing currently is only the beginning. We have much more exciting and interesting times ahead that will unfold in breathtaking pace.

Your company has also set its sights beyond our shores and we are exploring potential opportunities to enter the global infrastructure space. We will pursue opportunities on merit in line with the identified strategy for the group.

Organization Development

To sustain the momentum of your company, we realise the need to lay a solid foundation of people, process and systems. I acknowledge the importance of these initiatives and hence I have taken this as a personal goal. Towards this goal, I am glad to share that your company has embarked upon major organizational development initiatives in the areas of building human resources capabilities, supported by a flexible organizational structure and robust technology platform. In an era where all organizations have access to the similar opportunities, same financial resources, strategies and markets, what differentiates excellent organizations from others are their intangible assets. These include our Organization Structure, People competencies, Systems & Processes, our Culture and most importantly our Values & Beliefs.

We have engaged the services of the world's leading business consultancy firm to work on our Organization structure design, to ensure that it can support the ambitious long-term growth objectives we have set out to achieve. To ensure sustainable growth, we have initiated a leadership development programme that would provide us with adequate leadership strength required for the long journey forward.

Simultaneously, we have formulated an Information Technology strategy to map the IT systems requirement for every core process of the business. A three-year implementation road map has been rolled out which will see full-scale transformation of business processes through the implementation of SAP Enterprise Resource Planning (ERP) system supported by simultaneous enhancement of the hardware and an integration platform. The world-class IT infrastructure once implemented will provide for sound operational controls, effective collaboration and intelligent decision support.

At this critical juncture, the importance of values & beliefs cannot be overstated. Our seven core values – simple and effective, have guided the organization in its progress so far and will serve as the foundation in building GMR Group into a vibrant institution. These are the values we would like every member of our group to espouse - now and in the coming generations. It gives me a great sense of satisfaction that we have recognized this and are now translating our core values into practical actions on an ongoing basis. The leadership team of the group in particular, would have a substantial component of their performance evaluated on their demonstration and 'living' of the Group's values.

Corporate Social Responsibility (CSR)

Your company believes that corporate entities have a special and continuing responsibility towards the society. The grim reality in India is that millions of people lack basic amenities - a situation that cannot be redressed by the government alone.

Your company is fully conscious of its corporate social responsibility and is working towards making a difference to society. With this objective, your company through GMR Varalakshmi Foundation has been focusing in areas of Education, Health, Hygiene, Community Service, Empowerment and Entrepreneur development. It has been providing vocational training to youth and women, particularly those drawn from rural areas, through specialized training. This has opened up employment opportunities for these less advantaged sections of the society.

Your company also actively promotes and ensures environment protection and compliances through best industry practices.

Corporate Governance

Good corporate governance, for us, does not mean just compliance with Clause 49 of the listing agreement and other regulatory requirements. We believe the spirit of corporate governance goes beyond the statutory form. Rather, true Corporate Governance is, protecting the interests of all stakeholders in a just and equitable manner and your company devotes considerable attention in ensuring that our actions are driven by this spirit of true corporate governance.

Acknowledgements

I express my sincere gratitude to the Shareholders, Lenders, Banks, Financial Institutions, Securities Exchange Board of India, NSE, BSE, Reserve Bank of India, National Highways Authority of India, Airports Authority of India, 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 dedication and commitment. I express my sincere appreciation to the managements and workforce of GIL and its subsidiaries for their continued support. I am grateful to you for your support and the trust bestowed upon us and look forward to the same in a greater measure in the years ahead.

Thank you,



G. M. Rao