

Chairman's Statement

Dear Shareholders,

I am glad to share with you the highlights of contributions, achievements and financial performances of your Company and GMR Group, during the year 2005-2006, in the context of present national and global scenario.

International Economy and importance of Infrastructure Development

Worldwide, infrastructure growth has been consistently higher than the economic growth. Efficient infrastructure system is a pre-requisite for sustained economic development. Infrastructure facilities like Transport, Power and Airports are considered as benchmarks for measuring a Nation's development. In the current global scenario, transport growth is on fast track due to specialization, sourcing of supplies and materials on a wider scale, increased distribution of retail and wholesale commodities. The increased production results in increased demand for transport services, which necessitate better Highways and road facilities. Improved Road facilities increase transport activity. The competition among suppliers of transport services as well as pressures from users resulted in the prices of transport services falling. Civil aviation has played significant role, in putting any country on the world map and to get immediate global recognition. Past history, substantiate that a nation with world class air services, such as UK, Singapore, Malaysia and Hong Kong, play a key role in promoting and establishing global trading connections there by supporting economic growth. Power is one of the prime driver of economic activity. The level of availability and accessibility of affordable and quality power are also one of the main determinants of the quality of life. The access to information and global connectivity at high speed has narrowed the gap between the nations beyond geographical boundaries. For a country, to become global player and for international tie ups, and to sustain the growth in this competitive world, basic infrastructure facilities need to be in good shape.

Indian Economic Scenario - Infrastructure position

In a large country like India the infrastructural availability plays significant role in promoting national integration. The road transport system in India has not been able to keep pace with economic development. Roads form the most common mode of transportation and account for about 85% of passenger traffic and 70% of freight, making it the main form of transport for commuting across the country.

Power sector growth has not kept pace with the growth in demand with the result the country has always faced energy shortages. As of March 31, 2006, India's power system had an installed generation capacity of approximately 124,311 MW. Thermal power plants powered by coal, gas, naphtha and oil accounted for 66.4% of total power capacity in India as of March 31, 2006, hydroelectric stations for 26% and others (including nuclear stations and renewable sources of energy) formed 7.6% of the installed generation capacity. The Central Power Sector Utilities (CPSUs) accounted for approximately 32% of total power generation capacity as of March 31, 2006; the various state entities accounted for 57% and private sector companies accounted for approximately 11%.

India is the fourth largest economy in the world but for an economy of this size, use of air travel is extremely low. This is also reflected in the fact that Mumbai and Delhi airports are ranked only 80th and 109th (Ministry of Civil Aviation) respectively in the world instead of being considered among the world's largest. Standard expectations for air travel growth are usually of the order of twice the level of GDP growth but India has achieved nowhere near this level of growth. The leading observers do believe that given the right regulatory conditions and product pricing, there is significant pent-up demand for air travel.

Government Thrust on Infrastructure Development

In a liberalized set up, an efficient energy and transport network becomes all the more important, in order to increase productivity and enhance the competitive efficiency of the economy in the world market. While considering the inadequacies and imbalances in the transport / power sectors, Union Government under tenth five year plan has given emphasis to provide a framework for the long-term development of the transport sector with stress on technological up-gradation and removal of distortions. Focus is also on the inter-modal mix by evolving a rational tariff and investment policy. Major policy initiatives have been made in road sector. The National Highway Development Project comprising Golden Quadrilateral and North South - East West corridors which are the flagship projects in the road sector, are largely on track and are also expected to be a source of major fiscal stimulus to the economy.

The report, of working group for tenth plan, on power has envisaged a substantial capacity addition. The government proposes to enhance public funding as well as encourage Public sector undertakings to take up projects in joint ventures with private investors and state governments. There is also focus on initiating suitable policy measures to accelerate the pace of hydro power development. Initial response of domestic and foreign investors in power sector had been encouraging. However the major impediment to private sector participation is the poor financial condition of the monopoly purchasers viz, State Electricity Boards (SEBs). With power sector reforms already set in motion, these problems are expected to be sorted out in due course.



To give a major fillip to hydro power generation, the government has finalised a new set of guidelines for development of projects over 100 MW by the private sector through competitive tariff-based bidding. Against India's hydro power potential of 84,000 MW, just about 20% has been exploited so far. According to the new policy, states with huge hydro potential would be asked to shortlist credible developers based on certain preset technical qualifying criteria. The final developer would be selected on the basis of tariff-based financial bids. The power ministry plans to offer a series of run-of-the-river projects for development by the private sector. The idea is to tap the surplus power of states with substantial hydro potential and wheel it to power-deficit states. The host state would, however, retain 12% of the power generated at free of cost. A special requirement of hydel projects is the availability of long-term funding at reasonable interest rates. This ensures that the cost of power during the initial years is reasonable. Financial institutions, which fund almost 70% of the project cost, would find these projects more attractive.

The main thrust of the development of civil aviation sector in the Tenth Plan is to provide world - class infrastructure facilities and efficient safe and reliable air services to meet the requirements of domestic and foreign trade and tourism. Connectivity to remote and inaccessible areas also should be a priority. This could be achieved through private sector participation on a much larger scale. The Government is in the process of inviting bids from private parties for modernizing other international airports viz., Chennai and Kolkata and other regional airports.

Industry Scenario for Infrastructure Projects

Overall industrial scenario for infrastructure projects looks promising. In fiscal budget 2006-2007, the emphasis is more on development and modernization of Transport, Power and Airport with private sector participation on much larger scale. It is evident that the Government has taken several policy measures to ensure that the infrastructure development shall be put on fast track. Your company, with focus on promoting and developing infrastructure projects, looks at dynamic growth opportunities that lead to overall growth and maximization of shareholders value. Global opening up and invitation for participation in international projects, has been encouraging and the GMR Group is looking forward to create an international brand name.

Role of your Company

Government of India (GOI) has laid importance to the development of infrastructure, particularly Roads, Power and Airports in the country. Your company being lead financial member for several prominent infrastructure projects envisions very attractive projects in the sectors of Power, Airport and Roadways in the coming years. On this occasion, I would like to explain to our esteemed stakeholders the vital role your company plays in providing the highest standard of quality infrastructure facilities to the nation.

Your Company belongs to the GMR Group, the emerging major player in infrastructure projects which have been opened up for private sector. Your company is the promoter investor for the projects taken up by the Group.

a) Participation in Road Projects

After the Golden quadrilateral, North-South and East-West (NSEW) corridors are being given importance by the Government. The Union Cabinet has approved development of approximately 4000 kilometers long National Highways across the country through private - public participation. The cost involved is estimated at Rs. 22,000 crores and the development would be under 'Build, Operate and Transfer' (BOT) basis. Your company is participating in the capacity of Lead member/member of consortium of GMR Group, in the bids being called for by the National Highways Authority of India (NHAI) to construct and develop new Roads.

It gives me immense pleasure to share with you that the Group being the first awardee of two road projects namely a) Tuni - Anakapalli Road Project and b) Tambaram Tindivanam Road Project, in Southern India and achieved the completion of the assigned projects in time. Your company led a crucial role in these infrastructure projects as sponsor, guarantor, promoter and strategic investors and more significantly as lead financial member. With effect from financial year 2005-06, Tuni - Anakapalli Road Project and Tambaram - Tindivanam Road Project have started receiving regular annuities from NHAI, in terms of Concession Agreement entered with NHAI. The first and second installments of Annuity were received during the period under review.

I am also delighted to share with you that, your Company is the promoter for Ambala - Chandigarh Road Project, Farukhnagar - Jadcherla Road Project and Pochanpalli Road Project. These projects have been awarded to the GMR Group during the financial year 2005-06. Tindivanam - Ulundurpet Road Project is another Project that has been awarded to the GMR Group post March, 2006. Preliminary works have already been commenced in relation to implementation for these projects.



b) Participation in Airport Projects

Your Company is the strategic partner holding a majority stake in the Hyderabad International Airport Project. Looking at the project progress, we are confident that the project will be completed within the schedule by first quarter of 2008. I am proud to inform you that our group won prestigious project of Modernization of Delhi International Airport and your company is the lead member and promoter in that project. Airports Authority of India (AAI) has granted an exclusive right to operate, maintain, develop, design, construct, upgrade, modernize, finance and manage the Delhi Airport.

c) Participation in Power Projects

Your company is the holding company of GMR Energy Limited (GEL), which set up 220 MW Naptha based barge mounted power plant in Mangalore. GEL is also the holding company of GMR Power Corporation Private Limited (GPCPL), with 200 MW Low Sulphur Heavy Stock based power generation plant in Chennai and Vemagiri Power Generation Limited (VPGL), which is implementing the 370 MW Gas based power generation project near Rajahmundry in Andhra Pradesh.

Your company is also implementing of the prestigious Hydro Power Project at Badrinath in Himalayan region. I am proud to state that, our group won this project overcoming the tough competition from very big Indian Power Companies. GMR (Badrinath) Hydro Power Generation Private Limited, which is going to set up the 140 MW Alaknanda Hydro Power Project is located near Badrinath in the Chamoli district of Uttaranchal State. Located on the Alaknanda river (a tributary of Ganga), the project is a Run of River (RoR) type development, harnessing a Head of about 460 meters with a proposed installation of 140 MW (2 X 70 MW). The Project has a Design Energy of 702.72 MU (PLF of 57.3%). The Project will supply 12% free power to the state of Uttaranchal.

Corporate Governance

Your Company, is committed to highest level of business ethics and corporate governance. Though an unlisted Company, your company strives to adopt codes and rules for good governance applicable to listed Companies.

Safety - Group Mission Statement

GMR Group is dedicated to highest level of safety and environment protection. Aim is to build an entrepreneurial organization that makes a difference to the society through creation of value. Your subsidiary companies and group companies have ensured the highest level of safety at their respective plant project locations, with zero accident and zero fault track record. They have maintained clean and green environment. Accident Frequency and severity rates are at zero level at all plant locations.

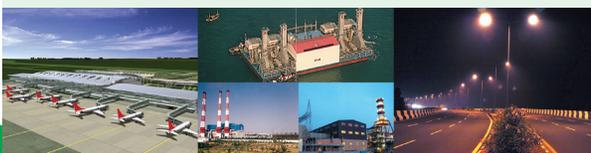
Initial Public Offer (IPO) of the Company

In order to meet the requirement of funds to accomplish the infrastructure projects taken by the company through its subsidiaries, your company proposes to issue of 38136980 Equity Shares of Rs. 10 each at a price as may be determined by the Board in consultation with Book Running Lead Managers, through 100% book building process. The Issue will constitute 11.52% of the fully diluted post Issue paid-up capital of the Company.

Corporate Social Responsibility (CSR)

GMR Group believes corporate entities have a special and continuing responsibility towards the society. The grim reality in India is that millions of people lack basic amenities and live in abject poverty - a situation that cannot be redressed by the Government alone.

GMR Group is fully conscious of its corporate social responsibility and is working towards making a difference to society. With this objective, GMR Group has been focusing in areas of Education, Health, Hygiene, Community service empowerment and enterprenuer development. It has been providing intensive vocational training to the youth and women, particularly those drawn from rural areas, through specialized training. This has opened up employment opportunities for these less advantageous sections of the society. The Group also actively promotes and ensures environment protection and compliances through best industry practices. Group also provides a helping hand to the needy and deserved through contributions, aids, donations etc. through its special purpose vehicles and subsidiary Companies. GMR Varalakshmi Foundation, the CSR arm of GMR group renders yeoman service to the society in this direction.



Performance Review

During the financial year 2005-2006 your Company earned a total income of Rs. 612.87 millions and a net profit after tax of Rs. 355.45 millions against Rs. 563.18 millions and Rs. 243.81 millions respectively in the previous financial year. The increase in income is mainly on account of substantial savings in finance charges and also due to increase in dividend income. Consequently the Earning per share (EPS) for the FY 2005-06 stood at Rs. 1.34 as against Rs. 0.86 for the corresponding previous year.

The company promotes and sponsors Special Purpose Vehicles and Corporate Entities to undertake Infrastructure projects and set up Infrastructure facilities. Hence the consolidated financial results of the company and the financial results of subsidiaries accompanying the annual report for the year 2005-06 will provide a holistic picture of the group's performance in this sector.

Values, Beliefs and HR initiatives

The GMR Group has put in place seven Values & Beliefs and taken HR initiatives like the People Capability Maturity Model (PCMM), ISO 9000, Six Sigma, 5S etc. to enhance the ethics, efficiency and productivity of the Organisation.

Acknowledgements

I express my sincere gratitude to the Shareholders, Lenders, Banks, Financial Institutions, Reserve Bank of India, National Highway Authority of India, Airport Authority of India, Central and State Governments and other regulatory authorities / Agencies for providing continual 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 GMR Group Companies for their continued support. My dear Shareholders 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
Chairman

Bangalore
July 12, 2006

