



GMR INFRASTRUCTURE LIMITED
17TH ANNUAL REPORT 2012-13



WHEN TODAY'S POTENTIAL LAYS TOMORROW'S FOUNDATIONS

Caution regarding forward-looking statements

This document contains statements about expected future events, financial and operating results of GMR Infrastructure Limited, which are forward-looking. By their nature, forward-looking statements require the Company to make assumptions and are subject to inherent risks and uncertainties. There is significant risk that the assumptions, predictions and other forward-looking statements will not prove to be accurate. Readers are cautioned not to place undue reliance on forward-looking statements as a number of factors could cause assumptions, actual future results and events to differ materially from those expressed in the forward-looking statements. Accordingly, this document is subject to the disclaimer which is qualified in its entirety by the assumptions, and risk factors that are referred in the management's discussion and analysis of the GMR Infrastructure Limited Annual Report 2012-13.

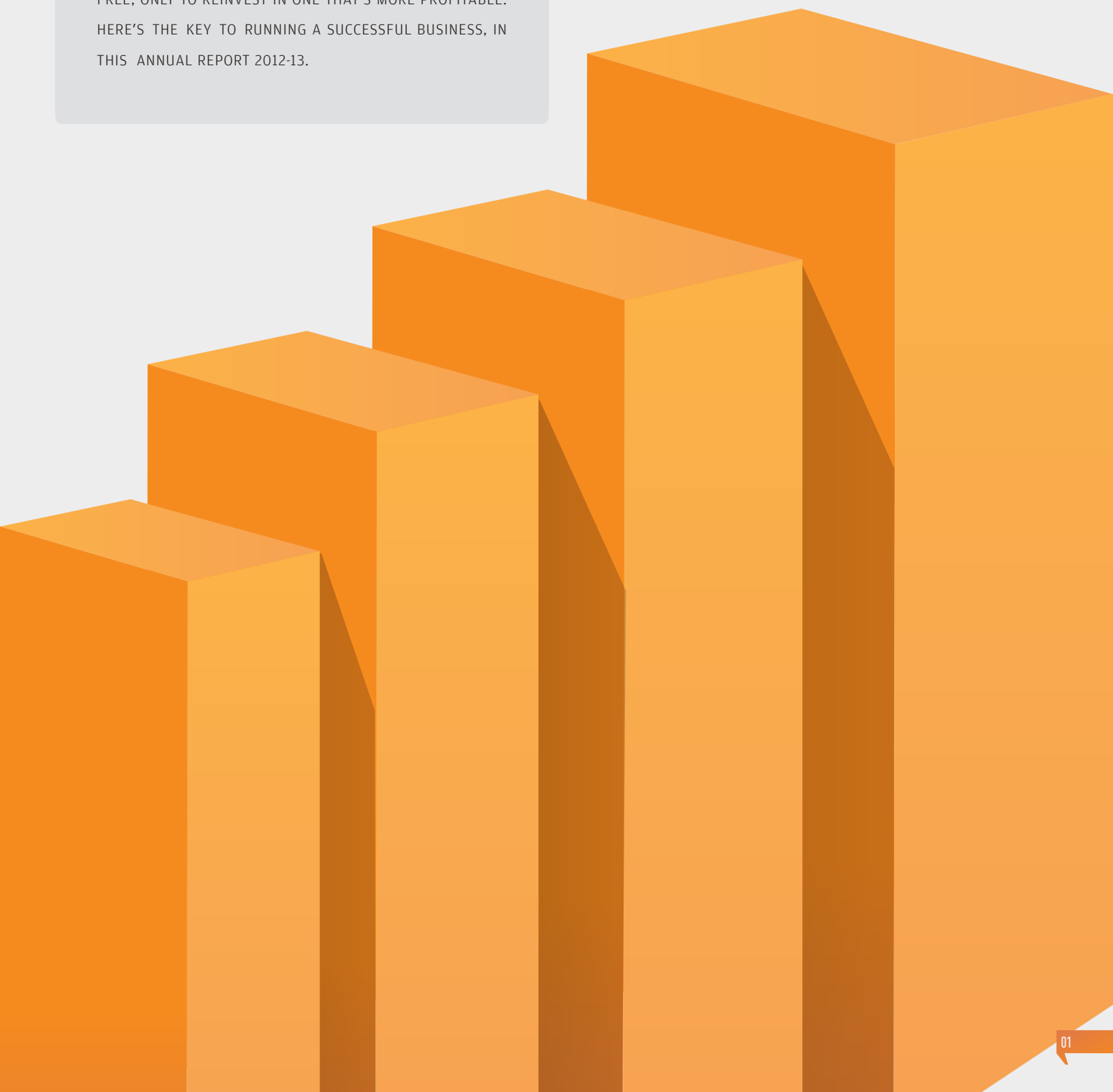
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PREFACE

HARD WORK, WE BELIEVE, IS THE ONLY SHORT CUT TO SUCCESS. AND BY FORMULATING A WINNING STRATEGY, WE UNLOCK THE HIDDEN POTENTIAL OF OUR ASSETS AND SET IT FREE, ONLY TO REINVEST IN ONE THAT'S MORE PROFITABLE. HERE'S THE KEY TO RUNNING A SUCCESSFUL BUSINESS, IN THIS ANNUAL REPORT 2012-13.



GENERAL INFORMATION

BOARD OF DIRECTORS

G. M. Rao Executive Chairman	K. R. Ramamoorthy Independent Director
B. V. N. Rao Managing Director (till July 27, 2013) Group Director (from July 28, 2013)	Dr. Prakash G Apte Independent Director
Srinivas Bommidala Group Director	R. S. S. L. N. Bhaskarudu Independent Director
G. B. S. Raju Group Director	N. C. Sarabeswaran Independent Director
Kiran Kumar Grandhi Group Director (till July 27, 2013) Managing Director (from July 28, 2013)	S. Sandilya Independent Director
K.V. V. Rao Director	Vijaya Mohan Ram Independent Director
O. Bangaru Raju Director	S. Rajagopal Independent Director

COMPANY SECRETARY & COMPLIANCE OFFICER

C. P. Sounderarajan

AUDIT COMMITTEE

K. R. Ramamoorthy	- Chairman
N. C. Sarabeswaran	- Member
R. S. S. L. N. Bhaskarudu	- Member

BANKERS

Axis Bank Limited
ICICI Bank Limited
IDBI Bank Limited
United Bank of India

REGISTERED OFFICE

Skip House, 25/1, Museum Road,
Bengaluru - 560 025
Tel No.: +91 80 40534000
Fax: +91 80 22279353
www.gmrgroup.in

SHAREHOLDERS' TRANSFER & GRIEVANCE COMMITTEE

K. R. Ramamoorthy	- Chairman
B. V. N. Rao	- Member
G. B. S. Raju	- Member

STATUTORY AUDITORS

S.R. Batliboi & Associates LLP
Chartered Accountants

REGISTRAR AND SHARE TRANSFER AGENT

Karvy Computershare Pvt. Ltd.
No. 17-24, Vittal Rao Nagar,
Madhapur, Hyderabad - 500 081

VISION

GMR Group will be an institution in perpetuity that will build entrepreneurial organizations, making a difference to society through creation of value.

Our commitment to building an institution for perpetuity is grounded on the following values and beliefs



Humility : We value intellectual modesty and dislike false pride and arrogance



Entrepreneurship : We seek opportunities they are everywhere



Teamwork and Relationships :
Going beyond the individual and encouraging boundary less behaviour



Deliver the promise : We value a deep sense of responsibility and self-discipline, to meet and surpass on commitments made



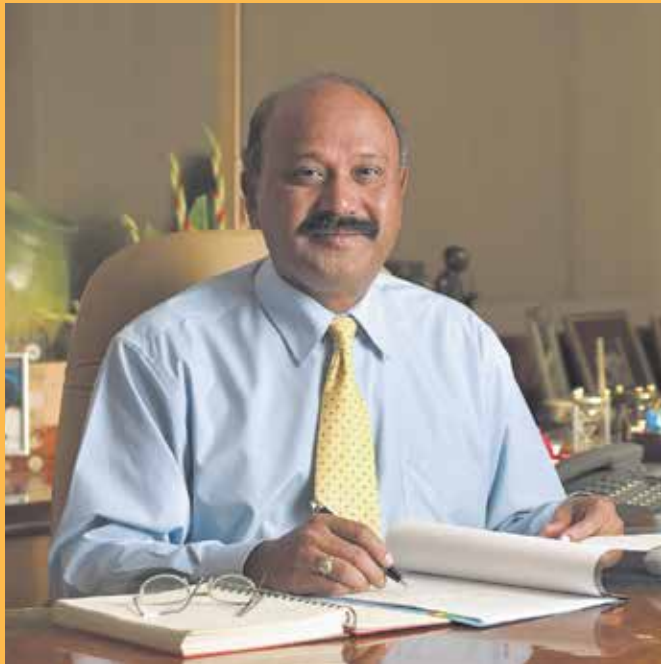
Learning : Nurturing active curiosity to question, share and improve



Social responsibility : Anticipating and meeting relevant and emerging needs of society



Respect for individual : We will treat others with dignity, sensitivity and honour



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 year 2012-13 has been remarkable for the Company in more ways than one. Set against a background of a worsening Current Account Deficit coupled with rupee depreciation against the US dollar and euro, persistently high inflation and constrained liquidity in the domestic and global financial markets, most Indian enterprises have faced multiple and serious challenges.

Considering the above, I am happy to state that your Company has seen significant improvement in its airport sector, disinvested multiple stakes in the power and highways sectors, and evolved a new approach to raising capital.

Maiden Dividend

Our shareholders put lot of faith in the Company and stood by us through troubled times. In recognition of their loyalty, I am happy to inform that the Board is pleased to announce a maiden dividend of 10% for this year.

The substantial growth in gross revenue recorded by DIAL is the more significant in the backdrop of 4% net decline in the pan-India air traffic. Delhi and Hyderabad continue to getting recognised at a global level in the Airport Service Quality by being ranked fourth and second respectively by ACI in their respective categories. DIAL has become the world's first airport to achieve 'ISO 22301:2012' certification for its Business Continuity Management System and also received the International Safety Award from British Safety Council. Hyderabad airport received the Best Cargo Airport award by Air Cargo Agents Association of India. Our Sabiha Gokcen International Airport in

Istanbul was the only airport named under the 'super brands' of Turkey in that region.

Despite considerable external challenges, the 181.6 km Hyderabad – Vijayawada and 99 km Hungund – Hospet Highway projects were well commissioned in time, as also the 1st Unit of 300 MW of Warora and 1st Unit of 350 MW of Kamalanga power projects. These will result in a quantum increase in our revenue stream and cash flow.

Against these positive developments, one unfortunate event that occurred was the nationalization of Male' Airport where we were denied a fair treatment. We were compelled to take the matter to the courts of law and go in for compensation under the terms of contract. The matter is under arbitration and I remain optimistic about the eventual outcome.

Reviewing our portfolio and processes from time to time is an on-going exercise to ensure compliance with our strategy. After a careful review of the changed circumstances around the KUA highway project, we decided to give notice of termination. Our stand was appreciated by one and all including the Government. We presented an alternative business model to NHAI that would not only enable us to take up this project again, but also stimulate investment in the highways sector. We also exited the 58 km Thondapalli - Jadcherla Highway asset, Coal mines in South Africa as well as 800 MW Island Power, Singapore, at a healthy premium. Power, Singapore, at a healthy premium.

Macro-economic outlook & inherent volatility

The GMR Group has recognized that the environment has changed over the last few years, and will continue to be volatile in the foreseeable future. In this context, profitability and liquidity will prove to be the critical differentiators for sustained financial performance. These in turn will be driven by the ability to adapt and to proactively maintain a high quality portfolio.

As a result, the Group last year carried out an exhaustive analysis of the trends in the infrastructure sector. This analysis resulted in deep insights into the changes that can be expected over the next few years in the infrastructure sector, the financial ecosystem, and the economic environment. The results indicated that there is a need for proactive focus on operating cash flows and to develop a capital recycling mechanism. After analysing these in detail, the Group changed its strategic direction to an Asset Light – Asset Right (ALAR) approach.

The Asset Right strategy builds upon the Group's strengths as a developer, where it follows the principle of "Develop, Build, Create Value, Divest, and Reinvest". Through regular portfolio reviews, the Group identifies those assets which have already created maximum value, as well as those which are value eroding. Divesting these assets releases capital for better opportunities, and also improves the quality of its portfolio. This recycling approach insulates the Group from the volatility seen in the global equity markets and enables sustainable growth and profits.

The Asset Light approach will improve profitability and frees cash flows by 'sweating' of existing assets, i.e. achieving better operating efficiencies by increasing revenue and reducing cost. The Group will also use the knowledge base built over the past few years to invest in new opportunities with a low capex requirement.

We strongly believe that the appropriate combination of the above two will form a sustainable long term business model for Indian infrastructure developers.

We rigorously operationalized this strategy with multiple organizational initiatives, and ensuring a strong focus on profitability, cash flow and liquidity in our 3 year rolling Strategic Plans and Annual Operating Plans. Our Asset Right execution has resulted in the successful divestment of GMR stakes in Jadcherla (Highways), Island Power (Energy, Singapore) & Homeland Energy Group (Energy, South Africa). These have cumulatively released over Rs 1,800 crore of equity.

On the corporate front, our focus, among others, is on innovative measures to raise cost-effective funds and a drastic increase in operational efficiencies such as cost reduction, improvement of project management processes and shared services and process excellence. Our Business Excellence initiative has already resulted in operational savings of close-to Rs. 90 crore last year alone.

Value-based Governance

While building entrepreneurial institutions of lasting value that make difference to the lives of the people is the core philosophy at GMR, we did not lose sight

of the fact that organisations have several parallels with human beings... they breathe, they grow, they expand, they migrate, get sick and ultimately perish. And like human beings, only those organisations shall stand the test of time which are founded on sound values that have percolated into its operational practices.

In order to create a unique values based culture at GMR, the management has taken up several initiatives for value assimilation and demonstration transcending the work place and interactions with stakeholders. One of such initiatives was "Leader Led Sessions" on the 7 identified values of the Group... starting with Humility. So far, 106 leaders have presided over such sessions for their teams covering about two thousand employees across the organization. They initiated discussions about the importance and impact of observance of values at personal level as well as in building institutional culture with the support of innovative learning modules developed by our Talent Management Group.

Public Advocacy Measures

Your Company has grown in stature and is invited by various government and business forums. It is our responsibility to present ideas and suggestions at policy level to ensure the healthy growth of infrastructure in our country.

Your Company is a member of high level committee for infrastructure finance, constituted by the Prime Minister's Office, chaired by Mr. Deepak Parekh.

In order to tackle the issues of 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. Business Chairman Mr. GBS Raju and I are members of the sub groups formed under the chairmanship of Power Minister. Some of the concepts being pursued are pooled price mechanism for gas and coal, and mechanism for coal linkages for upcoming power plants.

In the airports sector, especially in context of DIAL, your Company had 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. 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.

Sector Outlooks

Airports

I am happy to note that the Indian airports sector now has a stable regulatory and appellate framework in place and working as intended.

The past year has been possibly a low point for the overall Aviation sector and things can only improve from now on. While air traffic remains a cause for concern with pan-India 2012 passenger traffic recording a net decline of 4% compared to 2011, I consider this decline to be of a temporary nature and not a systemic issue. In the long term, I am confident that India's economic might will prevail and favourable demographics will continue to drive demand for air travel both on domestic and international routes.

Energy

Ensuring a sustained supply of gas continues to be a challenge faced by the entire gas-based power plant sector. Needless to say, we are taking every step possible to safeguard our supplies and increase them proactively.

We are happy to state that this complete dependence on gas will come to an end with our coal-based power plants expected to come online during the ensuing financial year. Coupled with a robust backup plan for coal supply from our domestic linkages, imported coal and our own captive sources in Indonesia, we expect to significantly improve our Energy sector performance.

Urban Infrastructure & Highways

The entire Highways sector continues to face challenging times with issues such as land acquisition and regulatory and environmental clearances. However, we consider these to be transient issues and expect that they will be ironed out in due course. The last year's performance in highways reflects the cost of such challenges.

We believe that public private partnership is a must to build the roads the nation needs, and look forward to a refinement of the partnership model to ensure that it is a success for all stakeholders.

Looking Forward

In our journey ahead for the year 2013-14, 2nd Unit of 300 MW of Warora, 2nd and 3rd Units of 350 MW each of Kamalanga and 1st Unit of 685 MW of Chhattisgarh will be commissioned. 29.7 km Chennai Outer Ring Road will also get completed this year.

Today we live in a highly connected world, yet, in highly uncertain times. Despite all the challenges, our Group has succeeded to put itself in a strong position only due to its foundation of enduring business models and Institutional strengths of values and beliefs. Our recently launched new initiatives towards outsourcing of transactional and routine processes to drive process standardization, process efficiency, process improvement and cost reduction have been very successful.

In this journey, I would like to thank all of you, the GMR family of shareholders, for your solidarity and support. With your continued support and good wishes, I am sure, the Group will emerge fitter and stronger.

Coming to the macroeconomic and sector outlook, we remain committed to the Public-Private Partnership (PPP) model and will continue to seek out attractive projects that meet the ALAR strategy guidelines, both in India and globally. I look forward to the collective refinement of the PPP model to appropriately reflect the current economic volatility and intense pressure on financing typical infrastructure projects. While initiatives are already underway for allowing external financing, deepening corporate bond markets, and so on, the financing model itself will need to reinvent itself, potentially following global trends favouring pension funds, sovereign funds and private equity players. We look forward to significant policy initiatives by the governments in this field.

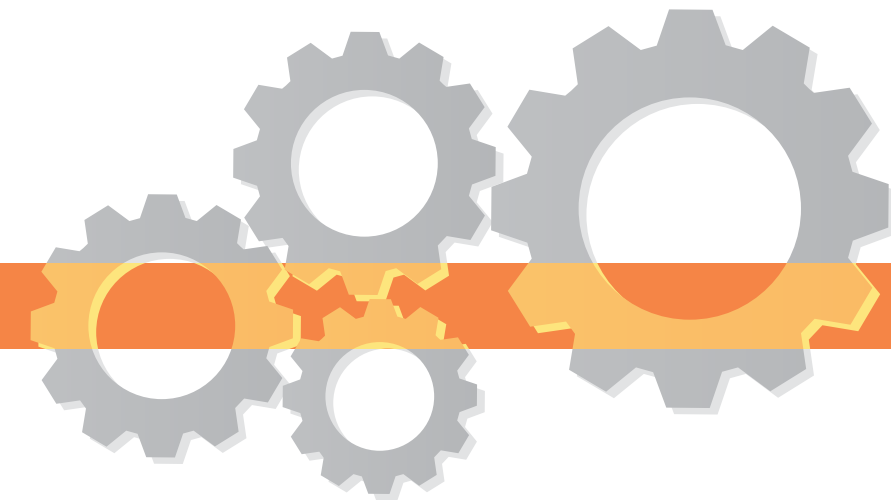
Acknowledgements

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



A CASE FOR A DIFFERENT BUSINESS MODEL IN INFRASTRUCTURE

GMR transitions with Asset Light Asset Right

The emerging global volatility and uncertainty coupled with the lack of an institutionalized policy environment demand the Indian Infrastructure players to be more dynamic and adaptive than ever before.

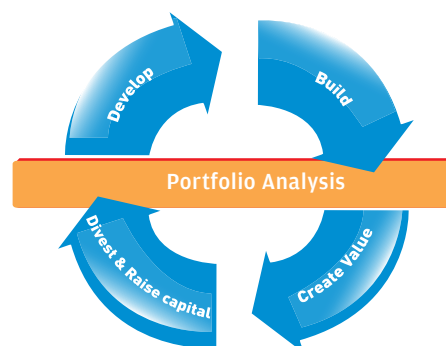
The above systemic volatility coupled with the massive investments projected (Rs. 55 trillion during the 12th Plan) for the infrastructure sector demands far-reaching changes in financing models.

As outlined in the 2011-12 Annual Report, your Company had recognized that the ability to rapidly and appropriately adapt to the intrinsically volatile world, proactively assess the quality of one's portfolio, profitability and liquidity will prove to be the critical differentiators for sustained financial performance.

Your company adopted the "Asset Light – Asset Right" (ALAR) strategy after a detailed analysis of the trends in the infrastructure sector. As part of ALAR strategy, your Company's focus moves now from asset growth to cash growth. Your company will shift investments from assets with low profit potential to those with higher returns. This will help improve profits & cash even if size of assets is lower. ALAR approach is two pronged strategy – Asset Right & Asset Light.

Asset Right

Asset Right strategy is about making portfolio more attractive and releasing capital. This capital recycling happens based on the right valuation and right timing. In addition, this also triggers divesting the value eroding assets. This would lead to generate growth capital and improve profits. The funds will be used for more attractive opportunities. This approach builds upon our strengths as a developer, and consequently we follow the principle of "Develop, Build, Create Value, and Divest".



Asset Light

The objective of the Asset Light strategy is to improve profitability and free cash flows by 'sweating' of existing assets, i.e. achieve better operating efficiencies by increasing revenue & reducing cost and invest in new opportunities with lower capex. Through this approach new revenue streams can be developed by utilizing your Company's intellectual instead of financial capital. We are actively engaged in developing several such options.