

L&T Press Release

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Chairman's Address at the 65th Annual General Meeting on 26th August 2010

My Dear Shareholders of Larsen & Toubro,

Good afternoon and a very warm welcome to this 65th Annual General Meeting.

I would like to begin by sharing with you the events and happenings for 2009-2010.

In the year under review, L&T weathered the impact of the global economic slowdown that began in FY08, and whose after effects continued well into FY10. The past year was also characterized by a period of political uncertainty due to the General Elections in the first half of the year, and a prolonged bout of inactivity when orders for infrastructure and hydrocarbon projects were deferred, and customers slowed down their ongoing expansion initiatives. L&T successfully navigated these crosscurrents for the better part of the year, and capitalized on a more conducive environment during the last few months of FY10 when both ordering and execution conditions turned favourable. The ongoing efforts taken during this period have paid off, and your Company has, once again, performed well.

Let me review with you our **Performance Overview**

L&T posted good results on all key parameters during FY10. Despite the relative slow start during the first 9 months of the year, yearly sales registered a growth of 9% due to favourable project execution conditions in the last quarter of FY10. Fresh Order Inflows and the quantum of the Order Book always determine your Company's ability to thrive and grow. Results on both these counts have been significant despite a disappointing business environment in international markets. L&T achieved an impressive 35% growth in Order Inflows for FY10. Consequently, the Order Book position stood at a record Rs 100,239 Cr as on end FY10. This gives the Company clear revenue visibility over the next couple of years.

Margins have, yet again, registered an improvement and your Company is hopeful of sustaining margins at a level close to this, despite volatile commodity prices and competition. Aided by cost efficient execution and risk mitigation measures, Profit after Tax at Rs. 4376 crore grew 26% during the year. Robust operating cash flows were also achieved, supported by improved working capital management across businesses.

The performance of the Subsidiary & Associate companies during the year has also been encouraging. The Group total income for the year reached Rs.43,970 crore while the Group Profit after Tax recorded an impressive Rs. 5451 crore - an increase of 44% year on year.

It gives me pleasure to mention that the Board has recommended a dividend of Rs. 12.50 per

I. Roads and Railways

The heightened activity in the Roads sector indicates that a spate of concessions is likely to be awarded on BOT basis this year. In the Railways business, L&T sees a diverse basket of opportunity in mass urban transit systems (metro and mono rails), station development, rolling stock manufacturing units for Indian Railways, railway sidings for industrial units, and opportunities in Dedicated Freight Corridor.

II. Water

This is an area that is likely to witness a significant increase in spends considering depleting water tables across the country and your Company hopes to expand its business in areas of bulk transmission, water treatment, desalination plants and waste water management.

III. Urban Infrastructure

The Company sees abundant prospects in 'Design and Build' projects in the areas of Real Estate, Hospitals, Educational Institutes and Hotels.

IV. Mining, Metals & Material Handling

The increased activity in mining, steel, ports and power sectors have given rise to a number of business opportunities which the Company hopes to tap in FY11.

The next important area of operations is ***Heavy Engineering*** and I will dwell upon the following parts of this area –

I. Heavy Industrial Equipment

We continue to be globally respected for design and manufacture of heavy process plant equipment. This business is expected to grow steadily. The heavy fabrication facility set up under a JV in Oman was inaugurated during the year and will manufacture a range of equipment for the hydrocarbon and power sector to cater to the growing markets in the GCC countries.

II. Nuclear Power

A large ordering of nuclear power projects to the tune of approximately Rs. 100,000 crore is scheduled over the next 5 years in India. The Government has announced to install 62,000 MW of nuclear power capacity by 2032, of which 25,000 MW is expected to be added by 2020. This will be partly done through indigenous technology driven reactors for a capacity addition of about 7000 MW and the balance through technology transfers from countries such as Russia, France and USA. L&T has a substantial role to play in the indigenization programme through its own

Nuclear Island, which will enable L&T to build complete Nuclear Plants on a turnkey basis. One of the Board Members has been assigned the task of spearheading this initiative and the Company is confident in playing a significant role in this emerging opportunity.

III. Defence

The Government policy initiative for private sector participation in Defence sector has been slow till date. In order to strengthen India's defence, we hope that changes will happen soon in Government Policy, which will enable L&T to meaningfully

After the sluggish growth experienced during the previous year, this business witnessed a healthy turnaround in both growth and profitability in FY10 and is expected to maintain its leadership position in the domestic market in FY11. Our acquisition of medium voltage switchgear company (TAMCO) in Malaysia is doing very well and access to this technology has also helped the company fill the void in its range of offerings in the Indian market thereby exploiting a larger spectrum of Indian Switchgear market.

In line with the Company's policy to exit from its non-core businesses, we have sold the Petrol Pump Business during the year.

Let me now take you through the *Machinery and Industrial Products* Business.

Having gone through a period of slowdown in the Industrial sectors in the recent past, most business units in this Division achieved a healthy recovery in both sales and margin in FY10. The Division expects to register a healthy performance in the coming year with the Construction and Mining machinery business poised for a smart growth. To meet the increasing demand in the Power Sector, a new plant for manufacture of Specialized Valves has commenced operations in Coimbatore.

The Rubber Machinery facility in China has already gone into production and will help in providing more competitive offerings, while expanding the market reach.

The Company's manufacturing Campus at Kansbahal near Rourkela is undergoing capacity expansion, with the addition of Apron Feeders and Wheel Loaders in its product range.

In addition, to tap the growing opportunities offered by the renewable energy sector, the Company has commissioned a brand new state-of-the-art foundry in Coimbatore for manufacturing Wind Mill Castings.

In keeping with the Company's policy to continually streamline the business portfolio, we have divested our stake in Voith Paper Technology (India) Limited.

Speaking of the *IT* sector,

After last two years of slowdown in the IT sector, L&T is hopeful of a healthy growth in its IT business with the industry witnessing a recovery. Leveraging on its global presence, the following initiatives have been undertaken to fully exploit this recovery:

- I. We have achieved good progress in operationalising the IT connect to business in areas such as deploying mobile PDA or phone in the insurance business, improving agility of compliance in the BFSI sector, and increasing efficiencies of investment banking brokerage business
- II. We have also undertaken several steps towards increasing the agility of manufacturing and process industry by interconnecting operations, business processes and product planning layers. Typical examples are 'Digital oil field'

IV. We are also launching the system integration business for large systems like e-governance, railway operations etc in India and the Gulf

With a progressively larger geographical footprint and expanding client base, the Company is confident that the aforesaid initiatives will yield competitive advantage and commensurate growth in its IT business in the coming years.

Let us now look at our ***Financial Services*** Business

This business has grown appreciably during FY10 and now holds assets in excess of Rs 10,000 Cr. All performance metrics are robust and the business is expected to post sound growth in FY11.

We believe that in a growing economy, Financial Services sector will continue to grow, and it is, therefore, necessary to ensure suitable structuring of the business to exploit its full potential. The Company is exploring various options of unlocking value at an appropriate time in the near future.

Another important area for us is ***Developmental Business*** where

Your Company has been actively building its concessions business over the last few years. With the increase in the number and maturity of concessions in its fold, the Company is in the process of restructuring them into independent verticals like

We are committed to serving the Nation through all our initiatives, while at the same time striving to maximise stakeholder value. As I address yet another AGM at L&T, I recall with both pride and humility the road we have traversed so far. We are entitled to feeling proud because together we have created one of the greatest value creation platforms in India's private sector. L&T has never been stronger than what it is today. And I assure you that your company will become far stronger in the years to come. We will continue to uphold the faith and trust you have reposed in us.

Thank you once again, ladies and gentlemen, for your time, attention and support.

- A.M. Naik