



L&T Press Release

Issued by Corporate Communications Department

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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 equity share on a face value of Rs. 2 per share for the year. The corresponding dividend during the previous fiscal stood at Rs. 10.50 per share.

I will now dwell upon our efforts at **Preparing for accelerated growth:**

The structural changes and growth measures implemented by your Company, even during the turbulent phase of FY09 and FY10, have taken root and are now integral to the organisation. Some of these measures are –

1) Talent Management:

L&T's reputation as a stable employment destination with an unparalleled canvas for professional development has helped the Company draw talented manpower across the board. Robust HR practices – such as differentiated reward systems, stock option plans and career growth opportunities have played their part in attracting and retaining skilled manpower as part of L&T's capability building exercise.

2) Technology:

Thrust on technology continues to be a focus area of your Company and it has successfully executed large, technologically complex projects that give it a unique and dominant position in the domestic infrastructure space. The Company continues to forge JVs / alliances with technology majors whenever the need arises. On the product development front, the Electrical & Electronics Division continues to view R&D as a core business driver, and filed 128 patents in 2009-10, making it the third consecutive financial year in which over 100 patents were filed.

3) Business Integration:

L&T constantly seeks to achieve higher levels of vertical integration as a means to strengthen competitive advantage, enhance margins, acquire greater control over business segments and bid for larger, more complex jobs. This has been successfully accomplished in several sectors: in Roads and Urban Infrastructure projects, the Company spans the 'design-build-own' space; in the power sector, L&T straddles the entire value chain of 'design-manufacture-EPC-ownership'; and in upstream oil and gas, your Company has gainfully complemented its complex platform design expertise and modular fabrication facility, with its capability to install platforms at sea. In consonance with these on-going initiatives, corporate management ensures that L&T presents an integrated front to every end-customer.

4) IT in our Business:

L&T believes that a strong IT-business connect gives it a competitive edge. The Company constantly seeks to automate business and back-end processes in an effort to seamlessly integrate different parts of the organization. With all businesses running integrated back-end ERP systems, your Company is focusing on advanced decision support systems to give it an advantage in the marketplace.

5) **Capacity Expansion:**

Over the last couple of years, we have added capacities to meet the increasing volumes of business which the Company hopes to garner. At the Group level, the Company's supercritical power plant manufacturing ventures are being commissioned. A Heavy Engineering facility adjoining the Company's Modular Fabrication facility in Oman was commissioned in FY10. Construction of L&T's Shipbuilding facility cum container port at Kattupalli, near Chennai is underway. The port at Dhamra in Orissa will be soon ready for commissioning, and is expected to provide a fillip to L&T's Developmental (Asset Ownership) business.

I will now talk about steps that we have taken in the field of **Renewable Energy:**

In the context of the global focus on clean energy, the Company has embarked on multiple initiatives including projects in Solar Photovoltaic Power and manufacture of engineered large size castings for critical applications in wind power turbines. L&T has also targeted installed capacity of 2000 MW in Hydel Power as a Developer and / or EPC Contractor over the next few years.

Let me now outline our efforts on **Sustainable Development:**

Your company acknowledges its responsibility to safeguard the interest of future generations by implementing initiatives to conserve natural resources and protect environment. We have proactively set targets in these areas in line with Government of India's action plan on climate change.

Our initiatives to train people from the weaker sections of the society and make them employable have been acclaimed by the august industry bodies, such as, FICCI and BCCI. L&T's Sustainability Report 2009 has secured international distinction, emerging as the only entry from Asia, in awards announced by Global Reporting Initiative at Amsterdam.

I will now talk about the **Economic Scenario** and its impact on our business:

The Company seeks to exploit opportunities available in the domestic market and is viewed by investors as synonymous to an Infrastructure builder to the nation. While some macro-economic parameters such as high Fiscal Deficit, Inflation, increasing interest rates, rising commodity prices and ripples from the European debt crisis do cause some concern, other vital economic parameters like GDP growth, Index of Industrial Production, Gross Capital Formation, high domestic savings rate, favourable demographic profile, ample liquidity, credit expansion and fiscal consolidation measures are healthy drivers for the economic progress of the country. The overall economic canvas appears to be robust and conducive to the continued growth of L&T during the year ahead.

The next important area I would like to touch upon is the **Outlook** for the current year:

We are quite hopeful of a healthy growth in Order Inflows during 2010-2011. I will now take you through the Sectors which hold promise of growth:

- Starting with the **Infrastructure & Construction space**, the sub-sectors that I would like to talk about are –

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 manufacturing & EPC capabilities. Towards this, we have signed MoUs with almost all the international nuclear technology suppliers, who have been selected for technology transfer and cooperation in India's nuclear power ambition.

In order to further meet these demands, L&T has set up a Joint Venture with Nuclear Power Corporation of India (NPCIL), to set up a Heavy Forging manufacturing facility at Hazira, Gujarat. We have also created and augmented dedicated nuclear reactors and steam generator manufacturing capacity at Hazira.

While we already have complete solution for Turbine Island and Balance of Plant, we have decided to additionally invest in building our capabilities to be able to execute

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 participate in the country's defence production program.

- The next sector with high promise of growth for L&T is **Thermal Power**

The Company is fully geared to cope up with the increasing demands in the Power Sector. I am pleased to inform you that the manufacturing facilities for Boilers and Turbines, which the Company had undertaken to construct in Joint Venture with Mitsubishi Heavy Industries of Japan, have started production activities. The remaining factories to manufacture Power Plant Auxiliaries are in an advanced stage of commissioning.

With an average supercritical capacity of approx 15,000MW expected to be added each year in the country, prospects in the Power Sector seem encouraging and the Company is in readiness to fully harness this potential, backed by its capability to execute complete EPC contracts for power plants.

The large expected addition to the generation capacity is likely to boost demand for augmentation of the T&D network across the country. L&T seeks to capitalize on this boom by leveraging its capabilities and track record in setting up Transmission Lines and Substations. To meet this demand, in addition to the Company's existing two factories, we are in the process of setting up a 3rd Transmission Tower Manufacturing facility in the Eastern part of India.

- Moving on to the **Hydrocarbon** sector,

India's energy security needs and the expected hydrocarbon prospects in the Middle East are likely to drive large spends in oil and gas exploration, production, refining facilities and petrochemical complexes. Your Company is poised to tap this business potential by exploiting its capabilities to deliver complex Oil and Gas platforms and solutions in both the up-stream and mid / downstream spaces.

To cater to the offshore requirements, a state-of-the-art heavy lift-cum-pipe lay vessel has been built in Joint Venture with SapuraCrest Petroleum Berhad of Malaysia and has been commissioned.

The Company's 2nd Modular Fabrication Yard at Oman has augmented its capabilities in the upstream sector.

Additionally, to meet the increasing demands in the Hydrocarbon Upstream sector, the Company has undertaken to set up its 3rd Modular Fabrication Yard at Kattupalli, near Chennai which will commence production shortly.

- I will now cover the **Electrical & Electronics** Business.

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' for live monitoring of complex offshore operations, 'Prime Plant' offering for reducing meantime between failure in process plants, etc
- III. We are now deploying cutting edge technology like cloud computing and natural user interface

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 Infrastructure, Realty and Power Development.

The Company will continue to selectively exploit the growing opportunities in all the aforesaid sectors.

- The last area I would like to touch upon is our **International Business**.

The sectors of power, hydrocarbon and urban infrastructure hold promise in the international markets. Improved oil prices have enhanced the opportunities in Gulf region. While Middle East and Far East have yielded results, your Company hopes to exploit opportunities in other geographies as well. The Company is in the process of setting up a new office in Perth, Australia to exploit opportunities in the Hydrocarbon sector and in Johannesburg, South Africa to sell products and undertake Projects in the Electrical Sector. We are also looking at possibilities of opening an office in Brazil to sell products and explore opportunities in the Oil & Gas Sector.

In order to give further stimulus to our International Business, we are setting up an organization at the Corporate level to manage the entire International Marketing Network.

Before I conclude, I would like to thank all L&T-ites for their commitment and urge to excel in their respective spheres of activity which helps the Company to continue to grow each year. I would also like to express my gratitude to my colleagues on the Board, our shareholders, customers, and business associates, Central and State Governments, and the Governments of all the countries where L&T operates - for their consistent and resolute support.

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