



L&T Press Release

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CHAIRMAN'S SPEECH at the 66th Annual General Meeting on 26th August 2011

My Dear Shareholders of Larsen& Toubro,

Good afternoon and a very warm welcome to this 66th Annual General Meeting.

I would like to begin by sharing with you the events and happenings for 2010-2011.

In the year under review, the macro business environment was characterized by uncertainty and volatility. The Company also experienced extended prospect-to-award timelines.

Nevertheless, the execution schedule of our existing orders remained largely on track. We also continued to gain significantly through our focus on competency, quality assurance and delivery. This ensured that the external environment did not impinge unduly on our performance, and we could successfully navigate through the economic cross currents to convert profitable business opportunities into contracted customer commitments

Performance Overview

The Company has once again registered impressive performance on all important parameters during FY11.

Order Inflows for the year, though volatile from quarter to quarter, recorded a growth of 15%.

The closing Order Book position at the end of FY11 recorded an impressive Rs 130,217 Crore which is in excess of two years of backlog.

Revenues, driven by a robust Order Book position in the beginning of the year, registered a 19% growth for the year which was commendable considering the challenging execution environment that all sectors witnessed throughout the fiscal.

EBITDA Margins, by and large, held up to FY10 levels despite higher input prices which were mitigated through timely and cost efficient execution of orders on hand.

Profit after Tax at Rs. 3,676 Crore excluding Exceptional and Extraordinary items, grew 15% during the year. Robust operating cash flows contributed to the healthy financial condition of the Company.

The performance of the Subsidiary & Associate companies during the year was also encouraging. The Group total income for the year reached Rs.52,089 Crore while the Group Profit after Tax excluding Exceptional and Extraordinary items, recorded an impressive Rs 4,238 Crore, an increase of 12% year on year.

I am happy to announce that the Board has recommended an enhanced dividend of Rs. 14.50 per equity share on a face value of Rs. 2 per share for the year.

Gearing for growth

The Company has taken a number of measures during the year under review to ensure that it accelerates its growth momentum going forward. Some of these major steps include:

i. Restructuring

A 5-year strategic plan for our businesses was completed in FY11 after extensive consultations and a detailed review of our portfolio and organization structure. This plan has led to an organizational remodeling which would facilitate growth through greater levels of empowerment and delegation while sharpening accountability. L&T has accordingly been restructured into multiple Independent Companies (ICs) within the L&T Parent Company. Although not legal entities, Independent Companies are vertically integrated business segments with their own internal boards which include a number of independent directors and a representative director from the parent company on each IC Board. This will allow greater independence in functioning and provide external and broader business perspectives to the IC management. The new structure has been rolled out and is beginning to function.

ii. Business Integration

The Company is today the largest vertically integrated EPC player in the domestic infrastructure space. This has been achieved over the years through successful efforts to encompass all value creating and critical activities in each core business that it operates in. In Hydrocarbon, the Company straddles the design-fabrication-installation value chain. In Power, the facilities for manufacture of supercritical boilers turbines, and critical piping which have been commissioned, have plugged a vital gap in our EPC Power offerings to customers. In addition, all the power auxiliaries like Electrostatic Precipitators, Axial Fans

and Heaters are approaching completion. Along with other essential existing facilities, the Company is capable of offering comprehensive Balance of Plant solutions to Power Generation customers. In the infrastructure space, the Company is one of the largest developer-cum-EPC players with a diverse portfolio of strategic concessions in the areas of Roads, Ports, Power Generation, Metro Rail and Urban Infrastructure.

iii. Capacity Expansion

The Company has added capacities in different businesses to capture the next growth wave. In addition to commissioning of the manufacturing facilities for Boilers, Turbines and other Power auxiliaries, the Company has also expanded its facilities in Hazira and created a Knowledge City in Vadodara thus integrating the total capabilities of EPC and Manufacturing. The manufacturing of heavy forgings and castings at Hazira is nearing completion. At Oman, in addition to the Modular Fabrication Facility for Oil & Gas structures, the new Heavy Engineering facilities are now operational. In Kattupalli, the Shipbuilding facility, the container port and the Oil & Gas fabrication facility are getting ready shortly.

iv. Technology

The ability to understand, develop and successfully apply new technologies is a key differentiator of the Company. This has contributed to the dominant position in the sectors that we operate in, viz, Infrastructure, Power, Hydrocarbons, Process and Switchgear. The Company actively scouts for technology partners in areas where offerings to customers can be enhanced. Engagement with these technology majors are in the form of Joint Ventures or technology alliances or Process Qualifications from Process Licensors. Relationships with all existing partners have been productive and rewarding.

v. Talent Management

The Company recognizes that talent management is a constantly evolving discipline which needs to engage with a dynamic environment. Built on an entrenched set of core principles, the Company's HR policies are designed to ensure that it remains the employer of choice. Compensation packages have been revised to ensure that superior resources are sufficiently incentivized to join and stay with the company. The Company also offers an unmatched canvas of professional opportunity for growth and development.

vi. Information Technology in Business

The Company believes in IT as a business enabler which can add a cutting edge difference to its capabilities. The Company is constantly enhancing decision support systems that can offer businesses further advantages in the marketplace.

ECONOMIC SCENARIO:

The economic situation worldwide has been volatile. The more than envisaged European debt crisis, the high US debt situation resulting into downgrade coupled with the deteriorating domestic economic situation is causing some slowdown in the decision making process across sectors. This is posing further near term challenges to the Company in securing business in the remaining part of the current year.

In the previous year, the Indian economy and factors impacting key sectors like Infrastructure, Power and Hydrocarbon experienced macro headwinds during the year. Difficulty in land acquisition, slow pace of environmental clearances, non-allocation of fresh coal blocks for mining, unexpected shortage of gas production, governance issues at the political and bureaucratic level, high inflation led by food, commodity, oil prices and increasing interest rates all combined to slow down the pace of project award decisions. Consequently, Institutional Investors, both domestic and foreign, turned bearish on the India infrastructure theme.

International Business

International business for the Company has come down since the global slowdown 2 years ago. Since then, the countries where the Company is focusing on have shown signs of recovery and the Company is seeing increased business from those countries, notably in Hydrocarbon and Power Transmission & Distribution projects in the Middle East. Till date, the Company has bagged around Rs 7,000 Crores of orders from international markets compared to Rs 2,100 Crores in the corresponding period in the previous year and expects to end the current year with a healthy Order Book position from international projects.

OUTLOOK:

Inspite of the challenging environment, the Company still sees some opportunities in the areas that it operates in and believes that it will be able to add to its Order Book position by the end of the current year. Some of these areas are listed below -

1. INFRASTRUCTURE AND CONSTRUCTION -

a)Transportation Infrastructure

This area, which covers, roads, railways, ports and airports has seen uneven growth. After a long period when not many road projects were awarded, the last few months have seen a number of concessions being finalized by NHAI - we expect this momentum to continue. Project awards are expected in areas

such as metro and mono rails during the latter part of the current year. After a sustained lull, the long awaited Dedicated Freight Corridor project is taking shape.

b) Water

This area has seen large under spends in the first 4 years of the 11TH Five Year plan but is expected to gather momentum going forward. The Company sees business opportunities in areas of water sanitation which covers bulk water transmission infrastructure, water treatment plants and desalination projects both in domestic and Middle East markets. Industrial opportunities in the form of effluent treatment plants also offer an increased market.

c)Urban Building Infrastructure

The Company sees growing business opportunities in other parts of urban infrastructure such as hospitality, educational institutions and healthcare facilities. Urban population pressure is leading to a multiplicity of different forms of housing in Tier-1 and Tier-2 cities. The revival of the IT sector is also opening up increased business in IT and Office Space.

d) Mining, Metals & Material Handling

With the evident growth in the mining and industrial components of GDP coupled with a domestic imbalance in the demand-supply of steel, the Company sees abundant opportunities in mining equipment and capacity addition in the metals sector. Larger business prospects in Material Handling is being driven by power capacity addition, increase in ports and expansion of ferrous and non-ferrous metals production capacities.

2) HEAVY ENGINEERING -

a)Heavy Industrial Equipment

The Company's heavy engineering facilities in Hazira is widely acclaimed for its world class design, manufacturing capabilities and on-time execution track record of technologically complex large sized equipment orders for process plants in India and abroad. This stands the Company in good stead when it scouts for business in domestic and international markets and is expected to facilitate growth in Power and Hydrocarbon sectors.

b) Nuclear Power

The tsunami damage to the nuclear plants in Japan has triggered a worldwide relook at the need for nuclear power as an energy source. As far as India is concerned, the ambitious program of ramping up the

installed base of nuclear energy is likely to be pushed back by couple of years because of more stringent safety measures.

c)Defence

The Company is gearing up to catch growth opportunities when the Government policy changes would allow private sector participation in India's defence program in a significant manner. The Company is presently building a shipyard at Kattupalli near Chennai for catering to the requirements of Indian Navy when such prospects materialize.

3) THERMAL POWER -

a)Coal-based

While the Company is uniquely placed to exploit the scope that this sector offers, award decisions are dependent on resolution of the macro level impediments at the national level which revolve around coal availability, land acquisition and environmental clearances. The Company now offers the full range of products and services in this space and is ideally placed to exploit any business opportunities as and when they arise

b) Gas-based

Despite the fall in gas production that the country has witnessed, there are signs of increased exploration activities and efforts to increase production from new gas finds. This is likely to give a push to the increasing market of gas fired power plants that are on the anvil once the visibility of increased gas availability improves.

4) POWER TRANSMISSION & DISTRIBUTION

Since installed power generation capacity is concentrated in coal rich areas today, the need for evacuation of power from these areas to other major consumption centres is giving rise to larger planned outlay on transmission grids. This offers opportunities to the Company both as an EPC contractor and as a developer of power transmission networks.

5) HYDROCARBONS

The Company has, over the years, built an enviable reputation of being able to deliver large complex projects in upstream, mid and downstream and fertilizer sectors. It is well placed to bag orders that come up for awards for pipelines, wellhead platforms and process platforms in the upstream sector and for refineries and petrochemicals in the mid and downstream sectors. As mentioned earlier, this sector has

started yielding good results. The Company has recently bagged a number of orders for offshore platform and pipeline projects.

6) ELECTRICAL & ELECTRONICS BUSINESS

This business segment witnessed mixed fortunes during the year under review with project awards showing sluggishness but industrial demand for off-the-shelf switchgear products showing increased off take. The Company is still seeing low demand for both project and product businesses during the year ahead.

7) MACHINERY & INDUSTRIAL PRODUCTS BUSINESS

This segment is seeing mixed fortunes in the current year with slowdown being witnessed in Construction / Mining and Industrial Machinery businesses but growth being seen in Industrial Products business.

8) INFORMATION TECHNOLOGY BUSINESS,

L&T Infotech which suffered a slowdown in business during the global economic crisis is back on the growth path and revenues grew by around 30% in FY11 on a consolidated basis. The trend in share of revenue has been relatively stable across industry verticals, business horizontals and geographies.

9) FINANCIAL SERVICES BUSINESS

Financial Services business, which mainly comprises of 2 non-banking finance companies, had a healthy growth over the last few years. The combined asset book of L&T Finance and L&T Infrastructure Finance was at Rs 18,000 Cr as on 31ST March, 2011, and the Profit after Tax for the year ended 31ST March, 2011 of these 2 entities was Rs 430 Crores.

The Company successfully completed the Initial Public Offering of L&T Finance Holdings in a very challenging environment. The gloomy economic environment in advanced countries, inflation and deficit related problems in India resulting in continuous rise in Interest rates had a severe impact on the Capital Markets. The markets have dropped substantially in the recent past all over the world including India.

Under the circumstances, it was highly creditable that the issue received a very good response from all classes of investors and particularly the retail investors. You may be aware that the retail portion of the issue was oversubscribed by almost 10 times.

10) DEVELOPMENTAL PROJECTS

This business has been playing an increasingly strategic role in the growth of the Company. The Company now has a rich portfolio of concessions and ownership rights in areas of Roads, Power Plants, Metro Rail and Ports.

CORPORATE SOCIAL RESPONSIBILITY

The Company has active and vibrant initiatives that focus on efforts to uplift different sections of society such as Mother and Child healthcare and Education through health camps, education camps and supply of necessary material. The Company also runs Construction Skills Training Institutes that train school dropouts, mainly from rural areas, with employment skills relevant to the construction industry. Over 4 Lakh people were benefited through L&T's social interventions in 2010-11

SUSTAINABLE DEVELOPMENT

Sustainable development is the key to an organization to survive and thrive. Accordingly, we have set out on a multi-year journey to achieve world class sustainable development through conservation of natural resources, environment protection, employee engagement and welfare measures that affect different parts of society. The Company publishes annual Sustainability Reports and has won many accolades in its journey towards global sustainability standards.

CONCLUSION

Before concluding, I would like to appreciate the efforts of all the employees of this organization for taking the Company to greater heights once again - this achievement would not have been possible without their whole-hearted and unstinting efforts.

I would also like to thank all my colleagues on the Board who have jointly steered the Company during an uncertain period in FY11 and all other stakeholders like shareholders, Financial Institutions, members of our supply chain and regulators for providing their support to our efforts.

The Company is committed to the pursuit of value creation through profitable growth of its businesses and we reaffirm our commitment to uphold highest standards of governance.

Thank you

- A.M. Naik