PRESS RELEASE
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Chairman's Speech:
60^{th} Annual General Meeting of L&T
August 26, 2005

"I have great pleasure in extending to you a warm welcome to this 60th Annual General Meeting of your Company.

Before proceeding, I would like to share with you the role your Company played in assisting Mumbai when it was paralysed by the floods last month. As soon as the flood waters receded on Saturday afternoon, within hours of receiving the request, we responded and deployed 30 dump trucks and 5 excavators for clearing the debris.

We also conducted free health camps at Saki Naka which benefited over 4000 families. Doctors were mobilized from various hospitals and free medicines were supplied. We now continue to offer this service at Kurla.

Two days ago, the Chief Minister convened a meeting of industry leaders. A rehabilitation plan is being prepared by the government, and we will decide on how to contribute to this effort

At the last AGM, I had informed you that we have commenced our exercise to prepare our strategic plan for 2005-10. This activity has been completed in consultation with a leading international strategy consultant, and has been launched under a program that we have named 'LAKSHYA'. It contains ambitious growth targets for each of our businesses, and plans on how to go about achieving them. Also included, are synergistic opportunities for diversification of our portfolio of businesses.

The consultants commissioned by us for this purpose will also be associated with us for the implementation of 'LAKSHYA'. In the last five years while we have progressed in our efforts towards becoming an Indian multinational, program LAKSHYA will take us further in this direction, and will enable L&T to compete effectively in an increasingly challenging global environment.

I would now like to apprise you of the financial performance of your Company in the last year.

We achieved an impressive revenue growth of 37% on the back of 32% growth posted in 2003-04. Over the last three years our order book has grown at a compound rate of 21%, while revenues have grown at a compound annual rate of 33%.

For the year under review, sales & service income stood at Rs. 13,269 crores against Rs. 9,807 crores last year. Profit before tax (after interest and depreciation charges), increased by 67% to Rs. 1,286 crores from Rs. 769 crores. Profit after tax was up 85% at Rs. 984 crores from Rs. 533 crores.

Even if we exclude income from the sale of shares of Ultratech Cement, the profit before tax at Rs. 933 crores and profit after tax at Rs. 631 crores show an impressive growth of 21% and 18% respectively.

Order booking for 2004-05 was Rs. 14,931 crores, and order backlog on 31st March, 2005 was Rs. 17,808 crores.

For the year under review, consolidated revenues stood at Rs. 14,613 crores against Rs. 11,107 crores last year.

All divisions of your Company performed well during the year.

Engineering & Construction (E&C) reported revenues of Rs. 11,430 crores with a growth of 39% over the previous year. This includes Rs. 1,397 crores from capital goods business which grew by 55% from Rs. 904 crores in the previous year.

Export earnings from E&C at Rs. 2,355 crores was 80% higher than the previous year.

Revenues from Electrical & Electronics business at Rs. 1,220 crores was 20% higher than the last year.

Our IT and engineering services businesses continued to maintain good progress, and revenues have grown 53% to Rs. 602 crores from Rs. 393 crores.

Revenue from our machinery and industrial products businesses at Rs. 837 crores, was 14% higher than the previous year.

At Rs. 2461 crores, export earnings have grown to 18% of total revenues against 14% in the previous year. We expect to earn 25% of revenues from our international operations by 2009-2010.

I am sure that members will be delighted with the results of the Company. The Board of Directors has recommended a dividend of Rs. 17.50, which together with the special dividend declared and paid during the year, works out to Rs 27.50 per equity share.

Coming to the first quarter of 2005-06, we had gross sales and service income of Rs. 3155 crores as against Rs. 2689 crores in the corresponding quarter of the previous year.

Profits before tax increased by 79% to Rs. 208 crores from Rs. 116 crores. Profit after tax was up by 78% at Rs. 143 crores from Rs. 80 crores. Even after excluding extraordinary income of Rs. 49 crores from the sale of our dairy equipment business, profit before tax and after tax at Rs. 159 crores and Rs. 105 crores respectively, were 37% and 31% higher than the corresponding period of 2004-05.

I am also pleased to inform you that our current order backlog stands at around Rs. 20,400 crores.

NEW INITIATIVES

Portfolio review remains a continuous process in your Company, and we have disinvested our stake in Sharp office equipment business, John Deere tractors and our dairy machinery business.

We entered into an agreement to acquire a controlling stake in Valdel, a Company that is engaged in upstream engineering for the oil and gas sector. This acquisition compliments our project business in the oil and gas sector, and will enhance our ability to compete more effectively. We will continue to scan the environment for more such strategic opportunities.

We have also acquired a 65% stake in Zubair Kilpatrick, in Oman. This Company is engaged in operations and maintenance of electromechanical systems for building utilities, and compliments the capabilities of our construction division in the Gulf region.

We have just entered into an MOU with Datar Switchgear Limited for merger of their business with L&T. Datar Switchgear has the core technology and manufacturing facilities for miniature circuit breakers and earth leakage circuit breakers. These products are used in the building electricals segment, and we foresee very good market growth in this sector. We presently distribute similar products from Hager, France, that are used in the premium segment. The addition of the Datar product range will enable us to cater to both the premium and the mass market. These products complement our present range, and will enable us make broader offerings to the building sector.

Material costs form a significant portion of our total input costs, and have increased significantly over the last two years. Some of the initiatives undertaken to counter these increases are lean manufacturing, value engineering, supply chain management and global sourcing. We have placed sourcing teams in China, Europe and Russia.

LOOKING AHEAD

ECONOMY

India emerged from the shadow of political uncertainties, and the economy continued its good growth performance. GDP increased by 6.9% in 2004-05 on top of a high growth of 8.5% in 2003-04.

The recovery was broad based as is evident from all the economic indicators. While the services sector grew by 9%, industrial recovery strengthened further with a growth of 8.3%, with manufacturing surging by 9.2%. Also impressive was the 12.6% growth in the capital goods segment. However, the most significant growth was in the case of machinery and equipment at 19.2%.

OPPORTUNITIES

With GDP growth forecast at 7%, we see good opportunities for growth in both engineering and construction.

The domestic market offers several high growth opportunities for the Company. We are well positioned to play a significant role in the hydrocarbon, minerals & metals, water & effluent treatment, and infrastructure sectors.

The government is encouraging private participation in infrastructure projects. This is an opportunity for us to profitably increase our business in the infrastructure sector. Over the last few years, we have selectively invested in such projects. Some of the prestigious projects under execution include the Bangalore International Airport and Dhamra Port in Orissa.

Investments in infrastructure development are likely to continue for several years, given the large gap between existing infrastructure and what India requires to become a truly global economy. We have repositioned ourselves and bid for jobs that have higher engineering and technological challenges.

The Company gives considerable importance to project development and has created a special business unit for this purpose.

While we participate in project development of roads, bridges, ports, airports, urban infrastructure and other such projects, the continuing investments in expanding capacities in sectors such as power, oil exploration and refining, cement and steel offer excellent opportunities for our engineering business.

We are expanding our capabilities and capacities to cater to these growing requirements, and are also open to acquisitions or alliances to accelerate our growth.

Public Private Partnership offers good opportunities for your Company based on our unique capabilities to collaborate in areas predominantly controlled by the government. This includes sectors such as defence, aerospace, and nuclear power. We expect that this approach of partnership will offer increasing opportunities for our Company, and will strengthen our nation's capabilities in such strategic sectors.

The government's increased emphasis on export of manufactured products in preference to the export of natural raw materials will result in growth of the Indian metals sector such as steel and aluminum. Further, with the country's rapid economic growth, the consumption of steel is expected to rise steadily. In the last five decades of association with the Indian steel industry, L&T has acquired expertise in providing detailed engineering, procurement and construction services. Your Company has constructed many steel plants, and has developed new methods of dismantling and rebuilding blast furnaces. We expect to increase our business in this sector.

Existing domestic capacities are near peak utilisation levels, and will necessitate fresh investments to meet growing demand. With proven capabilities in executing such projects, L&T is well placed to cater to these emerging needs.

In the international arena we see good opportunities for business in China, the Middle East and parts of Africa.

Your Company has opened offices in Beijing and Shanghai for strengthening our presence in China. We see this as a major market for supply of high-technology capital goods, switchgear, and for industrial machinery and products. We have so far booked orders worth over $120 million from this country. We also intend to use China as a cost-effective source for materials and components. Further, we are investing around USD15 million for setting up a manufacturing facility for air circuit breakers for sale in China and for exports.

With oil prices expected to remain firm over $55 a barrel, countries in the Middle East are using large surplus income for investments in infrastructure, hydrocarbons, fertilizer plants, power, desalination plants, etc. Your Company is well-placed to take advantage of these opportunities.

We have a presence in all the major centres in the Gulf region – as Subsidiary Companies or Joint Ventures with local partners. We intend to strengthen this presence further with the establishment of an engineering centre in the region.

TALENT ACQUISITION

All our plans hinge on our ability to attract, retain, and develop the skills of our manpower resources. Talent identification and acquisition, career planning and succession planning are receiving priority of the senior management of your Company.

We also recognise the urgent need to develop a cadre of global managers to enable us achieve our goal of becoming an Indian multinational, and have initiated steps to identify and groom them.

I wish to place on record the outstanding commitment and hard work of all our employees, which was responsible for your Company's performance. Also of critical importance was the support of my colleagues, our customers, business associates, shareholders and Members of the Board. I am grateful to them, and expect to receive their continued support and trust as we take on the challenges of the future."

-- A. M. Naik

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