



L&T Press Release

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Statement by Mr. A. M. Naik, Chairman and Managing Director, Larsen & Toubro at the 64th Annual General Meeting

Mumbai, August 28, 2009: The year gone by witnessed unprecedented global economic and business turbulence. While your Company has managed to maintain its growth trajectory during FY09, the last six months have been a challenging period as decisions on awarding projects were repeatedly deferred on account of the economic slowdown and due to the code of conduct applicable to public sector bodies prior to the elections in May 2009. With a stable Government now in place and priority being accorded to infrastructure, it is expected that capital expenditure in this sector will increase and new business prospects will fructify in the later part of this year.

Performance Overview

Your Company has performed well despite the adverse scenario in FY09. Order Inflows grew by 23% over FY08, and in line with our efforts to diversify the geographical spread of our businesses, international orders constituted 15% of the total Order Inflows. The Middle East continues to be a focus area for us and we have enhanced our footprint in the GCC Region. The Order Book position stood at Rs. 70,300 Cr at the end of FY09, giving us some revenue visibility going forward. In the year under review, Net Sales touched Rs. 33,600 Cr - which translates into a growth of 35% over FY08. Margins remained relatively stable, and PAT excluding exceptional items of expense and income grew by a healthy 29% year on year. Growth including exceptional items stood at 63%.

It gives me pleasure to mention that the Company has recommended a dividend of Rs. 10.5 per equity share on a face value of Rs. 2 per share for the year on the expanded share capital post-bonus issue of 1:1 during the year. The corresponding dividend during the previous fiscal, adjusted for Bonus issue in FY09 for comparison purposes, stood at Rs 8.5 per equity share.

Sustaining Profitable Growth:

Last year we had put in a slew of measures to accelerate growth in a profitable manner and we hope to return to this growth path in the near term future.

- **Organization Structure:**

An internal reorganization has now been completed where complementary business units have been organized under vertically integrated businesses termed 'Operating Companies' (OCs). These OCs have their own internal Boards and embedded shared service functions such as HR, Resource Support and Finance & Accounts to enable self-sufficiency. The new structure opens up opportunities for leadership development, provides a platform for nurturing internal resources and is expected to provide focus to businesses within each OC. The structure aims to enhance shareholder value creation.

- **Talent Management:**

The adverse economic conditions have worked to our advantage in enabling us to position L&T as a stable career destination. We have bolstered our talent recruitment drives to meet our growing business needs. Steps have been taken to meet the challenges of retention, skill upgradation, remuneration and the career aspirations of talent on our rolls. These include structured induction paths, capability building programs, differentiated reward systems, career progression plans and leadership development programs including succession planning. We are confident that the measures now being taken will enhance the effectiveness of our talent management initiatives.

- **Technology:**

Technology continues to be the cornerstone of our business model, and your Company prides itself on being able to leverage technological offerings for profitable business growth. Alliances with international technology partners enable us to fill capability gaps and access expertise wherever we do not possess the requisite in-house resources, either on long-term or on project-specific basis. Examples of such tie-ups are our recent JV with EADS to exploit opportunities in Defense, and the MOUs with Westinghouse Electric Company (USA), Atomic Energy Commission Limited (Canada), Atomstroyexport (Russia) and GE Hitachi Nuclear Energy (USA) in the area of Nuclear Power.

- **IT in Business:**

Your Company believes in investing in IT as a business enabler. IT outlay over the years have been directed towards a balanced mix of hygiene spends and payoff spends that enable our businesses to run efficiently and also build cutting edge IT solutions. IT activities in the company are effectively governed within a structured framework with focus on IT-business alignment, value delivery, risk management, service & support and total cost of ownership.

- **Capacity Expansion:**

Your Company has taken proactive steps in setting up manufacturing capacities ahead of demand triggers. A new modular fabrication facility in Oman is fully functional, enabling us to bid for significantly large hydrocarbon projects in the international arena. A heavy engineering workshop adjoining this facility that will augment our global manufacturing capabilities is due to become operational later this year. Plans to manufacture super-critical power plant equipment in collaboration with Mitsubishi Heavy Industries, Japan are well on track, and these plants would come on stream at Hazira in Gujarat, beginning with commissioning of the boiler manufacturing unit this year. Manufacturing capacity in MV switchgear has been augmented in Ahmednagar, Maharashtra and is expected to drive growth impetus in our Electrical and Automation OC. Our heavy engineering workshop in Talegaon in Maharashtra has become operational and will enhance our manufacturing capabilities for the defence sector. We have commenced setting up of a shipyard at Kattupalli near Ennore in South India which will enable us to manufacture defense ships and later undertake repairs of commercial ships. We also plan to set up a heavy forge shop that will cater to nuclear and process plants forgings, an area where we were hitherto dependent on international vendors.

Outlook:

While no country is insulated from the impact of the global meltdown, India's economy provides relatively greater stability. The business environment however, continues to be challenging and we foresee a return to robust growth conditions after economic recovery takes root.

Your company has planted seeds of growth in sectors likely to receive focused attention. These include:

- Hydrocarbon business – both in the upstream oil and gas exploration / extraction and in midstream refineries. Increased capacity in the Middle East is likely to yield some growth in this sector in years to come.
- Availability of gas from the KG Basin along with high gas allocation to the fertilizer sector affords opportunities in naphtha-to-gas feedstock conversion prospects and brownfield expansion plans of fertilizer companies.
- Road projects have started receiving focused Government attention and are likely to witness increased awards on BOT basis. This is an area where we can leverage past record, scale, design strength and execution capability as and when tenders are floated as a first step towards final award of these projects.
- We intend to leverage our strong track record in the area of evacuation, storage, treatment and transmission of bulk water to exploit emerging opportunities in states that are water-deficit.
- Increased demand for power as a pre-requisite for economic development offers good potential for us in future. Our power equipment manufacturing venture is an integral part of our efforts to grow this business in years to come and we have started receiving large orders in this space.
- In the recent past, your Company has received orders of a diverse nature in the railway business, which include contracts from the Indian Railways for setting up facilities for manufacture of rolling stock, railway sidings for private sector players, electrification of rail corridors, intra-city metro and monorails. Coupled with significant spending likely to take place on Dedicated Freight Corridors for the Railways, this sector is perceived by us to hold good growth potential in years to come.
- Nuclear Power Generation, which is slated to grow by an order of magnitude over the next decade and more, can spell major growth opportunities for us in the long term.
- Defense Sector, when privatized, offers large business potential and this is an area where your Company is well positioned.

Before I conclude, I would like to thank all L&T-ites for the support and continued commitment which is helping us to navigate through these difficult times. I would also like to express my gratitude to my colleagues, our customers, business associates, shareholders and members of the Board for their valuable assistance. We will continue to work for enhancement of stakeholder value, and remain committed to justifying the faith and trust you have reposed in us.
