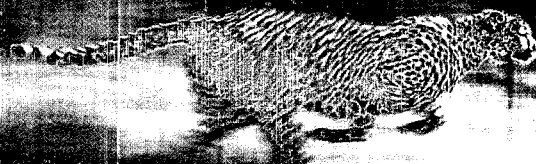


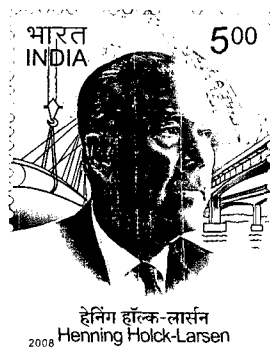


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Accelerating Growth



63rd Annual Report
2007-2008



Nation Honours Holck-Larsen

On June 12, 2008, the Government of India paid a richly deserved tribute to L&T's co-founder Henning Holck-Larsen. Releasing a commemorative stamp, Mr. A. Raja, the Union Minister of Communications & IT said: "Henning Holck-Larsen is an inspirational figure in India's corporate history. Men like him have played a pivotal role in the making of modern India. We are privileged to recognise his contribution by releasing a postage stamp in his honour."



VISION

L&T shall be a professionally managed
Indian multinational,
committed to total customer satisfaction
and enhancing shareholder value.

L&T-ites shall be an innovative,
entrepreneurial and empowered team
constantly creating value
and attaining global benchmarks.

L&T shall foster a culture of caring,
trust and continuous learning
while meeting expectations of
employees, stakeholders and society.

LARSEN & TOUBRO LIMITED



A. M. Naik
 Chairman & Managing Director

Dear Shareholders,

I have great pleasure in sharing with you the highlights of another successive year of significant achievements. Last year, I had indicated that we would be making substantial investments for profitable growth. I am pleased to report that in the year under review, we have accelerated our growth momentum, while achieving higher profitability.

In FY 2007-2008, new records have been set for Order Inflows, Revenues, Order Book and Profits. The most encouraging part is that despite large spending on capacity creation & capability building, we have been able to maintain ROCE at 20.6%, and grow our EVA by over 51% to Rs. 834 crore. I am, therefore, pleased to propose issue of 1:1 Bonus shares, subject to your approval.

You will be happy to know that L&T was adjudged India's best managed company in a study carried out by the leading publication Business Today in association with the consultancy firm Ernst & Young in March, 2008. L&T emerged not just the winner in its own category, viz., 'Industrial Product', but was ranked 'the best of the best' across all sectors.

I am also delighted to inform you that in the birth centenary year of our co-founder Henning Holck-Larsen, the Government of India issued a commemorative postage stamp honouring him for his contribution to Indian industry. This is a matter of pride for all L&T-ites, and for all those associated with us.

Beyond the balance sheet lies another story of L&T's success. Corporate sustainability commitments have found a willing 'buy in' across the Company. Our first ever report on Corporate Sustainability will be released this year – another milestone in the Company's 70th year.

Performance Overview:

The Indian economy has sustained a high growth trajectory, registering an impressive growth of 9% during FY 2007-2008 despite the financial turmoil around the globe and the surge in commodity prices. L&T's performance is laudable when viewed against these challenging circumstances.

The Company's order inflow has increased by 37% to Rs. 42,019 crore in FY 2007-2008. Having won the prestigious order for Delhi International Airport project last year, we repeated the feat by bagging the largest order for modernization & expansion of Mumbai International

Airport. We have also secured an international order for 18 reactors & 4 separators for Kuwait National Petroleum Company's prestigious 'Clean Fuel Project 2020'. This is the biggest-ever order placed with any single manufacturer in the world for such a huge number of large-sized critical reactors. The quality and complexity of orders bagged reflect the Company's technical prowess and strong position in the infrastructure and hydrocarbon sectors.

The order book as on March 31, 2008 stood at a healthy Rs. 52,683 crore of which Rs. 8,736 crore was contributed by international business. The Company's Sales recorded a

smart growth of 41% amounting to Rs. 25,187 crore. Profit After Tax has increased by 55% to Rs. 2,173 crore. This is a clear testimony of the strength of our business model and our streamlined execution capabilities.

The L&T group as a whole has also performed well, with Total Income increasing by 40% to Rs. 29,883 crore. The group Profit After Tax (excluding gain on divestitures) has grown from Rs. 1,810 crore to Rs. 2,304 crore. Growth in profitability has enabled the Company to recommend/pay a higher total dividend of Rs. 17 per equity share on a face value of Rs. 2 per share for the year.

ACCELERATING GROWTH:

The Company is poised for rapid growth by reorganising the business structure, and by placing increased emphasis on talent management, technology self sufficiency, brand building and sharper focus on IT in business. We have taken a slew of initiatives on each of these fronts, and a few more, to sustain L&T on its accelerated growth path.

• Organization Structure:

During the early stages of Project Lakshya, we had envisioned a structure with greater alignment to industry / customer segments. We have plans to create 12 Operating Companies within the existing L&T corporate structure. Each Operating Company will be responsible for its strategic & operational decisions and performance. To ensure greater empowerment, each Operating Company will have independent support functions such as Finance & Accounts, HR, Supply Chain Management, Corporate Centre, etc. This new structure is expected to provide a platform for sustained value creation.

• Talent Management:

A strong committed workforce, supported by a unique work culture and coupled with innovative HR processes & policies, continue to be the Company's greatest strengths. We believe in continuous development of our employees. The Training and Development department offers a wide menu of training programmes to our employees for developing technical, behavioural and managerial skills. Our focus on employee productivity, empowerment and the continuous exposure given to the employees in the latest technological advancements bolster our HR initiatives for retaining talent.

We have launched a structured leadership development program for developing leaders on an ongoing basis. This exercise is expected to

not only meet short-term operational challenges but also to provide future leadership for taking on larger responsibilities.

Building an engaged and loyal workforce has always been our endeavour - a workforce that enjoys maximum job satisfaction while contributing to the realization of L&T's vision, and thereby our collective dream of making India one of the leading nations in the world.

• Technology:

In every sphere of L&T's operations, technology continues to be a key enabler. It reinforces our leadership position and sustains our competitive strength in the industry. While technology is generally viewed as a means to an end, for L&T, technology represents endless possibilities.

Further to our joint venture with Mitsubishi Heavy Industries Limited (MHI) for the manufacture of super-critical boilers, we have signed another agreement with MHI for manufacturing super-critical steam turbine and generator in India. The Company has also entered into a joint venture with the US-based Gulf Interstate Engineering Company (GULF) to provide end-to-end engineering & project management services to the hydrocarbon pipeline industry in India and abroad. We are constantly strengthening our technological presence in coal gasifier, water & hydrocarbon industry. The Electrical & Electronics Division of the Company filed over a hundred patent applications on its range of electrical and electronics products during 2007-2008, highlighting its leading edge in product innovation.

• Brand Building:

The L&T brand strikes a resonant patriotic chord across our domestic target groups. Consistent brand positioning has enabled us establish a strong and memorable image of L&T as 'a nation-builder'. Brand

tracking and studies of various stakeholders affirm that public perception of L&T is in line with the Company's communication objectives. L&T's tag line - 'It's all about Imagineering' reflects the sharpening focus on knowledge-intensive businesses as the Company migrates to the upper end of the technology spectrum.

• IT in Business:

We have been one of the early adopters of the latest solutions in Information Technology, and have kept pace with the times in leveraging IT for business applications including ERPs and Internet enabled systems. Our IT Governance and Risk Management framework focuses on IT-business alignment, value delivery, IT performance & metrics, support and information security. An Enterprise Disaster Recovery Centre has been set up, and is being operationalised for ensuring business continuity.

The Company believes that a strong Information System backed by latest technological support will have a significant bearing on the exploitation of emerging global business opportunities.

Capacity Expansion:

The Company's expansion plans and creation of various centres of excellence and manufacturing facilities are in line with the ongoing and anticipated growth in the infrastructure and hydrocarbon sectors.

Shipbuilding represents a new thrust for L&T in the high technology manufacturing space, and is in accordance with the Company's strategic growth objectives. We are setting up a world class integrated Shipyard Complex at Kattupalli, near Ennore in Tamil Nadu. The complex will have facilities for building vessels for the defence sector, commercial ships including Very Large Crude Carriers, specialized cargo ships for

liquid / gas transportation and cruise vessels. It will also have the capability for building off-shore platforms and floating production cum storage facilities for the oil & gas sector. In addition, the shipyard will incorporate facilities for refitting & re-engineering of commercial & defence vessels, heavy engineering fabrication and component production for shipbuilding.

Our Coimbatore growth centre, inaugurated in April 2007, is equipped to manufacture high-end industrial valves and switchboards for the domestic and international markets, and position India as a global player in the high-end manufacturing space. In October 2007, we commenced operations at three new facilities at Coimbatore. These include an engineering centre for electrical systems, a precision machining centre and a manufacturing unit for petroleum dispensing pumps.

We have doubled the capacity of our Automation Systems Centre by setting up a new campus in Navi Mumbai. The first phase of the new state-of-the-art and the largest integrated factory for track systems and module in India, is now operational at Talegaon, near Pune. We have acquired land at Hazira for setting up manufacturing facilities for super-critical boilers and super-critical steam turbines & generators. As a major initiative, the Company has also established a Railway Business Unit and intends to become a turnkey solutions provider for the growing needs of the railway sector.

International Operations:

L&T's large technology base and pool of experienced professionals enable it to offer integrated services in world markets. We have placed greater emphasis on accelerated growth in GCC countries.

To address the booming infrastructure market, we have

formed joint ventures and set up execution centres in various GCC countries. The Company has established a state-of-the-art fabrication facility for the manufacture of modular structures, heavy jackets and off-shore oil & gas platforms at Sohar in Oman. Work on establishing a greenfield plant in Sohar for the manufacture of high-tech equipment for refineries, petrochemical and fertilizer projects and other process industries is proceeding at a rapid pace. We have set up design engineering centres at Sharjah and Abu Dhabi for providing design and engineering consultancy services in oil & gas and infrastructure sectors. In keeping with our tradition of simultaneously developing local resources while meeting our business objectives, we have invested in workmen training in Oman.

A switchboard manufacturing facility was set up in Saudi Arabia for power and motor control systems with automation in the Low Voltage and Medium Voltage sectors. As you are aware, we already have manufacturing operations for high end switchgear, industrial valves & tyre moulding presses in China for catering to local market, as well as for export to global markets.

Mergers & Acquisitions:

We have completed a major acquisition in the electrical segment by acquiring the switchgear business of Tamco Corporate Holdings, Malaysia which has manufacturing facilities in Malaysia, China, Indonesia and Australia. The acquisition of Medium Voltage switchgear technology is an important step in expanding our product range to be able to offer a full suite of products to meet customer requirements in India and in the GCC countries. We have also acquired strategic stakes in some of our key vendors for ensuring availability of raw materials.

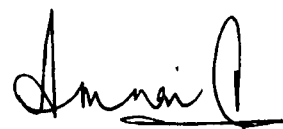
In line with our philosophy of exiting non-core businesses, we decided to exit the Ready Mix Concrete business. Definitive agreements have been signed to transfer this business to Lafarge Aggregates India Private Limited. We have also divested our stake in HPL Cogeneration Limited.

Outlook:

While macro economic fundamentals continue to inspire confidence, the recent slowdown in the industrial sectors, coupled with the spike in input costs, particularly oil, and the credit squeeze, may impact the ability of the capital goods sector to sustain the growth momentum in the near term. Despite this, in view of the current pace of hydrocarbon & infrastructure development in the country and the neighbouring regions as well as L&T's entry into manufacturing of super-critical boilers and super-critical steam turbines & generators, the prospects for growth appear promising. The Company's businesses are geared to harness the full potential of the emerging opportunities.

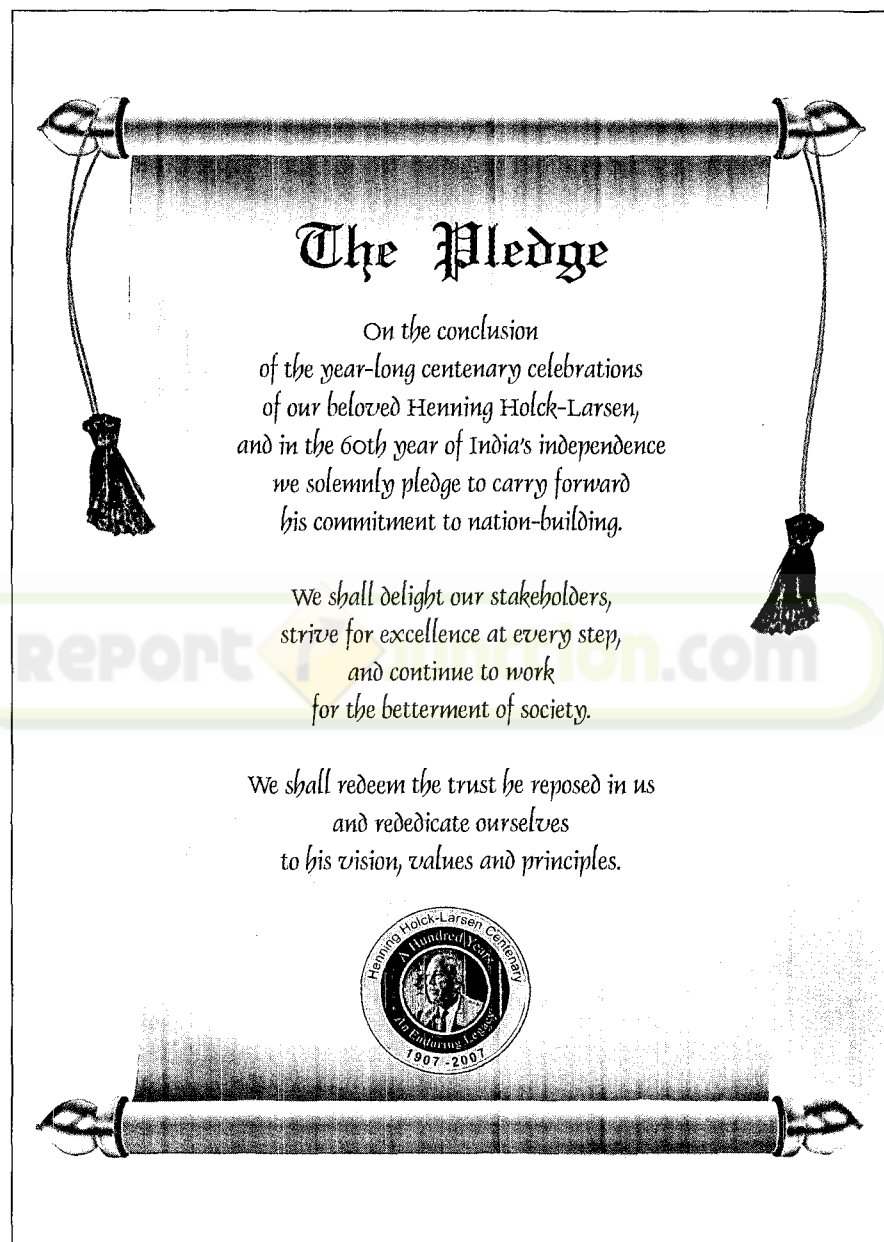
Finally, I wish to express my sincere gratitude to all L&T-ites for their strong commitment in driving the growth of the organization. I am also deeply appreciative of the continuing support of my colleagues, our customers, business associates, shareholders and members of the Board. It is the teamwork and support of every L&T-ite that builds confidence in our ability to continue on the profitable growth journey.

With best wishes,



A. M. Naik
Chairman & Managing Director

Mumbai, May 29, 2008

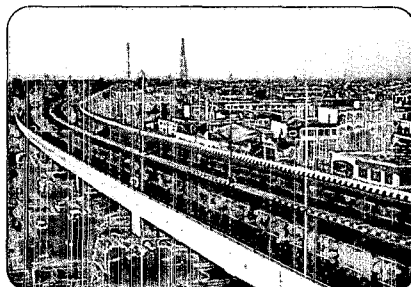


In Henning Holck-Larsen's centenary, the emphasis was not on celebration but on service. On June 9, 2008, at the conclusion of a year-long calendar of events, L&T-ites once again pledged to carry forward Holck-Larsen's commitment to nation building. The pledge was administered by Mr. A. M. Naik, Chairman & Managing Director to L&T-ites countrywide.

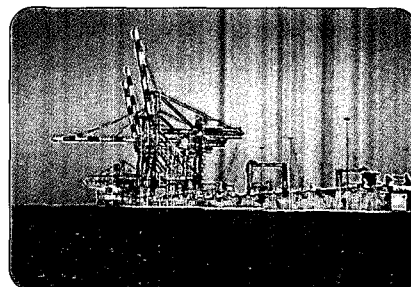
70 Years of Nation Building



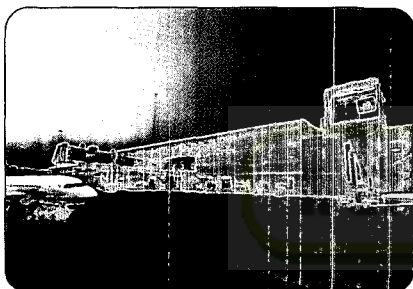
Commercial & Residential Complexes



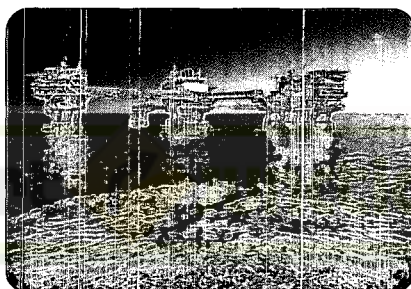
Roads & Bridges



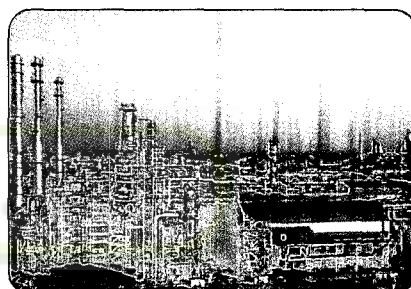
Ports & Harbours



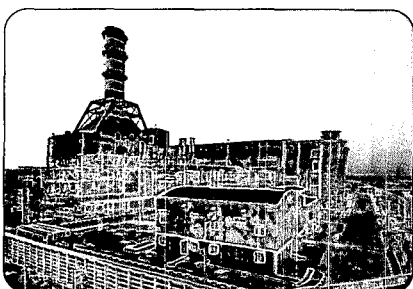
Airports



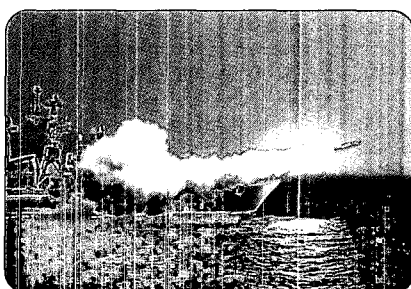
Oil & Gas Projects



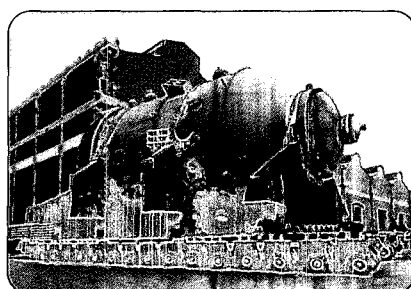
Refineries



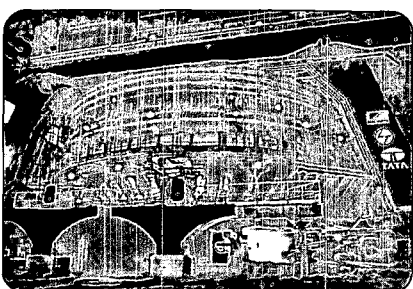
Power Projects



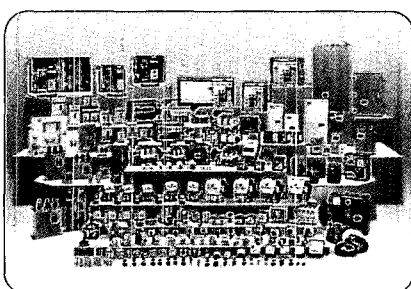
Missile & Weapon Systems



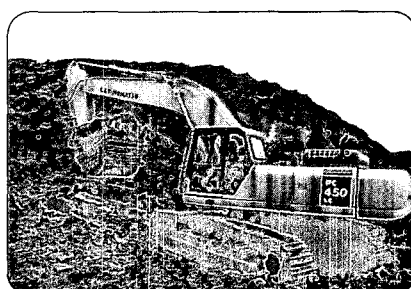
Process Plant Equipment



Steel Plants



Switchgear



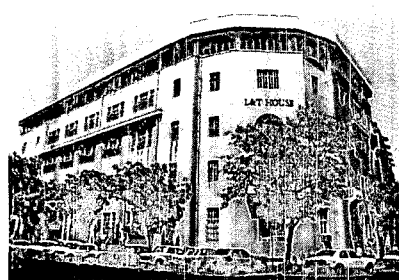
Construction & Mining Machinery

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**LARSEN & TOUBRO**

It's all about Imagineering

COMPANY INFORMATION**BOARD OF DIRECTORS***L&T's Corporate Office in Mumbai*

**63rd ANNUAL GENERAL MEETING
AT BIRLA MATUSHRI SABHAGAR
9, MARINE LINES, MUMBAI 400 020
ON FRIDAY, AUGUST 29, 2008
AT 3.00 P. M.**

A. M. Naik	<i>Chairman & Managing Director</i>
J. P. Nayak	<i>Whole-time Director & President (Machinery & Industrial Products)</i>
Y. M. Deosthalee	<i>Whole-time Director & Chief Financial Officer</i>
K. Venkataramanan	<i>Whole-time Director & President (Engineering & Construction Projects)</i>
R. N. Mukhija	<i>Whole-time Director & President (Electrical & Electronics)</i>
K. V. Rangaswami	<i>Whole-time Director & President (Construction)</i>
V. K. Magapu	<i>Whole-time Director & Senior Executive Vice President (IT & Technology Services)</i>
M. V. Kotwal	<i>Whole-time Director & Senior Executive Vice President (Heavy Engineering)</i>
S. Rajgopal	<i>Non-Executive Director</i>
S. N. Talwar	<i>Non-Executive Director</i>
M. M. Chitale	<i>Non-Executive Director</i>
Thomas Mathew T.	<i>Nominee – LIC</i>
N. Mohan Raj	<i>Nominee – LIC</i>
Subodh Bhargava	<i>Non-Executive Director</i>
Bhagyam Ramani (Mrs.)	<i>Nominee – GIC</i>
A. K. Jain	<i>Nominee – UTI</i>

COMPANY SECRETARY

N. Hariharan

REGISTERED OFFICE

L&T House, Ballard Estate, Mumbai – 400 001

AUDITORS

M/s. Sharp & Tannan

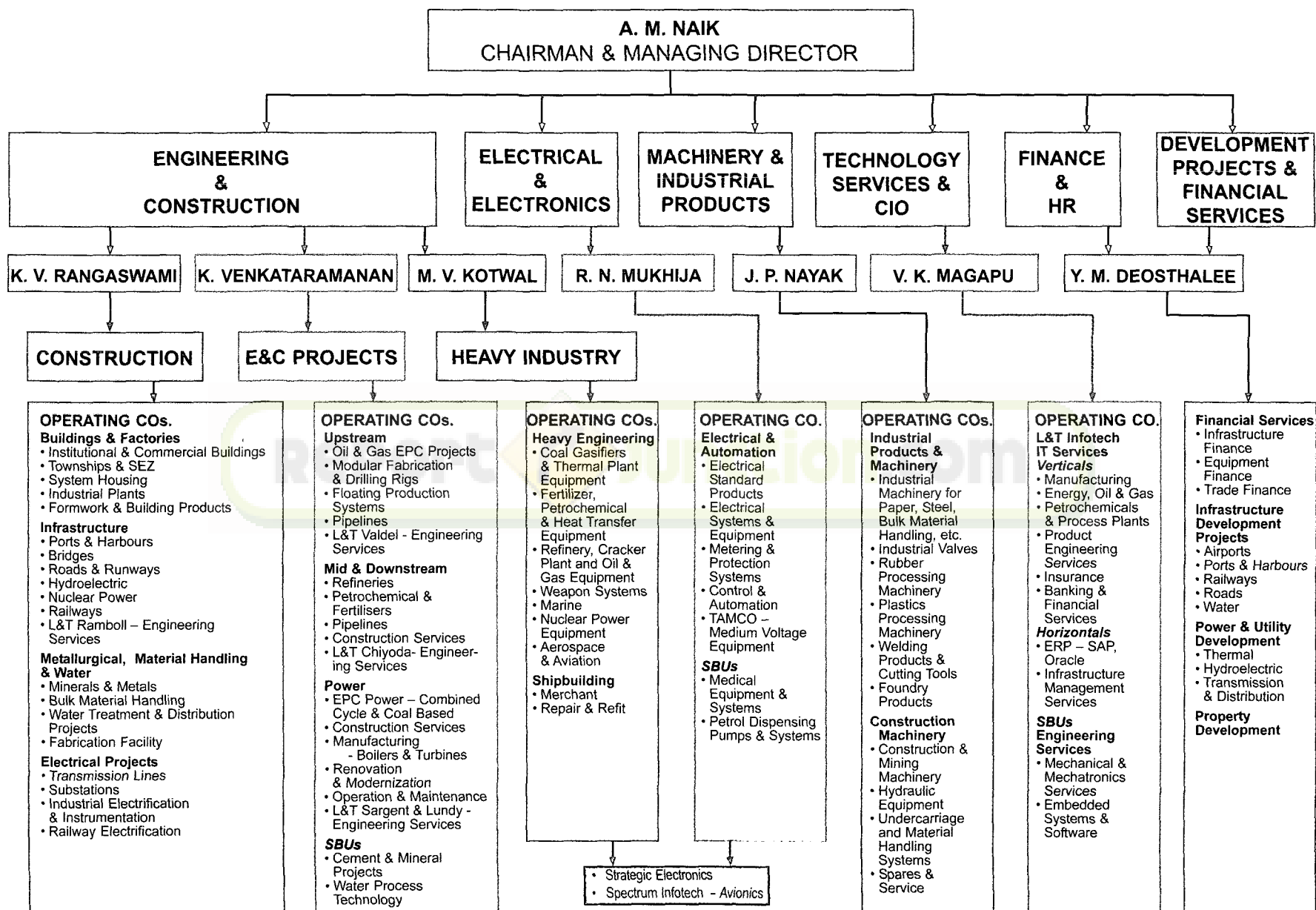
SOLICITORS

M/s. Manilal Kher Ambalal & Co.

REGISTRAR & SHARE TRANSFER AGENTS

Sharepro Services (India) Private Limited

ORGANISATION STRUCTURE



GEOGRAPHIC FOCUS : L&T has a dominant position in the technology, construction & manufacturing sectors in India. The company has strengthened its presence in the Gulf, and has established production facilities and project capabilities in that region for its business activities.

(This Organisation Structure is under implementation from 2008-2009)