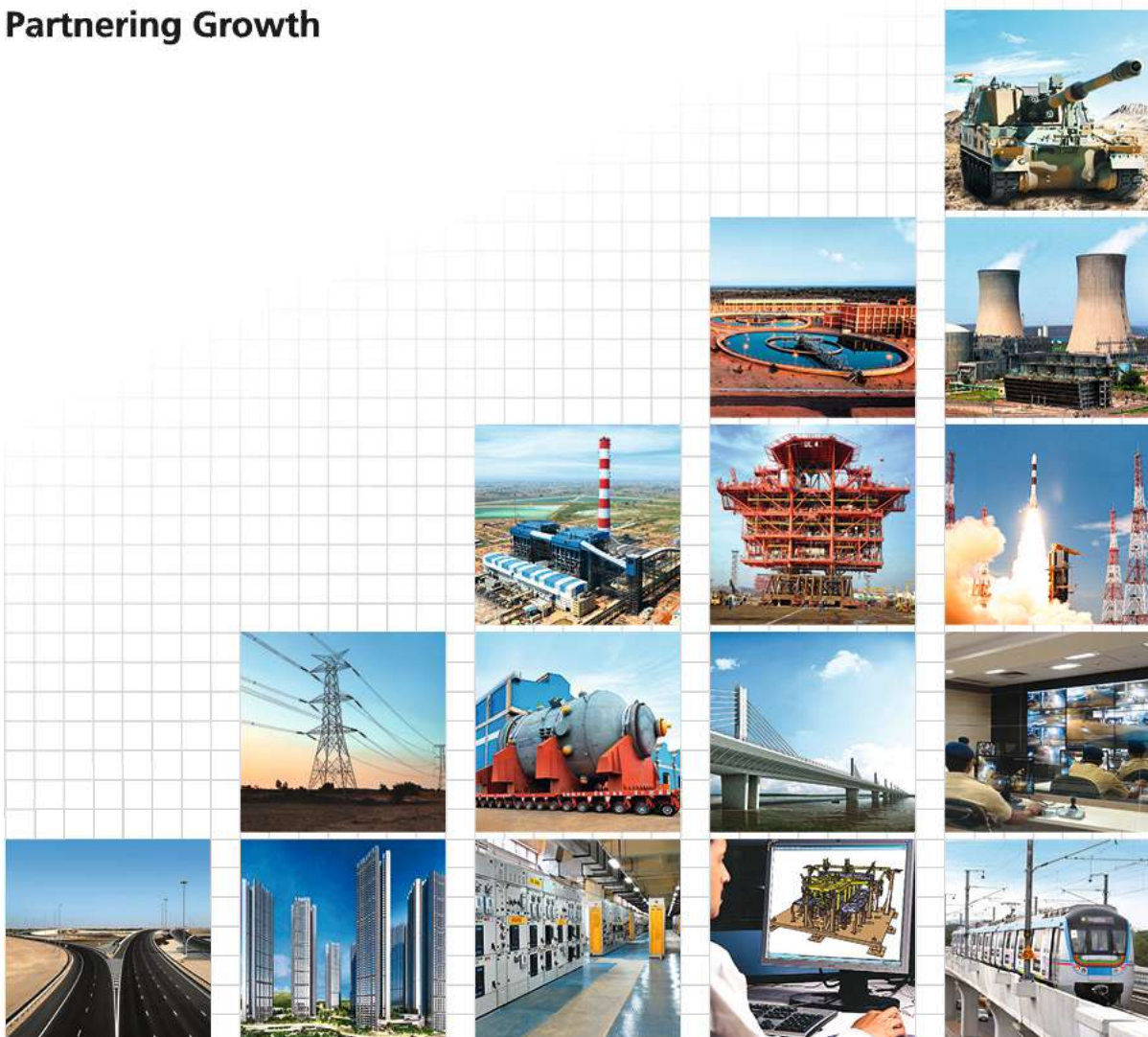


**72nd
ANNUAL
REPORT
2016-2017**

Partnering Growth





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



A. M. Naik

Group Executive Chairman

Dear Shareholders,

The Indian economy across the last year, has demonstrated a high order of resilience and remains an island of stability amidst global volatility. Meanwhile, setting its sights on the future, the Government has initiated a number of structural reforms whose positive outcomes should be tangible in long term growth.

The global scenario is being coloured by protectionist policies in various hues adopted by a few developed countries. While such populist measures tend to impede trade and discourage revival of the investment cycle, it is up to international industry to address these challenges by reconfiguring its offerings and recasting its operations. In the Middle East, relatively low oil prices and consequent fiscal pressure has led to contraction of developmental spends.

Against this backdrop, the projected GDP growth of India at around 7% is encouraging, despite being temporarily impacted by demonetisation. I believe that the medium term prospects in India are favourable and that the structural reform process will continue over the next few years, culminating in an uptick in the investment momentum.

The Government's increased emphasis on infrastructure development through a number of flagship programmes has been widely welcomed. Infrastructure spends have a multiplier effect, enabling pan-industry growth, while contributing to an enhanced quality of life. Your Company is uniquely positioned to respond to these initiatives of the Government. Our capabilities in turnkey execution of large scale infrastructure are virtually unmatched, and we look forward to the speedy transition of these publicly-announced proposals into implementation mode.

We also await progress in the Government's Smart City programme. Our integrated capabilities, covering all aspects of security, mobility, intelligent infrastructure, etc., will help in maximizing the benefits of this initiative and ensure accelerated execution. Another significant area of interest for your Company is 'Make-in-India'. We aim to leverage our proven manufacturing capabilities at the upper end of the technological spectrum, to manufacture complex equipment and systems in sectors such as defence, aerospace and thermal and nuclear power.

Performance Overview

The Company has performed well in all key performance parameters during 2016-17. Despite facing delays in bidding and award processes, the Company bagged fresh orders of ₹ 142,995 crore recording a growth of 5%. Group Revenues at ₹ 110,011 crore grew by 8% during 2016-17 despite impediments due to demonetisation, tardy realisations from customers in some projects and delays in obtaining clearances and work-front availability. The Order Book of the Company stands at a robust level of ₹ 261,241 crore, providing good revenue visibility for 2017-18. The Company recorded an impressive growth of 43% in the Group Profit After Tax for the year at ₹ 6,041 crore.

The Company successfully listed two of its subsidiaries, L&T Infotech Limited (LTI) and L&T Technology Services Limited (LTTS) during 2016-17 in its pursuit of creation and unlocking of value for the shareholders of the Company. It gives me immense pleasure to share with you that the Board of Directors of your Company has recommended a bonus issue in the ratio of 1:2 and a pre-bonus dividend of ₹ 21 per share. The corresponding dividend in the previous year was ₹ 18.25 per share.

Internationalisation

The Company continues to pursue international business opportunities in select geographies with a view to diversify geographical concentration risks. The Company has an established presence in GCC countries, predominantly in the Infrastructure and Hydrocarbon sectors. While capex spends in

the Middle East have generally contracted, some areas in hydrocarbon and core infrastructure are still witnessing investments and these provide a favourable opportunity basket for your Company's growth in the region. Apart from the GCC region, we are looking at selective prospects in North Africa, East Africa and some countries to the east like Myanmar, Malaysia and Vietnam. The unexecuted Order Book from international markets stood at ₹ 69,757 crore, which translates to 27% of the total Order Book.

Digital Trends

Digital technologies are fundamentally changing the way the world lives and works. While these trends may be less visible in the engineering, construction and manufacturing sectors, the Company has decided to move forward in this space. Digitalization has been identified as a core theme in our Strategic Plan, and a major program to digitize processes is already underway in our Construction business. These will be progressively extended across the Company, with the aim of achieving higher efficiencies with the resultant favourable impacts on revenues and profitability.

Our Technology companies, LTI and LTTS are significant partners in this Digitalization journey for the Group and are participating in developing solutions and implementing them.

Talent Management and Succession Planning

Your Company views its people as central to the success of its journey of value creation. Accordingly, our Human Resources policy focuses on

creating a vibrant work environment to attract and retain talent across the organisation. The Company has a 7-step Leadership Development Program which aims to build a leadership pipeline at various levels of management. Senior executives at different levels nurture second lines of leadership.

As a firm believer in leading through example, I have put in place a succession plan at the apex level of your Company. I have actively mentored the Chief Executive Officer & Managing Director (CEO & MD) designate of L&T, which has resulted in seamless transition.

Sustainable Development

Sustainability and Social Responsibility are an integral part of the Company's business strategy. Your Company believes in sustainable utilisation of natural resources and enhancing social equity to realise its growth objectives, while creating value for stakeholders. Significant initiatives have been undertaken in reducing carbon emissions, water management and waste water discharge. Your Company's CSR programmes also focus on health, education and skill-building to contribute to a better quality of life for the needy sections of society.

Total spends on CSR initiatives in 2016-17 by your Company amounted to ₹ 101 crore under eligible items as defined in the Companies Act which translate to 2% of the average annual net profits of the Company over the last 3 years.

Outlook

The Government is committed to introducing structural reforms to revive the investment cycle, boosting tax revenues through widening of the tax base, strengthening indigenous manufacturing and bringing about infrastructure development in rural and urban areas. Implementation of GST is expected to have far reaching effects by inducting large parts of the informal economy into the formal system, ultimately leading to increased tax revenues. Introduction of GST is considered as progressive and a step in the right direction. Your Company does not see any adverse impact due to GST implementation.

The domestic economy is expected to steadily improve in the current year on the back of structural reforms and supportive monetary policy. The Government has reiterated its emphasis on infrastructure build-out in the areas of transportation, augmentation of water resources, power, affordable housing and smart cities. Increased private sector participation in the Defence business affords strong business opportunities for your Company. Various upcoming projects provide the Company with a broad perspective of the opportunity basket opening up in 2017-18. Segments within the group that hold promise in the current year include –

1) Infrastructure

a) Roads – The Government has kick-started major road projects and has committed significant budgetary allocations for roads and highways development in 2017-18. The Company expects this impetus

to gain strength, aided by increased investments in specialised bridges and tunnels.

b) Railways – Your Company has been a major partner in the Dedicated Freight Corridor program currently being piloted by the Indian Railways. The Indian Railways has planned high levels of outlay over the next few years on track modernisation, new railway lines and supporting infrastructure. Your Company will participate in those programs as and when the opportunities arise.

c) Metro Rail – Your Company has been successfully executing Metro Rail projects in multiple cities in India over the last few years and is also executing two such projects in the Middle East. The Government looks at Metro Rail networks as the ideal solution to decongest urban traffic. Metro Rail projects have been planned in a number of metro and non-metro cities in India as part of the urban development program and should provide a steady stream of growth opportunities for your Company.

d) Urban Infrastructure – Building robust urban infrastructure and providing affordable housing are major thrust areas identified by the Government. Your Company is well placed to capitalise on major opportunities in the areas of affordable housing, hospitals, office space and facilities for educational institutions. Building Smart Cities and Digital India is a major theme pursued by the Government and your Company has been at the forefront of nation building by aligning its capabilities to meet changing needs. Your Company sees

emerging business opportunities in the areas of city surveillance, intelligent traffic management systems, smart governance systems, transport & logistics and optical fibre cabling – all of which constitute different components of smart city infrastructure. Your Company has the unique advantage of in-house domain expertise across business verticals to provide end-to-end offerings to customers and can assume the role of a Master System Integrator for the customer.

e) Water Infrastructure – The Government is actively pursuing plans to improve water management systems across the country in view of falling water tables and widespread water shortages. This is giving rise to large business opportunities which your Company is well positioned to exploit. Areas of focus include water storage and supply management, effluent treatment, sewage treatment, lift irrigation and emerging opportunities in inland waterways infrastructure.

2) Thermal Power Generation The thermal power sector has been facing multiple challenges in the last few years, which is aggravated by under-utilisation of capacity, particularly in manufacturing of turbines. Strong focus on power from renewables has also led to muted awards in the thermal power space. While the Company has state-of-the-art facilities for equipment manufacturing and excellent project management capabilities, it continues to face competition for projects bid out by central and state utilities. Though some of the Company's market share has been lost to competition

on aggressive pricing, the Company continues to sight reasonably large business opportunities from state and central utilities in 2017-18. The Company is also attempting to increase manufacturing capacity utilisation by engaging with our joint venture partners for increased international business.

3) Power Transmission & Distribution

Domestic power distribution sector holds significant business opportunities with the thrust of the Government on augmenting and strengthening grid infrastructure at both centre and state levels. The Company is also well established in transmission & distribution projects in Middle East countries and continues to see traction in that region. The year 2017-18 holds good prospects in the area of power transmission & distribution.

4) Hydrocarbon

Despite contraction of spends in the Middle East due to lower oil prices, your Company is still seeing opportunities in the areas of gas production and downstream petrochemical projects. Strong customer connect with a few selected clients in the region has yielded some significant order wins and the outlook for the business in the region is positive. The domestic market is also seeing business potential in the areas of offshore capex, refinery upgradation and expansion, new fertilizer plants, LNG re-gasification terminals and cross country pipeline jobs. The Hydrocarbon business has turned around in the year 2016-17 on the back of close-out of challenging international legacy projects, profitable execution of on-going

orders on hand and increased operational excellence measures undertaken by the business.

The Company has built up a good Order Book and has capabilities in harnessing upcoming prospects.

5) Defence Sector

Thrust on import substitution through indigenisation of defence equipment manufacture and the Make-in-India initiative is opening up the Defence sector to significantly enhanced private sector participation, facilitated by conducive policy measures. Multiple programs earmarked for domestic private sector players are being kick-started in all branches of the armed forces. Your Company is a leading player in collaborating with the Ministry of Defence in building up indigenous expertise on various defence platforms for the past many years. The Company collaborates with technology partners wherever required and is currently well poised to participate in some large programs being launched for augmentation of defence equipment for the Army and the Navy. In 2016-17, the Company also received a large order for manufacture of tracked artillery guns, the largest such order given to the private sector till date. The Company's shipyard at Kattupalli augments the ability of the Group to bid for large naval orders. Defence is a major focus area for the Company and the business expects large prospects in the coming years.

6) Heavy Engineering

The Heavy Engineering business has been facing shrinking prospects due to muted oil prices, coupled with

global over-capacity in the process plant equipment segment. Nuclear power sector is still grappling with the aftermath of the Fukushima accident, though India remains committed to the expansion of nuclear power installed capacity for developing a clean source of energy. The issues of Civil Liability for Nuclear Damages are now being resolved and would pave the way for establishing new nuclear power plants in the near future. The Company is well placed to harness the opportunities when they come up.

7) Electrical & Automation (E&A)

The Electrical & Automation business recorded stable performance in 2016-17 despite sluggish industrial demand, challenges posed by liquidity crunch and aggressive competition. The Company presents an array of best-in-class low-voltage and medium-voltage products which provide a competitive edge in the domestic market. The Electrical business has launched new products to cater to the theme of Smart Cities. It focuses on renewable and alternative energy generation by introduction of smart/premium meters, solar solutions, a new range of Moulded Case and Modular Circuit Breakers, and a contemporary range of Bus Bar trunking solutions. With investment in R&D efforts, a number of patents to its name, a country-wide network of distributors, presence in the Middle East region through subsidiary companies and focus on operational excellence, the business expects to continue delivering profitable growth.

8) Realty

This business, launched by your Company a few years ago, continues to deliver steady revenues and profits despite the sector being impacted by excess inventory, flat realisations and lower absorption rates. The Company's Realty portfolio comprises residential and commercial real estate development activity, mainly centred in Mumbai and development of own land parcels in Powai, Bangalore and Chennai. Demonetisation led to a major slowdown in retail real estate sales during 2016-17. The real estate segment is gradually recovering from this downturn and sale of apartments is nearly back to pre-demonetisation levels. The Company managed to close two major transactions of divestment from a residential project at Chennai and a retail mall at the Company's Seawoods project in Navi Mumbai. The Government has recently introduced legislation aimed at regulating the sector which augurs well for the business.

9) Information Technology and Technology Services (IT&TS)

As mentioned earlier, the Company has successfully completed Initial Public Offerings of Larsen & Toubro Infotech Limited (LTI) and L&T Technology Services Limited (LTTS) during the year 2016-17. The exceptional gains of ₹ 1,709 crore from divestment of the Company's part stakes in these subsidiaries have accrued to the shareholders' funds. With the focus on client mining, talent management, enhanced utilisation of resources and superior service offering, these listed subsidiaries are geared to face global headwinds and increasing protectionist policies in developed

world markets while maintaining healthy shareholder returns.

10) Financial Services

This business, which was listed in 2011, continues to grow and had a loan book of ₹ 64,500 crore at the end of FY17. The business has adopted prudential norms for provisioning of the non-performing assets and is taking efforts to reduce the cost-to-income ratio. It is focusing on portfolio rationalisation, right-sizing of manpower, and improving the quality of assets in an effort to enhance Return on Equity.

11) Development Projects

Your Company currently has a portfolio of concession assets in the areas of roads, power generation & transmission, a container port and a metro rail. While the container port, a thermal power plant and most of the road projects are operational, the metro rail project at Hyderabad is under construction. This is the largest 'transit-oriented-development' project in the country and execution is progressing satisfactorily. The project is likely to be fully commissioned in FY19. As a part of its Lakshya objectives, the Company is evaluating various options of divestment and restructuring of the road concessions business.

Strategic Plan

Your Company has embarked on its five year strategic plan (Lakshya) for achieving improvement in key performance parameters leading to enhanced Return on Equity over the plan period. The strategic plan lays emphasis on profitable growth, harnessing emerging opportunities in defence, nuclear power and smart cities, productivity improvements

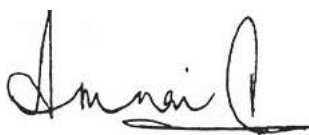
through digitalisation, reduction in working capital levels and unlocking of shareholder value through divestments of non-core businesses.

The Company completed the first year of its Lakshya Plan in 2016-17 and is on course to achieving various objectives of the plan. The Company divested its General Insurance business during 2016-17 in line with its stated objective of exiting non-core businesses. Apart from recording improved profitability, the Company has achieved higher Return on Equity also aided by reduction of net working capital levels.

Over the next few months, I will be handing over my executive charge to the CEO & MD designate Mr. S.N.Subrahmanyam and will continue as Chairman of the Group.

Before I conclude, I would like to acknowledge the contributions made by team L&T and thank our customers, vendors and other stakeholders who made it possible for the Company to maintain its growth momentum and improve financial performance. I also take this opportunity to thank my fellow Board Members for their steadfast support and the confidence they have reposed in our pursuit of delivering high quality, sustainable growth.

Thank You



A.M.Naik
Group Executive Chairman

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Company Information

Board of Directors

| | |
|--|---|
| MR. A.M. NAIK | <i>Group Executive Chairman</i> |
| MR. S.N. SUBRAHMANYAN | <i>Deputy Managing Director & President</i> |
| MR. R. SHANKAR RAMAN | <i>Whole-time Director & Chief Financial Officer</i> |
| MR. SHAILENDRA NARAIN ROY | <i>Whole-time Director & Senior Executive Vice President (Power, Heavy Engg. & Defence)</i> |
| MR. D.K. SEN | <i>Whole-time Director & Sr. Executive Vice President (Infrastructure)</i> |
| MR. M.V. SATISH | <i>Whole-Time Director & Sr. Executive Vice President (Buildings, Minerals & Metals)</i> |
| MR. M.M. CHITALE | <i>Independent Director</i> |
| MR. SUBODH BHARGAVA | <i>Independent Director</i> |
| MR.M.DAMODARAN | <i>Independent Director</i> |
| MR.VIKRAM SINGH MEHTA | <i>Independent Director</i> |
| MR.SUSHOBHAN SARKER | <i>Nominee of LIC</i> |
| MR. ADIL SIRAJ ZAINULBHAI | <i>Independent Director</i> |
| MR. AKHILESH KRISHNA GUPTA | <i>Independent Director</i> |
| MRS. SUNITA SHARMA | <i>Nominee of Life Insurance Corporation of India</i> |
| MR. THOMAS MATHEW T. | <i>Independent Director</i> |
| MR. AJAY SHANKAR | <i>Independent Director</i> |
| MR. SUBRAMANIAN SARMA | <i>Non-Executive Director</i> |
| MRS. NAINA LAL KIDWAI | <i>Independent Director</i> |
| MR. SANJEEV AGA | <i>Independent Director</i> |
| MR. N. KUMAR | <i>Independent Director</i> |
| Company Secretary | Mr. N. Hariharan |
| Registered Office | L&T House, Ballard Estate, Mumbai - 400 001 |
| Auditors | M/s. Sharp & Tannan and M/s.Deloitte Haskins & Sells LLP |
| Registrar & Share Transfer Agents | Kavy Computershare Private Limited |

