LARSEN & TOUBRO LIMITED

ANNUAL REPORT 1998-99

WE MAKE THE THINGS THAT MAKE INDIA PROUD

Fiftyfourth annual report 1998-99

Contents

FIFTYFOURTH ANNUAL GENERAL MEETING at Birla Matushri Sabhagar, 19, Marine Lines, Mumbai 400 020 on **Thursday, 26th August, 1999 at 3.00 p.m.**

Board of Directors

H. Holck-Larsen
Chairman Emeritus

A.M. Naik
Managing Director & Chief Executive Officer

A. Ramakrishna
M. Karnani
} *Presidents*

J.P. Nayak
Y.M. Deosthalee
K. Venkataramanan
} *Senior Vice Presidents*

A.S. Gupta
S.S. Marathe
M.D. Ambani
M.L. Bhakta
A.D. Ambani
D.V. Kapur
G. Armbruster
P.M. Venkatasubramanian
G.P. Kohli
S.K. Kapur
Basudeb Sen

Secretary
S.V. Subramanian

Auditors
Sharp & Tannan

Solicitors
Manilal Kher Ambalal & Co.

Registered Office and Head Office
L&T House
Ballard Estate
Mumbai 400 001

Investor Relations Department
Bakhtawar, Ground Floor
Nariman Point
Mumbai 400 021

Notice

NOTICE IS HEREBY GIVEN THAT the Fiftyfourth Annual General Meeting of LARSEN & TOUBRO LIMITED will be held at Birla Matushri Sabhagar, 19 Marine Lines, Mumbai 400 020, on Thursday, the 26th August, 1999 at 3.00 p.m. to transact the following business:

1. To consider and adopt the Balance Sheet as at 31st March 1999, the Profit & Loss Account for the year ended on that date and the reports of the Board of Directors and Auditors thereon.
2. To declare a dividend.
3. To appoint a Director in place of Dr. D. V. Kapur, who retires by rotation and is eligible for re-appointment.
4. To appoint a Director in place of Mr. S.S. Marathe, who retires by rotation and is eligible for re-appointment.
5. To appoint a Director in place of Mr. H. Holck-Larsen, who retires by rotation and is eligible for re-appointment.
6. To appoint a Director in place of Mr. M.D. Ambani, who retires by rotation and is eligible for re-appointment.
7. To appoint a Director in place of Mr. M.L. Bhakta, who retires by rotation and is eligible for re-appointment.
8. To appoint a Director in place of Mr. K. Venkataramanan who was appointed as an additional Director by the Board of Directors and holds office up to the date of the ensuing Annual General Meeting of the Company, and is eligible for re-appointment and in respect of whom the Company has received a notice in writing from a member under the provisions of Section 257 of the Companies Act, 1956 proposing his candidature for the office of a Director.
9. To consider and, if thought fit, to pass with or without modification, the following resolution as a SPECIAL RESOLUTION:

   "RESOLVED THAT pursuant to the provisions of Sections 269, 309, 314 and other applicable provisions, if any, of the Companies Act, 1956, the Company hereby approves the appointment of Mr. A. M. Naik as the Managing Director of the Company designated as "Managing Director and Chief Executive Officer" for a period of five years with effect from 28th April, 1999 on the terms and conditions including remuneration as are set out in the draft Agreement to be entered into by the Company with him, submitted to the meeting, which Agreement is hereby specifically sanctioned with liberty to the Directors to alter and vary the terms and conditions of the said appointment and/or Agreement, so as not to exceed the limits, if any, specified in Schedule XIII to the Companies Act, 1956 or any amendments thereto as may be agreed to between the Directors and Mr. A. M. Naik or as may be varied by the General Meeting and that the consent of the Company be and is hereby accorded to his holding an office or place of profit and continuing to hold an office or place of profit as a Director nominated and as may be nominated by the Company from time to time on the Boards of its subsidiary companies."
10. To consider and, if thought fit, to pass with or without modification, the following resolution as a SPECIAL RESOLUTION:

    "RESOLVED THAT pursuant to the provisions of Sections 269, 309, 314 and other applicable provisions, if any, of the Companies Act, 1956, the Company hereby approves the appointment of Mr. K. Venkataramanan as a Whole-time Director of the Company for a period of five years with effect from 28th May, 1999 on the terms and conditions including remuneration as are set out in the draft Agreement to be entered into by the Company with him, submitted to the meeting, which Agreement is hereby specifically sanctioned with liberty to the Directors to alter and vary the terms and conditions of the said appointment and/or Agreement, so as not to exceed the limits, if any, specified in Schedule XIII to the Companies Act, 1956 or any amendments thereto as may be agreed to between the Directors and Mr. K. Venkataramanan or as may be varied by the General Meeting and that the consent of the Company be and is hereby accorded to his holding an office or place of profit and continuing to hold an office or place of profit as a Director nominated and as may be nominated by the Company from time to time on the Boards of its subsidiary companies."
11. To consider and, if thought fit, to pass with or without modification, the following resolution as an ORDINARY RESOLUTION:

    "RESOLVED THAT pursuant to the provisions of Section 293(1)(a) and other applicable provisions, if any, of the Companies Act, 1956, consent of the Company be and is hereby granted to the Board of Directors of the Company to create mortgage(s)/charge(s) on any one or more of the undertakings of the Company including the movable and/or immovable properties and assets of all kinds, present and future, in the form of first and/or second and/or subservient mortgage/charge and/or floating charge to secure by one or more documents, and from time to time in favour of the debenture trustees, who may be appointed by the Board of Directors of the Company towards issue of secured non-convertible debentures, in one or more tranches on rights basis and/or on private placement basis and/or to the public under a prospectus on the date(s) for issue thereof as may be decided by the Board of Directors and/or in favour of financial institutions/banks/other lenders to secure repayment of such debentures/term loans/financial assistance obtained to meet the capital expenditure for diversification/expansion programmes of the Company, of an amount not exceeding Rs. 4,500 crore at any one time together with interest thereon, further interest, if any, remuneration of the trustees for the holders of the said debentures, costs, charges, expenses and all other monies payable to the trustees for holders of the said debentures/financial institutions/banks/other lenders and incurred in terms of the issue of the said debentures and/or terms and conditions of the term loans/financial assistance obtained as aforesaid.

    RESOLVED FURTHER THAT the Board of Directors of the Company be and is hereby authorised to vary and/or alter the terms and conditions of the security aforesaid in consultation with the debenture trustees, financial institutions/banks/other lenders and mortgagees as may be necessary.

RESOLVED FURTHER THAT the Board of Directors of the Company be and is hereby authorised to prepare, finalise and execute in favour of the said trustees for the holders of the said debentures/financial institutions/banks/other lenders the documents, writings and such other agreements, as may be necessary for creating mortgages and/or charges as aforesaid and to do all such acts, deeds, matters and things as may be necessary and/or expedient in that behalf."

12. To consider and if thought fit, to pass the following resolution, with or without modification, as a SPECIAL RESOLUTION:

"**RESOLVED THAT** pursuant to the provisions of Section 81 and other applicable provisions, if any, of the Companies Act, 1956 (including any amendment thereto or re-enactment thereof), and in accordance with the provisions of the Memorandum and Articles of Association of the Company and the regulations / guidelines, prescribed by the Securities and Exchange Board of India or any other relevant authority, from time to time, to the extent applicable and subject to such approvals, consents, permissions and sanctions and subject to such conditions as may be prescribed by any of them while granting such approvals, consents, permissions and sanctions which the Board of Directors of the Company (hereinafter referred to as "the Board", which term shall include a Compensation Committee constituted by the Board to exercise its powers, including the powers conferred by this resolution) is hereby authorised to accept, the Board be and is hereby authorised on behalf of the Company to create, issue, offer and allot at any time, to or for the benefit of such person or persons who are in the permanent employment of the Company and the Directors of the Company, equity shares of the Company under any Employee Stock Option Scheme at such price, in such manner, during such period, in one or more tranches and on such other terms and conditions as the Board may decide prior to the issue and offer thereof, for, or which upon exercise or conversion could give rise to the issue of equity shares not exceeding in the aggregate five per cent of the issued equity shares of the Company on 31st March, 1999.

RESOLVED FURTHER THAT subject to the terms stated herein, the equity shares allotted pursuant to the aforesaid resolution shall in all respects rank *pari passu inter se* as also with the then existing equity shares of the Company.

RESOLVED FURTHER THAT for the purpose of giving effect to any offer, issue or allotment of equity shares or securities or instruments representing the same, as described above, under any Employee Stock Option Scheme, the Board be and is hereby authorised on behalf of the Company to do all such acts, deeds, matters and things as it may, in its absolute discretion, deem necessary or desirable for such purpose, and with power on behalf of the Company to settle all questions, difficulties or doubts that may arise in regard to such issue(s) or allotment(s) (including to amend or modify any of the terms of such issue or allotment), without being required to seek any further consent or approval of the members, as it may, in its absolute discretion, deem fit.

RESOLVED FURTHER THAT the Board be and is hereby authorised to delegate all or any of the powers herein conferred to any Committee of Directors, or any one or more Whole-time Directors of the Company."

13. To consider and if thought fit, to pass the following resolution, with or without modification as a SPECIAL RESOLUTION:

"**RESOLVED THAT** the benefits of Employees Stock Option Schemes A and B proposed under Resolution No. 12 contained in this Notice be extended to the eligible employees of the subsidiary companies and if permitted by law, to the eligible employees of associate companies of the Company on terms and conditions as may be decided by the Board of Directors of the Company or the Compensation Committee."

14. To appoint Auditors and to fix their remuneration and for that purpose to pass with or without modification, the following resolution as a SPECIAL RESOLUTION:

"**RESOLVED THAT** the Company's Auditors, Messrs. Sharp & Tannan, who retire but, being eligible, offer themselves for re-appointment, be and are hereby re-appointed as Auditors of the Company including for all its branch offices for holding the office from the conclusion of this Meeting until the conclusion of the next Annual General Meeting and that their remuneration be and is hereby fixed at Rs.25,00,000/- (Rupees Twenty Five Lakhs only) exclusive of service tax, travelling and other out of pocket expenses."

By Order of the Board of Directors
for **LARSEN & TOUBRO LIMITED**

S. V. SUBRAMANIAN
COMPANY SECRETARY

Mumbai, 7th July, 1999

Registered Office:
L&T House, Ballard Estate,
Mumbai 400 001.

NOTES:

(a) The relative Explanatory Statement pursuant to Section 173(2) of the Companies Act, 1956 in respect of the business under Item Nos. 8 to 14 set out above is annexed hereto.

(b) A MEMBER ENTITLED TO ATTEND AND VOTE IS ENTITLED TO APPOINT A PROXY TO ATTEND AND VOTE INSTEAD OF HIMSELF AND A PROXY NEED NOT BE A MEMBER.

(c) The Register of Members and Transfer Books of the Company will be closed from Wednesday, 14th July, 1999 to Friday, 6th August, 1999, both days inclusive.

(d) The dividend when sanctioned will be made payable on or after 26th August, 1999 to those shareholders, whose names will appear on the Register of Members of the Company and/ or the Register of beneficial owners maintained by the depositories as on Tuesday, the 13th July, 1999.

(e) All documents referred to in the accompanying Notice and the Explanatory Statement are open for inspection at the Registered Office of the Company on all working days, except Saturdays, between 11.00 a.m. and 1.00 p.m. upto the date of the Annual General Meeting.

(f) Members/proxies should bring the attendance slip duly filled in for attending the meeting.

(g) Abridged annual report containing the Directors' report (except information u/s 217(1)(e) and 217(2A) of the Companies Act, 1956), Auditors' Report and Statement containing salient features of Balance Sheet and Profit & Loss Account is sent to the Shareholders having the same address as per the provisions of Section 219(1)(b)(iv) of the Companies Act, 1956. These Shareholders will on request be furnished a copy of unabridged Annual Report.

(h) The Company has already transferred unclaimed dividend declared for the financial year ended 31st March, 1995 to the General Revenue Account of the Central Government as required by the Companies Unpaid Dividend (Transfer to General Revenue Account of the Central Government) Rules, 1978.

In view of the amendment to the Companies Act, 1956 the unpaid dividends that are due for transfer to the Investor Education and Protection Fund to be set up by the Central Government are as follows:

Dividend No.	Date of Declaration	For the Financial Year	Due for Transfer on
64	02.08.1996	1995-96	13.09.2003
65	01.08.1997	1996-97	18.09.2004
66	06.08.1998	1997-98	16.09.2005

Members who have not encashed their dividend warrants pertaining to these years may approach the Company's Investor Relations Department at Bakhtawar, Nariman Point, Mumbai 400 021 for revalidating the warrants or for obtaining duplicate warrants.

(i) The shares of the Company are listed on stock exchanges at Mumbai, Ahmedabad, Bangalore, Calcutta, Chennai, Mangalore, New Delhi and Pune.

EXPLANATORY STATEMENT

As required by Section 173(2) of the Companies Act, 1956, the following Explanatory Statement sets out material facts relating to the business under Item Nos. 8 to 14 of the accompanying Notice dated 7th July, 1999.

Item No. 8

Mr. K. Venkataramanan was appointed as an Additional Director of the Company with effect from 28th May, 1999. Pursuant to Section 260 of the Companies Act, 1956, Mr. K. Venkataramanan will hold office of Director upto the date of the ensuing Annual General Meeting. The Company has received a notice in writing from a member proposing the candidature of Mr. K. Venkataramanan for the office of Director under the provisions of Section 257 of the Companies Act, 1956.

Mr. K. Venkataramanan is a graduate in Chemical Engineering having passed B.Tech from I.I.T., Delhi in 1966. He joined the Company in the same year as a Graduate Engineer Trainee and distinguished himself in various assignments. He was a pioneer in the Product Engineering and Research & Development activities for Process Equipment and Systems in the Company. After an exposure as Production Manager in manufacturing, Mr. Venkataramanan as a Project Manager was responsible for implementation of the modern Hazira Works on the water front at Hazira. He subsequently led a team as Deputy General Manager, Special Equipment and Systems for establishing new business lines in areas of Oil & Gas, Captive & Cogeneration Power and Defence successfully. He was appointed General Manager (Projects) in 1991 and made substantial contribution to the project business, which has grown multifold both in sales and profitability. He was appointed Senior Vice President (Operations) in 1995.

Mr. Venkataramanan has also played a significant part in the growth of project group's "knowledge based" activities at Baroda, which will serve as the backbone for the Company's penetration for mega project business opportunities in the new millennium. It will be in the interest of the Company that Mr. Venkataramanan be appointed as a Director of the Company.

The Directors recommend this resolution for approval of the Shareholders.

None of the Directors of the Company other than Mr. K. Venkataramanan is interested in this resolution.

Item No. 9

The Board of Directors of the Company at its Meeting held on 28th May, 1999 approved the appointment of Mr. A. M. Naik as the Managing Director of the Company for a period of five years with effect from 28th April, 1999 and also approved the agreement setting out the terms and conditions including the remuneration payable to him. The appointment of Mr. A.M. Naik including remuneration payable to him is subject to the approval of the Company in General Meeting.

The Agreement proposed to be entered into by the Company with Mr. A. M. Naik in respect of his appointment as the Managing Director of the Company, *inter alia,* contains the following terms and conditions:

(1) The Managing Director shall, subject to the supervision and control of the Board of Directors of the Company, manage the business and affairs of the Company.

(2) Period of Agreement:

Five years with effect from 28th April, 1999.

(3) Remuneration payable :

(a) Salary:

Rs.1,50,000/- per month including dearness and all other allowances.

(b) Commission:

Equivalent to 0.1% of the profits after tax of the Company.

(c) Perquisites:

1. The Managing Director shall be entitled to perquisites including free furnished accommodation or house rent in lieu thereof, gas, electricity, water, furnishings, medical reimbursement and leave travel concessions for self and family, club fees, medical and personal accident insurance, etc. in accordance with the rules of the company. The aforesaid perquisites may be in the form of reimbursement or allowance but will be restricted to Rs. 9 lakhs per annum. For the purpose of calculating the above ceiling, the perquisites shall be evaluated as per income-tax rules wherever applicable.

2. The Managing Director shall be entitled to Company's contribution to Provident Fund, Superannuation Fund and Annuity Fund upto the tax exempt limit, benefits of Gratuity and Pension Scheme for Senior Management Staff, earned leave and encashment of earned leave at the end of the tenure and long service awards, as per the rules of the company and these shall not be included in the computation of perquisites.

3. Car for use on company's business, telephone and other communication facilities at residence, will not be considered as perquisites.

(d) In the event of loss or inadequacy of profits in any financial year, the Managing Director shall be paid remuneration by way of salary and perquisites as specified above.

(4) The Managing Director, so long as he functions as such, shall not be paid any sitting fees for attending meetings of the Board of Directors or Committees thereof from the date of his appointment.

(5) Apart from the above terms and conditions governing remuneration, the aforesaid agreement contains further terms and conditions as to the powers and duties of Managing Director, the provision for earlier determination of the appointment by either party by giving six months' notice in writing to the other party, non-participation in any selling agency of the Company, reimbursement of the entertainment, travelling and all other expenses incurred by him for the business of the Company, etc.

Mr. A.M. Naik will be paid sitting fees as Director on the Boards of Company's subsidiaries on which he is a Director.

The Agreement proposed to be entered into by the Company with Mr. A. M Naik is available for inspection of members at the Registered Office of the Company on all its working days (except Saturdays) between 11.00 a.m. and 1.00 p.m. upto the date of the Annual General Meeting.

Mr. A.M. Naik, the Managing Director of the Company, being the appointee, is interested in the proposed resolution to the extent of the remuneration payable to him. No other Director is concerned or interested in this resolution.

The Directors recommend this resolution for approval of the shareholders.

This explanation together with the accompanying notice is and should be treated as an abstract of the terms of appointment of the Managing Director under Section 302 of the Companies Act, 1956.

Item No. 10

The Board of Directors of the Company at its Meeting held on 28th May, 1999 appointed Mr. K. Venkataramanan as a Whole-time Director of the Company for a period of five years with effect from 28th May, 1999 and also approved the agreement setting out the terms and conditions including the remuneration payable to him. The appointment of Mr. K. Venkataramanan including remuneration payable to him is subject to the approval of the Company in General Meeting.

The Agreement proposed to be entered into by the Company with Mr. K. Venkataramanan in respect of his appointment as the Whole-time Director of the Company, *inter alia,* contains the following terms and conditions:

(1) The Whole-time Director shall, subject to the supervision and control of the Board of Directors and/or Managing Director of the Company, manage the business and affairs of the Company.

(2) Period of Agreement:
Five years with effect from 28th May, 1999.

(3) Remuneration payable :

(a) Salary:
Rs.49,000/- per month including dearness and all other allowances in the scale of Rs. 40,000-60,000/- with an annual increase of Rs.3,000/- due on 1st April every year.

(b) Commission:
Equivalent to 0.03% of the profits after tax of the Company.

(c) Perquisites:

1. The Whole-time Director shall be entitled to perquisites including free furnished accommodation or house rent in lieu thereof, gas, electricity, water, furnishings, medical reimbursement and leave travel concessions for self and family, club fees, medical and personal accident insurance, etc. in accordance with the rules of the company. The aforesaid perquisites may be in the form of reimbursement or allowance but will be restricted to Rs. 6 lakhs per annum. For the purpose of calculating the above ceiling, the perquisites shall be evaluated as per income-tax rules wherever applicable.
2. The Whole-time Director shall be entitled to Company's contribution to Provident Fund, Superannuation Fund and Annuity Fund upto the tax exempt limit, benefits of Gratuity and Pension Scheme for Senior Management Staff, earned leave and encashment of earned leave at the end of the tenure and long service awards, as per the rules of the company and these shall not be included in the computation of perquisites.
3. Car for use on company's business, telephone and other communication facilities at residence, will not be considered as perquisites.

(d) In the event of loss or inadequacy of profits in any financial year, the Whole-time Director shall be paid remuneration by way of salary and perquisites as specified above.

(4) The Whole-time Director, so long as he functions as such, shall not be paid any sitting fees for attending meetings of the Board of Directors or Committees thereof from the date of his appointment.

(5) Apart from the above terms and conditions governing remuneration, the aforesaid agreement contains further terms and conditions as to the provision for earlier determination of the appointment by either party by giving six months' notice in writing to the other party, non-participation in any selling agency of the Company, reimbursement of the entertainment, travelling and all other expenses incurred by him for the business of the Company, etc.

Mr. K. Venkataramanan will be paid sitting fees as Director on the Boards of Company's subsidiaries on which he is/will be appointed as a Director.

The Agreement proposed to be entered into by the Company with Mr. K. Venkataramanan is available for inspection of members at the Registered Office of the Company on all its working days (except Saturdays) between 11.00 a.m. and 1.00 p.m. upto the date of the Annual General Meeting.

Mr. K. Venkataramanan, the Whole-time Director of the Company, being the appointee, is interested in the proposed resolution to the extent of the remuneration payable to him. No other Director is concerned or interested in this resolution.

The Directors recommend this resolution for approval of the shareholders.

This explanation together with the accompanying notice is and should be treated as an abstract of the terms of appointment of the Whole-time Director under Section 302 of the Companies Act, 1956.

Item No. 11

The shareholders had given their consent to the Board of Directors to create mortgage(s)/charge(s) on any one or more of the undertakings of the Company for the purpose of securing debentures / term loans / financial assistance, which may be raised by the Company during the course of its business for an amount not exceeding Rs. 3,500 crore. In view of the expanding volume of business, this ceiling is required to be raised to an amount not exceeding Rs. 4,500 crore.

Since creating mortgage / charge on the immovable and movable properties as aforesaid in favour of the debentureholders or trustees for the debentureholders / financial institutions / banks/ other lenders may, in certain cases, be regarded as disposal of the Company's undertakings, it is necessary to pass a resolution under Section 293(1)(a) of the Companies Act, 1956 before creating the said mortgage(s) / charge(s).

The Directors recommend this resolution for approval of shareholders.

None of the Directors of the Company is concerned or interested in this resolution except to the extent of debentures that may be offered to them by virtue of the shares held by them in the Company, or that may be taken up by them.

Item No. 12

In the long term interest of the Company and its shareholders, it is necessary that the Company adopts measures for attracting and retaining qualified, talented and competent personnel. It is also necessary to keep them continuously motivated to create value for shareholders. Towards this end, it is proposed to introduce the following two Stock Option Schemes for the permanent employees of the Company and its Directors, in accordance with the provisions of the prevailing law.

SCHEME A

Stock Option Scheme (SOS) - Under this scheme, employees will be given an option to acquire a certain number of shares at the grant price as mentioned in (d) below at the time of granting the option. Employees will be required to pay Rs.10/- per option at the time of grant. Vesting to commence after a period of one year from the date of grant and may extend up to four years from the date of grant. Exercise period shall commence from the date of vesting and will expire not later than seven years from the date of grant or as may be decided by the Compensation Committee from time to time. On exercise, the employee will pay the balance grant price per share and the shares will be allotted to him.

SCHEME B:

Stock Appreciation Rights (SAR) - are being proposed as the instrument for rewarding the employees under the Employee Stock Ownership Programme. SAR is an instrument, which entitles the employee to get the difference between the price computed for the purpose of exercise and price computed for the purpose of grant. The difference, which is the appreciation, would be paid in the form of shares, the number of shares being the total appreciation as calculated above divided by the market price on the date of exercise.

OTHER FEATURES OF THE SCHEMES

(a) **The total number of options to be granted**

The total number of Options/SARs that could be issued, under both the Schemes:

Upto 5% of the issued equity shares of the Company (i.e. 1,24,47,384 shares).

(b) **Identification of classes of employees entitled to participate in the Schemes**

Persons as are in permanent employment in the covenanted cadre of the Company including Directors, as may be decided by the Compensation Committee, constituted by the Board.

(c) **Vesting, requirement of vesting and period of vesting**

Vesting to commence after a period of one year from the date of grant and may extend upto four years from the date of grant. The vesting may occur in tranches subject to the terms and conditions of vesting as may be stipulated by the Compensation Committee, which may include satisfactory performance of the employee.

(d) **Pricing Formula**

The employees will be granted Stock Option / Stock Appreciation Rights based on performance and other parameters as may be decided by the Compensation Committee. The price for the purpose of grant will be computed on the basis of the average of the high & low Bombay Stock Exchange Quotes during the year for which performance is evaluated. Vesting commences after a period of one year from the date of grant and may extend up to 4 years. For ascertaining the appreciation, the price for the purpose of exercise will also be computed as the average of high & low Bombay Stock Exchange Quotes during the period of 12 months ending on the date of 'exercise'.

In the case of Stock Options, the shares are allotted to the employee on exercise of the options and the employee pays the balance grant price per share.

In case of SAR, the amount of appreciation is given to the employee in the form of shares at the market price on the date of exercise. The employee pays Rs.10/- per share being the face value.

	Illustration	SCHEME A Options	SCHEME B SAR
(a)	Price of share for the purpose of Grant	Rs.100/-	Rs.100/-
(b)	Price of share for the purpose of exercise	N.A.	Rs. 250/-
(c)	Market price on the date of exercise	Rs.300/-	Rs.300/-
(d)	Appreciation per Option (c-a)/SAR (b–a)	Rs.200/-	Rs.150/-
(e)	Shares per SAR (d ÷ c)	N.A.	0.5
(f)	No of shares to be allotted	1 share per Option	No. of SARs x 0.5 shares per SAR
(g)	Amount payable by employee Per Option/SAR	Rs.100/-	Rs.10/-

Note: The above prices are only illustrative and do not reflect/indicate the actual prices of the shares of the Company.

(e) Exercise Period and the Process of Exercise

The Exercise period shall commence from the date of vesting and would expire not later than seven years from the date of grant or as may be decided by the Compensation Committee from time to time.

(f) Appraisal Process

As decided by the Compensation Committee, based on evaluation parameters such as performance, value creation, leadership, etc.

(g) Maximum number of options/SARs to be issued per employee and in aggregate

The maximum number of Options/SARs granted per eligible individual will not exceed 0.05% of the issued equity shares (1,24,474 shares) of the Company as on 31st March 1999. The aggregate of all such grants shall not exceed 5% of the issued equity shares (1,24,47,384 shares) of the Company as on 31st March 1999.

The Company shall conform to the accounting policies specified by SEBI (Employees Stock Option Scheme and Employee Stock Purchase Scheme) Guidelines, 1999, as may be applicable.

Section 81 of the Act provides, *inter alia*, that whenever it is proposed to increase the subscribed capital of a Company by a further allotment of shares, such shares shall be offered to the existing shareholders of the Company in the manner laid down in the said Section unless the shareholders in general meeting decide otherwise. To enable the Company to introduce Stock Option Schemes, the consent of the shareholders is required for issue of the shares in the manner set out in the resolution at Item No. 12.

The Directors recommend this resolution for approval of the shareholders.

The Directors of the Company are interested in this resolution to the extent of the Stock Options/Stock Appreciation Rights that may be granted to them.

Item 13

As per the SEBI Guidelines, a separate resolution is required to be passed if the benefits of the Employee Stock Option Scheme are to be extended to the employees of the subsidiary or holding company. Hence this resolution.

The SEBI Guidelines do not provide for extending the benefits of Employee Stock Option Scheme to the eligible employees of the associate companies. The Company proposes to seek permission from SEBI for extending the Scheme to the eligible employees of the associate companies also. The employees of the associate companies would be considered for participation in the Scheme, only if required permission is granted by SEBI.

None of the Directors is interested in this resolution.

Item No. 14

Section 224A of the Companies Act, 1956 provides that in the case of a Company in which not less than 25% of the subscribed share capital is held whether singly or in any combination, by:

a) a public financial institution or a Government Company or Central Government or any State Government, or

b) any financial or other institution established by any Provincial or State Act in which a State Government holds not less than 51% of the subscribed share capital, or

c) a nationalised bank or an insurance company carrying on general insurance business,

the appointment or re-appointment at each Annual General Meeting of an Auditor shall be made by a Special Resolution.

The total share capital held by public financial institutions, nationalised banks and nationalised insurance companies is over 25% of the subscribed share capital of the Company. It is therefore necessary that the re-appointment of Auditors should be made by a Special Resolution.

The Directors recommend this resolution for approval of the shareholders.

None of the Directors of the Company is in any way concerned or interested in this resolution.

By Order of the Board of Directors
for **LARSEN & TOUBRO LIMITED**

S.V.SUBRAMANIAN
COMPANY SECRETARY

Mumbai, 7th July, 1999

Registered Office:
L&T House, Ballard Estate,
Mumbai 400 001.

Review of Operations

1998-99 was yet another difficult year for the Indian economy. Though the GDP is estimated to have grown by 5.8% during the year as against 5.1% in 1997-98, the higher growth is largely on account of over 5% growth in the agricultural sector. The industrial sector continued to be sluggish. Industrial production registered a growth of only 3.8% as compared to 6.6% in the previous year. The manufacturing sector was also affected, with most industries registering marginal growth. A number of factors contributed to the slow down - lack of fresh investment, over capacities in some industrial sectors, infrastructure bottlenecks, political uncertainty, a lacklustre primary capital market and the crisis in South East Asia.

PERFORMANCE

The Company's performance during the year has to be viewed against this difficult environment. Sales and service revenue at Rs. 7292 crore, compared to Rs. 5677 crore last year showed a growth of 28%. However, the profitability was affected by the continued pressure on cement prices as well as depreciation and interest charges due to the commissioning of the Company's cement plants. In spite of these factors, profit before tax at Rs. 522 crore and profit after tax at Rs. 471 crore were lower by only 11.5%. An extraordinary profit of Rs. 81 crore, on account of the sale of Company's ships, is included in the profit figures. Order booking during the year was Rs. 7290 crore representing an increase of 9% over the previous year. Order backlog at the end of the year stood at Rs. 5871 crore.

L&T has identified Engineering & Construction, Cement, Electricals, Construction Equipment and Information Technology as the thrust areas for growth, and has initiated steps to build world-class capabilities in these segments. The Company has over the past few years restructured its operations and vacated those areas where it did not perceive any competitive advantage.

ENGINEERING & CONSTRUCTION

Engineering & Construction, comprising critical heavy engineering fabrication, projects and turnkey construction, continued to be the largest segment of the Company's business portfolio and accounted for over 60% of the Company's revenues.

Heavy Engineering (Fabrication)

The Company received major orders for critical equipment like grids for absorbent chamber, hydrotreaters, boiler feed water heaters and synthesis loop boiler from major customers including IPCL, MRPL, Reliance, Neyveli Lignite, RCF, Nagarjuna Fertilizers, Deepak Fertilizers, etc.

During the year, the Company supplied an E.O. reactor to IPCL. The 600 tonne reactor is the largest of its kind to be manufactured in India. The Company completed supplies of DHDS equipment to HPCL, BPCL, MRL and Haldia through Technimont ICB. In the fertilizer sector, L&T supplied R.G. boiler package, synthesis loop waste heat boiler, ammonia converter, urea reactors and secondary reformer to RCF, Oswal Fertilizers, Indo Gulf Fertilizer, Chambal Fertilizers, etc. Vacuum and atmospheric columns and high pressure heat exchangers were supplied to MRPL and IOCL respectively.

In the bulk material handling sector, the Company, in association with Tamrock Voest Alpine Bergtechnik, received a major order from Neyveli Lignite for the design, engineering and supply of spreaders and mobile transfer cars. The Company received orders for the upgradation of paper mills from Seshasayee Paper and Coastal Paper. The Company supplied and commissioned the de-inking plant for Coastal Paper that employs the latest environment-friendly technology, using paper waste as raw material. For the first time, the Company designed, manufactured and commissioned a barrel reclaimer for TISCO. The prestigious twin-strand slab casters for Bokaro steel plant of SAIL were commissioned during the year.

Projects

Major orders received by the Projects Group include fired heaters from IOCL; SRU block for DHDS project of HPCL from Siirtec Nigi; DHDS project on lump-sum turn-key basis from CRL; pipeline and platform modification project from ONGC through EIL, etc.

The Projects Group executed many prestigious projects during the year. HRC Platform, the first process platform project undertaken for ONGC, was installed at a water depth of 53 m and successfully commissioned. The Company also completed the leg repair of Sagar Laxmi jack-up rig for ONGC. The Group completed the world's largest modular continuous catalyst regeneration unit for Reliance Petroleum, using concurrent engineering technique with state of the art 3-D plant design software. Other projects completed include DHDS fast track turnkey project for IOCL, upgradation of cement plant for Zuari Cement, fired heaters for the aromatics complex as well as platforming and unionfining section of Reliance Petroleum refinery. The Company received an award for excellence in chemical plant design and engineering from the Indian Chemical Manufacturers' Association.

Power

Adopting a multi-pronged strategy, the Company has built capabilities for the development of captive and cogeneration power projects on BOOT/BOT basis, execution of independent power projects on EPC basis as well as supply of equipment and systems.

The 2x23 MW coal-based captive power plant for the Company's own cement plant at Awarpur and 96 MW combined cycle power plant for Gujarat Alkalies were commissioned during the year. The Company also received an order for 25 MW coal-based captive power plant from Usha Martin. The Company, in association with Skoda Exports, secured an order for the refurbishment of 230 MW Ennore thermal power station.

Construction

The Construction Group registered good growth during the year and received major orders from various sectors like building, power, transportation, water, hydrocarbon, electricals, telecom, etc. Some of the major orders booked include, National Stock Exchange building, Mumbai; TIDEL Park, Chennai; St. Gobain Glass factory, Chennai; hotels for Bharat Group and Hyatt; pipeline work for Petronet and IPCL, etc.

The Group completed structural fabrication, civil and erection works for Zuari Agro, Mahindra Ford and Hyundai; finishing works for ICICI corporate office building; renovation and construction for Shirdi Sai Sansthan; five star hotels for Le Meredien, ITC, Rahejas, etc. Civil and mechanical works for major power projects including Daelim combined cycle power plant, Bakreshwar thermal power plant and Madras Aluminium captive power plant are nearing completion. In the petrochemical sector, major portion of Reliance Petrochemical plant at Jamnagar was completed during the year. Other projects that have been completed or are nearing completion include, erection of corex towers for Jindal, equipment erection for ITC Bhadrachalam, space frame structures for stations of mass rapid transport system at Chennai.

In the electrical and telecom sector, the Company completed industrial electrification work for RBI's printing press; 400 kV switchyard at Itagi; 400 kV DC Koyna-Lonikhand transmission line towers; telecom towers for BPL US West, VSNL and Reliance Telecom; overhead electrification work for CORE and private railway siding work for NACAST, Grasim, TISCO, etc.

The Construction Group continued to explore and implement innovative construction methods. These included use of high performance and light-weight concrete, third generation plasticizers and industrial by-products like fly-ash and pulverised blast furnace slag in concrete. The Group developed know-how for design of multiflue steel-lined chimneys, a system for adjusting the height/width of tunnel to offer flexible solutions for mass housing, short line casting method to precast deck super-structure segments of bridges and know-how and software for the design of cross flow cooling towers.

The prestigious "ICI- McBauchemie Award" for the Most Outstanding Concrete Structure for 1998 was awarded to the Company for the new Nizamuddin bridge, known as Indo-Japan friendship bridge, for its innovative construction and timely completion. The other awards received include certificate of merit in the all India competition for outstanding repair and rehabilitation of concrete structures – 1998 by American Concrete Institute (Maharashtra chapter) for Buckley Court restoration work, ACCE award for outstanding concrete structure presented to Information Technology Park, Bangalore by Association of Consulting Civil Engineers.

Infrastructure

Lack of world-class infrastructure is emerging as a major bottleneck in the economic development of the country, with demand outpacing supply in areas like roads and bridges, ports and urban infrastructure. The main reason for this is the resource crunch with the government. The government has therefore taken steps to encourage private sector participation in this crucial area. The Company has identified infrastructure development as a major area for growth and has over the years built world class capabilities in this area.

Roads & Bridges

In the roads & bridges sector, the Company booked orders for a section of Mumbai-Pune expressway, bridge across river Yamuna for DMRC, Delhi, bridge on river Watrak in Gujarat on BOT basis from MOST, elevated track corridor between Shahdara-Tis Hazari section in Delhi, flyover in Mumbai, three mini flyovers in Chennai and Asia's first test track for Sundaram Clayton. A section of Sirsi circle flyover was completed and handed over to the Government of Karnataka during the year. Plant roads for Reliance Petroleum at Jamnagar and four-laning of Rajpura-Sirhind section of National Highway No. 1 in Punjab are nearing completion.

Ports

A multi purpose jetty at Adani for Adani Ports and product jetty at Vadinar for Essar Oil were completed during the year.

Urban Infrastructure

A major EPC contract for the construction of Tirupur water supply project was received from Mahindra & Mahindra. The other orders booked include Narippaiyur water supply scheme for TWAD Board at Ramnad; operation and maintenance of comprehensive water supply scheme for Sri Sathya Sai water supply project; construction of water and effluent treatment plants for Haldia Petrochemicals, Mahindra Ford, MRPL, IOCL and HPCL. A breakthrough was achieved in securing the first order for leak detection and rectification works from Chennai Metro Water Board.

Special Purpose Vehicles

The Company is executing various infrastructure projects on BOOT, BOT, BLO basis through special purpose vehicles.

- HPL Cogeneration Limited is building a 118 MW combined cycle cogeneration power plant on BOO basis for Haldia Petrochemicals. Construction work is at an advanced stage and the plant is expected to be operational during the current year.
- India Infrastructure Developers Limited is implementing 2x45 MW gas turbine-based cogeneration captive power project for IPCL on Build Lease and Operate (BLO) basis. For the first time, an innovative securitisation deal was completed to raise Rs. 409 crore from banks/financial institutions/mutual funds to finance the project.
- L&T Infocity Limited completed the first phase of the prestigious Hitec City project in a record time which was inaugurated by the Prime Minister, Mr. Atal Behari Vajpayee during the year. The work on the second phase has already commenced.
- L&T Transportation Infrastructure Limited is implementing the Coimbatore bypass project, Company's first BOT project. Athupalam bridge, forming part of the project, was completed and opened to traffic during the year. Construction of the bypass is progressing at a fast pace.
- Narmada Infrastructure Construction Enterprise Limited, formed for the construction of the second Narmada bridge in Gujarat on BOT basis, has progressed well and the bridge will be completed within the scheduled completion period.

CEMENT

L&T Cement continued to enjoy leadership position due to its consistently high quality. The total cement and clinker sales during the year at 9.64 million MT showed an increase of 42% over the previous year. All the plants of the Company including the recently commissioned ones are operating over their rated capacity.

Commercial production from the second plant at Gujarat commenced from 1.4.98 and from Andhra Pradesh Cement Unit, from 1.10.98. Each of these units have an annual capacity of 2 million tonnes. With the commissioning of these two units, the total cement capacity of the Company is now 10.65 million tonnes. With the acquisition of Narmada Cement Company Limited, this figure is 12 million tonnes, thus making L&T the largest producer of cement in India and a major producer even by international standards. This is reflected in the clinker production of 8.63 million tonnes and sales of clinker and cement of 9.64 million tonnes which are the highest by any company in India in 1998-99.

The Indian cement industry has been passing through a very difficult period since the last two years due to demand supply mismatch. Because of rapid build-up of the capacity in the last 5/6 years, supplies have been more than the demand and therefore, prices all over the country have been under pressure. At the same time, the Industry was burdened with increases in input costs. The situation was further aggravated by the crisis in South East Asia. Because of the large scale surpluses, South East Asian countries stepped up their efforts to export cement resulting in a very substantial drop in prices. India's export of clinker and cement which had been showing a healthy trend in the previous years, actually declined from 4.40 million MT in 1997-98 to 3.51 million MT in 1998-99, thus increasing the domestic availability further.