

TECHNOLOGY LEADERSHIP





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 year 2015-16 saw the Indian economy charting a measured course towards objectives set out by the Government two years ago. While investment momentum is still muted in some sectors, the positives to have emerged are the incremental but important steps taken by the Government in fiscal correction, inflation containment, subsidy reduction, efforts to reinvigorate tax administration and a thrust on increased investment in key infrastructure sectors. Private sector and industrial capex, however, remains subdued on account of paucity of funds in the private sector.

The global scenario offers less cause for cheer. The world economy encountered challenges at many levels last year. These include significant volatility, Eurozone instability, depression in crude oil and commodity prices,

currency depreciation in emerging markets, and a lingering slowdown in China. India's GDP growth - 7.6% as compared to 7.2% in the previous year - and reduced fiscal deficit of 3.9% sends out encouraging signals for the future.

I believe that the forthcoming year holds promise of improvement as far as investment momentum is concerned. The Government's focus on a slew of recent initiatives places your company in a favourable position. Our capabilities in high-tech design and manufacture are unmatched in industry. This enables us to extend the 'Make in India' theme to the upper end of the technological spectrum, as well as to the strategic sectors of defence, nuclear power and aerospace. Our three-decade long association with national defence

organisations ensures that we have the credentials to partner with them in the design and manufacture of defence equipment. We also possess in-house capabilities to design, equip and build the habitats of the future - Smart Cities.

Performance Overview

While new order acquisitions have been muted due to your Company's focus on disciplined bidding on infrastructure projects, the financial performance, as a whole, has been encouraging and has been lauded by Capital Markets. Order Inflows, which are the mainstay of your Company's dominance in the project business, clocked in at ₹ 136,858 crores at the Group level, which represents a decline of 12% over the corresponding inflows of the Previous Year. The muted inflows were the outcome of increased competitive price pressures in the power generation and hydrocarbon sectors.

The unexecuted Order Book stood at an all-time high of ₹ 249,949 crores and represents a 7% growth over the Order Book at the end of the Previous Year. This robust Order Book position provides your Company with multi-year forward visibility on Revenues and Margins. The Company grew revenues in 2015-16 to ₹ 102,632 crores, despite challenges faced in project execution in the form of delayed clearances and tardy progress payments from customers. This represents a 12% growth over revenues in the Previous Year. Losses incurred on Hydrocarbon projects in 2014-15 were largely avoided in 2015-16 and Profits after Tax at the Group level grew to ₹ 5,091 crores representing a growth of 7% over the corresponding Profit in 2014-15.

It gives me pleasure to announce that your Company has recommended a Dividend of ₹ 18.25 per equity share on a face value of ₹ 2 per share for the year. The corresponding dividend during the previous fiscal was at ₹ 16.25 per equity share.

Internationalisation

GCC countries, our staple international markets, are experiencing fiscal stress due to low oil prices, and opportunities in the hydrocarbon space have been reduced. Core infrastructure such as power transmission & distribution, hospitals, urban infrastructure, roads and rail networks, however, continue to see investment and these areas have yielded significant order wins for us. We

are also focusing on select countries in Africa and some parts of South East Asia. We believe that the opportunity basket that is likely to be provided to us in international markets will still be sufficiently large enough to enable a healthy, geographically-diversified revenue mix. The unexecuted Order Book from international markets stood at over ₹ 70,000 crores, which translates to 28% of the total Order Book. This largely comprises orders from diverse infrastructure areas such as metro rail, power transmission & distribution, road & expressways and hydrocarbon sectors.

Going Digital at L&T

Larsen & Toubro is implementing solutions using digital technologies to make quantum improvements in all key areas of work. A major step in this direction has been the setting up of a Digital Group which will ideate, initiate and implement solutions to deliver results to the business.

The areas where solutions are being developed and deployed are Tracking and Monitoring performance on all equipment deployed at construction sites by installing sensors and gateways; improving productivity and safety of workmen through tracking and tagging; optimising logistics and material consumption through GPS and RFID; project monitoring & control through data and visuals captured in real-time, and use of modern geospatial technologies including LiDAR and UAVs for surveys.

Another key area is Analytics that will pull in the data from all these initiatives into an Analytics engine to deliver trends, actionable insights and forecast scenarios for proactive and corrective action.

As technologies and business processes evolve, the group will continue to develop breakthrough solutions and evangelize the digital transformation.

Talent Management

Your Company views its people as the cornerstone of business and its Human Resources policy is geared towards developing individuals along with the organisation. The Company has a 7-step leadership development program which aims to build a leadership pipeline at various levels of management.

Sustainable Development

Your Company is committed to conserving natural

resources and enhancing social equity to achieve sustainable progress, while creating value for stakeholders. Significant initiatives have been undertaken in the areas of climate change and water conservation. Your Company's sustainability performance in energy conservation and carbon emission intensity reduction was showcased in the UN - Paris Climate Change Summit 2015. The Company's campuses in different parts of the country are focused on becoming water-positive and zero wastewater discharge units.

Your Company's CSR programmes focus on health, education, skill development and water & sanitation interventions to contribute to a better quality of life for the needy.

The total spends on CSR initiatives in 2015-16 by your Company amounted to ₹ 120 crores under eligible items as defined in the Companies Act which translates to 2.36% of the average annual net profits of the Company over the last 3 years.

Outlook

The thrust given by the Government on core infrastructure and 'Make in India' initiatives continues to give us a healthy basket of opportunities to tap. Increased allocations by the Centre and States on infrastructure spending, higher levels of outlay by cash-rich Public Sector enterprises and significant funding of infrastructure projects by bi-lateral and multi-lateral lending agencies is propelling the investment momentum forward. Several upcoming projects provide us with a broad perspective of the opportunity horizon opening up for us in 2016-17.

Segments that hold promise in FY17 include –

1) Infrastructure:

- a) **Roads** – The new political dispensation at the helm of affairs has kick-started investment in roads and FY16 saw a significant uptick in ordering of EPC road contracts by the National Highways Authority of India. We expect this impetus to continue and to be augmented by investments in specialised bridges and tunnels as well as highway orders in some Middle East countries.
- b) **Railways** – In FY16, your Company continued to build on its success in bagging orders for the Dedicated Freight Corridor program currently being piloted by the Indian Railways. The balance of

orders in this program are likely to be ordered out in FY17 and your Company will participate in those bids as well. Some Middle East countries are also planning investments in conventional rail networks and your Company will participate in those programs as and when the opportunity arises.

- c) **Metro Rail** – Your Company has been successfully executing Metro Rail projects in multiple cities over the last few years. Urban development authorities are increasingly viewing metro rail networks as the ideal solution to urban traffic decongestion and our assessment is that this area is likely to see increased spending in FY17 and beyond, through the launch of new projects in a number of cities across the country. Execution of 2 large metro rail projects won in Saudi Arabia and Qatar in FY14 is progressing well.
- d) **Urban Infrastructure** – While private sector investments in Urban Infra have seen lower investments, particularly in residential real estate, your Company continues to see a healthy pipeline of prospects in affordable housing, hospitals, office space for IT majors and facilities for educational institutions.
- e) **Smart World and Communication** – Larsen & Toubro has consistently aligned its capabilities to national priorities. Presently, there is a growing need for creating Digital India and smarter, secure and intelligent solutions to enhance quality of life. This has led to the rise of smart cities, advanced security solutions and communication infrastructure.

In response to this, L&T has integrated its range of comprehensive offerings in this sector to set up a dedicated Smart World & Communication business vertical which offers end-to-end solutions as a Master Systems Integrator in the areas of Security Solutions, Communications Network and Telecom Infrastructure and Smart Infrastructure. With adequate data and superior analytics, these smart world solutions will empower city leaders and planners to make better, more informed decisions, anticipate problems to resolve them proactively, coordinate resources to operate more effectively and efficiently, thereby enhancing the overall quality of life.

f) Water Infrastructure – This area has seen relatively poor investments over the last decade and such under-investment in basic water management resources is leading to seasonal water shortages across the country. Recognising this critical need, the Government has increased allocations in this essential sector recently and your Company expects to see a surge in revenues from the increased spends. This will be augmented by the opening up of fresh investment avenues in the allied segments of Waste Water Management and Lift Irrigation programs.

2) Thermal Power Generation:

This sector has been constrained with overcapacity in the manufacturing of boilers and turbines, delayed environmental clearances, dearth of fuel availability, increased difficulty in obtaining water linkages as well as long-term funding. FY16, however, saw a number of projects being ordered which your Company could not win due to intense price competition. FY17 is likely to witness ordering of projects aggregating around 8-10 GW and your Company is hopeful of garnering a significant share.

3) Power Transmission & Distribution:

FY16 continued to see strong ordering by Central and State power transmission utilities as well as by countries in the Middle East. Your Company has secured major orders in this sector and expects the investment momentum to continue into FY17.

4) Hydrocarbon:

Low oil prices have dampened investments in oil production facilities. Some Government enterprises, however, continue to invest in oil production with a view to bolstering India's fuel security, offering opportunities for your Company to leverage its EPC capabilities.

With India's commitment made in Paris on climate change, investment in clean fuel projects is likely to give opportunities to the Hydrocarbon business.

We are also eyeing opportunities in the domestic fertiliser sector, as plants opt for capacity augmentation. On the international front, your Company is eyeing opportunities in gas production,

processing and associated pipeline networks in the Middle East.

5) Defence Sector:

The current Government has made the most credible effort so far, to indigenise the manufacture of defence equipment. For L&T, with its long-standing association with the Ministry of Defence, extensive R&D and manufacturing muscle, this presents a major opportunity. We are participating in several bids for ships and artillery guns, among other programs. Any order wins for naval vessels will help improve the capacity utilisation at the Kattupalli Shipyard.

6) Heavy Engineering:

The domino effect of the fall in crude prices has led to shrinking orders for oil & gas projects globally and under-utilisation of manufacturing facilities for hydrocarbon equipment. The integrated steel-making & forging facility set up to meet the needs of the hydrocarbon and nuclear power sectors has also been negatively impacted. The Civil Liability for Nuclear Damages Act has been a major roadblock and the same is now being resolved with the formation of a ₹ 1,500 crore insurance pool, thus opening up opportunities for establishing new nuclear power plants in the near future, for which your Company is well placed. This could spark a resurgence in nuclear power investments which would augur well for your Company's heavy engineering business.

7) Metallurgical & Material Handling:

With global overcapacities in steel and a fall in commodity prices, investment in the ferrous and non-ferrous sectors in India has shrunk considerably. This has adversely affected a business which is already impacted by underutilisation.

Fortunately, the outlook is more positive. The green shoots of recovery in the mining sector is expected to provide a fillip to the Material Handling segment. The business expects to improve utilisation in 2016-17.

8) Electrical & Automation (E&A):

The Electrical & Automation business has registered muted growth in 2015-16 due to sluggish demand from the industrial, agriculture and building sectors. The Company's array of best-in-class low-voltage and medium-voltage products continues to provide a

competitive edge, enabling the company to make the most of the expected revival of domestic demand. During the year, your Company launched a series of contemporary Final Distribution products in the categories of MCBs (Miniature Circuit Breakers), RCCBs (Residual Current Circuit Breakers), Control Accessories and Distribution Boards as well as a full programme of Bus-bar trunking systems for modern buildings and Intelligent Controllers for agricultural markets. With a focus on operational excellence, the business expects to continue delivering profitable growth

9) Realty:

This business, which was launched by your Company a few years ago, continues to contribute to revenues and margins through delivery of superior quality projects. Projects under execution in Mumbai and Navi Mumbai are progressing well and a residential housing project launched recently in Bangalore has been received favourably by way of advance bookings. The business is slated to shortly launch another project in Chennai as well as the second phase of its project in Powai, Mumbai. With a substantial land bank for development in hand, this business is expected to deliver steady and profitable revenues over the next few years.

10) Information Technology and Technology Services (IT&TS):

The IT&TS business vertical continues to grow and prosper and your Company intends to list these businesses through Public Offerings in 2016-17. With the focus on client mining and growth seen in multiple verticals such as BFSI, Automotive, Aerospace, Industrial Products and Process Engineering sectors, the business is slated to register continued growth and profitability.

11) Financial Services:

This business, which was listed in 2011, continues to grow and had a loan book of over ₹ 57,000 crores at the end of FY16. The business is focusing on portfolio rationalisation, right-sizing of manpower, and improving the quality of assets in an effort to enhance Return on Equity.

12) Development Projects:

Your Company currently has a portfolio of concession

assets in the areas of roads, power generation & transmission, and a metro rail. Most of these projects are operational and as such, the infrastructure projects portfolio is going through a major restructuring exercise for the Company to continue its efforts to become more asset light. The metro rail project in Hyderabad, which is one of the largest 'transit-oriented-development' projects in the country, is progressing satisfactorily and is likely to be fully commissioned in FY19.

13) Strategic Plans:

Your Company has recently concluded deliberations on the strategy for the next 5 years and has finalised the contours of this plan. Highlights of this plan include:

- Focus on execution of the large Order Book in hand, while selectively participating in new bids
- Gearing up to tap emerging opportunities in the Defence, Railways, Mining, Smart Cities and Digital business
- Consistently growing revenues over the plan period
- Steady reduction of Net Working Capital levels
- Exit from the General Insurance business
- Monetisation of road, port and power assets within the plan period

These steps are expected to result in improved Free Cash Flows, Profit after Tax and Return on Equity.

In conclusion, I would like to thank my fellow Board Members, L&T-ites, customers, vendors and other stakeholders who have collectively enabled sustainable and profitable growth of the business.

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 ROY	<i>Whole-time Director & Sr. 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 and 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 Life Insurance Corporation of India</i>
MR. ADIL ZAINULBHAI	<i>Independent Director</i>
MR. AKHILESH KRISHNA GUPTA	<i>Independent Director</i>
MR. BAHRAM N VAKIL	<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. NARAYANAN 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
Solicitors	M/s. Manilal Kher Ambalal & Co.
Registrar & Share Transfer Agents	Karvy Computershare Private Limited

71st ANNUAL GENERAL MEETING AT BIRLA MATUSHRI SABHAGAR, 19, MARINE LINES, MUMBAI - 400 020 ON FRIDAY, AUGUST 26, 2016 AT 3.00 P.M.

