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# TIMKEN INDIA LIMITED

## BOARD OF DIRECTORS

**MR G W ROBINSON** – Chairman & Managing Director  
**MR S K SINHA** – Dy. Managing Director  
**MR M J HILL**  
**MR N MAHANTY**  
**MR J S PATHAK**  
**MR P S DASGUPTA**  
**MS SUNITHA NARAHARI** – Alternate to Mr M J Hill

## COMMITTEES OF THE BOARD

### AUDIT COMMITTEE

**MR P S DASGUPTA** – Chairman  
**MR N MAHANTY**  
**MR J S PATHAK**  
**MR S K SINHA**

### REMUNERATION COMMITTEE

**MR N MAHANTY** – Chairman  
**MR P S DASGUPTA**  
**MR J S PATHAK**

### INVESTORS' RELATION & GRIEVANCE COMMITTEE

**MR N MAHANTY** – Chairman  
**MR S K SINHA**  
**MR J S PATHAK**

### Auditors

Messrs S R Batliboi & Co.  
Chartered Accountants  
22, Camac Street  
Block - C, 3rd Floor,  
Kolkata –700 016.

### Registered Office

Bara, P. O. Agrico  
Jamshedpur – 831 009  
Ph. No. (0657) 2210 293  
Fax No. (0657) 2210 117

## NOTICE

Notice is hereby given that the Nineteenth Annual General Meeting of Timken India Limited will be held at Center for Excellence, Circuit House Area, Jamshedpur – 831 001 on Friday, April 28, 2006 at 3.00 pm to transact the following business:

1. To receive and adopt the Profit and Loss Account for the year ended December 31, 2005 and the Balance Sheet as on that date and the reports of the Directors and the Auditors.
2. To appoint a Director in place of Mr. Niroop Mahanty who retires by rotation and being eligible offers himself for reappointment.
3. To appoint Auditors of the Company and to fix their remuneration.

### SPECIAL BUSINESS

4. Appointment of Mr. P S Dasgupta as a Director of the Company

To consider and, if thought fit, to pass with or without modification, the following resolution as an ordinary resolution:

“RESOLVED THAT Mr. P S Dasgupta, in whose respect notice has been received from a member under the provisions of Section 257 of the Companies Act, 1956, be and is hereby appointed as a Director of the Company.”

5. Appointment of Mr. Jai S Pathak as a Director of the Company

To consider and, if thought fit, to pass with or without modification, the following resolution as an ordinary resolution:

“RESOLVED THAT Mr. Jai S Pathak, in whose respect notice has been received from a member under the provisions of Section 257 of the Companies Act, 1956, be and is hereby appointed as a Director of the Company.”

6. Remuneration paid to Dy. Managing Director

To consider and, if thought fit, to pass with or without modification, the following resolution as an ordinary resolution:

“RESOLVED THAT pursuant to Section 310 and other applicable provisions if any, of the Companies Act, 1956 and subject to such approvals as may be necessary, the Company hereby accords its approval to the increase in remuneration paid / payable to Mr. Shyamal Kumar Sinha ('Mr. Sinha') as the Dy. Managing Director of the Company as per details contained in the draft Supplementary Agreement to be entered into between the Company and Mr. Sinha in terms of the draft placed before the meeting and initialed by the Chairman of the meeting for the purpose of identification and that the Board of Directors of the Company be and is hereby authorized to take all such steps in this regard as may be

necessary, proper and expedient, including without limitation, entering into an agreement on behalf of the Company with Mr. Sinha in terms of the said draft.”

7. Reappointment of Mr. Shyamal K. Sinha as the Dy. Managing Director of the Company

To consider and, if thought fit, to pass with or without modification, the following resolution as an ordinary resolution :

“RESOLVED THAT pursuant to Section 269, 309 and other applicable provisions if any, of the Companies Act, 1956 and subject to such approvals as may be necessary, Mr. Shyamal K. Sinha ('Mr. Sinha') be reappointed as the Dy. Managing Director of the Company for a period of five years effective 8 June 2006 on the terms and conditions set out in an Agreement to be entered into between the Company and Mr. Sinha in terms of the draft placed before the meeting and initialled by the Chairman of the meeting for the purpose of identification and that the Board of Directors of the Company be and is hereby authorized to take all such steps in this regard as may be necessary, proper and expedient, including without restriction to entering into an Agreement on behalf of the Company with Mr. Sinha in terms of the said draft.”

### NOTES :

1. A Member entitled to attend and vote at the meeting is entitled to appoint a Proxy to attend and vote instead of himself and the Proxy need not be a Member. Proxies, in order to be effective, must reach the Registered Office of the Company not less than 48 hours before the time for holding the Meeting.
2. An Explanatory Statement pursuant to Section 173(2) of the Companies Act, 1956 in respect of the Special Business under items no. 4 to 7 is annexed hereto. Applicable details relating to Directors pursuant to Clause 49 of the Listing Agreement are also annexed.
3. The Register of Members and the share transfer books of the Company would remain closed from April 13, 2006 to April 28, 2006, both days inclusive.
4. Copy of the Draft Supplementary Agreement and Agreement relating to reappointment of Dy. Managing Director to be executed between the Company and Mr. Shyamal K. Sinha in terms of the Resolutions under Item No. 6 & 7 above shall be available for inspection at the Registered Office of the Company at Bara, P.O. Agrico, Jamshedpur – 831 009 on any working day prior to the date of the aforesaid meeting between the hours of 10.00 am and 12.00 Noon and shall also be available for inspection from 1.00 pm at the place on the date of the meeting.

By Order of the Board

Registered Office :  
Bara, P.O. Agrico  
Jamshedpur – 831 009  
March 27, 2006

**Soumitra Hazra**  
Finance Controller  
& Company Secretary

**ANNEXURE TO THE NOTICE – EXPLANATORY STATEMENT PURSUANT TO SECTION 173(2) OF THE COMPANIES ACT, 1956****Item No. 4**

Mr. P. S. Dasgupta ('Mr. Dasgupta'), Director of the Company, was appointed by the Board of Directors of the Company ('the Board') as an Additional Director with effect from close of business hours on 31 December 2005. As per the provisions of the Companies Act, 1956 Mr. Dasgupta holds office upto to the date of forthcoming Annual General Meeting.

The Company has received a notice from a member under the provisions of Section 257 of the Companies Act, 1956 proposing Mr. Dasgupta as a candidate for the office of Director.

The proposal for the appointment of Mr. Dasgupta as Director on the Board, is therefore, placed before the members for approval as set out under item no. 4 of the accompanying Notice. The Board recommends the Resolution set out under item no. 4 for approval of members.

**Memorandum of Interest**

Except Mr. Dasgupta, no other Director is concerned or interested in the resolution.

**Item No. 5**

Mr. Jai S. Pathak ('Mr. Pathak'), Director of the Company, was appointed by the Board of Directors of the Company ('the Board') as an Additional Director with effect from close of business hours on 31 December 2005. As per the provisions of the Companies Act, 1956 Mr. Pathak holds office upto to the date of forthcoming Annual General Meeting.

The Company has received a notice from a member under the provisions of Section 257 of the Companies Act, 1956 proposing Mr. Pathak as a candidate for the office of Director.

The proposal for the appointment of Mr. Pathak as Director on the Board, is therefore, placed before the members for approval as set out under item no. 5 of the accompanying Notice. The Board recommends the Resolution set out under item no. 5 for approval of members.

**Memorandum of Interest**

Except Mr. Pathak, no other Director is concerned or interested in the resolution.

**Item No. 6**

The Board of Directors, subject to the requisite approval of the Members of the Company and such other approvals as may be necessary, approved the following merit increases in remuneration paid / payable to Mr. Sinha as per details contained in the draft Supplementary Agreement to be entered into between the Company and Mr. Sinha, an abstract of which is set out as follows :

"1) Salary & other Allowances be increased to Rs. 1,27,950/- and to Rs. 1,38,650/- effective July 8, 2005 and March 1, 2006 respectively.

2) Para (i) under the head "Perquisites" be replaced with following words : Free furnished accommodation as per Company rules effective March 1, 2006, other terms remaining the same".

The Board of Directors recommends the Resolution set out under Item no. 6 for approval of the members.

**Memorandum of Interest**

No Director of the Company, except Mr. Sinha is concerned or interested in the said Resolution.

This may be treated as the Abstract of the terms and Memorandum of Interest and also as an Abstract of the Agreement between the Company and Mr. Sinha pursuant to Section 302 of the Companies Act, 1956.

**Item No. 7**

The term of office of Mr. Shyamal Kumar Sinha ('Mr. Sinha') as Dy. Managing Director comes to an end on June 7, 2006 pursuant to the applicable provisions of the Companies Act, 1956. He has been reappointed for another term of five years by Remuneration Committee of the Board and also by the Board of Directors effective June 8, 2006 as per details contained in a draft Agreement to be entered into between the Company and Mr. Sinha, an abstract of which is set out as follows:

The terms governing the reappointment will be as per the Company's Policy for appointment / reappointment of Executive Directors – Indian National. These terms are substantially similar to those governed Mr. Sinha's earlier appointment.

Mr. Sinha's starting basic salary shall be Rs. 1,05,100/- which may progressively go up by such amounts as may be approved by Chairman & Managing Director based on periodic performance reviews, merit increase and industry trends, provided however that in no case such basic salary shall exceed Rs. 3,25,000/-.

The said reappointment of Mr. Sinha, including his remuneration as referred to above is subject to and requires shareholders' approval.

The Board recommends the Resolution set out under item no. 7 for approval of members.

**Memorandum of Interest**

Except Mr. Sinha, no other Director is concerned or interested in the resolution.

This may be treated as an abstract of the terms and memorandum of interest and also as an abstract of the proposed Agreement between the Company and Mr. Sinha pursuant to Section 302 of the Companies Act, 1956.

Registered Office :  
Bara, P.O. Agrico  
Jamshedpur – 831 009  
March 27, 2006

By Order of the Board

**Soumitra Hazra**  
*Finance Controller  
& Company Secretary*

<b>APPLICABLE DETAILS OF DIRECTORS IN TERMS OF CLAUSE 49 OF THE LISTING AGREEMENT</b>				
<b>Name of Director</b>	<b>Mr. Niroop Mahanty</b>	<b>Mr. P S Dasgupta</b>	<b>Mr. Shyamal K Sinha</b>	<b>Mr. Jai S Pathak</b>
Date of Birth	January 12, 1950	June 30, 1955	July 4, 1951	January 14, 1959
Date of Appointment	April 24, 2004	Effective close of business hours on December 31, 2005	June 8, 2001	Effective close of business hours on December 31, 2005
Expertise in specific functional areas	<ul style="list-style-type: none"> <li>Human Resources</li> <li>General Management</li> </ul>	<ul style="list-style-type: none"> <li>Legal Profession</li> <li>General Management</li> </ul>	<ul style="list-style-type: none"> <li>Finance</li> <li>General Management</li> </ul>	<ul style="list-style-type: none"> <li>Legal Profession</li> <li>General Management</li> </ul>
Qualifications	<ul style="list-style-type: none"> <li>BA (Hons.) St. Stephens College, Delhi University</li> <li>MBA – University of Colorado, USA</li> </ul>	<ul style="list-style-type: none"> <li>Bachelor of Law, Faculty of Law, Delhi University</li> <li>BA, Econ (Hons.)</li> <li>Post Graduate Diploma in Corporate Laws &amp; Labour Laws – Indian Law Institute, Delhi</li> </ul>	<ul style="list-style-type: none"> <li>B.Com (Hons.), ICWA</li> </ul>	<ul style="list-style-type: none"> <li>BA (Hons.), Delhi University</li> <li>MA Intl. Relation, JNU</li> <li>BA (Hons.), Jurisprudence, Oxford University, UK</li> <li>MA, Oxford University, UK</li> <li>LL.M, University of Virginia, USA</li> </ul>
List of public companies in which outside Directorship held as on December 31, 2005	<ul style="list-style-type: none"> <li>Steel City Press Limited</li> <li>Kalinga Aquatics Limited</li> </ul>	<ul style="list-style-type: none"> <li>Carrier Aircon Ltd.</li> <li>Cummins India Ltd.</li> <li>Cummins Auto Services Ltd.</li> <li>Gujarat Guardian Ltd.</li> <li>India Gypsum Ltd.</li> <li>Otis Elevator Co. India Ltd.</li> <li>Maral Overseas Ltd.</li> </ul>	Nil	<ul style="list-style-type: none"> <li>i-Gate Global Systems Limited</li> </ul>
Chairman / Member of the Committees of the Board of the Companies on which he is a Director as on December 31, 2005	<ul style="list-style-type: none"> <li>Timken India Limited – Chairman – Remuneration Committee</li> <li>Timken India Limited – Chairman – Investors' Relation &amp; Grievance Committee</li> <li>Timken India Limited – Member – Audit Committee</li> </ul>	<ul style="list-style-type: none"> <li>Carrier Aircon Ltd. – Member – Shareholders Grievance Committee</li> <li>Cummins India Ltd. – Member – Finance and Audit Committee</li> <li>India Gypsum Ltd. – Member – Share Transfer Committee</li> <li>India Gypsum Ltd. – Member – Finance and Audit Committee</li> <li>India Gypsum Ltd. – Member – Remuneration Committee</li> <li>Otis Elevator Co. India Ltd. – Member – Audit Committee</li> <li>Otis Elevator Co. India Ltd. – Member – Shareholders/Investors Grievance Committee</li> <li>Timken India Limited – Member – Remuneration Committee</li> <li>Timken India Limited – Chairman – Audit Committee</li> <li>Maral Overseas Ltd. – Member – Audit Committee</li> </ul>	<ul style="list-style-type: none"> <li>Timken India Limited – Member – Audit Committee</li> <li>Timken India Limited – Member – Investors Relation &amp; Grievance Committee</li> </ul>	<ul style="list-style-type: none"> <li>Timken India Limited – Member – Audit Committee</li> <li>Timken India Limited – Member – Investors' Relations &amp; Grievance Committee</li> <li>Timken India Limited – Member – Remuneration Committee</li> <li>i-Gate Global Systems Limited – Member – Audit Committee</li> <li>i-Gate Global Systems Limited – Chairman – Shareholders' Grievance Committee</li> <li>i-Gate Global Systems Limited – Member – Compensation Committee</li> </ul>
Shareholding in the Company	—	1 Equity Share	150 Equity Shares	—

## STATEMENT FROM CHAIRMAN & MANAGING DIRECTOR

### Dear Shareholders,

If 2004 was about continuing to maintain the growth trend from the earlier years for Timken India, 2005 could be considered the year in which your company picked up the pace on several fronts and broke fresh ground on others.

The year gone by saw your company successfully managing a lot of uncertainties – from escalating Steel and Fuel prices to changing customer requirements. Despite this you have seen your company go from strength to strength every year, but the market dynamics have become such that to be able to grow at a faster pace, we need to do things differently & better.

To do that, we have to continuously improve every aspect of our operations, from engineering & design to manufacturing, quality, product range to our customer interface.

We have seen demand for our products increase and we have made serious efforts to meet these demands – both on the Manufacturing and the Sales & Marketing front.

Through 2005, your company has successfully launched several new products and initiatives – Timken Premium Automotive Grease, Timken Service Points, Ball Bearings and Needle Roller Bearings for the Automotive OEs.

The extension of our product portfolio has been very well received by our channel partners and customers. This is evident from the enthusiasm shown by our channel partners in every city that we have launched these new products. They now have a much broader portfolio of products to offer to their customers, opening up newer business opportunities and increasing their profitability.

In line with The Timken Company's global strategy for growth – particularly in India and China, your company has taken several measures to ensure that we stay highly focused and on track with our corporate goal of reaching a consolidated sales turnover of US\$ 1 billion by the year 2008 for the Asian region.

To achieve this growth target we must become more customer focused. Listening to the voice of the customer, introducing newer products and services and aggressive marketing, are the only way ahead.

As our customers in India move to compete with the best in the world, we too have to be constantly helping them improve their products and performance by applying our knowledge of friction management and power transmission to deliver unparalleled value and innovation to them.

Your company's Sales & Marketing operations have been strengthened and streamlined to serve our customer's needs in a more efficient manner.

The MillTech operations – our On-site Maintenance Service - that we presently run at Jamshedpur and several of our industrial customer locations, are being seen as benchmarks in our industry and we intend to replicate these successes at several other customer locations in the coming year.

Timken Engineering and Research – India (TERI), The Timken Company's global engineering centre in Bangalore continues to be a major resource for us – especially with customers who need design & engineering support in the development of new products.

As the interaction between TERI and our customer base increases, we will continue to leverage on TERI's strengths and build on it.

TERI engineers have also been working on several projects aimed at improving our plant efficiencies with customized machine tools and other machinery.

There have been many successes in our continuing efforts to improve operating efficiencies at our Jamshedpur plant – with several new associates leading the crucial functions:

- Lean Six Sigma initiatives driving many of our productivity & capacity utilisation projects
- addition of new production lines for expansion

Our continuing efforts to achieve better manpower & capacity utilisation and new product lines to meet the growing demand for our products, are being reflected in a better product mix flowing out of the plant and enhanced Customer service.

The establishment of a robust Supply Chain Management team will definitely add value to our operating efficiencies. With a gradual integration into the global supply chain process underway, we will continue to see the results of our efforts in improving on parameters like Inventory Management, Cost-Quality-Delivery of products and finished material rejection.

With input costs of major items like Steel & Fuel scaling new heights, it will be a challenge for us to maintain our cost effectiveness while delivering products conforming to global quality standards to our demanding customers. The customer is unforgiving, but I am sure that our uncompromising commitment to provide them with the world's best friction management solutions at the lowest cost of ownership will see us meet these challenges and continue to grow profitably.

Several of the Finance Minister's announcements during his budget presentation this year, are indicative of the government's commitment to creating the right environment for growth of Indian industry. We see a huge opportunity opening up for us over the next few years, as India moves towards becoming the regional small car manufacturing hub, along with the on-going boom in the 2-wheeler segment. With the stress on further opening up of several sectors of the Indian economy, and renewed emphasis on infrastructure building, we expect to see positive developments in core sectors like Steel and Power.

When you couple the changes that we have been bringing to our operations with a wider product portfolio, increased customer interaction, faster delivery of products - what you have is a more satisfied customer fuelling our growth.

Where there is an opportunity, there is a challenge. 2006 promises to be just that for us. With the economy set to grow at a faster pace and the demand for our products also increasing, we have to be increasingly agile and responsive, to take advantage of the various opportunities that will continue to open up before us.

The onus will be on every one of our stakeholders – Channel Partners, Suppliers and Associates, and with your patronage - to put their best foot forward and capitalise on the opportunities to improve your company's profitability and provide enhanced value to our customers and shareholders.

Thanking you,

Yours sincerely,



**Gordon William Robinson**  
Chairman & Managing Director

Bangalore  
March 27, 2006



## DIRECTORS' REPORT

### TO THE MEMBERS

The Directors have pleasure in presenting the Nineteenth Annual Report on the business and operations of the Company together with the Financial Results for the year ended December 31, 2005.

### FINANCIAL RESULTS

	Year ended December 31, 2005 (Rs/Lakhs)	Year ended December 31, 2004 (Rs/Lakhs)
a) Gross Profit	6257	6007
b) <b>Less:</b> Depreciation	876	828
c) Earnings before Interest, Tax & Prior period item	5381	5179
d) <b>Less:</b> Interest (Net)	95	90
e) <b>Add:</b> Income relating to prior period	9	—
f) Profit before Tax (PBT)	5295	5089
g) <b>Less:</b> Taxes	1807	1789
h) Profit after Tax (PAT)	3488	3300
i) <b>Add:</b> Profit brought forward from previous year	4375	1075
j) Profit available for appropriation	7863	4375
k) Balance carried forward	7863	4375

The net sales (with other Income) grew by 11% from Rs 278 crores in 2004 to Rs 309 crores in 2005. The export of the company however grew significantly from Rs 110 crores in 2004 to Rs 130 crores in 2005 i.e. a growth of 18%. Most of the exports had been to USA.

While there had been sales growth of 11%, PBT increased very marginally during the year from Rs 51 crores in 2004 to Rs 53 crores. It is mainly due to some preventive measures & structural-correction as staff cost, repairs to machine and building, process-obsolescence & write-off etc. One-time charges included in above are unlikely to be repeated over the years. Profit margin at net level therefore stands marginally reduced to 17% in 2005 as against 18% in 2004.

### DIVIDEND

Your Directors are not recommending payment of any dividend on equity shares for 2005.

### PROJECTS

In 2005, the Company undertook an expansion project of installing a new 8" cone line. This new line has been installed and commercial production has started on April 5, 2005. The actual investment for this project has been around Rs. 2 Crores.

The progress for the other project to manufacture Double Extended (DE) cones has been satisfactory. The production facilities to manufacture 1,10,000 DE cones have since been installed and commissioned and the first phase of this project has become operational with effect from November 7, 2005. Two more similar Cells involving addition of 2,20,000 DE cones are being built and is expected to be completed by the end of the first quarter 2007. The

Company has so far spent around Rs. 4 Crores for this purpose.

### FINANCE

Efficient management of working capital comprising Inventory and Receivables helped the Company in generating enough cash flow. Pending investment of such fund in growth, it has been temporarily parked in short-term investments in various high-secured mutual funds. Such measures, though temporary, have resulted in a significant addition to the bottom-line. The average inventory holding period has improved from 76 days in 2004 to 74 days in 2005. The level of external borrowings has all along been maintained at a low level. The present debt equity ratio stands at 1:19 compared to 1:7 as on December 31, 2004.

### LISTING / VOLUNTARY DELISTING OF EQUITY SHARES ON STOCK EXCHANGES

Consequent to the shareholders' approval received at the last Annual General Meeting, applications have since been submitted for delisting the Company's Equity Shares from Calcutta and Magadh Stock Exchanges and the applications are under consideration of the respective Exchanges. Steps have also been initiated for enlisting of the Equity Shares of the Company on the National Stock Exchange, Mumbai.

The listing of the Company's Equity Shares on The Stock Exchange, Mumbai however, continues.

The listing fees for the year 2005-06 have been paid to the Stock Exchanges.

### DIRECTORS

Mr. Jon T Elsasser, who has been acting as a Director of the Company has resigned with effect from the close of business hours on December 31, 2005. The Board placed on record its deep appreciation of the valuable contribution made by Mr. Elsasser during his tenure. Mr. P S Dasgupta who has been acting as his Alternate Director on the Board has also ceased to be such a Director consequent to the resignation of Mr. Elsasser as a Director of the Company. The Board placed on record its deep appreciation of the valuable contribution made by Mr. Dasgupta during his tenure as an Alternate Director.

Mr. Jai S Pathak who has been acting as the Alternate Director for Mr. Michael J Hill, has since resigned as an Alternate Director with effect from the close of business hours on December 31, 2005. The Board placed on record its deep appreciation of the valuable contribution made by Mr. Pathak during his tenure as an Alternate Director.

Ms. Sunitha Narahari who has been appointed as an Additional Director by the Board on July 30, 2005 has tendered her resignation as an Additional Director of the Company with effect from the close of business hours on December 31, 2005. The Board placed on record its deep appreciation of the valuable contribution made by Ms. Narahari during her tenure as an Additional Director.

The Board has since appointed Mr. P S Dasgupta and Mr. Jai S Pathak as Additional Directors with effect from the close of business hours on December 31, 2005. In terms of relevant provisions of the Companies Act, 1956 ('the Act'), both Mr. Dasgupta and Mr. Pathak hold office upto the date of the forthcoming Annual General Meeting. The Company has received notices from two members in terms of Section 257 of the Act signifying their respective intentions to propose the names of Mr. Dasgupta and Mr. Pathak respectively for appointment as Directors of the Company at the next Annual General Meeting. These items have been included in the Notice convening the next Annual General Meeting of the Company.

The current term of office of Mr. Shyamal K. Sinha, Dy. Managing Director shall come to an end on June 7, 2006 in terms of the applicable provisions of law. Subject to necessary approvals the Board has reappointed him for another term of five years with effect from June 8, 2006. Such appointment require an approval from the shareholders of the Company. This item has also been included in the Notice convening the Nineteenth Annual General Meeting of the Company.



Mr. Niroop Mahanty is liable to retire by rotation at the forthcoming Annual General Meeting and being eligible, offers himself for reappointment at the said Annual General Meeting.

#### **AUDITORS**

Messrs. S R Batliboi and Co., Chartered Accountants, Auditors of the Company retire at the conclusion of the Nineteenth Annual General Meeting and offer themselves for reappointment. They have furnished to the Company a Certificate, regarding their eligibility for reappointment.

Pursuant to the directions received from the Central Government, Mr. Prakash Kumar Varma has been reappointed as the Cost Auditor to audit the Cost Accounts of the Company for the year ended December 31, 2005.

#### **CORPORATE GOVERNANCE**

Pursuant to Clause 49 of the Listing Agreements with the Stock Exchanges, Management Discussion and Analysis, Corporate Governance Report and Auditors' Certificate regarding compliance of conditions of corporate governance are made a part of the Annual Report.

#### **INDUSTRIAL RELATIONS**

The performance of the Company during the year ended December 31, 2005 could be made possible only with the collective contribution and excellent performance of the Associates both in terms of operational parameters and also at the market place. The Directors express their appreciation for the wholehearted support received from all sections of the Associates of the Company.

#### **SOCIAL RESPONSIBILITY**

The Company has been actively participating in the promotion of social welfare activities of the community in the industrial town of Jamshedpur.

#### **PARTICULARS OF EMPLOYEES**

Information in accordance with the provisions of Section 217(2A) of the Companies Act, 1956, read with the Companies (Particulars of Employees) Rules, 1975, as amended, regarding employees is given in Annexure B to the Directors' Report.

#### **CONSERVATION OF ENERGY, TECHNOLOGY ABSORPTION & FOREIGN EXCHANGE**

All the new machineries installed during the year are energy efficient. Significant cost saving on cutting fluids and consumption of electricity

have been achieved by machine modifications, energy audit and efficient coolant management. Regarding absorption of foreign technology, the process is ongoing in the areas of machining, heat treatment and finishing. The Company has now achieved full indigenisation of all components for Standard Bearings and substantial indigenisation for AP Bearings. It is the intention of the Company to proceed with the process of indigenisation further.

Other details are given in the Annexure, which also forms part of this report.

#### **DIRECTORS' RESPONSIBILITY STATEMENT**

Pursuant to the provision of Section 217(2AA) of the Companies Act, 1956, the Directors give hereunder the Directors' Responsibility Statement relating to the Accounts of the Company:

- (1) The applicable Accounting Standards have been followed, in the preparation of the accompanying Accounts;
- (2) The Directors have selected such Accounting Policies and applied them consistently and made judgments and estimates that are reasonable and prudent so as to give a true and fair view of the state of affairs of the Company at the end of the year ended December 31, 2005 and of the profit of the Company for the said period;
- (3) The Directors have taken proper and sufficient care for the maintenance of adequate accounting records in accordance with the provisions of the Companies Act, 1956 for safeguarding the assets of the Company and for preventing and detecting fraud and other irregularities; and
- (4) The Directors have prepared the accompanying Accounts on a going concern basis.

For and on behalf of the Board of Directors

Bangalore  
March 27, 2006

**Gordon William Robinson**  
*Chairman & Managing Director*

**ANNEXURE TO THE DIRECTORS' REPORT—INFORMATION UNDER SECTION 217(1)(e) OF THE COMPANIES ACT, 1956 READ WITH THE COMPANIES (DISCLOSURE OF PARTICULARS IN THE REPORT OF BOARD OF DIRECTORS RULES), 1988 AND FORMING PART OF DIRECTORS' REPORT**

**A. CONSERVATION OF ENERGY**

- (a) Energy conservation measures taken
- (b) Additional Investments / proposal, if any
- (c) Impact of the measures at (a) and (b) above

The Overall Plant power factor continued to improve in 2005 to 0.93. This has resulted in an approximate saving of Rs. 6 lacs on Maximum Demand and a recurring saving of Rs. 8 lacs is expected to accrue to the Company from next year. The Company plans to improve the Overall Power factor in 2006 to 0.98 resulting in further savings. The high risk factor on 33KV power operations, identified during the Energy Audit of last year, was taken care of by upgrading all the HT Breakers to latest technology. One more gas fired 4B Furnace was put in operation with improved productivity by 50% resulting in reduction in energy consumption by 50%.

New equipments / machines added during the year are energy efficient like earlier installations (Also please see Directors' Report)

As per details given below under Form A

- (d) Total energy consumption and energy consumption per unit of production

**B. TECHNOLOGY ABSORPTION**

- (e) As per details given below under Form B.

**C. FOREIGN EXCHANGE EARNINGS AND OUTGO**

- (f) Activities relating to exports, initiatives taken to increase exports; development of new export markets for products and services; and export plans

During the period under review, exports registered an increase of 18% compared to 2004. Some of the Part Numbers hitherto manufactured at other Timken locations worldwide have now moved to Company's Plant in Jamshedpur. The current indications about the export trend remains encouraging even in 2006.

- (g) Total foreign exchange used and earned (Rs./Lacs)

	<b>2005</b>	2004
i) Foreign Exchange Earnings	<b>14925</b>	9256
ii) Foreign Exchange Outgo	<b>4237</b>	3943

**FORM A**

**Form for Disclosure of Particulars with respect to Conservation of Energy**

**A. Power and fuel consumption**

1. Electricity

	<b>2005</b>	2004
(a) Purchased Units (KWH)	<b>1,86,94,870</b>	1,87,92,090
Total amount (Rs.)	<b>6,90,16,132</b>	7,41,09,955
Rate Per Unit (Rs.) (all inclusive)	<b>3.69</b>	3.94

(b) Own generation

- (i) Through diesel generator
  - Unit
  - Unit per ltr. of diesel oil
  - Cost / unit

Not used for operations. Only for emergency lighting and water requirements.

- (ii) Through steam turbine / generator
  - Units
  - Units per ltr. of fuel oil/gas
  - Cost / unit

There is no Steam Turbine / Generator.

2. Coal (specify quality and where used)

- Quantity (tonnes)
- Total Cost
- Average rate

Not Used

3. Furnace Oil Quantity (k.ltrs.) Total amount Average rate	Not Used
4. Other/internal generation (please give details) Quantity Total Cost Rate / Unit	Not Used

**B. Consumption per unit of production**

	Standards (if any)	2005	2004
Products (with details) unit			
Standard Bearings	Not set (Standard varies with product mix)		
Electricity		<b>3.36</b>	3.64
Furnace oil		<b>Not Used</b>	Not Used
Coal (specify quality)		<b>Not Used</b>	Not Used
Others (specify)		<b>Nil</b>	Nil

**FORM B**

**Form for disclosure of particulars with respect to absorption**

**TECHNOLOGY ABSORPTION**

**(A) Research and Development (R&D)**

1. Specific areas in which R&D carried out by the Company
2. Benefits derived as a result of the above R&D
3. Future plan of action
4. Expenditure on R&D:
  - a. Capital
  - b. Recurring
  - c. Total
  - d. Total R&D expenditure as a percentage of total turnover

The benefits of Research facilities available with The Timken Company are extended to Timken India Limited on a continuing basis.

**(B) Technology absorption, adaptation and innovation**

1. Efforts, in brief, made towards technology absorption, adaptation and innovation.
2. Benefits derived as a result of the above efforts, e.g., product improvement, cost reduction, product development, import substitution, etc.
3. In case of imported technology (imported during the last 5 years reckoned from the beginning of the financial year), following information may be furnished:
  - a) Technology imported
  - b) Year of import
  - c) Has technology been fully absorbed?
  - d) If not fully absorbed, areas where this has not taken place, reasons therefor and future plans of actions

Under the Collaboration Agreement, technology update is released from The Timken Company which is transferred to the shop floor instructions. Any improvement in the technology/process is part of this continuous update and this is being regularly monitored by The Timken Company personnel.

- |  |   |  |
|--|---|--|
| a) Technology imported   | : | Manufacture of Tapered Roller Bearings   |
| b) Year of import  | : | 1991-92 onwards.   |
| c) Has technology been fully absorbed?   | : | It is being gradually absorbed.  |
| d) If not fully absorbed, areas where this has not taken place, reasons therefor and future plans of actions | : | Ongoing in the areas of Machining, heat treatment and finishing. To make further improvements in the manufacturing process, product quality and production output. |

For and on behalf of the Board of Directors

Bangalore  
March 27, 2006

**Gordon William Robinson**  
*Chairman & Managing Director*

## MANAGEMENT DISCUSSION AND ANALYSIS

### Industry Structure and Development

Bearing industry covers both Ball and Roller Bearings. Roller Bearings can further be divided into Tapered Roller, Spherical, Cylindrical Roller, Needle Roller and thrust bearings and other special application bearings. While some of the manufacturers cater to specialized applications, the rest are involved in manufacture of both Ball Bearings and Roller Bearings. Timken India Limited (TIL) specializes in the manufacture of Tapered Roller Bearings (TRBs) at its Jamshedpur plant and also in a wide range of imported bearings of all kinds manufactured at Timken's various Plants worldwide.

The growth in bearing industry is directly related to the growth of industries having bearing applications like automotive, electrical applications, pumps, fans and heavy industrial machinery. High volume segments are catered primarily by domestic manufacturers. Heavy duty industrial applications in rolling stock, rolling mills, heavy earth moving equipments, cement mills and other heavy machinery are met from imports. The Jamshedpur plant is essentially catering to heavy automobiles and rail applications – both in domestic and export markets in TRB applications. It meets the requirements of industrial applications – steel, heavy machinery from imports from other Timken units.

### Opportunities and Threats

As mentioned above, the growth of bearing industry is linked to the growth of the major bearing applications industry, i.e. the Automobiles/ Engineering/ Railways. Demand growth in bearings will largely depend on growth of the original equipment manufacturers (OEM) in the automobile industry, engineering segment and opportunities in the international markets. The demand for TIL's growth will heavily depend on the growth in served industrial and automotive business both in domestic and international markets.

New Bearings are also used for replacement of old, worn out bearings. The size of this market is dependent on equipment population, frequency of maintenance, etc.

Bearings as used in the engineering industry are large in size and are mostly catered through imports. The growth in demand for large industrial bearings will depend on the growth of Industrial and infrastructural activities. Liberalization of industrial policy, WTO driven reductions in duty structure, growth in demand in export markets, entry of multinationals and increasing demand for industrial products may result in an increase in demand for large bearings.

With the acquisition of Torrington, the product offering by Timken has significantly expanded. In addition to the offering bearings of other types, seals, related parts, grease, lubricators, and Industrial bearing repair services, TIL has got access to the Torrington and Fafnir brand of products comprising needle, spherical, cylindrical bearings, machine tools, engine bearings and steering products and assemblies to name a few. TIL has

launched a complete line of Torrington and TWB spherical roller bearings and Fafnir machine tool bearing this year. In addition, TIL has launched pilot locations of its Timken Service Point, a new concept in authorized garage franchises catering to the commercial vehicle after market. Further TIL introduced range of quality sealant and adhesives and value added offering such as Condition Monitoring to its Industrial customers.

The units in the unorganized sector of the Bearing industry mainly cater to the low-tech applications and replacement market, which is price elastic. They are competitive compared to the manufacturers in the organized sector but offer inferior quality. Though they have got a strict regional presence, their impact in bearing industry cannot be ignored.

### Segmentwise Performance

The Management reviewed the disclosure requirement of segmentwise reporting and is of the view that since the Company manufactures bearings and related components which is a single business segment in terms of AS-17, a separate disclosure on reporting by business segments is not required.

The geographical segments however, have been determined on the basis of location of major customers of the Company. During 2005, 58% of the Company's turnover was to customers located in India and the remaining 42% was to countries outside India. The shipments for exports were mainly to USA though the Company has also exported its products in Europe and Brazil.

### Outlook – Risks and Concern

TIL, being part of large multinational Timken Company, enjoys several advantages which will become increasingly important in view of a globalizing Indian economy:

- The Timken Company's global reach and it's strength in R&D makes TIL the supplier of choice of the many international companies operating in India (as compared to local domestic competitors).
- The possibility to export to other countries represents a good growth potential for TIL and provides a possibility to partially compensate variation in demand on the domestic Indian market.
- The Timken Company's recent acquisition of Torrington broadens the product range and increases sales opportunities in India.

The main risks are:

- Significant raises in raw material costs will impact production costs and if bearing market prices cannot be raised, will drastically impact profit margins unless operating costs can be reduced at unprecedented magnitude and speed. TIL needs to remain profitable for domestic sales and globally competitive for exports.

- Quality of inputs with on time delivery remained a significant concern to the Company's success in future. To uphold TIMKEN Brand equity, TIL needs to ensure that the inputs being used to manufacture its products at the Jamshedpur Plant conform to the exact specification of global standard.
- With growing Indian economy coupled with the reduction in import duties makes India increasingly a target market for many international bearing manufacturers and therefore competitive pressures on the domestic market will continue to grow faster. Infact, imports from neighbouring countries are increasing over the years. This trend is expected to lead to price pressure in domestic market.

The management of TIL is aware of both, opportunities & threats, and will continue to work to maintain global competitiveness by reducing costs and improving quality as well as on growth of sales in the domestic market.

#### **Internal Control Systems**

The various internal control systems operating in the company are working satisfactorily. The Internal Audit team continuously monitored the adequacy and effectiveness of these systems and the findings of these audits are reported to the Audit Committee of the Board and also to the Board of Directors. The adequacy of the internal control system has also been examined by the Statutory Auditors and the Audit Department of The Timken Company, USA and the company has not received any major adverse comments from them on the adequacy of the internal control systems.

#### **Financial Performance vis-à-vis Operational Performance**

The Net Sales (with other Income) grew by 11% from Rs. 278 crores in 2004 to Rs. 309 crores in 2005. Export however grew significantly from Rs. 110 crores in 2004 to Rs. 130 crores in 2005 i.e. a growth of 18%. Most of the exports had been to USA.

While there had been sales growth of 11%, PBT increased very marginally during the year from Rs. 51 crores in 2004 to Rs. 53 crores. It is mainly due to some preventive measures and structural correction as staff cost, repairs to machine and building, process-obsolence and write-off etc. One-time charges included in above are unlikely to be repeated over the years. Profit margin at net level therefore stands marginally reduced to 17% in 2005 as against 18% in 2004.

During the period under review, production in terms of equivalent bearings has increased by 8% compared to last year due to better utilization of capacity. While production of Rail brgs had been maintained at same level, the Production of Standard Bearings had been increased by 12% to meet the demand. The commercial production of Double Extended (DE) Cones had been launched in the country during the year. The Company produced 10,158 DE Cones in 2005. This is 100% export oriented product from India.

#### **HR Front**

The Associates remained our most valuable assets & actively involved towards growth & progress. The relationship between the Associates of the company and the Management remained congenial every time & any time. The company employed around 560 Associates around the country (including 162 Officers) as on December 31, 2005.

**AUDITORS' REPORT****TO THE MEMBERS OF TIMKEN INDIA LIMITED**

We have audited the attached Balance Sheet of Timken India Limited, as at 31st December 2005 and also the Profit and Loss Account and the cash flow statement for the year ended on that date, annexed thereto. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with the auditing standards generally accepted in India. Those Standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by the management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As required by the Companies (Auditor's Report) Order, 2003 (as amended) issued by the Central Government of India in terms of sub-section (4A) of Section 227 of the Companies Act, 1956, we enclose in the Annexure a statement on the matters specified in paragraphs 4 and 5 of the said Order.

Further to our comments in the Annexure referred to above, we report that :

- i) We have obtained all the information and explanations, which to the best of our knowledge and belief, were necessary for the purposes of our audit;
- ii) In our opinion, proper books of account as required by law have been kept by the company, so far as appears from our examination of those books;
- iii) The Balance Sheet, Profit and Loss Account and cash flow statement dealt with by this report are in agreement with the books of account;
- iv) In our opinion, the Balance Sheet, Profit and Loss Account and cash flow statement dealt with by this report comply with the accounting standards referred to in sub-section (3C) of section 211 of the Companies Act, 1956;
- v) On the basis of written representations received from the directors, as on 31st December 2005, and taken on record by the Board of Directors, we report that none of the directors is disqualified as on 31st December 2005 from being appointed as a director in terms of clause (g) of sub-section (1) of section 274 of the Companies Act, 1956;
- vi) In our opinion and to the best of our information and according to the explanations given to us, the said accounts give the information required by the Companies Act, 1956, in the manner so required and give a true and fair view in conformity with the accounting principles generally accepted in India:
  - a. in the case of the Balance Sheet, of the state of affairs of the Company as at 31st December, 2005;
  - b. in the case of the Profit and Loss Account, of the profit for the year ended on that date; and
  - c. in the case of cash flow statement, of the cash flows for the year ended on that date.

Place : Kolkata  
Date : 28 January, 2006

**S. R. BATLIBOI & CO.**  
**CHARTERED ACCOUNTANTS**  
**Per RAHUL ROY**  
*a Partner*  
Membership No. 53956



## ANNEXURE TO THE AUDITORS' REPORT TO THE MEMBERS OF TIMKEN INDIA LIMITED REFERRED TO IN OUR REPORT OF EVEN DATE

- (i) The Company is maintaining proper records showing full particulars, including quantitative details and situation of fixed assets. Fixed assets have been physically verified by the management during the year based on a phased programme of verifying all the assets over three years, which in our opinion is reasonable having regard to the size of the Company and the nature of its fixed assets. No material discrepancies were noticed on verification. There was no substantial disposal of fixed assets during the year.
- (ii) The management has conducted physical verification of inventory at reasonable intervals. The procedures of physical verification of inventory followed by the management are reasonable and adequate in relation to the size of the Company and the nature of its business. The Company is maintaining proper records of inventory and no material discrepancies were noticed on physical verification.
- (iii) (a) As informed to us, the Company has not granted any loans, secured or unsecured to companies, firms or other parties covered in the register maintained under section 301 of the Companies Act, 1956. Accordingly, the provisions of clause 4(iii) (b), (c) and (d) of the Companies (Auditor's Report) Order, 2003 (as amended) are not applicable to the Company.
- (b) As informed to us, the Company has not taken any loans, secured or unsecured from companies, firms or other parties covered in the register maintained under section 301 of the Companies Act, 1956. Accordingly, the provisions of clause 4(iii) (f) and (g) of the Companies (Auditor's Report) Order, 2003 (as amended) are not applicable to the Company.
- (iv) In our opinion and according to the information and explanations given to us, there is an adequate internal control system commensurate with the size of the Company and the nature of its business, for the purchase of inventory and fixed assets and for the sale of goods and services. During the course of our audit, no major weakness has been noticed in the internal controls in respect of these areas.
- (v) According to the information and explanations provided by the management, we are of the opinion that the particulars of contracts or arrangements referred to in section 301 of the Act that need to be entered into the register maintained under section 301 have been so entered. The company inter alia, undertakes transactions of purchase and sale of Goods, Materials, and services with associate and group companies, in pursuance of contracts/arrangements entered in the register maintained under section 301 of the Companies Act, 1956. As such transactions relate to proprietary items manufactured by the Timken Group and Raw Materials in connection thereto, and/or specialized services rendered, comparative rates are not always available; however, consideration of the selling price of such goods, in the market, and relevant transfer pricing guidelines, prima facie indicate that the transactions are at reasonable prices. For services rendered, there are no comparatives since as per management's explanations, such services are highly specialized in nature.
- (vi) The Company has not accepted any deposit from public within the meaning of sections 58A and 58AA of the Companies Act, 1956.
- (vii) The Company has an internal audit system, which in our opinion, is commensurate with the size and nature of its business.
- (viii) We have broadly reviewed the books of account maintained by the Company pursuant to the order made by the Central Government for the maintenance of cost records under section 209(1)(d) of the Companies Act, 1956 and are of the opinion that prima facie the prescribed accounts and records have been made and maintained.
- (ix) The Company is regular in depositing undisputed statutory dues including Provident Fund, Investor Education and Protection Fund, Income tax, Sales tax, Wealth Tax, Service Tax, Custom Duty, Excise Duty, Cess and other material statutory dues with the appropriate authorities. As informed to us, the provisions of ESI Act are not applicable to the Company.

There are no dues outstanding of sales tax, income tax, custom duty, wealth tax, service tax, excise duty and cess on account of any dispute, other than the following :

Name of Statute	Nature of Dues	Amount (Rs.)	Period to which it relates	Forum where dispute is pending
Income Tax Act, 1961	Income Tax Demands	12,33,334	1998-99	Deputy Commissioner of Income Tax, Circle - 1, Kolkata
Income Tax Act, 1961	Income Tax Demands	2,43,315	1991-92	Commissioner of Income Tax (Appeals) - 1, Kolkata
Jharkhand Finance (Amendment) Act, 2001	Local Sales Tax Demands	48,57,088	1991-92 and 1999-2000	Joint Commissioner (Appeals), Jamshedpur
Jharkhand Finance (Amendment) Act, 2001	Central Sales Tax Demands	8,30,99,899	1991-92 and 1999-2000	Joint Commissioner (Appeals), Jamshedpur
UP Trade Tax Act, 1948	Local Sales Tax Demands	2,04,000	1994-95 and 1996-97	Tribunal Bench, Ghaziabad (UP)
Delhi Sales Tax Act, 1975	Local Sales Tax Demands	3,97,000	2001-02	Assessing Officer, Bikri Kar Bhawan, New Delhi



**ANNEXURE TO THE AUDITORS' REPORT** (Continued)

Name of Statute	Nature of Dues	Amount (Rs.)	Period to which it relates	Forum where dispute is pending
Haryana VAT Act, 2003	Central Sales Tax Demand	1,92,000	2003-04	Excise & Taxation Officer, Faridabad
Tamil Nadu General Sales Tax Act, 1959	Local Sales Tax Demands	27,41,295	2001-02	Sales Tax Assessing Officer, Tamil Nadu
Madhya Pradesh Commercial Tax Act, 1994	Local Sales Tax Demands	3,04,368	1998-99	Commissioner of Sales Tax, Raipur, Chattisgarh
West Bengal Sales Tax Act, 1994	Central Sales Tax Demands	17,81,357	2002-03	Commissioner of Commercial Taxes (Appeals), Kolkata
Central Excise Act, 1944	Excise Duty Demands	52,45,045	1998-99	Assistant Commissioner, Central Excise, Division 2, Jamshedpur
Central Excise Act, 1944	Excise Duty Demands	46,59,891	1998-99 to 2001-02	Appeal filed before CESTAT
Central Excise Act, 1944	Excise Duty Demands	12,76,716	2005-06	Appeal filed before CESTAT

- (x) The Company has no accumulated losses at the end of the financial year and it has not incurred any cash losses in the current and immediately preceding financial year.
- (xi) As per books and records maintained by the Company and according to the information and explanations given to us, the Company has not defaulted in repayment of dues to a financial institution or bank or debenture holders.
- (xii) According to the information and explanations given to us and based on the documents and records produced to us, the Company has granted loans and advances on the basis of other securities in respect of which adequate documents and records are maintained. As informed and explained to us, the Company has not granted any loans and advances on the basis of security by way of pledge of shares and debentures.
- (xiii) In our opinion, the Company is not a chit fund or a nidhi/mutual benefit fund/society. Therefore, the provisions of clause 4(xiii) of the Companies (Auditor's Report) Order, 2003 (as amended) are not applicable to the Company.
- (xiv) As informed and explained to us, the Company has not dealt/traded in securities or debentures during the year. In our opinion and according to the information and explanations given to us, proper records have been maintained of the transactions and contracts relating to dealing/tradings in Shares and Other investments and timely entries have been made therein. The shares and other investments have been held by the Company, in its own name.
- (xv) According to the information and explanations given to us, the Company has not given any guarantee for loans taken by its associates from bank or financial institutions. As informed to us, the Company has no subsidiary companies.
- (xvi) The Company did not have any term loans outstanding during the year.
- (xvii) According to the information and explanations given to us and on an overall examination of the balance sheet and cash flow statement of the Company, we report that no funds raised on short-term basis have been used for long-term investment.
- (xviii) The Company has not made any preferential allotment of shares to parties or companies covered in the register maintained under section 301 of the Companies Act, 1956.
- (xix) The Company did not have any outstanding debentures during the year.
- (xx) The Company has not raised any money through a public issue during the year.
- (xxi) Based upon the audit procedures performed for the purpose of reporting the true and fair view of the financial statements and as per the information and explanations given by the management, we report that no fraud on or by the Company has been noticed or reported during the course of our audit.

**S. R. BATLIBOI & CO.**  
**CHARTERED ACCOUNTANTS**  
**Per RAHUL ROY**

*a Partner*

Membership No. 53956

Place : Kolkata

Date : 28 January, 2006

**BALANCE SHEET AS AT 31ST DECEMBER, 2005**

	Schedule	Rupees	As at 31.12.2005 Rupees	As at 31.12.2004 Rupees
<b>SOURCES OF FUNDS</b>				
<b>a) SHAREHOLDERS' FUNDS</b>				
(i) Share Capital	1	63,72,06,750		63,72,05,250
(ii) Reserves & Surplus	2	104,63,06,283		69,74,95,732
			168,35,13,033	133,47,00,982
<b>b) LOAN FUNDS</b>				
(i) Secured Loans	3	1,86,27,982		32,72,822
(ii) Unsecured Loans	4	1,49,47,494		9,31,44,605
			3,35,75,476	9,64,17,427
<b>c) DEFERRED TAX LIABILITIES (NET)</b> [refer note (m), schedule 18]				
			2,26,90,588	3,74,56,049
			<u>173,97,79,097</u>	<u>146,85,74,458</u>
<b>APPLICATION OF FUNDS</b>				
<b>d) FIXED ASSETS :</b>				
(i) Gross Block	5	160,33,20,030		154,47,04,467
(ii) Less : Depreciation		111,87,23,079		111,72,54,411
(iii) Net Block		48,45,96,951		42,74,50,056
(iv) Capital Work-In-progress		7,80,35,210		5,76,18,009
– including advances Rs.3,03,98,321 (Rs. 1,60,32,117)			56,26,32,161	48,50,68,065
<b>e) INVESTMENTS</b>				
	6		54,45,72,969	41,58,18,118
<b>f) CURRENT ASSETS, LOANS AND ADVANCES</b>				
(i) Inventories	7	44,15,55,544		38,76,58,905
(ii) Sundry Debtors	8	52,38,79,026		52,73,18,559
(iii) Cash and Bank Balances	9	11,73,61,873		4,67,07,634
(iv) Loans and Advances	10	12,59,00,156		7,77,51,852
		120,86,96,599		103,94,36,950
<b>g) LESS : CURRENT LIABILITIES &amp; PROVISIONS</b>				
(i) Current Liabilities	11	51,80,25,573		41,64,59,553
(ii) Provisions	12	5,80,97,059		5,74,85,717
		57,61,22,632		47,39,45,270
<b>h) NET CURRENT ASSETS</b>				
			63,25,73,967	56,54,91,680
<b>i) MISCELLANEOUS EXPENDITURE TO THE EXTENT NOT WRITTEN OFF</b>				
	13		—	21,96,595
			<u>173,97,79,097</u>	<u>146,85,74,458</u>
<b>j) ACCOUNTING POLICIES AND NOTES</b>				
	18			
Schedules 1 to 18 form an integral part of these accounts				

As per our report of even date attached

**S.R.BATLIBOI & CO.**  
Chartered Accountants  
**Per Rahul Roy**  
a Partner

Membership No. 53956  
Kolkata, 28 January, 2006

**Soumitra Hazra**  
Finance Controller & Company Secretary

For and on behalf of the Board

**G.W. Robinson**  
Chairman & Managing Director

**Shyamal K Sinha**  
Dy. Managing Director

Kolkata, January 28, 2006

**PROFIT AND LOSS ACCOUNT FOR THE YEAR ENDED 31ST DECEMBER, 2005**

	Schedule	Rupees	Year ended December 31, 2005 Rupees	Previous Year ended December 31, 2004 Rupees
<b>INCOME</b>				
a) Sale of Products (Gross)		<b>317,57,63,833</b>		292,12,36,579
Less : Trade Discounts		<b>3,41,21,934</b>		2,97,51,348
Less : Excise Duty Recovered		<b>23,45,15,619</b>		22,21,48,114
Sale of Products (Net)			<b>290,71,26,280</b>	266,93,37,117
b) Income from Services	14		<b>11,07,02,996</b>	4,98,45,463
c) Other Income	15		<b>7,32,76,402</b>	5,84,48,581
			<b>309,11,05,678</b>	277,76,31,161
<b>EXPENDITURE</b>				
d) Manufacturing and other expenses	16		<b>246,54,51,038</b>	217,69,58,695
e) Interest (net)	17		<b>95,13,301</b>	90,26,541
f) Depreciation	5		<b>8,75,53,000</b>	8,27,94,943
			<b>256,25,17,339</b>	226,87,80,179
<b>PROFIT BEFORE TAX &amp; PRIOR PERIOD ITEMS</b>				
g) Income Relating to Prior Period			<b>9,52,045</b>	—
<b>PROFIT BEFORE TAX</b>				
			<b>52,95,40,384</b>	50,88,50,982
h) Provision for Taxation				
– Current		<b>18,81,30,295</b>		18,55,37,937
– Deferred		<b>(1,47,65,462)</b>		(66,21,214)
– Fringe Benefit Tax		<b>73,65,000</b>		—
			<b>18,07,29,833</b>	17,89,16,723
<b>PROFIT AFTER TAX</b>				
			<b>34,88,10,551</b>	32,99,34,259
i) PROFIT BROUGHT FORWARD FROM PREVIOUS YEAR			<b>43,74,95,732</b>	10,75,61,473
<b>PROFIT CARRIED TO BALANCE SHEET</b>				
			<b>78,63,06,283</b>	43,74,95,732
<b>j) EARNINGS PER SHARE</b>				
– Basic			<b>5.47</b>	5.18
– Diluted			<b>5.47</b>	5.18
<b>[refer note (w) of Schedule 18]</b>				
k) ACCOUNTING POLICIES AND NOTES	18			

Schedules 1 to 18 form an integral part of these accounts.

As per our report of even date attached

**S.R.BATLIBOI & CO.**  
Chartered Accountants  
**Per Rahul Roy**  
a Partner  
Membership No. 53956  
Kolkata, 28 January, 2006

**Soumitra Hazra**  
Finance Controller & Company Secretary

For and on behalf of the Board  
**G.W. Robinson**  
Chairman & Managing Director  
**Shyamal K Sinha**  
Dy. Managing Director

Kolkata, January 28, 2006

## SCHEDULES 1 TO 18 FORMING PART OF THE ACCOUNTS AS AT AND FOR THE YEAR ENDED 31ST DECEMBER 2005

## SCHEDULE 1 : SHARE CAPITAL

	<u>Rupees</u>	<u>As at 31.12.2005 Rupees</u>	<u>As at 31.12.2004 Rupees</u>
<b>Authorised :</b>			
7,50,00,000 Equity Shares of Rs. 10 /- each	<b>75,00,00,000</b>		75,00,00,000
26,00,000 9% Cumulative Redeemable Preference Shares of Rs.100/- each.	<b>26,00,00,000</b>		26,00,00,000
		<b>101,00,00,000</b>	101,00,00,000
<b>Issued :</b>			
6,37,50,000 Equity Shares of Rs. 10 /- each		<b>63,75,00,000</b>	63,75,00,000
<b>Subscribed:</b>			
(refer note (p), Schedule 18)			
6,37,34,850 Equity Shares of Rs. 10 /- each fully paid-up	<b>63,73,48,500</b>		63,73,48,500
Less: Calls in Arrears - others	<b>1,41,750</b>		1,43,250
		<b>63,72,06,750</b>	63,72,05,250

## SCHEDULE 2 : RESERVES AND SURPLUS

a) <b>Capital Redemption Reserve</b> – as per last accounts		<b>26,00,00,000</b>	26,00,00,000
b) <b>Profit &amp; Loss Account</b>		<b>78,63,06,283</b>	43,74,95,732
		<b>104,63,06,283</b>	69,74,95,732

## SCHEDULE 3 : SECURED LOANS

## Loans from Banks

– State Bank of India (Secured by hypothecation of entire inventory & receivables)		<b>1,86,27,982</b>	32,72,822
		<b>1,86,27,982</b>	32,72,822

## SCHEDULE 4 : UNSECURED LOANS

[refer note (q), Schedule 18]

<b>Short Term Loans from Scheduled Banks</b>		<b>1,49,47,494</b>	9,31,44,605
		<b>1,49,47,494</b>	9,31,44,605

**SCHEDULE 5 : FIXED ASSETS**

ASSETS	GROSS BLOCK (AT COST)				DEPRECIATION				NET BLOCK	
	Opening Balance as at 01.01.2005	ADDITIONS	DEDUCTIONS	AS AT 31.12.2005	Opening Balance as at 01.01.2005	FOR THE YEAR	DEDUCTIONS	TOTAL UPTO 31.12.2005	AS AT 31.12.2005	AS AT 31.12.2004
	Rupees	Rupees	Rupees	Rupees	Rupees	Rupees	Rupees	Rupees	Rupees	Rupees
Buildings	13,77,97,506	79,46,918	22,30,000	14,35,14,424	4,18,72,220	46,10,148	10,49,755	4,54,32,613	9,80,81,811	9,59,25,286
Plant & Machinery (including office equipment, computers & tools)	137,96,64,915	13,27,33,565	8,29,52,722	142,94,45,758	105,75,62,071	7,96,62,461	8,21,14,415	105,51,10,117	37,43,35,641	32,21,02,844
Furniture & Fixtures	1,16,57,753	22,16,388	4,99,449	133,74,692	91,86,918	5,22,264	4,82,876	92,26,306	41,48,386	24,70,835
Vehicles	1,55,84,293	39,86,946	25,86,083	169,85,156	86,33,202	27,58,127	24,37,286	89,54,043	80,31,113	69,51,091
<b>Total</b>	<b>154,47,04,467</b>	<b>14,68,83,817 *</b>	<b>8,82,68,254</b>	<b>160,33,20,030</b>	<b>111,72,54,411</b>	<b>8,75,53,000</b>	<b>8,60,84,332</b>	<b>111,87,23,079</b>	<b>48,45,96,951</b>	<b>42,74,50,056</b>
Previous Year	151,14,79,197	3,74,66,909 *	42,41,639	154,47,04,467	103,85,22,302	8,27,94,943	40,62,834	111,72,54,411	42,74,50,056	47,29,56,895

\* Includes exchange differences of Rs. 4,04,220.33 (Rs. 40,598)

**SCHEDULE 6 : INVESTMENTS**

	Face Value	Opening Balance as at 01.01.2005	Purchased/ Dividend Reinvested	Sale/ Conversion	Holdings as at 31.12.2005			Holdings as at 31.12.2004
					Nos.	Rs.	Rs.	
<b>Long Term Investments (At Cost)</b>								
<b>Trade (Unquoted) Equity Shares fully paid</b>								
Nicco Jubilee Park Limited	10	30,000				30,000	3,00,000	3,00,000
<b>Current Investments</b>								
(At Lower of Cost or Market Value)								
<b>Other Investments (Unquoted)</b>								
Kotak Liquid Institutional Plan - Growth	10	20,48,979	—	20,48,979	—	—	—	2,50,00,000
Templeton Floating Fund - Long Term - Growth	1,000	13,63,865	—	—	13,63,865	1,50,00,000	—	1,50,00,000
Kotak Fixed Maturity Plans (8) - Growth	10	20,01,338	—	20,01,338	—	—	—	2,00,13,379
HDFC Fixed Investment Plan - July 2004(2) - Growth	10	30,41,315	—	30,41,315	—	—	—	3,04,13,156
Tata Fixex Horizon Series 1 – Plan A (371 days) - Growth	10	—	30,23,070	—	30,23,070	3,02,30,695	—	—
Principal Deposit Fund (FMP-6) 371 Days Plan – Growth	10	—	10,14,285	—	10,14,285	1,01,42,847	—	—
Prudential ICIICI FMP – Yearly Growth – Series XXIV	10	—	24,04,579	—	24,04,579	2,53,16,849	—	—
Reliance Fixex Maturity Fund – Annual Plan – Series 1 – Growth	10	—	45,00,000	—	45,00,000	4,50,00,000	—	—
Kotak FMP Series 1 – Growth	10	—	40,19,945	—	40,19,945	4,01,99,451	—	—
Grindlays Fixed Maturity – 4th Plan B – Growth	10	—	55,56,786	—	55,56,786	5,55,67,856	—	—
HSBC Fixed Term Series 1 – Growth	10	—	20,01,203	—	20,01,203	1,99,42,186	—	—
HDFC Cash Management Fund – Savings Plan – DDR	10	40,07,421	2,36,32,352	2,57,40,196	18,99,577	2,02,04,664	—	4,26,24,531
RLF – Treasury Plan – Institutional Option – DDR	10	—	13,18,453	13,18,453	—	—	—	—
Principal Cash Management Fund-Liquid Option-Institutional Plan-DDR	10	10,04,723	9,369	10,14,092	—	—	—	1,00,49,133
Principal Floating Rate Rund SMP – Insti. – DDR	10	—	50,41,790	30,21,146	20,20,644	2,02,07,852	—	—
Kotak Liquid Institutional Plan – DDR	10	20,53,322	98,61,908	1,19,15,230	—	—	—	2,51,08,223
Kotak Liquid (Institutional Premium) – DDR	10	—	40,92,009	40,92,009	—	—	—	—
Kotak FMP Series XII – Dividend	10	—	50,03,749	—	50,03,749	5,00,37,490	—	—
Magnum Institutional – Savings – DDR	10	—	2,01,80,916	1,36,01,063	65,79,854	6,60,12,382	—	—
Templeton India Treasury Management Account – DDR	10	20,250	198	20,448	—	—	—	3,06,17,080
HSBC Floating Fund – Short Term – Institutional – DDR	10	—	19,98,565	19,98,565	—	—	—	—
Tata Floating Rate Short Term Inst. Plan – DDR	10	—	90,58,928	60,50,648	30,08,281	3,01,13,791	—	—
Tata Liquid Super High Investment Fund - DDR	10	9,00,312	3,934	9,04,246	—	—	—	1,00,32,532
Grindlays Floating Rate - Inst Plan B - DDR	10	35,05,870	30,16,663	65,22,533	—	—	—	3,53,05,164
DSP Merrill Lynch Liquidity Fund - DDR	10	—	20,11,807	—	20,11,807	2,01,38,187	—	—
Sundaram Money Fund Institutional - DDR	10	34,85,606	10,42,899	45,28,506	—	—	—	3,51,88,241
UTI Liquid Advantage Fund Institutional - DDR	1,000	15,047	70	15,118	—	—	—	1,50,99,676
UTI Liquid Cash Plan Regular – DDR	1,000	—	15,093	15,093	—	—	—	—
UTI Liquid Cash Plan Institutional – DDR	1,000	—	19,897	19,897	—	—	—	—
UTI Floating Rate Fund – Short Term Plan – Dividend	10	—	70,94,709	20,40,661	50,54,048	5,09,05,896	—	—
Birla FMP Qtrly Series - Plan A Dividend	10	19,99,180	—	19,99,180	—	—	—	2,00,00,000
Prudential ICIICI Floating Rate Plan - DDR	10	25,05,353	40,91,908	65,97,261	—	—	—	2,50,56,533
DSP Merrill Lynch Floating Rate - DDR	10	19,99,224	96,97,939	1,06,74,260	10,22,903	1,02,52,823	—	2,00,36,223
Reliance Fixed Term Scheme - Quarterly Plan -6 - Dividend Option	10	20,00,000	—	20,00,000	—	—	—	2,00,00,000
Reliance Fixed Maturity Fund – Quarterly Plan II-Series II-Dividend	10	—	35,00,000	—	35,00,000	3,50,00,000	—	—
Reliance Fixed Term Scheme - Monthly Plan 15 - Dividend Option	10	35,97,425	—	35,97,425	—	—	—	3,59,74,247
								54,42,72,969
								41,55,18,118
								54,45,72,969
								41,58,18,118

Note : Aggregate amount of Unquoted Investments - Rs 54,45,72,969

**SCHEDULE 7 : INVENTORIES***(At lower of Cost or Net Realisable Value)*

	<u>Rupees</u>	<u>As at 31.12.2005 Rupees</u>	<u>As at 31.12.2004 Rupees</u>
a) Stores and Spares (including in transit)		<b>6,80,42,289</b>	5,28,24,235
b) Raw materials and Components (including in transit)		<b>12,73,25,138</b>	12,35,41,868
c) Work - in - progress		<b>5,75,39,926</b>	5,10,04,643
d) Finished stocks (including in transit)	<b>17,21,03,129</b>		14,18,54,290
Add : Excise Duty on finished stock not assessed to duty	<b>1,65,45,062</b>		1,84,33,869
		<b>18,86,48,191</b>	16,02,88,159
		<b>44,15,55,544</b>	38,76,58,905

**SCHEDULE 8 : SUNDRY DEBTORS**

[refer note (s), Schedule 18]

a) Over six months		<b>3,07,70,333</b>	2,84,52,554
b) Others		<b>50,36,77,820</b>	50,93,60,481
		<b>53,44,48,153</b>	53,78,13,035
Less : Provision for Bad and Doubtful debts		<b>1,05,69,127</b>	1,04,94,476
		<b>52,38,79,026</b>	52,73,18,559

**Classification of Debts :-**

Secured and considered good		<b>50,80,266</b>	66,52,334
Unsecured and considered good		<b>51,87,98,760</b>	52,06,66,225
Considered doubtful		<b>1,05,69,127</b>	1,04,94,476
		<b>53,44,48,153</b>	53,78,13,035

**SCHEDULE 9 : CASH AND BANK BALANCES**

a) Cash and Cheques in Hand (including Remittances in Transit)		<b>10,12,71,497</b>	3,07,45,342
b) Balance with Scheduled Banks			
i) In Current Accounts		<b>1,60,85,376</b>	1,59,57,292
ii) Towards margin money		<b>5,000</b>	5,000
		<b>11,73,61,873</b>	4,67,07,634

**SCHEDULE 10 : LOANS AND ADVANCES**

[refer note (t), Schedule 18]

	As at 31.12.2005 Rupees	As at 31.12.2004 Rupees
a) Prepaid expenses	26,57,660	24,79,883
b) Advance Payment of Tax - net of Provision Rs. 61,71,90,855	34,24,366	—
c) Advances recoverable in Cash or in Kind or for value to be received	4,69,89,327	4,37,04,883
d) Balances with Customs and Excise	4,73,45,862	98,44,515
e) Deposits [ refer note (l) of Schedule 18 ]	4,29,58,379	3,67,92,969
	<b>14,33,75,594</b>	<b>9,28,22,250</b>
Less : Provision for Doubtful Advances & Deposits	<b>1,74,75,438</b>	<b>1,50,70,398</b>
	<b>12,59,00,156</b>	<b>7,77,51,852</b>
<b>Classification of Loans &amp; Advances</b>		
Secured and considered good	1,26,88,650	38,18,800
Unsecured and considered good	11,32,11,506	7,39,33,052
Considered doubtful	1,74,75,438	1,50,70,398
	<b>14,33,75,594</b>	<b>9,28,22,250</b>

Notes : 1) Amount due by a Director Nil (Rs. Nil). Maximum amount due during the year Rs. 1,11,900 (Rs. 3,87,737).  
2) Amount due by an Officer Rs. 11,000 (Rs. 24,000). Maximum amount due during the year Rs. 75,000 (Rs. 1,90,672).

**SCHEDULE 11 : CURRENT LIABILITIES**

	Rupees	As at 31.12.2005 Rupees	As at 31.12.2004 Rupees
a) Sundry Creditors :			
i) Small Scale Industrial undertakings [refer note (r), Schedule 18]	62,39,633		75,13,954
ii) Others	43,00,84,567		35,59,20,806
		<b>43,63,24,200</b>	<b>36,34,34,760</b>
b) Advance payments from Customers		25,40,019	12,70,050
c) Deposit from Customers		1,16,27,302	1,12,38,262
d) Investor Education and Protection Fund shall be credited by the following amounts, namely			
i) Unpaid Matured Debentures	69,18,209		72,21,710
ii) Unpaid Interest on Debentures [refer note (y), Schedule 18]	48,55,326		62,10,098
		<b>1,17,73,535</b>	<b>1,34,31,808</b>
e) Other Liabilities		5,57,60,517	2,70,84,673
		<b>51,80,25,573</b>	<b>41,64,59,553</b>



**SCHEDULE 12 : PROVISIONS**

	<b>As at 31.12.2005 Rupees</b>	As at 31.12.2004 Rupees
a) Provision for Leave Encashment & Other Employee Benefits	<b>3,76,69,000</b>	3,26,37,000
b) Provision for Taxes - net of advance (Rs 41,81,55,857)	—	29,87,516
c) Provision for supplies not in conformity with specification (refer note (x), Schedule 18)	<b>2,04,28,059</b>	2,18,61,201
	<b>5,80,97,059</b>	5,74,85,717

**SCHEDULE 13 : MISCELLANEOUS EXPENDITURE***(TO THE EXTENT NOT WRITTEN OFF)*

[refer note (n), Schedule 18]

Technical Know-how Expenses paid	<b>21,96,595</b>	48,32,509
Less : Amortised for the year	<b>21,96,595</b>	26,35,914
	—	21,96,595

**SCHEDULE 14 : INCOME FROM SERVICES**

	<b>Year ended December 31,2005 Rupees</b>	Year ended December 31, 2004 Rupees
i) Agency Commission	<b>4,97,77,460</b>	2,49,13,503
ii) Miltech Services – including TDS Rs. 35,921 (2004 Rs. 68,463)	<b>4,81,94,742</b>	1,98,01,247
iii) Refurbishment	<b>95,82,664</b>	41,95,263
iv) Others	<b>31,48,130</b>	9,35,450
	<b>11,07,02,996</b>	4,98,45,463

**SCHEDULE 15 : OTHER INCOME**

i) Foreign Exchange Gain (net)	<b>72,68,461</b>	—
ii) Liabilities no longer required – including provisions written back Rs. 57,37,034 (Rs. 44,00,000)	<b>1,09,93,424</b>	1,53,61,667
iii) Export incentives under DEPB Scheme (net)	<b>2,90,26,348</b>	3,10,38,576
iv) Income from Investments - Non Trade	<b>1,49,85,094</b>	81,54,748
v) Profit on Sale of Investments	<b>53,24,951</b>	10,55,299
vi) Miscellaneous Income	<b>56,78,124</b>	28,38,291
	<b>7,32,76,402</b>	5,84,48,581

**SCHEDULE 16 : MANUFACTURING AND OTHER EXPENSES**

	<u>Rupees</u>	<u>Year ended December 31, 2005 Rupees</u>	<u>Year ended December 31, 2004 Rupees</u>
1) Purchase of Products for resale [refer note (c), Schedule 18]		<b>27,59,57,279</b>	25,18,27,033
2) Raw Materials and Components consumed [refer note (d), Schedule 18]		<b>128,19,41,221</b>	110,07,54,934
3) Payments to and Provision for employees			
a) Salaries, Wages and Bonus	<b>22,07,03,719</b>		18,04,40,936
b) Company's contribution to Provident and other Funds	<b>1,88,15,982</b>		1,85,48,722
c) Staff Welfare expenses	<b>2,42,18,593</b>		2,42,84,441
		<b>26,37,38,294</b>	22,32,74,099
4) Operation & Other Expenses			
a) Stores and spare parts consumed [refer note (e)(ii), Schedule 18]	<b>20,11,08,129</b>		16,55,48,294
b) Purchase of Power	<b>6,90,16,132</b>		7,41,09,955
c) Repairs to Buildings	<b>1,28,71,787</b>		1,02,57,977
d) Repairs to Machinery	<b>2,72,81,819</b>		1,95,06,358
e) Royalty	<b>7,91,44,045</b>		6,89,24,235
f) Rent	<b>41,07,580</b>		33,10,598
g) Rates and Taxes	<b>22,79,993</b>		40,42,445
h) Insurance	<b>40,90,266</b>		39,03,686
i) Commission & Discount	<b>1,26,02,456</b>		1,20,80,598
j) Travelling	<b>4,41,92,296</b>		2,90,23,846
k) Conversion Charges [refer note(x), Schedule 18]	<b>3,73,57,900</b>		6,15,00,923
l) Legal & Professional Fees	<b>2,60,68,886</b>		3,34,26,714
m) Other Expenses [refer note (o), Schedule 18]	<b>10,21,26,647</b>		9,07,42,431
		<b>62,22,47,936</b>	57,63,78,060
5) Foreign Exchange Loss (Net)		—	74,299
6) Carriage and Handling		<b>4,18,96,931</b>	4,57,00,848
7) Provision for doubtful debts & advances		<b>1,15,74,514</b>	95,53,546
8) Excise Duty Paid-(Net of recovery)		<b>48,78,985</b>	21,787
9) (Increase) / Decrease in stock of finished goods and semi-finished goods - excluding excise duty on plant stock			
Opening Stock	<b>19,28,58,933</b>		16,22,33,022
Less : Closing Stock	<b>22,96,43,055</b>		19,28,58,933
		<b>(3,67,84,122)</b>	(3,06,25,911)
		<b>246,54,51,038</b>	217,69,58,695

**SCHEDULE 17 : INTEREST - NET**

Interest Expense			
Others		<b>95,16,871</b>	90,27,126
Less :			
Interest Income		<b>3,570</b>	585
		<b>95,13,301</b>	90,26,541

**SCHEDULE 18 : NOTES ON THE BALANCE SHEET AND PROFIT & LOSS ACCOUNT****a) SIGNIFICANT ACCOUNTING POLICIES****(i) Basis of Accounting**

The Company prepares its accounts on accrual basis under the historical cost convention and in accordance with applicable Accounting Standards in India.

**(ii) Revenue Recognition**

Revenue from sale of goods including manufactured products are recognised upon passage of title to the customers, which generally coincides with delivery.

Revenue from agency commission and other service charges are recognised upon accrual of such income as per the respective contracts.

Export Incentives under the Duty Entitlement Pass Book (DEPB) scheme are recognised when such incentive accrues upon export of goods, in applicable cases.

**(iii) Fixed Assets**

Fixed Assets are stated at cost of acquisition inclusive of duties (net of Cenvat), taxes, incidental expenses, erection / commissioning expenses and financial charges up to the date the asset is ready for its intended use.

**(iv) Depreciation**

Depreciation is provided under straight line method as detailed below –

- a) For building, vehicles, furniture & fixture, office equipments, certain amortised tools not consumable in nature & computers – on the basis of estimated useful life of such assets, as below, which are lower than the useful life of such assets as per Schedule XIV to the Companies Act, 1956.

Building	30 years
Furniture & Fixtures	10 years
Office Equipment, Amortised Tools, Computer & Vehicles	5 years

- b) For other Plant & Machinery - at the rates and in the manner prescribed under Schedule XIV of the Companies Act, 1956.
- c) Additions / deletions during the year are depreciated pro-rata from the date of such addition / deletion except assets costing below Rs. 5000 which are fully depreciated in the year they are put to use. Extra shift depreciation is calculated on actual shift basis in respect of each operating department.
- d) Depreciation on the amount capitalised during the year on account of Foreign Exchange fluctuation is provided prospectively over the residual life of the respective assets.

**(v) Foreign Currency Transactions**

Foreign currency transactions are recorded on the basis of average of the exchange rates in force during the relevant month.

Foreign currency assets and liabilities (other than those covered by forward contracts) as on the balance sheet date are revalued in the accounts on the basis of exchange rates prevailing at the balance sheet date and exchange difference arising there from is charged to Profit & Loss Account.

In the case of transactions covered by forward contracts, the difference between the contract rate and the exchange rate prevailing on the date of transaction is charged to Profit & Loss Account, proportionately over the contract period.

Exchange fluctuation on imported fixed assets is adjusted to the cost of fixed assets.

**(vi) Inventories**

Inventories are valued at lower of cost or net realisable value. For the purpose of valuation of inventories, cost is determined on weighted average basis.

**(vii) Retirement Benefits**

- a) Gratuity is administered through an approved fund, contributions to which, made in accordance with year-end actuarial valuation, are charged to the Profit & Loss Account of the relevant period.

The liability on account of unutilised leave and death benefit scheme due to the employees is charged to the Profit & Loss Account, on the basis of year-end actuarial valuation.

- b) Retirement benefits in the form of Provident Fund and Superannuation / Pension Schemes are charged to the Profit & Loss Account of the year when the contribution to the respective funds are due.

**SCHEDULE 18 : (Contd.)****(viii) Excise Duty**

Excise Duty is accounted for at the point of manufacture of goods and accordingly, is considered for valuation of finished goods stock lying in the factories as on the balance sheet date.

**(ix) Deferred Revenue Expenditure**

Technical Know-how fees are deferred over the period during which the benefits are expected to be derived.

**(x) Leases**

Finance leases, which effectively transfer to the Company substantially all the risks and benefits incidental to ownership of the leased item, are capitalised at the lower of the fair value and present value of the minimum lease payments at the inception of the lease term and disclosed as leased assets. Lease payments are apportioned between the finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are charged to the Profit & Loss Account.

Leases where the lessor effectively retains substantially all the risks and benefits of ownership of the leased term, are classified as operating leases. Operating lease payments are recognized as an expense in the Profit and Loss Account on a straight-line basis over the lease term.

**(xi) Income Taxes**

Tax expense comprises both current and deferred taxes. Deferred income tax reflects the impact of current year timing differences between taxable income and accounting income for the year and reversal of timing differences of earlier years. Deferred tax is measured based on the tax rates and the tax laws enacted or substantively enacted at the balance sheet date. Deferred tax assets (including unrecognised deferred tax assets of earlier years) are recognised only to the extent that there is reasonable certainty/virtual certainty, as applicable, that sufficient future taxable income will be available against which such deferred tax assets can be realised.

**(xii) Investments**

Investments that are readily realizable and intended to be held for not more than a year are classified as current Investments. All other investments are classified as long-term investments.

Current investments are carried at lower of cost or fair market value determined on an individual investment basis. Long-term investments are carried at cost. However, provisions for diminution in value is made to recognize a decline other than temporary in the value of long-term investments.

**(xiii) Borrowing Costs**

- a) Borrowing costs that are directly attributable to the acquisition / construction of a qualifying asset are capitalized as part of the cost of that asset.
- b) All other borrowing costs are recognized as expenditure during the period in which these are incurred.

**(xiv) Provisions**

A provision is recognized when an enterprise has a present obligation as a result of past event; it is probable that an outflow of resources will be required to settle the obligation, in respect of which a reliable estimate can be made. Provisions are not discounted to its present value and are determined based on best estimate required to settle the obligation at the balance sheet date. These are reviewed at each balance sheet date and adjusted to reflect the current best estimates.

**(xv) Contingent Liabilities**

No provision is made for liabilities which are contingent in nature, unless it is probable that future events will confirm that an asset has been impaired or a liability incurred as at the balance sheet date and a reasonable estimate of the resulting loss can be made. However, all known, material contingent liabilities are disclosed by way of separate notes.

**(xvi) Impairment**

- i. The carrying amounts of assets are reviewed at each balance sheet date if there is any indication of impairment based on internal/external factors. An impairment loss is recognized wherever the carrying amount of an asset exceeds its recoverable amount. The recoverable amount is the greater of the assets net selling price and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value at the weighted average cost of capital.
- ii. After impairment, depreciation is provided on the revised carrying amount of the assets over its remaining useful life.
- iii. A previously recognized impairment loss is increased or reversed depending on changes in circumstances. However the carrying value after reversal is not increased beyond the carrying value that would have prevailed by charging usual depreciation if there was no impairment.

**SCHEDULE 18 : (Contd.)****b) LICENCED AND INSTALLED CAPACITY AND PRODUCTION**

(as certified by the Management and accepted by the Auditors)

	<u>Installed capacity</u>		<u>Production</u>	
i) AP Cartridge Tapered Roller Bearings, unit including components and accessories	1,50,000	Nos.	61,853	Nos.
	(1,50,000)	Nos.	(65,374)	Nos.
ii) Tapered Roller Bearings, unit including components	40,00,000	Nos.	16,04,074	Nos.
	(40,00,000)	Nos.	(16,81,027)	Nos.
iii) Components (manufactured for sale)	—		1,03,42,479	Nos.
	—		(1,15,28,260)	Nos.
iv) Double Extended Cone	1,10,000	Nos.	10,158	Nos.
	—		—	

1) Licenced Capacity is not furnished as it is not applicable in terms of Government of India's Notification No.S.O.477(E) dated 25th July, 1991.

2) Above installed capacity represents existing manufacturing facilities for respective products.

**c) TURNOVER, CLOSING AND OPENING STOCK OF GOODS**

	<u>TURNOVER</u>		<u>CLOSING STOCK</u>		<u>OPENING STOCK</u>		<u>PURCHASE #</u>	
	<u>Quantity *</u>	<u>Rupees **</u>	<u>Quantity</u>	<u>Rupees</u>	<u>Quantity</u>	<u>Rupees</u>	<u>Quantity</u>	<u>Rupees</u>
i) Tapered Roller Bearings (Including purchased for resale)	20,14,603 Nos. (20,59,961) Nos.	138,12,89,018 (145,05,37,658)	3,21,075 Nos. (2,54,348) Nos.	10,26,80,826 (9,52,92,127)	2,54,348 Nos. (3,05,337) Nos.	9,52,92,127 (8,45,12,188)	4,24,825 Nos. (3,39,830) Nos.	10,52,68,740 (8,50,03,857)
ii) Components (Including purchased for resale)	1,01,25,097 Nos. (1,10,36,318) Nos.	146,30,23,844 (113,80,38,147)	7,56,016 Nos. (9,23,736) Nos.	7,85,36,205 (5,71,95,717)	9,23,736 Nos. (2,85,573) Nos.	5,71,95,717 (4,00,97,062)	5,52,375 Nos. (4,18,503) Nos.	11,35,07,276 (9,44,65,844)
iii) Grease	7,01,638 Kgs (9,45,812) Kgs	6,04,08,298 (7,75,18,174)	55,034 Kgs (68,648) Kgs	43,41,935 (48,67,274)	68,648 Kgs (90,841) Kgs	48,67,274 (63,10,642)	6,95,047 Kgs (9,28,030) Kgs	5,39,92,089 (6,80,35,746)
iv) Oil Seals	(3,049) Nos. (7,329) Nos.	(88,817) (2,14,564)	— Nos. (1,33,172) Nos.	— (9,58,643)	1,33,172 Nos. (1,44,004) Nos.	9,58,643 (29,04,892)	— —	— —
v) Dental Handpiece Cartridge (including Components)	— — Nos.	— —	4,238 Nos. (4,238) Nos.	— —	4,238 Nos. (4,238) Nos.	— (13,34,406)	— —	— —
vi) Adhesive, Sealants Gasket maker etc.	31,941 Nos. (22,036) Nos.	24,93,937 (30,28,574)	40,487 Nos. (27,196) Nos.	26,83,666 (19,74,398)	27,196 Nos. —	19,74,398 —	45,232 Nos. (49,286) Nos.	27,83,615 (4,321,586)
vii) Ball Bearing (Trading)			5,957 Nos.	4,05,559	—	—	5,957 Nos.	405,559
		<u>290,71,26,280</u> <u>(266,93,37,117)</u>		<u>18,86,48,191</u> <u>(16,02,88,159)</u>		<u>16,02,88,159</u> <u>(13,51,59,190)</u>		<u>27,59,57,279</u> <u>(25,18,27,033)</u>

\* Excludes free samples to customers.

# Purchases are for resale.

\*\* Sale of Products is stated net of excise duty and trade discount.

Note : Excludes Miscellaneous items due to nature and voluminous number of such items.

**SCHEDULE 18 : (Contd.)**

**d) CONSUMPTION OF RAW MATERIALS AND COMPONENTS**

Details of Raw Materials/Components	Year ended 31st December 2005		Year ended 31st December 2004	
	Quantity	Rupees	Quantity	Rupees
Cup	30,67,859 Nos.	44,14,64,504	29,90,119 Nos.	36,76,00,575
Cone	35,83,981 Nos.	38,21,92,717	31,52,594 Nos.	30,29,37,007
Rollers	1,44,43,214 Nos.	5,84,54,874	1,45,63,045 Nos.	6,78,20,702
Roller Wire	17,47,074 Kgs.	9,62,36,341	16,12,071 Kgs.	8,88,41,192
Components & Accessories		30,35,92,785		27,35,55,458
		<u>128,19,41,221</u>		<u>110,07,54,934</u>

**e) CONSUMPTION OF IMPORTED AND INDIGENOUS MATERIALS**

Value of consumption of imported and indigenously obtained raw materials, components, stores and spare parts and percentage of each to the total consumption :

	Year ended 31st December 2005		Year ended 31st December 2004	
	%	Rupees	%	Rupees
<b>i) Raw Materials and components</b>				
Imported	14.56	18,65,94,846	19.50	21,46,46,344
Indigenous	85.44	109,53,46,375	80.50	88,61,08,590
	<u>100.00</u>	<u>128,19,41,221</u>	<u>100.00</u>	<u>110,07,54,934</u>
<b>ii) Stores and spare parts</b>				
Imported	14.92	3,00,03,202	17.87	2,95,89,256
Indigenous	85.08	17,11,04,927	82.13	13,59,59,038
	<u>100.00</u>	<u>20,11,08,129</u>	<u>100.00</u>	<u>16,55,48,294</u>

**f) C.I.F. VALUE OF IMPORTS**

(including in transit)

	Year ended 31st December 2005 Rupees	Year ended 31st December 2004 Rupees
i) Raw Materials, components, stores and spare parts	23,13,82,369	22,91,36,365
ii) Finished Products for re-sale	16,56,36,610	12,68,36,821
iii) Capital Goods	5,72,61,635	1,06,95,907

## SCHEDULE 18 : (Contd.)

	Year ended December 31, 2005 Rupees	Year ended December 31, 2004 Rupees
<b>g) EXPENDITURE IN FOREIGN CURRENCY (on cash basis)</b>		
i) Foreign Travel	80,02,397	55,51,915
ii) Bank Charges	207,598	1,84,121
iii) Royalty (net of withholding tax)	6,15,41,472	4,28,34,657
iv) Others	3,95,38,310	1,98,93,328
<b>h) EARNINGS IN FOREIGN EXCHANGE (on realisation basis)</b>		
i) F.O.B. value of exports	144,75,30,013	90,49,40,876
ii) Agency commission	4,50,58,731	2,07,03,527
<b>i) CONTINGENT LIABILITIES NOT PROVIDED FOR</b>	<b>Rs. Lakhs</b>	<b>Rs. Lakhs</b>
<b>A. Demands raised by Sales Tax/Income Tax/Excise authorities</b>		
i) Demand of Sales Tax for non-availability/inadvertent non-consideration by assessing officer of various Sales Tax Declaration Forms.	877.41	73.01
ii) Demand of Sales Tax on account of non-deduction of various allowances and consequent enhancement of Gross turnover.	18.47	20.29
iii) Demand of Sales Tax on method of valuation of Goods.	9.05	10.77
iv) Demand of Sales Tax Department, Jamshedpur towards additional Electricity Duty on account of basis of valuation.	16.74	16.74
v) Demand of Additional Income Tax due to non-consideration of TDS Certificates by the assessing officer.	14.77	14.77
vi) Demand of Excise Duty on Scrap generated at Job-workers' premises	46.60	24.52
vii) Demand of Excise Duty on CVD credit for imported components of Railway Bearings.	52.45	52.45
viii) Demand of Excise Duty on scrap grinding sludge and short/excess of stock	12.77	—
The Company has preferred appeals against all the above issues and the same are pending with the relevant appropriate authorities.		
<b>B. Other Claims against the Company not acknowledged as debts</b>		
i) Demand of ESI Corporation for ESI contribution on employees at Kolkata office of the Company. The Company has contested on the applicability of ESI for such employees and the issue is pending before the Assistant Regional Director, ESI Corporation, Kolkata.	2.89	2.89
ii) Demands arising out of suits filed by Shareholders on account of short/non refund of Application Money for which shares have not been allotted and/or non-receipt of Share Certificates etc. Company's appeals against these issues are pending before relevant District Forums/State Commission/Civil Courts.	5.18	4.66
Based on discussions with the solicitors/favourable decisions in similar cases/legal opinions taken by the Company, the management believes that the Company has a good chance of success in above-mentioned cases and hence, no provision there against is considered necessary.		
<b>j) ESTIMATED AMOUNT OF CONTRACTS REMAINING TO BE EXECUTED ON CAPITAL ACCOUNT AND NOT PROVIDED FOR (net of advances paid)</b>	<b>Rs. Lakhs</b>	<b>Rs. Lakhs</b>
	4,00,34,577	1,56,41,431



**SCHEDULE 18 : (Contd.)**

	<b>Year ended December 31, 2005 Rupees</b>	<b>Year ended December 31, 2004 Rupees</b>
<b>k) MANAGERIAL REMUNERATION</b>		
i) Salary	<b>104,44,195</b>	15,41,607
ii) Contribution to Provident & Other Funds	<b>3,14,672</b>	2,55,882
iii) Estimated Value of Perquisites	<b>6,73,068</b>	1,69,871
<b>Total</b>	<b><u>1,14,31,935</u></b>	<b><u>19,67,360</u></b>

Note: i) Managerial Remuneration does not include gratuity, leave pay and similar benefits provided on the basis of actuarial valuation in the accounts which is to be included for this purpose at the time of actual payment.

ii) The above includes Rs. 92,387/- pending approval of shareholders.

l) Deposits include Rs 1,82,38,597 (Rs. 3,15,33,165) with Customs Authorities, pending final assessment against which a liability of Rs. 61,08,928 (Rs. 1,94,03,495), considered adequate, is held in the accounts.

m) Deferred Tax Accounting – The deferred tax credit for the year has been recognised in the Profit & Loss Account for the year. Details of Deferred Tax Assets/(Liabilities) are as follows :

	<b>As on 31-12-2005 Rupees</b>	<b>As on 31-12-2004 Rupees</b>
– Items under Section 43B of IT Act	<b>1,39,44,793</b>	1,21,45,617
– Provision for Bad Debts	<b>1,02,47,728</b>	62,92,490
– Items under Section 40(a)(ia) of IT Act	<b>22,31,718</b>	39,90,880
– Technical Know-how Fees	—	(8,03,789)
– Depreciation	<b>(4,91,14,827)</b>	(5,90,81,247)
<b>Net Deferred Tax Assets/(Liabilities)</b>	<b><u>(2,26,90,588)</u></b>	<b><u>(3,74,56,049)</u></b>

n) As per Accounting Policy of deferred revenue expenditure, the Technical Know-how fees payable to the collaborator for providing technical assistance is deferred and amortised over a period of 72 equal monthly installments.

	<b>Year ended December 31, 2005 Rupees</b>	<b>Year ended December 31, 2004 Rupees</b>
--	--	--

**o) OTHER EXPENSES**

Item 4 (m) of Schedule 16 includes :

i) Auditors' Remuneration *		
– For services as Auditors	<b>8,25,000</b>	8,81,600
– For Limited Review	<b>9,69,760</b>	9,23,500
– For Tax Audit	<b>3,85,700</b>	3,85,700
– For US GAAP Certification	<b>3,00,000</b>	3,30,600
– For Other Services	<b>2,06,830</b>	29,200
– For Corporate Governance	<b>1,00,000</b>	1,62,000
– For travelling and out-of-pocket expenses	<b>1,22,741</b>	1,28,850

\* Inclusive of service tax, where applicable

ii) Directors' fees	<b>48,000</b>	42,000
iii) Loss on disposal / discarding of assets	<b>20,12,551</b>	22,940
iv) Provision for wealth tax	<b>75,000</b>	75,000

p) i) No Equity shares have been allotted during the year 2005 out of 15,150 shares of Rs. 10/- each kept in abeyance as at 31st March, 1998.

ii) Out of the total shares issued, 5,09,99,988 fully paid-up Equity shares of Rs. 10/- each are held by The Timken Company, USA as at 31st December, 2005.

iii) Calls in arrears in respect of the Shares Rs. 1,41,750 have been computed on the basis of information certified by the Registrar & Share Transfer Agent of the Company.

**SCHEDULE 18 : (Contd.)**

- q) Unsecured loans represent short-term loan repayable within one year amounting to Rs. 1,49,47,494 (Rs. 9,31,44,605)
- r) Name of small scale industrial undertakings to whom the Company owes any sum which is outstanding for more than 30 days as at 31st December, 2005 :-

Annapurna Engg. Works, Devendra Packaging, Diamond Enterprises, Eastern Machinery Works, Kashmir Timber Traders, Maa Andula Packaging, Pawan Enterprises, Sumit Techmart, Shyam Enterprises, Viks Gears.

- s) Sundry Debtors include dues from companies under the same Management :-

	<b>As on 31.12.2005 Rupees</b>	<b>As on 31.12.2004 Rupees</b>
Timken Europa GmbH	81,171	36,444
Timken UK Limited	23,13,129	55,94,414
Australian Timken Proprietary Limited	1,44,04,600	56,11,242
Timken Do Brasil Com.E.Ind.Ltda.	2,70,49,242	1,85,79,480
Timken Singapore PTE Limited	54,39,876	66,95,502
Timken Italia S.R.L.	—	29,11,974
Yantai Timken Company Limited	—	9,07,585
Timken South Africa (PTY) Limited	1,35,73,629	131,29,567
Timken Engineering & Research - India Pvt Ltd	1,24,742	1,24,742
Timken Romania S.A.	33,159	—

- t) Loans and Advances include dues from companies under the same Management :-

	<b>As on 31-12-2005 Rupees</b>	<b>Maximum Amount due during 2005 Rupees</b>	<b>As on 31-12-2004 Rupees</b>
Timken Europa (GmbH)	25,810	88,249	—
Yantai Timken Company Limited	90,576	6,98,745	3,49,839
Timken Singapore PTE, Limited	25,810	52,823	51,151
Timken South Africa	5,76,976	7,38,036	3,02,713
Timken Engineering & Research - India Pvt Ltd	—	1,97,452	—
Timken Italia S.R.L.	—	79,277	79,277

- u) **Segment Information**

**Business Segment:**

The Company reviewed the disclosure of Business segmentwise information and is of the view that it manufactures Bearings and related components which is single business segment in accordance with AS-17. Accordingly, no separate business segment information is furnished herewith.

## SCHEDULE 18 : (Contd.)

**Geographical segments:**

The Geographical segments have been identified on the basis of the location of the major customers of the Company.

**Secondary Segment - Geographical**

	<b>Year ended 31-12-2005 Rupees</b>	Year ended 31-12-2004 Rupees
<b>Sales Revenue by Geographical Market</b>		
India	<b>173,89,56,167</b>	164,61,93,978
Outside India	<b>135,21,49,511</b>	113,14,37,183
Total	<b><u>309,11,05,678</u></b>	<u>277,76,31,161</u>
<b>Carrying Amount of Segment Assets</b>		
India	<b>215,44,77,056</b>	166,31,59,884
Outside India	<b>16,14,28,718</b>	27,93,59,844
Total	<b><u>231,59,05,774</u></b>	<u>194,25,19,728</u>
<b>Purchase of Fixed Assets</b>		
India	<b>16,73,01,018</b>	7,23,85,695
Outside India	—	—
Total	<b><u>16,73,01,018</u></b>	<u>7,23,85,695</u>

## v) Related Party Disclosure:

During the year, the company entered into transactions with related parties. Those transactions along with related balances as at 31st December 2005 and for the year then ended are presented in the following table.

Sl No	Name of the Related Party	Relationship	Nature of transactions	Transaction Amount (Rs)	Outstanding as on 31/12/05 (Rs)
1	The Timken Company, USA	Holding Co. with 80% equity shares	Purchase of goods	15,86,86,467 (16,71,88,880)	10,49,69,094 (1,10,20,754)
			Sale of Goods	98,50,64,272 (84,54,19,256)	8,18,67,883 (21,75,20,336)
			Purchases of Fixed Assets	4,33,60,365 (42,97,551)	2,06,71,614 (35,75,011)
			Expenses Receivable	1,68,34,112 (23,76,435)	29,53,224 (13,97,140)
			Expenses Payable	2,50,43,829 (3,14,12,946)	1,20,45,724 (1,84,01,646)
			Agency Commission (Income)	4,80,19,574 (2,38,77,209)	1,05,19,206 (36,05,420)
			Freight Recovery	4,24,351 (44,84,186)	— —
			Royalty	7,53,75,282 (6,89,24,235)	6,64,73,037 (5,66,09,153)
			Technical Assistance Expenses	6,56,42,129 (14,72,370)	11,65,352 (17,48,691)
2	Timken UK Limited	Fellow Subsidiary	Sale of Goods	3,41,26,480 (2,91,00,733)	23,13,129 (55,94,414)
			Purchase of goods	— (67,230)	— —
			Expenses Payable	— (80,296)	1,05,543 (1,14,341)
			Freight Recovery	96,703 (5,96,537)	— —

## TIMKEN INDIA LIMITED

## SCHEDULE 18 : (Contd.)

Sl No	Name of the Related Party	Relationship	Nature of transactions	Transaction Amount (Rs)	Outstanding as on 31/12/05 (Rs)
3	Timken Do Brasil COM.E.IND.LTDA	Fellow Subsidiary	Sale of Goods	7,62,16,788 (8,11,25,760)	2,70,49,242 (1,85,79,480)
			Purchase of goods	— (10,725)	— (10,284)
			Agency Commission (Expense)	1,70,890 (3,41,362)	2,90,942 (1,20,052)
4	Timken Korea LLC	Fellow Subsidiary	Agency Commission (Expense)	6,22,131 (2,02,854)	6,22,131 —
5	Timken South Africa Limited	Fellow Subsidiary	Sale of Goods	6,60,20,190 (5,33,92,322)	1,35,73,629 (1,31,29,567)
			Purchase of goods	1,90,398 (98,124)	2,95,292 (97,067)
			Expenses Receivable	15,94,744 (24,18,904)	5,76,976 (3,02,713)
			Agency Commission (Income)	9,07,923 (36,573)	— —
6	Timken Romania	Fellow Subsidiary	Purchase of goods	67,72,295 (53,26,354)	87,781 (27,33,563)
			Expenses Payable	68,635 (1,03,366)	84,472 (64,849)
			Agency Commission (Income)	33,121 (4,98,354)	33,159 —
7	Timken Singapore PTE. Limited	Fellow Subsidiary	Sale of Goods	4,35,29,838 (1,77,05,592)	54,39,876 (66,95,502)
			Purchase of goods	3,44,18,563 (2,33,45,432)	93,35,249 (74,41,028)
			Expense Receivable	52,823 (51,151)	25,810 (51,151)
			Freight Recovery	77,095 (3,34,506)	— —
8	Yantai Timken Company Limited	Fellow Subsidiary	Sale of Goods	26,71,727 (81,89,212)	— (9,07,585)
			Purchase of goods	1,95,14,256 (29,00,280)	65,24,889 (19,155)
			Expense Receivable	4,75,411 (3,49,839)	90,576 (3,49,839)
			Freight Recovery	58,820 (2,18,796)	— —
9	Australian Timken Proprietary Limited	Fellow Subsidiary	Sale of Goods	7,02,79,356 (4,03,05,961)	1,44,04,600 (56,11,242)
			Purchase of goods	— (47,180)	— —
10	Timken Polska	Fellow Subsidiary	Purchase of goods	15,37,424 (28,44,472)	7,32,048 (5,56,731)
			Purchase of Fixed Assets	57,779 —	57,779 —
11	Others	Fellow Subsidiary	Purchase of goods	1,00,418 (1,01,042)	12,970 (4,394)
			Sale of Goods	50,34,854 (1,85,55,458)	1,24,742 (30,36,715)
			Expenses Receivable	3,86,614 (3,87,131)	25,810 (79,277)
			Expenses Payable	1,02,57,489 (1,88,91,409)	42,66,365 (24,10,094)
			Agency Commission (Income)	7,85,113 (5,01,367)	81,171 (36,444)
12	G. W. Robinson	Chairman & Managing Director Key Management Personnel	Remuneration*	82,02,682 —	48,00,488 —
13	Shyamal K Sinha	Deputy Managing Director - Key Management Personnel	Remuneration *	32,29,253 (19,67,360)	6,22,122 —

**SCHEDULE 18 : (Contd.)**

1. Others comprise Timken Italia SRL, Timken Engineering & Research India - Pvt Ltd, Timken Europa GmbH, Timken Wuxi.
  2. Provision for Doubtful Debts, Amount Written-off during the year & amount Written-back during the year - Rs.NIL (Rs. NIL).
  3. Key Management Personnel Mr. G W Robinson, Chairman & Managing Director and Mr. Shyamal K Sinha, Deputy Managing Director.
- \* For payments being Managerial Remuneration to Key Management Personnel - refer note (k) of Schedule 18.

w) **Earning Per Share (Basic & Diluted) :**

	<b>Year ended December 31,2005 Rupees</b>	Year ended December 31, 2004 Rupees
Profit After Tax	<b>34,88,10,551</b>	32,99,34,259
Earning available to Equity Shareholders	<b>34,88,10,551</b>	32,99,34,259
Weighted Average No. of Equity Shares @ Rs. 10/- each	<b>6,37,34,850</b>	6,37,34,850
Earning per share	<b>5.47</b>	5.18

x) **Provisions**

	Balance as at 01.01.2005 Rs.	Additions during the year Rs.	Amounts used during the year Rs.	Unused amounts reversed during the year Rs.	Balance as at 31.12.2005 Rs.
Provision for supplies not in conformity with specification	2,18,61,201	3,02,35,574	2,69,94,312	46,74,404	2,04,28,059

The above provision of Rs. 3,02,35,574 (Rs. 3,95,56,305) for supplies not in conformity with specification is included in conversion charges & (increase)/Decrease in stock of Finished goods and semi-finished goods-excluding excise duty on plant stock (Refer 4(k) & 9, Schedule 16).

- y) Matured Debentures and interest thereon have been separately funded in the respective bank accounts and remains unpaid in absence of claim.
- z) Previous Wage Agreement with Associates' Union has expired in April 2005 and the management is in the final stage of negotiation for a new wage agreement, pending finalisation of which the liabilities for differential wages, as per management's estimate has been provided and included in 'Salaries, Wages and Bonus' under item 3(a) of Schedule 16 without any separate allocation of such provision towards Company's contribution to Provident and other funds. Adjustment on such liability provided, required if any, consequent on finalisation of such negotiation will be provided in the year of conclusion thereof.

aa) Figures in brackets are for the previous year.

ab) Figures of the previous accounting period have been regrouped / rearranged, wherever necessary.

Signature to Schedules 1 to 18

For and on behalf of the Board

As per our report of even date attached

**S.R.BATLIBOI & CO.**

Chartered Accountants

**Per Rahul Roy**

a Partner

Membership No 53956

Kolkata, 28 January, 2006

**Soumitra Hazra**

Finance Controller & Company Secretary

Kolkata, 28 January, 2006

**G.W. Robinson**

Chairman & Managing Director

**Shyamal K Sinha**

Dy. Managing Director



**CASH FLOW STATEMENT FOR THE YEAR ENDED 31ST DECEMBER 2005**

	Year ended 31.12.2005 Rupees	Year ended 31.12.2004 Rupees
<b>A. Cash Flow from Operating Activities :</b>		
<b>Net Profit/(Loss) before Tax and Extraordinary items</b>	<b>52,95,40,384</b>	50,88,50,982
Adjustments for :		
Depreciation	8,75,53,000	8,27,94,943
Interest income	(3,570)	(585)
Interest expense	95,16,871	90,27,126
Income from Mutual Fund	(2,03,10,045)	(92,10,047)
(Profit)/Loss on sale of assets	6,86,023	(5,18,030)
Miscellaneous expenditure amortised	21,96,595	26,35,914
Provision for Wealth Tax	75,000	75,000
	<b>7,97,13,874</b>	<b>8,48,04,321</b>
<b>Operating Profit before Working Capital Changes</b>	<b>60,92,54,258</b>	59,36,55,303
Adjustments for :		
Trade and Other Receivables	(4,12,84,405)	(10,72,65,473)
Inventories	(5,38,96,639)	(6,31,49,971)
Trade Payables and Other Liabilities	10,51,64,878	10,24,28,192
	<b>99,83,834</b>	<b>(6,79,87,252)</b>
<b>Cash Generated from Operations</b>	<b>61,92,38,092</b>	52,56,68,051
Direct Tax paid	(20,19,82,176)	(20,36,66,875)
	<b>(20,19,82,176)</b>	<b>(20,36,66,875)</b>
<b>Net Cash from Operating Activities</b>	<b>41,72,55,916</b>	<b>32,20,01,176</b>
<b>B. Cash Flow from Investing Activities :</b>		
Purchase of Fixed Assets	(16,73,01,018)	(7,25,61,116)
Sale of Fixed Assets	14,97,899	8,55,257
Investment	(12,87,54,851)	(36,05,18,118)
Income from Mutual Fund	2,03,10,045	92,10,047
Interest received	3,570	585
<b>Net Cash from Investing Activities</b>	<b>(27,42,44,355)</b>	<b>(42,30,13,345)</b>
<b>C. Cash Flow from Financing Activities :</b>		
Interest paid	(95,16,871)	(90,27,126)
Proceeds / (Redemption) of Share Capital	1,500	1,000
Proceeds from Term/Short Term Borrowings	(7,81,97,111)	8,76,13,039
Cash Credit (Net)	1,53,55,160	(2,35,92,775)
<b>Net Cash from Financing Activities</b>	<b>(7,23,57,322)</b>	<b>5,49,94,138</b>
<b>Net increase/(decrease) in Cash and Cash equivalents</b>	<b>7,06,54,239</b>	(4,60,18,031)
<b>Cash and Cash equivalents as at 1st January (Opening Balance)</b>	<b>4,67,07,634</b>	9,27,25,665
<b>Cash and Cash equivalents as at 31st December (Closing Balance)</b>	<b>11,73,61,873</b>	<b>4,67,07,634</b>

Notes : (1) Figures in brackets represent outflows.

(2) Cash and Cash equivalent as on 31st December 2005 includes Rs 1,17,73,535 (Rs 1,34,31,808) being amount towards Unclaimed Debenture and Debenture Interest that are not available for use by the enterprise.

(3) Previous year figures have been regrouped/rearranged, wherever necessary.

As per our Report of even date attached

**For S.R.BATLIBOI & Co.**

Chartered Accountants

**Per Rahul Roy**

a Partner

Membership No 53956

**Soumitra Hazra**

Finance Controller & Company Secretary

**Shyamal K Sinha**

Dy. Managing Director

**G.W.Robinson**

Chairman & Managing Director

Kolkata, 28 January, 2006

Kolkata, January 28, 2006



## Corporate Governance Report

### Company's philosophy on code of governance

The Vision Statement of the Company expresses the Company's commitment towards exceeding customers' expectations at the world's lowest cost. This, it is believed, will help the Company in maximizing the shareholders' value through realization of healthy margin, maintaining customer satisfaction and developing a sound vendor base to enable it to procure quality materials at the right price and at the right time.

The Standards of Business Ethics Policy as adopted by The Timken Company, USA and applicable to its subsidiaries also, requires the business of the Company to be conducted according to highest standards of integrity and ethics with due regard for all applicable laws. All associates are expected to be familiar and comply with all applicable laws and regulations.

Towards achieving these objectives, the Company has put in place a number of systems to ensure transparency in decision-making, empowerment at different levels, accountability and integrity. These systems are continuously monitored and fine-tuned so as to bring them in line with the changing requirements of the Listing Agreements.

### Board of Directors

Composition:

On 30 March 2005, Mr. Gordon William Robinson assumed executive responsibilities as the Chairman & Managing Director of the Company. Thereafter, the number of Independent Directors was not less than 50% of the total number of Directors. Prior to that, the number of Independent Directors was not less than one-third of the total number of Directors. Non-Executive Directors was more than 50% of the total number of Directors, with the Chairman & Managing Director and the Dy. Managing Director being the only Executive Directors on the Board of Directors of the Company.

None of the Directors on the Board is a member of more than 10 Committees and no Director is the Chairman of more than 5 Committees across all the companies in which he is a Director. The necessary disclosures regarding Committee positions have been made by all the Directors.

The names and category of Directors on the Board, their attendance at the Board Meetings held during the year and also at the last Annual General Meeting, the number of Directorships and Committee Memberships held by them in other companies are given below:

Name	Category	No. of Board Meetings attended during the year ended December 31, 2005	Whether attended AGM held on April 23, 2005	No. of Directorships in other companies	No. of Committee positions held in other companies	
					Chairman	Only Member
Mr. Gordon W. Robinson	Promoter Director, Executive, Not Independent	4	Yes	4	—	—
Mr. Shyamal K. Sinha	Executive, Not Independent	4	Yes	—	—	—
Mr. Scott A. Scherff*	Promoter Director, Non-Executive, Not Independent	—	No	NA	NA	NA
Mr. Jon T. Elsasser	Promoter Director, Non-Executive, Not Independent	—	No	—	—	—
Mr. Vinod K. Dasari*	Non-Executive, Independent	2	Yes	NA	NA	NA
Mr. Michael J. Hill	Promoter Director, Non-Executive, Not Independent	1	No	2	—	—
Mr. Niroop Mahanty	Non-Executive, Independent	3	Yes	2	—	—
Ms. Sunitha Narahari	Non-Executive, Independent	2	No	3**	—	—
Mr. Jai S. Pathak Alternate Director to Mr. Michael J. Hill	Non-Executive, Independent	—	No	1	1	2
Mr. P S Dasgupta Alternate Director to Mr. Jon T. Elsasser	Non-Executive, Independent	2	No	20**	—	8

\* resigned with effect from 4 February 2005 and close of business hours on 23 April, 2005 respectively

\*\* including directorships in Private Limited Companies

Four Board Meetings were held during the year ended December 31, 2005 and the gap between two meetings did not exceed four months. The dates on which the Board Meetings were held are as follows:

- 1) February 4, 2005
- 2) April 23, 2005
- 3) July 30, 2005
- 4) October 28, 2005

Information as required under Annexure I to Clause 49 has been made available to the Board. Except for sitting fees paid to the Non-Executive resident Directors for attending the meetings of the Board or Committees thereof, the Company did not have any pecuniary relationship or transactions with Non-Executive Directors during the period under review.

#### Audit Committee

The Audit Committee of the Board enjoys all the powers as mentioned in para II(C) of the Clause 49 of the Listing Agreement. The scope of the Audit Committee includes all the work stated in para II (D) of Clause 49.

The Company has complied with all the requirements of clause 49 (II)(A) of the Listing Agreement relating to composition of the Audit Committee. Mr. Vinod Kumar Dasari, an independent, non-executive Director acted as the Chairman of the Audit Committee till the close of business hours on April 23, 2005. Thereafter, the Audit Committee of the Board was reconstituted so as to induct Mr. P S Dasgupta and Ms. Sunitha Narahari, two Non-Executive Independent Directors. Two more Audit Committee Meetings were held and both were Chaired by Mr. P S Dasgupta. Mr. Dasari, as the then Chairman of the Audit Committee was present at the Eighteenth Annual General Meeting of the Company held on April 23, 2005.

In 2005, the composition of the Audit Committee and the details of meetings attended by the members thereof were as follows:

Name of the Members	Category	No. of Meetings attended
Mr. Vinod K. Dasari, Chairman	Non-Executive, Independent	1
Mr. Niroop Mahanty, Member	Non-Executive, Independent	2
Mr. Jai S. Pathak, Member	Non-Executive, Independent	—
Mr. P S Dasgupta Member	Non-Executive, Independent	2
Ms. Sunitha Narahari Member	Non-Executive, Independent	2

Audit Committee Meetings were attended by Divisional Manager - Finance, Manager – Internal Audit. Dy. Managing Director had also attended all the Audit Committee Meetings held in 2005 as an invitee. Chairman & Managing Director had also attended the Audit Committee Meeting held on October 28, 2005. Representatives of the statutory auditors had also attended these meetings. As required under law, Finance Controller & Company Secretary acted as the Secretary of the Audit Committee.

Three Audit Committee Meetings were held during the year 2005. The dates on which the said meetings were held are as follows:

- 1) February 4, 2005
- 2) July 30, 2005
- 3) October 28, 2005

Necessary quorum was present at all these meetings.

#### Remuneration Committee

Broad terms of reference of the Remuneration Committee includes determination on behalf of the Board of Directors of the Company and on behalf of the shareholders, the Company's policy on specific remuneration packages for Executive Directors of the Company. The Company has two Executive Directors under the respective designations 'Chairman & Managing Director' and 'Dy. Managing Director'.

In terms of the provisions of clause 49 of the Listing Agreement read with the amended provisions of Schedule XIII to the Companies Act, 1956, all the three members of the Remuneration Committee are Non-Executive, Independent.

In 2005, the composition of the Remuneration Committee was as follows:

Name of the Members	Category
Mr. Niroop Mahanty, Chairman	Non-Executive, Independent
Mr. P. S. Dasgupta, Member	Non-Executive, Independent
Mr. Jai S. Pathak, Member	Non-Executive, Independent

As per Company's policy, the resident Non-Executive Directors of the Company were paid remuneration by way of Sitting Fees only. Accordingly, a sum of Rs. 3000/- was paid to each resident Non-Executive Director for attending a meeting of the Board or a Committee of the Board. Non-resident Non-Executive Directors were not paid any Sitting Fees. The Chairman & Managing Director and Dy. Managing Director were also not entitled to receive any Sitting Fees for attending meetings of the Board of Directors or Committees thereof.

The Company paid remuneration by way of salary, perquisites and allowances (fixed components) and Performance Incentive (variable component) to the Chairman & Managing Director and Dy. Managing Director being the Executive Directors on the Board of Directors of the Company, after obtaining the requisite approvals from the Remuneration Committee, Board of Directors of the Company, the shareholders and in applicable cases from Central Government after complying with the requisite formalities as prescribed under the Companies Act, 1956. As per practices consistently followed by the Company, Performance Incentives (variable component) were based on the performance criteria laid down at the beginning of the year broadly taking into account the profit targets set for the year under review.

No meeting of the Remuneration Committee was held in 2005. Necessary approvals were however obtained by way of resolution by circulation.

#### Details of Remuneration of Directors for the year 2005

##### Non-Executive Directors

Name of the Director	Sitting Fees (Rs.)
Mr. Jon T. Elsasser	Nil
Mr. Vinod K. Dasari	9,000
Mr. M J Hill	Nil
Mr. Niroop Mahanty	15,000
Mr. Jai S. Pathak	Nil
Mr. P. S. Dasgupta	12,000
Ms. Sunitha Narahari	12,000

*Executive Directors*

Name of the Director	Salary & Allowances	Perquisites	Performance Incentive	Stock Options
Mr. Gordon W Robinson	Rs. 33,99,194/-	Rs. 3,000/-	Rs. 48,00,488/-	Nil
Mr. Shyamal K. Sinha	Rs. 20,71,926/-	Rs. 6,70,068/-	Rs. 4,87,259/-	Nil

The terms of appointment of the Chairman & Managing Director and Dy. Managing Director have been governed by the provisions of the Companies Act, 1956 and such appointments have been subject to termination by either party by giving three months' notice unless termination at a shorter notice is mutually agreed by the Chairman & Managing Director and Dy. Managing Director respectively and the Board of Directors of the Company. As per terms of appointment, the Chairman & Managing Director and Dy. Managing Director are not entitled to receive any severance fees.

**Investors Relation and Grievance Committee**

The terms of reference of the Investors Relations and Grievance Committee comprised looking into redressal of investor complaints, e.g. transfer of shares, non-receipt of Balance Sheet, etc. and also to authorize registration of transfer of shares, issue of duplicate / new certificates, etc.

In 2005, the composition of the Investors Relation and Grievance Committee is given below:

Name of the Members	Category
Mr. Niroop Mahanty, Chairman	Non-Executive, Independent
Mr. Shyamal K. Sinha, Member	Executive, Not Independent
Mr. Jai S. Pathak, Member	Non-Executive, Independent

Finance Controller & Company Secretary acted as the Compliance Officer.

No meeting of the Investors Relation and Grievance Committee was held in 2005. Generally, approval of the members of Investors Relation and Grievance Committee are obtained through Circular Resolutions for effecting registration of transfer of shares, issue of duplicate / new certificates and other issues involving investor services. During the above period, an aggregate of 49 resolutions have been approved by the said Committee by way of circulation.

In addition, status reports on Investor Services were circulated periodically to the members of the Investors Relation and Grievance Committee.

The status of investors' queries handled by the Company and also by the Registrars during the year ended on December 31, 2005 is given below:

Particulars	Total Received	Total Replied	Total Pending as on 31.12.05
Change of Address / POA	673	673	—
Non-receipt of Certificates	227	227	—
Non-receipt of interest / redemption	436	436	—
Others	684	684	—
Revalidation	86	86	—
Duplicate /New Certificates	411	411	—
Endorsement	317	317	—
Transmission	171	171	—
Dematerialisation	110	110	—
Transfers	18	18	—
<b>TOTAL</b>	<b>3133</b>	<b>3133</b>	<b>—</b>
<b>Stock Exchanges</b>			
Mumbai Stock Exchange	22	22	—
Calcutta Stock Exchange	2	2	—
Magadh Stock Exchange	1	1	—
<b>Regulatory Bodies</b>			
SEBI	21	21	—
Registrar of Companies, Bihar & Jharkhand	—	—	—
Dept. of Company Affairs	—	—	—

As on December 31, 2005, 169 requests for registration of transfer of Equity Shares of the Company remained outstanding in the books of the Company, partly being requests received subsequent to December 21, 2005 and partly for sellers' confirmation.

**General Body Meetings**

Details on General Meetings:

Location, date and time of General Meetings held during the last three years:

Year	Location	AGM/ EGM	Date	Day	Time	No. of Special Resolutions
2002 (9 months ended December 31, 2002)	Tata Steel Management Development Centre, XLRI Campus, C.H. Area (E), Jamshedpur – 831 001	AGM	April 30, 2003	Wednesday	12.00 Noon	1
2003	Shavak Nanavati Technical Institute, N-Road, Bistupur, Jamshedpur – 831 001	AGM	April 24, 2004	Saturday	12.00 Noon	—
2004	Center for Excellence, Jubilee Road, Jamshedpur – 831 001	AGM	April 23, 2005	Saturday	12.30 p.m.	1

Note : Of the resolutions passed at the General Meetings as aforesaid, only one Special Resolution relating to change of Object Clause in the Memorandum of Association of the Company was required to be put through Postal Ballot in terms of the relevant provisions of the Companies Act, 1956.

**Disclosures**

There was no materially significant related party transactions, i.e. transactions of the Company of material nature, with its promoters, the Directors or the Management, their subsidiaries or relatives, etc. that may have potential conflict with the interest of the Company at large during the year 2005.

Representation from key management personnel has been received relating to financial and commercial transactions where he or his relatives may have personal interest.

Details of non-compliance by the Company, penalties, strictures imposed on the Company by the Stock Exchange / SEBI or any statutory authority on any matters related to capital markets during the last three years - NIL.

**Means of Communication**

Quarterly results were published in the leading English Dailies (Business Standard / Times of India / Economic Times) and Hindi newspapers (Uditvani / Chamakta Aina / Prabhat Khabar).

The financial results were also displayed on the Company's website at [www.timken.com/india](http://www.timken.com/india)

Management, Discussion and Analysis is a part of the Annual Report.

Half-yearly results of the Company were communicated through newspaper insertions and intimation to the Stock Exchanges and were also displayed on the Company's website. Regarding postal ballot, the Company is governed by the provisions of the Companies Act, 1956 and rules framed thereunder relating to passing of resolutions by postal ballots.

**Directors' Shareholding**

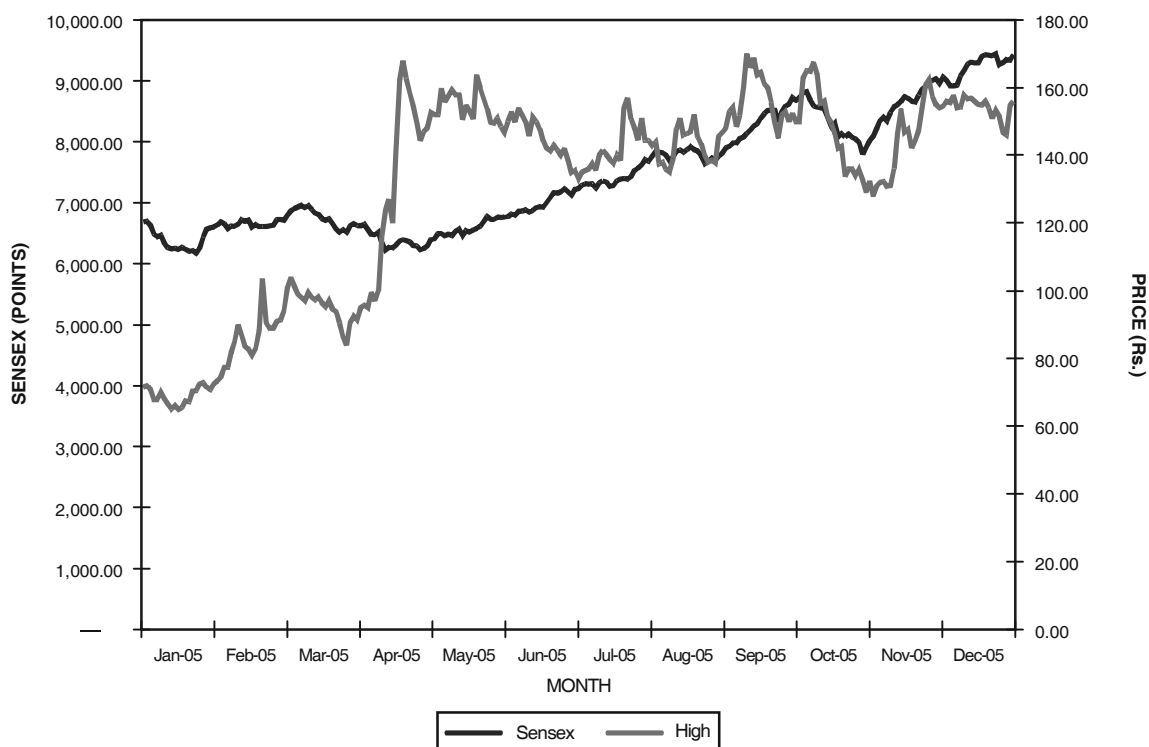
Except Mr. P S Dasgupta, no other Non-Executive Directors holds any Equity Shares of the Company. Mr. Dasgupta holds 1 Equity Share. Mr. Shyamal K Sinha, an Executive Director holds 150 Equity Shares of the Company.

**General Shareholders Information**

1. AGM	Friday, April 28, 2006 at 3.00 pm at Center for Excellence, Jubilee Road Jamshedpur - 831001.
2. Financial Calendar	The Accounting Year covers the period from January 1 to December 31, 2006. Financial reporting for: a) 1st Quarter ending March 31, 2006 – end April, 2006 b) Half year ending June 30, 2006 – end July, 2006 c) 3rd Quarter ending September 30, 2006 – end October, 2006 d) Year ending December 31, 2006 – end January / February 2007 Note : The above calendar is indicative in nature.
3. Date of Book Closure	April 13, 2006 to April 28, 2006 (both days inclusive).
4. Dividend Payment Date	—
5. Listing on Stock Exchanges	Equity Shares of the Company are presently listed on the following Stock Exchanges:  The Stock Exchange, Mumbai Phiroze Jeejeebhoy Towers Dalal Street Mumbai – 400 001  The Calcutta Stock Exchange Association Ltd. 7, Lyons Range Kolkata – 700 001  Magadh Stock Exchange Association 9th Floor, Ashiana Plaza Budh Marg Patna – 800 001  Steps are being taken to get the Equity Shares listed on National Stock Exchange, Mumbai and for delisting from the Calcutta and Magadh Stock Exchanges. The Company has paid annual Listing Fees to all these three Stock Exchanges for the year 2005-2006.
6. Stock Code	522113 (Equity) (Mumbai)

TIMKEN INDIA LIMITED

7. Market Price Data	Monthly High/Low of Market Prices of the Company's Equity Shares, traded on the Stock Exchange, Mumbai during the year ended December 31, 2005:		
	<b>Month</b>	<b>High (Rs.)</b>	<b>Low (Rs.)</b>
	January 2005	72.85	61.00
	February 2005	103.60	70.85
	March 2005	104.00	82.50
	April 2005	168.80	90.60
	May 2005	163.75	144.40
	June 2005	154.00	134.85
	July 2005	157.00	133.00
	August 2005	152.00	135.00
	September 2005	170.00	145.00
	October 2005	167.50	129.00
	November 2005	162.40	127.80
	December 2005	157.80	146.00
8. Performance in comparison to broad-based indices such as BSE Sensex, CRISIL Index etc.	Performance of the Company's Share Prices in comparison of the BSE Sensex is given below:		



9. Registrar & Transfer Agents	Ami Computers (I) Ltd. 60A & 60B, Chowringhee Road Kolkata – 700 020
--------------------------------	--

<p>10. Share Transfer System</p>	<p>Requests for registration of transfer of Shares held in physical form may be lodged with Ami Computers (I) Ltd. at Kolkata or may also be sent to Finance Controller &amp; Company Secretary at the Registered Office of the Company at Jamshedpur.</p> <p>All valid requests for registration of transfer are normally processed within 10 - 12 days from the date of receipt of the documents, if the same are complete in all respect.</p> <p>A Committee of the Board under the title "Investors' Relation and Grievance Committee" has been entrusted with the authority, <i>inter alia</i>, to approve registration of transfer of shares.</p>																																									
<p>11. Distribution of Share holding</p>	<p>The distribution of shareholding as on December 31, 2005 is given below :</p> <table border="1" data-bbox="592 689 1481 1093"> <thead> <tr> <th>Range (Rs.)</th> <th>Accounts</th> <th>Shares (Rs.)</th> <th>%</th> </tr> </thead> <tbody> <tr> <td>1 – 5000</td> <td>61942</td> <td>75160160</td> <td>11.79</td> </tr> <tr> <td>5001 – 10000</td> <td>996</td> <td>8139230</td> <td>1.28</td> </tr> <tr> <td>10001 – 20000</td> <td>415</td> <td>6395140</td> <td>1.00</td> </tr> <tr> <td>20001 – 30000</td> <td>144</td> <td>3701620</td> <td>0.58</td> </tr> <tr> <td>30001 – 40000</td> <td>59</td> <td>2138550</td> <td>0.34</td> </tr> <tr> <td>40001 – 50000</td> <td>61</td> <td>2892610</td> <td>0.45</td> </tr> <tr> <td>50001 – 100000</td> <td>63</td> <td>5066790</td> <td>0.79</td> </tr> <tr> <td>100001 and above</td> <td>53</td> <td>533854400</td> <td>83.76</td> </tr> <tr> <td></td> <td><b>63733</b></td> <td><b>637348500</b></td> <td><b>100.00</b></td> </tr> </tbody> </table>		Range (Rs.)	Accounts	Shares (Rs.)	%	1 – 5000	61942	75160160	11.79	5001 – 10000	996	8139230	1.28	10001 – 20000	415	6395140	1.00	20001 – 30000	144	3701620	0.58	30001 – 40000	59	2138550	0.34	40001 – 50000	61	2892610	0.45	50001 – 100000	63	5066790	0.79	100001 and above	53	533854400	83.76		<b>63733</b>	<b>637348500</b>	<b>100.00</b>
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<p>12. Dematerialisation of Shares and liquidity</p>	<p>The Company has arrangements with National Securities Depositories Ltd. (NSDL) as well as the Central Depository Services (India) Ltd. (CDSL) for Demat facility. At present around 52% of the Company's Equity Share Capital is dematerialised. The Shares of the Company are listed as aforesaid and are regularly traded on The Stock Exchange, Mumbai.</p>																																									
<p>13. Outstanding GDRs/ ADRs/ Warrants or any convertible instruments, conversion date and likely impact on equity</p>	<p>Nil</p>																																									
<p>14. Plant location</p>	<p>The Company's manufacturing facility is located at Bara, P.O. Agrico, Jamshedpur – 831 009.</p>																																									
<p>15. Address for correspondence</p>	<p>Any investor related queries may be addressed to the following addresses :</p> <table border="1" data-bbox="592 1536 1481 1753"> <tr> <td data-bbox="592 1536 1002 1753"> <p>Finance Controller &amp; Company Secretary Timken India Limited Bara, P.O. Agrico Jamshedpur – 831 009 Tel. No. 0657 – 2210293 Fax No. 0657 – 2210117</p> </td> <td data-bbox="1002 1536 1481 1753"> <p>Ami Computers (I) Ltd. 60A &amp; 60B, Chowringhee Road Kolkata – 700 020 Tel. No. 033-55501576 Fax No. 033-22800900 E-mail : amicomputer@vsnl.net</p> </td> </tr> </table>		<p>Finance Controller &amp; Company Secretary Timken India Limited Bara, P.O. Agrico Jamshedpur – 831 009 Tel. No. 0657 – 2210293 Fax No. 0657 – 2210117</p>	<p>Ami Computers (I) Ltd. 60A &amp; 60B, Chowringhee Road Kolkata – 700 020 Tel. No. 033-55501576 Fax No. 033-22800900 E-mail : amicomputer@vsnl.net</p>																																						
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## **AUDITOR'S CERTIFICATE**

**TO**

**THE MEMBERS OF TIMKEN INDIA LIMITED**

We have examined the compliance of conditions of Corporate Governance by Timken India Limited, for the year ended on 31st December 2005 as stipulated in clause 49 of the Listing Agreement of the said Company with stock exchanges.

The compliance of conditions of Corporate Governance is the responsibility of the management. Our examination was limited to procedures and implementation thereof, adopted by the Company for ensuring the compliance of the conditions of the Corporate Governance. It is neither an audit nor an expression of opinion on the financial statements of the Company.

In our opinion and to the best of our information and according to the explanations given to us, we certify that the Company has complied with the conditions of Corporate Governance as stipulated in the above-mentioned Listing Agreement.

We state that no investor grievances are pending for a period exceeding one month against the Company as per the records maintained by the Shareholders/Investors Grievance Committee.

We further state that such compliance is neither an assurance as to the future viability of the Company nor the efficiency or effectiveness with which the management has conducted the affairs of the Company.

Place : Kolkata  
Date : 28 January, 2006

**S. R. BATLIBOI & CO.**  
**CHARTERED ACCOUNTANTS**

**Per RAHUL ROY**  
*a Partner*  
Membership no. 53956

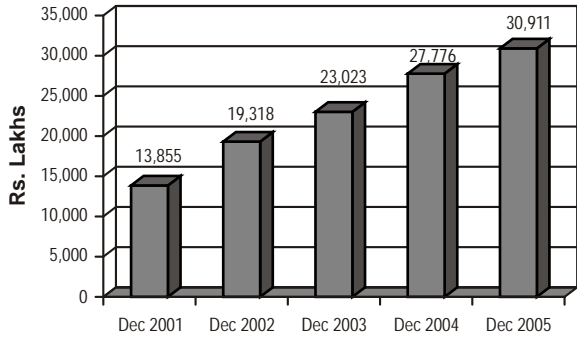


## FIVE YEARS AT A GLANCE

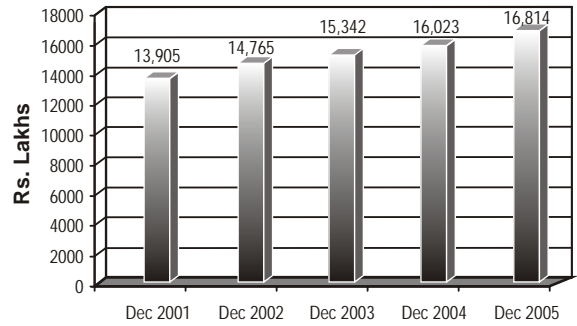
	Year Ended				
	2005	2004	2003	2002	2001
<b>Production</b>					
(i) Standard Brgs ( Equiv. Nos.)	<b>36,94,421</b>	32,97,046	29,38,182	25,12,089	18,51,166
(ii) AP Cartridge Brgs (Sets)	<b>61,853</b>	65,374	47,073	46,879	31,418
AP Equivalent	<b>18,69,679</b>	18,61,611	13,93,371	11,80,982	6,52,967
<b>Rs/Lakhs</b>					
<b>Profit &amp; Loss Account</b>					
(i) Gross Sales	<b>33,256</b>	29,998	25,012	21,104	15,347
(ii) Net Sales					
(a) Domestic	<b>17,887</b>	16,711	15,217	13,203	11,498
(b) Export	<b>13,024</b>	11,065	7,807	6,115	2,357
Total (a+b)	<b>30,911</b>	27,776	23,024	19,318	13,855
(iii) EBIT	<b>5,391</b>	5,179	3,403	1,734	1,096
(iv) Profit Before Tax	<b>5,295</b>	5,089	3,308	1,604	1,043
(v) Profit After Tax	<b>3,488</b>	3,299	2,314	1,073	824
<b>Balance Sheet</b>					
(i) Gross Block	<b>16814</b>	16,023	15,342	14,765	13,905
(ii) Net Block	<b>5,626</b>	4,851	4,957	5,113	5,285
(iii) Net Current Asset	<b>6,326</b>	5,655	5,255	6,741	6,724
(iv) Capital Employed	<b>17,398</b>	14,686	10,813	13,107	12,628
(v) Beginning Invested Capital (BIC)	<b>14,197</b>	9,837	12,385	10,992	12,224
(vi) Total Debt	<b>336</b>	964	324	2,048	1,643
(vii) Equity	<b>16,835</b>	13,325	9,999	10,574	10,353
<b>Other Comparative Data</b>					
(i) PAT to Net Sales (%)	<b>11</b>	12	10	6	6
(ii) EBIT / BIC (%)	<b>38</b>	53	27	16	9
(iii) Return on Net Worth (%)	<b>21</b>	25	23	10	8
(iv) E.P.S. (Rs)	<b>5.47</b>	5.18	3.14	1.28	0.89
(v) Total Debt to Equity (%)	<b>2</b>	7	3	19	16
(vi) Total Debt to Total Capital (%)	<b>2</b>	7	3	16	13
(vii) Fixed Asset Turnover (times)	<b>5.49</b>	5.73	4.65	3.78	2.62
(viii) Working Capital Turnover (times)	<b>4.89</b>	4.91	4.38	2.87	2.06
(ix) Current Ratio (times)	<b>2.10</b>	2.16	2.31	2.15	2.42
(x) Interest Cover (times)	<b>56.66</b>	57.37	35.91	15.16	0.89
(xi) Net Sales/Employee (Rs/Lakhs)	<b>55</b>	50	41	33	23

- Notes : (i) EBIT/BIC i.e. Beginning invested capital, a type of return on asset ratio, used internally to measure the company's performance. In broad terms, invested capital is total assets minus non interest-bearing current liabilities.
- (ii) Return on Net Worth is profit after tax divided by net worth as at the end of the year.
- (iii) Equity includes preference share capital net off accumulated losses and miscellaneous expenditure to the extent not written off.
- (iv) Fixed Asset Turnover is net sales divided by net fixed assets as at the end of the year.
- (v) Working Capital Turnover is net sales divided by net current asset as at the end of the year.
- (vi) Current ratio is current assets divided by current liabilities including current portion of long term loans repayable within one year.
- (vii) Interest Cover is profit before interest and taxation divided by interest expenses (gross).
- (viii) Figures have been regrouped/rearranged to make it comparable.

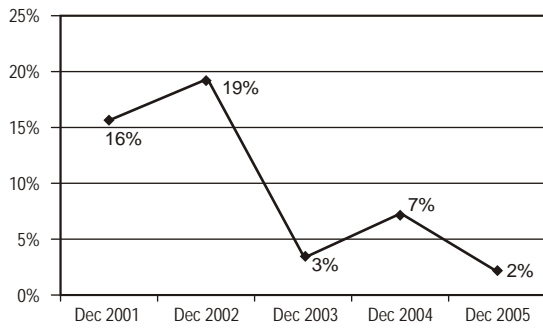
**NET SALES**



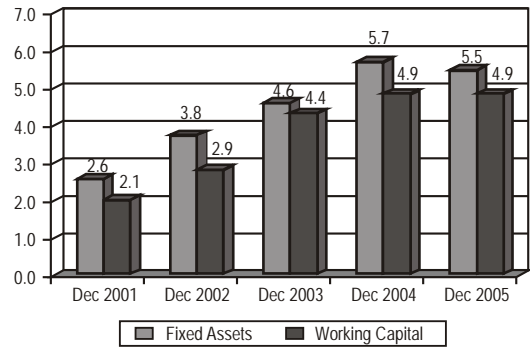
**GROSS BLOCK**



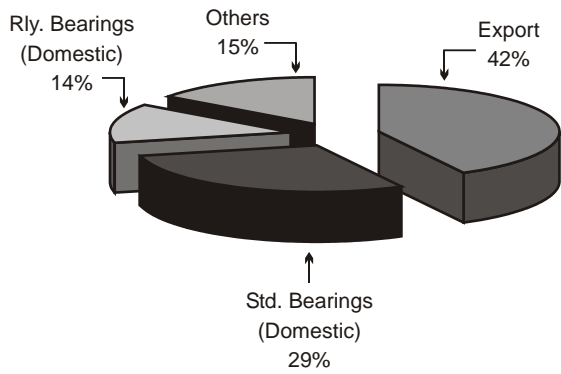
**TOTAL DEBT : EQUITY**



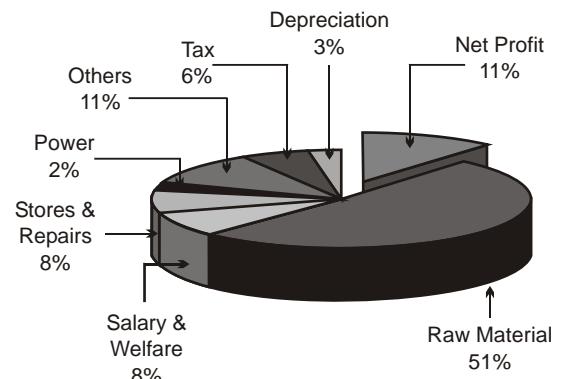
**ASSET TURNOVER**



**HOW THE MONEY WAS EARNED**



**HOW THE MONEY WAS DISTRIBUTED**



**TIMKEN INDIA LIMITED**

Regd. Office : Bara, P.O. Agrico, Jamshedpur - 831 009

**ATTENDANCE SLIP**

Name .....
Folio No. ....
No. of Shares held .....

I hereby record my presence at the Nineteenth Annual General Meeting of the Company at Center for Excellence, Jubilee Road, Jamshedpur - 831 001 on Friday, April 28, 2006 at 3.00 p.m.

SIGNATURE OF THE MEMBER/PROXY .....
-------------------------------------

- Notes :**
- Members/Proxyholders wishing to attend the meeting must bring the Attendance Slip to the Meeting and hand over at the entrance duly signed.
  - Members/Proxyholders desiring to attend the meeting are requested to bring their copy of the Annual Report for reference at the Meeting.

**TIMKEN INDIA LIMITED**

Regd. Office : Bara, P.O. Agrico, Jamshedpur - 831 009

**PROXY**

I/We, .....  
of ..... in the District of .....  
a Member/Members of the above named Company, hereby appoint .....  
of ..... in the District of ..... or failing him/her  
..... of ..... in the District of .....  
..... as my/our Proxy to attend and vote for me/us and on  
my/our behalf at the Nineteenth Annual General Meeting of the Company, to be held on Friday, April 28, 2006 and at any adjournment thereof.

Signed this ..... day of ..... 2006.

Reference Folio : .....

No. of Shares : .....

Signature .....



Note : The Proxy must be returned so as to reach the Registered Office of the Company at Bara, P.O. Agrico, Jamshedpur - 831 009 not less than 48 hours before the time for holding the aforesaid Meeting.

## Annexure B

## ANNEXURE TO THE DIRECTORS' REPORT FOR THE YEAR ENDED 31ST DECEMBER 2005

## Statement of particulars of employees pursuant to the provisions of Sec 217(2A) of the Companies Act, 1956, read with the Companies (Particulars of Employees) Rules, 1975.

Sl. No.	Name	Designation & Nature of Duty	Remuneration Received (Rs)	Qualification	Age (Years)	Experience (Years)	Date of Commencement of Employment	Particulars of Last Employment (last post held, Employer, Period of Employment)
1	Robinson G.W.*	Chairman & Managing Director	34,02,194	Dip in Mech. Engg.	57	40	3/30/2005	President Emerging Market, The Timken Co. - USA, 4 Years
2	Sinha S.K.	Dy. Managing Director	28,07,131	B.Com (Hons) AICWA	54	33	9/1/1995	D.M. (Accounts), TISCO (Bearing Division), 16 Years
3	White David L.*	Director Sales & Marketing	77,38,016	Mech. Engg., MBA	40	18	5/26/2005	Global Product Marketing Manager, Ingersoll-Rand Infrastructure Group, USA, 7 Years
4	Sinha Sanjay*	General Manager-Plant	14,69,143	B.E. (Mech.), MBA	42	20	3/17/2005	Sr. G.M. Eaton India Ltd., Pune, 2 Years
5	Das Ajay K	Director - New Business Dev.-Asia	30,20,010	B.E. (Mech.), MBA	38	16	3/9/1992	Engineer, TELCO, Jamshedpur, 2 Years
6	Kumar Amit*	D.M.-Supply Chain Management	6,71,933	B.E. (Mech.)	35	15	5/16/1994	Purchase officer, McNally Bharat Engg., Kumardhubi, 2 Years
7	Sakthivel C.*	D.M.-6 SIGMA & IT	11,19,734	D.M.E., BE (Mech.)-PT	43	22	9/19/1990	Asst Engineer, K.B.B.C. Ltd, Mysore, 7 Years
8	Gupta Shyamal K.*	N.S.M.-Industrial Services	8,55,810	B. Tech (Mech.), MBA	48	25	4/1/1991	Manager Agency Division, TISCO, Kolkata, 6 Years

\* Employed for part of the year.

**Notes :** (1) Remuneration received includes Salary, Allowances and Taxable Value of Perquisites, and in applicable cases, Company's contribution to Provident & Superannuation Funds, but excludes contribution to Gratuity Fund on the basis of actuarial valuation.

(2) The nature of Employment in all cases is contractual.

(3) None of the Employees mentioned above is a relative of any Director of the Company.

(4) None of the Employees mentioned above holds either by himself or along with spouse or dependent children exceeding 2% of equity share of the Company.

Bangalore, March 27, 2006

For and on behalf of the Board of Directors  
**Gordon William Robinson**  
*Chairman & Managing Director*