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COMMITTEES OF THE BOARD

Audit Committee
Deepak S. Parekh
Chairman
Nadir B. Godrej
M. M. Murugappan
R. K. Kulkarni

Remuneration/Compensation Committee
Narayanan Vaghul
Chairman
Keshub Mahindra
Nadir B. Godrej
M. M. Murugappan

Share Transfer and Shareholders/ Investors Grievance Committee
Keshub Mahindra
Chairman
Anand G. Mahindra
Bharat Doshi
A. K. Nanda
R. K. Kulkarni

Loans & Investment Committee
Keshub Mahindra
Chairman
Anand G. Mahindra
Bharat Doshi
A. K. Nanda
R. K. Kulkarni

Research & Development Committee
A. S. Ganguly
Chairman
Anand G. Mahindra
Nadir B. Godrej
M. M. Murugappan
Bharat Doshi

GROUP MANAGEMENT BOARD

Anand G. Mahindra
Vice-Chairman & Managing Director
Bharat Doshi
President - Trade & Financial Services Sector
A. K. Nanda
President – Infrastructure Development Sector
Anjanikumar Choudhari
President - Farm Equipment Sector
Rajeev Dubey
President – Human Resources & Corporate Services
Pawan Goenka
President – Automotive Sector
Hemant Luthra
President – Systems & Technologies Sector
Raghunath Murti
Managing Director – Mahindra Intertrade Limited
Uday Y. Phadke
President – Finance & Legal Affairs
Ulhas N. Yargop
President – Telecom & Software Sector

BOARD OF DIRECTORS

Keshub Mahindra
Chairman
Anand G. Mahindra
Vice-Chairman & Managing Director
Deepak S. Parekh
Nadir B. Godrej
M. M. Murugappan
Narayanan Vaghul
A. S. Ganguly
R. K. Kulkarni
Anupam Puri
Thomas Mathew T.
Nominee of Life Insurance Corporation of India
Bharat Doshi
Executive Director
A. K. Nanda
Executive Director & Secretary

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A CUSTOMER CENTRIC CORPORATION

"Every great business is built on friendship" according to the great American retailer J.C.Penney. As far as the Mahindra Group is concerned, truer words were never spoken. For sixty years, Mahindra has grown and prospered by making its customer its friend and partner in prosperity.

Who is the Mahindra customer? The Mahindra customer has as many faces as India does. Our customer is the growing family that needs a safe, comfortable and reliable car; the farmer in the field; the rural taxi driver; the company executive who wants to get away for the weekend; the lady who buys Lego for her children; the young techie looking for the latest telecom solution; the hard working family man who wants to give his family a holiday; the ambitious engineer who wants to design an engine for a European firm; the newly married couple looking for a house; the grower of grapes seeking an export market; the IT entrepreneur looking for an SEZ to showcase his new venture; the small farmer who needs a loan; the small trader looking for a genset during power cuts. Mahindra customer is all these and more.

Our customer also has a global face. The European businessman seeking new markets; the holiday farmer in the US; the Chinese peasant near Nanchang; the young hot-rodder in Spain; the safari enthusiast in South Africa – these too are our customers. Urban and rural, high end and budget, local and international – between our Group companies, we serve them all.

With such a range and variety of customers, it's no wonder that the customer is always central to Mahindra's thoughts and actions. At Mahindra we go beyond customer service to customer partnership. That means listening to the customer, finding out what he wants, identifying what makes her happy, and then incorporating it into our products. The new Scorpio for example is literally the car the customer built. We systematically captured customer feedback and incorporated it to provide 43 new features. Similarly, in housing, we don't just give the customers a house – we give them the healthy living that they crave. In rural finance, we give the customer the conveniences that other banking systems cannot – quick sanctions of loans without the rigidity of a bank, the facility to pay back in the manner convenient to him – even if it means accepting payments in small change tied in a cloth bundle. For holidays, we give families what they need– a memorable, hassle-free bonding opportunity in beautiful surroundings. The Chinese farmer or the American one gets an affordable tractor that is as good-looking as it is hardworking.

We must be doing something right, because this year's profits are the highest ever, beating even last year's record high. It is increasingly obvious to us that if you look after your customer, the customer will repay you with his loyalty, patronage and endorsement. And since we operate in a wide range of businesses, the customer of one business will turn to us for the satisfaction of other needs as well. The satisfied Scorpio buyer also trusts us to plan his vacations. The farmer looks to us when he is ready to upgrade to a four-wheeler. And if he is happy with us, he tells his friends and relations as well.

We have found that it pays to make a fine art out of meeting the customer's needs. It makes for good business. But better still, it makes for great friendships and a life long relationship. The net result is that our employees are our best advertisement and our customers are our best ambassadors. We believe that J.C Penney was right. Our customers are our friends because they are at the center of our thoughts and actions. That is why, on the right hand corner of the cover of our Annual report we have proudly called ourselves a C3– a truly customer centric corporation.

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Bankers

Bank of America N. T. & S.A.
Bank of Baroda
Bank of India
Canara Bank
Central Bank of India
HDFC Bank Limited
Standard Chartered Bank
State Bank of India
Union Bank of India

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Auditors

A. F. Ferguson & Co., Allahabad Bank Buildings,
Bombay Samachar Marg, Mumbai 400 001.

Advocates

Khaitan & Co., Meher Chambers,
R K Marg, Ballard Estate, Mumbai 400 038.

Registered Office

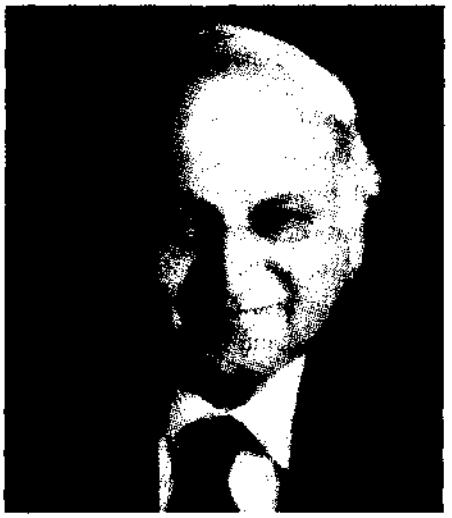
Gateway Building, Apollo Bunder, Mumbai 400 001.

Branches

7, Dr. Ishaque Road (Old KYD Street), Kolkata 700 016.
Mahindra Towers, 2-A Bhikaji Cama Place, New Delhi 110 066.
Mahindra Towers, First Floor, 17/18, Pattulous Road, Chennai 600 002.
Raheja Chambers, First Floor, 12, Museum Road, Bangalore 560 001.

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Dear Shareholder,

The debate continues all over the world as to what is the social responsibility of Business. Corporations are redefining themselves seeking new identities. No one has a clear answer since societies spread all over the world have different traditions and culture and their needs vary from region to region. There cannot be one model which can suit all societies. Business therefore has to be sensitive enough to perceive the needs of the society in which they operate, and fashion their strategy and objectives to meet them.

Indian business has always worked in tandem with the nation's needs and has been a part of the larger social fabric of the nation. During the freedom struggle, Indian business participated whole-heartedly in the political revolution. In the last decade it has been in the vanguard of the economic revolution. In fact, the growth of Indian business has been a crucial component of the revolution of rising aspirations that we are witnessing all around us. And philanthropy has always been a part of the Indian business tradition.

Corporate Social Responsibility has been basic to our philosophy at the Mahindra Group since our birth in 1945. It has been an intense but deliberately low profile activity based on the belief that social responsibility is a privilege and not a portal for publicity. Today, there is a clarion call for business to lend a hand to tackle the social challenges that are being thrown into relief because of our increasing prosperity.

It is our belief and conviction that India's recent spectacular growth provides us with an opportunity to redress some of the weaknesses that exist in our social fabric. One cannot have a large section of a population denied even the basic amenities like water, housing, health care and education. This is not an acceptable situation. We are therefore convinced and believe that the weaker sections of our society need help and support. We feel that the route to addressing their problems is through education and training. We need to impart skills which make it possible for them to be employed.

The focus of our CSR therefore is on appropriate education, vocational education and livelihood training for the economically and socially disadvantaged, primary education for the girl child and higher education for those who merit it.

We plan on setting up Mahindra Pride Schools that will provide youth from socially disadvantaged sections of society with training to enable them to gain employment based on their skills. Studies are currently on to decide the locations of these schools. Concurrently, work has begun on curriculum development for the courses that will be offered. Courses will be carefully designed based on the requirements of industry, in terms of manpower and skills. Sunrise and booming sectors with growth potential and shortage of skilled manpower will be targeted. We hope this will lead to economic and social empowerment for many young people who are, today, disadvantaged.

We will also support six government schools in Mumbai. The aim is to improve the overall quality of education in these schools and to achieve improved learning

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outcomes by working with teachers, children and the community. Again, the main beneficiaries will be the children attending these schools.

In India only 3 girls out of every 10 who enroll in Std. I go on to complete Std. X. To make a dent in this problem, the Group supports the education of 6,000 disadvantaged girl children through the Nanhi Kali project of the K. C. Mahindra Education Trust. These girls belong to urban slums, backward and tribal areas in rural India, where education is not a priority for girls. Through the Nanhi Kali project they will not only receive education, but also get direct support in the form of uniforms, clothes, stationery, etc. thus removing some of the barriers to their completing school.

We are also doubling the number of Mahindra All India Talent Scholarships from 300 to 600. These scholarships are given to students who wish to pursue job-oriented diploma courses in recognized Government Polytechnics, enabling them to qualify for employment. Scholarships are given to economically disadvantaged and socially weaker strata in both rural and urban India.

Deafness is another kind of disadvantage that is rarely acknowledged in our society. As a special gift to the hearing impaired, the Group will donate 60 Cochlear Implants over a 3-year period to beneficiaries below the age of 5 years. With training, this will enable 60 profoundly deaf children to lead a normal life and realise their full potential. Each Cochlear Implant costs approximately Rs. 5 lacs. So far 7 children, all from the lower socio-economic strata, have received the implant.

Our employees believe that social responsibility does not end with the giving of money. It is equally important to give of our time, and of ourselves. The Group has launched a unique ESOPs (Employee Social Options) Plan, through which its 24,000 strong workforce can choose from a menu of social options, and participate in CSR activities by volunteering their time. Through this plan, on any given day, Mahindra employees somewhere in the country will be contributing directly to society.

In order to ensure that sufficient funds are available for us to undertake this task in a modest manner, we as a Group have committed that one percent of our Profits after Tax will be available on a continuing basis to support this CSR initiative largely to benefit the socially and economically disadvantaged.

I shall be reporting to you on behalf of the Group from time to time.

Regards,

Yours sincerely,



Keshub Mahindra.

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DIRECTORS' REPORT TO THE SHAREHOLDERS

Your Directors present their Report together with the audited accounts of your Company for the year ended 31st March, 2006.

Financial Highlights

		(Rs. in lakhs)
	2006	2005
Gross Income	**945143**	780409
Less: Excise Duty on Sales	**112489**	103504
Net Income	**832654**	676905
Profit before Depreciation, Interest, Provision for Contingencies, Exceptional items and Taxation	**107188**	87943
Less : Depreciation /Amortisation	**20001**	18405
Profit before Interest, Provision for Contingencies, Exceptional items and Taxation	**87187**	69538
Less : Interest (Net)	**(1840)**	(558)
Profit before Provision for Contingencies, Exceptional items and Taxation	**89027**	70096
Less : Provision for Contingencies	**78**	34
Profit before Exceptional items and Taxation	**88949**	70062
Add: Exceptional items	**21001**	1355
Profit before Taxation	**109950**	71417
Less : Provision for tax – Current tax (including Fringe Benefit Tax)	**28540**	21500
Less: Provision for tax – Deferred tax (Net)	**(4300)**	(1350)
Profit for the year	**85710**	51267
Balance of profit for earlier years	**99640**	74284
Add : Transfer from Debenture Redemption Reserve	**44**	1040
Investment Allowance Reserve Written Back	**-**	245
Profit available for appropriation	**185394**	126836
Less : General Reserve	**10000**	10000
Dividend paid for the previous year [Rs. Nil credit (previous year : Rs.0.23 lakhs credit)]		
Income-tax on dividend paid [Rs. Nil credit (previous year : Rs.0.03 lakhs credit)]		
Proposed Dividends	**24397**	15081
Income-tax on Proposed Dividends	**3422**	2115
Balance carried forward	**147575**	99640

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Performance Review

Automotive Sector:

The Automotive Sector of your Company continued its growth in vehicle production and sales for the fourth consecutive year. During the year under review, your Company produced 1,28,601 vehicles [i.e. multi utility vehicles (MUV) and light commercial vehicles (LCV) including 2,705 LCV produced for Mahindra International Limited (MIL)] and 22,317 three-wheelers as compared to 1,24,795 vehicles and 23,230 three-wheelers in the previous year. Your Company recorded sales of 1,27,005 vehicles (of which 1,833 LCV were sold by MIL) and 22,419 three-wheelers as compared to 1,22,071 vehicles and 22,952 three-wheelers in the previous year registering a growth of 4% in vehicles sales.

Your Company's domestic MUV sales volumes grew by 3% as against the industry MUV sales growth of 6%. Your Company's LCV sales volumes were lower than the last year by 14% as against the industry decline of 7% in this segment. In the large three-wheeler segment, your Company's sales volumes declined by 21% against a 20% decline for the industry as a whole. Your Company entered the small three-wheeler segment during the year with the launch of a 0.5 MT payload cargo carrier named Champion Alfa in select markets. By the end of the year under review, your Company had sold 4,307 Champion Alfa in select markets. The Spare Parts sales increased to Rs.236.00 crores (including Exports of Rs.12.84 crores) during the year under review as compared to the previous year figures of Rs.227.85 crores (including Exports of Rs.34.04 crores).

Your Company has intensified its efforts to identify niche markets for its automotive products throughout the world, especially geographical areas that have similar sales, distribution and marketing conditions as India. Over the last three years, your Company's vehicles have been introduced in Europe, the Middle East, South America, South-East Asia and Africa with a customised business model for each country. These initiatives resulted in a quantum increase in export volumes.

For the year under review, your Company sold 5,534 vehicles in the overseas markets which is an increase of 82% over the previous year.

Recently, the Scorpio range of pick-ups was launched for the international markets in South Africa. This will drive growth in the overseas markets.

Your Company commissioned a new plant in Haridwar in the State of Uttaranchal for the manufacture of low end products like three-wheelers.

Your Company launched a new version of the Scorpio in March, 2006. It has been well received in the market and would have a full impact in the current year.

The Automotive Sector plans to develop a family of new generation engines to power the present and future Mahindra vehicles. These engines would offer improved efficiency, refinement and performance. New vehicle development, including a new UV and the Logan passenger car is going as per plan. These vehicles carry the promise of comfort, economy, ruggedness and a pleasurable driving experience. In an increasingly competitive market, the Sector banks on its innovation to give it the edge. On the technology front, the Sector is taking forward the research and development on telematics, embedded system and promising alternative energy technologies viz. Hydrogen, Biodiesel and Hybrids. Further technology developments in the field of safety, nano-materials and other innovations are expected to be introduced into the product line soon.

With a view to effectively exploit the growth and business opportunities of the Commercial Vehicles business, your Company entered into a Joint Venture (JV) with International Truck and Engine Corporation (ITEC) for manufacture of commercial vehicles in India. Pursuant to the approval of

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the shareholders obtained by Postal Ballot in July, 2005, the LCV business of the Company was transferred to a Joint Venture Company (JVC), Mahindra International Private Limited (now Mahindra International Limited) with effect from 1st November, 2005, in which your Company has a 51% shareholding, the balance 49% being held by ITEC. This JVC is engaged in the Light Commercial Vehicles business. Going forward, this JVC will also enter the Medium and Heavy Commercial Vehicle segments and participate to a larger extent in the Indian commercial vehicles market. In order to facilitate a meaningful comparison your Company's production and sales volumes include MIL volumes.

Your Company's Joint Venture with Renault s.a.s. of France to introduce the Logan in India is progressing well and is on target with respect to cost and time. The project is proposed to be financed through an appropriate mix of Equity and Debt and till date, both the Joint Venture Partners have contributed Rs.51.5 crores into the Joint Venture Company as equity in proportion to their shareholding.

Farm Equipment Sector:

For the third consecutive year, the Tractor Industry grew substantially registering a growth of 18% for the year under review. This was mainly on account of a good monsoon, better availability of credit and focus on retail tractor financing by the Banking Sector.

During the year, your Company sold 85,029 tractors as against 65,390 tractors sold in the previous year recording a significant growth of 30% and produced 87,075 tractors as against 67,115 tractors produced in the previous year recording a notable growth of 29.7%. Your Company maintained its market leadership for the 23rd consecutive year in the domestic tractor market.

Last year your Company launched two new products - 235 DI and 245 DI - in the domestic market in the low HP segment and new Arjun Ultra-1 range in the high HP segment. These products have significantly strengthened your Company's position in these segments.

Your Company sold 14,692 engines during the year under review as against 6,672 engines sold during the previous year, registering a massive growth of 120%. The engine business which started from a customer base of a single client in 2002, has currently 22 corporate clients. Your Company has also made a foray into the retail and non-genset segments. Beginning from this year your Company has also sold 1,084 Mahindra branded Diesel Generators (DG Sets).

Your Company's focus on exports continued with export volumes growing by 29.6%. The major export markets are USA, SAARC countries, Africa, Australia and China. Your Company established a Joint Venture Company (JVC) in China under the name of Mahindra (China) Tractor Company Limited (MCTCL) in which a wholly owned subsidiary of your Company, Mahindra Overseas Investment Company (Mauritius) Limited, has a 80% shareholding, the balance 20% being held by Jiangling Motors Co., Group, China. This JVC has a capacity of 12,000 tractors in 18-33 HP range. This JVC became fully operational in July, 2005. Your Company has also started its East European operations by launching tractors in Serbia. Your Company sold spare parts worth Rs.127.88 crores (including exports Rs.11.7 crores) during the year under review as compared to sales of Rs.108.83 crores (including exports Rs.7.6 crores) in the previous year, registering a healthy growth of 17.5%.

Your Company plans to offer various product solutions by offering value for money and reliable products in domestic market. This will help your Company expand its product range in low HP segment. Apart from new products, it is important to upgrade existing products with contemporary features. Your Company will be introducing upgrades of existing products in domestic market in a phased manner

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over the next 3 years. For the export markets, the Sector will expand its product range in compact segment and introduce products in existing HP range which are economical and rugged. Keeping in line with the growth plans, your Company will be introducing new products in Engine Application business segment.

Profits:

The Profit for the year before Depreciation, Interest, Provision for Contingencies, Exceptional items and Taxation was Rs.1,071.88 crores as against Rs.879.43 crores in the previous year registering an increase of approximately 21.88%. Profit after tax was Rs.857.10 crores as against Rs.512.67 crores in the previous year recording an increase of approximately 67.18%. Your Company continues with its rigorous cost restructuring exercises, which has resulted in significant savings through value engineering, economising, optimisation of plant capacity utilisation, cost competitiveness and right sizing in almost all areas.

A detailed analysis of the Company's performance is contained in the Management Discussion and Analysis Report, which forms part of this Annual Report.

Issue of Bonus Shares

Pursuant to the Resolution passed at the Annual General Meeting of your Company held on 28th July, 2005, your Company has on 8th September, 2005, allotted 11,60,08,899 Ordinary (Equity) Shares as fully paid-up Bonus Shares in the ratio of one Bonus Share for every one existing Equity Share of the Company held by shareholders as on the Record Date i.e. 2nd September, 2005.

Dividend

Your Directors have recommended a dividend of 75% and a Special Dividend of 25% on the enhanced share capital aggregating Rs.10 per share. The special dividend has been recommended in light of the very successful listing of the Mahindra & Mahindra Financial Services Limited equity shares on the Stock Exchanges. The dividend, together with the tax on distributed profits, will absorb a sum of Rs.278.19 crores (previous year Rs.171.96 crores comprising of a dividend of 100% and a special dividend of 30%) and will be paid to those shareholders whose names stand registered in the books of the Company as on the book closure date.

Finance

Your Company follows a prudent financial policy, which has resulted in improvement in its Capital structure and debt protection levels. Your Company's Debt to Equity ratio has improved from 0.53 at the beginning of the year to 0.31 as at 31st March, 2006. Interest coverage ratio has improved from 28.4 times as at 31st March, 2005 to 29.9 times as at 31st March, 2006.

In March, 2006 your Company exercised its Call option to redeem high cost debentures of Rs.75 crores. Pursuant to this, the debentures were redeemed in April/May.

During the year, both CRISIL Limited (CRISIL) and Fitch Ratings India Private Limited (FITCH) reaffirmed the AA+ and AA+ positive rating assigned by them to your Company's outstanding debentures in the previous financial year. The ratings indicate high safety on timely payment of interest and principal and low expectation of credit risk.

Your Company in May, 2004, made a US$ 100 million Foreign Currency Convertible Bonds (FCCBs) offering to international investors. During the period upto 29th May, 2006 several Bondholders exercised their conversion option resulting into Bonds of value US $ 87.10 million getting converted into 1,19,53,617 Equity Shares/GDRs each GDR representing One Equity Share of the Company.

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