

SKF

Annual Report 2004

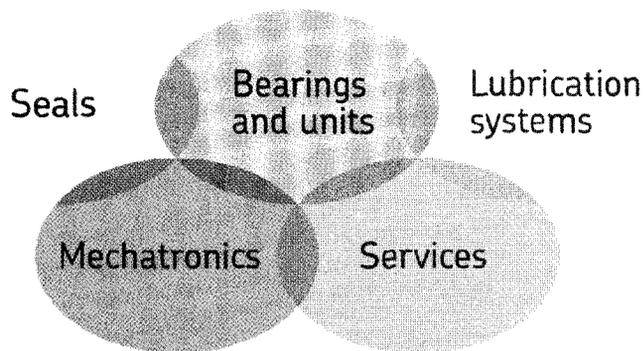
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Equip the world with SKF Knowledge



SKF India Limited

www.reportjunction.com



Our vision "To equip the world with SKF knowledge" is built on the vast knowledge and experience that has been accumulated within SKF during many decades. It is our endeavour that our customers become more efficient, more successful and more profitable by using SKF knowledge. To strengthen this process we have identified five different platforms that cover our technical knowledge and capabilities. These platforms are:

- Seals
- Bearings and units
- Lubrication systems
- Mechatronics
- Services

We have visualized this with five different colour ovals. The fact that it is the bearing ring that has contact with all the remaining four rings is not a coincidence. Bearings have been, are today and will

for the foreseeable future be our core business. However, we will build leading positions in all the platforms through internal development, partnership and, if appropriate, acquisitions.

The platforms give SKF an advantage in the marketplace. In our daily work we compete with strong bearing companies, strong seals companies, strong companies within the mechatronics area, strong service companies as well as strong lubrication systems companies. Our advantage is the combination. There is no other bearing company, or seal company or mechatronics company, or service company or lubrication systems company that can offer the whole package. They might be strong in their speciality, but they cannot put together an optimised solution including all these areas. That is a very clear competitive advantage that makes SKF unique.

Board of Directors

Kamlesh C. Mehra	Chairman
Giuseppe Donato	
Christer Gyberg	
Narendra J. Jhaveri	
Bjarne Johansen	
Bruno Richiardone	
Darius C. Shroff	
Tryggve Sthen	
Rakesh Makhija	Managing Director

Company Secretary	Ramesh C. Pandiya
Auditors	Deloitte Haskins & Sells
Solicitors	Crawford Bayley & Co. AZB & Partners
Bankers	Bank of America N.A. Citibank N.A. Bank of India Standard Chartered Bank Hongkong & Shanghai Banking Corp. Ltd.

Registrars and Share Transfer Agents	Tata Share Registry Limited Army & Navy Building, 148, M.G. Road, Fort, Mumbai 400 001
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Company Management Team

Rakesh Makhija	Managing Director
Sune Axelsson	Finance Director
Vilas Bondse	Head-Industrial Business Unit
Stefan Liljerud	Head-Company Sourcing & Supply Chain
Vithal Nayak	Head-Company HR & Communications
Hemant Nighojkar	Head-Automotive Business Unit & Pune Plant
S. Rajan	Head-Electrical Business Unit
Sudhir Rege	Head-Service Business Unit

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Letter to Shareholders



Rakesh Makhija, Managing Director

Dear Shareholders,

2004 has been our best year ever. We were helped by a strong economy, a resurgent automotive industry, a good industrial environment, but the most important factor behind our performance was our ability to work closely with Customers through the rather difficult situation of spiraling steel prices and erratic material availability. Through this period, we kept our eyes firmly focused on ensuring that our Customers kept their factories running to cater to the surging demand, at times importing material from our plants around the world to achieve this objective.

We have seen significant growth in our operations over the last two years. As part of the strategic direction that we set up for the company in 2002, we acquired the business of Vibration Engineers and Consultants Pvt. Ltd. (VEC) in April 2004. VEC, a relatively small company specializing in the field of Vibration and Dynamic analysis is now a part of SKF India. VEC will be the key vehicle to drive our service strategy and move Reliability Systems aggressively forward. We also changed our name from SKF Bearings India Ltd. to SKF India Ltd. The underlying and very important message behind this seemingly small change is that SKF has moved beyond only Bearings, and is evolving from a products company to a solution company.

Our new Group Vision reflects the same sentiment. Our Vision is 'To equip the world with SKF knowledge'. SKF has almost an unparalleled knowledge base of different industry segments, acquired over several decades in solving customer problems and challenges. We are committing ourselves to working closely with our Customers, understanding their needs and expectations, and delivering a total solution based on SKF's portfolio of world class products, solutions and services. We are committing ourselves to delivering complete solutions, which will help our customers maintain and enhance their competitive and leadership edge. This is our Vision that we will bring to reality, and strive to get the words

'SKF equipped' on our Customers products as a unique hallmark of SKF quality and performance.

By any standard, this is a challenging task. Our mindset, over time has been fashioned towards building and maintaining our product leadership, which we have managed very successfully. We have maintained an 'arms length' relationship with our Customers, secure in the fact that our engineering and product skills were helping them run their plants and equipment. The imperative now is to get under the skin of our Customers, understand their requirements and offer a total solution to their specific problem. Our portfolio, built around five engineering platforms - bearings/units, seals, mechatronics, services and lubrication systems will form the foundation on which our solutions will be based. Over the next few months, a huge amount of our time and investment will go towards ensuring that we are a true customer centric company, armed with the right competencies and mind set to make our vision come to life.

It is also time to reflect on our goals and targets for the New Year and how we intend to carry forward our strong performance. Without doubt, we have raised the expectation level, both within India and at the SKF Group level. We have no intention of slowing down and if anything, our growth pace will increase. We intend to leverage our five platform strategy to fuel growth and truly deliver integrated solutions, which help our customers to enhance their competitive edge. If our revenues in India today comprise mainly of bearing sales, in the next three years our target would be to have a significant part of our sales coming from Seals, Service, Lubrication Systems and Mechatronics. This is a unique opportunity for us to enhance the value and scope of our offerings to Customers and one that cannot be easily matched by any of our competitors.

I have four broad objectives for this year and beyond:

- a) Strong Financial Performance - Operating Margin, Balance Sheet, Cash Flow

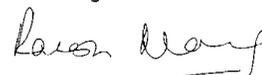
- b) Customer Driven and Innovative
- c) Great Workforce integrated Globally
- d) Six Sigma Culture of Continuous Improvement

Many good strategies fail or falter for lack of focus on the people who really drive the business. It is our responsibility to nurture the hopes and aspirations of our employees. When an individual joins our company, we accept the responsibility to create a better future for them and their families. Collectively, acting in complete synchronization, we can move mountains and create products, solutions and services that our Customers cherish. Individually, without teamwork and team spirit, we will only move a few millimeters at a time when our Customers and their expectations are changing ever so rapidly.

I used the term 'integrated globally' because I want SKF India to be an integral part of the Group strategy. We are a global company and our people must have a global approach to business as well as the competencies required to service our customers effectively. We will encourage our people to spend time abroad acquiring valuable knowledge and experience, while at the same time drawing people from the global resource pool to help bring the best solutions to the market. Along with this I want us to focus on building an aggressive, fair and ethical team, which while playing to win, is dedicated to creating customer value. A team of top line professionals, armed with the best knowledge base and skills to take our solutions to our customers and other stakeholders. Knowledge is a great differentiator and will set us apart as a company known for innovation and solutions.

It will be our responsibility to ensure that we take advantage of the economic environment to further fuel growth and create value for our stakeholders.

Best Regards



Rakesh Makhija

2004 In Retrospect...

SKF BEARINGS INDIA LIMITED

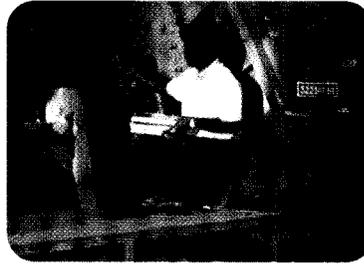
Seals
Bearings and units
Lubrication systems
Mechatronics
Services

SKF Bearings India Limited is now SKF India Limited. Over the last four decades, SKF in India has earned the respect of its stakeholders through the quality of its products and services. The horizon has broadened to keep pace with growing markets, economic liberalization and customer requirements. In order that the company continues to serve its customers more effectively, SKF has now become much more than just a bearings manufacturer, offering complete solutions for customer business needs.



Enduro Special Bearings for racing enthusiasts. SKF launched a new range of bearings for two-wheelers and the most advanced, highest performance

bearing till date. Enduro Special Bearings are designed for bike enthusiasts who are looking for an exciting biking experience that's safe! Bearings endure the rigors of high speed, dirt, extreme heat and humidity conditions. These combine to form a reality check on the quality and reliability of machine and its components. Enduro meets these challenges. Be it the high-speed racing requirement or the customized modifications a biker makes to his machine, Enduro bearings are most suited.



SKF India acquired the VEC (Vibration Engineers and Consultants Pvt. Ltd) business. There is a growing trend among customers to view maintenance as a

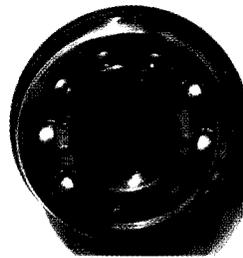
strategic tool for effective solutions to machinery problems, minimizing downtime, improving productivity and converting maintenance into profit centers. The company's VEC business acquisition marks the beginning of an ambitious growth plan SKF India envisages for the Indian market.



SKF Application Development Center was launched in India in 2004.

It showcases the SKF knowledge base and relevant vertical specific technological

expertise. SKF Application Development Center focuses on the development of completely new technologies, as well as on optimization of the existing product range. It supports the SKF two-wheeler customers worldwide with competences and facilities such as application engineering, product and system design, advanced calculation and simulation, manufacturing of prototypes, testing and validation.



SKF India forays into the rural market.

SKF in association with Texmo Industries, leaders in manufacturing of pumps and motors launched specially designed and packaged SKF bearings, for the replacement market of Texmo Industries pumps and motors. This

marked the entry of SKF into the rural market. From now on, while replacing the bearings in Texmo Industries products, customers can avail of original SKF bearings specially packed in Taro package from Authorised Texmo Industries dealers across the country.

NOTICE

NOTICE IS HEREBY GIVEN that the Forty-Fourth Annual General Meeting of the members of SKF India Limited will be held at Sunville Banquet & Conference Rooms, 9, Dr. Annie Besant Road, Worli, Mumbai 400018 on Tuesday, March 22, 2005 at 2.30 p.m. to transact the following business:

ORDINARY BUSINESS

1. To receive, consider and adopt the Audited Balance Sheet of the Company as at December 31, 2004 and the Profit and Loss Account for the year ended on that date and the Report of the Directors and the Auditors thereon.
2. To declare a dividend on Equity Shares for the year ended December 31, 2004.
3. To appoint a Director in place of Mr.N.J. Jhaveri who retires by rotation and being eligible offers himself for re-appointment.
4. To appoint a Director in place of Mr.G. Donato who retires by rotation and being eligible offers himself for re-appointment.
5. To appoint a Director in place of Mr.D.C. Shroff who retires by rotation and being eligible offers himself for re-appointment.
6. To appoint and fix the remuneration of Auditors.

(Note - a) The retiring Auditors have expressed their unwillingness for their re-appointment.

- b) The Company has received a special notice from a member, of his intention to propose M/s.BSR & Co., Chartered Accountants as Auditors in place of the retiring Auditors.)

To consider and, if thought fit, to pass with or without modification(s), the following resolution as an Ordinary Resolution :

"RESOLVED THAT M/s.BSR & Co., Chartered Accountants be and are hereby appointed as the Auditors of the Company from the conclusion of this General Meeting and until the conclusion of the next Annual General Meeting, in place of M/s.Deloitte Haskins & Sells, Chartered Accountants, the retiring Auditors and that the Board of Directors/Audit Committee of Directors of the Company be and is hereby authorised to fix their remuneration."

M/s. BSR & Co. have intimated the Company that, if appointed, their appointment will be within the limit laid down under section 224 of the Companies Act, 1956.

SPECIAL BUSINESS

7. Increase in Remuneration of Managing Director

To consider and, if thought fit, to pass with or without modification(s), the following resolution as a Special Resolution:

"RESOLVED THAT subject to the provisions of Sections 198, 309, 310 read with Schedule XIII and other applicable provisions, if any, of the Companies Act, 1956, or any amendment thereto or substitution thereof, the approval of the Company be and is hereby accorded to vary effective from 1st January, 2005, the remuneration payable to Mr. Rakesh Makhija, Managing Director of the Company, as set out in the Supplemental Agreement proposed to be entered into between the Company and Mr. Rakesh Makhija, placed before the meeting duly initialed by the Chairman, for the purpose of identification as under :

- an increase in the annual fixed salary by 10.5% i.e. to Rs.7,797,000/- per annum with effect from 1st January, 2005."

"RESOLVED FURTHER THAT consent of the Company be and is hereby given to the Board of Directors to increase at its discretion, the salary of Mr.Rakesh Makhija on 1st January every year till the completion of his tenure within the overall limit of 5% of the Net Profits computed u/s 309(5) and other provisions of the Companies Act, 1956."

"RESOLVED FURTHER THAT subject to the provisions of Section 198 and compliance of Schedule XIII of the Companies Act, 1956 and other applicable provisions, if any, of the Companies Act, 1956 and the approval of Central Government, if necessary in the event of inadequacy or absence of profits, Mr.Rakesh Makhija be paid the remuneration as set out in the Principal Agreement dated 25th July, 2002 as modified till date and by the proposed Supplemental Agreement as the Minimum Remuneration."

"RESOLVED FURTHER THAT the Board of Directors of the Company be and are hereby authorized to do all such acts, matters, deeds and things as are usual or expedient to implement the resolution."

8. Voluntary delisting under Securities and Exchange Board of India (Delisting of Securities) Guidelines, 2003

To consider and, if thought fit, to pass with or without modification(s), the following resolution as a Special Resolution:

"RESOLVED that subject to the provisions of Securities and Exchange Board of India (Delisting of Securities) Guidelines, 2003 and all other applicable provisions in this regard and subject also to the legal and other formalities specified for this purpose being complied with by the Company and the Promoter under all applicable laws, rules, regulations and guidelines, the Company accords its consent to delist the equity shares in the Company in accordance with the notice from the Promoters, viz., Aktiebolaget SKF together with its subsidiaries (collectively referred to as the SKF Group) who hold 53.58% of the paid-up equity capital of the Company making a public announcement for the acquisition of all the outstanding publicly held shares in the Company and acting on the same."

"RESOLVED FURTHER that the Board of Directors of the Company be and is hereby authorised to take all the requisite, incidental, consequential and necessary steps to implement the foregoing resolution."

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 OF THE COMPANY.**

Instrument appointing a proxy should however be deposited at the Registered Office of the Company not less than 48 hours before the commencement of the meeting.

2. Explanatory Statement pursuant to Section 173 (2) of the Companies Act, 1956, in respect of Item Nos.7 & 8 of the Notice above, is appended hereto.

3. The Register of Members of the Company and Transfer Books thereof will be closed from Thursday, March 10, 2005 to Tuesday, March 22, 2005 (both days inclusive).

4. The dividend, as recommended by the Board of Directors, if declared at this Annual General Meeting, will be paid to those shareholders whose names stand on the Register of Members after giving effect to all valid transfer deeds in physical form lodged with the Company on or before March 9, 2005 and in respect of shares held in the dematerialized form to those deemed members whose names appear in the statements as furnished by the depositories for this purpose as at the end of the business hours on March 9, 2005. The dividend declared shall be paid within the prescribed time limit.

5. Members and all other concerned are requested to lodge transfer deeds, communications for change of address, mandates (if any) with the Company's Share Transfer Agents M/s.Tata Share Registry Ltd., Army & Navy Building, 148, M.G. Road, Mumbai 400 001 on or before March 9, 2005.

6. The Securities and Exchange Board of India has made it mandatory for all companies to use the bank account details furnished by the depositories/members for depositing dividend or payment through Electronic Clearing Service (ECS) to investors wherever ECS and bank details are available, for distribution of dividend.

7. Members desirous of obtaining any information as regards accounts and operations of the Company, are requested to write at least one week before the meeting so that the same could be compiled in advance.

8. Members' proxies should bring their attendance slips sent herewith, duly filled in, for attending the meeting.

By Order of the Board

Ramesh C. Pandiya
Secretary

Registered Office :

Mahatma Gandhi Memorial Building,

Netaji Subhash Road,

Mumbai 400 002

February 16, 2005

Annexure to Notice Explanatory Statement

As required by Section 173 of the Companies Act, 1956 :

Item No.7

Members of the Company, by Special Resolution passed at the Extra-Ordinary General Meeting held on July 25, 2002, had approved the appointment and payment of remuneration to Mr.Rakesh Makhija as Managing Director of the Company effective from June 1, 2002.

In recognition of contribution of Mr.Rakesh Makhija, Managing Director of the Company, the Board of Directors at its meeting held on 16th February, 2005 have, subject to the approval of the shareholders in the Annual General Meeting, revised the remuneration of the Managing Director by increasing the annual fixed salary by 10.5% of his existing Annual Fixed Salary i.e. to Rs.7,797,000/- per annum with effect from 1st January, 2005.

The aforesaid variation in the remuneration has been approved by the Remuneration Committee formed under clause 49 of the Listing Agreement, at its meeting held on 16th February, 2005. The remuneration payable to Mr.Rakesh Makhija for the year 2005 will, however, be within 5% of the net profits computed under Section 309(5) read with Sections 349 and 350 of the Companies Act, 1956 and would comply with the conditions prescribed in Section I of Part II of Schedule XIII.

The Board approved the same at its meeting held on February 16, 2005 and recommends the resolution at Item No.7 for the approval of the members.

The other terms and conditions of the appointment of Mr.Rakesh Makhija, as approved by the shareholders at the Extra-Ordinary General Meeting held on July 25, 2002 and Annual General Meeting held on April 22, 2004 will remain unchanged.

In the event of inadequacy of profits, the payment of the revised remuneration shall be subject to the approval of the Central Government if necessary, and compliance of conditions of Section II of Part II of Schedule XIII to the Companies Act, 1956. The validity of this Special Resolution for this purpose shall be for a period not exceeding three years. The application to the Central Government for the proposed remuneration, if required shall be subject to the approval of the Remuneration Committee in accordance with Schedule XIII of the Companies Act, 1956.

The other terms and conditions of Mr.Rakesh Makhija's appointment set out and amended as above, may be treated as an abstract under Section 302 of the Companies Act, 1956.

Except Mr.Rakesh Makhija, none of the Directors is concerned or interested in the resolution.

Item No.8.

Presently the equity shares of the Company are listed on The Stock Exchange, Mumbai and the National Stock Exchange. The Company has received a communication dated 10th February, 2005 from Aktiebolaget SKF together with its subsidiaries (collectively referred to as the SKF Group), the promoters of the Company who hold 53.58% of the paid-up capital of the Company as on date in the name of Aktiebolaget SKF (AB SKF) and its subsidiaries, AB S.A. des Roulements a Billes Suedois SKF and SKF (U.K.) Limited, proposing a resolution for voluntary delisting of the Company under the provisions of the Securities and Exchange Board of India (Delisting of Securities) Guidelines, 2003 ("the Guidelines"). Since they wish to acquire all the outstanding publicly held shares of the Company, in accordance with the said Guidelines, AB SKF has requested the Company to convene a General Meeting of the members of the Company to consider a resolution for delisting the shares of the Company from the applicable stock exchanges. Board of the Directors has approved this to be included in this Notice at its meeting held on 16th February, 2005.

The Company has also received a statement dated 10th February, 2005 from AB SKF outlining the proposal in detail. The members are requested to consider the proposed Special Resolution in the light of the statement which is circulated for the benefit of the shareholders of the Company and is given below :

This statement is issued by Aktiebolaget SKF, which together with its subsidiaries (the SKF Group) holds 53.58% of equity shares of SKF India Limited (the Company), in respect of the proposed purchase of the outstanding publicly held shares of the Company and the intended delisting of the shares of the Company (the Delisting Proposal) pursuant to the Securities and Exchange Board of India (the Delisting of Securities) Guidelines, 2003 (the Guidelines).

1. Background to the Delisting Proposal

Aktiebolaget SKF is the parent company and the ultimate holding company of all SKF subsidiaries globally. Aktiebolaget SKF was incorporated under the laws of Sweden in 1907 and has its headquarter in Goteborg, Sweden. SKF's principal offices are located at Hornsgatan 1, SE-415 50 Goteborg, Sweden.

The SKF Group is, in terms of sales, the leading global supplier of products, services and solutions in the rolling bearing business and a leading seal supplier. SKF also has an increasingly important position in the market for linear

motion products, high precision bearings, spindles, spindle services for the machine tool industry, electrical actuators, actuation systems, lubricants and lubrication systems.

Aktiebolaget SKF intends to purchase the outstanding publicly held shares of the Company (the Acquisition). As the Company's largest shareholder, Aktiebolaget has concluded that obtaining full ownership of the Company and integrating it into its global operations will provide it with increased operational flexibility to support its business and meet the needs of its customers.

2. The Delisting Proposal

It is proposed that Aktiebolaget SKF (the Acquirer), shall (subject to the conditions referred to below) acquire the equity shares in the Company not already owned directly or indirectly through its subsidiaries, pursuant to the Guidelines, following which, the securities of the Company will be delisted.

Subject to the special resolution for delisting the securities being passed, a public announcement of the Delisting Proposal including the details of the acquisition process (the Public Announcement) will be made. The principle features of the acquisition process, which will be conducted in accordance with the Guidelines, are:

- Shareholders of the Company may tender their shares to the Acquirer.
- The exit price will be determined in accordance with the reverse book build process specified in the Guidelines.
- Shareholders may tender their shares at any price at or above the "floor price" determined in terms of the Guidelines (being the average traded price of the Company's shares as quoted on the stock exchange where the shares of the Company are most frequently traded in the 26 weeks preceding the date of the public announcement of the delisting pursuant to the Guidelines).
- The final price payable for the acquisition of the shares will be determined in accordance with the Guidelines (which will be the price at which the maximum number of shares are tendered pursuant to the reverse book build process).

The Acquirer reserves the right not to acquire the offered shares if the final price, as established pursuant to the Guidelines, is not acceptable to the Acquirer.

3. Conditions to the Acquisition

The Acquisition by the Acquirer will be conditional upon :

- the acceptance by the Acquirer of the price payable for the shares as determined by a book build process in accordance with the Guidelines (the Exit Price);
- public shareholding of the Company falling below the required level of public holding for continuous listing;
- approval of the Foreign Investment Promotion Board or any other appropriate authority of the Government of India for the acquisition of the shares by the Acquirer;
- approval from Reserve Bank of India under the Foreign Exchange Management Act, 1999.

4. Further Details

Further details of the tender process (including the proposed timetable) will be set out in the Public Announcement and the Bid letter, that would be sent to the shareholders.

None of the Directors is interested in the resolution. None of the Non-Executive Not Independent Directors participated in discussions for this item.

INSPECTION

The Memorandum and Articles of Association of the Company, letters mentioned in note (a) and (b) alongwith letter from M/s. BSR & Co., Chartered Accountants (item 6), the Principal Agreement dated July 25, 2002, the Supplemental Agreements till date, the draft Supplemental Agreement proposed to be entered into between the Company and Mr. Rakesh Makhija (item 7) and the original communication and statement dated 10th February, 2005 from SKF Group (item 8) are available at the Registered Office of the Company for inspection on any working day (except Saturday) during the normal working hours of the Company.

By Order of the Board
Ramesh C. Pandiya
Secretary

Registered Office :
Mahatma Gandhi Memorial Building,
Netaji Subhash Road,
Mumbai 400 002

February 16, 2005