



SKF 100 YEARS 2007



Annual Report 2006



SKF India Limited
The Knowledge Engineering Company



Board of Directors

Kamlesh C. Mehra	Chairman
Giuseppe Donato	
Christer Gyberg	
Narendra J. Jhaveri	
Phil Knights	
Henrik Lange	
Darius C. Shroff	
Tryggve Sthen	
Rakesh Makhija	Managing Director

Company Secretary	Pradeep Bhandari
Auditors	BSR & Associates
Solicitors	Crawford Bayley & Co.
Bankers	The Hongkong & Shanghai Banking Corp. Ltd. Bank of India ICICI Bank Ltd. HDFC Bank Ltd.
Registrars and Share Transfer Agents	TSR Darashaw Limited 6-10, Haji Moosa Patrawala Industrial Estate, 20, Dr. E. Moses Road, Mahalaxmi, Mumbai - 400 011.

Company Management Team

Rakesh Makhija	Managing Director
Vilas Bondse	Head-Industrial Business Unit
Vithal Nayak	Head-Company HR & Communications
Hemant Nighojkar	Head-Automotive Business Unit
S. Rajan	Head-Electrical Business Unit
K Ramakrishnan	Head-Company Sourcing & Supply Chain & IT
Sudhir Rege	Head-Service Business Unit
Jos Verelst	Finance Director

Letter to Shareholders



Rakesh Makhija, Managing Director

Dear Shareowner,

Our company, which was founded by Sven Wingquist in Sweden in 1907 turns 100 years this year. Based on a single revolutionary idea, SKF has remained the undisputed leader through this period, established through an unwavering focus on technology, innovation and customers. The first Indian distributor for SKF was set up in 1923, in a period when none of the modern transportation modes were available. By the late 1920's SKF was in more than 30 countries, starting with Western Europe and extending to Brazil, China, Africa and India. On this occasion I would like to thank all our stakeholders, our customers, our suppliers, our shareholders and our employees for their support and commitment without which the SKF Group and SKF in India would not have the leadership status it has. As we embark on the next phase of our journey, we commit ourselves to our founder's values of technology and innovation leadership, with our customers being at the heart of our existence.

2006 has been the best year ever for the company. Sales for the year at 13425 MINR were up almost 72% over 2005, counting the full effect of the Direct Customer Delivery (DCD) business. Profit for the year was at an all time high of 1020 MINR, which is 64% higher than 2005. The operating margin at 10.9% also reflects the effect of the DCD business, wherein the operating margins on DCD as a trading business are lower than the manufacturing business. All our businesses continued their strong growth trend, both in the Automotive and Industrial sectors. We continued to expand our presence in the country through a mix of more sales employees in the regions and appointing new distributors in the hinterlands.

We undertook several important initiatives during the year, in order to ensure that SKF India was ready for the next phase of strong growth that we anticipate. We migrated to the next generation of the SKF ERP system and at the same time introduced the DCD model for our customers. The DCD model effectively provides a single window for our customers, where we handle the entire transaction and logistics for SKF products worldwide and the goods delivered at the customer's doorstep. Essentially this has eliminated a number of customer actions and provided an easy and seamless method of working globally with SKF factories and warehouses.

Our focus remains on capturing all the growth opportunities which are being thrown open as a result of the strong economic development in the country. Bearings are our core business and contribute to more than 90% of our

revenues. Our technology platforms in the form of seals, lubrication, reliability services and linear motion and actuation contribute the rest. Over the next few years we expect the mix to change where the other platforms will contribute a higher share and the bearings will, in a growing environment contribute to less than 80% of the total portfolio. This also gives us an opportunity to bundle the platforms together so we can provide our customers an integrated solution that impacts their efficiencies and total cost of operations (TCO). Dedicated application teams are working closely with our customers to demonstrate the impact of these platforms and we are encouraged by the strong response from the market to these initiatives.

The Indian economy is on a strong growth path and we expect this growth to continue for the foreseeable future. We also expect that a major element of the growth will come from the Industrial economy. Manufacturing will play an extremely important role there. India has been an important market for SKF and we have worked hard to build and maintain our leadership position in the country. We will continue to invest to provide state of the art technology solutions to the Indian industry, leveraging SKF's global technology and R&D leadership in our business.

Our key endeavor is to create significant value for our customers. We will do this through a mix of customer partnerships and a dedicated account management focus. There are a number of projects running towards getting our factories to operate at optimum performance through a mix of Six Sigma and TPM based practices, providing multi-skilling

and other training and development programs for our employees. Our employees form the core of our strategy, and we are very focused on creating an environment where our employees can grow and nurture their creative edge. Our Center for Learning in Pune was re-christened last year as 'SKF College' and it is now one of the five SKF centers around the world where training and development activities across geographies takes place.

Over and above these activities, we will dedicate 2007, our 100th anniversary year, towards driving 'Sustainability' in all our factories and actions. To achieve environmental excellence, SKF launched an ambitious and challenging target in 2005, called BeyondZero. SKF's end objective is to be a positive contributor to the world's environment. The actions in our factories will focus on reducing carbon dioxide emissions year on year through the use of energy efficient equipment, plugging leakages and using more efficient lighting systems. Last year we installed rainwater-harvesting systems in both Pune and Bangalore, essentially towards contributing positively to the water table in the areas where our factories are located.

We are well positioned to take on the future and I would like to dedicate this letter to the next 100 years of SKF leadership in technology and innovation, and towards delivering great customer value. As ever, I thank you for your support.

Sincerely



Rakesh Makhija

SKF India Limited : Top Indian Company in the Bearings Sector

Dun & Bradstreet - American Express Corporate Award 2006



Manufacturing sector in India continues to outperform

Industrial growth in 2006 is highest recorded in last ten years

The Indian economy has been propelled in 2006 by the continuous growth witnessed by the manufacturing sector. In fact, as cited in the Economic Survey disseminated by the Government of India recently, the 10.6 per cent growth in the industrial sector in the last three quarters of the year has been the highest recorded since 1995-96. The manufacturing sector alone contributed 91.1 per cent. The economic environment in India is fertile ground for a manufacturing company such as ours - SKF India. Collectively and individually, our customers, and suppliers, across our key verticals have been faring well.

Since its inception in 1923, SKF India's core business worldwide has been bearing technology. We have not only introduced the manufacturing industry to bearings and their designs but also to application engineering. While our core business shall remain bearings, we have also successfully developed a unique competence in four other engineering platforms: seals, mechatronics, services and lubrication systems. We deliver quality products and solutions based on a deep understanding of our customers needs across verticals.

One of the key verticals for SKF India is the automotive industry, including both, the automobile and the auto-component sectors. The recent initiatives undertaken by the Government of India such as reducing duties on raw materials, finalizing the Automotive Mission Plan 2006-2010 has given a further impetus to this thriving sector. According to the

Economic Survey, the auto-component industry in India with a turnover of USD 10 billion in 2005-06, has proven to be one of the fastest growing segments. The industry's exports touched USD 1.8 billion - a 28 per cent increase. There has also been a steady expansion in the installed capacity of the automobile industry, and India has manufactured over 1,700,000 4-wheelers and over 8,000,000 2- and 3-wheelers in 2005-06. The exports for the sector rose to USD 2.28 billion last year.

One of the newer emerging segments is wind energy. India is the fourth largest manufacturer of wind energy, and this industry holds a lot of promise. Prompted by the need for increased environmental vigilance, the Government of India has been promoting eco-friendly options to thermal power, such as wind and hydel energy.

The textile industry is another important vertical for SKF India. The Indian textile sector has shown a growth of 9.25 per cent in 2005-06 in the production of fabrics, and its exports have increased by 21.8 per cent.





Fourth year in a row, the steel sector witnessed a notable growth. In fact, the production of finished (carbon) steel in India grew by 9.7 per cent, and reached 35.65 million tones. This sector should

continue on its upward trend, with additional capacities of four million tones being commissioned this year. The exports of finished (carbon) steel also grew by 10.9 per cent to 3.50 million tones. The steel sector in India has been continuously improving its operation parameters by setting up new plants and upgrading technologies in the old ones.

This past year, the industry has endeavored to outperform, and the Government of India's Eleventh Plan (2007 to 2012) has set forth a target of 10 per cent industrial growth per annum, and the Indian industry is gearing up to it.

At SKF India too, we are continually reviewing and analyzing our environment and past performance, in a bid to streamline our operations. In fact, our quest for excellence has also led us to adopt a number of models that are instrumental in ensuring that SKF India remains a leader in the industry. One such model is Six Sigma, which fosters operational excellence, and directly contributes to profitable growth. Direct Customer Delivery

Model is another such yardstick which helps us to assist and stimulate customer orientation towards SKF India. Another model that strengthens our foundation is the asset management model, which is the total organization of a physical asset's life cycle to achieve the lowest cost with maximum return.

Across the globe, SKF strives to maintain the status of preferred company for its stakeholders. With this in mind, all our actions at SKF India, from manufacturing to corporate social responsibility, are underpinned by two basic tenets - achieving sustainable growth and transforming into a Knowledge Engineering company. Simply put, we focus on developing innovative, integrated value-added solutions that improve the competitiveness and profitability of our customers, while at the same time mitigating the risks and costs resulting from negative social and environmental impacts. This provides us with new opportunities, such as product innovations and new business development areas, reinforcing our vision to equip the world with SKF Knowledge.



SKF India Limited

Annual Report 2006

Financial Highlights

(Rupees in Millions)

	2006	2005	2004	2003	2002	2001	2000	1999 9 months	1998-99	1997-98
Sales	13425	7814	5813	4670	4072	3585	3677	2746	3483	3630
Profit before tax	1531	1031	883	506	330	103	82	104	(445)	89
Profit after tax	1020	641	566	322	204	90	69	98	(443)	59
Cash earning per Share Rs. *	24	17	18	13	11	9	19	16	(3)	17
Rate of dividend % p.a	45	35	25	25	20	10	15	15	0	10
Gross Block	6453	5889	5511	5429	5395	5446	5534	5431	5251	4750
Net Block	1842	1475	1238	1286	1459	1665	1979	2258	2309	2183
Total borrowings	1	2	65	463	889	1424	2207	2453	2740	2312
Share Capital	527	527	453	453	453	453	251	251	251	251
Reserves & Surplus	3695	2946	2112	1696	1513	1394	1161	1139	1072	1515
Book Value per Share Rs.*	80	66	67	47	43	41	56	55	53	70
Shareholders.s Nos.	25811	24269	28545	28382	29875	24150	22687	21971	22402	20967
Employees.s Nos.	2024	1963	1968	1960	2038	2006	2161	2173	2192	2906

*All prior years' figures have been made comparable to show values per share @ face value Rs.10/-.

NOTICE

NOTICE IS HEREBY GIVEN that the Forty-Sixth Annual General Meeting of the members of SKF India Limited will be held at Nehru Centre, Hall of Culture, Dr. Annie Besant Road, Worli, Mumbai 400018 on Thursday, April 26, 2007 at 3.30 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, 2006 and the Profit and Loss Account for the year ended on that date and the Reports of the Directors and the Auditors thereon.
2. To declare a dividend on Equity Shares for the year ended December 31, 2006.
3. To appoint a Director in place of Mr. K. C. Mehra who retires by rotation and being eligible offers himself for re-appointment.
4. To appoint a Director in place of Mr. N. J. Jhaveri who retires by rotation and being eligible offers himself for re-appointment.
5. To appoint a Director in place of Mr. T. Sthen who retires by rotation and being eligible offers himself for re-appointment.
6. 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 & Associates, Chartered Accountants be and are hereby re-appointed as the Auditors of the Company to hold office until the conclusion of the next Annual General Meeting on such remuneration plus service tax and out-of-pocket expenses, as may be mutually agreed between the Board of Directors / Audit Committee of Directors and the Auditors in connection with the audit of the Accounts of the Company for the year ending December 31, 2007."

SPECIAL BUSINESS

7. To consider, and, if thought fit, to pass, with or without modification(s), the following resolution as an Ordinary Resolution:
 "RESOLVED THAT pursuant to the provisions of Sections 198, 269, 309, 311 read with Schedule XIII and other applicable provisions, if any, of the Companies Act, 1956 (the "Act"), approval of members be and is hereby accorded to the reappointment of Mr. Rakesh Makhija as Managing Director of the Company for a period of 5 years with effect from 1st June, 2007 to 31st May, 2012 on the terms and conditions (including the remuneration to be paid in the event of absence or inadequacy of profits in any financial years covered by the aforesaid period) as set out in the draft agreement to be entered into between Mr. Makhija and the Company copy whereof initialed by the Chairman for the purpose of identification has been placed before this meeting."
 "RESOLVED FURTHER THAT the Board of the Directors of the Company be and are hereby authorized to alter and vary the aforesaid terms as to remuneration including perquisites within the ceiling limits in that behalf laid down in the Companies Act, 1956 and/or in Schedule XIII to the Companies Act, 1956, as in force from time to time."
 "RESOLVED FURTHER that for the purpose of giving effect to this resolution, any Director and the Company Secretary of the Company be and are hereby jointly and severally authorized to sign and execute under the common seal of the Company necessary agreement with Mr. Makhija."
8. To consider and, if thought fit, to pass, with or without modification(s), the following resolution as a Special resolution:
 "RESOLVED THAT pursuant to the provisions of Section 163 of the Companies Act, 1956, consent of the Company be and is hereby granted to keep the documents referred therein at the office of M/s. TSR Darashaw Ltd., the Registrar and Share Transfer Agents of the Company at 6-10, Haji Moosa Patrawala Industrial Estate, 20, Dr. E. Moses Road, Mahalaxmi, Mumbai-400 011 or any of its other place of business within the city of Mumbai."

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 and 8 of the Notice above, is annexed hereto.
3. The relevant details in respect of the reappointment of Directors pursuant to clause 49 of the Listing Agreement with the Stock Exchange are given in the Corporate Governance Report.
4. The Register of Members and Share Transfer Books of the Company will remain closed from Tuesday, April 10, 2007 to Thursday, April 26, 2007, both days inclusive, for the purpose of payment of dividend, if declared at the Annual General Meeting.
5. The dividend on equity shares, as recommended by the Board of Directors, if declared at this Annual General Meeting, will be paid:
 - (i) in respect of shares held in physical form to those shareholders whose names stand on the Register of Members of the Company after giving effect to all valid transfer deeds in physical form lodged with the Company on or before April 9, 2007 and

NOTICE (Continued)

- (ii) 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 April 9, 2007. The dividend declared shall be paid within the prescribed time limit.
6. Any change of particulars including address, bank mandate & nomination for shares held in demat form, should be notified only to the respective Depository Participants where the member has opened its demat account. However any change in particulars in respect of shares held in physical form should be sent to the Company's Share Transfer Agents M/s. TSR Darashaw Ltd., 6-10, Haji Moosa Patrawala Industrial Estate, 20, Dr. E. Moses Road, Mahalaxmi, Mumbai 400 011.
7. The bank account details given by members in case of demat holding to their Depository Participants (DPs) and passed on to the Company by such DPs would be printed on the dividend warrants or paid through Electronic Clearing Service (ECS) of the concerned members. However, if any member(s) wants to receive dividend in any other bank account, he/she should change/correct the bank account details with their concerned DPs. The Company would not entertain any such request from shareholders directly for deletion/change in the bank account details.
8. The amount outstanding in unpaid dividend account in respect of financial year 1999 will be transferred to the 'Investor Education and Protection Fund' maintained with the Central Government after the end of 7 years on 27.04.2007. Members who have still not encashed their dividend are requested to encash the same at the earliest.
9. 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.
10. Members / Members' proxies who wish to attend the meeting are requested to bring attendance slip sent herewith, duly filled in, and the copy of the annual report.

By Order of the Board

P. Bhandari
Company Secretary

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

Date : February 21, 2007

Annexure to Notice

Explanatory Statement pursuant to Section 173 of the Companies Act, 1956:

Item No. 7

The Board of Directors of the Company (the "Board") at its meeting held on February 21, 2007 re-appointed Mr.Rakesh Makhija ("Mr.Makhija") as the Managing Director of the Company for the period of 5 years from 1st June, 2007 to 31st May, 2012. The Remuneration Committee of Directors (the "Committee") at its meeting held on February 21, 2007 approved the terms and conditions of the appointment including the remuneration of Mr.Makhija.

The main terms and conditions of the re-appointment of Mr.Makhija are as follows :

1. Annual fixed salary
The Managing Director shall be entitled to a fixed salary of Rs.10,292,000/- per year with effect from 1st June, 2007. The fixed salary shall be revised annually by the Remuneration Committee / Board of Directors as of January 1, beginning January 1, 2008.
2. Special Allowance
The Managing Director shall be entitled for a special allowance of a sum of Rs.360,000/- per year.
3. Performance Bonus
The Managing Director shall be entitled to a performance bonus in accordance with the Rules of the Company. For the year 2007, the maximum bonus in percentage of annual fixed salary is 30% of salary.
4. Perquisites
In addition to the above remuneration, the Managing Director shall also be entitled to the following perquisites :-
 - i) Fully furnished accommodation including all utilities such as gas, electricity, water and payment to the domestic assistance subject to maximum of Rs.300,000/- per annum.