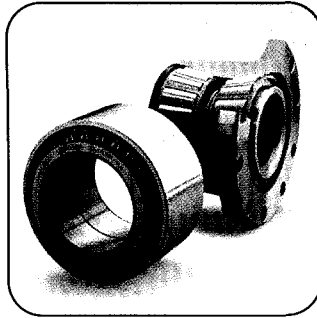
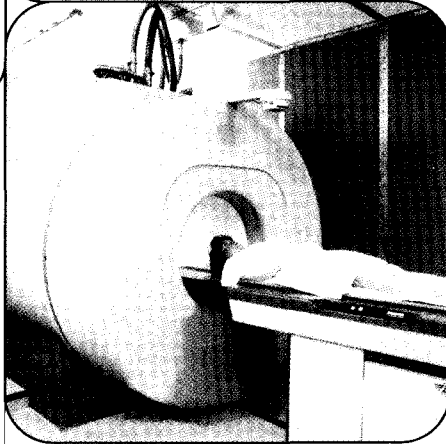
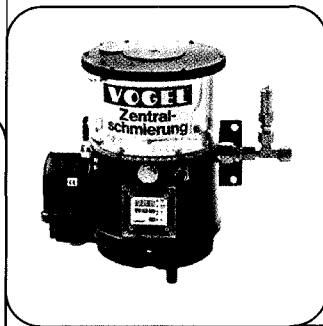


SKF

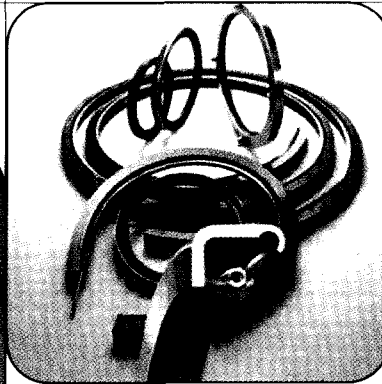
Bearings
and Units



Lubrication Systems



Mechatronics



Seals

Services



Report  junction.com

The knowledge engineering company

Annual Report 2005

SKF India Limited

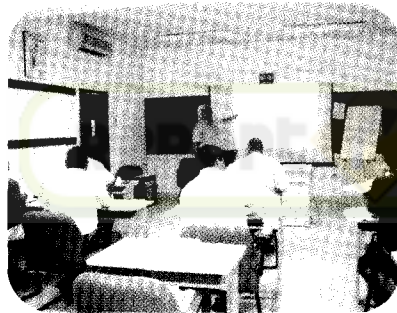
www.reportjunction.com

SKF's journey towards a total solutions company

SKF India's initiatives reflect the company's continuous commitment for diversified growth.

Reliability Maintenance Institute (RMI)

SKF India's Vision for RMI is to *build an Institution devoted to dissemination of knowledge to the industry, in the area of reliability and world-class maintenance practices, amalgamated with the mission to equip the industry with knowledge in the field of maintenance.*



RMI's specialized training help develop the core competencies of individuals in the field of maintenance practices window. These comprise, Reliability Maintenance, Practical Vibration Analysis, Balancing & Alignment, and Rotor Dynamics & Practical Vibration Analysis, supported with consultancy services in Inventory Management, Computer Based Training & Self-Learning Tools and Condition Monitoring Skills. A combination of any or all of them enables the industry to access the world of SKF Knowledge incorporating the very latest in precision maintenance techniques and management philosophies.

The RMI training programme is designed to assist plants eliminate Machinery problems and achieve maximum reliability and productivity in the field of:

- Bearing Maintenance and Reliability
- Bearing Technology
- Bearing Failure and Causes
- Bearings in Electric Motors
- Proactive Maintenance Techniques
- Bearings in Machine Design
- Lubrication & Seals Technology
- World Class Maintenance

SKF Offers Grease for the Indian Automotive Industry

SKF has always been at the forefront in evolving revolutionary and indigenous solutions. This is due to the fact that SKF has always shared a close working relationship with its customers in India, resulting in a deep understanding of the customers' needs, and an in-depth knowledge of the conditions under which the



bearings and other products operate.

Considering the fact that nearly 40% of the bearings failures are due to improper lubrication, the launch of SKF Grease will offer customers in the vehicle aftermarket with a robust solution, thereby enabling them to increase the 'Bearing Life' of their vehicles.

This all-purpose heavy duty, extra smooth, and silky textured lithium soap based SKF Grease is specially designed, keeping in mind the requirements of vehicle owners and workshops, who constantly demand good OE quality products.

The key product features of SKF Grease are:

- High water resistance, leading to extended machine life
- Good thermal, structural, oxidation and mechanical stability thereby enhancing grease life
- Protection against rusting and corrosion of lubricated parts

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

BSR & Associates (Formerly BSR & Co.)

Solicitors

Crawford Bayley & Co.

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

Contents

Letter to Shareholders	2
Notice	5
Directors' Report	10
Corporate Governance Report	14
Management Discussion & Analysis	25
Auditors' Report	30
Balance Sheet	32
Profit & Loss Account	33
Cash Flow Statement with Auditors' Certificate	34
Schedules 1 to 14	35
Financial Highlights	52

Company Management Team

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

Letter to Shareholders



Rakesh Makhija, Managing Director

Report  junction.com

Dear Shareholder,

We are at an inflexion point in our business. Our challenge, as we embark on this year, will be to reinvent ourselves and to create strong fundamentals for the business. Thus far, our focus has been heavily on financial performance, and we have done a reasonable job there, while putting in place robust processes for people and talent management, productivity improvements and customer related processes. We adopted Six Sigma in 2003, which has been a major driver for some of the above initiatives.

We have made significant progress in our quest towards being a knowledge engineering company. All our businesses have done well and grown significantly. On the manufacturing front, our expansion projects at Pune and Bangalore are at various stages of completion. We are targeting to get these completed and up and running in the first half of this year. Most of the Six Sigma projects to enhance the efficiencies in our factories have closed by year-end, though the activities will continue towards our pursuit of continuous

improvement. The Application Development Center, just about completing a year has become a cornerstone of our ability to provide knowledge solutions to our customer and we are very excited at the potential of this center.

Our five knowledge platforms and our Vision to 'equip the world with SKF knowledge' form the cornerstone of our strategic direction. We have made significant progress towards bundling these platforms and providing an integrated value driven solution to our customers. Working with our key customers we have endeavored to identify their critical requirements where SKF can impact their productivity and competitiveness. There have been success stories and as we move ahead, we see a clear trend emerging where our relationship with customers is becoming more in the partnership mode.

As we go into 2006, we have a clear mandate to continue to aggressively grow our business

and enhance our leadership position. SKF will grow beyond only bearings and become a true knowledge engineering company, providing integrated solutions, which impact the customers business and their productivity. This is our short to mid term objective and the key to that goal will be our ability to continuously innovate and understand our customers business as well as we know our business.

Against this backdrop, our focus will remain on what we have already started - Six Sigma will continue to drive our growth and culture, our employees will continue to be our highest priority, our Key Account Management program will be extended to cover more customer accounts and Customer Service will be our cutting edge competitive advantage. It is also becoming increasingly important that we start benchmarking ourselves with the best in class, across different industry segments with focus on our future areas of growth.

The SKF brand has strong recognition and respect. However, like in most cases, it needs to be constantly nurtured and reinforced. We will ensure that our brand recognition amongst the GenNext has the same appeal and pull as it has with todays generation. We will do this through a combination of many activities, working with our customers, participating within the local community where we have our major locations, while ensuring that each one of us takes on the responsibility as a brand ambassador for SKF.

Our core message to the world and to our stakeholders is to 'equip the world with SKF knowledge'. This will drive our strategies and our actions.

Best Regards


Rakesh Makhija

SKF implements Direct Customer Delivery

SKF India's Direct Customer Delivery procedure is one more dynamic step, which goes to show the level of commitment and care for customers.



The "Direct Customer Delivery" will provide a single window for the customers to the complete SKF product offering, high service level and customer satisfaction. As a result of this, Indian customers who were earlier placing their orders to Singapore, for their imported requirements of SKF products can now directly assign their orders to SKF India.

Six Sigma

Six Sigma was initiated by SKF in 2003 and through this initiative SKF India has been able to establish an enriching cultural backbone for the organization; thereby enhancing value creation for business. Presently, SKF India has 15 dedicated Black Belts and 199 Green belts.

Six Sigma projects have yielded significant benefits, impacting SKF India's bottom line and key customer service segment. SKF India received the Six Sigma National Excellence Award in Innovation/Turnaround category; and runners up in manufacturing category in 2005 in an event organised by SCMHRD (Symbiosis Centre for Management & Human Resource Development), in association with SAC Inc, USA (Six Sigma & Advanced Control) and Sakal. The award comprised a trophy for excellence, citations for the participants and cash prize.



SKF India ventures into "Inline Skating" solutions

All across the world, Roller-skates are rapidly and increasingly being replaced by INLINE skates. SKF, global leaders in this domain, has constantly been involved in providing skating bearings and sealing solutions since the early beginning of the sport through inline rollers and skateboards. The product line in India comprises of state-of-the-art bearings and superior lubricants. This initiative will undoubtedly encourage the rising attraction

towards this sport and generate new audiences.

Focusing on the need for unique skating style, the SKF offering comprises of various innovative skating products and solutions for the Indian market as well as rust protection, comprising Speed Skater, Speed Racer, Fun Racer Bearings and SKF Lubricants.

Speed Skater bearings are designed for racing, and incorporate special oil lubrication, exclusively adapted and tested, to facilitate faster rolling and more power in contrast to greased bearings.

Speed Racer bearings are the lightest and the fastest ever tested. These bearings are meant for professional skaters who wish to attain excellent results in competition.

SKF Fun Roller bearings are intended for regular practice roller-skating. The high quality standards and versatility inevitably astonish users due to its low friction and accuracy stability.

Since Lubrication is the key for good bearing behaviour under rotating speed and loads, SKF has developed its own grease and oil (SKF Lubricants) specifically spotlighting on low friction and speed capabilities.



NOTICE

NOTICE IS HEREBY GIVEN that the Forty-Fifth 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 Thursday, April 27, 2006 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, 2005 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, 2005
3. To appoint a Director in place of Mr. C. Gyberg who retires by rotation and being eligible offers himself for re-appointment.
4. To appoint a Director in place of Mr. B. Johansen who retires by rotation and who has not offered himself for re-appointment. Notice is received in writing from a member proposing the following resolution:
"RESOLVED THAT Mr. Henrik Lange in respect of the candidature of whom the Company has received a notice in writing pursuant to section 257(1) of the Companies Act, 1956 be and is hereby appointed as a Director of the Company in place of Mr. B. Johansen who retires by rotation."
5. To appoint a Director in place of Mr. B. Richiardone who retires by rotation and who has not offered himself for re-appointment. Notice is received in writing from a member proposing the following resolution:
"RESOLVED THAT Mr. Phil Knights in respect of the candidature of whom the Company has received a notice in writing pursuant to section 257(1) of the Companies Act, 1956 be and is hereby appointed as a Director of the Company in place of Mr. B. Richiardone who retires by rotation."
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."

SPECIAL BUSINESS

7. 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 January 01, 2006 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 –
 - i) an increase in the annual fixed salary by 10% i.e. to Rs.8,576,000/- per annum with effect from January 01, 2006.
 - ii) Insurance Premia as per Health, Medical and Insurance Policy for the following –
 - a) Hospitalisation Policy for the Managing Director and his family upto Rs.1,000,000/- with effect from 8th August, 2005.
 - b) Personal Accident Group Insurance Scheme for Managing Director to cover a liability upto Rs.5,000,000/-
 - c) Death Insurance through LIC in the event of the death of Managing Director while in service of the Company upto 24 months' Base Salary.
 - iii) Actual payments to the servants at the Company owned housing provided to him subject to maximum of Rs.300,000/- per annum."

"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 July 25, 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 authorised to do all such acts, matters, deeds and things as are usual or expedient to implement the resolution."

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

"RESOLVED THAT in accordance with the provisions of Section 309(4) and other applicable provisions, if any, of the Companies Act, 1956 provided that the commission payable to Non-Executive Directors for 2005 be limited to 1,550,000/- in accordance with clause 49 of the listing Agreement and of Article 131 (3) of the Articles of Association of the Company, the Directors including the Alternate Directors (excluding the Managing Director, the Whole-time Directors and the Non-resident Directors), be paid for a fresh period commencing from April 1, 2006 to March 31, 2011 a yearly commission (to be divided amongst them in such manner as the Board of Directors may from time to time determine) of such amount as may be determined by the Board of Directors, but not exceeding an amount equal to 1% of the net profits of the Company, and that the net profits of the Company shall be computed in the manner prescribed under Section 198(1) of the Companies Act, 1956."

"RESOLVED FURTHER THAT the Board of Directors be and is hereby authorised to take such steps as may be necessary, desirable or expedient to give effect to the resolution."

9. To declare the result of voting by postal ballot in the matter of following resolution to be passed as a Special Resolution:

"RESOLVED THAT pursuant to the provisions of Sections 17 and other applicable provisions, if any, of the Companies Act, 1956 (including any statutory modification or re-enactment thereof for the time being in force) the consent of the Company be and is hereby accorded to the alteration of the Objects Clause of the Memorandum of Association of the Company by inserting the following Sub-clauses numbered as Sub-clause (zii) to (zv) after the existing Sub-clause (zi) of the Objects Clause of the Memorandum of Association of the Company:

- (zii) To carry on the business of integrated logistic services including transportation through own or Public Carriers/ transport operators, cargo lifters, contractors, customs clearing agents, chartering agents, hirers of transport vehicles, packers, hauliers, warehousemen and generally to provide services for various clients both in India and abroad and to undertake every kind of operation in connection with the logistic support for transportation, import, export, packing, warehousing and handling of goods by air, sea or land.
- (ziii) To provide technical training to external people including Distributors, Authorized Stockists, Customers and Academic Institutions for development of knowledge in the field of maintenance, reliability and other related technical and commercial areas and engineering.
- (ziv) To carry on the business of providing hiring services including employing people to provide services and solutions to SKF Group and other companies.
- (zv) To carry on the business of designing, manufacturing and assembly of complete units, systems, solutions and applications for various industries including -
 - a) Assembly & manufacture of lubrication systems including Centralised Lubrication Systems, Grease Systems and Oil Systems, Lubrication system components viz. Pumping units, Pressure Valves, pressure switches, Control Valves, Distributors, Connectors and couplers, hoses, fabricated oil tanks, etc.
 - b) Spindle Services, Spindles including belt driven spindles, motorized spindles.
 - c) Application Engineering and consultancy services.
 - d) Bearing refurbishing services.
 - e) Engineering, design, systems, assembling, manufacturing in-house or at locations of the customer and other related activities including and not limited to IT and computerized controls.
 - f) Reliability Services to the manufacturing industry.
 - g) Design, Manufacturing, Assembly and Business in Megatronics, Linear Actuation and Motion Control and Sealing Solutions.

- h) Value added solutions in all the above areas."

"RESOLVED FURTHER THAT the Board of Directors of the Company be and are hereby authorised to agree to and accept such modifications, terms and conditions in the newly inserted object clauses as may be directed by the concerned authorities and to modify the same accordingly and to obtain confirmation thereof and to take such other necessary steps as may be required to implement the above."

10. To consider and, if thought fit, to pass with or without modification, the following resolution as a Special Resolution
- "RESOLVED THAT pursuant to the provisions of Section 149 (2A) and all other applicable provisions, if any, of the Companies Act, 1956, the consent of the Company be and is hereby accorded to the commencement by the Company of all or any of the businesses and activities as contained in the newly inserted Sub-clauses (zii) to (zv) of the Objects Clause of the Memorandum of Association of the Company upon the aforesaid clauses becoming effective."
- "RESOLVED FURTHER THAT the Board of Directors of the Company, be and is hereby authorised and empowered to do all such acts, deeds, matters and things as may be necessary, appropriate and desirable to give effect to this resolution."

Notes

- 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.
- Explanatory Statement pursuant to Section 173 (2) of the Companies Act, 1956, in respect of Item No.4 and 5 and 7 to 10 of the Notice above, is appended hereto. The relevant details in respect of the appointment/ reappointment of Directors pursuant to clause 49 of the Listing Agreement with the Stock Exchange are given in the Corporate Governance Report.
- The Register of Members of the Company and Transfer Books thereof will be closed from Wednesday, April 12, 2006 to Thursday, April 27, 2006.
- The dividend on equity shares, 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 April 11, 2006 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 April 11, 2006. The dividend declared shall be paid within the prescribed time limit.
- 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 April 11, 2006.
- 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.
- 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.
- 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.
Date : February 24, 2006

Annexure to Notice

Explanatory Statement

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

Item Nos. 4 and 5

Mr. B. Johansen and Mr. B. Richiardone retire by rotation at the forthcoming Annual General Meeting of the Company as per Article 142 of the Articles of Association read with the provisions of Section 256 of the Companies Act, 1956. The Company has been informed by Mr. B. Johansen and Mr. B. Richiardone that they do not desire to seek re-election at the forthcoming Annual General Meeting.

The Company has received notices in writing from members along with deposit of Rupees Five Hundred in each case, proposing the candidature of Mr. Henrik Lange in place of Mr. B. Johansen and of Mr. Phil Knights in place of Mr. B. Richiardone for the office of Directors respectively under the provisions of Section 257 of the Companies Act, 1956. Mr. Henrik Lange and Mr. Phil Knights have consented to act as Directors of the Company, if appointed. The period of office of Mr. Henrik Lange and Mr. Phil Knights shall be liable to determination by the retirement of Directors by rotation.

Your Directors are of the view that the appointment of Mr. Henrik Lange and Mr. Phil Knights as Directors of the Company will be in the interest of the Company and, accordingly, recommend the resolutions at Item Nos. 4 & 5 for your acceptance.

None of the directors is interested in the said resolutions.

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 February 24, 2006 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% of his existing Annual Fixed Salary i.e. to Rs 8,576,000/- per annum with effect from January 1, 2006.

It is also proposed to change the following -

- i) In accordance with Health, Medical and Insurance Policy of the Company applicable to Managing Director approving -
 - a) Hospitalisation Policy for the Managing Director and his family upto Rs.1,000,000/- with effect from 8th August, 2005.
 - b) Personal Accident Group Insurance Scheme for Managing Director to cover a liability upto Rs.5,000,000/-.
 - c) Death Insurance through LIC in the event of the death of Managing Director while in service of the Company upto 24 months' Base Salary.
- ii) Actual payments to the servants at the Company owned housing provided to him subject to maximum of Rs.300,000/- per annum.

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 February 24, 2006. The remuneration payable to Mr. Rakesh Makhija for the year 2006 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 and that within this the change in insurance cover as approved is allowed and also the payments to the servants at the Company owned housing provided to him be allowed subject to maximum of Rs.300,000/- per year w.e.f. January 01, 2006.

The Board approved the same at its meeting held on February 24, 2006 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 last approved at the Annual General Meeting held on March 22, 2005 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 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.