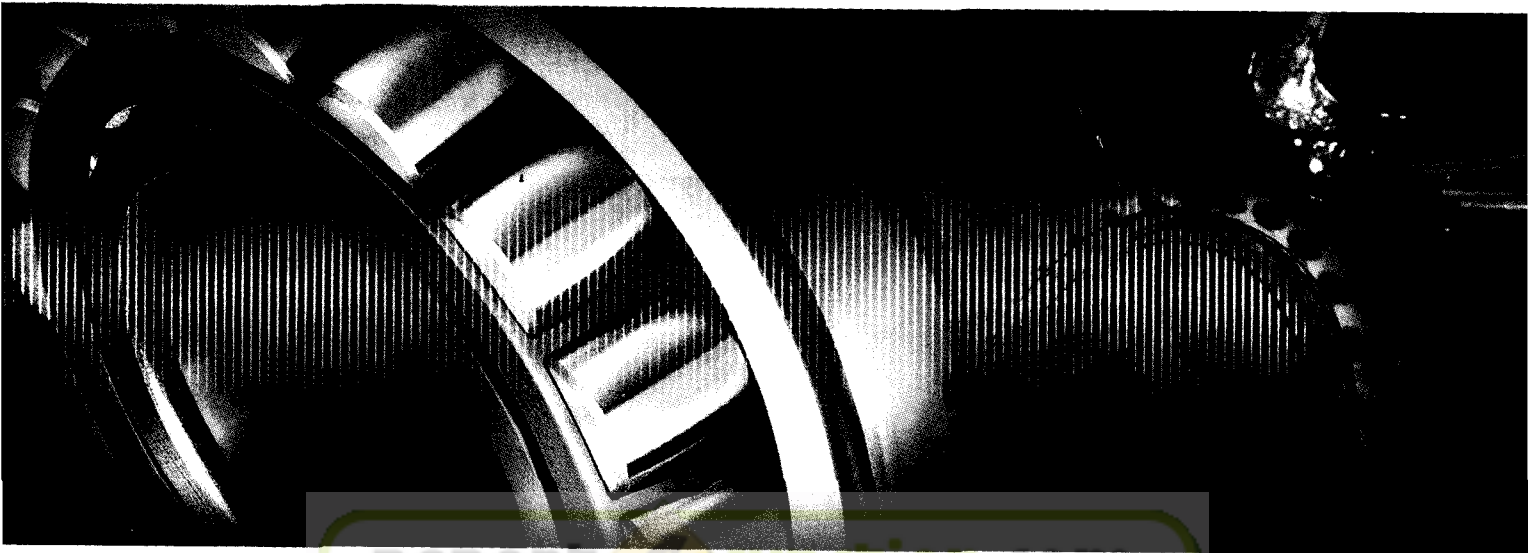


FAG



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Annual Report 2005

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India - A land of Opportunity



Maria-Elisabeth Schaeffler being given a warm welcome at her first visit to FAG India in Baroda.

In March '05, Maria-Elisabeth Schaeffler made her first visit to FAG, Baroda. In her address to the employees she underlined the fact that everything in India seemed to indicate substantial growth. She affirmed, "India is a land of opportunity, vitality, strength and ambition. We believe that India has the potential to become an economic superpower within the next ten years".

Winds of Change: FAG Distributors Meet at Agra



FAG Distributors Meet - Ambitious Goals outlined

"We not only want to grow faster but we also want to be the most competent value provider to our customer with the best distribution system" this quote by Mr. D. Jagannath (Managing Director, FAG India) at the Distributors Meet was a summary to the events in Agra.

Solutions for the Trends of Tomorrow



In January '06 INA, LuK and FAG participated in the Auto Expo show in New Delhi, considered to be the most important and the largest exhibition for the automotive industry in Asia.

Under the roof of Schaeffler Group Automotive, the companies of Schaeffler Group presented themselves as a powerful unit ready to offer innovative system solutions and new technologies. Specialists from all over the world visited the Schaeffler Group Automotive booth during all the six days of Auto Expo Show.

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		<i>Alternate to F. Huber</i> Sampath Kumar
		<i>Alternate to H.-J. Goslar</i> Yezad S. Kapadia
		<i>Alternate to A. Hammer</i> Kamlesh C. Tapadar
		Bankers Union Bank of India State Bank of India ICICI Bank Limited Deutsche Bank
		Auditors Deloitte Haskins & Sells
		Collaborators Schaeffler Group, Germany
		Head Office & Works Maneja, Vadodara - 390 013
		Sales Offices Bangalore, Chennai, Kolkata, Mumbai, New Delhi, Pune
Registered Office : Nariman Bhavan, 8th Floor 227, Backbay Reclamation Nariman Point Mumbai - 400 021		

FAG Bearings India Limited**Notice to Members**

Notice is hereby given that the Forty-Third Annual General Meeting of FAG BEARINGS INDIA LIMITED will be held on Thursday, April 20, 2006 at 3.00 p.m. at KAMALNAYAN BAJAJ HALL, Ground Floor, Bajaj Bhawan, Jamnalal Bajaj Marg, 226, Nariman Point, Mumbai-400 021 to transact the following business:

ORDINARY BUSINESS

1. To receive, consider and adopt the Balance Sheet as at December 31, 2005 and the Profit and Loss Account for the year ended on that date and reports of the Auditors and Board of Directors thereon.
2. To declare dividend for the year ended December 31, 2005.
3. To appoint a Director in place of Mr. A. P. Gandhi who retires by rotation, and being eligible offers himself for reappointment.
4. To appoint a Director in place of Dr. V. Sagar who retires by rotation, and being eligible offers himself for reappointment.
5. To appoint Auditors and to fix their remuneration.

SPECIAL BUSINESS

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

"RESOLVED THAT Mr. D. Jagannath be and is hereby re-appointed as the Managing Director of the Company for a period of five years beginning from January 1, 2006 subject to the approval of the shareholders of the Company."

"RESOLVED THAT pursuant to Sections 198, 269, 309 and 311 and Schedule XIII of the Companies Act, 1956 as amended (hereinafter referred to as the Act) and other applicable provisions, of the Act, approval of the Company be and is hereby accorded to the appointment of Mr. D. Jagannath as Managing Director of the Company (hereinafter referred as the Managing Director) as a non-rotational Director for a period of five years with effect from January 1, 2006. His remuneration for the period January 1, 2006 to December 31, 2006 shall be as follows:

- A. **Salary** : 3.400 Million INR
- B. **Commission** : 25% of salary, 0.850 Million INR
- C. **Housing** :

The Managing Director shall be provided furnished residential accommodation or rent/allowance in lieu thereof (upto 60% of salary) and furniture and/or reimbursement for refurbishing of furniture of the value of Rs.5 lacs (Rupees five lacs).

- D. **Performance Bonus**

Performance bonus not exceeding 33% of the Managing Director's salary as may be decided by the Board of Directors and this shall be in addition to the limits of remuneration stated above.

- E. **Perquisites, Allowances and Reimbursements**

- i) In addition to the above, the Managing Director shall be entitled to perquisites, allowances and reimbursements, as per the rules of the Company, the aggregate of which will not exceed 1.133 Million INR per annum. These may include mediclaim insurance, personal accident insurance, leave travel allowance for self and family, education allowance, personal allowance, reimbursement of medical expenses incurred in India/abroad (for self, wife and dependent children subject to exchange control regulations) and club fees.
- ii) For the purpose of calculating the ceiling stated in E(i) above, the perquisites shall be evaluated as per the Income Tax Rules, wherever applicable. In the absence of any such rule, perquisites shall be evaluated at actual cost.

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- iii) Use of Company's car for official duties and telephone at residence (including cost of local calls and long distance official calls) shall not be included for the purpose of computation of ceiling stated in E(i) above.
- iv) Company's contribution to Provident Fund and Superannuation Fund to the extent these singly or together, are not taxable under the Income Tax Act, provision/payment of gratuity, encashment of leave, long service reward and retirement gift as per the rules of the Company shall not be included for the purpose of computation of ceiling stated in E(i) above.

"RESOLVED FURTHER THAT pursuant to Sections 198, 269, 309 and 311 and Schedule XIII of the Act and other applicable provisions of the Act, the Board be and is hereby authorized to grant increase/s by way of annual increment/s as it may think fit for the period commencing 2007 and upto and including 2010 within the overall remuneration limit of the Managing Director which is as follows:

- A. **Salary** : 4.500 Million INR per annum
- B. **Commission** : 25% of salary (1.125 Million INR per annum)
- C. **Housing** :

The Managing Director shall be provided furnished residential accommodation or rent/allowance in lieu thereof (upto 60% of salary) and furniture and/or reimbursement for refurbishing of furniture of the value of Rs.5 lacs (Rupees five lacs).

- D. **Performance Bonus**

Performance bonus not exceeding 33% of the Managing Director's salary (i.e. 1.485 Million INR per annum) as may be decided by the Board of Directors.

- E. **Perquisites, Allowances and Reimbursements**

- i) In addition to the above, the Managing Director shall be entitled to perquisites, allowances and reimbursements, as per the rules of the Company, the aggregate of which will not exceed 1.500 Million INR per annum. These may include mediclaim insurance, personal accident insurance, leave travel allowance for self and family, education allowance, personal allowance, reimbursement of medical expenses incurred in India/abroad (for self, wife and dependent children subject to exchange control regulations) and club fees.
- ii) For the purpose of calculating the ceiling stated in E(i) above, the perquisites shall be evaluated as per the Income Tax Rules, wherever applicable. In the absence of any such rule, perquisites shall be evaluated at actual cost.
- iii) Use of Company's car for official duties and telephone at residence (including cost of local calls and long distance official calls) shall not be included for the purpose of computation of ceiling stated in E(i) above.
- iv) Company's contribution to Provident Fund and Superannuation Fund to the extent these singly or together, are not taxable under the Income Tax Act, provision/payment of gratuity, encashment of leave, long service reward and retirement gift as per the rules of the Company shall not be included for the purpose of computation of ceiling stated in E(i) above.

"RESOLVED FURTHER THAT subject to the approval of the Central Government, if required, the salary, commission, housing, perquisites, allowances and reimbursements and performance bonus set out above be paid or granted to the Managing Director as minimum remuneration notwithstanding the provisions of Part II Section II of Schedule XIII of the Act, for any financial year during the tenure of Mr. Jagannath, when the Company has no profit or inadequate profit."

"RESOLVED FURTHER THAT if in any financial year, when the Company has no profit or inadequate profit, the Managing Director shall also be eligible to the following which shall not be included in the computation of the ceiling on remuneration specified above.

- a) Contribution to the Provident Fund and Superannuation Fund to the extent these, singly or together, are not taxable under the Income-Tax Act, 1961,

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- b) Gratuity payable at the rate not exceeding half a month's salary for each completed year of service and
 - c) Encashment of leave at the end of the tenure.
7. To consider and if thought fit, to pass with or without modification, the following resolution as an Ordinary Resolution:

"RESOLVED THAT in accordance with the applicable provisions of the Companies Act, 1956 and in pursuance of the revised Clause 49 of the Listing Agreement or any amendment or re-enactment thereof, consent of the Company be and is hereby accorded for payment of fees/compensation to Non Executive Directors of the Company including Independent Directors as approved by the Board of Directors of the Company from time to time subject to the maximum limit prescribed under the Companies Act, 1956 or SEBI or any other Statutory/Regulatory Authority."

Registered Office:

Nariman Bhavan, 8th Floor,
227, Backbay Reclamation,
Nariman Point,
MUMBAI-400 021

By Order of the Board

S.C. Patel
Chief Financial Officer

Date: February 16, 2006

NOTES:

1. A MEMBER ENTITLED TO ATTEND AND VOTE IS ENTITLED TO APPOINT A PROXY TO ATTEND AND VOTE INSTEAD OF HIMSELF AND THE PROXY NEED NOT BE A MEMBER.
2. The instrument of proxy, duly completed, should be lodged at the Registered Office of the Company not less than forty-eight hours before the commencement of the Annual General Meeting.
3. The Company has notified closure of Register of Members and the Transfer Books from April 1, 2006 to April 5, 2006 (both days inclusive) to determine entitlement of dividend on equity shares. Dividend will be paid to those shareholders whose names appear on the Register of members of the Company as at the end of business hours on March 31, 2006. The dividend will be paid in the last week of April, 2006, after approval by members at the General Meeting. In respect of shares held in electronic form (demat shares), the dividend will be paid on the basis of beneficial ownership as per the details furnished by the Depositories for this purpose.
4.
 - a) Shareholders who have not encashed the dividend warrants for the years 1998, 1999, 2000, 2001, 2002, 2003 or 2004 are requested to claim the amount from the Company immediately.
 - b) Unclaimed dividends for 1994-95 and earlier years were deposited in time by the Company with General Revenue Account of the Central Government and shareholders may claim the same from the Registrar of Companies, Mumbai- 400 033.
 - c) Unclaimed dividends for the year 1995-96, 1996-97 and 1997-98 were transferred to the Investor Education and Protection Fund in time, pursuant to the Section 205A read with 205C of the Companies Act, 1956.
5. Electronic Clearing Service (ECS) has been permitted by Reserve Bank of India in many cities. The Company is ready to offer this service to the shareholders. Shareholders may fill up the option Form and send it to the Registrars by April 7, 2006.

Annexure to Notice

Explanatory statement under Section 173 of the Companies Act, 1956 relating to the Special Business mentioned in the notice convening the Annual General Meeting.

Item No.6

The Board of Directors of the Company at its Meeting held on October 20, 2005, approved the re-appointment of Mr. D. Jagannath as the Managing Director with effect from January 1, 2006 for five years and also approved the draft agreement setting out the terms and conditions including the remuneration payable to him.

A new agreement will be entered into between the Company and Mr. Jagannath with effect from January 1, 2006 as per the draft.

Mr. D. Jagannath is a Mechanical Engineer and MBA and has had experience at very senior level in other Companies as well as in FAG India from October, 1998.

The Directors considered that his services would be useful to the Company and that it was in the interest of the Company that Mr. D. Jagannath be re-appointed as the Managing Director.

Mr. Jagannath will be a non-rotational Director as per the Articles of Association.

Mr. Jagannath is not holding any equity shares in the Company.

The material terms and conditions of the draft agreement including remuneration are as follows:

A. DESIGNATION

Mr. D. Jagannath, Managing Director.

B. DURATION

Five years from January 1, 2006, subject to earlier termination by either party by six months prior notice or basic salary in lieu thereof, provided that the Company shall be entitled, after having given notice of termination, to release Mr. Jagannath from his duties during the period of notice of termination, during which period he shall continue to receive his basic salary.

C. DUTIES

Mr. D. Jagannath shall devote the whole of his time and attention to the business of the Company and perform such duties and exercise such powers as may be assigned to or vested in him by the Board of Directors from time to time.

D. REMUNERATION AND PERQUISITES

i) Salary

3.400 Million INR from January 1, 2006 to December 31, 2006. The Board is authorized to grant increase by way of annual increment as it may think fit within the overall limit of 4.500 Million INR per annum for the period upto and including 2010.

ii) Commission

25% of the Salary - 0.850 Million INR for the year 2006 within the maximum of 1.125 Million INR per annum for the period upto and including 2010.

iii) Furnished residential accommodation or rent/allowance in lieu thereof (upto 60% of salary) and furniture and/or reimbursement for refurbishing of furniture of the value of 0.5 Million INR.

iv) Performance Bonus not exceeding 33% of his salary within the maximum of 1.485 Million INR per annum for the period upto and including 2010 as may be decided by the Board of Directors.

v) Certain perquisites, allowances and reimbursements upto a limit of 1.133 Million INR per annum for the year 2006 within the maximum of 1.500 Million INR per annum for the period upto and including 2010.

vi) Provision for use of Company's car for official duties and telephone at residence (including cost of local calls and long distance official calls) is not included in the limits. Use of Company's car for personal purposes and long distance personal calls shall be recovered.

vii) Provident fund and superannuation fund to the extent these, singly or together, are not taxable under the Income-Tax Act, 1961, provision/payment of gratuity and encashment of leave, long service reward and retirement gift as per the rules of the Company are not included in the limits.

E. MINIMUM REMUNERATION

If in any financial year the Company has no profit or inadequate profit, the Company may, subject to the approval of Central Government, pay the salary, commission and perquisites set out above to Mr. D. Jagannath as minimum remuneration notwithstanding the provisions of Section II or Part II of Schedule XIII of the Act.

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F. OTHER TERMS AND CONDITIONS

- i) The Managing Director shall be entitled to Annual Leave as per the rules of the Company. He shall also be entitled to avail sick leave upto one month. At the end of the year, he shall be further entitled to encashment of any earned leave not availed of by him at the rate of the last drawn salary.
- ii) The Managing Director shall be entitled to the reimbursement of all actual expenses, including travelling and out of pocket expenses incurred in course of the Company's business in accordance with the rules of the Company.
- iii) As per the Gratuity Act, the Managing Director shall be entitled to 15 days' salary for every year of service as gratuity on ending services with the Company. This amount is not payable to him during his service period.
- iv) The Managing Director shall not be paid any sitting fees for attending the meeting of the Board of Directors or a Committee thereof.
- v) *In case of death of the Managing Director during the course of his employment, the Company will pay to his heirs, the salary and other emoluments payable for the then current month.*
- vi) The Managing Director shall not, without the consent of the Board of the Company, during the continuance of his employment and for a period of 6 (six) months thereafter be directly or indirectly employed, engaged, concerned or interested in any trade, profession or business which is wholly or partly in competition with any business carried on by the Company by itself or in partnership, common ownership or as a joint venture with any third party.
- vii) The Managing Director shall devote the whole of his time and attention to the affairs of the Company and shall not, without its express consent in writing, engage in any business, profession or occupation (whether or not competing with its business) or become a director, consultant, partner or owner thereof.
- viii) The Managing Director shall well and faithfully serve the Company and use his best endeavours to promote the interests thereof. He shall not, while an employee thereof or thereafter, directly or indirectly, divulge any information concerning affairs, or any information of whatever nature which he shall have acquired during his employment, to anyone or to use it for any purpose except performance of his duties.

The above may be treated as an abstract under Section 302 (2) and (7) of the Companies Act, 1956.

A print of the Memorandum and Articles of Association and draft of the Agreement referred to in the Item No.6 to be entered into between the Company on the one part and Mr. D. Jagannath on the other part is open for inspection by the members at the Registered Office of the Company on any working day except Saturdays between 10.00 a.m. and 12.00 noon till the Annual General Meeting.

The re-appointment and remuneration payable to Mr. D. Jagannath is required to be approved by the shareholders in a General Meeting and accordingly this resolution is being placed before the members.

The Board of Directors recommends the resolution for acceptance by the shareholders.

Except Mr. D. Jagannath, Managing Director, no other Director of the Company is in any way concerned or interested in the aforesaid resolution.

Item No.7

Pursuant to revised Clause 49 of the Listing Agreement (effective from January 1, 2006) with Stock Exchanges, all fees/compensation, if any, paid to Independent Directors shall be fixed by the Board of Directors and shall require prior approval of shareholders in General Meeting. Two Independent Directors, Mr. A.P. Gandhi and Mr. B. Steinruecke, are to be paid professional consultative fees. The resolution at Item No.7 has been proposed accordingly so that Independent Directors are continued to be paid fees/compensation from January 2006 onwards for providing professional consultative services to the Company by them.

Mr. A.P. Gandhi and Mr. B. Steinruecke may be deemed to be concerned or interested in the resolution to the extent of the fees/compensation to be received by them in future.

The Board recommends the resolution for approval of the members.

Information pursuant to Clause 49 of the Listing Agreement.**Brief resume and shareholding of the directors who are being re-appointed.**

A brief resume of Mr. A.P. Gandhi and Dr. V. Sagar have been included in the Corporate Governance Report and they do not hold shares (own or held by / for other persons on beneficial basis) in the Company.

By Order of the Board

S.C. Patel
Chief Financial Officer

February 16, 2006

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Directors' Report

To the members of the Company,

Your Directors are pleased to present the Forty-Third Annual Report of the Company together with the audited financial statements of the Company for the year ended December 31, 2005.

1. FINANCIAL RESULTS	(Rs. in million)	
	Year 2005	Year 2004
Total Income (net)	4151.9	3304.4
Earning before depreciation, interest and tax (EBDIT)- Gross Operating Profit	854.5	601.1
Depreciation / Amortisation	168.3	169.9
Interest (net)	(1.3)	(2.8)
Profit for the year Before Tax (PBT)	687.5	434.0
Provision for Tax:		
(a) Current tax	190.0	127.5
(b) Deferred tax	(15.3)	(5.0)
(c) Fringe benefit tax	5.5	—
Profit for the year After Tax	507.3	311.5
Tax adjustments for earlier years (net)	(28.4)	(2.7)
Profit After Tax (PAT) - Net Profit	478.9	308.8
Balance brought forward	254.9	42.8
Profit available for appropriation	733.8	351.6
APPROPRIATIONS:		
Proposed dividend @ 35% (2004 : 35%)	58.2	58.2
Income tax on dividend (*including for an earlier year Rs.0.6 million)	8.7*	7.6
Transfer to General Reserve	47.9	30.9
Balance carried to Balance Sheet	619.0	254.9
	733.8	351.6

2. FINANCIAL AND OPERATIONAL PERFORMANCE

Your Company's sales have been consistently growing at a rate better than the growth of the bearing industry in India. For the year 2005, we have had a sales growth of 26% (2004: 21%). It was mainly in the imported bearings and Exports. OEM, Aftermarket and Railways recorded a reasonable growth. Exports of the Company were Rs.720.1 million (2004: Rs. 424.7 million).

Gross Operating Profit increased by 42.2%(2004: 19.7%). Profit Before Tax (PBT) was higher by 58.4% (2004: 40.1%) and Profit After Tax (PAT) was higher by 55.1% (2004: 33.3%).

The intense competitive pressure on prices and margins continued this year also. The Company continued its emphasis on the Aftermarket, imported bearings business and focussed product mix planning. The production of bearings went up by 18.5% over the last year (2004: 6.4%).

During the year the Company was audited for recertification as per ISO/TS 16949 by TÜV-Sued and assessed for compliance to the newly issued "Schaeffler Management Handbook" by Schaeffler Group. There was also a certification audit by M/s. INTECHNICA, Germany for assessing compliance to ISO 14001. All the audits were

FAG Bearings India Limited

successful. In addition, Company has implemented important environment and safety related measures like "Rain Water Harvesting", installation of "Leak Detection Systems" for hazardous gas storage, etc.

3. DIVIDEND

Your Directors recommend for your approval dividend for the year ended December 31, 2005 at the rate of Rs. 3.50 (2004: Rs. 3.50) per equity share amounting to Rs. 58.2 million (2004: Rs 58.2 million).

The Company will pay the income tax on dividend as per the provisions of the Income-Tax Act.

4. FINANCE

During the year, with tight controls on inventories and receivables and effective financial management, the capital employed was utilized judiciously. No long term loan was taken and credit facilities from the banks for working capital were sparingly utilized at the minimum cost which resulted into positive net interest income.

5. MANAGEMENT DISCUSSION AND ANALYSIS**(a) Industry structure and developments**

Indian Bearing market size is estimated at Rs. 32 billion. Approximately one third of this demand is met through imports and the balance is met through indigenous products. The sales of the organised bearing industry in India are estimated at Rs. 19.0 billion. The bearing industry experienced a significant growth of 16 to 17% during the year 2005. FAG India sales during the year 2005 shot up by 26% much higher than the growth in the industry. FAG India's share in the total market is around 14%.

The fortunes of the bearing industry in India are linked to the growth of the automotive industry. Based on declared sales 2005 was consecutively a good year for the automotive industry; the growth is estimated at over 14%. The Passenger Cars including Utility Vehicles sales were not too impressive registering a growth of approx. 6%. The overall growth in commercial vehicle industry is estimated to remain at a healthy 13%. The sales growth of two wheeler industries especially motorcycle, (which had been growing at a faster pace for the past few years) stabilized at around 15%. The tractor industry that faced one of the worst years in recent times is clearly on a revival path. The demand from Railways - another important market segment - remained flat during the year.

OEM industries, such as two-wheeler, are facing price competition in their own markets and continue to exert price pressure on the local bearing suppliers. In face of the accelerated demand from the automotive industry and other sectors like steel, power & heavy engineering due to general economic revival, the market environment is quite favorable for the bearing industry.

(b) Opportunities and threats

Indian economy seems to grow at 7 to 7.5% supported by a smart growth in manufacturing and services sectors. Demand outlook for the year 2006 is quite positive.

The industry has to be on guard against the menace of counterfeit (i.e. spurious bearings) which has increased over the last few years, in spite of serious efforts to check it.

(c) Segmentwise performance

The business of the Company falls under a single segment i.e. "Ball/Roller Bearings and related components" for the purpose of Accounting Standard AS-17.

(d) Outlook

The continued growth in the automobile sector and the improving mood in the manufacturing sector will provide growth to the bearing industry. Indications of continued rapid improvement in the economy are visible.

The Company expects to improve its position in the market by focussing on technologically advanced products and more profitable products/market segments.