

TIMKEN INDIA LIMITED

BOARD OF DIRECTORS

(As on 14th May, 2002)

MR G W ROBINSON	– Chairman
MR S K SINHA	– Dy. Managing Director
DR J J IRANI	
MR M SONDH	
DR T MUKHERJEE	
MR J T ELSASSER	
MR S A SCHERFF	
MR V K DASARI	
MR J S PATHAK	– Alternate to Mr S A Scherff
MR P S DASGUPTA	– Alternate to Mr V K Dasari

COMMITTEES OF THE BOARD

(As on 14th May, 2002)

AUDIT COMMITTEE

MR M SONDH	– Chairman
DR T MUKHERJEE	
MR J S PATHAK	

INVESTORS' RELATION & GRIEVANCE COMMITTEE

DR T MUKHERJEE	– Chairman
MR S K SINHA	
MR J S PATHAK	

REMUNERATION COMMITTEE

DR T MUKHERJEE	– Chairman
MR P S DASGUPTA	
MR J S PATHAK	

MANAGEMENT TEAM

MR S K SINHA	– Dy. Managing Director
MR A K SINHA	– Director (HR & Purchase)
MR K STHANPATI	– Director (Technology)
MR A K DAS	– Director (Manufacturing)
MR J P SINHA	– Director (Sales & Marketing)
MR S HAZRA	– Company Secretary

Auditors

Messrs. S R Batliboi & Co.
22, Camac Street
Block- C, 3rd Floor,
Kolkata-700 016

Registered Office

Bara, P. O. Agrico
Jamshedpur – 831 009
Ph. No. (0657) 210 293
Fax No. (0657) 210 117

NOTICE TO MEMBERS

Notice is hereby given that the Fifteenth Annual General Meeting of Timken India Limited will be held at Tata Steel Management Development Centre, Circuit House Area (East), XLRI Campus, Jamshedpur – 831 001 on Friday, July 19, 2002 at 12.00 Noon to transact the following business :

1. To receive and adopt the Profit and Loss Account for the year ended March 31, 2002 and the Balance Sheet as on that date and the Reports of the Directors and the Auditors.
2. To declare dividend on 9% Cumulative Redeemable Preference Shares.
3. To appoint a Director in place of Dr. T. Mukherjee who retires by rotation and being eligible offers himself for reappointment.
4. To appoint Auditors of the Company and to fix their remuneration.

SPECIAL BUSINESS

5. Appointment of Mr. Scott A. Scherff as a Director

To consider and, if thought fit, to pass with or without modification, the following resolution as an ordinary resolution :

“RESOLVED THAT Mr. Scott A. Scherff, in whose respect notice has been received from a member under the provisions of Section 257 of the Companies Act, 1956, be and is hereby appointed as a Director of the Company.”

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. Proxies, in order to be effective, must reach the Registered Office of the Company not less than 48 hours before the time for holding the Meeting.
2. An Explanatory Statement pursuant to Section 173(2) of the Companies Act, 1956 in respect of the Special Business under Item no. 5 is annexed hereto. Relevant details relating to reappointment/appointment of Directors, pursuant to clause 49 of the Listing Agreements are also annexed.
3. The Register of Members and the Share Transfer Books of the Company will remain closed from July 5, 2002 to July 19, 2002, both days inclusive.

Registered Office :
Bara, P. O. Agrico
Jamshedpur - 831 009
May 14, 2002

By Order of the Board

Soumitra Hazra
Company Secretary

ANNEXURE TO THE NOTICE – EXPLANATORY STATEMENT PURSUANT TO SECTION 173(2) OF THE COMPANIES ACT, 1956

Item No. 5

Mr. Scott A. Scherff, Director of the Company, was appointed on the Board with effect from the close of business on October 25, 1999 in the casual vacancy caused by the resignation of Mr. J. F. Toot, Jr. as per the provisions of Section 262 of the Companies Act, 1956. Mr. Scherff holds office upto the forthcoming Annual General Meeting when Mr. J. F. Toot, Jr. would have retired by rotation in the normal course.

The Company has received a notice from a member under the provisions of Section 257 of the Companies Act, 1956 proposing the candidature of Mr. Scott A. Scherff for the office of Director.

The proposal for the appointment of Mr. Scherff as Director on the Board, is therefore, placed before the members for approval as set out under Item No. 5 of the accompanying Notice. The Board recommends that the resolution under Item No. 5 as above be passed.

Memorandum of Interest

Except Mr. Scott A. Scherff, no other Director is concerned or interested in the resolution.

Registered Office :
Bara, P.O. Agrico
Jamshedpur - 831 009
May 14, 2002

By Order of the Board

Soumitra Hazra
Company Secretary

DETAILS OF DIRECTORS SEEKING REAPPOINTMENT/APPOINTMENT AT THE FORTHCOMING FIFTEENTH ANNUAL GENERAL MEETING

Name of Director	Dr. T. Mukherjee	Mr. Scott A. Scherff
Date of Birth	October 13, 1942	March 13, 1954
Date of Appointment	June 10, 1993	October 25, 1999
Expertise in specific functional areas	Metallurgy	Attorney / Legal Services
Qualifications	B. E.(Met.), M. Met. (Sheffield), Ph.D. (Sheffield)	Bachelor's degree in Economics, Juris Doctorate degree in Law (Ohio State University), attended the Stanford Executive Program
List of public companies in which outside Directorship held as on March 31, 2002	Tata Metaliks Ltd. Tata Yodogawa Ltd. Jamshedpur Injection Powder Ltd. TM International Logistics Ltd. Tata Refractories Ltd. The Tata Iron & Steel Co. Ltd. Tata Advanced Materials Ltd. Tata Ryerson Ltd. Tata Chemicals Ltd.	Newcastle Stables, Ltd. SCOCAT, Ltd. TTC Asia Ltd. (a Timken Company subsidiary) EDC, Inc. (a Timken Company subsidiary) The Timken Service & Sales Company (a Timken Company subsidiary) Timken Communications Company (a Timken Company subsidiary) Timken Ltd. (Hongkong) (a Timken Company subsidiary) OH&R Special Steels Company (a Timken Company subsidiary) Timken Polska SP.z.o.o (a Timken Company subsidiary)
Chairman / Member of the Committees of the Board of the Companies on which he is a Director as on March 31, 2002	Tata Yodogawa Ltd. Remuneration Committee – Member Share Transfer Committee – Member Tata Metaliks Ltd. Remuneration Committee – Chairman Tata Refractories Ltd. Remuneration Committee – Member Timken India Limited Audit Committee – Member Investors' Relation & Grievance Committee – Chairman Jamshedpur Injection Powder Ltd. Share Allotment Committee – Member	NIL

CHAIRMAN'S STATEMENT

Dear Shareholders,

In the introduction to our previous annual report, I had the pleasure to announce a significantly improved profit after tax (PAT). At the same time I had expressed concern about a slowdown in the domestic economy coupled with a global economic downturn.

Unfortunately in 2001-2002 both – the domestic and the global slowdown – have impacted Timken India's financial performance very negatively : The slowdown in the domestic economy resulted in further reduced sales prices, the international low demand has led to significantly reduced export demand for Timken India. The combination of reduced prices and reduced volumes has led to an overall very disappointing result : Compared to the previous year, net sales have come down by 12% and profits after tax were only 0.5% of net sales.

Nevertheless there have been several positive aspects in this past year :

- 1 We have been able to improve our market share in the domestic markets.
- 1 The Timken Company has shut down 2 plants (in the UK and in the USA) and a part of the products of those plants have been transferred permanently to Timken India. This will result in an important growth of the manufacturing volumes of our Jamshedpur Plant.
- 1 We have completed the ISO 14001 certification and renewed the important AAR certification (Association of American Railroads). This is a prerequisite to sell to the national rail companies of many markets like the USA, South Africa and several South American countries.

In March 2002, the company celebrated its 10th year of manufacturing. This anniversary will not

only be remembered as a moment of looking back on 10 years of history, but – more importantly – it represents the beginning of a new era for Timken India.

The following structural changes will ensure that we re-establish profitability and ensure the long term success of our company :

The Jamshedpur plant has become a part of Timken's global network of "focused factories". This means

- 1 Concentrate on few product lines.
- 1 Manufacture consolidated large volumes for the global demand of those products.
- 1 Use of state of the art processes that ensure global competitiveness.

In order to increase our presence in the local market we will rely on

- 1 Complementing our locally produced product lines with products sourced from other global Timken plants.
- 1 Introducing new products & services to our customers, much beyond our traditional offering of tapered roller bearings only.

Keep watching our future quarterly financial reports to see the impact of those measures.

Thank you,

Yours sincerely,



Gordon William Robinson
Chairman

June 12, 2002

DIRECTORS' REPORT

TO THE MEMBERS

The Directors have pleasure in presenting the Fifteenth Annual Report on the business and operations of the Company together with the Financial Results for the year ended 31st March, 2002.

FINANCIAL RESULTS

	Current year (Rs. in Lacs)	Previous year (Rs. in Lacs)
a) Gross Profit	1382	3582
b) Less : Depreciation	1225	1201
c) Earnings before Interest & Tax (EBIT)	157	2381
d) Less : Interest (Net)	64	228
e) Profit before Tax (PBT)	93	2153
f) Less : Taxes	13	152
g) Profit after Tax (PAT)	80	2001
h) Add : Profit / (Loss) brought forward from previous year	1853	110
i) Less : Depletion of reserve due to deferred tax accounting	621	Nil
j) Profit available for appropriation	1312	2111
k) Less : Proposed Dividend on Preference Shares	468	258
l) Balance carried forward	844	1853

Over the year, the Indian economy is passing through a difficult phase due to unfavourable domestic and global developments. The economic survey for 2001-02 shows, *inter alia*, a 3.3% rate of growth in industry in an overall growth of 5.4%. The international economy is also passing through a slow down.

Against this backdrop, the performance of the Company during the year under review looks far from

encouraging. Though the Company has been able to achieve a 48% reduction on gross interest charges but lack of export orders, reduced demand in the domestic market in all the segments and change in segment mix amongst Original Equipment Manufacturers (OEM), Aftermarket and export segments together with falling prices have resulted in not only a drop in the annual turnover of the Company by about 10% but also a significant drop in profit. Despite efforts to cut costs on all fronts, profit margin fell considerably.

The growth of the bearing industry is linked to the growth of major bearing application industry, i.e. automobile/engineering/railways. Increased activities in these sectors are expected to result in a growth in demand for bearings. A turnaround in the international markets can also boost the demand for bearings manufactured by the Company.

Consequent to a manufacturing transformation process currently in progress in The Timken Company, USA, the performance of some of the Timken plants worldwide is being evaluated and the manufacturing capacities of the non-performing plants are being migrated to other performing plants. As a result, some of the Part Numbers hitherto manufactured at other Timken locations are migrated to the Company. This will enable the Company to not only utilize its capacity but also may result in enhancement of capacity in near future. With this new opportunity, larger responsibilities will also come – meeting customers' expectations in terms of cost, quality and delivery and the Company's expectation in terms of profitability.

During the year under review, the Company has achieved re-certification under QS9000 and Association of American Railroads(AAR). Re-certification with AAR will enable the Company to dispatch A P Bearings to USA without any further testing.

DIVIDENDS

The Directors recommend payment of dividend on the paid-up 26,00,000 9% Cumulative Redeemable

Preference Shares of Rs. 100/- each aggregating to Rs.26 Crores for the years 1999-2000 and 2000-01 @ Rs.9/- per Share amounting to Rs. 4.68 Crores, such dividend being subject to deduction of income-tax at source at the applicable rates.

Payment of no other dividend is recommended.

FINANCE

No fresh long term loan was arranged during the year under review. With periodical repayment of existing long term borrowings, the outstanding loan amounts have been coming down, enabling the Company, to achieve a reduction of interest charges. During the year, the Company could achieve about 75% reduction on interest charges in respect of working capital finance. Overall, a reduction of 48% on account of gross interest charges has been registered by the Company during the year under review.

CHANGE IN ACCOUNTING YEAR

In order to align with the practice followed by The Timken Company, USA it has been decided to change the Accounting Year of the Company from the Financial Year - April to March to the Calendar Year – January to December. Accordingly, the next accounting period will cover nine months ending December 31, 2002. Thereafter, the Company will follow the Calendar Year as the Accounting Year. This will enable the Company to do away with unproductive reconciliation between two sets of numbers.

DIRECTORS

Dr. T. Mukherjee retires by rotation and being eligible offers himself for reappointment.

The term of Mr. Scott A. Scherff who was earlier appointed by the Board in the casual vacancy caused by the resignation of Mr. Joseph F. Toot, Jr. will expire at the forthcoming Annual General Meeting. Notice has been received from a member under the provisions of Section 257 of the Companies Act, 1956 signifying his intention to propose the name of Mr. Scott A. Scherff for appointment as a Director of the Company and it has been included in the Notice to the members convening the Fifteenth Annual General Meeting.

AUDITORS

Messrs. S. R. Batliboi & Co., Chartered Accountants, Auditors of the Company retire at the conclusion of the Fifteenth Annual General Meeting and offer themselves for reappointment. They have furnished to the Company a Certificate, regarding their eligibility for the reappointment.

Pursuant to the directions received from the Central Government, Mr. Prakash Kumar Varma has been appointed as the Cost Auditor to audit the Cost Accounts of the Company for the year ended 31st March, 2002 with Central Government's approval.

CORPORATE GOVERNANCE

Pursuant to clause 49 of the Listing Agreements with the Stock Exchanges, a Management Discussion and Analysis, Corporate Governance Report and Auditors' Certificate regarding compliance of conditions of corporate governance are made a part of the Annual Report.

INDUSTRIAL RELATIONS

The Company continued to maintain cordial relations with its Associates. The performance of the Company during the adverse situation prevailed last year could be made possible only with the positive response from all the Associates. The Directors express their appreciation for the very good co-operation received from all sections of the Associates of the Company.

SOCIAL RESPONSIBILITY

The Company has been actively participating in the promotion of social welfare activities of the community in the industrial town of Jamshedpur.

During the year, the Company has achieved ISO 14001 Certification.

STOCK EXCHANGE REQUIREMENTS

The Equity Shares of the Company are listed on Mumbai, Calcutta and Magadh Stock Exchanges.

The listing fees for the year 2002-2003 have been paid to the Stock Exchanges.

PARTICULARS OF EMPLOYEES

A Statement pursuant to Section 217 (2A) of the Companies Act, 1956 and the Rules framed thereunder is given in Annexure to the Directors' Report.

CONSERVATION OF ENERGY, TECHNOLOGY ABSORPTION & FOREIGN EXCHANGE

All the new machineries installed during the year are energy efficient. Significant cost saving on cutting fluids has also been achieved by machine modifications and use of longer lasting coolant. Regarding absorption of foreign technology, the process is ongoing in the areas of machining, heat treatment and finishing. The Company has now achieved full indigenisation of all components for Standard Bearings and substantial indigenisation for AP Bearings. It is the intention of the Company to proceed with the process of indigenisation further.

Other details are given in the Annexure, which also forms part of this report.

DIRECTORS' RESPONSIBILITY STATEMENT

Pursuant to the provisions of Section 217(2AA) of the Companies Act, 1956, the Directors give hereunder the Directors' Responsibility Statement relating to the Accounts of the Company :

- (1) the applicable Accounting Standards had been followed, in the preparation of the accompanying annual accounts;
- (2) the Directors had selected such accounting policies and applied them consistently and made judgments and estimates that are reasonable and prudent so as to give a true and fair view of the state of affairs of the Company at the end of the financial year on March 31, 2002 and of the Profit of the Company for the said period;
- (3) the Directors had taken proper and sufficient care for the maintenance of adequate accounting records in accordance with the provisions of the Companies Act, 1956 for safeguarding the assets of the Company and for preventing and detecting fraud and other irregularities; and
- (4) the Directors had prepared the annual accounts on a going concern basis.

For and on behalf of the Board of Directors

Mumbai
May 14, 2002

Gordon William Robinson
Chairman

ANNEXURE TO THE DIRECTORS' REPORT – INFORMATION UNDER SECTION 217(1)(e) OF THE COMPANIES ACT, 1956 READ WITH THE COMPANIES (DISCLOSURE OF PARTICULARS IN THE REPORT OF BOARD OF DIRECTORS RULES), 1988 AND FORMING PART OF DIRECTORS' REPORT

CONSERVATION OF ENERGY

- | | | |
|--|---|--|
| a) Energy conservation measures taken | } | New equipments / machines added during the year are energy efficient like earlier installations. (Also please see Directors' Report) |
| b) Additional Investments / proposal, if any | | |
| c) Impact of the measures at (a) and (b) above | | |

(A) Power and Fuel Consumption

1. Electricity

	<u>2001-2002</u>	<u>2000-2001</u>
(a) Purchased Units (KWH)	1,68,09,845	1,80,64,093
Total amount (Rs.)	7,95,77,170	10,03,23,195
Rate per Unit (Rs.) (all inclusive)	4.73	5.55
(b) Own generation		
(i) Through Diesel generator		
Units (KWH)		
Units per Ltr. of Diesel		
Oil-KWH/Ltr.		
Cost/Unit		
(ii) Through Steam Turbine / Generator		
Units		
Units per Ltr. of Fuel		
Oil/Gas		
Cost/Unit		
Coal (Specify quality and where used)	–	Not Used
Quantity		
Total Cost		
Average Cost		
Furnace Oil	–	Not Used
Quantity		
Total Cost		
Average Cost		
Others/Internal generation	–	Not Used
Quantity		
Total Cost		
Rate/Unit		

(B) Consumption per unit of production**Products**

Standard Bearings

Standard (if any)

Not set (Standard varies with product mix)

		<u>2001-2002</u>	<u>2000-2001</u>
Electricity (KWH / Equiv.Brg.)	:	6.39	6.41
Furnace Oil	:	Not Used	Not Used
Coal	:	Not Used	Not Used
Others	:	Nil	Nil

TECHNOLOGY ABSORPTION**(A) Research and Developments (R&D)**

1. Specific areas in which R&D carried out by the Company
2. Benefits derived as a result of the above R&D
3. Future plan of action
4. Expenditure on R&D

The benefits of Research facilities available with The Timken Company are extended to Timken India Limited on a continuing basis.

(B) Technology absorption, adaptation and innovation

1. Efforts in brief made towards technology absorption, adaptation and innovation
2. Benefits derived as a result of the above efforts, e.g. product improvement, cost reduction, product development, import substitution etc.
3. In case of imported technology (imported during the last five years reckoned from the beginning of the financial year) following information may be furnished :

Under the Collaboration Agreement, technology update is released from The Timken Company which is transferred to the shop floor instructions. Any improvement in the technology/process is part of this continuous update and this is being regularly monitored by The Timken Company personnel.

- | | | |
|--|---|--|
| a) Technology imported | : | Manufacture of Tapered Roller Bearings. |
| b) Year of import | : | 1991-92 onwards. |
| c) Has technology been fully absorbed ? | : | It is being gradually absorbed. |
| d) If not fully absorbed, areas where this has not taken place, reasons therefor and future plans for action | : | Ongoing in the areas of Machining, heat treatment and finishing. To make further improvements in the manufacturing process, product quality and production output. |

FOREIGN EXCHANGE EARNINGS AND OUTGO (RS./LAKHS) :

	<u>2001-2002</u>	<u>2000-2001</u>
i) Foreign Exchange Earnings	2509.69	3173.23
ii) Foreign Exchange Outgo	2506.44	2537.54

For and on behalf of the Board of Directors

Mumbai
May 14, 2002

Gordon William Robinson
Chairman

ANNEXURE TO THE DIRECTORS' REPORT FOR THE YEAR ENDED 31ST MARCH 2002**STATEMENT OF PARTICULARS OF EMPLOYEES PURSUANT TO THE PROVISIONS OF SECTION 217 (2A) OF THE COMPANIES ACT, 1956, READ WITH THE COMPANIES (PARTICULARS OF EMPLOYEES) RULES, 1975**

Sl. No.	Name	Designation & Nature of Duty	Remuneration (Rs.)	Qualification	Age (Years)	Experience (Years)	Date of Commencement of Employment	Particulars of Last Employment (Last Post Held, Employer, Period of Employment)
1.	DeVirgilio C. J.	Managing Director	2,57,328*	B.A., M.B.A. Juris Doctorate	49	28	08.04.2000	Managing Director, Central Europe, The Timken Company, 27 Years
2.	Happach Mathew W.	Director (Sales & Marketing)	16,38,673*	B.E.,M.B.A.	38	15	01.05.99	District Manager, The Timken Co.,USA, 12 Years
3.	Sinha S. K.	Dy. Managing Director	12,07,166	B.Com. (Hons.), A.I.C.W.A.	51	30	01.09.95	D.M. (Accounts), Tisco (Bearings Division) 16 Years

* Earnings for part of the year

- Notes :** (1) Gross remuneration comprises Salary, Allowances and Taxable Value of Perquisites and in applicable cases, Company's contribution to Provident and Superannuation Fund but excludes contribution to Gratuity Fund on the basis of actuarial valuation.
- (2) The nature of employment in all cases is contractual.
- (3) None of the employees mentioned above is a relative of any Director of the Company.

For and on behalf of the Board of Directors

Mumbai
May 14, 2002

Gordon William Robinson
Chairman