

TIMKEN

TWENTIETH ANNUAL REPORT 2006

TIMKEN INDIA LIMITED

TIMKEN INDIA LIMITED

CONTENTS

	Page
Notice	3
Statement from Chairman & Managing Director	4
Directors' Report	5-6
Annexure to Directors' Report	7-8
Management Discussion and Analysis	9-10
Auditors' Report	11-13
Balance Sheet	14
Profit & Loss Account	15
Schedules 1 to 18	16-31
Balance Sheet Abstract	32
Cash Flow Statement	33
Corporate Governance Report	34-39
Auditor's Certificate	40
Five years at a Glance	41
Graphs	42

Members are requested to please note that with effect from March 15, 2007, C B Management Services (P) Limited has been appointed as the Registrars & Share Transfer Agents of the Company. Any query relating to your shareholding may also be forwarded to : C B Management Services (P) Ltd, P-22, Bondel Road, Kolkata - 700 019.

TIMKEN INDIA LIMITED

BOARD OF DIRECTORS

MR G W ROBINSON	– Chairman & Managing Director
MR S K SINHA	– Dy. Managing Director
MR M J HILL	
MR N MAHANTY	
MR J S PATHAK	
MR P S DASGUPTA	
MS SUNITHA NARAHARI	– Alternate to Mr M J Hill

COMMITTEES OF THE BOARD

AUDIT COMMITTEE

MR P S DASGUPTA – Chairman
MR N MAHANTY
MR J S PATHAK
MR S K SINHA

REMUNERATION COMMITTEE

MR N MAHANTY – Chairman
MR P S DASGUPTA
MR J S PATHAK

INVESTORS GRIEVANCE COMMITTEE

MR N MAHANTY – Chairman
MR S K SINHA
MR J S PATHAK

Auditors

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

Registered Office

Bara, P. O. Agrico
Jamshedpur – 831 009
Ph. No. (0657) 2152 500
Fax No. (0657) 2210 117

NOTICE

Notice is hereby given that the Twentieth Annual General Meeting of Timken India Limited will be held at Center for Excellence, Circuit House Area, Jamshedpur – 831 001 on Friday, April 27, 2007 at 3.00 pm to transact the following business:

1. To receive and adopt the Profit and Loss Account for the year ended December 31, 2006 and the Balance Sheet as on that date and the reports of the Directors and the Auditors.
2. To elect a Director in place of Mr. Michael J Hill who retires by rotation and being eligible offers himself for reappointment.
3. To appoint Auditors of the Company and to fix their remuneration.

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. The Register of Members and the share transfer books of the Company would remain closed from April 13, 2007 to April 27, 2007, both days inclusive.

By Order of the Board

Registered Office :
Bara, P.O. Agrico
Jamshedpur – 831 009
February 9, 2007

Soumitra Hazra
Company Secretary
& Chief – Compliance

APPLICABLE DETAILS OF DIRECTOR IN TERMS OF CLAUSE 49 OF THE LISTING AGREEMENT	
Name of Director	Mr. Michael J. Hill
Date of Birth	October 9, 1950
Date of Appointment	April 23, 2005
Expertise in specific functional areas	<ul style="list-style-type: none"> ● Global Manufacturing ● Supply Chain Management
Qualifications	<ul style="list-style-type: none"> ● BSCE ● MSCE ● Licensed Profession Engineer
List of public companies in which outside Directorship held as on December 31, 2006	<ul style="list-style-type: none"> ● Stark State College of Technology ● Timken Wuxi Power Transmission Company Limited
Chairman / Member of the Committees of the Board of the Companies on which he is a Director as on December 31, 2006	—
Shareholding in the Company	—

STATEMENT FROM CHAIRMAN & MANAGING DIRECTOR

Dear Shareholders,

The year 2006 has been a fairly mixed year for Timken India.

During the year we introduced a whole new range of products for the Industrial and Automotive markets, and have made breakthroughs in several tough, but very promising market segments.

The India market remains strong, however inflationary conditions continue to put pressure on our margins. Faced with strong resistance from our customers to increasing prices, we have used this as an opportunity to leverage our strengths in using Lean6Sigma methods to improve efficiencies within our manufacturing & supply chain processes.

With India increasingly integrating into the global economy, your company saw a decline in exports, due to a slow down in the US auto market in the second half of the year. However, with our flexible manufacturing systems, we were able to balance the drop in exports through an increase in sales in the Indian market. We have seen demand for our products increase and we have made serious efforts to meet our customer's needs – both on the Manufacturing and the Sales & Marketing front.

During the year, we have had a strategic review of our operations and product portfolio and your company's management has looked at various growth opportunities with Timken's expanded product range.

In line with our stated aim to grow aggressively in India, we continue to pursue both organic & inorganic avenues.

I am happy to report that your company is in good financial health and is poised to take on greater investments in the Jamshedpur manufacturing facility, expand its sales network in the country and also look at increasing shareholder value.

I am confident that the continuing boom in the infrastructure sector across many economies in Asia creates an increasing demand for your company's products & services – we see that happening in India too and your company is poised to take advantage of this enormous opportunity.

With several Asian economies, led by India & China, powering global growth in many sectors, The Timken Company has also started focusing strongly on increasing its manufacturing and sales footprint across the region. For the first time in the history of the Timken Company, we now have 3 manufacturing facilities under construction in the region – two in China and one in India.

The Timken Company has chosen to invest in a new manufacturing facility in Chennai. This is not only important

from a global perspective, but will provide your company with significant opportunities to supply components to the new company.

We continue to leverage the engineering & design skills of Timken Engineering and Research – India, our global engineering centre in Bangalore, to forge stronger relationships with our customers, by offering them support that goes beyond products.

The success of our "MillTech" operations - our on-site maintenance service for steel mills – is very heartening and we continue to increase our services business as this business model stabilises and grows.

In order to keep pace with the growth of the Indian economy and also to offer globally benchmarked products and services to our customers, we continue to become more customer focused, introducing newer products and services and strive to differentiate ourselves from the competition.

To improve the efficiency of our distribution network, we have been working to improve your company's systems and integrate with the new supply chain mechanism that is being planned for the major global markets of the Timken Company.

We continue in our efforts to help our customers improve their products and performance by applying our knowledge of friction management and power transmission to deliver unparalleled value and innovation to them.

Our standing as a global & reliable provider of Friction Management Solutions and our expanded product range will help us meet and exceed our customers' demands.

With the Indian economy continuing to grow at an extremely fast pace, the year 2007 will see your company strategically positioned to take advantage of the opportunities.

Your company's management is confident that with the support of all our Associates, Channel Partners and Suppliers, and your patronage, we will be able to build on our successes and improve your company's profitability and provide enhanced value to our customers and shareholders.

Thanking you,

Yours sincerely,



Gordon William Robinson
Chairman & Managing Director

Place : Bangalore
Date : March 26, 2007

DIRECTORS' REPORT

TO THE MEMBERS

The Directors have pleasure in presenting the Twentieth Annual Report on the business and operations of the Company together with the Financial Results for the year ended December 31, 2006.

FINANCIAL RESULTS

	Year ended December 31, 2006 (Rs/Lakhs)	Year ended December 31, 2005 (Rs/Lakhs)
a) Net Sales/Income	33874	30901
b) Total Expenditure	26889	24644
c) Gross Profit	6985	6257
d) Less: Depreciation	1003	876
e) Earnings before Interest, Tax & Prior period item	5982	5381
f) Less: Interest (Net)	107	95
g) Add: Income relating to prior period	—	9
h) Profit before Tax (PBT)	5875	5295
i) Less: Taxes	2062	1807
j) Profit after Tax (PAT)	3813	3488
k) Add: Profit brought forward from previous year	7863	4375
l) Profit available for appropriation	11676	7863
m) Balance carried forward	11676	7863

Overall Net Sales registered a 10% increase to Rs. 339 Crores compared to Rs. 309 Crores of 2005. Of this, domestic sales increased by 23% while export sales was marginally lower compared to last year. Slow down in the US auto market is mainly attributable to this marginally lower export sale.

Net Profit Before Tax at Rs. 59 Crores was 11% higher in comparison to 2005. Increase in Depreciation at Rs. 10 Crores compared to Rs. 9 Crores last year was primarily due to full year impact of capitalization of Cell No. 1 of DE Line. Interest Cost showed an increase of 12% compared to last year, despite a lower level of direct borrowings by the Company, primarily because of increased volume of business through Bank route.

The plant at Jamshedpur performed well during the year. There had been a 12% increase in the number of equivalent bearings produced from 5564100 nos. in 2005 to 6244536 bearings produced in 2006.

DIVIDEND

Your Directors are not recommending payment of any dividend on equity shares for 2006.

PROJECTS

In 2006, the Company undertook an expansion project of installing a large size cup line. This new line was installed and commercial production started on May 15, 2006. The actual investment for this project was around Rs. 4.50 Crores.

The progress for the other project to manufacture DE cones had been satisfactory. Second phase of this project to enhance capacity was installed and commissioned with effect from November 30, 2006. One more similar Cell would be installed by the end of 2007. The Company so far spent around Rs. 2.45 Crores for second phase.

FINANCE

Good management of working capital comprising Inventory and Receivables helped the Company in generating enough cash flow. Pending investment of such funds in growth, it was temporarily parked in short-term investments in various high-secured mutual funds. Such measures, though temporary, resulted in a significant addition to the bottom-line. The average number of days outstanding for Receivables showed a marginal improvement at the end of this year – compared to as on December 31, 2005. The level of external borrowings continued to remain low during this year also. No fresh long-term loan was taken by the Company. ICRA retained the A1+ rating to a Commercial Paper programme of the Company. This rating indicates highest safety.

LISTING / VOLUNTARY DELISTING OF EQUITY SHARES ON STOCK EXCHANGES

Applications for delisting of the Company's Equity Shares from Calcutta and Magadh Stock Exchanges are pending at the respective Stock Exchanges. The Equity Shares of the Company have been listed on National Stock Exchange, Mumbai effective February 6, 2007.

The listing of the Company's Equity Shares on Bombay Stock Exchange Limited however, continues.

The listing fees for the year 2006-07 have been paid to the Stock Exchanges.

DIRECTORS

Mr. Michael J Hill, a Director of the Company, is liable to retire by rotation at the forthcoming Annual General Meeting and being eligible, offers himself for reappointment at the said Annual General Meeting.

AUDITORS

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

Pursuant to the directions received from the Central Government, Mr. Prakash Kumar Varma has been reappointed as the Cost Auditor to audit the Cost Accounts of the Company for the year ended December 31, 2006.

CORPORATE GOVERNANCE

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

INDUSTRIAL RELATIONS

The relation between the Associates of the Company and the Management had always been good and remained so in 2006. The performance of the Company could not have been possible without the collective support and excellent performance of the Associates both in terms of operational parameters and also at the market place. The Directors express their appreciation for the wholehearted support 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.

PARTICULARS OF EMPLOYEES

Information in accordance with the provisions of Section 217(2A) of the Companies Act, 1956, read with the Companies (Particulars of Employees) Rules, 1975, as amended, regarding employees is given in Annexure B 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 and consumption of electricity has been achieved by machine modifications, energy audit and efficient coolant management. Regarding absorption of foreign technology, the process is ongoing in the areas of machining, heat treatment, finishing and tooling. 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 provision 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 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 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 safe guarding the assets of the Company and for preventing and detecting fraud and other irregularities; and
- (4) The Directors had prepared the accompanying annual Accounts on a going concern basis.

For and on behalf of the Board of Directors

Kolkata
February 9, 2007

Gordon William Robinson
Chairman & Managing Director

Declaration in terms of Clause 49 - Code of Conduct

This is to confirm that the Company has adopted 'Business Ethics Policy – Code of Conduct' for its employees including Chairman & Managing Director, Dy. Managing Director and other members of the Board of Directors. This code is posted on Company's website.

I confirm that the Company has received from the Senior Management Team of the Company and from the members of the Board of Directors a declaration of compliance with the code for 2006.

For the purpose of this declaration, Senior Management Team means members of Management one level below the Executive Directors as on 31 December 2006.

Date : February 9, 2007
Place : Kolkata

Gordon William Robinson
Chairman & Managing Director

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

A. CONSERVATION OF ENERGY

- (a) Energy conservation measures taken
- (b) Additional Investments / proposal, if any
- (c) Impact of the measures at (a) and (b) above

The Overall Plant power factor continued to improve in 2006 to 0.94. This has resulted in an approx saving of Rs. 8 lacs on Maximum Demand and a recurring saving of Rs. 10 lacs is expected to the Company. The Company plans to improve the power factor to 0.98 resulting in savings. Also there is plan to put Energy efficient Chilling unit and variable frequency drives in utility equipment to reduce the power consumption. One more Gas fired furnace was made operational, resulting in improved productivity by 50% at reduced energy cost.

New equipments / machines added during the year are energy efficient.

- (d) Total energy consumption and energy consumption per unit of production

As per details given below under Form A

B. TECHNOLOGY ABSORPTION

- (e) As per details given below under Form B.

C. FOREIGN EXCHANGE EARNINGS AND OUTGO

- (f) Activities relating to exports, initiatives taken to increase exports; development of new export markets for products and services; and export plans

During the period under review, exports were marginally lower compared to that of 2005 at Rs. 126 Crores. Slow down in US auto market is primarily responsible for this marginal decrease in exports. Some of the Part Numbers hitherto manufactured at other Timken locations worldwide have now moved to Company's Plant in Jamshedpur. The current indications about the export trend do not envisage a marked improvement in 2007.

- (g) Total foreign exchange used and earned (Rs./Lacs)

	2006	2005
i) Foreign Exchange Earnings	13009	14925
ii) Foreign Exchange Outgo	7278	4237

FORM A

Form for Disclosure of Particulars with respect to Conservation of Energy

A. Power and fuel consumption

1. Electricity

	2006	2005
(a) Purchased Units (KWH)	1,86,66,090	1,86,94,870
Total amount (Rs.)	6,44,15,788	6,90,16,132
Rate Per Unit (Rs.) (all inclusive)	3.45	3.69

(b) Own generation

- (i) Through diesel generator
 - Unit
 - Unit per ltr. of diesel oil
 - Cost / unit

Not used for operations. Only for emergency lighting and water requirements.

- (ii) Through steam turbine / generator
 - Units
 - Units per ltr. of fuel oil/gas
 - Cost / unit

There is no Steam Turbine / Generator.

- 2. Coal (specify quality and where used)
 - Quantity (tonnes)
 - Total Cost
 - Average rate

Not Used

3. Furnace Oil	Not Used
Quantity (k.ltrs.)	
Total amount	
Average rate	
4. Other/internal generation (please give details)	Not Used
Quantity	
Total Cost	
Rate / Unit	

B. Consumption per unit of production

	Standards (if any)	2006	2005
Products (with details) unit			
Standard Bearings	Not set (Standard varies with product mix)		
Electricity		2.99	3.36
Furnace oil		Not Used	Not Used
Coal (specify quality)		Not Used	Not Used
Others (specify)		Nil	Nil

FORM B**Form for Disclosure of Particulars with respect to Absorption****TECHNOLOGY ABSORPTION****(A) Research and Development (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:
 - a. Capital
 - b. Recurring
 - c. Total
 - d. Total R&D expenditure as a percentage of total turnover

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 5 years reckoned from the beginning of the financial year), following information may be furnished:
 - a) Technology imported
 - b) Year of import
 - c) Has technology been fully absorbed?
 - d) If not fully absorbed, areas where this has not taken place, reasons therefor and future plans of actions

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 of actions | : | Ongoing in the areas of Machining, heat treatment, finishing and tooling. To make further improvements in the manufacturing process, product quality and production output. |

For and on behalf of the Board of Directors

Kolkata
February 9, 2007

Gordon William Robinson
Chairman & Managing Director

MANAGEMENT DISCUSSION AND ANALYSIS

Industry Structure and Development

Bearing industry covers both Ball and Roller Bearings. Roller Bearings can further be divided into Tapered Roller, Spherical, Cylindrical Roller, Needle Roller and thrust bearings and other special application bearings. While some of the manufacturers cater to specialized applications, the rest are involved in manufacture of both Ball Bearings and Roller Bearings. Timken India Limited (TIL) specializes in the manufacture of Roller Bearings and also in a wide range of imported bearings of all kinds manufactured at Timken's various Plants worldwide.

The growth in bearing industry is directly related to the growth of industries having bearing applications like automotive, electrical applications, pumps, fans and heavy industrial machinery. High volume segments are catered primarily by domestic manufacturers. Heavy duty industrial applications in rolling stock, rolling mills, heavy earth moving equipments, cement mills and other heavy machinery are met from imports. The Jamshedpur plant is essentially catering to heavy automobiles and rail applications – both in domestic and export markets in TRB applications. It meets the requirements of industrial applications – steel, heavy machinery from imports from other Timken units.

Opportunities and Threats

As mentioned above, the growth of bearing industry is linked to the growth of the major bearing applications industry, i.e. the Automobiles/ Engineering/ Railways. Demand growth in bearings will largely depend on growth of the original equipment manufacturers (OEM) in the automobile industry, engineering segment and opportunities in the international markets. The demand for TIL's growth will heavily depend on the growth in served industrial and automotive business both in domestic and international markets.

New Bearings are also used for replacement of old, worn out bearings. The size of this market is dependent on equipment population, frequency of maintenance, etc.

Bearings as used in the engineering industry are large in size and are mostly catered through imports. The growth in demand for large industrial bearings will depend on the growth of Industrial and infrastructural activities. Liberalization of industrial policy, WTO driven reductions in duty structure, growth in demand in export markets, entry of multinationals and increasing demand for industrial products have resulted in an increase in demand for large bearings.

With the acquisition of Torrington, the product offering by Timken has significantly expanded. In addition to the offerings bearings of other types, seals, related parts, grease, lubricators, and Industrial bearing repair services, TIL has got access to the Torrington and Fafnir brand of products comprising needle, spherical, cylindrical bearings, machine tools, engine bearings and steering products and assemblies to name a few. TIL has launched a complete line of spherical roller bearings and accessories, Wide inner rings and an entire range of industrial

lubricants. This year also saw the launch of ball bearings and premium automotive grease for the aftermarket. These offerings are expected to improve down time and improve service life of bearings significantly. In addition, TIL has expanded the number of Timken Service Point launched last year.

Another major initiative was the launch of the needle bearings for the Indian automotive market. Timken added a number of OEM customers for this product line this year.

The units in the unorganized sector of the Bearing industry mainly cater to the low-tech applications and replacement market, which is price elastic. They are competitive compared to the manufacturers in the organized sector but offer inferior quality. Though they have got a strict regional presence, their impact in bearing industry cannot be ignored.

Segmentwise Performance

The Management reviewed the disclosure requirement of segmentwise reporting and is of the view that since the Company manufactures bearings and related components which is a single business segment in terms of AS-17, a separate disclosure on reporting by business segments is not required.

The geographical segments however, have been determined on the basis of location of major customers of the Company. During 2006, 63% of the Company's turnover was to customers located in India and the remaining 37% was to countries outside India. The shipments for exports were mainly to USA.

Outlook – Risks and Concern

TIL, being part of large multinational Timken Company enjoys several advantages which will become increasingly important in view of a globalizing Indian economy:

- The Timken Company's global reach and its strength in R&D makes TIL the supplier of choice of the many international companies operating in India (as compared to local domestic competitors). Second largest Tech Centre of The Timken Company is located in Bangalore to support design and application engineering.
- The possibility to export to other countries represents a good growth potential for TIL and provides a possibility to partially compensate variation in demand on the domestic Indian market.
- The Timken Company's recent acquisition of Torrington broadens the product range and increases sales opportunities in India.
- The gradual shift in the market for more services and the strength that Timken holds on its service business provides tremendous opportunity to grow.
- Demand for superior technology and the need for upgraded models in the automotive industry positions Timken as the preferred supplier of choice.