

**Bankers**

Central Bank of India  
Corporation Bank  
ICICI Bank Ltd.  
State Bank of India

**Auditors**

Kalyaniwalla & Mistry,  
Chartered Accountants

**Registrars & Transfer Agents**

TSR Darashaw Ltd.  
6-10, Haji Moosa Patrawala Ind.  
Estate,  
20, Dr. E. Moses Road,  
Mahalaxmi,  
Mumbai-400 011.  
Tel. No.: 022 - 6656 8484  
Fax No.: 022 - 6656 8494

**Registered Office**

(w.e.f. 6th November, 2006)  
Leela Business Park, 5th Level,  
Andheri-Kurla Road,  
Marol, Andheri – East,  
Mumbai-400 059.  
Tel. No. 022 - 4021 2121  
Fax. No. 022 - 4021 2102

**Factories**

1. Mora, Dist. Raigad, Maharashtra
2. Nagpur, Maharashtra
3. Bangalore, Karnataka
4. Tirupati, Andhra Pradesh

**DIRECTORS**

(As on 14th March, 2007)

**Mr. J. ASCHENBROICH**  
(Chairman)

**Mr. A. C. CHAKRABORTTI**  
(Vice-Chairman)

**Ms. M. A. CHUPIN**

**Mr. O. DUVAL**

**Mrs. M. S. MEHTA**

**Mr. J. H. MENENDEZ**

**Mr. P. MILLOT**

**Mr. B. S. RAUT**

**Mr. S. SALGAOCAR**

**Mr. P. SHAH**

**Mrs. D. S. VARIAVA**

**Mr. A. Y. MAHAJAN**  
(Managing Director)

**DIRECTOR EMERITUS**

**Mr. N. D. SIDHVA**

**MANAGEMENT COMMITTEE**

**Mr. V. Agarwal**  
(Abrasives)

**Mr. G. D'Cunha**  
(Human Resources)

**Mr. J. A. J. Pereira**  
(Finance & Corporate Services)

**Mr. K. K. Prasad**  
(Ceramics & Plastics)

**Mr. M. A. Puranik**  
(Corporate Finance & Taxation)

**Mr. M. Ramarathnam**  
(Projects & EHS)

**COMPANY SECRETARY**

**Mr. K. Visweswaran**  
(w.e.f. 7th June, 2006)

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## NOTICE

**NOTICE** is hereby given that the Fifty-seventh Annual General Meeting of the Members of Grindwell Norton Limited will be held on Monday, 23rd April, 2007, at 3.00 p.m. at Kohinoor Continental, Andheri-Kurla Road, Andheri – East, Mumbai-400 059, to transact the following business:

### ORDINARY BUSINESS

1. To receive, consider and adopt the Directors' Report, the Auditors' Report and the Audited Balance Sheet and Profit and Loss Account, together with Schedules, and Cash Flow Statement of the Company for the year ended 31st December, 2006.
2. To ratify the payment of interim dividend on equity shares.
3. To appoint a Director in place of Mr. A. C. Chakrabortti who retires by rotation and being eligible, offers himself for re-appointment.
4. To appoint a Director in place of Mrs. M. S. Mehta who retires by rotation and being eligible, offers herself for re-appointment.
5. To appoint a Director in place of Mr. B. S. Raut who retires by rotation and being eligible, offers himself for re-appointment.
6. To re-appoint M/s. Kalyaniwalla & Mistry, Chartered Accountants, who are eligible for re-appointment as the Auditors of the Company, to hold office from the conclusion of this Annual General Meeting until the conclusion of the next Annual General Meeting and to fix their remuneration.

### SPECIAL BUSINESS

7. Appointment of Mrs. D. S. Variava as Director.  
To appoint a Director in place of Mrs. D. S. Variava who holds office upto the date of this Annual General Meeting in terms of Section 260 of the Companies Act, 1956, read with Article 112 of the Articles of Association of the Company and being eligible, offers herself for appointment and in respect of whom the Company has received a notice in writing from a member proposing the candidature of Mrs. D. S. Variava for the office of a Director.
8. Appointment of Mr. J. Aschenbroich as Director.  
To appoint a Director in place of Mr. J. Aschenbroich who holds office upto the date of this Annual General Meeting in terms of Section 260 of the Companies Act, 1956, read with Article 112 of the Articles of Association of the Company and being eligible, offers himself for appointment and

in respect of whom the Company has received a notice in writing from a member proposing the candidature of Mr. J. Aschenbroich for the office of a Director.

9. Appointment of Mr. J. H. Menendez as Director.  
To appoint a Director in place of Mr. J. H. Menendez who holds office upto the date of this Annual General Meeting in terms of Section 260 of the Companies Act, 1956, read with Article 112 of the Articles of Association of the Company and being eligible, offers himself for appointment and in respect of whom the Company has received a notice in writing from a member proposing the candidature of Mr. J. H. Menendez for the office of a Director.
10. To consider and, if thought fit, to pass, with or without modification(s), the following resolution as a Special Resolution:  
"RESOLVED THAT in supercession of the Special Resolution passed by the Members of the Company at the Forty Sixth Annual General Meeting held on 25th July, 1996 authorising the Company to keep its Register and Index of Members, the Register and Index of Debenture holders, copies of all Annual Returns prepared under Sections 159 and 160 of the Companies Act, 1956, together with the copies of certificates and documents required to be annexed thereto under Sections 160 and 161 of the Companies Act, 1956, or any one or more of them required to be kept under Section 163 of the Companies Act, 1956, at a place other than the Registered Office of the Company and as required under the Companies Act, 1956, the Registrar of Companies, Maharashtra, having been given an advance copy of this proposed Special Resolution, approval of the Members be and is hereby accorded for keeping the aforesaid records at the Offices of TSR Darashaw Limited, Registrar and Transfer Agents, with immediate effect at:
  - (i) 6-10, 1st Floor, Haji Moosa Patrawala Ind. Estate, 20, Dr. E. Moses Road, Mahalaxmi, Mumbai-400 011; and/ or
  - (ii) Pooja Apartment, Ground floor, Near Vitrum Glass, Opp. HCC Ltd., L.B.S. Road, Vikhroli (W), Mumbai-400 079; and/or
  - (iii) 27 Acres, Kothari Compound, Near Tikujini Wadi, Chitalsar, Manpada, Thane (W)- 400 607; and/ or
  - (iv) Godown No. 4, 9 Acres, Kothari Compound, Near Tikujini Wadi, Chitalsar, Manpada, Thane (W) - 400 607.



FURTHER RESOLVED THAT the Board of Directors of the Company be and is hereby authorised to do all acts, deeds, matters and things as may be considered necessary or desirable to give effect to this Special Resolution.”

14th March, 2007

By Order of the Board

Registered Office:  
Leela Business Park,  
5th Level,  
Andheri-Kurla Road,  
Marol, Andheri – East,  
Mumbai-400 059

**K. VISWESWARAN**  
COMPANY SECRETARY

## NOTES :

- (a) **A MEMBER ENTITLED TO ATTEND AND VOTE AT THE MEETING IS ENTITLED TO APPOINT A PROXY TO ATTEND AND VOTE INSTEAD OF HIMSELF, AND A PROXY NEED NOT BE A MEMBER OF THE COMPANY.**
- (b) **PROXIES, IN ORDER TO BE EFFECTIVE, MUST BE RECEIVED AT THE REGISTERED OFFICE OF THE COMPANY NOT LESS THAN FORTY-EIGHT HOURS BEFORE THE COMMENCEMENT OF THE MEETING.**
- (c) The Register of Members and Share Transfer Books of the Company will be closed from Saturday, 24th March, 2007 to Monday, 26th March, 2007 (both days inclusive).
- (d) The relative Explanatory Statement pursuant to Section 173 of the Companies Act, 1956, in respect of the business under Item Nos. 7 to 10 is annexed hereto.
- (e) As per the amended provisions of the Companies Act, 1956, the dividend remaining unclaimed or unpaid for the financial year ended 31st March, 1999, had been transferred to the Investor Education and Protection Fund (Fund) of the Central Government on 12th September, 2006. The unpaid interim dividend declared during the financial year 1999-2000 will be due for transfer to the Fund on 21st April, 2007. The unpaid dividend for all the subsequent years will be transferred to the Fund, on expiry of seven years from their respective dates of transfer to the 'Unpaid Dividend Account'. Members who have not yet realized the interim dividend declared during the year 1999-2000 and all subsequent financial years, are once again requested to make their claims immediately to the Company or to the Company's Registrars & Transfer Agents – TSR Darashaw Ltd. (TSRDL).
- (f) The facility for making nomination is available to the Members in respect of the shares held by them.
- (g) All documents referred to in the Notice and Explanatory Statement are open for inspection to the members at the Registered Office of the Company between 11:00 a.m. and 1:00 p.m. on all working days upto the date of this Annual General Meeting.
- (h) (i) Copies of the Annual Report will not be distributed at the Annual General Meeting. You are therefore, requested to bring this copy of the Annual Report to the meeting.
- (ii) Members desirous of seeking any further information about the accounts and/or operations of the Company are requested to address their queries to the Company Secretary of the Company at least ten days in advance of the meeting, so that the information, to the extent practicable, can be made available at the meeting.
- (iii) Members holding shares in the same set of names under different Ledger Folios are requested to apply for consolidation of such folios along with relevant share certificates to TSRDL.
- (iv) Members are requested to immediately intimate the change, if any, in their registered address to TSRDL.

## ANNEXURE TO THE NOTICE

Notes on the Directors seeking appointment/re-appointment, as required under Clause 49 of the Listing Agreement, entered into with the Stock Exchanges.

### ITEM NO. 3

Mr. A. C. Chakrabortti is 76 years old. He is an FCA (Eng. & Wales), and an FCA of the Institute of Chartered Accountants of India. Mr. Chakrabortti had retired as a Senior Partner of M/s. S. R. Batliboi & Co. He has been a Director of your Company since 1983. Presently, he is the Vice-Chairman of the Board and the Chairman of Audit Committee of the Company. Mr. Chakrabortti serves on the Boards of several other companies. Mr. Chakrabortti does not hold any equity shares in Grindwell Norton Limited.

### ITEM NO. 4

Mrs. M. S. Mehta is 75 years old and is a daughter of one of the founders of the Company. She has experience in trade and business. She is a member of the Shareholders/ Investors Grievance Committee of the Company. Mrs. Mehta holds 6,43,040 equity shares in Grindwell Norton Limited.

### ITEM NO. 5

Mr. B. S. Raut is 57 years old. He is a member of the Institute of Chartered Accountants of India and practiced as a Chartered Accountant for over three decades during which period he was inter alia, the Founding Partner of M/s. BSR & Co. (formerly M/s. Bharat S. Raut & Co.) till his retirement. He currently practices as an Advocate. Mr. Raut is a member of the Audit Committee of the Company. He does not hold any equity shares in Grindwell Norton Limited.

### ITEM NO. 7

Mrs. D. S. Variava is 62 years old and has done her M.B.A. from IIM Ahmedabad. She is the Chairperson of Bharat Floorings & Tiles (Mumbai) Pvt. Ltd. and serves on the Boards of other companies. She is the Chairperson of Shareholders/Investors Grievance Committee of the Company. Mrs. Variava holds 7,17,716 equity shares in Grindwell Norton Limited.

### ITEM NO. 8

Mr. J. Aschenbroich, a French national, is 52 years old and has done his Masters from Ecole des Mines de Paris, France. He joined the Saint-Gobain group in 1988 and has gained rich experience in various fields. Currently, he is the President of the Flat Glass and the High Performance Materials sectors of Saint-Gobain and Senior Vice-President of Compagnie de Saint-Gobain (the ultimate holding Company of Grindwell Norton Limited) in charge of innovation and R & D. He is a Director on the Board of Saint-Gobain Glass India Limited. Mr. Aschenbroich does not hold any equity shares in Grindwell Norton Limited.

### ITEM NO. 9

Mr. J. H. Menendez, an American national, is 56 years old and has done his M.B.A. He joined the Saint-Gobain group in 1987 and has gained rich experience in various fields. Currently, he is the President of the Abrasives division of Compagnie de Saint-Gobain. Mr. Menendez does not hold any equity shares in Grindwell Norton Limited.



## EXPLANATORY STATEMENT

Explanatory Statement as required under Section 173 of the Companies Act, 1956 :

### ITEM NO. 7

Mrs. D. S. Variava was appointed as an Additional Director of the Company on 25th July, 2006. In terms of the provisions of Section 260 of the Companies Act, 1956, read with Article 112 of the Articles of Association of the Company, Mrs. Variava holds office upto the date of the forthcoming Annual General Meeting of the Company. Mrs. Variava's brief resume has been given at Item No. 7 in the Annexure to the notice.

Notice in writing u/s. 257 of the Companies Act, 1956 along with a deposit of Rs. 500/- has been received from a member of the Company signifying his intention of proposing Mrs. Variava as a candidate for the office of a Director.

Except Mrs. Variava and other Directors of the Indian Promoters group, no other Director is concerned or interested in this Resolution.

Your Directors recommend this Ordinary Resolution for your approval.

### ITEM NO. 8

Mr. J. Aschenbroich was appointed as an Additional Director of the Company on 13th December, 2006. In terms of the provisions of Section 260 of the Companies Act, 1956, read with Article 112 of the Articles of Association of the Company, Mr. Aschenbroich holds office upto the date of the forthcoming Annual General Meeting of the Company. Mr. Aschenbroich's brief resume has been given at Item No. 8 in the Annexure to the notice.

Notice in writing u/s. 257 of the Companies Act, 1956 along with a deposit of Rs. 500/- has been received from a member of the Company signifying his intention of proposing Mr. Aschenbroich as a candidate for the office of a Director.

Except Mr. Aschenbroich and other Nominee Directors of Compagnie de Saint-Gobain (CSG), no other Director is concerned or interested in this Resolution.

Your Directors recommend this Ordinary Resolution for your approval.

### ITEM NO. 9

Mr. J. H. Menendez was appointed as an Additional Director of the Company on 13th December, 2006. In terms of the provisions of Section 260 of the Companies Act, 1956, read with Article 112 of the Articles of Association of the Company, Mr. Menendez holds office upto the date of the forthcoming Annual General Meeting of the Company. Mr. Menendez's brief resume has been given at Item No. 9 in the Annexure to the notice.

Notice in writing u/s. 257 of the Companies Act, 1956 along with a deposit of Rs. 500/- has been received from a member of the Company signifying his intention of proposing Mr. Menendez as a candidate for the office of a Director.

Except Mr. Menendez and other Nominee Directors of CSG, no other Director is concerned or interested in this Resolution.

Your Directors recommend this Ordinary Resolution for your approval.

### ITEM NO. 10

Under Section 163 of the Companies Act, 1956, Register and Index of Members, the Register and Index of Debenture holders, copies of all Annual Returns prepared under Sections 159 and 160 of the Companies Act, 1956, together with the copies of certificates and documents required to be annexed thereto under Sections 160 and 161 of the Companies Act, 1956 or any one or more of them, which are required to be kept at the Registered Office of the Company may be kept at any other place, if such other place has been approved by a Special Resolution passed by the Company in General Meeting. Members had approved the keeping of documents and registers mentioned under Section 163 of the Companies Act, 1956 at the Offices of TSR Darashaw Limited, Registrar and Transfer Agents. Since the office of TSR Darashaw Limited has been shifted from Army & Navy Building, 148, M. G. Road Mumbai-400 001 to 6-10, 1st Floor, Haji Moosa Patrawala Ind. Estate, 20, Dr. E. Moses Road, Mahalaxmi, Mumbai-400 011, your approval is sought to shift the documents, registers and returns mentioned above at the offices of TSR Darashaw Limited, with immediate effect at (i) 6-10, 1st Floor, Haji Moosa Patrawala Ind. Estate, 20, Dr. E. Moses Road, Mahalaxmi, Mumbai-400 011; and/or (ii) Pooja Apartment, Ground floor, Near Vitrum Glass, Opp. HCC Ltd., L.B.S. Road, Vikhroli (W), Mumbai-400 079; and/or (iii) 27 Acres, Kothari Compound, Near Tikujini Wadi, Chitalsar, Manpada, Thane (W)-400 607; and/or (iv) Godown No. 4, 9 Acres, Kothari Compound, Near Tikujini Wadi, Chitalsar, Manpada, Thane (W)- 400 607.

None of the Directors of the Company is concerned or interested in this Resolution.

Your Directors recommend this Special Resolution for your approval.

14th March, 2007

By Order of the Board

Registered Office:  
Leela Business Park,  
5th Level,  
Andheri-Kurla Road,  
Marol, Andheri – East,  
Mumbai-400 059.

**K. VISWESWARAN**  
COMPANY SECRETARY

## DIRECTORS' REPORT

The Members,  
Grindwell Norton Limited

Your Directors present the Fifty-seventh Report of the Company along with the Audited Accounts for the year ended 31st December, 2006.

### Financial Highlights

	(Rs. Million)	
	2006	2005
<b>Sales</b>	<b>4212.9</b>	3604.9
<b>Operating Profit</b>	<b>686.5</b>	536.8
Interest	1.4	1.3
Profit before Tax	<b>685.1</b>	535.5
Provision for Tax	<b>224.9</b>	181.5
Profit after Tax	<b>460.2</b>	354.0
Surplus Brought forward	<b>100.0</b>	70.0
	<b>560.2</b>	424.0
<b>Appropriations:</b>		
Interim Dividend	<b>193.7</b>	-
Tax on Interim Dividend	<b>27.2</b>	-
Proposed Dividend	-	152.2
Tax on Proposed Dividend	-	21.6
General Reserve	<b>189.3</b>	150.2
Surplus carried to Balance Sheet	<b>150.0</b>	100.0
	<b>560.2</b>	424.0

### Responsibility Statement

Your Directors confirm that:

- (i) in the preparation of the annual accounts, the applicable accounting standards have been followed;
- (ii) appropriate accounting policies have been selected and applied consistently and judgements and estimates that are reasonable and prudent have been made so as to give a true and fair view of the state of affairs of the Company as at 31st December, 2006 and of the profit of the Company for that year;
- (iii) proper and sufficient care has been taken 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;
- (iv) the annual accounts have been prepared on a going concern basis.

### Operations

During the year under review your Company's sales recorded a growth of 17%. This performance is attributable to the sustained buoyancy in domestic demand, gains in market share in some segments and strong export growth. Higher volumes

and improvement in operating efficiencies have enabled the Company to record a growth of 28% in operating profits.

### Dividend

Considering the good results, the Directors, at the Board Meeting held on 8th March, 2007, declared an interim dividend of Rs. 3.50 per equity share (previous year Rs. 2.75 per equity share) for the year 2006. The dividend outgo (excluding tax on dividend) is Rs. 193.76 Million (previous year Rs. 152.24 Million).

### Forbes Asia-Pacific's top 200 Companies

Your Company's consistent performance over the last few years has won recognition. Each year the Forbes magazine compiles and publishes a "Best under a Billion" selection of companies that are listed on a Stock Exchange and have sales less than one billion dollars. The 30th October, 2006 issue of Forbes Asia carried a list of the 200 "Best under a Billion" companies in the Asia Pacific region. It is a matter of great pride that your Company was one of only 23 Indian Companies on this list.

### Sub-division, Bonus and Listing

During the year, your Company had sub-divided its Equity Shares from Rs. 10/- each to Rs. 5/- each. The record date for sub-division and issue of Bonus Shares was on 2nd June, 2006. On 5th June 2006, your Board of Directors allotted 2,76,80,000 Bonus Equity Shares of Rs. 5/- each in the ratio of 1:1. The Equity Shares of your Company have also been listed and traded on National Stock Exchange of India Limited effective 11th September, 2006.

### Change in Registered Office

The Registered Office of your Company has been shifted from Army & Navy Building, 148, M. G. Road, Mumbai-400 001 to Leela Business Park, 5th Level, Andheri-Kurla Road, Marol, Andheri-East, Mumbai-400 059, effective 6th November, 2006.

### Abrasives

Buoyant domestic and export demand resulted in higher volumes in Abrasives. Market share gains in certain segments also contributed to growth. Improved operating efficiencies, better product mix and price realization has resulted in higher operating margins. The acquisition of the Bonded Abrasives business of Orient Abrasives Ltd. was completed on 1st October, 2006.

### Ceramics & Plastics

The Silicon Carbide business continued to grow although capacity was a constraint. The operating margins were under pressure due to increased power cost. The "Wheeling Charges" matter is still pending before the Honourable Supreme Court.



While the Refractories business did not have a good year, the Performance Plastics business witnessed strong growth in sales and profits.

### Future Prospects

With continued strong growth of the economy, your Company's overall performance and operating results are expected to improve further.

### Environment, Energy Conservation, Technology Absorption, Foreign Exchange Earnings and Outgo

Your Company is committed to ensure a clean and green, pollution-free environment as well as healthier and safer work place at all plant locations and work sites. All the plants of your Company are certified under ISO 14001:2004 as well as OHSAS 18001:1999. These Certifications are in recognition of the sustained efforts of your Company in improving the Environment, Health and Safety at all its work sites.

As required by the Companies (Disclosure of Particulars in the Report of Board of Directors) Rules, 1988, the relevant information pertaining to conservation of energy, technology absorption and foreign exchange earnings and outgo as required in the prescribed format is annexed (Annexure A) and forms part of this Report.

### Fixed Deposits

At present your Company does not accept any fixed deposits.

### Employee Relations

Your Directors place on record their appreciation for the contribution made by all the employees in the progress of your Company. Employee Relations were generally cordial at all units of the Company. As at the year-end, there were 1389 employees.

### Acknowledgments

Your Directors take this opportunity to acknowledge with sincere gratitude the support of its esteemed customers, the strength it derives from its association with Compagnie de Saint-Gobain and a number of its subsidiaries (in particular, Saint-Gobain Abrasives Inc.), the continued support and co-operation from its Bankers and the loyalty of the large family of the Company's Dealers, Suppliers and valued Shareholders.

### Particulars of Employees

Information as per Section 217 (2A) of the Companies Act, 1956, read with the Companies (Particulars of Employees) Rules, 1975, is annexed (Annexure B) and forms part of this Report.

### Management Discussion & Analysis Report and Report on Corporate Governance

The Management Discussion and Analysis Report and Report on Corporate Governance along with a Certificate dated 14th

March, 2007, of the Auditors of your Company, regarding the compliance of the conditions of Corporate Governance as stipulated under Clause 49 of the Listing Agreement with the Stock Exchanges is annexed (Annexure C) and forms part of this Report.

### Directors

Mr. H. C. Patel resigned as a Director with effect from 25th July, 2006 after serving on your Company's Board for more than 43 years. Mr. Patel was the Managing Director between 1983 and 1991 and played a significant role in the development and growth of your Company. Mr. R. Caliarì (Chairman) and Mr. A. Denes resigned as Directors of the Company with effect from 13th December, 2006. Your Board of Directors places on record its appreciation for the valuable contribution made by all the outgoing Directors of the Company.

Mrs. D. S. Variava was appointed as an Additional Director with effect from 25th July, 2006. Mr. J. Aschenbroich and Mr. J. H. Menendez were appointed as Additional Directors with effect from 13th December, 2006. Mr. J. Aschenbroich has been appointed as the Chairman of the Board with effect from 14th March, 2007.

Mrs. D. S. Variava, Mr. J. Aschenbroich and Mr. J. H. Menendez hold office upto the date of the forthcoming 57th Annual General Meeting of the Company. As required under Section 257 of the Companies Act, 1956, the Company has received notice in writing from Members proposing the candidature of Mrs. D. S. Variava, Mr. J. Aschenbroich and Mr. J. H. Menendez as Directors of the Company.

In accordance with the requirements of the Companies Act, 1956 and Articles of Association of the Company, Mr. A. C. Chakrabortti, Mrs. M. S. Mehta and Mr. B. S. Raut retire by rotation and being eligible, offer themselves for re-appointment as Directors of your Company.

### Auditors

M/s. Kalyaniwalla & Mistry, Chartered Accountants, Auditors of your Company, retire on the conclusion of 57th Annual General Meeting. You are requested to appoint Auditors for the current financial year and to fix their remuneration. The retiring Auditors, M/s. Kalyaniwalla & Mistry, Chartered Accountants are eligible for re-appointment.

On behalf of the Board of Directors,

**A. C. CHAKRABORTTI**  
VICE-CHAIRMAN

**A. Y. MAHAJAN**  
MANAGING DIRECTOR

Mumbai: 14th March, 2007

## ANNEXURE A TO THE DIRECTORS' REPORT

Information pursuant to the Companies (Disclosure of Particulars in the Report of Board of Directors) Rules, 1988.

### CONSERVATION OF ENERGY:

Various energy conservation initiatives viz. improved combustion efficiency, optimization of power distribution system were completed during the year.

#### Form A for disclosure of particulars with respect to Conservation of Energy:

##### Product: Refractories

	2006	2005
<b>A. Power and Fuel Consumption:</b>		
<b>1. ELECTRICITY</b>		
(a) Purchased:		
Units	1074697	1217618
Total Amount (Rs. Million)	5.14	5.88
Rate/Unit Rs.	4.78	4.83
(b) Own Generated		
(i) Through diesel generators:		
Units	201513	70923
Units per Ltr. of diesel	3.19	3.21
Cost/Unit (Rs.)	9.62	7.57
(ii) Through Steam turbine/generator	Nil	Nil
<b>2. FUEL OIL</b>		
Quantity (K. Ltrs.)	949	892
Total amount (Rs. Million)	24.93	21.73
Average rate (Rs.)	26281	24365
<b>B. Consumption per unit of production:</b>		
Electricity KWH/TON	849	808
Fuel oil KL/TON	0.60	0.56

#### Form B for disclosure of particulars with respect to Technology Absorption:

##### Research & Development (R & D):

#### 1. Specific areas in which R & D was carried out by the Company:

- (a) Abrasives: Grains, Bonded, Coated, Super Abrasives & Non-Woven.
- (b) Ceramics: Refractories and Monolithics.

#### 2. Benefits derived as a result of the above R & D:

- (a) **Abrasives:**
  - Development of:
    - new bonds for Centerless grinding, Crankshaft grinding and tool-room grinding.
    - new Product for very open structure wheels.

Improvements in:

- Kiln efficiency and consistency for vitrified products.
- Characterization process for grinding wheels.
- Consistency of organic wheels.
- Safety and Occupational health.

#### (b) **Ceramics:**

Development of:

- WS grains for Silicon wafer industry.
- Commercial production of REFRAZ grains for refractory industry.
- Development of SIKA-IV grains for Europe.

Improvements in:

- Environment and Industrial Hygiene.

#### 3. Future plans of action:

- (a) Technology adaptation from Saint-Gobain Abrasives companies and other Saint-Gobain plants in identified priority areas, for development of new and improved products.
- (b) Development and utilization of advanced tools facilitated enhanced grinding system solutions at the customers end.

#### 4. Expenditure on R & D for the year ended 31st December, 2006:

	Rs. Million
(a) Capital	Nil
(b) Recurring	5.76
(c) Total	5.76
(d) Total R & D expenditure as a percentage of total turnover	0.14%

#### Technology absorption, adaptation and innovations:

Your Company believes that technology absorption, adaptation and innovations is an on-going process. All through the year, through various visits and interactions with the Saint-Gobain R & D Centres, as well as other manufacturing locations, your Company has kept itself informed on the latest trends in technology related to the abrasives field. This has helped your Company to continuously improve the manufacturing processes, improve efficiencies, and develop new products. Through all this, your Company has been able to improve the product-service package provided to the customers.

#### Disclosure of particulars with respect to Foreign Exchange earnings and outgo:

Total earnings in foreign exchange for the year ended 31st December, 2006 was Rs. 429.11 Million and the total outflow was Rs. 910.66 Million. Details are given in Schedule 13.



## ANNEXURE B TO THE DIRECTORS' REPORT

STATEMENT UNDER SECTION 217 (2A) OF THE COMPANIES ACT, 1956, READ WITH THE COMPANIES (PARTICULARS OF EMPLOYEES) RULES, 1975.

NAME	AGE	DESIGNATION/ NATURE OF DUTIES	REMU- NERATION RS.	QUALIFICATION	COMMENCEMENT OF EMPLOYMENT	LAST EMPLOYMENT	TOTAL EXPERIENCE (YEARS)
<b>EMPLOYED THROUGHOUT THE YEAR</b>							
AGARWAL VINAY	51	PRESIDENT – ABRASIVES	5,070,720	B.TECH., PGDM (IIM)	SEP. 2004	M.D. – RPG CABLES LTD.	26
BHAT V.	46	GEN. MGR. – COATED ABRASIVES	3,113,284	B.TECH. (CHEM. ENGG.)	DEC. 2005	HEAD-TECHNICAL – MTR FOODS LTD.	25
D'CUNHA GERARD	49	V. P. – HUMAN RESOURCES	3,496,264	B.SC., M.A. (PM&IR)	DEC. 1998	ASST. GEN. MGR. – LARSEN & TOUBRO LTD.	26
MAHAJAN A.Y.	54	MANAGING DIRECTOR	14,479,692	M.A. (ECON.), MBA (USA)	JUNE 1983	PROJ. CONSULTANT – STATE BANK OF INDIA	31
PEREIRA J.A.J.	58	EXEC. V.P. – FIN. & CORP. SERVICES	5,359,719	B.SC., FICWA, PGDM (IIM)	MAY 1975	NONE	32
PRASAD K.K.	44	V. P. – CERAMICS & PLASTICS	5,015,337	B.SC. (ENGG.), PGDM (IIM)	MAY 1990	MECH. ENGINEER – FACT LTD.	20
PURANIK M.A.	51	V. P. – CORP. FIN. & TAXATION	4,165,835	B.COM., ACA	MAY 1988	DY. CHIEF ACCOUNTANT – GARWARE MARINE IND. LTD.	26
RAMARATHNAM M.R.	58	V. P. – PROJECTS	3,918,132	B.E. (MECH.), PRDN. MGT.	APRIL 1982	SR. ENGINEER – ASHOK LEYLAND LTD.	36
<b>EMPLOYED FOR PART OF THE YEAR</b>							
KANSAL ANUP	41	GEN. MGR. – MARKETING	1,656,365	B.E., PGDM (IIM)	JUNE 2006	HEAD – SALES & MKTG. – BALLARPUR IND. LTD.	16

### NOTES:

- Total remuneration includes salary, commission, allowances, rent paid for providing accommodation, leave pay, group and accident insurance premium, Company's contribution to provident, superannuation and gratuity funds and also the monetary value of other perquisites.
- All the above employees are employed on contractual basis.
- Experience includes number of years service elsewhere, wherever applicable.

## ANNEXURE C TO THE DIRECTORS' REPORT MANAGEMENT DISCUSSION & ANALYSIS REPORT

(Pursuant to Clause 49 of the Listing Agreement with the Stock Exchanges)

### GENERAL REVIEW

Grindwell Norton Limited (GNO) is one of the subsidiaries of Compagnie de Saint-Gobain (Saint-Gobain), a transnational Group, with its headquarters in Paris and with sales exceeding € 41 billion in 2006. Saint-Gobain's businesses fall into five broad sectors of activity: Construction Products, Flat Glass, Packaging, Building Distribution and High Performance Materials. GNO's businesses are a part of two of the Divisions that come under the High Performance Materials sector of activity. The two Divisions are:

- Abrasives
- Ceramics & Plastics

A brief outline and a review of GNO's major businesses is provided below:

#### 1. ABRASIVES SEGMENT

The major businesses in this segment are:

- Bonded Abrasives (including Thin Wheels);
- Coated Abrasives (including Non-Woven);

GNO also manufactures and sells Super Abrasives.

##### (i) BONDED ABRASIVES (INCLUDING THIN WHEELS)

###### Product & Plants

Bonded Abrasives, most commonly in the form of wheels but also in other shapes such as segment,

sticks etc., are used for various applications ranging from polishing or lapping to removing high quantities of materials. The Bonded Abrasives business has two plants, one at Mora (near Mumbai) and the other at Nagpur, Maharashtra, both of which are certified under ISO 9001:2000, ISO 14001:2004 and OHSAS 18001:1999.

### Industry

The industry currently has two major players, one of which is GNO. GNO has a leadership position in several product-market segments.

Broad characteristics of this business are:

- High entry barriers in the form of high capital investment (though there are numerous small players in niche products and markets).
- Diverse industrial applications.

Apart from the major players in the market, there are a few medium sized players and many small, local players. Besides, imports from China are present in a big way in many categories, particularly, in the low end. Some of the players from Europe and Japan are also establishing marketing networks to service mainly the precision grinding market. The market, over a period of time, has become extremely price sensitive.

Key success factors are quality, cost, service and capability to provide total grinding solutions.

### Applications

Bonded Abrasives are used in precision applications such as lapping, honing, superfinishing, race grinding, thread grinding, fluting, OD grinding, ID grinding, surface grinding etc. They are also used in rough applications such as snagging, tool sharpening, burr removal, abrasive parting off, weld preparation etc. Bonded Abrasives are used by a very large number of users. The variety is very high. GNO makes over 15000 different products in a year.

### Major User Industries

- Automobiles and Auto Components
- Steel
- Foundry
- Bearings
- Cutting Tools/Hand Tools etc.
- Housing work and Construction
- Fabrication

### Development & Outlook

Saint-Gobain is the undisputed world leader in Bonded Abrasives. Leadership is based on a strong product portfolio, a strong R & D set-up with projects in both basic and applied areas and global reach, with plants and marketing/sales organisations all over the world. GNO benefits by being a part of such an organization, in terms of access to all developments in products and process technology, sourcing of products and developing exports.

In 2006, domestic demand for Bonded Abrasives saw a significant increase. All the major end user industries mentioned above continued to do well. We expect that domestic demand will continue to be buoyant in 2007.

During the year, the Bonded Abrasives business of Orient Abrasives Limited was acquired and integrated within GNO. The equipment from the Orient plant was transferred to the GNO plants at Mumbai and Nagpur to increase the output and absorb the Orient production. In addition, the scope of outsourcing activities has been expanded in order to meet the increased demand.

There have been steep increases in the Input costs – especially fuel, electricity and raw materials. On the other hand, increasing prices has been difficult. The management focused on improving operating efficiencies, reducing rejections, wastages and on increasing volumes which has led to higher operating profits for the year.

Exports will continue to be a focus area for GNO's Bonded Abrasives business. Over the years, export sales have grown at a faster rate than sales in the domestic market and currently constitute over 15% of total bonded sales.

GNO is putting in concerted efforts to make its manufacturing plants world class. Apart from the on-going initiatives on cost reduction, service improvement and productivity enhancement,

systematic efforts have been made to improve safety standards and plant operating conditions (including ergonomics and environmental conditions).

## (ii) COATED ABRASIVES (INCLUDING NON-WOVEN)

### Product and Plants

Coated Abrasives products are engineering composites comprising of a backing, bond system and abrasive grains and are designed for material removal and surface generation. The common backing types include paper, cloth, polyester and polyester film. Bond can be resin-based or glue-based or a combination of both. Coated Abrasives products are available in various shapes like – discs, belts, rolls etc to suit a wide gamut of applications. GNO's Coated Abrasives manufacturing facilities are at Bangalore and Nagpur. Both locations are ISO 9001: 2000, ISO 14001: 2004 and OHSAS 18001:1999 certified.

### Industry

The domestic Coated Abrasives sector has two major players, one of which is GNO. GNO has a leadership position in several product - market segments.

The characteristics of this sector are:

- Large and varied end user industry base makes the demand less affected by economic cycles.
- Relatively low entry barriers for small scale manufacturers.
- Products sell mostly through the industrial retail.

The key requirements for success are:

- Quality and positioning
- Distribution network
- Brand equity of the products
- Supply reliability
- Cost competitiveness

### Major End Users

- Primary Automotive
- Automotive Ancillaries
- Auto-after markets
- Non-Automotive Castings
- Non-Automotive Forgings
- Metal fabrication
- Furniture
- Decorative
- Plywood
- Man Made Boards
- Laminates
- Glass & Ceramics
- Leather
- Steel manufacturing

### Development & Outlook

2006 witnessed strong market growth with most of the end-user industries continuing to do well. Partly because of this and partly because of gains in market shares, GNO's domestic sales increased significantly. We expect market growth to be sustained in 2007. At the same time, we expect increased competition with



one major competitor having undertaken a significant expansion and an international player having established a local conversion facility.

2006 also witnessed good growth in exports and we have ambitious plans for the future.

GNO is putting in concerted efforts to make its manufacturing plants world class. Apart from the on-going initiatives on cost reduction, service improvement and productivity enhancement, systematic efforts have been made to improve safety standards and plant operating conditions (including ergonomics and environmental conditions).

## 2. CERAMICS & PLASTICS SEGMENT

The major businesses in this segment are:

- (i) Silicon Carbide;
- (ii) High Performance Refractories.

GNO also converts and sells a range of Performance Plastics products.

### (i) SILICON CARBIDE

#### Product & Plant

Silicon Carbide grains are used primarily as raw material in the manufacture of abrasives, refractories and for stone polishing. Silicon Carbide is manufactured at Tirupati in Andhra Pradesh. The Tirupati Plant is certified under ISO 9001:2000, ISO 14001:2004 and OHSAS 18001:1999.

#### Industry

In the domestic market there are three major players (including GNO) of Silicon Carbide. GNO is the market leader. This market is also catered to by imports, mainly from China. The key requirements for success in the industry are cost competitiveness and quality. Entry barriers are high by way of capital investment and technology.

#### Development & Outlook

The business is expected to grow at a good pace as in the previous years and we expect to strengthen our market position. However, power cost being the most significant element of cost, profitability of the business will depend primarily on the availability of natural gas as also on the outcome of the Special Leave Petition filed by A. P. Transco, in the honourable Supreme Court against the judgement of the honourable A. P. High Court, upholding the Company's contention. The long term viability of this business is dependent on having power available at a reasonable cost. The Company's future course of action, will depend on the developments in this regard.

### (ii) HIGH PERFORMANCE REFRACTORIES (HPR)

#### Product & Plant

Refractories are used for processing ferrous and non-ferrous metals and as kiln furniture to fire ceramic

wares. They are also used as filtering media. GNO manufactures mostly silicon carbide refractories. The plant is located at Bangalore, Karnataka and is certified under ISO 9001: 2000, ISO 14001: 2004 and OHSAS 18001:1999.

#### Industry

The main customers are the non-ferrous and ceramic industries. In the domestic market there are two major manufacturers (including GNO) for silicon carbide and mullite refractories. The key requirements for success in the industry are technology and consistency in quality. Manufacturing is relatively capital intensive. This, and technology, are the barriers to entry.

#### Development & Outlook

2006, was not a good year for the HPR business. With buoyancy in the Metallurgy, Sanitaryware and Power sectors the potential for growth is high. The Company is looking at various options to increase its product offerings in association with affiliate companies.

## RISK AND CONCERNS

As in other industries, there are challenges due to increased global competition, apart from domestic competition. GNO is fully preparing itself to meet these challenges. GNO's perceptions of certain specific risks are as under:

### 1. Industry, Market, Technology & Competition:

#### (a) Abrasives:

- (i) **Industry & Market:** The Abrasives business caters to a number of industries such as Steel, Automobiles, Auto components, General Metal Fabrication and Woodworking. The dependence on any single industry segment is less than 15%. Demand for abrasive products can get affected if all sub-segments of the industry perform badly at the same time. Normally, this does not happen. In order to minimize the impact of such a downturn, if any, GNO has been putting in efforts to develop export markets. Over the years, exports have grown and now account for nearly 14% of total abrasives sales. These sales are not concentrated in any single country, but are spread over 32 countries. Within India, sales are spread across 12 Branch offices located across all parts of India, without any single branch having a very high weightage. Similarly, there are a number of large customers serviced directly and several dealers for servicing small and medium customers. The largest customer accounts for less than 2% of total sales and the largest dealer accounts for less than 5% of total sales.
- (ii) **Technology:** Abrasives have been used over a very long period of time and technological changes in terms of applications are gradual. Since India typically lags in these, GNO knows likely changes much before they reach India, which enables GNO to be prepared well in time. Saint-Gobain is the World Leader in Abrasives.

It has a very strong Research and Development (R & D) set up in USA with regional R & D centers located elsewhere. Both basic and applied research takes place at these R & D centers. GNO has access to all the research and technology developments.

- (iii) **Competition:** The entry of global players in Bonded and Coated, as well as substantial expansion/modernisation by key local competitors will put pressure on our market position. The competition from Imports will further increase with reduction in import duties and more international players entering the market as the Indian economy grows rapidly. This necessarily means that we need to make products of global standards at reasonable cost to remain competitive.

**(b) Ceramics & Plastics:**

- (i) **Industry & Market:** Refractories, Construction and Abrasives form the three top customer segments for Silicon Carbide. Each of these sectors comprise of large number of customers, which makes this a good portfolio. In Abrasives and Refractories, our own divisions (affiliates) are also major consumers. With the growth in the Iron and Steel sector, the requirements of Refractories is expected to grow and this can be a good opportunity to accelerate our growth. Construction sector, in general, has very little linkage with the other two sectors, which makes the overall sectoral portfolio more balanced. In addition, we have customers who are serviced through distribution channels.
- (ii) **Technology:** The technology of manufacturing Silicon Carbide has had very little change worldwide, since the present process was started. As for the increased use of Silicon Carbide in India, the technological changes needed at some of the user industry segments is still coming in, but gradually. GNO has full access to information on the global developments in these areas through Saint-Gobain's global presence and also has access to all the research and technology developments undertaken by Saint-Gobain in this regard. This helps us to be better prepared to influence these changes in India than any of our competitors.

**2. Financial:**

GNO's financial management has always been governed by prudent policies, based on conservative principles. GNO's foreign currency exposure on account of imports and exports has been appropriately covered. GNO has well defined and structured treasury operations, with the emphasis on security.

**3. Legal and Statutory:**

- (i) Contingent liabilities: Details of Contingent liabilities are given in Schedule 13.
- (ii) Statutory compliance: GNO ensures statutory compliance of all applicable laws and is committed to timely payment of all statutory dues.

**HUMAN RESOURCES**

In 2006, GNO's focus continued to be on building the organisation through the induction and development of talent to meet current and future needs. In view of the current buoyancy in the job market, we also focused on talent retention. Through specific initiatives we were able to ensure no increase in our people attrition rates.

We continued to invest in training people in Environment, Health and Safety (EHS), Six Sigma and other business improvement tools. We continue to make efforts to provide our people with an environment in which they can give their best and realize their full potential.

**OVERALL PERFORMANCE**

GNO witnessed good sales growth in 2006 partly on account of buoyancy in domestic demand and export growth and partly due to gains in market share. Improved operating efficiencies and cost control measures helped the Company to achieve higher operating margins.

**INTERNAL CONTROL SYSTEMS**

GNO has, across all its locations, a well developed and adequate system of internal controls which ensures that its assets are safeguarded, statutory requirements are complied with and transactions are recorded after appropriate authorizations. The Company's strong and independent Internal Audit function performs regular audits to ascertain the adequacy and effectiveness of the internal control systems. Every quarter, the significant audit findings and the corrective steps recommended are presented to the Audit Committee. The Audit Committee monitors the implementation of the internal audit recommendations.

**SEGMENTAL FINANCIALS**

GNO has identified two segments in line with the Accounting Standard on Segment Reporting (AS-17). The segments are Abrasives and Ceramics & Plastics. Details of Segmental financials are given in Schedule 13.

**CAUTIONARY STATEMENT**

*The Management Discussion and Analysis Report contains some forward looking statements based upon the information and data available with the Company, assumptions with regard to global economic conditions, the government policies, etc. The Company cannot guarantee the accuracy of assumptions and perceived performance of the Company in future. Hence it is cautioned that the actual results may differ from those expressed or implied in this report.*



## ANNEXURE C TO THE DIRECTORS' REPORT (Continued)

### REPORT ON CORPORATE GOVERNANCE

(As required under Clause 49 of the Listing Agreement entered into with the Stock Exchanges)

#### 1. CORPORATE GOVERNANCE AT GRINDWELL NORTON LIMITED (GNO)

GNO, a member of the 'Saint-Gobain' group, is committed to the highest standards of fair, ethical and transparent governance practices and to their adherence in spirit. The Company's essential character revolves around values based on transparency, accountability, integrity and professionalism. GNO has adopted practices mandated in the revised Clause 49 and has established procedures and systems to be fully compliant with it. At the highest level the Company continuously endeavors to improve upon these aspects on an ongoing basis and adopts innovative approaches for converting opportunities into reality.

#### 2. BOARD OF DIRECTORS

The present strength of the Board is twelve Directors. The Board comprises of one Executive Director and eleven Non-Executive Directors. The Chairman is Non-Executive. Out of eleven Non-Executive Directors, four are Independent Directors.

During the year 2006, five Board Meetings were held. The dates on which the said meetings were held are as follows:

6th March, 26th April, 25th July, 20th October, and 13th December.

Details of attendance of each Director at the Board Meetings, the last AGM, and directorships held by them in other Indian Companies and committee memberships are as follows:

Name of the Director	Category of Directorship	No. of Board Meetings attended in 2006	Attendance at the last AGM	No. of Directorships held as on 31st December, 2006 in other Public Companies (excluding Foreign Companies)	No. of Committee positions held as on 31st December, 2006 in Companies (including GNO)*
Mr. J. Aschenbroich (a)	Chairman – Non- Executive	N.A.	N.A.	1	Nil
Mr. A. C. Chakrabortti	Vice - Chairman – Non-Executive (Independent)	4	Yes	13	7**
Ms. M. A. Chupin	Non-Executive	Nil	No	Nil	Nil
Mr. O. Duval	Non-Executive	1	No	Nil	Nil
Mrs. M. S. Mehta	Non-Executive	5	Yes	Nil	1
Mr. J. H. Menendez (a)	Non-Executive	N.A.	N.A.	Nil	Nil
Mr. P. Millot	Non-Executive	Nil	No	1	Nil
Mr. B. S. Raut	Non-Executive (Independent)	4	Yes	Nil	1
Mr. S. Salgaocar	Non-Executive (Independent)	2	Yes	2	Nil
Mr. P. Shah	Non-Executive (Independent)	3	Yes	12	8***
Mrs. D.S. Variava (b)	Non-Executive	2	N.A.	Nil	1****
Mr. A. Y. Mahajan	Managing Director	5	Yes	11	5*****
Mr. H. C. Patel (c)	Non-Executive	3	Yes	1	Nil
Mr. R. Caliarì (d)	Chairman – Non-Executive	Nil	No	1	1
Mr. A. Denes (d)	Non-Executive	1	No	Nil	Nil

(a) Appointed as an Additional Director w.e.f. 13th December, 2006.

(b) Appointed as an Additional Director w.e.f. 25th July, 2006.

(c) Resigned w.e.f. 25th July, 2006.

(d) Resigned w.e.f. 13th December, 2006.

\* Committee positions include positions held only in Audit Committee and Shareholders/Investors Grievance Committee.

\*\* Out of the 7 Committee Memberships, Mr. A. C. Chakrabortti is the Chairman in 4 Committees.

\*\*\* Out of the 8 Committee Memberships, Mr. P. Shah is the Chairman in 2 Committees.

\*\*\*\* Mrs. D. S. Variava is the Chairperson of the Committee.

\*\*\*\*\* Out of the 5 Committee Memberships, Mr. A. Y. Mahajan is the Chairman in 3 Committees.

### 3. AUDIT COMMITTEE

Pursuant to the provisions of the Companies Act, 1956 and the Listing Agreement, an Audit Committee had been constituted to cover the matters specified for Audit Committees under the Listing Agreement as well as under the provisions of the Companies Act, 1956. The composition of the Audit Committee is as under:

Mr. A. C. Chakrabortti	Chairman – Independent
Mr. B. S. Raut	Member – Independent
Mr. A. Y. Mahajan	Member (Appointed w.e.f. 25th July, 2006)
Mr. H. C. Patel	Member (Resigned w.e.f. 25th July, 2006)
Mr. P. Shetty	Member (Resigned w.e.f. 6th March, 2006)

The Chairman of the Committee, Mr. A. C. Chakrabortti is a FCA (Eng. & Wales) and FCA of the Institute of Chartered Accountants of India. He has requisite and adequate financial and accounting expertise. All the members of audit committee are experts in finance. The Executive Vice-President Finance & Corporate Services, Vice-President-Corporate Finance & Taxation, Internal Auditor and the Statutory Auditors are invitees of the Committee. The Company Secretary acts as the Secretary to the Audit Committee.

The Audit Committee held 5 meetings during the year.

The attendance of each Member of the Committee is given below:

Name of Director	No. of Meetings attended
Mr. A. C. Chakrabortti	5
Mr. B. S. Raut	4
Mr. A. Y. Mahajan	2
Mr. H. C. Patel	3
Mr. P. Shetty	1

The terms of reference of the Audit Committee are in consonance with revised Clause 49 of the Listing Agreement as well as Section 292 A of the Companies Act, 1956, and are as under:

1. Oversee the Company's financial reporting process and the disclosure of its financial information to ensure that the financial statement is correct, sufficient and credible.
2. Recommending to the Board, the appointment, re-appointment and, if required, the replacement or removal of the statutory auditor and the fixation of audit fees.
3. Approval of payment to statutory auditors for any other services rendered by the statutory auditors.

4. Reviewing with the management, the annual financial statements before submission to the board for approval, with particular reference to:
    - a. Matters required to be included in the Directors' Responsibility Statement forming part of the Board's Report in terms of Clause (2AA) of Section 217 of the Companies Act, 1956.
    - b. Changes, if any, in accounting policies and practices and reasons for the same.
    - c. Major accounting entries involving estimates based on the exercise of judgement by the management.
    - d. Significant adjustments made in the financial statements arising out of audit findings.
    - e. Compliance with listing and other legal requirements relating to financial statements.
    - f. Disclosure of any related party transactions.
    - g. Qualifications in the draft audit report.
  5. Reviewing with the management, the quarterly financial statements before submission to the Board for approval.
  6. Reviewing with the management, the performance of statutory and internal auditors, and adequacy of the internal control systems.
  7. Reviewing the adequacy of internal audit function, if any, including the structure of the internal audit department, staffing and seniority of the official heading the department, reporting structure coverage and frequency of internal audit.
  8. Discussion with internal auditors, any significant findings and follow up there on.
  9. Reviewing the findings of any internal investigations by the internal auditors into the matters where there is suspected fraud or irregularity or a failure of internal control systems of a material nature and reporting the matter to the Board.
  10. Discussion with statutory auditors before the audit commences, about the nature and scope of audit as well as post-audit discussion to ascertain any area of concern.
  11. To look into the reasons for substantial defaults in the payment to the depositors, debenture holders, shareholders (in case of non payment of declared dividends) and creditors.
  12. Carrying out any other function as is mentioned in the terms of reference of the Audit Committee.
- Minutes of the Audit Committee meetings were circulated to the members of the Board, discussed and taken note of at the Board meetings of the Company.



#### 4. REMUNERATION OF DIRECTORS

- (a) The details of remuneration of Mr. A. Y. Mahajan, Managing Director, for the year 2006 are given below:

<b>All elements of remuneration package i.e. salary, benefits, perquisites, profit commission, pension etc.</b> Rs. 14.48 Million
<b>Fixed component and performance linked incentives along with the performance criteria</b> Fixed component is paid as Salary and other perquisites. In addition, a profit commission is paid within the maximum ceiling on remuneration.
<b>Service contracts, notice period, severance fees</b> The tenure of office of the Managing Director is five years commencing from 1st April, 2006 and ending on 31st March, 2011. The Managing Director or the Company shall be entitled to terminate the agreement by giving six months written notice.
<b>Stock option with details, if any and whether issued at a discount as well as the period over which accrued and over which exercisable</b> Presently, the Company does not have a scheme for grant of stock options either to the Managing Director or any other employees.

- (b) The details of sitting fees and commission paid/payable for the year 2006 are given below:

Non-Executive Directors	Sitting Fees (Rs. Mn.)	Profit Commission (Rs. Mn.)	Total (Rs. Mn.)
Mr. A. C. Chakrabortti	0.05	1.32	1.37
Mr. B. S. Raut	0.04	0.59	0.63
Mr. S. Salgaocar	0.02	0.59	0.61
Mr. P. Shah	0.01	0.59	0.60
Mrs. M. S. Mehta	0.03	1.32	1.35
Mrs. D. S. Variava	0.01	1.32	1.33
Mr. H. C. Patel	0.03	–	0.03
Mr. P. Shetty	0.01	–	0.01

- (c) Criteria of making payment to Directors:

Except for the Non-Executive Directors who are nominees of Compagnie de Saint-Gobain (CSG), the Company pays a sitting fee of Rs. 5000/- per Non-Executive Director for attending each Meeting of the Board or Audit committee or Shareholders/Investors Grievance Committee.

The Board of Directors has been authorised by the Shareholders of the Company in the 53rd Annual

General Meeting held on 29th April, 2003, to pay Commission upto 1% of the net profits of the Company to its Non-Executive Directors for a period of five years commencing from 1st January, 2004, except for the Non-Executive Directors who are nominees of CSG. The Company also pays a Commission upto 1% to the Managing Director.

- (d) Pecuniary relationship or transaction of Non-Executive Directors vis-à-vis the Company:

Apart from receiving Director's sitting fees and commission, the Non-Executive Directors of the Company do not have any pecuniary relationship or transactions with the Company.

However Mrs. M. S. Mehta and Mrs. D. S. Variava are members of the Promoters' Group. Mr. H. C. Patel who is currently not on the Board is also a member of the Promoters' Group. Mr. J. Aschenbroich, Mr. J. H. Menendez, Mr. P. Millot, Mr. O. Duval and Ms. M. A. Chupin are employees of CSG which is the ultimate holding company of Grindwell Norton Limited. Mr. R. Calari and Mr. A. Denes who have resigned as Directors are also employees of CSG.

- (e) Equity shareholding of the Non-Executive Directors in the Company as on 31st December, 2006:

Name of the Non-Executive Director	No. of Shares held
Mrs. D. S. Variava	7,17,716
Mrs. M. S. Mehta	6,43,040
Mr. A. C. Chakrabortti	Nil
Mr. B. S. Raut	Nil
Mr. S. Salgaocar	Nil
Mr. P. Shah	Nil
Mr. J. Aschenbroich	Nil
Mr. J. H. Menendez	Nil
Mr. P. Millot	Nil
Mr. O. Duval	Nil
Ms. M. A. Chupin	Nil

#### 5. SHAREHOLDERS/INVESTORS GRIEVANCE COMMITTEE

Mr. H. C. Patel, resigned as the Chairman of the Shareholders/Investors Grievance Committee on 25th July, 2006. Mrs. D. S. Variava, a Non-Executive Director of the Company was appointed as the Chairperson of the Shareholders/Investors Grievance Committee on 25th July, 2006. The other Members of the Committee are Mrs. M. S. Mehta and Mr. A. Y. Mahajan. Mr. K. Visweswaran – Company Secretary is the Compliance Officer of the Committee with effect from 7th June, 2006. The Committee met two times during the year. The Company had received few complaints from

the Shareholders and all of them had been resolved by furnishing the requisite information/documents. There were no transfers pending at the close of the financial year ended 2006.

## 6. GENERAL BODY MEETINGS

- (a) Details of venue, date and time of the last three Annual General Meetings (AGM) held:

The last three Annual General Meetings of the Company were held on 28th April, 2004, 27th April, 2005 and 26th April, 2006 at M. C. Ghia Hall, Bhogilal Hargovindas Building, 18/20, Kaikushru Dubash Marg, (Rampart Row), Mumbai-400 001. All the meetings commenced at 3:00 p.m. All the resolutions set out in the respective notices were passed by the Shareholders.

- (b) Special Resolutions passed at last three AGMs:

Date of AGM	Special Resolutions passed
28th April, 2004	(a) Alteration in the Objects clause of the Memorandum of Association of the Company. (b) Authorisation to the Board of Directors for commencement of business.
27th April, 2005	None
26th April, 2006	(a) Issue of Bonus Shares in the ratio of 1:1. (b) Alteration of the Articles of Association for increasing the Authorised Share Capital to Rs. 28,00,00,000/- divided into 5,60,00,000 equity shares of Rs. 5/- each.

- (c) Passing of Resolutions by Postal Ballot:

No Resolutions were put through Postal Ballot in the year 2006. Resolutions, if required, shall be passed by Postal Ballot during the year 2007, as per the prescribed procedures.

## 7. DISCLOSURES

- (a) Materially significant related party transactions:

Transactions with related parties as per the requirements of Accounting Standard-18 are disclosed in Schedule 13 of this Annual Report and they are not in conflict with the interest of the Company.

- (b) Compliance:

The Company has complied with the requirements of Stock Exchanges/Securities and Exchange Board of India/statutory authorities on all matters relating to capital markets, during the last 3 years.

- (c) Whistle Blower Policy:

The Company believes in conducting its affairs in a fair and transparent manner by adopting the highest standards of professionalism, honesty, integrity and ethical behaviour. In order to provide a secure environment and to encourage employees of the Company to report unethical, unlawful or improper practices, acts or activities, the Company has adopted a Whistle Blower policy.

- (d) Mandatory and Non-Mandatory requirements:

The Company has complied with all Mandatory requirements. As regards Non-Mandatory requirements, the Board has noted the same and shall consider adopting the same as and when it deems fit.

## 8. MEANS OF COMMUNICATION

### Half Yearly Report

Whether Half-yearly report sent to each household of Shareholders – No.

The results of the Company are published in the Newspapers and displayed on Company's website as well as EDIFAR site of SEBI.

### Quarterly Results

In which newspapers the financial results are normally published.

(i) Economic Times – Mumbai edition

(ii) Maharashtra Times – Mumbai edition

### Website(s)

Any website(s) where financial results are displayed

(i) <http://www.grindwellnorton.co.in>

(ii) <http://www.sebiedifar.nic.in>

**Whether it also displays the official news releases; and the presentations made to Institutional Investors and Analysts**

No

**Whether MD & A is a part of Annual Report or not**

Yes



## 9. GENERAL SHAREHOLDERS' INFORMATION

<b>AGM</b>	: 57th Annual General Meeting
<b>Date</b>	: Monday, 23rd April, 2007
<b>Time</b>	: 3.00 p.m.
<b>Venue</b>	: Kohinoor Continental, Andheri-Kurla Road, Andheri – East, Mumbai-400 059.
<b>Calendar of Financial Results for 2007</b>	
(i) First Quarter Results	– April, 2007
(ii) First Half Results	– July, 2007
(iii) Third Quarter Results	– October, 2007
(iv) Results for the year ending 31st December, 2007	– March, 2008
<b>Dates of Book Closure</b>	
Saturday, 24th March, 2007 to Monday, 26th March, 2007 (both days inclusive).	
<b>Date of payment of Interim Dividend</b>	
On or after 28th March, 2007	
<b>Listing on Stock Exchange(s)</b>	
Bombay Stock Exchange Limited National Stock Exchange of India Limited (from 11th September, 2006). The annual listing fees of Bombay Stock Exchange Limited and National Stock Exchange of India Limited have been paid for the year 2006-2007.	
<b>BSE-Stock Code</b>	
506076	
<b>NSE – Symbol</b>	
GRINDWELL	
<b>ISIN FOR NSDL/CDSL</b>	
INE536A01023	
<b>Distribution of Shareholdings and Shareholding Pattern as on 31st December, 2006</b>	
Please see Annexure '1'	
<b>Market Price Data: High, Low during each month in the last financial year</b>	
Please see Annexure '2'	
<b>Performance in comparison to BSE Sensex, (broad based index)</b>	
Please see Annexure '2'	

### Share Transfer System

All the transfers are processed by TSR Darashaw Limited and approved by the Share Transfer Committee of Directors which normally meets twice in a month.

### Dematerialisation of shares and liquidity

32.68% of the paid-up capital has been dematerialised as on 31st December, 2006.

### Outstanding GDRs/ADRs/Warrants or any Convertible instruments, conversion date and likely impact on equity

Not issued.

### Promoters' Groups:

#### I. Indian Promoters

- (a) Mr. N. D. Sidhva Group
- (b) Mr. H. C. Patel Group
- (c) Mrs. D. S. Variava Group
- (d) Mr. R. K. Bilimoria Group
- (e) Mrs. M. S. Mehta Group

#### II. Foreign Promoters (Collaborators)

- (a) Saint-Gobain Abrasives Inc., USA.
- (b) Saint-Gobain Promotion et Participations Internationales, France.

#### III. Other Saint-Gobain Group Companies in India

- (a) BPB Holdings India Pvt. Ltd.
- (b) Conmix (India) Pvt. Ltd.
- (c) India Gypsum Ltd.
- (d) Saint-Gobain Crystals & Detectors India Ltd.
- (e) Saint-Gobain Glass India Ltd.
- (f) Saint-Gobain India Foundation  
(Section 25 Company)
- (g) Saint-Gobain Norpro India Pvt. Ltd.
- (h) Saint-Gobain Sekurit India Ltd.
- (i) Saint-Gobain Seva Engineering India Ltd.
- (j) Saint-Gobain Vetrotex India Ltd.
- (k) Saint-Gobain Weber (India) Ltd.
- (l) SEPR Refractories India Ltd.

### Address for correspondence

Mr. K. Visweswaran – Company Secretary  
(Appointed w.e.f. 7th June, 2006)  
Leela Business Park, 5th Level, Andheri-Kurla Road,  
Marol, Andheri – East, Mumbai-400 059.  
Tel. No.: 022-4021 2121 Fax No.: 022-4021 2102

## Annexure '1'

### The Distribution of Shareholdings as on 31st December, 2006

No. of Equity Shares held	No. of Holders	% of Total Holders	No. of Shares	% to Total Shares
Upto 250	9355	61.09	1156371	2.09
251 to 500	3837	25.06	1518504	2.74
501 to 1000	1015	6.63	790144	1.43
1001 to 5000	815	5.32	1822737	3.29
5001 to 10000	117	0.77	875299	1.58
10001 to 100000	109	0.71	3392248	6.13
100001 and above	65	0.42	45804697	82.74
<b>Grand Total</b>	<b>15313</b>	<b>100.00</b>	<b>55360000</b>	<b>100.00</b>
No. of Shareholders in Physical Mode	3467	22.64	37266626	67.32
No. of Shareholders in Electronic Mode	11846	77.36	18093374	32.68

### Shareholding Pattern as on 31st December, 2006

Category	No. of Shareholders	No. of Shares	%
Promoters:			
Foreign	2	28414000	51.33
Indian	99	13592996	24.55
Insurance Companies & Banks	8	200800	0.37
Mutual Fund	1	1200	0.00
NRIs, OCBs and FII's	143	161326	0.29
Domestic Companies	401	3233693	5.84
Resident Individuals	14659	9755985	17.62
<b>Total</b>	<b>15313</b>	<b>55360000</b>	<b>100.00</b>

## Annexure '2'

### Market Price Date: GNO & Sensex: High - Low

Period	High (Rs.)	Low (Rs.)	Sensex High	Sensex Low
Jan-06	416.40	377.55	9945.19	9158.44
Feb-06	431.45	350.00	10422.65	9713.51
Mar-06	690.00	441.00	11356.95	10344.26
Apr-06	747.00	594.00	12102.00	11008.43
May-06	834.45	*152.10	12671.11	9826.91
Jun-06	*155.90	*98.15	10626.84	8799.01
Jul-06	*125.00	*90.15	10940.45	9875.35
Aug-06	*159.85	*101.00	11794.43	10645.99
Sep-06	*149.00	*128.00	12485.17	11444.18
Oct-06	*145.60	*136.15	13075.85	12178.83
Nov-06	*143.00	*119.00	13799.08	12937.30
Dec-06	*134.90	*114.00	14035.30	12801.65

\* The price is post Sub-division and Bonus.

## 10. OTHER INFORMATION

### (a) CEO/CFO certification:

Pursuant to the provisions of Sub-clause V of the revised Clause 49 of the Listing Agreement with the Stock Exchanges, the Managing Director (CEO) and the Executive Vice-President Finance & Corporate Services (CFO) have issued a certificate to the Board of Directors, for the financial year ended 31st December, 2006.

### (b) Risk Management framework:

The Company has laid down the broad framework of risk identification, assessment, mitigation and review.

### (c) Code of Conduct:

The Company has laid down a code of conduct for all the Board Members and Senior Management Personnel of the Company. The code of conduct is available on the website of the Company.



## 11. DECLARATION BY THE MANAGING DIRECTOR UNDER REVISED CLAUSE 49 OF THE LISTING AGREEMENT REGARDING COMPLIANCE WITH CODE OF CONDUCT

In accordance with Clause 49 I (D) of the Listing Agreement with the Stock Exchanges, I hereby confirm that, all the Board Members and Senior Management

Personnel of the Company have affirmed compliance with the Code of Conduct for the year ended 31st December, 2006.

For GRINDWELL NORTON LIMITED

Mumbai: 14th March, 2007

**A. Y. MAHAJAN**  
MANAGING DIRECTOR

## AUDITORS' CERTIFICATE ON CORPORATE GOVERNANCE

TO THE MEMBERS OF  
GRINDWELL NORTON LIMITED

We have examined the compliance of conditions of Corporate Governance by Grindwell Norton Limited (the Company) for the year ended on 31st December, 2006, as stipulated in revised clause 49 of the Listing Agreement of the Company with the Stock Exchanges.

The compliance of conditions of Corporate Governance is the responsibility of the management. Our examination was limited to procedures and implementation thereof, adopted by the Company for ensuring the compliance of the conditions of Corporate Governance. It is neither an audit nor an expression of opinion on the financial statements of the Company.

In our opinion and to the best of our information and according to the explanations given to us, we certify that the Company has complied with the conditions of Corporate Governance as stipulated in the above-mentioned Listing Agreement.

We state that no investor grievances are pending for a period exceeding one month against the Company as per the record maintained by the Shareholders/Investors Grievance Committee.

We further state that such compliance is neither an assurance as to the future viability of the Company nor the efficiency or effectiveness with which the management has conducted the affairs of the Company.

For **KALYANIWALLA & MISTRY**  
CHARTERED ACCOUNTANTS

Mumbai: 14th March, 2007

**E. K. IRANI**  
PARTNER  
(Membership No. 35646)



## REPORT OF THE AUDITORS

TO THE MEMBERS OF  
GRINDWELL NORTON LIMITED

1. We have audited the attached Balance Sheet of **GRINDWELL NORTON LIMITED**, as at 31st December, 2006, the Profit and Loss Account and the Cash Flow Statement of the Company for the year ended on that date annexed thereto. These financial statements are the responsibility of the Company's Management. Our responsibility is to express an opinion on these financial statements based on our audit.
2. We conducted our audit in accordance with the auditing standards generally accepted in India. Those Standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.
3. As required by the Companies (Auditor's Report) Order, 2003, issued by the Central Government of India in terms of sub-section (4A) of section 227 of the Companies Act, 1956, we annex hereto a statement on the matters specified in paragraphs 4 and 5 of the said Order.
4. Further to our comments in the Annexure referred to in paragraph (3) above, we report that:
  - (a) We have obtained all the information and explanations, which to the best of our knowledge and belief were necessary for the purposes of our audit.
  - (b) In our opinion, proper books of account as required by law, have been kept by the Company so far as appears from our examination of such books.
  - (c) The Balance Sheet, Profit and Loss Account and the Cash Flow Statement dealt with by this report are in agreement with the books of account.
  - (d) In our opinion, the Balance Sheet, Profit and Loss Account and the Cash Flow Statement dealt with by this report comply with the Accounting Standards referred to in sub-section (3C) of section 211 of the Companies Act, 1956.
  - (e) In our opinion and to the best of our information and according to the explanations given to us, the said accounts read with the notes thereon, give the information required by the Companies Act, 1956, in the manner so required and give a true and fair view in conformity with the accounting principles generally accepted in India:
    - (i) in the case of the Balance Sheet, of the state of affairs of the Company as at 31st December, 2006;
    - (ii) in the case of the Profit and Loss Account, of the profit of the Company for the year ended on that date; and
    - (iii) in the case of the Cash Flow Statement, of the cash flows of the Company for the year ended on that date.
5. On the basis of the written representations received from the Directors as on 31st December, 2006, and taken on record by

the Board of Directors, we report that, none of the Directors is disqualified as on 31st December, 2006 from being appointed as a Director in terms of clause (g) of sub-section (1) of section 274 of the Companies Act, 1956.

For and on behalf of  
**KALYANIWALLA & MISTRY**  
CHARTERED ACCOUNTANTS

**E. K. IRANI**  
PARTNER

Mumbai: 14th March, 2007

(Membership No. 35646)

## ANNEXURE TO THE AUDITORS' REPORT

Referred to in paragraph (3) of our report of even date.

- (1)
  - (a) The Company has maintained proper records showing full particulars, including quantitative details and situation of fixed assets.
  - (b) As explained to us, the Company has a program for physical verification of fixed assets at periodic intervals. In our opinion, the period of verification is reasonable having regard to the size of the Company and the nature of its assets. No material discrepancies have been reported on such verification.
  - (c) In our opinion, the disposal of fixed assets during the year does not affect the going concern assumption.
- (2)
  - (a) The Management has conducted physical verification of inventory at reasonable intervals.
  - (b) In our opinion, the procedures of physical verification of inventory followed by the management are reasonable and adequate in relation to the size of the Company and the nature of its business.
  - (c) The Company is maintaining proper records of inventory. The discrepancies noticed on verification between the physical inventories and book records were not material in relation to the operations of the Company and the same have been properly dealt with in the books of account.
- (3)
  - (a) The Company has not granted any loans, secured or unsecured to companies, firms or other parties covered in the register maintained under section 301 of the Companies Act, 1956 ("the Act").
  - (b) Consequently, the question of commenting on the rates of interest and the other terms and conditions of the loans granted being prejudicial to the interests of the Company, receipt of regular principal and interest and reasonable steps taken for recovery of principal and interest does not arise.
  - (c) The Company has not taken any loan, secured or unsecured from companies, firms or other parties covered in the register maintained under section 301 of the Act.
  - (d) Consequently, the question of commenting on the rates of interest and the other terms and conditions of the loans taken being prejudicial to the interests of the Company and payment of regular principal and interest does not arise.



- (4) In our opinion and according to the information and explanations given to us, there are adequate internal control procedures commensurate with the size of the Company and the nature of its business with regard to the purchase of inventory, fixed assets, and for the sale of goods and services. During the course of our audit, no major weakness has been noticed in internal controls.
- (5) Based on the audit procedures applied by us and according to the information and explanations provided by the management, we are of the opinion that there are no transactions that need to be entered into the register maintained under Section 301 of the Act.
- (6) In our opinion, and according to the information and explanations given to us, the Company has not accepted any deposits from the public, hence the provisions of section 58A and 58AA or any other relevant provisions of the Companies Act, 1956, are not applicable.
- (7) In our opinion and according to the information and explanations given to us, the internal audit system is commensurate with the size of the Company and nature of its business.
- (8) The maintenance of cost records has not been prescribed by the Central Government under section 209(1)(d) of the Companies Act, 1956, in respect of the activities carried on by the Company.
- (9) (a) According to the information and explanations given to us and on the basis of our examination of books of account, during the year, the Company has been generally regular in depositing undisputed statutory dues including Provident Fund, Investor Education and Protection Fund, Employees' State Insurance, Income Tax, Value Added Tax, Sales Tax, Wealth Tax, Service Tax, Custom Duty, Excise Duty, Cess and any other dues with the appropriate authorities. According to the information and explanations given to us, there are no undisputed dues, payable in respect of above as at 31st December 2006 for a period of more than six months from the date they became payable.
- (b) According to the information and explanations given to us, there are no dues outstanding of Value Added Tax, Sales Tax, Income Tax, Customs Duty, Wealth Tax, Service tax, Excise Duty or Cess on account of any dispute, other than the following:
- (10) The Company does not have accumulated losses at the end of the financial year, and has not incurred any cash losses in the current and immediately preceding financial year.
- (11) According to the information and explanations given to us and based on the documents and records produced to us, the Company has not defaulted in repayment of dues to bank. The Company does not have dues to financial institutions or debenture holders.
- (12) According to the information and explanations given to us, the Company has not granted loans and advances on the basis of security by way of pledge of shares, debentures and other securities.
- (13) In our opinion and according to the information and explanations given to us, the nature of activities of the Company does not attract any special statute applicable to chit fund and nidhi/mutual benefit fund/societies.
- (14) In our opinion and according to the information and explanations given to us, the Company does not deal or trade in shares, securities, debentures and other investments.
- (15) In our opinion and according to the information and explanations given to us, the Company has not given any guarantees for loans taken by others from banks or financial institutions.
- (16) Based on our examination and according to the information and explanations given to us, there were no term loans during the year.
- (17) According to the information and explanations given to us, and on an overall examination of the Balance Sheet and Cash Flows of the Company, we report that the Company has not utilized funds raised on short-term basis for long-term investment.
- (18) The Company has not made any preferential allotment of shares to parties or companies covered in the register maintained under section 301 of the Companies Act, 1956.
- (19) The Company did not have outstanding debentures during the year.
- (20) The Company has not raised any money through a public issue during the year.
- (21) Based upon the audit procedures performed and information and explanations given and representations made by the Management, we report that no fraud on or by the Company has been noticed or reported during the year.

Name of Statute	Amount (Rs. Mn.)	Forum where dispute is pending
Sales Tax	103.26	Commissioner (Appeals)/ High Court
Excise Duty	0.15	Commissioner (Appeals)
Customs Duty	1.04	Appellate Authority-Tribunal
Non Agricultural Land Cess	3.60	Revenue Department

For and on behalf of  
**KALYANIWALLA & MISTRY**  
CHARTERED ACCOUNTANTS

**E. K. IRANI**  
PARTNER

Mumbai: 14th March, 2007

(Membership No. 35646)

## BALANCE SHEET AS AT 31st DECEMBER, 2006

	Schedules	(Rs. Million)	As at 31st December, 2006 (Rs. Million)	As at 31st December, 2005 (Rs. Million)
<b>SOURCES OF FUNDS</b>				
<b>1. SHAREHOLDERS' FUNDS</b>				
(a) Capital	1	276.80		138.40
(b) Reserves and Surplus	2	1,706.27		1,607.15
			1,983.07	1,745.55
<b>2. LOAN FUNDS</b>				
Unsecured Loan	3		22.65	6.14
<b>3. DEFERRED TAX LIABILITY</b>				
			32.89	37.65
			2,038.61	1,789.34
<b>APPLICATION OF FUNDS</b>				
<b>1. FIXED ASSETS</b>				
(a) Gross Block	4	1,993.54		1,432.43
(b) Less: Depreciation		804.75		720.58
(c) Net Block		1,188.79		711.85
(d) Capital Work in Progress		70.09		26.92
			1,258.88	738.77
<b>2. INVESTMENTS</b>				
	5		526.50	767.74
<b>3. CURRENT ASSETS, LOANS &amp; ADVANCES</b>				
(a) Inventories	6	498.84		416.67
(b) Sundry Debtors		613.20		477.11
(c) Cash & Bank Balances		101.95		101.10
(d) Accrued Interest		0.48		0.32
(e) Loans & Advances		169.20		165.76
		1,383.67		1,160.96
<b>Less: CURRENT LIABILITIES &amp; PROVISIONS</b>				
(a) Liabilities	7	747.59		557.53
(b) Provisions		382.85		320.60
		1,130.44		878.13
<b>NET CURRENT ASSETS</b>				
			253.23	282.83
			2,038.61	1,789.34
<b>NOTES TO ACCOUNTS</b>				
	13			

The Schedules referred to above form an integral part of the Balance Sheet

As per our Report of even date

For and on behalf of  
KALYANIWALLA & MISTRY  
Chartered Accountants

E. K. IRANI  
Partner

Membership No. 35646

Mumbai: 14th March, 2007

Signatures to Balance Sheet and Schedules 1 to 7 & 13

A. C. CHAKRABORTTI Vice-Chairman

A. Y. MAHAJAN Managing Director

K. VISWESWARAN Company Secretary

Mumbai: 14th March, 2007



## PROFIT AND LOSS ACCOUNT FOR THE YEAR ENDED 31st DECEMBER, 2006

	Schedules	(Rs. Million)	(Rs. Million)	For the Year Ended 31st December, 2006 (Rs. Million)	For the Year Ended 31st December, 2005 (Rs. Million)
<b>INCOME</b>					
Sales		4,212.87			3,604.92
<b>Less</b> : Excise Duty		(483.64)			(426.10)
Net Sales			3,729.23		3,178.82
Miscellaneous Income	8		131.18	3,860.41	110.29
					3,289.11
<b>EXPENDITURE</b>					
Raw Materials Consumed	9		1,179.93		1,043.89
Purchase of Trading Goods			312.27		154.53
Manufacturing, Administration and Selling Expenses	10		1,637.77		1,455.21
Interest	11		1.45		1.27
Debts and Advances Provided/Written off (Net)			7.09		1.75
Depreciation		94.73			77.29
<b>Less</b> : Transfer from Revaluation Reserve		(1.73)			(1.74)
			93.00		75.55
			3,231.51		2,732.20
<b>(Less)/Add</b> : (Increase)/Decrease in Inventory	12		(56.19)	3,175.32	21.38
					2,753.58
<b>Profit before Tax</b>				685.09	535.53
Provision for :					
Income Tax			219.07		175.71
Deferred Tax			(4.76)		0.39
Fringe Benefit Tax			10.60		5.40
				224.91	181.50
<b>Profit after Tax</b>				460.18	354.03
Surplus Brought Forward				100.00	70.00
<b>PROFIT AVAILABLE FOR APPROPRIATION</b>				560.18	424.03
<b>APPROPRIATIONS</b>					
Interim Dividend				193.76	—
Provision for Tax on Interim Dividend				27.17	—
Proposed Dividend				—	152.24
Provision for Tax on Proposed Dividend				—	21.58
Transfer to General Reserve				189.25	150.21
Surplus Carried Forward				150.00	100.00
				560.18	424.03
<b>Earnings Per Share (Basic &amp; Diluted) on Face Value of Rs. 5/- each</b> (Previous Year – Face Value of Rs.10/- each & Earnings Per Share Rs. 25.58)				8.31	6.40

### NOTES TO ACCOUNTS

13

The Schedules referred to above form an integral part of the Profit & Loss Account

As per our Report of even date

For and on behalf of  
KALYANIWALLA & MISTRY  
Chartered Accountants

E. K. IRANI  
Partner

Membership No. 35646

Mumbai: 14th March, 2007

Signatures to Profit and Loss Account and Schedules 8 to 13

A. C. CHAKRABORTTI

Vice-Chairman

A. Y. MAHAJAN

Managing Director

K. VISWESWARAN

Company Secretary

Mumbai: 14th March, 2007

## SCHEDULES FORMING PART OF THE ACCOUNTS

	(Rs. Million)	As at 31st December, 2006 (Rs. Million)	As at 31st December, 2005 (Rs. Million)
<b>SCHEDULE 1 : CAPITAL</b>			
<b>AUTHORISED</b>			
56,000,000 Equity Shares of Rs. 5/- each (Previous Year 14,000,000 Equity Shares of Rs. 10/- each)		280.00	140.00
<b>ISSUED, SUBSCRIBED AND PAID-UP</b>			
55,360,000 Equity Shares of Rs. 5/- each, fully paid-up (Previous Year – 13,840,000 Equity Shares of Rs. 10/- each)		276.80	138.40
		<b>276.80</b>	<b>138.40</b>
<b>NOTES:</b>			
(1) Of the above Equity Shares:			
(a) 280,000 Equity Shares of Rs. 5/- each (Previous Year – 140,000 Equity Shares of Rs. 10/- each) were allotted as fully paid pursuant to a contract without payment being received in cash.			
(b) 46,911,440 Equity Shares of Rs. 5/- each (Previous Year – 9,615,720 Equity Shares of Rs. 10/- each) were allotted as fully paid Bonus Shares by capitalising Share Premium, Profits & Reserves.			
(c) 14,817,760 Equity Shares of Rs. 5/- each (Previous Year – 3,704,440 Equity Shares of Rs. 10/- each) are held by Saint-Gobain Abrasives Inc. and 13,596,240 Equity Shares of Rs. 5/- each (Previous Year – 3,399,060 Equity Shares of Rs. 10/- each) are held by Saint-Gobain Promotion et Participations Internationales, the subsidiaries of Compagnie de Saint-Gobain, the ultimate holding company.			
(2) During the Year:			
(a) Authorised Share Capital has been increased to 56,000,000 Equity Shares of Rs. 5/- each.			
(b) The Face Value of each Equity Share of Rs. 10/- each has been sub-divided to 2 Equity Shares of Rs. 5/- each.			
(c) 27,680,000 Equity Shares of Face Value of Rs. 5/- each were issued as Bonus Shares by capitalisation of Share Premium.			
<b>SCHEDULE 2 : RESERVES AND SURPLUS</b>			
<b>1. SHARE PREMIUM ACCOUNT</b>			
As per last Balance Sheet	486.68		486.68
Capitalised by issue of Bonus Shares	138.40		–
		<b>348.28</b>	<b>486.68</b>
<b>2. REVALUATION RESERVE</b>			
As per last Balance Sheet	49.00		50.74
Transfer to Depreciation	(1.73)		(1.74)
		<b>47.27</b>	<b>49.00</b>
<b>3. GENERAL RESERVE</b>			
As per last Balance Sheet	971.47		821.26
Transfer from Profit & Loss Account	189.25		150.21
		<b>1,160.72</b>	<b>971.47</b>
<b>4. PROFIT &amp; LOSS ACCOUNT</b>			
		<b>150.00</b>	<b>100.00</b>
		<b>1,706.27</b>	<b>1,607.15</b>



## SCHEDULES FORMING PART OF THE ACCOUNTS

### SCHEDULE 3 : UNSECURED LOAN

Deferred Sales Tax

As at 31st December, 2006 (Rs. Million)	As at 31st December, 2005 (Rs. Million)
22.65	6.14
<b>22.65</b>	<b>6.14</b>

### SCHEDULE 4 : FIXED ASSETS

(Rs. Million)

ASSETS	GROSS BLOCK				DEPRECIATION / AMORTISATION			NET BLOCK		
	As at 1.1.2006	Additions	Deductions	As at 31.12.2006	Upto 1.1.2006	On Sales	For the Year	Upto 31.12.2006	As at 31.12.2006	As at 31.12.2005
<b>TANGIBLE ASSETS</b>										
Land – Freehold	21.54	–	–	21.54	–	–	–	–	21.54	21.54
Land – Leasehold	9.08	–	–	9.08	0.94	–	0.09	1.03	8.05	8.14
Buildings*	265.16	251.46	0.16	516.46	87.72	0.06	7.54	95.20	421.26	177.44
Plant & Machinery	928.90	96.93	6.85	1,018.98	523.09	4.37	55.76	574.48	444.50	405.81
Computers	81.39	10.35	1.37	90.37	61.58	1.19	8.53	68.92	21.45	19.81
Furniture, Fixtures & Office Equipment	69.00	31.21	1.71	98.50	33.85	0.74	5.51	38.62	59.88	35.15
Vehicles	50.93	4.70	11.42	44.21	11.99	4.20	4.37	12.16	32.05	38.94
<b>INTANGIBLE ASSETS</b>										
Computer Software	6.43	0.84	–	7.27	1.41	–	2.19	3.60	3.67	5.02
Goodwill	–	32.39	–	32.39	–	–	0.80	0.80	31.59	–
Technical Know-how	–	35.43	–	35.43	–	–	1.75	1.75	33.68	–
Trade Marks	–	40.64	–	40.64	–	–	6.18	6.18	34.46	–
Other Intangibles	–	78.67	–	78.67	–	–	2.01	2.01	76.66	–
<b>Total</b>	1,432.43	582.62	21.51	1,993.54	720.58	10.56	94.73	804.75	1,188.79	
Previous Year's Total	1,321.67	144.75	33.99	1,432.43	660.64	17.34	77.28	720.58		711.85
Capital Work In Progress									70.09	26.92
									<b>1,258.88</b>	<b>738.77</b>

\* Includes an amount of Rs. 750 (Previous Year – Rs. 750) representing the value of shares in a co-operative housing society.

## SCHEDULES FORMING PART OF THE ACCOUNTS

	Nos.	Face Value (Rs.)	(Rs. Million)	As at 31st December, 2006 (Rs. Million)	As at 31st December, 2005 (Rs. Million)
<b>SCHEDULE 5 : INVESTMENTS</b>					
<b>AT COST</b>					
<b>LONG TERM</b>					
<b>TRADE</b>					
<b>EQUITY SHARES (fully paid-up)</b>					
<b>Unquoted:</b>					
Andhra Pradesh Gas Power Corporation Ltd.	2,186,880	10		27.33	27.33
<b>NON-TRADE</b>					
<b>EQUITY SHARES (fully paid-up)</b>					
<b>Quoted:</b>					
John Oakey & Mohan Ltd.	1,900	10		0.02	0.02
<b>Unquoted:</b>					
(Companies under the same management)					
Lincoln Helios (India) Ltd.	500,000	10	5.00		5.00
Saint-Gobain Glass India Ltd.	2,500,000	10	250.00		250.00
Saint-Gobain India Foundation	100	10	@		@
				255.00	255.00
<b>OTHER SECURITIES</b>					
<b>Unquoted:</b>					
<b>MUTUAL FUNDS</b>					
<b>Debt Funds – Floating Rate Fund – Growth Plan</b>					
HSBC Floating Rate Fund – Long Term Plan – Institutional	1,000,000	10	10.00		10.00
<b>Debt Funds – Fixed Maturity Plan – Growth Plan</b>					
Birla Fixed Term Plan Series A – Growth**	(1,000,000)	10	–		10.00
ING Vysya Fixed Maturity Fund Series II – Growth**	(1,000,000)	10	–		10.00
SBI Magnum Debt Fund Series – 15 Months (Jan. 2005) – Growth**	(1,000,000)	10	–		10.00
Reliance Fixed Maturity Fund Series II – Annual Plan III – Growth**	(1,000,000)	10	–		10.00
Tata Fixed Horizon Yearly – (Jan. 2005)**	(1,000,000)	10	–		10.00
<b>Derivative Funds</b>					
JM Equity & Derivative Fund – Growth**	(493,900)	10	–		5.00
Prudential ICICI – Blended Plan – A – Dividend	500,000	10	5.00		5.00
				15.00	70.00



## SCHEDULES FORMING PART OF THE ACCOUNTS

	Nos.	Face Value (Rs.)	(Rs. Million)	As at 31st December, 2006 (Rs. Million)	As at 31st December, 2005 (Rs. Million)
<b>SCHEDULE 5 : INVESTMENTS (Continued)</b>					
<b>CURRENT</b>					
<b>NON-TRADE</b>					
<b>OTHER SECURITIES</b>					
<b>Unquoted:</b>					
<b>Debt Funds – Fixed Maturity Plan – Dividend Option</b>					
Reliance Fixed Horizon Fund I – Monthly Plan Series III – Dividend Option***	2,000,000	10	20.00		30.00
	(3,000,000)				
Reliance Fixed Term Scheme – Quarterly Plan**	(1,000,000)	10	–		10.00
UTI – Fixed Maturity Plan – QFMP – Series VI**	(1,000,000)	10	–		10.00
DSP Merrill Lynch – Fixed Term Plan – Series I**	(1,000,000)	10	–		10.00
ING Vysya Maturity Plan**	(1,000,000)	10	–		10.00
JM Fixed Maturity Fund Quarterly Plan – Qsg7 Series**	(1,000,000)	10	–		10.00
Kotak FMP Series XII**	(2,000,000)	10	–		20.00
LIC MF FMP Series 2**	(1,000,000)	10	–		10.00
Principal Deposit Fund (FMP-3-20) 91 Days Plan**	(1,000,000)	10	–		10.00
Prudential ICICI FMP Series 32 - 1 Month Plan*	2,000,000	10	20.00		–
<b>Derivative Funds</b>					
JM Equity & Derivative Fund – Dividend Option**	(500,000)	10	–		5.00
Kotak Cash Plus – Dividend***	2,000,610	10	20.00		10.00
	(1,000,000)				
<b>Debt Funds – Floating Rate Funds</b>					
DSP Merrill Lynch – Floating Rate Fund – Daily Dividend**	(1,026,003)	10	–		10.29
JM Floater Fund – Short Term Plan – Dividend**	(992,290)	10	–		10.00
ING Vysya Floating Rate Fund – Weekly Dividend**	(2,533,246)	10	–		25.49
Chola Short Term Floating Rate – Daily Div. Reinv. Plan**	(1,004,322)	10	–		10.05
Deutsche Floating Rate Fund Regular Plan – Weekly Dividend**	(975,188)	10	–		10.04
LIC MF Floating Rate Fund – Short Term Plan – Dividend Plan**	(2,014,434)	10	–		20.29
Templeton Floating Rate Income Fund – Short Term Plan – Div. Reinv.**	(1,024,336)	10	–		10.27
UTI Floating Rate Fund – Short Term Plan Dividend Option**	(2,027,891)	10	–		20.43

## SCHEDULES FORMING PART OF THE ACCOUNTS

	Nos.	Face Value (Rs.)	(Rs. Million)	As at 31st December, 2006 (Rs. Million)	As at 31st December, 2005 (Rs. Million)
<b>SCHEDULE 5 : INVESTMENTS (Continued)</b>					
<b>Liquid/Money Plus Funds – Dividend Plan</b>					
DWS Money Plus Fund Regular Plan – Weekly Dividend*	2,068,978	10	20.71		–
JM High Liquidity Fund – Super Institutional Plan***	1,997,408	10	20.01		84.05
	(8,391,395)				
Magnum Institutional Income Savings***	4,737,084	10	47.52		36.87
	(3,674,684)				
Principal Cash Management Fund Liquid Option – Inst. Plan***	3,989,001	10	39.90		42.61
	(4,261,422)				
Standard Chartered Liquidity Manager – Plus – Daily Dividend*	41,003	1,000	41.01		–
				<b>229.15</b>	415.39
				<b>526.50</b>	767.74
<b>NOTES:</b>					
1.	@ Less than Rs. 0.01 Million.				
2.	* Represents Purchased during the year.				
3.	** Represents Sold/Redeemed during the year.				
4.	*** Difference in No. of units between Previous Year & Current Year, is on account of purchase/sale during the year.				
5.	For details of Investment & Redemption of Mutual Fund Units during the year, Refer Schedule 13 Note 20.				
6.	<b>COST</b>				
	Quoted			0.02	0.02
	Unquoted			526.48	767.72
7.	<b>MARKET VALUE</b>				
	Quoted			0.03	0.03
8.	<b>MUTUAL FUNDS</b>				
	Cost			244.15	485.39
	Repurchase Price			246.64	489.84
9.	Figures in brackets indicate that of Previous Year.				



## SCHEDULES FORMING PART OF THE ACCOUNTS

### SCHEDULE 6 : CURRENT ASSETS, LOANS & ADVANCES

#### 1. INVENTORIES

	(Rs. Million)	As at 31st December, 2006 (Rs. Million)	As at 31st December, 2005 (Rs. Million)
Stores and Spare Parts	25.12		22.32
Raw Materials	148.87		150.16
Raw Materials in Transit	33.56		9.09
Finished Goods:			
Manufactured	114.51		101.06
Trading	47.80		22.15
Work-in-Process	128.98		111.89
		<b>498.84</b>	416.67

#### 2. SUNDRY DEBTORS

(Unsecured and considered good unless otherwise stated)			
Over six months	47.11		27.43
Others	606.10		486.36
	<b>653.21</b>		513.79
<b>Less:</b> Provision for doubtful debts	40.01		36.68
		<b>613.20</b>	477.11

(Sundry Debtors include Rs. 40.01 Million – Previous Year – Rs. 36.68 Million – considered doubtful)

#### 3. CASH AND BANK BALANCES

Cash and Cheques on hand and remittances in transit	56.04		37.92
With Scheduled Banks:			
On Current Account	45.91		63.18
		<b>101.95</b>	101.10

#### 4. ACCRUED INTEREST

		<b>0.48</b>	0.32
--	--	-------------	------

#### 5. LOANS AND ADVANCES

(Unsecured and considered good unless otherwise stated)			
Advances recoverable in cash or in kind or for value to be received (including Rs. 4.39 Million – Previous Year – Rs. 4.60 Million – considered doubtful)	121.53		89.91
Inter Corporate Deposit	–		30.00
Demand Deposits with Excise and Customs Departments	10.76		3.50
Other Deposits	41.30		46.95
	<b>173.59</b>		170.36
<b>Less:</b> Provision for doubtful advances	4.39		4.60
		<b>169.20</b>	165.76
		<b>1,383.67</b>	1,160.96

## SCHEDULES FORMING PART OF THE ACCOUNTS

### SCHEDULE 7 : CURRENT LIABILITIES AND PROVISIONS

#### 1. LIABILITIES

Sundry Creditors:

Due to Small Scale Undertakings  
Others

18.68  
250.50

269.18

Trade Deposits  
Unclaimed Dividend\*  
Other Liabilities

14.26  
2.98  
461.17

461.17

\* (Investor Protection & Education Fund is being credited by the amount of Unclaimed Dividend after seven years from the due date.)

747.59

#### 2. PROVISIONS

For taxation

On income (Net of Advance tax of Rs. 996.39 Million – Previous Year – Rs. 771.73 Million)  
On Interim Dividend  
On Proposed Dividend

46.22  
27.17

–

73.39

193.76

Interim Dividend  
Proposed Dividend  
Provision for Leave Encashment  
For Contingencies

–  
38.49  
77.21

–

382.85

1,130.44

### SCHEDULE 8 : MISCELLANEOUS INCOME

Commission

Interest (Gross):

From Long term Investments (Non-trade)  
Others

–  
8.50

(Tax deducted – Rs. 0.57 Million – Previous Year – Rs. 0.03 Million)

8.85

8.50

Dividends from Investments (Non-trade):

From Long term Investments  
From Current Investments

20.38  
21.66

42.04

Sales Tax Refund

Service Income

Gain on Prepayment of Deferred Sales Tax

Profit on Sale of Investments:

From Long term Investments  
From Current Investments

4.02  
0.75

4.77

39.56

131.18

Others

(Rs. Million)

As at  
31st December,  
2006  
(Rs. Million)

As at  
31st December,  
2005  
(Rs. Million)

(Rs. Million)

For the  
Year Ended  
31st December,  
2006  
(Rs. Million)

For the  
Year Ended  
31st December,  
2005  
(Rs. Million)



## SCHEDULES FORMING PART OF THE ACCOUNTS

### SCHEDULE 9 : RAW MATERIALS CONSUMED

	(Rs. Million)	For the Year Ended 31st December, 2006 (Rs. Million)	For the Year Ended 31st December, 2005 (Rs. Million)
Opening Stock of			
Raw Materials	150.16		116.91
Raw Materials in Transit	9.09		17.89
		<b>159.25</b>	<b>134.80</b>
<b>Add:</b> Purchases		<b>1,203.11</b>	<b>1,068.34</b>
		<b>1,362.36</b>	<b>1,203.14</b>
<b>Less:</b> Closing Stock of			
Raw Materials	148.87		150.16
Raw Materials in Transit	33.56		9.09
		<b>182.43</b>	<b>159.25</b>
		<b>1,179.93</b>	<b>1,043.89</b>

### SCHEDULE 10 : MANUFACTURING, ADMINISTRATION AND SELLING EXPENSES

Stores and Spare Parts Consumed		78.99	69.30
Processing Charges		80.55	65.13
Salaries, Wages, Bonus and Gratuity		365.11	322.33
Contribution to Provident and other Funds		33.53	32.53
Staff Welfare		48.70	46.78
Power and Fuel		359.92	329.84
Freight, Octroi and Packing Expenses		191.70	179.95
Repairs and Maintenance:			
Buildings	3.63		4.06
Machinery	38.07		35.65
Others	10.32		11.11
		<b>52.02</b>	<b>50.82</b>
Rent		12.36	9.52
Rates and Taxes		6.23	11.07
Insurance		8.48	8.26
Travelling and Conveyance		63.99	45.68
Commission and Discount on Sales		120.62	91.87
Royalties		35.77	31.83
Loss on assets discarded/sold (Net)		3.73	5.24
Miscellaneous		176.07	155.06
		<b>1,637.77</b>	<b>1,455.21</b>

## SCHEDULES FORMING PART OF THE ACCOUNTS

	(Rs. Million)	For the Year Ended 31st December, 2006 (Rs. Million)	For the Year Ended 31st December, 2005 (Rs. Million)
<b>SCHEDULE 11 : INTEREST</b>			
<b>ON LOANS</b>			
Banks	0.05		0.10
Others	1.40		1.17
		1.45	1.27
		1.45	1.27
<b>SCHEDULE 12 : (INCREASE)/DECREASE IN INVENTORY</b>			
Opening Stock of			
Finished Goods:			
Manufactured	101.06		130.96
Trading	22.15		22.12
Work-in-Process	111.89		103.40
		235.10	256.48
<b>Less:</b> Closing Stock of			
Finished Goods:			
Manufactured	114.51		101.06
Trading	47.80		22.15
Work-in-Process	128.98		111.89
		291.29	235.10
		(56.19)	21.38



## SCHEDULES FORMING PART OF THE ACCOUNTS

### SCHEDULE 13 : NOTES TO ACCOUNTS

#### 1. Significant Accounting Policies :

(i) **Method of Accounting :**

The accounts are prepared on the historical cost convention. Expenses and income are accounted for on accrual basis.

(ii) **Fixed Assets :**

Fixed Assets are stated at cost, except those Tangible Assets which were revalued as on 30.6.88 are stated at revalued amounts.

(iii) **Investments :**

(a) Long Term Investments are valued at cost less provision for diminution in value, if the diminution is other than temporary.

(b) Current Investments are stated at lower of cost and fair value.

(iv) **Inventories :**

Inventories are valued at lower of cost and net realisable value. The cost is arrived at on a weighted average basis.

(v) **Revenue Recognition :**

Sales are recognised at the point of despatch of goods to Customers. Sales are inclusive of Excise Duty but net of Trade Discounts and Sales Tax.

(vi) **Foreign Currency Transactions :**

Transactions in foreign currency are translated at rates of exchange prevailing on the date the transactions are recorded. The outstanding amounts are converted at the year end at the rates prevailing on that date or at the forward rate cover and the difference arising on conversion is accounted for in the books of account.

(vii) **Retirement Benefits :**

Retirement Benefits to employees for Gratuity and Superannuation under the approved schemes of the Company and Leave Encashment benefit are provided on actuarial/actual liability basis.

(viii) **Research & Development :**

(a) Revenue expenditure on Research & Development is charged under respective heads of account.

(b) Capital expenditure on Research & Development is included as part of the relevant Fixed Assets.

(ix) **Borrowing Costs :**

Borrowing costs incurred by the Company on an asset that necessarily takes a substantial period of time to get ready for its intended use or sale, are capitalised as part of the cost of that asset.

(x) **Depreciation/Amortisation :**

**On Tangible Assets :**

(a) Depreciation on cost of Assets is provided on Straight Line Method in accordance with the rates prescribed under schedule XIV of the Companies Act, 1956, except for the following :

(i) Computers are depreciated over 4 years.

(ii) Specific Kilns are depreciated over 5 years, being the estimated useful life of these Assets.

(b) Depreciation on revalued amounts is provided on Straight Line Method based on the residual life of the said assets and adjusted to Revaluation Reserve.

(c) Cost of Leasehold Land is amortised over the period of the lease.

## SCHEDULES FORMING PART OF THE ACCOUNTS

### SCHEDULE 13 : NOTES TO ACCOUNTS (Continued)

#### On Intangible Assets :

(a) Intangible assets are amortised on the Straight Line Method over the useful life, based on the economic benefits that would be derived, as per the estimates made by the management :

- |                          |   |  |
|--------------------------|---|--|
| (i) Computer Software    | : | 3 Years                                      |
| (ii) Goodwill            | : | 10 Years                                     |
| (iii) Technical Know-how | : | 5 Years                                      |
| (iv) Trademark           | : | Licence Period/10 Years (whichever is lower) |
| (v) Other Intangibles    | : | 10 Years                                     |

#### (xi) Impairment :

The cash generating units are evaluated at the Balance Sheet date to ascertain the estimated recoverable amount/value in use as against the Written Down Value. Impairment loss, if any, is recognised whenever the Written Down Value exceeds estimated recoverable amount/value in use.

#### (xii) Deferred Tax :

Deferred tax assets and liabilities are based on timing differences between the values of assets and liabilities recorded in the financial statements and those used for tax purposes. Tax rates applicable to future periods are used to calculate year-end Deferred Income Tax amounts.

#### (xiii) Provisions and Contingencies :

- (a) Provisions are recognised based on the best estimate of probable outflow of resources which would be required to settle obligations arising out of past events.
- (b) Contingent liabilities not provided for as per (a) above are disclosed in notes to accounts and Contingent assets are not recognised.

#### 2. Contingent liabilities not provided for in respect of :

	2006 (Rs. Million)	2005 (Rs. Million)
a. Excise Duty demands/show cause notices pending with the appropriate authorities and disputed by the Company	15.62	19.80
b. Sales Tax demands pending with the Commissionerate/High Court and disputed by the Company	103.26	87.52
c. Customs Duty demands pending with Appellate Tribunal and disputed by the Company	1.04	1.04
d. Claims against the Company under the Labour Laws for disputed cases	4.54	3.98
e. Demand raised by A. P. Transco on surplus units allocated, disputed by the Company & sub-judice in High Court (Net)	19.31	13.52
f. Guarantees given by Banks – Counter guaranteed by the Company	28.36	46.32
g. Channel financing with recourse	–	8.34
h. Other Claims against the Company not acknowledged as debts	8.42	14.59

3. The Company has Cash Credit facilities from bankers secured by first charge by way of hypothecation of inventories and book debts, both present and future, wherever situated and subservient mortgage on immovable properties situated at Mora, Bangalore and Nagpur.



## SCHEDULES FORMING PART OF THE ACCOUNTS

### SCHEDULE 13 : NOTES TO ACCOUNTS (Continued)

#### 4. Provision for Contingencies :

The Company has made provision for known litigation and the outflow of which would depend on the cessation of respective events.

#### Transmission Corporation of Andhra Pradesh Ltd.

Opening Provision  
Add/(Less): Provision Made/(Reversed)/(Used) during the Year  
Closing Provision

2006 (Rs. Million)	2005 (Rs. Million)
77.21	77.21
—	—
<u>77.21</u>	<u>77.21</u>

5. The Company has erected its Silicon Carbide Plant at Tirupati on land in respect of which the transfer formalities have yet to be completed by the Andhra Pradesh State Government. The terms of transfer are under negotiation and the value will be accounted when negotiations are finalised.

6. During the year, the Company has acquired the Bonded Abrasives business of Orient Abrasives Limited on a Slump Sale basis on 1st Oct. 2006, for an aggregate consideration of Rs. 261.7 Million (excluding transaction cost).

7. Future liability in respect of lease rentals (for vehicles), aggregating to Rs. NIL (Previous Year – Rs. 0.03 Million).

8. Estimated amount of contracts remaining to be executed on capital account and not provided for Rs. 12.73 Million (Previous Year – Rs. 5.66 Million).

9. Exchange difference arising on foreign currency transactions amounting to Rs. 5.03 Million (Net Gain) (Previous Year – Rs. 2.89 Million – Net Gain) has been accounted under respective heads.

#### 10. Deferred Tax :

The tax effects of significant timing differences that resulted in deferred tax assets and liabilities are :

Depreciation on Fixed Assets  
Provision for Doubtful Debts and Advances  
Compensation under Voluntary Retirement Schemes  
Provision for Contingencies  
Others

#### Deferred Tax Liability

2006 (Rs. Million)	2005 (Rs. Million)
(99.58)	(95.48)
14.95	13.84
1.13	2.41
25.99	25.99
24.62	15.59
<u>(32.89)</u>	<u>(37.65)</u>
55,360,000	13,840,000
460.18	354.03
8.31	6.40

#### 11. Earnings Per Share (EPS) :

(a) Number of shares outstanding  
(b) Profit after tax (Rs. Million)  
(c) EPS (Basic & Diluted) in Rs.  
(See Note below)

Note: Number of Shares increased during the year, on account of the sub-division of Face Value of shares from Rs. 10/- each to Rs. 5/- each and issue of Bonus Shares in the ratio of 1:1 and accordingly EPS for the Previous Year has been computed on the enhanced base.

## SCHEDULES FORMING PART OF THE ACCOUNTS

### SCHEDULE 13 : NOTES TO ACCOUNTS (Continued)

12. "Due to Small Scale Undertakings" (to the extent such parties have been identified from available information) include the following parties to whom the Company owes a sum which is outstanding for more than 30 days :

A-1 Polymers	Prakash Corrugating Industries
Advance Systems Controls	Precision Engineering Accessories
Balaji Agency	Pruthvi Industries
Creative Engineering Systems	R. D. Weld Products Pvt. Ltd.
Dia Tools	Shankar Melting Works
Jolly Polymers	Speciality Polymers Pvt. Ltd.
Kalyani Enterprises	Sri Venketeshwara Pattern Works
Maruthi Press Tools	Sri Ven Industrial Products
Mineral Processing Industries	Sushil Traders
Paragon Paper Packing Pvt. Ltd.	Vaibhav Graphic
PackoPack	Vijayalakshmi Pattern Works

	(Rs. Million)	2006 (Rs. Million)	2005 (Rs. Million)
13. Revenue expenditure on Research & Development charged to the Profit and Loss Account during the year		5.78	5.47
14. (i) Managerial remuneration u/s. 198 of the Companies Act 1956 :			
(a) <b>Managing Director</b>			
Salaries	5.78		3.88
Commission	7.04		5.56
Contribution to Provident Fund and other Funds	1.61		1.37
Perquisites	0.05		0.08
		14.48	10.89
(b) <b>Non-wholetime Directors</b>			
Commission		5.72	5.56
		20.20	16.45
(c) <b>Sitting Fees</b>		0.20	0.21
(ii) Computation of Net Profits in accordance with Section 198 of the Companies Act, 1956, and the commission payable to Directors : Profit as per Profit and Loss Account		460.18	354.03
<b>Add :</b>			
Provision for :			
Income Tax	219.07		175.71
Deferred Tax	(4.76)		0.39
Fringe Benefit Tax	10.60		5.40
Managerial Remuneration	20.20		16.45
Sitting Fees	0.20		0.21
Loss on assets discarded/sold (Net)	3.73		5.24
		249.04	203.40
		709.22	557.43
<b>Less :</b>			
Profit on Sale of Investments		4.77	2.22
		704.45	555.21
Commission payable to :			
(a) Managing Director @ 1%		7.04	5.56
(b) Other Directors		5.72	5.56



## SCHEDULES FORMING PART OF THE ACCOUNTS

### SCHEDULE 13 : NOTES TO ACCOUNTS (Continued)

	2006 (Rs. Million)	2005 (Rs. Million)
15. Advances recoverable in cash or in kind include :		
Loan due from an officer of the Company	-	-
Maximum Amount due at any time during the year	-	0.15
16. Amounts paid to Auditors :		
(i) Audit Fees	1.05	0.66
(ii) Audit under other Statutes	0.15	0.11
(iii) Tax representation before Authorities	0.20	0.31
(iv) Certification	0.69	0.13
(v) Reimbursement of Expenses	0.02	0.03

#### 17. I. Value of Raw Materials Consumed :

	Unit	2006		2005	
		Quantity	(Rs. Million)	Quantity	(Rs. Million)
(i) Abrasive Grains	Tons	10,546.72	413.95	10,132.57	377.81
(ii) Carbon Materials	Tons	12,622.94	54.22	11,877.47	55.77
(iii) Others			854.49		743.43

#### II. Value of Imported and Indigenous Materials Consumed :

	2006		2005	
	%	(Rs. Million)	%	(Rs. Million)
(i) Imported Raw Materials	45.19	597.69	36.92	434.50
(ii) Indigenous Raw Materials	54.81	724.97	63.08	742.51
(iii) Imported Stores & Spares	3.19	2.52	2.21	1.53
(iv) Indigenous Stores & Spares	96.81	76.47	97.79	67.77

Note: Raw Materials consumed include captive consumption.

	2006 (Rs. Million)	2005 (Rs. Million)
18. Value of Imports on CIF Basis :		
(i) Raw Materials	585.23	505.60
(ii) Spare Parts	0.83	0.43
(iii) Capital Goods	27.31	8.81
(iv) Others	172.27	94.34

## SCHEDULES FORMING PART OF THE ACCOUNTS

### SCHEDULE 13 : NOTES TO ACCOUNTS (Continued)

#### 19. Quantitative Details :

##### I. Capacities, Production, Stock and Sales in 2006 :

Class of Goods	Units	Installed Capacity	Production	Opening Stock	Closing Stock	Sales	
						Quantity	Rs. Million
Bonded Abrasives	Tons	<b>12,150.00</b>	<b>9,073.27</b>	<b>303.24</b>	<b>554.87</b>	<b>8,821.64</b>	<b>1,597.04</b>
		(11,060.00)	(8,097.83)	(427.66)	(303.24)	(8,222.25)	(1,422.65)
Coated Abrasives	Sq. m. in Million	<b>4.90</b>	<b>3.20</b>	<b>0.19</b>	<b>0.13</b>	<b>3.26</b>	<b>1,313.05</b>
		(4.90)	(2.94)	(0.22)	(0.19)	(2.97)	(1,107.22)
Abrasive Grains	Tons	<b>8,400.00</b>	<b>7,371.73</b>	<b>223.43</b>	<b>217.52</b>	<b>7,377.64</b>	<b>495.34</b>
		(8,400.00)	(6,094.30)	(480.64)	(223.43)	(6,351.51)	(430.82)
Refractories	Tons	<b>1,600.00</b>	<b>1,670.02</b>	<b>-</b>	<b>-</b>	<b>1,670.02</b>	<b>206.02</b>
		(1,600.00)	(1,569.24)	-	-	(1,569.24)	(207.42)
Others							<b>601.42</b>
							(436.81)
Total							<b>4,212.87</b>
							(3,604.92)

##### II. Notes:

- Licensed Capacity has not been mentioned as the products are delicensed.
- Installed Capacities are as certified by the Management.
- Production and Sales of items above exclude captive consumption.
- Production includes items processed by sub-contractors.
- Previous Year's figures are in brackets.

#### 20. Investment and Redemption of Mutual Fund Units during the Year:

	Units in Million	2006 Rs. Million
ABN Amro Fixed Term Plan Series 2 Quarterly Plan A Dividend	1.00	10.00
Prudential ICICI FMP Yearly Dividend	5.04	50.41
Prudential ICICI FMP Series 32 One Month Plan A	2.01	20.11
Kotak FMP Series XVII - Dividend	1.00	10.00
Kotak FMP Series XVIII - Dividend	2.00	20.00
Sundaram Fixed Term Plan Series 1 - Dividend Plan	1.00	10.00
UTI Fixed Maturity Plan Q F M P/0106/II - Dividend Plan - Payout	1.00	10.00
Sundaram BNP Paribas Fixed Term Plan Series VIII - Dividend Plan	2.00	20.00
Sundaram BNP Paribas Fixed Term Plan Series X - Dividend Plan	2.00	20.00
HSBC Fixed Term Series 7 Dividend	1.02	10.15
Birla FTP Qtly Series 1 Dividend Payout	1.00	10.00
Principal PNB Fixed Maturity Plan 91 Days Series II	1.02	10.15
Reliance Fixed Maturity Fund-Monthly Plan XI-Series II - Dividend Option	5.00	50.00
Principal Deposit Fund 91 Days Plan	0.03	0.27
Standard Chartered Fixed Maturity 3 Plan Dividend	1.01	10.06
Grindlays Fixed Maturity - 21 Plan Dividend	2.02	20.19
DBS Chola Short Term Floating Rate Fund Daily Div Reinv Plan	0.01	0.10
DSP Merrill Lynch Floating Rate Fund - Regular Plan Daily Dividend	0.01	0.09



## SCHEDULES FORMING PART OF THE ACCOUNTS

### SCHEDULE 13 : NOTES TO ACCOUNTS (Continued)

#### 20. Investment and Redemption of Mutual Fund units during the Year: (Continued)

	Units in Million	2006 Rs. Million
ING Vyasa Floating Rate Fund-Weekly Dividend	0.02	0.20
UTI Floating Fund - Short Term Plan (Dividend Option) Reinvestment	0.02	0.05
DWS Floating Rate Fund Regular Plan - Weekly Dividend	0.01	0.10
Franklin Templeton Floating Rate Income Fund Dividend Reinvestments	0.01	0.12
JM Floater Fund Short Term Plan Daily Dividend	5.06	51.04
LIC MF Floating Rate Fund - Short Term Plan - Dividend Plan	0.02	0.19
Reliance Liquid Fund - Cash Plan - Daily Dividend Option	4.56	50.76
Reliance Liquidity Fund - Daily Dividend Reinvestment Option	5.07	50.73
Birla Cash Plus Instl Daily Dividend - Reinvestment	7.41	80.05
Birla Cash Plus Instl Prem Daily Dividend - Reinvestment	2.01	20.17
Birla Sun Life Cash Manager IP Daily Dividend - Reinvestment	1.52	15.19
LIC Liquid Fund - Dividend Plan	1.83	20.13
RLF Treasury Plan - Institutional Option - Daily Dividend Option	4.92	75.15
JM High Liquidity Fund - Super Institutional Plan	275.64	2760.95
Magnum Institutional Income Saving Dividend	21.68	217.49
Standard Chartered Liquidity Manager - Daily Dividend	40.46	404.61
Principal Cash Management fund Liquid Option Dividend Reinvestment Daily	60.62	606.38
Total	<b>459.03</b>	<b>4634.84</b>

#### 21. Expenditure in Foreign Currency :

	2006 (Rs. Million)	2005 (Rs. Million)
(i) Export Sales Commission	2.23	1.29
(ii) Foreign Travel	4.06	1.66
(iii) Royalties	35.77	31.83
(iv) Technical Design & Drawings Charges	2.16	15.00
(v) Others	2.66	1.87

#### 22. Amount remitted in Foreign Currency on account of :

	2006 (Rs. Million)	2005 (Rs. Million)
Dividend	78.14	71.04
Number of Non-Resident Shareholders	2	2
Number of Shares held	7,103,500	7,103,500
Year to which Dividend relates	2005	2004

#### 23. Earnings in Foreign Exchange :

	2006 (Rs. Million)	2005 (Rs. Million)
(i) Exports of goods on FOB Basis	400.78	331.02
(ii) Freight on Exports	6.16	8.61
(iii) Insurance on Exports	0.01	0.02
(iv) Commission	8.85	2.47
(v) Export of Services	1.99	0.54
(vi) Other Income	11.32	5.55

## SCHEDULES FORMING PART OF THE ACCOUNTS

### SCHEDULE 13 : NOTES TO ACCOUNTS (Continued)

#### 24. Related Party Disclosure :

##### 1. Relationships :

##### (i) HOLDING COMPANY :

Compagnie de Saint-Gobain, through its two subsidiaries :

- (a) Saint-Gobain Abrasives Inc., U.S.A.
- (b) Saint-Gobain Promotion et Participations Internationales, France.

##### (ii) ASSOCIATE COMPANIES :

ABC Superabrasives, USA  
 BPB Holdings India Pvt. Ltd.  
 Certainteed Corporation, USA  
 Compagnie de Saint Gobain Liasion office  
 India Gypsum Ltd.  
 Kure-Norton Co., Ltd., Japan  
 Norton Abrasives PTY Ltd.  
 Norton Proppants Inc., USA  
 PT Saint-Gobain Norton Hampas, Indonesia  
 PT Saint-Gobain Winter Diamas, Indonesia  
 Saint-Gobain PAM (France)  
 Saint-Gobain Abrasives Ltd.  
 Saint-Gobain Tevesa S.A.  
 Saint-Gobain Abrasifs Maroc., Morocco  
 Saint-Gobain Abrasive International Trading (Shanghai)  
 Saint-Gobain Abrasives (Aust) PTY Ltd.  
 Saint-Gobain Abrasives (Shanghai) Co. Ltd., Shanghai  
 Saint-Gobain Abrasives BV., Netherlands  
 Saint-Gobain Abrasives GMBH (CORA)  
 Saint-Gobain Abrasives GMBH, Gerolzhofen, Germany  
 Saint-Gobain Abrasives International Trading (HK) Ltd.  
 Saint-Gobain Abrasives Korea  
 Saint-Gobain Abrasives Thailand  
 Saint-Gobain Abrasives Ltd., New Zealand  
 Saint-Gobain Abrasives Singapore (PTE) Ltd.  
 Saint-Gobain Abrasives SP. Z.  
 Saint-Gobain Abrasives (PTY) Ltd., South Africa  
 Saint-Gobain Abrasives, France  
 Saint-Gobain Abrasivi S.P.A. (Micromold)  
 Saint-Gobain Abrasivi S.P.A. Italy  
 Saint-Gobain Abrasives Ltd., Brazil  
 Saint-Gobain Abrasivos S.A., Barcelona  
 Saint-Gobain Abrasivos SA., Argentina  
 Saint-Gobain Abrasivos SA., Debray  
 Saint-Gobain Abrasifs Dubai  
 Saint-Gobain Cera Mat (Lianyungang) Co.  
 Saint-Gobain Ceramic Materials AS., Norway  
 Saint-Gobain Ceramic Materials, USA  
 Saint-Gobain Ceramicas Industriales S.A.

Saint-Gobain Crystals & Detectors India Ltd.  
 Saint-Gobain Diamantwerkzeuge GMBH & Co.  
 Saint-Gobain Glass India Ltd.  
 Saint-Gobain Industrial Ceramics, UK  
 Saint-Gobain Industrial Ceramics, USA  
 Saint-Gobain Industriekeramik Rodental GMBH  
 Saint-Gobain Materiaux Ceramiques  
 Saint-Gobain Sekurit India Ltd.  
 Saint-Gobain Seva Engineering India Limited  
 Saint-Gobain Seva, France  
 Saint-Gobain Universal Superabrasives, Inc  
 Saint-Gobain Vetrotex India Ltd.  
 Saint-Gobain Weber (India) Limited  
 SEPR Refractories India Ltd.  
 SEPR, France  
 SG Diamond Winter S.A. (PTY) Ltd., South Africa  
 SG Performance Plastics Corby, UK  
 SG Performance Plastics Korea Co. Ltd.  
 Saint-Gobain Vibros S.A.  
 SG Performance Plastics Pampus GMBH  
 SG Performance Plastics Verneret, France  
 SG Performance Plastics, Akron, USA  
 SG Performance Plastics, Beaverton, USA  
 SG Performance Plastics, Granville, USA  
 SG Performance Plastics, Ireland  
 SG Performance Plastics, Mickleton, USA  
 SG Performance Plastics, Mundelein, USA  
 SG Performance Plastics, New Jersey, USA  
 SG Performance Plastics, New York, USA  
 SG Performance Plastics, Pittsburg, USA  
 SG Performance Plastics, Gembloux, Belgium  
 SG Performance Plastics (SHANGHAI)  
 SG Adadvanced Ceramics (Shanghai) Co. Ltd.  
 SG Performance Plastics KK, JAPAN  
 SG Performance Plastics, Garden Grove, USA  
 SG Performance Plastics, TAIWAN  
 Universal Superabrasives, USA  
 Zhengzhou Saint-Gobain W. D.C.M. Co. Ltd.

##### (iii) JOINT VENTURE :

Lincoln Helios (India) Ltd.

##### (iv) KEY MANAGEMENT PERSONNEL :

A. Y. Mahajan – Managing Director



## SCHEDULES FORMING PART OF THE ACCOUNTS

### SCHEDULE 13 : NOTES TO ACCOUNTS (Continued)

2. The following transactions were carried out with the related parties in the ordinary course of business :

(i) Details relating to parties referred to in items 1(i), (ii) and (iii) above :

(Rs. Million)

Particulars	Holding Company		Associate Companies		Joint Venture	
	2006	2005	2006	2005	2006	2005
1 Sales	73.77	63.00	144.68	229.15	0.30	0.41
2 Agency Commission received	-	-	5.11	1.23	-	-
3 Dividend received	-	-	2.75	-	17.50	19.50
4 Service Income	1.99	0.24	4.59	4.12	1.64	0.99
5 Sale of Investments	-	-	-	0.50	-	-
6 Other Income	2.17	0.20	3.37	1.46	-	-
7 Purchase of Goods	40.41	12.69	356.46	253.54	-	-
8 Expenses charged to other companies	3.47	0.56	24.69	19.84	7.65	5.52
9 Expenses charged by other companies	0.04	-	13.01	7.63	-	-
10 Royalty Paid	27.34	24.89	8.43	6.94	-	-
11 Other Expenses	-	-	2.14	16.37	-	-
12 Sale/Transfer of Fixed Assets	-	-	-	0.08	-	-
13 Deposit taken	-	-	2.80	-	-	1.13
14 Outstanding receivables (net of payables)	(11.13)	4.09	(7.08)	(6.63)	2.03	3.14
15 Outstanding deposits	-	-	-	-	14.98	14.98

(ii) Details relating to person referred to in item 1(iv) above :

	2006	2005
Remuneration	14.48	10.89

(iii) Significant transactions with related parties :

(Rs. Million)

Nature of Transactions	Associate Companies		2006
	1 Sales	Saint-Gobain Abrasives (Aust) PTY Ltd. Saint-Gobain Abrasives Singapore (PTE) Ltd.	39.32 25.56
2 Agency Commission received	Saint-Gobain Diamantwerkzeuge GMBH & Co. Saint-Gobain Ceramicas Industriales S.A.	4.04 0.78	
3 Dividend received	Saint-Gobain Glass India Ltd.	2.75	
4 Service Income	Saint-Gobain Seva Engineering India Limited Saint - Gobain PAM (France)	2.43 0.98	
5 Other Income	Saint-Gobain Seva Engineering India Limited	2.70	
6 Expenses charged by other companies	Saint-Gobain Seva, France	2.16	
7 Royalty Paid	Saint-Gobain Abrasives, France	3.77	
8 Other Expenses	Saint-Gobain Abrasifs Technologie ET Services	1.99	
9 Deposit taken	Saint-Gobain Seva Engineering India Limited	2.80	

### 25. Information in respect of Joint Venture :

The Company's share of interest in Assets, Liabilities, Income & Expenses with respect to Joint Venture:

(Rs. Million)

Name of the Joint Venture Company	Holding (%)	As at 31st December, 2006				For the year ended 31st December, 2006	
		Assets	Liabilities	Contingent Liabilities	Capital Commitment	Income	Expenditure
Lincoln Helios (India) Limited (incorporated in India)	50 (50)	262.52 (200.98)	118.19 (88.06)	9.68 (6.53)	0.74 (3.42)	337.50 (222.26)	278.35 (186.03)

Note: Previous Year's figures are in brackets.

## SCHEDULES FORMING PART OF THE ACCOUNTS

### SCHEDULE 13 : NOTES TO ACCOUNTS (Continued)

#### 26. Segment Reporting :

##### A. Information about Business Segments:

(Rs. Million)

	Abrasives		Ceramics & Plastics		Others		Unallocated		Total	
	2006	2005	2006	2005	2006	2005	2006	2005	2006	2005
<b>Revenue</b>										
Segment Revenue	2,855.68	2,358.34	852.49	724.71	106.15	170.19	–	–	3,814.32	3,253.24
Less: Inter-segment Sales	–	–	(85.09)	(74.42)	–	–	–	–	(85.09)	(74.42)
<b>Net Sales</b>	<b>2,855.68</b>	<b>2,358.34</b>	<b>767.40</b>	<b>650.29</b>	<b>106.15</b>	<b>170.19</b>	<b>–</b>	<b>–</b>	<b>3,729.23</b>	<b>3,178.82</b>
<b>Result</b>										
<b>Segment Result</b>	<b>486.58</b>	<b>342.68</b>	<b>136.20</b>	<b>131.52</b>	<b>25.96</b>	<b>15.36</b>	<b>–</b>	<b>–</b>	<b>648.74</b>	<b>489.56</b>
Unallocated (Expenditure)/ Income – (Net)							(17.51)	3.43	(17.51)	3.43
Interest Expenses							(1.45)	(1.27)	(1.45)	(1.27)
Interest Income							8.50	10.51	8.50	10.51
Dividend Income							42.04	31.08	42.04	31.08
Profit on Sale of Investments							4.77	2.22	4.77	2.22
<b>Profit before Tax</b>									<b>685.09</b>	<b>535.53</b>
Provision for Tax (including Deferred Tax & FBT)							(224.91)	(181.50)	(224.91)	(181.50)
<b>Profit after Tax</b>									<b>460.18</b>	<b>354.03</b>
<b>Other Information</b>										
Total Assets (gross)	1,803.46	1,337.35	460.42	413.33	75.44	61.97	829.73	854.82	3,169.05	2,667.47
Less: Revaluation Reserve	(25.45)	(26.53)	(21.82)	(22.47)	–	–	–	–	(47.27)	(49.00)
Net Assets	1,778.01	1,310.82	438.60	390.86	75.44	61.97	829.73	854.82	3,121.78	2,618.47
Total Liabilities	567.97	395.94	198.87	178.30	18.77	23.39	400.37	324.29	1,185.98	921.92
Capital Expenditure	318.77	88.70	34.21	30.29	–	0.81	272.81	24.51	625.79	144.31
Depreciation	71.98	58.49	11.89	11.77	0.13	0.12	9.00	5.17	93.00	75.55

##### B. Information about Geographical Segments:

(a) The Distribution of the Company's sales by geographical market is as under:

(Rs. Million)

	2006	2005
Net Sales		
India	3322.29	2839.19
Outside India	406.94	339.63
Total	3729.23	3178.82

(b) The Company's assets are located entirely in India.

#### Notes:

(i) The Company is organised into the following business segments, namely :

- Abrasives
- Ceramics & Plastics
- Others

Segments have been identified and reported taking into account the nature of products and services, the differing risks and returns, the organisation structure, and the internal financial reporting systems.

- The Segment Revenue in each of the above business segments consists of Sales (net of returns, excise duty, sales tax, rebates etc.)
- Segment Revenue, Result, Assets and Liabilities include the respective amounts identifiable to each of the segments and amounts allocated on a reasonable basis.
- Segment Results are net of corporate overheads aggregating to Rs. 80.27 Million (Previous Year – Rs. 70.53 Million), allocated on a reasonable basis.



## SCHEDULES FORMING PART OF THE ACCOUNTS

### SCHEDULE 13 : NOTES TO ACCOUNTS (Continued)

#### 27. Statement Pursuant to Part IV of Schedule VI to the Companies Act, 1956 :

##### Balance Sheet Abstract for the Year Ended 31st December, 2006 and Company's General Business Profile

#### I. REGISTRATION DETAILS

Registration No.	:	8163
State Code	:	11
Balance Sheet Date	:	31-12-2006

(AMOUNT IN RS. THOUSANDS)

#### II. CAPITAL RAISED DURING THE YEAR

Public Issue	:	NIL
Rights Issue	:	NIL
Bonus Issue	:	138400
Private Placement	:	NIL

#### III. POSITION OF MOBILISATION AND DEPLOYMENT OF FUNDS

Total Liabilities	:	2038610
Total Assets	:	2038610

#### SOURCES OF FUNDS

Paid-up Capital	:	276800
Reserves & Surplus	:	1706270
Secured Loans	:	NIL
Unsecured Loans	:	22650
Deferred Tax	:	32890

#### APPLICATION OF FUNDS

Net Fixed Assets	:	1258880
Investments	:	526500
Net Current Assets	:	253230
Misc. Expenditure	:	NIL
Accumulated Losses	:	NIL

#### IV. PERFORMANCE OF COMPANY

Turnover (includes Miscellaneous Income)	:	3860410
Total Expenditure	:	3175320
Profit Before Tax	:	685090
Profit After Tax	:	460180
Earning Per Share in Rs.	:	8.31
Dividend Rate (%)	:	70%

#### V. GENERIC NAMES OF THE THREE PRINCIPAL PRODUCTS/SERVICES OF COMPANY (AS PER MONETARY TERMS)

Item Code No. (ITC Code)	:	680422.01
Product Description	:	GRINDING WHEELS OF SYNTHETIC ABRASIVE GRAINS
Item Code No. (ITC Code)	:	680510.01
Product Description	:	ABRASIVE CLOTHS
Item Code No. (ITC Code)	:	284920.00
Product Description	:	SILICON CARBIDE

28. Previous Year's figures have been recast and rearranged wherever necessary.

## CASH FLOW STATEMENT FOR THE YEAR ENDED 31st DECEMBER, 2006

	(Rs. Million)	2006 (Rs. Million)	(Rs. Million)	2005 (Rs. Million)
<b>A. CASH FLOW FROM OPERATING ACTIVITIES :</b>				
Profit before Tax and Extraordinary Item		685.09		535.53
<b>Adjustments for :</b>				
Depreciation	93.00		75.55	
Unrealised Foreign Exchange Loss/(Gain) (Net)	4.15		(5.01)	
Loss on Sale of Fixed Assets	3.73		5.24	
Profit on Sale of Investments	(4.77)		(2.22)	
Dividend Received	(42.04)		(31.08)	
Gain on Prepayment of Deferred Sales Tax	(4.66)		(22.50)	
Interest (Net)	(7.05)	42.36	(9.24)	10.74
<b>Operating Profit Before Working Capital Changes</b>		<b>727.45</b>		<b>546.27</b>
<b>Adjustments for :</b>				
Trade and other Receivables	(166.06)		(111.13)	
Inventories	(82.17)		(7.43)	
Trade and other Payables	194.67	(53.56)	45.93	(72.63)
<b>Cash Generated from Operations</b>		<b>673.89</b>		<b>473.64</b>
Direct Taxes Paid	(240.86)		(174.81)	
Tax Refund	16.20	(224.66)	22.51	(152.30)
<b>Net Cash from Operating Activities</b>		<b>449.23</b>		<b>321.34</b>
<b>B. CASH FLOW FROM INVESTING ACTIVITIES :</b>				
Purchase of Fixed Assets	(417.99)		(136.53)	
Purchase of Bonded Abrasives business of Orient Abrasives Ltd. (Refer Note 6 of Schedule 13 & Note 2 below)	(210.00)		-	
Sale of Fixed Assets	7.22		11.41	
Sale of Investments	59.77		104.22	
Purchase of Investments	-		(60.00)	
Inter Corporate Deposit placed	(80.00)		(40.00)	
Inter Corporate Deposit redeemed	110.00		10.00	
Interest Received	8.34		14.77	
Dividend Received	42.04		31.08	
<b>Net Cash used in Investing Activities</b>		<b>(480.62)</b>		<b>(65.05)</b>
<b>C. CASH FLOW FROM FINANCING ACTIVITIES</b>				
Net Increase in Borrowing	21.17		14.72	
Interest	(1.45)		(1.27)	
Dividends Paid	(152.37)		(137.59)	
Tax on Dividend	(21.35)		(19.64)	
<b>Net Cash used in Financing Activities</b>		<b>(154.00)</b>		<b>(143.78)</b>
<b>NET (DECREASE)/INCREASE IN CASH AND CASH EQUIVALENTS</b>		<b>(185.39)</b>		<b>112.51</b>
<b>CASH AND CASH EQUIVALENTS – OPENING BALANCE</b>				
Cash and Bank Balances	101.10		58.62	
Cash Equivalents (Investment in Current Securities)	415.39	516.49	345.36	403.98
<b>CASH AND CASH EQUIVALENTS – CLOSING BALANCE</b>				
Cash and Bank Balances	101.95		101.10	
Cash Equivalents (Investment in Current Securities)	229.15	331.10	415.39	516.49
		<b>(185.39)</b>		<b>112.51</b>

- NOTES: 1. The Company has undrawn borrowing facilities amounting to Rs. 260 Million (Previous year – Rs. 260 Million).  
2. Purchase of Bonded Abrasives business of Orient Abrasives Ltd. does not include consideration paid for acquiring Working Capital.  
3. Previous Year's figures have been regrouped to conform with the current year's presentation.

As per our Report of even date

For and on behalf of  
KALYANIWALLA & MISTRY  
Chartered Accountants

E. K. IRANI  
Partner  
Membership No. 35646

Mumbai: 14th March, 2007

A. C. CHAKRABORTTI

A. Y. MAHAJAN

K. VISWESWARAN

Mumbai: 14th March, 2007

Vice-Chairman

Managing Director

Company Secretary