



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.
(Formerly known as
Tata Share Registry Ltd.)
Army & Navy Building,
148, M. G. Road, Mumbai - 400 001.
Tel. No. : 022-5656 8484
Fax : 022-5656 8494
E-Mail : csg-unit@tatashare.com

Registered Office

Army & Navy Building,
148, M. G. Road,
Mumbai - 400 001.
Tel. No. : 022-2284 4727

Factories

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

DIRECTORS

(As on 6th March, 2006)

Mr. R. CALIARI
(Chairman)

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

Ms. M. A. CHUPIN

Mr. A. DENES

Mr. O. DUVAL

Mrs. M. S. MEHTA

Mr. P. MILLOT

Mr. H. C. PATEL

Mr. B. RAUT

Mr. S. SALGAOCAR

Mr. P. SHAH

Mr. A. Y. MAHAJAN
(Managing Director)

DIRECTOR EMERITUS

Mr. N. D. SIDHVA

MANAGEMENT COMMITTEE

Mr. V. Agarwal
(Abrasives)

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)

Mr. G. D'Cunha
(Human Resources)

Contents

Notice	2
Directors' Report	9
Management Discussion & Analysis Report	12
Report on Corporate Governance	16
Auditors' Certificate on Corporate Governance	21
Report of the Auditors	22
Balance Sheet	24
Profit & Loss Account	25
Schedules Forming Part of the Accounts	26
Cash Flow Statement	43

NOTICE

NOTICE is hereby given that the Fifty-sixth Annual General Meeting of the Members of Grindwell Norton Limited will be held on Wednesday, 26th April, 2006, at 3.00 p.m. at M. C. Ghia Hall, Bhogilal Hargovindas Building, 18/20, Kaikushru Dubash Marg, (Rampart Row), Mumbai - 400 001, 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, 2005.
2. To declare a dividend for the year ended 31st December, 2005.
3. To appoint a Director in place of Mr. R. Caliaro who retires by rotation and being eligible, offers himself for re-appointment.
4. To appoint a Director in place of Mr. H. C. Patel who retires by rotation and being eligible, offers himself for re-appointment.
5. 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

6. Appointment of Mr. P. Millot as Director.
To appoint a Director in place of Mr. P. Millot 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. P. Millot for the office of a Director.
7. Appointment of Mr. O. Duval as Director.
To appoint a Director in place of Mr. O. Duval 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. O. Duval for the office of a Director.

8. Appointment of Ms. M. A. Chupin as Director.
To appoint a Director in place of Ms. M. A. Chupin 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 Ms. M. A. Chupin for the office of a Director.
9. Appointment of Mr. B. Raut as Director.
To appoint a Director in place of Mr. B. Raut 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. B. Raut for the office of a Director.
10. Appointment of Mr. S. Salgaocar as Director.
To appoint a Director in place of Mr. S. Salgaocar 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. S. Salgaocar for the office of a Director.
11. Appointment of Mr. P. Shah as Director.
To appoint a Director in place of Mr. P. Shah 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. P. Shah for the office of a Director.
12. Re-appointment of Mr. A. Y. Mahajan as Managing Director.
To consider and if thought fit, to pass with or without modification(s), the following resolution as an Ordinary Resolution:
"RESOLVED THAT pursuant to the provisions of Sections 198, 269, 309, 310, 311, Schedule XIII and other applicable provisions, if any, of the Companies



Act, 1956, (said Act), the re-appointment of Mr. A. Y. Mahajan as Managing Director of the Company for a further period of five years with effect from 1st April, 2006 to 31st March, 2011, be and is hereby approved on such terms and conditions as submitted to this meeting, with full liberty to the Board of Directors (Board) of the Company to decide and vary, from time to time, the said terms and conditions in such manner as may be agreed between the Board and Mr. A. Y. Mahajan upto the maximum remuneration in that behalf, as specified in Schedule XIII of the said Act, and always provided that in case of loss or inadequacy of profits during any financial year comprised by the period of this appointment, the Managing Director shall be paid a minimum remuneration by way of salary and perquisites as per the limits specified in Schedule XIII of the said Act, from time to time."

13. Sub-Division of Shares.

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

"RESOLVED THAT pursuant to Section 94(1)(d) and all other applicable provisions of the Companies Act, 1956, including any amendment thereof for the time being in force, provisions of the Articles of Association of the Company and subject to such approvals, consents, permissions and sanctions, if any, required from any authority, the consent of the Company be and is hereby accorded to sub-divide each of the existing equity shares of face value of Rs. 10/- (Rupees Ten only) each in the capital of the Company, into 2 (Two) equity shares of face value of Rs. 5/- (Rupees Five only) each.

RESOLVED FURTHER THAT the Board of Directors (Board) of the Company be and is hereby authorised to issue new share certificates representing the sub-divided shares with new Distinctive Numbers in the aforesaid proportion subject to the rules as laid down in the Companies (Issue of Share Certificates) Rules, 1960 without physically exchanging the share certificates, by treating the old share certificates as deemed to be cancelled.

RESOLVED FURTHER THAT TSR Darashaw Limited, Registrar & Share Transfer Agents of the Company and the Depositories be informed to take necessary action to give effect to the above.

RESOLVED FURTHER THAT the Board of the Company be and is hereby authorised to take all steps as may be required to give effect to this resolution."

14. Issue of Bonus Shares.

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

"RESOLVED THAT subject to all the applicable provisions of the Companies Act, 1956, including any amendment thereof for the time being in force, provisions of the Articles of Association of the Company, the Guidelines issued by the Securities and Exchange Board of India, if any, and subject to such approvals, consents, permissions and sanctions, if any, of Reserve Bank of India, Bombay Stock Exchange Limited and any other concerned authorities, a sum of Rs. 13,84,00,000/- (Rupees Thirteen Crores Eighty Four Lacs only) out of the sum standing to the credit of Share Premium account, forming part of General Reserves of the Company, be and the same is hereby capitalised and applied for the allotment of 2,76,80,000 (Two Crores Seventy Six Lacs Eighty Thousand) equity shares of Rs. 5/- (Rupees Five only) each as Bonus Shares credited as fully paid-up, to members of the Company holding equity shares of Rs. 5/- (Rupees five only) each whose names appear in the Register of Members or as the beneficial owner(s) of the equity shares of the Company, in the records of the Depositories at the close of business on the such date (herein-after referred to as the Record Date) as the Board of Directors (herein-after referred to as "Board") may determine in that behalf in the proportion of 1 (One) fully paid equity share of Rs. 5/- (Rupees Five only) each for every 1 (One) fully paid equity share of Rs. 5/- (Rupees Five only) each held as on the Record Date and that the Bonus Shares so issued and allotted, for all purposes, be treated as an increase in the nominal amount of the equity share capital of the Company held by each such member and not as income.

RESOLVED FURTHER THAT the new equity shares to be issued and allotted as Bonus Shares shall be subject to the Memorandum and Articles of Association of the Company and shall rank *pari-passu* in all respects and carry the same rights as the existing fully paid equity shares of the Company, including entitlement to dividend in full to be declared after the date of allotment of these equity shares as the Board may determine.

RESOLVED FURTHER THAT no letters of allotment shall be issued for the Bonus Shares but in the case of members who opt to receive the Bonus Shares in dematerialised form, the Bonus Shares aforesaid shall be credited to the beneficiary accounts of the shareholders with their respective Depository Participants within the stipulated time and in the case of shareholders who opt to receive the Bonus Shares in physical form, the share

certificates in respect thereof shall be delivered within such time subject to the rules as laid down in the Companies (Issue of Share Certificates) Rules, 1960.

RESOLVED FURTHER THAT in case of shares held by beneficial owners in dematerialised form, allotment of Bonus Shares shall be made by way of direct credit to their respective Demat Account.

RESOLVED FURTHER THAT the members to whom the new equity shares are allotted, shall accept the same in full and final satisfaction of their respective rights and interest in the capitalised sum of Rs. 13,84,00,000/- (Rupees Thirteen Crores Eighty Four Lacs only).

RESOLVED FURTHER THAT the Board be and is hereby authorised to do all such acts, deeds, matters and things as may, in its sole and absolute discretion, deem necessary, expedient, usual or proper and to settle any question, doubt or difficulty that may arise with regard to the issue and allotment of Bonus Shares as aforesaid or any other matter incidental or consequential thereto and its decision shall be final and binding on all members and other interested persons."

15. Increase in the Authorised Share Capital.

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

"RESOLVED THAT the Authorised Share Capital of the Company be increased from Rs. 14,00,00,000/- (Rupees Fourteen Crores only) divided into 1,40,00,000 (One Crore Forty Lacs) equity shares of Rs. 10/- (Rupees Ten only) each to Rs. 28,00,00,000/- (Rupees Twenty Eight Crores only) divided into 5,60,00,000 (Five Crores Sixty Lacs) equity shares of Rs. 5/- (Rupees Five only) each."

16. Alteration of the Memorandum of Association.

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

"RESOLVED THAT the existing Clause V of the Memorandum of Association of the Company relating to the share capital be and is hereby altered by deleting the same and substituting in place thereof, the following as new Clause V.

V. The Authorised Share Capital of the Company is Rs. 28,00,00,000/- (Rupees Twenty Eight Crores only) divided into 5,60,00,000 (Five Crores Sixty Lacs) equity shares of Rs. 5/- (Rupees Five only) each, with the rights, privileges and conditions attached thereto as are provided by the regulations of the Company for the time being, with the power to increase and reduce the Capital of the Company and to divide the shares of the Capital

for the time being into several classes and to attach thereto respectively such preferential, deferred, qualified or special rights, privileges or conditions as may be determined by or in accordance with the regulations of the Company and to vary, modify or abrogate any such rights, privileges or conditions in such manner as may the time being be provided by the regulations of the Company."

17. Alteration of the Articles of Association.

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

"RESOLVED THAT in pursuance to the provisions of Section 31 and all other applicable provisions, if any, of the Companies Act, 1956, the existing Article 3 of the Articles of Association of the Company be and is hereby altered by deleting the same and substituting in place thereof, the following as new Article 3.

3. The Authorised Share Capital of the Company is Rs. 28,00,00,000/- (Rupees Twenty Eight Crores only) divided into 5,60,00,000 (Five Crores Sixty Lacs) equity shares of Rs. 5/- (Rupees Five only) each."

6th March, 2006

By Order of the Board

Registered Office:
Army & Navy Building,
148, M.G. Road,
Mumbai - 400 001.

A. Y. MAHAJAN
MANAGING DIRECTOR

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 Wednesday, 22nd March, 2006 to Friday, 24th March, 2006 (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. 6 to 17 is annexed hereto.
- (e) The dividend on equity shares, if declared at the meeting, will be paid on or after 2nd May, 2006.
- (f) As per the amended provisions of the Companies Act, 1956, the dividend remaining unclaimed or unpaid for



the financial year ended 31st March, 1998 had been transferred to the Investor Education and Protection Fund (Fund) of the Central Government on 23rd September, 2005. The Unpaid Dividend for the financial year ended 31st March, 1999 will be due for transfer to the Fund on 27th August, 2006. 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 dividend for the financial year ended 31st March, 1999 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. (TSR).

- (g) The facility for making nomination is available to the Members in respect of the shares held by them.
- (h) The Company will arrange the payment of dividend, if declared, through Electronic Clearing Service (ECS) or incorporation of Bank details, on the dividend warrants as furnished by the Members. Members holding shares in Physical mode are advised to immediately submit the ECS/Bank details to TSR or notify the changes, if any, to TSR. Members holding shares in Demat mode are advised to submit the ECS/Bank details to their respective Depository Participants (DPs) or notify the changes, if any, in their ECS/Bank Details to their respective DPs.
- (i) 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.
- (j)
 - (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 Vice-President – Finance & Corporate Services 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 TSR.
 - (iv) Members are requested to immediately intimate the change, if any, in their registered address to TSR.

ANNEXURE TO THE NOTICE

Notes on the directors seeking appointment/ re-appointment, as required under Clause 49 of the Listing Agreement, entered into with Bombay Stock Exchange Limited.

ITEM NO. 3

Mr. R. Caliarì, an Italian national, is 60 years old and holds a Ph.D in Engineering. He joined Compagnie de Saint-Gobain (CSG) in 1973 and has gained rich experience in various fields. Presently, he is the Chairman of the Board of your Company and Senior Vice-President of CSG responsible for the High Performance Materials (HPM) sector. He is also on the Board and a Member of the Audit Committee of Saint-Gobain Vetrotex India Ltd., one of the Saint-Gobain Group Companies in India. Mr. R. Caliarì does not hold any equity shares in Grindwell Norton Limited.

ITEM NO. 4

Mr. H. C. Patel is 71 years old and holds a Masters Degree in Chemical Engineering from University of Michigan, USA besides a Bachelors Degree in Science from University of Mumbai. He joined the Board in 1962 and has served as the Managing Director of the Company for a period of 8 years. He is a member of the Audit Committee and the Chairman of Shareholders and Investors Grievance Committee. He is also on the Board of Gharda Chemicals Limited, Bharat Tiles and Marbles Private Limited and Ring Chemicals Private Limited. Mr. H. C. Patel holds 6,43,612 equity shares in Grindwell Norton Limited.

ITEM NO. 6

Mr. P. Millot, a French national, is 42 years old and holds a Degree in Engineering. He joined CSG in 1996 and has gained rich experience in various fields. Presently, he is the President of the Grains and Powders and Ceramics Division, which is a part of the HPM sector of CSG. Mr. P. Millot does not hold any equity shares in Grindwell Norton Limited.

ITEM NO. 7

Mr. O. Duval, a French national, is 57 years old and holds a Degree in Engineering. He joined CSG in 1972 and has gained rich experience in various fields. Presently, he is President – Strategic Planning for the HPM sector of CSG. He is also on the Board of SEPR Refractories India Ltd., one of the Saint-Gobain Group Companies in India. Mr. O. Duval does not hold any equity shares in Grindwell Norton Limited.

ITEM NO. 8

Ms. M. A. Chupin, a French national, is 48 years old and has done her Masters in Business Law and Labour Law. She joined CSG in 1979 and has rich exposure in the Legal field. Presently, she is the President – Legal Affairs for the HPM sector of CSG. Ms. M. A. Chupin does not hold any equity shares in Grindwell Norton Limited.

ITEM NO. 9

Mr. B. Raut is 56 years old and holds a degree in Law and is a Fellow Member of the Institute of Chartered Accountants of India. He has been practising as a Chartered Accountant for the last three decades. He is a member of the Audit Committee of the Company. Mr. B. Raut does not hold any equity shares in Grindwell Norton Limited.

ITEM NO. 10

Mr. S. Salgaocar is 52 years old and holds a degree in Science from the University of Mumbai and has done his Masters in Management Studies from Jamnalal Bajaj Institute of Management Studies. Presently, he is the Managing Director of V. M. Salgaocar Groups of Companies. He also serves on the Boards of certain other companies in India. Mr. S. Salgaocar does not hold any equity shares in Grindwell Norton Limited.

ITEM NO. 11

Mr. P. Shah is 53 years old and has done his MBA from Harvard University, USA. He is also a member of the Institute of Cost and Works Accountants of India and the Institute of Chartered Accountants of India. He was the founder Managing Director of CRISIL. Presently, he is the Chairman of a Finance Consultancy Company. He serves on the Boards of various other reputed companies in India. Mr. P. Shah does not hold any equity shares in Grindwell Norton Limited.

ITEM NO. 12

Mr. A. Y. Mahajan is 53 years old. He holds a Masters degree in Economics from the University of Mumbai and an MBA from Cornell University, USA. He joined the Company in the

year 1983, became a Director in 1988 and has been the Managing Director of the Company since 1991. He has rich knowledge and experience of the working of the Company and under his leadership the Company has grown in size and profitability. He is also a member of the Shareholders/ Investors Grievance Committee of the Company.

Mr. A. Y. Mahajan holds the following positions in other companies in India:

Name of the Body Corporate	Position held
Saint-Gobain Glass India Ltd.	Chairman
Saint-Gobain Sekurit India Ltd.	Chairman
Lincoln Helios (India) Ltd.	Chairman
SEPR Refractories India Ltd.	Director
Saint-Gobain Vetrotex India Ltd.	Director
Saint-Gobain Crystals & Detectors India Ltd.	Director
Saint-Gobain Weber (India) Ltd.	Director
Saint-Gobain Seva Engineering India Ltd.	Director
Saint-Gobain India Foundation (Section 25 Company)	Director
L. M. Van Moppes Diamond Tools (India) Private Ltd.	Director
Unichem Laboratories Ltd.	Director
BPB Holdings India Private Ltd.	Director

Mr. A. Y. Mahajan also holds the following Committee Positions in other companies in India:

Name of the Company	Audit Committee	Shareholders/ Investors Grievance Committee	Remuneration Committee
Saint-Gobain Glass India Ltd.	Chairman	—	Chairman
Saint-Gobain Sekurit India Ltd.	Member	Chairman	Member
Saint-Gobain Vetrotex India Ltd.	Chairman	—	Chairman
SEPR Refractories India Ltd.	—	—	Member
Saint-Gobain Weber (India) Ltd.	—	—	Member
Saint-Gobain Seva Engineering India Ltd.	—	—	Member



EXPLANATORY STATEMENT

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

ITEM NO. 6

Mr. P. Millot was appointed as an additional director of the Company on 6th March, 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. P. Millot holds office upto the date of the forthcoming Annual General Meeting of the Company. Mr. P. Millot's brief resume has been given at Item No. 6 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. P. Millot as a candidate for the office of a Director.

Except Mr. P. Millot 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. 7

Mr. O. Duval was appointed as an additional director of the Company on 6th March, 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. O. Duval holds office upto the date of the forthcoming Annual General Meeting of the Company. Mr. O. Duval'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 Mr. O. Duval as a candidate for the office of a Director.

Except Mr. O. Duval 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. 8

Ms. M. A. Chupin was appointed as an additional director of the Company on 6th March, 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, Ms. M. A. Chupin holds office upto the date of the forthcoming Annual General Meeting of the Company. Ms. M. A. Chupin'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 alongwith a deposit of Rs. 500/- has been received from a member of the Company signifying his intention of proposing Ms. M. A. Chupin as a candidate for the office of a Director.

Except Ms. M. A. Chupin 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. 9

Mr. B. Raut has been appointed as an additional director of the Company on 6th March, 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. B. Raut holds office upto the date of the forthcoming Annual General Meeting of the Company. Mr. B. Raut'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 alongwith a deposit of Rs. 500/- has been received from a member of the Company signifying his intention of proposing Mr. B. Raut as a candidate for the office of a Director.

Except Mr. B. Raut no other director is concerned or interested in this Resolution.

Your Directors recommend this Ordinary Resolution for your approval.

ITEM NO. 10

Mr. S. Salgaocar has been appointed as an additional director of the Company on 6th March, 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. S. Salgaocar holds office upto the date of the forthcoming Annual General Meeting of the Company. Mr. S. Salgaocar's brief resume has been given at Item No. 10 in the Annexure to the notice.

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

Except Mr. S. Salgaocar no other director is concerned or interested in this Resolution.

Your Directors recommend this Ordinary Resolution for your approval.

ITEM NO. 11

Mr. P. Shah has been appointed as an additional director of the Company on 6th March, 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. P. Shah holds office upto the date of the forthcoming Annual General Meeting of the Company. Mr. P. Shah's brief resume has been given at Item No. 11 in the Annexure to the notice.

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

Except Mr. P. Shah no other director is concerned or interested in this Resolution.

Your Directors recommend this Ordinary Resolution for your approval.

ITEM NO. 12

Mr. A. Y. Mahajan was appointed as Managing Director of the Company at the Board Meeting held on 26th March, 1991 and ratified by the Shareholders at the 41st Annual General Meeting of the Company held on 19th August, 1991, for a period of five years commencing from 1st April, 1991 to 31st March, 1996. Mr. A. Y. Mahajan was re-appointed as Managing Director of the Company for two successive periods of 5 years each at the Board Meeting held on 28th June, 1995, for the period commencing from 1st April 1996 to 31st March 2001 and at the Board Meeting held on 6th March, 2001, for the period commencing from 1st April, 2001 to 31st March, 2006. The Shareholders had approved the re-appointment of Mr. A. Y. Mahajan at the 45th Annual General Meeting held on 11th September, 1995 and at the 51st Annual General Meeting held on 13th June, 2001 respectively.

The Board of Directors (Board) of the Company, at its meeting held on 6th March, 2006, has re-appointed Mr. A. Y. Mahajan, as the Managing Director of the Company, subject to your approval, for a further period of five years with effect from 1st April, 2006 to 31st March, 2011, on the terms and conditions as mentioned in the Abstract pursuant to Section 302 of the Companies Act, 1956, dated 6th March, 2006, which is being posted separately to all the Shareholders of the Company.

The terms and conditions as to the re-appointment and remuneration payable to Mr. A. Y. Mahajan is now submitted for your approval. Mr. A. Y. Mahajan has vast knowledge, rich and varied experience in the working of your Company and has the requisite qualification. Under his leadership, your Company has steadily grown in size, profits and strength.

The Board strongly recommends for your approval, the re-appointment of Mr. A. Y. Mahajan as Managing Director of the Company on the terms and conditions as set out in the Abstract dated 6th March, 2006.

Except Mr. A. Y. Mahajan, no other Director is concerned or interested in this resolution.

Your Directors recommend this Ordinary Resolution for your approval.

ITEM NOS. 13 to 17

The Board of Directors (Board) is of the view that, it is necessary to increase the trading volumes, widen the ownership of shares and better the liquidity in the Stock Market. Towards this end, the Board has at its Meeting held on 6th March, 2006, recommended a Sub-division of each equity share of face value of Rs. 10/- (Rupees Ten only) each to equity share of face value of Rs. 5/- (Rupees Five only) each.

As the Company has adequate reserves, the Board at its meeting held on 6th March, 2006 has recommended capitalisation of reserves upto a sum of Rs. 13,84,00,000/- (Rupees Thirteen Crores Eighty Four Lacs only) by issue of Bonus Shares in the proportion of 1:1 [i.e. one fully paid Bonus Share of Rs. 5/- (Rupees Five only) each for every one fully paid equity share of Rs. 5/- (Rupees Five only) each] held by the members as on the record date as may be decided by the Board.

As a result of the proposed Sub-division of equity shares and issue of Bonus Shares, the Authorised Share Capital of Rs.14,00,00,000/- (Rupees Fourteen Crores only) divided into 1,40,00,000 (One Crore Forty Lacs) equity shares of Rs. 10/- (Rupees Ten only) each is proposed to be increased to Rs. 28,00,00,000/- (Rupees Twenty Eight Crores only) divided into 5,60,00,000 (Five Crores Sixty Lacs) equity shares of Rs. 5/- (Rupees Five only) each.

Consequently the Memorandum and Articles of Association of the Company will require necessary amendments.

The Directors recommend the respective resolutions under Item Nos. 13 to 17 of the Notice for your approval.

Mr. A. Y. Mahajan – Managing Director, Mr. H. C. Patel and Mrs. M. S. Mehta, Directors of the Company may be deemed to be interested in these resolutions to the extent of their respective shareholding in the Company.

6th March, 2006

By Order of the Board

Registered Office:
Army & Navy Building,
148, M. G. Road,
Mumbai – 400 001.

A. Y. MAHAJAN
MANAGING DIRECTOR



DIRECTORS' REPORT

The Members,
Grindwell Norton Limited

Your Directors present the Fifty-sixth Report of the Company along with the Audited Accounts for the year ended 31st December, 2005.

Financial Highlights

	(Rs. Million)	
	2005	2004
Sales	3604.9	3013.5
Operating Profit	536.8	437.8
Interest	1.3	2.0
Profit before Tax and Extraordinary Item	535.5	435.8
Extraordinary Item	-	9.1
Profit before Tax	535.5	426.7
Provision for Tax	175.7	147.0
Deferred Tax	0.4	(12.1)
Fringe Benefit Tax	5.4	-
Profit after Tax	354.0	291.8
Surplus Brought forward	70.0	40.0
	424.0	331.8
Appropriations:		
Proposed Dividend	152.2	138.4
Tax on Proposed Dividend	21.6	19.4
General Reserve	150.2	104.0
Surplus carried to Balance Sheet	100.0	70.0
	424.0	331.8

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, 2005 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

The year under review was a good one for your Company with sales increasing by 20% and operating profits by 23%. The increase in sales was due to the sustained buoyancy in

domestic demand, gains in market share in some segments and a growth of 21% in exports. The cascading effect of rising energy costs squeezed margins in most businesses.

Dividend

Considering the good results, your Directors recommend a dividend of Rs.11/- per equity share, for the year ended 31st December, 2005. The dividend outgo (excluding tax on dividend) will be Rs. 152.24 Million (Previous year Rs. 138.40 Million).

Sub-division of Shares and Issue of Bonus Shares

In order to facilitate a wider ownership of shares and to increase liquidity and trading volumes, your Board of Directors recommend a Sub-division of each equity share of face value of Rs. 10/- (Rupees Ten only) each to equity share of face value of Rs. 5/- (Rupees Five only) each.

As your Company has adequate reserves, your Board of Directors recommend issue of Bonus Shares in the proportion of 1:1 [i.e. one fully paid Bonus Share of Rs. 5/- (Rupees Five only) each for every one fully paid equity share of Rs. 5/- (Rupees Five only) each] held by the members.

Abrasives

Sustained growth of the economy and of industrial production, as well as higher exports, resulted in higher volumes. Market share gains in certain segments also contributed to the growth. High energy costs, pressure on domestic and export prices resulted in lower operating margins. Significant progress has been made on initiatives aimed at making all manufacturing sites world class.

Ceramics & Plastics

The Silicon Carbide business continued to grow in volumes, profits and market share. The "Wheeling Charges" matter is still pending before the Honourable Supreme Court. The Management is of the opinion that, the likelihood of this liability crystallizing is not high and hence the Company has discontinued the part provisioning of "Wheeling Charges" in the year under review.

While the performance of the Refractories business was in line with the plans, the Performance Plastics business witnessed strong growth.

Future Prospects

With economic growth likely to be sustained, your Company's businesses should continue to grow in terms of sales and profits.

Your Company entered into a Memorandum of Understanding with Orient Abrasives Limited (OAL) for acquiring the Bonded Abrasives business of OAL on 1st December, 2005. The process of conducting due diligence reviews, finalizing the terms of the definitive agreement, obtaining statutory and other approvals and developing a transfer plan is continuing. It is expected that the acquisition will be completed before the end

of August, 2006. The acquisition will enable your Company to strengthen its presence in the Abrasives market.

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. The Bangalore and Nagpur plants of your Company are certified under ISO 14001:1996 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. As at the year-end, there were 1334 employees.

There was a partial strike in the Bonded Abrasives manufacturing unit in Mora, Uran (Maharashtra) during December, 2005 and January, 2006. The production of the plant was affected during this period. The strike has been withdrawn on 1st February, 2006 and normal operations have been restored from 2nd February, 2006.

Acknowledgments

Your Directors take this opportunity to acknowledge with sincere gratitude the support of your Company's 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 6th March, 2006, 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 Bombay Stock Exchange Limited is annexed (Annexure C).

Your Company has started implementing the revised Clause 49 of the Listing Agreement effective 1st January, 2006.

Directors

Mr. P. Crouzet and Mr. C. Streiff (Chairman) resigned as directors of the Company with effect from 27th July, 2005. Mrs. D.S. Variava ceased to be an alternate director to Mr. R. Caliarì on 14th December, 2005. Mr. N.D. Sidhva resigned as a Director of the Company with effect from 28th December, 2005. Mr. G. Colas resigned as a Director with effect from 6th March, 2006. Mr. B. Bazin and Mr. P. A. de Chalendar were additional directors from 27th July, 2005 to 6th March, 2006. Mr. P. Shetty, Mr. C. Shroff and Mr. U. Thakar were additional directors from 29th December, 2005 to 6th March, 2006. Your Board of Directors (Board) place on record its appreciation for the valuable contribution made by all the outgoing directors of the Company.

Keeping in mind the invaluable contributions made by Mr. N. D. Sidhva, the senior most founder member of the Company, during his association of over 60 years with your Company, the Board as a token of its high esteem, appointed Mr. N. D. Sidhva as "Director Emeritus" with effect from 29th December, 2005.

Mr. R. Caliarì was appointed as the Chairman of the Company with effect from 27th July, 2005. Mr. P. Millot, Mr. O. Duval, Ms. M.A. Chupin, Mr. B. Raut, Mr. S. Salgaocar and Mr. P. Shah were appointed as additional directors of the Company with effect from 6th March, 2006. Mr. P. Millot, Mr. O. Duval, Ms. M. A. Chupin, Mr. B. Raut, Mr. S. Salgaocar and Mr. P. Shah hold office upto the date of the forthcoming Annual General Meeting of the Company. As required under Section 257 of the Companies Act, 1956, the Company has received notices in writing from Members proposing the candidature of Mr. P. Millot, Mr. O. Duval, Ms. M. A. Chupin, Mr. B. Raut, Mr. S. Salgaocar and Mr. P. Shah as Directors of the Company.

In accordance with the requirements of the Companies Act, 1956 and Articles of Association of the Company, Mr. R. Caliarì and Mr. H. C. Patel retire by rotation and being eligible, offer themselves for re-appointment as Directors of your Company. The Board has, subject to your approval, re-appointed Mr. A. Y. Mahajan as Managing Director of the Company for a further period of five years with effect from 1st April, 2006 to 31st March, 2011.

Auditors

M/s. Kalyaniwalla & Mistry, Chartered Accountants, Auditors of your Company, retire on the conclusion of 56th 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: 6th March, 2006



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

	2005	2004
A. Power and Fuel Consumption:		
1. ELECTRICITY		
(a) Purchased:		
Units	1217618	1073107
Total Amount (Rs. Million)	5.88	5.17
Rate/Unit Rs.	4.83	4.82
(b) Own Generated		
(i) Through diesel generators:		
Units	70923	72139
Units per Ltr. of diesel	3.21	3.27
Cost/Unit (Rs.)	7.57	6.69
(ii) Through Steam turbine/generator	NIL	NIL
2. FUEL OIL		
Quantity (K.ltrs.)	892	675
Total amount (Rs. Million)	21.73	13.15
Average rate (Rs.)	24365	19477
B. Consumption per unit of production:		
Electricity KWH/TON	808	891
Fuel oil KL/TON	0.56	0.53

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

Research & Development (R&D):

- Specific areas in which R&D was carried out by the Company:**
 - Abrasives: Grains, Bonded, Coated, Super Abrasives & Non-Woven.
 - Ceramics: Refractories and Monolithics.
- Benefits derived as a result of the above R&D:**
 - Abrasives:**

Development of:

 - new bonds for grinding of rubber.

Improvements in:

 - Rubber bonded products.
 - Variety of seeded gel grain for wheels for internal grinding.

- Density control of raw wheels.
 - Kiln efficiency and consistency of bonded products.
- (b) **Ceramics:**
Development of:
- Special Refractory Products which are 4 microns size.
 - Special custom made Products for Refrax market.
 - Commercial production of Micro Grits by state-of-art technology.
- Improvements in:
- Environment and Industrial Hygiene.
 - Product range increased upto 1200 grits.

- Future plans of action:**
 - Technology adaptation from Saint-Gobain Abrasives companies and other Saint-Gobain plants in identified priority areas, for development of new and improved products.
 - Development and utilization of advanced tools facilitated enhanced grinding system solutions at the customers end.
- Expenditure on R&D for the year ended 31st December, 2005:**

	Rs. Million
(a) Capital	Nil
(b) Recurring	5.47
(c) Total	5.47
(d) Total R&D expenditure as a percentage of total turnover	0.15%

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, 2005 was Rs. 348.21 Million and the total outflow was Rs. 731.87 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)
EMPLOYED THROUGHOUT THE YEAR							
AGARWAL VINAY	50	PRESIDENT – ABRASIVES	4399252	B.TECH., PGDM (IIM)	SEP. 2004	M.D. – RPG CABLES LTD.	25
D'CUNHA GERARD	48	GEN. MGR. – HUMAN RESOURCES	3030555	B.SC., M.A. (PM&IR)	DEC. 1998	ASST. GEN. MGR. – LARSEN & TOUBRO LTD.	25
MAHAJAN A.Y.	53	MANAGING DIRECTOR	10890134	M.A. (ECON), MBA (USA)	JUNE 1983	PROJ. CONSULTANT – STATE BANK OF INDIA	30
PEREIRA J.A.J.	57	V.P. – FIN. & CORP. SERVICES	4760107	B.SC., FICWA, PGDM (IIM)	MAY 1975	NONE	31
PRASAD K.K.	43	GEN. MGR. – CERAMICS & PLASTICS	3632562	B.SC. (ENGG.), PGDM (IIM)	MAY 1990	MECH. ENGINEER – FACT LTD.	19
PURANIK M.A.	50	GEN. MGR. – CORP. FIN. & TAXATION	3564158	B.COM., ACA	MAY 1988	DY. CHIEF ACCOUNTANT – GARWARE MARINE IND. LTD.	25
RAMARATHNAM M.R.	57	GEN. MGR. – PROJECTS	3230156	B.E. (MECH.), PRDN. MGT	APRIL 1982	SR. ENGINEER – ASHOK LEYLAND LTD	35
EMPLOYED FOR PART OF THE YEAR							
BAPAT P.K.	59	V.P. – STRATEGY	3784462	B.TECH., PGDM (IIM)	MAY 1970	NONE	35
BHANDARE J.N.	57	GEN. MGR.	1024827	B.E. (MECH.)	AUG. 1977	ENGINEER – KIRLOSKAR BROTHERS LTD.	32
BHAT V.	45	GEN. MGR. – COATED ABRASIVES	215469	B. TECH. (CHEM. ENGG.)	DEC. 2005	HEAD-TECHNICAL, MTR FOODS LTD.	24
DINAKAR A.	43	DY. GEN. MGR. – COATED ABRASIVES	1715765	B.E. (MECH.)	DEC. 1984	NONE	21

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.
- None of the employees mentioned above is a relative of any Director except Mr. A. Y. Mahajan, Managing Director who is the son-in-law of Mr. N. D. Sidhva, who resigned as a Director of the Company with effect from 28th December, 2005.
- 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 Bombay Stock Exchange Limited)

GENERAL REVIEW

Grindwell Norton Limited (GNO) is one of the subsidiaries of Compagnie de Saint-Gobain (Saint-Gobain), a transnational French Group with sales exceeding €35 billion as of 31st December, 2005. 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 segments, 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 and the other at Nagpur, Maharashtra, both of which are certified under ISO 9001:2000. The Nagpur Plant is also certified under ISO 14001:1996 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.

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

Applications

Bonded Abrasives are used for 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 10000 different products in a year.



Major User Industries

- Automobiles and Auto Components
- Steel
- Bearings
- Cutting Tools/Hand Tools etc.
- 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 organisation, in terms of access to all developments in products and process technology, sourcing of products and developing exports.

In 2005, domestic demand for Bonded Abrasives saw mixed trends. While some sectors that drive demand (e.g. auto ancillary, bearings, infrastructure, capital equipment) performed well, others (e.g. stainless steel) witnessed a slow down. GNO's sales were adversely affected as a result of a strike at its Mora Plant in December. We expect that domestic demand will continue to be buoyant in 2006. Over the medium term domestic demand is expected to grow between 4% and 7% per annum.

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).

Exports growth has been a major strategy 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. While exports were sustained in 2005, we expect strong growth in 2006.

(ii) COATED ABRASIVES (INCLUDING NON-WOVEN)

Product and Plants

Coated Abrasives products are engineering composites constituting of a backing, bond system and abrasive grains and are designed basically for material removal and surface generation. The common backing types include paper, cloth, polyester & 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, Karnataka & Nagpur, Maharashtra. Both locations are ISO 9001: 2000, ISO 14001: 1996 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 economy 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

In the year 2005, the market has seen a volume growth of more than 8% with most of the end user industries (Furniture, Construction, Fabrication, Auto) doing very well. As a result, GNO's domestic sales have seen strong growth. In 2005, with the introduction of new products and entry into new markets, GNO has made gains in market share. We have also seen increased level of automation in the usage and hence movement towards technical products, where GNO is strongly positioned. We have increased the sales of products from affiliate plants and expect this growth to continue with product and technological support.

There has been a significant growth in exports over 2004. The strategy to use India as a source plant, is gaining momentum and we have ambitious plans to grow exports.

2. CERAMICS & PLASTICS SEGMENT

The major businesses in this segment are:

- (i) Silicon Carbide;
- (ii) 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 manufacturers (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) REFRACTORIES

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: 1996 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 quality. Manufacturing is relatively capital intensive. This, and technology, are the barriers to entry.

Development & Outlook

The Refractories business of the Company has a good potential to grow with the buoyancy in the Metallurgy, Sanitaryware and Power sectors. The Company is looking at various options to increase the 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:

(a) Abrasives:

- (i) **Industry & Market:** The Abrasives business caters to a number of industries such as Automobiles, Auto components, General Metal Fabrication, Woodworking etc. 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 14 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.

With the continuous reduction in import duties, the competition from imports will keep growing. This necessarily means that we need to make products of global standards at reasonable cost, to remain competitive.

- (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 R&D set up in USA with regional R&D centres located elsewhere. Both basic and applied research takes place at these R&D centres. GNO has access to all the research and technology developments.

(b) Ceramics & Plastics:

- (i) **Industry & Market:** Abrasives, Refractories and Construction 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 major consumers. With the growth in the Iron and Steel sector, the requirement 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. Currently, GNO is a debt-free Company. 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 2005, GNO's focus was on building the organisation through the induction and development of talent so that the Company is better equipped to face the challenges of the future. Several new managers have joined and the organisation has been strengthened at all levels. The Company continues to invest in the development of people through training 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 we provide them with systems and opportunities for advancing their careers within the organisation.

OVERALL PERFORMANCE

GNO witnessed good sales growth in 2005 partly on account of buoyancy in domestic demand and export growth and partly due to gains in market share. The input, especially energy, cost increase, has partly affected the operating margins. However, control on other costs, increase in volumes, has resulted in higher operating profits.

INTERNAL CONTROL SYSTEMS

GNO has a well developed and adequate Internal Control systems, which provide assurance on the efficiency of operations, security of assets, statutory compliances and appropriate authorisation, reporting and recording of transactions. GNO has a strong and independent internal audit function, which performs periodic audits to ascertain the adequacy and effectiveness of Internal Control systems. The internal audit function also issues communiqués related to internal controls which help building and improving internal controls. All the significant audit observations and follow-up actions recommended are presented to the Audit Committee on a quarterly basis. 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 Bombay Stock Exchange Limited)

A. MANDATORY REQUIREMENTS

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 strives to monitor and ensure compliance with laws. GNO has always tried to ensure that adequate control systems are devised and put in place, to enable optimum returns to all the Stakeholders. GNO has always put in conscious and conscientious efforts to practice high standards of transparency, accountability, auditing, disclosure, internal control and reporting. These standards continue to define the Company's Corporate Governance philosophy of transparency and accountability, built on strong systems, procedures, checks and balances.

Corporate Governance is an ongoing measure of superior delivery of Company's objects with a view to translate opportunities into reality. The Company has started complying with the revised Clause 49 of the Listing Agreement effective 1st January, 2006.

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 2005, seven Board Meetings were held. The dates on which the said meetings were held are as follows:

2nd March, 9th March, 27th April, 27th July, 25th October, 14th December and 29th 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 2005	Attendance at the last AGM	No. of Directorships held as on 6th March, 2006 in other Public Companies (excluding Foreign Companies)	No. of Committee positions held as on 6th March, 2006 in Companies (including GNO)*
Mr. R. Caliori	Chairman - Non-Executive	1	No	1	1
Mr. A. C. Chakrabortti	Vice-Chairman - Non-Executive (Independent)	6	Yes	11	8**
Mr. A. Denes	Non-Executive	1	No	Nil	Nil
Mrs. M.S. Mehta	Non-Executive	5	Yes	Nil	1
Mr. H.C. Patel	Non-Executive	4	Yes	1	2***
Mr. P. Millot (a)	Non-Executive	N.A.	N.A.	Nil	Nil
Mr. O. Duval (a)	Non-Executive	N.A.	N.A.	1	Nil
Ms. M.A. Chupin (a)	Non-Executive	N.A.	N.A.	Nil	Nil
Mr. B. Raut (a)	Non-Executive (Independent)	N.A.	N.A.	Nil	1
Mr. S. Salgaocar (a)	Non-Executive (Independent)	N.A.	N.A.	2	Nil
Mr. P. Shah (a)	Non-Executive (Independent)	N.A.	N.A.	13	8****
Mr. A. Y. Mahajan	Managing Director	7	Yes	10	5*****
Mr. P. Crouzet (b)	Non-Executive	Nil	No	Nil	Nil
Mr. C. Strieff (b)	Non-Executive	Nil	No	Nil	Nil
Mrs. D.S. Variava (c)	Non-Executive	5	Yes	Nil	Nil
Mr. N.D. Sidhva (d)	Non-Executive	5	Yes	1	Nil
Mr. G. Colas (e)	Non-Executive	Nil	No	Nil	Nil
Mr. B. Bazin (f)	Non-Executive	Nil	N.A.	Nil	Nil
Mr. P.A. de Chalendar (f)	Non-Executive	Nil	N.A.	Nil	Nil
Mr. P. Shetty (g)	Non-Executive (Independent)	Nil	N.A.	Nil	Nil
Mr. C. Shroff (g)	Non-Executive (Independent)	Nil	N.A.	Nil	Nil
Mr. U. Thakar (g)	Non-Executive (Independent)	Nil	N.A.	Nil	Nil

(a) Appointed as Additional Director w.e.f. 6th March, 2006.

(b) Resigned w.e.f. 27th July, 2005.

(c) Ceased to be an alternate director to Mr. R. Caliori w.e.f. 14th December, 2005.

(d) Resigned w.e.f. 28th December, 2005 and appointed as Director Emeritus w.e.f. 29th December, 2005.

(e) Resigned w.e.f. 6th March, 2006

(f) Additional Director from 27th July, 2005 to 6th March, 2006.

(g) Additional Director from 29th December, 2005 to 6th March, 2006.

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

** Out of the 8 Committee Memberships, Mr. A.C. Chakrabortti is Chairman in 5 Committees.

*** Out of the 2 Committee Memberships, Mr. H.C. Patel is Chairman in 1 Committee.

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

***** Out of the 5 Committee Memberships, Mr. A. Y. Mahajan is 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. H. C. Patel	Member
Mr. B. Raut	Member – Independent (Appointed w.e.f. 6th March, 2006)
Mr. P. Crouzet	Member (Resigned w.e.f. 27th July, 2005)
Mrs. D. S. Variava	Member (From 27th July, 2005 to 14th December, 2005)
Mrs. M. S. Mehta	Member (Resigned w.e.f. 29th December, 2005)
Mr. P. Shetty	Member – Independent (From 29th December, 2005 to 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 financially literate. The Vice-President Finance & Corporate Services, General Manager – 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 4 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	4
Mr. H. C. Patel	3
Mr. B. Raut	N.A.
Mr. P. Crouzet	Nil
Mrs. D. S. Variava	2
Mrs. M. S. Mehta	3
Mr. P. Shetty	Nil

The terms of reference of the Audit Committee are in consonance with Clause 49 of the Listing Agreement as well as Section 292A 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 to be included in 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 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, 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 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 the 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 next board meeting of the Company.

4. REMUNERATION OF DIRECTORS

(A) The details of remuneration of Mr. A. Y. Mahajan, Managing Director, for the year 2005 are given below:

<p>All elements of remuneration package i.e. salary, benefits, perquisites, profit commission, pension etc.</p> <p>Rs. 10.89 Million</p>
<p>Fixed component and performance linked incentives along with the performance criteria</p> <p>Fixed component is paid as Salary and other perquisites. In addition, a profit commission is paid within the maximum ceiling on remuneration, based on certain pre-agreed performance parameters.</p>
<p>Service contracts, notice period, severance fees</p> <p>The tenure of office of the Managing Director is expiring on 31st March, 2006. The Board of Directors of the Company, at its meeting held on 6th March, 2006, has re-appointed Mr. A. Y. Mahajan, as the Managing Director of the Company, subject to the approval of Shareholders, for a further period of five years with effect from 1st April, 2006 to 31st March, 2011. The Managing Director or the Company is and shall be entitled to terminate the agreement by giving six months written notice.</p>
<p>Stock option with details, if any and whether issued at discount as well as the period over which accrued and over which exercisable</p> <p>Presently, the Company does not have a scheme for grant of stock options either to the Managing Director or any other employees.</p>

(B) The details of sitting fees and commission paid/payable for the year 2005 are given below:

Non-Executive Directors	Sitting Fees (Rs. Mn.)	Profit Commission (Rs. Mn.)	Total (Rs. Mn.)
Mr. A. C. Chakrabortti	0.05	1.39	1.44
Mr. N. D. Sidhva	0.03	1.39	1.42
Mr. H. C. Patel	0.05	0.70	0.75
Mrs. D. S. Variava	0.04	0.70	0.74
Mrs. M. S. Mehta	0.05	1.39	1.44

(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% of the net profits of the Company to the Managing Director.

(D) Pecuniary relationship or transactions 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, Mr. H. C. Patel and Mrs. M. S. Mehta are members of the Promoters' Group. Mr. N. D. Sidhva and Mrs. D. S. Variava, who are currently not on the Board, are also members of the Promoters' Group. Mr. R. Caliarì, Mr. A. Denes, 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. P. Crouzet, Mr. C. Streiff, Mr. B. Bazin, Mr. P. A. de Chalender and Mr. G. Colas were the nominees of CSG.

(E) Equity shareholding of the Non-Executive Directors in the Company as on 6th March, 2006:

Name of the Non-Executive Director	No. of Shares held
Mr. H. C. Patel	6,43,612
Mrs. M. S. Mehta	3,16,000
Mr. A. C. Chakrabortti	Nil
Mr. B. Raut	Nil
Mr. S. Salgaocar	Nil
Mr. P. Shah	Nil
Mr. R. Caliarì	Nil
Mr. A. Denes	Nil
Mr. P. Millot	Nil
Mr. O. Duval	Nil
Ms. M. A. Chupin	Nil



5. SHAREHOLDERS/INVESTORS GRIEVANCE COMMITTEE

The Company's Shareholders/Investors Grievance Committee had been formed under the Chairmanship of Mr. H. C. Patel, a Non-Executive Director. The other Members of the Committee are Mrs. M. S. Mehta and Mr. A. Y. Mahajan (Appointed w.e.f. 6th March, 2006). Mr. P. Crouzet ceased to be a member of the Committee with effect from 27th July, 2005 and Mr. N. D. Sidhva ceased to be a member with effect from 28th December, 2005. Mr. P. Shetty was a member of the Committee from 29th December, 2005 to 6th March, 2006. Mr. S. M. Mandke, was the Compliance Officer, of the Committee till 16th December, 2005. 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 2005.

6. GENERAL BODY MEETINGS

The last three Annual General Meetings of the Company were held on 29th April, 2003, 28th April, 2004 and 27th April, 2005 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.

No Resolutions were put through Postal Ballot in the year 2005.

7. DISCLOSURES

(a) The Company had entered into technical collaborations with Saint-Gobain Abrasives Inc. and other subsidiaries of Compagnie de Saint-Gobain, the parent company and in terms of these technical collaboration agreements, technical know-how fees and royalties have been paid. Besides the above, the Company imports raw materials and products for trading from Saint-Gobain Abrasives Inc. and has paid technical drawings and design charges to other Saint-Gobain group companies. (b) The Company exports its manufactured and traded products to other Saint-Gobain group companies. (c) During the year, 2005, the Company had remitted dividend to Saint-Gobain Abrasives Inc. and Saint-Gobain Promotion et Participations Internationales, France. (d) The Company renders services to the group companies and earns service income. (e) The Company provides shared facilities to Lincoln Helios (India) Ltd. (LHIL) an associate company, on non-exclusive basis, at its Bangalore plant complex. In terms of the agreement, LHIL has placed interest free security deposits with the Company from time to time and presently aggregating to Rs. 14.98 Million. Details are given in Schedule 13.

Except the above, there are no other materially significant related party transactions i. e. transactions of the Company of material nature, with its Directors or the Management, their subsidiaries or relatives etc. that may have potential conflict with the interests of the Company at large.

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

AGM : 56th Annual General Meeting

Date : Wednesday, 26th April, 2006

Time : 3.00 p.m.

Venue : M. C. Ghia Hall,
Bhogilal Hargovindas Building,
18/20, Kaikushru Dubash Marg,
(Rampart Row), Mumbai 400 001.

Calendar of Financial Results for 2006

- (i) First Quarter Results – April, 2006
- (ii) First Half Results – July, 2006
- (iii) Third Quarter Results – October, 2006
- (iv) Results for the year ending 31st December, 2006 – March, 2007

<p>Dates of Book Closure Wednesday, 22nd March, 2006 to Friday, 24th March, 2006 (both days inclusive).</p>
<p>Date of payment of Dividend On or after 2nd May, 2006.</p>
<p>Listing on Stock Exchange(s) Bombay Stock Exchange Limited The annual listing fee of Bombay Stock Exchange Limited has been paid for the year 2005-2006.</p>
<p>BSE – Stock Code Physical - 506076</p>
<p>ISIN FOR NSDL/CDSL INE536A01015</p>
<p>Distribution of Shareholdings and Shareholding Pattern as on 31st December, 2005 Please see Annexure '1'</p>
<p>Market Price Data: High, Low during each month in the last financial year Please see Annexure '2'</p>
<p>Performance in comparison to BSE Sensex, (broad based index) Please see Annexure '2'</p>
<p>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.</p>
<p>Dematerialisation of shares and liquidity 20.01% of the paid-up capital has been dematerialised as on 31st December, 2005.</p>
<p>Outstanding GDRs/ADRs/Warrants or any Convertible instruments, conversion date and likely impact on equity Not issued.</p>
<p>Promoters' Groups:</p> <p>I. Indian Promoters</p> <p>(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</p> <p>II. Foreign Promoters (Collaborators):</p> <p>(a) Saint-Gobain Abrasives Inc., USA. (b) Saint-Gobain Promotion et Participations Internationales, France.</p>

III. Other Saint-Gobain Group Companies in India:

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

Compliance Officer:

Mr. S. M. Mandke – Company Secretary
(Resigned w.e.f. 17th December, 2005)

Tel. 022-2284 4727 Ext. 411 Fax. 022-2202 3711

The Company is in the process of appointing a new Company Secretary/Compliance Officer.

Annexure '1'

The Distribution of Shareholdings as on 31.12.2005

No. of Equity Shares held	No. of Holders	% of Total Holders	No. of Shares	% to Total Shares
Upto 250	8439	88.27	681502	4.92
251 to 500	495	5.18	194898	1.41
501 to 1000	256	2.68	199293	1.44
1001 to 5000	244	2.55	565374	4.09
5001 to 10000	17	0.18	119228	0.86
10001 to 100000	101	1.06	3728179	26.94
100001 and above	8	0.08	8351526	60.34
Grand Total	9560	100.00	13840000	100.00
No. of Shareholders in Physical Mode	4080	42.68	11070824	79.99
No. of Shareholders in Electronic Mode	5480	57.32	2769176	20.01



Shareholding Pattern as on 31.12.2005

Category	No. of Shareholders	No. of Shares	%
Promoters:			
Foreign	2	7103500	51.33
Indian	137	3419726	24.71
Insurance Companies & Banks	5	49100	0.36
Mutual Fund	1	300	0.00
NRIs, OCBs and FIIs	51	29747	0.21
Domestic Companies	182	1026524	7.42
Resident Individuals	9182	2211103	15.97
Total	9560	13840000	100.00

Annexure '2'

Market Price Data: GNO & Sensex: High – Low

Period	High	Low	Sensex High	Sensex Low
Jan-05	339.00	270.60	6696.31	6069.33
Feb-05	310.00	275.00	6721.08	6508.33
Mar-05	339.90	256.15	6954.86	6321.31
Apr-05	315.00	267.00	6649.42	6118.42
May-05	319.90	282.00	6772.74	6140.97
Jun-05	331.00	275.00	7228.21	6647.36
Jul-05	358.00	310.00	7708.59	7123.11
Aug-05	407.00	342.10	7921.39	7537.50
Sep-05	409.00	360.00	8722.17	7818.90
Oct-05	433.00	341.00	8821.84	7656.15
Nov-05	394.95	350.00	9033.99	7891.23
Dec-05	426.00	328.95	9442.98	8769.56

B. NON-MANDATORY REQUIREMENTS

Non-mandatory requirements have not been adopted.

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, 2005, as stipulated in Clause 49 of the Listing Agreement of the Company with Bombay Stock Exchange Limited.

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**

**K. M. ELAVIA
PARTNER**

(Membership No. 12737)

Mumbai: 6th March, 2006

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, 2005, 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 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 section 227 (4A) 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 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 purpose 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 and Profit and Loss Account dealt with by this report are in agreement with the books of account.
 - (d) In our opinion, the Balance Sheet, the 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, 2005;
 - (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, 2005 and taken on record by the Board of Directors, we report that none of the Directors is

disqualified as on 31st December, 2005, 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

K. M. ELAVIA
PARTNER

Mumbai: 6th March, 2006

(Membership No. 12737)

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, there was no significant disposal of fixed assets during the year to affect the going concern assumption.
2. (a) The Management has conducted physical verification of inventory at reasonable intervals.
- (b) In our opinion, the procedures for the 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 loans, 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 purchase of inventory and fixed assets, and for the sale of goods and services. During the course of our audit, no major weakness has been noticed in the internal controls.
5. (a) Based on the audit procedures applied by us and according to the information and explanations given to us, the particulars of contracts or arrangement referred to in section 301 of the Act have been entered in the register required to be maintained under that section, have been so entered.
(b) The transactions made in pursuance of such contracts or arrangements, were made at prices which are reasonable having regard to prevailing market prices at the relevant time, except for service transactions for which, there are no similar services rendered to other parties and hence the prices are not comparable.
6. In our opinion, and according to the information and explanations given to us, the Company has complied with the directives issued by the Reserve Bank of India and the provisions of section 58A, 58AA and any other relevant provision of the Act and the rules framed thereunder, with regard to deposits accepted from the public. There have been no proceedings before the Company Law Board or National Tribunal or Reserve Bank of India or any other Court or Tribunal in this matter.
7. In our opinion, the Company has an internal audit system, 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 Act for any of the products of the Company.
9. (a) According to the information and explanations given to us and on the basis of our examination of the 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, 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 the above as at 31st December, 2005 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 Income-tax, Sales-tax, Wealth-tax, Service-tax, Custom duty, 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 a bank. The Company does not have dues to financial institutions and any outstanding debentures.
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 during the year to parties and companies covered in the Register maintained under section 301 of the Act.
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 according to the 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	87.52	Commissioner (Appeals)/ High Court
Excise Duty	0.33	Commissioner
Customs Duty	1.04	Appellate Authority – Tribunal
Non-Agricultural Land Cess	3.60	Revenue Department

For and on behalf of
KALYANIWALLA & MISTRY
CHARTERED ACCOUNTANTS

K. M. ELAVIA
PARTNER

(Membership No. 12737)

Mumbai: 6th March, 2006

BALANCE SHEET AS AT 31st DECEMBER, 2005

	<u>Schedules</u>	<u>(Rs. Million)</u>	<u>As at 31st December, 2005 (Rs. Million)</u>	<u>As at 31st December, 2004 (Rs. Million)</u>
SOURCES OF FUNDS				
1. SHAREHOLDERS' FUNDS				
(a) Capital	1	138.40		138.40
(b) Reserves and Surplus	2	<u>1,607.15</u>		<u>1,428.68</u>
			1,745.55	1,567.08
2. LOAN FUNDS				
Unsecured Loan	3		6.14	13.92
3. DEFERRED TAX LIABILITY				
			<u>37.65</u>	<u>37.26</u>
			<u>1,789.34</u>	<u>1,618.26</u>
APPLICATION OF FUNDS				
1. FIXED ASSETS	4			
(a) Gross Block		1,432.43		1,321.67
(b) Less: Depreciation		<u>720.58</u>		<u>660.64</u>
(c) Net Block		<u>711.85</u>		<u>661.03</u>
(d) Capital Work in Progress		<u>26.92</u>		<u>27.36</u>
			738.77	688.39
2. INVESTMENTS	5		767.74	739.71
3. CURRENT ASSETS, LOANS & ADVANCES	6			
(a) Inventories		416.67		409.24
(b) Sundry Debtors		477.11		387.28
(c) Cash & Bank Balances		101.10		58.62
(d) Accrued Interest		0.32		4.58
(e) Loans & Advances		<u>165.76</u>		<u>114.73</u>
		<u>1,160.96</u>		<u>974.45</u>
Less: CURRENT LIABILITIES & PROVISIONS	7			
(a) Liabilities		557.53		511.60
(b) Provisions		<u>320.60</u>		<u>272.69</u>
		<u>878.13</u>		<u>784.29</u>
NET CURRENT ASSETS			282.83	190.16
			<u>1,789.34</u>	<u>1,618.26</u>
NOTES TO ACCOUNTS	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

K. M. ELAVIA
Partner
Membership No. 12737
Mumbai: 6th March, 2006

Signatures to Balance Sheet and Schedules 1 to 7 & 13

A. C. CHAKRABORTTI	Vice-Chairman
A. Y. MAHAJAN	Managing Director
H. C. PATEL	} Directors
M. S. MEHTA	

Mumbai: 6th March, 2006



PROFIT AND LOSS ACCOUNT FOR THE YEAR ENDED 31st DECEMBER, 2005

	Schedules	(Rs. Million)	(Rs. Million)	For the Year Ended 31st December, 2005 (Rs. Million)	For the Year Ended 31st December, 2004 (Rs. Million)
INCOME					
Sales		3,604.92			3,013.51
Less: Excise Duty		(426.10)			(356.28)
Net Sales			3,178.82		2,657.23
Miscellaneous Income	8		110.29	3,289.11	116.12
					2,773.35
EXPENDITURE					
Raw Materials Consumed	9		1,043.89		863.20
Purchase of Trading Goods			154.53		130.73
Manufacturing, Administration and Selling Expenses	10		1,455.21		1,332.29
Interest	11		1.27		2.00
Debts and Advances Provided/Written off (Net)			1.75		8.47
Depreciation		77.29			69.20
Less: Transfer from Revaluation Reserve		(1.74)			(1.77)
			75.55		67.43
			2,732.20		2,404.12
Add/Less: Decrease/(Increase) in Inventory	12		21.38	2,753.58	(66.59)
					2,337.53
Profit before Tax and Extraordinary Item				535.53	435.82
Extraordinary Item					
Compensation under Voluntary Retirement Scheme				-	9.09
Profit before Tax				535.53	426.73
Provision for :					
Income Tax			175.71		147.00
Deferred Tax			0.39		(12.07)
Fringe Benefit Tax			5.40		-
				181.50	134.93
Profit after Tax				354.03	291.80
Surplus Brought Forward				70.00	40.00
PROFIT AVAILABLE FOR APPROPRIATION				424.03	331.80
APPROPRIATIONS					
Proposed Dividend				152.24	138.40
Provision for Tax on Proposed Dividend				21.58	19.41
Transfer to General Reserve				150.21	103.99
Surplus Carried Forward				100.00	70.00
				424.03	331.80
Earnings Per Share (Basic & Diluted) in Rs.					
Excluding Extraordinary Item				25.58	21.50
Including Extraordinary Item				25.58	21.08

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

K. M. ELAVIA
Partner
Membership No. 12737
Mumbai: 6th March, 2006

Signatures to Profit and Loss Account and Schedules 8 to 13

A. C. CHAKRABORTTI Vice-Chairman
A. Y. MAHAJAN Managing Director
H. C. PATEL }
M. S. MEHTA } Directors

Mumbai: 6th March, 2006

SCHEDULES FORMING PART OF THE ACCOUNTS

	(Rs. Million)	As at 31st December, 2005 (Rs. Million)	As at 31st December, 2004 (Rs. Million)
SCHEDULE 1 : CAPITAL			
AUTHORISED			
14,000,000 Equity Shares of Rs. 10/- each		140.00	140.00
ISSUED, SUBSCRIBED AND PAID-UP			
13,840,000 Equity Shares of Rs. 10/- each, fully paid-up		138.40	138.40
		138.40	138.40
NOTES:			
Of the above Equity Shares:			
(a) 140,000 Equity Shares of Rs. 10/- each were allotted as fully paid pursuant to a contract without payment being received in cash.			
(b) 9,615,720 Equity Shares of Rs. 10/- each were allotted as fully paid Bonus Shares by capitalising Profits, Reserves and Share Premium.			
(c) 3,704,440 Equity Shares of Rs. 10/- each are held by Saint-Gobain Abrasives Inc. and 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.			
SCHEDULE 2 : RESERVES AND SURPLUS			
1. SHARE PREMIUM ACCOUNT			
As per last Balance Sheet		486.68	486.68
2. REVALUATION RESERVE			
As per last Balance Sheet	50.74		52.51
Transfer to Depreciation	(1.74)		(1.77)
		49.00	50.74
3. GENERAL RESERVE			
As per last Balance Sheet	821.26		717.27
Transfer from Profit & Loss Account	150.21		103.99
		971.47	821.26
4. PROFIT & LOSS ACCOUNT			
		100.00	70.00
		1,607.15	1,428.68



SCHEDULES FORMING PART OF THE ACCOUNTS

SCHEDULE 3 : UNSECURED LOAN

Deferred Sales Tax

As at 31st December, 2005 (Rs. Million)	As at 31st December, 2004 (Rs. Million)
6.14	13.92
<u>6.14</u>	<u>13.92</u>

SCHEDULE 4 : FIXED ASSETS

(Rs. Million)

ASSETS	GROSS BLOCK				DEPRECIATION				NET BLOCK	
	As at 1.1.2005	Additions	Deductions	As at 31.12.2005	Upto 1.1.2005	On Sales	For the Year	Upto 31.12.2005	As at 31.12.2005	As at 31.12.2004
TANGIBLE ASSETS										
Land - Freehold	21.54	-	-	21.54	-	-	-	-	21.54	21.54
Land - Leasehold	9.08	-	-	9.08	0.85	-	0.09	0.94	8.14	8.23
Buildings*	248.34	21.26	4.44	265.16	81.23	0.51	7.00	87.72	177.44	167.11
Plant & Machinery	855.07	88.95	15.12	928.90	481.02	10.31	52.38	523.09	405.81	374.05
Computers	75.91	8.64	3.16	81.39	56.52	2.84	7.90	61.58	19.81	19.39
Furniture, Fixtures & Office Equipment	61.45	9.03	1.48	69.00	30.79	0.63	3.69	33.85	35.15	30.66
Vehicles	50.28	10.44	9.79	50.93	10.23	3.05	4.81	11.99	38.94	40.05
INTANGIBLE ASSETS										
Computer Software	-	6.43	-	6.43	-	-	1.41	1.41	5.02	-
Total	1,321.67	144.75	33.99	1,432.43	660.64	17.34	77.28	720.58	711.85	
Previous Year's Total	1,219.89	125.29	23.51	1,321.67	606.40	14.96	69.20	660.64		661.03
Capital Work in Progress									26.92	27.36
									738.77	688.39

* Includes an amount of Rs. 750 (Previous Year – Rs. 1,250) representing the value of shares in co-operative housing societies.

SCHEDULES FORMING PART OF THE ACCOUNTS

	Nos.	Face Value (Rs.)	(Rs. Million)	As at 31st December, 2005 (Rs. Million)	As at 31st December, 2004 (Rs. Million)
SCHEDULE 5 : INVESTMENTS					
AT COST					
LONG TERM					
TRADE					
EQUITY SHARES (fully paid up)					
Unquoted:					
Andhra Pradesh Gas Power Corporation Ltd.	2,186,880	10		27.33	27.33
NON-TRADE					
EQUITY SHARES (fully paid up)					
Quoted:					
John Oakey & Mohan Ltd.	1,900	10		0.02	0.02
Unquoted:					
(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
OTHER SECURITIES					
Unquoted:					
CAPITAL GAINS BONDS					
8.00% National Highways Authority of India**	(2,000)	10,000	-		20.00
7.50% Small Industries Development Bank of India**	(1,000)	10,000	-		10.00
7.50% Rural Electrification Corporation Limited**	(1,000)	10,000	-		10.00
7.25% Rural Electrification Corporation Limited**	(700)	10,000	-		7.00
7.15% National Housing Bank**	(1,000)	10,000	-		10.00
				-	57.00
MUTUAL FUNDS					
Monthly Income Plan – (Growth Plan)					
Birla MIP II Savings 5 Plan**	(250,000)	10	-		2.50
Deutsche MIP Fund – Plan B**	(491,632)	10	-		5.00
DSP Merrill Lynch Savings Plus Conservative**	(250,000)	10	-		2.50
Tata Monthly Income Fund**	(408,067)	10	-		5.00
Debt Funds – Floating Rate Fund (Dividend Plan)					
JM Floater Fund – Long Term Plan – Premium**	(1,000,000)	10	-		10.00
Debt Funds – Floating Rate Fund (Growth Plan)					
HSBC Floating Rate Fund – Long Term Plan – Institutional	1,000,000	10	10.00		10.00



SCHEDULES FORMING PART OF THE ACCOUNTS

SCHEDULE 5 : INVESTMENTS (Continued)	Nos.	Face Value (Rs.)	(Rs. Million)	As at 31st December, 2005 (Rs. Million)	As at 31st December, 2004 (Rs. Million)
Debt Funds – Fixed Maturity Plan (Growth Plan)					
Principal Deposit Fund (FMP-6) 371 Days Plan – (Nov. 2004)**	(1,000,000)	10	–		10.00
Tata Fixed Horizon Yearly – (Sep. 2004)**	(1,000,000)	10	–		10.00
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		–
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		–
Derivative Funds					
JM Equity & Derivative Fund – Growth*	493,900	10	5.00		–
Prudential ICICI – Blended Plan A – Dividend*	500,000	10	5.00		–
				70.00	55.00
CURRENT					
NON-TRADE					
OTHER SECURITIES					
Unquoted:					
Debt Funds (Fixed Maturity Plan) – Dividend Option					
Birla FMP Quarterly Series-1 – Plan A**	(999,590)	10	–		10.00
Birla FMP Quarterly Series-2 – Plan A**	(999,650)	10	–		10.00
Grindlays Fixed Maturity – 3rd Plan**	(1,000,000)	10	–		10.00
Magnum Debt Fund Series – 60 Days (Dec. 04)**	(1,000,000)	10	–		10.00
Prudential ICICI FMP – Quarterly – Series XXV**	(2,000,000)	10	–		20.00
Reliance Fixed Term Scheme – Monthly Plan	3,000,000	10	30.00		20.00
	(2,000,000)				
Reliance Fixed Term Scheme – Quarterly Plan	1,000,000	10	10.00		10.00
UTI – Fixed Maturity Plan – QFMP – Series VI	1,000,000	10	10.00		10.00
DSP Merrill Lynch – Fixed Term Plan – Series I*	1,000,000	10	10.00		–
ING Vysya Fixed 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		–
Derivative Funds					
JM Equity & Derivative Fund (Dividend Option)*	500,000	10	5.00		–
Kotak Cash Plus – Dividend*	1,000,000	10	10.00		–

SCHEDULES FORMING PART OF THE ACCOUNTS

SCHEDULE 5 : INVESTMENTS (Continued)	Nos.	Face Value (Rs.)	(Rs. Million)	As at 31st December, 2005 (Rs. Million)	As at 31st December, 2004 (Rs. Million)
Debt Funds – Floating Rate Fund					
DSP Merrill Lynch – Floating Rate Fund – Daily Dividend	1,026,003 (501,495)	10	10.29		5.03
ING Vysya Floating Rate Fund – Weekly Dividend	2,533,246 (1,001,547)	10	25.49		10.03
Kotak Floater – Long Term – Weekly Dividend**	(502,223)	10	-		5.03
Tata Floating Rate – Short Term – Inst. Plan – Daily Dividend**	(1,004,003)	10	-		10.05
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		-
JM Floater Fund – Short Term Plan*	992,290	10	10.00		-
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		-
Liquid Funds – (Daily Dividend Plan)					
JM High Liquidity Fund – Super Institutional Plan	8,391,395 (16,227,317)	10	84.05		162.54
Magnum Institutional Income Savings	3,674,684 (2,248,185)	10	36.87		22.55
Principal Cash Management Fund Liquid Option – Inst. Plan	4,261,422 (3,012,182)	10	42.61		30.13
				<u>415.39</u>	<u>345.36</u>
				<u>767.74</u>	<u>739.71</u>

NOTES:

- @ Less than Rs. 0.01 Million.
- * Represents Purchased during the year.
- ** Represents Sold/Redeemed during the year.
- The Company invested Rs. 3,157.20 Million (Previous Year – Rs. 2,556.75 Million) in units of various Mutual Funds and Shares in a Company which were also sold during the year.

5. COST

Quoted	0.02	0.02
Unquoted	767.72	739.69

6. MARKET VALUE

Quoted	0.03	0.03
--------	------	------

7. MUTUAL FUNDS

Cost	485.39	400.36
Repurchase Price	489.84	401.78

- Figures in brackets indicate that of Previous Year.



SCHEDULES FORMING PART OF THE ACCOUNTS

SCHEDULE 6 : CURRENT ASSETS, LOANS & ADVANCES

	(Rs. Million)	As at 31st December, 2005 (Rs. Million)	As at 31st December, 2004 (Rs. Million)
1. INVENTORIES			
Stores and Spare Parts	22.32		17.96
Raw Materials	150.16		116.91
Raw Materials in Transit	9.09		17.89
Finished Goods:			
Manufactured	101.06		130.96
Trading	22.15		22.12
Work-in-Process	<u>111.89</u>	416.67	<u>103.40</u>
			409.24
2. SUNDRY DEBTORS (Unsecured and considered good unless otherwise stated)			
Over six months	27.43		31.34
Others	<u>486.36</u>		<u>391.42</u>
	513.79		422.76
Less: Provision for doubtful debts	<u>36.68</u>	477.11	<u>35.48</u>
			387.28
(Sundry Debtors include Rs. 36.68 Million – Previous Year – Rs. 35.48 Million – considered doubtful)			
3. CASH AND BANK BALANCES			
Cash and Cheques on hand and remittances in transit	37.92		41.66
With Scheduled Banks:			
On Current Account	<u>63.18</u>	101.10	<u>16.96</u>
			58.62
4. ACCRUED INTEREST		0.32	4.58
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. 4.60 Million – Previous Year – Rs. 4.75 Million – considered doubtful)	89.91		72.60
Inter Corporate Deposit	30.00		–
Demand Deposits with Excise and Customs Departments	3.50		4.20
Other Deposits	<u>46.95</u>		<u>42.68</u>
	170.36		119.48
Less: Provision for doubtful advances	<u>4.60</u>	165.76	<u>4.75</u>
		<u>1,160.96</u>	<u>114.73</u>
			<u>974.45</u>

SCHEDULES FORMING PART OF THE ACCOUNTS

	(Rs. Million)	As at 31st December, 2005 (Rs. Million)	As at 31st December, 2004 (Rs. Million)
SCHEDULE 7 : CURRENT LIABILITIES & PROVISIONS			
1. LIABILITIES			
Sundry Creditors:			
Due to Small Scale Undertakings	11.60		5.02
Others	184.02		128.05
	<u>195.62</u>		<u>133.07</u>
Trade Deposits	12.60		10.61
Unclaimed Dividend	3.11		2.30
Other Liabilities	346.20		365.62
		<u>557.53</u>	<u>511.60</u>
2. PROVISIONS			
Provision for taxation:			
On Income (Net of Advance tax of Rs. 771.73 Million – Previous Year – Rs. 619.43 Million)	41.21		12.40
On Proposed Dividend	21.35		19.41
	<u>62.56</u>		<u>31.81</u>
Proposed Dividend	152.24		138.40
Provision for Leave Encashment	28.59		25.27
For Contingencies (Refer Schedule 13 Note 5)	77.21		77.21
		<u>320.60</u>	<u>272.69</u>
		<u>878.13</u>	<u>784.29</u>
		For the Year Ended 31st December, 2005 (Rs. Million)	For the Year Ended 31st December, 2004 (Rs. Million)
SCHEDULE 8 : MISCELLANEOUS INCOME			
Agency Commission		2.49	4.59
Interest (Gross) :			
From Long Term Investments (Non-trade)	3.20		4.39
Others	7.31		10.13
(Tax deducted – Rs. 0.03 Million – Previous Year – Rs. 0.44 Million)			
		<u>10.51</u>	<u>14.52</u>
Dividends from Investments (Non-trade) :			
From Long term Investments	19.72		8.84
From Current Investments	11.36		8.71
		<u>31.08</u>	<u>17.55</u>
Sales Tax Refund		0.22	2.75
Service Income		7.61	14.92
Gain on Prepayment of Deferred Sales Tax		22.50	15.87
Profit on Sale of Investments:			
From Long term Investments	2.16		17.02
From Current Investments	0.06		0.44
		<u>2.22</u>	<u>17.46</u>
Others		33.66	28.46
		<u>110.29</u>	<u>116.12</u>



SCHEDULES FORMING PART OF THE ACCOUNTS

SCHEDULE 9 : RAW MATERIALS CONSUMED

	(Rs. Million)	For the Year Ended 31st December, 2005 (Rs. Million)	For the Year Ended 31st December, 2004 (Rs. Million)
Opening Stock of			
Raw Materials	116.91		85.98
Raw Materials in Transit	<u>17.89</u>		<u>10.71</u>
		134.80	96.69
Add: Purchases		<u>1,068.34</u>	<u>901.31</u>
		1,203.14	998.00
Less: Closing Stock of			
Raw Materials	150.16		116.91
Raw Materials in Transit	<u>9.09</u>		<u>17.89</u>
		<u>159.25</u>	<u>134.80</u>
		<u>1,043.89</u>	<u>863.20</u>

SCHEDULE 10 : MANUFACTURING, ADMINISTRATION AND SELLING EXPENSES

Stores and Spare Parts Consumed		69.30	66.64
Processing Charges		65.13	57.49
Salaries, Wages, Bonus and Gratuity (Refer Schedule 13 Note 4)		322.33	320.36
Contribution to Provident and other Funds		32.53	29.09
Staff Welfare		46.78	40.51
Power and Fuel (Refer Schedule 13 Note 5)		329.84	304.60
Freight, Octroi and Packing Expenses		179.95	160.10
Repairs and Maintenance:			
Buildings	4.06		6.96
Machinery	35.65		41.37
Others	<u>11.11</u>		<u>10.02</u>
		50.82	58.35
Rent		9.52	11.31
Rates and Taxes		11.07	4.98
Insurance		8.26	7.32
Travelling and Conveyance		45.68	39.87
Commission and Discount on Sales		91.87	76.87
Royalties		31.83	22.98
Loss on Assets Discarded/Sold (Net)		5.24	6.02
Miscellaneous		<u>155.06</u>	<u>125.80</u>
		<u>1,455.21</u>	<u>1,332.29</u>

SCHEDULES FORMING PART OF THE ACCOUNTS

	(Rs. Million)	For the Year Ended 31st December, 2005 (Rs. Million)	For the Year Ended 31st December, 2004 (Rs. Million)
SCHEDULE 11 : INTEREST			
ON FIXED LOANS			
Others		-	0.70
		-	0.70
ON OTHER LOANS			
Banks	0.10		0.09
Others	1.17		1.21
		1.27	1.30
		1.27	2.00
SCHEDULE 12 : DECREASE/(INCREASE) IN INVENTORY			
Opening Stock of			
Finished Goods:			
Manufactured	130.96		87.81
Trading	22.12		16.01
Work-in-Process	103.40		86.07
		256.48	189.89
Less: Closing 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
		21.38	(66.59)



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 and those 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 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 Fixed Assets and depreciated on the same basis as other 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 :**

(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

(iii) Computer Software are depreciated over 3 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.

(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.

SCHEDULES FORMING PART OF THE ACCOUNTS

SCHEDULE 13 : NOTES TO ACCOUNTS (Continued)

(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 :

	2005 (Rs. Million)	2004 (Rs. Million)
a. Excise Duty demands/show cause notices pending with the appropriate authorities and disputed by the Company	19.80	10.34
b. Sales Tax demands pending with the Commissionerate/High Court and disputed by the Company	87.52	67.47
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	3.98	4.16
e. Demand raised by A. P. Transco on surplus units allocated, disputed by the Company & sub-judice in High Court (Net)	13.52	-
f. Guarantees given by Banks – Counter guaranteed by the Company	46.32	41.95
g. Channel financing with recourse	8.34	8.01
h. Other Claims against the Company not acknowledged as debts	14.59	17.52
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.		
4. Salaries, Wages, Bonus and Gratuity for 2004 include Rs. 25.03 Million provided for a shortfall in Gratuity Corpus.		
5. Andhra Pradesh Electricity Regulatory Commission vide its Order dated 24th March, 2002, had approved increase in the Power Cost in the nature of "Wheeling Charges", as proposed by A. P. Transco, effective 1st April, 2002. The Wheeling charges were proposed to be recovered in cash and by compensation in kind for system losses. The Company had contested the said Order in the Honourable Andhra Pradesh High Court. Consequent to the favourable final order passed by the Honourable Andhra Pradesh High Court on 18th April, 2003, allowing the appeal, A. P. Transco has filed a Special Leave Petition in the Honourable Supreme Court. Pending the decision of the Honourable Supreme Court, the Company had, as a matter of abundant caution, provided the cash component of Wheeling Charges of Rs. 77.21 Million under the head "Power and Fuel", upto 31st December, 2004 and it has been disclosed as "Provision for Contingencies". The Management is of the opinion that, the likelihood of this Liability crystallizing is not high and hence the Company has discontinued providing for the cash component of wheeling charges during 2005 (Previous year – Rs. 32.45 Million).		
6. 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.		
7. Future liability in respect of lease rentals (for vehicles), aggregating to Rs. 0.03 Million (Previous Year – Rs. 1.98 Million) will be accounted in subsequent year as and when the same accrues and becomes due as per the terms of the lease agreements.		
8. Estimated amount of contracts remaining to be executed on capital account and not provided for Rs. 5.66 Million (Previous Year – Rs. 27.75 Million).		
9. Exchange difference arising on foreign currency transactions amounting to Rs. 2.89 Million (Net Gain) (Previous Year – Rs. 1.54 Million – Net Loss) has been accounted under respective heads.		



SCHEDULES FORMING PART OF THE ACCOUNTS

SCHEDULE 13 : NOTES TO ACCOUNTS (Continued)

10. Deferred Tax :

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

	2005 (Rs. Million)	2004 (Rs. Million)
Depreciation on Fixed Assets	(95.48)	(104.55)
Provision for Doubtful Debts and Advances	13.84	14.72
Compensation under Voluntary Retirement Schemes	2.41	6.35
Provision for Contingencies	25.99	28.25
Others	15.59	17.97
Deferred Tax Liability	(37.65)	(37.26)

11. Earnings Per Share :

(a) Number of shares (nominal value Rs. 10/- each)	13,840,000	13,840,000
(b) Profit after tax, before extraordinary item (Rs. Million)	354.03	297.62
(c) Profit after tax, after extraordinary item (Rs. Million)	354.03	291.80
(d) Earnings per share (Basic & Diluted) in Rs. :		
(i) Before extraordinary item	25.58	21.50
(ii) After extraordinary item	25.58	21.08

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 :

Balaji Agency	PackoPack
Creative Engineering Systems	Shaiva Press
Dia Tools	Samartha Packers
Kalyani Enterprises	Sri Venkateshwara Pattern Works
Mukesh Industries	Shankar Melting Works
Maruthi Press Tools	Sri Ven Industrial Products
Mechdes Engineers	Sri Vijaylakshmi Pattern Works
Mineral Processing Industries	Trident Polychem Pvt. Ltd.
Narayana Printing & Publishing	Vaibhav Graphic

	(Rs. Million)	2005 (Rs. Million)	2004 (Rs. Million)
13. Revenue expenditure on Research & Development charged to the Profit and Loss Account during the year		5.47	3.47
14. (i) Managerial remuneration u/s. 198 of the Companies Act, 1956 :			
(a) Managing Director			
Salaries	3.88		2.72
Commission	5.56		4.39
Contribution to Provident Fund and other Funds	1.37		0.94
Perquisites	0.08		0.58
		10.89	8.63
(b) Non-wholetime Directors			
Commission		5.56	4.39
(c) Sitting Fees		16.45	13.02
		0.21	0.16

SCHEDULES FORMING PART OF THE ACCOUNTS

SCHEDULE 13 : NOTES TO ACCOUNTS (Continued)

	(Rs. Million)	2005 (Rs. Million)	2004 (Rs. Million)
(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		354.03	291.80
Add :			
Extraordinary Item	-		9.09
Provision for :			
Income Tax	175.71		147.00
Deferred Tax	0.39		(12.07)
Fringe Benefit Tax	5.40		-
Managerial Remuneration	16.45		13.02
Sitting Fees	0.21		0.16
Provision for Doubtful Debts and Advances	1.05		1.43
Loss on assets discarded/sold (Net)	5.24		6.02
		204.45	164.65
		558.48	456.45
Less :			
Profit on Sale of Investments		2.22	17.46
		556.26	438.99
Commission payable to :			
(a) Managing Director @ 1%		5.56	4.39
(b) Other Directors @ 1%		5.56	4.39
15. Advances recoverable in cash or in kind include :			
Loan due from an officer of the Company		-	0.15
Maximum Amount due at any time during the year		0.15	0.20
16. Amounts paid to Auditors :			
(i) Audit Fees		0.66	0.66
(ii) Audit under other Statutes		0.11	0.51
(iii) Tax representation before Authorities		0.31	0.45
(iv) Certification		0.13	0.31
(v) Reimbursement of Expenses		0.03	0.04
17. I. Value of Raw Materials Consumed :			
		2005	2004
	Unit	Quantity	Quantity
		(Rs. Million)	(Rs. Million)
(i) Abrasive Grains	Tons	10,132.57	10,908.09
(ii) Carbon Materials	Tons	11,877.47	10,587.00
(iii) Others		743.43	475.36
II. Value of Imported and Indigenous Materials Consumed :			
		2005	2004
	%	(Rs. Million)	(Rs. Million)
(i) Imported Raw Materials	36.92	434.50	41.47
(ii) Indigenous Raw Materials	63.08	742.51	58.53
(iii) Imported Stores & Spares	2.21	1.53	1.33
(iv) Indigenous Stores & Spares	97.79	67.77	98.67

Note: Raw Materials consumed include captive consumption.



SCHEDULES FORMING PART OF THE ACCOUNTS

SCHEDULE 13 : NOTES TO ACCOUNTS (Continued)

18. Value of Imports on CIF Basis :

- (i) Raw Materials
- (ii) Spare Parts
- (iii) Capital Goods
- (iv) Others

	2005 (Rs. Million)	2004 (Rs. Million)
	505.60	407.19
	0.43	1.76
	8.81	19.83
	94.34	95.37

19. Quantitative Details :

I. Capacities, Production, Stock and Sales :

Class of Goods	Units	Installed Capacity	Production	Opening Stock	Closing Stock	Sales	
						Quantity	Rs. Million
Bonded Abrasives	Tons	11,060.00 (11,060.00)	8,097.83 (8,152.99)	427.66 (394.46)	303.24 (427.66)	8,222.25 (8,119.79)	1,422.65 (1,367.77)
Coated Abrasives	Sqm. in Million	4.90 (4.90)	2.94 (2.01)	0.22 (0.14)	0.19 (0.22)	2.97 (1.93)	1,107.22 (874.97)
Abrasive Grains	Tons	8,400.00 (5,000.00)	6,094.30 (5,857.49)	480.64 (248.82)	223.43 (480.64)	6,351.51 (5,625.67)	430.82 (384.50)
Refractories	Tons	1,600.00 (1,600.00)	1,569.24 (1,470.73)	-	-	1,569.24 (1,470.73)	207.42 (161.29)
Others							436.81 (224.98)
Total							3,604.92 (3,013.51)

II. Notes:

- (i) Installed Capacities are as certified by the Management.
- (ii) Licensed Capacity has not been mentioned as the products are delicensed.
- (iii) Production and sales of items above exclude captive consumption.
- (iv) Previous Year's figures are in brackets.

20. Expenditure in Foreign Currency :

- (i) Export Sales Commission
- (ii) Foreign Travel
- (iii) Royalties
- (iv) Technical Design & Drawing Charges
- (v) Others

	2005 (Rs. Million)	2004 (Rs. Million)
	1.29	1.11
	1.66	2.97
	31.83	22.98
	15.00	-
	1.87	0.24
	71.04	46.17
	2	2
	7,103,500	7,103,500
	2004	2003
	331.02	272.78
	8.61	5.16
	0.02	0.03
	2.47	4.59
	0.54	7.23
	5.55	4.72

21. Amount remitted in Foreign Currency on account of :

- Dividend
- Number of Non-Resident Shareholders
- Number of Shares held
- Year to which Dividend relates

22. Earnings in Foreign Exchange :

- (i) Exports of goods on FOB Basis
- (ii) Freight on Exports
- (iii) Insurance on Exports
- (iv) Commission
- (v) Export of Services
- (vi) Other Income

SCHEDULES FORMING PART OF THE ACCOUNTS

SCHEDULE 13 : NOTES TO ACCOUNTS (Continued)

23. 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) SUBSIDIARY COMPANIES :

- Saint-Gobain Seva Engineering India Limited (Ceased to be subsidiary from 27th July, 2005).
 Saint-Gobain Weber (India) Limited (Ceased to be subsidiary from 28th December, 2004).

(iii) ASSOCIATE COMPANIES :

ABC Superabrasives., USA; Certainteed Corporation., USA; Kure-Norton Co., Ltd., Japan; 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 Vidros S A - Brazil; 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 A/S., Denmark; Saint-Gobain Abrasives AB., Sweden; 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 Ltd., Newzealand; Saint-Gobain Abrasives Singapore (PTE) Ltd.; Saint-Gobain Abrasives SP. Z.; Saint-Gobain Abrasives (PTY) Ltd., Southafrica; 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, Navarra-Spain; 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 Grains & Powders., USA; Saint-Gobain Industrial Ceramics., UK; Saint-Gobain Industrial Ceramics., USA; Saint-Gobain Industriekeramik Dusseldorf; 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; Saint-Gobain White Dove Cera Mate Co.; 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.; 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, Merrimack, USA; 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; Universal Superabrasives., USA; Zhengzhou Saint-Gobain W. D.C.M. Co. Ltd.

(iv) JOINT VENTURE :

Lincoln Helios (India) Ltd.

(v) KEY MANAGEMENT PERSONNEL :

A. Y. Mahajan – Managing Director

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), (iii) and (iv) above :

(Rs. Million)

Particulars	Holding Company		Subsidiary Companies		Associate Companies		Joint Venture	
	2005	2004	2005	2004	2005	2004	2005	2004
1 Sales	63.00	3.76	-	-	229.15	123.92	0.41	1.74
2 Agency Commission received	-	0.03	-	-	1.23	2.74	-	-
3 Interest received	-	-	-	0.06	-	-	-	-
4 Dividend received	-	-	-	-	-	-	19.50	8.75
5 Service Income	0.24	-	-	-	4.12	11.53	0.99	0.91
6 Sale of Investments	-	-	-	-	0.50	0.50	-	-
7 Other Income	0.20	0.02	-	-	1.46	2.48	-	-
8 Purchase of Goods	5.24	11.45	-	-	260.99	226.75	-	-
9 Expenses charged to other companies	0.56	-	-	-	19.84	11.44	5.52	3.98
10 Expenses charged by other companies	-	-	-	-	7.63	4.80	-	-
11 Debts and Advances Provided/ Written off	-	-	-	-	-	5.65	-	-
12 Royalties Paid	24.89	21.45	-	-	6.94	1.53	-	-
13 Other Expenses	-	-	-	-	16.37	-	-	-
14 Sale/Transfer of Fixed Assets	-	-	-	-	0.08	-	-	-
15 Inter Corporate Deposit given and Repaid	-	-	-	6.22	-	-	-	-
16 Deposit taken	-	-	-	-	-	-	1.13	4.87
17 Outstanding receivables (net of payables)	4.09	(21.61)	-	-	(6.63)	0.28	3.14	0.38
18 Outstanding deposits	-	-	-	-	-	-	14.98	13.85

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

	2005	2004
Remuneration	10.89	8.63



SCHEDULES FORMING PART OF THE ACCOUNTS

SCHEDULE 13 : NOTES TO ACCOUNTS (Continued)

24. 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, 2005				For the year ended 31st December, 2005	
		Assets	Liabilities	Contingent Liabilities	Capital Commitment	Income	Expenditure
Lincoln Helios (India) Limited (Incorporated in India)	50	200.98	88.06	6.53	3.42	170.14	123.20

25. Segment Reporting :

A. Information about Business Segments

(Rs. Million)

	Abrasives		Ceramics & Plastics		Others		Unallocated		Total	
	2005	2004	2005	2004	2005	2004	2005	2004	2005	2004
Revenue										
Segment Revenue	2,358.34	2,068.74	724.71	592.36	170.19	58.13	-	-	3,253.24	2,719.23
Less: Inter-segment sales	-	-	(74.42)	(62.00)	-	-	-	-	(74.42)	(62.00)
Net Sales	2,358.34	2,068.74	650.29	530.36	170.19	58.13	-	-	3,178.82	2,657.23
Result										
Segment Result	342.68	318.23	131.52	92.19	15.36	12.89	-	-	489.56	423.31
Unallocated Income/ (Expenditure) – (Net)							3.43	(35.02)	3.43	(35.02)
Interest Expenses							(1.27)	(2.00)	(1.27)	(2.00)
Interest Income							10.51	14.52	10.51	14.52
Dividend Income							31.08	17.55	31.08	17.55
Profit on sale of Investments							2.22	17.46	2.22	17.46
Profit before Tax and Extraordinary Item								(9.09)	535.53	435.82
Extraordinary Item									-	(9.09)
Profit before Tax									535.53	426.73
Provision for Taxes							(181.50)	(134.93)	(181.50)	(134.93)
Profit after Tax									354.03	291.80
Other Information										
Total Assets (gross)	1,337.35	1,200.20	413.33	367.52	61.97	54.10	854.82	780.73	2,667.47	2,402.55
Less : Revaluation Reserve	(26.53)	(27.62)	(22.47)	(23.12)	-	-	-	-	(49.00)	(50.74)
Net Assets	1,310.82	1,172.58	390.86	344.40	61.97	54.10	854.82	780.73	2,618.47	2,351.81
Total Liabilities	395.94	331.00	178.30	162.54	23.39	40.00	324.29	301.93	921.92	835.47
Capital Expenditure	88.70	95.88	30.29	27.63	0.81	-	24.51	9.53	144.31	133.04
Depreciation	58.49	54.49	11.77	9.47	0.12	0.07	5.17	3.40	75.55	67.43

B. Information about Geographical Segments

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

Net Sales	2005	2004
India	2,847.80	2,384.45
Outside India	331.02	272.78
Total	3,178.82	2,657.23

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

Notes:

- 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, Results, 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. 70.53 Million (Previous Year – Rs. 56.20 Million), allocated on a reasonable basis.

SCHEDULES FORMING PART OF THE ACCOUNTS

SCHEDULE 13 : NOTES TO ACCOUNTS (Continued)

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

Balance Sheet Abstract for the Year Ended 31st December, 2005 and Company's General Business Profile

I. REGISTRATION DETAILS

Registration No.	:	8163
State Code	:	11
Balance Sheet Date	:	31-12-2005

(AMOUNT IN RS. THOUSANDS)

II. CAPITAL RAISED DURING THE YEAR

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

III. POSITION OF MOBILISATION AND DEPLOYMENT OF FUNDS

Total Liabilities	:	1789337
Total Assets	:	1789337

SOURCES OF FUNDS

Paid-up Capital	:	138400
Reserves & Surplus	:	1607145
Secured Loans	:	NIL
Unsecured Loans	:	6144
Deferred Tax	:	37648

APPLICATION OF FUNDS

Net Fixed Assets	:	738769
Investments	:	767738
Net Current Assets	:	282830
Misc. Expenditure	:	NIL
Accumulated losses	:	NIL

IV. PERFORMANCE OF COMPANY

Turnover (includes Miscellaneous Income)	:	3289114
Total Expenditure	:	2753581
Profit Before Tax	:	535533
Profit After Tax	:	354025
Earning per share in Rs.	:	25.58
Dividend Rate (%)	:	110%

V. GENERIC NAMES OF THE THREE PRINCIPAL PRODUCTS/SERVICES OF THE 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

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



CASH FLOW STATEMENT FOR THE YEAR ENDED 31st DECEMBER, 2005

	(Rs. Million)	2005 (Rs. Million)	(Rs. Million)	2004 (Rs. Million)
A. CASH FLOW FROM OPERATING ACTIVITIES :				
Profit before Tax and Extraordinary Item		535.53		435.82
Adjustments for :				
Depreciation	75.55		67.43	
Unrealised Foreign Exchange (Gain) (Net)	(5.01)		(0.49)	
Loss on Sale of Fixed Assets	5.24		6.02	
Profit on Sale of Investments	(2.22)		(17.46)	
Dividend Received	(31.08)		(17.55)	
Interest (Net)	(9.24)	33.24	(12.52)	25.43
Operating Profit Before Working Capital Changes		568.77		461.25
Adjustments for :				
Trade and other Receivables	(141.13)		(17.37)	
Inventories	(7.43)		(104.35)	
Trade and other Payables	45.93	(102.63)	133.27	11.55
Cash Generated from Operations		466.14		472.80
Direct Taxes Paid	(174.81)		(191.84)	
Tax Refund	22.51	(152.30)	27.31	(164.53)
Cash Flow before Extraordinary Item		313.84		308.27
Compensation under Voluntary Retirement Scheme		-		(9.09)
Net Cash from Operating Activities		313.84		299.18
B. CASH FLOW FROM INVESTING ACTIVITIES :				
Purchase of Fixed Assets	(136.53)		(127.69)	
Sale of Fixed Assets	11.41		2.53	
Sale of Investments	104.22		153.71	
Purchase of Investments	(60.00)		(55.00)	
Interest Received	14.77		13.91	
Dividend Received	31.08		17.55	
Net Cash (used)/Generated from Investing Activities		(35.05)		5.01
C. CASH FLOW FROM FINANCING ACTIVITIES :				
Net (decrease) in Borrowing	(7.78)		(15.42)	
Interest	(1.27)		(7.30)	
Dividends Paid	(137.59)		(92.61)	
Tax on Dividend	(19.64)		(11.53)	
Net Cash used in Financing Activities		(166.28)		(126.86)
NET INCREASE IN CASH AND CASH EQUIVALENTS		112.51		177.33
CASH AND CASH EQUIVALENTS OPENING BALANCE				
Cash and Bank Balances	58.62		70.90	
Cash Credit Accounts	-		(7.67)	
Cash Equivalents (Investments in Current Securities)	345.36	403.98	163.42	226.65
CASH AND CASH EQUIVALENTS CLOSING BALANCE				
Cash and Bank Balances	101.10		58.62	
Cash Equivalents (Investments in Current Securities)	415.39	516.49	345.36	403.98
		112.51		177.33

- NOTES: 1. The Company has undrawn borrowing facilities amounting to Rs. 260 Million (Previous Year – Rs. 260 Million).
2. 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

K. M. ELAVIA
Partner
Membership No. 12737
Mumbai: 6th March, 2006

A. C. CHAKRABORTTI

Vice-Chairman

A. Y. MAHAJAN

Managing Director

H. C. PATEL

M. S. MEHTA

} Directors

Mumbai: 6th March, 2006

