



**3M India Limited**  
*(formerly Birla 3M Limited)*



ANNUAL REPORT - 2004



## BOARD OF DIRECTORS



### DIRECTORS

Mr. Yashovardhan Birla	Chairman
Mr. Lee M. Kennedy	Managing Director
Mr. Thomas P. Spencer	Director
Ms. Mary McCormick	Director
Dr. Paul Rosso	Director
Mr. B.S. Iyer	Director
Mr. D.J. Balaji Rao	Director
Mr. Amit Mukherjee	Director
Mr. B. V. Shankaranarayana Rao	Director

### ALTERNATE DIRECTOR

Mr. Brad C. Sweet	Alternate to Mr. Thomas P. Spencer
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### COMPANY SECRETARY

Mr. K. Ramesh Chandra

### AUDIT COMMITTEE MEMBERS

Mr. B.S. Iyer	Chairman
Mr. D.J. Balaji Rao	
Mr. Amit Mukherjee	
Mr. Thomas P. Spencer	
Ms. Mary McCormick	

### SHAREHOLDERS' GRIEVANCE COMMITTEE

Mr. D.J. Balaji Rao	Chairman
Mr. B.S. Iyer	
Mr. Amit Mukherjee	
Mr. Yashovardhan Birla	
Mr. Lee M. Kennedy	

### BANKERS

Bank of America  
 BNP Paribas  
 Canara Bank  
 Citibank N. A.  
 Corporation Bank  
 Deutsche Bank  
 Hongkong & Shanghai Banking Corporation Limited  
 ICICI Bank Limited  
 State Bank of India  
 Vijaya Bank  
 HDFC Bank

### AUDITORS

M/s. Lovelock & Lewes, Chartered Accountants

### LEGAL ADVISORS

J. Sagar Associates  
 Advocates  
 4121/B, 19 'A' Main, 6th Cross,  
 HAL II Stage, Extension, Bangalore -560 038

### SHARE TRANSFER AGENTS

Karvy Computershare Pvt. Ltd.  
 51/2, TKN Complex  
 Opposite National College  
 Vanivilas Road, Basavanagudi  
 Bangalore -560 011  
 Tel: 080-26621192 / 26621184  
 Fax: 080-26621129

### WEBSITE

www.3m.com/in

### INVESTORS QUERIES

3mindia.investorhelpdesk@mmm.com

## VISION AND VALUES

### Vision

- \* To be the most innovative enterprise and the preferred supplier

### Values

- \* Satisfy customers with superior quality value and service.
- \* Provide investors an attractive return through sustained quality growth.
- \* Respect our social and physical environment.
- \* Be a company employees are proud to be part of.

### 3M Performance Initiatives

- \* Six Sigma
- \* 3M Acceleration
- \* Sourcing effectiveness
- \* eProductivity
- \* Indirect Cost Control

## *Message from the Chairman*

*The financial year under review was indeed a favourable one for 3M India, not only because we reported an all-round increase in our numbers but because we strengthened the competitive ability of the businesses we are in, for the long term. 3M's uniqueness lies in the innovativeness and diversity of its product line and our efforts continue to propel us towards offering our customers, products and solutions that enable them to succeed in their work and daily life.*

*Continuously drawing from our international experience, yet keeping local market trends in perspective and leveraging 3M's core technological strengths, we have established strong positions for our business by focussing on the value provided to customers. This is reflected in the excellent growth we have achieved in 2004.*

*This success has been possible due to the resolute and steadfast implementation of our five business initiatives. These initiatives have positively and significantly impacted our performance on the top and bottom line. 3M India will continue to be guided by these initiatives through 2005 and beyond.*

*Ultimately, a performance as worthy as the one 3M India has had in 2004, is a direct result of a top-notch management and a committed, dedicated team of employees. They have my deepest appreciation and I congratulate each and every one of them. I encourage them to strive for an even better performance in 2005.*

*Yashovardhan Birla*

## Message from the Managing Director

2004 is another example of the 3M India team delivering strong results. Your company was committed to delivering solid, consistent profitable growth, driven by organic top-line growth and continuous improvements in operational efficiency. In 2004, we witnessed a net sales growth of 16%, with our volume growth gathering momentum throughout the year, taking the overall turnover to Rs. 260 crores. We also generated high returns on investments and maintained a very strong financial position.

Contributing significantly to our results were a majority of our business - Industrial, Automotive & Specialty Materials, Healthcare, Traffic, Graphics & Safety. All a sign of consistency, stability and of our focus to develop our competitive abilities across our businesses. Our continued focus on and execution of our five integrated corporate initiatives - Six Sigma, 3M Acceleration, eProductivity, Global Sourcing Effectiveness and Indirect Cost Control have contributed positively to our results. The disciplined actions inherent in each of our initiatives are embedded in our day-to-day operations and we expect these initiatives to contribute significantly in the years to come.

We also embarked on initiatives to migrate up the value chain. In the 2<sup>nd</sup> half of 2004, we commissioned a state-of-the art manufacturing facility at Ahmedabad for the production of corrosion protection products. This facility, in addition to catering to local demand will also meet demand arising from the Asian Region. We also completed various modules of expansion and upgrade programmes at our other manufacturing facilities.

Six Sigma continues to be at the heart of how each of us work. Since its inception in 2001, our focus has been on projects aimed at growth, reduced costs or effective use of working capital. But in 2004, Six Sigma took an exciting new dimension of on-the-ground interaction with customers everywhere they do business. "Six Sigma With Our Customers" is all about working to solve our customers' most important issues and realise their largest opportunities as they define them. We are investing in their success and our success simultaneously. The result is not only stronger relationships with key customers but also new insights into the real-world problems that our customers face. I am confident that "Six Sigma With Our Customers" will make a significant impact on our growth in 2005 and during the times ahead.

While we are pleased with our performance in 2004, every 3Mer recognises that confidence & performance in the marketplace is earned quarter by quarter and year by year, by delivering consistent, solid results. 3M people are committed to doing that.

By any measure, 2004 was a good year for 3M India. The employees maintained their focus and discipline and outperformed the industries they serve. I know that 3Mers are proud of their performance and justifiably so. But we realise that there is still a great deal to do. I have every confidence that our team will take 3M India to an even higher level of growth and performance. Also, my compliments to our business partners and associate for their role in our performance. I look forward to their loyalty and contribution in 2005.

Lee M. Kennedy

## Report of the Directors

Your Directors have pleasure in presenting their report and the audited accounts for the year ended December 31, 2004.

Minnesota Mining and Manufacturing Company who hold 76% in the Equity Share Capital of the Company, have, with effect from 8<sup>th</sup> April 2002, changed its name to 3M Company. In order to align with the holding Company, 3M, the Company has decided to change its name from Birla 3M Limited to 3M India Limited and to that effect an Extraordinary General Meeting was held on November 28, 2002. The Board of Directors of your Company are pleased to inform that the Company has since obtained fresh certificate of incorporation changing the name of the Company to 3M India Limited, effective December 18, 2002.

### Financial Results

	(Rs. in lakhs)	
	For the year ended December 31, 2004	For the year ended December 31, 2003
1. Net Sales including other Income	25,973.74	22,899.08
2. Exports included in the above	36.87	560.05
3. Total Expenditure	21,320.50	18,556.68
4. Interest	21.11	25.67
5. Gross Profit after Interest but before depreciation and taxation (1-3-4)	4,632.13	4,316.73
6. Extra ordinary Income	-	128.95
7. Depreciation	528.01	498.68
8. Provision for Taxation	1550.55	1,450.17
9. Net Profit	2553.57	2,496.83

### Sales and Earnings

During the year, all business segments performed well, which resulted in local sales growth of 16% over the previous year. The net profit grew by 2.3 % over the previous year.

### Dividend

In view of the on-going investment and future expansion, it is decided to retain the earnings. Hence, no dividend is recommended.

### Quantitative Details

Your Company has obtained the necessary exemption from the Central Government from disclosing quantitative details for the year ended December 31, 2004. The Company has made necessary representation to the Department of Company affairs for seeking exemption in respect of relevant disclosures as required under clause 4C of Part II, Schedule VI to the Companies Act, 1956.

### Personnel

The Board wishes to place on record its appreciation to all employees in the Company, for their sustained efforts and immense contributions to the high level of performance and growth that your Company has achieved during the year.

Information as per Section 217 (2-A) of the Companies Act, 1956 read with Companies (Particulars of Employees) Rules, 1975, forms part of this report as Annexure A. However, as permitted by Law, the Report and Accounts are being sent to all shareholders of the Company without the statement of particulars of employees under Section 217 (2-A) of the Companies Act, 1956. Any Shareholder interested in obtaining a copy of this said statement may request for a copy by writing to the Managing Director at the Registered Office of the Company.

## Directors' Responsibility

Pursuant to Section 217 (2AA) of the Companies Act, 1956, your Directors confirm that :

- i) In the preparation of annual accounts, the applicable accounting standards have been followed along with proper explanation relating to material departures.
- ii) We have selected such accounting policies and applied them consistently and made judgements and estimates that are reasonable and prudent so as to give a true and fair view of the state of affairs of the Company for the year ended December 31, 2004 and of the profit of the Company for that period.
- iii) We have taken proper and sufficient care, for the maintenance of adequate accounting records in accordance with the provisions of this Act, for safeguarding the assets of the Company and for preventing and detecting fraud and other irregularities.
- iv) We have prepared the financial statements for the year ended December 31, 2004 on a going concern basis.

## Particulars of conservation of energy, research and development, technology absorption and foreign exchange earnings and outgo

Report required to be made pursuant to Clause (e) of Sub-section (1) of Section 217 of the Companies Act, 1956 read with the Companies (Disclosure of Particulars in the Report of Board of Directors) Rules, 1988 and forming part of the Director's Report is given in Annexure B of this report.

## Directors

In accordance with Article 110 of the Articles of Association of the Company, Mr. D. J. Balaji Rao and Mr. Thomas P. Spencer will retire by rotation and being eligible, they offer themselves for reappointment.

## De-listing of Equity Shares

As approved by the shareholders at the Annual General Meeting held on April 22, 2004, the Company had made applications to the stock exchanges at Bangalore, Ahmedabad, Delhi and Kolkata for delisting the equity shares of the Company. The equity shares of the Company were de-listed from Bangalore, Ahmedabad & Delhi Stock Exchanges. The application is in progress with Kolkata Stock Exchange.

## Auditors

Messrs. Lovelock & Lewes, Chartered Accountants retire and are eligible for re-appointment.

Clause 9(a) of annexure to Auditors Report :

Company has taken necessary steps with regard to remittance of unclaimed / unpaid interest and principal on debentures to the Investor Education and Protection Fund.

## Acknowledgement

Your Directors wish to place on record their sincere appreciation of the assistance and support extended by customers, bankers, and vendors.

Your Directors also wish to place on record their sincere appreciation for the valuable contribution, efforts and the spirit of dedication shown by all employees.

On behalf of the Board of Directors

Place : Bangalore  
Date : February 25, 2005

Lee M. Kennedy  
Managing Director

B.V. Shankaranarayana Rao  
Director

Additional information to be furnished u/s 217(1)(e) of the Companies (Disclosure of Particulars in the Report of Board of Directors) Rules, 1988.

### 1. Conservation of Energy

As an on-going process of cost reduction / better management in every segment / division, the Company has taken few initiatives in conservation of energy.

The Company regularly reviews power consumption patterns across all its buildings, plant & machinery and implements requisite improvements/changes in order to optimize power consumption and thereby achieve cost savings.

Change over of T12 florescent lamps to T5 florescent lamps resulted in savings of Rs.3.26 lakhs.

### 2. Technology Absorption and Research & Development

1. Specific areas in which Research & Development carried out by the Company	Designs and Formulations related to the Automotive Business.
2. Benefits derived as a result of the above Research & Development	Localisation and Cost Reductions.
3. Future plan of action	Invest in Localisation efforts to drive the cost down.
4. Expenditure on Research & Development	(Rs. in lakhs)
a) Capital	Rs. Nil
b) Recurring	Rs. 13.40
c) Total	Rs. 13.40
d) Total Research & Development expenditure as a percentage of total turnover	0.05 %

### 3. Foreign Exchange Earning or Outgo

During the year, the Foreign Exchange earned was Rs. 36.87 lakhs and Foreign Exchange used was Rs. 252.82 lakhs.

On behalf of the Board of Directors

Place : Bangalore  
Date : February 25, 2005

Lee M. Kennedy  
Managing Director

B.V. Shankaranarayana Rao  
Director



Investors are cautioned that this discussion contains statements that involve risks and uncertainties. Words like anticipate, believe, estimate, intend, will & expect and other similar expressions are intended to identify such forward looking statements. The Company assumes no responsibility to publicly amend, modify or revise any forward looking statements, on the basis of any subsequent developments, information or events. Besides, the Company cannot guarantee that these assumptions and expectations are accurate or will be realised and actual results, performance or achievements could thus defer materially from those projected in any such forward looking statements.

## Management Discussion and Analysis

The Company has a wide spectrum of products to cater to the requirements of Industrial, Automotive, Healthcare, Consumer & Office Markets, etc., to name a few.

### a) Industry structure and Developments

The Company sales excluding exports grew by 16 % over previous year.

The Company continues its focus on Industrial Segments, its technological advantage of products and expertise. Your Company sources its requirement of materials both for manufacturing & trading from its 3M Affiliates around the globe as the products are technologically advanced.

Major portion of the revenue comes from traded goods which 3M has technological advantage worldwide. Few of our power brands are Scotchkote, Scotchtint, Micropore, Thinsulate, Post-it<sup>®</sup>, Filtrete<sup>™</sup>, Scotch<sup>®</sup>.

### b) Opportunities and Threats

The Country's economy is poised for 7 – 8 % growth for the year 2005 – 06 and tenth five year plan focusing on all round industrial development, the Company is expected to use its technological and innovative expertise to reap the benefits in 2005.

In view of continued liberalisation, products are available at reduced cost, however 3M has created a brand name. It's multiple product portfolios, coupled with innovative solutions provided by our Technical Team retained customer loyalty to the Company.

We also believe that our ability to compete will depend on a number of factors beyond our control which include

- Currency exchange fluctuations
- the price at which our competitors offer their products and services and
- to the extent to which our competitors respond to the customer's needs

We strongly believe in our brand equity.

### c) Segment-wise or product-wise performance

Rs. in lakhs

<b>Industrial Markets</b>	3M's Industrial business segment represents some of our original businesses, such as tape, coated and non-woven abrasives, and specialty adhesives. As industrial brands are continuously transformed through technological innovation, this business segment also aptly represents 3M innovation at work. Our Industrial market now offers the broadest line of products for markets in automotive, aerospace and automotive after markets. Product applications range from grinding, surface conditioning, and super abrasives to packaging systems.	<b>31.12.04</b>	<b>31.12.03</b>
<b>Financial Highlights for the year ended December 31, 2004</b>	Segment Revenue	5167.07	4105.46
	Profit before Interest & Tax	1003.14	859.94
	Capital employed	1133.51	1140.72
<b>Highlights</b>	In 2004, the Industrial Business Divisions achieved good sales growth and market penetration in the following segments – <ol style="list-style-type: none"> <li>1. Automotive OEMs (Passenger cars &amp; Motorcycles)</li> <li>2. Home Appliance manufacturers</li> <li>3. Metal Fabrication segment</li> <li>4. Construction Components segment</li> </ol> We also increased our footprint in the market place by appointing new market focused distribution in the various regions.		



Rs. in lakhs

<b>Automotive &amp; Specialty Materials</b>	This segment sells graphics & engineered products to the Automotive OEM industry, Specialty chemicals to the resin manufacturers & leather Industry and Corrosion materials to the Oil & Gas Industry.		
		<b>31.12.04</b>	<b>31.12.03</b>
<b>Financial Highlights for the year ended December 31, 2004</b>	Segment Revenue	9234.65	8271.38
	Profit before Interest & Tax	1195.98	1379.86
	Capital employed	4749.38	2899.08
<b>Highlights</b>	The Company set up a plant in Ahmedabad to manufacture Fusion bonded epoxy powder for pipe coating. Significant investments were also made to enhance graphics production capacity in the Electronics City facility in Bangalore in 2004.		

Rs. in lakhs

<b>Health Care Markets</b>	Our Health Care businesses provide innovative products, services and technologies that help improve people's health and well-being in the Hospitals and Dental clinics. 3M India holds leading position in a broad array of market segments – in medical, surgical and dental products and also provides technologies for other health care manufacturers.		
		<b>31.12.04</b>	<b>31.12.03</b>
<b>Financial Highlights for the year ended December 31, 2004</b>	Segment Revenue	4437.46	3633.48
	Profit before Interest & Tax	274.98	174.34
	Capital employed	1136.99	1100.40
<b>Highlights</b>	There has been an excellent growth in the Hospital business, with the leading products exceeding the market growth rates. The emergence of new segments has led to rapid expansion in new product sales.		

Rs. in lakhs

<b>Traffic and Safety Markets</b>	Products that enhance worker, public and vehicle safety as well as Corporate Image around the world make up this business segment. Major product lines include advanced reflective materials for traffic and personal safety, graphic films, hardware software, inks and toners for large-format identity and advertising graphics respirators & hearing protection products for worker safety, library security systems & Computer Filter Screens for eye protection.		
		<b>31.12.04</b>	<b>31.12.03</b>
<b>Financial Highlights for the year ended December 31, 2004</b>	Segment Revenue	4440.97	3410.68
	Profit before Interest & Tax	970.47	908.93
	Capital employed	1217.65	1048.20
<b>Highlights</b>	<ul style="list-style-type: none"> <li>• Expansion of the road network at the national and state levels is expected to result in increased demand for the Company's reflective sheeting products for traffic signage.</li> <li>• The Company's reflective sheeting was used in several prestigious city projects including Bangalore Development Authority's Ring Road &amp; Fly-over projects.</li> <li>• The Company's Commercial Graphics Division is the sole supplier of commercial fascia signage material (vinyl and flexible substrate) to Reliance Infocomm's Webworld chain of stores and Reliance Petroleum's new nationwide petrol pump network.</li> <li>• During the year, the Company's Occupational Health &amp; Environment Safety Division bagged contracts for supply from some of the largest public and private sector companies in the country and has strengthened its leadership position.</li> <li>• Also, the Company commenced the sale of its security products in India.</li> </ul>		