

3M

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3M India Limited

2006 ANNUAL REPORT

DIRECTORS	<p>Mr. Yashovardhan Birla Mr. Bert O'Donoghue Mr. Thomas P. Spencer Ms. Mary B. McCormick Dr. Carlisle S. Boyce Mr. B.S. Iyer Mr. D.J. Balaji Rao Mr. B.C. Prabhakar Mr. B.V. Shankaranarayana Rao</p>	<p>Chairman Managing Director Director Director Director Director Director Director Director</p>
COMPANY SECRETARY	<p>Mr. K. Ramesh Chandra</p>	
AUDIT COMMITTEE MEMBERS	<p>Mr. B.S. Iyer Mr. D.J. Balaji Rao Mr. B.C. Prabhakar Ms. Mary B. McCormick</p>	<p>Chairman</p>
SHAREHOLDERS' GRIEVANCE COMMITTEE	<p>Mr. D.J. Balaji Rao Mr. B.S. Iyer Mr. B.C. Prabhakar Mr. Yashovardhan Birla Mr. Bert O'Donoghue</p>	<p>Chairman</p>
BANKERS	<p>Bank of America BNP Paribas Canara Bank Citibank N. A. Deutsche Bank HDFC Bank Hongkong & Shanghai Banking Corporation Limited ICICI Bank Limited State Bank of India</p>	
AUDITORS	<p>M/s. Lovelock & Lewes, Chartered Accountants</p>	
LEGAL ADVISORS	<p>J. Sagar Associates Advocates & Solicitors 4121/B, 19'A' Main, 6th Cross HAL II Stage Extension, Bangalore - 560 038</p>	
SHARE TRANSFER AGENTS	<p>Karvy Computershare Pvt. Ltd. 46, Avenue Ford Street No. 1, Banjara Hills Hyderabad - 500 034 Tel: 040-23420816 / 824 Fax: 040-23420814</p>	
WEBSITE	<p>www.3m.com/intl/in</p>	
INVESTORS' QUERIES	<p>3mindia.investorhelpdesk@mmm.com</p>	

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Registered Office

Plot No. 48-51, Electronics City
Hosur Road
Bangalore - 560 100
Tel : 080 - 28520203
Fax : 080 - 28520576

Corporate Office

Raheja Paramount
138, Residency Road
Bangalore - 560 025
Tel : 080 - 22231414
Fax : 080 - 22231450

New Corporate Office

(w.e.f. 2nd April, 2007)

Concorde Block, UB City
24, Vittal Mallya Road
Bangalore - 560 001
Tel : 080 - 22231414
Fax : 080 - 22231450

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

MESSAGE FROM THE CHAIRMAN



The year ended December 31, 2006 has done me proud. We achieved extremely strong double digit growth on the top & bottom line. However, growth in isolation is not the only barometer of long term and sustained success. We strengthened the competitive ability of the businesses we are in and developed local solutions to address the needs of the Indian market. 3M's uniqueness lies in the innovativeness and diversity of its technologies 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.

Indeed, it has been a landmark year in the history of this Company. Our economic environment has ably supported our growth agenda & efforts. The country has moved to a new growth trajectory in terms of GDP & per capita income and 3M India firmly delivered strong double-digit growth at 33%

Ultimately, a performance as laudable as the one 3M India has had in 2006 is a direct result of a top-notch management and a committed, dedicated team of employees. It is my belief that results such as these come from a team that pursues excellence steadfastly while maintaining the strongest ethical standards. Stay on course!

We have set ourselves a solid vision for this company and I believe we have now internalised this vision. To make this vision a reality, we need to reignite our competitive hunger and use this to drive growth and world-class performance. We will pursue all growth opportunities systematically and aggressively and we look for your continued support and goodwill.

Yashovardhan Birla



MESSAGE FROM THE MANAGING DIRECTOR



2006 has been my first full year as the Managing Director of 3M India and I am proud to report that it has been another excellent year for the company. Your company was committed to delivering solid, consistent profitable growth, driven by top-line growth and continuous improvements in operational efficiency. In 2006, we witnessed a net sales growth of 33% and a solid earnings growth of 31%, with our volume growth gathering momentum throughout the year, taking the overall turnover to Rs. 510 crores. We have also maintained a very strong and healthy financial position.

We have over the past few years been steadfast in implementing a well structured strategic roadmap to fulfill our vision and goals. This has included a judicious mix of organic and inorganic growth that focused on increasing our product portfolio, greater technology capability, developing and deepening our relationships with a wider customer base, expansion of our network and strengthening our operational scales. In the year under review, we have taken several significant strides in our journey towards leadership in the markets we serve.

In line with this, 3M India has also taken steps to increase its manufacturing footprint in India. The Board of Directors of your Company approved investments of Rs.114 crores for the new manufacturing facility at Ranjangoan, MIDC Industrial Park, Pune. Construction works are currently underway and I expect the new plant to become operational by the 1st half of 2008. The long-term plan is to utilize this site for manufacturing of core 3M products for both the Industrial and Consumer Markets. In addition, the current manufacturing facility at Electronics City, Bangalore is undergoing expansion and is expected to be complete by April 2007. This expansion will mean a 20% increase in capacity which is significant to meet customer needs

All in all, I consider 2006 to have been a solid year for your company. A year that has shaped the course for our leadership and success

Everyone at 3M recognizes that we live in an era where speed and simplicity trump bureaucracy and complexity. I do believe we have ample opportunity to improve both speed and efficiency. We are moving forward with a conscious focus on streamlining and supercharging both our decision-making and our operations. At the same time, the challenge is to unlock and unleash 3M's technological creativity and prowess, and transform ideas into products and ultimately into sustainable growth and profits streams. Albert Einstein said that "imagination is more important than knowledge." While we will invest increased energy and resources in commercialization, marketing and new product launches, we will not forget what makes 3M great – imagination.

Your company is a dynamic and changing enterprise in many ways. Among the elements that will not change, however, is 3M's commitment to achieving results ethically, with honor and with integrity. The trust of our customers, employees and shareholders is of paramount importance to me and to the entire leadership of 3M India. We will continue to dedicate ourselves to operating in the right way.

My optimism is rooted in my confidence in the people of 3M. I have been deeply impressed with the professionalism and passion of 3Mers - it is really quite amazing to see the depth of it. I see a renewed commitment to growth through innovation and to helping our customers succeed. Those things are vital for our success.

A brand new year ushers in myriad opportunities, new partnerships, exciting ventures – a year of more promises to keep, higher goals to achieve and more smiles to bring on the faces of all those associated with us. The people of 3M reaffirm our commitment to excellence as we look ahead to another year with a determination to sustain our momentum and success.

Finally, I want to thank our Board of Directors for their advice and guidance during the past 12 months. My special thanks to Mr.Amit Mukherjee who retired from our Board late in 2006 for many years of active involvement. We are delighted that we were able to find such a wonderful replacement in Mr.B.C.Prabhakar.

Bert O' Donoghue



REPORT OF THE DIRECTORS

Your Directors have pleasure in presenting their 20th Annual Report and the Audited Accounts for the year ended December 31, 2006.

FINANCIAL RESULTS

	<i>(Rs. in lakhs)</i>	
	For the year ended December 31, 2006	For the year ended December 31, 2005
Total Income	51,039.59	38,306.05
Less : Total Expenditure	42,597.01	31,574.69
Profit before Depreciation	8,442.58	6,731.36
Less : Depreciation	645.54	673.06
Profit before Taxation	7,797.04	6,058.30
Less : Provision for Taxation	2,754.99	2,216.53
Profit after Taxation	5,042.05	3,841.77

COMPANY PERFORMANCE

The Company has recorded a good performance during the year under review. The total income was at Rs.51,039.59 lakhs for the year ended December 31, 2006 as against Rs.38,306.05 lakhs for the same period during the previous year, higher by 33%. Profit after taxation was at Rs. 5,042.05 lakhs for the year ended December 31, 2006 as against Rs. 3,841.77 lakhs for the same period during the previous year, an increase by 31%.

DIVIDEND

In view of the on-going investment and further expansion, it was decided to retain the earnings. Hence, no dividend has been recommended.

MATERIAL CHANGES AND COMMITMENTS

There were no material changes and commitments affecting the financial position of the Company that have occurred between December 31, 2006 and the date on which this report has been signed.

DIRECTORS

Mr.Amit Mukherjee resigned from directorship of the Company on December 11, 2006 and Mr.B.C.Prabhakar was appointed as a Director of the Company on December 11, 2006 in the casual vacancy caused by the resignation of Mr.Amit Mukherjee. The Board places on record their sincere appreciation for the services rendered by Mr.Amit Mukherjee. The Directors also welcomed Mr.B.C.Prabhakar to the Board.

The term of office of Mr.B.V.Shankaranarayana Rao, Whole-time Director will expire on March 31, 2007 and the Directors recommend his re-appointment at the ensuing Annual General Meeting.

Ms. Mary B. McCormick and Mr.B.C.Prabhakar are retiring by rotation at the ensuing Annual General Meeting and being eligible, offer themselves for re-election / appointment.

DIRECTORS' RESPONSIBILITY STATEMENT

Pursuant to the requirement under Section 217 (2AA) of the Companies Act, 1956 with respect to the Directors Responsibility Statement, your Directors state:

- i) that in the preparation of annual accounts, the applicable accounting standards have been followed along with proper explanation relating to material departures;
- ii) that they 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, 2006 and of the profit of the Company for that period;

- iii) that they 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) that they have prepared the financial statements for the year ended December 31, 2006 on a going concern basis.

CORPORATE GOVERNANCE

Pursuant to Clause 49 of the Listing Agreement with Stock Exchanges, a separate section titled "Corporate Governance" has been included in this annual report, along with the report of Management Discussion and Analysis and additional shareholder information.

FIXED DEPOSITS

During the year under review, the Company has not accepted any deposits under Section 58A and 58AA of the Companies Act, 1956 read with the Companies (Acceptance of Deposits) Rules, 1975.

AUDITORS

M/s. Lovelock & Lewes, Chartered Accountants, Bangalore, Auditors of the Company will retire at the conclusion of the ensuing Annual General Meeting and being eligible, offer themselves for re-appointment. The Company has received a certificate from the Auditors to the effect that their re-appointment, if made, would be in accordance with Section 224(1B) of the Companies Act, 1956.

CONSERVATION OF ENERGY, TECHNOLOGY ABSORPTION AND FOREIGN EXCHANGE EARNINGS AND OUTGO

Information required under Section 217(1)(e) of the Companies Act, 1956 read with Companies (Disclosure of Particulars in the Report of the Board of Directors) Rules, 1988 enclosed as Additional Information and forms an integral part of this Report.

LISTING

The shares of your Company are presently listed on Bombay Stock Exchange Limited (BSE) and The National Stock Exchange of India Limited (NSE). The delisting application, was filed with Calcutta Stock Exchange Association Limited and the formal approval is awaited.

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.

PARTICULARS OF EMPLOYEES

The Annual Report and Accounts are being sent to all shareholders of the Company without the statement of particulars of employees Under Section 217 (2A) of the Companies Act, 1956 read with (Particulars of Employees) Rules, 1975. Member who is interested in obtaining such particulars may write to the Company Secretary at the Registered Office of the Company.

ACKNOWLEDGEMENT

Your Directors wish to place on record their sincere appreciation for the continued support and valuable co-operation extended by all the Stakeholders. The Directors also wish to express their gratitude to all the Shareholders for the faith that they continue to repose in the Company.

On behalf of the Board of Directors

Place : Bangalore
Date : February 26, 2007

Bert O'Donoghue
Managing Director

B.V.Shankaranarayana Rao
Whole-time Director

3M India Limited**ADDITIONAL INFORMATION AS REQUIRED UNDER SECTION 217(1)(e) OF THE COMPANIES ACT, 1956 READ WITH COMPANIES (DISCLOSURE OF PARTICULARS IN THE REPORT OF THE BOARD OF DIRECTORS) RULES, 1988****A. CONSERVATION OF ENERGY**

The Company plant engineering team periodically reviews and monitors energy consumption. During the previous year under review, there were no additional investments made and implemented for reduction of consumption of energy.

B. TECHNOLOGY ABSORPTION AND RESEARCH & DEVELOPMENT

1. Specific areas in which Research & Development carried out by the Company	<ul style="list-style-type: none"> - Industrial Business: Adhesives, Abrasives & Tapes - Corrosion Protection Products: Powder and liquid epoxies for corrosion protection - Consumer Business: Cleaning solutions - Transportation Business: Automotive aftermarket formulations - Localized manufacturing of products
2. Benefits derived as a result of the above Research & Development	<ul style="list-style-type: none"> - New applications developed to serve Indian market needs - Reduced cost solutions for our customers and end users - Business growth
3. Future plan of action	<ul style="list-style-type: none"> - Localized manufacturing of products - Development of products for India in the areas of Corrosion Protection, Automotive, Industrial, Medical, Construction, and Consumer Markets
4. Expenditure on Research & Development	<i>(Rs.in Lakhs)</i>
a) Capital	Nil
b) Recurring	36.12
c) Total	36.12
d) Total Research & Development expenditure as a percentage of total turnover	0.07

3. FOREIGN EXCHANGE EARNINGS AND OUTGO

During the year, the foreign exchange earnings were Rs.622.03 lakhs and foreign exchange outgo was Rs.729.28 lakhs.

On behalf of the Board of Directors

Place : Bangalore
Date : February 26, 2007

Bert O'Donoghue
Managing Director

B.V.Shankaranarayana Rao
Whole-time 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 realized and actual results, performance or achievements could thus differ materially from those projected in any such forward looking statements.

MANAGEMENT DISCUSSION AND ANALYSIS

The previous year under review was a significant year in the Company's journey to achieving substantial progress in respect of its strategic objectives. During the year under review, the Company remained steadfast in its pursuit of goals and achieved several breakthroughs.

The Management of the Company presents its analysis covering the performance of the Company during the previous year and an outlook for the future. The future outlook is based on the current business environment, which is dynamic and variable.

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 total income grew by 33% during the year 2006. The economic growth of the country continues to present several attractive opportunities. The Company continues its focus on Industrial Segments due to 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. A few of our power brands are Scotchkote, Scotchtint, Micropore, Thinsulate, Post-it[®], Filtrete[™], Scotch[®].

b) OPPORTUNITIES AND THREATS

Company faces normal market competition in all its businesses from Indian as well as international companies. 3M's globally competitive cost positions and well crafted business strategies enables it to retain its leading market positions. We strongly believe in our Brand Equity.

c) SEGMENT-WISE OR PRODUCT-WISE PERFORMANCE

INDUSTRIAL MARKETS

Industrial Markets 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 innovations at work. This segment 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.

		Rs. in lakhs	
		31.12.06	31.12.05
Financial Highlights	Segment Revenue	9,434.86	6,456.68
	Profit before Interest & Tax	1,797.04	1,388.86
	Capital Employed	2,167.72	1,361.93
Highlights	<p>The Industrial Business grew by 46% in 2006 and this was driven by:</p> <ul style="list-style-type: none"> - Development and implementation of specific programs aimed at focus segments like Construction Components, Automotive, Auto-Parts, Metal Fabrication and Industrial Utility. - Sales from the launch of new products into the above segments. 		