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Annual Report 1998 - 99

3M

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Birla 3M Limited

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BOARD OF DIRECTORS

A. DIRECTORS

Shri Yashovardhan Birla (Chairman)
Shri Walt F Scheela (Managing Director)
Dr. Antonio Gastaldo
Shri Joseph A. Giordano
Shri Thomas Spencer

B. ALTERNATE DIRECTORS

Shri Naresh Hosangady	(Alternate to Dr. Antonio Gastaldo)
Shri Kishore Rao	(Alternate to Shri Joseph A. Giordano)
Smt Claudia Rose	(Alternate to Shri Thomas Spencer)

Joint Company Secretary	Shri. G. Shanker Prasad
Bankers	Canara Bank Citi Bank N. A. Corporation Bank Deutsche bank Hongkong & Shanghai Banking Corporation Limited State Bank of India Societe Generale Banque De Nationale Paris
Auditors	M/s. Lovelock & Lewes Chartered Accountants
Legal Advisors	M/s. Crawford Bayley & Co. State Bank Buildings N.G.N. Vaidya Marg Mumbai - 400 023
Registered Office	Plot No. 48-51, Electronics City Hosur Road Bangalore - 561 229
Share Transfer Agents	Karvy Consultants Limited 51/2, Opp. National College Vanivilas Road Basavanagudi Bangalore - 560 004

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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 a part of.

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Message From the Chairman

The year just completed presented a set of tough business challenges – the business and economic environment was depressed in the light of below average GDP growth, poor exports and tight liquidity.

3M's diversity has once again shown its resilient strengths. though the automotive and industrial sector at large remained sluggish, we have continued to make significant growth progress in our Health Care, Traffic & Safety and Office & Consumer businesses. These have indeed contributed significantly to our Company's overall results reflecting in sales growth of 24% and net profit after tax growth of 94% – encouraging results indeed in a difficult business environment.

Our outlook for the future in India remains positive and solid. The investments made in the past are beginning to show impressive results in our delivery capabilities, productivity, distribution and technical abilities. Our commitment to the Indian market and our customers have been considerably enhanced with the completion of the first Innovation Centre in India. This Centre will offer the facilities for product and application training to our existing customers as well as analyzing our competitor's products. Also, this will support our development of new products and technology. Investments in this area will continue – as also Supply Chain and IT Systems. These should foster improved results in the coming years.

Once again my thanks and compliments to the management team and employees for another year of quality growth.

Yashovardhan Birla
Chairman

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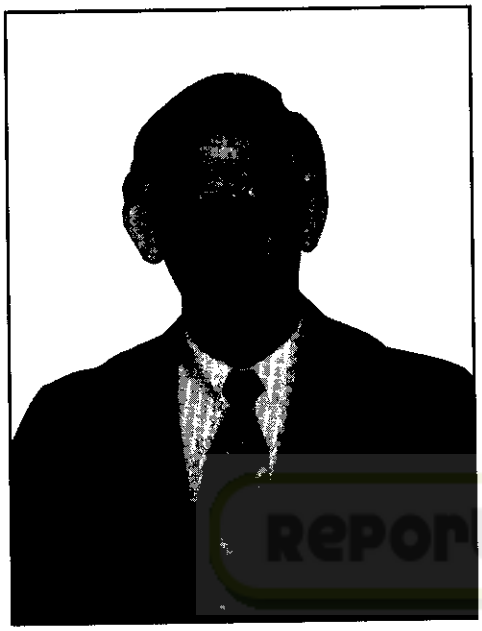
Message From the Managing Director

Fiscal Year, 1998 – 99 was a year of low industrial growth and many of the Markets we participated in were adversely impacted by the economic slowdown. However, despite the many economic challenges, our Company successfully increased our sales by over 24 %.



Our growth was achieved as a result of new products, increased presence in the market place, increased technical capabilities and improvements in Supply Chain Excellence. Positive results were seen in the Health Care Markets, Traffic & Safety Markets and Consumer & Office Markets.

In August, we inaugurated our Innovation Centre at Electronics City. This facility will significantly increase our Technical capabilities and this will definitely support our continual requirements for new and innovative products for the Indian Market. Also, we continued our investments in manufacturing processes and information systems.

I would personally like to thank our employees and business partners for their outstanding performance in a very difficult business environment. We will continue to focus on quality growth opportunities using sound business fundamentals and ethical business practices.

Walt Scheela
Managing Director

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REPORT OF THE BOARD OF DIRECTORS

Your Directors have pleasure in presenting their Report and the Audited Accounts for the year ended March 31, 1999.

FINANCIAL PERFORMANCE

(Rs. Million)

	1998 - 99	1997 - 98
1. *Sales including other Income*	**1261.56**	1021.39
2. *Exports included in the above*	**108.66**	28.33
3. *Total Expenditure*	**1107.59**	912.70
4. *Interest*	**40.24**	31.17
5. *Gross Profit after Interest but before depreciation and taxation (1-3-4)*	**113.73**	77.51
6. *Depreciation*	**21.58**	15.54
7. *Provision for Taxation*	**13.37**	21.50
8. *Net Profit*	**78.78**	40.47

Reserves : The Company has withdrawn Rs.14,375,000 from Debenture Redemption Reserve.

The Domestic sales of the Company registered a growth of 16.6 % to Rs. 1149.71 Mil in 1998 – 99 from Rs.985.75 Mil in 1997 – 98. Your Company could achieve this sale despite the recessionary conditions in the market.

The major growth during this year occurred in Health Care Markets, Traffic & Safety Markets and Consumer & Office Markets.

Export sales has increased dramatically as our earlier decision to concentrate on some attractive commodity markets has borne fruits.

STATUS ON YEAR 2000 PREPAREDNESS

The risk to the Company due to Year 2000 Issue

The Company's Year 2000 efforts have gone hand in hand with the efforts of Minnesota Mining & Manufacturing Company (Parent Company). In India, the Company centralised its focus on addressing the Year 2000 Issue in 1997 by forming a cross function project team of senior employees, chaired by General Manager - Supply Chain Excellence and Information Technology, who reports directly to the Managing Director. This project team started its work in mid 1997.

The project team has reviewed all IT and non-IT systems, operating systems for potential Year 2000 issues. Accordingly, all potential year end items have been classified as fatal and critical on one hand and non-critical on the other hand. The majority of PC hardware,

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operating system software, PC based business application software were made Y2K compliant by December 1998. The non Y2K compliant software would be replaced by Y2K compliant software by end of June 1999.

All the main business application software running on mid range IBM systems and all related hardware operating systems and network components are Y2K compliant.

The Costs to address the Company's Year 2000 issues

The total costs associated with the Company's Year 2000 remediation is not expected to be material to the Company's financial condition or result of operation. The estimated total cost of the Company's Year 2000 remediation is not expected to exceed Rs.800,000.

The Company's Contingency Plan

The Company is in the final stages of drawing up contingency plans to address Y2K issues. The individual Y2K Coordinators in the Y2K project team are continuously following up with the supplier of material and services to ensure that they are Y2K compliant or in the process of making contingency plans. The Company's Year 2000 programme is ongoing and its ultimate scope as well as the consideration of contingency plan, will continue to be evaluated, as more information becomes available.

PARTICULARS OF STOCK EXCHANGE

The Company's shares have been listed on the following Stock Exchanges :

The Bangalore Stock Exchange, Bangalore

The Stock Exchange, Mumbai

The Delhi Stock Exchange Association Limited, New Delhi

The Calcutta Stock Exchange Association, Calcutta

The Stock Exchange, Ahmedabad

The Company has paid annual listing fees of all the above mentioned Stock Exchanges.

PARTICULARS REQUIRED TO BE FURNISHED U/S 217 OF THE COMPANIES ACT, 1956.

A) Particulars of Employees

Information as per Section 217 (2A) 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 (2A) 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.

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B) Information regarding Conservation of Energy, Research and Development, Technology Absorption and Foreign Exchange Earnings and Outgo.

This information is given in Annexure B.

DIRECTORS

During the year, Mr. Vishwanath N. Nadkarni, Mr. Mahendra N. Mehta, Mr. Umrao S. Sethia, Mr. Takekazu Kaneko, Mr. Ronald J. Scherwin, Mr. Ronald G. Harber and Mr. Arvind Vijh resigned from the Board. The Board records its appreciation for the services rendered by the above Directors.

Mr. V.Sundararaman resigned from the post of Joint Secretary. Mr.G. Shanker Prasad has been appointed as Joint Secretary of the Company.

Mr. Joseph A. Giordano was appointed as Director in place of Mr. Ronald G. Harber. Mr.Naresh Hosangady and Mr. Kishore Rao were appointed as Alternate Directors to Dr.Antonio Gastaldo & Mr. Joseph A. Giordano.

AUDITORS

M/s. Lovelock & Lewes, Auditors of the Company retire at this Annual General Meeting. They are eligible for reappointment.

ACKNOWLEDGEMENT

The Directors record their appreciation to the assistance received from the Company's bankers, customers, suppliers and employees of the Company.

ON BEHALF OF THE BOARD OF DIRECTORS

Place: Bangalore	**Walt F. Scheela**	**Kishore Rao**	**Naresh Hosangady**
Date: May 21, 1999	*Managing Director*	*Director*	*Director*

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ANNEXURE B

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

Not applicable to this Company.

2. Technology Absorption and Research & Development

1. Specific areas in which Research & Development carried out by the Company	Development of new products based on Adhesive Technology, Polymer Processing, Technology Mechanical Engineering Technology, Telecom Technology, etc.
2. Benefits derived as a result of the above Research & Development	Increased revenues in coming years.
3. Future plan of action	Introducing new technologies, product improvement and customization.
4. Expenditure on Research & Development *(Rs. in Mil)*	
a) Capital	Rs.28.40
b) Recurring	Rs.19.43
c) Total	Rs.47.83
d) Total Research & Development expenditure as a percentage of total turnover	3.8 %

3. Foreign Exchange Earning or Outgo

During the year, the Foreign Exchange earned was Rs.106.88 Million and Foreign Exchange used was Rs. 405.86 Million.

ADDENDUM TO DIRECTORS' REPORT

Replies to Auditor's Observations :

With regard to the Auditor's observation in point nos. 8 and 9 notes to accounts of Schedule 16 to the accounts, the notes against each point are considered to be self explanatory.

Auditor's observation in point no. 13 to notes to accounts –

During the year, the Company appointed two whole-time employees as Alternate Directors. The remuneration paid to them and to the Managing Director put together is within the limits of Schedule XIII of the Companies Act, 1956. Where the appointment of Whole-time Directors is made in accordance with the provisions of Schedule XIII of the Companies Act, 1956, the Company should obtain the consent of the shareholders in a meeting held immediately after the appointment of the Whole-time Directors.

ON BEHALF OF THE BOARD OF DIRECTORS

Place: Bangalore	**Walt F. Scheela**	**Kishore Rao**	**Naresh Hosangady**
Date : May 21, 1999	*Managing Director*	*Director*	*Director*

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AUDITORS' REPORT

To the members of Birla 3M Limited

1. We have examined the attached balance sheet of Birla 3M Limited as at March 31, 1999, and the annexed profit and loss account for the year ended on that date which are in agreement with the books of account.
2. We understand that the Company has initiated steps to address the Year 2000 issues. It may be noted that it is the management's responsibility to ensure that the Company is prepared for the Year 2000, date change and accordingly our audit is not intended, designed or performed to identify or detect problems that may result from computer hardware, software or other automated process' inability to properly process date, which include issues, internal and/or external, related to Year 2000. In the opinion of the management, the Year 2000 issues will not vitiate the assumption of going concern.
3. As required by the Manufacturing and Other Companies (Auditor's Report) Order, 1988, issued by the Company Law Board and on the basis of such checks of the books and the records of the Company as we considered appropriate and the information and explanations given to us during the course of our audit, we report that in our opinion:
   - (i) The Company has maintained proper records showing full particulars including quantitative details and situation of fixed assets. These fixed assets have been physically verified by the management at reasonable intervals in a phased manner as per the physical verification schedule designed by the Company.
   - (ii) The fixed assets of the Company have not been revalued during the year.
   - (iii) Physical verification has been conducted by the management at reasonable intervals in respect of finished goods, stores and raw materials in the Company's possession. Goods in custody and possession of third parties have been confirmed by them.
   - (iv) The procedures of physical verification of stocks followed by the management are reasonable and adequate in relation to the size of the Company and the nature of its business.
   - (v) The discrepancies noticed on physical verification of stocks as compared to book records were not material and have been properly dealt with in the books of account.
   - (vi) In our opinion and on the basis of our examination, the valuation of stocks is fair and proper in accordance with normally accepted accounting principles and the basis of the valuation is consistent with the previous year.
   - (vii) The Company has not taken any loans, secured or unsecured from companies, firms or other parties listed in the register maintained under section 301 and from companies under the same management as defined under Section 370(1B) of the Companies Act, 1956.
   - (viii) The Company has not granted any loans, secured or unsecured to companies, firms or other parties listed in the register maintained under Section 301 and from companies under the same management as defined under Section 370 (1B) of the Companies Act, 1956.
   - (ix) The parties to whom loans or advances in the nature of loans have been given by the Company are repaying principal amounts as stipulated and are also regular in payment of interest where applicable.
   - (x) In our opinion and having regard to the explanations that certain items are of special nature and for which alternative quotations cannot be obtained, there are adequate internal control procedures commensurate with the size of the Company and the nature of its business for the purchase of stores, raw materials, finished goods, plant and machinery, equipment and other assets, and for the sale of goods.

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