

Annual Report 2002

3M India Limited
(formerly Birla 3M Limited)

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VISION AND VALUES

To be the most innovative enterprise and the preferred supplier.

► 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.

► Six Sigma

► 3M Acceleration

► Sourcing effectiveness

► eProductivity

► Indirect Cost Control

BOARD OF DIRECTORS**DIRECTORS**

Mr. Yashovardhan Birla	<i>Chairman</i>
Mr. Lee M. Kennedy	<i>Managing Director</i>
Mr. William G. Allen	<i>Director (upto February 26, 2003)</i>
Mr. Thomas P. Spencer	<i>Director</i>
Ms. Mary McCormick	<i>Director</i>
Dr. Paul Rosso	<i>Director</i>
Mr. B.S. Iyer	<i>Director</i>
Mr. D.J. Balaji Rao	<i>Director</i>
Mr. Amit Mukherjee	<i>Director</i>
Mr. B.V. Shankaranarayana Rao	<i>Director</i>

ALTERNATE DIRECTOR

Mr. Brad C. Sweet	<i>Alternate to Mr. Thomas P. Spencer</i>
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COMPANY SECRETARY

Mr. G. Shanker Prasad

**AUDIT COMMITTEE
MEMBERS**

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

**SHAREHOLDERS'
GRIEVANCE COMMITTEE**

Mr. D.J. Balaji Rao	<i>Chairman</i>
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

AUDITORS

M/s. Lovelock & Lewes, Chartered Accountants
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LEGAL ADVISORS

J. Sagar Associates
Advocates
F-3 Ligoury Court, 7, Palm Grove Road
Victoria Layout, Bangalore - 560 047

SHARE TRANSFER AGENTS

Karvy Consultants Limited
51/2, TKN Complex
Opposite National College
Vanivilas Road, Basavanagudi
Bangalore - 560 011
Tel: 080-6621192 / 6621184
Fax : 080-6621129

WEBSITE

www.3M.com/in

INVESTORS QUERIES

3mindia.investorhelpdesk@mmm.com

Message from the Chairman

2002 was a difficult year for business and the industry in general. The global economic slowdown that began in 2001 continued through the most part of 2002. Conducting business in such a tough business environment, indeed, called for a great deal of equanimity, flexibility and an eye on the future.

3M India has admirably met the task at hand head on. While top line growth fell under pressure, the significant increase in growth on net income is testimony to stable and mature management in the face of adversity.

By driving our five initiatives - Six Sigma, Indirect Cost management, eProductivity, 3M Acceleration and Sourcing consistently and methodically across the entire Company, we were able to increase our earnings. We're particularly pleased that these initiatives are beginning to impact our top line performance in 2003 and will set us up for a strong performance this year.

And ultimately it does boil down to our customers. Our focus on enhancing customer loyalty reaped us large dividends and will continue to do so in the future.

It's been a Century of Innovation at 3M - a Company with a proud past and a bright future. I do believe that people are our major strength. 3M India's management and employees exceeded expectations in 2002 and continue to lay the foundation for our future. I thank them for their contribution and wish them the very best in 2003.

Message from the Managing Director

Our performance in 2002 is another example of the 3M India team delivering results despite very difficult economic circumstances. The five global initiatives replicated in India were significantly responsible for an earnings growth of 27% over 2001. Tough times call for tough measures and I know that our 3M employees all across India rose to meet the challenges of a harsh business environment. The results prove it.

Our diversified product range catering to a variety of markets is what makes 3M unique. We saw continued top line growth in the areas of Automotive and Healthcare and it was especially significant to see growth in Industrial Markets. We at 3M continually strive to provide our customers with practical and ingenious solutions to help them succeed, and it is this very fact that ensures the retention of their loyalty. Our focus on new, innovative products through significant R&D investments have allowed us to maintain our edge in the market place.

The five global initiatives - Six Sigma, Acceleration, eProductivity, Sourcing and Indirect Costs were put fully into motion in 2002, and are poised to deliver significant results in 2003 and beyond. Employees across the company have been trained on the Six Sigma process, and at this point we have 26 Black Belt projects and 48 Green Belt projects in progress aimed at sales, growth, process improvements and improved use of working capital. These figures will grow significantly in 2003.

We are committed to delivering double-digit top line and earnings growth in 2003 despite the continuing uncertain economic and geopolitical landscape. We'll continue to improve our operational efficiency while maintaining focus on long-term, profitable growth.

I take this opportunity to thank each and every member of the 3M India team for their outstanding contribution through the years, and particularly in 2002. They are and have been a fine example of success in the face of adversity.

REPORT OF THE DIRECTORS*Dear Shareholder,*

Your Directors have pleasure in presenting their report and the audited accounts for the year ended December 31, 2002. Minnesota Mining and Manufacturing Company who hold 76% in the Equity Share Capital of the Company, have, with effect from 8th 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. Lakhs)*

	For the year ended December 31, 2002	For the year ended December 31, 2001
1. Net Sales including other Income	21,072.15	22,152.73
2. Exports included in the above	2,152.11	3,389.62
3. Total Expenditure	17,291.24	18,741.46
4. Interest	206.19	485.26
5. Gross Profit after Interest but before depreciation and taxation (1-3-4)	3,574.72	2,926.01
6. Depreciation	589.48	607.48
7. Provision for Taxation	1,231.41	939.00
8. Net Profit (5-6-7)	1,753.83	1,379.54

SALES AND EARNINGS

The economy in the later part of the year showed some sign of improvement and your company is able to post 27 % increase in net profit due to stringent austerity measures practiced by the Company through 3M Performance Initiatives.

DIVIDEND

Your Directors have not recommended any dividend on equity shares in view of the needs to conserve the resources of the Company for its future business expansion.

CENTRAL GOVERNMENT

Your Company has obtained the necessary exemption from the Central Government from disclosing quantitative details for the year December 31, 2002.

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 increased profits 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, 2002 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, 2002 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

During the year, Mr. Mark C. Sinnard resigned on February 13, 2002 and in his place, Dr. Paul Rosso was appointed as Director on the same date. Mr. Robert K. Monette relocated to 3M St. Paul on a different international assignment and has relinquished his directorship effective 29th April 2002. In his place, Ms. Mary McCormick was appointed as Director, effective 29th April 2002. Mr. B. V. Shankaranarayana Rao was appointed Alternate Director to Mr. William G. Allen on 24th July 2002.

The Board of Directors places on records their sincere contribution to both Mr. Mark C. Sinnard & Mr. Robert K. Monette for their services rendered during their tenure as Directors.

Mr. Thomas P. Spencer, Mr. D. J. Balaji Rao and Mr. B. S. Iyer are retiring by rotation at the ensuing Annual General Meeting and being eligible, offer themselves for reappointment at the same meeting.

AUDITORS

Messrs Lovelock & Lewes, who are willing to continue in office are recommended for re-appointment as the Company's Auditors.

ACKNOWLEDGEMENT

The Board acknowledges the support given by bankers, customers and suppliers of the Company and looks forward for their continued assistance.

On behalf of the Board of Directors

Place: Bangalore
Date: February 26, 2003

Lee M. Kennedy
Managing Director

B.V. Shankaranarayana Rao
Director

Additional information to be furnished u/s 217 (I)(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 for Telecom & Automotive Industry.
2. Benefits derived as a result of the above Research & Development
Good volume growth and process improvement resulted in cost reduction and factory cost.
3. Future plan of action
Introducing new technologies, product improvement and customization.
4. Expenditure on Research & Development.

(Rs. Lakhs)

a) Capital	1.73
b) Recurring	308.85
c) Total	310.58
d) Total Research & Development expenditure as a percentage of total turnover	1.47 %

3. Foreign Exchange Earning or Outgo

During the year, the Foreign Exchange earned was Rs.1904.33 lakhs and Foreign Exchange used was Rs.6327.99 lakhs.

On behalf of the Board of Directors

Place: Bangalore

Date: February 26, 2003

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 realized 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, Healthcare, Consumer & Office Markets, etc., to name a few.

a) Industry structure and Developments -

While Company's sales dropped by just above 4 %, the Company has grown by volumes and able to penetrate into Automotive Industries and few Government accounts by its Healthcare division.

The Company continues to source majority of 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 Scotchtint, Micropore, Thinsulate, Post-it ®, Filtrete™, Scotch®.

Due to economical cost of production, Company is able to develop and export certain type of medical dressings, scouring pads, computer filters & products from Occupational Health & Environment Safety division to countries in Asian region. Besides, Company exports Niger Seeds, Granites (both polished and rough), Mopeds etc. to US and UK markets in substantial quantities.

b) Opportunities and Threats

The Indian economy is expected to grow by 5% - 6% in the coming years and India is likely to emerge as key player in the international arena.

3M intends to leverage its market leadership and product innovation in the high complexity of stiff competition by offering high quality products at an affordable price. Booming Industrial and Healthcare segments and anticipated liberalization in Automobile sector would enable the Company to offer qualitative products of international standards with a superior logistic capabilities that would give necessary impetus for growth.

One of the critical factors for our success in the coming years is our continued commitment to pursue the highest quality standards in all aspects of our business. The Company has initiated five key programs which are :

- Process Improvement
- Acceleration
- eProductivity
- Sourcing
- Indirect Cost Control

3M has initiated cost reduction program through six sigma initiatives which has already shown results, as could be seen from the bottom line improvement of 27 % over previous year.

The markets for 3M India is competitive and rapidly changing, given its wide variety of segments being covered. Our competitors in this market include Carborundum Universal, Grindwell Norton in Abrasive segments, Johnson & Johnson in Health Care segments, Avery Dennison and medium and small players in Transportation, Graphic and Safety segments, Godrej, Hitachi and Sony in Office segments. These competitors are located internationally as well as in India. We expect that competition will increase and potentially include companies from other countries situated in Asia Pacific regions that have lower costs than those currently made available in India.

Since our focus is on-time delivery, Customer satisfaction by providing innovative solutions with wide variety of products and technical expertise, we strongly believe in sustaining the challenge posed by the competitors and expect a continuous steady growth.

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 to compete favorably with respect to each of these factors and achieve success through quality leadership, our expertise in providing innovative solutions and our ability to create and retain customer loyalty.

(C) SEGMENT-WISE OR PRODUCT-WISE PERFORMANCE

FINANCIAL HIGHLIGHTS FOR THE YEAR ENDED DECEMBER 31, 2002

Industrial Markets

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, super abrasives to packaging systems.

Highlights

During the year, Company lodged certain new programs for Auto After Markets, which resulted in 9 % growth.

Automotive & Specialty Materials

This segment sells products (graphics & tapes) to the Automotive OEM industry and specialty materials to various industries.

Highlights

We have made additional investments to the extent of Rs.100 lakhs which enabled us to retain the existing customer base and also focus on new market revenues in the ever increasing Automobile segment.

Electrical, Telecom & Electronics Market

We improved volumes and market share in automotive graphics and tapes and strengthened our position in various OEM customers like TVS Suzuki; Toyota Kirloskar; Maruti Udyog and TELCO. We also launched new Specialty Material products.

Highlights

This being a tender driven business, there was drop in sales of connectors. However, this was off-set by introduction of fibre management system.

(Rs. Lakhs)

	31.12.02	31.12.01
Net Sales	4616	4143
Profit before tax and interest	885	565
Capital employed	1108	1843

(Rs. Lakhs)

	31.12.02	31.12.01
Net Sales	3967	3042
Profit before tax and interest	682	388
Capital employed	3029	2286

(Rs. Lakhs)

	31.12.02	31.12.01
Net Sales	1234	1597
Profit before tax and interest	127	191
Capital employed	708	980