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3M India Limited

(formerly Birla 3M Limited)

2003 ANNUAL REPORT

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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 part of.

3M Performance Initiatives

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

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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
COMPANY SECRETARY	Mr. G. Shanker Prasad	
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 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: 080-26621192 / 26621184 Fax: 080-26621129	
WEBSITE	www.3m.com/in	
INVESTORS QUERIES	3mindia.investorhelpdesk@mmm.com	

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Message from the Chairman

3M India has completed 15 years of operations. During this time, our Company has evolved into a truly diversified entity, continuously providing it's customers with products and solutions that enable them to succeed in their business and daily life.

I am encouraged by our financial results this year. Post the economic slowdown in the new millennium, 2003 was a year to buckle down, reorient our thinking to the new market dynamics, realign our internal processes and to effect strategic changes vis-a-vis the market place. We have been successful in doing so and this is reflected in the steady growth of our business.

This performance was possible because of our continued focus on implementing our five business initiatives across the Company, experienced management and a team of competent and motivated employees.

Our customers will continue to be our raison d'etre and we are committed to providing them with top of line, innovative and reliable product solutions.

My compliments to the management and employees of 3M India for their contribution and my wishes for an outstanding performance in 2004.

Yashovardhan Birla

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Message from the Managing Director

The encouraging business and economic climate that we saw in the latter half of 2003 certainly set the stage for improved performance for 3M India. Our top line growth of 17%, excluding exports, is very much ahead of industry norms. This growth is despite the divestment of our Electro & Telecom business in September 2003. But the more significant achievement has been our earnings growth of 42%, testimony that we are on the right track with the implementation of our five business initiatives Six Sigma, Acceleration, eProductivity, Sourcing and Indirect Costs.

Contributing significantly to our results were the Industrial, Automotive and Specialty Materials businesses. Our strength continues to be our ability to provide customers with innovative product solutions that meet most exacting requirements. To that end, creating and sustaining customer loyalty has contributed significantly to our results.

Our steadfast implementation of the Six Sigma process and use of its tools in our day to day work have reaped rich dividends. Today, most of our employees are Six Sigma trained and we currently have Black Belt and Green Belt projects underway, aimed at growth, reduced costs or effective use of working capital. Six Sigma will continue to be major focus in 2004, with major emphasis on implementing projects enhancing top line growth.

In 2004, we intend to increase our capital investments in Automotive, Industrial & Specialty Materials businesses with full thrust on localizing products. Introduction of new, patented products in the Health Care market will also enhance our overall performance.

Our focus as always in our customer and our intention to deliver long-term profitable growth.

My compliments to each and every member of 3M team, our business partners and associates for playing a role in 2003's solid contribution. The dedication, focus and determination of this team is outstanding, and will undoubtedly be a part of our success in 2004.

Lee M. Kennedy

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Report of the Directors

Your Directors have pleasure in presenting their report and the audited accounts for the year ended December 31, 2003.

Minnesota Mining and Manufacturing Company which holds 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, 2003	For the year ended December 31, 2002
1	**Net Sales including other Income**	22,899.08	21,072.15
2	**Exports included in the above**	560.05	2,121.32
3	**Total Expenditure**	18,556.68	17,291.24
4	**Interest**	25.67	206.19
5	**Gross Profit after Interest but before depreciation and taxation (1-3-4)**	4,316.73	3,574.72
6	**Extraordinary Income**	128.95	-
7	**Depreciation**	498.68	589.48
8	**Provision for Taxation**	1,450.17	1,231.41
9	**Net Profit (5+6-7-8)**	2,496.83	1,753.83

Sales and Earnings

During the year, Industrial, Automotive and Specialty Material Segments did exceedingly well which resulted in 17% growth, excluding exports, despite the fact that the Company has divested its Electro & Telecom Business in September 2003. Reduction in exports is due to bad monsoon in the year 2002 which had a direct bearing on exports of Niger seeds in the year 2003.

The Company is able to post 42 % net profit growth.

Dividend

With a view to conserve the resource of the company to take advantage of potential opportunities of the growth, it is desired to retain the earning. 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, 2003. The Company has made necessary representation to the Company Law Board 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.

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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, 2003 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, 2003 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. William G. Allen resigned from the Board on February 26, 2003. By virtue of this, Mr. B. V. Shankaranarayana Rao ceased to be an Alternate Director to Mr. William G. Allen. Mr. B. V. Shankaranarayana Rao was appointed as a whole-time Director on February 26, 2003.

The Board of Directors places on records its sincere appreciation to Mr. William G. Allen for services rendered during his tenure as a Director.

In accordance with Article 110 of the Articles of Association of the Company, Mr. Amit Mukherjee, Dr. Paul Rosso and Ms. Mary McCormick will retire by rotation and being eligible, they offer themselves for reappointment.

De-listing

The notice of the Annual General Meeting includes enabling the Company to delist its equity shares from Ahmedbad, Bangalore, Calcutta, Delhi Stock Exchanges as there is virtually no trading of shares in these Exchanges. Besides, substantial cost is being incurred in meeting up with the compliance as required under the Listing Agreement. Since Mumbai Stock Exchange has got a nation-wide trading terminal and Company is in the process of listing with National Stock Exchange (Currently, National Stock Exchange has granted necessary power to trade in Company Security), it is decided to delist from Ahmedabad, Bangalore, Calcutta & Delhi Stock Exchanges.

Auditors

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

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, 2004

Lee M. Kennedy
Managing Director

B.V. Shankaranarayana Rao
Director

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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

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

- Changeover of T12 florescent lamps to T5 florescent lamps which gives 100% more lumens / watt consumed.
- Using of alternate fuel for diesel generating sets which has resulted in reduction in cost by 20%.

2. Technology Absorption and Research & Development

1	Specific areas in which Research & Development carried out by the Company	Development of new products / Markets / Customers in Automotive, Industrial and Specialty Material segments.
2	Benefits derived as a result of the above Research & Development	Good volume growth.
3	Future plan of action	Substantial investment in Fusion Bonded Epoxy Powder
4	Expenditure on Research & Development	*(Rs. in lakhs)*
	a) Capital	Rs. 0.16
	b) Recurring	Rs. 12.56
	c) Total	Rs. 12.72
	d) Total Research & Development expenditure as a percentage of total turnover	0.06%

3. Foreign Exchange Earning or Outgo

During the year, the Foreign Exchange earned was Rs.568.44 lakhs and Foreign Exchange used was Rs.8094.81 lakhs.

On behalf of the Board of Directors

Place : Bangalore
Date: February 26, 2004

Lee M. Kennedy
Managing Director

B.V. Shankaranarayana Rao
Director

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

a) Industry structure and Developments

The Company sales excluding exports grew by 17 % over last year especially Industrial, Automotive & Specialty Material Segments.

The Company continues to source most 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 in which 3M has technological advantage worldwide. Few of our power brands are Scotchkote, 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. However, due to crop failure in the year 2002, Company's export of Niger seeds were badly hit which resulted in steep fall in export turnover.

b) Opportunities and Threats

The Country's economy is expected to grow by 7 to 8% in the coming years and India is likely to emerge as key player in the international arena.

3M intends to expand its operation in Automotive, Industrial & Specialty Material markets with full thrust on localising products. Introduction of new patented products in Health Care Segments and anticipated all-round growth in the economy would enable the Company to offer qualitative products of international standards with a superior logistic capabilities.

One of the success factors of high growth of profit after tax is various initiatives like Process Improvement, Acceleration, e Productivity, sourcing and indirect cost reduction and the Company would like to continue its focus in these initiatives to achieve maximum benefit in the coming years without compromising on quality and standards.

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, 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.

As our thrust and strength lies on on-time delivery & Innovations to meet customer's expectations, 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

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We strongly believe to compete favorably with respect to each of these factors 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

Rs. in Lakhs

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.		
		31.12.03	**31.12.02**
Financial Highlights for the year ended December 31, 2003	Segment Revenue	4105.46	3242.11
	Profit or (loss) before tax and interest	859.94	618.25
	Capital employed	1140.72	1108.28
Highlights	During the year, Company introduced many new programs for Construction Industry as well as expansion of market share in Abrasive segments.		

Rs. in Lakhs

Automotive & Specialty Materials	This segment sells products (graphics & tapes) to the Automotive OEM industry and specialty materials to Oil and Gas Pipelines		
		31.12.03	**31.12.02**
Financial Highlights for the year ended December 31, 2003	Segment Revenue	8271.38	5521.34
	Profit or (loss) before tax and interest	1379.85	973.86
	Capital employed	2899.08	3028.52
Highlights	The Company has made substantial inroads into Automobile sector. There was a great demand from oil and gas sectors which resulted in substantial growth in Specialty Material Markets especially in Corrosion Protection products		

Rs. in Lakhs

Electrical, Telecom & Electronics Market	This segment comprises of connectors, fibre distribution management system for optical fibre cables and also insulating material for high voltage power sector.		
		31.12.03	**31.12.02**
Financial Highlights for the year ended December 31, 2003	Segment Revenue	857.53	1108.09
	Profit or (loss) before tax and interest	196.56	101.73
	Capital employed	85.09	707.54
Highlights	The Company has since divested this business to Pouyet Communication India Pvt. Ltd. on September 5, 2003 and hence the figures over previous year are not comparable.		

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