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3M India Limited

(formerly Birla 3M Limited)

2005 ANNUAL REPORT

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BOARD OF DIRECTORS

DIRECTORS	Mr. Yashovardhan Birla	Chairman
	Mr. Bert O'Donoghue	Managing Director
	Mr. Thomas P. Spencer	Director
	Ms. Mary B. McCormick	Director
	Dr. Carlisle S. Boyce	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. 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 B. McCormick	
SHAREHOLDERS' GRIEVANCE COMMITTEE	Mr. D.J. Balaji Rao	Chairman
	Mr. B.S. Iyer	
	Mr. Amit Mukherjee	
	Mr. Yashovardhan Birla	
	Mr. Bert O'Donoghue	
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 & Solicitors 4121/B, 19 'A' Main, 6th Cross HAL II Stage Extention, Bangalore - 560 038	
SHARE TRANSFER AGENTS	Karvy Computershare Pvt. Ltd. 46, Avenue Ford Street No. 1, Banjara Hills Hyderabad - 500 034 Tel: 040-23420816 / 824 Fax: 040-23420814	
WEBSITE	www.3m.com/intl/in	
INVESTORS QUERIES	3mindia.investorhelpdesk@mmm.com	

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Corporate Office

Raheja Paramount
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Fax : 080 - 22231450

Registered Office

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Hosur Road
Bangalore - 560 100
Tel : 080 - 28520203
Fax : 080 - 28520576

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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.

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3M Performance Initiatives

- Six Sigma
- 3M Acceleration
- Sourcing effectiveness
- eProductivity

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MESSAGE FROM THE CHAIRMAN

The year ended December 31, 2005 was indeed a momentous one for us. Our Company witnessed excellent growth on the top & bottom line & is well ahead of the industry average in terms of growth. I am delighted with our performance.

For Companies, scaling up is vital for longevity and prosperity. The growth it generates feeds customer demand for stronger, more stable partners, who consistently deliver value at competitive costs. Strong growth permits companies to build their brand and human capital, to seize market share, to amortize costs on sales, administration and R&D, not to mention financial stability as I always believe, 3M's drive to scale-up will come from it's innovative and diverse product line and most certainly, our ability to offer long-term value to our customers.

Our strong product base coupled with a sound business model, is fortified by a leadership that leads by example. A leadership that rolls up its sleeves and dives into the details, be it project reviews or scoping customer needs or for that matter motivating their teams. I thank them for leading 3M India so well and I am confident of their ability to lead our company to an even stronger & greater future.

Finally, I believe that such strong results are a product of a dedicated, committed & hard-working team. I thank them for their stellar performance and I exhort them to continue to foster their culture of excellence, while sticking to the highest ethical standards.

Defining a vision of the future, far ahead of where we stand today, is essential to unlock the imagination and passion of people. We need to internalise each facet of this vision, see where we are found wanting, and systematically address each shortcoming. Once the vision becomes part of our bloodstream, growth is automatic & a certainty.

Yashovardhan Birla

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MESSAGE FROM THE MANAGING DIRECTOR

The people at 3M India are committed to delivering solutions to our customers problems, using innovative 3M technologies and products, growing faster than the economy we serve and delivering strong results. In 2005, they continued to transform the way we operate, achieving several new milestones – both financial and in other key areas of operating performance.

I am delighted to report to you that your Company registered a top line growth of 45.4% over 2004, way above industry averages. We posted another all-time high in earnings growth of 50.4%. Our results were driven primarily by a combination of solid top-line growth and continued improvements in operational efficiency. In addition, cost-reduction projects related to our corporate initiatives had a direct impact on our bottom line. Needless to say, the very core of our raison d'etre are our customers – working closely with them, creating and sustaining customer loyalty has contributed significantly to our results.

A rejuvenated culture of accountability is reinforcing the delivery of broad-based business results and all of our businesses contributed to our sales and profit growth in 2005.

We enter 2006 with strong momentum, confident in our ability to sustain double-digit earnings growth both this year and longer-term. We're delivering strong results by leading change and leveraging the power inherent in the 3M business model. A culture of customer-inspired innovation is at the core of this business model. Our people apply multiple technologies to a broad spectrum of markets, and they continue to transform the process of innovation – from idea creation to successful product commercialization – by making better choices and at a faster pace. We have substantially reduced cycle time – the number of months it takes for a qualified product idea to go from concept to successful commercialization. That means sales start earlier and add up more quickly.

Six Sigma is 3M's overarching initiative and it continues to drive growth, reduce costs and increase cash flow in 3M businesses around the world. It has become deeply embedded in every function and business. Simply put, it's now the way we work. A key way in which we use Six Sigma tools is "Six Sigma with Our Customers" projects - these joint projects produce a relationship with customers that transcends that of the traditional role of a product supplier. We come to be appreciated as a valued business partner, as well.

Achieving results ethically is a cornerstone of the 3M culture. Close to two decades of operating with honesty and integrity has earned the company trust from customers, respect and credibility, and dedication from our employees. Our reputation is an incalculable asset and a source of pride for 3Mers in India. We recognize that good reputations are much more easily lost than won, and we're fully committed to protecting our reputation for straightforward, ethical behavior.

The impressive results that your Company has delivered would not have been possible without the yeoman contribution of all employees, channel partners and outsource partners who work day and night to execute and deliver the vision of the company. I am sure all of you will join me in complimenting them for putting in extraordinary work to achieve wonderful results.

I am exceptionally proud of the 3M employees in India and what they have achieved. Not only am I proud of the business results but also the way that they have displayed their humanity by contributing from their own pockets to support the Prime Minister's National Relief Fund at the time of the recent terrible earthquake in Northern India. Your Company had a contribution matching scheme and the employees really stepped up. This group of employees are the equal of any group of 3M employees globally.

As we move forward, we will start to increase our investments in India to create an infrastructure to enable continued growth that is well in excess of the economic growth of the country.

Finally, I would like to thank your Board of Directors. Their leadership and advice to me and our team is invaluable.

As I look to the future, I sincerely believe that our best years are ahead of us.

Bert O'Donoghue

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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, 2005.

Financial Results

(Rs. in lakhs)

	For the year ended December 31, 2005	For the year ended December 31, 2004
1. Net Sales including other Income	**38,306.05**	25,973.74
2. Exports included in the above	**645.90**	36.87
3. Total Expenditure	**31,560.01**	21,320.50
4. Interest	**14.68**	21.11
5. Profit after Interest but before Depreciation and Taxation (1-3-4)	**6,731.36**	4,632.13
6. Depreciation	**673.06**	528.01
7. Provision for Taxation	**2,216.53**	1,550.55
8. Profit after Taxation	**3,841.77**	2,553.57

Sales and Earnings

During the year, all business segments performed well, which resulted in local sales growth of 45.4 % over the previous year. Profit after Taxation grew by 50.4 %.

Dividend

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

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.

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. Any Shareholder interested in obtaining a copy of the said statement may request for a copy in 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, 2005 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, 2005 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

Mr. Lee M. Kennedy resigned as Managing Director on August 31, 2005 and in his place, Mr. Bert O'Donoghue was appointed as Managing Director. Dr. Paul Rosso resigned as Director on October 26, 2005 and in his place, Dr. Carlisle Boyce was appointed as a Director.

The Board of Directors places on record their sincere appreciation to Mr. Lee M. Kennedy and Dr. Paul Ross for their contribution.

Mr. B. S. Iyer and Dr. Carlisle Boyce are retiring by rotation at the ensuing Annual General Meeting and being eligible, offer themselves for re-election / appointment.

Auditors

M/s. Lovelock & Lewes, Chartered Accountants retire and are eligible for re-appointment.

Acknowledgement

Your Directors wish to place on record their sincere appreciation for 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

Bert O'Donoghue
Managing Director

Place : Bangalore
Date : February 20, 2006

B.V. Shankaranarayana Rao
Director

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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

Installation of 100 nos of T5 lamps for the new converting area resulted in reduction of power consumption.

Installation of variable frequency drives in the A/C and ventilation arrangement of the Trolley condition area VFD's will vary the speed of the Motor depending upon the requirement and at least 20% saving is expected to the connected load of 15 KW of the motors at AHU's.

The above measures in conservation of energy resulted in annual savings of Rs 3.6 lakhs.

2. Technology Absorption and Research & Development

1.	Specific areas in which Research & Development carried out by the Company	• Consumer Markets – Wipes • Automotive After Markets – Formulations • Corrosion Protection Products – Epoxy Powders, • Abrasives
2.	Benefits derived as a result of the above Research & Development	• New applications developed to improve customers process • Cost effective solutions to bring down the total cost of applications and products • Patent application filed
3.	Future plan of action	Support product application development and localise products in areas of Corrosion Protection, Automotive Aftermarkets, Abrasives, Polymers - Plastic and Rubber processing
4.	Expenditure on Research & Development	*(Rs.in Lakhs)*
	a) Capital	Nil
	b) Recurring	15.60
	c) Total	15.60
	d) Total Research & Development expenditure as a percentage of total turnover	0.04 %

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3. Foreign Exchange Earnings or Outgo

During the year, the Foreign Exchange earnings were Rs.676.68 lakhs and Foreign Exchange Outgo was Rs. 1055.89 lakhs.

On behalf of the Board of Directors

Place : Bangalore
Date : February 20, 2006

Bert O'Donoghue
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 differ 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 45.4 % 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 ®, Filtrete™, Scotch®.

b) Opportunities and Threats

2005 was another encouraging year for the Indian economy. The continued stability at home contributed to the favourable business environment.

We 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

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 innovations 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.

Rs. in lakhs

		31.12.05	31.12.04
Financial Highlights	Segment Revenue	6,456.68	4,781.80
	Profit before Interest & Tax	1,388.86	1,003.14
	Capital Employed	1,361.93	1,133.52

Highlights

- Strong growth in the construction components segment where specialty tapes are used for various applications like curtain walling, glazing and panel attachment applications in elevators.
- Growth in metal fabrication segment where our abrasives products are used for MS and SS fabrication applications.
- Steady and sustained growth in the AOEM and auto parts segments where our specialty tapes and abrasives are used for various applications in the manufacture of automobiles, motorcycles and various auto components.

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AUTOMOTIVE & SPECIALTY MATERIALS MARKETS

Corrosion Protection Products offer high quality high durability coatings for the pipelines which are used for transporting crude oil / natural gas from exploration area like oil fields to refineries.

Specialty Materials represents some of the very advanced technological products to automotive / oil & gas and industrial segments which add tremendous value to our customers in auto components manufacturing industry.

Design & sell engineered products for the automotive OEM industry. Provide productivity enhancing solutions for the automotive aftermarkets in car repair and in enhancing appearance of cars through a wide range of car care treatments and accessories

Rs. in lakhs

		31.12.05	31.12.04
Financial Highlights	Segment Revenue	13,523.58	8,316.49
	Profit before Interest & Tax	1,741.33	1,195.98
	Capital Employed	5,839.06	4,749.38

Highlights

- Oil exploration projects, auto components progress during the second half of the year resulted in significant growth. Several initiatives have been implemented to improve productivity. Growth for corrosion protection products and specialty materials in the coming years depends largely on the automotive industry performance and implementation of oil exploration projects.
- Recorded good growth in the automotive OEM business for both designed and engineered products.

HEALTH CARE MARKETS

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.

Rs. in Lakhs

		31.12.05	31.12.04
Financial Highlights	Segment Revenue	5,501.07	4,437.46
	Profit before Interest & Tax	335.08	274.98
	Capital Employed	1,280.46	1,136.99

Highlights

- 3M has been working relentlessly with customers in imparting education on hospital / dental practices and protocol development / compliance across the country.
- Over 40,000 customers were contacted by marketing, technical and international speaker programs in the hospital, dental and dairy industry. We worked with customers and helped set-up local chapters of nurses clubs, infection control societies, etc., in major cities.
- The launch of a new nanotechnology product Z350 was well received by dentists and will lead to faster growth. Faster penetration in cleaning and disinfection products and dressings helped growth in the medical business in 2005. The launch of orthodontic products in 2005 will accelerate growth.
- Six sigma projects undertaken with some leading customers have helped improved efficiency for the customers and have helped improved relationships and business for 3M with these customers.

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