3M CO
Form 10-K
February 16, 2010

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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

x ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE

SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended December 31, 2009

Commission file number 1-3285

3M COMPANY

State of Incorporation: **Delaware** I.R.S. Employer Identification No. **41-0417775**

Principal executive offices: **3M Center, St. Paul, Minnesota 55144**

Telephone number: **(651) 733-1110**

SECURITIES REGISTERED PURSUANT TO SECTION 12(b) OF THE ACT:

Title of each class	Name of each exchange on which registered
Common Stock, Par Value $.01 Per Share	New York Stock Exchange, Inc. Chicago Stock Exchange, Inc.

Note: The common stock of the Registrant is also traded on the SWX Swiss Exchange.

Securities registered pursuant to section 12(g) of the Act: **None**

Indicate by check mark if the Registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes x No o

Indicate by check mark if the Registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes o No x

Indicate by check mark whether the Registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the Registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes x No o

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes x No o

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of Registrant s knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. x

Indicate by check mark whether the Registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of large accelerated filer , accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act.

Large accelerated filer x	Accelerated filer o	Non-accelerated filer o (Do not check if a smaller reporting company)	Smaller reporting company o

Indicate by check mark whether the Registrant is a shell company (as defined in Rule 12b-2 of the Act). Yes o No x

The aggregate market value of voting stock held by nonaffiliates of the Registrant, computed by reference to the closing price and shares outstanding, was approximately $57.3 billion as of January 29, 2010 (approximately $42.0 billion as of June 30, 2009, the last business day of the Registrant s most recently completed second quarter).

Shares of common stock outstanding at January 31, 2010: 711,733,377.

DOCUMENTS INCORPORATED BY REFERENCE

Parts of the Company s definitive proxy statement (to be filed pursuant to Regulation 14A within 120 days after Registrant s fiscal year-end of December 31, 2009) for its annual meeting to be held on May 11, 2010, are incorporated by reference in this Form 10-K in response to Part III, Items 10, 11, 12, 13 and 14.

This document (excluding exhibits) contains 124 pages.

The table of contents is set forth on page 2. The exhibit index begins on page 120.

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3M COMPANY

FORM 10-K

For the Year Ended December 31, 2009

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3M COMPANY

ANNUAL REPORT ON FORM 10-K

For the Year Ended December 31, 2009

PART I

Item 1. Business.

3M Company was incorporated in 1929 under the laws of the State of Delaware to continue operations begun in 1902. The Company s ticker symbol is MMM. As used herein, the term 3M or Company includes 3M Company and its subsidiaries unless the context indicates otherwise. In this document, for any references to Note 1 through Note 19, refer to the Notes to Consolidated Financial Statements in Item 8.

Available Information

The SEC maintains a website that contains reports, proxy and information statements, and other information regarding issuers, including the Company, that file electronically with the SEC. The public can obtain any documents that the Company files with the SEC at http://www.sec.gov. The Company files annual reports, quarterly reports, proxy statements and other documents with the Securities and Exchange Commission (SEC) under the Securities Exchange Act of 1934 (Exchange Act). The public may read and copy any materials that the Company files with the SEC at the SEC s Public Reference Room at 100 F Street, N.E., Washington, D.C. 20549. The public may obtain information on the operation of the Public Reference Room by calling the SEC at 1-800-SEC-0330.

3M also makes available free of charge through its website (http://investor.3M.com) the Company s Annual Report on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K, and, if applicable, amendments to those reports filed or furnished pursuant to the Exchange Act as soon as reasonably practicable after the Company electronically files such material with, or furnishes it to, the SEC.

General

3M is a diversified technology company with a global presence in the following businesses: Industrial and Transportation; Health Care; Consumer and Office; Safety, Security and Protection Services; Display and Graphics; and Electro and Communications. 3M is among the leading manufacturers of products for many of the markets it serves. Most 3M products involve expertise in product development, manufacturing and marketing, and are subject to competition from products manufactured and sold by other technologically oriented companies.

At December 31, 2009, the Company employed 74,835 people (full-time equivalents), with 31,513 employed in the United States and 43,322 employed internationally.

Business Segments

As discussed in Note 17 to the Consolidated Financial Statements, effective in the first quarter of 2009, 3M made certain product moves between its business segments in its continuing effort to drive growth by aligning businesses around markets and customers. Segment information presented herein reflects the impact of these changes for all periods presented.

3M continues to manage its operations in six operating business segments: Industrial and Transportation; Health Care; Consumer and Office; Safety, Security and Protection Services; Display and Graphics; and Electro and Communications. 3M s six business segments bring together common or related 3M technologies, enhancing the development of innovative products and services and providing for efficient sharing of business resources. These segments have worldwide responsibility for virtually all 3M product lines. Certain small businesses and lab-sponsored products, as well as various corporate assets and expenses, are not attributed to the business segments. Financial information and other disclosures relating to 3M s business segments and operations in major geographic areas are provided in the Notes to Consolidated Financial Statements.

Industrial and Transportation Business: The Industrial and Transportation segment serves a broad range of markets, such as appliance, paper and packaging, food and beverage, electronics, automotive original equipment manufacturer (OEM) and automotive aftermarket (auto body shops and retail). Industrial and Transportation products include tapes, a wide variety of coated and non-woven abrasives, adhesives, specialty materials, filtration products, energy control products, closure systems for personal hygiene products, and components and products that are used in the manufacture, repair and maintenance of automotive, marine, aircraft and specialty vehicles.

Major industrial products include vinyl, polyester, foil and specialty industrial tapes and adhesives; Scotch® Masking Tape, Scotch® Filament Tape and Scotch® Packaging Tape; packaging equipment; 3M VHB Bonding Tapes; conductive, low surface energy, hot melt, spray and structural adhesives; reclosable fasteners; label materials for durable goods; and coated, nonwoven and microstructured surface finishing and grinding abrasives for the industrial

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market. 3M Purification Inc. (previously referred to as CUNO Incorporated), provides a comprehensive line of filtration products for the separation, clarification and purification of fluids and gases. Other industrial products include fluoroelastomers for seals, tubes and gaskets in engines; and engineering fluids. In addition, this segment provides 3M Scotchtint Window Film for buildings; 3M Ultra Safety and Security Window Film for property and personal protection during destructive weather conditions; and closures for disposable diapers.

Major transportation products include insulation components, including components for catalytic converters; functional and decorative graphics; abrasion-resistant films; masking tapes; fasteners and tapes for attaching nameplates, trim, moldings, interior panels and carpeting; coated, nonwoven and microstructured finishing and grinding abrasives; structural adhesives; and other specialty materials. In addition, 3M provides paint finishing and detailing products, including a complete system of cleaners, dressings, polishes, waxes and other products.

Health Care Business: The Health Care segment serves markets that include medical clinics and hospitals, pharmaceuticals, dental and orthodontic practitioners, and health information systems. Products and services provided to these and other markets include medical and surgical supplies, skin health and infection prevention products, drug delivery systems, dental and orthodontic products, health information systems and anti-microbial solutions. As discussed in Note 2, 3M completed the sale of its global branded pharmaceuticals business in Europe in January 2007.

In the medical and surgical areas, 3M is a supplier of medical tapes, dressings, wound closure products, orthopedic casting materials, electrodes and stethoscopes. In infection prevention, 3M markets a variety of surgical drapes, masks and preps, as well as sterilization assurance equipment. Other products include drug delivery systems, such as metered-dose inhalers, transdermal skin patches and related components. Dental and orthodontic products include restoratives, adhesives, finishing and polishing products, crowns, impression materials, preventive sealants, professional tooth whiteners, prophylaxis and orthodontic appliances. In health information systems, 3M develops and markets computer software for hospital coding and data classification, and provides related consulting services. 3M provides microbiology products that make it faster and easier for food processors to test the microbiological quality of food.

Consumer and Office Business: The Consumer and Office segment serves markets that include consumer retail, office retail, home improvement, building maintenance and other markets. Products in this segment include office supply products, stationery products, construction and home improvement products, home care products, protective material products and consumer health care products.

Major consumer and office products include Scotch® brand products, such as Scotch® Magic Tape, Scotch® Glue Stick and Scotch® Cushioned Mailer; Post-it® Products, such as Post-it® Flags, Post-it® Note Pads, Post-it® Labeling & Cover-up Tape, and Post-it® Pop-up Notes and Dispensers; construction and home improvement products, including surface-preparation and wood-finishing materials, Command Adhesive Products and Filtrete Filters for furnaces and air conditioners; home care products, including Scotch-Brite® Scour Pads, Scotch-Brite® Scrub Sponges, Scotch-Brite Microfiber Cloth products, O-Cel-O Sponges and Scotchgard Fabric Protectors; protective material products; certain maintenance-free respirators; certain consumer retail personal safety products, including safety glasses and hearing protectors; and Nexcare Adhesive Bandages. In July 2009, 3M acquired ACE® branded (and related brands) elastic bandage, supports and thermometer product lines.

Safety, Security and Protection Services Business: The Safety, Security and Protection Services segment serves a broad range of markets that increase the safety, security and productivity of workers, facilities and systems. Major product offerings include personal protection products, safety and security products (including border and civil security solutions), cleaning and protection products for commercial establishments, track and trace solutions, and roofing granules for asphalt shingles. In April 2008, 3M acquired Aearo Holding Corp., the parent company of

Aearo Technologies Inc. (hereafter referred to as Aearo). Aearo manufactures and sells personal protection and energy absorbing products, which expanded 3M s platform by adding hearing protection as well as eyewear and fall protection product lines to 3M s existing line of respiratory products. The consumer retail portion of Aearo s business is included in 3M s Consumer and Office business segment.

This segment s products include certain maintenance-free and reusable respirators, personal protective equipment, electronic surveillance products, films that protect against counterfeiting, and reflective materials that are widely used on apparel, footwear and accessories, enhancing visibility in low-light situations. 3M s Track and Trace Solutions business utilizes radio frequency identification (RFID) technology to provide a growing array of solutions from library patron self-checkout systems to tracking packages. Other products include spill-control sorbents; Thinsulate Insulation and Thinsulate Lite Loft Insulation; nonwoven abrasive materials for floor maintenance and commercial cleaning; floor matting; and natural and color-coated mineral granules for asphalt shingles. In the second

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quarter of 2008, 3M completed the sale of its HighJump Software business which provided supply chain execution software solutions.

Display and Graphics Business: The Display and Graphics segment serves markets that include electronic display, traffic safety and commercial graphics. This segment includes optical film solutions for electronic displays; computer screen filters; reflective sheeting for transportation safety; commercial graphics systems; and projection systems, including mobile display technology and visual systems products.

The optical film business provides films that serve numerous market segments of the electronic display industry. 3M provides distinct products for five market segments, including products for: 1) LCD computer monitors, 2) LCD televisions, 3) hand-held devices such as cellular phones, 4) notebook PCs and 5) automotive displays. Other optical products include desktop and notebook computer screen filters that address needs for light control, privacy viewing and glare reduction. In traffic safety systems, 3M provides reflective sheetings used on highway signs, vehicle license plates, construction work-zone devices, trucks and other vehicles, and also provides pavement marking systems. Major commercial graphics products include films, inks, digital signage systems and related products used to produce graphics for vehicles and signs. The projection systems business focuses on bringing technology to the projection market, including mobile display technology in addition to its visual communication products that serve the world s office and education markets with overhead projectors and transparency films, as well as equipment and materials for electronic and multimedia presentations.

Electro and Communications Business: The Electro and Communications segment serves the electrical, electronics and communications industries, including electrical utilities; electrical construction, maintenance and repair; original equipment manufacturer (OEM) electrical and electronics; computers and peripherals; consumer electronics; telecommunications central office, outside plant and enterprise; as well as aerospace, military, automotive and medical markets; with products that enable the efficient transmission of electrical power and speed the delivery of information. Products include electronic and interconnect solutions, microinterconnect systems, high-performance fluids, high-temperature and display tapes, telecommunications products, electrical products, and touch screens and touch monitors.

Major electronic and electrical products include packaging and interconnection devices; high-performance fluids used in the manufacture of computer chips, and for cooling electronics and lubricating computer hard disk drives; high-temperature and display tapes; insulating materials, including pressure-sensitive tapes and resins; and related items. 3M Flexible Circuits use electronic packaging and interconnection technology, providing more connections in less space, and are used in ink-jet print cartridges, cell phones and electronic devices. This segment serves the world s telecommunications companies with a wide array of products for fiber-optic and copper-based telecommunications systems for rapid deployment in fixed and wireless networks. The 3M Aluminum Conductor Composite Reinforced (ACCR) electrical power cable, with an aluminum-based metal matrix at its core, increases transmission capacity for existing power lines. The touch systems business includes touch screens and touch monitors.

Distribution

3M products are sold through numerous distribution channels, including directly to users and through numerous wholesalers, retailers, jobbers, distributors and dealers in a wide variety of trades in many countries around the world. Management believes the confidence of wholesalers, retailers, jobbers, distributors and dealers in 3M and its products a confidence developed through long association with skilled marketing and sales representatives has contributed significantly to 3M s position in the marketplace and to its growth.

Research and Patents

Research and product development constitutes an important part of 3M s activities and has been a major driver of 3M s sales growth. Research, development and related expenses totaled $1.293 billion in 2009, $1.404 billion in 2008 and $1.368 billion in 2007. Research and development, covering basic scientific research and the application of scientific advances in the development of new and improved products and their uses, totaled $838 million in 2009, $851 million in 2008 and $788 million in 2007. Related expenses primarily include technical support provided by 3M to customers who are using existing 3M products; internally developed patent costs, which include costs and fees incurred to prepare, file, secure and maintain patents; and amortization of acquired patents.

The Company s products are sold around the world under various trademarks. The Company also owns, or holds licenses to use, numerous U.S. and foreign patents. The Company s research and development activities generate a steady stream of inventions that are covered by new patents. Patents applicable to specific products extend for varying periods according to the date of patent application filing or patent grant and the legal term of patents in the various countries where patent protection is obtained. The actual protection afforded by a patent, which can vary

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from country to country, depends upon the type of patent, the scope of its coverage and the availability of legal remedies in the country.

The Company believes that its patents provide an important competitive advantage in many of its businesses. In general, no single patent or group of related patents is in itself essential to the Company as a whole or to any of the Company s business segments. The importance of patents in the Display and Graphics segment is described in Performance by Business Segment Display and Graphics Business in Part II, Item 7, of this Form 10-K.

Raw Materials

In 2009, the Company experienced cost decreases in most raw materials and transportation fuel costs. This was driven by lower basic feedstock costs, particularly metals and oil derived materials. To date, the Company is receiving sufficient quantities of all raw materials to meet its reasonably foreseeable production requirements. It is impossible to predict future shortages of raw materials or the impact any such shortages would have. 3M has avoided disruption to its manufacturing operations through careful management of existing raw material inventories and development and qualification of additional supply sources. 3M manages commodity price risks through negotiated supply contracts, price protection agreements and forward physical contracts.

Environmental Law Compliance

3M s manufacturing operations are affected by national, state and local environmental laws around the world. 3M has made, and plans to continue making, necessary expenditures for compliance with applicable laws. 3M is also involved in remediation actions relating to environmental matters from past operations at certain sites (refer to Environmental and Other Liabilities and Insurance Receivables in Note 14, Commitments and Contingencies).

Environmental expenditures relating to existing conditions caused by past operations that do not contribute to current or future revenues are expensed. Reserves for liabilities for anticipated remediation costs are recorded on an undiscounted basis when they are probable and reasonably estimable, generally no later than the completion of feasibility studies or the Company s commitment to a plan of action. Environmental expenditures for capital projects that contribute to current or future operations generally are capitalized and depreciated over their estimated useful lives.

In 2009, 3M expended about $15 million for capital projects related to protecting the environment. This amount excludes expenditures for remediation actions relating to existing matters caused by past operations that do not contribute to current or future revenues, which are expensed. Capital expenditures for environmental purposes have included pollution control devices such as wastewater treatment plant improvements, scrubbers, containment structures, solvent recovery units and thermal oxidizers at new and existing facilities constructed or upgraded in the normal course of business. Consistent with the Company s policies stressing environmental responsibility, capital expenditures (other than for remediation projects) for known projects are presently expected to be about $22 million over the next two years for new or expanded programs to build facilities or modify manufacturing processes to minimize waste and reduce emissions.

While the Company cannot predict with certainty the future costs of such cleanup activities, capital expenditures or operating costs for environmental compliance, the Company does not believe they will have a material effect on its capital expenditures, earnings or competitive position.

Executive Officers

Following is a list of the executive officers of 3M, and their age, present position, the year elected to their present position and other positions they have held during the past five years. No family relationships exist among any of the executive officers named, nor is there any undisclosed arrangement or understanding pursuant to which any person was selected as an officer. This information is presented as of the date of the 10-K filing (February 16, 2010).

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Name	Age	Present Position	Year Elected to Present Position	Other Positions Held During 2005-2009
George W. Buckley	62	Chairman of the Board, President and Chief Executive Officer	2005	Chairman and Chief Executive Officer, Brunswick Corporation, 2000-2005
Patrick D. Campbell	57	Senior Vice President and Chief Financial Officer	2002	
Joaquin Delgado	50	Executive Vice President, Electro and Communications Business	2009	Vice President and General Manager, Electronics Markets Materials Division, 2007-2009 Vice President, Research and Development and New Business Ventures, Consumer and Office Business, 2005-2007 Managing Director, 3M Korea, 2003-2005
Joe E. Harlan	50	Executive Vice President, Consumer and Office Business	2009	Executive Vice President, Electro and Communications Business, 2004-2009
Michael A. Kelly	53	Executive Vice President, Display and Graphics Business	2006	Division Vice President, Occupational Health and Environmental Safety Division, 2003-2006
Angela S. Lalor	44	Senior Vice President, Human Resources	2006	Staff Vice President, Human Resources Operations, 2005 Executive Director, Human Resources Operations, 2004-2005
Jean Lobey	57	Executive Vice President, Safety, Security and Protection Services Business	2005	
Robert D. MacDonald	59	Senior Vice President, Marketing and Sales	2004	
Frederick J. Palensky	60	Executive Vice President, Research and Development and Chief Technology Officer	2006	Executive Vice President, Enterprise Services, 2005-2006 Executive Vice President, Safety, Security and Protection Services Business, 2002-2005
Brad T. Sauer	50	Executive Vice President, Health Care Business	2004	
Hak Cheol Shin	52	Executive Vice President, Industrial and Transportation Business	2006	Executive Vice President, Industrial Business, 2005 Division Vice President, Industrial Adhesives and Tapes Division, 2003-2005
Marschall I. Smith	65	Senior Vice President, Legal Affairs and General Counsel	2007	Vice President and General Counsel Brunswick Corporation, 2001-2007
Inge G. Thulin	56	Executive Vice President, International Operations	2004	

John K. Woodworth	58	Senior Vice President, Corporate Supply Chain Operations	2006	Vice President, Asia Pacific, 2004-2006

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Item 1A. Risk Factors

Our disclosure and analysis in our Annual Report on Form 10-K contain forward-looking statements that relate to future events and typically address the Company s expected future business and financial performance based on certain assumptions. These assumptions and expectations of future events and trends are subject to risks and uncertainties. Depending on a variety of factors, actual future results and trends may differ materially from historical results or those reflected in any such forward-looking statements. Provided below is a cautionary discussion of what we believe to be the most significant risk factors applicable to the Company. Discussion of these factors is incorporated by reference into and considered an integral part of Part II, Item 7, Management s Discussion and Analysis of Financial Conditions and Results of Operations.

** Results are impacted by the effects of, and changes in, worldwide economic and capital markets conditions.* The Company operates in more than 65 countries and derives approximately 63 percent of its revenues from outside the United States. The Company s business may be adversely affected by factors in the United States and other countries that are beyond its control, such as disruptions in financial markets or downturns in economic activity in specific countries or regions, or in the various industries in which the Company operates; social, political or labor conditions in specific countries or regions; or adverse changes in the availability and cost of capital, interest rates, tax rates, or regulations in the jurisdictions in which the Company operates.

** The Company s credit ratings are important to 3M s cost of capital.* The major rating agencies routinely evaluate the Company s credit profile and have assigned debt ratings to 3M that are near the top of the ratings spectrum. This evaluation is based on a number of factors, which include financial strength, business and financial risk, as well as transparency with rating agencies and timeliness of financial reporting. The Company has an AA- credit rating, with a stable outlook, from Standard & Poor s and an Aa2 credit rating, with a stable outlook, from Moody s Investors Service. The Company s strong ratings serve to lower 3M s borrowing costs and facilitate access to a variety of lenders. Failure to maintain the current ratings level could adversely affect the Company s cost of funds, liquidity and access to capital markets.

** The Company s results are affected by competitive conditions and customer preferences.* Demand for the Company s products, which impacts revenue and profit margins, is affected by (i) the development and timing of the introduction of competitive products; (ii) the Company s response to downward pricing to stay competitive; (iii) changes in customer order patterns, such as changes in the levels of inventory maintained by customers and the timing of customer purchases which may be affected by announced price changes, changes in the Company s incentive programs, or the customer s ability to achieve incentive goals; and (iv) changes in customers preferences for our products, including the success of products offered by our competitors, and changes in customer designs for their products that can affect the demand for some of the Company s products.

** Foreign currency exchange rates and fluctuations in those rates may affect the Company s ability to realize projected growth rates in its sales and earnings.* Because the Company s financial statements are denominated in U.S. dollars and approximately 63 percent of the Company s revenues are derived from outside the United States, the Company s results of operations and its ability to realize projected growth rates in sales and earnings could be adversely affected if the U.S. dollar strengthens significantly against foreign currencies.

** The Company s growth objectives are largely dependent on the timing and market acceptance of its new product offerings, including its ability to continually renew its pipeline of new products and to bring those products to market.* This ability may be adversely affected by difficulties or delays in product development, such as the inability to identify viable new products, obtain adequate intellectual property protection, or gain market acceptance of new products. There are no guarantees that new products will prove to be commercially successful.

** The Company s future results are subject to fluctuations in the costs and availability of purchased components, compounds, raw materials and energy, including oil and natural gas and their derivatives, due to shortages, increased demand, supply interruptions, currency exchange risks, natural disasters and other factors.* The Company depends on various components, compounds, raw materials, and energy (including oil and natural gas and their derivatives) supplied by others for the manufacturing of its products. It is possible that any of its supplier relationships could be interrupted due to natural and other disasters and other events, or be terminated in the future. Any sustained interruption in the Company s receipt of adequate supplies could have a material adverse effect on the Company. In addition, while the Company has a process to minimize volatility in component and material pricing, no assurance can be given that the Company will be able to successfully manage price fluctuations or that future price fluctuations or shortages will not have a material adverse effect on the Company.

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** Acquisitions, strategic alliances, divestitures, and other unusual events resulting from portfolio management actions and other evolving business strategies, and possible organizational restructuring could affect future results.* The Company monitors its business portfolio and organizational structure and has made and may continue to make acquisitions, strategic alliances, divestitures and changes to its organizational structure. With respect to acquisitions, future results will be affected by the Company s ability to integrate acquired businesses quickly and obtain the anticipated synergies.

** The Company s future results may be affected if the Company generates fewer productivity improvements than estimated.* The Company utilizes various tools, such as Lean Six Sigma, to improve operational efficiency and productivity. There can be no assurance that all of the projected productivity improvements will be realized.

** The Company s future results may be affected by various legal and regulatory proceedings, including those involving product liability, antitrust, environmental or other matters.* The outcome of these legal proceedings may differ from the Company s expectations because the outcomes of litigation, including regulatory matters, are often difficult to reliably predict. Various factors or developments can lead the Company to change current estimates of liabilities and related insurance receivables where applicable, or make such estimates for matters previously not susceptible of reasonable estimates, such as a significant judicial ruling or judgment, a significant settlement, significant regulatory developments or changes in applicable law. A future adverse ruling, settlement or unfavorable development could result in future charges that could have a material adverse effect on the Company s results of operations or cash flows in any particular period. For a more detailed discussion of the legal proceedings involving the Company and the associated accounting estimates, see the discussion in Note 14.

Item 1B. Unresolved Staff Comments.

None.

Item 2. Properties.

3M s general offices, corporate research laboratories, and certain division laboratories are located in St. Paul, Minnesota. The Company operates 72 manufacturing facilities in 28 states. The Company operates 105 manufacturing and converting facilities in 35 countries outside the United States.

3M owns substantially all of its physical properties. 3M s physical facilities are highly suitable for the purposes for which they were designed. Because 3M is a global enterprise characterized by substantial intersegment cooperation, properties are often used by multiple business segments.

Item 3. Legal Proceedings.

Discussion of legal matters is incorporated by reference from Part II, Item 8, Note 14, Commitments and Contingencies, of this document, and should be considered an integral part of Part I, Item 3, Legal Proceedings.

Item 4. Submission of Matters to a Vote of Security Holders.

None in the quarter ended December 31, 2009.

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PART II

Item 5. Market for Registrant s Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities.

Equity compensation plans information is incorporated by reference from Part III, Item 12, Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters, of this document, and should be considered an integral part of Item 5. At January 29, 2010, there were 110,956 shareholders of record. 3M s stock is listed on the New York Stock Exchange, Inc. (NYSE), the Chicago Stock Exchange, Inc., and the SWX Swiss Exchange. Cash dividends declared and paid totaled $.51 per share for each quarter of 2009, and $.50 per share for each quarter of 2008. Stock price comparisons follow:

Stock price comparisons (NYSE composite transactions)

(Per share amounts)	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	Year
2009 High	**$ 59.81**	**$ 61.46**	**$ 76.00**	**$ 84.32**	**$ 84.32**
2009 Low	**40.87**	**48.72**	**57.81**	**71.62**	**40.87**
2008 High	$ 84.76	$ 83.22	$ 74.71	$ 68.31	$ 84.76
2008 Low	72.05	68.61	65.51	50.01	50.01

Issuer Purchases of Equity Securities

Repurchases of common stock are made to support the Company s stock-based employee compensation plans and for other corporate purposes. In February 2007, 3M s Board of Directors authorized a two-year share repurchase of up to $7.0 billion for the period from February 12, 2007 to February 28, 2009. In February 2009, 3M s Board of Directors extended this share repurchase authorization until the remaining $2.6 billion (as of December 31, 2009) is fully utilized.

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Issuer Purchases of Equity

Securities (registered pursuant to

Section 12 of the Exchange Act)

Period	**Total Number of Shares Purchased(1)**		**Average Price Paid per Share**	**Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs**		**Maximum Approximate Dollar Value of Shares that May Yet Be Purchased under the Plans or Programs (Millions)**
January 1-31, 2009	2,921	$	54.03		**$**	**2,567**
February 1-28, 2009		$			**$**	**2,567**
March 1-31, 2009	1,661	$	50.33		**$**	**2,567**
Total January 1-March 31, 2009	4,582	$	52.69		**$**	**2,567**
April 1-30, 2009	62,049	$	54.39		**$**	**2,567**
May 1-31, 2009	32,173	$	58.71		**$**	**2,567**
June 1-30, 2009	682	$	60.03		**$**	**2,567**
Total April 1-June 30, 2009	94,904	$	55.90		**$**	**2,567**
July 1-31, 2009	19,780	$	56.87		**$**	**2,567**
August 1-31, 2009	30,321	$	71.72		**$**	**2,567**
September 1-30, 2009	10,047	$	73.92		**$**	**2,567**
Total July 1-September 30, 2009	60,148	$	67.21		**$**	**2,567**
October 1-31, 2009	33,643	$	76.30		**$**	**2,567**
November 1-30, 2009	11,260	$	77.51		**$**	**2,567**
December 1-31, 2009	49,882	$	81.94		**$**	**2,567**
Total October 1 December 31, 2009	94,785	$	79.41		**$**	**2,567**
Total January 1 December 31, 2009	254,419	$	67.27		**$**	**2,567**

(1) The total number of shares purchased includes: (i) shares purchased under the Board s authorizations described above, and (ii) shares purchased in connection with the exercise of stock options (which combined totaled 2,921 shares in January 2009, 1,661 shares in March 2009, 62,049 shares in April 2009, 32,173 shares in May 2009, 682 shares in June 2009, 19,780 shares in July 2009, 30,321 shares in August 2009, 10,047 shares in September 2009, 33,643 shares in October 2009, 11,260 shares in November 2009, and 49,882 shares in December 2009).

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Item 6. Selected Financial Data.

(Dollars in millions, except per share amounts)	2009	2008	2007	2006	2005
Years ended December 31:					
Net sales	**$ 23,123**	$ 25,269	$ 24,462	$ 22,923	$ 21,167
Net income before cumulative effect of accounting change attributable to 3M	**3,193**	3,460	4,096	3,851	3,139
Per share of 3M common stock:					
Net income before cumulative effect of accounting change attributable to 3M basic	**4.56**	4.95	5.70	5.15	4.10
Net income before cumulative effect of accounting change attributable to 3M diluted	**4.52**	4.89	5.60	5.06	4.02
Cash dividends declared and paid per 3M common share	**2.04**	2.00	1.92	1.84	1.68
At December 31:					
Total assets	**$ 27,250**	$ 25,793	$ 24,699	$ 21,294	$ 20,541
Long-term debt (excluding portion due within one year) and long-term capital lease obligations	**5,204**	5,224	4,088	1,112	1,368

The above income and earnings per share information exclude a cumulative effect of accounting change in 2005 ($35 million, or 5 cents per diluted share). New accounting guidance for asset retirement obligations was effective December 31, 2005, and its adoption resulted in the recognition of an asset retirement obligation liability of $59 million at December 31, 2005, and an after-tax charge of $35 million for 2005, which was reflected as a cumulative effect of change in accounting principle in the Consolidated Statement of Income.

Items included in the preceding table which had a significant impact on results are summarized as follows. 2009 results included net losses that decreased operating income by $194 million and net income attributable to 3M by $119 million. 2009 included restructuring actions ($209 million pre-tax, $128 million after tax and noncontrolling interest), which was partially offset by a gain on sale of real estate ($15 million pre-tax, $9 million after tax). 2008 results included net losses that decreased operating income by $269 million and net income attributable to 3M by $194 million. 2008 included restructuring actions ($229 million pre-tax, $147 million after-tax and noncontrolling interest), exit activities ($58 million pre-tax, $43 million after-tax) and losses related to the sale of businesses ($23 million pre-tax, $32 million after-tax), which were partially offset by a gain on sale of real estate ($41 million pre-tax, $28 million after-tax). 2007 results included net gains that increased operating income by $681 million and net income attributable to 3M by $448 million. 2007 included gains related to the sale of businesses ($849 million pre-tax, $550 million after-tax) and a gain on sale of real estate ($52 million pre-tax, $37 million after-tax), which were partially offset by increases in environmental liabilities ($134 million pre-tax, $83 million after-tax), restructuring actions ($41 million pre-tax, $27 million after-tax), and exit activities ($45 million pre-tax, $29 million after-tax). 2006 results included net gains that increased operating income by $523 million and net income attributable to 3M by $438 million. 2006 included net benefits from gains related to the sale of certain portions of 3M s branded pharmaceuticals business ($1.074 billion pre-tax, $674 million after-tax) and favorable income tax adjustments ($149 million), which were partially offset by restructuring actions ($403 million pre-tax, $257 million after-tax), acquired in-process research and development expenses ($95 million pre-tax and after-tax), settlement costs of an antitrust class action ($40 million pre-tax, $25 million after-tax), and environmental obligations related to the pharmaceuticals business ($13 million pre-tax, $8 million after-tax). 2005 results included charges that reduced net income attributable to 3M before cumulative effect of accounting change by $75 million. This related to a tax liability resulting from 3M s reinvestment of approximately $1.7 billion of foreign earnings in the United States pursuant to the repatriation provisions of the American Jobs Creation Act of 2004.

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Item 7. Management s Discussion and Analysis of Financial Condition and Results of Operations.

Management s Discussion and Analysis of Financial Condition and Results of Operations (MD&A) is designed to provide a reader of 3M s financial statements with a narrative from the perspective of management. 3M s MD&A is presented in nine sections:

	Beginning page
• Overview	13
• Results of Operations	16
• Performance by Business Segment	20
• Performance by Geographic Area	30
• Critical Accounting Estimates	33
• New Accounting Pronouncements	36
• Financial Condition and Liquidity	36
• Financial Instruments	42
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OVERVIEW

3M is a diversified global manufacturer, technology innovator and marketer of a wide variety of products. As discussed in Note 17 to the Consolidated Financial Statements, effective in the first quarter of 2009, 3M made certain business segment realignments, including both product moves between business segments and reporting changes related to revised U.S. performance measures. The financial information presented herein reflects the impact of these changes for all periods presented. 3M manages its operations in six operating business segments: Industrial and Transportation; Health Care; Consumer and Office; Safety, Security and Protection Services; Display and Graphics; and Electro and Communications.

3M s quarterly year-on-year business results got stronger as 2009 progressed, with first nine-month 2009 year-on-year comparisons significantly negatively impacted by the economic downturn that began impacting 3M in the fourth quarter of 2008. For total year 2009, while sales declined 8.5 percent and organic volumes declined 9.5 percent, worldwide industrial production is expected to be down by a similar amount and 3M s sales performance was in line with the overall economy. 3M restructured a number of businesses during the year, resulting in 2009 total year savings of almost $400 million, with estimated additional incremental savings of more than $150 million in 2010. In addition, 3M amended its policy regarding banked vacation, which added more than $100 million to operating income in 2009, with a slightly lower benefit expected in 2010. 3M also enacted temporary furloughs where appropriate, froze merit pay and reduced indirect spending. Finally, in the midst of this economic downturn, 3M invested $1.3 billion in research, development and related expenses during 2009.

3M has been aggressively restructuring the company since early 2008 and continued this effort through the third quarter of 2009, with these restructuring actions and exit activities in the aggregate resulting in a reduction of approximately 6,400 positions. 3M aggressively reduced structural costs across the company, including in the factories. The focus now is to accelerate growth in the various businesses and to add only those expenses that are absolutely necessary. 3M announced the reduction of approximately 200 positions in the third quarter of 2009, with the majority of those occurring in Western Europe and, to a lesser extent, the United States. In the second quarter of 2009, 3M permanently reduced approximately 900 positions spanning many businesses and geographies, and in the United States another 700 people accepted a voluntary retirement option. 3M expects that a small portion of those who accepted the voluntary separation will be replaced; thus, on a net basis, 3M estimates an employment level decline of approximately 1,400 to 1,500 due to these second quarter restructuring actions. In the first quarter of

2009, 3M announced the elimination of approximately 1,200 positions. In addition, 3M announced reductions of approximately 3,500 positions in 2008, with 2,400 of these reductions announced in the fourth quarter of 2008. The related net restructuring charges and other special items reduced net income attributable to 3M for year 2009 by $119 million, or $0.17 per diluted share. Special items reduced net income attributable to 3M for year 2008 by $194 million, or $0.28 per diluted share, with $140 million, or $0.20 per diluted share, in the fourth quarter of 2008. Refer to the special items discussion at the end of this overview section for more detail.

Fourth-quarter 2009 sales totaled $6.1 billion, an increase of 11.1 percent from the fourth quarter of 2008, with all business segments and major geographic areas showing improvement. Net income attributable to 3M was $935 million, or $1.30 per diluted share. This compares to $536 million, or $0.77 per diluted share, which includes the impact of restructuring and other special items, in the fourth quarter of 2008.

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Sales in 2009 totaled $23.1 billion, a decrease of 8.5 percent from 2008. Including the preceding special items, net income attributable to 3M was $3.193 billion, or $4.52 per diluted share, in 2009, versus $3.460 billion, or $4.89 per diluted share, in 2008. In 2009, the global economic slowdown dramatically affected year-on-year comparisons for 3M s businesses. Substantial end-market declines and inventory takedowns in major industries, including automotive, consumer electronics and general industrial manufacturing, resulted in significantly lower sales and income. Accordingly, 3M reduced its cost structure, lowered manufacturing output and intensified its attention to operational improvement. The combination of these actions drove operating income margins of 20.8 percent in 2009, compared to 20.6 percent in 2008. Restructuring charges and other special items reduced this operating income margin by approximately one percentage point in both 2009 and 2008.

In January 2007, 3M completed the sale of its branded pharmaceuticals business, resulting in a gain in the first quarter of 2007. In addition, 3M recorded a gain related to the sale of its Opticom Priority Control Systems and Canoga Traffic Detection businesses in the second quarter of 2007. In 2007, these gains on sale of businesses were partially offset by restructuring and the net impact of other special items. Refer to Special Items at the end of this overview section for additional details. Including these special items, in 2007, 3M reported net sales of $24.462 billion and net income attributable to 3M of $4.096 billion, or $5.60 per diluted share.

The following table contains sales and operating income results by business segment for the years ended December 31, 2009 and 2008. Refer to the section entitled Performance by Business Segment later in MD&A for discussion by business segment of restructuring and other items that impacted reported operating income. Refer to Note 17 for discussion of Corporate and Unallocated and Elimination of Dual Credit.

(Dollars in millions)	2009 Net Sales	2009 % of Total	2009 Oper. Income	2008 Net Sales	2008 % of Total	2008 Oper. Income	2009 vs. 2008 % change Net Sales	2009 vs. 2008 % change Oper. Income
Business Segments								
Industrial and Transportation	**$ 7,116**	**30.8%**	**$ 1,238**	$ 8,173	32.3%	$ 1,548	(12.9)%	(20.0)%
Health Care	**4,294**	**18.6%**	**1,350**	4,303	17.0%	1,175	(0.2)%	14.9%
Consumer and Office	**3,471**	**15.0%**	**748**	3,578	14.2%	683	(3.0)%	9.5%
Safety, Security and Protection Services	**3,180**	**13.8%**	**745**	3,450	13.7%	710	(7.8)%	5.0%
Display and Graphics	**3,132**	**13.5%**	**590**	3,268	12.9%	583	(4.2)%	1.3%
Electro and Communications	**2,276**	**9.8%**	**322**	2,835	11.2%	540	(19.7)%	(40.4)%
Corporate and Unallocated	**12**	**0.1%**	**(100)**	23	0.1%	58		
Elimination of Dual Credit	**(358)**	**(1.6)%**	**(79)**	(361)	(1.4)%	(79)		
Total Company	**$ 23,123**	**100.0%**	**$ 4,814**	$ 25,269	100.0%	$ 5,218	(8.5)%	(7.7)%

In 2009, while sales declined 8.5 percent for the total year, this was similar to the overall economy and close to the estimated decline in worldwide industrial production. Quarterly year-on-year comparisons improved throughout 2009. Sales declined 21.3 percent in the first quarter, 15.1 percent in the second quarter and 5.6 percent in the third quarter, but improved 11.1 percent in the fourth quarter. Refer to the sections entitled Performance by Business Segment and Performance by Geographic Area later in MD&A for additional discussion of sales change.

In 2008, worldwide sales growth was 3.3 percent. Local-currency sales growth was 1.4 percent for 2008, including a 3.3 percentage point benefit from acquisitions. Local-currency sales increased 17.1 percent in Safety, Security and Protection Services (including 13.0 percentage points from acquisitions), 6.7 percent in Health Care (including 1.7 percentage points from acquisitions), 4.1 percent in Industrial and Transportation (including 3.7 percentage points from acquisitions), and 1.0 percent in Consumer and Office (including 1.8 percentage points from acquisitions). Local-currency sales declined 1.6 percent in Electro and Communications and 17.9 percent in Display and Graphics.

3M generated $4.9 billion of operating cash flows in 2009, an increase of $408 million when compared to 2008. This followed an increase of $287 million when comparing 2008 to 2007. In 2009, 2008 and 2007, the Company utilized approximately $1.4 billion of cash each year to pay dividends. In February 2007, 3M s Board of Directors authorized a two-year share repurchase of up to $7.0 billion for the period from February 12, 2007 to February 28, 2009. In February 2009, 3M s Board of Directors extended this share repurchase authorization until the remaining amount is fully utilized. As of December 31, 2009, approximately $2.6 billion remained available for repurchase. With the Company s emphasis on maintaining ample liquidity and enhancing balance sheet strength, share repurchase activity was suspended beginning in the fourth quarter of 2008. The extension of this program provides flexibility to resume repurchase activity when business conditions permit. In 2009 no broker repurchases of stock were made,

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compared to repurchases of 3M common stock of $1.6 billion in 2008 (primarily in the first nine months of 2008) and repurchases of 3M common stock of $3.2 billion in 2007. In February 2010, 3M s Board of Directors authorized a dividend increase of 2.9 percent for 2010, marking the 52nd consecutive year of dividend increases for 3M. 3M s debt to total capital ratio (total capital defined as debt plus equity) at December 31, 2009 was 30 percent, compared to 39 percent at December 31, 2008. A portion of the increase in debt at year-end 2008 was the result of a strategy to build and maintain a cash buffer in the U.S. given the difficult market environment at that point in time. 3M has an AA- credit rating with a stable outlook from Standard & Poor s and an Aa2 credit rating with a stable outlook from Moody s Investors Service. In addition to cash on hand, the Company has sufficient access to capital markets to meet currently anticipated growth and acquisition investment funding needs.

In 2009, the Company experienced cost decreases in most raw materials and transportation fuel costs. This was driven by lower basic feedstock costs, particularly metals and oil derived materials. To date the Company is receiving sufficient quantities of all raw materials to meet its reasonably foreseeable production requirements. It is impossible to predict future shortages of raw materials or the impact any such shortages would have. 3M has avoided disruption to its manufacturing operations through careful management of existing raw material inventories and development and qualification of additional supply sources. 3M manages commodity price risks through negotiated supply contracts, price protection agreements and forward physical contracts.

In 2009, 3M changed its annual stock option and restricted stock unit grant date to more closely align the award with the timing of the Company s performance review process. In 2009 and forward, under the annual grant, 3M will grant shares in February instead of May as in previous years. Accounting rules requires recognition of expense under a non-substantive vesting period approach, requiring compensation expense recognition when an employee is eligible to retire. 3M employees in the United States are eligible to retire at age 55 and after having completed five years of service. Approximately 25 percent of the stock-based compensation award expense dollars are for this retiree-eligible population. Therefore, in 2007 and 2008, the second quarter of each year (because of the May grant date) reflected higher stock-based compensation expense than the other quarters. In 2009, the retiree-eligible impact shifted to the first quarter of 2009. In addition, both the first and second quarter of 2009 reflected higher stock-based compensation expense related to the earlier February grant date. These and other factors resulted in higher stock-based compensation cost in 2009 when compared to 2008. Refer to Note 16 for additional discussion of the Company s stock-based compensation programs.

3M s pension plans were 90 percent funded at year-end 2009. The U.S. qualified plan, which is approximately 68 percent of the worldwide pension obligation, was 96 percent funded, and the international plans were 83 percent funded. Asset returns in 2009 for the U.S. qualified plan were 12.6 percent while the year-end 2009 discount rate was 5.77%, down 0.37 percentage points from the 2008 discount rate of 6.14%. 3M expects to contribute $500 million to $700 million of cash to its global pension plans in 2010. The Company does not have a required minimum pension contribution obligation for its U.S. plans in 2010. 3M expects pension and postretirement benefit expense in 2010 to increase by approximately $130 million pre-tax, or 12 cents per diluted share, when compared to 2009. Refer to critical accounting estimates within MD&A and Note 11 (Pension and Postretirement Benefit Plans) for additional information concerning 3M s pension and post-retirement plans.

The preceding forward-looking statements involve risks and uncertainties that could cause results to differ materially from those projected (refer to the forward-looking statements section in Item 7 and the risk factors provided in Item 1A for discussion of these risks and uncertainties).

Special Items:

Special items represent significant charges or credits that are important to understanding changes in the Company s underlying operations.

In 2009, net losses for restructuring and other actions decreased operating income by $194 million and net income attributable to 3M by $119 million, or $0.17 per diluted share. 2009 included restructuring actions ($209 million pre-tax, $128 million after tax and noncontrolling interest), which were partially offset by a gain on sale of real estate ($15 million pre-tax, $9 million after tax). The gain on sale of real estate relates to the June 2009 sale of a New Jersey roofing granule facility, which is recorded in cost of sales within the Safety, Security and Protection Services business segment. Restructuring is discussed in more detail in Note 4 (Restructuring Actions and Exit Activities).

In 2008, net losses for restructuring and other actions decreased operating income by $269 million and net income attributable to 3M by $194 million, or $0.28 per diluted share. 2008 included restructuring actions ($229 million pre-tax, $147 million after-tax and noncontrolling interest), exit activities ($58 million pre-tax, $43 million after-tax) and losses related to the sale of businesses ($23 million pre-tax, $32 million after-tax), which were partially offset by a gain on sale of real estate ($41 million pre-tax, $28 million after-tax). Divestiture impacts, restructuring actions and

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exit activities are discussed in more detail in Note 2 (Acquisitions and Divestitures) and Note 4 (Restructuring Actions and Exit Activities). Concerning the real estate gain, 3M received proceeds and recorded a gain in 2008 for a sale-leaseback transaction relative to an administrative location in Italy.

In 2007, gains on sale of businesses and real estate, net of restructuring and other items, increased operating income by $681 million and net income attributable to 3M by $448 million, or $0.62 per diluted share. 2007 included net benefits from gains related to the sale of businesses ($849 million pre-tax, $550 million after-tax) and a gain on sale of real estate ($52 million pre-tax, $37 million after-tax), which were partially offset by increases in other environmental liabilities ($134 million pre-tax, $83 million after-tax), restructuring actions ($41 million pre-tax, $27 million after-tax), and other exit activities ($45 million pre-tax, $29 million after-tax). These items, except the gain on sale of real estate, are discussed in more detail in Note 2 (Acquisitions and Divestitures), Note 4 (Restructuring Actions and Exit Activities) and Note 14 (Commitments and Contingencies). Gains on sale of businesses include the second-quarter 2007 sale of 3M s Opticom Priority Control Systems and Canoga Traffic Detection businesses, and the first-quarter 2007 sale of the global branded pharmaceuticals business in Europe. Concerning the real estate sale, 3M sold a laboratory facility located in Suwon, Korea.

RESULTS OF OPERATIONS

Net Sales:

	2009			2008		
	U.S.	**Intl.**	**Worldwide**	**U.S.**	**Intl.**	**Worldwide**
Net sales (millions)	$ 8,509	$ 14,614	$ 23,123	$ 9,179	$ 16,090	$ 25,269
% of worldwide sales	36.8%	63.2%		36.3%	63.7%	
Components of net sales change:						
Volume organic	(11.9)%	(8.1)%	(9.5)%	(5.0)%	(1.0)%	(2.4)%
Volume acquisitions	2.4	1.9	2.1	5.3	2.2	3.3
Price	2.5	1.5	1.8	2.4	(0.5)	0.5
Local-currency sales (including acquisitions)	(7.0)	(4.7)	(5.6)	2.7	0.7	1.4
Divestitures	(0.3)	(0.1)	(0.1)	(0.6)	(0.1)	(0.3)
Translation		(4.4)	(2.8)		3.4	2.2
Total sales change	(7.3)%	(9.2)%	(8.5)%	2.1%	4.0%	3.3%

In 2009, local-currency sales declined 5.6 percent. All major geographic areas showed local-currency declines, with the exception of the combined Latin America and Canada area, which was flat. Health Care had local-currency sales growth of 3.6 percent, while all other business segments experienced declines. Fourth-quarter 2009 local-currency sales increased 6.4 percent, with all business segments and major geographic areas showing improvement. In 2008, local-currency sales growth of 1.4 percent was led by the Safety, Security and Protection Services; Health Care; and Industrial and Transportation segments. Acquisitions increased 2008 sales by 3.3 percent, led by the April 2008 acquisition of Aearo. Refer to the sections entitled Performance by Business Segment and Performance by Geographic Area later in MD&A for additional discussion of sales change.

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Operating Expenses:

(Percent of net sales)	2009	2008	2007	2009 Versus 2008	2008 Versus 2007
Cost of sales	**52.4%**	52.9%	52.1%	(0.5)%	0.8%
Selling, general and administrative expenses	**21.2**	20.8	20.5	0.4	0.3
Research, development and related expenses	**5.6**	5.6	5.6		
(Gain)/loss from sale of businesses		0.1	(3.5)	(0.1)	3.6
Operating income	**20.8%**	20.6%	25.3%	0.2%	(4.7)%

As discussed in the preceding overview section, 2009 included restructuring charges, partially offset by a gain on sale of real estate, which combined decreased operating income by $194 million, or 0.9 percent of net sales. In 2008, the combination of restructuring actions, exit activities and a loss on sale of businesses, partially offset by a gain on sale of real estate, decreased operating income by $269 million, or 1.1 percent of net sales. In 2007, the gain on sale of businesses and real estate, net of environmental liability charges, restructuring and exit activities, benefited 2007 operating income by $681 million, or 2.8 percent of net sales. The following tables summarize these special items by income statement caption.

	2009 Restructuring and Other Summary		
(Millions)	Restructuring actions	Gain on sale of real estate	Total
Cost of sales	$ 110	$ (15)	$ 95
Selling, general and administrative expenses	91		91
Research, development and related expenses	8		8
Total operating income penalty (benefit)	$ 209	$ (15)	$ 194

	2008 Restructuring and Other Summary				
(Millions)	Restructuring actions	Exit activities	Loss on sale of businesses	Gain on sale of real estate	Total
Cost of sales	$ 84	$ 38	$	$	$ 122
Selling, general and administrative expenses	135	17		(41)	111
Research, development and related expenses	10	3			13
Loss from sale of businesses			23		23
Total operating income penalty (benefit)	$ 229	$ 58	$ 23	$ (41)	$ 269

	2007 Gain on Sale, Restructuring and Other Summary				
(Millions)	Gain on sale of businesses	Environmental liabilities	Restructuring and exit activities	Gain on sale of real estate	Total
Cost of sales	$	$	$ 64	$	$ 64
Selling, general and administrative expenses		134	26	(52)	108
Research, development and related expenses			(4)		(4)
Gain from sale of businesses	(849)				(849)
Total operating income penalty (benefit)	$ (849)	$ 134	$ 86	$ (52)	$ (681)

Cost of Sales:

Cost of sales includes manufacturing, engineering and freight costs. Cost of sales as a percent of net sales decreased 0.5 percentage points in 2009 compared to 2008. As discussed in Note 4 (Restructuring Actions and Exit Activities), in 2009, 3M recorded $209 million in restructuring charges, of which $110 million was recorded in cost of sales. This was partially offset by a $15 million gain on sale of a New Jersey roofing granule facility, which was also recorded in cost of sales. In 2008, $122 million in restructuring and exit activities were recorded in cost of sales. Thus, restructuring and other items were $27 million lower year-on-year, benefiting cost of sales by 0.1 percentage point. Other benefits to cost of sales as a percent of net sales included increases in selling prices and a slight

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decrease in material costs. The Company was also able to mitigate organic volume declines through reductions in 3M s manufacturing cost structure. Finally, in response to deteriorating conditions in Venezuela, 3M Venezuela swapped bolivars into U.S. dollars in 2009. While increasing cost of sales, these actions mitigated 3M s exposure to future exchange rate risks.

Cost of sales as a percent of net sales increased 0.8 percentage points in 2008 compared to 2007, with this increase primarily due to the decline in Optical Systems sales and the rapid volume declines of certain other businesses in the fourth quarter. For the majority of the year 3M s broad-based portfolio performed as expected, with benefits from selling price increases, foreign currency translation, and a continuous focus on driving operational excellence, helping to offset raw material inflation of approximately 4 percent for 2008, compared with 2007. In 2008, restructuring and exit costs increased cost of sales by $122 million, or 0.4 percentage points as a percent of net sales, similar to the 0.3 percentage point impact in 2007.

Selling, General and Administrative Expenses:

Selling, general and administrative (SG&A) expenses as a percent of net sales increased 0.4 percentage points in 2009 when compared to 2008, but in dollars decreased $338 million, helped by restructuring and other actions. In the sales and marketing area, advertising and merchandising costs were down year-on-year, but were up in the fourth quarter. As indicated in Note 4, in 2009, $91 million in restructuring expenses was recorded in SG&A, which increased SG&A as a percent of sales by 0.4 percentage points. In 2008, restructuring actions and exit activities, net of a gain on sale of real estate, increased SG&A by $111 million, which increased SG&A as a percent of sales by 0.5 percentage points.

Selling, general and administrative (SG&A) expenses as a percent of net sales increased 0.3 percentage points in 2008 when compared to 2007, or 4.6 percent in dollars. In 2008, SG&A expenses related to restructuring actions and exit activities were partially offset by a gain on sale of real estate, which combined increased SG&A by $111 million, or 0.5 percentage points, similar to the 0.4 percentage point impact in 2007. In the fourth quarter of 2008, as part of its restructuring program, 3M took aggressive actions to reduce general and administrative expenses and also pared back selling and marketing costs in certain businesses.

Research, Development and Related Expenses:

Research, development and related expenses (R&D) were 5.6 percent of net sales in 2009, 2008 and 2007. R&D expenses in dollars declined approximately 8 percent in 2009 compared to 2008, following an increase of 2.6 percent when comparing 2008 to 2007. 3M has continued to support its key larger programs, but overall dollar spending has been impacted by company-wide cost-cutting initiatives such as reductions in indirect spending and the banked vacation policy change.

Gain/Loss from Sale of Businesses:

In June 2008, 3M completed the sale of HighJump Software to Battery Ventures, a technology venture capital and private equity firm. 3M received proceeds of $85 million for this transaction and recognized, net of assets sold, transaction and other costs, a pre-tax loss of $23 million (recorded in the Safety, Security and Protection Services segment) in the second quarter of 2008.

In January 2007, 3M completed the sale of its global branded pharmaceuticals business in Europe to Meda AB. 3M received proceeds of $817 million for this transaction and recognized, net of assets sold, a pre-tax gain of $781 million in 2007 (recorded in the Health Care segment). In June 2007, 3M completed the sale of its Opticom Priority Control Systems and Canoga Traffic Detection businesses to TorQuest Partners Inc., a Toronto-based investment firm. 3M received proceeds of $80 million for this transaction and recognized, net of assets sold, transaction and other costs, a pre-tax gain of $68 million (recorded in the Display and Graphics segment) in 2007.

Operating Income:

3M uses operating income as one of its primary business segment performance measurement tools. Operating income was 20.8 percent of sales in 2009 compared to 20.6 percent of sales in 2008. 2009 was negatively impacted by restructuring expenses, net of a gain on sale of real estate, which combined decreased operating income by 0.9 percentage points ($194 million). 2008 was negatively impacted by restructuring actions, exit activities and a loss on sale of businesses that were partially offset by a gain on sale of real estate, which combined decreased operating income by 1.1 percentage points ($269 million). Operating income margins of 25.3 percent in 2007 were positively impacted by 2.8 percentage points ($681 million) from the gain on sale of businesses and real estate, net of environmental liabilities, restructuring and other exit activities.

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Interest Expense and Income:

(Millions)	2009	2008	2007
Interest expense	**$ 219**	$ 215	$ 210
Interest income	**(37)**	(105)	(132)
Total	**$ 182**	$ 110	$ 78

Interest Expense: Interest expense increased slightly in 2009, primarily due to higher average U.S. long-term debt balances largely offset by benefits from reduced short-term balances and lower interest rates. Interest expense increased slightly in 2008 compared to 2007, primarily related to higher average U.S. and international long-term debt balances, which were partially offset by lower short-term debt balances and interest rates.

Interest Income: Interest income declined in 2009 when compared to 2008, primarily due to lower yields on investments. Interest income was lower in 2008 compared to 2007, primarily due to lower interest rates, which were partially offset by higher average cash and cash equivalent balances.

Provision for Income Taxes:

(Percent of pre-tax income)	2009	2008	2007
Effective tax rate	**30.0%**	31.1%	32.1%

The effective tax rate for 2009 was 30.0 percent, compared with 31.1 percent in 2008, and 32.1 percent in 2007. In both 2009 and 2008, the Company s tax rate primarily benefited from reduced international tax rates. Refer to Note 8 for additional information.

Noncontrolling Interest:

(Millions)	2009	2008	2007
Noncontrolling interest	**$ 51**	$ 60	$ 55

Net income attributable to noncontrolling interest represents the elimination of the income or loss attributable to non-3M ownership interests in 3M consolidated entities. The changes in noncontrolling interest amounts are primarily related to Sumitomo 3M Limited (Japan), which is 3M s most significant consolidated entity with non-3M ownership interests. As discussed in Note 6, in the third quarter of 2009, 3M s effective ownership in Sumitomo 3M Limited was reduced from 75 percent to 71.5 percent.

Currency Effects:

Currency Effects: 3M estimates that year-on-year currency effects, including hedging impacts, decreased net income attributable to 3M by approximately $220 million in 2009 and increased net income attributable to 3M by approximately $160 million in 2008 and $150 million in 2007. This estimate includes the effect of translating profits from local currencies into U.S. dollars; the impact of currency fluctuations on the transfer of goods between 3M operations in the United States and abroad; and transaction gains and losses, including derivative instruments designed to reduce foreign currency exchange rate risks and the negative impact of swapping Venezuelan bolivars into U.S. dollars. 3M estimates that year-on-year derivative and other transaction gains and losses had an immaterial impact in 2009, and increased net income attributable to 3M by approximately $40 million in 2008 and by approximately $10 million in 2007.

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PERFORMANCE BY BUSINESS SEGMENT

Disclosures relating to 3M s business segments are provided in Item 1, Business Segments. Financial information and other disclosures are provided in the Notes to the Consolidated Financial Statements. As discussed in Note 17 to the Consolidated Financial Statements, effective in the first quarter of 2009, 3M made certain business segment realignments, including both product moves between business segments and reporting changes related to revised U.S. performance measures. Segment information presented herein reflects the impact of these changes for all periods presented. The reportable segments are Industrial and Transportation; Health Care; Consumer and Office; Safety, Security and Protection Services; Display and Graphics; and Electro and Communications. Information related to 3M s business segments is presented in the tables that follow. Local-currency sales change amounts are separated into organic local-currency sales (which include both organic volume impacts plus selling price impacts) and acquisition impacts. The divestiture impact, translation impact and total sales change are also provided for each segment.

As discussed in the preceding overview and results of operations section, the combination of restructuring actions, gains and losses on the sale of businesses, and other special items significantly impacted 2009, 2008 and 2007 results. The following tables summarize these special items by business segment.

2009 Restructuring and Other Summary

(Millions)	Restructuring actions	Gain on sale of real estate	Total
Industrial and Transportation	$ 88	$	$ 88
Health Care	20		20
Consumer and Office	13		13
Safety, Security and Protection Services	17	(15)	2
Display and Graphics	22		22
Electro and Communications	11		11
Corporate and Unallocated	38		38
Total operating income penalty (benefit)	$ 209	$ (15)	$ 194

2008 Restructuring and Other Summary

(Millions)	Restructuring actions	Exit activities	Loss on sale of businesses	Gain on sale of real estate	Total
Industrial and Transportation	$ 40	$ 26	$	$	$ 66
Health Care	51	9			60
Consumer and Office	18				18
Safety, Security and Protection Services	12	3	23		38
Display and Graphics	24	18			42
Electro and Communications	7				7
Corporate and Unallocated	77	2		(41)	38
Total operating income penalty (benefit)	$ 229	$ 58	$ 23	$ (41)	$ 269

2007 Gain on Sale, Restructuring and Other Summary

(Millions)	Gain on sale of businesses	Environmental liabilities	Restructuring and exit activities	Gain on sale of real estate	Total
Industrial and Transportation	$	$	$ 9	$	$ 9
Health Care:					

Gain on sale of pharmaceuticals business	(781)				(781)
Restructuring actions and other			(10)		(10)
Consumer and Office					
Safety, Security and Protection Services			29		29
Display and Graphics	(68)		17		(51)
Electro and Communications			41		41
Corporate and Unallocated		134		(52)	82
Total operating income penalty (benefit)	$ (849)	$ 134	$ 86	$ (52)	$ (681)

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Due to the significant changes in quarterly activity in both 2009 and 2008, including the impact of the economic downturn in the fourth-quarter of 2008, the following discusses both fourth-quarter and total year results in both 2009 and 2008 for each business segment.

Industrial and Transportation Business (30.8% of consolidated sales):

	2009	2008	2007
Sales (millions)	**$ 7,116**	$ 8,173	$ 7,639
Sales change analysis:			
Organic local-currency sales (volume and price)	**(12.6)%**	0.4%	3.9%
Acquisitions	**2.4**	3.7	1.6
Local-currency sales	**(10.2)%**	4.1%	5.5%
Translation	**(2.7)**	2.9	3.7
Total sales change	**(12.9)%**	7.0%	9.2%
Operating income (millions)	**$ 1,238**	$ 1,548	$ 1,580
Percent change	**(20.0)%**	(2.0)%	12.3%
Percent of sales	**17.4%**	18.9%	20.7%

The Industrial and Transportation segment serves a broad range of markets, such as appliance, paper and packaging, food and beverage, electronics, automotive original equipment manufacturer (OEM) and automotive aftermarket (auto body shops and retail). Industrial and Transportation products include tapes, a wide variety of coated and non-woven abrasives, adhesives, specialty materials, filtration products, energy control products, closure systems for personal hygiene products, and components and products that are used in the manufacture, repair and maintenance of automotive, marine, aircraft and specialty vehicles.

Fourth quarter and year 2009 results:

Industrial and Transportation is a large and highly diversified set of businesses that, when taken together, correlate well with the overall economy. Early in 2009, the business saw significant sales declines that required swift and aggressive restructuring and cost reduction plans to offset the impact of lower volumes, including the impact of large inventory declines in the wholesale distribution channel. Inventories began to stabilize around mid-year 2009, and it now appears that inventory and point-of-sale levels in this channel are in reasonably good balance.

Sales in Industrial and Transportation rose 10 percent to $1.9 billion in the fourth quarter. Fourth quarter local-currency growth was 4.6 percent, which included organic volume growth of 3 percent. Fourth-quarter growth was led by the renewable energy business and the automotive OEM business. 3M also drove positive local-currency sales growth in industrial adhesives and tapes, automotive aftermarket and in Dyneon LLC, which supplies flouropolymers and elastomers into the oil, gas and transportation industries. Other businesses in this segment posted local-currency sales declines ranging from one to five percent in the fourth quarter. On a regional basis, growth was strongest in Latin America and in Asia Pacific.

The combination of positive sales volumes in the quarter, higher year-on-year factory production levels and improvements in cost structure resulted in operating income growth in the fourth quarter. This segment recorded net charges of $36 million related to restructuring actions and exit activities in the fourth quarter of 2008. Including these net charges, operating income in the fourth quarter of 2009 increased 86 percent to $397 million and operating income margins improved by 8.5 percentage points to 20.8 percent.

Full-year 2009 sales were $7.1 billion, down 12.9 percent in dollars and down 10.2 percent in local currency. Foreign currency impacts penalized sales for the year by 2.7 percent. Sales increased in the renewable energy and automotive aftermarket businesses, but sales decreased in the other businesses, impacted by end-market declines. This segment announced restructuring actions in 2009, along with plant shut-downs, furloughs and mandatory vacation across the operation. In 2009, this business segment recorded charges of $88 million related to restructuring actions, with this charge comprised of employee-related liabilities for severance and benefits of $83 million and fixed asset impairments of $5 million. Including these special items, 2009 operating income was $1.2 billion and operating income margins were 17.4 percent. This segment recorded $66 million related to restructuring and exit activities in 2008.

Industrial and Transportation continued to invest aggressively to accelerate its growth capability. For example, the renewable energy business recently opened a new large-scale high-tech manufacturing site in Singapore, and the industrial abrasives business opened a new state-of-the-art manufacturing site in North America. Recently, 3M Purification Inc. launched a high-quality disposable filtration system for the biopharmaceuticals industry. And finally,

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the automotive aftermarket business introduced the 3M Dirt Trap Protection System, which increases paint booth productivity and reduces daily maintenance costs in auto body repair shops.

Fourth quarter and year 2008 results:

2008 can be characterized as a tale of two distinct chapters for Industrial and Transportation. The first was January through October, characterized by outstanding top-and bottom-line growth across most of the portfolio; the second chapter was the combined months of November and December, when many large customers slowed their operations.

Among 3M s business segments, Industrial and Transportation has been among those most affected by recent economic contractions, particularly in big industries such as automotive and electronics. With worldwide industrial production in decline, 3M s Industrial and Transportation business had fourth quarter 2008 sales of $1.7 billion, an 11.2 percent decline compared to 2007. Local-currency sales were down 6.4 percent, including a positive 3.1 percent impact from acquisitions. Not all divisions within Industrial were impacted equally in the fourth quarter. Those that are heavily linked to automotive manufacturing, namely automotive OEM and Dyneon LLC, saw declines of more than 20 percent, as did businesses selling to the electronics industry, such as high-tech tapes and adhesives. Most other divisions experienced local-currency sales contractions of less than 10 percent in the fourth quarter, with the exception of the automotive aftermarket business, which posted positive local-currency sales growth. Geographically, fourth quarter 2008 local-currency sales were down in all regions, with the largest declines in the U.S. and Asia Pacific, followed by Europe. Local-currency sales were flat in Latin America. Operating income in the fourth quarter declined 42 percent to $214 million, which included net charges of $36 million for restructuring actions and exit activities.

Full-year 2008 sales were up 7 percent to $8.2 billion. Local-currency growth rates were strongest in the automotive aftermarket business. 3M also drove strong sales growth in two of its largest divisions, namely abrasives and industrial tapes and adhesives. Closure systems for personal hygiene products also showed good growth. Geographically, all major regions drove positive local-currency sales growth. Strong market penetration continued in emerging economies, especially the high growth countries of Brazil, Russia, India, China and Poland, where the business drove strong organic local-currency growth. Operating income declined, but increased after adjusting for $66 million in restructuring actions and exit activities (discussed further below). Strong operational discipline was the key to protecting the bottom line as full-year operating margins totaled 18.9 percent, with operating income margins at 19.7 percent after adjusting for restructuring and exit activities.

Industrial and Transportation restructuring and exit activities totaled $66 million for total year 2008. During the fourth quarter of 2008, restructuring actions totaling $40 million (partially offset by a $4 million reduction in previously accrued exit activity charges) were comprised of severance and related benefits totaling $33 million and asset impairments of $7 million. Net exit activity charges of $26 million in 2008 largely related to employee reductions at an Industrial and Transportation manufacturing facility located in the United Kingdom, which totaled $19 million. This compared to restructuring actions and exit activities of $9 million in 2007.

Industrial and Transportation continued to invest in innovative new products along with complementary gap-fill acquisitions, evidenced by the closing of eight acquisitions in 2008, with some of the larger acquisitions summarized as follows. In July 2008, 3M acquired K&H Surface Technologies Pty. Ltd., an Australian-based manufacturing company specializing in a range of repair products for the professional do-it-yourself automotive refinish markets. In August 2008, 3M acquired Polyfoam Products Inc., a structural adhesives company specializing in foam adhesives for tile roofing and other adhesive products for the building industry. In October 2008, 3M completed its acquisition of EMFI S.A. and SAPO S.A.S., manufacturers of polyurethane-based structural adhesives and sealants headquartered in Haguenau, France. In October 2008, 3M also completed its acquisition of Meguiar s Inc., a 100-year-old business that manufactures the leading Meguiar s brand of car care products for cleaning and protecting automotive surfaces, which is headquartered in Irvine, California.

Investment:

In March 2005, 3M s automotive business completed the purchase of 19 percent of TI&M Beteiligungsgesellschaft mbH (TI&M) for approximately $55 million. TI&M is the parent company of I&T Innovation Technology Entwicklungsund Holding Aktiengesellschaft (I&T), an Austrian maker of flat flexible cable and circuitry. Pursuant to a Shareholders Agreement, 3M marketed the firm s flat flexible wiring systems for automotive interior applications to the global automotive market. I&T filed a petition for bankruptcy protection in August 2006. As part of its agreement to purchase the shares of TI&M, the Company was granted a put option, which gave the Company the right to sell back its entire ownership interest in TI&M to the other investors from whom 3M acquired its 19 percent interest. The put option became exercisable January 1, 2007. The Company exercised the put option and recovered approximately $25 million of its investment from one of the investors based in Belgium in February 2007. The other two TI&M investors have filed a bankruptcy petition in Austria. The Company is pursuing recovery of the balance of

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its investment both through the Austrian bankruptcy proceedings and pursuant to the terms of the Share Purchase Agreement. The Company received approximately $6 million of its investment back in the fourth quarter of 2008. The Company believes collection of its remaining investment is probable and, as a result, no impairment reserve has been recorded.

Health Care Business (18.6% of consolidated sales):

	2009	2008	2007
Sales (millions)	**$ 4,294**	$ 4,303	$ 3,980
Sales change analysis:			
Organic local-currency sales (volume and price)	**2.7%**	5.0%	13.6%
Acquisitions	**0.9**	1.7	4.6
Local-currency sales	**3.6%**	6.7%	18.2%
Divestitures		(0.1)	(23.5)
Translation	**(3.8)**	1.5	4.2
Total sales change	**(0.2)%**	8.1%	(1.1)%
Operating income (millions)	**$ 1,350**	$ 1,175	$ 1,884
Percent change	**14.9%**	(37.6)%	2.0%
Percent of sales	**31.4%**	27.3%	47.4%

The Health Care segment serves markets that include medical clinics and hospitals, pharmaceuticals, dental and orthodontic practitioners, and health information systems. Products and services provided to these and other markets include medical and surgical supplies, skin health and infection prevention products, drug delivery systems, dental and orthodontic products, health information systems and anti-microbial solutions. As discussed in Note 2, 3M completed the sale of its global branded pharmaceuticals business in Europe in January 2007.

Fourth quarter and year 2009 results:

Fourth-quarter sales in Health Care were $1.1 billion, up nearly 11 percent in dollars and up 6 percent in local currency. Foreign exchange impacts added nearly 5 percent to fourth quarter sales. Sales increased in every business within health care, most notably infection prevention, skin and wound care and health information systems. The orthodontics business also showed a nice rebound in the fourth quarter. Geographically, sales grew in all major areas led by Canada, Latin America and Asia Pacific.

Fourth-quarter 2009 operating income increased to $375 million, or 32.7 percent of sales, with operating income growth driven by favorable product mix, good cost control and continued productivity efforts across the portfolio. Fourth quarter 2008 includes charges of $50 million for restructuring and exit activities.

For the full year, sales were $4.3 billion, up 3.6 percent in local currencies. This growth was broad-based, with positive contributions from nearly all businesses. Sales growth was led by the infection prevention and skin and wound care businesses, which provide a multitude of products that improve patient treatment outcomes and increase efficiency for health care providers. 3M also drove positive local-currency sales growth in the oral care business. On a geographic basis, sales growth rates were highest in Asia Pacific, Latin America and Canada.

Health Care recorded charges of $20 million related to restructuring actions in 2009, with this charge comprised of employee-related liabilities for severance and benefits. In 2008, this business segment recorded charges of $60 million related to restructuring and exit activities. Including these charges, full-year operating income in Health Care grew 15 percent to $1.35 billion, with operating income margins of 31.4 percent in 2009. 3M s longer-term plan is to keep reinvesting in this business to drive higher growth, even if operating income margins at some point compress to the high-20 s.

In addition, the Health Care business invested in a number of areas to drive new products, accelerate growth and improve competitiveness. For example, 3M s drug delivery systems business entered the large and growing dry-powder inhaler segment. In wound care, 3M strengthened its market leadership in clear wound dressings with new 3M Tegaderm dressings for IV sites and chronic wound care. The dental business launched a number of new products, including new decay-preventative sealants, curing lights and impression material systems. In health information systems, 3M continued to launch solutions for the new International Classification of Diseases (ICD-10) coding, inpatient/outpatient medical record coding, reimbursement and data connectivity. And finally, 3M opened or expanded major new R&D and manufacturing facilities around the world, including China, Singapore, India, Brazil and Dubai. These investments are critical to 3M s growth acceleration plans around the globe.

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Fourth quarter and year 2008 results:

In the fourth quarter of 2008, Health Care sales topped $1 billion, despite a nearly 7 percentage point penalty from currency translation. In local-currency terms, sales rose 4.3 percent, including 2.2 percent from acquisitions. 3M saw solid local-currency growth in the medical products area, specifically in core infection prevention and skin and wound care products. Geographically, the U.S. and Asia Pacific led sales growth. Operating income margins of 24.0 percent in the fourth quarter of 2008 were the highest in the Company, which includes the impact of $50 million in restructuring and exit activity charges that reduced operating income margins by 4.9 percentage points.

For full-year 2008, Health Care s results were strong, with sales increasing 8.1 percent to $4.3 billion and operating income margins of 27.3 percent. 2008 includes the impact of $60 million in restructuring and exit activities that reduced operating income margins by 1.4 percentage points. As discussed further below, 2007 operating income results include significant gains from the sale of 3M s pharmaceuticals business in January 2007, negatively impacting the 2008 versus 2007 year-on-year operating income comparison. Local-currency sales were up 6.7 percent, largely organic, but also included 1.7 percent from acquisitions. In 2008, 3M completed a number of important bolt-on acquisitions in Health Care, including TOP-Service, a German orthodontic technology and services company offering a digital lingual solution; Imtec, an Oklahoma-based manufacturer of dental implants and cone beam computed tomography; and Solumed, a Quebec-based developer and marketer of leading-edge medical products designed to prevent infections in operating rooms and hospitals. Full-year 2008 sales were led by strong increases in 3M s medical, dental and orthodontics businesses. Sales grew in all geographies, led by strong gains in Asia Pacific and Latin America.

The combination of the following items positively impacted total year 2007 Health Care operating income by $791 million. As discussed in Note 2, in January 2007 the Company sold its branded pharmaceuticals business in the Europe region. The operating income gain related to this sale, which is included in Health Care, totaled $781 million. In addition, as discussed in Note 4, a net operating income gain of $10 million was recorded in 2007, which primarily related to adjustments to restructuring costs incurred in the fourth quarter of 2006.

3M believes the following disaggregated information for 3M Health Care s remaining businesses (without pharmaceuticals) and for pharmaceuticals on a stand-alone basis provides useful information.

Health Care Business without Pharmaceuticals:

	2009	2008	2007
Sales (millions)	**$ 4,294**	$ 4,303	$ 3,980
Sales change analysis:			
Organic local-currency sales (volume and price)	**2.7%**	5.0%	13.6%
Acquisitions	**0.9**	1.7	4.6
Local-currency sales	**3.6%**	6.7%	18.2%
Divestitures		(0.1)	
Translation	**(3.8)**	1.5	4.2
Total sales change	**(0.2)%**	8.1%	22.4%
Operating income (millions)	**$ 1,350**	$ 1,175	$ 1,088
Percent change	**14.9%**	8.0%	34.4%

Percent of sales	**31.4%**	27.3%	27.3%

The following discussion provides information on 3M Health Care s remaining businesses (without pharmaceuticals). Refer to the preceding section entitled Health Care Business for a discussion of sales change. Operating income changes for 2009 versus 2008 are also covered in the preceding section. In 2008 compared to 2007, operating income increased 8.0 percent to $1.175 billion, while operating income margins were maintained in excess of 27 percent. Operating income in 2008 included $60 million in restructuring actions and exit activity charges, primarily comprised of severance and related benefits, but also including $14 million in asset impairments. 2007 included $5 million in restructuring expenses, primarily severance and related benefits.

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Pharmaceuticals Business:

	2009		2008		2007	
Operating income (millions)	**$**		$		$	796

The combination of the following items positively impacted total year 2007 pharmaceuticals operating income by $796 million. As discussed in Note 2, in January 2007 the Company sold its branded pharmaceuticals business in the Europe region. The operating income gain related to this sale totaled $781 million. In addition, as discussed in Note 4, a net operating income gain of $15 million was recorded in 2007, which primarily related to adjustments to restructuring costs incurred in the fourth quarter of 2006. Drug Delivery Systems Division (part of Health Care without Pharmaceuticals) is a source of supply to the acquiring companies and records sales and operating income related to the pharmaceuticals supply agreements.

Consumer and Office Business (15.0% of consolidated sales):

		2009		2008		2007
Sales (millions)	**$**	**3,471**	$	3,578	$	3,494
Sales change analysis:						
Organic local-currency sales (volume and price)		**(3.1)**		(0.8)%		4.0%
Acquisitions		**2.6**		1.8		0.9
Local-currency sales		**(0.5)%**		1.0%		4.9%
Translation		**(2.5)**		1.4		2.5
Total sales change		**(3.0)%**		2.4%		7.4%
Operating income (millions)	**$**	**748**	$	683	$	710
Percent change		**9.5%**		(3.8)%		9.0%
Percent of sales		**21.5%**		19.1%		20.3%

The Consumer and Office segment serves markets that include consumer retail, office retail, home improvement, building maintenance and other markets. Products in this segment include office supply products, stationery products, construction and home improvement products (do-it-yourself), home care products, protective material products, certain consumer retail personal safety products, and consumer health care products.

Fourth quarter and year 2009 results:

Fourth-quarter 2009 sales were $887 million, up 11.4 percent in dollar terms and up 7.1 percent in local currencies. A number of businesses posted positive local-currency sales growth, including home care products, retail health care, and do-it-yourself and mass retail. Local-currency sales declined just slightly in the office products business as unemployment levels remain high and employers continue to act cautiously with respect to office supply purchases. Fourth-quarter operating income in Consumer and Office increased to $159 million, and operating income margins were 17.9 percent. Fourth-quarter 2008 includes $18 million in restructuring charges.

Consumer and Office has executed a bolt-on acquisition strategy over the past couple of years. Acquisitions contributed 3.7 percent to fourth quarter local-currency sales growth, largely related to two purchases. In December 2008, 3M purchased Futuro, a leading supplier of braces, supports and compression hosiery. In July 2009, 3M purchased ACE Products, one of the strong consumer health care brands, from Becton, Dickinson. These investments, combined with 3M s own successful brands, provide critical mass in the retail drug store channel.

Consumer and Office has a long and successful history of growth in the United States via strong, category-defining brands and an emphasis on customer relationships. 3M is leveraging this success outside the United States as well. Fourth-quarter sales rose more than 20 percent in Latin America, 14 percent in Asia Pacific and 8 percent in Europe. Operating income rose in all geographic regions as well.

For the full year 2009, sales declined 3 percent to $3.5 billion, which was largely due to currency. Operating income margins were at 21.5 percent for the year, up over 2 percentage points versus 2008. In 2009, this business segment recorded charges of $13 million related to restructuring actions, with this charge comprised of employee-related liabilities for severance and benefits. 2008 includes $18 million in restructuring charges.

Fourth quarter and year 2008 results:

In the fourth quarter of 2008, Consumer and Office sales declined 9.6 percent to $796 million. Local currency sales were down 5 percent and currency impacts reduced sales by just under 5 percentage points. U.S. sales declined by 10 percent, heavily impacted by the slump in U.S. consumer retail spending levels. More than 50 percent of sales in Consumer and Office are generated within the United States. By far the biggest contributor to this decline was the

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retail and wholesale office channel. The combination of massive office worker layoffs, coupled with across-the-board declines in office retail foot traffic, had a dramatic and negative impact on sales. 3M businesses serving other U.S. retail channels performed well in the fourth quarter despite the tough economic environment. This business posted positive local-currency sales for its home care products, such as Scotch-Brite® Scrub Sponges, and for its do-it-yourself retail channel. Elsewhere around the globe, 3M s Consumer and Office business drove positive local-currency sales growth in both Latin America and Asia Pacific, but overall growth was muted by declines in Europe. Worldwide operating income declined in the fourth quarter, including the impact of $18 million in restructuring charges, which contributed 11.1 percentage points of this 35.7 percent decline.

For total year 2008, Consumer and Office sales grew 2.4 percent. This business has successfully created new products and designed new programs and planograms with their large U.S. customers in order to mitigate what is a very tough end-market situation. Sales growth was led by home care and do-it-yourself products. Acquisitions, primarily the do-it-yourself retail market portion of 3M s Aearo business, contributed 1.8 percentage points to sales growth. Operating income declined 3.8 percent and margins were in excess of 19 percent, a strong return considering the slow U.S. market environment and a synchronized slowdown in growth across most other areas of the world. Geographically, sales growth was led by Asia Pacific and Latin America. Operating income was negatively impacted by the $18 million in restructuring charges discussed in the preceding paragraph.

Safety, Security and Protection Services Business (13.8% of consolidated sales):

	2009	2008	2007
Sales (millions)	**$ 3,180**	$ 3,450	$ 2,944
Sales change analysis:			
Organic local-currency sales (volume and price)	**(5.4)**	4.1	3.1
Acquisitions	**2.7**	13.0	7.6
Local-currency sales	**(2.7)%**	17.1%	10.7%
Divestitures	**(0.9)**	(1.8)	
Translation	**(4.2)**	1.9	4.5
Total sales change	**(7.8)%**	17.2%	15.2%
Operating income (millions)	**$ 745**	$ 710	$ 583
Percent change	**5.0%**	21.7%	8.4%
Percent of sales	**23.4%**	20.6%	19.8%

The Safety, Security and Protection Services segment serves a broad range of markets that increase the safety, security and productivity of workers, facilities and systems. Major product offerings include personal protection products, safety and security products (including border and civil security solutions), cleaning and protection products for commercial establishments, track and trace solutions, and roofing granules for asphalt shingles. In the second quarter of 2008, 3M completed the sale of its HighJump Software business which provided supply chain execution software solutions. 3M s Track and Trace Solutions utilize radio frequency identification (RFID) technology to provide a growing array of solutions from library patron self-checkout systems to tracking packages.

Fourth quarter and year 2009 results:

In Safety, Security and Protection Services, sales grew 13.5 percent in the fourth quarter, or 7.9 percent in local currency. Foreign exchange impacts added 5.6 percent to fourth quarter sales. Sales growth in the quarter was largely driven by the personal protection business. In May of

2009, 3M began to see a surge in orders for respirators approved for use in defending against the H1N1 virus. Since that time, demand has continued to exceed available supply. 3M recently approved respirator capacity investments in both Singapore and in the United States.

Elsewhere within this segment, local-currency sales growth was slightly positive in the building and commercial services business, driven by a number of new product introductions, but all other businesses posted lower year-on-year sales. In particular, 3M saw more than 10 percent local-currency sales declines in its industrial-oriented corrosion protection products business, and in businesses linked closely to residential construction, such as roofing granules.

Fourth-quarter operating income increased to $201 million, with operating income margins at 24.3 percent. Fourth quarter 2008 included $12 million in restructuring expenses.

Full-year 2009 sales in Safety, Security and Protection Services totaled $3.2 billion, down 7.8 percent in dollar-terms and 2.7 percent in local currencies. 3M drove positive local-currency growth in personal protection products, but all other businesses posted declines for the full year. The global economic downturn negatively impacted the industrial and construction-related businesses within this segment.

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Despite the near 8 percent sales decline for the year, operating income margins rose to 23.4 percent. In 2009, this business segment recorded charges of $17 million related to restructuring actions, comprised of employee-related liabilities for severance and benefits. This charge was partially offset by a gain of $15 million related to the sale of 3M s New Jersey roofing granule facility. In the second quarter of 2008, 3M completed the sale of its HighJump Software business and recognized a pre-tax loss of $23 million. In addition, 3M recorded restructuring charges and exit activities that totaled $15 million in 2008.

In June 2009, 3M s Security Systems Division was notified that the UK government decided to award its passport production to a competitor upon the expiration of 3M s existing UK passport contract in October 2010. 3M remains confident in the future of this business, and the growth prospects remain strong. 3M continues to aggressively work to win additional contracts in other countries. Refer to Critical Accounting Estimates within Management s Discussion and Analysis of Financial Condition and Results of Operations for additional discussion.

Fourth quarter and year 2008 results:

In the fourth quarter of 2008, sales in this business rose 1.0 percent to $729 million. Local-currency sales increased 11.5 percent, driven by 3M s 2008 acquisition of Aearo Technologies. Acquisitions contributed 14.4 percentage points of growth in the fourth quarter. On a geographic basis, sales for the quarter were strongest in the United States, followed by the Asia Pacific region. Operating income in the fourth quarter declined 10.5 percent, which included $12 million in restructuring expenses.

Full-year 2008 sales increased 17.2 percent. In local-currency terms, sales rose approximately 17 percent, comprised of 13 points from acquisitions and 2 points each from organic volumes and selling price increases. Sales growth was led by acquisitions, primarily Aearo, along with organic growth in personal protection solutions, cleaning and protection solutions for commercial buildings, and RFID solutions (Track and Trace). Aearo, acquired in April 2008, manufactures and sells personal protection and energy absorbing products. Aearo expanded 3M s platform by adding hearing protection as well as eyewear and fall protection product lines to 3M s existing line of respiratory productsIn July 2008, 3M acquired Quest Technologies Inc., a manufacturer of environmental monitoring equipment, including noise, heat stress and vibration monitors. The sale of HighJump Software (discussed below) resulted in a 1.8 percentage point penalty to full-year sales. Worldwide operating income was up 21.7 percent to $710 million.

In 2008, 3M announced and completed the sale of its HighJump Software business and recognized a pre-tax loss of $23 million in the second quarter of 2008. In addition, 3M recorded restructuring charges and exit activities that totaled $15 million in 2008. Including the preceding 2008 items, operating income margins were in excess of 20 percent for 2008. In the second quarter of 2007, 3M recorded a restructuring charge of $29 million related to the phaseout of operations at its New Jersey roofing granule facility. This included fixed asset impairments and employee-related restructuring liabilities.

Display and Graphics Business (13.5% of consolidated sales):

	2009	**2008**	**2007**
Sales (millions)	**$ 3,132**	$ 3,268	$ 3,916
Sales change analysis:			
Organic local-currency sales (volume and price)	**(5.6)**	(18.0)%	2.6%

Acquisitions		**2.8**	0.1	0.1
Local-currency sales		**(2.8)%**	(17.9)%	2.7%
Divestitures			(0.3)	(0.4)
Translation		**(1.4)**	1.6	1.9
Total sales change		**(4.2)%**	(16.6)%	4.2%
Operating income (millions)	**$**	**590**	$ 583	$ 1,166
Percent change		**1.3%**	(50.0)%	11.3%
Percent of sales		**18.8%**	17.8%	29.8%

The Display and Graphics segment serves markets that include electronic display, traffic safety and commercial graphics. This segment includes optical film solutions for electronic displays; computer screen filters; reflective sheeting for transportation safety; commercial graphics systems; and projection systems, including mobile display technology and visual systems products. The optical film business provides films that serve numerous market segments of the electronic display industry. 3M provides distinct products for five market segments, including products for: 1) LCD computer monitors 2) LCD televisions 3) handheld devices such as cellular phones 4) notebook PCs and 5) automotive displays. The optical business includes a number of different products that are protected by

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various patents and groups of patents. These patents provide varying levels of exclusivity to 3M for a number of such products. As some of 3M s optical film patents begin to expire in the next few years, 3M will likely see more competition in these products. 3M continues to innovate in the area of optical films and files patents on its new technology and products. 3M s proprietary manufacturing technology and know-how also provide a competitive advantage to 3M independent of its patents.

Fourth quarter and year 2009 results:

Display and Graphics fourth quarter sales increased nearly 19 percent to $817 million. Sales grew 15.7 percent in local currencies, and foreign exchange impacts added just over 3 percentage points to the fourth quarter growth rate. Operating income increased to $141 million. Operating income in the fourth quarter of 2008 included net charges of $22 million for restructuring actions and exit activities.

Optical systems continued to grow in the fourth quarter, with sales up over 50 percent year-on-year. Innovation was the key driver, as 3M film technology effectively improves the energy efficiency of an LCD panel by over 30 percent and can greatly simplify its design. Sales of optical films began to accelerate in the second and third quarter of 2009, and even though fourth-quarter sales declined sequentially due to normal seasonal reductions, year-on-year growth rates were strong. Optical will remain intensely competitive going forward. 3M s OEM customers continue to drive price reductions, and 3M will need to continue to respond with aggressive cost reduction and productivity in order to fund new products.

Fourth-quarter local-currency sales were up slightly in traffic safety systems, driven by the December 2008 acquisition of a finished license plate provider in France. Sales in the commercial graphics business were flat sequentially versus third-quarter and declined year-on-year as advertising spending remains soft.

For the full year, sales in Display and Graphics declined 4 percent to $3.1 billion, and operating income increased 1.3 percent to $590 million. Sales grew in traffic safety systems and optical systems, but declined in commercial graphics as the global recession significantly slowed spending on corporate advertising. In 2009, operating income margins were 18.8 percent, negatively impacted by 0.8 percentage points due to net restructuring charges of $22 million. This net aggregate charge included fixed asset impairments of $13 million and employee-related severance/benefits/other of $9 million, which is recorded net of adjustments to previously recorded restructuring charges. In 2008, restructuring charges and exit activities reduced operating income by $42 million.

Display and Graphics is working aggressively to accelerate longer-term growth possibilities for the business. For example, this segment formed a new architectural markets business to further 3M s footprint in film solutions for interior surfaces and for energy efficient lighting solutions. Display and Graphics also formed a new mobile interactive solutions business to develop products that improve projection, personalization and privacy for mobile device users. In addition, this segment announced a unique optical film that enables 3D viewing on handheld devices without the need for 3D glasses. Finally, Display and Graphics is preparing to launch the third in a family of pocket projectors, the 3M MPro 150, which projects high-quality images up to 50 inches.

Fourth quarter and year 2008 results:

Results in this business were affected by end-market challenges in 3M s optical films business. Demand for optical films slowed considerably in November and December of 2008 as TV, desktop monitor and notebook PC makers cancelled orders for large-size LCD panels due to weak holiday season sales, reflecting the global downturn in both consumer and corporate demand. For the fourth quarter, 3M posted sales of $687 million in Display and Graphics. Sales declined 28 percent, or about 8 percent excluding optical. Traffic safety systems posted local-currency sales growth of nearly 3 percent, as highway infrastructure projects around the world grew at a modest rate. Local-currency sales declined by 6.2 percent in 3M s commercial graphics business and by 48 percent in optical systems. Operating income in the fourth quarter declined 80 percent, which included net charges of $22 million for restructuring and exit activities.

For the full year of 2008, sales declined 16.6 percent, driving operating income down 50 percent to $583 million. Operating margins were at 17.8 percent for 2008. 3M took aggressive action during 2008 to reduce its cost structure across all businesses within Display and Graphics with particular focus on the optical film business. Second-half 2008 restructuring charges and exit activities of $42 million reduced operating income for total year 2008. These expenses were comprised of severance/related benefits and asset impairments. In 2007, 3M recorded a gain on the sale of its Opticom Priority Control Systems and Canoga Traffic Detection businesses, which was partially offset by expenses related to restructuring and exit activities. These items on a combined basis benefited operating income by $51 million in 2007. In aggregate, these items contributed approximately 6 percentage points of this 50 percent operating income decline when comparing 2008 to 2007. In addition, the 2008 restructuring and exit activity charges reduced 2008 operating income margins by 1.3 percentage points, while the 2007 net benefit contributed 1.3 percentage points of the 29.8 percent operating income margin for 2007.

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Electro and Communications Business (9.8% of consolidated sales):

	2009	2008	2007
Sales (millions)	**$ 2,276**	$ 2,835	$ 2,805
Sales change analysis:			
Organic local-currency sales (volume and price)	**(18.4)**	(2.0)%	(0.5)%
Acquisitions	**0.6**	0.4	1.5
Local-currency sales	**(17.8)%**	(1.6)%	1.0%
Divestitures	**(0.2)**		
Translation	**(1.7)**	2.7	3.0
Total sales change	**(19.7)%**	1.1%	4.0%
Operating income (millions)	**$ 322**	$ 540	$ 501
Percent change	**(40.4)%**	7.9%	19.3%
Percent of sales	**14.2%**	19.1%	17.8%

The Electro and Communications segment serves the electrical, electronics and communications industries, including electrical utilities; electrical construction, maintenance and repair; original equipment manufacturer (OEM) electrical and electronics; computers and peripherals; consumer electronics; telecommunications central office, outside plant and enterprise; as well as aerospace, military, automotive and medical markets; with products that enable the efficient transmission of electrical power and speed the delivery of information. Products include electronic and interconnect solutions, micro interconnect systems, high-performance fluids, high-temperature and display tapes, telecommunications products, electrical products, and touch screens and touch monitors.

Fourth quarter and year 2009 results:

Electro and Communications continued to gather momentum in the fourth quarter of 2009. Fourth-quarter sales increased 1.7 percent sequentially, and were also up 4.6 percent year on-year. Local-currency sales were up 1.4 percent year-on-year, led by businesses that supply the consumer electronics and semiconductor industries. 3M s infrastructure-related businesses in telecommunications and commercial construction remained challenging in the fourth quarter.

Electro and Communications posted year-on-year operating income improvement in the fourth quarter, with operating income margins approaching 19 percent for the second consecutive quarter. The fourth quarter of 2008 included $7 million in restructuring expenses. Electro and Communications is driving operational efficiencies in the business to offset what has been an extremely challenging global business environment.

Sales for the full-year 2009 were $2.3 billion, down 19.7 percent, with local-currency sales declining 17.8 percent, foreign currency translation reducing sales by 1.7 percent, and divestitures reducing sales by 0.2 percent. The global economic downturn weighed heavily on all businesses, particularly telecom infrastructure, commercial construction and utilities. Operating income for the year was $322 million, with operating income margins of 14.2 percent. Operating income in 2009 included charges of $11 million related to restructuring actions, with this charge comprised of employee-related liabilities for severance and benefits. Operating income in 2008 was impacted by $7 million in restructuring expenses

In Electro and Communications, 3M was encouraged by the fourth quarter sales improvement and the progress in streamlining the cost structure of the business in 2009. In addition, this business has recently developed and introduced a number of new products, including solutions for touch-enabled mobile handheld devices and smart phones. Other recent product launches include electrically conductive optically clear adhesives, wafer handling systems for semiconductor manufacturing, a new line of voltage terminations and splices and new closures and cross-connect blocks for telecom appliances.

Fourth quarter and year 2008 results:

This business serves a number of end-markets, the most important being consumer electronics and telecommunications, along with the global power utility industry. In the fourth quarter of 2008, the weak holiday season experienced by the consumer electronics retailers had a large and negative impact on sales in this business. Likewise the global telecommunications sector continued to cut capital spending on new capacity and on upgrades of existing equipment. 3M had a large number of equipment orders cancelled during the fourth quarter of 2008. As a result of this end-market contraction, sales in Electro and Communications declined by 15 percent in the fourth quarter. Sales in local currency decreased about 12 percent, and currency impacts hurt sales by about 3 percentage points. Operating income declined 38 percent, which included $7 million in restructuring expenses.

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For the full-year 2008, sales in Electro and Communications increased 1 percent to $2.8 billion, while operating income increased 8 percent to $540 million. Operating margins were at 19 percent. The Electrical Markets and Electronic Markets Materials businesses drove growth. The Communications Markets and Electronics Solutions businesses remained soft. 3M also continued to experience declines in the flexible circuits business where a number of product solutions were going end-of-life. Operating income in 2008 was impacted by $7 million in restructuring expenses, while 2007 included $18 million in restructuring expenses, primarily for asset impairment charges related to the Company s decision to close a facility in Wisconsin, and $23 million for employee reductions and fixed asset impairments related to the consolidation of certain flexible circuit manufacturing operations. In aggregate, these items contributed 6.7 percentage points of the reported 7.9 percent operating income growth when comparing 2008 to the 2007.

PERFORMANCE BY GEOGRAPHIC AREA

While 3M manages its businesses globally and believes its business segment results are the most relevant measure of performance, the Company also utilizes geographic area data as a secondary performance measure. Export sales are generally reported within the geographic area where the final sales to 3M customers are made. A portion of the products or components sold by 3M s operations to its customers are exported by these customers to different geographic areas. As customers move their operations from one geographic area to another, 3M s results will follow. Thus, net sales in a particular geographic area are not indicative of end-user consumption in that geographic area.

Financial information related to 3M operations in various geographic areas is provided in Note 18. Operating income results by geographic area were significantly impacted by restructuring and other items. In 2009, restructuring actions, partially offset by a gain on sales of real estate, decreased worldwide operating income by $194 million, with the largest impact in Europe, Asia Pacific and the United States. In 2008, restructuring actions, exit activities and a loss on sale of businesses, which were partially offset by a gain on sale of real estate, decreased worldwide operating income by $269 million, with the largest impact in the United States and Europe. In 2007, the gain on sale of businesses and a gain on sale of real estate, net of restructuring and other items, increased worldwide operating income by $681 million, with the largest impact in Europe.

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A summary of key information and discussion related to 3M s geographic areas follow:

	2009					
	United States	**Asia Pacific**	**Europe, Middle East and Africa**	**Latin America/ Canada**	**Other Unallocated**	**Worldwide**
Net sales (millions)	**$ 8,509**	**$ 6,120**	**$ 5,972**	**$ 2,516**	**$ 6**	**$ 23,123**
% of worldwide sales	**36.8%**	**26.5%**	**25.8%**	**10.9%**		**100.0%**
Components of net sales change:						
Volume organic	**(11.9)**	**(3.4)%**	**(11.9)%**	**(10.0)%**		**(9.5)%**
Price	**2.5**	**(1.9)**	**1.9**	**8.6**		**1.8**
Organic local-currency sales	**(9.4)**	**(5.3)**	**(10.0)**	**(1.4)**		**(7.7)**
Acquisitions	**2.4**	**0.5**	**3.5**	**1.4**		**2.1**
Local-currency sales	**(7.0)**	**(4.8)**	**(6.5)**			**(5.6)**
Divestitures	**(0.3)**		**(0.1)**			**(0.1)**
Translation		**0.1**	**(7.4)**	**(7.6)**		**(2.8)**
Total sales change	**(7.3)**	**(4.7)%**	**(14.0)%**	**(7.6)%**		**(8.5)%**
Operating income (millions)	**$ 1,640**	**$ 1,528**	**$ 1,003**	**$ 631**	**$ 12**	**$ 4,814**
Percent change	**3.9%**	**(8.1)%**	**(22.5)%**	**(9.1)%**		**(7.7)%**

For total year 2009, as shown in the preceding table, all major geographic areas showed sales declines; however, year-on-year sales growth improved each quarter throughout the year. In the fourth quarter of 2009, sales growth of 11.1 percent was broad-based. Every major geographic region expanded sales, with strong performances in Asia Pacific at 22 percent and Latin America and Canada each at 19 percent. With respect to organic volume, Asia Pacific led the way at nearly 19 percent for the fourth quarter. Korea, China and Taiwan posted the most significant increases, driven by a combination of improved local demand along with the pickup in global electronics. Organic volumes were flat to slightly down in other geographic regions, which is an improvement versus the levels of decline seen in the first three quarters of 2009. For 2009, international operations represented approximately 63 percent of 3M s sales.

	2008					
	United States	**Asia Pacific**	**Europe, Middle East and Africa**	**Latin America/ Canada**	**Other Unallocated**	**Worldwide**
Net sales (millions)	$ 9,179	$ 6,423	$ 6,941	$ 2,723	$ 3	$ 25,269
% of worldwide sales	36.3%	25.4%	27.5%	10.8%		100.0%
Components of net sales change:						
Volume organic	(5.0)%	(3.6)%	(1.5)%	7.4%		(2.4)%
Price	2.4	(3.1)	1.1	2.2		0.5
Organic local-currency sales	(2.6)	(6.7)	(0.4)	9.6		(1.9)
Acquisitions	5.3	0.8	3.2	3.2		3.3
Local-currency sales	2.7	(5.9)	2.8	12.8		1.4
Divestitures	(0.6)		(0.1)	(0.1)		(0.3)
Translation		3.2	4.0	2.4		2.2
Total sales change	2.1%	(2.7)%	6.7%	15.1%		3.3%

Operating income (millions)	$ 1,578	$ 1,662	$ 1,294	$ 693	$ (9)	$ 5,218
Percent change	(16.7)%	(19.4)%	(20.4)%	12.6%	%	(15.7)%

In 2008, U.S. local-currency sales increased 2.7 percent, with acquisitions contributing 5.3 percentage points. U.S. organic local-currency sales growth was led by Health Care. Safety, Security and Protection Services and Industrial and Transportation also drove positive sales growth, helped by acquisitions. This was partially offset by softness in the electronic solutions business and weakness in a few businesses that are impacted by the slowdown in the U.S. housing, road construction and mass retail markets and office supply businesses. Asia Pacific local-currency sales declined 5.9 percent. The significant decrease in Optical Systems within Display and Graphics more than offset the sales growth in the other five business segments. Sales in Japan totaled approximately $2.2 billion, with local-currency sales down 5.2 percent from 2007. Europe local-currency sales increased 2.8 percent, helped by acquisitions, with growth in Safety, Security and Protection Services, Health Care, and Industrial and Transportation. In the combined Latin America and Canada area, local-currency sales increased 12.8 percent, with growth in all business segments. Foreign currency translation positively impacted Europe sales by 4.0 percent, the combined Latin America and Canada area sales by 2.4 percent, and the Asia Pacific area by 3.2 percent, as the U.S. dollar

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weakened in aggregate against currencies in these geographic areas. For 2008, international operations represented approximately 64 percent of 3M s sales.

Geographic Area Supplemental Information

(Millions, except Employees)	Employees as of December 31, 2009	2008	2007	Capital Spending 2009	2008	2007	Property, Plant and Equipment - net 2009	2008
United States	**31,513**	33,662	34,138	**$ 464**	$ 780	$ 841	**$ 3,809**	$ 3,901
Asia Pacific	**13,834**	13,960	12,970	**215**	338	299	**1,366**	1,304
Europe, Middle East and Africa	**17,743**	19,185	17,675	**162**	253	203	**1,318**	1,263
Latin America and Canada	**11,745**	12,376	11,456	**62**	100	79	**507**	418
Total Company	**74,835**	79,183	76,239	**$ 903**	$ 1,471	$ 1,422	**$ 7,000**	$ 6,886

Employment:

At December 31, 2009, employment declined by 4,348 positions since year-end 2008, largely driven by restructuring actions taken in the fourth quarter of 2008 through the third quarter of 2009. At December 31, 2008, employment increased by approximately 2,900 positions since year-end 2007, with acquisitions during 2008 adding approximately 3,700 positions as of December 31, 2008. In 2008, 3M added employees in Brazil, India, Russia, China and Poland, where total sales increased more than 15 percent. These increases were offset by reductions in employment in 2008 for a portion of the job eliminations that were announced in connection with restructuring and exit activities.

Capital Spending/Net Property, Plant and Equipment:

The bulk of 3M capital spending historically has been in the United States, resulting in higher net property, plant and equipment balances in the United States. The Company is striving to more closely align its manufacturing and sourcing with geographic market sales, and because approximately 63 percent of sales are outside the United States, this would increase production outside the United States, helping to improve customer service and reduce working capital requirements. The dollar amounts in the preceding table support this trend, as international capital spending as a percent of worldwide capital spending increased from 41 percent in 2007 to 49 percent in 2009. Capital expenditures were $903 million in 2009, compared to $1.471 billion in 2008 and $1.422 billion in 2007. In response to global economic conditions, the Company reduced its capital spending significantly in 2009. A substantial amount of the 2009 spending was carryover from 2008 or for tooling needed for new products and continued operations. The Company expects 2010 capital spending to be approximately $1 billion as 3M continues to fund growth opportunities around the world.

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CRITICAL ACCOUNTING ESTIMATES

Information regarding significant accounting policies is included in Note 1. As stated in Note 1, the preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenue and expenses, and related disclosure of contingent assets and liabilities. Management bases its estimates on historical experience and on various assumptions that are believed to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The Company believes its most critical accounting estimates relate to legal proceedings, the Company s pension and postretirement obligations, asset impairments and income taxes. Senior management has discussed the development, selection and disclosure of its critical accounting estimates with the Audit Committee of 3M s Board of Directors.

Legal Proceedings:

The categories of claims for which the Company has estimated its probable liability, the amount of its liability accruals, and the estimates of its related insurance receivables are critical accounting estimates related to legal proceedings. Please refer to the section entitled Accrued Liabilities and Insurance Receivables Related to Legal Proceedings (contained in Legal Proceedings in Note 14) for additional information about such estimates.

Pension and Postretirement Obligations:

3M has various company-sponsored retirement plans covering substantially all U.S. employees and many employees outside the United States. The Company accounts for its defined benefit pension and postretirement health care and life insurance benefit plans in accordance with Accounting Standard Codification (ASC) 715, *Compensation RetiremenBenefits*, in measuring plan assets and benefit obligations and in determining the amount of net periodic benefit cost. ASC 715 requires employers to recognize the underfunded or overfunded status of a defined benefit pension or postretirement plan as an asset or liability in its statement of financial position and recognize changes in the funded status in the year in which the changes occur through accumulated other comprehensive income, which is a component of stockholders equity.

Pension benefits associated with these plans are generally based primarily on each participant s years of service, compensation, and age at retirement or termination. Two critical assumptions, the discount rate and the expected return on plan assets, are important elements of expense and liability measurement. The assumed health care trend rate is the most significant postretirement health care assumption. See Note 11 for additional discussion of actuarial assumptions used in determining pension and postretirement health care liabilities and expenses.

The Company determines the discount rate used to measure plan liabilities as of the December 31 measurement date for the U.S. pension and postretirement benefit plans. The discount rate reflects the current rate at which the associated liabilities could be effectively settled at the end of the year. The Company sets its rate to reflect the yield of a portfolio of high quality, fixed-income debt instruments that would produce cash flows sufficient in timing and amount to settle projected future benefits. Using this methodology, the Company determined a discount rate of

5.77% for U.S. pension and 5.62% for U.S. postretirement to be appropriate as of December 31, 2009, which is a decrease from the 6.14% rate used as of December 31, 2008. For the international pension and postretirement plans the discount rates also reflect the current rate at which the associated liabilities could be effectively settled at the end of the year. The weighted average discount rate for international pension plans as of December 31, 2009 was 5.30%, a decrease from the 5.53% rate used as of December 31, 2008.

A significant element in determining the Company s pension expense in accordance with ASC 715, is the expected return on plan assets, which is based on historical results for similar allocations among asset classes. For the U.S. pension plan, the expected long-term rate of return on an annualized basis for 2010 is 8.50%, the same as 2009. Refer to Note 11 for information on how the 2010 rate was determined. Return on assets assumptions for international pension and other post-retirement benefit plans are calculated on a plan-by-plan basis using plan asset allocations and expected long-term rate of return assumptions. The weighted average expected return for the international pension plan is 6.89% for 2010, comparable to the weighted average expected return of 6.86% for 2009.

For the year ended December 31, 2009, the Company recognized total consolidated pre-tax pension expense (after settlements, curtailments and special termination benefits) of $176 million, up from $89 million in 2008. Pension expense (before settlements, curtailments and special termination benefits) is anticipated to increase to approximately $300 million in 2010. For the pension plans, holding all other factors constant, an increase/decrease in the expected long-term rate of return on plan assets of 0.25 of a percentage point would decrease/increase 2010 pension expense by approximately $27 million for U.S. pension plans and approximately $10 million for international pension plans. Also, holding all other factors constant, an increase/decrease in the discount rate used to measure plan liabilities of 0.25 of a percentage point would decrease/increase 2010 pension expense by approximately $33 million for U.S. pension plans and approximately $17 million for international pension plans. See Note 11 for details of the impact of a one percentage point change in assumed health care trend rates on the postretirement health care benefit expense and obligation.

Asset Impairments:

As of December 31, 2009, net property, plant and equipment totaled $7.0 billion and net identifiable intangible assets totaled $1.3 billion. Management makes estimates and assumptions in preparing the consolidated financial statements for which actual results will emerge over long periods of time. This includes the recoverability of long-lived assets employed in the business, including assets of acquired businesses. These estimates and assumptions are closely monitored by management and periodically adjusted as circumstances warrant. For instance, expected asset lives may be shortened or an impairment recorded based on a change in the expected use of the asset or performance of the related asset group. Impairments recorded in 2009, 2008 and 2007 related to restructuring actions and other exit activities are discussed in Note 4.

In June 2009, 3M s Security Systems Division (within the Safety, Security and Protection Services business segment) was notified that the UK government decided to award the production of its passports to a competitor upon the expiration of 3M s existing UK passport contracts in October 2010. 3M remains confident in the future of its overall passport business, and the growth prospects remain strong. 3M continues to aggressively work to win additional contracts in other countries. However, as a result of this event, in June 2009, 3M tested the long lived assets associated with the UK passport activity for recoverability and also reassessed their remaining useful lives. In addition, 3M tested goodwill for impairment at the reporting unit (Security Systems Division) level.

The result of the June 2009 test of recoverability of long lived assets associated with the UK passport activity indicated that the asset grouping s carrying amount of approximately $54 million (before impairment) exceeded the remaining expected cash flows. Accordingly, 3M recorded a non-cash impairment charge of approximately $13 million in the second quarter of 2009 to write these assets down to their fair value. In addition, accelerated depreciation/amortization is being taken over the period June 2009 through the date of expiration of the contract based on a reassessment of the remaining expected useful life of these assets.

3M goodwill totaled approximately $5.8 billion as of December 31, 2009, which, based on impairment testing, is not impaired. Impairment testing for goodwill is done at a reporting unit level, with all goodwill assigned to a reporting unit. Reporting units are one level below the business segment level (3M has six business segments at December 31, 2009), but can be combined when reporting units within the same segment have similar economic characteristics. At 3M, reporting units generally correspond to a division. As of December 31, 2009, 3M did not combine any of its reporting units for impairment testing.

An impairment loss generally would be recognized when the carrying amount of the reporting unit s net assets exceeds the estimated fair value of the reporting unit. The estimated fair value of a reporting unit is determined using earnings for the reporting unit multiplied by a price/earnings ratio for comparable industry groups, or by using a discounted cash flow analysis. 3M typically uses the price/earnings ratio approach for stable and growing businesses that have a long history and track record of generating positive operating income and cash flows. 3M uses the discounted cash flow approach for start-up, loss position and declining businesses, but also uses discounted cash flow as an additional tool for businesses that may be growing at a slower rate than planned due to economic or other conditions. 3M completes its annual impairment tests in the fourth quarter of each year.

As of December 31, 2009, 3M had 37 primary reporting units, with eight reporting units accounting for approximately 75 percent of the goodwill. These eight reporting units were comprised of the following divisions: 3M Purification Inc., Occupational Health and Environmental Safety, Optical Systems, 3M ESPE, Communication Markets, Industrial Adhesives and Tapes, Security Systems, and Health Information Systems.

The fair values for the majority of reporting units were in excess of carrying value by more than 30 percent. The fair values for 3M Purification Inc., Optical Systems and Security Systems, based on fourth quarter 2009 testing, were in excess of carrying value by approximately 15 percent to 30 percent, with no impairment indicated. As part of its annual impairment testing in the fourth quarter, 3M used a weighted-average discounted cash flow analysis for its 3M Purification Inc., Optical Systems and Security Systems divisions, using projected cash flows that were weighted based on different sales growth and terminal value assumptions, among other factors. The weighting was based on management s estimates of the likelihood of each scenario occurring.

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In 2009, for those reporting units whose fair value was in excess of carrying value by more than 30 percent, 3M primarily used an industry price-earnings ratio approach, but also used a discounted cash flows approach for certain reporting units. In 2008, 3M adjusted the stated applicable industry price-earnings ratio downward for its annual test in the fourth quarter, unlike prior years when no adjustment was required. Without this adjustment, the addition of each reporting unit s estimated market values would have been significantly in excess of 3M s total Company market value, which would have resulted in an unusually high implied control premium. The control premium is defined as the sum of the individual reporting units estimated market values compared to 3M s total Company market value, with the sum of the individual values typically being larger than the value for the total Company. For example, at year-end 2008, 3M s market value was approximately $40 billion, but if each reporting unit was sold individually, 3M s value would be approximately $52 billion using a 30 percent control premium. 3M factored down its price/earnings ratio significantly for the respective reporting units to approximate what the price/earnings ratio would be at a more normal historical control premium of approximately 30 percent for the total Company. Even after including this adjustment to the price-earnings ratio, no goodwill impairment was indicated for any of the reporting units in 2008. In the fourth quarter of 2009, 3M s estimated control premium ranged from 15 to 30 percent, with no adjustment required to the price/earnings ratios. Based on its annual test in the fourth quarter of 2009, no goodwill impairment was indicated for any of the reporting units. In addition, 3M s market value at December 31, 2009 of approximately $59 billion is significantly in excess of its equity of approximately $13 billion.

Factors which could result in future impairment charges, among others, include changes in worldwide economic conditions, changes in competitive conditions and customer preferences, and fluctuations in foreign currency exchange rates. These risk factors are discussed in Item 1A, Risk Factors , of this document. As of December 31, 2009, 3M had approximately $1 billion of goodwill related to 3M Purification Inc., $800 million related to Optical Systems, and $200 million of goodwill associated with the Security Systems Division. If future non-cash impairment charges are taken, 3M would expect that only a portion of the long-lived assets or goodwill would be impaired. 3M will continue to monitor its reporting units in 2010 for any triggering events or other indicators of impairment.

Income Taxes:

The extent of 3M s operations involves dealing with uncertainties and judgments in the application of complex tax regulations in a multitude of jurisdictions. The final taxes paid are dependent upon many factors, including negotiations with taxing authorities in various jurisdictions and resolution of disputes arising from federal, state, and international tax audits. The Company recognizes potential liabilities and records tax liabilities for anticipated tax audit issues in the United States and other tax jurisdictions based on its estimate of whether, and the extent to which, additional taxes will be due. As of January 1, 2007, the Company follows guidance provided by ASC 740, *Income Taxes*, regarding uncertainty in income taxes, to record these liabilities (refer to Note 8 for additional information). The Company adjusts these reserves in light of changing facts and circumstances; however, due to the complexity of some of these uncertainties, the ultimate resolution may result in a payment that is materially different from the Company s current estimate of the tax liabilities. If the Company s estimate of tax liabilities proves to be less than the ultimate assessment, an additional charge to expense would result. If payment of these amounts ultimately proves to be less than the recorded amounts, the reversal of the liabilities would result in tax benefits being recognized in the period when the Company determines the liabilities are no longer necessary.

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NEW ACCOUNTING PRONOUNCEMENTS

Information regarding new accounting pronouncements is included in Note 1 to the Consolidated Financial Statements.

FINANCIAL CONDITION AND LIQUIDITY

The strength of 3M s capital structure and consistency of its cash flows provide 3M reliable access to capital markets. As indicated in the following table, at December 31, 2009, 3M had $4.6 billion of cash, cash equivalents, and marketable securities and $5.710 billion of debt. Debt included $5.097 billion of long-term debt, $522 million related to the current portion of long-term debt and other borrowings of $91 million. The current portion of long-term debt includes $350 million in Dealer Remarketable Securities, which ultimately mature in December 2010. While economic conditions remain uncertain, 3M is committed to managing its capital structure very carefully.

The Company generates significant ongoing cash flow. A portion of the increase in debt at year-end 2008 was the result of a strategy to build and maintain a cash buffer in the U.S. given the difficult market environment at that point in time. Increases in long-term debt have been used to partially fund share repurchase activities and acquisitions. On April 1, 2008, 3M (Safety, Security and Protection Services Business) completed its acquisition of 100 percent of the outstanding shares of Aearo a global leader in the personal protection industry that manufactures and markets personal protection and energy absorbing products for approximately $1.2 billion, inclusive of debt assumed, which was immediately paid off.

At December 31 (Millions)	**2009**	**2008**	**2007**
Total Debt	**$ 5,710**	$ 6,718	$ 4,920
Less: Cash, cash equivalents and marketable securities	**4,609**	2,574	2,955
Net Debt	**$ 1,101**	$ 4,144	$ 1,965

Cash, cash equivalents and marketable securities at December 31, 2009 totaled approximately $4.6 billion, helped by cash flows from operating activities of $4.9 billion. The Company has sufficient liquidity to meet currently anticipated growth plans, including capital expenditures, working capital investments and acquisitions. The Company does not utilize derivative instruments linked to the Company s stock. However, the Company does have contingently convertible debt that, if conditions for conversion are met, is convertible into shares of 3M common stock (refer to Note 10 in this document).

The Company s financial condition and liquidity are strong. Various assets and liabilities, including cash and short-term debt, can fluctuate significantly from month to month depending on short-term liquidity needs. Working capital (defined as current assets minus current liabilities) totaled $5.898 billion at December 31, 2009, compared with $3.759 billion at December 31, 2008. Working capital increases were attributable to increases in cash and cash equivalents, short-term marketable securities and accounts receivable, while decreases in short-term debt, accrued income taxes and other current liabilities also increased working capital. This was partially offset by working capital increases attributable to increases in accounts payable and accrued payroll, combined with decreases in inventory and other current assets.

Primary short-term liquidity needs are met through U.S. commercial paper and euro commercial paper issuances. The Company maintains a commercial paper program that allows 3M to have a maximum of $3 billion outstanding with a maximum maturity of 397 days from date of issuance. As of December 31, 2009, 3M had no outstanding commercial paper, compared to $575 million in total commercial paper outstanding at December 31, 2008. The Company believes it is unlikely that its access to the commercial paper market will be restricted. Effective April 30, 2007, the Company has a $1.5-billion five-year credit facility, which has provisions for the Company to request an increase of the facility up to $2 billion (at the lenders discretion), and providing for up to $150 million in letters of credit. At December 31, 2009, available short-term committed lines of credit, including the preceding $1.5 billion five-year credit facility, totaled approximately $1.593 billion, of which approximately $145 million was utilized for letters of credit and other short-term borrowings in connection with normal business activities. Debt covenants do not restrict the payment of dividends.

The Company has a well-known seasoned issuer shelf registration statement, effective February 17, 2009, which registers an indeterminate amount of debt or equity securities for future sales. No securities have been issued under this shelf. The Company intends to use the proceeds from future securities sales off this shelf for general corporate purposes. In connection with a prior well-known seasoned issuer shelf registration, in June 2007 the Company established a $3 billion medium-term notes program. Three debt securities have been issued under this medium-term

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notes program. First, in December 2007, 3M issued a five-year, $500 million, fixed rate note with a coupon rate of 4.65%. Second, in August 2008, 3M issued a five-year, $850 million, fixed rate note with a coupon rate of 4.375%. Third, in October 2008, the Company issued a three-year $800 million, fixed rate note with a coupon rate of 4.50%. The Company entered into an interest rate swap to convert this $800 million note to a floating rate.

The Company has an AA- credit rating, with a stable outlook, from Standard & Poor s and an Aa2 credit rating, with a stable outlook, from Moody s Investors Service. At December 31, 2009, $350 million of Dealer Remarketable Securities had ratings triggers (BBB-/Baa3 or lower) that would require repayment of debt. In addition, under the $1.5-billion five-year credit facility agreement, 3M is required to maintain its EBITDA to Interest Ratio as of the end of each fiscal quarter at not less than 3.0 to 1. This is calculated (as defined in the agreement) as the ratio of consolidated total EBITDA for the four consecutive quarters then ended to total interest expense on all funded debt for the same period. At December 31, 2009, this ratio was approximately 27 to 1.

3M s cash and cash equivalents balance at December 31, 2009 totaled $3.040 billion, with an additional $1.569 billion in current and long-term marketable securities. 3M s strong balance sheet and liquidity provide the Company with significant flexibility to take advantage of numerous opportunities going forward. The Company will continue to invest in its operations to drive growth, including continual review of acquisition opportunities. 3M paid dividends of $1.431 billion in 2009, and has a long history of dividend increases. In February 2010, the Board of Directors increased the quarterly dividend on 3M common stock by 2.9 percent to 52.5 cents per share, equivalent to an annual dividend of $2.10 per share. In February 2007, 3M s Board of Directors authorized a two-year share repurchase of up to $7.0 billion for the period from February 12, 2007 to February 28, 2009. In February 2009, 3M s Board of Directors extended this share repurchase authorization until the remaining amount is fully utilized. At December 31, 2009, the Company has $2.6 billion remaining under this authorization.

In 2010, the Company expects to contribute in cash an amount in the range of $500 million to $700 million to its U.S. and international pension plans. The Company does not have a required minimum pension contribution obligation for its U.S. plans in 2010. Therefore, the amount of the anticipated discretionary contribution could vary significantly depending on the U.S. qualified plans funded status as of the 2010 measurement date and the anticipated tax deductibility of the contribution. Future contributions will also depend on market conditions, interest rates and other factors. 3M believes its strong cash flow and balance sheet will allow it to fund future pension needs without compromising growth opportunities.

The Company uses various working capital measures that place emphasis and focus on certain working capital assets and liabilities. These measures are not defined under U.S. generally accepted accounting principles and may not be computed the same as similarly titled measures used by other companies. One of the primary working capital measures 3M uses is a combined index, which includes accounts receivable, inventory and accounts payable. This combined index (defined as quarterly net sales fourth quarter at year-end multiplied by four, divided by ending net accounts receivable plus inventory less accounts payable) was 5.5 at December 31, 2009, a significant improvement from 4.5 at December 31, 2008. Receivables increased $55 million, or 1.7 percent, compared with December 31, 2008. Currency translation increased accounts receivable by $82 million year-on-year, as the U.S. dollar weakened in aggregate against a multitude of currencies. Inventories decreased $374 million, or 12.4 percent, compared with December 31, 2008. Currency translation increased inventories by $71 million year-on-year. Accounts payable increased $152 million compared with December 31, 2008. Currency translation increased accounts payable by $17 million year-on-year.

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Cash flows from operating, investing and financing activities are provided in the tables that follow. Individual amounts in the Consolidated Statement of Cash Flows exclude the effects of acquisitions, divestitures and exchange rate impacts, which are presented separately in the cash flows. Thus, the amounts presented in the following operating, investing and financing activities tables reflect changes in balances from period to period adjusted for these effects.

Cash Flows from Operating Activities:

Years ended December 31 (Millions)	**2009**	2008	2007
Net income including noncontrolling interest	**$ 3,244**	$ 3,520	$ 4,151
Depreciation and amortization	**1,157**	1,153	1,072
Company pension contributions	**(659)**	(421)	(376)
Company postretirement contributions	**(133)**	(53)	(3)
Company pension expense	**176**	89	190
Company postretirement expense	**47**	16	65
Stock-based compensation expense	**217**	202	228
Loss/(gain) from sale of businesses		23	(849)
Income taxes (deferred and accrued income taxes)	**554**	(44)	(34)
Excess tax benefits from stock-based compensation	**(14)**	(21)	(74)
Accounts receivable	**55**	197	(35)
Inventories	**453**	(127)	(54)
Accounts payable	**109**	(224)	(4)
Product and other insurance receivables and claims	**64**	153	158
Other net	**(329)**	70	(189)
Net cash provided by operating activities	**$ 4,941**	$ 4,533	$ 4,246

Cash flows from operating activities can fluctuate significantly from period to period, as pension funding decisions, tax timing differences and other items can significantly impact cash flows. In the third quarter of 2009, the Company contributed $600 million to its U.S. defined benefit pension plan in shares of the Company s common stock, which is considered a non-cash financing activity. This non-cash activity is not reflected in the operating or financing section of the cash flows.

In 2009, cash flows provided by operating activities increased $408 million compared to 2008. The main positive contribution to operating cash flows related to year-on-year working capital improvements of $771 million (which includes accounts receivable, inventories and accounts payable). In addition, lower cash tax payments in 2009 benefited cash flows. These positive contributions were partially offset by a decrease of $276 million in net income including noncontrolling interest. The category, Other-net, in the preceding table reflects changes in other asset and liability accounts. This includes the impact of cash outlays for restructuring payments, net of restructuring expenses, which on a combined basis reduced liabilities (Note 4). In addition, decreases in banked vacation accruals reduced liabilities.

In 2008, cash flows provided by operating activities increased $287 million. Net income including noncontrolling interest decreased $631 million, primarily due to gains from the sale of businesses in 2007 which did not repeat in 2008. Accounts receivable decreases benefited cash flows in 2008, but increases in inventories and decreases in accounts payable negatively impacted cash flows. The category Other-net in the preceding table reflects changes in other asset and liability accounts, including outstanding liabilities at December 31, 2008 related to 3M s restructuring actions (Note 4).

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Cash Flows from Investing Activities:

Years ended December 31 **(Millions)**	**2009**	**2008**	**2007**
Purchases of property, plant and equipment (PP&E)	**$ (903)**	$ (1,471)	$ (1,422)
Proceeds from sale of PP&E and other assets	**74**	87	103
Acquisitions, net of cash acquired	**(69)**	(1,394)	(539)
Proceeds from sale of businesses	**5**	88	897
Purchases and proceeds from sale or maturities of marketable securities and investments net	**(839)**	291	(406)
Net cash used in investing activities	**$ (1,732)**	$ (2,399)	$ (1,367)

Investments in property, plant and equipment enable growth in diverse markets, helping to meet product demand and increasing manufacturing efficiency. In response to global economic conditions, the Company reduced its capital spending significantly in 2009. A substantial amount of the 2009 spending was carryover from 2008 or for tooling needed for new products and continued operations. The Company expects 2010 capital spending to be approximately $1 billion as 3M continues to fund growth opportunities around the world.

In 2008, major facility efforts included completion of production lines in the United States for both Consumer and Office and Health Care, an R&D laboratory in Korea, a tape building in Poland, and numerous tape lines and building expansions in China. In 2008, 3M also made progress towards completion of investments in a Singapore multi-purpose manufacturing facility and film production facilities and made progress towards completion of manufacturing cost reduction investments in two of its U.S. film manufacturing plants.

In 2007, numerous plants were opened or expanded internationally. This included two facilities in Korea (respirator manufacturing facility and optical plant), industrial adhesives/tapes facilities in both Brazil and the Philippines, a plant in Russia (corrosion protection, industrial adhesive and tapes, and respirators), a plant in China (optical systems, industrial adhesives and tapes, and personal care), an expansion in Canada (construction and home improvement business), in addition to investments in India, Mexico and other countries. In addition, 3M expanded manufacturing capabilities in the U.S., including investments in industrial adhesives/tapes and optical.

Refer to Note 2 for information on acquisitions. Note 2 also provides information on the proceeds from the sale of businesses. The Company is actively considering additional acquisitions, investments and strategic alliances, and from time to time may also divest certain businesses.

Purchases of marketable securities and investments and proceeds from sale (or maturities) of marketable securities and investments are primarily attributable to asset-backed securities, agency securities, corporate medium-term note securities and other securities, which are classified as available-for-sale. Interest rate risk and credit risk related to the underlying collateral may impact the value of investments in asset-backed securities, while factors such as general conditions in the overall credit market and the nature of the underlying collateral may affect the liquidity of investments in asset-backed securities. The coupon interest rates for asset-backed securities are either fixed rate or floating. Floating rate coupons reset monthly or quarterly based upon the corresponding monthly or quarterly LIBOR rate. Each individual floating rate security has a coupon based upon the respective LIBOR rate +/- an amount reflective of the credit risk of the issuer and the underlying collateral on the original issue date. Terms of the reset are unique to individual securities. Fixed rate coupons are established at the time the security is issued and are based upon a spread to a related maturity treasury bond. The spread against the treasury bond is reflective of the credit risk of the issuer and the underlying collateral on the original issue date. 3M does not currently expect risk related to its holdings in asset-backed securities to materially impact its financial condition or liquidity. Refer to Note 9 for more details about 3M s diversified marketable securities portfolio, which totaled $1.569 billion as of December 31, 2009. In 2005, 3M purchased 19 percent of TI&M Beteiligungsgesellschaft mbH for approximately $55 million. In 2008 and 2007, the recovery of approximately $6 million and $25 million, respectively, reduced Investments and is shown in cash flows within Proceeds from sale of marketable securities and investments. This investment is discussed in more detail under the preceding section entitled Industrial and Transportation Business. Additional purchases of investments include additional survivor benefit insurance and equity investments.

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Cash Flows from Financing Activities:

Years ended December 31 (Millions)	**2009**	**2008**	**2007**
Change in short-term debt net	**$ (536)**	$ 361	$ (1,222)
Repayment of debt (maturities greater than 90 days)	**(519)**	(1,080)	(1,551)
Proceeds from debt (maturities greater than 90 days)	**41**	1,756	4,024
Total cash change in debt	**$ (1,014)**	$ 1,037	$ 1,251
Purchases of treasury stock	**(17)**	(1,631)	(3,239)
Reissuances of treasury stock	**431**	289	796
Dividends paid to shareholders	**(1,431)**	(1,398)	(1,380)
Excess tax benefits from stock-based compensation	**14**	21	74
Distributions to noncontrolling interests and other net	**3**	(84)	(20)
Net cash used in financing activities	**$ (2,014)**	$ (1,766)	$ (2,518)

Total debt at December 31 2009, was $5.7 billion, compared to $6.7 billion at year-end 2008 and $4.9 billion at year-end 2007. As discussed earlier, a portion of the increase in debt at year-end 2008 was the result of a strategy to build and maintain a cash buffer in the U.S. given the difficult market environment at that point in time. Total debt was 30 percent of total capital (total capital is defined as debt plus equity), compared with 39 percent at year-end 2008 and 29 percent at year-end 2007. The net change in short-term debt is primarily due to commercial paper activity. In 2009, repayment of debt for maturities greater than 90 days includes a $400 million medium-term note that matured in November 2009 and also includes repayments of commercial paper. In 2008, the repayment of debt for maturities greater than 90 days primarily represents debt acquired upon the acquisition of Aearo that was immediately repaid and repayment of commercial paper with maturities greater than 90 days. In 2007, the repayment of debt for maturities greater than 90 days is primarily comprised of commercial paper repayments of approximately $1.15 billion and the November 2007 redemption of approximately $322 million in Convertible Notes. In 2008, proceeds from debt primarily include a five-year, $850 million, fixed rate note issued in August 2008 with a coupon rate of 4.375%, and a three-year, $800 million, fixed rate note issued in October 2008 with a coupon rate of 4.5% (refer to Note 10 for more information). In 2007, proceeds from debt included long-term debt and commercial paper issuances totaling approximately $4 billion.

Repurchases of common stock are made to support the Company s stock-based employee compensation plans and for other corporate purposes. In February 2007, 3M s Board of Directors authorized a two-year share repurchase of up to $7.0 billion for the period from February 12, 2007 to February 28, 2009. In 2009, the Company had no broker purchases of treasury stock. In 2008, the Company purchased $1.6 billion in shares. In 2007, the Company accelerated purchases of treasury stock when compared to prior years, buying back $3.2 billion in shares. In February 2009, 3M s Board of Directors extended this share repurchase authorization until the remaining amount is fully utilized. As of December 31, 2009, approximately $2.6 billion remained available for repurchase. For more information, refer to the table titled Issuer Purchases of Equity Securities in Part II, Item 5.

Cash dividends paid to shareholders totaled $1.431 billion ($2.04 per share), $1.398 billion ($2.00 per share) in 2008 and $1.380 billion ($1.92 per share) in 2007. 3M has paid dividends since 1916. In February 2010, the Board of Directors increased the quarterly dividend on 3M common stock by 2.9 percent to 52.5 cents per share, equivalent to an annual dividend of $2.10 per share. This marked the 52nd consecutive year of dividend increases. Other cash flows from financing activities primarily include distributions to noncontrolling interests, excess tax benefits from stock-based compensation, changes in cash overdraft balances, and principal payments for capital leases.

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Off-Balance Sheet Arrangements and Contractual Obligations:

As of December 31, 2009, the Company has not utilized special purpose entities to facilitate off-balance sheet financing arrangements. Refer to the section entitled Warranties/Guarantees in Note 14 for discussion of accrued product warranty liabilities and guarantees.

In addition to guarantees, 3M, in the normal course of business, periodically enters into agreements that require the Company to indemnify either major customers or suppliers for specific risks, such as claims for injury or property damage arising out of the use of 3M products or the negligence of 3M personnel, or claims alleging that 3M products infringe third-party patents or other intellectual property. While 3M s maximum exposure under these indemnification provisions cannot be estimated, these indemnifications are not expected to have a material impact on the Company s consolidated results of operations or financial condition.

A summary of the Company s significant contractual obligations as of December 31, 2009, follows:

Contractual Obligations

		Payments due by year					
(Millions)	**Total**	**2010**	**2011**	**2012**	**2013**	**2014**	**After 2014**
Long-term debt, including current portion (Note 10)	$ 5,619	$ 522	$ 923	$ 724	$ 849	$ 1,521	$ 1,080
Interest on long-term debt	2,071	202	199	176	150	114	1,230
Operating leases (Note 14)	448	125	95	76	38	23	91
Capital leases (Note 14)	128	16	18	18	18	18	40
Unconditional purchase obligations and other	913	596	150	68	49	40	10
Total contractual cash obligations	$ 9,179	$ 1,461	$ 1,385	$ 1,062	$ 1,104	$ 1,716	$ 2,451

The Company s $350 million of Dealer Remarketable Securities (classified as current portion of long-term debt) were remarketed for one year in December 2009. Long-term debt payments due in 2010 include these $350 million of Dealer Remarketable Securities, which mature in December 2010, and $146 million of floating rate notes. The floating rate notes are classified as current portion of long-term debt as the result of put provisions associated with these debt instruments. Long-term debt payments due in 2011 include floating rate notes totaling $100 million as a result of put provisions. Additionally, payments due in 2012 include the $225 million carrying amount of Convertible Notes, as a result of put provisions that may or may not be exercised by note holders.

Unconditional purchase obligations are defined as an agreement to purchase goods or services that is enforceable and legally binding on the Company. Included in the unconditional purchase obligations category above are certain obligations related to take or pay contracts, capital commitments, service agreements and utilities. These estimates include both unconditional purchase obligations with terms in excess of one year and normal ongoing purchase obligations with terms of less than one year. Many of these commitments relate to take or pay contracts, in which 3M guarantees payment to ensure availability of products or services that are sold to customers. The Company expects to receive consideration (products or services) for these unconditional purchase obligations. Contractual capital commitments are included in the preceding table, but these commitments represent a small part of the Company s expected capital spending in 2010 and beyond. The purchase obligation amounts do not represent the entire anticipated purchases in the future, but represent only those items for which the Company is contractually obligated. The majority of 3M s products and services are purchased as needed, with no unconditional commitment. For this reason, these amounts will not provide a reliable indicator of the Company s expected future cash outflows on a stand-alone basis.

Other obligations, included in the preceding table within the caption entitled Unconditional purchase obligations and other, include the current portion of the liability for uncertain tax positions under ASC 740. The Company is not able to reasonably estimate the timing of the long-term payments or the amount by which the liability will increase or decrease over time; therefore, the long-term portion of the net tax liability of $330 million is excluded from the preceding table. Refer to Note 8 for further details.

As discussed in Note 11, the Company does not have a required minimum pension contribution obligation for its U.S. plans in 2010 and Company contributions to its U.S. and international pension plans are expected to be largely discretionary in 2010 and future years; therefore, amounts related to these plans are not included in the preceding table.

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FINANCIAL INSTRUMENTS

The Company enters into contractual derivative arrangements in the ordinary course of business to manage foreign currency exposure, interest rate risks and commodity price risks. A financial risk management committee, composed of senior management, provides oversight for risk management and derivative activities. This committee determines the Company s financial risk policies and objectives, and provides guidelines for derivative instrument utilization. This committee also establishes procedures for control and valuation, risk analysis, counterparty credit approval, and ongoing monitoring and reporting.

The Company enters into foreign exchange forward contracts, options and swaps to hedge against the effect of exchange rate fluctuations on cash flows denominated in foreign currencies and certain intercompany financing transactions. The Company manages interest rate risks using a mix of fixed and floating rate debt. To help manage borrowing costs, the Company may enter into interest rate swaps. Under these arrangements, the Company agrees to exchange, at specified intervals, the difference between fixed and floating interest amounts calculated by reference to an agreed-upon notional principal amount. The Company manages commodity price risks through negotiated supply contracts, price protection agreements and forward physical contracts.

A Monte Carlo simulation technique was used to test the Company s exposure to changes in currency and interest rates and assess the risk of loss or benefit in after-tax earnings of financial instruments, derivatives and underlying exposures outstanding at December 31, 2009. The model (third-party bank dataset) used a 95 percent confidence level over a 12-month time horizon. The model used analyzed 17 currencies, interest rates related to two currencies, and five commodities, but does not purport to represent what actually will be experienced by the Company. This model does not include certain hedge transactions, because the Company believes their inclusion would not materially impact the results. Foreign exchange rate risk of loss or benefit decreased in 2009 primarily due to decreases in volatility during 2009, which is one of the key drivers in the valuation model. The following table summarizes the possible adverse and positive impacts to after-tax earnings related to these exposures.

	Adverse impact on after-tax earnings		Positive impact on after-tax earnings	
(Millions)	**2009**	**2008**	**2009**	**2008**
Foreign exchange rates	**$ (81)**	$ (108)	**$ 91**	$ 131
Interest rates	**(11)**	(5)	**4**	5
Commodity rates	**(20)**	(3)	**13**	

The global exposures related to purchased components and materials are such that a 1 percent price change would result in a pre-tax cost or savings of approximately $50 million per year. The global energy exposure is such that a 10 percent price change would result in a pre-tax cost or savings of approximately $37 million per year. Derivative instruments are used to hedge approximately 1 percent of the purchased components and materials exposure and are used to hedge approximately 10 percent of this energy exposure.

FORWARD-LOOKING STATEMENTS

This Annual Report on Form 10-K, including Management s Discussion and Analysis of Financial Condition and Results of Operations in Item 7, contains forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. The Company may also make forward-looking statements in other reports filed with the Securities and Exchange Commission, in materials delivered to shareholders and in press releases. In addition, the Company s representatives may from time to time make oral forward-looking statements.

Forward-looking statements relate to future events and typically address the Company s expected future business and financial performance. Words such as plan, expect, aim, believe, project, target, anticipate, intend, estimate, will, should, could and other word meaning, typically identify such forward-looking statements. In particular, these include statements about the Company s strategy for growth, product development, market position, future performance or results of current or anticipated products, interest rates, foreign exchange rates, financial results, and the outcome of contingencies, such as legal proceedings. The Company assumes no obligation to update or revise any forward-looking statements.

Forward-looking statements are based on certain assumptions and expectations of future events and trends that are subject to risks and uncertainties. Actual future results and trends may differ materially from historical results or those reflected in any such forward-looking statements depending on a variety of factors. Discussion of these factors is incorporated by reference from Part I, Item 1A, Risk Factors, of this document, and should be considered an integral part of Part II, Item 7, Management s Discussion and Analysis of Financial Condition and Results of Operations.

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Item 7A. Quantitative and Qualitative Disclosures About Market Risk.

In the context of Item 7A, market risk refers to the risk of loss arising from adverse changes in financial and derivative instrument market rates and prices, such as fluctuations in interest rates and foreign currency exchange rates. The Company discusses risk management in various places throughout this document, including discussions in Item 7 concerning Financial Condition and Liquidity, and Financial Instruments, and in the Notes to Consolidated Financial Statements (Long-Term Debt and Short-Term Borrowings, Derivatives, Fair Value Measurements, and the Derivatives and Hedging Activities accounting policy). All derivative activity is governed by written policies, and a value-at-risk analysis is provided for these derivatives. The Company does not have leveraged derivative positions. However, the Company does have contingently convertible debt that, if conditions for conversion are met, is convertible into shares of 3M common stock (refer to Note 10 in this document).

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Management s Responsibility for Financial Reporting

Management is responsible for the integrity and objectivity of the financial information included in this report. The financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America. Where necessary, the financial statements reflect estimates based on management s judgment.

Management has established and maintains a system of internal accounting and other controls for the Company and its subsidiaries. This system and its established accounting procedures and related controls are designed to provide reasonable assurance that assets are safeguarded, that the books and records properly reflect all transactions, that policies and procedures are implemented by qualified personnel, and that published financial statements are properly prepared and fairly presented. The Company s system of internal control is supported by widely communicated written policies, including business conduct policies, which are designed to require all employees to maintain high ethical standards in the conduct of Company affairs. Internal auditors continually review the accounting and control system.

3M Company

Management s Report on Internal Control Over Financial Reporting

Management is responsible for establishing and maintaining an adequate system of internal control over financial reporting. Management conducted an assessment of the Company s internal control over financial reporting based on the framework established by the Committee of Sponsoring Organizations of the Treadway Commission in *Internal Control Integrated Framework*. Based on the assessment, management concluded that, as of December 31, 2009, the Company s internal control over financial reporting is effective.

The Company s internal control over financial reporting as of December 31, 2009 has been audited by PricewaterhouseCoopers LLP, an independent registered public accounting firm, as stated in their report which is included herein, which expresses an unqualified opinion on the effectiveness of the Company s internal control over financial reporting as of December 31, 2009.

3M Company

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Report of Independent Registered Public Accounting Firm

To the Stockholders and Board of Directors of 3M Company:

In our opinion, the consolidated financial statements listed in the accompanying index present fairly, in all material respects, the financial position of 3M Company and its subsidiaries (the Company) at December 31, 2009 and 2008, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2009 in conformity with accounting principles generally accepted in the United States of America. Also in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2009, based on criteria established in *Internal Control - Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). The Company s management is responsible for these financial statements, for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in Management s Report on Internal Control Over Financial Reporting in the accompanying index. Our responsibility is to express opinions on these financial statements and on the Company s internal control over financial reporting based on our integrated audits. We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement and whether effective internal control over financial reporting was maintained in all material respects. Our audits of the financial statements included examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audits also included performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinions.

As discussed in Note 1 to the consolidated financial statements, the Company changed the manner in which it accounts for uncertain tax positions in 2007. Also as discussed in Note 1 to the consolidated financial statements, the Company retrospectively changed the manner in which it accounts for noncontrolling interests in consolidated subsidiaries and certain convertible debt instruments in 2009.

A company s internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company s internal control over financial reporting includes those policies and procedures that (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company s assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

/s/ PricewaterhouseCoopers LLP

Minneapolis, Minnesota

February 16, 2010

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Consolidated Statement of Income

3M Company and Subsidiaries

Years ended December 31

(Millions, except per share amounts)		**2009**		**2008**		**2007**
Net sales	**$**	**23,123**	$	25,269	$	24,462
Operating expenses						
Cost of sales		**12,109**		13,379		12,735
Selling, general and administrative expenses		**4,907**		5,245		5,015
Research, development and related expenses		**1,293**		1,404		1,368
(Gain)/loss from sale of businesses				23		(849)
Total operating expenses		**18,309**		20,051		18,269
Operating income		**4,814**		5,218		6,193
Interest expense and income						
Interest expense		**219**		215		210
Interest income		**(37)**		(105)		(132)
Total interest expense (income)		**182**		110		78
Income before income taxes		**4,632**		5,108		6,115
Provision for income taxes		**1,388**		1,588		1,964
Net income including noncontrolling interest	**$**	**3,244**	$	3,520	$	4,151
Less: Net income attributable to noncontrolling interest		**51**		60		55
Net income attributable to 3M	**$**	**3,193**	$	3,460	$	4,096
Weighted average 3M common shares outstanding basic		**700.5**		699.2		718.3
Earnings per share attributable to 3M common shareholders basic	**$**	**4.56**	$	4.95	$	5.70
Weighted average 3M common shares outstanding diluted		**706.7**		707.2		732.0
Earnings per share attributable to 3M common shareholders diluted	**$**	**4.52**	$	4.89	$	5.60
Cash dividends paid per 3M common share	**$**	**2.04**	$	2.00	$	1.92

The accompanying Notes to Consolidated Financial Statements are an integral part of this statement.

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Consolidated Balance Sheet

3M Company and Subsidiaries

At December 31

(Dollars in millions, except per share amount)	2009	2008
Assets		
Current assets		
Cash and cash equivalents	**$ 3,040**	$ 1,849
Marketable securities current	**744**	373
Accounts receivable net of allowances of $109 and $85	**3,250**	3,195
Inventories		
Finished goods	**1,255**	1,505
Work in process	**815**	851
Raw materials and supplies	**569**	657
Total inventories	**2,639**	3,013
Other current assets	**1,122**	1,168
Total current assets	**10,795**	9,598
Marketable securities non-current	**825**	352
Investments	**103**	111
Property, plant and equipment	**19,440**	18,812
Less: Accumulated depreciation	**(12,440)**	(11,926)
Property, plant and equipment net	**7,000**	6,886
Goodwill	**5,832**	5,753
Intangible assets net	**1,342**	1,398
Prepaid pension benefits	**78**	36
Other assets	**1,275**	1,659
Total assets	**$ 27,250**	$ 25,793
Liabilities		
Current liabilities		
Short-term borrowings and current portion of long-term debt	**$ 613**	$ 1,552
Accounts payable	**1,453**	1,301
Accrued payroll	**680**	644
Accrued income taxes	**252**	350
Other current liabilities	**1,899**	1,992
Total current liabilities	**4,897**	5,839
Long-term debt	**5,097**	5,166
Pension and postretirement benefits	**2,227**	2,847
Other liabilities	**1,727**	1,637
Total liabilities	**$ 13,948**	$ 15,489
Commitments and contingencies (Note 14)		
Equity		
3M Company shareholders equity:		
Common stock, par value $.01 per share	**$ 9**	$ 9
Shares outstanding 2009: 710,599,119		
Shares outstanding 2008: 693,543,287		
Additional paid-in capital	**3,153**	3,006
Retained earnings	**23,753**	22,227

Treasury stock		**(10,397)**		(11,676)
Unearned compensation				(40)
Accumulated other comprehensive income (loss)		**(3,754)**		(3,646)
Total 3M Company shareholders equity		**12,764**		9,880
Noncontrolling interest		**538**		424
Total equity	**$**	**13,302**	$	10,304
Total liabilities and equity	**$**	**27,250**	$	25,793

The accompanying Notes to Consolidated Financial Statements are an integral part of this statement.

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Consolidated Statement of Changes in Equity and Comprehensive Income

3M Company and Subsidiaries

Years Ended December 31

Consolidated Statement of Changes in Equity

		3M Company Shareholders					
(Millions)	Total	Common Stock and Additional Paid-in Capital	Retained Earnings	Treasury Stock	Unearned Compensation	Accumulated Other Comprehensive Income (Loss)	Non-controlling Interest
Balance at December 31, 2006*	**$ 10,238**	**$ 2,493**	**$ 17,911**	**$ (8,456)**	**$ (115)**	**$ (1,873)**	**$ 278**
Net income including noncontrolling interest	4,151		4,096				55
Cumulative translation adjustment	548					532	16
Defined benefit pension and postretirement plans adjustment	610					614	(4)
Debt and equity securities unrealized gain (loss)	(10)					(10)	
Cash flow hedging instruments unrealized gain (loss)	(10)					(10)	
Total comprehensive income	5,289						
Adjustment to initially apply guidance concerning uncertainty in income taxes	(1)		(1)				
Dividends paid	(1,400)		(1,380)				(20)
Amortization of unearned compensation	36				36		
Stock-based compensation, net of tax impacts	305	305					
Reacquired stock	(3,237)			(3,237)			
Issuances pursuant to stock option and benefit plans	829		(331)	1,160			
Issuances pursuant to acquisitions	13			13			
Balance at December 31, 2007	**$ 12,072**	**$ 2,798**	**$ 20,295**	**$ (10,520)**	**$ (79)**	**$ (747)**	**$ 325**
Net income including noncontrolling interest	3,520		3,460				60
Cumulative translation adjustment	(806)					(888)	82
Defined benefit pension and postretirement plans adjustment	(2,092)					(2,072)	(20)

Debt and equity securities unrealized gain (loss)	(11)					(11)	
Cash flow hedging instruments unrealized gain (loss)	72					72	
Total comprehensive income	683						
Dividends paid	(1,421)		(1,398)				(23)
Amortization of unearned compensation	39				39		
Stock-based compensation, net of tax impacts	217	217					
Reacquired stock	(1,603)			(1,603)			
Issuances pursuant to stock option and benefit plans	317		(130)	447			
Balance at December 31, 2008	**$ 10,304**	**$ 3,015**	**$ 22,227**	**$ (11,676)**	**$ (40)**	**$ (3,646)**	**$ 424**

* Balances reflect the impact of retrospective application of new standards related to the accounting for convertible debt instruments that may be settled in cash upon conversion (including partial cash settlement) and noncontrolling interests in consolidated financial statements, as discussed in Note 1.

The accompanying Notes to Consolidated Financial Statements are an integral part of this statement.

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Consolidated Statement of Changes in Equity (continued)

		3M Company Shareholders					
(Millions)	Total	Common Stock and Additional Paid-in Capital	Retained Earnings	Treasury Stock	Unearned Compensation	Accumulated Other Comprehensive Income (Loss)	Non-controlling Interest
Balance at December 31, 2008	**$ 10,304**	**$ 3,015**	**$ 22,227**	**$ (11,676)**	**$ (40)**	**$ (3,646)**	**$ 424**
Net income including noncontrolling interest	**3,244**		**3,193**				**51**
Cumulative translation adjustment	**273**					**286**	**(13)**
Defined benefit pension and postretirement plans adjustment	**(314)**					**(309)**	**(5)**
Debt and equity securities unrealized gain (loss)	**10**					**10**	
Cash flow hedging instruments unrealized gain (loss)	**(80)**					**(80)**	
Total comprehensive income	**3,133**						
Dividends paid	**(1,431)**		**(1,431)**				
Transfer to noncontrolling interest		**(66)**				**(15)**	**81**
Amortization of unearned compensation	**40**				**40**		
Stock-based compensation, net of tax impacts	**213**	**213**					
Reacquired stock	**(17)**			**(17)**			
Issuances pursuant to stock option and benefit plans	**1,060**		**(236)**	**1,296**			
Balance at December 31, 2009	**$ 13,302**	**$ 3,162**	**$ 23,753**	**$ (10,397)**	**$**	**$ (3,754)**	**$ 538**

Supplemental share information (Millions):	**2009**	**2008**	**2007**
Treasury stock			
Beginning balance	**250.5**	234.9	209.7
Reacquired stock	**0.2**	21.4	39.7
Issuances pursuant to stock options and benefit plans	**(17.3)**	(5.8)	(14.3)
Issuances pursuant to acquisitions			(0.2)
Ending balance	**233.4**	250.5	234.9

Consolidated Statement of Comprehensive Income (Loss)

(Millions)	**2009**	**2008**	**2007**
Net income including noncontrolling interest	**$ 3,244**	$ 3,520	$ 4,151

Other comprehensive income, net of tax:			
Cumulative translation adjustment	**273**	(806)	548
Defined benefit pension and postretirement plans adjustment	**(314)**	(2,092)	610
Debt and equity securities, unrealized gain (loss)	**10**	(11)	(10)
Cash flow hedging instruments, unrealized gain (loss)	**(80)**	72	(10)
Total other comprehensive income (loss), net of tax	**(111)**	(2,837)	1,138
Comprehensive income (loss) including noncontrolling interest	**3,133**	683	5,289
Comprehensive (income) loss attributable to noncontrolling interest	**(33)**	(122)	(67)
Comprehensive income (loss) attributable to 3M	**$ 3,100**	$ 561	$ 5,222

The accompanying Notes to Consolidated Financial Statements are an integral part of this statement.

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Consolidated Statement of Cash Flows

3M Company and Subsidiaries

Years ended December 31

(Millions)	2009	2008	2007
Cash Flows from Operating Activities			
Net income including noncontrolling interest	$ 3,244	$ 3,520	$ 4,151
Adjustments to reconcile net income including noncontrolling interest to net cash provided by operating activities			
Depreciation and amortization	1,157	1,153	1,072
Company pension and postretirement contributions	(792)	(474)	(379)
Company pension and postretirement expense	223	105	255
Stock-based compensation expense	217	202	228
(Gain)/loss from sale of businesses		23	(849)
Deferred income taxes	701	99	(217)
Excess tax benefits from stock-based compensation	(14)	(21)	(74)
Changes in assets and liabilities			
Accounts receivable	55	197	(35)
Inventories	453	(127)	(54)
Accounts payable	109	(224)	(4)
Accrued income taxes (current and long-term)	(147)	(143)	183
Product and other insurance receivables and claims	64	153	158
Other net	(329)	70	(189)
Net cash provided by operating activities	4,941	4,533	4,246
Cash Flows from Investing Activities			
Purchases of property, plant and equipment (PP&E)	(903)	(1,471)	(1,422)
Proceeds from sale of PP&E and other assets	74	87	103
Acquisitions, net of cash acquired	(69)	(1,394)	(539)
Purchases of marketable securities and investments	(2,240)	(2,211)	(8,194)
Proceeds from sale of marketable securities and investments	718	1,810	6,902
Proceeds from maturities of marketable securities	683	692	886
Proceeds from sale of businesses	5	88	897
Net cash used in investing activities	(1,732)	(2,399)	(1,367)
Cash Flows from Financing Activities			
Change in short-term debt net	(536)	361	(1,222)
Repayment of debt (maturities greater than 90 days)	(519)	(1,080)	(1,551)
Proceeds from debt (maturities greater than 90 days)	41	1,756	4,024
Purchases of treasury stock	(17)	(1,631)	(3,239)
Reissuances of treasury stock	431	289	796
Dividends paid to shareholders	(1,431)	(1,398)	(1,380)
Distributions to noncontrolling interests		(23)	(20)
Excess tax benefits from stock-based compensation	14	21	74
Other net	3	(61)	
Net cash used in financing activities	(2,014)	(1,766)	(2,518)
Effect of exchange rate changes on cash and cash equivalents	(4)	(415)	88
Net increase/(decrease) in cash and cash equivalents	1,191	(47)	449
Cash and cash equivalents at beginning of year	1,849	1,896	1,447
Cash and cash equivalents at end of year	$ 3,040	$ 1,849	$ 1,896

The accompanying Notes to Consolidated Financial Statements are an integral part of this statement.

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Notes to Consolidated Financial Statements

NOTE 1. Significant Accounting Policies

Consolidation: 3M is a diversified global manufacturer, technology innovator and marketer of a wide variety of products. All significant subsidiaries are consolidated. All significant intercompany transactions are eliminated. As used herein, the term 3M or Company refers to 3M Company and subsidiaries unless the context indicates otherwise.

Foreign currency translation: Local currencies generally are considered the functional currencies outside the United States. Assets and liabilities for operations in local-currency environments are translated at year-end exchange rates. Income and expense items are translated at average rates of exchange prevailing during the year. Cumulative translation adjustments are recorded as a component of accumulated other comprehensive income (loss) in shareholders equity.

The Company has a Venezuelan subsidiary with net sales and operating income representing less than one percent of 3M s related consolidated financial statement amounts for 2009. Regulations in Venezuela require the purchase and sale of foreign currency to be made at an official rate of exchange that is fixed from time to time by the Venezuelan government. Certain laws in the country, however, provide an exemption for the purchase and sale of certain securities and have resulted in an indirect parallel market through which companies may obtain foreign currency without having to purchase it from Venezuela s Commission for the Administration of Foreign Exchange (CADIVI). The average rate of exchange in the parallel market varies and is less favorable than the official rate. As of December 31, 2009, 3M began use of the parallel exchange rate for translation of the financial statements of its Venezuelan subsidiary. This change was based on a number of factors including 3M s ability to convert currency in the parallel market, the limited release of funds from CADIVI for the payment of dividends by the Venezuelan subsidiary, and conclusion that 3M will or could use the parallel market for repatriation of capital or dividends. This change resulted in a decrease in accumulated other comprehensive income (cumulative translation adjustment) of approximately $55 million with a corresponding decrease in the translated assets and liabilities of 3M s Venezuelan subsidiary at December 31, 2009. Additionally, 3M evaluates the highly inflationary status of Venezuela s economy by considering both the Consumer Price Index (which largely is associated with the cities of Caracas and Maracaibo) and the National Consumer Price Index (developed commencing in 2008 and covering the entire country of Venezuela). Under Accounting Standards Codification (ASC) 830, *Foreign Currency Matters*, the reporting currency of a foreign entity s parent is assumed to be that entity s functional currency when the economic environment of a foreign entity is highly inflationary. Generally, an economy is considered highly inflationary when its cumulative inflation is approximately 100 percent or more for the three years that precede the beginning of a reporting period. The blended cumulative inflation rate exceeded 100 percent in November 2009. Accordingly, the financial statements of the Venezuelan subsidiary will be remeasured as if its functional currency were that of its parent beginning January 1, 2010. This remeasurement will decrease net sales of the Venezuelan subsidiary by approximately two-thirds in 2010 in comparison to 2009 (based on exchange rates as of December 31, 2009), but will not otherwise have a material impact on operating income and 3M s consolidated results of operations.

Reclassifications: Certain amounts in the prior years consolidated financial statements have been reclassified to conform to the current year presentation.

Use of estimates: The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from these estimates.

Subsequent events: 3M has evaluated subsequent events through the date that the financial statements were issued, which was February 16, 2010, the date of 3M s Annual Report on 10-K for the period ended December 31, 2009.

Cash and cash equivalents: Cash and cash equivalents consist of cash and temporary investments with maturities of three months or less when purchased.

Investments: Investments primarily include equity and cost method investments and real estate not used in the business. Available-for-sale investments are recorded at fair value. Unrealized gains and losses relating to investments classified as available-for-sale are recorded as a component of accumulated other comprehensive income (loss) in shareholders equity.

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Other assets: Other assets include deferred income taxes, product and other insurance receivables, the cash surrender value of life insurance policies, and other long-term assets. Investments in life insurance are reported at the amount that could be realized under contract at the balance sheet date, with any changes in cash surrender value or contract value during the period accounted for as an adjustment of premiums paid. Cash outflows and inflows associated with life insurance activity are included in Purchases of marketable securities and investments and Proceeds from sale of marketable securities and investments , respectively.

Inventories: Inventories are stated at the lower of cost or market, with cost generally determined on a first-in, first-out basis.

Property, plant and equipment: Property, plant and equipment, including capitalized interest and internal engineering costs, are recorded at cost. Depreciation of property, plant and equipment generally is computed using the straight-line method based on the estimated useful lives of the assets. The estimated useful lives of buildings and improvements primarily range from 10 to 40 years, with the majority in the range of 20 to 40 years. The estimated useful lives of machinery and equipment primarily range from three to 15 years, with the majority in the range of five to 10 years. Fully depreciated assets are retained in property and accumulated depreciation accounts until disposal. Upon disposal, assets and related accumulated depreciation are removed from the accounts and the net amount, less proceeds from disposal, is charged or credited to operations. Property, plant and equipment amounts are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset (asset group) may not be recoverable. An impairment loss would be recognized when the carrying amount of an asset exceeds the estimated undiscounted future cash flows expected to result from the use of the asset and its eventual disposition. The amount of the impairment loss to be recorded is calculated by the excess of the asset s carrying value over its fair value. Fair value is generally determined using a discounted cash flow analysis.

Conditional asset retirement obligations: A liability is initially recorded at fair value for an asset retirement obligation associated with the retirement of tangible long-lived assets in the period in which it is incurred if a reasonable estimate of fair value can be made. Conditional asset retirement obligations exist for certain long-term assets of the Company. The obligation is initially measured at fair value using expected present value techniques. Over time the liabilities are accreted for the change in their present value and the initial capitalized costs are depreciated over the remaining useful lives of the related assets. The asset retirement obligation liability was $64 million and $62 million, respectively, at December 31, 2009 and 2008.

Goodwill: Goodwill is the excess of cost of an acquired entity over the amounts assigned to assets acquired and liabilities assumed in a business combination. Goodwill is not amortized. Goodwill is tested for impairment annually, and is tested for impairment between annual tests if an event occurs or circumstances change that would indicate the carrying amount may be impaired. Impairment testing for goodwill is done at a reporting unit level, with all goodwill assigned to a reporting unit. Reporting units are one level below the business segment level, but can be combined when reporting units within the same segment have similar economic characteristics. An impairment loss generally would be recognized when the carrying amount of the reporting unit s net assets exceeds the estimated fair value of the reporting unit. The estimated fair value of a reporting unit is determined using earnings for the reporting unit multiplied by a price/earnings ratio for comparable industry groups, or by using a discounted cash flow analysis. The price/earnings ratio is adjusted, if necessary, to take into consideration the market value of the Company.

Intangible assets: Intangible assets include patents, tradenames and other intangible assets acquired from an independent party. Intangible assets with an indefinite life, namely certain tradenames, are not amortized. Intangible assets with a definite life are amortized on a straight-line basis, with estimated useful lives ranging from one to 20 years. Indefinite-lived intangible assets are tested for impairment annually, and are tested for impairment between annual tests if an event occurs or circumstances change that would indicate that the carrying amount may be impaired. Intangible assets with a definite life are tested for impairment whenever events or circumstances indicate that the carrying amount of an asset (asset group) may not be recoverable. An impairment loss is recognized when the carrying amount of an asset exceeds the estimated undiscounted cash flows used in determining the fair value of the asset. The amount of the impairment loss to be recorded is calculated by the excess of the asset s carrying value over its fair value. Fair value is generally determined using a discounted cash flow analysis. Costs related to internally developed intangible assets, such as patents, are expensed as incurred, primarily in Research, development and related expenses.

Revenue (sales) recognition: The Company sells a wide range of products to a diversified base of customers around the world and has no material concentration of credit risk. Revenue is recognized when the risks and rewards of ownership have substantively transferred to customers. This condition normally is met when the product has been delivered or upon performance of services. The Company records estimated reductions to revenue or records

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expense for customer and distributor incentives, primarily comprised of rebates and free goods, at the time of the initial sale. These sales incentives are accounted for in accordance with ASC 605, *Revenue Recognition*. The estimated reductions of revenue for rebates are based on the sales terms, historical experience, trend analysis and projected market conditions in the various markets served. Since the Company serves numerous markets, the rebate programs offered vary across businesses, but the most common incentive relates to amounts paid or credited to customers for achieving defined volume levels or growth objectives. Free goods are accounted for as an expense and recorded in cost of sales. Sales, use, value-added and other excise taxes are not recognized in revenue.

The majority of 3M s sales agreements are for standard products and services with customer acceptance occurring upon delivery of the product or performance of the service. 3M also enters into agreements that contain multiple elements (such as equipment, installation and service) or non-standard terms and conditions. For multiple-element arrangements, 3M recognizes revenue for delivered elements when it has stand-alone value to the customer, the fair values of undelivered elements are known, customer acceptance of the delivered elements has occurred, and there are only customary refund or return rights related to the delivered elements. In addition to the preceding conditions, equipment revenue is not recorded until the installation has been completed if equipment acceptance is dependent upon installation, or if installation is essential to the functionality of the equipment. Installation revenues are not recorded until installation has been completed. For prepaid service contracts, sales revenue is recognized on a straight-line basis over the term of the contract, unless historical evidence indicates the costs are incurred on other than a straight-line basis. License fee revenue is recognized as earned, and no revenue is recognized until the inception of the license term. On occasion, agreements will contain milestones, or 3M will recognize revenue based on proportional performance. For these agreements, and depending on the specifics, 3M may recognize revenue upon completion of a substantive milestone, or in proportion to costs incurred to date compared with the estimate of total costs to be incurred.

Accounts receivable and allowances: Trade accounts receivable are recorded at the invoiced amount and do not bear interest. The Company maintains allowances for bad debts, cash discounts, product returns and various other items. The allowance for doubtful accounts and product returns is based on the best estimate of the amount of probable credit losses in existing accounts receivable and anticipated sales returns. The Company determines the allowances based on historical write-off experience by industry and regional economic data and historical sales returns. The Company reviews the allowance for doubtful accounts monthly. The Company does not have any significant off-balance-sheet credit exposure related to its customers.

Advertising and merchandising: These costs are charged to operations in the year incurred, and totaled $414 million in 2009, $468 million in 2008 and $469 million in 2007.

Research, development and related expenses: These costs are charged to operations in the year incurred and are shown on a separate line of the Consolidated Statement of Income. Research, development and related expenses totaled $1.293 billion in 2009, $1.404 billion in 2008 and $1.368 billion in 2007. Research and development expenses, covering basic scientific research and the application of scientific advances in the development of new and improved products and their uses, totaled $838 million in 2009, $851 million in 2008 and $788 million in 2007. Related expenses primarily include technical support provided by 3M to customers who are using existing 3M products; internally developed patent costs, which include costs and fees incurred to prepare, file, secure and maintain patents; and amortization of acquired patents.

Internal-use software: The Company capitalizes direct costs of materials and services used in the development of internal-use software. Amounts capitalized are amortized on a straight-line basis over a period of three to seven years and are reported as a component of machinery and equipment within property, plant and equipment.

Environmental: Environmental expenditures relating to existing conditions caused by past operations that do not contribute to current or future revenues are expensed. Reserves for liabilities for anticipated remediation costs are recorded on an undiscounted basis when they are probable and reasonably estimable, generally no later than the completion of feasibility studies or the Company s commitment to a plan of action. Environmental expenditures for capital projects that contribute to current or future operations generally are capitalized and depreciated over their estimated useful lives.

Income taxes: The provision for income taxes is determined using the asset and liability approach. Under this approach, deferred income taxes represent the expected future tax consequences of temporary differences between the carrying amounts and tax basis of assets and liabilities. The Company records a valuation allowance to reduce its deferred tax assets when uncertainty regarding their realizability exists. As of December 31, 2009, no significant valuation allowances were recorded. As of January 1, 2007, the Company adopted new standards related to

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accounting for uncertainty in income taxes. 3M follows this guidance to record uncertainties and judgments in the application of complex tax regulations in a multitude of jurisdictions (refer to Note 8 for additional information).

Earnings per share: The difference in the weighted average 3M shares outstanding for calculating basic and diluted earnings per share attributable to 3M common shareholders is the result of the dilution associated with the Company s stock-based compensation plans. Certain options outstanding under these stock-based compensation plans during the years 2009, 2008 and 2007 were not included in the computation of diluted earnings per share attributable to 3M common shareholders because they would not have had a dilutive effect (54.3 million average options for 2009, 41.0 million average options for 2008, and 21.6 million average options for 2007). As discussed in Note 10, the conditions for conversion related to the Company s Convertible Notes have never been met. If the conditions for conversion are met, 3M may choose to pay in cash and/or common stock; however, if this occurs, the Company has the intent and ability to settle this debt security in cash. Accordingly, there was no impact on diluted earnings per share attributable to 3M common shareholders. The computations for basic and diluted earnings per share for the years ended December 31 follow:

Earnings Per Share Computations

(Amounts in millions, except per share amounts)		**2009**		**2008**		**2007**
Numerator:						
Net income attributable to 3M	**$**	**3,193**	$	3,460	$	4,096
Denominator:						
Denominator for weighted average 3M common shares outstanding basic		**700.5**		699.2		718.3
Dilution associated with the Company s stock-based compensation plans		**6.2**		8.0		13.7
Denominator for weighted average 3M common shares outstanding diluted		**706.7**		707.2		732.0
Earnings per share attributable to 3M common shareholders basic	**$**	**4.56**	$	4.95	$	5.70
Earnings per share attributable to 3M common shareholders diluted	**$**	**4.52**	$	4.89	$	5.60

Stock-based compensation: The Company recognizes compensation expense for both its General Employees Stock Purchase Plan (GESPP) and the Long-Term Incentive Plan (LTIP). Under applicable accounting standards, the fair value of share-based compensation is determined at the grant date and the recognition of the related expense is recorded over the period in which the share-based compensation vests. Refer to Note 16 for additional information.

Comprehensive income: Total comprehensive income and the components of accumulated other comprehensive income (loss) are presented in the Consolidated Statements of Changes in Equity and Comprehensive Income. Accumulated other comprehensive income (loss) is composed of foreign currency translation effects (including hedges of net investments in international companies), defined benefit pension and postretirement plan adjustments, unrealized gains and losses on available-for-sale debt and equity securities, and unrealized gains and losses on cash flow hedging instruments.

Derivatives and hedging activities: All derivative instruments within the scope of ASC 815, *Derivatives and Hedging*, are recorded on the balance sheet at fair value. The Company uses interest rate swaps, currency and commodity price swaps, and foreign currency forward and option contracts to manage risks generally associated with foreign exchange rate, interest rate and commodity market volatility. All hedging instruments that qualify for hedge accounting are designated and effective as hedges, in accordance with U.S. generally accepted accounting principles. If the underlying hedged transaction ceases to exist, all changes in fair value of the related derivatives that have not been settled are recognized in current earnings. Instruments that do not qualify for hedge accounting are marked to market with changes recognized in current earnings. The Company does not hold or issue derivative financial instruments for trading purposes and is not a party to leveraged derivatives. However, the Company does have contingently convertible debt that, if conditions for conversion are met, is convertible into shares of 3M common stock (refer to Note 10 in this document).

New Accounting Pronouncements

In June 2009, the Financial Accounting Standards Board (FASB) issued a standard that established the FASB Accounting Standards Codification (ASC) and amended the hierarchy of generally accepted accounting principles (GAAP) such that the ASC became the single source of authoritative nongovernmental U.S. GAAP. The ASC did not change current U.S. GAAP, but was intended to simplify user access to all authoritative U.S. GAAP by providing all the authoritative literature related to a particular topic in one place. All previously existing accounting standard documents were superseded and all other accounting literature not included in the ASC is considered non-authoritative. New accounting standards issued subsequent to June 30, 2009 are communicated by the FASB through Accounting Standards Updates (ASUs). For 3M, the ASC was effective July 1, 2009. This standard did not have an impact on 3M s consolidated results of operations or financial condition. However, throughout the notes to the consolidated financial statements references that were previously made to various former authoritative U.S. GAAP pronouncements have been changed to coincide with the appropriate section of the ASC.

In June 2006, the FASB issued an accounting standard codified in ASC 740, *Income Taxes*, related to accounting for uncertainty in income taxes. This standard was adopted by 3M effective January 1, 2007. Refer to Note 8 for additional information concerning this standard.

In September 2006, the FASB issued an accounting standard codified in ASC 820, *Fair Value Measurements and Disclosures*. This standard established a single definition of fair value and a framework for measuring fair value, set out a fair value hierarchy to be used to classify the source of information used in fair value measurements, and required disclosures of assets and liabilities measured at fair value based on their level in the hierarchy. This standard applies under other accounting standards that require or permit fair value measurements. 3M adopted the standard as amended by subsequent FASB standards beginning January 1, 2008 on a prospective basis. One of the amendments deferred the effective date for one year relative to nonfinancial assets and liabilities that are measured at fair value, but are recognized or disclosed at fair value on a nonrecurring basis. This deferral applied to such items as nonfinancial assets and liabilities initially measured at fair value in a business combination (but not measured at fair value in subsequent periods) or nonfinancial long-lived asset groups measured at fair value for an impairment assessment. These remaining aspects of the fair value measurement standard were adopted by the Company prospectively beginning January 1, 2009 and did not have a material impact on 3M s consolidated results of operations or financial condition. Refer to Note 13 for additional disclosures of assets and liabilities that are measured at fair value on a nonrecurring basis as a result of this adoption.

In February 2007, the FASB issued an accounting standard codified in ASC 825, *Financial Instruments*, that permits an entity to choose, at specified election dates, to measure eligible financial instruments and certain other items at fair value that were not currently required to be measured at fair value. An entity reports unrealized gains and losses on items for which the fair value option has been elected in earnings at each subsequent reporting date. Upfront costs and fees related to items for which the fair value option is elected are recognized in earnings as incurred and not deferred. This standard also established presentation and disclosure requirements designed to facilitate comparisons between entities that choose different measurement attributes for similar types of assets and liabilities. This standard was effective for financial statements issued for fiscal years beginning after November 15, 2007 (January 1, 2008 for 3M) and interim periods within those fiscal years. At the effective date, an entity could elect the fair value option for eligible items that existed at that date. The entity was required to report the effect of the first remeasurement to fair value as a cumulative-effect adjustment to the opening balance of retained earnings. The Company did not elect the fair value option for eligible items that existed as of January 1, 2008.

In June 2007, the FASB ratified a standard regarding the accounting for nonrefundable advance payments for goods or services to be used in future research and development activities that requires nonrefundable advance payments made by the Company for future R&D activities to be capitalized and recognized as an expense as the goods or services are received by the Company. This standard was effective for 3M with respect to new arrangements entered into beginning January 1, 2008 and did not have a material impact on 3M s consolidated results of operations or financial condition.

In December 2007, the FASB issued and, in April 2009, amended a new business combinations standard codified within ASC 805, which changed the accounting for business acquisitions. Accounting for business combinations under this standard requires the acquiring entity in a business combination to recognize all (and only) the assets acquired and liabilities assumed in the transaction and establishes the acquisition-date fair value as the measurement objective for all assets acquired and liabilities assumed in a business combination. Certain provisions of this standard impact the determination of acquisition-date fair value of consideration paid in a business combination (including contingent consideration); exclude transaction costs from acquisition accounting; and change accounting practices for acquisition-related restructuring costs, in-process research and development, indemnification assets, and tax benefits. For 3M, this standard was effective for business combinations and adjustments to an acquired entity s deferred tax asset and liability balances occurring after December 31, 2008. This standard had no immediate impact upon adoption by 3M, and was applied to the business combinations disclosed in Note 2 that were completed post-2008 and to applicable adjustments to acquired entity deferred tax items occurring after December 31, 2008.

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In December 2007, the FASB issued a new standard which established the accounting for and reporting of noncontrolling interests (NCIs) in partially owned consolidated subsidiaries and the loss of control of subsidiaries. Certain provisions of this standard indicate, among other things, that NCIs (previously referred to as minority interests) be treated as a separate component of equity, not as a liability (as was previously the case); that increases and decreases in the parent s ownership interest that leave control intact be treated as equity transactions, rather than as step acquisitions or gains or losses on purchases or sales; and that losses of a partially owned consolidated subsidiary be allocated to the NCI even when such allocation might result in a deficit balance. This standard also required changes to certain presentation and disclosure requirements. For 3M, the standard was effective beginning January 1, 2009. The provisions of the standard were applied to all NCIs prospectively, except for the presentation and disclosure requirements, which were applied retrospectively to all periods presented. As a result, upon adoption, 3M retroactively reclassified the Minority interest in subsidiaries balance previously included in the Other liabilities section of the consolidated balance sheet to a new component of equity with respect to NCIs in consolidated subsidiaries. The adoption also impacted certain captions previously used on the consolidated statement of income, largely identifying net income including NCI and net income attributable to 3M. Additional disclosures required by this standard are also included in Note 6. The adoption of this standard did not have a material impact on 3M s consolidated financial position or results of operations.

In December 2007, the FASB ratified a standard related to accounting for collaborative arrangements which discusses how parties to a collaborative arrangement (which does not establish a legal entity within such arrangement) should account for various activities. The standard indicates that costs incurred and revenues generated from transactions with third parties (i.e. parties outside of the collaborative arrangement) should be reported by the collaborators on the respective line items in their income statements pursuant to ASC 605-45, *Principle Agent Considerations*. Additionally, the guidance provides that income statement characterization of payments between the participants in a collaborative arrangement should be based upon existing authoritative standards; analogy to such standards if not within their scope; or a reasonable, rational, and consistently applied accounting policy election. This guidance was effective for 3M beginning January 1, 2009 and applied retrospectively to all periods presented for collaborative arrangements existing as of the date of adoption. The adoption of this standard did not have a material impact on 3M s consolidated results of operations or financial condition.

In March 2008, the FASB issued an accounting standard related to disclosures about derivative instruments and hedging activities, codified in ASC 815, which requires additional disclosures about an entity s strategies and objectives for using derivative instruments; the location and amounts of derivative instruments in an entity s financial statements; how derivative instruments and related hedged items are accounted for under ASC 815, and how derivative instruments and related hedged items affect its financial position, financial performance, and cash flows. Certain disclosures are also required with respect to derivative features that are credit-risk-related. The standard was effective for 3M beginning January 1, 2009 on a prospective basis. The additional disclosures required by this standard are included in Note 12.

In April 2008, the FASB issued an accounting standard which amended the list of factors an entity should consider in developing renewal or extension assumptions used in determining the useful life of recognized intangible assets under ASC 350, *Intangibles - Goodwill and Other*. This new standard applies to (1) intangible assets that are acquired individually or with a group of other assets and (2) intangible assets acquired in both business combinations and asset acquisitions. Under this standard, entities estimating the useful life of a recognized intangible asset must consider their historical experience in renewing or extending similar arrangements or, in the absence of historical experience, must consider assumptions that market participants would use about renewal or extension. For 3M, this standard required certain additional disclosures beginning January 1, 2009 (which are included in Notes 2 and 3) and application to useful life estimates prospectively for intangible assets acquired after December 31, 2008. The adoption of this standard did not have a material impact on 3M s consolidated results of operations or financial condition.

In May 2008, the FASB issued an accounting standard which addresses convertible debt securities that, upon conversion by the holder, may be settled by the issuer fully or partially in cash (rather than settled fully in shares) and specifies that issuers of such instruments should separately account for the liability and equity components in a manner that reflects the issuer s nonconvertible debt borrowing rate when related interest cost is recognized. This standard was effective for 3M beginning January 1, 2009 with retrospective application to all periods presented. This standard impacted the Company s Convertible Notes (refer to Note 10 to the Consolidated Financial Statements for more detail), and required that additional interest expense essentially equivalent to the portion of issuance proceeds be retroactively allocated to the instrument s equity component and be recognized over the period from the Convertible Notes issuance on November 15, 2002 through November 15, 2005 (the first date holders of these Notes had the ability to put them back to 3M). 3M adopted this standard in January 2009. Its retrospective application had no impact on results of operations for periods following 2005, but on post-2005 consolidated balance sheets, it

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resulted in an increase of approximately $22 million in previously reported opening additional paid in capital and a corresponding decrease in previously reported opening retained earnings.

In early October 2008, the FASB issued an accounting standard codified in ASC 820, *Fair Value Measurements and Disclosures*, which illustrated key considerations in determining the fair value of a financial asset in an inactive market. This standard was effective for 3M beginning with the quarter ended September 30, 2008. Its additional guidance was incorporated in the measurements of fair value of applicable financial assets disclosed in Note 13 and did not have a material impact on 3M s consolidated results of operations or financial condition.

In November 2008, the FASB ratified a standard related to certain equity method investment accounting considerations. The standard indicates, among other things, that transaction costs for an investment should be included in the cost of the equity-method investment (and not expensed) and shares subsequently issued by the equity-method investee that reduce the investor s ownership percentage should be accounted for as if the investor had sold a proportionate share of its investment, with gains or losses recorded through earnings. For 3M, the standard was effective for transactions occurring after December 31, 2008. The adoption of this standard did not have a material impact on 3M s consolidated results of operations or financial condition.

In November 2008, the FASB ratified an accounting standard related to intangible assets acquired in a business combination or asset acquisition that an entity does not intend to use or intends to hold to prevent others from obtaining access (a defensive intangible asset). Under the standard a defensive intangible asset needs to be accounted for as a separate unit of accounting and would be assigned a useful life based on the period over which the asset diminishes in value. For 3M, the standard was effective for transactions occurring after December 31, 2008. The Company considered this standard in terms of intangible assets acquired in business combinations or asset acquisitions that closed after December 31, 2008.

In December 2008, the FASB issued an accounting standard regarding a company s disclosures about postretirement benefit plan assets. This standard requires additional disclosures about plan assets for sponsors of defined benefit pension and postretirement plans including expanded information regarding investment strategies, major categories of plan assets, and concentrations of risk within plan assets. Additionally, this standard requires disclosures similar to those required for fair value measurements and disclosures under ASC 820 with respect to the fair value of plan assets such as the inputs and valuation techniques used to measure fair value and information with respect to classification of plan assets in terms of the hierarchy of the source of information used to determine their value. For 3M, the disclosures under this standard are required beginning with the annual period ended December 31, 2009. The additional disclosures are included in Note 11.

In April 2009, the FASB issued an accounting standard which provides guidance on (1) estimating the fair value of an asset or liability when the volume and level of activity for the asset or liability have significantly declined and (2) identifying transactions that are not orderly. The standard also amended certain disclosure provisions for fair value measurements and disclosures in ASC 820 to require, among other things, disclosures in interim periods of the inputs and valuation techniques used to measure fair value as well as disclosure of the hierarchy of the source of underlying fair value information on a disaggregated basis by specific major category of investment. For 3M, this standard was effective prospectively beginning April 1, 2009. The adoption of this standard did not have a material impact on 3M s consolidated results of operations or financial condition.

In April 2009, the FASB issued an accounting standard which modifies the requirements for recognizing other-than-temporarily impaired debt securities and changes the existing impairment model for such securities. The standard also requires additional disclosures for both annual and interim periods with respect to both debt and equity securities. Under the standard, impairment of debt securities is considered other-than-temporary if an entity (1) intends to sell the security, (2) more likely than not will be required to sell the security before recovering its cost, or (3) does not expect to recover the security s entire amortized cost basis (even if the entity does not intend to sell). The standard further indicates that, depending on which of the above factor(s) causes the impairment to be considered other-than-temporary, (1) the entire shortfall of the security s fair value versus its amortized cost basis or (2) only the credit loss portion would be recognized in earnings while the remaining shortfall (if any) would be recorded in other comprehensive income. The standard requires entities to initially apply its provisions to previously other-than-temporarily impaired debt securities existing as of the date of initial adoption by making a cumulative-effect adjustment to the opening balance of retained earnings in the period of adoption. The cumulative-effect adjustment potentially reclassifies the noncredit portion of a previously other-than-temporarily impaired debt security held as of the date of initial adoption from retained earnings to accumulated other comprehensive income. For 3M, this standard was effective beginning April 1, 2009. The adoption of this standard did not have a material impact on 3M s consolidated results of operations or financial condition. Additional disclosures required by this standard are included in Note 9.

In April 2009, the FASB issued an accounting standard regarding interim disclosures about fair value of financial instruments. The standard essentially expands the disclosure about fair value of financial instruments that were previously required only annually to also be required for interim period reporting. In addition, the standard requires certain additional disclosures regarding the methods and significant assumptions used to estimate the fair value of financial instruments. This standard was effective for 3M beginning April 1, 2009 on a prospective basis. The additional disclosures required by this standard are included in Note 13.

In May 2009, the FASB issued a new accounting standard regarding subsequent events. This standard incorporates into authoritative accounting literature certain guidance that already existed within generally accepted auditing standards, with the requirements concerning recognition and disclosure of subsequent events remaining essentially unchanged. This guidance addresses events which occur after the balance sheet date but before the issuance of financial statements. Under the new standard, as under previous practice, an entity must record the effects of subsequent events that provide evidence about conditions that existed at the balance sheet date and must disclose but not record the effects of subsequent events which provide evidence about conditions that did not exist at the balance sheet date. This standard added an additional required disclosure relative to the date through which subsequent events have been evaluated and whether that is the date on which the financial statements were issued. For 3M, this standard was effective beginning April 1, 2009. The additional disclosures required by this standard are included in Note 1.

In June 2009, the FASB issued a new standard regarding the accounting for transfers of financial assets amending the existing guidance on transfers of financial assets to, among other things, eliminate the qualifying special-purpose entity concept, include a new unit of account definition that must be met for transfers of portions of financial assets to be eligible for sale accounting, clarify and change the derecognition criteria for a transfer to be accounted for as a sale, and require significant additional disclosure. For 3M, this standard is effective for new transfers of financial assets beginning January 1, 2010. Because 3M historically does not have significant transfers of financial assets, the adoption of this standard is not expected to have a material impact on 3M s consolidated results of operations or financial condition.

In June 2009, the FASB issued a new standard that revises the consolidation guidance for variable-interest entities. The modifications include the elimination of the exemption for qualifying special purpose entities, a new approach for determining who should consolidate a variable-interest entity, and changes to when it is necessary to reassess who should consolidate a variable-interest entity. For 3M, this standard is effective January 1, 2010. The Company does not expect the adoption of this standard to have a material impact on 3M s consolidated results of operations or financial condition.

In August 2009, the FASB issued ASU No. 2009-05, *Measuring Liabilities at Fair Value*, which provides additional guidance on how companies should measure liabilities at fair value under ASC 820. The ASU clarifies that the quoted price for an identical liability should be used. However, if such information is not available, a entity may use the quoted price of an identical liability when traded as an asset, quoted prices for similar liabilities or similar liabilities traded as assets, or another valuation technique (such as the market or income approach). The ASU also indicates that the fair value of a liability is not adjusted to reflect the impact of contractual restrictions that prevent its transfer and indicates circumstances in which quoted prices for an identical liability or quoted price for an identical liability traded as an asset may be considered level 1 fair value measurements (see Note 13 for a description of level 1 measurements). For 3M, this ASU was effective October 1, 2009. The adoption of this ASU did not have a material impact on 3M s consolidated results of operations or financial condition.

In September 2009, the FASB issued ASU No. 2009-12, *Investments in Certain Entities That Calculate Net Asset Value per Share (or Its Equivalent)*, that amends ASC 820 to provide guidance on measuring the fair value of certain alternative investments such as hedge funds, private equity funds and venture capital funds. The ASU indicates that, under certain circumstances, the fair value of such investments may be determined using net asset value (NAV) as a practical expedient, unless it is probable the investment will be sold at something other than NAV. In those situations, the practical expedient cannot be used and disclosure of the remaining actions necessary to complete the sale is required. The ASU also requires additional disclosures of the attributes of all investments within the scope of the new guidance, regardless of whether an entity used the practical expedient to measure the fair value of any of its investments. The disclosure provisions of this ASU are not applicable to an employer s disclosures about pension and other postretirement benefit plan assets. 3M does not have any significant direct investments within the scope of ASU No. 2009-12, but certain plan assets of the Company s benefit plans are valued based on NAV as indicated in Note 11. For 3M, this ASU was effective October 1, 2009. The adoption of this ASU did not have a material impact on 3M s consolidated results of operations or financial condition.

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In October 2009, the FASB issued ASU No. 2009-13, *Multiple-Deliverable Revenue Arrangements a consensus of the FASB Emerging Issues Task Force*, that provides amendments to the criteria for separating consideration in multiple-deliverable arrangements. As a result of these amendments, multiple-deliverable revenue arrangements will be separated in more circumstances than under existing U.S. GAAP. The ASU does this by establishing a selling price hierarchy for determining the selling price of a deliverable. The selling price used for each deliverable will be based on vendor-specific objective evidence if available, third-party evidence if vendor-specific objective evidence is not available, or estimated selling price if neither vendor-specific objective evidence nor third-party evidence is available. A vendor will be required to determine its best estimate of selling price in a manner that is consistent with that used to determine the price to sell the deliverable on a standalone basis. This ASU also eliminates the residual method of allocation and will require that arrangement consideration be allocated at the inception of the arrangement to all deliverables using the relative selling price method, which allocates any discount in the overall arrangement proportionally to each deliverable based on its relative selling price. Expanded disclosures of qualitative and quantitative information regarding application of the multiple-deliverable revenue arrangement guidance are also required under the ASU. The ASU does not apply to arrangements for which industry specific allocation and measurement guidance exists, such as long-term construction contracts and software transactions. For 3M, ASU No. 2009-13 is effective beginning January 1, 2011. 3M may elect to adopt the provisions prospectively to new or materially modified arrangements beginning on the effective date or retrospectively for all periods presented. The Company is currently evaluating the impact of this standard on 3M s consolidated results of operations and financial condition.

In October 2009, the FASB issued ASU No. 2009-14, *Certain Revenue Arrangements That Include Software Elements a consensus of the FASB Emerging Issues Task Force*, that reduces the types of transactions that fall within the current scope of software revenue recognition guidance. Existing software revenue recognition guidance requires that its provisions be applied to an entire arrangement when the sale of any products or services containing or utilizing software when the software is considered more than incidental to the product or service. As a result of the amendments included in ASU No. 2009-14, many tangible products and services that rely on software will be accounted for under the multiple-element arrangements revenue recognition guidance rather than under the software revenue recognition guidance. Under the ASU, the following components would be excluded from the scope of software revenue recognition guidance: the tangible element of the product, software products bundled with tangible products where the software components and non-software components function together to deliver the product s essential functionality, and undelivered components that relate to software that is essential to the tangible product s functionality. The ASU also provides guidance on how to allocate transaction consideration when an arrangement contains both deliverables within the scope of software revenue guidance (software deliverables) and deliverables not within the scope of that guidance (non-software deliverables). For 3M, ASU No. 2009-14 is effective beginning January 1, 2011. 3M may elect to adopt the provisions prospectively to new or materially modified arrangements beginning on the effective date or retrospectively for all periods presented. However, 3M must elect the same transition method for this guidance as that chosen for ASU No. 2009-13. The Company is currently evaluating the impact of this standard on 3M s consolidated results of operations and financial condition.

In January 2010, the FASB issued ASU No. 2010-6, *Improving Disclosures About Fair Value Measurements*, that amends existing disclosure requirements under ASC 820 by adding required disclosures about items transferring into and out of levels 1 and 2 in the fair value hierarchy; adding separate disclosures about purchase, sales, issuances, and settlements relative to level 3 measurements; and clarifying, among other things, the existing fair value disclosures about the level of disaggregation. For 3M this ASU is effective for the first quarter of 2010, except for the requirement to provide level 3 activity of purchases, sales, issuances, and settlements on a gross basis, which is effective beginning the first quarter of 2011. Since this standard impacts disclosure requirements only, its adoption will not have a material impact on 3M s consolidated results of operations or financial condition.

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NOTE 2. Acquisitions and Divestitures

Acquisitions:

The impact on the consolidated balance sheet of the purchase price allocations related to acquisitions, including adjustments relative to other acquisitions within the allocation period, follows:

(Millions) Asset (Liability)	2009 Total	Aearo Holding Corp.	2008 Acquisitions Other Acquisitions	2008 Total	2007 Total
Accounts receivable	**$ 31**	$ 76	$ 70	$ 146	$ 69
Inventory	**10**	81	89	170	79
Other current assets		7	8	15	5
Property, plant, and equipment net	**15**	78	83	161	68
Purchased intangible assets	**93**	417	377	794	131
Purchased goodwill	**(25)**	798	594	1,392	326
Accounts payable and other liabilities, net of other assets	**(21)**	(200)	(104)	(304)	(80)
Interest bearing debt	**(18)**	(684)	(125)	(809)	(34)
Deferred tax asset/(liability)	**(16)**	(50)	(121)	(171)	(12)
Net assets acquired	**$ 69**	$ 523	$ 871	$ 1,394	$ 552
Supplemental information:					
Cash paid	**$ 73**	$ 562	$ 897	$ 1,459	$ 546
Less: Cash acquired	**4**	39	26	65	7
Cash paid, net of cash acquired	**$ 69**	$ 523	$ 871	$ 1,394	$ 539
Non-cash (3M shares at fair value)					13
Net assets acquired	**$ 69**	$ 523	$ 871	$ 1,394	$ 552

Pro forma information related to acquisitions was not included because the impact on the Company s consolidated results of operations was not considered to be material. In-process research and development associated with these business combinations were not material.

In addition to business combinations, 3M periodically acquires certain tangible and/or intangible assets and purchases interests in certain enterprises that do not otherwise qualify for accounting as business combinations. These transactions are largely reflected as additional asset purchase and investment activity.

2009 acquisitions:

During 2009, 3M completed four business combinations. The purchase price paid for these business combinations (net of cash acquired) and certain acquisition costs and contingent consideration paid for pre-2009 business combinations during 2009 aggregated to $69 million.

(1) In January 2009, 3M (Safety, Security and Protection Services Business) purchased 100 percent of the outstanding shares of Alltech Solutions, a provider of water pipe rehabilitation services based in Moncton, New Brunswick, Canada.

(2) In February 2009, 3M (Industrial and Transportation Business) purchased the assets of Compac Corp. s pressure sensitive adhesive tape business, a global leader in providing custom solutions in coating, laminating and converting flexible substrates headquartered in Hackettstown, N.J.

(3) In April 2009, 3M (Industrial and Transportation Business) purchased 100 percent of the outstanding shares of Meguiar s International, UK, a distributor of Meguiar s Inc. products based in Daventry, United Kingdom.

(4) In July 2009, 3M (Consumer and Office Business) purchased the ACE® branded (and related brands) elastic bandage, supports and thermometer product lines, which are sold broadly through consumer channels in North America.

Purchased identifiable intangible assets related to the four acquisitions that closed in 2009 totaled $28 million. This included $20 million of identifiable intangible assets that will be amortized on a straight-line basis over a weighted-average life of eight years (lives ranging from three to 12 years) and $8 million of indefinite-lived intangible assets related to the well-recognized ACE® brand. Acquired identifiable intangible assets for which significant assumed renewals or extensions of underlying arrangements impacted the determination of their useful lives were not material.

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2008 acquisitions:

During 2008, 3M completed 18 business combinations. The purchase price paid for business combinations (net of cash acquired) and certain contingent consideration paid during the twelve months ended December 31, 2008 for previous acquisitions aggregated to $1.394 billion.

The largest of these 2008 acquisitions was the April 2008 purchase of 100 percent of the outstanding shares of Aearo Holding Corp. (Safety, Security and Protection Services Business), the parent company of Aearo Technologies Inc. (hereafter referred to as Aearo), a manufacturer of personal protection and energy absorbing products. Cash paid, net of cash acquired, for Aearo totaled approximately $523 million and debt assumed from Aearo totaled approximately $684 million, which was immediately paid off.

The 17 additional business combinations are summarized as follows:

(1) In March 2008, 3M (Industrial and Transportation Business) purchased certain assets of Hitech Polymers Inc., a manufacturer of specialty thermoplastic polymers and provider of toll thermoplastic compounding services based in Hebron, Kentucky.

(2) In April 2008, 3M (Health Care Business) purchased 100 percent of the outstanding shares of Les Entreprises Solumed Inc., a Quebec-based developer and marketer of leading-edge medical products designed to prevent infections in operating rooms and hospitals.

(3) In April 2008, 3M (Consumer and Office Business) purchased 100 percent of the outstanding shares of Kolors Kevarkian, S.A., a manufacturer of branded floor cleaning tools based in Argentina.

(4) In July 2008, 3M (Industrial and Transportation Business) purchased 100 percent of the outstanding shares of K&H Surface Technologies Pty. Ltd., an Australian-based manufacturing company specializing in a range of repair products for the professional do-it-yourself automotive refinish markets.

(5) In July 2008, 3M (Safety, Security and Protection Services Business) purchased 100 percent of the outstanding shares of Quest Technologies Inc., a manufacturer of environmental monitoring equipment, including noise, heat stress and vibration monitors that is headquartered in Oconomowoc, Wisconsin.

(6) In July 2008, 3M (Health Care Business) purchased 100 percent of the outstanding shares of IMTEC Corp., a manufacturer of dental implants and cone beam computed tomography scanning equipment for dental and medical radiology headquartered in Ardmore, Oklahoma.

(7) In August 2008, 3M (Health Care Business) purchased 100 percent of the outstanding shares of TOP-Service für Lingualtechnik GMbH, an orthodontic technology and services company based in Bad Essen, Germany offering a digital lingual orthodontic solution.

(8) In August 2008, 3M (Industrial and Transportation Business) purchased 100 percent of the outstanding shares of Polyfoam Products Inc., a structural adhesives company specializing in foam adhesives for tile roofing and other adhesive products for the building industry that is headquartered in Tomball, Texas.

(9) In August 2008, 3M (Industrial and Transportation Business) purchased 100 percent of the outstanding shares of Dedication to Detail, Inc., a Philadelphia-based manufacturer of paint finishing systems, including buffing and polishing pads.

(10) In September 2008, 3M (Industrial and Transportation Business) purchased 100 percent of the outstanding shares of Ligacon AG, a Switzerland-based manufacturer and supplier of filtration systems and filter elements for the pharmaceutical, biotech and general industrial markets.

(11) In October 2008, 3M (Industrial and Transportation Business) purchased 100 percent of the outstanding shares of EMFI S.A. and SAPO S.A.S., manufacturers of polyurethane-based structural adhesives and sealants, which are headquartered in Haguenau, France.

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(12) In October 2008, 3M (Industrial and Transportation Business) purchased 100 percent of the outstanding shares of Meguiar s Inc., a 100-year-old business that manufactures the leading Meguiar s brand of car care products for cleaning and protecting automotive surfaces, which is headquartered in Irvine, California.

(13) In November 2008, 3M (Health Care Business) purchased certain assets of Food Diagnostics AS, a provider of food diagnostics products and services for the food safety industry, which is headquartered in Oslo, Norway.

(14) In November 2008, 3M (Electro and Communications Business) purchased 100 percent of the outstanding shares of Grafoplast S.p.A, a manufacturer of wire identification systems for the wire and cable market, which is headquartered in Predosa, Italy.

(15) In December 2008, 3M (Display and Graphics Business) purchased 100 percent of the outstanding shares of Financiere Burgienne, a provider of finished license plates under the FAAB and FABRICAUTO brands in France.

(16) In December 2008, 3M (Industrial and Transportation Business) purchased 100 percent of the outstanding shares of ABRASIVOS S.A., a manufacturer of coated abrasives, headquartered in Lima, Peru.

(17) In December 2008, 3M (Consumer and Office Business) purchased certain assets of the Futuro health supports and compression hosiery product line business, headquartered in Cincinnati, OH, from Beiersdorf AG.

Purchased identifiable intangible assets totaled $794 million and will be amortized on a straight-line basis over a weighted-average life of 13 years (lives ranging from one to 19 years). Acquired patents of $40 million will be amortized over a weighted-average life of 11 years and other acquired intangibles of $696 million, primarily customer relationships and tradenames, will be amortized over a weighted-average life of 13 years. Indefinite-lived assets of $58 million were purchased in the Meguiar s acquisition detailed above, which relate to a well recognized brand name for a company that has been in existence for more than 100 years.

2007 acquisitions:

During 2007, the purchase price paid for business combinations totaled $539 million, net of cash acquired, plus approximately 150 thousand shares of 3M common stock, which had a market value of approximately $13 million.

The 16 business combinations completed during 2007 are summarized as follows:

1) In February 2007, 3M (Industrial and Transportation Business) purchased certain assets of Accuspray Application Technologies Inc., a manufacturer of spray paint equipment with a wide array of spray guns for architectural, automotive refinishing, industrial and woodworking applications.

2) In February 2007, 3M (Industrial and Transportation Business) purchased Sealed Air Corporation s 50 percent interest in PolyMask Corporation, a joint venture between 3M and Sealed Air that produces protective films. The acquisition of Sealed Air s interest results in 100 percent ownership by 3M.

3) In February 2007, 3M (Health Care Business) purchased 100 percent of the outstanding shares of Acolyte Biomedica Ltd., a Salisbury, U.K.-based provider of an automated microbial detection platform that aids in the rapid detection, diagnosis, and treatment of infectious diseases.

4) In May 2007, 3M (Safety, Security and Protection Services Business) purchased 100 percent of the outstanding shares of E Wood Holdings PLC, a North Yorkshire, UK-based manufacturer of high performance protective coatings for oil, gas, water, rail and automotive industries.

5) In May 2007, 3M (Electro and Communications Business) purchased certain assets of Innovative Paper Technologies LLC, a manufacturer of inorganic-based technical papers, boards and laminates for a wide variety of high temperature applications and Powell LLC, a supplier of non-woven polyester mats for the electrical industry.

6) In May 2007, 3M (Health Care Business) purchased certain assets of Articulos de Papel DMS Chile, a Santiago, Chile-based manufacturer of disposable surgical packs, drapes, gowns and kits.

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7) In June 2007, 3M (Industrial and Transportation Business) purchased certain assets of Diamond Productions Inc., a manufacturer of superabrasive diamond and cubic boron nitride wheels and tools for dimensioning and finishing hard-to-grind materials in metalworking, woodworking and stone fabrication markets in exchange for approximately 150 thousand shares of 3M common stock, which had a market value of $13 million at the acquisition measurement date and was previously held as 3M treasury stock.

8) In July 2007, 3M (Safety, Security and Protection Services Business) purchased 100 percent of the outstanding shares of Rochford Thompson Equipment Ltd., a manufacturer of optical character recognition passport readers used by airlines and immigration authorities, headquartered in Newbury, U.K.

9) In August 2007, 3M (Health Care Business) purchased certain assets of Neoplast Co. Ltd., a manufacturer/distributor of surgical tapes and dressings and first aid bandages for both the professional and consumer markets across the Asia Pacific region.

10) In October 2007, 3M (Health Care Business) purchased 100 percent of the outstanding shares of Abzil Industria e Comercio Ltda., a manufacturer of orthodontic products based in Sao Jose do Rio Preto, Sao Paulo, Brazil.

11) In October 2007, 3M (Industrial and Transportation Business) purchased 100 percent of the outstanding shares of Venture Tape Corp. and certain related entities, a global provider of pressure sensitive adhesive tapes based in Rockland, Mass.

12) In October 2007, 3M (Display and Graphics Business) purchased certain assets of Macroworx Media Pvt Ltd., a software company that specializes in the design and development of digital signage solutions based in Bangalore, India.

13) In October 2007, 3M (Health Care Business) purchased 100 percent of the outstanding shares of Lingualcare Inc., a Dallas-based orthodontic technology and services company offering the iBraces system, a customized, lingual orthodontic solution.

14) In November 2007, 3M (Industrial and Transportation Business) purchased certain assets of Standard Abrasives, a manufacturer of coated abrasive specialties and non-woven abrasive products for the metalworking industry headquartered in Simi Valley, Ca.

15) In November 2007, 3M (Industrial and Transportation Business) purchased 100 percent of the outstanding shares of Unifam Sp. z.o.o., a manufacturer of cut-off wheels, depressed center grinding wheels and flap discs based in Poland.

16) In November 2007, 3M (Industrial and Transportation Business) purchased certain assets of Bondo Corp., a manufacturer of auto body repair products for the automotive aftermarket and various other professional and consumer applications based in Atlanta, Ga.

Purchased identifiable intangible assets for the 16 business combinations closed during the twelve months ended December 31, 2007 totaled $124 million and will be amortized on a straight-line basis over lives ranging from two to 10 years (weighted-average life of six years).

Divestitures:

In June 2008, 3M completed the sale of HighJump Software, a 3M Company, to Battery Ventures, a technology venture capital and private equity firm. 3M received proceeds of $85 million for this transaction and recognized, net of assets sold, transaction and other costs, a pre-tax loss of $23 million (recorded in the Safety, Security and Protection Services segment) in 2008.

In June 2007, 3M completed the sale of its Opticom Priority Control Systems and Canoga Traffic Detection businesses to TorQuest Partners Inc., a Toronto-based investment firm. 3M received proceeds of $80 million for this transaction and recognized, net of assets sold, transaction and other costs, a pre-tax gain of $68 million (recorded in the Display and Graphics segment) in 2007. In January 2007, 3M completed the sale of its global branded pharmaceuticals business in Europe to Meda AB. 3M received proceeds of $817 million for this transaction and recognized, net of assets sold, a pre-tax gain of $781 million (recorded in the Health Care segment) in 2007.

In connection with the pharmaceuticals transaction, 3M entered into agreements whereby its Drug Delivery Systems Division became a source of supply to the acquiring company. Because of the extent of 3M cash flows from these

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agreements in relation to those of the disposed-of businesses, the operations of the branded pharmaceuticals business are not classified as discontinued operations. See Note 4 for further discussion of restructuring actions that resulted from the divestiture of the Company s global branded pharmaceuticals business.

NOTE 3. Goodwill and Intangible Assets

Purchased goodwill from the four acquisitions that closed in 2009 totaled $15 million, $9 million of which is deductible for tax purposes. Purchased goodwill from acquisitions totaled $1.392 billion in 2008, $34 million of which is deductible for tax purposes. The acquisition activity in the following table also includes the impacts of adjustments to the preliminary allocation of purchase price and certain acquisition costs and contingent consideration for pre-2009 acquisitions, which reduced goodwill by $40 million in 2009. The amounts in the Translation and other column in the following table primarily relate to changes in foreign currency exchange rates, except for the $77 million decrease in goodwill related to the second-quarter 2008 sale of 3M s HighJump Software business (included in the Safety, Security and Protection Services business). The goodwill balance by business segment follows:

Goodwill

(Millions)	Dec. 31, 2007 Balance	2008 acquisition activity	2008 translation and other	Dec. 31, 2008 Balance	2009 acquisition activity	2009 translation and other	Dec. 31, 2009 Balance
Industrial and Transportation	$ 1,524	$ 192	$ (24)	$ 1,692	**$ (4)**	**$ 50**	**$ 1,738**
Health Care	839	170	(21)	988	**5**	**14**	**1,007**
Consumer and Office	94	34	27	155	**11**	**(11)**	**155**
Safety, Security and Protection Services	611	815	(224)	1,202	**6**	**57**	**1,265**
Display and Graphics	894	140	8	1,042	**(44)**	**(8)**	**990**
Electro and Communications	627	41	6	674	**1**	**2**	**677**
Total Company	$ 4,589	$ 1,392	$ (228)	$ 5,753	**$ (25)**	**$ 104**	**$ 5,832**

Accounting standards require that goodwill be tested for impairment annually and between annual tests in certain circumstances such as a change in reporting units or the testing of recoverability of a significant asset group within a reporting unit. At 3M, reporting units generally correspond to a division.

As discussed in Note 17 to the Consolidated Financial Statements, effective in the first quarter of 2009, 3M made certain product moves between its business segments. Since there were no material changes in goodwill balances between business segments, amounts presented in the preceding table have not been reclassified. For those changes that resulted in reporting unit changes, the Company applied the relative fair value method to determine the impact to reporting units. During the first quarter of 2009, the Company completed its assessment of any potential goodwill impairment for reporting units impacted by this new structure and determined that no impairment existed.

As discussed in Note 13, in June 2009, 3M tested the long lived assets grouping associated with the U.K. passport production activity of 3M s Security Systems Division for recoverability. This circumstance required the Company to also test goodwill for impairment at the reporting unit (Security Systems Division) level. 3M completed its assessment of potential goodwill impairment for this reporting unit and determined that no goodwill impairment existed as of June 30, 2009. The Company also completed its annual goodwill impairment test in the fourth quarter of 2009 for all reporting units and determined that no impairment existed. In addition, the Company had no impairments of goodwill in prior years.

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Acquired Intangible Assets

For 2009, acquired intangible asset activity through business combinations increased the gross carrying amount by $93 million. Balances are also impacted by changes in foreign currency exchange rates. The gross carrying amount and accumulated amortization of acquired intangible assets as of December 31 follow:

(Millions)	2009	2008
Patents	**$ 457**	$ 475
Other amortizable intangible assets (primarily tradenames and customer-related intangibles)	**1,519**	1,381
Non-amortizable intangible assets (tradenames)	**138**	130
Total gross carrying amount	**$ 2,114**	$ 1,986
Accumulated amortization patents	**(339)**	(318)
Accumulated amortization other	**(433)**	(270)
Total accumulated amortization	**(772)**	(588)
Total intangible assets net	**$ 1,342**	$ 1,398

3M has non-amortizable tradenames with a carrying value of $138 million as of December 31, 2009, and $130 million as of December 31, 2008. These tradenames are not amortized because of the long-time established name recognition in their respective industries.

Amortization expense for acquired intangible assets increased significantly in 2009 and 2008 due to the significant amount of acquired intangibles in 2008 and 2007 (Note 2). Amortization expense for the years ended December 31 follows:

(Millions)	2009	2008	2007
Amortization expense	**$ 181**	$ 122	$ 87

Expected amortization expense for acquired intangible assets recorded as of December 31, 2009 follows:

(Millions)	2010	2011	2012	2013	2014	After 2014
Amortization expense	$ 161	$ 133	$ 126	$ 119	$ 111	$ 554

The preceding expected amortization expense is an estimate. Actual amounts of amortization expense may differ from estimated amounts due to additional intangible asset acquisitions, changes in foreign currency exchange rates, impairment of intangible assets, accelerated amortization of intangible assets and other events. 3M expenses the costs incurred to renew or extend the term of intangible assets.

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NOTE 4. Restructuring Actions and Exit Activities

Restructuring actions and exit activities generally include significant actions involving employee-related severance charges, contract termination costs, and impairment of assets associated with such actions.

Employee-related severance charges are largely based upon distributed employment policies and substantive severance plans. These charges are reflected in the quarter in which management approves the associated actions, the actions are probable, and the amounts are estimable. Severance amounts for which affected employees were required to render service in order to receive benefits at their termination dates were measured at the date such benefits were communicated to the applicable employees and recognized as expense over the employees remaining service periods.

Contract termination and other charges primarily reflect costs to terminate a contract before the end of its term (measured at fair value at the time the Company provided notice to the counterparty) or costs that will continue to be incurred under the contract for its remaining term without economic benefit to the Company. As discussed in accounting policies in Note 1, asset impairment charges related to intangible assets and property, plant and equipment reflect the excess of the assets carrying values over their fair values.

The following provides information, respectively, concerning the Company s 2009/2008 restructuring actions, its 2007/2006 restructuring actions, and its exit activities during 2008 and 2007.

2009 and 2008 Restructuring Actions:

During the fourth quarter of 2008 and the first nine months of 2009, management approved and committed to undertake certain restructuring actions. Due to the rapid decline in global business activity in the fourth quarter of 2008 and into the first three quarters of 2009, 3M aggressively reduced its cost structure and rationalized several facilities, including manufacturing, technical and office facilities. These actions included all geographies, with particular attention in the developed areas of the world that have and are experiencing large declines in business activity, and included the following:

- During the fourth quarter of 2008, 3M announced the elimination of more than 2,400 positions. Of these employment reductions, about 31 percent were in the United States, 29 percent in Europe, 24 percent in Latin America and Canada, and 16 percent in the Asia Pacific area. These restructuring actions resulted in a fourth-quarter 2008 pre-tax charge of $229 million, with $186 million for employee-related items/benefits and other, and $43 million related to fixed asset impairments. The preceding charges were recorded in cost of sales ($84 million), selling, general and administrative expenses ($135 million), and research, development and related expenses ($10 million). Cash payments in 2008 related to this restructuring were not material.

- During the first quarter of 2009, 3M announced the elimination of approximately 1,200 positions. Of these employment reductions, about 43 percent were in the United States, 36 percent in Latin America, 16 percent in Europe and 5 percent in the Asia Pacific area. These restructuring actions resulted in a first-quarter 2009 pre-tax charge of $67 million, with $61 million for employee-related items/benefits and $6 million related to fixed asset impairments. The preceding charges were recorded in cost of sales ($17 million), selling, general and administrative expenses ($47 million), and research, development and related expenses ($3 million).

- During the second quarter of 2009, 3M announced the permanent reduction of approximately 900 positions, the majority of which were concentrated in the United States, Western Europe and Japan. In the United States, another 700 people accepted a voluntary early retirement incentive program offer. As discussed in Note 11, a $21 million non-cash charge was related to the approximately 700 participants who accepted the voluntary early retirement incentive program offer. Of these aggregate employment reductions, about 66 percent were in the United States, 17 percent in the Asia Pacific area, 14 percent in Europe and 3 percent in Latin America and Canada. These restructuring actions in total resulted in a second-quarter 2009 pre-tax charge of $116 million, with $103 million for employee-related items/benefits and $13 million related to fixed asset impairments. The preceding charges were recorded in cost of sales ($68 million), selling, general and administrative expenses ($44 million), and research, development and related expenses ($4 million).

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• During the third quarter of 2009, 3M announced the elimination of approximately 200 positions, with the majority of those occurring in Western Europe and, to a lesser extent, the United States. These restructuring actions, including a non-cash charge related to a pension settlement in Japan (discussed further in Note 11), resulted in a third-quarter 2009 net pre-tax charge of $26 million for employee-related items/benefits and other, which is net of $7 million of adjustments to prior 2008 and 2009 restructuring actions. The preceding charges were recorded in cost of sales ($25 million) and research, development and related expenses ($1 million).

The restructuring expenses related to these actions are summarized by income statement line as follows:

(Millions)		2009		2008
Cost of sales	$	110	$	84
Selling, general and administrative expenses		91		135
Research, development and related expenses		8		10
Total restructuring expense	$	209	$	229

Components of these restructuring actions by business segment and a roll-forward of associated balances follow below. Cash payments in 2008 related to these actions were not material.

(Millions)		Employee-Related Items/ Benefits and Other		Asset Impairments		Total
Expenses incurred in 2008:						
Industrial and Transportation	$	33	$	7	$	40
Health Care		37		14		51
Consumer and Office		17		1		18
Safety, Security and Protection Services		12				12
Display and Graphics		15		9		24
Electro and Communications		7				7
Corporate and Unallocated		65		12		77
Total 2008 expenses	$	186	$	43	$	229
Non-cash changes in 2008	$		$	(43)	$	(43)
Expenses incurred in 2009:						
Industrial and Transportation	$	83	$	5	$	88
Health Care		20				20
Consumer and Office		13				13
Safety, Security and Protection Services		17				17
Display and Graphics		9		13		22
Electro and Communications		11				11
Corporate and Unallocated		37		1		38
Total 2009 expenses	$	190	$	19	$	209
Non-cash changes in 2009	$	(34)	$	(19)	$	(53)
Cash payments, net of adjustments, in 2009	$	(266)	$		$	(266)
Accrued liability balance as of December 31, 2009	$	76	$		$	76

The majority of the remaining employee related items and benefits are expected to be paid out in cash in the first six months of 2010.

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2007 and 2006 Restructuring Actions:

During the fourth quarter of 2006 and the first six months of 2007, management approved and committed to undertake the following restructuring actions:

• Pharmaceuticals business actions employee-related, asset impairment and other costs pertaining to the Company s exit of its branded pharmaceuticals operations. These costs included severance and benefits for pharmaceuticals business employees who are not obtaining employment with the buyers as well as impairment charges associated with certain assets not transferred to the buyers.

• Overhead reduction actions employee-related costs for severance and benefits, costs associated with actions to reduce the Company s cost structure.

• Business-specific actions employee-related costs for severance and benefits, fixed and intangible asset impairments, certain contractual obligations, and expenses from the exit of certain product lines.

In connection with this targeted 2007/2006 restructuring plan, the Company eliminated a total of approximately 1,900 positions from various functions within the Company. Approximately 390 positions were pharmaceuticals business employees, approximately 960 positions related primarily to corporate staff overhead reductions, and approximately 550 positions were business-specific reduction actions. Of the 1,900 employment reductions, about 58 percent are in the United States, 21 percent in Europe, 12 percent in Latin America and Canada, and 9 percent in the Asia Pacific area. As a result of the second-quarter 2007 phaseout of operations at a New Jersey roofing granule facility and the sale of the Company s Opticom Priority Control Systems and Canoga Traffic Detection businesses, the Company eliminated approximately 100 additional positions.

Actions with respect to the 2007/2006 restructuring plan were substantially completed in 2007. The net restructuring expenses (credits) incurred in 2007 related to these actions are summarized by income statement line as follows:

(Millions)		**2007**
Cost of sales	$	40
Selling, general and administrative expenses		5
Research, development and related expenses		(7)
Total restructuring expense	$	38

The amount of net expenses (credits) incurred in 2007 associated with the restructuring actions are reflected in the Company s business segments as follows:

(Millions)		2007
Industrial and Transportation	$	2
Health Care		(11)
Safety, Security and Protection Services		28
Display and Graphics		3
Electro and Communications		18
Corporate and Unallocated		(2)
Total	$	38

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Components of these restructuring actions, beginning with accrued liability balances as of December 31, 2006, include:

(Millions)	Employee-Related Items and Benefits	Contract Terminations and Other	Asset Impairments	Total
Accrued liability balances as of Dec. 31, 2006:				
Pharmaceuticals business actions	$ 78	$ 6	$	$ 84
Overhead reduction actions	100			100
Business-specific actions	30	8		38
Total accrued liability balance	$ 208	$ 14	$	$ 222
Expenses (credits) incurred in 2007:				
Pharmaceuticals business actions	$ (12)	$ (4)	$	$ (16)
Overhead reduction actions	2			2
Business-specific actions	13	4	35	52
2007 expense	$ 3	$	$ 35	$ 38
Non-cash changes in 2007:				
Pharmaceuticals business actions	$ (21)	$ 4	$	$ (17)
Overhead reduction actions	(5)			(5)
Business-specific actions	(12)	(4)	(35)	(51)
2007 non-cash	$ (38)	$	$ (35)	$ (73)
Cash payments in 2007:				
Pharmaceuticals business actions	$ (40)	$ (6)	$	$ (46)
Overhead reduction actions	(87)			(87)
Business-specific actions	(26)	(8)		(34)
2007 cash payments	$ (153)	$ (14)	$	$ (167)
Accrued liability balances as of Dec. 31, 2007:				
Pharmaceuticals business actions	$ 5	$	$	$ 5
Overhead reduction actions	10			10
Business-specific actions	5			5
Total accrued liability balance	$ 20	$	$	$ 20
Cash payments in 2008:				
Pharmaceuticals business actions	$ (5)	$	$	$ (5)
Overhead reduction actions	(10)			(10)
Business-specific actions	(4)			(4)
2008 cash payments	$ (19)	$	$	$ (19)
Accrued liability balances as of Dec. 31, 2008:				
Pharmaceuticals business actions	$	$	$	$
Overhead reduction actions				
Business-specific actions	1			1
Total accrued liability balance	$ 1	$	$	$ 1
Cash payments in 2009	$ (1)	$	$	(1)
Accrued liability balances as of Dec. 31, 2009	$	$	$	$

Non-cash employee-related changes in 2007 primarily relate to special termination pension and medical benefits granted to certain U.S. eligible employees. These pension and medical benefits were reflected as a component of the benefit obligation of the Company s pension and medical plans as of December 31, 2007. In addition, these changes also reflect non-cash stock option expense due to the reclassification of certain employees age 50 and older to retiree status, resulting in a modification of their original stock option awards for accounting purposes.

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Business-specific asset impairment charges for 2007 totaled $35 million. This included charges of $24 million related to property, plant and equipment associated with the Company s decision to phaseout operations at a New Jersey roofing granule facility (Safety, Security and Protection Services segment) and charges of $11 million ($10 million related to property, plant and equipment and $1 million related to intangible assets) related to the Company s decision to close an Electro and Communications facility in Wisconsin.

Exit Activities:

During the second and third quarters of 2008, management approved and committed to undertake certain exit activities, which resulted in a pre-tax charge of $68 million. These charges primarily related to employee-related liabilities and fixed asset impairments. During the fourth quarter 2008, a pre-tax benefit of $10 million was recorded, which primarily related to adjustments to employee-related liabilities for second and third-quarter 2008 exit activities. In total for 2008, these actions resulted in pre-tax charges for Industrial and Transportation ($26 million); Display and Graphics ($18 million); Health Care ($9 million); Safety, Security and Protection Services ($3 million); and Corporate and Unallocated ($2 million). These charges were recorded in cost of sales ($38 million), selling, general and administrative expenses ($17 million), and research, development and related expenses ($3 million).

During the second half of 2007, the Company recorded net pre-tax charges of $45 million related to exit activities. These charges related to employee reductions and fixed asset impairments, including the consolidation of certain flexible circuit manufacturing operations ($23 million recorded in the Electro and Communications segment) and other actions, primarily in the Display and Graphics segment and Industrial and Transportation segment. These charges were recorded in cost of sales and selling, general and administrative expenses and research, development and related expenses.

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NOTE 5. Supplemental Balance Sheet Information

(Millions)	2009	2008
Other current assets		
Prepaid expenses and other	**$ 657**	$ 552
Deferred income taxes	**330**	271
Derivative assets-current	**25**	215
Product and other insurance receivables	**110**	130
Total other current assets	**$ 1,122**	$ 1,168
Investments		
Equity-method	**$ 64**	$ 73
Available-for-sale	**11**	5
Real estate and other	**28**	33
Total investments	**$ 103**	$ 111
Property, plant and equipment at cost		
Land	**$ 291**	$ 281
Buildings and leasehold improvements	**6,069**	5,787
Machinery and equipment	**12,296**	11,742
Construction in progress	**627**	903
Capital leases	**157**	99
Gross property, plant and equipment	**19,440**	18,812
Accumulated depreciation*	**(12,440)**	(11,926)
Property, plant and equipment net	**$ 7,000**	$ 6,886

* Includes accumulated depreciation for capital leases of $50 million for 2009 and $40 million for 2008.

Other assets		
Deferred income taxes	**$ 625**	$ 1,053
Product and other insurance receivables	**171**	206
Cash surrender value of life insurance policies	**202**	175
Other	**277**	225
Total other assets	**$ 1,275**	$ 1,659
Other current liabilities		
Accrued trade payables	**$ 464**	$ 428
Deferred income	**316**	322
Derivative liabilities-current	**94**	203
Restructuring actions	**76**	187
Employee benefits and withholdings	**150**	157
Product and other claims	**123**	148
Property and other taxes	**198**	141
Pension and postretirement benefits	**41**	38
Deferred income taxes	**27**	19
Other	**410**	349
Total other current liabilities	**$ 1,899**	$ 1,992

Accounts payable (included as a separate line item in the Consolidated Balance Sheet) includes drafts payable on demand of $83 million and $98 million as of December 31, 2009, and 2008, respectively.

Other liabilities				
Long term taxes payable	**$**	**611**	$	541
Employee benefits		**491**		537
Product and other claims		**330**		296
Capital lease obligations		**107**		58
Deferred income		**23**		22
Deferred income taxes		**91**		21
Other		**74**		162
Total other liabilities	**$**	**1,727**	$	1,637

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NOTE 6. Supplemental Equity and Comprehensive Income Information

Common stock ($.01 par value per share) of 3.0 billion shares is authorized, with 944,033,056 shares issued. Treasury stock is reported at cost, with 233,433,937 shares at December 31, 2009, 250,489,769 shares at December 31, 2008, and 234,877,025 shares at December 31, 2007. Preferred stock, without par value, of 10 million shares is authorized but unissued.

The components of other comprehensive income (loss) and accumulated other comprehensive income (loss) attributable to 3M follow.

Accumulated Other Comprehensive Income (Loss) Attributable to 3M

(Millions)	Dec. 31, 2009	Dec. 31, 2008
Cumulative translation adjustment	**$ 122**	$ (146)
Defined benefit pension and postretirement plans adjustment	**(3,831)**	(3,525)
Debt and equity securities, unrealized gain (loss)	**(9)**	(19)
Cash flow hedging instruments, unrealized gain (loss)	**(36)**	44
Total accumulated other comprehensive income (loss)	**$ (3,754)**	$ (3,646)

Components of Comprehensive Income (Loss) Attributable to 3M

(Millions)	2009	2008	2007
Net income attributable to 3M	**$ 3,193**	$ 3,460	$ 4,096
Cumulative translation	**288**	(920)	456
Tax effect	**(2)**	32	76
Cumulative translation - net of tax	**286**	(888)	532
Defined benefit pension and postretirement plans adjustment	**(462)**	(3,096)	941
Tax effect	**153**	1,024	(327)
Defined benefit pension and postretirement plans adjustment - net of tax	**(309)**	(2,072)	614
Debt and equity securities, unrealized gain (loss)	**17**	(18)	(16)
Tax effect	**(7)**	7	6
Debt and equity securities, unrealized gain (loss) - net of tax	**10**	(11)	(10)
Cash flow hedging instruments, unrealized gain (loss)	**(130)**	124	(24)
Tax effect	**50**	(52)	14
Cash flow hedging instruments, unrealized gain (loss) - net of tax	**(80)**	72	(10)
Total comprehensive income (loss) attributable to 3M	**$ 3,100**	$ 561	$ 5,222

Reclassification adjustments are made to avoid double counting in comprehensive income items that are also recorded as part of net income. Reclassifications to earnings from accumulated other comprehensive income attributable to 3M that related to pension and postretirement expense in the income statement were $141 million pre-tax ($92 million after-tax) in 2009, $79 million pre-tax ($52 million after-tax) in 2008, and $198 million pre-tax ($123 million after-tax) in 2007. These pension and postretirement expense amounts are shown in the table in Note 11 as amortization of transition (asset) obligation, amortization of prior service cost (benefit) and amortization of net actuarial (gain) loss. Cash flow hedging instruments reclassifications are provided in Note 12. Reclassifications to earnings from accumulated other comprehensive income attributable to 3M for debt and equity securities primarily relate to a loss of approximately $2 million pre-tax for 2009, as shown in the auction rate securities table in Note 13, a loss of approximately $6 million pre-tax ($4 million after tax) for 2008, and was not material for 2007. Other reclassification adjustments were not material. Income taxes are not provided for foreign translation relating to permanent investments in international subsidiaries, but tax effects within cumulative translation does include impacts from items such as net investment hedge transactions.

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Transfer of Ownership Interest Involving Non-Wholly Owned Subsidiaries

During 2009, a wholly owned subsidiary that, in turn, owned a portion of the Company s majority owned Sumitomo 3M Limited entity, was transferred to another subsidiary that is majority, rather than wholly, owned. As a result of the transaction, 3M s effective ownership in Sumitomo 3M Limited was reduced from 75 percent to 71.5 percent. The transfer was effected to further align activities in the associated region and to simplify the Company s ownership structure. Because the Company retained its controlling interest in the subsidiaries involved, the transfer resulted in a decrease in 3M Company shareholders equity and an increase in noncontrolling interest of $81 million. The following table summarizes the effects of this transfer on equity attributable to 3M Company shareholders.

(Millions)		Twelve months ended Dec. 31, 2009
Net income attributable to 3M	**$**	**3,193**
Transfer to noncontrolling interest		**(81)**
Change in 3M Company shareholders equity from net income attributable to 3M and transfers to noncontrolling interest	**$**	**3,112**

NOTE 7. Supplemental Cash Flow Information

(Millions)		2009		2008		2007
Cash income tax payments	**$**	**834**	$	1,778	$	1,999
Cash interest payments		**236**		196		162
Capitalized interest		**27**		28		25

Individual amounts in the Consolidated Statement of Cash Flows exclude the impacts of acquisitions, divestitures and exchange rate impacts, which are presented separately. Other net in the Consolidated Statement of Cash Flows within operating activities in 2009, 2008 and 2007 includes changes in liabilities related to 3M s restructuring actions (Note 4).

Transactions related to investing and financing activities with significant non-cash components are as follows: During 2009, 3M recorded a capital lease asset and obligation of approximately $50 million related to an IT investment with an amortization period of seven years and contributed $600 million to its U.S. defined benefit pension plan in shares of the Company s common stock. In 2007, 3M purchased certain assets of Diamond Productions, Inc. for approximately 150 thousand shares of 3M common stock, which has a market value of approximately $13 million at the acquisition s measurement date. Liabilities assumed from acquisitions are provided in the tables in Note 2.

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NOTE 8. Income Taxes

Income Before Income Taxes

(Millions)	2009	2008	2007
United States	**$ 2,338**	$ 2,251	$ 2,820
International	**2,294**	2,857	3,295
Total	**$ 4,632**	$ 5,108	$ 6,115

Provision for Income Taxes

(Millions)	2009	2008	2007
Currently payable			
Federal	**$ 88**	$ 882	$ 1,344
State	**13**	14	58
International	**586**	820	779
Deferred			
Federal	**489**	(168)	(333)
State	**56**	34	1
International	**156**	6	115
Total	**$ 1,388**	$ 1,588	$ 1,964

Components of Deferred Tax Assets and Liabilities

(Millions)	2009	2008
Accruals not currently deductible		
Employee benefit costs	**$ 134**	$ 230
Product and other claims	**174**	198
Pension costs	**692**	914
Stock-based compensation	**473**	425
Product and other insurance receivables	**(85)**	(100)
Accelerated depreciation	**(586)**	(463)
Other	**35**	80
Net deferred tax asset	**$ 837**	$ 1,284

Reconciliation of Effective Income Tax Rate

	2009	2008	2007
Statutory U.S. tax rate	**35.0%**	35.0%	35.0%
State income taxes net of federal benefit	**1.1**	0.9	0.9
International income taxes net	**(4.9)**	(3.9)	(2.8)

U.S. business credits	**(0.4)**	(0.4)	(0.3)
Reserves for tax contingencies/return to provision	**0.4**	0.3	0.4
Restructuring actions		0.4	0.1
Medicare Modernization Act	**(0.2)**	(0.2)	(0.4)
Domestic Manufacturer s deduction	**(0.7)**	(0.8)	(0.8)
All other net	**(0.3)**	(0.2)	
Effective worldwide tax rate	**30.0%**	31.1%	32.1%

The Company files income tax returns in the U.S. federal jurisdiction, and various states and foreign jurisdictions. With few exceptions, the Company is no longer subject to U.S. federal, state and local, or non-U.S. income tax examinations by tax authorities for years before 2002.

The Internal Revenue Service (IRS) completed its examination of the Company s U.S. federal income tax returns for the years 2002 through 2004 in the first quarter of 2008. The outcome of the 2002 through 2004 audit cycle impacted the 2001 tax year, which was settled in the second quarter of 2008. The IRS completed its field examination of the Company s U.S. federal income tax returns for the years 2005 through 2007 in the fourth quarter of 2009. The Company has protested certain IRS positions within these tax years and is expected to enter the administrative appeals process with the IRS during 2010. Currently, the Company is under examination by the IRS for its U.S. federal income tax returns for the years 2008 and 2009. It is anticipated that the IRS will complete its examination of the Company for 2008 by the end of the first quarter of 2010 and for 2009 by the end of the first quarter of 2011. As

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of December 31, 2009, the IRS has not proposed any significant adjustments to the Company s tax positions for which the Company is not adequately reserved. Payments relating to any proposed assessments arising from the 2005 through 2009 audits may not be made until a final agreement is reached between the Company and the IRS on such assessments or upon a final resolution resulting from the administrative appeals process or judicial action. In addition to the U.S. federal examination, there is also limited audit activity in several U.S. state and foreign jurisdictions.

3M anticipates changes to the Company s uncertain tax positions due to the closing of the various audit years mentioned above. Currently, the Company is not able to reasonably estimate the amount by which the liability for unrecognized tax benefits will increase or decrease during the next 12 months as a result of the ongoing income tax authority examinations.

The Company adopted the new guidance relating to accounting for uncertainty in income taxes, in accordance with ASC 740, *Income Taxes*, on January 1, 2007. Upon adoption, the Company recognized an immaterial increase in the liability for unrecognized tax benefits, which was accounted for as a reduction to the January 1, 2007, balance of retained earnings. A reconciliation of the beginning and ending amount of gross unrecognized tax benefits (UTB) is as follows:

Federal, State and Foreign Tax

(Millions)		**2009**		**2008**		**2007**
Gross UTB Balance at January 1	**$**	**557**	$	680	$	691
Additions based on tax positions related to the current year		**121**		126		79
Additions for tax positions of prior years		**164**		98		143
Reductions for tax positions of prior years		**(177)**		(180)		(189)
Settlements				(101)		(24)
Reductions due to lapse of applicable statute of limitations		**(47)**		(66)		(20)
Gross UTB Balance at December 31	**$**	**618**	$	557	$	680
Net UTB impacting the effective tax rate at December 31	**$**	**425**	$	334	$	334

The total amount of unrecognized tax benefits that, if recognized, would affect the effective tax rate by $425 million as of December 31, 2009, and $334 million as of both December 31, 2008 and December 31, 2007. The ending net UTB results from adjusting the gross balance for items such as Federal, State, and non-U.S. deferred items, interest and penalties, and deductible taxes. The net UTB is included as components of Other Current Assets, Other Assets, and Other Liabilities within the Consolidated Balance Sheet.

The Company recognizes interest and penalties accrued related to unrecognized tax benefits in tax expense. The Company recognized in the consolidated statement of income on a gross basis approximately $6 million, $8 million, and $9 million of expense in 2009, 2008, and 2007, respectively. At December 31, 2009 and December 31, 2008, accrued interest and penalties in the consolidated balance sheet on a gross basis were $53 million and $47 million, respectively. Included in these interest and penalty amounts are interest and penalties related to tax positions for which the ultimate deductibility is highly certain but for which there is uncertainty about the timing of such deductibility. Because of the impact of deferred tax accounting, other than interest and penalties, the disallowance of the shorter deductibility period would not affect the annual effective tax rate but would accelerate the payment of cash to the taxing authority to an earlier period.

The Company made discretionary contributions to its U.S. qualified pension plan of $710 million in 2009, $200 million in 2008, and $200 million in 2007. In addition, the Company made contributions to its international pension plans of $504 million in 2009, $186 million in 2008, and $151 million in 2007. The current income tax provision includes a benefit for the pension contributions; the deferred tax provision includes a cost for the related temporary difference.

As a result of certain employment commitments and capital investments made by 3M, income from manufacturing activities in Taiwan, China, Brazil, Korea, and Singapore is subject to reduced tax rates or, in some cases, is exempt from tax for years through 2011, 2012, 2013, 2014, and 2023, respectively. The income tax benefits attributable to the tax status of these subsidiaries are estimated to be $50 million (7 cents per diluted share) in 2009, $44 million (6 cents per diluted share) in 2008, and $47 million (6 cents per diluted share) in 2007.

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The Company has not provided deferred taxes on unremitted earnings attributable to international companies that have been considered to be reinvested indefinitely. These earnings relate to ongoing operations and were approximately $5.6 billion as of December 31, 2009. Because of the availability of U.S. foreign tax credits, it is not practicable to determine the income tax liability that would be payable if such earnings were not indefinitely reinvested.

NOTE 9. Marketable Securities

The Company invests in asset-backed securities, agency securities, corporate medium-term note securities and other securities. The following is a summary of amounts recorded on the Consolidated Balance Sheet for marketable securities (current and non-current).

(Millions)	**Dec. 31, 2009**	**Dec. 31, 2008**
Agency securities	**$ 326**	$ 180
Corporate securities	**154**	145
Asset-backed securities:		
Automobile loans related	**198**	24
Credit cards related	**9**	
Other	**49**	11
Asset-backed securities total	**256**	35
Other securities	**8**	13
Current marketable securities	**$ 744**	$ 373
Agency securities	**$ 165**	$ 200
Corporate securities	**112**	62
Treasury securities	**94**	12
Asset-backed securities:		
Automobile loans related	**317**	25
Credit cards related	**98**	40
Other	**34**	11
Asset-backed securities total	**449**	76
Auction rate and other securities	**5**	2
Non-current marketable securities	**$ 825**	$ 352
Total marketable securities	**$ 1,569**	$ 725

Classification of marketable securities as current or non-current is dependent upon management s intended holding period, the security s maturity date and liquidity considerations based on market conditions. If management intends to hold the securities for longer than one year as of the balance sheet date, they are classified as non-current. At December 31, 2009, gross unrealized losses totaled approximately $12 million (pre-tax), while gross unrealized gains totaled approximately $3 million (pre-tax). At December 31, 2008, gross unrealized losses totaled approximately $30 million (pre-tax), while gross unrealized gains were not material. Gross realized gains on sales or maturities of marketable securities were not material in 2009, $5 million in 2008 and $7 million in 2007. Gross realized losses on sales or maturities of marketable securities were $3 million for 2009 and were not material for 2008 and 2007. Cost of securities sold use the first in, first out (FIFO) method. Since these marketable securities are classified as available-for-sale securities, changes in fair value will flow through other comprehensive income, with amounts reclassified out of other comprehensive income into earnings upon sale or other-than-temporary impairment.

3M reviews impairments associated with the above in accordance with the measurement guidance provided by ASC 320, *Investments-Debt and Equity Securities*, when determining the classification of the impairment as temporary or other-than-temporary . In addition, as discussed in Note 1, beginning in April 2009, the Company considers the new accounting standard with respect to the determination of other-than-temporary impairments associated with investments in debt securities. A temporary impairment charge results in an unrealized loss being recorded in the other comprehensive income component of shareholders equity. Such an unrealized loss does not reduce net income attributable to 3M for the applicable accounting period because the loss is not viewed as other-than-temporary. The factors evaluated to differentiate between temporary and other-than-temporary include the projected future cash flows, credit ratings actions, and assessment of the credit quality of the underlying collateral, as well as

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the factors included in the impairment model for debt securities included in the new standard relating to other-than temporary impairments, as described in Note 1.

The balance at December 31, 2009 for marketable securities and short-term investments by contractual maturity are shown below. Actual maturities may differ from contractual maturities because the issuers of the securities may have the right to prepay obligations without prepayment penalties.

(Millions)		**Dec. 31, 2009**
Due in one year or less	$	487
Due after one year through three years		960
Due after three years through five years		88
Due after five years		34
Total marketable securities	$	1,569

3M has a diversified marketable securities portfolio of $1.569 billion as of December 31, 2009. Within this portfolio, current and long-term asset-backed securities (estimated fair value of $705 million) are primarily comprised of interests in automobile loans and credit cards. At December 31, 2009, the asset-backed securities credit ratings were AAA or A-1+, with the exception of three securities rated AA with a fair market value of less than $12 million, and one security rated A with a fair market value of less than $1 million.

Historically, 3M s marketable securities portfolio included auction rate securities that represented interests in investment grade credit default swaps; however, the estimated fair value of auction rate securities are $5 million and $1 million as of December 31, 2009 and December 31, 2008, respectively. Gross unrealized losses within accumulated other comprehensive income related to auction rate securities totaled $8 million and $16 million (pre-tax) as of December 31, 2009 and December 31, 2008, respectively. As of December 31, 2009, auction rate securities associated with these balances have been in a loss position for more than 12 months. Since the second half of 2007, these auction rate securities failed to auction due to sell orders exceeding buy orders. Liquidity for these auction-rate securities is typically provided by an auction process that resets the applicable interest rate at pre-determined intervals, usually every 7, 28, 35, or 90 days. The funds associated with failed auctions will not be accessible until a successful auction occurs or a buyer is found outside of the auction process. 3M recorded other-than-temporary impairment charges associated with these auction rate securities that reduced pre-tax income by approximately $9 million in 2008 and $8 million 2007. In addition, 3M recognized a loss in 2009 when it reclassified an unrealized loss of $2 million from other comprehensive income in connection with the sale of its position in one of these auction rate securities. Refer to Note 13 for a table that reconciles the beginning and ending balances of auction rate securities.

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NOTE 10. Long-Term Debt and Short-Term Borrowings

Long-term debt and short-term borrowings as of December 31 consisted of the following (with interest rates as of December 31, 2009):

Long-Term Debt

(Millions) Description / Principal Amount	Currency/ Fixed vs. Floating*	Effective Interest Rate*	Final Maturity Date	2009	2008
Eurobond (625 million Euros)	Euro Fixed	4.98%	2014	**$ 898**	$ 882
Medium-term note ($850 million)	USD Fixed	4.42%	2013	**849**	849
Medium-term note ($800 million)	USD Floating	3.22%	2011	**801**	799
30-year bond ($750 million)	USD Fixed	5.73%	2037	**747**	747
Eurobond (400 million Euros)	Euro Floating	1.33%	2014	**623**	603
Medium-term note ($500 million)	USD Fixed	4.67%	2012	**500**	500
Medium-term note ($400 million)	USD Floating		2009		411
30-year debenture ($330 million)	USD Fixed	6.01%	2028	**350**	351
Dealer Remarketable Securities ($350 million)	USD Fixed	5.61%	2010	**350**	350
Convertible notes ($252 million)	USD Fixed				