3M CO
Form 10-Q
May 03, 2012
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

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

SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended March 31, 2012

Commission file number: **1-3285**

3M COMPANY

(Exact name of registrant as specified in its charter)

DELAWARE	**41-0417775**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
3M Center, St. Paul, Minnesota	**55144**
(Address of principal executive offices)	(Zip Code)

(651) 733-1110

(Registrant s telephone number, including area code)

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 (§232.405 of this chapter) 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 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 Exchange Act). Yes o No x

Indicate the number of shares outstanding of each of the issuer s classes of common stock, as of the latest practicable date.

Class	**Outstanding at March 31, 2012**
Common Stock, $0.01 par value per share	693,872,048 shares

This document (excluding exhibits) contains 65 pages.

The table of contents is set forth on page 2.

The exhibit index begins on page 62.

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FORM 10-Q

For the Quarterly Period Ended March 31, 2012

PART I. Financial Information

Item 1. Financial Statements.

3M Company and Subsidiaries

Consolidated Statement of Income

(Unaudited)

(Millions, except per share amounts)	Three months ended March 31, 2012		2011	
Net sales	**$**	**7,486**	$	7,311
Operating expenses				
Cost of sales		**3,889**		3,802
Selling, general and administrative expenses		**1,552**		1,533
Research, development and related expenses		**411**		398
Total operating expenses		**5,852**		5,733
Operating income		**1,634**		1,578
Interest expense and income				
Interest expense		**40**		43
Interest income		**(9)**		(10)
Total interest expense net		**31**		33
Income before income taxes		**1,603**		1,545
Provision for income taxes		**462**		442
Net income including noncontrolling interest	**$**	**1,141**	$	1,103
Less: Net income attributable to noncontrolling interest		**16**		22
Net income attributable to 3M	**$**	**1,125**	$	1,081
Weighted average 3M common shares outstanding basic		**696.8**		711.5
Earnings per share attributable to 3M common shareholders basic	**$**	**1.61**	$	1.52
Weighted average 3M common shares outstanding diluted		**706.1**		726.4
Earnings per share attributable to 3M common shareholders diluted	**$**	**1.59**	$	1.49
Cash dividends paid per 3M common share	**$**	**0.59**	$	0.55

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

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3M Company and Subsidiaries

Consolidated Statement of Comprehensive Income

(Unaudited)

	Three months ended March 31,	
(Millions)	**2012**	**2011**
Net income including noncontrolling interest	**$ 1,141**	$ 1,103
Other comprehensive income (loss), net of tax:		
Cumulative translation adjustment	**134**	242
Defined benefit pension and postretirement plans adjustment	**97**	76
Debt and equity securities, unrealized gain (loss)	**3**	(1)
Cash flow hedging instruments, unrealized gain (loss)	**(15)**	(17)
Total other comprehensive income (loss), net of tax	**219**	300
Comprehensive income (loss) including noncontrolling interest	**1,360**	1,403
Comprehensive (income) loss attributable to noncontrolling interest	**5**	(16)
Comprehensive income (loss) attributable to 3M	**$ 1,365**	$ 1,387

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

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3M Company and Subsidiaries

Consolidated Balance Sheet

(Unaudited)

(Dollars in millions, except per share amount)	March 31, 2012	December 31, 2011
Assets		
Current assets		
Cash and cash equivalents	$ 2,332	$ 2,219
Marketable securities current	1,399	1,461
Accounts receivable net	4,323	3,867
Inventories		
Finished goods	1,609	1,536
Work in process	1,112	1,061
Raw materials and supplies	840	819
Total inventories	3,561	3,416
Other current assets	1,238	1,277
Total current assets	12,853	12,240
Marketable securities non-current	763	896
Investments	160	155
Property, plant and equipment	21,484	21,166
Less: Accumulated depreciation	(13,729)	(13,500)
Property, plant and equipment net	7,755	7,666
Goodwill	7,090	7,047
Intangible assets net	1,865	1,916
Prepaid pension benefits	43	40
Other assets	1,486	1,656
Total assets	$ 32,015	$ 31,616
Liabilities		
Current liabilities		
Short-term borrowings and current portion of long-term debt	$ 664	$ 682
Accounts payable	1,779	1,643
Accrued payroll	473	676
Accrued income taxes	423	355
Other current liabilities	2,069	2,085
Total current liabilities	5,408	5,441
Long-term debt	4,510	4,484
Pension and postretirement benefits	3,686	3,972
Other liabilities	1,792	1,857
Total liabilities	$ 15,396	$ 15,754
Commitments and contingencies (Note 10)		
Equity		
3M Company shareholders equity:		
Common stock par value, $.01 par value, 944,033,056 shares issued	$ 9	$ 9
Additional paid-in capital	3,894	3,767
Retained earnings	28,858	28,348
	(11,794)	(11,679)

Treasury stock, at cost: 250,161,008 shares at March 31, 2012; 249,063,015 shares at December 31, 2011				
Accumulated other comprehensive income (loss)		**(4,785)**		(5,025)
Total 3M Company shareholders equity		**16,182**		15,420
Noncontrolling interest		**437**		442
Total equity	**$**	**16,619**	$	15,862
Total liabilities and equity	**$**	**32,015**	$	31,616

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

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3M Company and Subsidiaries

Consolidated Statement of Cash Flows

(Unaudited)

(Millions)	Three months ended March 31, 2012	2011
Cash Flows from Operating Activities		
Net income including noncontrolling interest	**$ 1,141**	$ 1,103
Adjustments to reconcile net income including noncontrolling interest to net cash provided by operating activities		
Depreciation and amortization	**313**	289
Company pension and postretirement contributions	**(337)**	(61)
Company pension and postretirement expense	**180**	135
Stock-based compensation expense	**103**	116
Deferred income taxes	**44**	3
Excess tax benefits from stock-based compensation	**(28)**	(15)
Changes in assets and liabilities		
Accounts receivable	**(431)**	(469)
Inventories	**(96)**	(180)
Accounts payable	**118**	80
Accrued income taxes (current and long-term)	**221**	137
Product and other insurance receivables and claims	**(74)**	(39)
Other net	**(326)**	(366)
Net cash provided by operating activities	**828**	733
Cash Flows from Investing Activities		
Purchases of property, plant and equipment (PP&E)	**(261)**	(231)
Proceeds from sale of PP&E and other assets	**4**	2
Acquisitions, net of cash acquired		(471)
Purchases of marketable securities and investments	**(900)**	(757)
Proceeds from sale of marketable securities and investments	**539**	363
Proceeds from maturities of marketable securities	**574**	376
Other investing	**1**	(6)
Net cash used in investing activities	**(43)**	(724)
Cash Flows from Financing Activities		
Change in short-term debt net	**(18)**	12
Repayment of debt (maturities greater than 90 days)	**(15)**	(104)
Proceeds from debt (maturities greater than 90 days)	**6**	107
Purchases of treasury stock	**(524)**	(680)
Proceeds from issuance of treasury stock pursuant to stock option and benefit plans	**213**	378
Dividends paid to shareholders	**(410)**	(392)
Excess tax benefits from stock-based compensation	**28**	15
Other net	**(2)**	(33)
Net cash used in financing activities	**(722)**	(697)
Effect of exchange rate changes on cash and cash equivalents	**50**	58
Net increase (decrease) in cash and cash equivalents	**113**	(630)
Cash and cash equivalents at beginning of year	**2,219**	3,377
Cash and cash equivalents at end of period	**$ 2,332**	$ 2,747

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

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3M Company and Subsidiaries

Notes to Consolidated Financial Statements

(Unaudited)

NOTE 1. Significant Accounting Policies

Basis of Presentation

The interim consolidated financial statements are unaudited but, in the opinion of management, reflect all adjustments necessary for a fair statement of the Company s consolidated financial position, results of operations and cash flows for the periods presented. These adjustments consist of normal, recurring items. The results of operations for any interim period are not necessarily indicative of results for the full year. The interim consolidated financial statements and notes are presented as permitted by the requirements for Quarterly Reports on Form 10-Q. This Quarterly Report on Form 10-Q should be read in conjunction with the Company s consolidated financial statements and notes included in its 2011 Annual Report on Form 10-K.

Effective with 3M s second-quarter 2011 Form 10-Q, the Company revised the amounts previously presented for cash used in investing activities and cash used in financing activities during the three months ended March 31, 2011 by $33 million. This related to purchases of additional shares (noncontrolling interest) of non-wholly owned consolidated subsidiaries. These immaterial revisions increased cash used in financing activities and decreased cash used in investing activities.

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 a result of the dilution associated with the Company s stock-based compensation plans. Certain options outstanding under these stock-based compensation plans 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 (19.2 million average options for the three months ended March 31, 2012 and 3.6 million average options for the three months ended March 31, 2011). The computations for basic and diluted earnings per share follow:

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Earnings Per Share Computations

(Amounts in millions, except per share amounts)	Three months ended March 31, 2012	2011
Numerator:		
Net income attributable to 3M	**$ 1,125**	$ 1,081
Denominator:		
Denominator for weighted average 3M common shares outstanding basic	**696.8**	711.5
Dilution associated with the Company s stock-based compensation plans	**9.3**	14.9
Denominator for weighted average 3M common shares outstanding diluted	**706.1**	726.4
Earnings per share attributable to 3M common shareholders basic	**$ 1.61**	$ 1.52
Earnings per share attributable to 3M common shareholders diluted	**$ 1.59**	$ 1.49

New Accounting Pronouncements

In May 2011, the Financial Accounting Standards Board (FASB) issued Accounting Standards Updated (ASU) No. 2011-04, *Fair Value Measurement: Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRSs.* This standard clarifies guidance on how to measure fair value and is largely consistent with existing fair value measurement principles. The ASU also expands existing disclosure requirements for fair value measurements and makes other amendments. For 3M, this ASU was effective prospectively beginning January 1, 2012. The adoption of this standard did not have a material impact on 3M s consolidated results of operations or financial condition.

In September 2011, the FASB issued ASU No. 2011-08, *Testing Goodwill for Impairment.* Under this new standard, entities testing goodwill for impairment now have an option of performing a qualitative assessment before having to calculate the fair value of a reporting unit. If an entity determines, on the basis of qualitative factors, that the fair value of the reporting unit is more-likely-than-not less than the carrying amount, the existing quantitative impairment test is required. Otherwise, no further impairment testing is required. For 3M, this ASU was effective beginning January 1, 2012, with early adoption permitted under certain conditions. The adoption of this standard did not have a material impact on 3M s consolidated results of operations or financial condition.

In December 2011, the FASB issued ASU No. 2011-11, *Disclosures About Offsetting Assets and Liabilities*, which creates new disclosure requirements regarding the nature of an entity s rights of setoff and related arrangements associated with its financial instruments and derivative instruments. Certain disclosures of the amounts of certain instruments subject to enforceable master netting arrangements or similar agreements would be required, irrespective of whether the entity has elected to offset those instruments in the statement of financial position. For 3M, the ASU is effective January 1, 2013 with retrospective application required. 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

3M makes acquisitions of certain businesses from time to time that the Company feels align with its strategic intent with respect to, among other factors, growth markets and adjacent product lines or technologies. Goodwill resulting from business combinations is largely attributable to the existing workforce of the acquired businesses and synergies expected to arise after 3M s acquisition of these businesses. 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.

During the three months ended March 31, 2012, 3M did not complete any business combinations. Adjustments in the first quarter of 2012 to the preliminary purchase price allocations of other acquisitions within the allocation period were not material and related to the 2011 acquisitions of Wintherthur Technologie AG and the business acquired from GPI Group. The allocation of purchase price related to the business purchased from GPI Group in October 2011 is considered preliminary, largely with respect to certain acquired intangible assets and tax-related assets and liabilities. Refer to Note 2 in 3M s 2011 Annual Report on Form 10-K for more information on 3M s 2011 acquisitions.

In December 2011, 3M entered into a definitive agreement to acquire the Office and Consumer Products business of Avery Dennison Corp. for a total purchase price of approximately $550 million, subject to certain adjustments. The Office and Consumer Products business of Avery Dennison is a leading supplier of office and education products, including labels, binders, presentation products, filing and indexing products, writing instruments, and other office and home organization products. The transaction is expected to be completed in the second half of 2012, subject to customary closing conditions including any necessary regulatory approvals.

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NOTE 3. Goodwill and Intangible Assets

No acquisitions closed during the three months ended March 31, 2012. The acquisition activity in the following table includes the net impacts of adjustments to the preliminary allocation of purchase price for prior year acquisitions, which increased goodwill by $12 million. The amounts in the Translation and other column in the following table primarily relate to changes in foreign currency exchange rates. The goodwill balance by business segment as of December 31, 2011 and March 31, 2012, follow:

Goodwill

(Millions)	December 31, 2011 Balance	Acquisition activity	Translation and other	March 31, 2012 Balance
Industrial and Transportation	$ 1,961	$ 6	$ 26	$ 1,993
Health Care	1,514		5	1,519
Consumer and Office	228	6	3	237
Safety, Security and Protection Services	1,675		4	1,679
Display and Graphics	993		(8)	985
Electro and Communications	676		1	677
Total Company	$ 7,047	$ 12	$ 31	$ 7,090

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.

Effective in the first quarter of 2012, 3M made certain product moves across divisions within its business segments, but none were across business segments. For any product moves that resulted in reporting unit changes, the Company applied the relative fair value method to determine the impact on goodwill of the associated reporting units. In addition, during the first quarter of 2012, the Company completed its assessment of any potential goodwill impairment for reporting units impacted by this new structure and determined that no impairment existed.

Acquired Intangible Assets

3M did not complete any business combinations during the three months ended March 31, 2012. As a result, balances of acquired intangible assets were primarily impacted by changes in foreign currency exchange rates. The carrying amount and accumulated amortization of acquired finite-lived intangible assets, in addition to the balance of non-amortizable intangible assets, as of March 31, 2012, and December 31, 2011, follow:

(Millions)	March 31, 2012	December 31, 2011
Patents	$ 564	$ 561

Other amortizable intangible assets (primarily tradenames and customer related intangibles)		**2,251**		2,323
Total gross carrying amount	**$**	**2,815**	$	2,884
Accumulated amortization patents		**(385)**		(374)
Accumulated amortization other		**(690)**		(717)
Total accumulated amortization	**$**	**(1,075)**	$	(1,091)
Total finite-lived intangible assets net	**$**	**1,740**	$	1,793
Non-amortizable intangible assets (tradenames)		**125**		123
Total intangible assets net	**$**	**1,865**	$	1,916

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Amortization expense for acquired intangible assets for the three months ended March 31, 2012 and 2011 follows:

	Three months ended March 31,	
(Millions)	**2012**	**2011**
Amortization expense	**$ 58**	$ 54

The table below shows expected amortization expense for acquired amortizable intangible assets recorded as of March 31, 2012:

	Remainder of 2012	2013	2014	2015	2016	2017	After 2017
Amortization expense	$ 170	$ 214	$ 191	$ 178	$ 166	$ 152	$ 669

The 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. Supplemental Equity and Comprehensive Income Information

Consolidated Statement of Changes in Equity

Three months ended March 31, 2012		**3M Company Shareholders**				
(Millions)	**Total**	**Common Stock and Additional Paid-in Capital**	**Retained Earnings**	**Treasury Stock**	**Accumulated Other Comprehen-sive Income (Loss)**	**Non-controlling Interest**
Balance at December 31, 2011	$ 15,862	$ 3,776	$ 28,348	$ (11,679)	$ (5,025)	$ 442
Net income	1,141		1,125			16
Other comprehensive income (loss), net of tax:						
Cumulative translation adjustment	134				155	(21)
Defined benefit pension and post-retirement plans adjustment	97				97	
Debt and equity securities - unrealized gain (loss)	3				3	
Cash flow hedging instruments - unrealized gain (loss)	(15)				(15)	
Total other comprehensive income (loss), net of tax	219					
Dividends paid	(410)		(410)			
Stock-based compensation, net of tax impacts	127	127				
Reacquired stock	(534)			(534)		
Issuances pursuant to stock option and benefit plans	214		(205)	419		
Balance at March 31, 2012	$ 16,619	$ 3,903	$ 28,858	$ (11,794)	$ (4,785)	$ 437

Three months ended March 31, 2011		**3M Company Shareholders**				
(Millions)	**Total**	**Common Stock and Additional Paid-in Capital**	**Retained Earnings**	**Treasury Stock**	**Accumulated Other Comprehen-sive Income (Loss)**	**Non-controlling Interest**
Balance at December 31, 2010	$ 16,017	$ 3,477	$ 25,995	$ (10,266)	$ (3,543)	$ 354
Net income	1,103		1,081			22
Other comprehensive income (loss), net of tax:						
Cumulative translation adjustment	242				248	(6)
Defined benefit pension and post-retirement plans adjustment	76				76	
Debt and equity securities - unrealized gain (loss)	(1)				(1)	
Cash flow hedging instruments - unrealized gain (loss)	(17)				(17)	
Total other comprehensive income (loss), net of tax	300					
Dividends paid	(392)		(392)			
Business combination allocation to noncontrolling interest	56					56

Purchase and sale of subsidiary shares - net	(33)					(33)
Stock-based compensation, net of tax impacts	131	131				
Reacquired stock	(675)			(675)		
Issuances pursuant to stock option and benefit plans	380		(163)	543		
Balance at March 31, 2011	$ 16,887	$ 3,608	$ 26,521	$ (10,398)	$ (3,237)	$ 393

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Accumulated Other Comprehensive Income (Loss) Attributable to 3M

(Millions)	March 31, 2012	December 31, 2011
Cumulative translation adjustment	**$ 269**	$ 114
Defined benefit pension and postretirement plans adjustment	**(5,058)**	(5,155)
Debt and equity securities, unrealized gain (loss)	**(3)**	(6)
Cash flow hedging instruments, unrealized gain (loss)	**7**	22
Total accumulated other comprehensive income (loss)	**$ (4,785)**	$ (5,025)

Components of Comprehensive Income (Loss) Attributable to 3M

	Three months ended March 31,	
(Millions)	2012	2011
Net income attributable to 3M	**$ 1,125**	$ 1,081
Cumulative translation	**155**	221
Tax effect		27
Cumulative translation - net of tax	**155**	248
Defined benefit pension and postretirement plans adjustment	**153**	119
Tax effect	**(56)**	(43)
Defined benefit pension and postretirement plans adjustment - net of tax	**97**	76
Debt and equity securities, unrealized gain (loss)	**5**	(2)
Tax effect	**(2)**	1
Debt and equity securities, unrealized gain (loss) - net of tax	**3**	(1)
Cash flow hedging instruments, unrealized gain (loss)	**(24)**	(27)
Tax effect	**9**	10
Cash flow hedging instruments unrealized gain (loss) - net of tax	**(15)**	(17)
Total comprehensive income (loss) attributable to 3M	**$ 1,365**	$ 1,387

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 including noncontrolling interest that related to pension and postretirement expense in the income statement were $153 million pre-tax ($97 million after-tax) for the three months ended March 31, 2012 and $119 million pre-tax ($76 million after-tax) for the three months ended March 31, 2011. These pension and postretirement expense pre-tax amounts are shown in the table in Note 7 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 8. Reclassifications to earnings from accumulated other comprehensive income that related to realized losses due to sales or impairments (net of realized gains) for debt and equity securities were $1 million pre-tax ($1 million after-tax) for the three months ended March 31, 2012 and not material for the three months ended March 31, 2011. 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.

Purchase of Subsidiary Shares and Transfers of Ownership Interests Involving Non-Wholly Owned Subsidiaries

As discussed in Note 2 in 3M s 2011 Annual Report on Form 10-K, in early March 2011, 3M acquired a controlling interest in Winterthur Technologie AG (Winterthur), making Winterthur a consolidated subsidiary as of this business acquisition date. As of this business acquisition date, noncontrolling interest related to Winterthur totaled $56 million. Subsequent to this business acquisition date, 3M purchased additional outstanding shares of its Winterthur subsidiary increasing 3M s ownership interest from approximately 86 percent as of the business acquisition date to approximately 94 percent as of March 31, 2011, and subsequently to 100 percent as of December 31, 2011. The $33 million of cash paid in the first quarter of 2011 as a result of these additional purchases of Winterthur shares was classified as other financing activity in the consolidated statement of cash flows. These additional purchases did not result in a material transfer from noncontrolling interest to 3M Company shareholders equity.

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NOTE 5. Income Taxes

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 2003.

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 protested certain IRS positions within these tax years and entered into the administrative appeals process with the IRS during the first quarter of 2010. During the first quarter of 2010, the IRS completed its field examination of the Company s U.S. federal income tax return for the 2008 year. The Company protested certain IRS positions for 2008 and entered into the administrative appeals process with the IRS during the second quarter of 2010. During the first quarter of 2011, the IRS completed its field examination of the Company s U.S. federal income tax return for the 2009 year. The Company protested certain IRS positions for 2009 and entered into the administrative appeals process with the IRS during the second quarter of 2011. During the first quarter of 2012, the IRS completed its field examination of the Company s U.S. federal income tax return for the 2010 year. The Company protested certain IRS positions for 2010 and is expected to enter into the administrative appeals process with the IRS during the second quarter of 2012.

Currently, the Company is under examination by the IRS for its U.S. federal income tax returns for the years 2011 and 2012. It is anticipated that the IRS will complete its examination of the Company for 2011 by the end of the first quarter of 2013, and for 2012 by the end of the first quarter of 2014. As of March 31, 2012, the IRS has not proposed any significant adjustments to the Company s tax positions for which the Company is not adequately reserved.

During the first quarter of 2010, the Company paid the agreed upon assessments for the 2005 tax year. During the second quarter of 2010, the Company paid the agreed upon assessments for the 2008 tax year. During the second quarter of 2011, the Company received a refund from the IRS for the 2004 tax year. During the first quarter of 2012, the Company paid the agreed upon assessments for the 2010 tax year. Payments relating to other proposed assessments arising from the 2005 through 2012 examinations 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 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 total amounts of unrecognized tax benefits that, if recognized, would affect the effective tax rate as of March 31, 2012 and December 31, 2011, respectively, are $246 million and $295 million.

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 $3 million of benefit and $2 million of benefit for the three months ended March 31, 2012 and March 31, 2011, respectively. At March 31, 2012 and December 31, 2011, accrued interest and penalties in the consolidated balance sheet on a gross basis was $56 million. 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 effective tax rate for the first three months of 2012 was 28.8 percent, compared to 28.6 percent in the first three months of 2011, an increase of 0.2 percent. The Company s effective tax rate was negatively impacted during the first quarter of 2012 due to the lapse of the U.S. research and development credit and adjustments to its income tax reserves. This was partially offset by a benefit to international taxes, with this benefit largely due to the geographic mix of income before taxes and the corporate reorganization of a wholly owned international subsidiary in 2011.

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 exits. As of March 31, 2012 and December 31, 2011, the Company had valuation allowances of $30 million and $82 million on its deferred tax assets, respectively. The valuation allowance was reduced in the first quarter of 2012 due to the closure of audits with certain taxing authorities.

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NOTE 6. Marketable Securities

The Company invests in agency securities, corporate securities, asset-backed securities, treasury 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)		March 31, 2012		December 31, 2011
U.S. government agency securities	**$**	**105**	$	119
Foreign government agency securities		**3**		8
Corporate debt securities		**360**		413
Commercial paper		**70**		30
Certificates of deposit/time deposits		**58**		49
U.S. treasury securities		**20**		
U.S. municipal securities		**14**		9
Asset-backed securities:				
Automobile loan related		**484**		530
Credit card related		**220**		244
Equipment lease related		**59**		54
Other		**6**		5
Asset-backed securities total		**769**		833
Current marketable securities	**$**	**1,399**	$	1,461
U.S. government agency securities	**$**	**257**	$	361
Foreign government agency securities				15
Corporate debt securities		**275**		255
U.S. treasury securities		**39**		34
U.S. municipal securities		**5**		5
Auction rate securities		**5**		4
Asset-backed securities:				
Automobile loan related		**99**		188
Credit card related		**39**		24
Equipment lease related		**44**		10
Asset-backed securities total		**182**		222
Non-current marketable securities	**$**	**763**	$	896
Total marketable securities	**$**	**2,162**	$	2,357

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 March 31, 2012, gross unrealized losses totaled approximately $9 million (pre-tax), while gross unrealized gains totaled approximately $4 million (pre-tax). At December 31, 2011, gross unrealized losses totaled approximately $12 million (pre-tax), while gross unrealized gains totaled approximately $3 million (pre-tax). Gross realized gains and losses on sales or maturities of marketable securities for the first three months of 2012 and 2011 were not material. 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 its marketable securities 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 . 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 other factors.

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The balances at March 31, 2012 for marketable securities 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)		March 31, 2012
Due in one year or less	$	915
Due after one year through three years		1,085
Due after three years through five years		147
Due after five years		15
Total marketable securities	$	2,162

3M has a diversified marketable securities portfolio of $2.162 billion as of March 31, 2012. Within this portfolio, current and long-term asset-backed securities (estimated fair value of $951 million) are primarily comprised of interests in automobile loans and credit cards. At March 31, 2012, the asset-backed securities credit ratings were AAA/Aaa or A-1+/P1, with the exception of two securities (one rated AAA/A3 and one rated AAA/Aa3) with a fair market value of approximately $5 million.

3M s marketable securities portfolio includes auction rate securities that represent interests in investment grade credit default swaps; however, currently these holdings comprise less than one percent of this portfolio. The estimated fair value of auction rate securities was $5 million and $4 million as of March 31, 2012 and December 31, 2011, respectively. Gross unrealized losses within accumulated other comprehensive income related to auction rate securities totaled $8 million (pre-tax) and $9 million (pre-tax) as of March 31, 2012 and December 31, 2011, respectively. As of March 31, 2012, 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. Refer to Note 9 for a table that reconciles the beginning and ending balances of auction rate securities.

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NOTE 7. Pension and Postretirement Benefit Plans

Components of net periodic benefit cost and other supplemental information for the three months ended March 31, 2012 and 2011 follow:

Benefit Plan Information

	Three months ended March 31,					
	Qualified and Non-qualified Pension Benefits				Postretirement Benefits	
	United States		International			
(Millions)	2012	2011	2012	2011	2012	2011
Net periodic benefit cost (benefit)						
Service cost	**$ 63**	$ 51	**$ 31**	$ 28	**$ 19**	$ 15
Interest cost	**147**	158	**61**	62	**22**	23
Expected return on plan assets	**(248)**	(232)	**(73)**	(70)	**(21)**	(19)
Amortization of transition (asset) obligation			**(1)**			
Amortization of prior service cost (benefit)	**2**	3	**(4)**	(3)	**(18)**	(18)
Amortization of net actuarial (gain) loss	**117**	83	**30**	28	**27**	26
Net periodic benefit cost (benefit)	**$ 81**	$ 63	**$ 44**	$ 45	**$ 29**	$ 27
Settlements, curtailments, special termination benefits and other	**26**					
Net periodic benefit cost (benefit) after settlements, curtailments, special termination benefits and other	**$ 107**	$ 63	**$ 44**	$ 45	**$ 29**	$ 27

For the three months ended March 31, 2012, contributions totaling $300 million were made to the Company s U.S. and international pension plans and $37 million to its postretirement plans. For total year 2012, the Company expects to contribute approximately $1 billion of cash to its U.S. and international pension and postretirement plans. The Company does not have a required minimum cash pension contribution obligation for its U.S. plans in 2012. Therefore, the amount of the anticipated discretionary pension contribution could vary significantly depending on the U.S. plans funded status and the anticipated tax deductibility of the contribution. Future contributions will also depend on market conditions, interest rates and other factors. 3M s annual measurement date for pension and postretirement assets and liabilities is December 31 each year, which is also the date used for the related annual measurement assumptions.

In December 2011, the Company began offering a voluntary early retirement incentive program to certain eligible participants of its U.S. pension plans who met age and years of pension service requirements. The eligible participants who accepted the offer and retired on February 1, 2012 received an enhanced pension benefit. Pension benefits are enhanced by adding one additional year of pension service and one additional year of age for certain benefit calculations. 616 participants accepted the offer and retired on February 1, 2012. As a result, the Company incurred a $26 million charge related to these special termination benefits in the first quarter of 2012.

3M was informed during the first quarter of 2009 that the general partners of WG Trading Company, in which 3M s benefit plans hold limited partnership interests, are the subject of a criminal investigation as well as civil proceedings by the SEC and CFTC (Commodity Futures Trading Commission). In March 2011, over the objections of 3M and six other limited partners of WG Trading Company, the district court judge ruled in favor of the court appointed receiver s proposed distribution plan. In April 2011, the 3M benefit plans received their share under the court-ordered distribution plan. 3M and six other limited partners of WG Trading Company have appealed the court s order to the United States

Court of Appeals for the Second Circuit. The benefit plan trustee holdings of WG Trading Company interests were adjusted to reflect the decreased estimated fair market value, inclusive of estimated insurance proceeds, as of the annual measurement dates. The Company has insurance that it believes, based on what is currently known, will result in the recovery of a portion of the decrease in original asset value. As of the 2011 measurement date these holdings represented less than one percent of 3M s fair value of total plan assets. 3M currently believes that the resolution of these events will not have a material adverse effect on the consolidated financial position of the Company.

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NOTE 8. Derivatives

The Company uses interest rate swaps, currency swaps, commodity price swaps, and forward and option contracts to manage risks generally associated with foreign exchange rate, interest rate and commodity price fluctuations. The information that follows explains the various types of derivatives and financial instruments used by 3M, how and why 3M uses such instruments, how such instruments are accounted for, and how such instruments impact 3M s financial position and performance.

Additional information with respect to the impacts on other comprehensive income of nonderivative hedging and derivative instruments is included in Note 4. Additional information with respect to the fair value of derivative instruments is included in Note 9. References to information regarding derivatives and/or hedging instruments associated with the Company s long-term debt are also made in Note 10 to the Consolidated Financial Statements in 3M s 2011 Annual Report on Form 10-K.

Types of Derivatives/Hedging Instruments and Inclusion in Income/Other Comprehensive Income

Cash Flow Hedges:

For derivative instruments that are designated and qualify as cash flow hedges, the effective portion of the gain or loss on the derivative is reported as a component of other comprehensive income and reclassified into earnings in the same period during which the hedged transaction affects earnings. Gains and losses on the derivative representing either hedge ineffectiveness or hedge components excluded from the assessment of effectiveness are recognized in current earnings.

Cash Flow Hedging - Foreign Currency Forward and Option Contracts: The Company enters into foreign exchange forward and option contracts to hedge against the effect of exchange rate fluctuations on cash flows denominated in foreign currencies and certain intercompany financing transactions. These transactions are designated as cash flow hedges. The settlement or extension of these derivatives will result in reclassifications (from accumulated other comprehensive income) to earnings in the period during which the hedged transactions affect earnings. Generally, 3M dedesignates these cash flow hedge relationships in advance of the occurrence of the forecasted transaction. The portion of gains or losses on the derivative instrument previously accumulated in other comprehensive income for dedesignated hedges remains in accumulated other comprehensive income until the forecasted transaction occurs. Changes in the value of derivative instruments after dedesignation are recorded in earnings and are included in the Derivatives Not Designated as Hedging Instruments section below. Hedge ineffectiveness and the amount excluded from effectiveness testing recognized in income on cash flow hedges were not material for the three months ended March 31, 2012 and 2011. The maximum length of time over which 3M hedges its exposure to the variability in future cash flows for a majority of the forecasted transactions is 12 months and, accordingly, at March 31, 2012, the majority of the Company s open foreign exchange forward and option contracts had maturities of one year or less. The dollar equivalent gross notional amount of the Company s foreign exchange forward and option contracts designated as cash flow hedges at March 31, 2012 was approximately $5.2 billion.

Cash Flow Hedging - Commodity Price Management: The Company manages commodity price risks through negotiated supply contracts, price protection agreements and forward physical contracts. The Company uses commodity price swaps relative to natural gas as cash flow hedges of forecasted transactions to manage price volatility. The related mark-to-market gain or loss on qualifying hedges is included in other comprehensive income to the extent effective, and reclassified into cost of sales in the period during which the hedged transaction affects earnings. Generally, the length of time over which 3M hedges its exposure to the variability in future cash flows for its forecasted natural gas transactions is 12 months. No significant commodity cash flow hedges were discontinued and hedge ineffectiveness was not material for the three months ended March 31, 2012 and 2011. The dollar equivalent gross notional amount of the Company s natural gas commodity price swaps designated as cash flow hedges at March 31, 2012 was $23 million.

Cash Flow Hedging - Forecasted Debt Issuance: In August 2011, in anticipation of the September 2011 issuance of $1 billion in five-year fixed rate notes, 3M executed a pre-issuance cash flow hedge on a notional amount of $400 million by entering into a forward-starting five-year floating-to-fixed interest rate swap. Upon debt issuance in September 2011, 3M terminated the floating-to-fixed interest rate swap. The termination of the swap resulted in a $7 million pre-tax loss ($4 million after-tax) that is amortized over the five-year life of the note and, when material, is included in the tables below as part of the loss recognized in income on the effective portion of derivatives as a result of reclassification from accumulated other comprehensive income.

As of March 31, 2012, the Company had a balance of $7 million associated with the after-tax net unrealized gain associated with cash flow hedging instruments recorded in accumulated other comprehensive income. This includes a $4

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million balance (loss) related to a floating-to-fixed interest rate swap (discussed in the preceding paragraph), which is being amortized over the five-year life of the note. 3M expects to reclassify a majority of the remaining balance to earnings over the next 12 months (with the impact offset by cash flows from underlying hedged items).

The location in the consolidated statements of income and comprehensive income and amounts of gains and losses related to derivative instruments designated as cash flow hedges are provided in the following table. Reclassifications of amounts from accumulated other comprehensive income into income include accumulated gains (losses) on dedesignated hedges at the time earnings are impacted by the forecasted transaction.

Three months ended March 31, 2012 (Millions)	**Pretax Gain (Loss) Recognized in Other Comprehensive Income on Effective Portion of Derivative**	**Pretax Gain (Loss) Recognized in Income on Effective Portion of Derivative as a Result of Reclassification from Accumulated Other Comprehensive Income**		**Ineffective Portion of Gain (Loss) on Derivative and Amount Excluded from Effectiveness Testing Recognized in Income**	
Derivatives in Cash Flow Hedging Relationships	**Amount**	**Location**	**Amount**	**Location**	**Amount**
Foreign currency forward/option contracts	$ (24)	Cost of sales	$	Cost of sales	$
Foreign currency forward contracts	1	Interest expense		Interest expense	
Commodity price swap contracts	(5)	Cost of sales	(4)	Cost of sales	
Total	$ (28)		$ (4)		$

Three months ended March 31, 2011 (Millions)	**Pretax Gain (Loss) Recognized in Other Comprehensive Income on Effective Portion of Derivative**	**Pretax Gain (Loss) Recognized in Income on Effective Portion of Derivative as a Result of Reclassification from Accumulated Other Comprehensive Income**		**Ineffective Portion of Gain (Loss) on Derivative and Amount Excluded from Effectiveness Testing Recognized in Income**	
Derivatives in Cash Flow Hedging Relationships	**Amount**	**Location**	**Amount**	**Location**	**Amount**
Foreign currency forward/option contracts	$ (34)	Cost of sales	$ (6)	Cost of sales	$
Foreign currency forward contracts	8	Interest expense	10	Interest expense	
Commodity price swap contracts	(1)	Cost of sales	(4)	Cost of sales	
Total	$ (27)		$		$

Fair Value Hedges:

For derivative instruments that are designated and qualify as fair value hedges, the gain or loss on the derivatives as well as the offsetting loss or gain on the hedged item attributable to the hedged risk are recognized in current earnings.

Fair Value Hedging - Interest Rate Swaps: The Company manages interest expense 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 mark-to-market of these fair value hedges is recorded as gains or losses in interest expense and is offset by the gain or loss of the underlying debt instrument, which also is recorded in interest expense. These fair value hedges are highly effective and, thus, there is no impact on earnings due to hedge ineffectiveness. The dollar equivalent (based on inception date foreign currency exchange rates) gross notional amount of the Company s interest rate swaps at March 31, 2012 was $342 million.

At March 31, 2012, the Company had interest rate swaps designated as fair value hedges of underlying fixed rate obligations. In July 2007, in connection with the issuance of a seven-year Eurobond for an amount of 750 million Euros, the Company completed a fixed-to-floating interest rate swap on a notional amount of 400 million Euros as a fair value hedge of a portion of the fixed interest rate Eurobond obligation. In August 2010, the Company terminated 150 million Euros of the notional amount of this swap. As a result, a gain of 18 million Euros, recorded as part of the balance of the underlying debt, will be amortized over this debt s remaining life. Prior to termination of the applicable portion of the interest rate swap, the mark-to-market of the hedge instrument was recorded as gains or losses in interest expense and was offset by the gain or loss on carrying value of the underlying debt instrument. Consequently, the subsequent amortization of the 18 million Euros recorded as part of the underlying debt balance is not part of gain on hedged items recognized in income in the tables below.

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The Company also had two fixed-to-floating interest rate swaps with an aggregate notional amount of $800 million designated as fair value hedges of the fixed interest rate obligation under its $800 million, three-year, 4.50% notes issued in October 2008. These swaps and underlying note matured in the fourth quarter of 2011.

The location in the consolidated statements of income and amounts of gains and losses related to derivative instruments designated as fair value hedges and similar information relative to the hedged items are as follows:

Three months ended March 31, 2012 (Millions)	Gain (Loss) on Derivative Recognized in Income		Gain (Loss) on Hedged Item Recognized in Income	
Derivatives in Fair Value Hedging Relationships	Location	Amount	Location	Amount
Interest rate swap contracts	Interest expense	$ (1)	Interest expense	$ 1
Total		$ (1)		$ 1

Three months ended March 31, 2011 (Millions)	Gain (Loss) on Derivative Recognized in Income		Gain (Loss) on Hedged Item Recognized in Income	
Derivatives in Fair Value Hedging Relationships	Location	Amount	Location	Amount
Interest rate swap contracts	Interest expense	$ (10)	Interest expense	$ 10
Total		$ (10)		$ 10

Net Investment Hedges:

As circumstances warrant, the Company uses cross currency swaps, forwards and foreign currency denominated debt to hedge portions of the Company s net investments in foreign operations. For hedges that meet the effectiveness requirements, the net gains or losses attributable to changes in spot exchange rates are recorded in cumulative translation within other comprehensive income. The remainder of the change in value of such instruments is recorded in earnings. Recognition in earnings of amounts previously recorded in cumulative translation is limited to circumstances such as complete or substantially complete liquidation of the net investment in the hedged foreign operation. At March 31, 2012, there were no cross currency swaps and foreign currency forward contracts designated as net investment hedges.

In addition to the derivative instruments used as hedging instruments in net investment hedges, 3M also uses foreign currency denominated debt as nonderivative hedging instruments in certain net investment hedges. In July and December 2007, the Company issued seven-year fixed rate Eurobond securities for amounts of 750 million Euros and 275 million Euros, respectively. 3M designated each of these Eurobond issuances as hedging instruments of the Company s net investment in its European subsidiaries.

The location in the consolidated statements of income and comprehensive income and amounts of gains and losses related to derivative and nonderivative instruments designated as net investment hedges are as follows. There were no reclassifications of the effective portion of net investment hedges out of accumulated other comprehensive income into income for the periods presented in the table below.

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Three months ended March 31, 2012 Derivative and Nonderivative Instruments in Net Investment Hedging Relationships (Millions)	Pretax Gain (Loss) Recognized as Cumulative Translation within Other Comprehensive Income on Effective Portion of Instrument Amount		Ineffective Portion of Gain (Loss) on Instrument and Amount Excluded from Effectiveness Testing Recognized in Income Location	Amount
Foreign currency denominated debt	$	(40)	N/A	$
Total	$	(40)		$

Three months ended March 31, 2011 Derivative and Nonderivative Instruments in Net Investment Hedging Relationships (Millions)	Pretax Gain (Loss) Recognized as Cumulative Translation within Other Comprehensive Income on Effective Portion of Instrument Amount		Ineffective Portion of Gain (Loss) on Instrument and Amount Excluded from Effectiveness Testing Recognized in Income Location	Amount
Foreign currency denominated debt	$	(85)	N/A	$
Total	$	(85)		$

Derivatives Not Designated as Hedging Instruments:

Derivatives not designated as hedging instruments include dedesignated foreign currency forward and option contracts that formerly were designated in cash flow hedging relationships (as referenced in the preceding Cash Flow Hedges section). In addition, 3M enters into foreign currency forward contracts and commodity price swaps to offset, in part, the impacts of certain intercompany activities (primarily associated with intercompany licensing arrangements) and fluctuations in costs associated with the use of certain precious metals, respectively. These derivative instruments are not designated in hedging relationships; therefore, fair value gains and losses on these contracts are recorded in earnings. The dollar equivalent gross notional amount of these forward, option and swap contracts not designated as hedging instruments totaled \$1.1 billion as of March 31, 2012. The Company does not hold or issue derivative financial instruments for trading purposes.

The location in the consolidated statements of income and amounts of gains and losses related to derivative instruments not designated as hedging instruments are as follows:

Derivatives Not Designated as Hedging Instruments (Millions)	Three months ended March 31, 2012 Gain (Loss) on Derivative Recognized in Income Location	Amount	
Foreign currency forward/option contracts	Cost of sales	$	(15)
Foreign currency forward contracts	Interest expense		27
Commodity price swap contracts	Cost of sales		1
Total		$	13

Derivatives Not Designated as Hedging Instruments (Millions)	Three months ended March 31, 2011 Gain (Loss) on Derivative Recognized in Income Location	Amount	
Foreign currency forward/option contracts	Cost of sales	$	(12)
Foreign currency forward contracts	Interest expense		16
Total		$	4

Location and Fair Value Amount of Derivative Instruments

The following tables summarize the fair value of 3M s derivative instruments, excluding nonderivative instruments used as hedging instruments, and their location in the consolidated balance sheet. Additional information with respect to the fair value of derivative instruments is included in Note 9.

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March 31, 2012 (Millions) Fair Value of Derivative Instruments	Assets Location	Amount	Liabilities Location	Amount
Derivatives designated as hedging instruments				
Foreign currency forward/option contracts	Other current assets	$ 34	Other current liabilities	$ 36
Commodity price swap contracts	Other current assets		Other current liabilities	7
Interest rate swap contracts	Other assets	27	Other liabilities	
Total derivatives designated as hedging instruments		$ 61		$ 43
Derivatives not designated as hedging instruments				
Foreign currency forward/option contracts	Other current assets	$ 18	Other current liabilities	$ 11
Total derivatives not designated as hedging instruments		$ 18		$ 11
Total derivative instruments		$ 79		$ 54

December 31, 2011 (Millions) Fair Value of Derivative Instruments	Assets Location	Amount	Liabilities Location	Amount
Derivatives designated as hedging instruments				
Foreign currency forward/option contracts	Other current assets	$ 82	Other current liabilities	$ 34
Commodity price swap contracts	Other current assets		Other current liabilities	7
Interest rate swap contracts	Other assets	28	Other liabilities	
Total derivatives designated as hedging instruments		$ 110		$ 41
Derivatives not designated as hedging instruments				
Foreign currency forward/option contracts	Other current assets	$ 25	Other current liabilities	$ 8
Total derivatives not designated as hedging instruments		$ 25		$ 8
Total derivative instruments		$ 135		$ 49

Currency Effects and Credit Risk

Currency Effects: 3M estimates that year-on-year currency effects, including hedging impacts, decreased net income attributable to 3M by approximately $26 million for the three months ended March 31, 2012. This estimate includes the effect of translating profits from local currencies into U.S. dollars and the impact of currency fluctuations on the transfer of goods between 3M operations in the United States and abroad. This estimate also includes year-on-year currency effects from 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, which 3M estimates decreased net income attributable to 3M by approximately $7 million for three months ended March 31, 2012.

Credit Risk: The Company is exposed to credit loss in the event of nonperformance by counterparties in interest rate swaps, currency swaps, commodity price swaps, and forward and option contracts. However, the Company s risk is limited to the fair value of the instruments. The Company actively monitors its exposure to credit risk through the use of credit approvals and credit limits, and by selecting major international banks and financial institutions as counterparties. 3M enters into master netting agreements with counterparties when possible to mitigate credit risk in derivative transactions. A master netting arrangement may allow counterparties to net settle amounts owed to each other as a result of multiple, separate derivative transactions. The Company does not anticipate nonperformance by any of these counterparties. 3M has credit support agreements in place with two of its primary derivatives counterparties. Under these agreements, either party is required to post eligible collateral when the market value of transactions covered by these agreements exceeds specified thresholds, thus limiting credit exposure for both parties. For presentation purposes on 3M s consolidated balance sheet, the fair value of derivative assets or liabilities are presented on a gross basis even when derivative transactions are subject to master netting arrangements and may qualify for net presentation.

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NOTE 9. Fair Value Measurements

3M follows ASC 820, *Fair Value Measurements and Disclosures*, with respect to assets and liabilities that are measured at fair value on a recurring basis and nonrecurring basis. Under the standard, fair value is defined as the exit price, or the amount that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants as of the measurement date. The standard also establishes a hierarchy for inputs used in measuring fair value that maximizes the use of observable inputs and minimizes the use of unobservable inputs by requiring that the most observable inputs be used when available. Observable inputs are inputs market participants would use in valuing the asset or liability developed based on market data obtained from sources independent of the Company. Unobservable inputs are inputs that reflect the Company s assumptions about the factors market participants would use in valuing the asset or liability developed based upon the best information available in the circumstances. The hierarchy is broken down into three levels. Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities. Level 2 inputs include quoted prices for similar assets or liabilities in active markets, quoted prices for identical or similar assets or liabilities in markets that are not active, and inputs (other than quoted prices) that are observable for the asset or liability, either directly or indirectly. Level 3 inputs are unobservable inputs for the asset or liability. Categorization within the valuation hierarchy is based upon the lowest level of input that is significant to the fair value measurement.

Assets and Liabilities that are Measured at Fair Value on a Recurring Basis:

For 3M, assets and liabilities that are measured at fair value on a recurring basis primarily relate to available-for-sale marketable securities, available-for-sale investments (included as part of investments in the Consolidated Balance Sheet) and certain derivative instruments. Derivatives include cash flow hedges, interest rate swaps and most net investment hedges. The information in the following paragraphs and tables primarily addresses matters relative to these financial assets and liabilities. Separately, there were no material fair value measurements with respect to nonfinancial assets or liabilities that are recognized or disclosed at fair value in the Company s financial statements on a recurring basis for the three month periods ended March 31, 2012 and 2011.

3M uses various valuation techniques, which are primarily based upon the market and income approaches, with respect to financial assets and liabilities. Following is a description of the valuation methodologies used for the respective financial assets and liabilities measured at fair value.

Available-for-sale marketable securities except auction rate securities:

Marketable securities, except auction rate securities, are valued utilizing multiple sources. A weighted average price is used for these securities. Market prices are obtained for these securities from a variety of industry standard data providers, security master files from large financial institutions, and other third-party sources. These multiple prices are used as inputs into a distribution-curve-based algorithm to determine the daily fair value to be used. 3M classifies U.S. treasury securities as level 1, while all other marketable securities (excluding auction rate securities) are classified as level 2. Marketable securities are discussed further in Note 6.

Available-for-sale marketable securities auction rate securities only:

As discussed in Note 6, auction rate securities held by 3M failed to auction since the second half of 2007. As a result, investments in auction rate securities are valued utilizing third-party indicative bid levels in markets that are not active and broker-dealer valuation models that utilize inputs such as current/forward interest rates, current market conditions and credit default swap spreads. 3M classifies these securities as level 3.

Available-for-sale investments:

Investments include equity securities that are traded in an active market. Closing stock prices are readily available from active markets and are used as being representative of fair value. 3M classifies these securities as level 1.

Derivative instruments:

The Company s derivative assets and liabilities within the scope of ASC 815, *Derivatives and Hedging*, are required to be recorded at fair value. The Company s derivatives that are recorded at fair value include foreign currency forward and option contracts, commodity price swaps, interest rate swaps, and net investment hedges where the hedging instrument is recorded at fair value. Net investment hedges that use foreign currency denominated debt to hedge 3M s net investment are not impacted by the fair value measurement standard under ASC 820, as the debt used as the hedging instrument is

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marked to a value with respect to changes in spot foreign currency exchange rates and not with respect to other factors that may impact fair value.

3M has determined that foreign currency forwards and commodity price swaps will be considered level 1 measurements as these are traded in active markets which have identical asset or liabilities, while currency swaps, foreign currency options, interest rate swaps and cross-currency swaps will be considered level 2. For level 2 derivatives, 3M uses inputs other than quoted prices that are observable for the asset. These inputs include foreign currency exchange rates, volatilities, and interest rates. The level 2 derivative positions are primarily valued using standard calculations/models that use as their basis readily observable market parameters. Industry standard data providers are 3M s primary source for forward and spot rate information for both interest rates and currency rates, with resulting valuations periodically validated through third-party or counterparty quotes and a net present value stream of cash flows model.

The following tables provide information by level for assets and liabilities that are measured at fair value on a recurring basis.

		Fair Value Measurements Using Inputs Considered as		
(Millions) Description	**Fair Value at Mar. 31, 2012**	**Level 1**	**Level 2**	**Level 3**
Assets:				
Available-for-sale:				
Marketable securities:				
U.S. government agency securities	$ 362	$	$ 362	$
Foreign government agency securities	3		3	
Corporate debt securities	635		635	
Certificates of deposit/time deposits	58		58	
Commercial paper	70		70	
Asset-backed securities:				
Automobile loan related	583		583	
Credit card related	259		259	
Equipment lease related	103		103	
Other	6		6	
U.S. treasury securities	59	59		
U.S. municipal securities	19		19	
Auction rate securities	5			5
Investments	3	3		
Derivative instruments assets:				
Foreign currency forward/option contracts	52	47	5	
Interest rate swap contracts	27		27	
Liabilities:				
Derivative instruments liabilities:				
Foreign currency forward/option contracts	47	47		
Commodity price swap contracts	7	7		

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(Millions) Description	Fair Value at Dec. 31, 2011	Level 1	Fair Value Measurements Using Inputs Considered as Level 2	Level 3
Assets:				