3M CO
Form 10-Q
October 31, 2013
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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 September 30, 2013

Commission file number: 1-3285

3M COMPANY

(Exact name of registrant as specified in its charter)

DELAWARE (State or other jurisdiction of incorporation or organization)	**41-0417775** (I.R.S. Employer Identification No.)
3M Center, St. Paul, Minnesota (Address of principal executive offices)	**55144** (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	Smaller reporting company o
(Do not check if a smaller reporting company)	

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 September 30, 2013**
Common Stock, $0.01 par value per share	673,269,679 shares

This document (excluding exhibits) contains 76 pages.

The table of contents is set forth on page 2.

The exhibit index begins on page 73.

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FORM 10-Q

For the Quarterly Period Ended September 30, 2013

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 September 30, 2013	Three months ended September 30, 2012	Nine months ended September 30, 2013	Nine months ended September 30, 2012
Net sales	$ 7,916	$ 7,497	$ 23,302	$ 22,517
Operating expenses				
Cost of sales	4,148	3,935	12,130	11,694
Selling, general and administrative expenses	1,609	1,487	4,808	4,567
Research, development and related expenses	420	397	1,277	1,216
Total operating expenses	6,177	5,819	18,215	17,477
Operating income	1,739	1,678	5,087	5,040
Interest expense and income				
Interest expense	33	44	113	127
Interest income	(10)	(10)	(30)	(29)
Total interest expense net	23	34	83	98
Income before income taxes	1,716	1,644	5,004	4,942
Provision for income taxes	471	464	1,399	1,435
Net income including noncontrolling interest	$ 1,245	$ 1,180	$ 3,605	$ 3,507
Less: Net income attributable to noncontrolling interest	15	19	49	54
Net income attributable to 3M	$ 1,230	$ 1,161	$ 3,556	$ 3,453
Weighted average 3M common shares outstanding basic	679.8	693.0	686.4	694.7
Earnings per share attributable to 3M common shareholders basic	$ 1.81	$ 1.68	$ 5.18	$ 4.97
Weighted average 3M common shares outstanding diluted	691.8	703.1	697.7	703.9
Earnings per share attributable to 3M common shareholders diluted	$ 1.78	$ 1.65	$ 5.10	$ 4.91

Cash dividends paid per 3M common share	**$ 0.635**	$ 0.59	**$ 1.905**	$ 1.77

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)

(Millions)	Three months ended September 30, 2013	2012	Nine months ended September 30, 2013	2012
Net income including noncontrolling interest	**$ 1,245**	$ 1,180	**$ 3,605**	$ 3,507
Other comprehensive income (loss), net of tax:				
Cumulative translation adjustment	**284**	412	**(393)**	211
Defined benefit pension and postretirement plans adjustment	**92**	96	**268**	291
Debt and equity securities, unrealized gain (loss)	**2**	3	**(2)**	4
Cash flow hedging instruments, unrealized gain (loss)	**(24)**	(36)	**8**	(28)
Total other comprehensive income (loss), net of tax	**354**	475	**(119)**	478
Comprehensive income (loss) including noncontrolling interest	**1,599**	1,655	**3,486**	3,985
Comprehensive (income) loss attributable to noncontrolling interest	**(13)**	(30)	**10**	(55)
Comprehensive income (loss) attributable to 3M	**$ 1,586**	$ 1,625	**$ 3,496**	$ 3,930

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)		September 30, 2013		December 31, 2012
Assets				
Current assets				
Cash and cash equivalents	$	**2,340**	$	2,883
Marketable securities current		**971**		1,648
Accounts receivable net		**4,594**		4,061
Inventories				
Finished goods		**1,799**		1,754
Work in process		**1,213**		1,186
Raw materials and supplies		**936**		897
Total inventories		**3,948**		3,837
Other current assets		**1,429**		1,201
Total current assets		**13,282**		13,630
Marketable securities non-current		**1,547**		1,162
Investments		**150**		163
Property, plant and equipment		**22,869**		22,525
Less: Accumulated depreciation		**(14,421)**		(14,147)
Property, plant and equipment net		**8,448**		8,378
Goodwill		**7,342**		7,385
Intangible assets net		**1,745**		1,925
Prepaid pension benefits		**24**		16
Other assets		**1,066**		1,217
Total assets	$	**33,604**	$	33,876
Liabilities				
Current liabilities				
Short-term borrowings and current portion of long-term debt	$	**2,244**	$	1,085
Accounts payable		**1,718**		1,762
Accrued payroll		**688**		701
Accrued income taxes		**373**		371
Other current liabilities		**2,416**		2,281
Total current liabilities		**7,439**		6,200
Long-term debt		**3,533**		4,916
Pension and postretirement benefits		**2,694**		3,086
Other liabilities		**1,686**		1,634
Total liabilities	$	**15,352**	$	15,836
Commitments and contingencies (Note 11)				
Equity				
3M Company shareholders equity:				
Common stock par value, $.01 par value, 944,033,056 shares issued	$	**9**	$	9
Additional paid-in capital		**4,309**		4,044
Retained earnings		**32,412**		30,679
		(14,124)		(12,407)

Treasury stock, at cost: 270,763,377 shares at September 30, 2013; 256,941,406 shares at December 31, 2012				
Accumulated other comprehensive income (loss)		**(4,810)**		(4,750)
Total 3M Company shareholders equity		**17,796**		17,575
Noncontrolling interest		**456**		465
Total equity	**$**	**18,252**	$	18,040
Total liabilities and equity	**$**	**33,604**	$	33,876

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)	Nine months ended September 30, 2013	2012
Cash Flows from Operating Activities		
Net income including noncontrolling interest	$ **3,605**	$ 3,507
Adjustments to reconcile net income including noncontrolling interest to net cash provided by operating activities		
Depreciation and amortization	**1,014**	956
Company pension and postretirement contributions	**(385)**	(918)
Company pension and postretirement expense	**414**	490
Stock-based compensation expense	**197**	181
Deferred income taxes	**(54)**	89
Excess tax benefits from stock-based compensation	**(68)**	(53)
Changes in assets and liabilities		
Accounts receivable	**(643)**	(493)
Inventories	**(155)**	(368)
Accounts payable	**(26)**	141
Accrued income taxes (current and long-term)	**25**	(48)
Product and other insurance receivables and claims	**37**	(11)
Other net	**(137)**	89
Net cash provided by operating activities	**3,824**	3,562
Cash Flows from Investing Activities		
Purchases of property, plant and equipment (PP&E)	**(1,122)**	(977)
Proceeds from sale of PP&E and other assets	**86**	15
Acquisitions, net of cash acquired		(248)
Purchases of marketable securities and investments	**(3,589)**	(4,313)
Proceeds from sale of marketable securities and investments	**1,946**	1,778
Proceeds from maturities of marketable securities	**1,956**	1,597
Proceeds from sale of businesses	**8**	
Other investing	**13**	14
Net cash used in investing activities	**(702)**	(2,134)
Cash Flows from Financing Activities		
Change in short-term debt net	**607**	(36)
Repayment of debt (maturities greater than 90 days)	**(853)**	(18)
Proceeds from debt (maturities greater than 90 days)	**12**	1,251
Purchases of treasury stock	**(3,538)**	(1,490)
Proceeds from issuance of treasury stock pursuant to stock option and benefit plans	**1,372**	772
Dividends paid to shareholders	**(1,307)**	(1,228)
Excess tax benefits from stock-based compensation	**68**	53
Other net	**(4)**	(18)
Net cash used in financing activities	**(3,643)**	(714)
Effect of exchange rate changes on cash and cash equivalents	**(22)**	96
Net increase (decrease) in cash and cash equivalents	**(543)**	810
Cash and cash equivalents at beginning of year	**2,883**	2,219

Cash and cash equivalents at end of period	**$**	**2,340**	$	3,029

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.

As described in 3M s Current Report on Form 8-K dated May 16, 2013 (which updated 3M s 2012 Annual Report on Form 10-K) and 3M s Quarterly Report on Form 10-Q for the period ended March 31, 2013, during the first quarter of 2013 the Company completed a realignment of its business segments to better serve global markets and customers (refer to Note 13 herein). In addition, during the first quarter of 2013, 3M realigned its geographic area reporting to include Puerto Rico in the United States rather than in Latin America/Canada region. Segment and geographic information presented herein reflects the impact of these changes for all periods presented. This Quarterly Report on Form 10-Q should be read in conjunction with the Company s consolidated financial statements and notes included in its Current Report on Form 8-K dated May 16, 2013.

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 month-end exchange rates of the period reported. Income and expense items are translated at month-end exchange rates of the period reported. Cumulative translation adjustments are recorded as a component of accumulated other comprehensive income (loss) in shareholders equity.

Although local currencies are typically considered as the functional currencies outside the United States, 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 when its cumulative inflation is approximately 100 percent or more for the three years that precede the beginning of a reporting period. 3M has a subsidiary in Venezuela with operating income representing less than 1.0 percent of 3M s consolidated operating income for 2012. 3M has determined that the cumulative inflation rate of Venezuela has exceeded, and continues to exceed, 100 percent since November 2009. Accordingly, since January 1, 2010, the financial statements of the Venezuelan subsidiary have been remeasured as if its functional currency were that of its parent.

Regulations in Venezuela require the purchase and sale of foreign currency to be made at official rates of exchange that are fixed from time to time by the Venezuelan government. Certain laws in the country had, however, provided an exemption for the purchase and sale of certain securities that resulted in an indirect parallel market through which companies obtained foreign currency without having to purchase it from Venezuela s Commission for the Administration of Foreign Exchange (CADIVI). However, in 2010, the Venezuelan government took control of the previously freely-traded parallel market and created a government-controlled rate under the Transaction System for Foreign Currency Denominated Securities (SITME). In February 2013, the Venezuelan government announced a devaluation of its currency, the elimination of the SITME market, and the creation of the Superior Body for the Optimization of the Exchange System to oversee its foreign currency exchange policies. As a result, the new official exchange rate changed to a rate less favorable than the previous SITME rate. Since January 1, 2010, as discussed above, the financial statements of 3M s Venezuelan subsidiary have been remeasured as if its functional currency were that of its parent. This remeasurement utilized the parallel rate through May 2010, the SITME rate through January 2013, and the new official rate discussed above thereafter.

The Company continues to monitor circumstances relative to its Venezuelan subsidiary. Other factors notwithstanding, the elimination of the SITME rate and use of the new official exchange rate beginning in February 2013 did not have a material impact on 3M s consolidated results of operations or financial condition.

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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 (insignificant for the three months ended September 30, 2013; 2.6 million average options for the nine months ended September 30, 2013; 6.3 million average options for the three months ended September 30, 2012; and 15.6 million average options for the nine months ended September 30, 2012). The computations for basic and diluted earnings per share follow:

Earnings Per Share Computations

	Three months ended September 30,		Nine months ended September 30,	
(Amounts in millions, except per share amounts)	**2013**	**2012**	**2013**	**2012**
Numerator:				
Net income attributable to 3M	**$ 1,230**	$ 1,161	**$ 3,556**	$ 3,453
Denominator:				
Denominator for weighted average 3M common shares outstanding basic	**679.8**	693.0	**686.4**	694.7
Dilution associated with the Company s stock-based compensation plans	**12.0**	10.1	**11.3**	9.2
Denominator for weighted average 3M common shares outstanding diluted	**691.8**	703.1	**697.7**	703.9
Earnings per share attributable to 3M common shareholders basic	**$ 1.81**	$ 1.68	**$ 5.18**	$ 4.97
Earnings per share attributable to 3M common shareholders diluted	**$ 1.78**	$ 1.65	**$ 5.10**	$ 4.91

New Accounting Pronouncements

In December 2011, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2011-11, *Disclosures About Offsetting Assets and Liabilities*, and in January 2013 issued ASU No. 2013-01, *Clarifying the Scope of Disclosures About Offsetting Assets and Liabilities*. These standards created new disclosure requirements regarding the nature of an entity s rights of setoff and related arrangements associated with its derivative instruments, repurchase agreements, and securities lending transactions. Certain disclosures of the amounts of certain instruments subject to enforceable master netting arrangements are required, irrespective of whether the entity has elected to offset those instruments in the statement of financial position. For 3M, these ASUs were effective January 1, 2013 with retrospective application required. The additional disclosures required by these ASUs are included in Note 9. Since these standards impact disclosure requirements only, their adoption did not have a material impact on 3M s consolidated results of operations or financial condition.

In July 2012, the FASB issued ASU No. 2012-02, *Testing Indefinite-Lived Intangible Assets for Impairment.* Under this standard, entities testing long-lived intangible assets for impairment now have an option of performing a qualitative assessment to determine whether further impairment testing is necessary. If an entity determines, on the basis of qualitative factors, that the fair value of the indefinite-lived intangible asset 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, 2013. The adoption of this standard did not have a material impact on 3M s consolidated results of operations or financial condition.

In February 2013, the FASB issued ASU No. 2013-02, *Reporting of Amounts Reclassified Out of Accumulated Other Comprehensive Income*. Under this standard, entities are required to disclose additional information with respect to

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changes in accumulated other comprehensive income (AOCI) balances by component and significant items reclassified out of AOCI. Expanded disclosures for presentation of changes in AOCI involve disaggregating the total change of each component of other comprehensive income (for example, unrealized gains or losses on available for sale debt and equity securities) as well as presenting separately for each such component the portion of change in AOCI related to (1) amounts reclassified into income and (2) current-period other comprehensive income. Additionally, for amounts reclassified into income, disclosure in one location is required, based upon each specific AOCI component, of the amounts impacting individual income statement line items. Disclosure of the income statement line item impacts is required only for components of AOCI reclassified into income in their entirety. Therefore, disclosure of the income statement line items affected by AOCI components such as net periodic benefit costs is not included. The disclosures required with respect to income statement line item impacts are to be made in either the notes to the consolidated financial statements or parenthetically on the face of the financial statements. For 3M, this ASU was effective beginning January 1, 2013. The additional disclosures required by this ASU are included in Note 4. Because this standard only impacts presentation and disclosure requirements, its adoption did not have a material impact on 3M s consolidated results of operations or financial condition.

In March 2013, the FASB issued ASU No. 2013-05, *Foreign Currency Matters*. This standard provides additional guidance with respect to the reclassification into income of the cumulative translation adjustment (CTA) recorded in accumulated other comprehensive income associated with a foreign entity of a parent company. The ASU differentiates between transactions occurring *within* a foreign entity and transactions/events affecting an *investment in* a foreign entity. For transactions *within* a foreign entity, the full CTA associated with the foreign entity would be reclassified into income only when the sale of a subsidiary or group of net assets *within* the foreign entity represents the substantially complete liquidation of that foreign entity. For transactions/events affecting an *investment in* a foreign entity (for example, control or ownership of shares in a foreign entity), the full CTA associated with the foreign entity would be reclassified into income only if the parent no longer has a controlling interest in that foreign entity as a result of the transaction/event. In addition, acquisitions of a foreign entity completed in stages will trigger release of the CTA associated with an equity method investment in that entity at the point a controlling interest in the foreign entity is obtained. For 3M, this ASU is effective prospectively beginning January 1, 2014, with early adoption permitted. This ASU would impact 3M s consolidated results of operations and financial condition only in the instance of an event/transaction as described above.

NOTE 2. Acquisitions and Divestitures

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.

There were no business combinations that closed during the nine months ended September 30, 2013. Adjustments in the first nine months of 2013 to the preliminary purchase price allocations of other acquisitions within the allocation period were not material and primarily related to the 2012 acquisition of Ceradyne, Inc. The allocation of purchase price related to the acquisition of Ceradyne, Inc. in November 2012 is considered preliminary, largely with respect to certain acquired property, plant and equipment, tax-related items and certain other liabilities. Refer to Note 2 in 3M s Current Report on Form 8-K dated May 16, 2013 (which updated 3M s 2012 Annual Report on Form 10-K) for more information on 3M s 2012 acquisitions.

Divestitures:

In June 2013, 3M (Consumer Business) completed the sale of its Scientific Anglers and Ross Reels businesses to The Orvis Company, Inc. based in Manchester, Vermont.

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NOTE 3. Goodwill and Intangible Assets

There were no acquisitions that closed during the first nine months of 2013. 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 $3 million. The amounts in the Translation and other column in the following table primarily relate to changes in foreign currency exchange rates. The goodwill balances by business segment as of December 31, 2012 and September 30, 2013, follow:

Goodwill

(Millions)	December 31, 2012 Balance	Acquisition activity	Translation and other	September 30, 2013 Balance
Industrial	$ 2,174	$ 3	$ (19)	$ 2,158
Safety and Graphics	1,751		(9)	1,742
Electronics and Energy	1,622		(6)	1,616
Health Care	1,598		(2)	1,596
Consumer	240		(10)	230
Total Company	$ 7,385	$ 3	$ (46)	$ 7,342

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 13, effective in the first quarter of 2013, 3M completed a realignment of its business segments. Concurrent with this business segment realignment, certain products were also moved between business segments, with the resulting impact reflected in the goodwill balances by business segment above for all periods presented. 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. During the first quarter of 2013, 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 nine months ended September 30, 2013. As a result, gross 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 September 30, 2013, and December 31, 2012, follow:

(Millions)	September 30, 2013	December 31, 2012

Patents	$	**599**	$	596
Other amortizable intangible assets (primarily tradenames and customer related intangibles)		**2,447**		2,456
Total gross carrying amount	$	**3,046**	$	3,052
Accumulated amortization patents		**(448)**		(421)
Accumulated amortization other		**(982)**		(833)
Total accumulated amortization	$	**(1,430)**	$	(1,254)
Total finite-lived intangible assets net	$	**1,616**	$	1,798
Non-amortizable intangible assets (primarily tradenames)		**129**		127
Total intangible assets net	$	**1,745**	$	1,925

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Amortization expense for acquired intangible assets for the three-month and nine-month periods ended September 30, 2013 and 2012 follows:

	Three months ended September 30,		Nine months ended September 30,	
(Millions)	**2013**	**2012**	**2013**	**2012**
Amortization expense	**$ 59**	$ 60	**$ 179**	$ 176

The table below shows expected amortization expense for acquired amortizable intangible assets recorded as of September 30, 2013:

(Millions)	**Remainder of 2013**	**2014**	**2015**	**2016**	**2017**	**2018**	**After 2018**
Amortization expense	$ 59	$ 214	$ 200	$ 186	$ 171	$ 154	$ 632

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 September 30, 2013

		3M Company Shareholders				
(Millions)	**Total**	**Common Stock and Additional Paid-in Capital**	**Retained Earnings**	**Treasury Stock**	**Accumulated Other Comprehensive Income (Loss)**	**Non-controlling Interest**
Balance at June 30, 2013	$ 18,319	$ 4,252	$ 31,716	$ (12,926)	$ (5,166)	$ 443
Net income	1,245		1,230			15
Other comprehensive income (loss), net of tax:						
Cumulative translation adjustment	284				286	(2)
Defined benefit pension and post-retirement plans adjustment	92				92	
Debt and equity securities - unrealized gain (loss)	2				2	
Cash flow hedging instruments - unrealized gain (loss)	(24)				(24)	
Total other comprehensive income (loss), net of tax	354					
Dividends paid	(431)		(431)			
Stock-based compensation, net of tax impacts	66	66				
Reacquired stock	(1,570)			(1,570)		
Issuances pursuant to stock option and benefit plans	269		(103)	372		
Balance at September 30, 2013	$ 18,252	$ 4,318	$ 32,412	$ (14,124)	$ (4,810)	$ 456

Nine months ended September 30, 2013

		3M Company Shareholders				
(Millions)	**Total**	**Common Stock and Additional Paid-in Capital**	**Retained Earnings**	**Treasury Stock**	**Accumulated Other Comprehensive Income (Loss)**	**Non-controlling Interest**
Balance at December 31, 2012	$ 18,040	$ 4,053	$ 30,679	$ (12,407)	$ (4,750)	$ 465
Net income	3,605		3,556			49
Other comprehensive income (loss), net of tax:						
Cumulative translation adjustment	(393)				(334)	(59)
	268				268	

Defined benefit pension and post-retirement plans adjustment						
Debt and equity securities - unrealized gain (loss)	(2)				(2)	
Cash flow hedging instruments - unrealized gain (loss)	8				8	
Total other comprehensive income (loss), net of tax	(119)					
Dividends paid	(1,307)		(1,307)			
Sale of subsidiary shares	8	7				1
Stock-based compensation, net of tax impacts	258	258				
Reacquired stock	(3,609)			(3,609)		
Issuances pursuant to stock option and benefit plans	1,376		(516)	1,892		
Balance at September 30, 2013	$ 18,252	$ 4,318	$ 32,412	$ (14,124)	$ (4,810)	$ 456

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Three months ended September 30, 2012

		3M Company Shareholders				
(Millions)	Total	Common Stock and Additional Paid-in Capital	Retained Earnings	Treasury Stock	Accumulated Other Comprehensive Income (Loss)	Non-controlling Interest
Balance at June 30, 2012	$ 16,873	$ 3,963	$ 29,465	$ (12,010)	$ (5,012)	$ 467
Net income	1,180		1,161			19
Other comprehensive income (loss), net of tax:						
Cumulative translation adjustment	412				401	11
Defined benefit pension and post-retirement plans adjustment	96				96	
Debt and equity securities - unrealized gain (loss)	3				3	
Cash flow hedging instruments - unrealized gain (loss)	(36)				(36)	
Total other comprehensive income (loss), net of tax	475					
Dividends paid	(408)		(408)			
Stock-based compensation, net of tax impacts	44	44				
Reacquired stock	(316)			(316)		
Issuances pursuant to stock option and benefit plans	293		(68)	361		
Balance at September 30, 2012	$ 18,141	$ 4,007	$ 30,150	$ (11,965)	$ (4,548)	$ 497

Nine months ended September 30, 2012

		3M Company Shareholders				
(Millions)	Total	Common Stock and Additional Paid-in Capital	Retained Earnings	Treasury Stock	Accumulated Other Comprehensive Income (Loss)	Non-controlling Interest
Balance at December 31, 2011	$ 15,862	$ 3,776	$ 28,348	$ (11,679)	$ (5,025)	$ 442
Net income	3,507		3,453			54
Other comprehensive income (loss), net of tax:						
Cumulative translation adjustment	211				210	1
Defined benefit pension and post-retirement plans adjustment	291				291	
Debt and equity securities - unrealized gain (loss)	4				4	
Cash flow hedging instruments - unrealized gain (loss)	(28)				(28)	
Total other comprehensive income (loss), net of tax	478					

Dividends paid	(1,228)		(1,228)			
Stock-based compensation, net of tax impacts	231	231				
Reacquired stock	(1,483)			(1,483)		
Issuances pursuant to stock option and benefit plans	774		(423)	1,197		
Balance at September 30, 2012	$ 18,141	$ 4,007	$ 30,150	$ (11,965)	$ (4,548)	$ 497

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Changes in Accumulated Other Comprehensive Income (Loss) Attributable to 3M by Component

Three months ended September 30, 2013

(Millions)	Cumulative Translation Adjustment	Defined Benefit Pension and Postretirement Plans Adjustment	Debt and Equity Securities, Unrealized Gain (Loss)	Cash Flow Hedging Instruments, Unrealized Gain (Loss)	Total Accumulated Other Comprehensive Income (Loss)
Balance at June 30, 2013, net of tax	$ (390)	$ (4,779)	$ (6)	$ 9	$ (5,166)
Other comprehensive income (loss), before tax:					
Amounts before reclassifications	240		3	20	263
Amounts reclassified out		144		(58)	86
Total other comprehensive income (loss), before tax	240	144	3	(38)	349
Tax effect	46	(52)	(1)	14	7
Total other comprehensive income (loss), net of tax	286	92	2	(24)	356
Balance at September 30, 2013, net of tax	$ (104)	$ (4,687)	$ (4)	$ (15)	$ (4,810)

Nine months ended September 30, 2013

(Millions)	Cumulative Translation Adjustment	Defined Benefit Pension and Postretirement Plans Adjustment	Debt and Equity Securities, Unrealized Gain (Loss)	Cash Flow Hedging Instruments, Unrealized Gain (Loss)	Total Accumulated Other Comprehensive Income (Loss)
Balance at December 31, 2012, net of tax	$ 230	$ (4,955)	$ (2)	$ (23)	$ (4,750)
Other comprehensive income (loss), before tax:					
Amounts before reclassifications	(344)		(3)	(92)	(439)
Amounts reclassified out		431		104	535
Total other comprehensive income (loss), before tax	(344)	431	(3)	12	96
Tax effect	10	(163)	1	(4)	(156)
Total other comprehensive income (loss), net of tax	(334)	268	(2)	8	(60)
Balance at September 30, 2013, net of tax	$ (104)	$ (4,687)	$ (4)	$ (15)	$ (4,810)

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Three months ended September 30, 2012

(Millions)	Cumulative Translation Adjustment	Defined Benefit Pension and Postretirement Plans Adjustment	Debt and Equity Securities, Unrealized Gain (Loss)	Cash Flow Hedging Instruments, Unrealized Gain (Loss)	Total Accumulated Other Comprehensive Income (Loss)
Balance at June 30, 2012, net of tax	$ (77)	$ (4,960)	$ (5)	$ 30	$ (5,012)
Other comprehensive income (loss), before tax:					
Amounts before reclassifications	380		4	21	405
Amounts reclassified out		153		(78)	75
Total other comprehensive income (loss), before tax	380	153	4	(57)	480
Tax effect	21	(57)	(1)	21	(16)
Total other comprehensive income (loss), net of tax	401	96	3	(36)	464
Balance at September 30, 2012, net of tax	$ 324	$ (4,864)	$ (2)	$ (6)	$ (4,548)

Nine months ended September 30, 2012

[redacted]

Balance at December 31, 2011, net of tax	$ 114	$ (5,155)	$ (6)	$ 22	$ (5,025)
Other comprehensive income (loss), before tax:					
Amounts before reclassifications	211		5	22	238
Amounts reclassified out		460	1	(66)	395
Total other comprehensive income (loss), before tax	211	460	6	(44)	633
Tax effect	(1)	(169)	(2)	16	(156)
Total other comprehensive income (loss), net of tax	210	291	4	(28)	477
Balance at September 30, 2012, net of tax	$ 324	$ (4,864)	$ (2)	$ (6)	$ (4,548)

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. Reclassification adjustments are made to avoid double counting in comprehensive income items that are also recorded as part of net income.

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Reclassifications out of Accumulated Other Comprehensive Income Attributable to 3M

(Millions) Details about Accumulated Other Comprehensive Income Components	Amount Reclassified from Accumulated Other Comprehensive Income Three months ended Sept. 30, 2013	2012	Nine months ended Sept. 30, 2013	2012	Location on Income Statement
Gains (losses) associated with, defined benefit pension and postretirement plans amortization					
Transition asset	**$**	$	**$ 1**	$ 1	See Note 8
Prior service benefit	**19**	21	**59**	63	See Note 8
Net actuarial loss	**(163)**	(174)	**(491)**	(524)	See Note 8
Total before tax	**(144)**	(153)	**(431)**	(460)	
Tax effect	**52**	57	**163**	169	Provision for income taxes
Net of tax	**$ (92)**	$ (96)	**$ (268)**	$ (291)	
Debt and equity security gains (losses)					
Sales or impairments of securities	**$**	$	**$**	$ (1)	Selling, general and administrative expenses
Total before tax				(1)	
Tax effect					Provision for income taxes
Net of tax	**$**	$	**$**	$ (1)	
Cash flow hedging instruments gains (losses)					
Foreign currency forward/option contracts	**$ 1**	$ 22	**$ (8)**	$ 31	Cost of sales
Foreign currency forward contracts	**59**	58	**(94)**	45	Interest expense
Commodity price swap contracts	**(1)**	(1)	**(1)**	(9)	Cost of sales
Interest rate swap contracts	**(1)**	(1)	**(1)**	(1)	Interest expense
Total before tax	**58**	78	**(104)**	66	
Tax effect	**(20)**	(29)	**38**	(25)	Provision for income taxes
Net of tax	**$ 38**	$ 49	**$ (66)**	$ 41	
Total reclassifications for the period, net of tax	**$ (54)**	$ (47)	**$ (334)**	$ (251)	

Sale of Subsidiary Shares

In March 2013, 3M sold shares in 3M India Limited, a subsidiary of the Company, in return for $8 million. The noncontrolling interest shares of this subsidiary trade on a public exchange in India. This sale of shares complied with an amendment to Indian securities regulations that required 3M India Limited, as a listed company, to achieve a minimum public shareholding of at least 25 percent. As a result of this transaction, 3M s ownership in 3M India Limited was reduced from 76 percent to 75 percent. The $8 million received in the first quarter of 2013 was classified as other financing activity in the consolidated statement of cash flows. Because the Company retained its controlling interest, the sales resulted in an increase in 3M Company shareholder s equity of $7 million and an increase in noncontrolling interest of $1 million.

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NOTE 5. Supplemental Cash Flow Information

Transactions related to investing and financing activities with significant non-cash components are as follows:

- During the third quarter of 2013, 3M sold its equity interest in a non-strategic investment in exchange for a note receivable of approximately $24 million, which is considered non-cash investing activity. As a result of this transaction, in the third quarter of 2013, 3M recorded a pre-tax gain of $18 million in its Health Care business segment. In October 2013, cash was received for the note receivable and will be included in other investing activity in the consolidated statement of cash flows for the total year 2013.

- During the second quarter of 2013, the Company s Sumitomo 3M Limited subsidiary moved its administrative headquarters to a new leased location and sold the former site under an installment sale arrangement. As a result, at the time of the closing of the sale transaction, the Company received certain cash proceeds (included in proceeds from sale of property, plant and equipment in the consolidated statement of cash flows) and recorded a note receivable (due in quarterly installments through the first quarter of 2016) of $78 million and deferred profit of $49 million (both based on the foreign currency exchange rate at the time of closing). Remaining quarterly installments are due through the first quarter of 2016 and will be included in other investing activities in the consolidated statement of cash flows. Deferred profit is reduced and recognized into income in connection with such quarterly installments.

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NOTE 6. 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 2004.

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 entered into the administrative appeals process with the IRS during the second quarter of 2012. In December 2012, the Company received a statutory notice of deficiency for the 2006 year. The Company filed a petition in Tax Court in the first quarter of 2013 relating to the 2006 tax year.

Currently, the Company is under examination by the IRS for its U.S. federal income tax returns for the years 2011, 2012, and 2013. It is anticipated that the IRS will complete its examination of the Company for 2011 and 2012 by the end of the first quarter of 2014, and for 2013 by the end of the first quarter of 2015. As of September 30, 2013, the IRS has not proposed any significant adjustments to any of the Company s tax positions for which the Company is not adequately reserved.

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 2013 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 September 30, 2013 and December 31, 2012, respectively, are $269 million and $185 million. The increase in uncertain tax positions is a result of ongoing income tax authority examinations.

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 $7 million of expense and $3 million of benefit for the three months ended September 30, 2013 and September 30, 2012, respectively, and approximately $12 million of expense and $8 million of benefit for the nine months ended September 30, 2013 and September 30, 2012, respectively. At September 30, 2013 and December 31, 2012, accrued interest and penalties in the consolidated balance sheet on a gross basis were $53 million and $44 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 effective tax rate for the third quarter of 2013 was 27.4 percent, compared to 28.2 percent in the third quarter of 2012, a decrease of 0.8 percentage points, impacted by many factors. Factors that decreased the Company s effective tax rate included benefits realized for restoration of tax basis on certain assets for which depreciation deductions were previously limited, international taxes (with this international tax benefit largely due to the estimated current year geographic mix of income before taxes), the reinstatement of the U.S. research and development credit in 2013, and other items. Combined, these factors decreased the Company s effective tax rate by 3.3 percentage points. This benefit was partially offset by factors that increased the effective tax rate by 2.5 percentage points, which largely related to adjustments to 3M s income tax reserves in the third quarter of 2013 when compared to the same period of 2012.

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The effective tax rate for the first nine months of 2013 was 28.0 percent, compared to 29.0 percent in the first nine months of 2012, a decrease of 1.0 percentage points, impacted by many factors. Factors that decreased the Company s effective tax rate included international taxes (with this international tax benefit largely due to the estimated current year geographic mix of income before taxes), the reinstatement of the U.S. research and development credit in 2013, the restoration of tax basis on certain assets for which depreciation deductions were previously limited, and other items. Combined, these factors decreased the Company s effective tax rate by 2.7 percentage points. This benefit was partially offset by factors that increased the effective tax rate by 1.7 percentage points, which largely related to adjustments to 3M s income tax reserves for the first nine months of 2013 when compared to the same period of 2012.

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 both September 30, 2013 and December 31, 2012, the Company had valuation allowances of $29 million on its deferred tax assets.

NOTE 7. 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)	**September 30, 2013**	**December 31, 2012**
U.S. government agency securities	**$ 159**	$ 162
Foreign government agency securities	**26**	16
Corporate debt securities	**173**	471
Commercial paper	**60**	116
Certificates of deposit/time deposits	**48**	41
U.S. treasury securities	**40**	54
U.S. municipal securities	**2**	13
Asset-backed securities:		
Automobile loan related	**394**	567
Credit card related	**32**	123
Equipment lease related	**18**	54
Other	**19**	31
Asset-backed securities total	**463**	775
Current marketable securities	**$ 971**	$ 1,648
U.S. government agency securities	**$ 218**	$ 125
Foreign government agency securities	**105**	51
Corporate debt securities	**559**	494
Certificates of deposit/time deposits	**20**	
U.S. treasury securities	**49**	18
U.S. municipal securities		14
Auction rate securities	**10**	7
Asset-backed securities:		
Automobile loan related	**344**	375
Credit card related	**134**	34

Equipment lease related		**67**		36
Other		**41**		8
Asset-backed securities total		**586**		453
Non-current marketable securities	**$**	**1,547**	$	1,162
Total marketable securities	**$**	**2,518**	$	2,810

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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 September 30, 2013, gross unrealized losses totaled approximately $7 million (pre-tax), while gross unrealized gains totaled approximately $1 million (pre-tax). At December 31, 2012, gross unrealized losses totaled approximately $6 million (pre-tax), while gross unrealized gains totaled approximately $3 million (pre-tax). Refer to Note 4 for a table that provides the net realized gains (losses) related to sales or impairments of debt and equity securities, which includes marketable securities. The gross amounts of the realized gains or losses 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.

The balances at September 30, 2013 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)		**September 30, 2013**
Due in one year or less	$	436
Due after one year through five years		2,032
Due after five years through ten years		50
Due after ten years		
Total marketable securities	$	2,518

3M has a diversified marketable securities portfolio with a fair market value of $2.518 billion as of September 30, 2013. Within this portfolio, current and long-term asset-backed securities (estimated fair value of $1.049 billion) primarily include interests in automobile loans, credit cards and equipment leases. 3M s investment policy allows investments in asset-backed securities with minimum credit ratings of Aa2 by Moody s or AA by S&P or Fitch. At September 30, 2013, all asset-backed security investments were in compliance with this policy. Approximately 98.5 percent of all asset-backed security investments were rated AAA or A-1+ by Standard & Poor s and/or Aaa or P-1 by Moody s and/or AAA or F1+ by Fitch.

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 $10 million at September 30, 2013 and $7 million at December 31, 2012. Gross unrealized losses within accumulated other comprehensive income related to auction rate securities totaled $3 million (pre-tax) at September 30, 2013 and $6 million (pre-tax) at December 31, 2012. As of September 30, 2013, 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 10 for a table that reconciles the beginning and ending balances of auction rate securities.

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NOTE 8. Pension and Postretirement Benefit Plans

Net periodic benefit cost is recorded in cost of sales, selling, general and administrative expenses, and research, development and related expenses. Components of net periodic benefit cost and other supplemental information for the nine months ended September 30, 2013 and 2012 follow:

Benefit Plan Information

	Three months ended September 30,					
	Qualified and Non-qualified Pension Benefits				Postretirement Benefits	
	United States		International			
(Millions)	**2013**	**2012**	**2013**	**2012**	**2013**	**2012**
Net periodic benefit cost (benefit)						
Service cost	**$ 64**	$ 64	**$ 37**	$ 31	**$ 20**	$ 19
Interest cost	**150**	147	**61**	61	**22**	22
Expected return on plan assets	**(262)**	(248)	**(75)**	(73)	**(22)**	(21)
Amortization of transition (asset) obligation						
Amortization of prior service cost (benefit)	**1**	1	**(4)**	(4)	**(16)**	(18)
Amortization of net actuarial (gain) loss	**100**	117	**39**	30	**24**	27
Net periodic benefit cost (benefit)	**$ 53**	$ 81	$ **58**	**$** 45	**$ 28**	$ 29
Settlements, curtailments, special termination benefits and other						
Net periodic benefit cost (benefit) after settlements, curtailments, special termination benefits and other	**$ 53**	$ 81	**$ 58**	$ 45	**$ 28**	$ 29

	Nine months ended September 30,					
	Qualified and Non-qualified Pension Benefits				Postretirement Benefits	
	United States		International			
(Millions)	**2013**	**2012**	**2013**	**2012**	**2013**	**2012**
Net periodic benefit cost (benefit)						
Service cost	**$ 192**	$ 191	**$ 109**	$ 93	**$ 60**	$ 58
Interest cost	**449**	440	**183**	184	**66**	65
Expected return on plan assets	**(784)**	(744)	**(225)**	(219)	**(67)**	(64)
Amortization of transition (asset) obligation			**(1)**	(1)		
Amortization of prior service cost (benefit)	**3**	4	**(13)**	(13)	**(49)**	(54)
Amortization of net actuarial (gain) loss	**300**	352	**119**	90	**72**	82
Net periodic benefit cost (benefit)	$ **160**	$ 243	$ **172**	$ 134	**$ 82**	$ 87
Settlements, curtailments, special termination benefits and other		26				

Net periodic benefit cost (benefit) after settlements, curtailments, special termination benefits and other	**$**	**160**	$	269	**$**	**172**	$	134	**$**	**82**	$	87

For the nine months ended September 30, 2013, contributions totaling $381 million were made to the Company s U.S. and international pension plans and $4 million to its postretirement plans. For total year 2013, the Company expects to contribute approximately $400 million to $500 million of cash to its pension and postretirement plans, primarily for its international pension plans. The Company does not have a required minimum cash pension contribution obligation for its U.S. plans in 2013. Therefore, the amount of future discretionary pension contributions could vary significantly depending on the U.S. plans funded status and the anticipated tax deductibility of the contributions. 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 were 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.

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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 (and in April 2013, the United States Court of Appeals for the Second Circuit affirmed the district court s ruling). 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 2012 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.

In addition, the Company also sponsors employee savings plans under Section 401(k) of the Internal Revenue Code, as discussed in Note 10 in 3M s Form 8-K dated May 16, 2013 (which updated 3M s 2012 Annual Report on Form 10-K).

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NOTE 9. 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 10. References to information regarding derivatives and/or hedging instruments associated with the Company s long-term debt are also made in Note 9 to the Consolidated Financial Statements in 3M s Current Report on Form 8-K dated May 16, 2013 (which updated 3M s 2012 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 and nine months ended September 30, 2013 and 2012. 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 September 30, 2013, 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 September 30, 2013 was approximately $7.4 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 and nine months ended September 30, 2013 and 2012. The dollar equivalent gross notional amount of the Company s natural gas commodity price swaps designated as cash flow hedges at September 30, 2013 was $22 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 September 30, 2013, the Company had a balance of $15 million associated with the after-tax net unrealized loss associated with cash flow hedging instruments recorded in accumulated other comprehensive income. This net loss

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includes a $3 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 September 30, 2013

(Millions)