

3M CO  
Form 10-K  
February 13, 2014  
Table of Contents

**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

**FORM 10-K**

**x ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE  
SECURITIES EXCHANGE ACT OF 1934**

**For the fiscal year ended December 31, 2013**

**Commission file number 1-3285**

**3M COMPANY**

State of Incorporation: **Delaware**

I.R.S. Employer Identification No. **41-0417775**

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

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

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

# Edgar Filing: 3M CO - Form 10-K

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

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

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

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

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

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  No

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

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

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  Accelerated filer  Non-accelerated filer  Smaller reporting company   
(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 Act). Yes  No

The aggregate market value of voting stock held by nonaffiliates of the Registrant, computed by reference to the closing price and shares outstanding, was approximately \$85.0 billion as of January 31, 2014 (approximately \$74.7 billion as of June 28, 2013, the last business day of the Registrant's most recently completed second quarter).

## Edgar Filing: 3M CO - Form 10-K

Shares of common stock outstanding at January 31, 2014: 662,692,234.

### **DOCUMENTS INCORPORATED BY REFERENCE**

Parts of the Company's definitive proxy statement (to be filed pursuant to Regulation 14A within 120 days after Registrant's fiscal year-end of December 31, 2013) for its annual meeting to be held on May 13, 2014, are incorporated by reference in this Form 10-K in response to Part III, Items 10, 11, 12, 13 and 14.

---

Table of Contents

**3M COMPANY**

**FORM 10-K**

**For the Year Ended December 31, 2013**

**TABLE OF CONTENTS**

	<b>Beginning Page</b>
<u>PART I</u>	
<u>ITEM 1</u> <u>Business</u>	3
<u>ITEM 1A</u> <u>Risk Factors</u>	9
<u>ITEM 1B</u> <u>Unresolved Staff Comments</u>	11
<u>ITEM 2</u> <u>Properties</u>	11
<u>ITEM 3</u> <u>Legal Proceedings</u>	11
<u>ITEM 4</u> <u>Mine Safety Disclosures</u>	11
<u>PART II</u>	
<u>ITEM 5</u> <u>Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities</u>	12
<u>ITEM 6</u> <u>Selected Financial Data</u>	14
<u>ITEM 7</u> <u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	15
<u>ITEM 7A</u> <u>Quantitative and Qualitative Disclosures About Market Risk</u>	41
<u>ITEM 8</u> <u>Financial Statements and Supplementary Data</u>	43
	<u>Index to Financial Statements</u> 43
<u>ITEM 9</u> <u>Changes in and Disagreements with Accountants on Accounting and Financial Disclosure</u>	118
<u>ITEM 9A</u> <u>Controls and Procedures</u>	118
<u>ITEM 9B</u> <u>Other Information</u>	118
<u>PART III</u>	
<u>ITEM 10</u> <u>Directors, Executive Officers and Corporate Governance</u>	119
<u>ITEM 11</u> <u>Executive Compensation</u>	119
<u>ITEM 12</u> <u>Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters</u>	120
<u>ITEM 13</u> <u>Certain Relationships and Related Transactions, and Director Independence</u>	120

Edgar Filing: 3M CO - Form 10-K

<u>ITEM 14</u>	<u>Principal Accounting Fees and Services</u>	120
<u>PART IV</u>		
<u>ITEM 15</u>	<u>Exhibits, Financial Statement Schedules</u>	121

Table of Contents

**3M COMPANY**

**ANNUAL REPORT ON FORM 10-K**

**For the Year Ended December 31, 2013**

**PART I**

**Item 1. Business.**

3M Company was incorporated in 1929 under the laws of the State of Delaware to continue operations begun in 1902. The Company's ticker symbol is MMM. As used herein, the term "3M" or "Company" includes 3M Company and its subsidiaries unless the context indicates otherwise. In this document, for any references to Note 1 through Note 17, refer to the Notes to Consolidated Financial Statements in Item 8.

**Available Information**

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

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

**General**

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

At December 31, 2013, the Company employed 88,667 people (full-time equivalents), with 34,719 employed in the United States and 53,948 employed internationally.

## Business Segments

As described in Note 15 to the Consolidated Financial Statements, effective in the first quarter of 2013, the Company completed a realignment of its business segments to better serve global markets and customers. In addition, as described in Note 16, during the first quarter of 2013, 3M realigned its geographic area structure to include Puerto Rico in the United States rather than in the Latin America/Canada region. Segment and geographic area information presented herein reflects the impact of these changes for all periods presented.

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

*Industrial Business:* The Industrial segment serves a broad range of markets, such as automotive original equipment manufacturer (OEM) and automotive aftermarket (auto body shops and retail), electronics, appliance, paper and printing, packaging, food and beverage, and construction. Industrial products include tapes, a wide variety of coated, non-woven and bonded abrasives, adhesives, advanced ceramics, sealants, specialty materials, 3M Purification Inc. (filtration products), closure systems for personal hygiene products, acoustic systems products, and components and products that

Table of Contents

are used in the manufacture, repair and maintenance of automotive, marine, aircraft and specialty vehicles. In the fourth quarter of 2012, 3M acquired Ceradyne, Inc., which develops and produces advanced technical ceramics for demanding applications in the automotive, oil and gas, solar, industrial, electronics and defense industries. In 2011, 3M acquired Winterthur Technologie AG, a leading global supplier of precision grinding technology serving customers in the area of hard-to-grind precision applications in industrial, automotive, aircraft and cutting tools.

Major industrial products include vinyl, polyester, foil and specialty industrial tapes and adhesives; Scotch® Masking Tape, Scotch® Filament Tape and Scotch® Packaging Tape; packaging equipment; 3M VHB Bonding Tapes; conductive, low surface energy, sealants, hot melt, spray and structural adhesives; reclosable fasteners; label materials for durable goods; and coated, nonwoven and microstructured surface finishing and grinding abrasives for the industrial market. 3M Purification Inc. provides a comprehensive line of filtration products for the separation, clarification and purification of fluids and gases. Other industrial products include fluoroelastomers for seals, tubes and gaskets in engines.

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

*Safety and Graphics Business:* The Safety and Graphics segment serves a broad range of markets that increase the safety, security and productivity of people, facilities and systems. Major product offerings include personal protection products; traffic safety and security products, including border and civil security solutions; commercial graphics sheeting and systems; architectural surface and lighting solutions; cleaning and protection products for commercial establishments; and roofing granules for asphalt shingles.

This segment's products include personal protection products, such as certain maintenance-free and reusable respirators, personal protective equipment, head and face protection, body protection, hearing protection and protective eyewear. In traffic safety and security, 3M provides reflective sheeting used on highway signs, vehicle license plates, construction work-zone devices, trucks and other vehicles, and also provides pavement marking systems, in addition to electronic surveillance products, films that protect against counterfeiting, and reflective materials that are widely used on apparel, footwear and accessories, enhancing visibility in low-light situations. Traffic safety and security also provides finger, palm, face and iris biometric systems for governments, law enforcement agencies, and commercial enterprises, in addition to remote people-monitoring technologies used for offender-monitoring applications. Major commercial graphics products include films, inks, digital signage systems and related products used to produce graphics for vehicles, signs and interior surfaces. Other products include spill-control sorbents; nonwoven abrasive materials for floor maintenance and commercial cleaning; floor matting; and natural and color-coated mineral granules for asphalt shingles.

*Electronics and Energy Business:* The Electronics and Energy segment serves customers in electronics and energy markets, including solutions for dependable, cost-effective, high-performance electronic devices, telecommunications networks, electrical products, power generation and distribution, and infrastructure protection.

This segment's electronics solutions include optical film solutions for the electronic display industry. 3M provides distinct products for five market segments, including products for: 1) LCD computer monitors, 2) LCD televisions, 3) hand-held devices such as cellular phones and tablets, 4) notebook PCs and 5) automotive displays. This segment also provides desktop and notebook computer screen filters that address display light control, privacy, and glare reduction needs. Major electronics products also include packaging and interconnection devices; high performance fluids and abrasives used in the manufacture of computer chips, and for cooling electronics and lubricating computer hard disk



## Edgar Filing: 3M CO - Form 10-K

drives; and high-temperature and display tapes. 3M Flexible Circuits use electronic packaging and interconnection technology, providing more connections in less space, and are used in ink-jet printer cartridges, cell phones and electronic devices. This segment also includes the touch systems business, including touch screens, touch monitors, and touch sensor components.

This segment's energy solutions include electrical, telecommunications, renewable energy, and infrastructure protection products. This segment serves the world's electrical and telecommunications markets, including electrical utilities, electrical construction, maintenance and repair, original equipment manufacturers (OEM), telecommunications central office, outside plant and enterprise, as well as aerospace, military, automotive and medical markets, with products that enable the efficient transmission of electrical power and speed the delivery of information. Products in this segment include pressure sensitive tapes and resins, electrical insulation, a wide array of fiber-optic and copper-based telecommunications systems for rapid deployment of fixed and wireless networks, as well as the 3M Aluminum

Table of Contents

Conductor Composite Reinforced (ACCR) electrical power cable that increases transmission capacity for existing power lines. This segment also includes renewable energy component solutions for the solar and wind power industries, as well as infrastructure products solutions that provide municipalities both protection and detection solutions for electrical, oil, natural gas, water, rebar and other infrastructure assets.

*Health Care Business:* The Health Care segment serves markets that include medical clinics and hospitals, pharmaceuticals, dental and orthodontic practitioners, health information systems, and food manufacturing and testing. Products and services provided to these and other markets include medical and surgical supplies, skin health and infection prevention products, inhalation and transdermal drug delivery systems, dental and orthodontic products (oral care), health information systems, and food safety products.

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

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

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

**Distribution**

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



Table of Contents

**Research and Patents**

Research and product development constitutes an important part of 3M's activities and has been a major driver of 3M's sales growth. Research, development and related expenses totaled \$1.715 billion in 2013, \$1.634 billion in 2012 and \$1.570 billion in 2011. Research and development, covering basic scientific research and the application of scientific advances in the development of new and improved products and their uses, totaled \$1.150 billion in 2013, \$1.079 billion in 2012 and \$1.036 billion in 2011. Related expenses primarily include technical support provided by 3M to customers who are using existing 3M products; internally developed patent costs, which include costs and fees incurred to prepare, file, secure and maintain patents; amortization of externally acquired patents and externally acquired in-process research and development; and gains/losses associated with certain corporate approved investments in R&D-related ventures, such as equity method effects and impairments.

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

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

**Raw Materials**

In 2013, the Company experienced stable to declining costs for most raw material categories and transportation fuel. This was driven by year-on-year cost decreases in many feedstock categories, including petroleum based materials, minerals, metals and wood pulp based products. To date, the Company is receiving sufficient quantities of all raw materials to meet its reasonably foreseeable production requirements. It is impossible to predict future shortages of raw materials or the impact any such shortages would have. 3M has avoided disruption to its manufacturing operations through careful management of existing raw material inventories and development and qualification of additional supply sources. 3M manages commodity price risks through negotiated supply contracts, price protection agreements and forward physical contracts.

**Environmental Law Compliance**

3M's manufacturing operations are affected by national, state and local environmental laws around the world. 3M has made, and plans to continue making, necessary expenditures for compliance with applicable laws. 3M is also involved in remediation actions relating to environmental matters from past operations at certain sites (refer to Environmental Matters and Litigation in Note 13, Commitments and Contingencies).

## Edgar Filing: 3M CO - Form 10-K

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

In 2013, 3M expended about \$31 million for capital projects related to protecting the environment. This amount excludes expenditures for remediation actions relating to existing matters caused by past operations that do not contribute to current or future revenues, which are expensed. Capital expenditures for environmental purposes have included pollution control devices such as wastewater treatment plant improvements, scrubbers, containment structures, solvent recovery units and thermal oxidizers at new and existing facilities constructed or upgraded in the normal course of business. Consistent with the Company's policies stressing environmental responsibility, capital expenditures (other than for remediation projects) for known projects are presently expected to be about \$54 million over the next two years for new or expanded programs to build facilities or modify manufacturing processes to minimize waste and reduce emissions.

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

Table of Contents**Executive Officers**

Following is a list of the executive officers of 3M, and their age, present position, the year elected to their present position and other positions they have held during the past five years. No family relationships exist among any of the executive officers named, nor is there any undisclosed arrangement or understanding pursuant to which any person was selected as an officer. This information is presented in the table below as of the date of the 10-K filing (February 13, 2014).

<b>Name</b>	<b>Age</b>	<b>Present Position</b>	<b>Year Elected to Present Position</b>	<b>Other Positions Held During 2009-2013</b>
Inge G. Thulin	60	Chairman of the Board, President and Chief Executive Officer	2012	President and Chief Executive Officer, 2012  Executive Vice President and Chief Operating Officer, 2011-2012  Executive Vice President, International Operations, 2004-2011
Julie L. Bushman	52	Senior Vice President, Business Transformation and Information Technology	2013	Executive Vice President, Safety and Graphics, 2012-2013  Executive Vice President, Safety Security and Protection Services Business, 2011-2012  Vice President and General Manager, Occupational Health and Environmental Safety Division, 2007-2011
Joaquin Delgado	54	Executive Vice President, Health Care	2012	Executive Vice President, Electro and Communications Business, 2009-2012  Vice President and General Manager, Electronics Markets Materials Division, 2007-2009
Ivan K. Fong	52	Senior Vice President, Legal Affairs and General Counsel	2012	General Counsel, U.S. Department of Homeland Security, 2009-2012  Chief Legal Officer and Secretary, Cardinal Health Inc., 2005-2009
Ian F. Hardgrove	63	Senior Vice President, Corporate Communications and Enterprise Services	2014	Senior Vice President, Marketing, Sales and Communications, 2011-2013  Vice President and General Manager, Automotive Aftermarket Division, 2003-2011
Christopher D. Holmes	54	Senior Vice President, Supply Chain	2012	Executive Vice President, Industrial and Transportation Business, 2011-2012

Edgar Filing: 3M CO - Form 10-K

Vice President and General Manager,  
Abrasives Systems Division, 2007-2011

Michael A. Kelly	57	Executive Vice President, Electronics and Energy	2012	Executive Vice President, Display and Graphics Business, 2006-2012
------------------	----	---	------	---

Edgar Filing: 3M CO - Form 10-K

Table of Contents

<b>Name</b>	<b>Age</b>	<b>Present Position</b>	<b>Year Elected to Present Position</b>	<b>Other Positions Held During 2009-2013</b>
Frank R. Little	53	Executive Vice President, Safety and Graphics Business Group	2013	Vice President and General Manager, Personal Safety Division, 2013  Vice President and General Manager, Occupational Health and Environmental Safety Division, 2011-2012  Managing Director, 3M Korea, 2008-2011
Marlene M. McGrath	51	Senior Vice President, Human Resources	2012	Senior Vice President, Human Resources and Interim General Counsel, 2012  Vice President, Human Resources, International Operations, 2010-2012  Director, Human Resources, International Operations, 2006-2010
David W. Meline	56	Senior Vice President and Chief Financial Officer	2011	Vice President, Corporate Controller and Chief Accounting Officer, 2008-2011
Frederick J. Palensky	64	Executive Vice President, Research and Development and Chief Technology Officer	2006	
Michael F. Roman	54	Senior Vice President, Business Development	2013	Vice President and General Manager, Industrial Adhesives and Tapes Division, 2011-2013  Vice President and General Manager, Renewable Energy Division, 2009-2011  Vice President, Business Development, Optical Systems Division, Asia, 2008-2009
Brad T. Sauer	54	Executive Vice President, Industrial	2012	Executive Vice President, Health Care Business, 2004-2012
Hak Cheol Shin	56	Executive Vice President, International Operations	2011	Executive Vice President, Industrial and Transportation Business, 2006-2011
Jesse G. Singh	48	Senior Vice President, Marketing and Sales	2014	Vice President and General Manager, Stationery and Office Supplies Division, 2012-2013  President, Sumitomo 3M Limited, 2007-2012
Michael G. Vale	47	Executive Vice President, Consumer	2012	Executive Vice President, Consumer and Office Business, 2011-2012  Managing Director, 3M Brazil, 2009-2011





Table of Contents

**Cautionary Note Concerning Factors That May Affect Future Results**

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

Forward-looking statements relate to future events and typically address the Company's expected future business and financial performance. Words such as plan, expect, aim, believe, project, target, anticipate, intend, estimate, will, should, could and other words meaning, typically identify such forward-looking statements. In particular, these include, among others, statements relating to

- the Company's strategy for growth, future revenues, earnings, cash flow, uses of cash and other measures of financial performance, and market position,
- worldwide economic and capital markets conditions, such as interest rates, foreign currency exchange rates, financial conditions of our suppliers and customers, and natural and other disasters affecting the operations of the Company or our suppliers and customers,
- new business opportunities, product development, and future performance or results of current or anticipated products,
- the scope, nature or impact of acquisition, strategic alliance and divestiture activities,
- the outcome of contingencies, such as legal and regulatory proceedings,
- future levels of indebtedness, common stock repurchases and capital spending,
- future availability of and access to credit markets,
- pension and postretirement obligation assumptions and future contributions, asset impairments, tax liabilities, information technology security, and
- the effects of changes in tax, environmental and other laws and regulations in the United States and other countries in which we operate.

The Company assumes no obligation to update or revise any forward-looking statements.

Forward-looking statements are based on certain assumptions and expectations of future events and trends that are subject to risks and uncertainties. Actual future results and trends may differ materially from historical results or those reflected in any such forward-looking statements depending on a variety of factors. Important information as to these factors can be found in this document, including, among others, Management's Discussion and Analysis of Financial Condition and Results of Operations under the headings of Overview, Critical Accounting Estimates and Financial Condition and Liquidity. Discussion of these factors is incorporated by reference from Part I, Item 1A, Risk Factors, of

## Edgar Filing: 3M CO - Form 10-K

this document, and should be considered an integral part of Part II, Item 7, Management's Discussion and Analysis of Financial Condition and Results of Operations. For additional information concerning factors that may cause actual results to vary materially from those stated in the forward-looking statements, see our reports on Form 10-K, 10-Q and 8-K filed with the SEC from time to time.

### **Item 1A. Risk Factors.**

Provided below is a cautionary discussion of what we believe to be the most important risk factors applicable to the Company. Discussion of these factors is incorporated by reference into and considered an integral part of Part II, Item 7, Management's Discussion and Analysis of Financial Conditions and Results of Operations.

*\* Results are impacted by the effects of, and changes in, worldwide economic and capital markets conditions.* The Company operates in more than 70 countries and derives approximately two-thirds of its revenues from outside the United States. The Company's business is subject to global competition and may be adversely affected by factors in the United States and other countries that are beyond its control, such as disruptions in financial markets, economic downturns in the form of either contained or widespread recessionary conditions, elevated unemployment levels, sluggish or uneven recovery, in specific countries or regions, or in the various industries in which the Company operates; social, political or labor conditions in specific countries or regions; natural and other disasters affecting the operations of the Company or its customers and suppliers; or adverse changes in the availability and cost of capital, interest rates, tax rates, or regulations in the jurisdictions in which the Company operates.

*\* The Company's credit ratings are important to 3M's cost of capital.* The major rating agencies routinely evaluate the Company's credit profile and assign debt ratings to 3M. The Company currently has an AA- credit rating, with a stable

Table of Contents

outlook, from Standard & Poor's and an Aa2 credit rating, with a stable outlook, from Moody's Investors Service. This evaluation is based on a number of factors, which include financial strength, business and financial risk, as well as transparency with rating agencies and timeliness of financial reporting. The Company's current ratings have served to lower 3M's borrowing costs and facilitate access to a variety of lenders. Failure to maintain strong investment grade ratings would adversely affect the Company's cost of funds and could adversely affect liquidity and access to capital markets.

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

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

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

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

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

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

projected productivity improvements will be realized.

*\* The Company employs information technology systems to support its business, including ongoing phased implementation of an enterprise resource planning (ERP) system on a worldwide basis over the next several years. Security breaches and other disruptions to the Company's information technology infrastructure could interfere with the Company's operations, compromise information belonging to the Company and its customers and suppliers, and expose the Company to liability which could adversely impact the Company's business and reputation. In the ordinary course of business, the Company relies on information technology networks and systems, some of which are managed by third parties, to process, transmit and store electronic information, and to manage or support a variety of business processes and activities. Additionally, the Company collects and stores certain data, including proprietary business information, and may have access to confidential or personal information in certain of our businesses that is subject to privacy and security laws, regulations and customer-imposed controls. Despite our cybersecurity measures (including employee and third-party training, monitoring of networks and systems, and maintenance of backup and protective systems) which are*

Table of Contents

continuously reviewed and upgraded, the Company's information technology networks and infrastructure may still be vulnerable to damage, disruptions or shutdowns due to attack by hackers or breaches, employee error or malfeasance, power outages, computer viruses, telecommunication or utility failures, systems failures, natural disasters or other catastrophic events. While we have experienced, and expect to continue to experience, these types of threats to the Company's information technology networks and infrastructure, none of them to date has had a material impact to the Company. There may be other challenges and risks as the Company upgrades and standardizes its ERP system on a worldwide basis. Any such events could result in legal claims or proceedings, liability or penalties under privacy laws, disruption in operations, and damage to the Company's reputation, which could adversely affect the Company's business.

*\* The Company's future results may be affected by various legal and regulatory proceedings and legal compliance risks, including those involving product liability, antitrust, environmental, the U.S. Foreign Corrupt Practices Act and other anti-bribery, anti-corruption, or other matters.* The outcome of these legal proceedings may differ from the Company's expectations because the outcomes of litigation, including regulatory matters, are often difficult to reliably predict. Various factors or developments can lead the Company to change current estimates of liabilities and related insurance receivables where applicable, or make such estimates for matters previously not susceptible of reasonable estimates, such as a significant judicial ruling or judgment, a significant settlement, significant regulatory developments or changes in applicable law. A future adverse ruling, settlement or unfavorable development could result in future charges that could have a material adverse effect on the Company's results of operations or cash flows in any particular period. For a more detailed discussion of the legal proceedings involving the Company and the associated accounting estimates, see the discussion in Note 13 Commitments and Contingencies within the Notes to Consolidated Financial Statements.

**Item 1B. Unresolved Staff Comments.**

None.

**Item 2. Properties.**

3M's general offices, corporate research laboratories, and certain division laboratories are located in St. Paul, Minnesota. The Company operates 89 manufacturing facilities in 29 states. The Company operates 127 manufacturing and converting facilities in 38 countries outside the United States.

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

**Item 3. Legal Proceedings.**

Discussion of legal matters is incorporated by reference from Part II, Item 8, Note 13, Commitments and Contingencies, of this document, and should be considered an integral part of Part I, Item 3, Legal Proceedings.

**Item 4. Mine Safety Disclosures.**

Pursuant to Section 1503 of the Dodd-Frank Wall Street Reform and Consumer Protection Act (the Act ), the Company is required to disclose, in connection with the mines it operates, information concerning mine safety violations or other regulatory matters in its periodic reports filed with the SEC. For the year 2013, the information concerning mine safety violations or other regulatory matters required by Section 1503(a) of the Act is included in Exhibit 95 to this annual report.

Table of Contents**PART II****Item 5. Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities.**

Equity compensation plans information is incorporated by reference from Part III, Item 12, Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters, of this document, and should be considered an integral part of Item 5. At January 31, 2014, there were 91,440 shareholders of record. 3M's stock is listed on the New York Stock Exchange, Inc. (NYSE), the Chicago Stock Exchange, Inc., and the SWX Swiss Exchange. 3M has historically declared and paid cash dividends in the same quarter. Cash dividends declared totaled \$0.635 per share for the first three quarters of 2013. Cash dividends declared in the fourth quarter of 2013 included a dividend payable in November 2013 of \$0.635 per share and a dividend payable in March 2014 of \$0.855 per share. Cash dividends declared totaled \$0.59 per share for each quarter of 2012. Stock price comparisons follow:

**Stock price comparisons (NYSE composite transactions)**

(Per share amounts)	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	Total
<b>2013 High</b>	\$ <b>106.88</b>	\$ <b>113.25</b>	\$ <b>122.27</b>	\$ <b>140.43</b>	\$ <b>140.43</b>
<b>2013 Low</b>	<b>93.96</b>	<b>102.89</b>	<b>108.21</b>	<b>116.65</b>	<b>93.96</b>
2012 High	\$ 90.00	\$ 89.95	\$ 94.30	\$ 95.46	\$ 95.46
2012 Low	82.70	81.99	85.34	86.74	81.99



Table of Contents**Issuer Purchases of Equity Securities**

Repurchases of 3M common stock are made to support the Company's stock-based employee compensation plans and for other corporate purposes. In February 2011, 3M's Board of Directors authorized the repurchase of up to \$7.0 billion of 3M's outstanding common stock, with no pre-established end date. In February 2013, 3M's Board of Directors replaced the February 2011 repurchase program with a new repurchase program. This new program authorizes the repurchase of up to \$7.5 billion of 3M's outstanding common stock, with no pre-established end date. In February 2014, 3M's Board of Directors replaced the Company's February 2013 repurchase program with a new repurchase program. This new program authorizes the repurchase of up to \$12 billion of 3M's outstanding common stock, with no pre-established end date.

**Issuer Purchases of Equity Securities**

(registered pursuant to Section 12 of the Exchange Act)

<b>Period</b>	<b>Total Number of Shares Purchased (1)</b>	<b>Average Price Paid per Share</b>	<b>Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs (2)</b>	<b>Maximum Approximate Dollar Value of Shares that May Yet Be Purchased under the Plans or Programs (Millions)</b>
January 1-31, 2013	1,664,478	\$ 97.17	1,634,216	\$ 2,306
February 1-28, 2013	3,199,508	\$ 103.21	2,644,039	\$ 7,227
March 1-31, 2013	2,995,946	\$ 105.13	2,981,063	\$ 6,913
Total January 1-March 31, 2013	7,859,932	\$ 102.66	7,259,318	\$ 6,913
April 1-30, 2013	2,739,109	\$ 105.56	2,730,861	\$ 6,625
May 1-31, 2013	6,626,563	\$ 110.46	6,594,113	\$ 5,897
June 1-30, 2013	1,930,590	\$ 109.34	1,930,331	\$ 5,685
Total April 1-June 30, 2013	11,296,262	\$ 109.08	11,255,305	\$ 5,685
July 1-31, 2013	4,367,343	\$ 114.23	4,359,967	\$ 5,187
August 1-31, 2013	4,248,029	\$ 115.44	4,246,000	\$ 4,697
September 1-30, 2013	4,885,431	\$ 118.91	4,868,307	\$ 4,118
Total July 1-September 30, 2013	13,500,803	\$ 116.31	13,474,274	\$ 4,118
October 1-31, 2013	6,379,918	\$ 121.62	6,334,328	\$ 3,348
November 1-30, 2013	3,769,708	\$ 129.01	3,768,421	\$ 2,862
December 1-31, 2013	2,638,987	\$ 130.53	2,637,697	\$ 2,518
Total October 1-December 31, 2013	12,788,613	\$ 125.64	12,740,446	\$ 2,518
Total January 1-December 31, 2013	45,445,610	\$ 114.78	44,729,343	\$ 2,518

(1) The total number of shares purchased includes: (i) shares purchased under the Board's authorizations described above, and (ii) shares purchased in connection with the exercise of stock options.

(2) The total number of shares purchased as part of publicly announced plans or programs includes shares purchased under the Board's authorizations described above.



Table of Contents**Item 6. Selected Financial Data.**

(Dollars in millions, except per share amounts)	2013	2012	2011	2010	2009
Years ended December 31:					
Net sales	\$ 30,871	\$ 29,904	\$ 29,611	\$ 26,662	\$ 23,123
Net income attributable to 3M	4,659	4,444	4,283	4,085	3,193
Per share of 3M common stock:					
Net income attributable to 3M basic	6.83	6.40	6.05	5.72	4.56
Net income attributable to 3M diluted	6.72	6.32	5.96	5.63	4.52
Cash dividends declared per 3M common share	3.395	2.36	2.20	2.10	2.04
Cash dividends paid per 3M common share	2.54	2.36	2.20	2.10	2.04
At December 31:					
Total assets	\$ 33,550	\$ 33,876	\$ 31,616	\$ 30,156	\$ 27,250
Long-term debt (excluding portion due within one year) and long-term capital lease obligations	4,384	4,987	4,563	4,277	5,204

3M has historically declared and paid dividends in the same quarter. In December 2013, 3M's Board of Directors declared a first-quarter 2014 dividend of \$0.855 per share (payable in March 2014). This resulted in total year 2013 declared dividends of \$3.395 per share, with \$2.54 per share paid in 2013 and the additional \$0.855 per share to be paid in March 2014.

Items included in the preceding table which had a significant impact on results are summarized as follows. 2010 included a one-time, non-cash income tax charge of \$84 million, or 12 cents per diluted share, resulting from the March 2010 enactment of the Patient Protection and Affordable Care Act, including modifications made in the Health Care and Education Reconciliation Act of 2010. 2009 results included net losses that decreased operating income by \$194 million and net income attributable to 3M by \$119 million. 2009 included restructuring actions (\$209 million pre-tax, \$128 million after tax and noncontrolling interest), which were partially offset by a gain on sale of real estate (\$15 million pre-tax, \$9 million after tax).

Table of Contents

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

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

- Overview
- Results of Operations
- Performance by Business Segment
- Performance by Geographic Area
- Critical Accounting Estimates
- New Accounting Pronouncements
- Financial Condition and Liquidity
- Financial Instruments

**OVERVIEW**

3M is a diversified global manufacturer, technology innovator and marketer of a wide variety of products. As described in Note 15 to the Consolidated Financial Statements, effective in the first quarter of 2013, the Company completed a realignment of its business segments to better serve global markets and customers. In addition, during the first quarter of 2013, as described in Note 16, 3M realigned its geographic area structure to include Puerto Rico in the United States rather than in the Latin America/Canada region. Segment and geographic area information presented herein reflects the impact of these changes for all periods presented. 3M manages its operations in five operating business segments: Industrial; Safety and Graphics; Electronics and Energy; Health Care; and Consumer. From a geographic perspective, any references to EMEA refer to Europe, Middle East and Africa on a combined basis.

Fourth-quarter 2013 net income attributable to 3M was \$1.103 billion, or \$1.62 per diluted share, compared to \$991 million, or \$1.41 per diluted share, in the fourth quarter of 2012. Fourth-quarter 2013 sales totaled \$7.6 billion, an increase of 2.4 percent from the fourth quarter of 2012. 3M achieved organic local-currency sales growth (which includes organic volume and selling price impacts) in all five of its business segments, led by Industrial. Industrial organic local-currency sales increased 5.8 percent, led by advanced materials, automotive OEM, 3M Purification Inc. (filtration products), aerospace, and automotive aftermarket. Organic local-currency sales increased 4.8 percent in Safety and Graphics, led by roofing granules, personal safety, commercial graphics, and architectural markets. Organic local-currency sales grew 3.6 percent in the Health Care business segment, with the strongest sales growth in health information systems, food safety, critical and chronic care, and infection prevention; organic local-currency sales declined in drug delivery systems. Organic local-currency sales increased 1.3 percent in the Consumer business segment, led by the consumer health care and home care businesses. Electronics and Energy organic local-currency sales growth was 0.4 percent, with increases in energy-related sales led by renewable energy and electrical markets. Electronic-related sales declined, with growth

## Edgar Filing: 3M CO - Form 10-K

in optical systems and electronic solutions more than offset by declines in other businesses. For the Company in total, organic-local currency sales grew 3.4 percent, with higher organic volumes contributing 2.0 percent and selling price increases contributing 1.4 percent. Acquisitions added 0.7 percent to sales, which related to the late November 2012 acquisition of Ceradyne, Inc. Foreign currency translation reduced sales by 1.7 percent year-on-year.

From a geographic area perspective, fourth-quarter 2013 organic local-currency sales growth was 4.5 percent in the United States, 3.4 percent in EMEA, 3.3 percent in Asia Pacific, and 2.2 percent in Latin America/Canada. In the U.S., EMEA, and Asia Pacific, all five business segments generated positive organic local-currency sales growth. Organic local-currency sales growth in the United States was led by Industrial, and Safety and Graphics. Organic local-currency sales growth in EMEA was led by Industrial. West Europe grew organically by 3 percent year-on-year, continuing the positive trends 3M has seen in recent quarters. Organic local-currency sales growth in Asia Pacific was led by Consumer, Safety and Graphics, and Health Care. Sales in Japan grew 4 percent organically. China/Hong Kong grew organically by 1 percent, impacted by a strong prior-year comparison of 16 percent growth in the fourth quarter of 2012 and weakness in electronics. Organic local-currency sales growth in Latin America/Canada was positive across most countries, but below recent trend levels for a few reasons. First, slowing in government tenders for infrastructure projects in certain countries impacted sales in Electronics and Energy. Consumer was also soft in the fourth quarter due to weak retail demand and challenging year-on-year comparisons. And lastly, sales in Venezuela declined year-on-year due to the economic and political situation there. Venezuela diluted fourth-quarter organic sales growth in Latin America/Canada by 1.5 percentage points, as 3M continues to work towards minimizing its Bolivar exposure and any associated costs.

Table of Contents

For total year 2013, net income attributable to 3M was \$4.659 billion, or \$6.72 per diluted share, compared to \$4.444 billion, or \$6.32 per diluted share, in 2012, an increase of 6.3 percent on a per diluted share basis. Sales totaled \$30.9 billion, an increase of 3.2 percent from 2012. From a business segment perspective, organic local-currency sales growth was 5.0 percent in Health Care, 4.6 percent in Industrial, 4.2 percent in Safety and Graphics, 3.0 percent in Consumer, and was flat in Electronics and Energy. From a geographic area perspective, 2013 organic local-currency sales growth was 7.1 percent in Latin America/Canada, 3.6 percent in Asia Pacific, 3.1 percent in the United States, and 2.1 percent in EMEA. For the Company in total, organic local-currency sales grew 3.4 percent, with higher organic volumes contributing 2.5 percent and selling price increases contributing 0.9 percent. Acquisitions added 1.4 percent to sales, driven by the November 2012 acquisition of Ceradyne, Inc. (Industrial), the September 2012 purchase of the net assets that comprised the business of Federal Signal Technologies Group (Safety and Graphics), and the April 2012 acquisition of CodeRyte, Inc. (Health Care). Foreign currency translation reduced sales by 1.6 percent year-on-year.

Operating income in 2013 was 21.6 percent of sales, compared to 21.7 percent of sales in 2012, a decline of 0.1 percentage points. Items that reduced operating income margins included lower factory utilization/productivity, strategic investments (including business transformation, enabled by 3M's global ERP implementation), the impact of 2012 acquisitions, and other factors. These factors were largely offset by the combination of selling price increases and raw material cost decreases, in addition to lower pension/postretirement benefit costs. Refer to the section entitled Results of Operations for further discussion.

The income tax rate was 28.1 percent in 2013, down 0.9 percentage points versus 2012, which increased earnings per diluted share by approximately 9 cents. Weighted-average diluted shares outstanding in 2013 declined 1.4 percent year-on-year to 693.6 million, which increased earnings per diluted share by approximately 9 cents. Foreign exchange impacts decreased earnings per diluted share by approximately 11 cents.

Fourth-quarter 2012 net income attributable to 3M was \$991 million, or \$1.41 per diluted share, compared to \$954 million, or \$1.35 per diluted share, in the fourth quarter of 2011. Fourth-quarter 2012 sales totaled \$7.4 billion, an increase of 4.2 percent from the fourth quarter of 2011. Organic local-currency sales grew 4.3 percent, acquisitions added 0.9 percent to sales, and foreign currency translation reduced sales by 1.0 percent year-on-year. From a business segment perspective, Consumer led with organic local-currency sales growth of 8.8 percent, driven by consumer health care, construction and home improvement markets, and stationery and office supplies. Health Care organic local-currency sales grew 5.9 percent, with positive growth in all businesses, led by food safety, health information systems, critical and chronic care, and oral care. Electronics and Energy organic local-currency sales growth was 4.4 percent, led by optical systems, with sales also increasing in infrastructure protection, electrical, and telecommunication markets, partially offset by declines in renewable energy and electronics markets materials. Industrial organic local-currency sales grew 4.4 percent, led by 3M Purification Inc. (filtration products), aerospace, industrial adhesives and tapes, abrasives and automotive OEM partially offset by declines in advanced materials. Organic local-currency sales declined 0.3 percent in Safety and Graphics, as sales growth in personal safety, architectural markets, commercial graphics, and roofing granules was offset by a year-on-year decline in traffic safety and security systems.

From a geographic area perspective, fourth-quarter 2012 organic local-currency sales growth was 9.9 percent in Latin America/Canada, 5.8 percent in Asia Pacific, and 5.2 percent in the United States. EMEA organic local-currency sales declined 1.0 percent, impacted by a weak economy in Western Europe. Latin America/Canada sales growth was broad-based, with all five business segments generating positive organic local-currency sales growth, led by Health Care; Safety and Graphics; Electronics and Energy; and Consumer. Organic local-currency sales growth increased 11 percent in Brazil, in the face of a still-recovering economy, and Mexico grew nearly 10 percent. In Asia Pacific, Japan declined year-on-year, reflecting continued challenging economic conditions. Organic local-currency sales in the rest of Asia Pacific grew nearly 10 percent, with China up over 16 percent. Organic local-currency sales growth in the United States was led by Consumer.

For total year 2012, net income attributable to 3M was \$4.444 billion, or \$6.32 per diluted share, compared to \$4.283 billion, or \$5.96 per diluted share, in 2011, an increase of 6.0 percent on a per diluted share basis. Sales totaled \$29.9 billion, an increase of 1.0 percent from 2011.

## Edgar Filing: 3M CO - Form 10-K

Organic local-currency sales grew 2.6 percent, acquisitions added 0.8 percent to sales and foreign currency translation reduced sales by 2.4 percent year-on-year. From a business segment perspective, organic local-currency sales growth was 5.2 percent in Industrial, 4.7 percent in Health Care, 3.6 percent in Consumer, and 2.4 percent in Safety and Graphics. Organic local-currency sales declined 3.7 percent in Electronics and Energy. From a geographic area perspective, 2012 organic local-currency sales growth was 11.1 percent in Latin America/Canada, 4.2 percent in the United States, and 0.1 percent in Asia Pacific. Asia Pacific was impacted by a soft global consumer electronics industry. EMEA organic local-currency sales declined 0.6 percent, impacted by a weak economy in Western Europe.

Table of Contents

Operating income in 2012 was 21.7 percent of sales, compared to 20.9 percent of sales in 2011, an improvement of 0.8 percentage points. The primary benefit (as discussed in the Results of Operations section) related to the combination of selling price increases and raw material cost decreases. Currency effects reduced diluted earnings per share by an estimated 15 cents. Net insurance recoveries in 2012 related to the 2011 earthquake and tsunami in Japan increased earnings by approximately 4 cents per diluted share. In 2011, the impact of natural disasters, net of insurance recoveries, reduced earnings by approximately 6 cents per diluted share. Early retirement/restructuring costs for 2012 totaled approximately 8 cents per diluted share, which included the first quarter 2012 charge of approximately 3 cents per diluted share related to a voluntary early retirement program in the United States.

The most significant non-operating items that impacted earnings in 2012 when compared to 2011 were diluted shares outstanding and income taxes. Average diluted shares outstanding declined 2.2 percent in 2012 to 703.3 million, which increased earnings per diluted share by approximately 14 cents when compared to 2011. The income tax rate for 2012 was 29.0 percent compared to 27.8 percent in 2011, which decreased earnings per diluted share by approximately 11 cents.

The following table contains sales and operating income results by business segment for the years ended December 31, 2013 and 2012. In addition to the discussion below, refer to the section entitled *Performance by Business Segment* and *Performance by Geographic Area* later in MD&A for a more detailed discussion of the sales and income results of the Company and its respective business segments (including Corporate and Unallocated). Refer to Note 15 for additional information on business segments, including Elimination of Dual Credit.

(Dollars in millions)	Net Sales	2013		Net Sales	2012		2013 vs. 2012 % change	
		% of Total	Oper. Income		% of Total	Oper. Income	Net Sales	Oper. Income
<b>Business Segments</b>								
Industrial	\$ 10,584	34.3%	\$ 2,296	\$ 9,943	33.2%	\$ 2,236	6.5%	2.7%
Safety and Graphics	5,657	18.3%	1,239	5,471	18.3%	1,217	3.4%	1.8%
Electronics and Energy	5,393	17.5%	954	5,458	18.3%	1,026	(1.2)%	(7.0)%
Health Care	5,334	17.3%	1,672	5,138	17.2%	1,641	3.8%	1.9%
Consumer	4,435	14.4%	945	4,386	14.7%	943	1.1%	0.2%
Corporate and Unallocated	8	%	(322)	4	%	(471)		
Elimination of Dual Credit	(540)	(1.8)%	(118)	(496)	(1.7)%	(109)		
<b>Total Company</b>	<b>\$ 30,871</b>	<b>100.0%</b>	<b>\$ 6,666</b>	<b>\$ 29,904</b>	<b>100.0%</b>	<b>\$ 6,483</b>	<b>3.2%</b>	<b>2.8%</b>

Sales in 2013 increased 3.2 percent, led by Industrial at 6.5 percent, Health Care at 3.8 percent, and Safety and Graphics at 3.4 percent. Sales increased 1.1 percent in Consumer and declined 1.2 percent in Electronics and Energy. Total company organic local-currency sales growth (which includes organic volume and selling price impacts) was 3.4 percent, acquisitions added 1.4 percent, and foreign currency translation reduced sales by 1.6 percent. Four of 3M's five business segments posted operating income margins in excess of 21 percent in 2013. Worldwide operating income margins for 2013 were 21.6 percent, compared to 21.7 percent for 2012.

Sales in 2012 increased 1.0 percent, led by Consumer at 3.7 percent, Industrial at 3.3 percent and Health Care at 2.5 percent. Sales increased 0.2 percent in Safety and Graphics, and declined 4.8 percent in Electronics and Energy. Total company organic local-currency sales growth was 2.6 percent, acquisitions added 0.8 percent, and foreign currency translation reduced sales by 2.4 percent. Four of 3M's five business segments posted operating income margins in excess of 21 percent in 2012. Worldwide operating income margins for 2012 were 21.7 percent, compared to 20.9 percent for 2011.



## Edgar Filing: 3M CO - Form 10-K

3M generated \$5.817 billion of operating cash flow in 2013, an increase of \$517 million when compared to 2012. This followed an increase of \$16 million when comparing 2012 to 2011. Refer to the section entitled "Financial Condition and Liquidity" later in MD&A for a discussion of items impacting cash flows. In February 2014, 3M's Board of Directors authorized the repurchase of up to \$12 billion of 3M's outstanding common stock, which replaced the Company's February 2013 repurchase program. This new program has no pre-established end date. In 2013, the Company purchased \$5.212 billion of stock, up significantly from \$2.204 billion in 2012 and \$2.701 billion in 2011. The Company expects to purchase \$3 billion to \$5 billion of stock in 2014. In December 2013, 3M's Board of Directors declared a first-quarter 2014 dividend of \$0.855 per share, an increase of 34.6 percent. This marked the 56th consecutive year of dividend increases for 3M. 3M's debt to total capital ratio (total capital defined as debt plus equity) was 25 percent at

Table of Contents

December 31, 2013, 2012 and 2011. 3M has an AA- credit rating with a stable outlook from Standard & Poor's and an Aa2 credit rating with a stable outlook from Moody's Investors Service. The Company has significant cash on hand and sufficient additional access to capital markets to meet its funding needs.

In 2013, the Company experienced stable to declining costs for most raw material categories and transportation fuel. This was driven by year-on-year cost decreases in many feedstock categories, including petroleum based materials, minerals, metals and wood pulp based products. To date the Company is receiving sufficient quantities of all raw materials to meet its reasonably foreseeable production requirements. It is impossible to predict future shortages of raw materials or the impact any such shortages would have. 3M has avoided disruption to its manufacturing operations through careful management of existing raw material inventories and development and qualification of additional supply sources. 3M manages commodity price risks through negotiated supply contracts, price protection agreements and forward physical contracts.

On a worldwide basis, 3M's pension and postretirement plans were 94 percent funded at year-end 2013. The primary U.S. qualified plan, which is approximately 66 percent of the worldwide pension obligation, was 103 percent funded and the international pension plans were 91 percent funded. The U.S. non-qualified pension plan is not funded due to tax considerations and other factors. Asset returns in 2013 for the primary U.S. qualified plan was 6.02%, as 3M strategically invests in both growth assets and fixed income matching assets to manage its funded status, which improved to 103 percent funded at year-end 2013, compared to 96 percent funded at year-end 2012. For the primary U.S. qualified pension plan, the expected long-term rate of return on an annualized basis for 2014 is 7.75%, a decrease of 0.25 percentage points from 2013. The primary U.S. qualified plan year-end 2013 discount rate was 4.98%, up 0.84 percentage points from the year-end 2012 discount rate of 4.14%. The increase in U.S. discount rates resulted in a lower valuation of the projected benefit obligation, which improved the plans' funded status. The changes in 3M's defined benefit plans' funded status significantly impacted several balance sheet amounts. In the fourth-quarter of 2013, these required annual measurements increased stockholders' equity by \$0.9 billion, decreased pension and postretirement benefits' long-term liabilities by \$0.8 billion, increased prepaid pension benefits' assets by \$0.5 billion, and decreased deferred taxes within other assets by \$0.4 billion. Other pension and postretirement changes during the year, such as contributions and amortization, also impacted these balance sheet amounts.

3M expects to contribute approximately \$100 million to \$200 million of cash to its global pension and postretirement plans in 2014. The Company does not have a required minimum cash pension contribution obligation for its U.S. plans in 2014. 3M expects defined benefit pension and postretirement expense in 2014 to decrease by approximately \$160 million pre-tax when compared to 2013. The change in both defined benefit and defined contribution plan expenses would increase earnings per share in 2014 by approximately 15 cents per share when compared to 2013, or approximately 17 cents per share including the impact of defined benefit plan expenses only. Refer to Critical Accounting Estimates within MD&A and Note 10 (Pension and Postretirement Benefit Plans) for additional information concerning 3M's pension and post-retirement plans. In addition, 3M currently expects that its effective tax rate for 2014 will be approximately 28.0 to 29.0 percent, compared to 28.1 percent for 2013.

Forward-looking statements in Item 7 may involve risks and uncertainties that could cause results to differ materially from those projected (refer to the section entitled Cautionary Note Concerning Factors That May Affect Future Results in Item 1 and the risk factors provided in Item 1A for discussion of these risks and uncertainties).

Table of Contents**RESULTS OF OPERATIONS***Net Sales:*

	2013			2012		
	U.S.	Intl.	Worldwide	U.S.	Intl.	Worldwide
Net sales (millions)	\$ 11,151	\$ 19,720	\$ 30,871	\$ 10,571	\$ 19,333	\$ 29,904
% of worldwide sales	36.1%	63.9%		35.3%	64.7%	
Components of net sales change:						
Volume organic	2.4%	2.7%	2.5%	2.1%	0.8%	1.2%
Price	0.7	0.9	0.9	2.1	0.9	1.4
Organic local-currency sales	3.1	3.6	3.4	4.2	1.7	2.6
Acquisitions	2.5	0.9	1.4	0.8	0.8	0.8
Divestitures	(0.1)					
Translation		(2.5)	(1.6)		(3.6)	(2.4)
Total sales change	5.5%	2.0%	3.2%	5.0%	(1.1)%	1.0%

In 2013, organic local-currency sales grew 3.4 percent, with increases of 7.1 percent in Latin America/Canada, 3.6 percent in Asia Pacific, 3.1 percent in the United States, and 2.1 percent in Europe, Middle East and Africa. Worldwide organic local-currency sales grew 5.0 percent in Health Care, 4.6 percent in Industrial, 4.2 percent in Safety and Graphics, 3.0 percent in Consumer, and were flat in Electronics and Energy. Acquisitions added 1.4 percent to worldwide growth and foreign currency translation reduced worldwide sales growth by 1.6 percent.

Worldwide selling prices rose 0.9 percent in 2013 and 1.4 percent in 2012. Selling price increases were driven by two primary factors in both 2013 and 2012. First, investment in research and development continues to support a strong price/value equation in many of the markets that 3M serves. Second, 3M adjusts selling prices to offset currency devaluations in certain developing countries. These increases have more than offset selling price declines in 3M's optical systems business, where prices typically decline each year, which is common for the electronics industry.

In 2012, organic local-currency sales increased 2.6 percent. Organic local-currency sales growth was led by Latin America/Canada and the United States, while Asia Pacific was flat, and EMEA was down slightly. Worldwide organic local-currency sales grew 5.2 percent in Industrial, 4.7 percent in Health Care, 3.6 percent in Consumer, and 2.4 percent in Safety and Graphics. Organic local-currency sales declined 3.7 percent in Electronics and Energy. Acquisitions added 0.8 percent to worldwide growth and foreign currency translation reduced 2012 worldwide sales growth by 2.4 percent.

Refer to the sections entitled *Performance by Business Segment* and *Performance by Geographic Area* later in MD&A for additional discussion of sales change.

Table of Contents**Operating Expenses:**

(Percent of net sales)	2013	2012	2011	2013 Versus 2012	2012 Versus 2011
Cost of sales	52.1%	52.4%	53.0%	(0.3)%	(0.6)%
Selling, general and administrative expenses	20.7	20.4	20.8	0.3	(0.4)
Research, development and related expenses	5.6	5.5	5.3	0.1	0.2
Operating income	21.6%	21.7%	20.9%	(0.1)%	0.8%

Pension and postretirement expense decreased \$97 million in 2013 compared to 2012, compared to an increase of \$95 million for 2012 compared to 2011. 2012 includes a \$26 million charge related to the first-quarter 2012 voluntary early retirement incentive program (discussed in Note 10). Pension and postretirement expense is recorded in cost of sales; selling, general and administrative expenses (SG&A); and research, development and related expenses (R&D). Refer to Note 10 (Pension and Postretirement Plans) for components of net periodic benefit cost and the assumptions used to determine net cost.

**Cost of Sales:**

Cost of sales includes manufacturing, engineering and freight costs.

Cost of sales, measured as a percent of net sales, was 52.1 percent in 2013, a decrease of 0.3 percentage points from 2012. Cost of sales as a percent of sales decreased due to the combination of selling price increases and raw material cost decreases, as selling prices rose 0.9 percent and raw material cost deflation was approximately 2 percent favorable year-on-year. In addition, lower pension and postretirement costs (of which a portion impacts cost of sales), in addition to organic volume increases, decreased cost of sales as a percent of sales. These benefits were partially offset by the impact of 2012 acquisitions and lower factory utilization.

Cost of sales, measured as a percent of net sales, was 52.4 percent in 2012, a decrease of 0.6 percentage points from 2011. The net impact of selling price/raw material cost changes was the primary factor that decreased cost of sales as a percent of sales, as selling prices increased 1.4 percent and raw material costs decreased approximately 2 percent. This benefit was partially offset by higher pension and postretirement costs.

**Selling, General and Administrative Expenses:**

Selling, general and administrative expenses (SG&A) increased \$282 million, or 4.6 percent, in 2013 when compared to 2012. In 2013, SG&A included strategic investments in business transformation, enabled by 3M's global enterprise resource planning (ERP) implementation, in addition to increases from acquired businesses that were largely not in 3M's 2012 spending (Ceradyne, Inc. and Federal Signal Technologies), which were partially offset by lower pension and postretirement expense. SG&A, measured as a percent of sales, increased 0.3 percentage points to 20.7 percent in 2013, compared to 20.4 percent in 2012.

## Edgar Filing: 3M CO - Form 10-K

SG&A decreased \$68 million, or 1.1 percent, in 2012 when compared to 2011. In addition to cost-control and other productivity efforts, 3M experienced some savings from its first-quarter 2012 voluntary early retirement incentive program and other restructuring actions. These benefits more than offset increases related to acquisitions, higher year-on-year pension and postretirement expense, and restructuring expenses. SG&A in 2012 included increases from acquired businesses which were not in 3M's full-year 2011 base spending, primarily related to the 2011 acquisitions of Winterthur Technologie AG and the do-it-yourself and professional business of GPI Group, in addition to SG&A spending related to the 2012 acquisitions of Ceradyne, Inc., Federal Signal Technologies Group, and CodeRyte, Inc. SG&A, measured as a percent of sales, was 20.4 percent in 2012, a decrease of 0.4 percentage points when compared to 2011.

### *Research, Development and Related Expenses:*

Research, development and related expenses (R&D) increased 4.9 percent in 2013 compared to 2012 and increased 4.1 percent in 2012 compared to 2011, as 3M continued to support its key growth initiatives, including more R&D aimed at disruptive innovation. In 2013, increases from acquired businesses that were largely not in 3M's 2012 spending (primarily Ceradyne, Inc. and Federal Signal Technologies) were partially offset by lower pension and postretirement expense. In

Table of Contents

2012, investments to support key growth initiatives, along with higher pension and postretirement expense, were partially offset by cost-control efforts and savings from 3M's first-quarter 2012 voluntary early retirement incentive program. R&D, measured as a percent of sales, was 5.6 percent in 2013, compared to 5.5 percent in 2012 and 5.3 percent in 2011.

***Operating Income:***

3M uses operating income as one of its primary business segment performance measurement tools.

Operating income margins were 21.6 percent in 2013, compared to 21.7 in 2012, a decrease of 0.1 percentage points. Items that reduced operating income margins included a 0.5 percentage point impact from lower factory utilization/productivity, along with a 0.4 percentage point impact from the combination of business transformation, enabled by 3M's global ERP implementation, along with more R&D aimed at disruptive innovation. The recently enacted medical device excise tax in the U.S., foreign currency effects, acquisition impacts, and other net impacts reduced operating income margins by 0.7 percentage points. These factors were largely offset by items that increased operating income margins, which included a 1.2 percentage point benefit from the combination of selling price increases and raw material cost decreases. Finally, lower pension/postretirement benefit costs increased operating income margins by 0.3 percentage points.

Operating income was 21.7 percent of sales in 2012, compared to 20.9 percent of sales in 2011, an improvement of 0.8 percentage points. The improvement was driven by a 1.6 percentage point benefit from the combination of selling price increases and raw material cost decreases. This was partially offset by increased pension/postretirement benefit costs and acquisition impacts, each of which reduced margins by 0.3 percentage points, and other net impacts, which decreased margins by 0.2 percentage points.

***Interest Expense and Income:***

(Millions)	2013		2012		2011	
Interest expense	\$	145	\$	171	\$	186
Interest income		(41)		(39)		(39)
Total	\$	104	\$	132	\$	147

*Interest Expense:* Interest expense decreased in both 2013 and 2012. The 2013 decrease was primarily due to lower interest rates. The 2012 decrease was driven by lower average international debt balances and lower interest rates on U.S. debt.

*Interest Income:* Interest income was up \$2 million when comparing 2013 to 2012, as higher average international cash balances were largely offset by lower average U.S. balances and lower U.S. and international interest rates. In 2012, lower U.S. cash balances and lower interest rates internationally were offset by higher international cash balances and higher interest rates in the U.S.

***Provision for Income Taxes:***

Edgar Filing: 3M CO - Form 10-K

(Percent of pre-tax income)	2013	2012	2011
Effective tax rate	28.1%	29.0%	27.8%

The effective tax rate for 2013 was 28.1 percent, compared to 29.0 percent in 2012, a decrease of 0.9 percentage points, impacted by many factors. Factors that decreased the Company's effective tax rate included international taxes as a result of changes to the geographic mix of income before taxes, the reinstatement of the U.S. research and development credit in 2013, an increase in the domestic manufacturer's deduction benefit, 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 4.0 percentage points. This benefit was partially offset by factors that increased the effective tax rate by 3.1 percentage points, which largely related to adjustments to 3M's income tax reserves for 2013 when compared to 2012.

The effective tax rate for 2012 was 29.0 percent, compared to 27.8 percent in 2011, an increase of 1.2 percentage points, impacted by many factors. The primary factors that increased the Company's effective tax rate year-on-year include international taxes, specifically with respect to the corporate reorganization of a wholly owned international subsidiary (which benefited 2011), state income taxes, lower domestic manufacturer's deduction, and the lapse of the U.S. research and development credit. These and other factors, when compared to 2011, increased the 2012 effective tax rate by 2.1 percentage points. Factors that decreased the Company's effective tax rate year-on-year include international taxes as a

Table of Contents

result of changes to the geographic mix of income before taxes and adjustments to its income tax reserves. These factors, when compared to 2011, decreased the effective tax rate 0.9 percentage points.

The Company currently expects that its effective tax rate for total year 2014 will be approximately 28.0 to 29.0 percent. The rate can vary from quarter to quarter due to discrete items, such as the settlement of income tax audits and changes in tax laws, as well as recurring factors, such as the geographic mix of income before taxes.

Refer to Note 7 for further discussion of income taxes.

***Net Income Attributable to Noncontrolling Interest:***

(Millions)	2013		2012		2011	
Net income attributable to noncontrolling interest	\$	62	\$	67	\$	74

Net income attributable to noncontrolling interest represents the elimination of the income or loss attributable to non-3M ownership interests in 3M consolidated entities. The changes in noncontrolling interest amounts are primarily related to Sumitomo 3M Limited (Japan), which is 3M's most significant consolidated entity with non-3M ownership interests. As of December 31, 2013, 3M's effective ownership in Sumitomo 3M Limited is 75 percent.

***Currency Effects:***

3M estimates that year-on-year currency effects, including hedging impacts, decreased net income attributable to 3M by approximately \$74 million and \$103 million in 2013 and 2012, respectively. These estimates include the effect of translating profits from local currencies into U.S. dollars; the impact of currency fluctuations on the transfer of goods between 3M operations in the United States and abroad; and transaction gains and losses, including derivative instruments designed to reduce foreign currency exchange rate risks and the negative impact of swapping Venezuelan bolivars into U.S. dollars. 3M estimates that year-on-year derivative and other transaction gains and losses decreased net income attributable to 3M by approximately \$12 million in 2013 and increased net income attributable to 3M by approximately \$49 million in 2012.



Table of Contents

**PERFORMANCE BY BUSINESS SEGMENT**

Disclosures relating to 3M's business segments are provided in Item 1, Business Segments. Financial information and other disclosures are provided in the Notes to the Consolidated Financial Statements. As discussed in Note 15, effective in the first quarter of 2013, the Company completed a realignment of its business segments to better serve global markets and customers. Segment information presented herein reflects the impacts of these changes for all periods presented. The reportable segments are Industrial; Safety and Graphics; Electronics and Energy; Health Care; and Consumer. Information related to 3M's business segments is presented in the tables that follow. Organic local-currency sales include both organic volume impacts plus selling price impacts. Acquisition impacts, if any, are measured separately for the first twelve months of the acquisition. The divestiture impacts, if any, foreign currency translation impacts and total sales change are also provided for each business segment. Any references to EMEA relate to Europe, Middle East and Africa on a combined basis.

***Corporate and Unallocated:***

In addition to these five operating business segments, 3M assigns certain costs to Corporate and Unallocated, which is presented separately in the preceding business segments table and in Note 15. Corporate and Unallocated includes a variety of miscellaneous items, such as corporate investment gains and losses, certain derivative gains and losses, certain insurance-related gains and losses, certain litigation and environmental expenses, corporate restructuring charges and certain under- or over-absorbed costs (e.g. pension, stock-based compensation) that the Company may choose not to allocate directly to its business segments. Because this category includes a variety of miscellaneous items, it is subject to fluctuation on a quarterly and annual basis.

Corporate and Unallocated operating expenses decreased by \$149 million in 2013 when compared to 2012. Of the \$149 million decrease in 2013, approximately \$127 million was due to lower pension and postretirement benefit expense. The primary items driving the \$51 million increase in Corporate and Unallocated in 2012 when compared to 2011 were pension and postretirement expense, as a portion of the 2012 increase in these expenses were not allocated directly to the five operating business segments (\$63 million), partially offset by an increase in other environmental insurance receivables, which benefited 2012 by \$15 million (as discussed in Note 13).

***Operating Business Segments:***

All five business segments, when comparing 2013 to 2012, were impacted by investments in business transformation, which are enabled by 3M's global ERP implementation, and by higher allocated pension and postretirement benefit expenses. The implementation of 3M's ERP system has increased spending in total, and the transition of 3M's ERP system from the development stage into deployment has also resulted in more ERP costs being borne by the five operating business segments rather than Corporate and Unallocated. This negatively impacted each business segment's annual 2013 operating income margins by approximately 0.30 percentage points when compared to 2012. 3M's pension and postretirement benefit expenses declined \$97 million when comparing 2013 to 2012; however, \$127 million of this reduction was allocated to Corporate and Unallocated, resulting in \$30 million of additional expense being absorbed by the five operating business segments in 2013, or a negative year-on-year impact of approximately 0.10 percentage points. Thus, while operating income margins have declined when comparing 2013 to 2012 for all five business segments, on average approximately 0.40 percentage points of this decline relates to the impact of higher ERP implementation expenses and higher pension and postretirement benefit expenses. When comparing 2012 to 2011, operating business segment results reflect \$32 million in higher year-on-year pension and postretirement benefit expenses.

Edgar Filing: 3M CO - Form 10-K

The following discusses total year results for 2013 compared to 2012, and also discusses 2012 compared to 2011, for each business segment.

Table of Contents*Industrial Business (34.3% of consolidated sales):*

	<b>2013</b>		<b>2012</b>		<b>2011</b>
Sales (millions)	\$	<b>10,584</b>	\$	9,943	\$ 9,629
Sales change analysis:					
Organic local currency		<b>4.6%</b>		5.2%	9.0%
Acquisitions		<b>3.6</b>		1.1	6.1
Translation		<b>(1.7)</b>		(3.0)	3.5
Total sales change		<b>6.5%</b>		3.3%	18.6%
Operating income (millions)	\$	<b>2,296</b>	\$	2,236	\$ 1,983
Percent change		<b>2.7%</b>		12.8%	15.3%
Percent of sales		<b>21.7%</b>		22.5%	20.6%

The Industrial segment serves a broad range of markets, such as automotive original equipment manufacturer (OEM) and automotive aftermarket (auto body shops and retail), electronics, appliance, paper and printing, packaging, food and beverage, and construction. Industrial products include tapes, a wide variety of coated, non-woven and bonded abrasives, adhesives, advanced ceramics, sealants, specialty materials, 3M Purification Inc. (filtration products), closure systems for personal hygiene products, acoustic systems products, and components and products that are used in the manufacture, repair and maintenance of automotive, marine, aircraft and specialty vehicles.

*Year 2013 results:*

Sales in Industrial totaled \$10.6 billion, up 6.5 percent in U.S. dollars. Organic local-currency sales increased 4.6 percent, acquisitions added 3.6 percent, and foreign currency translation reduced sales by 1.7 percent. On an organic local-currency basis, all of Industrial's businesses experienced positive sales growth in 2013, led by aerospace, automotive OEM, 3M Purification Inc. (filtration products), and industrial adhesives and tapes. Acquisition growth related to the 2012 acquisition of Ceradyne, Inc. (Ceradyne). As disclosed in Note 2, in November 2012, 3M acquired Ceradyne, which is headquartered in Costa Mesa, California. Ceradyne is involved in the development and production of advanced technical ceramics for demanding applications in the automotive, oil and gas, solar, industrial, electronics and defense industries.

Geographically, organic local-currency sales increased 8 percent in Latin America/Canada, 5 percent in the United States, 4 percent in EMEA, and 3 percent in Asia Pacific.

Operating income was \$2.3 billion in 2013, up 2.7 percent year-on-year. Operating income margins decreased by 0.8 percentage points to 21.7 percent. This decline in margins largely related to the Ceradyne acquisition, which reduced 2013 operating income margins by 0.7 percentage points.

*Year 2012 results:*

## Edgar Filing: 3M CO - Form 10-K

Sales in Industrial totaled \$9.9 billion, up 3.3 percent in U.S. dollars. Organic local-currency sales increased 5.2 percent, acquisitions added 1.1 percent, and foreign currency translation reduced sales by 3.0 percent. Acquisitions growth was primarily driven by Winterthur Technologie AG (Winterthur) in the abrasives market, Ceradyne, Inc. (Ceradyne) in the advanced technical ceramics market, and Alpha Beta Enterprise Co. Ltd. (Alpha Beta) in industrial tapes, all of which are discussed further below. On an organic local-currency basis, sales growth was strongest in automotive OEM, aerospace, abrasives and 3M Purification Inc.

Geographically, organic local-currency sales increased 8 percent in the United States, 7 percent in Latin America/Canada, 5 percent in Asia Pacific, and 1 percent in EMEA.

Operating income was \$2.2 billion in 2012, 12.8 percent higher than 2011, with the primary benefit related to the combination of selling price increases and raw material cost decreases. Operating income growth was led by the United States. Operating income margins increased by 1.9 percentage points to 22.5 percent.

3M continued to invest in its Industrial business. In November 2012, 3M acquired Ceradyne. In March 2011, 3M acquired a controlling interest in Winterthur via completion of a public tender offer. Winterthur, based in Zug, Switzerland, is a leading global supplier of precision grinding technology serving customers in the area of hard-to-grind precision applications in industrial, automotive, aircraft, and cutting tools. In addition, in February 2011, 3M completed its acquisition

Table of Contents

of the tape-related assets of Alpha Beta, a leading manufacturer of box sealing tape and masking tape headquartered in Taipei, Taiwan.

*Investment:*

In March 2005, 3M's automotive business completed the purchase of 19 percent of TI&M Beteiligungsgesellschaft mbH (TI&M) for approximately \$55 million. TI&M is the parent company of I&T Innovation Technology Entwicklungsund Holding Aktiengesellschaft (I&T), an Austrian maker of flat flexible cable and circuitry. Pursuant to a Shareholders Agreement, 3M marketed I&T's flat flexible wiring systems for automotive interior applications to the global automotive market. I&T filed a petition for bankruptcy protection in August 2006. As part of its agreement to purchase the shares of TI&M, the Company was granted a put option that gave the Company the right to sell back its entire ownership interest in TI&M to the other investors from whom the Company acquired its 19 percent interest. The put option became exercisable January 1, 2007. The Company exercised the put option and recovered approximately \$25 million of its investment from one of the investors based in Belgium in February 2007. The other two TI&M investors from whom the Company purchased its shares filed a bankruptcy petition in Austria in January 2007. Through the Austrian bankruptcy process and pursuit of recovery from the bank that held the 3M purchase price paid to the two bankrupt investors, 3M recovered all but an immaterial amount of the remaining investment through October 2013 at which point 3M resolved its remaining claims.

Table of Contents**Safety and Graphics Business (18.3% of consolidated sales):**

	<b>2013</b>		<b>2012</b>		<b>2011</b>
Sales (millions)	\$	<b>5,657</b>	\$	5,471	\$ 5,458
Sales change analysis:					
Organic local currency		<b>4.2%</b>		2.4%	5.1%
Acquisitions		<b>1.3</b>		0.6	3.3
Translation		<b>(2.1)</b>		(2.8)	3.6
Total sales change		<b>3.4%</b>		0.2%	12.0%
Operating income (millions)	\$	<b>1,239</b>	\$	1,217	\$ 1,237
Percent change		<b>1.8%</b>		(1.6)%	8.7%
Percent of sales		<b>21.9%</b>		22.3%	22.7%

The Safety and Graphics segment serves a broad range of markets that increase the safety, security and productivity of people, facilities and systems. Major product offerings include personal protection products; traffic safety and security products, including border and civil security solutions; commercial graphics sheeting and systems; architectural surface and lighting solutions; cleaning and protection products for commercial establishments, and roofing granules for asphalt shingles.

*Year 2013 results:*

Sales in Safety and Graphics totaled \$5.7 billion, up 3.4 percent in U.S. dollars. Organic local-currency sales increased 4.2 percent, acquisitions added 1.3 percent, and foreign currency translation reduced sales by 2.1 percent. On an organic local-currency basis, sales growth was led by personal safety, commercial graphics, industrial minerals, and building and commercial services. Organic local-currency sales declined in traffic safety and security systems. Acquisition growth related to the September 2012 purchase of net assets that comprised the business of Federal Signal Technologies Group.

Organic local-currency sales increased 9 percent in both Latin America/Canada and Asia Pacific, and 2 percent in the United States. Organic local-currency sales were flat in EMEA.

Operating income in 2013 totaled \$1.2 billion, up 1.8 percent. Operating income margins were 21.9 percent of sales, compared to 22.3 percent in 2012. This decline in margins related to the Federal Signal Technologies Group acquisition, which reduced 2013 operating income margins by 0.5 percentage points.

*Year 2012 results:*

Sales in Safety and Graphics were \$5.5 billion, up 0.2 percent in U.S. dollars. Organic local-currency sales increased 2.4 percent, led by architectural markets, personal safety, and commercial graphics, with growth also in building and commercial services, and roofing granules.

## Edgar Filing: 3M CO - Form 10-K

Organic local-currency sales declined in traffic safety and security. Acquisitions sales growth of 0.6 percent related to the September 2012 purchase of the net assets that comprised the business of Federal Signal Technologies Group from Federal Signal Corp. This business focuses on electronic toll collection and parking management hardware and software services. Foreign currency translation reduced sales by 2.8 percent.

Geographically, organic local-currency sales increased 16 percent in Latin America/Canada and 1 percent in both the United States and Asia Pacific. Organic local-currency sales declined 2 percent in EMEA.

Operating income in 2012 totaled \$1.2 billion, down 1.6 percent. Operating income margins were 22.3 percent of sales, compared to 22.7 percent in 2011. The year-on-year decline in operating income dollars and margins was attributable to softness in traffic safety and security, which has been impacted by lower government spending.

Table of Contents**Electronics and Energy Business (17.5% of consolidated sales):**

	2013		2012		2011
Sales (millions)	\$ 5,393	\$	5,458	\$	5,732
Sales change analysis:					
Organic local currency		%	(3.7)%		(0.5)%
Translation	(1.2)		(1.1)		2.3
Total sales change	(1.2)%		(4.8)%		1.8%
Operating income (millions)	\$ 954	\$	1,026	\$	1,140
Percent change	(7.0)%		(10.0)%		(5.5)%
Percent of sales	17.7%		18.8%		19.9%

The Electronics and Energy segment serves customers in the electronics and energy markets, including solutions for dependable, cost-effective, high-performance electronic devices, telecommunications networks, electrical products, power generation and distribution, and infrastructure protection. This segment's electronics solutions include optical film solutions for the electronic display industry; packaging and interconnection devices; high performance fluids and abrasives; high-temperature and display tapes; 3M Flexible Circuits, which use electronic packaging and interconnection technology; and the touch systems business, which includes touch screens, touch monitors, and touch sensor components. This segment's energy solutions include pressure sensitive tapes and resins; electrical insulation; a wide array of fiber-optic and copper-based telecommunications systems; renewable energy component solutions for the solar and wind power industries; and infrastructure products that provide both protection and detection solutions.

The optical film business provides films that serve numerous market segments of the electronic display industry. 3M provides distinct products for five market segments, including products for: 1) LCD computer monitors 2) LCD televisions 3) handheld devices such as cellular phones and tablets 4) notebook PCs and 5) automotive displays. The optical business includes a number of different products that are protected by various patents and groups of patents. These patents provide varying levels of exclusivity to 3M for a number of such products. As some of 3M's multi-layer optical film patents expired at the end of 2013 and will expire over several years thereafter, 3M will likely see more competition in these products. 3M continues to innovate in the area of optical films and files patents on its new technology and products. 3M's proprietary manufacturing technology and know-how also provide a competitive advantage to 3M independent of its patents.

*Year 2013 results:*

Electronics and Energy sales totaled \$5.4 billion, down 1.2 percent in U.S. dollars, with this decrease related to foreign currency translation. Organic local-currency sales were flat in 3M's electronics-related businesses, with increases in touch systems and optical systems offset by decreases in electronics markets materials. Organic local-currency sales were also flat in 3M's energy-related businesses, where sales gains in electrical markets were offset by sales declines in infrastructure protection, telecommunication markets, and renewable energy.

On a geographic basis, organic local-currency sales increased slightly in Latin America/Canada and Asia Pacific. Organic local-currency sales declined slightly in the United States and EMEA.



## Edgar Filing: 3M CO - Form 10-K

Operating income decreased 7.0 percent to \$954 million in 2013. Operating income margins were 17.7 percent, compared to 18.8 percent in 2012. The operating margin decline was primarily attributable to lower factory utilization and flat year-on-year organic local-currency sales.

### *Year 2012 results:*

Electronics and Energy sales totaled \$5.5 billion, down 4.8 percent in U.S. dollars. Organic local-currency sales declined 3.7 percent and foreign currency translation reduced sales by 1.1 percent. Organic local-currency sales declined in the consumer electronics-related businesses, including a 9 percent decline in optical systems, driven by lower optical film volumes for LCD TVs. In addition, organic local-currency sales declined in the renewable energy and telecommunications markets business. Organic local-currency sales increased in 3M's touch systems, infrastructure protection, and electrical markets businesses.

On a geographic basis, organic local-currency sales increased 14 percent in Latin America/Canada and 3 percent in the United States. Organic local-currency sales declined 6 percent in EMEA and 7 percent in Asia Pacific.

Table of Contents

Operating income decreased 10.0 percent to \$1.0 billion in 2012. Operating income margins were 18.8 percent, compared to 19.9 percent in 2011. The year-on-year decline was largely attributable to the decline in optical systems.

**Health Care Business (17.3% of consolidated sales):**

	2013	2012	2011
Sales (millions)	\$ 5,334	\$ 5,138	\$ 5,011
Sales change analysis:			
Organic local currency	5.0%	4.7%	4.6%
Acquisitions	0.1	0.3	3.8
Translation	(1.3)	(2.5)	3.1
Total sales change	3.8%	2.5%	11.5%
Operating income (millions)	\$ 1,672	\$ 1,641	\$ 1,484
Percent change	1.9%	10.5%	9.4%
Percent of sales	31.3%	31.9%	29.6%

The Health Care segment serves markets that include medical clinics and hospitals, pharmaceuticals, dental and orthodontic practitioners, health information systems, and food manufacturing and testing. Products and services provided to these and other markets include medical and surgical supplies, skin health and infection prevention products, inhalation and transdermal drug delivery systems, dental and orthodontic products (oral care), health information systems, and food safety products.

*Year 2013 results:*

Health Care sales totaled \$5.3 billion, an increase of 3.8 percent in U.S. dollars. Organic local-currency sales increased 5.0 percent, acquisitions added 0.1 percent, and foreign currency translation reduced sales by 1.3 percent. Organic local-currency sales growth was led by health information systems, food safety, critical and chronic care, infection prevention, and oral care. Organic local-currency sales declined in drug delivery. Acquisition growth related to the April 2012 acquisition of CodeRyte, Inc., which is discussed further below.

On a geographic basis, organic local-currency sales increased 10 percent in Latin America/Canada, 8 percent in Asia Pacific, and 4 percent in both EMEA and the United States.

Operating income increased 1.9 percent to \$1.7 billion. Operating income margins were 31.3 percent in 2013, compared to 31.9 percent in 2012. Effective January 1, 2013, 3M began to absorb additional costs related to the U.S. medical device excise tax, which decreased operating income margins by 0.4 percentage points. The third-quarter 2013 gain from sale of a non-strategic equity method investment benefited total year 2013 operating income margins by 0.3 percentage points.

*Year 2012 results:*

## Edgar Filing: 3M CO - Form 10-K

Health Care sales totaled \$5.1 billion, an increase of 2.5 percent in U.S. dollars. Organic local-currency sales increased 4.7 percent, led by food safety, health information systems, and critical and chronic care solutions. Sales declined year-on-year in drug delivery systems. Acquisitions added 0.3 percent, as 3M further strengthened its health information systems business in April 2012 by acquiring CodeRyte, Inc., which provides clinical natural language processing technology and computer-assisted coding solutions for outpatient providers. Foreign currency translation reduced sales by 2.5 percent.

On a geographic basis, organic local-currency sales increased 12.5 percent in Latin America/Canada, 10 percent in Asia Pacific, 4 percent in the United States, and 1 percent in EMEA.

Operating income increased 10.5 percent to \$1.6 billion. Operating income margins were 31.9 percent in 2012 compared to 29.6 percent in 2011, driven by strong manufacturing cost control, improved utilization and production efficiencies. Operating income grew in all major geographic areas.

Table of Contents**Consumer Business (14.4% of consolidated sales):**

	<b>2013</b>		<b>2012</b>		<b>2011</b>
Sales (millions)	\$ 4,435	\$	4,386	\$	4,230
Sales change analysis:					
Organic local currency	<b>3.0%</b>		3.6%		4.0%
Acquisitions			2.0		1.3
Divestitures	<b>(0.1)</b>				
Translation	<b>(1.8)</b>		(1.9)		2.4
Total sales change	<b>1.1%</b>		3.7%		7.7%
Operating income (millions)	\$ 945	\$	943	\$	855
Percent change	<b>0.2%</b>		10.3%		(0.5)%
Percent of sales	<b>21.3%</b>		21.5%		20.2%

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

*Year 2013 results:*

Sales in Consumer totaled \$4.4 billion, up 1.1 percent in U.S. dollars. Organic local-currency sales increased 3.0 percent, divestitures reduced sales by 0.1 percent, and foreign currency translation reduced sales by 1.8 percent. On an organic local-currency basis, sales growth was led by consumer health care, home care, and construction and home improvement. Organic local-currency sales increased slightly in stationary and office supplies, impacted by continued consolidation trends in the office retail and wholesale market.

On a geographic basis, organic local-currency sales increased 7 percent in Asia Pacific and 3 percent in both Latin America/Canada and the United States. Organic local-currency sales declined 1 percent in EMEA.

Consumer operating income was \$945 million, up 0.2 percent from 2012. Operating income margins were 21.3 percent, down slightly from 2012.

As discussed in Note 2, in June 2013, 3M completed the sale of the Scientific Anglers and Ross Reels businesses to The Orvis Company, Inc. based in Manchester, Vermont.

*Year 2012 results:*

## Edgar Filing: 3M CO - Form 10-K

Sales in Consumer totaled \$4.4 billion, up 3.7 percent in U.S. dollars. Organic local-currency sales increased 3.6 percent, acquisitions added 2.0 percent, and foreign currency translation reduced sales by 1.9 percent. Organic local-currency sales growth was led by the consumer health care and construction and home improvement businesses. Organic local-currency sales increased slightly in stationery and office supplies, impacted by continued softness in the office wholesale and retail markets. Acquisition growth was largely due to the October 2011 acquisition of the do-it-yourself and professional business of GPI Group. GPI is a manufacturer and marketer of home improvement products such as tapes, hooks, insulation and floor protection products and accessories. The addition of GPI's products expands 3M's product portfolio in core and complementary categories in the construction and home improvement markets.

On a geographic basis, organic local-currency sales increased 10 percent in Latin America/Canada, and 4 percent in both Asia Pacific and the United States. EMEA organic local-currency sales decreased 2 percent.

Consumer operating income increased 10.3 percent to \$943 million. Operating income margins were 21.5 percent, compared to 20.2 percent in 2011, as all businesses and major geographic areas posted operating income increases. Consumer benefited from the combination of selling price increases and raw material cost decreases, in addition to cost-control efforts.

Table of Contents**PERFORMANCE BY GEOGRAPHIC AREA**

While 3M manages its businesses globally and believes its business segment results are the most relevant measure of performance, the Company also utilizes geographic area data as a secondary performance measure. Export sales are generally reported within the geographic area where the final sales to 3M customers are made. A portion of the products or components sold by 3M's operations to its customers are exported by these customers to different geographic areas. As customers move their operations from one geographic area to another, 3M's results will follow. Thus, net sales in a particular geographic area are not indicative of end-user consumption in that geographic area. Financial information related to 3M operations in various geographic areas is provided in Note 16. As discussed in Note 16, during the first quarter of 2013, 3M realigned its geographic area structure to include Puerto Rico in the United States rather than in the Latin America/Canada region. Geographic area information presented herein reflects the impact of this change for all periods presented.

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

	2013					
	United States	Asia Pacific	Europe, Middle East & Africa	Latin America/Canada	Other Unallocated	Worldwide
Net sales (millions)	\$ 11,151	\$ 9,047	\$ 7,085	\$ 3,611	\$ (23)	\$ 30,871
% of worldwide sales	36.1%	29.3%	22.9%	11.7%		100.0%
Components of net sales change:						
Volume organic	2.4%	4.3%	1.5%	1.5%		2.5%
Price	0.7	(0.7)	0.6	5.6		0.9
Organic local-currency sales	3.1	3.6	2.1	7.1		3.4
Acquisitions	2.5	0.2	2.0	0.3		1.4
Divestitures	(0.1)					
Translation		(4.3)	1.2	(5.1)		(1.6)
Total sales change	5.5%	(0.5)%	5.3%	2.3%		3.2%
Operating income (millions)	\$ 2,210	\$ 2,386	\$ 1,168	\$ 908	\$ (6)	\$ 6,666
Percent change	14.0%	(2.6)%	0.4%	(3.0)%		2.8%

For total year 2013, as shown in the preceding table, sales rose 3.2 percent, with organic volume increases of 2.5 percent and selling price increases of 0.9 percent. Acquisitions added 1.4 percent, while foreign currency translation reduced sales by 1.6 percent. Organic local-currency sales increased 7.1 percent in Latin America/Canada, 3.6 percent in Asia Pacific, 3.1 percent in the United States, and 2.1 percent in EMEA. For 2013, international operations represented 63.9 percent of 3M's sales.

	2012					
	United States	Asia Pacific	Europe, Middle East & Africa	Latin America/Canada	Other Unallocated	Worldwide
Net sales (millions)	\$ 10,571	\$ 9,092	\$ 6,730	\$ 3,529	\$ (18)	\$ 29,904
% of worldwide sales	35.3%	30.4%	22.5%	11.8%		100.0%
Components of net sales change:						
Volume organic	2.1%	1.3%	(2.8)%	7.0%		1.2%
Price	2.1	(1.2)	2.2	4.1		1.4

Edgar Filing: 3M CO - Form 10-K

Organic local-currency sales	4.2	0.1	(0.6)	11.1	2.6	
Acquisitions	0.8	0.3	1.9	0.1	0.8	
Translation		(0.6)	(6.2)	(6.4)	(2.4)	
Total sales change	5.0%	(0.2)%	(4.9)%	4.8%	1.0%	
Operating income (millions)	\$ 1,938	\$ 2,450	\$ 1,163	\$ 936	\$ (4)	\$ 6,483
Percent change	18.2%	(2.9)%	1.2%	5.6%		4.9%

For total year 2012, as shown in the preceding table, sales rose 1.0 percent, with organic volume increases of 1.2 percent and selling price increases of 1.4 percent. Acquisitions added 0.8 percent, while foreign currency translation reduced sales by 2.4 percent. Organic local-currency sales growth was led by Latin America/Canada at 11.1 percent and the United States at 4.2 percent. Organic local-currency sales increased in Asia Pacific by 0.1 percent and declined in EMEA by 0.6 percent. For 2012, international operations represented 64.7 percent of 3M's sales.

Table of Contents**Geographic Area Supplemental Information**

(Millions, except Employees)	Employees as of December 31,			Capital Spending			Property, Plant and Equipment - net as of December 31,	
	2013	2012	2011	2013	2012	2011	2013	2012
United States	<b>34,719</b>	34,851	33,246	\$ <b>941</b>	\$ 816	\$ 688	\$ <b>4,478</b>	\$ 4,279
Asia Pacific	<b>18,417</b>	18,210	18,015	<b>284</b>	332	409	<b>1,943</b>	2,029
Europe, Middle East and Africa	<b>20,504</b>	20,638	20,113	<b>290</b>	226	180	<b>1,636</b>	1,499
Latin America and Canada	<b>15,027</b>	13,978	12,824	<b>150</b>	110	102	<b>595</b>	571
Total Company	<b>88,667</b>	87,677	84,198	\$ <b>1,665</b>	\$ 1,484	\$ 1,379	\$ <b>8,652</b>	\$ 8,378

**Employment:**

Employment increased by 990 positions in 2013 and 3,479 positions in 2012. Acquisitions increased employment by approximately 2,500 full-time equivalents for 2012. In addition, the other primary factor that increased employment in both years was additions in developing economies to support growth.

**Capital Spending/Net Property, Plant and Equipment:**

Investments in property, plant and equipment enable growth across many diverse markets, helping to meet product demand and increasing manufacturing efficiency. Capital spending was \$1.665 billion in 2013, compared to \$1.484 billion in 2012 and \$1.379 billion in 2011. The Company expects 2014 capital spending to be approximately \$1.7 billion to \$1.8 billion, as 3M continues to invest in its businesses. In 2013, 3M continued its expansion of manufacturing capacity in key growth markets, including investments in the U.S., China, Germany, and Brazil. This included significant investments across 3M's many businesses, such as abrasives, industrial adhesives and tapes, advanced materials, electronics-related, infection prevention, and other businesses. 3M continued its investments in IT systems and infrastructure, including ongoing phased implementation of an ERP system on a worldwide basis over the next several years. In addition, 3M is sustaining existing facilities through general maintenance, cost reduction, and compliance efforts. In 2012, 3M expanded manufacturing capacity in key growth markets, particularly with respect to international and emerging market countries. This included investments in China, Turkey and Poland, in addition to investments in Singapore and the U.S. 3M also increased investments in IT systems and infrastructure and made strategic investments in research/development infrastructure and manufacturing sites to lay the foundation for future growth. In 2011, a large portion of the capital investment was used to address supply constraints in a number of businesses with significant growth potential, such as renewable energy, traffic signage in developing economies, and optically clear adhesives and glass bubbles. In addition, certain 2010 capital projects carried forward into 2011.

3M is striving to increase its manufacturing and sourcing capacity in developing economies in order to more closely align its production capability with its sales in major geographic regions. The initiative is expected to help improve customer service, lower transportation costs, and reduce working capital requirements. 3M will continue to make investments in critical emerging markets, such as China, Brazil, Poland and India, including plans to establish and begin production in a new wholly-owned manufacturing entity in India to serve as a source of supply to 3M's business in India and in other countries.



**CRITICAL ACCOUNTING ESTIMATES**

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

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

Table of Contents

***Legal Proceedings:***

The categories of claims for which the Company has a probable and estimable liability, the amount of its liability accruals, and the estimates of its related insurance receivables are critical accounting estimates related to legal proceedings. Please refer to the section entitled "Process for Disclosure and Recording of Liabilities and Insurance Receivables Related to Legal Proceedings" (contained in "Legal Proceedings" in Note 13) for additional information about such estimates.

***Pension and Postretirement Obligations:***

3M has various company-sponsored retirement plans covering substantially all U.S. employees and many employees outside the United States. The primary U.S. defined-benefit pension plan was closed to new participants effective January 1, 2009. The Company accounts for its defined benefit pension and postretirement health care and life insurance benefit plans in accordance with Accounting Standard Codification (ASC) 715, *Compensation - Retirement Benefits*, in measuring plan assets and benefit obligations and in determining the amount of net periodic benefit cost. ASC 715 requires employers to recognize the underfunded or overfunded status of a defined benefit pension or postretirement plan as an asset or liability in its statement of financial position and recognize changes in the funded status in the year in which the changes occur through accumulated other comprehensive income, which is a component of stockholders' equity. While the company believes the valuation methods used to determine the fair value of plan assets are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different estimate of fair value at the reporting date.

Pension benefits associated with these plans are generally based primarily on each participant's years of service, compensation, and age at retirement or termination. Two critical assumptions, the discount rate and the expected return on plan assets, are important elements of expense and liability measurement. See Note 10 for additional discussion of actuarial assumptions used in determining pension and postretirement health care liabilities and expenses.

The Company determines the discount rate used to measure plan liabilities as of the December 31 measurement date for its pension and postretirement benefit plans. The discount rate reflects the current rate at which the associated liabilities could be effectively settled at the end of the year. The Company sets its rate to reflect the yield of a portfolio of high quality, fixed-income debt instruments that would produce cash flows sufficient in timing and amount to settle projected future benefits. Using this methodology, the Company determined a discount rate of 4.98% for the primary U.S. qualified pension plan and 4.83% for U.S. postretirement plans to be appropriate as of December 31, 2013, which represents an increase from the 4.14% and 4.00% rates, respectively, used as of December 31, 2012. The weighted average discount rate for international pension plans as of December 31, 2013 was 4.02%, an increase from the 3.78% rate used as of December 31, 2012.

A significant element in determining the Company's pension expense in accordance with ASC 715 is the expected return on plan assets, which is based on historical results for similar allocations among asset classes. For the primary U.S. qualified pension plan, the expected long-term rate of return on an annualized basis for 2014 is 7.75%, a 0.25% decrease from 2013. Refer to Note 10 for information on how the 2014 rate was determined. Return on assets assumptions for international pension and other post-retirement benefit plans are calculated on a plan-by-plan basis using plan asset allocations and expected long-term rate of return assumptions. The weighted average expected return for the international pension plan is 5.83% for 2014, compared to 5.87% for 2013.

## Edgar Filing: 3M CO - Form 10-K

For the year ended December 31, 2013, the Company recognized total consolidated defined benefit pre-tax pension and postretirement expense (after settlements, curtailments and special termination benefits) of \$553 million, down from \$650 million in 2012. Defined benefit pension and postretirement expense (before settlements, curtailments and special termination benefits) is anticipated to decrease to \$393 million in 2014, a decrease of \$160 million compared to 2013. For the pension plans, holding all other factors constant, a 0.25 percentage point increase/decrease in the expected long-term rate of return on plan assets would decrease/increase 2014 pension expense by approximately \$34 million for U.S. pension plans and approximately \$14 million for international pension plans. Also, holding all other factors constant, a 0.25 percentage point increase in the discount rate used to measure plan liabilities would decrease 2014 pension expense by approximately \$41 million for U.S. pension plans and approximately \$21 million for international pension plans. In addition, a 0.25 percentage point decrease in the discount rate used to measure plan liabilities would increase 2014 pension expense by approximately \$42 million for U.S. pension plans and approximately \$24 million for international pension plans.

Table of Contents

***Asset Impairments:***

As of December 31, 2013, net property, plant and equipment totaled \$8.7 billion and net identifiable intangible assets totaled \$1.7 billion. Management makes estimates and assumptions in preparing the consolidated financial statements for which actual results will emerge over long periods of time. This includes the recoverability of long-lived assets employed in the business, including assets of acquired businesses. These estimates and assumptions are closely monitored by management and periodically adjusted as circumstances warrant. For instance, expected asset lives may be shortened or an impairment recorded based on a change in the expected use of the asset or performance of the related asset group.

3M goodwill totaled approximately \$7.3 billion as of December 31, 2013. 3M's annual goodwill impairment testing is performed in the fourth quarter of each year. Impairment testing for goodwill is done at a reporting unit level, with all goodwill assigned to a reporting unit. Reporting units are one level below the business segment level, but can be combined when reporting units within the same segment have similar economic characteristics. At 3M, reporting units generally correspond to a division. 3M did not combine any of its reporting units for impairment testing.

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

As discussed in Notes 3 and 15 to the Consolidated Financial Statements, 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. 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. The discussion that follows relates to the separate fourth quarter 2013 annual impairment test and is in the context of the reporting unit structure that existed at that time.

As of September 30, 2013, 3M had 34 primary reporting units, with ten reporting units accounting for approximately 80 percent of the goodwill. These ten reporting units were comprised of the following divisions: 3M Purification Inc., Personal Safety, Optical Systems, Traffic Safety and Security Systems, Infection Prevention, 3M ESPE, Advanced Materials, Industrial Adhesives and Tapes, Communication Markets, and Health Information Systems. The fair values for all significant reporting units were in excess of carrying value by 50 percent or more, except for one reporting unit with approximately \$300 million of goodwill, where the fair value exceeded the carrying value by approximately 30 percent.

In 2013, 3M primarily used an industry price-earnings ratio approach, but also used a discounted cash flows approach for certain reporting units, to determine fair values. Where applicable, 3M used a weighted-average discounted cash flow analysis for certain divisions, using projected cash flows that were weighted based on different sales growth and terminal value assumptions, among other factors. The weighting was based on management's estimates of the likelihood of each scenario occurring.

## Edgar Filing: 3M CO - Form 10-K

Based on fourth-quarter 2013 testing, 3M's estimated fair value when valuing each reporting unit individually would aggregate to approximately \$94 billion, implying a control premium of 17 percent when compared to 3M's market value of approximately \$80 billion at September 30, 2013. The control premium is defined as the sum of the individual reporting units estimated market values compared to 3M's total Company estimated fair value, with the sum of the individual values typically being larger than the value for the total Company. 3M's market value at both September 30, 2013 and December 31, 2013 was significantly in excess of its equity of approximately \$18 billion. 3M is an integrated materials enterprise, thus many of 3M's businesses could not easily be sold on a stand-alone basis. 3M's focus on research and development has resulted in a portion of 3M's value being comprised of internally developed businesses that have no goodwill associated with them. Based on the annual test in the fourth quarter of 2013, no goodwill impairment was indicated for any of the reporting units.

Factors which could result in future impairment charges include, among others, changes in worldwide economic conditions, changes in competitive conditions and customer preferences, and fluctuations in foreign currency exchange rates. These risk factors are discussed in Item 1A, Risk Factors, of this document. In addition, changes in the weighted average cost of capital could also impact impairment testing results. As indicated above, during the first quarter of 2013,

Table of Contents

the Company completed its assessment of any potential goodwill impairment for reporting units impacted by this new structure and determined that no impairment existed. Long-lived assets with a definite life are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset (asset group) may not be recoverable. If future non-cash asset impairment charges are taken, 3M would expect that only a portion of the long-lived assets or goodwill would be impaired. 3M will continue to monitor its reporting units and asset groups in 2014 for any triggering events or other indicators of impairment.

***Income Taxes:***

The extent of 3M's operations involves dealing with uncertainties and judgments in the application of complex tax regulations in a multitude of jurisdictions. The final taxes paid are dependent upon many factors, including negotiations with taxing authorities in various jurisdictions and resolution of disputes arising from federal, state, and international tax audits. The Company recognizes potential liabilities and records tax liabilities for anticipated tax audit issues in the United States and other tax jurisdictions based on its estimate of whether, and the extent to which, additional taxes will be due. The Company follows guidance provided by ASC 740, *Income Taxes*, regarding uncertainty in income taxes, to record these liabilities (refer to Note 7 for additional information). The Company adjusts these reserves in light of changing facts and circumstances; however, due to the complexity of some of these uncertainties, the ultimate resolution may result in a payment that is materially different from the Company's current estimate of the tax liabilities. If the Company's estimate of tax liabilities proves to be less than the ultimate assessment, an additional charge to expense would result. If payment of these amounts ultimately proves to be less than the recorded amounts, the reversal of the liabilities would result in tax benefits being recognized in the period when the Company determines the liabilities are no longer necessary.

**NEW ACCOUNTING PRONOUNCEMENTS**

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

**FINANCIAL CONDITION AND LIQUIDITY**

3M's primary short-term liquidity needs are met through cash on hand, U.S. commercial paper and euro commercial paper issuances. 3M resumed commercial paper funding in July 2013 for the first time since late 2008. 3M expects to maintain a consistent presence in the market and believes it will have continuous access to the commercial paper market. 3M's commercial paper program permits the Company to have a maximum of \$3 billion outstanding with a maximum maturity of 397 days from date of issuance. At both of December 31, 2013 and 2012, 3M's outstanding commercial paper balance was zero.

The Company has sufficient liquidity and generates significant ongoing cash flow, which have been used, in part, to repurchase shares and to pay dividends on 3M common stock. In addition, 3M's liquidity and cash flow enable it to meet currently anticipated growth plans, including funds for capital expenditures, working capital investments and acquisitions. As discussed in Note 2, in 2012 3M acquired Ceradyne, Inc. and other acquisitions for approximately \$1.0 billion. In 2011, 3M acquired Winterthur Technologie AG and other acquisitions for approximately \$700 million (including purchases of noncontrolling interest). 3M was able to complete these acquisitions while maintaining a strong net debt position, as shown in the table below.

Edgar Filing: 3M CO - Form 10-K

At December 31  
(Millions)

	2013	2012
Total Debt	\$ 6,009	\$ 6,001
Less: Cash and cash equivalents and marketable securities	4,790	5,693
Net Debt	\$ 1,219	\$ 308

The Company defines net debt as total debt less cash, cash equivalents and current and long-term marketable securities. 3M considers net debt to be an important measure of liquidity and its ability to meet ongoing obligations. This measure is not defined under U.S. generally accepted accounting principles and may not be computed the same as similarly titled measures used by other companies.

At December 31, 2013, cash, cash equivalents and marketable securities held by the Company's foreign subsidiaries and in the United States totaled approximately \$4.3 billion and \$0.5 billion, respectively. The United States balance and 62 percent of cash and securities held by the Company's foreign subsidiaries were invested in U.S. denominated cash or cash equivalents or U.S. denominated investments in money market funds, asset-backed securities, agency securities,

Table of Contents

corporate medium-term note securities and other investment-grade fixed income securities, which aggregated to \$3.1 billion at December 31, 2013. At December 31, 2012, cash, cash equivalents, and marketable securities held by the Company's foreign subsidiaries and the United States totaled approximately \$3.7 billion and \$2.0 billion, respectively. The Company's total balance of cash, cash equivalents and marketable securities was \$0.9 billion lower at December 31, 2013 when compared to December 31, 2012. 3M is able to manage the business with lower cash levels, particularly in the U.S., due to continued business growth and consistently strong cash flow generation. In addition, rising interest rates are positively impacting 3M's already well-funded pension status, thereby enabling the Company to reduce the amount of discretionary contributions to the plans. 3M is planning for added leverage of \$2 billion to \$4 billion in 2014 as it continues to improve the efficiency of its capital structure.

3M's net debt at December 31, 2013 was \$1.219 billion, compared to net debt of \$308 million at December 31, 2012. At December 31, 2013, 3M had \$4.790 billion of cash, cash equivalents, and marketable securities and \$6.009 billion of debt. Debt included \$4.326 billion of long-term debt and \$1.683 billion related to the current portion of long-term debt and other borrowings. The current portion of long-term debt includes a Eurobond due in July 2014 totaling 1.025 billion Euros (\$1.424 billion carrying value at December 31, 2013). In August 2013, 3M repaid \$850 million (principal amount) of medium-term notes. In November 2013, 3M issued an eight-year Eurobond for an amount of 600 million Euros (approximately \$815 million carrying value at December 31, 2013). The designated use of proceeds is for general corporate purposes. The strength of 3M's capital structure and consistency of its cash flows provide 3M reliable access to capital markets. Additionally, the Company's maturity profile is staggered to help ensure refinancing needs in any given year are reasonable in proportion to the total portfolio. The Company has an AA- credit rating, with a stable outlook, from Standard & Poor's and an Aa2 credit rating, with a stable outlook, from Moody's Investors Service.

In September 2012, 3M entered into a \$1.5 billion, five-year multi-currency revolving credit agreement, which amended the existing agreement that was entered into in August 2011. This amended agreement extended the expiration date from August 2016 to September 2017. This credit agreement includes a provision under which 3M may request an increase of up to \$500 million, bringing the total facility up to \$2 billion (at the lenders' discretion). This facility was undrawn at December 31, 2013. In August 2013, 3M entered into a \$150 million, one-year committed letter of credit facility with HSBC Bank USA, which replaced the one-year \$150 million committed credit facility that was entered into in August 2012. As of December 31, 2013, 3M letters of credit issued under this \$150 million committed facility totaled \$120 million. In December 2012, 3M entered into a three-year 66 million British Pound (approximately \$106 million based on agreement date exchange rates) committed credit agreement with JP Morgan Chase Bank, which is fully drawn as of December 31, 2013. Apart from the committed facilities, an additional \$51 million in stand-alone letters of credit was also issued and outstanding at December 31, 2013. The Company also utilized \$1 million in international committed lines of credit and \$10 million in U.S. committed lines of credit with other banking partners as of December 31, 2013. These lines of credit are utilized in connection with normal business activities. Under both the \$1.5 billion and \$150 million credit agreements, the Company is required to maintain its EBITDA to Interest Ratio as of the end of each fiscal quarter at not less than 3.0 to 1. This is calculated (as defined in the agreement) as the ratio of consolidated total EBITDA for the four consecutive quarters then ended to total interest expense on all funded debt for the same period. At December 31, 2013, this ratio was approximately 55 to 1. Debt covenants do not restrict the payment of dividends.

The Company has a well-known seasoned issuer shelf registration statement, effective August 5, 2011, which registers an indeterminate amount of debt or equity securities for future sales. This replaced 3M's previous shelf registration dated February 17, 2009. In September 2011, in connection with the August 5, 2011 shelf registration statement, 3M established a \$3 billion medium-term notes program (Series F), from which 3M issued a five-year \$1.0 billion fixed rate note with a coupon rate of 1.375%. Proceeds were used for general corporate purposes, including repayment in November 2011 of \$800 million (principal amount) of medium-term notes. In June 2012, 3M issued \$650 million aggregate principal amount of five-year fixed rate medium-term notes due 2017 with a coupon rate of 1.000% and \$600 million aggregate principal amount of ten-year fixed rate medium-term notes due 2022 with a coupon rate of 2.000%, which were both issued from this \$3 billion medium-term notes program (Series F). The designated use of proceeds is for general corporate purposes.

Sources for cash availability in the United States, such as ongoing cash flow from operations and 3M's reliable access to capital markets, have historically been sufficient to fund dividend payments to shareholders and share repurchases, in addition to funding U.S. acquisitions, U.S. capital spending, U.S. pension/other postemployment benefit contributions, and other items as needed. For those international earnings



## Edgar Filing: 3M CO - Form 10-K

considered to be reinvested indefinitely, the Company currently has no plans or intentions to repatriate these funds for U.S. operations. However, if these international funds are needed for operations in the U.S., 3M would be required to accrue and pay U.S. taxes to repatriate them. Refer to Note 7 for additional information on unremitted earnings attributable to international companies that have been considered to be reinvested indefinitely.

Table of Contents

In 2014, the Company plans to contribute an amount in the range of \$100 million to \$200 million of cash to its pension and postretirement plans. The Company does not have a required minimum cash pension contribution obligation for its U.S. plans in 2014. Therefore, the amount of the anticipated discretionary contribution could vary significantly depending on the U.S. qualified plans' funded status as of the 2014 measurement date and the anticipated tax deductibility of the contribution. Future contributions will also depend on market conditions, interest rates and other factors. 3M believes its strong cash flow and balance sheet will allow it to fund future pension needs without compromising growth opportunities.

3M's strong balance sheet and liquidity provide the Company with significant flexibility to take advantage of numerous opportunities going forward. The Company will continue to invest in its operations to drive growth, including continual review of acquisition opportunities. 3M paid dividends of \$1.730 billion in 2013, and has a long history of dividend increases. In December 2013, 3M's Board of Directors declared a dividend of 85.5 cents per share for the first-quarter of 2014, an increase of 34.6 percent. This is equivalent to an annual dividend of \$3.42 per share and marked the 56th consecutive year of dividend increases for 3M. In February 2014, 3M's Board of Directors also authorized the repurchase of up to \$12 billion of 3M's outstanding common stock, which replaced the Company's February 2013 repurchase program. This authorization has no pre-established end date. As of December 31, 2013, approximately \$2.5 billion remained available under the February 2013 repurchase authorization.

Various assets and liabilities, including cash and short-term debt, can fluctuate significantly from month to month depending on short-term liquidity needs. Working capital (defined as current assets minus current liabilities) totaled \$5.235 billion at December 31, 2013, compared with \$7.430 billion at December 31, 2012, a decrease of approximately \$2.2 billion. Factors which reduced working capital on a combined basis by \$2.4 billion included decreases in cash, cash equivalents, and current marketable securities, along with increases in the current portion of long term debt (which is a component of short-term borrowings and current portion of long-term debt) and increases in other current liabilities, largely related to the dividend declared in December 2013 that will not be paid until March 2014 (discussed in Note 5). This was partially offset by increases in accounts receivable of approximately \$0.2 billion.

The Company uses various working capital measures that place emphasis and focus on certain working capital assets and liabilities. These measures are not defined under U.S. generally accepted accounting principles and may not be computed the same as similarly titled measures used by other companies. One of the primary working capital measures 3M uses is a combined index, which includes accounts receivable, inventories and accounts payable. This combined index (defined as quarterly net sales fourth quarter at year-end multiplied by four, divided by ending net accounts receivable plus inventories less accounts payable) was 4.8 at both December 31, 2013 and December 31, 2012. Receivables increased \$192 million, or 4.7 percent, compared with December 31, 2012, driven by a year-on-year increase in December sales, partially offset by currency translation, which decreased accounts receivable by \$135 million. Inventories increased \$27 million, or 1 percent, compared with December 31, 2012, with the increases primarily attributable to an increase in demand in the fourth-quarter of 2013, partially offset by currency translation, which decreased inventories by \$75 million. Accounts payable increased \$37 million compared with December 31, 2012, primarily related to changes in business activity, which were partially offset by a \$29 million decrease due to currency translation.

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

Table of Contents*Cash Flows from Operating Activities:*

Years Ended December 31 (Millions)	2013	2012	2011
Net income including noncontrolling interest	\$ 4,721	\$ 4,511	\$ 4,357
Depreciation and amortization	1,371	1,288	1,236
Company pension contributions	(476)	(1,079)	(517)
Company postretirement contributions	(6)	(67)	(65)
Company pension expense	446	534	449
Company postretirement expense	107	116	106
Stock-based compensation expense	240	223	253
Income taxes (deferred and accrued income taxes)	39	123	132
Excess tax benefits from stock-based compensation	(92)	(62)	(53)
Accounts receivable	(337)	(133)	(205)
Inventories	(86)	(251)	(196)
Accounts payable	16	72	(83)
Product and other insurance receivables and claims	41	(32)	9
Other net	(167)	57	(139)
Net cash provided by operating activities	\$ 5,817	\$ 5,300	\$ 5,284

Cash flows from operating activities can fluctuate significantly from period to period, as pension funding decisions, tax timing differences and other items can significantly impact cash flows.

In 2013, cash flows provided by operating activities increased \$517 million compared to 2012. Operating cash flows benefited year-on-year from \$664 million of lower pension and postretirement plans contributions and increases in net income including noncontrolling interest, which were partially offset by higher year-on-year working capital requirements. The combination of accounts receivable, inventories and accounts payable increased working capital by \$407 million in 2013, compared to increases of \$312 million in 2012, primarily driven by year-on-year increases in working capital requirements due to increasing sales. Additional discussion on working capital changes is provided earlier in the Financial Condition and Liquidity section.

In 2012, cash flows provided by operating activities increased \$16 million compared to 2011. The main positive contribution to operating cash flows related to year-on-year increases in net income including noncontrolling interest. 3M was able to achieve this growth in operating cash flow despite contributing an additional \$564 million in its pension and postretirement plans when compared to 2011. The combination of accounts receivable, inventories and accounts payable increased working capital by \$312 million in 2012, compared to increases of \$484 million in 2011.

*Free Cash Flow (non-GAAP measure):*

In addition, to net cash provided by operating activities, 3M uses free cash flow as a useful measure of performance and as an indication of the strength of the Company and its ability to generate cash. 3M defines free cash flow as net cash provided by operating activities less purchases of property, plant and equipment (which is classified as an investing activity). Free cash flow is not defined under U.S. generally accepted accounting principles (GAAP). Therefore, it should not be considered a substitute for income or cash flow data prepared in accordance with U.S.

## Edgar Filing: 3M CO - Form 10-K

GAAP and may not be comparable to similarly titled measures used by other companies. It should not be inferred that the entire free cash flow amount is available for discretionary expenditures. Below find a recap of free cash flow for 2013, 2012 and 2011.

**Years ended December 31**  
**(Millions)**

	2013	2012	2011
Net cash provided by operating activities	\$ 5,817	\$ 5,300	\$ 5,284
Purchases of property, plant and equipment (PP&E)	(1,665)	(1,484)	(1,379)
Free Cash Flow	\$ 4,152	\$ 3,816	\$ 3,905

Table of Contents*Cash Flows from Investing Activities:*

Years ended December 31 (Millions)	2013	2012	2011
Purchases of property, plant and equipment (PP&E)	\$ (1,665)	\$ (1,484)	\$ (1,379)
Proceeds from sale of PP&E and other assets	128	41	55
Acquisitions, net of cash acquired		(1,046)	(649)
Purchases and proceeds from maturities and sale of marketable securities and investments, net	627	(211)	(745)
Proceeds from sale of businesses	8		
Other investing activities	46	14	
Net cash used in investing activities	\$ (856)	\$ (2,686)	\$ (2,718)

Investments in property, plant and equipment enable growth across many diverse markets, helping to meet product demand and increasing manufacturing efficiency. Capital spending was \$1.665 billion in 2013, compared to \$1.484 billion in 2012 and \$1.379 billion in 2011. The Company expects 2014 capital spending to be approximately \$1.7 billion to \$1.8 billion, as 3M continues to invest in its businesses. In 2013, 3M continued its expansion of manufacturing capacity in key growth markets, including investments in the U.S., China, Germany, and Brazil. This included significant investments across 3M's many businesses, such as abrasives, industrial adhesives and tapes, advanced materials, electronics-related, infection prevention, and other businesses. 3M continued its investments in IT systems and infrastructure, including ongoing phased implementation of an ERP system on a worldwide basis over the next several years. In addition, 3M is sustaining existing facilities through general maintenance, cost reduction, and compliance efforts. In 2012, 3M expanded manufacturing capacity in key growth markets, particularly with respect to international and emerging market countries. This included investments in China, Turkey and Poland, in addition to investments in Singapore and the U.S. 3M also increased investments in IT systems and infrastructure and made strategic investments in research/development infrastructure and manufacturing sites to lay the foundation for future growth. In 2011, a large portion of the capital investment was used to address supply constraints in a number of businesses with significant growth potential, such as renewable energy, traffic signage in developing economies, and optically clear adhesives and glass bubbles. In addition, certain 2010 capital projects carried forward into 2011.

3M is striving to increase its manufacturing and sourcing capacity, particularly in developing economies, in order to more closely align its production capability with its sales in major geographic regions. The initiative is expected to help improve customer service, lower transportation costs, and reduce working capital requirements. 3M will continue to make investments in critical emerging markets, such as China, Brazil, Poland and India, including plans to establish and begin production in a new wholly-owned manufacturing entity in India to serve as a source of supply to 3M's business in India and in other countries.

Proceeds from sale of PP&E and other assets totaled \$128 million in 2013 compared to \$41 million in 2012. Apart from the normal periodic sales of PP&E, 2013 included proceeds of \$79 million related to non-production equipment, which resulted in a pre-tax loss of \$7 million.

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

Purchases of marketable securities and investments and proceeds from maturities and sale of marketable securities and investments are primarily attributable to asset-backed securities, agency securities, corporate medium-term note securities and other securities, which are classified as

## Edgar Filing: 3M CO - Form 10-K

available-for-sale. Interest rate risk and credit risk related to the underlying collateral may impact the value of investments in asset-backed securities, while factors such as general conditions in the overall credit market and the nature of the underlying collateral may affect the liquidity of investments in asset-backed securities. The coupon interest rates for asset-backed securities are either fixed rate or floating. Floating rate coupons reset monthly or quarterly based upon the corresponding monthly or quarterly LIBOR rate. Each individual floating rate security has a coupon based upon the respective LIBOR rate +/- an amount reflective of the credit risk of the issuer and the underlying collateral on the original issue date. Terms of the reset are unique to individual securities. Fixed rate coupons are established at the time the security is issued and are based upon a spread to a related maturity treasury bond. The spread against the treasury bond is reflective of the credit risk of the issuer and the underlying collateral on the original issue date. 3M does not currently expect risk related to its holdings in asset-backed securities to materially impact its financial condition or liquidity. Refer to Note 8 for more details about 3M's diversified marketable securities portfolio, which totaled \$2.209 billion as of December 31, 2013. Purchases of investments include additional survivor benefit insurance, plus cost method and equity investments.

Table of Contents*Cash Flows from Financing Activities:*

Years Ended December 31 (Millions)	2013	2012	2011
Change in short-term debt net	\$ (2)	\$ (36)	\$ 11
Repayment of debt (maturities greater than 90 days)	(859)	(612)	(1,429)
Proceeds from debt (maturities greater than 90 days)	824	1,370	1,111
Total cash change in debt	\$ (37)	\$ 722	\$ (307)
Purchases of treasury stock	(5,212)	(2,204)	(2,701)
Proceeds from issuances of treasury stock pursuant to stock option and benefit plans	1,609	1,012	902
Dividends paid to stockholders	(1,730)	(1,635)	(1,555)
Excess tax benefits from stock-based compensation	92	62	53
Other net	32	(15)	(67)
Net cash used in financing activities	\$ (5,246)	\$ (2,058)	\$ (3,675)

Total debt was \$6.0 billion at both December 31, 2013 and December 31, 2012, compared to \$5.2 billion at year-end 2011. Total debt was 25 percent of total capital (total capital is defined as debt plus equity) at year-end 2013, 2012 and 2011. In 2013, repayment of debt related to the August 2013 repayment of \$850 million (principal amount) of medium-term notes. Proceeds from debt in 2013 related to the November 2013 issuance of an eight-year Eurobond for an amount of 600 million Euros (approximately \$815 million carrying value at December 31, 2013). In 2012, repayment of debt included \$500 million (principal amount) of medium-term notes and repayment of debt acquired, primarily Ceradyne, Inc. Proceeds from debt in 2012 related to the June 2012 issuance of \$650 million aggregate principal amount of five-year fixed rate medium-term notes due 2017 and \$600 million aggregate principal amount of ten-year fixed rate medium-term notes due 2022, in addition to 66 million GBP (approximately \$106 million) in UK borrowings (refer to Note 9 for further detail on these items). In 2011, major items in repayment of debt included redemption of \$800 million (principal amount) of medium-term notes in November 2011, redemption of Convertible Notes, repayment of debt related to the 11.6 billion Japanese Yen note (installments paid in March and September 2011), repayment of the remainder of the Canadian Dollar loan, and repayment of a portion of debt that was acquired, primarily related to the Winterthur acquisition. In 2011, proceeds from debt (maturities greater than 90 days) primarily related to the issuance of a \$1 billion medium term note and an amendment to a Canada loan agreement which increased the principal amount of the loan by 100.5 million Canadian Dollars.

Repurchases of common stock are made to support the Company's stock-based employee compensation plans and for other corporate purposes. In February 2014, 3M's Board of Directors authorized the repurchase of up to \$12 billion of 3M's outstanding common stock, which replaced the Company's February 2013 repurchase program. This authorization has no pre-established end date. In 2013, the Company purchased \$5.212 billion of stock, up significantly from \$2.204 billion in 2012 and \$2.701 billion in 2011. The Company expects full-year 2014 gross share repurchases will be in the range of \$3.0 billion to \$5.0 billion. 3M is increasing share purchases, which is enabled by its continued business growth and consistently strong cash flow, the well-funded status of its pension plans, and the strength of the Company's capital structure. For more information, refer to the table titled "Issuer Purchases of Equity Securities" in Part II, Item 5. The Company does not utilize derivative instruments linked to the Company's stock.

Cash dividends paid to shareholders totaled \$1.730 billion (\$2.54 per share) in 2013, \$1.635 billion (\$2.36 per share) in 2012 and \$1.555 billion (\$2.20 per share) in 2011. 3M has paid dividends since 1916. In December 2013, 3M's Board of Directors declared a first-quarter 2014 dividend of \$0.855 per share, an increase of 34.6 percent. This is equivalent to an annual dividend of \$3.42 per share and marked the 56th consecutive year of dividend increases.

## Edgar Filing: 3M CO - Form 10-K

In addition to the items described below, other cash flows from financing activities may include various other items, such as distributions to or sales of noncontrolling interests, changes in cash overdraft balances, and principal payments for capital leases.

In 2011, as discussed in Note 5, subsequent to acquiring a controlling interest in Winterthur, 3M purchased additional outstanding shares of its Winterthur subsidiary for \$57 million, increasing 3M's ownership interest from approximately 86 percent to 100 percent as of December 31, 2011. These additional purchases are reflected as other financing activities in the statement of cash flows. In addition, during 2011, 3M sold a noncontrolling interest in a newly formed subsidiary for an immaterial amount, which was also classified as other financing activity in the consolidated statement of cash flows.



Table of Contents**Off-Balance Sheet Arrangements and Contractual Obligations:**

As of December 31, 2013, the Company has not utilized special purpose entities to facilitate off-balance sheet financing arrangements. Refer to the section entitled "Warranties/Guarantees" in Note 13 for discussion of accrued product warranty liabilities and guarantees.

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

A summary of the Company's significant contractual obligations as of December 31, 2013, follows:

**Contractual Obligations**

(Millions)	Total	Payments due by year					After 2018
		2014	2015	2016	2017	2018	
Long-term debt, including current portion (Note 9)	\$ 5,912	\$ 1,586	\$ 109	\$ 996	\$ 720	\$	\$ 2,501
Interest on long-term debt	1,615	163	108	106	89	86	1,063
Operating leases (Note 13)	848	216	170	128	98	54	182
Capital leases (Note 13)	79	23	9	9	5	3	30
Unconditional purchase obligations and other	1,428	1,000	181	88	64	34	61
Total contractual cash obligations	\$ 9,882	\$ 2,988	\$ 577	\$ 1,327	\$ 976	\$ 177	\$ 3,837

Long-term debt payments due in 2014 and 2017 include floating rate notes totaling \$156 million (classified as current portion of long-term debt) and \$71 million (included in other borrowings in the long-term debt table), respectively, as a result of put provisions associated with these debt instruments.

Unconditional purchase obligations are defined as an agreement to purchase goods or services that is enforceable and legally binding on the Company. Included in the unconditional purchase obligations category above are certain obligations related to take or pay contracts, capital commitments, service agreements and utilities. These estimates include both unconditional purchase obligations with terms in excess of one year and normal ongoing purchase obligations with terms of less than one year. Many of these commitments relate to take or pay contracts, in which 3M guarantees payment to ensure availability of products or services that are sold to customers. The Company expects to receive consideration (products or services) for these unconditional purchase obligations. Contractual capital commitments are included in the preceding table, but these commitments represent a small part of the Company's expected capital spending in 2014 and beyond. The purchase obligation amounts do not represent the entire anticipated purchases in the future, but represent only those items for which the Company is contractually obligated. The majority of 3M's products and services are purchased as needed, with no unconditional commitment. For this reason, these amounts will not

provide a reliable indicator of the Company's expected future cash outflows on a stand-alone basis.

Other obligations, included in the preceding table within the caption entitled "Unconditional purchase obligations and other," include the current portion of the liability for uncertain tax positions under ASC 740, which is expected to be paid out in cash in the next 12 months. The Company is not able to reasonably estimate the timing of the long-term payments or the amount by which the liability will increase or decrease over time; therefore, the long-term portion of the net tax liability of \$179 million is excluded from the preceding table. Refer to Note 7 for further details.

As discussed in Note 10, the Company does not have a required minimum cash pension contribution obligation for its U.S. plans in 2014 and Company contributions to its U.S. and international pension plans are expected to be largely discretionary in future years; therefore, amounts related to these plans are not included in the preceding table.

Table of Contents

**FINANCIAL INSTRUMENTS**

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

Refer to Item 7A, Quantitative and Qualitative Disclosures About Market Risk, for further discussion of foreign exchange rates risk, interest rates risk, commodity prices risk and value at risk analysis.

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

In the context of Item 7A, 3M is exposed to market risk due to the risk of loss arising from adverse changes in foreign currency exchange rates, interest rates and commodity prices. Changes in those factors could cause fluctuations in earnings and cash flows. Senior management provides oversight for risk management and derivative activities, determines certain of the Company's financial risk policies and objectives, and provides guidelines for derivative instrument utilization. Senior management also establishes certain associated procedures relative to control and valuation, risk analysis, counterparty credit approval, and ongoing monitoring and reporting.

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. The Company does not anticipate nonperformance by any of these counterparties.

**Foreign Exchange Rates Risk:**

Foreign currency exchange rates and fluctuations in those rates may affect the Company's net investment in foreign subsidiaries and may cause fluctuations in cash flows related to foreign denominated transactions. 3M is also exposed to the translation of foreign currency earnings to the U.S. dollar. 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. These transactions are designated as cash flow hedges. Generally, 3M dedesignates these cash flow hedge relationships in advance of the occurrence of the forecasted transaction. 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 December 31, 2013, the majority of the Company's open foreign exchange forward and option contracts had maturities of one year or less. In addition, 3M enters into foreign currency forward contracts that are not designated in hedging relationships to offset, in part, the impacts of certain intercompany activities (primarily associated with intercompany licensing arrangements and intercompany financing transactions). As circumstances warrant, the Company also uses cross currency swaps, forwards and foreign currency denominated debt as hedging instruments to hedge portions of the Company's net investments in foreign operations. The dollar equivalent gross notional amount of the Company's foreign exchange forward and option contracts designated as cash flow hedges and those not designated as hedging instruments were \$1.7 billion and

## Edgar Filing: 3M CO - Form 10-K

\$7.5 billion, respectively, at December 31, 2013. As of December 31, 2013, the Company had no cross currency swap and foreign currency forward contracts designated as net investment hedges, but had designated certain of 3M's foreign currency denominated debt as nonderivative hedging instruments in certain net investment hedges as discussed in Note 11 in the Net Investment Hedges section.

### Interest Rates Risk:

The Company may be impacted by interest rate volatility with respect to existing debt and future debt issuances. 3M 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 that are designated and qualify as fair value hedges. 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 dollar equivalent (based on inception date foreign currency exchange rates) gross notional amount of the Company's interest rate swaps at December 31, 2013 was \$745 million. Additional details about 3M's long-term debt can be found in Note 9, including references to information regarding derivatives and/or hedging instruments associated with the Company's long-term debt.

Table of Contents

## Commodity Prices Risk:

Certain commodities the Company uses in the production of its products are exposed to market price risks. 3M 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. 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. 3M also enters into commodity price swaps that are not designated in hedge relationships to offset, in part, the impacts of fluctuations in costs associated with the use of certain precious metals.

The dollar equivalent gross notional amount of the Company's natural gas commodity price swaps designated as cash flow hedges and precious metal commodity price swaps not designated in hedge relationships were \$19 million and \$2 million, respectively, at December 31, 2013.

## Value At Risk:

The value at risk analysis is performed annually. A Monte Carlo simulation technique was used to test the Company's exposure to changes in currency rates, interest rates, and commodity prices and assess the risk of loss or benefit in after-tax earnings of financial instruments (primarily debt), derivatives and underlying exposures outstanding at December 31, 2013. The model (third-party bank dataset) used a 95 percent confidence level over a 12-month time horizon. The exposure to changes in currency rates model used 18 currencies, interest rates related to four currencies, and commodity prices related to five commodities. This model does not purport to represent what actually will be experienced by the Company. This model does not include certain hedge transactions, because the Company believes their inclusion would not materially impact the results. Foreign exchange rate risk of loss or benefit increased in 2013, primarily due to increases in exposures, which is one of the key drivers in the valuation model. Interest rate volatility remained stable in 2013 because interest rates are currently very low and are projected to remain low, based on forward rates. The following table summarizes the possible adverse and positive impacts to after-tax earnings related to these exposures.

(Millions)	Adverse impact on after-tax earnings		Positive impact on after-tax earnings	
	2013	2012	2013	2012
Foreign exchange rates	\$ (111)	\$ (97)	\$ 119	\$ 105
Interest rates	(2)	(2)	1	1
Commodity prices	(2)	(9)	3	7

In addition to the possible adverse and positive impacts discussed in the preceding table related to foreign exchange rates, recent historical information is as follows. 3M estimates that year-on-year currency effects, including hedging impacts, had the following effects on net income attributable to 3M: 2013 (\$74 million decrease) and 2012 (\$103 million decrease). This estimate includes the effect of translating profits from local currencies into U.S. dollars; the impact of currency fluctuations on the transfer of goods between 3M operations in the United States and abroad; and transaction gains and losses, including derivative instruments designed to reduce foreign currency exchange rate risks and the negative impact of swapping Venezuelan bolivars into U.S. dollars. 3M estimates that year-on-year derivative and other transaction gains and losses had the following effects on net income attributable to 3M: 2013 (\$12 million decrease) and 2012 (\$49 million increase).

## Edgar Filing: 3M CO - Form 10-K

An analysis of the global exposures related to purchased components and materials is performed at each year-end. A one percent price change would result in a pre-tax cost or savings of approximately \$76 million per year. The global energy exposure is such that a 10 percent price change would result in a pre-tax cost or savings of approximately \$45 million per year.

Table of Contents**Item 8. Financial Statements and Supplementary Data.****Index to Financial Statements**

	<b>Beginning page</b>
<u>Management's Responsibility for Financial Reporting</u>	44
<u>Management's Report on Internal Control Over Financial Reporting</u>	44
<u>Report of Independent Registered Public Accounting Firm</u>	45
<u>Consolidated Statement of Income for the years ended December 31, 2013, 2012 and 2011</u>	46
<u>Consolidated Statement of Comprehensive Income for the years ended December 31, 2013, 2012 and 2011</u>	47
<u>Consolidated Balance Sheet at December 31, 2013 and 2012</u>	48
<u>Consolidated Statement of Changes in Equity for the years ended December 31, 2013, 2012 and 2011</u>	49
<u>Consolidated Statement of Cash Flows for the years ended December 31, 2013, 2012 and 2011</u>	51
<u>Notes to Consolidated Financial Statements</u>	52
<u>Note 1. Significant Accounting Policies</u>	52
<u>Note 2. Acquisitions and Divestitures</u>	59
<u>Note 3. Goodwill and Intangible Assets</u>	62
<u>Note 4. Supplemental Balance Sheet Information</u>	64
<u>Note 5. Supplemental Equity and Comprehensive Income Information</u>	65
<u>Note 6. Supplemental Cash Flow Information</u>	67
<u>Note 7. Income Taxes</u>	68
<u>Note 8. Marketable Securities</u>	72
<u>Note 9. Long-Term Debt and Short-Term Borrowings</u>	74
<u>Note 10. Pension and Postretirement Benefit Plans</u>	76
<u>Note 11. Derivatives</u>	89
<u>Note 12. Fair Value Measurements</u>	97
<u>Note 13. Commitments and Contingencies</u>	101
<u>Note 14. Stock-Based Compensation</u>	111
<u>Note 15. Business Segments</u>	115
<u>Note 16. Geographic Areas</u>	117
<u>Note 17. Quarterly Data (Unaudited)</u>	117

Table of Contents

**Management's Responsibility for Financial Reporting**

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

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

3M Company

**Management's Report on Internal Control Over Financial Reporting**

Management is responsible for establishing and maintaining an adequate system of internal control over financial reporting. Management conducted an assessment of the Company's internal control over financial reporting based on the framework established by the Committee of Sponsoring Organizations of the Treadway Commission in *Internal Control - Integrated Framework (1992)*. Based on the assessment, management concluded that, as of December 31, 2013, the Company's internal control over financial reporting is effective.

The Company's internal control over financial reporting as of December 31, 2013 has been audited by PricewaterhouseCoopers LLP, an independent registered public accounting firm, as stated in their report which is included herein, which expresses an unqualified opinion on the effectiveness of the Company's internal control over financial reporting as of December 31, 2013.

3M Company



Table of Contents

**Report of Independent Registered Public Accounting Firm**

To the Stockholders and Board of Directors of 3M Company

In our opinion, the consolidated financial statements listed in the accompanying index present fairly, in all material respects, the financial position of 3M Company and its subsidiaries (the Company) at December 31, 2013 and 2012 and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2013 in conformity with accounting principles generally accepted in the United States of America. Also in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2013, based on criteria established in *Internal Control - Integrated Framework (1992)* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). The Company's management is responsible for these financial statements, for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management's Report on Internal Control over Financial Reporting. Our responsibility is to express opinions on these financial statements and on the Company's internal control over financial reporting based on our integrated audits. We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement and whether effective internal control over financial reporting was maintained in all material respects. Our audits of the financial statements included examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audits also included performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinions.

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

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

/s/ PricewaterhouseCoopers LLP

Minneapolis, Minnesota

February 13, 2014



Table of Contents**Consolidated Statement of Income****3M Company and Subsidiaries****Years ended December 31**

(Millions, except per share amounts)	2013	2012	2011
Net sales	\$ 30,871	\$ 29,904	\$ 29,611
Operating expenses			
Cost of sales	16,106	15,685	15,693
Selling, general and administrative expenses	6,384	6,102	6,170
Research, development and related expenses	1,715	1,634	1,570
Total operating expenses	24,205	23,421	23,433
Operating income	6,666	6,483	6,178
Interest expense and income			
Interest expense	145	171	186
Interest income	(41)	(39)	(39)
Total interest expense net	104	132	147
Income before income taxes	6,562	6,351	6,031
Provision for income taxes	1,841	1,840	1,674
Net income including noncontrolling interest	\$ 4,721	\$ 4,511	\$ 4,357
Less: Net income attributable to noncontrolling interest	62	67	74
Net income attributable to 3M	\$ 4,659	\$ 4,444	\$ 4,283
Weighted average 3M common shares outstanding basic	681.9	693.9	708.5
Earnings per share attributable to 3M common shareholders basic	\$ 6.83	\$ 6.40	\$ 6.05
Weighted average 3M common shares outstanding diluted	693.6	703.3	719.0
Earnings per share attributable to 3M common shareholders diluted	\$ 6.72	\$ 6.32	\$ 5.96
Cash dividends paid per 3M common share	\$ 2.54	\$ 2.36	\$ 2.20

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

Table of Contents**Consolidated Statement of Comprehensive Income****3M Company and Subsidiaries****Years ended December 31**

(Millions)	2013	2012	2011
Net income including noncontrolling interest	\$ 4,721	\$ 4,511	\$ 4,357
Other comprehensive income (loss), net of tax:			
Cumulative translation adjustment	(505)	71	(250)
Defined benefit pension and postretirement plans adjustment	1,245	201	(1,280)
Debt and equity securities, unrealized gain (loss)		4	
Cash flow hedging instruments, unrealized gain (loss)	15	(45)	54
Total other comprehensive income (loss), net of tax	755	231	(1,476)
Comprehensive income (loss) including noncontrolling interest	5,476	4,742	2,881
Comprehensive (income) loss attributable to noncontrolling interest	20	(23)	(80)
Comprehensive income (loss) attributable to 3M	\$ 5,496	\$ 4,719	\$ 2,801

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

Table of Contents**Consolidated Balance Sheet****3M Company and Subsidiaries****At December 31**

(Dollars in millions, except per share amount)	2013	2012
<b>Assets</b>		
Current assets		
Cash and cash equivalents	\$ 2,581	\$ 2,883
Marketable securities - current	756	1,648
Accounts receivable - net of allowances of \$104 and \$105	4,253	4,061
Inventories		
Finished goods	1,790	1,754
Work in process	1,139	1,186
Raw materials and supplies	935	897
Total inventories	3,864	3,837
Other current assets	1,279	1,201
Total current assets	12,733	13,630
Marketable securities - non-current		
Investments	122	163
Property, plant and equipment	23,068	22,525
Less: Accumulated depreciation	(14,416)	(14,147)
Property, plant and equipment - net	8,652	8,378
Goodwill	7,345	7,385
Intangible assets - net	1,688	1,925
Prepaid pension benefits	577	16
Other assets	980	1,217
Total assets	\$ 33,550	\$ 33,876
<b>Liabilities</b>		
Current liabilities		
Short-term borrowings and current portion of long-term debt	\$ 1,683	\$ 1,085
Accounts payable	1,799	1,762
Accrued payroll	708	701
Accrued income taxes	417	371
Other current liabilities	2,891	2,281
Total current liabilities	7,498	6,200
Long-term debt		
Pension and postretirement benefits	1,794	3,086
Other liabilities	1,984	1,634
Total liabilities	\$ 15,602	\$ 15,836
Commitments and contingencies (Note 13)		
<b>Equity</b>		
3M Company shareholders' equity:		
Common stock, par value \$.01 per share	\$ 9	\$ 9
Shares outstanding - 2013: 663,296,239		
Shares outstanding - 2012: 687,091,650		
Additional paid-in capital	4,375	4,044
Retained earnings	32,416	30,679

Edgar Filing: 3M CO - Form 10-K

Treasury stock		<b>(15,385)</b>		(12,407)
Accumulated other comprehensive income (loss)		<b>(3,913)</b>		(4,750)
Total 3M Company shareholders' equity		<b>17,502</b>		17,575
Noncontrolling interest		<b>446</b>		465
Total equity	\$	<b>17,948</b>	\$	18,040
Total liabilities and equity	\$	<b>33,550</b>	\$	33,876

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

Table of Contents**Consolidated Statement of Changes in Equity****3M Company and Subsidiaries****Years Ended December 31**

(Dollars in millions, except per share amounts)	3M Company Shareholders						Non-controlling Interest
	Total	Common Stock and Additional Paid-in Capital	Retained Earnings	Treasury Stock	Accumulated Other Comprehensive Income (Loss)		
<b>Balance at December 31, 2010</b>	<b>\$ 16,017</b>	<b>\$ 3,477</b>	<b>\$ 25,995</b>	<b>\$ (10,266)</b>	<b>\$ (3,543)</b>	<b>\$ 354</b>	
Net income	4,357		4,283			74	
Other comprehensive income (loss), net of tax:							
Cumulative translation adjustment	(250)				(260)	10	
Defined benefit pension and post-retirement plans adjustment	(1,280)				(1,276)	(4)	
Debt and equity securities - unrealized gain (loss)							
Cash flow hedging instruments - unrealized gain (loss)	54				54		
Total other comprehensive income (loss), net of tax	(1,476)						
Dividends declared (\$2.20 per share)	(1,555)		(1,555)				
Business combination allocation to noncontrolling interest	56					56	
Purchase and sale of subsidiary shares - net	(49)	(1)				(48)	
Stock-based compensation, net of tax impacts	300	300					
Reacquired stock	(2,694)			(2,694)			
Issuances pursuant to stock option and benefit plans	906		(375)	1,281			
<b>Balance at December 31, 2011</b>	<b>\$ 15,862</b>	<b>\$ 3,776</b>	<b>\$ 28,348</b>	<b>\$ (11,679)</b>	<b>\$ (5,025)</b>	<b>\$ 442</b>	
Net income	4,511		4,444			67	
Other comprehensive income (loss), net of tax:							
Cumulative translation adjustment	71				116	(45)	
Defined benefit pension and post-retirement plans adjustment	201				200	1	
Debt and equity securities - unrealized gain (loss)	4				4		
Cash flow hedging instruments - unrealized gain (loss)	(45)				(45)		
Total other comprehensive income (loss), net of tax	231						
Dividends declared (\$2.36 per share)	(1,635)		(1,635)				
Stock-based compensation, net of tax impacts	277	277					
Reacquired stock	(2,220)			(2,220)			
Issuances pursuant to stock option and benefit plans	1,014		(478)	1,492			

Edgar Filing: 3M CO - Form 10-K

<b>Balance at December 31, 2012</b>	\$	18,040	\$	4,053	\$	30,679	\$	(12,407)	\$	(4,750)	\$	465
-------------------------------------	----	--------	----	-------	----	--------	----	----------	----	---------	----	-----



Table of Contents**Consolidated Statement of Changes in Equity (continued)**

(Dollars in millions, except per share amounts)	3M Company Shareholders					
	Total	Common Stock and Additional Paid-in Capital	Retained Earnings	Treasury Stock	Accumulated Other Comprehensive Income (Loss)	Non-controlling Interest
<b>Balance at December 31, 2012</b>	\$ 18,040	\$ 4,053	\$ 30,679	\$ (12,407)	\$ (4,750)	\$ 465
Net income	4,721		4,659			62
Other comprehensive income (loss), net of tax:						
Cumulative translation adjustment	(505)				(418)	(87)
Defined benefit pension and post-retirement plans adjustment	1,245				1,240	5
Debt and equity securities - unrealized gain (loss)						
Cash flow hedging instruments - unrealized gain/(loss)	15				15	
Total other comprehensive income (loss), net of tax	755					
Dividends declared (\$3.395 per share, Note 5)	(2,297)		(2,297)			
Sale of subsidiary shares	8	7				1
Stock-based compensation, net of tax impacts	324	324				
Reacquired stock	(5,216)			(5,216)		
Issuances pursuant to stock option and benefit plans	1,613		(625)	2,238		
<b>Balance at December 31, 2013</b>	\$ 17,948	\$ 4,384	\$ 32,416	\$ (15,385)	\$ (3,913)	\$ 446

Supplemental share information	2013	2012	2011
<b>Treasury stock</b>			
Beginning balance	256,941,406	249,063,015	232,055,448
Reacquired stock	45,445,610	25,054,207	31,331,469
Issuances pursuant to stock options and benefit plans	(21,650,199)	(17,175,816)	(14,323,902)
Ending balance	280,736,817	256,941,406	249,063,015

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

Table of Contents**Consolidated Statement of Cash Flows****3M Company and Subsidiaries****Years ended December 31**

(Millions)	2013	2012	2011
<b>Cash Flows from Operating Activities</b>			
Net income including noncontrolling interest	\$ 4,721	\$ 4,511	\$ 4,357
Adjustments to reconcile net income including noncontrolling interest to net cash provided by operating activities			
Depreciation and amortization	1,371	1,288	1,236
Company pension and postretirement contributions	(482)	(1,146)	(582)
Company pension and postretirement expense	553	650	555
Stock-based compensation expense	240	223	253
Deferred income taxes	(167)	33	177
Excess tax benefits from stock-based compensation	(92)	(62)	(53)
Changes in assets and liabilities			
Accounts receivable	(337)	(133)	(205)
Inventories	(86)	(251)	(196)
Accounts payable	16	72	(83)
Accrued income taxes (current and long-term)	206	90	(45)
Product and other insurance receivables and claims	41	(32)	9
Other net	(167)	57	(139)
Net cash provided by operating activities	5,817	5,300	5,284
<b>Cash Flows from Investing Activities</b>			
Purchases of property, plant and equipment (PP&E)	(1,665)	(1,484)	(1,379)
Proceeds from sale of PP&E and other assets	128	41	55
Acquisitions, net of cash acquired		(1,046)	(649)
Purchases of marketable securities and investments	(4,040)	(5,492)	(4,162)
Proceeds from maturities and sale of marketable securities and investments	4,667	5,281	3,417
Proceeds from sale of businesses	8		
Other investing	46	14	
Net cash used in investing activities	(856)	(2,686)	(2,718)
<b>Cash Flows from Financing Activities</b>			
Change in short-term debt net	(2)	(36)	11
Repayment of debt (maturities greater than 90 days)	(859)	(612)	(1,429)
Proceeds from debt (maturities greater than 90 days)	824	1,370	1,111
Purchases of treasury stock	(5,212)	(2,204)	(2,701)
Proceeds from issuance of treasury stock pursuant to stock option and benefit plans	1,609	1,012	902
Dividends paid to shareholders	(1,730)	(1,635)	(1,555)
Excess tax benefits from stock-based compensation	92	62	53
Other net	32	(15)	(67)
Net cash used in financing activities	(5,246)	(2,058)	(3,675)
Effect of exchange rate changes on cash and cash equivalents	(17)	108	(49)
Net increase (decrease) in cash and cash equivalents	(302)	664	(1,158)
Cash and cash equivalents at beginning of year	2,883	2,219	3,377

Edgar Filing: 3M CO - Form 10-K

Cash and cash equivalents at end of year	\$	<b>2,581</b>	\$	2,883	\$	2,219
--	----	--------------	----	-------	----	-------

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

Table of Contents

**Notes to Consolidated Financial Statements**

**NOTE 1. Significant Accounting Policies**

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

*Foreign currency translation:* Local currencies generally are considered the functional currencies outside the United States. Assets and liabilities for operations in local-currency environments are translated at month-end exchange rates of the period reported. Income and expense items are translated at month-end exchange rates of each applicable month. 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 2013. 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.

The Venezuelan government sets official rates of exchange and conditions precedent to purchase foreign currency at these rates with local currency. Such rates and conditions are subject to change. For the periods presented through January 2013, this rate was set 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. For the periods presented, this remeasurement utilized the SITME rate through January 2013 and the new official rate discussed above thereafter. 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.

The Company continues to monitor circumstances relative to its Venezuelan subsidiary. In January 2014, the Venezuelan government announced that it was making certain changes to its foreign exchange system, the details of which have not been fully released. These changes could impact the rate of exchange applicable to remeasure the Company's net monetary assets denominated in Venezuelan Bolivars (VEF) as well as the amount of VEF required to obtain other currencies in Venezuela to ultimately satisfy that subsidiary's non-VEF denominated intercompany payables to other 3M entities primarily as a result of the importation of 3M products for sale in Venezuela. As of December 31, 2013, the balance of the Company's net monetary assets denominated in VEF was less than 12 million VEF and the exchange rate established by the Venezuelan government was 6.3 VEF per dollar. In addition, the balance of the Venezuelan subsidiary's non-VEF denominated intercompany payables to other 3M entities was approximately \$45 million as of December 31, 2013.

## Edgar Filing: 3M CO - Form 10-K

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

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

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

Table of Contents

*Marketable securities:* The 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. 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 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.

*Investments:* Investments primarily include equity method, cost method, and available-for-sale equity investments. Available-for-sale investments are recorded at fair value. Unrealized gains and losses relating to investments classified as available-for-sale are recorded as a component of accumulated other comprehensive income (loss) in shareholders' equity.

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

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

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

*Conditional asset retirement obligations:* A liability is initially recorded at fair value for an asset retirement obligation associated with the retirement of tangible long-lived assets in the period in which it is incurred if a reasonable estimate of fair value can be made. Conditional asset retirement obligations exist for certain long-term assets of the Company. The obligation is initially measured at fair value using expected present value techniques. Over time the liabilities are accreted for the change in their present value and the initial capitalized costs are depreciated over the remaining useful lives of the related assets. The asset retirement obligation liability was \$90 million and \$86 million at December 31, 2013 and 2012, respectively.

## Edgar Filing: 3M CO - Form 10-K

*Goodwill:* Goodwill is the excess of cost of an acquired entity over the amounts assigned to assets acquired and liabilities assumed in a business combination. Goodwill is not amortized. Goodwill is tested for impairment annually in the fourth quarter of each year, and is tested for impairment between annual tests if an event occurs or circumstances change that would indicate the carrying amount may be impaired. Impairment testing for goodwill is done at a reporting unit level, with all goodwill assigned to a reporting unit. Reporting units are one level below the business segment level, but can be combined when reporting units within the same segment have similar economic characteristics. 3M did not combine any of its reporting units for impairment testing. An impairment loss generally would be recognized when the carrying amount of the reporting unit's net assets exceeds the estimated fair value of the reporting unit. The estimated fair value of a reporting unit is determined using earnings for the reporting unit multiplied by a price/earnings ratio for comparable industry groups, or by using a discounted cash flow analysis.

Table of Contents

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

*Restructuring actions:* Restructuring actions generally include significant actions involving employee-related severance charges, contract termination costs, and impairment of assets associated with such actions. Employee-related severance charges are largely based upon distributed employment policies and substantive severance plans. These charges are reflected in the quarter when the actions are probable and the amounts are estimable, which typically is when management approves the associated actions. Severance amounts for which affected employees were required to render service in order to receive benefits at their termination dates were measured at the date such benefits were communicated to the applicable employees and recognized as expense over the employees' remaining service periods. Contract termination and other charges primarily reflect costs to terminate a contract before the end of its term (measured at fair value at the time the Company provided notice to the counterparty) or costs that will continue to be incurred under the contract for its remaining term without economic benefit to the Company. Asset impairment charges related to intangible assets and property, plant and equipment reflect the excess of the assets' carrying values over their fair values.

*Revenue (sales) recognition:* The Company sells a wide range of products to a diversified base of customers around the world and has no material concentration of credit risk. Revenue is recognized when the risks and rewards of ownership have substantively transferred to customers. This condition normally is met when the product has been delivered or upon performance of services. The Company records estimated reductions to revenue or records expense for customer and distributor incentives, primarily comprised of rebates and free goods, at the time of the initial sale. These sales incentives are accounted for in accordance with ASC 605, *Revenue Recognition*. The estimated reductions of revenue for rebates are based on the sales terms, historical experience, trend analysis and projected market conditions in the various markets served. Since the Company serves numerous markets, the rebate programs offered vary across businesses, but the most common incentive relates to amounts paid or credited to customers for achieving defined volume levels or growth objectives. Free goods are accounted for as an expense and recorded in cost of sales. Sales, use, value-added and other excise taxes are not recognized in revenue.

The vast majority of 3M's sales agreements are for standard products and services with customer acceptance occurring upon delivery of the product or performance of the service. However, to a limited extent 3M also enters into agreements that involve multiple elements (such as equipment, installation and service), software, or non-standard terms and conditions.

For non-software multiple-element arrangements, in connection with 3M's adoption on a prospective basis of Accounting Standards Updated (ASU) No. 2009-13, *Multiple-Deliverable Revenue Arrangements* a consensus of the FASB Emerging Issues Task Force, to new or materially modified arrangements beginning in 2011, the Company recognizes revenue for delivered elements when they have stand-alone value to the customer, they have been accepted by the customer, and for which there are only customary refund or return rights. Arrangement consideration is allocated to the deliverables by use of the relative selling price method. The selling price used for each deliverable is based on vendor-specific objective evidence (VSOE) if available, third-party evidence (TPE) if VSOE is not available, or estimated selling price if neither VSOE nor TPE is available. Estimated selling price is determined in a manner consistent with that used to establish the price to sell the deliverable on a standalone basis. For applicable pre-existing arrangements, 3M recognizes revenue for delivered elements when the fair values of the undelivered items are known and allocation of consideration to the delivered items is most often based on the residual method. In addition to the preceding conditions under ASU No. 2009-13 and for applicable pre-existing arrangements, equipment revenue is not recorded until the



## Edgar Filing: 3M CO - Form 10-K

installation has been completed if equipment acceptance is dependent upon installation or if installation is essential to the functionality of the equipment. Installation revenues are not recorded until installation has been completed.

For arrangements (or portions of arrangements) falling within software revenue recognition standards and that do not involve significant production, modification, or customization, revenue for each software or software-related element is recognized when the Company has VSOE of the fair value of all of the undelivered elements and applicable criteria have

Table of Contents

been met for the delivered elements. When the arrangements involve significant production, modification or customization, long-term construction-type accounting involving proportional performance is generally employed.

For prepaid service contracts, sales revenue is recognized on a straight-line basis over the term of the contract, unless historical evidence indicates the costs are incurred on other than a straight-line basis. License fee revenue is recognized as earned, and no revenue is recognized until the inception of the license term.

On occasion, agreements will contain milestones, or 3M will recognize revenue based on proportional performance. For these agreements, and depending on the specifics, 3M may recognize revenue upon completion of a substantive milestone, or in proportion to costs incurred to date compared with the estimate of total costs to be incurred.

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

*Advertising and merchandising:* These costs are charged to operations in the period incurred, and totaled \$423 million in 2013, \$482 million in 2012 and \$518 million in 2011.

*Research, development and related expenses:* These costs are charged to operations in the period incurred and are shown on a separate line of the Consolidated Statement of Income. Research, development and related expenses totaled \$1.715 billion in 2013, \$1.634 billion in 2012 and \$1.570 billion in 2011. Research and development expenses, covering basic scientific research and the application of scientific advances in the development of new and improved products and their uses, totaled \$1.150 billion in 2013, \$1.079 billion in 2012 and \$1.036 billion in 2011. Related expenses primarily include technical support provided by 3M to customers who are using existing 3M products; internally developed patent costs, which include costs and fees incurred to prepare, file, secure and maintain patents; amortization of externally acquired patents and externally acquired in-process research and development; and gains/losses associated with certain corporate approved investments in R&D-related ventures, such as equity method effects and impairments.

*Internal-use software:* The Company capitalizes direct costs of services used in the development of internal-use software. Amounts capitalized are amortized over a period of three to seven years, generally on a straight-line basis, unless another systematic and rational basis is more representative of the software's use. Amounts are reported as a component of either machinery and equipment or capital leases within property, plant and equipment.

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

estimated useful lives.

*Income taxes:* The provision for income taxes is determined using the asset and liability approach. Under this approach, deferred income taxes represent the expected future tax consequences of temporary differences between the carrying amounts and tax basis of assets and liabilities. The Company records a valuation allowance to reduce its deferred tax assets when uncertainty regarding their realizability exists. As of December 31, 2013 and 2012, the Company recorded \$23 million and \$29 million, respectively, of valuation allowances. The Company recognizes and measures its uncertain tax positions based on the rules under ASC 740, *Income Taxes*.

*Earnings per share:* The difference in the weighted average 3M shares outstanding for calculating basic and diluted earnings per share attributable to 3M common shareholders is the result of the dilution associated with the Company's stock-based compensation plans. Certain options outstanding under these stock-based compensation plans during the years 2013, 2012 and 2011 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 (2.0 million average options for 2013, 12.6 million average options for 2012, and 17.4 million average options for 2011). The computations for basic and diluted earnings per share for the years ended December 31 follow:

Table of Contents**Earnings Per Share Computations**

(Amounts in millions, except per share amounts)	2013	2012	2011
Numerator:			
Net income attributable to 3M	\$ 4,659	\$ 4,444	\$ 4,283
Denominator:			
Denominator for weighted average 3M common shares outstanding basic	681.9	693.9	708.5
Dilution associated with the Company's stock-based compensation plans	11.7	9.4	10.5
Denominator for weighted average 3M common shares outstanding diluted	693.6	703.3	719.0
Earnings per share attributable to 3M common shareholders basic	\$ 6.83	\$ 6.40	\$ 6.05
Earnings per share attributable to 3M common shareholders diluted	\$ 6.72	\$ 6.32	\$ 5.96

*Stock-based compensation:* The Company recognizes compensation expense for its stock-based compensation programs, which include stock options, restricted stock, restricted stock units, performance shares, and the General Employees' Stock Purchase Plan (GESPP). Under applicable accounting standards, the fair value of share-based compensation is determined at the grant date and the recognition of the related expense is recorded over the period in which the share-based compensation vests. Refer to Note 14 for additional information.

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

*Derivatives and hedging activities:* All derivative instruments within the scope of ASC 815, *Derivatives and Hedging*, are recorded on the balance sheet at fair value. The Company uses interest rate swaps, currency and commodity price swaps, and foreign currency forward and option contracts to manage risks generally associated with foreign exchange rate, interest rate and commodity market volatility. All hedging instruments that qualify for hedge accounting are designated and effective as hedges, in accordance with U.S. generally accepted accounting principles. If the underlying hedged transaction ceases to exist, all changes in fair value of the related derivatives that have not been settled are recognized in current earnings. Instruments that do not qualify for hedge accounting are marked to market with changes recognized in current earnings. Cash flows from derivative instruments are classified in the statement of cash flows in the same category as the cash flows from the items subject to designated hedge or undesignated (economic) hedge relationships. The Company does not hold or issue derivative financial instruments for trading purposes and is not a party to leveraged derivatives.

*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 arrangements with counterparties when possible to mitigate credit risk in derivative transactions. A master netting arrangement may allow each counterparty to net settle amounts owed between a 3M entity and the counterparty as a result of multiple, separate derivative transactions. The Company does not anticipate nonperformance by any of these counterparties. 3M has elected to present the fair value of derivative assets and liabilities within the Company's consolidated balance sheet on a gross basis even when derivative transactions are subject to master netting arrangements and may otherwise qualify for net presentation.

*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

Table of Contents

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.

*Acquisitions:* The Company accounts for business acquisitions in accordance with ASC 805, *Business Combinations*. This standard requires the acquiring entity in a business combination to recognize all (and only) the assets acquired and liabilities assumed in the transaction and establishes the acquisition-date fair value as the measurement objective for all assets acquired and liabilities assumed in a business combination. Certain provisions of this standard prescribe, among other things, the determination of acquisition-date fair value of consideration paid in a business combination (including contingent consideration) and the exclusion of transaction and acquisition-related restructuring costs from acquisition accounting.

**New Accounting Pronouncements**

In May 2011, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (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 June 2011, the FASB issued ASU No. 2011-05, *Presentation of Comprehensive Income*, and in December 2011 issued ASU No. 2011-12, *Deferral of the Effective Date for Amendments to the Presentation of Reclassification of Items Out of Accumulated Other Comprehensive Income in Accounting Standards Update No. 2011-05*. These standards require entities to present items of net income and other comprehensive income either in a single continuous statement, or in separate, but consecutive, statements of net income and other comprehensive income. The new requirements do not change which components of comprehensive income are recognized in net income or other comprehensive income, or when an item of other comprehensive income must be reclassified to net income. Also, the earnings-per share computation does not change. However, the option under previous standards to report other comprehensive income and its components in the statement of changes in equity was eliminated. For 3M, these standards were effective retrospectively beginning January 1, 2012, with early adoption permitted. 3M adopted these standards in the fourth quarter of 2011. Since these standards impact presentation and disclosure requirements only, their adoption 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 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*, 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 11. 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.

Table of Contents

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 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 5. 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, *Parent's Accounting for the Cumulative Translation Adjustment upon Derecognition of Certain Subsidiaries or Groups of Assets within a Foreign Entity or of an Investment in a Foreign Entity*. 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.



Table of Contents**NOTE 2. Acquisitions and Divestitures**

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.

There were no acquisitions that closed during 2013. The impact on the consolidated balance sheet of the purchase price allocations related to 2012 and 2011 acquisitions, including adjustments relative to other acquisitions within the allocation period, follows. Adjustments in 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. Adjustments in 2012 to the preliminary purchase price allocations of other acquisitions within the allocation period were not material and primarily related to the 2011 acquisitions of Winterthur Technologie AG and the business acquired from GPI Group.

(Millions) Asset (Liability)	2012 Acquisition Activity		
	Ceradyne, Inc.	Other Acquisitions	Total
Accounts receivable	\$ 55	\$ 29	\$ 84
Inventory	112	13	125
Other current assets	36	1	37
Marketable securities	250		250
Property, plant, and equipment	238	3	241
Purchased finite-lived intangible assets	127	86	213
Purchased indefinite-lived intangible assets		2	2
Purchased goodwill	198	141	339
Accounts payable and other liabilities, net of other assets	(100)	(27)	(127)
Interest bearing debt	(93)	(3)	(96)
Deferred tax asset/(liability)	(25)	3	(22)
<b>Net assets acquired</b>	<b>\$ 798</b>	<b>\$ 248</b>	<b>\$ 1,046</b>
Supplemental information:			
Cash paid	\$ 850	\$ 248	\$ 1,098
Less: Cash acquired	52		52
Cash paid, net of cash acquired	\$ 798	\$ 248	\$ 1,046

(Millions) Asset (Liability)	2011 Acquisitions Activity		
	Winterthur Technologie AG	Other Acquisitions	Total
Accounts receivable	\$ 45	\$ 61	\$ 106
Inventory	69	59	128
Other current assets	6	36	42
Property, plant, and equipment	73	102	175
Purchased finite-lived intangible assets	226	116	342
Purchased goodwill	147	112	259
Accounts payable and other liabilities, net of other assets	(70)	(78)	(148)
Interest bearing debt	(79)	(24)	(103)
Deferred tax asset/(liability)	(58)	(28)	(86)
<b>Net assets acquired</b>	<b>\$ 359</b>	<b>\$ 356</b>	<b>\$ 715</b>
Noncontrolling interest	(56)		(56)

Edgar Filing: 3M CO - Form 10-K

Net assets acquired excluding noncontrolling interest	\$	303	\$	356	\$	659
Supplemental information:						
Cash paid	\$	327	\$	376	\$	703
Less: Cash acquired		34		20		54
Cash paid, net of cash acquired	\$	293	\$	356	\$	649
Non-cash		10				10
Net assets acquired excluding noncontrolling interest	\$	303	\$	356	\$	659

Table of Contents

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-process research and development associated with CodeRyte, Inc. is reflected in the preceding 2012 table as purchased indefinite-lived intangible assets. Pro forma information related to acquisitions was not included because the impact on the Company's consolidated results of operations was not considered to be material.

In 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.

*2013 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.

*2012 acquisitions:*

During 2012, 3M completed three business combinations. The purchase price paid for these business combinations (net of cash acquired) and the impact of other matters (net) during 2012 aggregated to \$1.046 billion.

(1) In April 2012, 3M (Health Care Business) purchased all of the outstanding shares of CodeRyte, Inc., an industry leader in clinical natural processing technology and computer-assisted coding solutions for healthcare outpatient providers, which is headquartered in Bethesda, Maryland.

(2) In September 2012, 3M (Safety and Graphics Business) purchased the net assets of Federal Signal Technologies Group from Federal Signal Corp., for a total purchase price of approximately \$104 million. This business focuses on electronic toll collection and parking management hardware and software services, with primary facilities spread throughout the United States and in the U.K.

(3) In November 2012, 3M (Industrial Business) purchased all of the outstanding shares of Ceradyne, Inc. (Ceradyne) for \$798 million, net of cash acquired. The net assets acquired in this transaction included \$250 million of marketable securities and \$93 million of debt, as indicated in the preceding 2012 table. Ceradyne, headquartered in Costa Mesa, California, is involved in the development and production of advanced technical ceramics for demanding applications in the automotive, oil and gas, solar, industrial, electronics and defense industries.

Purchased identifiable finite-lived intangible assets related to acquisition activity in 2012 totaled \$213 million. The associated finite-lived intangible assets acquired in 2012 will be amortized generally on a straight-line basis over a weighted-average life of 12 years (lives ranging

## Edgar Filing: 3M CO - Form 10-K

from two to 20 years). Acquired in-process research and development and identifiable intangible assets for which significant assumed renewals or extensions of underlying arrangements impacted the determination of their useful lives were not material.

### *2011 acquisitions:*

During 2011, 3M completed nine business combinations. The purchase price paid for these business combinations (net of cash acquired) and the impact of other matters (net) during 2011 aggregated to \$649 million.

(1) In January 2011, 3M (Industrial Business) purchased certain assets of Nida-Core Corp., a manufacturer of structural honeycomb core and fiber-reinforced foam core materials based in Port St. Lucie, Florida.

(2) In February 2011, 3M (Industrial Business) announced that it completed its acquisition of all of the outstanding shares of Alpha Beta Enterprise Co. Ltd., a manufacturer of box sealing tape and masking tape headquartered in Taipei, Taiwan.

(3) In February 2011, 3M (Consumer Business) purchased all of the outstanding shares of Hybrivet Systems Inc., a provider of instant-read products to detect lead and other contaminants and toxins, which is based in Natick, Massachusetts.

(4) In early March 2011, 3M (Industrial Business) acquired a controlling interest in Winterthur via completion of a public tender offer. Winterthur, based in Zug, Switzerland, is a leading global supplier of precision grinding technology serving customers in the area of hard-to-grind precision applications in industrial, automotive, aircraft and cutting tools. As of the settlement date of the tendered shares (the business acquisition date), 3M owned approximately 86 percent of Winterthur

Table of Contents

shares via the tender and previous open market share purchases. The purchase price paid in the preceding table includes non-cash consideration of \$10 million representing the business acquisition date fair value of shares previously owned by 3M as of December 31, 2010 and cash consideration paid, net of cash acquired, of \$293 million for subsequently tendered and open market purchased shares through the business acquisition date. Following the business acquisition date, 3M purchased the remaining outstanding shares of its consolidated Winterthur subsidiary, increasing 3M's ownership interest to 100 percent as of December 31, 2011 as discussed in Note 5.

(5) In April 2011, 3M (Electronics and Energy Business) purchased all of the outstanding shares of AP&T Co. Ltd., based in Korea, which provides advanced sputtering and plating services, materials and manufacturing capabilities for flexible circuits for the mobile hand-held, touch-screen panel and display markets.

(6) In April 2011, 3M (Safety and Graphics Business) purchased all of the outstanding shares of Original Wraps Inc., a company specializing in the creative business development, technology and design of personalization platforms for vehicles and vehicle accessories, which is based in Golden, Colorado.

(7) In July 2011, 3M (Industrial Business) purchased all of the outstanding shares of Advanced Chemistry & Technology Inc., a manufacturer of quick-cure, light-weight polysulfide sealants for aerospace applications, which is based in Garden Grove, California.

(8) In July 2011, 3M (Industrial Business) purchased certain assets of Piranha Plastics LLC, based in Santa Clara, California, which provides plastic molding and paint solutions to the automotive aftermarket.

(9) In October 2011, 3M (Consumer Business) acquired the do-it-yourself and professional business of GPI Group. GPI, headquartered in France, is a manufacturer and marketer of home improvement products such as tapes, hooks, insulation, and floor protection products and accessories.

Purchased identifiable finite-lived intangible assets related to acquisition activity in 2011 totaled \$342 million. The associated finite-lived intangible assets acquired in 2011 will be amortized generally on a straight-line basis over a weighted-average life of 14 years (lives ranging from three to 20 years). Acquired identifiable intangible assets for which significant assumed renewals or extensions of underlying arrangements impacted the determination of their useful lives were not material.

Table of Contents**NOTE 3. Goodwill and Intangible Assets**

There were no acquisitions that closed during 2013. Purchased goodwill from acquisitions totaled \$327 million in 2012, \$41 million of which is deductible for tax purposes. The acquisition activity in the following table also includes the net impact of adjustments to the preliminary allocation of purchase price for prior year acquisitions, which increased goodwill by \$10 million in 2013 and increased goodwill by \$12 million in 2012. 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 follows:

**Goodwill**

(Millions)	Dec. 31, 2011 Balance	2012 acquisition activity	2012 translation and other	Dec. 31, 2012 Balance	2013 acquisition activity	2013 translation and other	Dec. 31, 2013 Balance
Industrial	\$ 1,972	\$ 204	\$ (2)	\$ 2,174	\$ 10	\$ (18)	\$ 2,166
Safety and Graphics	1,713	41	(3)	1,751		(11)	1,740
Electronics and Energy	1,608		14	1,622		(10)	1,612
Health Care	1,508	88	2	1,598		(2)	1,596
Consumer	246	6	(12)	240		(9)	231
Total Company	\$ 7,047	\$ 339	\$ (1)	\$ 7,385	\$ 10	\$ (50)	\$ 7,345

As discussed in Note 15, 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. The Company also completed its annual goodwill impairment test in the fourth quarter of 2013 for all reporting units and determined that no impairment existed. In addition, the Company had no impairments of goodwill in prior years.

**Acquired Intangible Assets**

3M did not complete any business combinations during 2013. As a result, gross balances of acquired intangible assets were primarily impacted by changes in foreign currency exchange rates. The gross carrying amount and accumulated amortization of acquired intangible assets as of December 31, follow:

(Millions)	2013	2012
Patents	\$ 602	\$ 596
Other amortizable intangible assets (primarily tradenames and customer related intangibles)	2,445	2,456
Total gross carrying amount	\$ 3,047	\$ 3,052
Accumulated amortization patents	(458)	(421)
Accumulated amortization other	(1,030)	(833)

Edgar Filing: 3M CO - Form 10-K

Total accumulated amortization	\$	(1,488)	\$	(1,254)
Total finite-lived intangible assets net	\$	1,559	\$	1,798
Non-amortizable intangible assets (primarily tradenames)		129		127
Total intangible assets net	\$	1,688	\$	1,925

3M has certain tradenames that are not amortized because of the long-time established name recognition in their respective industries.

Table of Contents

Amortization expense for the years ended December 31 follows:

(Millions)	2013	2012	2011
Amortization expense	\$ 236	\$ 233	\$ 235

Expected amortization expense for acquired amortizable intangible assets recorded as of December 31, 2013 follows:

(Millions)	2014	2015	2016	2017	2018	After 2018
Amortization expense	\$ 214	\$ 200	\$ 186	\$ 171	\$ 154	\$ 634

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



Table of Contents**NOTE 4. Supplemental Balance Sheet Information**

Accounts payable (included as a separate line item in the Consolidated Balance Sheet) includes drafts payable on demand of \$24 million at December 31, 2013, and \$74 million at December 31, 2012. Accumulated depreciation for capital leases totaled \$85 million and \$73 million as of December 31, 2013, and 2012, respectively. Additional supplemental balance sheet information is provided in the table that follows.

(Millions)	2013	2012
<b>Other current assets</b>		
Prepaid expenses and other	\$ 602	\$ 555
Deferred income taxes	502	472
Derivative assets-current	76	49
Product and other insurance receivables	99	125
Total other current assets	\$ 1,279	\$ 1,201
<b>Investments</b>		
Equity method	\$ 69	\$ 105
Cost method	45	47
Other investments	8	11
Total investments	\$ 122	\$ 163
<b>Property, plant and equipment - at cost</b>		
Land	\$ 411	\$ 413
Buildings and leasehold improvements	7,062	6,975
Machinery and equipment	14,665	14,190
Construction in progress	772	791
Capital leases	158	156
Gross property, plant and equipment	23,068	22,525
Accumulated depreciation	(14,416)	(14,147)
Property, plant and equipment - net	\$ 8,652	\$ 8,378
<b>Other assets</b>		
Deferred income taxes	\$ 360	\$ 578
Product and other insurance receivables	96	139
Cash surrender value of life insurance policies	236	230
Other assets	288	270
Total other assets	\$ 980	\$ 1,217
<b>Other current liabilities</b>		
Accrued trade payables	\$ 547	\$ 516
Deferred income	521	471
Derivative liabilities	103	106
Dividends payable	567	
Employee benefits and withholdings	195	178
Product and other claims	119	147
Property and other taxes	88	87
Pension and postretirement benefits	61	55
Deferred income taxes	37	45
Other	653	676
Total other current liabilities	\$ 2,891	\$ 2,281
<b>Other liabilities</b>		

Edgar Filing: 3M CO - Form 10-K

Long term income taxes payable	\$	472	\$	454
Employee benefits		315		332
Product and other claims		314		314
Capital lease obligations		58		71
Deferred income		19		29
Deferred income taxes		538		167
Other		268		267
Total other liabilities	\$	1,984	\$	1,634

Table of Contents**NOTE 5. Supplemental Equity and Comprehensive Income Information**

Common stock (\$.01 par value per share) of 3.0 billion shares is authorized, with 944,033,056 shares issued. Treasury stock is reported at cost, with 280,736,817 shares at December 31, 2013, 256,941,406 shares at December 31, 2012, and 249,063,015 shares at December 31, 2011. Preferred stock, without par value, of 10 million shares is authorized but unissued.

3M has historically declared and paid dividends in the same quarter. In December 2013, 3M's Board of Directors declared a first-quarter 2014 dividend of \$0.855 per share (payable in March 2014). This reduced 3M's stockholders equity and increased other current liabilities as of December 31, 2013 by \$567 million. This resulted in total year 2013 declared dividends of \$3.395 per share, with \$2.54 per share paid in 2013 and the additional \$0.855 per share to be paid in March 2014.

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

(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)
<b>Balance at December 31, 2010, net of tax</b>	\$ 374	\$ (3,879)	\$ (6)	\$ (32)	\$ (3,543)
Other comprehensive income (loss), before tax:					
Amounts before reclassifications	(253)	(2,452)	(10)	(39)	(2,754)
Amounts reclassified out		475	10	123	608
Total other comprehensive income (loss), before tax	(253)	(1,977)		84	(2,146)
Tax effect	(7)	701		(30)	664
Total other comprehensive income (loss), net of tax	(260)	(1,276)		54	(1,482)
<b>Balance at December 31, 2011, net of tax</b>	\$ 114	\$ (5,155)	\$ (6)	\$ 22	\$ (5,025)
Other comprehensive income (loss), before tax:					
Amounts before reclassifications	133	(204)	6	3	(62)
Amounts reclassified out		615		(72)	543
Total other comprehensive income (loss), before tax	133	411	6	(69)	481
Tax effect	(17)	(211)	(2)	24	(206)
Total other comprehensive income (loss), net of tax	116	200	4	(45)	275
<b>Balance at December 31, 2012, net of tax</b>	\$ 230	\$ (4,955)	\$ (2)	\$ (23)	\$ (4,750)
Other comprehensive income (loss), before tax:					
Amounts before reclassifications	(462)	1,361		(98)	801
Amounts reclassified out		569		122	691
Total other comprehensive income (loss), before tax	(462)	1,930		24	1,492
Tax effect	44	(690)		(9)	(655)

Edgar Filing: 3M CO - Form 10-K

Total other comprehensive income (loss), net of tax	(418)	1,240		15	837
<b>Balance at December 31, 2013, net of tax</b>	<b>\$ (188)</b>	<b>\$ (3,715)</b>	<b>\$ (2)</b>	<b>\$ (8)</b>	<b>(3,913)</b>

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.

Table of Contents

The previously reported before-tax amounts of other comprehensive income before reclassifications and amounts reclassified out of other comprehensive income for the years ended December 31, 2012 and 2011 relative to foreign currency forward contracts in the table above and the table below were impacted by the immaterial revisions discussed in Note 11.

**Reclassifications out of Accumulated Other Comprehensive Income Attributable to 3M**

(Millions)	Amount Reclassified from Accumulated Other Comprehensive Income			Location on Income Statement
	Year ended December 31, 2013	Year ended December 31, 2012	Year ended December 31, 2011	
<b>Details about Accumulated Other Comprehensive Income Components</b>				
Gains (losses) associated with, defined benefit pension and postretirement plans amortization				
Transition asset	\$ 1	\$ 1	\$ 2	See Note 10
Prior service benefit	77	84	75	See Note 10
Net actuarial loss	(647)	(700)	(552)	See Note 10
Total before tax	(569)	(615)	(475)	
Tax effect	197	219	168	Provision for income taxes
Net of tax	\$ (372)	\$ (396)	\$ (307)	
Debt and equity security gains (losses)				
Sales or impairments of securities	\$	\$	\$ (10)	Selling, general and administrative expenses
Total before tax			(10)	
Tax effect			4	Provision for income taxes
Net of tax	\$	\$	\$ (6)	
Cash flow hedging instruments gains (losses)				
Foreign currency forward/option contracts	\$ (11)	\$ 41	\$ (87)	Cost of sales
Foreign currency forward contracts	(108)	42	(30)	Interest expense
Commodity price swap contracts	(2)	(10)	(6)	Cost of sales
Interest rate swap contracts	(1)	(1)	(1)	Interest expense
Total before tax	(122)	72	(123)	
Tax effect	45	(26)	44	Provision for income taxes
Net of tax	\$ (77)	\$ 46	\$ (79)	
Total reclassifications for the period, net of tax	\$ (449)	\$ (350)	\$ (392)	

**Purchase and 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 of 3M Company shareholder's equity of \$7 million and an increase in noncontrolling interest of \$1 million.

## Edgar Filing: 3M CO - Form 10-K

As discussed in Note 2, in early March 2011, 3M acquired a controlling interest in Winterthur Technologie AG (Winterthur), making Winterthur a consolidated subsidiary as of that business acquisition date. 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 100 percent as of December 31, 2011. The \$57 million of cash paid in 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

Table of Contents

material transfer from noncontrolling interest to 3M Company shareholders' equity. In addition, during 2011, 3M sold a noncontrolling interest in a newly formed subsidiary for an immaterial amount, which was also classified as other financing activity in the consolidated statement of cash flows.

**NOTE 6. Supplemental Cash Flow Information**

(Millions)	2013		2012		2011	
Cash income tax payments, net of refunds	\$	1,803	\$	1,717	\$	1,542
Cash interest payments		169		166		219
Capitalized interest		21		23		19

Cash interest payments include interest paid on debt and capital lease balances, including net interest payments/receipts related to accreted debt discounts/premiums, as well as net interest payments/receipts associated with interest rate swap contracts.

Individual amounts in the Consolidated Statement of Cash Flows exclude the impacts of acquisitions, divestitures and exchange rate impacts, which are presented separately.

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 is reflected 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.

In addition, as discussed in Note 5, during the fourth quarter, 3M's Board of Directors declared a first-quarter 2014 dividend of \$0.855 per share (payable in March 2014). This reduced 3M's stockholders' equity and increased other current liabilities as of December 31, 2013 by \$567 million. 3M has historically declared and paid dividends in the same quarter; however, in this case, the cash outlay will occur in the first quarter of 2014.





Table of Contents**NOTE 7. Income Taxes****Income Before Income Taxes**

(Millions)	2013	2012	2011
United States	\$ 3,194	\$ 2,902	\$ 2,516
International	3,368	3,449	3,515
Total	\$ 6,562	\$ 6,351	\$ 6,031

**Provision for Income Taxes**

(Millions)	2013	2012	2011
Currently payable			
Federal	\$ 948	\$ 743	\$ 431
State	91	75	51
International	901	918	861
Deferred			
Federal	(123)	(3)	181
State	(2)	10	12
International	26	97	138
Total	\$ 1,841	\$ 1,840	\$ 1,674

**Components of Deferred Tax Assets and Liabilities**

(Millions)	2013	2012
Deferred tax assets:		
Accruals not currently deductible		
Employee benefit costs	\$ 140	\$ 115
Product and other claims	155	161
Miscellaneous accruals	130	137
Pension costs	447	969
Stock-based compensation	322	415
Net operating/capital loss carryforwards	225	304
Foreign tax credits	316	285
Inventory	221	189
Other - net		18
Gross deferred tax assets	1,956	2,593
Valuation allowance	(23)	(29)
Total deferred tax assets	\$ 1,933	\$ 2,564
Deferred tax liabilities:		
Product and other insurance receivables	\$ (46)	\$ (60)
Accelerated depreciation	(813)	(858)
Intangible amortization	(780)	(808)

Edgar Filing: 3M CO - Form 10-K

Other		(7)	
Total deferred tax liabilities	\$	(1,646)	\$ (1,726)
Net deferred tax assets	\$	287	\$ 838

The net deferred tax assets are included as components of Other Current Assets, Other Assets, Other Current Liabilities, and Other Liabilities within the Consolidated Balance Sheet. See Note 4 Supplemental Balance Sheet Information for further details.

As of December 31, 2013, the Company had tax effected operating loss, capital loss, and tax credit carryovers for federal, state, and international of approximately \$30 million, \$4 million, and \$191 million (before valuation allowances),

Table of Contents

respectively. The federal tax attribute carryovers will expire after 16 to 17 years, the state after five to 10 years, and the majority of international after six years with the remaining international expiring in one year or with an indefinite carryover period. The tax attributes being carried over arise as certain jurisdictions may have tax losses or may have inabilities to utilize certain losses without the same type of taxable income. As of December 31, 2013, the Company has provided \$23 million of valuation allowance against certain of these deferred tax assets based on management's determination that it is more-likely-than-not that the tax benefits related to these assets will not be realized. The valuation allowance was reduced in 2013 mainly due to the expiration of the tax attributes.

During 2013, the Company contributed \$476 million to its U.S. and international pension plans and \$6 million to its postretirement plans. During 2012, the Company contributed \$1.079 billion to its U.S. and international pension plans and \$67 million to its postretirement plans. During 2011, the Company contributed \$517 million to its U.S. and international pension plans and \$65 million to its postretirement plans. The current income tax provision includes a benefit for the pension contributions; the deferred tax provision includes a cost for the related temporary difference.

**Reconciliation of Effective Income Tax Rate**

	2013	2012	2011
Statutory U.S. tax rate	35.0%	35.0%	35.0%
State income taxes - net of federal benefit	0.9	0.9	0.7
International income taxes - net	(6.3)	(4.2)	(4.6)
U.S. research and development credit	(0.7)		(0.5)
Reserves for tax contingencies	1.2	(1.9)	(1.2)
Domestic Manufacturer's deduction	(1.6)	(1.2)	(1.5)
All other - net	(0.4)	0.4	(0.1)
Effective worldwide tax rate	28.1%	29.0%	27.8%

The effective tax rate for 2013 was 28.1 percent, compared to 29.0 percent in 2012, a decrease of 0.9 percentage points, impacted by many factors. Factors that decreased the Company's effective tax rate included international taxes as a result of changes to the geographic mix of income before taxes, the reinstatement of the U.S. research and development credit in 2013, an increase in the domestic manufacturer's deduction benefit, 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 4.0 percentage points. This benefit was partially offset by factors that increased the effective tax rate by 3.1 percentage points, which largely related to adjustments to 3M's income tax reserves for 2013 when compared to 2012.

The effective tax rate for 2012 was 29.0 percent, compared to 27.8 percent in 2011, an increase of 1.2 percentage points, impacted by many factors. The primary factors that increased the Company's effective tax rate year-on-year include international taxes, specifically with respect to the corporate reorganization of a wholly owned international subsidiary (which benefited 2011), state income taxes, lower domestic manufacturer's deduction, and the lapse of the U.S. research and development credit. These and other factors, when compared to 2011, increased the 2012 effective tax rate by 2.1 percentage points. Factors that decreased the Company's effective tax rate year-on-year include international taxes as a result of changes to the geographic mix of income before taxes and adjustments to its income tax reserves. These factors, when compared to 2011, decreased the effective tax rate 0.9 percentage points.

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

Table of Contents

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 December 31, 2013, 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 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.

A reconciliation of the beginning and ending amount of gross unrecognized tax benefits (UTB) is as follows:

**Federal, State and Foreign Tax**

(Millions)	2013	2012	2011
Gross UTB Balance at January 1	\$ 528	\$ 594	\$ 622
Additions based on tax positions related to the current year	97	80	92
Additions for tax positions of prior years	158	114	69
Reductions for tax positions of prior years	(29)	(120)	(123)
Settlements	(17)	(50)	9
Reductions due to lapse of applicable statute of limitations	(78)	(90)	(75)
Gross UTB Balance at December 31	\$ 659	\$ 528	\$ 594
Net UTB impacting the effective tax rate at December 31	\$ 262	\$ 185	\$ 295

The total amount of UTB, if recognized, would affect the effective tax rate by \$262 million as of December 31, 2013, \$185 million as of December 31, 2012, and \$295 million as of December 31, 2011. The ending net UTB results from adjusting the gross balance for items such as Federal, State, and non-U.S. deferred items, interest and penalties, and deductible taxes. The net UTB is included as components of Other Current Assets, Other Current Liabilities, Accrued Income Taxes, and Other Liabilities within the Consolidated Balance Sheet.

The Company recognizes interest and penalties accrued related to unrecognized tax benefits in tax expense. The Company recognized in the consolidated statement of income on a gross basis approximately \$22 million of expense, \$12 million of benefit, and \$1 million of benefit in 2013, 2012, and 2011, respectively. At December 31, 2013 and December 31, 2012, accrued interest and penalties in the consolidated balance sheet on a gross basis were \$62 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.

As a result of certain employment commitments and capital investments made by 3M, income from manufacturing activities in China, Taiwan, Korea, Brazil, and Singapore is subject to reduced tax rates or, in some cases, is exempt from tax for years through 2013, 2016, 2018, 2023, and 2023, respectively. The income tax benefits attributable to the tax status of these subsidiaries are estimated to be \$87 million (13 cents per diluted share) in 2013, \$64 million (9 cents per diluted share) in 2012, and \$77 million (11 cents per diluted share) in 2011.

Table of Contents

The Company has not provided deferred taxes on unremitted earnings attributable to international companies that have been considered to be reinvested indefinitely. These earnings relate to ongoing operations and were approximately \$9.7 billion as of December 31, 2013. Because of the availability of U.S. foreign tax credits, it is not practicable to determine the income tax liability that would be payable if such earnings were not indefinitely reinvested.

Table of Contents**NOTE 8. Marketable Securities**

The Company invests in agency securities, corporate securities, asset-backed 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)	December 31, 2013	December 31, 2012
U.S. government agency securities	\$ 103	\$ 162
Foreign government agency securities	30	16
Corporate debt securities	143	471
Commercial paper	60	116
Certificates of deposit/time deposits	20	41
U.S. treasury securities		54
U.S. municipal securities	2	13
Asset-backed securities:		
Automobile loan related	287	567
Credit card related	52	123
Equipment lease related	30	54
Other	29	31
Asset-backed securities total	398	775
<b>Current marketable securities</b>	<b>\$ 756</b>	<b>\$ 1,648</b>
U.S. government agency securities	\$ 131	\$ 125
Foreign government agency securities	95	51
Corporate debt securities	638	494
Certificates of deposit/time deposits	20	
U.S. treasury securities	49	18
U.S. municipal securities		14
Auction rate securities	11	7
Asset-backed securities:		
Automobile loan related	298	375
Credit card related	128	34
Equipment lease related	37	36
Other	46	8
Asset-backed securities total	509	453
<b>Non-current marketable securities</b>	<b>\$ 1,453</b>	<b>\$ 1,162</b>
<b>Total marketable securities</b>	<b>\$ 2,209</b>	<b>\$ 2,810</b>

Classification of marketable securities as current or non-current is dependent upon management's intended holding period, the security's maturity date and liquidity considerations based on market conditions. If management intends to hold the securities for longer than one year as of the balance sheet date, they are classified as non-current. At December 31, 2013, gross unrealized losses totaled approximately \$5 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 5 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.





Table of Contents

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 balance at December 31, 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)	December 31, 2013	
Due in one year or less	\$	287
Due after one year through five years		1,898
Due after five years through ten years		24
Due after ten years		
Total marketable securities	\$	2,209

3M has a diversified marketable securities portfolio of \$2.209 billion as of December 31, 2013. Within this portfolio, current and long-term asset-backed securities (estimated fair value of \$907 million) 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 December 31, 2013, all asset-backed security investments were in compliance with this policy. Approximately 98.1 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 Investors Service and/or AAA or F1+ by Fitch Ratings.

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 are \$11 million and \$7 million as of December 31, 2013 and 2012, respectively. Gross unrealized losses within accumulated other comprehensive income related to auction rate securities totaled \$2 million (pre-tax) and \$6 million (pre-tax) as of December 31, 2013 and 2012, respectively. As of December 31, 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 12 for a table that reconciles the beginning and ending balances of auction rate securities.

Table of Contents**NOTE 9. Long-Term Debt and Short-Term Borrowings**

The following debt tables reflect interest rates, including the effects of interest rate swaps, as of December 31, 2013. Carrying value includes the impact of derivative/hedging activity. Long-term debt and short-term borrowings as of December 31 consisted of the following:

**Long-Term Debt**

(Millions) Description / 2013 Principal Amount	Currency/ Fixed vs. Floating	Effective Interest Rate	Final Maturity Date	Carrying Value	
				2013	2012
Eurobond (775 million Euros)	Euro Fixed	4.30%	2014	\$ 1,075	\$ 1,034
Medium-term note (\$1 billion)	USD Fixed	1.62%	2016	995	994
Medium-term note	USD Fixed	%			850
30-year bond (\$750 million)	USD Fixed	5.73%	2037	748	747
Medium-term note (\$650 million)	USD Fixed	1.10%	2017	648	647
Medium-term note (\$600 million)	USD Fixed	2.17%	2022	592	592
Eurobond (300 million Euros)	Euro Fixed	1.97%	2021	411	
Eurobond (300 million Euros)	Euro Floating	0.57%	2021	404	
Eurobond (250 million Euros)	Euro Floating	0.43%	2014	349	349
30-year debenture (\$330 million)	USD Fixed	6.01%	2028	346	347
UK borrowing (66 million GBP)	GBP Floating	1.35%	2015	109	106
Floating rate note (\$97 million)	USD Floating	0.00%	2041	97	97
Floating rate note (\$59 million)	USD Floating	0.00%	2044	59	59
Other borrowings	Various	0.64%	2014-2040	79	80
Total long-term debt				\$ 5,912	\$ 5,902
Less: current portion of long-term debt				1,586	986
Long-term debt (excluding current portion)				\$ 4,326	\$ 4,916

**Short-Term Borrowings and Current Portion of Long-Term Debt**

(Millions)	Effective Interest Rate	Carrying Value	
		2013	2012
Current portion of long-term debt	3.05%	\$ 1,586	\$ 986
U.S. dollar commercial paper	%		
Other borrowings	5.35%	97	99
Total short-term borrowings and current portion of long-term debt		\$ 1,683	\$ 1,085

The following weighted-average effective interest rate table reflects the combined effects of interest rate and currency swaps at December 31, 2013 and 2012.

**Weighted-Average Effective Interest Rate**

Edgar Filing: 3M CO - Form 10-K

At December 31	Total	
	2013	2012
Short-term	3.18%	3.91%
Long-term	2.56%	3.16%

Maturities of long-term debt for the five years subsequent to December 31, 2013 are as follows (in millions):

2014	2015	2016	2017	2018	After 2018	Total
\$ 1,586	\$ 109	\$ 996	\$ 720	\$	\$ 2,501	\$ 5,912

Long-term debt payments due in 2014 and 2017 include floating rate notes totaling \$156 million (classified as current portion of long-term debt) and \$71 million (included in other borrowings in the long-term debt table), respectively, as a result of put provisions associated with these debt instruments.

The floating rate notes contain put provisions granting the holders the option to require 3M to repurchase the securities on certain dates. Under the terms of the floating rate notes due in 2044, holders have an annual put feature. 3M would be

Table of Contents

required to repurchase these securities at 100 percent of par value from 2014 and every anniversary thereafter until final maturity. Under the terms of the floating rate notes due in 2027, 2040, and 2041, holders have put options that commence ten years after the date of issuance and each third anniversary thereafter until final maturity. 3M would be required to repurchase these securities at various prices, ranging from 99 percent to 100 percent of par value according to the redemption schedules for each security. In 2013, 2011, 2010, 2009 and 2008, 3M was required to repurchase an immaterial amount of principal on the aforementioned floating rate notes.

The Company has a well-known seasoned issuer shelf registration statement, effective August 5, 2011, which registers an indeterminate amount of debt or equity securities for future sales. In September 2011, in connection with this August 5, 2011 shelf registration statement, 3M established a \$3 billion medium-term notes program (Series F), from which 3M issued \$1 billion aggregate principal amount of five-year fixed rate medium-term notes with a coupon rate of 1.375%. In June 2012, 3M issued \$650 million aggregate principal amount of five-year fixed rate medium-term notes due 2017 with a coupon rate of 1.000% and \$600 million aggregate principal amount of ten-year fixed rate medium-term notes due 2022 with a coupon rate of 2.000%, which were both issued from this \$3 billion medium-term notes program (Series F). The designated use of these proceeds is for general corporate purposes.

In connection with a prior well-known seasoned issuer shelf registration, in June 2007 the Company established a \$3 billion medium-term notes program. Three debt securities were issued under this medium-term notes program. First, in December 2007, 3M issued a five-year, \$500 million, fixed rate note with a coupon rate of 4.65%, which matured in December 2012. Second, in August 2008, 3M issued a five-year, \$850 million, fixed rate note with a coupon rate of 4.375%, which matured in August 2013. Third, in October 2008, the Company issued a three-year \$800 million, fixed rate note with a coupon rate of 4.50%. The Company entered into interest rate swaps to convert this \$800 million note to a floating rate. This three-year fixed rate note and related interest rate swaps matured in the fourth quarter of 2011.

The Company also issued notes under a \$1.5 billion medium-term note program established in December 2003. In March 2007, the Company issued a 30-year, \$750 million, fixed rate note with a coupon rate of 5.70%. In November 2006, 3M issued a three-year, \$400 million, fixed rate note. The Company entered into an interest rate swap to convert this to a rate based on a floating LIBOR index. Both the note and related swap matured in November 2009. In December 2004, 3M issued a 40-year, \$60 million floating rate note, with the rate based on a floating LIBOR index. This \$1.5 billion medium term note program was replaced by the \$3 billion program established in June 2007.

In July 2007, 3M issued a seven-year 5.0% fixed rate Eurobond for an amount of 750 million Euros (carrying value of approximately \$1.042 billion in U.S. Dollars at December 31, 2013). In addition, in December 2007, 3M reopened its existing seven year 5.0% fixed rate Eurobond for an additional amount of 275 million Euros (carrying value of approximately \$382 million in U.S. Dollars at December 31, 2013). This security was issued at a premium and was subsequently consolidated with the original security in January 2008. Upon the initial debt issuance in July 2007, 3M 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, the notional amount remaining after the partial termination is 250 million Euros. The termination of a portion of this swap did not impact the terms of the remaining portion. After these swaps, the fixed rate portion of the Eurobond totaled 775 million Euros and the floating rate portion totaled 250 million Euros.

In November 2013, 3M issued an eight-year 1.875% fixed rate Eurobond for an amount of 600 million Euros (carrying value of approximately \$815 million in U.S. Dollars at December 31, 2013). Upon debt issuance, 3M completed a fixed-to-floating interest rate swap on a notional amount of 300 million Euros as a fair value hedge of a portion of the fixed interest rate Eurobond obligation. After this swap, the fixed rate portion of the Eurobond totaled 300 million Euros and the floating rate portion totaled 300 million Euros.

## Edgar Filing: 3M CO - Form 10-K

The Company has an AA- credit rating, with a stable outlook, from Standard & Poor's and an Aa2 credit rating, with a stable outlook, from Moody's Investors Service. In September 2012, 3M entered into a \$1.5 billion, five-year multi-currency revolving credit agreement, which amended the existing agreement that was entered into in August 2011. This amended agreement extended the expiration date from August 2016 to September 2017. This credit agreement includes a provision under which 3M may request an increase of up to \$500 million, bringing the total facility up to \$2 billion (at the lenders' discretion). This facility was undrawn at December 31, 2013. In August 2013, 3M entered into a \$150 million, one-year committed letter of credit facility with HSBC Bank USA, which replaced the one-year \$150 million committed credit facility that was entered into in August 2012. As of December 31, 2013, 3M letters of credit issued under this \$150 million committed facility totaled \$120 million. In December 2012, 3M entered into a three-year 66 million British Pound (approximately \$106 million) committed credit facility agreement with JP Morgan Chase Bank, which is fully drawn as of December 31, 2013. Apart from the committed facilities, an additional \$51 million in stand-alone letters of credit are also issued and outstanding at December 31, 2013. The Company also utilized \$1 million in international committed lines of

Table of Contents

credit and \$10 million in U.S. committed lines of credit with other banking partners as of December 31, 2013. These lines of credit are utilized in connection with normal business activities. Under both the \$1.5 billion and \$150 million credit agreements, the Company is required to maintain its EBITDA to Interest Ratio as of the end of each fiscal quarter at not less than 3.0 to 1. This is calculated (as defined in the agreement) as the ratio of consolidated total EBITDA for the four consecutive quarters then ended to total interest expense on all funded debt for the same period. At December 31, 2013, this ratio was approximately 55 to 1. Debt covenants do not restrict the payment of dividends.

**NOTE 10. Pension and Postretirement Benefit Plans**

3M has company-sponsored retirement plans covering substantially all U.S. employees and many employees outside the United States. In total, 3M has over 80 defined benefit plans in 25 countries. Pension benefits associated with these plans generally are based on each participant's years of service, compensation, and age at retirement or termination. The primary U.S. defined-benefit pension plan was closed to new participants effective January 1, 2009. The Company also provides certain postretirement health care and life insurance benefits for substantially all of its U.S. employees who reach retirement age while employed by the Company. Most international employees and retirees are covered by government health care programs. The cost of company-provided postretirement health care plans for international employees is not material and is combined with U.S. amounts in the tables that follow.

The Company also sponsors employee savings plans under Section 401(k) of the Internal Revenue Code. These plans are offered to substantially all regular U.S. employees. Effective January 1, 2010, substantially all Company contributions to the plans are made in cash. For substantially all employees hired prior to January 1, 2009, employee 401(k) contributions of up to 6% of eligible compensation are matched at rates of 60% or 75%, depending on the plan the employee participated in. Employees hired on or after January 1, 2009 receive a cash match of 100% for employee 401(k) contributions of up to 6% of eligible compensation and also receive an employer retirement income account cash contribution of 3% of the participant's total eligible compensation. All contributions are invested in a number of investment funds pursuant to the employees' elections. Employer contributions to the U.S. plans were \$136 million, \$124 million and \$109 million for 2013, 2012 and 2011, respectively. 3M subsidiaries in various international countries also participate in defined contribution plans. Employer contributions to the international plans were \$71 million, \$58 million and \$54 million for 2013, 2012 and 2011, respectively.

The Company's defined benefit pension funding policy is to deposit with independent trustees amounts allowable by law. Trust funds and deposits with insurance companies are maintained to provide pension benefits to plan participants and their beneficiaries. There are no plan assets in the non-qualified plan due to its nature. For its U.S. postretirement health care and life insurance benefit plans, the Company has set aside amounts at least equal to annual benefit payments with an independent trustee.

In August 2006, the Pension Protection Act (PPA) was signed into law in the U.S. The PPA transition rules increased the funding target for defined benefit pension plans to 100% of the target liability by 2011. 3M's primary U.S. qualified defined benefit plan does not have a mandatory cash contribution because the Company has a significant credit balance from previous discretionary contributions that can be applied to any PPA funding requirements.

In the fourth quarter of 2010, the Company made further changes to its U.S. postretirement benefit plans. As a result of these changes, the Company will transition all current and future retirees to the savings account benefits-based plan announced in 2008. These changes became effective beginning January 1, 2013, for all Medicare eligible retirees and their Medicare eligible dependents and will become effective beginning January 1, 2015, for all non-Medicare eligible retirees and their eligible dependents.

## Edgar Filing: 3M CO - Form 10-K

In December 2011, the Company began offering a voluntary early retirement incentive program to certain eligible participants of its U.S. pension plans who meet 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.

Effective July 1, 2012, 3M Canada closed its pension plans for salaried employees to new participants. The change did not trigger a plan remeasurement and therefore there is no immediate impact to the liability and expense.

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



Table of Contents

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 probable recovery of a portion of the decrease in original asset value. As of the 2013 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.

The following tables include a reconciliation of the beginning and ending balances of the benefit obligation and the fair value of plan assets as well as a summary of the related amounts recognized in the Company's consolidated balance sheet as of December 31 of the respective years. 3M also has certain non-qualified unfunded pension and postretirement benefit plans, inclusive of plans related to supplement/excess benefits for employees impacted by particular relocations and other matters, that individually and in the aggregate are not significant and which are not included in the tables that follow. The obligations for these plans are included within other liabilities in the Company's consolidated balance sheet and aggregated less than \$30 million as of December 31, 2013 and approximately \$40 million as of December 30, 2012. Due to the growth in one of the U.S. non-qualified unfunded pension plans it has been added to the schedules below as of December 31, 2013.

(Millions)	Qualified and Non-qualified Pension Benefits				Postretirement Benefits	
	United States		International		2013	2012
	2013	2012	2013	2012	2013	2012
<b>Change in benefit obligation</b>						
Benefit obligation at beginning of year	\$ 14,830	\$ 14,499	\$ 6,414	\$ 5,332	\$ 2,205	\$ 2,108
Acquisitions/Transfers in	15	11		26		
Service cost	258	254	147	124	80	78
Interest cost	598	587	238	247	88	86
Participant contributions			8	5	30	52
Foreign exchange rate changes			(79)	83	(13)	(2)
Plan amendments			3	(7)	(20)	
Actuarial (gain) loss	(986)	179	(163)	882	(225)	31
Medicare Part D Reimbursement					2	8
Benefit payments	(747)	(726)	(222)	(278)	(130)	(156)
Settlements, curtailments, special termination benefits and other	(1)	26				
Benefit obligation at end of year	\$ 13,967	\$ 14,830	\$ 6,346	\$ 6,414	\$ 2,017	\$ 2,205
<b>Change in plan assets</b>						
Fair value of plan assets at beginning of year	\$ 13,781	\$ 12,102	\$ 5,222	\$ 4,643	\$ 1,321	\$ 1,209
Acquisitions		8				
Actual return on plan assets	803	1,645	421	463	178	149
Company contributions	53	752	423	327	6	67
Participant contributions			8	5	30	52
Foreign exchange rate changes			(94)	62		
Benefit payments	(747)	(726)	(222)	(278)	(130)	(156)
Settlements, curtailments, special termination benefits and other	(1)					
Fair value of plan assets at end of year	\$ 13,889	\$ 13,781	\$ 5,758	\$ 5,222	\$ 1,405	\$ 1,321
Funded status at end of year	\$ (78)	\$ (1,049)	\$ (588)	\$ (1,192)	\$ (612)	\$ (884)



Table of Contents

(Millions)	Qualified and Non-qualified Pension Benefits				Postretirement Benefits	
	United States		International		2013	2012
	2013	2012	2013	2012	2013	2012
<b>Amounts recognized in the Consolidated Balance Sheet as of Dec. 31,</b>						
Non-current assets	\$ 399	\$	\$ 178	\$ 16	\$	\$
Accrued benefit cost						
Current liabilities	(47)	(43)	(10)	(8)	(4)	(4)
Non-current liabilities	(430)	(1,006)	(756)	(1,200)	(608)	(880)
Ending balance	\$ (78)	\$ (1,049)	\$ (588)	\$ (1,192)	\$ (612)	\$ (884)
<b>Amounts recognized in accumulated other comprehensive income as of Dec. 31,</b>						
Net transition obligation (asset)	\$	\$	\$ (4)	\$ (5)	\$	\$
Net actuarial loss (gain)	3,537	4,679	1,949	2,458	616	1,028
Prior service cost (credit)	20	24	(117)	(150)	(151)	(197)
Ending balance	\$ 3,557	\$ 4,703	\$ 1,828	\$ 2,303	\$ 465	\$ 831

The balance of amounts recognized for international plans in accumulated other comprehensive income as of December 31 in the preceding table are presented based on the foreign currency exchange rate on that date.

The pension accumulated benefit obligation represents the actuarial present value of benefits based on employee service and compensation as of the measurement date and does not include an assumption about future compensation levels. The accumulated benefit obligation of the U.S. pension plans was \$13.357 billion and \$14.127 billion at December 31, 2013 and 2012, respectively. The accumulated benefit obligation of the international pension plans was \$5.825 billion and \$5.942 billion at December 31, 2013 and 2012, respectively.

The following amounts relate to pension plans with accumulated benefit obligations in excess of plan assets as of December 31:

(Millions)	Qualified and Non-qualified Pension Plans			
	United States		International	
	2013	2012	2013	2012
Projected benefit obligation	\$ 486	\$ 505	\$ 2,198	\$ 5,122
Accumulated benefit obligation	463	492	1,960	4,808
Fair value of plan assets	9	8	1,547	4,038

Table of Contents**Components of net periodic cost and other amounts recognized in other comprehensive income**

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 changes in plan assets and benefit obligations recognized in other comprehensive income for the years ended December 31 follow:

(Millions)	Qualified and Non-qualified Pension Benefits						Postretirement Benefits		
	2013	United States 2012	2011	2013	International 2012	2011	2013	2012	2011
<b>Net periodic benefit cost (benefit)</b>									
Service cost	\$ 258	\$ 254	\$ 206	\$ 147	\$ 124	\$ 124	\$ 80	\$ 78	\$ 61
Interest cost	598	587	626	238	247	261	88	86	92
Expected return on plan assets	(1,046)	(992)	(927)	(291)	(295)	(289)	(90)	(84)	(77)
Amortization of transition (asset) obligation				(1)	(1)	(2)			
Amortization of prior service cost (benefit)	5	5	11	(16)	(17)	(14)	(66)	(72)	(72)
Amortization of net actuarial (gain) loss	399	470	334	153	122	116	95	108	102
Net periodic benefit cost (benefit)	\$ 214	\$ 324	\$ 250	\$ 230	\$ 180	\$ 196	\$ 107	\$ 116	\$ 106
Settlements, curtailments, special termination benefits and other		26	1	2	4	2			
Net periodic benefit cost (benefit) after settlements, curtailments, special termination benefits and other	\$ 214	\$ 350	\$ 251	\$ 232	\$ 184	\$ 198	\$ 107	\$ 116	\$ 106
<b>Other changes in plan assets and benefit obligations recognized in other comprehensive (income) loss</b>									
Transition (asset) obligation	\$	\$	\$	\$	\$	(2)	\$	\$	\$
Amortization of transition (asset) obligation				1	1	2			
Prior service cost (benefit)			8	3	(7)	(32)	(20)		
Amortization of prior service cost (benefit)	(5)	(5)	(11)	16	17	14	66	72	72
Net actuarial (gain) loss	(743)	(470)	1,976	(294)	707	315	(313)	(33)	212
Amortization of net actuarial (gain) loss	(399)	(470)	(334)	(153)	(122)	(116)	(95)	(108)	(102)
Foreign currency				(47)	24	(17)	(2)	(1)	(2)
Total recognized in other comprehensive (income) loss	\$ (1,147)	\$ (945)	\$ 1,639	\$ (474)	\$ 620	\$ 164	\$ (364)	\$ (70)	\$ 180
Total recognized in net periodic benefit cost (benefit) and other comprehensive (income) loss	\$ (933)	\$ (595)	\$ 1,890	\$ (242)	\$ 804	\$ 362	\$ (257)	\$ 46	\$ 286

**Amounts expected to be amortized from accumulated other comprehensive income into net periodic benefit costs over the next fiscal year**

Edgar Filing: 3M CO - Form 10-K

(Millions)	Qualified and Non-qualified Pension Benefits				Postretirement Benefits
	United States		International		
Amortization of transition (asset) obligation	\$	1	\$	(1)	\$
Amortization of prior service cost (benefit)		4		(16)	(48)
Amortization of net actuarial (gain) loss		242		123	57
Total amortization expected over the next fiscal year	\$	247	\$	106	\$ 9

Table of Contents**Weighted-average assumptions used to determine benefit obligations**

	Qualified and Non-qualified Pension Benefits					Postretirement Benefits			
	2013	United States 2012	2011	2013	International 2012	2011	2013	2012	2011
Discount rate	<b>4.98%</b>	4.14%	4.15%	<b>4.02%</b>	3.78%	4.58%	<b>4.83%</b>	4.00%	4.04%
Compensation rate increase	<b>4.00%</b>	4.00%	4.00%	<b>3.35%</b>	3.31%	3.52%	N/A	N/A	N/A

The Company is in the process of transitioning all current and future retirees to the savings account benefits-based plan announced in 2008. The contributions provided by the Company to the health savings accounts increase three percent per year. Therefore, the Company no longer has material exposure to health care cost inflation.

**Weighted-average assumptions used to determine net cost for years ended**

	Qualified and Non-qualified Pension Benefits					Postretirement Benefits			
	2013	United States 2012	2011	2013	International 2012	2011	2013	2012	2011
Discount rate	<b>4.14%</b>	4.15%	5.23%	<b>3.78%</b>	4.58%	5.04%	<b>4.00%</b>	4.04%	5.09%
Expected return on assets	<b>8.00%</b>	8.25%	8.50%	<b>5.87%</b>	6.38%	6.58%	<b>7.19%</b>	7.30%	7.38%
Compensation rate increase	<b>4.00%</b>	4.00%	4.00%	<b>3.31%</b>	3.52%	3.59%	N/A	N/A	N/A

The Company determines the discount rate used to measure plan liabilities as of the December 31 measurement date for the pension and postretirement benefit plans, which is also the date used for the related annual measurement assumptions. The discount rate reflects the current rate at which the associated liabilities could be effectively settled at the end of the year. The Company sets its rate to reflect the yield of a portfolio of high quality, fixed-income debt instruments that would produce cash flows sufficient in timing and amount to settle projected future benefits. Using this methodology, the Company determined a discount rate of 4.98% for pension and 4.83% for postretirement benefits to be appropriate for its U.S. plans as of December 31, 2013, which is an increase of 0.84 percentage points and 0.83 percentage points, respectively, from the rates used as of December 31, 2012. For the international pension and postretirement plans the discount rates also reflect the current rate at which the associated liabilities could be effectively settled at the end of the year. If the country has a deep market in corporate bonds the Company matches the expected cash flows from the plan either to a portfolio of bonds that generate sufficient cash flow or a notional yield curve generated from available bond information. In countries that do not have a deep market in corporate bonds, government bonds are considered with a risk premium to approximate corporate bond yields.

For the primary U.S. qualified pension plan, the Company's assumption for the expected return on plan assets was 8.00% in 2013. The Company is lowering the 2014 expected return on plan assets for its U.S. pension plan by 0.25 percentage points to 7.75%. This will increase the 2014 expected pension expense by approximately \$34 million. Projected returns are based primarily on broad, publicly traded equity and fixed-income indices and forward-looking estimates of active portfolio and investment management. As of December 31, 2013, the Company's 2014 expected long-term rate of return on U.S. plan assets is based on an asset allocation assumption of 21% global equities, with an expected long-term rate of return of 7.5%; 16% private equities, with an expected long-term rate of return of 12.5%; 47% fixed-income securities, with an expected long-term rate of return of 4.5%; and 16% absolute return investments independent of traditional performance benchmarks, with an expected long term return of 6.00%. The Company expects additional positive return from active investment management. These assumptions

## Edgar Filing: 3M CO - Form 10-K

result in an 7.75% expected rate of return on an annualized basis in 2014. The actual rate of return on plan assets in 2013 was 6.02%. In 2012 the plan earned a rate of return of 13.6% and in 2011 earned a return of 8.7%. The average annual actual return on the plan assets over the past 10 and 25 years has been 8.7% and 10.3%, respectively. Return on assets assumptions for international pension and other post-retirement benefit plans are calculated on a plan-by-plan basis using plan asset allocations and expected long-term rate of return assumptions.

During 2013, the Company contributed \$476 million to its U.S. and international pension plans and \$6 million to its postretirement plans. During 2012, the Company contributed \$1.079 billion to its U.S. and international pension plans and \$67 million to its postretirement plans. In 2014, the Company expects to contribute an amount in the range of \$100 million

Table of Contents

to \$200 million of cash to its U.S. and international retirement plans. The Company does not have a required minimum cash pension contribution obligation for its U.S. plans in 2014. Therefore, the amount of the anticipated discretionary 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.

**Future Pension and Postretirement Benefit Payments**

The following table provides the estimated pension and postretirement benefit payments that are payable from the plans to participants.

(Millions)	Qualified and Non-qualified Pension Benefits		Postretirement Benefits
	United States	International	
2014 Benefit Payments	\$ 782	\$ 225	\$ 125
2015 Benefit Payments	810	236	135
2016 Benefit Payments	837	254	151
2017 Benefit Payments	861	259	151
2018 Benefit Payments	884	284	151
Following five years	4,729	1,658	775

**Plan Asset Management**

3M's investment strategy for its pension and postretirement plans is to manage the funds on a going-concern basis. The primary goal of the funds is to meet the obligations as required. The secondary goal is to earn the highest rate of return possible, without jeopardizing its primary goal, and without subjecting the Company to an undue amount of contribution rate volatility. Fund returns are used to help finance present and future obligations to the extent possible within actuarially determined funding limits and tax-determined asset limits, thus reducing the level of contributions 3M must make. The investment strategy has used long duration cash and derivative instruments to offset a significant portion of the interest rate sensitivity of U.S. pension liabilities. In addition, credit risk is managed through mandates for public securities and maximum issuer limits that are established and monitored on a regular basis.

Normally, 3M does not buy or sell any of its own stock as a direct investment for its pension and other postretirement benefit funds. However, due to external investment management of the funds, the plans may indirectly buy, sell or hold 3M stock. The aggregate amount of shares are not considered to be material relative to the aggregate fund percentages.

The discussion that follows references the fair value measurements of certain assets in terms of levels 1, 2 and 3. See Note 12 for descriptions of these levels. While the company believes the valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different estimate of fair value at the reporting date.



*U.S. Pension Plans Assets*

In order to achieve the investment objectives in the U.S. pension plans, the investment policy includes a target strategic asset allocation. The investment policy allows some tolerance around the target in recognition that market fluctuations and illiquidity of some investments may cause the allocation to a specific asset class to stray from the target allocation, potentially for long periods of time. Acceptable ranges have been designed to allow for deviation from long-term targets and to allow for the opportunity for tactical over- and under-weights. The portfolio will normally be rebalanced when the quarter-end asset allocation deviates from acceptable ranges. The allocation is reviewed regularly by the named fiduciary of the plans.

Edgar Filing: 3M CO - Form 10-K

Table of Contents

The fair values of the assets held by the U.S. pension plans by asset class are as follows:

(Millions) Asset Class	Fair Value Measurements Using Inputs Considered as						Fair Value at Dec. 31,	
	Level 1		Level 2		Level 3		2013	2012
	2013	2012	2013	2012	2013	2012	2013	2012
<b>Equities</b>								
U.S. equities	\$ 1,595	\$ 1,662	\$ 3	\$ 11	\$ 3	\$ 5	\$ 1,601	\$ 1,678
Non-U.S. equities	1,324	1,332	1				1,325	1,332
Derivatives				5				5
EAFE index funds				250				250
Index funds			151	156	1	1	152	157
Long/short equity					460	477	460	477
<b>Total Equities</b>	<b>\$ 2,919</b>	<b>\$ 2,994</b>	<b>\$ 155</b>	<b>\$ 422</b>	<b>\$ 464</b>	<b>\$ 483</b>	<b>\$ 3,538</b>	<b>\$ 3,899</b>
<b>Fixed Income</b>								
U.S. government securities	\$ 908	\$ 844	\$ 601	\$ 796	\$	\$	\$ 1,509	\$ 1,640
Non-U.S. government securities	20		316	378			336	378
Preferred and convertible securities		4	4				4	4
U.S. corporate bonds	14	196	2,046	1,249			2,060	1,445
Non-U.S. corporate bonds			412	286			412	286
Asset-backed securities			26	21			26	21
Collateralized mortgage obligations			28	43			28	43
Private placements			251	164	2	2	253	166
Derivative instruments	(1)		6	76			5	76
Other			37	29			37	29
<b>Total Fixed Income</b>	<b>\$ 941</b>	<b>\$ 1,044</b>	<b>\$ 3,727</b>	<b>\$ 3,042</b>	<b>\$ 2</b>	<b>\$ 2</b>	<b>\$ 4,670</b>	<b>\$ 4,088</b>
<b>Private Equity</b>								
Buyouts	\$	\$	\$	\$	\$ 737	\$ 662	\$ 737	\$ 662
Derivative instruments					(97)	(51)	(97)	(51)
Direct investments					467	129	467	129
Distressed debt					211	301	211	301
Growth equity	21	7			170	84	191	91
Mezzanine					83	82	83	82
Real estate					156	136	156	136
Secondary					152	166	152	166
Venture capital					548	627	548	627
<b>Total Private Equity</b>	<b>\$ 21</b>	<b>\$ 7</b>	<b>\$</b>	<b>\$</b>	<b>\$ 2,427</b>	<b>\$ 2,136</b>	<b>\$ 2,448</b>	<b>\$ 2,143</b>
<b>Absolute Return</b>								
Hedge funds and hedge fund of funds funds	\$	\$	\$ 176	\$ 833	\$ 21	\$ 664	\$ 197	\$ 1,497
Bank loan and other fixed income funds			899		737	201	1,636	201
<b>Total Absolute Return</b>	<b>\$</b>	<b>\$</b>	<b>\$ 1,075</b>	<b>\$ 833</b>	<b>\$ 758</b>	<b>\$ 865</b>	<b>\$ 1,833</b>	<b>\$ 1,698</b>
Commodities	\$	\$	\$ 88	\$ 102	\$	\$ 107	\$ 88	\$ 209
Cash and Cash Equivalents	\$ 301	\$ 429	\$ 1,017	\$ 1,547	\$	\$	\$ 1,318	\$ 1,976
<b>Total</b>	<b>\$ 4,182</b>	<b>\$ 4,474</b>	<b>\$ 6,062</b>	<b>\$ 5,946</b>	<b>\$ 3,651</b>	<b>\$ 3,593</b>	<b>\$ 13,895</b>	<b>\$ 14,013</b>
Other items to reconcile to fair value of plan assets							\$ (6)	\$ (232)
<b>Fair value of plan assets</b>							<b>\$ 13,889</b>	<b>\$ 13,781</b>

Publicly traded equities are valued at the closing price reported in the active market in which the individual securities are traded. Index funds, including Europe, Australasia, and Far East (EAFE) funds, are valued at the net asset value (NAV) as determined by the custodian of the fund. The NAV is based on the fair value of the underlying assets owned by the fund,

Table of Contents

minus its liabilities then divided by the number of units outstanding. Long/short equity interests are valued using the NAV as determined by the administrator or custodian of the fund.

Fixed income includes derivative instruments such as credit default swaps, interest rate swaps and futures contracts that are used to help manage risks. U.S. government and government agency bonds and notes are valued at the closing price reported in the active market in which the individual security is traded. Corporate bonds and notes, asset backed securities and collateralized mortgage obligations are valued at either the yields currently available on comparable securities of issuers with similar credit ratings or valued under a discounted cash flows approach that maximizes observable inputs, such as current yields of similar instruments, but includes adjustments for certain risks that may not be observable such as credit and liquidity risks. Private placements are valued by the custodian using recognized pricing services and sources. Swaps and derivative instruments are valued by the custodian using closing market swap curves and market derived inputs.

The private equity portfolio is a diversified mix of direct investments, derivative instruments and partnership interests including buyouts, distressed debt, growth equity, mezzanine, real estate and venture capital investments. Partnership interests are valued using the most recent general partner statement of fair value, updated for any subsequent partnership interests cash flows or expected changes in fair value. Direct investments are equity co-investments in private companies and projects, the majority of which are power infrastructure investments, which are valued by an independent valuation agent.

Absolute return consists primarily of private partnership interests in hedge funds, hedge fund of funds and bank loan funds. Partnership interests are valued using the NAV as determined by the administrator or custodian of the fund. Hedge fund partnership interests, which have a redemption right and are past any lock-up redemption period, are classified as level 2. A hedge fund was restructured during 2012, extending the lock-up redemption period, and therefore was moved to level 3 during 2012.

Commodities consist of commodity-linked notes and commodity-linked derivative contracts designed to deliver investment returns similar to the Goldman Sachs Commodities Index (GSCI) or Dow Jones UBS Commodity index returns. Commodities are valued at closing prices determined by calculation agents for outstanding transactions.

Other items to reconcile to fair value of plan assets include the net of insurance receivables for WG Trading Company, interest receivables, amounts due for securities sold, amounts payable for securities purchased and interest payable.

Table of Contents

The following table sets forth a summary of changes in the fair values of the U.S. pension plans' level 3 assets for the years ended December 31, 2013 and 2012:

(Millions)	Fair Value Measurement Using Significant Unobservable Inputs (Level 3)						Total
	Equities	Fixed Income	Private Equity	Absolute Return	Commodities		
Beginning balance at Jan. 1, 2012	\$ 442	\$ 74	\$ 2,062	\$ 520	\$ 105	\$	\$ 3,203
Net transfers into / (out of) level 3		(5)		472			467
Purchases, sales, issuances, and settlements, net	(1)	(73)	(108)	(225)			(407)
Realized gain / (loss)		25	120	76			221
Change in unrealized gains / (losses) relating to instruments sold during the period	(1)	(19)	(3)	(49)	(1)		(73)
Change in unrealized gains / (losses) relating to instruments still held at the reporting date	43		65	71	3		182
Ending balance at Dec. 31, 2012	483	2	2,136	865	107		3,593
Net transfers into / (out of) level 3							
Purchases, sales, issuances, and settlements, net	(92)		54	(104)	(96)		(238)
Realized gain / (loss)	10		126	45	(1)		180
Change in unrealized gains / (losses) relating to instruments sold during the period	(5)		3	(30)	(10)		(42)
Change in unrealized gains / (losses) relating to instruments still held at the reporting date	68		108	(18)			158
Ending balance at Dec. 31, 2013	\$ 464	\$ 2	\$ 2,427	\$ 758	\$	\$	\$ 3,651

***International Pension Plans Assets***

Outside the U.S., pension plan assets are typically managed by decentralized fiduciary committees. The disclosure below of asset categories is presented in aggregate for over 70 defined benefit plans in 24 countries; however, there is significant variation in policy asset allocation from country to country. Local regulations, local funding rules, and local financial and tax considerations are part of the funding and investment allocation process in each country. 3M's Treasury group provides standard funding and investment guidance to all international plans with more focused guidance to the larger plans.

Each plan has its own strategic asset allocation. The asset allocations are reviewed periodically and rebalanced when necessary.



Table of Contents

The fair values of the assets held by the international pension plans by asset class are as follows:

(Millions) Asset Class	Fair Value Measurements Using Inputs Considered as						Fair Value at	
	Level 1		Level 2		Level 3		Dec. 31,	
	2013	2012	2013	2012	2013	2012	2013	2012
<b>Equities</b>								
Growth equities	\$ 733	\$ 628	\$ 190	\$ 133	\$	\$	\$ 923	\$ 761
Value equities	653	468	14	23			667	491
Core equities	19	88	668	376	5	5	692	469
<b>Total Equities</b>	<b>\$ 1,405</b>	<b>\$ 1,184</b>	<b>\$ 872</b>	<b>\$ 532</b>	<b>\$ 5</b>	<b>\$ 5</b>	<b>\$ 2,282</b>	<b>\$ 1,721</b>
<b>Fixed Income</b>								
Domestic government debt	\$ 199	\$ 297	\$ 539	\$ 694	\$ 3	\$	\$ 741	\$ 991
Foreign government debt	28	170	657	445	1	2	686	617
Corporate debt securities	1		638	630	20	18	659	648
Mortgage backed debt			75	31			75	31
Other debt obligations			391	268	13	16	404	284
<b>Total Fixed Income</b>	<b>\$ 228</b>	<b>\$ 467</b>	<b>\$ 2,300</b>	<b>\$ 2,068</b>	<b>\$ 37</b>	<b>\$ 36</b>	<b>\$ 2,565</b>	<b>\$ 2,571</b>
<b>Private Equity</b>								
Private equity funds	\$	\$	\$	\$	\$ 22	\$ 22	\$ 22	\$ 22
Real estate	3	3	87	42	53	49	143	94
<b>Total Private Equity</b>	<b>\$ 3</b>	<b>\$ 3</b>	<b>\$ 87</b>	<b>\$ 42</b>	<b>\$ 75</b>	<b>\$ 71</b>	<b>\$ 165</b>	<b>\$ 116</b>
<b>Absolute Return</b>								
Hedge funds	\$	\$	\$ 62	\$ 75	\$ 56	\$ 50	\$ 118	\$ 125
Insurance					492	433	492	433
Derivatives	2		3	20			5	20
Other			2	24	2	2	4	26
<b>Total Absolute Return</b>	<b>\$ 2</b>	<b>\$</b>	<b>\$ 67</b>	<b>\$ 119</b>	<b>\$ 550</b>	<b>\$ 485</b>	<b>\$ 619</b>	<b>\$ 604</b>
Cash and Cash Equivalents	\$ 112	\$ 211	\$ 14	\$ 21	\$	\$	\$ 126	\$ 232
<b>Total</b>	<b>\$ 1,750</b>	<b>\$ 1,865</b>	<b>\$ 3,340</b>	<b>\$ 2,782</b>	<b>\$ 667</b>	<b>\$ 597</b>	<b>\$ 5,757</b>	<b>\$ 5,244</b>
Other items to reconcile to fair value of plan assets							\$ 1	\$ (22)
<b>Fair value of plan assets</b>							<b>\$ 5,758</b>	<b>\$ 5,222</b>

Equities consist primarily of mandates in public equity securities managed to the Morgan Stanley Capital All Country World Index. Publicly traded equities are valued at the closing price reported in the active market in which the individual securities are traded.

Fixed Income investments include domestic and foreign government, corporate, mortgage backed and other debt. Governments, corporate bonds and notes and mortgage backed securities are valued at the closing price reported if traded on an active market or at yields currently available on comparable securities of issuers with similar credit ratings or valued under a discounted cash flow approach that maximizes observable inputs, such as current yields of similar instruments, but includes adjustments for certain risks that may not be observable such as credit and liquidity risks.

Private equity funds consist of both active and passive mandates. Partnership interests are valued using the most recent general partner statement of fair value, updated for any subsequent partnership interests cash flows or expected changes in fair value. Real estate consists of property funds and REITS (Real Estate Investment Trusts). Property funds are valued using the most recent partnership statement of fair value, updated for any subsequent partnership interests cash flows. REITS are valued at the closing price reported in the active market in which it is traded.

Absolute return consists of private partnership interests in hedge funds, insurance contracts, derivative instruments, hedge fund of funds, and bank loan funds. Insurance consists of insurance contracts, which are valued using cash surrender values which is the amount the plan would

## Edgar Filing: 3M CO - Form 10-K

receive if the contract was cashed out at year end. Derivative instruments consist of interest rate swaps that are used to help manage risks. Hedge funds are valued at the NAV as determined by the independent administrator or custodian of the fund.

Table of Contents

Other items to reconcile to fair value of plan assets include the net of interest receivables, amounts due for securities sold, amounts payable for securities purchased and interest payable.

The following table sets forth a summary of changes in the fair values of the international pension plans' level 3 assets for the years ended December 31, 2013 and 2012:

(Millions)	Fair Value Measurement Using Significant Unobservable Inputs (Level 3)				Total
	Equities	Fixed Income	Private Equity	Absolute Return	
Beginning balance at Jan. 1, 2012	\$ 5	\$ 39	\$ 67	\$ 370	\$ 481
Net transfers into / (out of) level 3					
Foreign currency exchange		2	(4)	2	
Purchases, sales, issuances, and settlements, net		(2)	11	92	101
Realized gain / (loss)					
Change in unrealized gains / (losses) relating to instruments sold during the period					
Change in unrealized gains / (losses) relating to instruments still held at the reporting date		(3)	(3)	21	15
Ending balance at Dec. 31, 2012	5	36	71	485	597
Net transfers into / (out of) level 3					
Foreign currency exchange		(2)	(1)	9	6
Purchases, sales, issuances, and settlements, net		(2)	1	50	49
Realized gain / (loss)			2		2
Change in unrealized gains / (losses) relating to instruments sold during the period				1	1
Change in unrealized gains / (losses) relating to instruments still held at the reporting date		5	2	5	12
Ending balance at Dec. 31, 2013	\$ 5	\$ 37	\$ 75	\$ 550	\$ 667

***Postretirement Benefit Plans Assets***

In order to achieve the investment objectives in the U.S. postretirement plan, the investment policy includes a target strategic asset allocation. The investment policy allows some tolerance around the target in recognition that market fluctuations and illiquidity of some investments may cause the allocation to a specific asset class to stray from the target allocation, potentially for long periods of time. Acceptable ranges have been designed to allow for deviation from long-term targets and to allow for the opportunity for tactical over- and under-weights. The portfolio will normally be rebalanced when the quarter-end asset allocation deviates from acceptable ranges. The allocation is reviewed regularly by the named fiduciary of the plan.





Edgar Filing: 3M CO - Form 10-K

Table of Contents

The fair values of the assets held by the postretirement benefit plans by asset class are as follows:

(Millions) Asset Class	Fair Value Measurements Using Inputs Considered as						Fair Value at Dec. 31,	
	Level 1		Level 2		Level 3		2013	2012
	2013	2012	2013	2012	2013	2012	2013	2012
<b>Equities</b>								
U.S. equities	\$ 552	\$ 466	\$	\$	\$	\$	\$ 552	\$ 466
Non-U.S. equities	58	54					58	54
EAFE index funds				8				8
Index funds			44	42			44	42
Long/short equity					16	16	16	16
<b>Total Equities</b>	<b>\$ 610</b>	<b>\$ 520</b>	<b>\$ 44</b>	<b>\$ 50</b>	<b>\$ 16</b>	<b>\$ 16</b>	<b>\$ 670</b>	<b>\$ 586</b>
<b>Fixed Income</b>								
U.S. government securities	\$ 62	\$ 63	\$ 202	\$ 217	\$	\$	\$ 264	\$ 280
Non-U.S. government securities	1		14	16			15	16
U.S. corporate bonds		6	96	68			96	74
Non-U.S. corporate bonds			21	16			21	16
Asset-backed securities			9	6			9	6
Collateralized mortgage obligations			5	4			5	4
Private placements			16	11			16	11
Derivative instruments				2				2
Other			1	1			1	1
<b>Total Fixed Income</b>	<b>\$ 63</b>	<b>\$ 69</b>	<b>\$ 364</b>	<b>\$ 341</b>	<b>\$</b>	<b>\$</b>	<b>\$ 427</b>	<b>\$ 410</b>
<b>Private Equity</b>								
Buyouts	\$	\$	\$	\$	\$ 58	\$ 51	\$ 58	\$ 51
Derivative instruments					(3)	(2)	(3)	(2)
Direct investments					16	4	16	4
Distressed debt					7	11	7	11
Growth equity	1				6	3	7	3
Mezzanine					3	3	3	3
Real estate					5	4	5	4
Secondary					5	5	5	5
Venture capital					64	91	64	91
<b>Total Private Equity</b>	<b>\$ 1</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>\$ 161</b>	<b>\$ 170</b>	<b>\$ 162</b>	<b>\$ 170</b>
<b>Absolute Return</b>								
Hedge funds and hedge fund of funds	\$	\$	\$ 6	\$ 27	\$ 1	\$ 21	\$ 7	\$ 48
Bank loan and other fixed income funds			31		25	7	56	7
<b>Total Absolute Return</b>	<b>\$</b>	<b>\$</b>	<b>\$ 37</b>	<b>\$ 27</b>	<b>\$ 26</b>	<b>\$ 28</b>	<b>\$ 63</b>	<b>\$ 55</b>
Commodities	\$	\$	\$ 3	\$ 3	\$	\$ 4	\$ 3	\$ 7
Cash and Cash Equivalents	\$ 35	\$ 51	\$ 34	\$ 50	\$	\$	\$ 69	\$ 101
<b>Total</b>	<b>\$ 709</b>	<b>\$ 640</b>	<b>\$ 482</b>	<b>\$ 471</b>	<b>\$ 203</b>	<b>\$ 218</b>	<b>\$ 1,394</b>	<b>\$ 1,329</b>
Other items to reconcile to fair value of plan assets							\$ 11	\$ (8)
Fair value of plan assets							\$ 1,405	\$ 1,321

Publicly traded equities are valued at the closing price reported in the active market in which the individual securities are traded. Index funds are valued at the NAV as determined by the custodian of the fund. The NAV is based on the fair value of the underlying assets owned by the fund, minus its liabilities then divided by the number of units outstanding. Long/short equity interests are valued using the NAV as determined by the administrator or custodian of the fund.

Fixed income includes derivative investments such as credit default swaps, interest rate swaps and futures contracts that are used to help manage risks. U.S. government and government agency bonds and notes are valued at the closing price reported in the active market in which the individual security is traded. Corporate bonds and notes, asset backed



Table of Contents

securities and collateralized mortgage obligations are valued at either the yields currently available on comparable securities of issuers with similar credit ratings or valued under a discounted cash flow approach that maximizes observable inputs, such as current yields of similar instruments, but includes adjustments for certain risks that may not be observable such as credit and liquidity risks. Swaps and derivative instruments are valued by the custodian using market swap curves and market derived inputs.

The private equity portfolio is a diversified mix of direct investments, derivative instruments and partnership interests including buyouts, distressed debt, growth equity, mezzanine, real estate and venture capital investments. Partnership interests are valued using the most recent general partner statement of fair value, updated for any subsequent partnership interests cash flows or expected changes in fair value. Direct investments are equity co-investments in private companies and projects, the majority of which are power infrastructure investments, which are valued by an independent valuation agent.

Absolute return primarily consists of private partnership interests in hedge funds, hedge fund of funds and bank loan funds. Partnership interests are valued using the NAV as determined by the independent administrator or custodian of the fund.

Commodities consist of commodity-linked notes and commodity-linked derivative contracts designed to deliver investment returns similar to the GSCI or Dow Jones UBS Commodity index returns. Commodities are valued at closing prices determined by calculation agents for outstanding transactions.

Other items to reconcile to fair value of plan assets include the net of interest receivables, amounts due for securities sold, foreign currency fluctuations, amounts payable for securities purchased and interest payable.

The following table sets forth a summary of changes in the fair values of the postretirement plans level 3 assets for the years ended December 31, 2013 and 2012:

(Millions)	Fair Value Measurement Using Significant Unobservable Inputs (Level 3)					Total
	Equities	Fixed Income	Private Equity	Absolute Return	Commodities	
Beginning balance at Jan. 1, 2012	\$ 14	\$ 2	\$ 187	\$ 17	\$ 4	\$ 224
Net transfers into / (out of) level 3				15		15
Purchases, sales, issuances, and settlements, net		(2)	(27)	(7)		(36)
Realized gain / (loss)		1	11	2		14
Change in unrealized gains / (losses) relating to instruments sold during the period		(1)	(4)	(1)		(6)
Change in unrealized gains / (losses) relating to instruments still held at the reporting date	2		3	2		7
Ending balance at Dec. 31, 2012	16		170	28	4	218

Edgar Filing: 3M CO - Form 10-K

Net transfers into / (out of)  
level 3

Purchases, sales, issuances, and settlements, net	(3)	(27)	(4)	(4)	(38)
Realized gain / (loss)		10	2		12
Change in unrealized gains / (losses) relating to instruments sold during the period		(3)	(1)		(4)
Change in unrealized gains / (losses) relating to instruments still held at the reporting date	3	11	1		15
Ending balance at Dec. 31, 2013	\$ 16	\$ 161	\$ 26	\$	\$ 203

Table of Contents

**NOTE 11. 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 5. Additional information with respect to the fair value of derivative instruments is included in Note 12. References to information regarding derivatives and/or hedging instruments associated with the Company's long-term debt are also made in Note 9.

*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. 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 2013, 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 December 31, 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 December 31, 2013 was approximately \$1.7 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

## Edgar Filing: 3M CO - Form 10-K

transactions is 12 months. No significant commodity cash flow hedges were discontinued and hedge ineffectiveness was not material for 2013, 2012 and 2011. The dollar equivalent gross notional amount of the Company's natural gas commodity price swaps designated as cash flow hedges at December 31, 2013 was \$19 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 will be 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 December 31, 2013, the Company had a balance of \$8 million associated with the after tax net unrealized loss associated with cash flow hedging instruments recorded in accumulated other comprehensive income. This includes a \$2 million balance (loss) related to a floating-to-fixed interest rate swap (discussed in the preceding paragraph), which will be

Table of Contents

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.

The Company revised amounts previously presented in the tables below for the pretax gain (loss) recognized in other comprehensive income on effective portion of derivative ( Gain Recognized in OCI ) and the pretax gain (loss) recognized in income on effective portion of derivative as a result of reclassification from accumulated other comprehensive income ( Gain Reclassified into Income ) for the years ended December 31, 2012 and 2011 relative to foreign currency forward contracts. These immaterial corrections increased both the previously presented amounts of the Gain Recognized in OCI and the Gain Reclassified into Income in the disclosure tables below by \$13 million and \$11 million in 2012 and 2011, respectively. The revisions had no impact on the Company's consolidated results of operations or financial condition.

**Year Ended December 31, 2013**

(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		
		Amount	Location	Amount	Location	Amount
<b>Derivatives in Cash Flow Hedging Relationships</b>						
Foreign currency forward/option contracts	\$ 9	Cost of sales	\$ (11)	Cost of sales	\$	
Foreign currency forward contracts	(108)	Interest expense	(108)	Interest expense		
Commodity price swap contracts	1	Cost of sales	(2)	Cost of sales		
Interest rate swap contracts		Interest expense	(1)	Interest expense		
<b>Total</b>	<b>\$ (98)</b>		<b>\$ (122)</b>		<b>\$</b>	

**Year Ended December 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		
		Amount	Location	Amount	Location	Amount
<b>Derivatives in Cash Flow Hedging Relationships</b>						
Foreign currency forward/option contracts	\$ (35)	Cost of sales	\$ 41	Cost of sales	\$	
Foreign currency forward contracts	42	Interest expense	42	Interest expense		
Commodity price swap contracts	(4)	Cost of sales	(10)	Cost of sales		
Interest rate swap contracts		Interest expense	(1)	Interest expense		
<b>Total</b>	<b>\$ 3</b>		<b>\$ 72</b>		<b>\$</b>	



Year Ended December 31, 2011

(Millions) Derivatives in Cash Flow Hedging Relationships	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	
	Amount	Location	Amount	Location	Amount	Location
Foreign currency forward/option contracts	\$ 3	Cost of sales	\$ (87)	Cost of sales	\$	
Foreign currency forward contracts	(31)	Interest expense	(30)	Interest expense		
Commodity price swap contracts	(4)	Cost of sales	(6)	Cost of sales		
Interest rate swap contracts	(7)	Interest expense		Interest expense		
Total	\$ (39)		\$ (123)		\$	

Table of ContentsFair 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 December 31, 2013 was \$745 million.

At December 31, 2013, 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 as an offset to interest expense 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 gains on hedged items recognized in income in the tables below.

In November 2013, 3M issued an eight-year 1.875% fixed rate Eurobond for a face amount of 600 million Euros. Upon debt issuance, 3M completed a fixed-to-floating interest rate swap on a notional amount of 300 million Euros as a fair value hedge of a portion of the fixed interest rate Eurobond obligation.

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 the \$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:

Year ended December 31, 2013 (Millions)	Gain (Loss) on Derivative Recognized in Income		Gain (Loss) on Hedged Item Recognized in Income	
	Location	Amount	Location	Amount
<b>Derivatives in Fair Value Hedging Relationships</b>				
Interest rate swap contracts	Interest expense	\$ (21)	Interest expense	\$ 21
Total		\$ (21)		\$ 21

Edgar Filing: 3M CO - Form 10-K

Year ended December 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	\$	(5)	Interest expense	\$ 5
Total		\$	(5)	\$	5

Year ended December 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

Table of ContentsNet 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 December 31, 2013, 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. In November 2013, the Company issued eight-year fixed rate Eurobond securities for 600 million Euros. 3M designated each of these Eurobond issuances as hedging instruments of the Company's net investment in its European subsidiaries.

In anticipation of the November 2013 Eurobond issuance, the Company entered into foreign currency forward contracts with notional amounts totaling 594 million Euros. These forward contracts were designated as hedging instruments of the Company's net investment in its European subsidiaries. These contracts matured in November 2013.

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.

**Year ended December 31, 2013**

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		Ineffective Portion of Gain (Loss) on Instrument and Amount Excluded from Effectiveness Testing Recognized in Income	
	Amount	Location	Amount	Location
Foreign currency denominated debt	\$ (82)	N/A	\$	
Foreign currency forward contracts	12	N/A		
Total	\$ (70)		\$	

**Year ended December 31, 2012**

Edgar Filing: 3M CO - Form 10-K

Derivative and Nonderivative Instruments in Net Investment Hedging Relationships	Pretax Gain (Loss) Recognized as Cumulative Translation within Other Comprehensive Income on Effective Portion of Instrument		Location	Ineffective Portion of Gain (Loss) on Instrument and Amount Excluded from Effectiveness Testing Recognized in Income	
(Millions)	Amount			Amount	
Foreign currency denominated debt	\$	(29)	N/A	\$	
Total	\$	(29)		\$	

Year ended December 31, 2011

Derivative and Nonderivative Instruments in Net Investment Hedging Relationships	Pretax Gain (Loss) Recognized as Cumulative Translation within Other Comprehensive Income on Effective Portion of Instrument		Location	Ineffective Portion of Gain (Loss) on Instrument and Amount Excluded from Effectiveness Testing Recognized in Income	
(Millions)	Amount			Amount	
Foreign currency denominated debt	\$	41	N/A	\$	
Total	\$	41		\$	

Table of ContentsDerivatives 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 Cash Flow Hedges section above). 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 \$7.5 billion as of December 31, 2013. 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)	Year ended December 31, 2013			Year ended December 31, 2012		
	Gain (Loss) on Derivative Recognized in			Gain (Loss) on Derivative Recognized in		
	Location	Amount	Income	Location	Amount	Income
Foreign currency forward/option contracts	Cost of sales	\$ 20		Cost of sales	\$ (24)	
Foreign currency forward contracts	Interest expense	(43)		Interest expense	22	
Commodity price swap contracts	Cost of sales	(1)		Cost of sales		
Total		\$ (24)			\$ (2)	

Derivatives Not Designated as Hedging Instruments (Millions)	Year ended December 31, 2011		
	Gain (Loss) on Derivative Recognized in		
	Location	Amount	Income
Foreign currency forward/option contracts	Cost of sales	\$ 13	
Foreign currency forward contracts	Interest expense	9	
Total		\$ 22	

Table of Contents*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 12.

**December 31, 2013**

Fair Value of Derivative Instruments		Assets		Liabilities	
	Location	Amount		Location	Amount
<b>Derivatives designated as hedging instruments</b>					
Foreign currency forward/option contracts	Other current assets	\$ 24		Other current liabilities	\$ 35
Commodity price swap contracts	Other current assets	1		Other current liabilities	
Interest rate swap contracts	Other assets	8		Other liabilities	7
<b>Total derivatives designated as hedging instruments</b>		<b>\$ 33</b>			<b>\$ 42</b>
<b>Derivatives not designated as hedging instruments</b>					
Foreign currency forward/option contracts	Other current assets	\$ 51		Other current liabilities	\$ 68
<b>Total derivatives not designated as hedging instruments</b>		<b>\$ 51</b>			<b>\$ 68</b>
<b>Total derivative instruments</b>		<b>\$ 84</b>			<b>\$ 110</b>

**December 31, 2012**

Fair Value of Derivative Instruments		Assets		Liabilities	
	Location	Amount		Location	Amount
<b>Derivatives designated as hedging instruments</b>					
Foreign currency forward/option contracts	Other current assets	\$ 39		Other current liabilities	\$ 85
Commodity price swap contracts	Other current assets			Other current liabilities	1
Interest rate swap contracts	Other assets	23		Other liabilities	
<b>Total derivatives designated as hedging instruments</b>		<b>\$ 62</b>			<b>\$ 86</b>
<b>Derivatives not designated as hedging instruments</b>					
Foreign currency forward/option contracts	Other current assets	\$ 10		Other current liabilities	\$ 20
<b>Total derivatives not designated as hedging instruments</b>		<b>\$ 10</b>			<b>\$ 20</b>
<b>Total derivative instruments</b>		<b>\$ 72</b>			<b>\$ 106</b>

Table of Contents*Credit Risk and Offsetting of Assets and Liabilities of Derivative Instruments*

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 arrangements with counterparties when possible to mitigate credit risk in derivative transactions. A master netting arrangement may allow each counterparty to net settle amounts owed between a 3M entity and the counterparty as a result of multiple, separate derivative transactions. As of December 31, 2013, 3M has International Swaps and Derivatives Association (ISDA) agreements with 11 applicable banks and financial institutions which contain netting provisions. In addition to a master agreement with 3M supported by a primary counterparty's parent guarantee, 3M also has associated credit support agreements in place with 10 of its primary derivative counterparties which, among other things, provide the circumstances under which either party is required to post eligible collateral (when the market value of transactions covered by these agreements exceeds specified thresholds or if a counterparty's credit rating has been downgraded to a predetermined rating). The Company does not anticipate nonperformance by any of these counterparties.

3M has elected to present the fair value of derivative assets and liabilities within the Company's consolidated balance sheet on a gross basis even when derivative transactions are subject to master netting arrangements and may otherwise qualify for net presentation. However, the following tables provide information as if the Company had elected to offset the asset and liability balances of derivative instruments, netted in accordance with various criteria in the event of default or termination as stipulated by the terms of netting arrangements with each of the counterparties. For each counterparty, if netted, the Company would offset the asset and liability balances of all derivatives at the end of the reporting period based on the 3M entity that is a party to the transactions. Derivatives not subject to master netting agreements are not eligible for net presentation. As of the applicable dates presented below, no cash collateral had been received or pledged related to these derivative instruments.

**Offsetting of Financial Assets/Liabilities under Master Netting Agreements with Derivative Counterparties****December 31, 2013**

(Millions)	Gross Amount of Derivative Assets Presented in the Consolidated Balance Sheet	Gross Amounts not Offset in the Consolidated Balance Sheet that are Subject to Master Netting Agreements		
		Gross Amount of Eligible Offsetting Recognized Derivative Liabilities	Cash Collateral Received	Net Amount of Derivative Assets
Derivatives subject to master netting agreements	\$ 83	\$ 51	\$	\$ 32
Derivatives not subject to master netting agreements	1			1
<b>Total</b>	<b>\$ 84</b>			<b>\$ 33</b>

**December 31, 2013**



Edgar Filing: 3M CO - Form 10-K

(Millions)	Gross Amount of Derivative Liabilities Presented in the Consolidated Balance Sheet	Gross Amounts not Offset in the Consolidated Balance Sheet that are Subject to Master Netting Agreements		
		Gross Amount of Eligible Offsetting Recognized Derivative Assets	Cash Collateral Pledged	Net Amount of Derivative Liabilities
Derivatives subject to master netting agreements	\$ 110	\$ 51	\$	\$ 59
Derivatives not subject to master netting agreements				
<b>Total</b>	\$ 110			\$ 59

Table of Contents

December 31, 2012

(Millions)	Gross Amount of Derivative Assets Presented in the Consolidated Balance Sheet	Gross Amounts not Offset in the Consolidated Balance Sheet that are Subject to Master Netting Agreements		
		Gross Amount of Eligible Offsetting Recognized Derivative Liabilities	Cash Collateral Received	Net Amount of Derivative Assets
Derivatives subject to master netting agreements	\$ 67	\$ 25	\$	\$ 42
Derivatives not subject to master netting agreements	5			5
<b>Total</b>	<b>\$ 72</b>			<b>\$ 47</b>

December 31, 2012

(Millions)	Gross Amount of Derivative Liabilities Presented in the Consolidated Balance Sheet	Gross Amounts not Offset in the Consolidated Balance Sheet that are Subject to Master Netting Agreements		
		Gross Amount of Eligible Offsetting Recognized Derivative Assets	Cash Collateral Pledged	Net Amount of Derivative Liabilities
Derivatives subject to master netting agreements	\$ 106	\$ 25	\$	\$ 81
Derivatives not subject to master netting agreements				
<b>Total</b>	<b>\$ 106</b>			<b>\$ 81</b>

*Currency Effects*

*Currency Effects:* 3M estimates that year-on-year currency effects, including hedging impacts, decreased net income attributable to 3M by approximately \$74 million and \$103 million in 2013 and 2012, respectively. These estimates include the effect of translating profits from local currencies into U.S. dollars; the impact of currency fluctuations on the transfer of goods between 3M operations in the United States and abroad; and transaction gains and losses, including derivative instruments designed to reduce foreign currency exchange rate risks and the negative impact of swapping Venezuelan bolivars into U.S. dollars. 3M estimates that year-on-year derivative and other transaction gains and losses decreased net income attributable to 3M by approximately \$12 million in 2013 and increased net income attributable to 3M by \$49 million in 2012.

Table of Contents**NOTE 12. 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 2013 and 2012.

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 8.

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

## Edgar Filing: 3M CO - Form 10-K

As discussed in Note 8, 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

Table of Contents

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.

(Millions) Description	Fair Value at Dec. 31, 2013	Level 1	Fair Value Measurements Using Inputs Considered as	
			Level 2	Level 3
<b>Assets:</b>				
Available-for-sale:				
Marketable securities:				
U.S. government agency securities	\$ 234		\$ 234	
Foreign government agency securities	125		125	
Corporate debt securities	781		781	
Certificates of deposit/time deposits	40		40	
Commercial paper	60		60	
Asset-backed securities:				
Automobile loan related	585		585	
Credit card related	180		180	
Equipment lease related	67		67	
Other	75		75	
U.S. treasury securities	49	49		
U.S. municipal securities	2		2	
Auction rate securities	11			11
Investments	2	2		
Derivative instruments assets:				
Foreign currency forward/option contracts	75	75		
Commodity price swap contracts	1	1		
Interest rate swap contracts	8		8	
<b>Liabilities:</b>				
Derivative instruments liabilities:				
Foreign currency forward/option contracts	103	103		
Interest rate swap contracts	7		7	

Table of Contents

(Millions) Description	Fair Value at Dec. 31, 2012	Fair Value Measurements Using Inputs Considered as		
		Level 1	Level 2	Level 3
<b>Assets:</b>				
Available-for-sale:				
Marketable securities:				
U.S. government agency securities	\$ 287	\$	\$ 287	\$
Foreign government agency securities	67		67	
Corporate debt securities	965		965	
Certificates of deposit/time deposits	41		41	
Commercial paper	116		116	
Asset-backed securities:				
Automobile loan related	942		942	
Credit card related	157		157	
Equipment lease related	90		90	
Other	39		39	
U.S. treasury securities	72	72		
U.S. municipal securities	27		27	
Auction rate securities	7			7
Investments	3	3		
Derivative instruments assets:				
Foreign currency forward/option contracts	49	49		
Interest rate swap contracts	23		23	
<b>Liabilities:</b>				
Derivative instruments liabilities:				
Foreign currency forward/option contracts	105	104		1
Commodity price swap contracts	1	1		

The following table provides a reconciliation of the beginning and ending balances of items measured at fair value on a recurring basis in the table above that used significant unobservable inputs (Level 3).

(Millions)	2013		2012		2011	
Marketable securities	auction rate securities only					
Beginning balance		\$ 7	\$	4	\$	7
Total gains or losses:						
Included in earnings						
Included in other comprehensive income		4		3		(3)
Purchases, issuances, and settlements						
Transfers in and/or out of Level 3						
Ending balance (December 31)		11		7		4
Change in unrealized gains or losses for the period included in earnings for securities held at the end of the reporting period						

In addition, the plan assets of 3M's pension and postretirement benefit plans are measured at fair value on a recurring basis (at least annually). Refer to Note 10.

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

Disclosures are required for certain assets and liabilities that are measured at fair value, but are recognized and disclosed at fair value on a nonrecurring basis in periods subsequent to initial recognition. For 3M, such measurements of fair value relate primarily to long-lived asset impairments. There were no material long-lived asset impairments for 2013, 2012 and 2011.

Table of Contents*Fair Value of Financial Instruments:*

The Company's financial instruments include cash and cash equivalents, marketable securities, accounts receivable, certain investments, accounts payable, borrowings, and derivative contracts. The fair values of cash and cash equivalents, accounts receivable, accounts payable, and short-term borrowings and current portion of long-term debt (except the Eurobond securities due 2014 totaling 1.025 billion Euros, which were moved from long-term debt to current portion of long-term debt in July 2013 and are shown separately in the table below) approximated carrying values because of the short-term nature of these instruments. Available-for-sale marketable securities and investments, in addition to certain derivative instruments, are recorded at fair values as indicated in the preceding disclosures. For its long-term debt the Company utilized third-party quotes to estimate fair values (classified as level 2). Information with respect to the carrying amounts and estimated fair values of these financial instruments follow:

(Millions)	December 31, 2013		December 31, 2012	
	Carrying Value	Fair Value	Carrying Value	Fair Value
Eurobond securities due 2014 (long-term in 2012 and short-term in 2013)	\$ 1,424	\$ 1,447	\$ 1,383	\$ 1,443
Long-term debt, excluding current portion and Eurobond securities due 2014	4,326	4,463	3,533	3,920

The fair values reflected above consider the terms of the related debt absent the impacts of derivative/hedging activity. The carrying amount of long-term debt referenced above is impacted by certain fixed-to-floating interest rate swaps that are designated as fair value hedges and by the designation of fixed rate Eurobond securities issued by the Company as hedging instruments of the Company's net investment in its European subsidiaries. Many of 3M's fixed-rate bonds were trading at a premium at December 31, 2013 and 2012 due to the low interest rates and tightening of 3M's credit spreads.



Table of Contents**NOTE 13. Commitments and Contingencies***Capital and Operating Leases:*

Rental expense under operating leases was \$330 million in 2013, \$300 million in 2012 and \$279 million in 2011. It is 3M's practice to secure renewal rights for leases, thereby giving 3M the right, but not the obligation, to maintain a presence in a leased facility. 3M has two primary capital leases. First, 3M has a capital lease, which became effective in April 2003, that involves a building in the United Kingdom (with a lease term of 22 years). During the second quarter of 2003, 3M recorded a capital lease asset and obligation of approximately 33.5 million British Pound (GBP), or approximately \$55 million at December 31, 2013 exchange rates. Second, during the fourth quarter of 2009, 3M recorded a capital lease asset and obligation of approximately \$50 million related to an IT investment with an amortization period of seven years.

Minimum lease payments under capital and operating leases with non-cancelable terms in excess of one year as of December 31, 2013, were as follows:

(Millions)	Capital Leases		Operating Leases	
2014	\$	23	\$	216
2015		9		170
2016		9		128
2017		5		98
2018		3		54
After 2018		30		182
Total	\$	79	\$	848
Less: Amounts representing interest		4		
Present value of future minimum lease payments		75		
Less: Current obligations under capital leases		17		
Long-term obligations under capital leases	\$	58		

*Warranties/Guarantees:*

3M's accrued product warranty liabilities, recorded on the Consolidated Balance Sheet as part of current and long-term liabilities, are estimated at approximately \$31 million at December 31, 2013 and \$28 million at December 31, 2012. 3M does not consider this amount to be material. The fair value of 3M guarantees of loans with third parties and other guarantee arrangements are not material.

*Related Party Activity:*

3M does not have any material related party activity that is not in the ordinary course of business.

*Legal Proceedings:*

The Company and some of its subsidiaries are involved in numerous claims and lawsuits, principally in the United States, and regulatory proceedings worldwide. These include various products liability (involving products that the Company now or formerly manufactured and sold), intellectual property, and commercial claims and lawsuits, including those brought under the antitrust laws, and environmental proceedings. Unless otherwise stated, the Company is vigorously defending all such litigation.

Process for Disclosure and Recording of Liabilities and Insurance Receivables Related to Legal Proceedings

Many lawsuits and claims involve highly complex issues relating to causation, scientific evidence, and whether there are actual damages and are otherwise subject to substantial uncertainties. Assessments of lawsuits and claims can involve a series of complex judgments about future events and can rely heavily on estimates and assumptions. The Company complies with the requirements of ASC Topic 450, *Contingencies*, and related guidance, and records liabilities for legal proceedings in those instances where it can reasonably estimate the amount of the loss and where liability is probable. Where the reasonable estimate of the probable loss is a range, the Company records the most likely estimate of the loss, or the low end of the range if there is no one best estimate. The Company either discloses the amount of a possible loss or range of loss in excess of established accruals if estimable, or states that such an estimate cannot be made. The

Table of Contents

Company discloses significant legal proceedings even where liability is not probable or the amount of the liability is not estimable, or both, if the Company believes there is at least a reasonable possibility that a loss may be incurred.

The Company estimates insurance receivables based on an analysis of its numerous policies, including their exclusions, pertinent case law interpreting comparable policies, its experience with similar claims, and assessment of the nature of the claim and remaining coverage, and records an amount it has concluded is likely to be recovered. For those insured matters where the Company has taken an accrual, the Company also records receivables for the amount of insurance that it expects to recover under the Company's insurance program. For those insured matters where the Company has not taken an accrual because the liability is not probable or the amount of the liability is not estimable, or both, but where the Company has incurred an expense in defending itself, the Company records receivables for the amount of insurance that it expects to recover for the expense incurred.

Because litigation is subject to inherent uncertainties, and unfavorable rulings or developments could occur, there can be no certainty that the Company may not ultimately incur charges in excess of presently recorded liabilities. A future adverse ruling, settlement, or unfavorable development could result in future charges that could have a material adverse effect on the Company's results of operations or cash flows in the period in which they are recorded. The Company currently believes that such future charges, if any, would not have a material adverse effect on the consolidated financial position of the Company. Based on experience and developments, the Company reexamines its estimates of probable liabilities and associated expenses and receivables each period, and whether it is able to estimate a liability previously determined to be not estimable and/or not probable. Where appropriate, the Company makes additions to or adjustments of its estimated liabilities. As a result, the current estimates of the potential impact on the Company's consolidated financial position, results of operations and cash flows for the legal proceedings and claims pending against the Company could change in the future.

The following table shows the major categories of significant legal matters – respirator mask/asbestos litigation (including Aearo – described below), environmental remediation and other environmental liabilities – for which the Company has been able to estimate its probable liability and for which the Company has recorded accruals and the related insurance receivables:

**Liability and Receivable Balances****At December 31**

(Millions)

	2013		2012		2011
Respirator mask/asbestos liabilities	\$ 152	\$	154	\$	130
Respirator mask/asbestos insurance receivables	58		87		121
Environmental remediation liabilities	\$ 27	\$	29	\$	28
Environmental remediation insurance receivables	11		11		15
Other environmental liabilities	\$ 48	\$	57	\$	75
Other environmental insurance receivables	15		15		

The following sections first describe the significant legal proceedings in which the Company is involved, and then describe the liabilities and associated insurance receivables the Company has accrued relating to its significant legal proceedings.

Respirator Mask/Asbestos Litigation

As of December 31, 2013, the Company is a named defendant, with multiple co-defendants, in numerous lawsuits in various courts that purport to represent approximately 2,200 individual claimants, compared to approximately 2,060 individual claimants with actions pending at December 31, 2012.

The vast majority of the lawsuits and claims resolved by and currently pending against the Company allege use of some of the Company's mask and respirator products and seek damages from the Company and other defendants for alleged personal injury from workplace exposures to asbestos, silica, coal mine dust or other occupational dusts found in products manufactured by other defendants or generally in the workplace. A minority of the lawsuits and claims resolved by and currently pending against the Company generally allege personal injury from occupational exposure to asbestos from products previously manufactured by the Company, which are often unspecified, as well as products manufactured by other defendants, or occasionally at Company premises.

The Company's current volume of new and pending matters is substantially lower than its historical experience. The Company expects that filing of claims by unimpaired claimants in the future will continue to be at much lower levels than in the past. Accordingly, the number of claims alleging more serious injuries, including mesothelioma and other malignancies,

Table of Contents

will represent a greater percentage of total claims than in the past. The Company has prevailed in all nine cases taken to trial, including seven of the eight cases tried to verdict (such trials occurred in 1999, 2000, 2001, 2003, 2004, and 2007), and an appellate reversal in 2005 of the 2001 jury verdict adverse to the Company. The ninth case, tried in 2009, was dismissed by the Court at the close of plaintiff's evidence, based on the Court's legal finding that the plaintiff had not presented sufficient evidence to support a jury verdict. The plaintiffs appealed, but in February 2012 the California Court of Appeals granted the plaintiff's voluntary dismissal of the appeal.

The Company has demonstrated in these past trial proceedings that its respiratory protection products are effective as claimed when used in the intended manner and in the intended circumstances. Consequently the Company believes that claimants are unable to establish that their medical conditions, even if significant, are attributable to the Company's respiratory protection products. Nonetheless the Company's litigation experience indicates that claims of persons with malignant conditions are costlier to resolve than the claims of unimpaired persons, and it therefore believes the average cost of resolving pending and future claims on a per-claim basis will continue to be higher than it experienced in prior periods when the vast majority of claims were asserted by the unimpaired.

As previously reported, the State of West Virginia, through its Attorney General, filed a complaint in 2003 against the Company and two other manufacturers of respiratory protection products in the Circuit Court of Lincoln County, West Virginia and amended its complaint in 2005. The amended complaint seeks substantial, but unspecified, compensatory damages primarily for reimbursement of the costs allegedly incurred by the State for worker's compensation and healthcare benefits provided to all workers with occupational pneumoconiosis and unspecified punitive damages. While the case has been inactive since the fourth quarter of 2007, the court held a case management conference in March 2011. In November 2013, the Attorney General of the State of West Virginia filed a motion to bifurcate the lawsuit into separate liability and damages proceedings. A hearing on that motion is expected to occur in the first quarter of 2014. No liability has been recorded for this matter because the Company believes that liability is not probable and estimable at this time. In addition, the Company is not able to estimate a possible loss or range of loss given the lack of any meaningful discovery responses by the State of West Virginia, the otherwise minimal activity in this case and the fact that the complaint asserts claims against two other manufacturers where a defendant's share of liability may turn on the law of joint and several liability and by the amount of fault, if any, a jury might allocate to each defendant if the case is ultimately tried.

Plaintiffs have asserted specific dollar claims for damages in approximately 50% of the 1,321 lawsuits that were pending against the Company at the end of 2013 in all jurisdictions. A majority of states restrict or prohibit specifying damages in tort cases such as these, and most of the remaining jurisdictions do not require such specification. In those cases in which plaintiffs choose to assert specific dollar amounts in their complaints, brought in states that permit such pleading, the amounts claimed are typically not meaningful as an indicator of the Company's potential liability. This is because (a) the amounts claimed typically bear no relation to the extent of the plaintiff's injury, if any; (b) the complaints nearly always assert claims against multiple defendants with the typical complaint asserting claims against as few as a dozen different defendants to upwards of 100 different defendants, the damages alleged are not attributed to individual defendants, and a defendant's share of liability may turn on the law of joint and several liability, which can vary by state, and by the amount of fault a jury allocates to each defendant if a case is ultimately tried before a jury; (c) many cases are filed against the Company even though the plaintiffs did not use any of the Company's products and, ultimately, are withdrawn or dismissed without any payment; and (d) many cases are brought on behalf of plaintiffs who have not suffered any medical injury, and, ultimately, are resolved without any payment or a payment that is a small fraction of the damages initially claimed. Of the 667 pending cases in which purported damage amounts are specified in the complaints, 391 cases involve claims of \$100,000 or less (9 of which also allege punitive damages of \$75,000, 27 of which also allege punitive damages of \$10 million, and 3 of which also allege punitive damages of \$20 million); 53 cases involve claims between \$100,000 and \$3 million (45 of which also allege punitive damages of \$250,000, 3 of which also allege punitive damages of \$1 million, and 1 of which also alleges punitive damages of \$4 million); 10 cases involve claims between \$3 million and \$7.5 million (all of which also allege punitive damages of \$5 million); 1 case involves a claim of \$10 million; 170 cases involve claims of \$10 million to \$50 million (159 of which also allege punitive damages of \$13 million, 1 of which also alleges punitive damages of \$15 million, 2 of which also allege punitive damages of \$20 million, and 8 of which also allege punitive damages of \$90.5 million); 6 cases involve claims of \$50 million (all of which also allege punitive damages of \$50 million); and 36 cases involve claims of over \$50 million (all of which also allege punitive damages of \$100 million). Some complaints allege that the compensatory and punitive damages are at least the amounts specified. As previously stated, the Company's experience and the other reasons cited indicate that the damage amounts specified in complaints are not a meaningful factor in any assessment of the Company's potential liability.

## Edgar Filing: 3M CO - Form 10-K

*Respirator Mask/Asbestos Liabilities and Insurance Receivables:* The Company estimates its respirator mask/asbestos liabilities, including the cost to resolve the claims and defense costs, by examining: (i) the Company's experience in resolving claims, (ii) apparent trends, (iii) the apparent quality of claims (e.g., whether the claim has been asserted on behalf of asymptomatic claimants), (iv) changes in the nature and mix of claims (e.g., the proportion of claims asserting usage of the Company's mask or respirator products and alleging exposure to each of asbestos, silica, coal or other occupational dusts, and claims pleading use of asbestos-containing products allegedly manufactured by the Company),

Table of Contents

(v) the number of current claims and a projection of the number of future asbestos and other claims that may be filed against the Company, (vi) the cost to resolve recently settled claims, and (vii) an estimate of the cost to resolve and defend against current and future claims.

Developments may occur that could affect the Company's estimate of its liabilities. These developments include, but are not limited to, significant changes in (i) the number of future claims, (ii) the average cost of resolving claims, (iii) the legal costs of defending these claims and in maintaining trial readiness, (iv) changes in the mix and nature of claims received, (v) trial and appellate outcomes, (vi) changes in the law and procedure applicable to these claims, and (vii) the financial viability of other co-defendants and insurers.

As a result of the Company's on-going review of its accruals and the greater cost of resolving claims of persons who claim more serious injuries, including mesothelioma and other malignancies, the Company increased its accruals in 2013 for respirator mask/asbestos liabilities by \$48 million. In 2013, the Company made payments for fees and settlements of \$47 million related to the respirator mask/asbestos litigation. As of December 31, 2013, the Company had accruals for respirator mask/asbestos liabilities of \$127 million (excluding Aearo accruals). The Company cannot estimate the amount or range of amounts by which the liability may exceed the accrual the Company has established because of the (i) inherent difficulty in projecting the number of claims that have not yet been asserted, (ii) the complaints nearly always assert claims against multiple defendants where the damages alleged are typically not attributed to individual defendants so that a defendant's share of liability may turn on the law of joint and several liability, which can vary by state, (iii) the multiple factors described above that the Company considers in estimating its liabilities, and (iv) the several possible developments described above that may occur that could affect the Company's estimate of liabilities.

As of December 31, 2013, the Company's receivable for insurance recoveries related to the respirator mask/asbestos litigation was \$58 million. The Company estimates insurance receivables based on an analysis of its numerous policies, including their exclusions, pertinent case law interpreting comparable policies, its experience with similar claims, and assessment of the nature of each claim and remaining coverage, and records an amount it has concluded is likely to be recovered. Various factors could affect the timing and amount of recovery of this receivable, including (i) delays in or avoidance of payment by insurers; (ii) the extent to which insurers may become insolvent in the future, and (iii) the outcome of negotiations with insurers and legal proceedings with respect to respirator mask/asbestos liability insurance coverage.

As previously reported, on January 5, 2007 the Company was served with a declaratory judgment action filed on behalf of two of its insurers (Continental Casualty and Continental Insurance Co. both part of the Continental Casualty Group) disclaiming coverage for respirator mask/asbestos claims. The action, in the District Court in Ramsey County, Minnesota, sought declaratory judgment regarding coverage provided by the policies and the allocation of covered costs among the policies issued by the various insurers. The action named, in addition to the Company, over 60 of the Company's insurers. The plaintiffs, Continental Casualty and Continental Insurance Co., as well as a significant number of the insurer defendants named in the amended complaint had been dismissed because of settlements they had reached with the Company regarding the matters at issue in the lawsuit. In July 2013, the Company reached agreements in principle with the remaining insurers in the lawsuit. The Company and those insurers have been in the process of preparing formal settlement agreements. After all of the settlement agreements have been executed, the Court will issue dismissal orders at which time this matter will be concluded. During 2013, the Company received payments of \$29 million from settlements with insurers.

The Company has unresolved coverage with claims-made carriers for respirator mask claims. Once the claims-made insurance coverage is resolved, the Company will have collected substantially all of its remaining insurance coverage for respirator mask claims.

Respirator Mask/Asbestos Litigation – Aearo Technologies

On April 1, 2008, a subsidiary of the Company purchased the stock of Aearo Holding Corp., the parent of Aearo Technologies ( Aearo ). Aearo manufactured and sold various products, including personal protection equipment, such as eye, ear, head, face, fall and certain respiratory protection products.

As of December 31, 2013, Aearo and/or other companies that previously owned and operated Aearo's respirator business (American Optical Corporation, Warner-Lambert LLC, AO Corp. and Cabot Corporation ( Cabot )) are named defendants, with multiple co-defendants, including the Company, in numerous lawsuits in various courts in which plaintiffs allege use of mask and respirator products and seek damages from Aearo and other defendants for alleged personal injury from workplace exposures to asbestos, silica-related, or other occupational dusts found in products manufactured by other defendants or generally in the workplace.

As of December 31, 2013, the Company, through its Aearo subsidiary, has recorded \$25 million as the best estimate of the probable liabilities for product liabilities and defense costs related to current and future Aearo-related asbestos and silica-related claims. Responsibility for legal costs, as well as for settlements and judgments, is currently shared in an informal arrangement among Aearo, Cabot, American Optical Corporation and a subsidiary of Warner Lambert and their insurers (the



Table of Contents

Payor Group ). Liability is allocated among the parties based on the number of years each company sold respiratory products under the AO Safety brand and/or owned the AO Safety Division of American Optical Corporation and the alleged years of exposure of the individual plaintiff. Aearo's share of the contingent liability is further limited by an agreement entered into between Aearo and Cabot on July 11, 1995. This agreement provides that, so long as Aearo pays to Cabot a quarterly fee of \$100,000, Cabot will retain responsibility and liability for, and indemnify Aearo against, any product liability claims involving exposure to asbestos, silica, or silica products for respirators sold prior to July 11, 1995. Because of the difficulty in determining how long a particular respirator remains in the stream of commerce after being sold, Aearo and Cabot have applied the agreement to claims arising out of the alleged use of respirators involving exposure to asbestos, silica or silica products prior to January 1, 1997. With these arrangements in place, Aearo's potential liability is limited to exposures alleged to have arisen from the use of respirators involving exposure to asbestos, silica, or silica products on or after January 1, 1997. To date, Aearo has elected to pay the quarterly fee. Aearo could potentially be exposed to additional claims for some part of the pre-July 11, 1995 period covered by its agreement with Cabot if Aearo elects to discontinue its participation in this arrangement, or if Cabot is no longer able to meet its obligations in these matters.

In March 2012, Cabot CSC Corporation and Cabot Corporation filed a lawsuit against Aearo in the Superior Court of Suffolk County, Massachusetts seeking declaratory relief as to the scope of Cabot's indemnity obligations under the July 11, 1995 agreement, including whether Cabot has retained liability for coal workers' pneumoconiosis claims, and seeking damages for breach of contract.

Developments may occur that could affect the estimate of Aearo's liabilities. These developments include, but are not limited to: (i) significant changes in the number of future claims, (ii) significant changes in the average cost of resolving claims, (iii) significant changes in the legal costs of defending these claims, (iv) significant changes in the mix and nature of claims received, (v) trial and appellate outcomes, (vi) significant changes in the law and procedure applicable to these claims, (vii) significant changes in the liability allocation among the co-defendants, (viii) the financial viability of members of the Payor Group including exhaustion of available coverage limits, and/or (ix) a determination that the interpretation of the contractual obligations on which Aearo has estimated its share of liability is inaccurate. The Company cannot determine the impact of these potential developments on its current estimate of Aearo's share of liability for these existing and future claims. If any of the developments described above were to occur, the actual amount of these liabilities for existing and future claims could be significantly larger than the amount accrued.

Because of the inherent difficulty in projecting the number of claims that have not yet been asserted, the complexity of allocating responsibility for future claims among the Payor Group, and the several possible developments that may occur that could affect the estimate of Aearo's liabilities, the Company cannot estimate the amount or range of amounts by which Aearo's liability may exceed the accrual the Company has established.

Environmental Matters and Litigation

The Company's operations are subject to environmental laws and regulations including those pertaining to air emissions, wastewater discharges, toxic substances, and the handling and disposal of solid and hazardous wastes enforceable by national, state, and local authorities around the world, and private parties in the United States and abroad. These laws and regulations provide, under certain circumstances, a basis for the remediation of contamination, for restoration of or compensation for damages to natural resources, and for personal injury and property damage claims. The Company has incurred, and will continue to incur, costs and capital expenditures in complying with these laws and regulations, defending personal injury and property damage claims, and modifying its business operations in light of its environmental responsibilities. In its effort to satisfy its environmental responsibilities and comply with environmental laws and regulations, the Company has established, and periodically updates, policies relating to environmental standards of performance for its operations worldwide.

## Edgar Filing: 3M CO - Form 10-K

Under certain environmental laws, including the United States Comprehensive Environmental Response, Compensation and Liability Act of 1980 and similar state laws, the Company may be jointly and severally liable, typically with other companies, for the costs of remediation of environmental contamination at current or former facilities and at off-site locations. The Company has identified numerous locations, most of which are in the United States, at which it may have some liability. Please refer to the section entitled *Environmental Liabilities and Insurance Receivables* that follows for information on the amount of the accrual.

### *Environmental Matters*

As previously reported, the Company has been voluntarily cooperating with ongoing reviews by local, state, national (primarily the U.S. Environmental Protection Agency (EPA)), and international agencies of possible environmental and health effects of various perfluorinated compounds ( PFCs ), including perfluorooctanyl compounds such as perfluorooctanoate ( PFOA ) and perfluorooctane sulfonate ( PFOS ). As a result of its phase-out decision in May 2000, the Company no longer manufactures perfluorooctanyl compounds. The company ceased manufacturing and using the vast majority of these compounds within approximately two years of the phase-out announcement, and ceased all manufacturing and the last

Table of Contents

significant use of this chemistry by 2008. Through its ongoing life cycle management and its raw material composition identification processes associated with the Company's policies covering the use of all persistent and bio-accumulative materials, the Company has on occasion identified the presence of precursor chemicals in materials purchased from suppliers that may ultimately degrade to PFOA, PFOS, or similar compounds. Upon such identification, the Company works to find alternatives for such chemicals.

Regulatory activities concerning PFOA and/or PFOS continue in the United States, Europe and elsewhere, and before certain international bodies. These activities include gathering of exposure and use information, risk assessment, and consideration of regulatory approaches. The EPA continues to develop Drinking Water Health Advisories for PFOS and PFOA, which are expected to be released in 2014. Those advisory levels will supersede the current provisional advisory levels. In an effort to move toward developing standards under the Safe Drinking Water Act, the EPA published on May 2, 2012 a list of unregulated substances, including six PFCs, required to be monitored during the period 2013-2015 by public water system suppliers to determine the extent of their occurrence.

The Company is continuing to make progress in its work, under the supervision of state regulators, to address its historic disposal of PFC-containing waste associated with manufacturing operations at the Cottage Grove, Minnesota and Decatur, Alabama plants.

3M completed its third and final phase of work pursuant to a Memorandum of Understanding with the EPA regarding an environmental assessment program at the Company's Decatur manufacturing site. That work included groundwater sampling off-site from the 3M Decatur facility as well as at three local landfills used by the facility. The Company shared results from this final phase of sampling work with the EPA in September 2012 and submitted an updated analysis of the sampling work in late 2013. The submittal of the updated analysis fulfilled 3M's obligations under the Memorandum of Understanding.

As previously reported, the Company entered into a voluntary remedial action agreement with the Alabama Department of Environmental Management (ADEM) to address the presence of PFCs in the soil at the Company's manufacturing facility in Decatur, Alabama. Pursuant to a permit issued by ADEM, for approximately twenty years, the Company incorporated its wastewater treatment plant sludge containing PFCs in fields at its Decatur facility. After a review of the available options to address the presence of PFCs in the soil, ADEM agreed that the preferred remediation option is to use a multilayer cap over the former sludge incorporation areas on the manufacturing site with subsequent groundwater migration controls and treatment. Implementation of that option will continue throughout the balance of 2014 and is expected to be completed in 2017.

The Company continues to work with the Minnesota Pollution Control Agency (MPCA) pursuant to the terms of the previously disclosed May 2007 Settlement Agreement and Consent Order to address the presence of certain PFCs in the soil and groundwater at former disposal sites in Washington County, Minnesota (Oakdale and Woodbury) and at the Company's manufacturing facility at Cottage Grove, Minnesota. Under this agreement, the Company's principal obligations include (i) evaluating releases of certain PFCs from these sites and proposing response actions; (ii) providing treatment or alternative drinking water upon identifying any level exceeding a Health Based Value ( HBV ) or Health Risk Limit ( HRL ) (i.e., the amount of a chemical in drinking water determined by the Minnesota Department of Health (MDH) to be safe for human consumption over a lifetime) for certain PFCs for which a HBV and/or HRL exists as a result of contamination from these sites; (iii) remediating identified sources of other PFCs at these sites that are not controlled by actions to remediate PFOA and PFOS; and (iv) sharing information with the MPCA about certain perfluorinated compounds. During 2008, the MPCA issued formal decisions adopting remedial options for the former disposal sites in Washington County, Minnesota (Oakdale and Woodbury). In August 2009, the MPCA issued a formal decision adopting remedial options for the Company's Cottage Grove manufacturing facility. During the spring and summer of 2010, 3M began implementing the agreed upon remedial options at the Cottage Grove and Woodbury sites. 3M commenced the remedial option at the Oakdale site in late 2010. At each location the remedial options were recommended by the Company and approved by the MPCA. Remediation work has been completed at the Oakdale and Woodbury sites, and they are in an operational maintenance mode. Remediation will continue at the Cottage Grove site during 2014.

The Company cannot predict what additional regulatory actions arising from the foregoing proceedings and activities, if any, may be taken regarding such compounds or the consequences of any such actions.

*Environmental Litigation*

As previously reported, a former employee filed a purported class action lawsuit in 2002 in the Circuit Court of Morgan County, Alabama, seeking unstated damages and alleging that the plaintiffs suffered fear, increased risk, subclinical injuries, and property damage from exposure to certain perfluorochemicals at or near the Company's Decatur, Alabama, manufacturing facility. The Circuit Court in 2005 granted the Company's motion to dismiss the named plaintiff's personal injury-related claims on the basis that such claims are barred by the exclusivity provisions of the state's Workers Compensation Act. The plaintiffs' counsel filed an amended complaint in November 2006, limiting the case to property

Table of Contents

damage claims on behalf of a purported class of residents and property owners in the vicinity of the Decatur plant. In May 2013, the Court stayed the case for an unknown period due to the filing of a bankruptcy petition by a co-defendant.

Also, in 2005, the judge in a second purported class action lawsuit (filed by three residents of Morgan County, Alabama, seeking unstated compensatory and punitive damages involving alleged damage to their property from emissions of certain perfluorochemical compounds from the Company's Decatur, Alabama, manufacturing facility that formerly manufactured those compounds) granted the Company's motion to abate the case, effectively putting the case on hold pending the resolution of class certification issues in the first action described above, filed in the same court in 2002. Despite the stay, plaintiffs filed an amended complaint seeking damages for alleged personal injuries and property damage on behalf of the named plaintiffs and the members of a purported class. No further action in the case is expected unless and until the stay is lifted.

In February 2009, a resident of Franklin County, Alabama, filed a purported class action lawsuit in the Circuit Court of Franklin County seeking compensatory damages and injunctive relief based on the application by the Decatur utility's wastewater treatment plant of wastewater treatment sludge to farmland and grasslands in the state that allegedly contain PFOA, PFOS and other perfluorochemicals. The named defendants in the case include 3M, its subsidiary Dyneon LLC, Daikin America, Inc., Synagro-WWT, Inc., Synagro South, LLC, and Biological Processors of America. The named plaintiff seeks to represent a class of all persons within the State of Alabama who have had PFOA, PFOS, and other perfluorochemicals released or deposited on their property. In March 2010, the Alabama Supreme Court ordered the case transferred from Franklin County to Morgan County. In May 2010, consistent with its handling of the other matters, the Morgan County Circuit Court abated this case, putting it on hold pending the resolution of the class certification issues in the first case filed there.

In December 2010, the State of Minnesota, by its Attorney General Lori Swanson, acting in its capacity as trustee of the natural resources of the State of Minnesota, filed a lawsuit in Hennepin County District Court against 3M to recover damages (including unspecified assessment costs and reasonable attorney's fees) for alleged injury to, destruction of, and loss of use of certain of the State's natural resources under the Minnesota Environmental Response and Liability Act (MERLA) and the Minnesota Water Pollution Control Act (MWPCA), as well as statutory nuisance and common law claims of trespass, nuisance, and negligence with respect to the presence of PFCs in the groundwater, surface water, fish or other aquatic life, and sediments (the NRD Lawsuit). The State also seeks declarations under MERLA that 3M is responsible for all damages the State may suffer in the future for injuries to natural resources from releases of PFCs into the environment, and under MWPCA that 3M is responsible for compensation for future loss or destruction of fish, aquatic life, and other damages.

In January 2011, the City of Lake Elmo filed a motion to intervene in the NRD Lawsuit and seeking damages in excess of \$50,000 and other legal and equitable relief, including reasonable attorneys' fees, for alleged contamination of city property, wells, groundwater and water contained in the wells with PFCs under several theories, including common law and statutory nuisance, strict liability, trespass, negligence, and conversion. The court granted the City of Lake Elmo's motion to intervene in this lawsuit. In August 2013, the City of Lake Elmo voluntarily dismissed without prejudice its claims in the NRD Lawsuit.

In November 2011, the Metropolitan Council filed a motion to intervene and a complaint in the NRD Lawsuit seeking compensatory damages and other legal, declaratory and equitable relief, including reasonable attorneys' fees, for costs and fees that the Metropolitan Council alleges it will be required to assess at some time in the future if the MPCA imposes restrictions on Metropolitan Council's PFOS discharges to the Mississippi River, including the installation and maintenance of a water treatment system. The Metropolitan Council's intervention motion was based on several theories, including common law negligence, and statutory claims under MERLA for response costs, and under the Minnesota Environmental Rights Act (MERA) for declaratory and equitable relief against 3M for PFOS and other PFC pollution of the waters and sediments of the Mississippi River. 3M did not object to the motion to intervene. In January 2012, 3M answered the Metropolitan Council's complaint and filed a counterclaim alleging that the Metropolitan Council discharges PFCs to the Mississippi River and discharges PFC-containing sludge and biosolids from one or more of its wastewater treatment plants onto agricultural lands and local area landfills.

## Edgar Filing: 3M CO - Form 10-K

Accordingly, 3M requested that if the Court finds that the State is entitled to any of the damages the State seeks, 3M seeks contribution and apportionment from the Metropolitan Council, including attorneys' fees, under MERLA, and contribution from and liability for the Metropolitan Council's proportional share of damages awarded to the State under the MWPCA, as well as under statutory nuisance and common law theories of trespass, nuisance, and negligence. 3M also seeks declaratory relief under MERA.

In May 2012, 3M filed a motion to disqualify the State of Minnesota's counsel, Covington & Burling, LLP (Covington). In October 2012, the court granted 3M's motion to disqualify Covington as counsel to the State and the State and Covington appealed the court's disqualification to the Minnesota Court of Appeals. In July 2013, the Minnesota Court of Appeals affirmed the district court's disqualification order. In October 2013, the Minnesota Supreme Court granted both the State's and Covington's petition for review of the decision of the Minnesota Court of Appeals. In January 2014, the Minnesota

Table of Contents

Supreme Court heard oral arguments. If the Court affirms the Court of Appeals decision, the State will have 180 days following issuance of the Minnesota Supreme Court's decision to secure new counsel. In a separate but related action, the Company filed suit against Covington for breach of its fiduciary duties to the Company and for breach of contract arising out of Covington's representation of the State of Minnesota in the NRD Lawsuit.

The State of New Jersey filed suit in 2005 against Occidental Chemical Corporation, Tierra Solutions Inc., Maxus Energy Corporation and five other companies seeking cleanup and removal costs and other damages associated with the presence of dioxin and other hazardous substances in the sediment of a 17-mile stretch of the Passaic River in New Jersey. In June 2009, the Company, along with more than 250 other companies, was served with a third-party complaint by Tierra Solutions Inc. and Maxus Energy Corporation seeking contribution towards the cost and damages asserted or incurred for investigation and remediation of discharges to the Passaic River. The third-party complaint seeks to spread those costs among the third-party defendants, including 3M. Allegations asserted against 3M relate to its use of two commercial drum conditioning facilities in New Jersey. In March 2013, 3M and other third party defendants entered into a settlement agreement with the state of New Jersey for an amount that is not material to 3M. In December 2013, the Court approved the settlement and entered the Consent Judgment. The settlement resolves claims or potential claims by the State of New Jersey regarding discharges or alleged discharges into the Passaic River by the settling parties, and precludes certain cost recovery actions by the third-party plaintiffs. The settlement with the State of New Jersey does not include release from potential federal claims yet to be asserted. Total costs for the remedy currently proposed by EPA could easily exceed \$1 billion. While the Company does not yet have a basis for estimating its potential exposure in the yet to be asserted EPA claim, the Company currently believes its allocable share of the possible loss, if any, is likely to be a fraction of one percent of the total costs because of the Company's limited potential involvement at this site.

For environmental litigation matters described in this section for which a liability, if any, has been recorded, the Company believes the amount recorded, as well as the possible loss or range of loss in excess of the established accrual is not material to the Company's consolidated results of operations or financial condition. For those matters for which a liability has not been recorded, the Company believes such liability is not probable and estimable and the Company is not able to estimate a possible loss or range of loss at this time, with the exception of the Passaic River litigation, where the Company's potential exposure, if any, is likely to be a fraction of one percent of the total costs.

*Environmental Liabilities and Insurance Receivables*

As of December 31, 2013, the Company had recorded liabilities of \$27 million for estimated environmental remediation costs based upon an evaluation of currently available facts with respect to each individual site and also recorded related insurance receivables of \$11 million. The Company records liabilities for remediation costs on an undiscounted basis when they are probable and reasonably estimable, generally no later than the completion of feasibility studies or the Company's commitment to a plan of action. Liabilities for estimated costs of environmental remediation, depending on the site, are based primarily upon internal or third-party environmental studies, and estimates as to the number, participation level and financial viability of any other potentially responsible parties, the extent of the contamination and the nature of required remedial actions. The Company adjusts recorded liabilities as further information develops or circumstances change. The Company expects that it will pay the amounts recorded over the periods of remediation for the applicable sites, currently ranging up to 20 years.

As of December 31, 2013, the Company had recorded liabilities of \$48 million for other environmental liabilities based upon an evaluation of currently available facts to implement the Settlement Agreement and Consent Order with the MPCA, the remedial action agreement with ADEM, and to address trace amounts of perfluorinated compounds in drinking water sources in the City of Oakdale, Minnesota, as well as presence in the soil and groundwater at the Company's manufacturing facilities in Decatur, Alabama, and Cottage Grove, Minnesota, and at two former disposal sites in Washington County, Minnesota (Oakdale and Woodbury). The Company expects that most of the spending will occur over the next four years. As of December 31, 2013, the Company's receivable for insurance recoveries related to other environmental liabilities was \$15 million.

It is difficult to estimate the cost of environmental compliance and remediation given the uncertainties regarding the interpretation and enforcement of applicable environmental laws and regulations, the extent of environmental contamination and the existence of alternative cleanup methods. Developments may occur that could affect the Company's current assessment, including, but not limited to: (i) changes in the information available regarding the environmental impact of the Company's operations and products; (ii) changes in environmental regulations, changes in permissible levels of specific compounds in drinking water sources, or changes in enforcement theories and policies, including efforts to recover natural resource damages; (iii) new and evolving analytical and remediation techniques; (iv) success in allocating liability to other potentially responsible parties; and (v) the financial viability of other potentially responsible parties and third-party indemnitors. For sites included in both environmental remediation liabilities and other environmental liabilities, at which remediation activity is largely complete and remaining activity relates primarily to operation and maintenance of the remedy, including required post-remediation monitoring, the Company believes the exposure to loss in excess of the amount accrued



Table of Contents

would not be material to the Company's consolidated results of operations or financial condition. However, for locations at which remediation activity is largely ongoing, the Company cannot estimate a possible loss or range of loss in excess of the associated established accruals for the reasons described above.

Other Matters

*Commercial Litigation*

3M completed its acquisition of Cogent, Inc. in December 2010. Several holders of Cogent shares, representing a total of approximately 5.8 million shares, asserted appraisal rights under Delaware law. Trial in Delaware occurred in November 2012, and in July 2013, the Delaware Chancery Court decided that the fair value of Cogent's shares on the closing date of the acquisition was \$10.87 per share (plus pre-judgment interest), slightly more than the \$10.50 per share paid at closing. The Court entered its final order on July 23, 2013. Neither party appealed, and the Company paid the holders of the approximately 5.8 million shares the fair value determined by the Delaware Chancery Court (plus pre-judgment interest).

In October 2012, four plaintiffs filed purported class actions against Ceradyne, Inc., its directors, 3M, and Cyborg Acquisition Corporation (a direct wholly owned subsidiary of 3M) in connection with 3M's proposed acquisition of Ceradyne. Two suits were filed in California Superior Court for Orange County, and two were filed in the Delaware Chancery Court. The suits alleged that the defendants breached and/or aided and abetted the breach of their fiduciary duties to Ceradyne by seeking to sell Ceradyne through an allegedly unfair process and for an unfair price and on unfair terms, and/or by allegedly failing to make adequate disclosures to Ceradyne stockholders regarding the acquisition of Ceradyne. 3M completed its acquisition of Ceradyne in November 2012. In November 2012, the parties reached a settlement with the California plaintiffs for an amount that is not material to the Company, while the Delaware plaintiffs dismissed their complaints without prejudice. The settlement will bind all former Ceradyne shareholders and has received preliminary approval from the California court. A final approval hearing was held in July 2013, and the California Court denied approval of the settlement. The plaintiffs filed a motion for reconsideration of the denial of approval of the settlement, which motion was denied by the California court. The plaintiffs then filed a motion for leave to amend their complaint, which motion was denied without prejudice in January 2014.

Separately, one Ceradyne shareholder, who purports to hold 16,656 shares, filed a petition for appraisal rights under Delaware law. In 2013, the parties reached a settlement of this matter for an amount that is not material to the Company.

The previously disclosed patent infringement litigation against Avery Dennison Corporation in the United States District Court for the District of Minnesota relating to retroreflective sheeting products used on traffic signs, pavement markings and other traffic control products was resolved in 2013 with the court entering a consent judgment in favor of 3M. Avery's separate claims of patent infringement and antitrust violations against 3M have been dismissed by the court with prejudice.

3M sued TransWeb Corporation in Minnesota in 2010 for infringement of several 3M patents covering fluorination and hydrocharging of filter media used in 3M's respirators and furnace filters. TransWeb does not make finished goods, but sells filter media to competitors of 3M's respirator and furnace filter businesses. TransWeb filed a declaratory judgment action in and successfully moved the litigation to the U.S. District Court for the District of New Jersey, seeking a declaration of invalidity and non-infringement of 3M's patents, and further alleging that

3M waited too long to enforce its rights. TransWeb also alleged 3M obtained the patents through inequitable conduct and that 3M's attempt to enforce the patents constitutes a violation of the antitrust laws. In November 2012, a jury returned a verdict in favor of TransWeb on all but one count, including findings that 3M's patents were invalid and not infringed, and that 3M had committed an antitrust violation by seeking to enforce a patent it had obtained fraudulently. The jury also recommended that the court find 3M had committed inequitable conduct in obtaining the patents, and that the patents were therefore unenforceable. Since the vast majority of TransWeb's claim for treble antitrust damages is in the form of its attorneys' fees and expenses in connection with the defense of the patent case, the parties agreed that the measure of damages would not go to the jury, but rather would be submitted to a special master after the trial. The special master's recommendations were forwarded to the court in September 2013. The court has not yet ruled on those recommendations or on 3M's pending motions seeking judgment in its favor on its claims and those of TransWeb. 3M intends to appeal if the court enters final judgment against 3M.

In December 2010, Meda AB, the Swedish-based acquirer of 3M's European pharmaceutical business, filed a lawsuit against 3M, and its subsidiaries, 3M Innovative Properties Company, and Riker Laboratories, Inc. (collectively, 3M). Meda initially asserted claims against 3M for breach of contract and breach of the implied covenant of good faith and fair dealing. In October 2011, Meda amended its pleading to assert a claim for fraud. All three claims are based on allegations that 3M did not inform Meda about certain information relating to the pricing of a particular drug in France prior to the acquisition. Meda sought compensatory damages in excess of \$300 million (including prejudgment interest), punitive damages, and attorneys' fees. A non-jury trial occurred in the U.S. District Court for the Southern District of New York in January 2013. In September 2013, the Court issued a decision in 3M's favor, rejecting all of Meda's claims. In October 2013, 3M filed a motion seeking attorneys' fees and costs. Also in October, Meda filed an appeal to the U.S. Court of Appeals for the Second Circuit. In December 2013, Meda agreed to dismiss its appeal and 3M agreed to dismiss its motion for fees and costs.

Table of Contents

Shurtape Technologies, LLC sued 3M in the U.S. District Court for the Western District of North Carolina, alleging that 3M's ScotchBlue Painter's Masking Tape with Edge-Lock Paint Line Protector, which was introduced in late 2009, infringes Shurtape's U.S. patent describing masking tape having an absorbent coating applied to the edge of the tape and several of Shurtape's trademarks. 3M challenged both Shurtape's allegations of infringement and the validity of the patent. In September 2013, the parties finalized a settlement of this matter for an amount that is not material to the Company.

For commercial litigation matters described in this section for which a liability, if any, has been recorded, the Company believes the amount recorded, as well as the possible loss or range of loss in excess of the established accrual is not material to the Company's consolidated results of operations or financial condition. For those matters for which a liability has not been recorded, the Company believes that such liability is not probable and estimable and the Company is not able to estimate a possible loss or range of loss at this time.

*Product Liability Litigation*

Électricité de France (EDF) filed a lawsuit against 3M France in the French courts in 2006 claiming commercial loss and property damage after experiencing electrical network failures which EDF claims were caused by allegedly defective 3M transition splices. The French Court of Appeals at Versailles affirmed the commercial trial court's decision that the transition splices conformed to contract specifications which were thoroughly analyzed and tested by EDF before purchase and installation. The Court of Appeals, however, ordered a court-appointed expert to study the problem and issue a technical opinion on the cause of the network failures. The court-appointed expert is expected to submit his report to the commercial court by April 2014. Thereafter, the commercial court may take from six months to one year to render its decision.

One customer obtained an order in the French courts against 3M Purification SAS (a French subsidiary) in October 2011 appointing an expert to determine the amount of commercial loss and property damage allegedly caused by allegedly defective 3M filters used in the customer's manufacturing process. An Austrian subsidiary of this same customer also filed a claim against 3M Austria GmbH (an Austrian subsidiary) and 3M Purification SAS in the Austrian courts in September 2012 seeking damages for the same issue. Another customer filed a lawsuit against 3M Deutschland GmbH (a German subsidiary) in the German courts in March 2012 seeking commercial loss and property damage allegedly caused by the same 3M filters used in that customer's manufacturing process. The Company has resolved on an amicable basis claims of two other customers arising out of the same issue.

For product liability litigation matters described in this section for which a liability has been recorded, the Company believes the amount recorded is not material to the Company's consolidated results of operations or financial condition. In addition, the Company is not able to estimate a possible loss or range of loss in excess of the established accruals at this time.

Table of Contents**NOTE 14. Stock-Based Compensation**

The 3M 2008 Long-Term Incentive Plan provides for the issuance or delivery of up to 100 million shares of 3M common stock (including additional shareholder approvals subsequent to 2008) pursuant to awards granted under the plan. Awards under this plan may be issued in the form of Incentive Stock Options, Nonqualified Stock Options, Progressive Stock Options, Stock Appreciation Rights, Restricted Stock, Restricted Stock Units, Other Stock Awards, and Performance Units and Performance Shares. Awards denominated in shares of common stock other than options and Stock Appreciation Rights, per the 2008 Plan, count against the 100 million share limit as 3.38 shares for every one share covered by such award (for full value awards with grant dates prior to May 11, 2010), as 2.87 shares for every one share covered by such award (for full value awards with grant dates on or after May 11, 2010 and prior to May 8, 2012), or as 3.50 shares for every one share covered by such award (for full value awards with grant dates of May 8, 2012 or later). The remaining total shares available for grant under the 2008 Long Term Incentive Plan Program are 38,355,501 as of December 31, 2013. There were approximately 10,109 participants with outstanding options, restricted stock, or restricted stock units at December 31, 2013.

The Company's annual stock option and restricted stock unit grant is made in February to provide a strong and immediate link between the performance of individuals during the preceding year and the size of their annual stock compensation grants. The grant to eligible employees uses the closing stock price on the grant date. Accounting rules require recognition of expense under a non-substantive vesting period approach, requiring compensation expense recognition when an employee is eligible to retire. Employees are considered eligible to retire at age 55 and after having completed five years of service. This retiree-eligible population represents 32 percent of the 2013 annual stock-based compensation award expense dollars; therefore, higher stock-based compensation expense is recognized in the first quarter. 3M also has granted progressive (reload) options. These options are nonqualified stock options that were granted to certain participants under the 1997 or 2002 Management Stock Ownership Program, but for which the reload feature was eliminated in 2005 (on a prospective basis only). Participants who had options granted prior to this effective date may still qualify to receive new progressive (reload) stock options.

In addition to the annual grants, the Company makes other minor grants of stock options, restricted stock units and other stock-based grants. The Company issues cash settled Restricted Stock Units and Stock Appreciation Rights in certain countries. These grants do not result in the issuance of Common Stock and are considered immaterial by the Company.

Amounts recognized in the financial statements with respect to stock-based compensation programs, which include stock options, restricted stock, restricted stock units, performance shares, and the General Employees' Stock Purchase Plan (GESPP), are provided in the following table. Capitalized stock-based compensation amounts were not material for the years ended 2013, 2012 and 2011.

**Stock-Based Compensation Expense**

(Millions)	Years ended December 31		
	2013	2012	2011
Cost of sales	\$ 27	\$ 27	\$ 29
Selling, general and administrative expenses	183	167	192
Research, development and related expenses	30	29	32
Stock-based compensation expenses	\$ 240	\$ 223	\$ 253
Income tax benefits	\$ (71)	\$ (67)	\$ (80)

Edgar Filing: 3M CO - Form 10-K

Stock-based compensation expenses, net of tax	\$	169	\$	156	\$	173
---	----	-----	----	-----	----	-----

Table of Contents**Stock Option Program**

The following table summarizes stock option activity for the years ended December 31:

	2013		2012		2011	
	Number of Options	Weighted Average Exercise Price	Number of Options	Weighted Average Exercise Price	Number of Options	Weighted Average Exercise Price
Under option						
January 1	<b>56,565,030</b>	\$ <b>80.33</b>	64,148,415	\$ 77.28	70,335,044	\$ 74.80
Granted:						
Annual	<b>6,220,810</b>	<b>101.55</b>	5,770,190	87.91	5,514,500	89.46
Progressive (Reload)	<b>140,447</b>	<b>109.83</b>	110,065	89.65	237,839	94.02
Other	<b>191</b>	<b>119.62</b>	51,661	89.25	8,953	86.71
Exercised	<b>(18,825,218)</b>	<b>79.25</b>	(13,123,617)	68.78	(11,625,863)	68.47
Canceled	<b>(162,482)</b>	<b>89.92</b>	(391,684)	83.65	(322,058)	75.09
December 31	<b>43,938,778</b>	\$ <b>83.84</b>	56,565,030	\$ 80.33	64,148,415	\$ 77.28
Options exercisable						
December 31	<b>32,038,228</b>	\$ <b>79.58</b>	45,207,143	\$ 78.78	52,644,364	\$ 76.90

Stock options vest over a period from one to three years with the expiration date at 10 years from date of grant. Outstanding options under grant include grants from previous plans. As of December 31, 2013, there was \$51 million of compensation expense that has yet to be recognized related to non-vested stock option based awards. This expense is expected to be recognized over the remaining weighted-average vesting period of 21 months. For options outstanding at December 31, 2013, the weighted-average remaining contractual life was 62 months and the aggregate intrinsic value was \$2.478 billion. For options exercisable at December 31, 2013, the weighted-average remaining contractual life was 47 months and the aggregate intrinsic value was \$1.944 billion.

The total intrinsic values of stock options exercised during 2013, 2012 and 2011 was \$562 million, \$282 million and \$287 million, respectively. Cash received from options exercised during 2013, 2012 and 2011 was \$1.492 billion, \$903 million and \$796 million, respectively. The Company's actual tax benefits realized for the tax deductions related to the exercise of employee stock options for 2013, 2012 and 2011 was \$208 million, \$98 million and \$96 million, respectively.

The Company does not have a specific policy to repurchase common shares to mitigate the dilutive impact of options; however, the Company has historically made adequate discretionary purchases, based on cash availability, market trends, and other factors, to satisfy stock option exercise activity.

For annual and progressive (reload) options, the weighted average fair value at the date of grant was calculated using the Black-Scholes option-pricing model and the assumptions that follow.

**Stock Option Assumptions**

Edgar Filing: 3M CO - Form 10-K

	Annual			Progressive (Reload)		
	2013	2012	2011	2013	2012	2011
Exercise price	\$ <b>101.49</b>	\$ 87.89	\$ 89.47	\$ <b>109.84</b>	\$ 87.89	\$ 93.94
Risk-free interest rate	<b>1.2%</b>	1.1%	2.8%	<b>0.2%</b>	0.2%	0.4%
Dividend yield	<b>2.7%</b>	2.6%	2.6%	<b>2.7%</b>	2.6%	2.6%
Volatility	<b>20.0%</b>	24.5%	22.0%	<b>16.3%</b>	23.4%	21.5%
Expected life (months)	<b>75</b>	74	72	<b>12</b>	19	15
Black-Scholes fair value	\$ <b>13.46</b>	\$ 14.94	\$ 16.10	\$ <b>6.42</b>	\$ 8.50	\$ 7.49

Expected volatility is a statistical measure of the amount by which a stock price is expected to fluctuate during a period. For the 2013 annual grant date, the Company estimated the expected volatility based upon the average of the most recent one year volatility, the median of the term of

Table of Contents

the expected life rolling volatility, the median of the most recent term of the expected life volatility of 3M stock, and the implied volatility on the grant date. The expected term assumption is based on the weighted average of historical grants.

**Restricted Stock and Restricted Stock Units**

The following table summarizes restricted stock and restricted stock unit activity for the years ended December 31:

	2013		2012		2011	
	Number of Awards	Weighted Average Grant Date Fair Value	Number of Awards	Weighted Average Grant Date Fair Value	Number of Awards	Weighted Average Grant Date Fair Value
Nonvested balance						
As of January 1	3,261,562	\$ 85.17	4,858,972	\$ 73.02	4,812,657	\$ 68.75
Granted						
Annual	946,774	101.57	968,522	87.92	889,448	89.46
Other	44,401	111.19	99,337	85.07	351,624	87.07
Vested	(1,100,095)	79.93	(2,594,468)	63.51	(1,077,816)	72.21
Forfeited	(47,281)	90.82	(70,801)	82.65	(116,941)	72.01
As of December 31	3,105,361	\$ 92.31	3,261,562	\$ 85.17	4,858,972	\$ 73.02

As of December 31, 2013, there was \$77 million of compensation expense that has yet to be recognized related to non-vested restricted stock and restricted stock units. This expense is expected to be recognized over the remaining weighted-average vesting period of 24 months. The total fair value of restricted stock and restricted stock units that vested during the years ended December 31, 2013, 2012 and 2011 was \$114 million, \$228 million and \$102 million, respectively. The Company's actual tax benefits realized for the tax deductions related to the vesting of restricted stock and restricted stock units for the years ended December 31, 2013, 2012 and 2011 was \$43 million, \$86 million and \$36 million, respectively.

Restricted stock units granted under the 3M 2008 Long-Term Incentive Plan generally vest three years following the grant date assuming continued employment. Dividend equivalents equal to the dividends payable on the same number of shares of 3M common stock accrue on these restricted stock units during the vesting period, although no dividend equivalents are paid on any of these restricted stock units that are forfeited prior to the vesting date. Dividends are paid out in cash at the vest date on restricted stock units, except for performance shares which do not earn dividends. Since the rights to dividends are forfeitable, there is no impact on basic earnings per share calculations. Weighted average restricted stock unit shares outstanding are included in the computation of diluted earnings per share.

**Performance Shares**

Instead of restricted stock units, the Company makes annual grants of performance shares to members of its executive management. The performance criteria for these performance shares (Organic Sales Volume Growth, Return on Invested Capital and sales from new products) were selected because the Company believes that they are important drivers of long-term stockholder value. The number of shares of 3M common stock that could actually be delivered at the end of the three-year performance period may be anywhere from 0% to 200% of each



## Edgar Filing: 3M CO - Form 10-K

performance share granted, depending on the performance of the Company during such performance period. Non-substantive vesting requires that expense for the performance shares be recognized over one or three years depending on when each individual became a 3M executive. The first performance shares, which were granted in 2008, were distributed in 2011. Performance shares do not accrue dividends during the performance period. Therefore, the grant date fair value is determined by reducing the closing stock price on the date of grant by the net present value of dividends during the performance period. As a result of the significant uncertainty due to the economic crisis of 2008-2009, the Company granted restricted stock units instead of performance shares in 2009. Therefore, since there were no performance shares in 2009, there were also no related distributions in 2012. Performance share grants resumed in 2010 and continued thereafter.

Table of Contents

The following table summarizes performance share activity for the years ended December 31:

	2013		2012		2011	
	Number of Awards	Weighted Average Grant Date Fair Value	Number of Awards	Weighted Average Grant Date Fair Value	Number of Awards	Weighted Average Grant Date Fair Value
Undistributed balance						
As of January 1	1,089,084	\$ 79.27	878,872	\$ 78.55	760,645	\$ 73.99
Granted	353,734	96.87	467,531	81.55	415,024	84.58
Distributed	(507,083)	75.16			(206,410)	72.77
Performance change	(6,949)	77.01	(178,838)	81.27	(39,323)	82.10
Forfeited	(33,151)	91.34	(78,481)	80.21	(51,064)	80.20
As of December 31	895,635	\$ 88.12	1,089,084	\$ 79.27	878,872	\$ 78.55

As of December 31, 2013, there was \$14 million of compensation expense that has yet to be recognized related to performance shares. This expense is expected to be recognized over the remaining weighted-average earnings period of 11 months. During the years ended December 31, 2013 and 2011, the total fair value of performance shares that were distributed were \$52 million and \$18 million, respectively. The Company's actual tax benefits realized for the tax deductions related to the distribution of performance shares for the years ended December 31, 2013 and 2011 was \$16 million and \$5 million, respectively. There were no performance shares distributed or related tax benefits realized during the year ended December 31, 2012.

**General Employees Stock Purchase Plan (GESPP):**

As of December 31, 2013, shareholders have approved 60 million shares for issuance under the Company's GESPP. Substantially all employees are eligible to participate in the plan. Participants are granted options at 85% of market value at the date of grant. There are no GESPP shares under option at the beginning or end of each year because options are granted on the first business day and exercised on the last business day of the same month.

**General Employees Stock Purchase Plan**

	2013		2012		2011	
	Shares	Weighted Average Exercise Price	Shares	Weighted Average Exercise Price	Shares	Weighted Average Exercise Price
Options granted	1,259,247	\$ 93.46	1,455,545	\$ 75.32	1,433,609	\$ 73.67
Options exercised	(1,259,247)	93.46	(1,455,545)	75.32	(1,433,609)	73.67
Shares available for grant - December 31	30,185,960		31,445,207		2,900,751	

The weighted-average fair value per option granted during 2013, 2012 and 2011 was \$16.49, \$13.29 and \$13.00, respectively. The fair value of GESPP options was based on the 15% purchase price discount. The Company recognized compensation expense for GESPP options of \$21

million in 2013, \$19 million in 2012 and \$19 million in 2011.

Table of Contents

**NOTE 15. Business Segments**

3M's businesses are organized, managed and internally grouped into segments based on differences in markets, products, technologies and services. Effective in the first quarter of 2013 (as discussed below), 3M manages its operations in five operating business segments: Industrial; Safety and Graphics; Electronics and Energy; Health Care; and Consumer. 3M's five business segments bring together common or related 3M technologies, enhancing the development of innovative products and services and providing for efficient sharing of business resources. These segments have worldwide responsibility for virtually all 3M product lines. 3M is not dependent on any single product/service or market. Transactions among reportable segments are recorded at cost. 3M is an integrated enterprise characterized by substantial intersegment cooperation, cost allocations and inventory transfers. Therefore, management does not represent that these segments, if operated independently, would report the operating income information shown. The difference between operating income and pre-tax income relates to interest income and interest expense, which are not allocated to business segments.

Effective in the first quarter of 2013, 3M completed a realignment of its business groups (segments) to better serve global markets and customers. This realignment included:

- The alignment of divisions into five business groups (segments) as further described below.
- The combination of certain existing divisions into new divisions. These included Traffic Safety and Security Division (reflecting the combination of the former Traffic Safety Systems Division and Security Systems Division) and the Optical Systems Division (reflecting the combination of the former Optical Systems Division and Mobile Interactive Solutions Division).
- The movement of certain product lines between various divisions within and across certain business segments.

In addition to the above, there were also changes to dual credit amounts as a result of the realigned structure. The new structure is comprised of five business segments: Industrial, Safety and Graphics, Electronics and Energy, Health Care, and Consumer.

Industrial: This business segment, previously referred to as Industrial and Transportation, is largely unchanged, except for the transfer of the Renewable Energy Division to the Electronics and Energy business segment.

Safety and Graphics: This business segment includes Architectural Markets, Building and Commercial Services, Commercial Graphics, Industrial Mineral Products, Personal Safety, and Traffic Safety and Security. This new business segment also reflects movement of certain product lines between various divisions.

Electronics and Energy: This business segment includes Communication Markets, Electrical Markets, Electronics Markets Materials, Electronic Solutions, Infrastructure Protection, Optical Systems, Renewable Energy, and 3M Touch Systems. This new business segment also reflects the movement of certain product lines between various divisions.

Health Care: This business segment is largely unchanged, except for the movement of certain product lines between various divisions.

Consumer: This business segment, previously referred to as Consumer and Office, is largely unchanged, except for the movement of certain product lines between various divisions.

The financial information presented herein reflects the impact of all of the preceding segment structure changes for all periods presented.

Table of Contents**Business Segment Products**

<b>Business Segment</b>	<b>Major Products</b>
Industrial	Tapes, coated, nonwoven and bonded abrasives, adhesives, advanced ceramics, sealants, specialty materials, 3M Purification Inc. (filtration products), closure systems for personal hygiene products, acoustic systems products, automotive components, abrasion-resistant films, structural adhesives and paint finishing and detailing products
Safety and Graphics	Personal protection products, traffic safety and security products, commercial graphics systems, commercial cleaning and protection products, floor matting, and roofing granules for asphalt shingles
Electronics and Energy	Optical films solutions for electronic displays, packaging and interconnection devices, insulating and splicing solutions for the electronics, telecommunications and electrical industries, touch screens and touch monitors, renewable energy component solutions, and infrastructure protection products
Health Care	Medical and surgical supplies, skin health and infection prevention products, drug delivery systems, dental and orthodontic products, health information systems and food safety products
Consumer	Sponges, scouring pads, high-performance cloths, consumer and office tapes, repositionable notes, indexing systems, construction and home improvement products, home care products, protective material products, and consumer and office tapes and adhesives

**Business Segment Information**

(Millions)	Net Sales			Operating Income		
	2013	2012	2011	2013	2012	2011
Industrial	\$ 10,584	\$ 9,943	\$ 9,629	\$ 2,296	\$ 2,236	\$ 1,983
Safety and Graphics	5,657	5,471	5,458	1,239	1,217	1,237
Electronics and Energy	5,393	5,458	5,732	954	1,026	1,140
Health Care	5,334	5,138	5,011	1,672	1,641	1,484
Consumer	4,435	4,386	4,230	945	943	855
Corporate and Unallocated	8	4	9	(322)	(471)	(420)
Elimination of Dual Credit	(540)	(496)	(458)	(118)	(109)	(101)
Total Company	\$ 30,871	\$ 29,904	\$ 29,611	\$ 6,666	\$ 6,483	\$ 6,178

(Millions)	Assets			Depreciation & Amortization			Capital Expenditures		
	2013	2012	2011	2013	2012	2011	2013	2012	2011
Industrial	\$ 8,803	\$ 8,587	\$ 7,553	\$ 372	\$ 323	\$ 337	\$ 510	\$ 415	\$ 383
Safety and Graphics	5,153	5,111	4,975	256	238	251	209	190	204
Electronics and Energy	5,336	5,512	5,296	260	266	255	261	350	274
Health Care	4,329	4,296	4,190	171	169	199	120	113	159
Consumer	2,516	2,445	2,423	106	110	102	128	105	98
Corporate and Unallocated	7,413	7,925	7,179	206	182	92	437	311	261
Total Company	\$ 33,550	\$ 33,876	\$ 31,616	\$ 1,371	\$ 1,288	\$ 1,236	\$ 1,665	\$ 1,484	\$ 1,379

Corporate and unallocated operating income includes a variety of miscellaneous items, such as corporate investment gains and losses, certain derivative gains and losses, certain insurance-related gains and losses, certain litigation and environmental expenses, corporate restructuring

charges and certain under- or over-absorbed costs (e.g. pension, stock-based compensation) that the Company may choose not to allocate directly to its business segments. Because this category includes a variety of miscellaneous items, it is subject to fluctuation on a quarterly and annual basis.

3M business segment reporting measures include dual credit to business segments for certain U.S. sales and related operating income. Management evaluates each of its five operating business segments based on net sales and operating income performance, including dual credit U.S. reporting to further incentivize U.S. sales growth. As a result, 3M provides additional ( dual ) credit to those business segments selling products in the U.S. to an external customer when that segment is not the primary seller of the product. For example, certain respirators are primarily sold by the Personal Safety Division within the Safety and Graphics business segment; however, the Industrial business segment also sells this

Table of Contents

product to certain customers in its U.S. markets. In this example, the non-primary selling segment (Industrial) would also receive credit for the associated net sales it initiated and the related approximate operating income. The assigned operating income related to dual credit activity may differ from operating income that would result from actual costs associated with such sales. The offset to the dual credit business segment reporting is reflected as a reconciling item entitled Elimination of Dual Credit, such that sales and operating income for the U.S. in total are unchanged.

**NOTE 16. Geographic Areas**

Geographic area information is used by the Company as a secondary performance measure to manage its businesses. Export sales and certain income and expense items are generally reported within the geographic area where the final sales to 3M customers are made. During the first quarter of 2013, 3M realigned its geographic area reporting to include Puerto Rico in the United States, rather than in the Latin America/Canada region. The financial information presented herein reflects this geographic area change for all periods presented.

(Millions)	Net Sales			Operating Income			Property, Plant and Equipment - net	
	2013	2012	2011	2013	2012	2011	2013	2012
United States	\$ 11,151	\$ 10,571	\$ 10,071	\$ 2,210	\$ 1,938	\$ 1,639	\$ 4,478	\$ 4,279
Asia Pacific	9,047	9,092	9,108	2,386	2,450	2,523	1,943	2,029
Europe, Middle East and Africa	7,085	6,730	7,076	1,168	1,163	1,150	1,636	1,499
Latin America and Canada	3,611	3,529	3,368	908	936	886	595	571
Other Unallocated	(23)	(18)	(12)	(6)	(4)	(20)		
Total Company	\$ 30,871	\$ 29,904	\$ 29,611	\$ 6,666	\$ 6,483	\$ 6,178	\$ 8,652	\$ 8,378

**NOTE 17. Quarterly Data (Unaudited)**

(Millions, except per-share amounts) 2013	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	Year 2013
Net sales	\$ 7,634	\$ 7,752	\$ 7,916	\$ 7,569	\$ 30,871
Cost of sales	3,969	4,013	4,148	3,976	16,106
Net income including noncontrolling interest	1,147	1,213	1,245	1,116	4,721
Net income attributable to 3M	1,129	1,197	1,230	1,103	4,659
Earnings per share attributable to 3M common shareholders - basic	1.63	1.74	1.81	1.65	6.83
Earnings per share attributable to 3M common shareholders - diluted	1.61	1.71	1.78	1.62	6.72

(Millions, except per-share amounts) 2012	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	Year 2012
Net sales	\$ 7,486	\$ 7,534	\$ 7,497	\$ 7,387	\$ 29,904
Cost of sales	3,889	3,870	3,935	3,991	15,685
Net income including noncontrolling interest	1,141	1,186	1,180	1,004	4,511
Net income attributable to 3M	1,125	1,167	1,161	991	4,444
	1.61	1.68	1.68	1.43	6.40



Edgar Filing: 3M CO - Form 10-K

Earnings per share attributable to 3M common shareholders - basic					
Earnings per share attributable to 3M common shareholders - diluted	1.59	1.66	1.65	1.41	6.32

Gross profit is calculated as net sales minus cost of sales.

Table of Contents

**Item 9. Changes in and Disagreements With Accountants on Accounting and Financial Disclosure.**

None.

**Item 9A. Controls and Procedures.**

a. The Company carried out an evaluation, under the supervision and with the participation of its management, including the Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of the Company's disclosure controls and procedures (as defined in the Exchange Act Rule 13a-15(e)) as of the end of the period covered by this report. Based upon that evaluation, the Chief Executive Officer and Chief Financial Officer concluded that the Company's disclosure controls and procedures are effective.

b. The Company's management is responsible for establishing and maintaining an adequate system of internal control over financial reporting, as defined in the Exchange Act Rule 13a-15(f). Management conducted an assessment of the Company's internal control over financial reporting based on the framework established by the Committee of Sponsoring Organizations of the Treadway Commission in *Internal Control Integrated Framework (1992)*. Based on the assessment, management concluded that, as of December 31, 2013, the Company's internal control over financial reporting is effective. The Company's internal control over financial reporting as of December 31, 2013 has been audited by PricewaterhouseCoopers LLP, an independent registered public accounting firm, as stated in their report which is included herein, which expresses an unqualified opinion on the effectiveness of the Company's internal control over financial reporting as of December 31, 2013.

c. There was no change in the Company's internal control over financial reporting that occurred during the Company's most recently completed fiscal quarter that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting.

The Company is implementing an enterprise resource planning ( ERP ) system on a worldwide basis, which is expected to improve the efficiency of certain financial and related transaction processes. The gradual implementation is expected to occur in phases over the next several years. The implementation of a worldwide ERP system will likely affect the processes that constitute our internal control over financial reporting and will require testing for effectiveness.

The Company completed implementation with respect to elements of certain processes/sub-processes in limited subsidiaries/locations and will continue to roll-out the ERP system over the next several years. As with any new information technology application we implement, this application, along with the internal controls over financial reporting included in this process, was appropriately considered within the testing for effectiveness with respect to the implementation in these instances. We concluded, as part of our evaluation described in the above paragraphs, that the implementation of ERP in these circumstances has not materially affected our internal control over financial reporting.

**Item 9B. Other Information.**

None.

Table of Contents

**PART III**

**Documents Incorporated by Reference**

In response to Part III, Items 10, 11, 12, 13 and 14, parts of the Company's definitive proxy statement (to be filed pursuant to Regulation 14A within 120 days after Registrant's fiscal year-end of December 31, 2013) for its annual meeting to be held on May 13, 2014, are incorporated by reference in this Form 10-K.

**Item 10. Directors, Executive Officers and Corporate Governance.**

The information relating to directors and nominees of 3M is set forth under the caption "Proposal No. 1" in 3M's proxy statement for its annual meeting of stockholders to be held on May 13, 2014 ( "3M Proxy Statement" ) and is incorporated by reference herein. Information about executive officers is included in Item 1 of this Annual Report on Form 10-K. The information required by Items 405, 407(c)(3), (d)(4) and (d)(5) of Regulation S-K is contained under the captions "Section 16(a) Beneficial Ownership Reporting Compliance," "Governance of the Company Director Nomination Process," "Board and Committee Information" "Audit Committee" of the 3M Proxy Statement and such information is incorporated by reference herein.

Code of Ethics. All of our employees, including our Chief Executive Officer, Chief Financial Officer and Chief Accounting Officer and Controller, are required to abide by 3M's long-standing business conduct policies to ensure that our business is conducted in a consistently legal and ethical manner. 3M has posted the text of such code of ethics on its website (<http://www.3M.com/businessconduct>). At the same website, any future amendments to the code of ethics will also be posted. Any person may request a copy of the code of ethics, at no cost, by writing to us at the following address:

3M Company  
3M Center, Building 220-11W-09  
St. Paul, MN 55144-1000  
Attention: Vice President, Compliance and Business Conduct

**Item 11. Executive Compensation.**

The information required by Item 402 of Regulation S-K is contained under the captions "Executive Compensation" (excluding the information under the caption "Compensation Committee Report" ) and "Director Compensation and Stock Ownership Guidelines" of the 3M Proxy Statement. Such information is incorporated by reference.

## Edgar Filing: 3M CO - Form 10-K

The information required by Items 407(e)(4) and (e)(5) of Regulation S-K is contained under the captions Compensation Committee Interlocks and Insider Participation and Executive Compensation Compensation Committee Report of the 3M Proxy Statement. Such information (other than the Compensation Committee Report, which shall not be deemed to be filed ) is incorporated by reference.

Table of Contents**Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters.**

The information relating to security ownership of certain beneficial owners and management is set forth under the designation Information on Stock Ownership of Directors and Executive Officers and Security Ownership of More Than 5 Percent Stockholders in the 3M Proxy Statement and such information is incorporated by reference herein.

Equity compensation plans information as of December 31, 2013 follows:

**Equity Compensation Plans Information (1)**

Plan Category	A Number of securities to be issued upon exercise of outstanding options, warrants and rights	B Weighted- average exercise price of outstanding options, warrants and rights	C Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (A))
Equity compensation plans approved by security holders			
Stock options	43,938,778	\$ 83.84	
Restricted stock units	3,105,361		
Performance shares	895,635		
Non-employee director deferred stock units	229,142		
Total	48,168,916		38,355,501
Employee stock purchase plan			30,185,960
Subtotal	48,168,916		68,541,461
Total	48,168,916		68,541,461

(1) In column B, the weighted-average exercise price is only applicable to stock options. In column C, the number of securities remaining available for future issuance for stock options, restricted stock units, and stock awards for non-employee directors is approved in total and not individually with respect to these items.

**Item 13. Certain Relationships and Related Transactions, and Director Independence.**

With respect to certain relationships and related transactions as set forth in Item 404 of Regulation S-K, no matters require disclosure with respect to transactions with related persons. The information required by Item 404(b) and Item 407(a) of Regulation S-K is contained under the captions Governance of the Company Related Person Transaction Policy and Procedures and Governance of the Company Director Independence of the 3M Proxy Statement and such information is incorporated by reference herein.

**Item 14. Principal Accounting Fees and Services.**

The information relating to principal accounting fees and services is set forth under the designation "Fees of the Independent Registered Public Accounting Firm" and "Audit Committee Policy on Pre-Approval of Audit and Permissible Non-Audit Services of the Independent Registered Public Accounting Firm" in the 3M Proxy Statement and such information is incorporated by reference herein.

Table of Contents

**PART IV**

**Item 15. Exhibits, Financial Statement Schedules.**

(a) (1) Financial Statements. The consolidated financial statements filed as part of this report are listed in the index to financial statements on page 43 as follows:

	<b>Page Number</b>
<u>Report of Independent Registered Public Accounting Firm</u>	45
<u>Consolidated Statement of Income for the years ended December 31, 2013, 2012 and 2011</u>	46
<u>Consolidated Statement of Comprehensive Income for the years ended December 31, 2013, 2012 and 2011</u>	47
<u>Consolidated Balance Sheet at December 31, 2013 and 2012</u>	48
<u>Consolidated Statement of Changes in Equity for the years ended December 31, 2013, 2012 and 2011</u>	49-50
<u>Consolidated Statement of Cash Flows for the years ended December 31, 2013, 2012 and 2011</u>	51
<u>Notes to Consolidated Financial Statements</u>	52-117

(a) (2) Financial Statement Schedules. Financial statement schedules are omitted because of the absence of the conditions under which they are required or because the required information is included in the Consolidated Financial Statements or the notes thereto. The financial statements of unconsolidated subsidiaries are omitted because, considered in the aggregate, they would not constitute a significant subsidiary.

(a) (3) Exhibits. The exhibits are either filed with this report or incorporated by reference into this report. Exhibit numbers 10.1 through 10.39 are management contracts or compensatory plans or arrangements. See (b) Exhibits, which follow.

(b) Exhibits.

(3) Articles of Incorporation and bylaws

- (3.1) Certificate of incorporation, as amended as of May 11, 2007, is incorporated by reference from our Form 8-K dated May 14, 2007.
- (3.2) Bylaws, as amended as of February 10, 2009, are incorporated by reference from our Form 8-K dated February 12, 2009.



## Edgar Filing: 3M CO - Form 10-K

### (4) Instruments defining the rights of security holders, including indentures:

- (4.1) Indenture, dated as of November 17, 2000, between 3M and The Bank of New York Mellon Trust Company, N.A., as successor trustee, with respect to 3M's senior debt securities, is incorporated by reference from our Form 8-K dated December 7, 2000.
- (4.2) First Supplemental Indenture, dated as of July 29, 2011, to Indenture dated as of November 17, 2000, between 3M and The Bank of New York Mellon Trust Company, N.A., as successor trustee, with respect to 3M's senior debt securities, is incorporated by reference from our Form 10-Q for the quarter ended June 30, 2011.

### (10) Material contracts and management compensation plans and arrangements:

- (10.1) 3M 2008 Long-Term Incentive Plan (including amendments through February 2012) is incorporated by reference from our Proxy Statement for the 2012 Annual Meeting of Stockholders.
- (10.2) Amendment of the 3M 2008 Long-Term Incentive Plan is filed herewith.
- (10.3) Form of Agreement for Stock Option Grants to Executive Officers under 3M 2008 Long-Term Incentive Plan is incorporated by reference from our Form 8-K dated May 13, 2008.
- (10.4) Form of Stock Option Agreement for options granted to Executive Officers under the 3M 2008 Long-Term Incentive Plan, commencing February 9, 2010, is incorporated by reference from our Form 10-K for the year ended December 31, 2009.

Table of Contents

- (10.5) Form of Restricted Stock Unit Agreement for restricted stock units granted to Executive Officers under the 3M Long-Term Incentive Plan, effective February 9, 2010, is incorporated by reference from our Form 10-K for the year ended December 31, 2009.
- (10.6) Form of 3M 2010 Performance Share Award under the 3M 2008 Long-Term Incentive Plan is incorporated by reference from our Form 8-K dated March 4, 2010.
- (10.7) Form of Stock Option Agreement for U.S. Employees under 3M 2008 Long-Term Incentive Plan is incorporated by reference from our Form 10-K for the year ended December 31, 2008.
- (10.8) Form of Restricted Stock Unit Agreement for U.S. Employees under 3M 2008 Long-Term Incentive Plan is incorporated by reference from our Form 10-K for the year ended December 31, 2008.
- (10.9) Amendment of the 3M 2005 Management Stock Ownership Program and the 3M 2008 Long-term Incentive Plan transfer of stock options to former spouses, is incorporated by reference from our Form 10-K for the year ended December 31, 2010.
- (10.10) 3M 2005 Management Stock Ownership Program is incorporated by reference from our Proxy Statement for the 2005 Annual Meeting of Stockholders.
- (10.11) 3M 2002 Management Stock Ownership Program is incorporated by reference from our Proxy Statement for the 2002 Annual Meeting of Stockholders.
- (10.12) Amendments of 3M 2002 and 2005 Management Stock Ownership Programs are incorporated by reference from our Form 8-K dated November 14, 2008.
- (10.13) Form of award agreement for non-qualified stock options granted under the 2005 Management Stock Ownership Program, is incorporated by reference from our Form 8-K dated May 16, 2005.
- (10.14) Form of award agreement for non-qualified stock options granted under the 2002 Management Stock Ownership Program, is incorporated by reference from our Form 10-K for the year ended December 31, 2004.
- (10.15) 3M 1997 General Employees Stock Purchase Plan, as amended through November 8, 2004, is incorporated by reference from our Form 10-K for the year ended December 31, 2004.
- (10.16) 3M Board resolution dated May 12, 2009, regarding three-year extension of 3M 1997 General Employees Stock Purchase Plan is incorporated by reference from our Form 10-Q for the quarter ended June 30, 2009.
- (10.17) Amendment of the 3M 1997 General Employees Stock Purchase Plan approved on February 9, 2010 is incorporated by reference from our Form 10-K for the year ended December 31, 2009.
- (10.18) 3M Board resolution dated February 7, 2012 extending for three additional one-year periods the General Employees Stock Purchase Plan, is incorporated by reference from our Form 10-K for the year ended December 31, 2011.
- (10.19) 3M 2012 Amended and Restated General Employees Stock Purchase Plan is incorporated by reference from our Proxy Statement for the 2012 Annual Meeting of Shareholders.
- (10.20) 3M VIP Excess Plan is incorporated by reference from our Form 8-K dated November 14, 2008.
- (10.21) Amendment of 3M VIP Excess Plan is incorporated by reference from our Form 8-K dated November 24, 2009.
- (10.22) 3M VIP (Voluntary Investment Plan) Plus is incorporated by reference from Registration Statement No. 333-73192 on Form S-8, filed on November 13, 2001.
- (10.23) Amendment of 3M VIP Plus is incorporated by reference from our Form 8-K dated November 14, 2008.
- (10.24) 3M Deferred Compensation Plan, as amended through February 2008, is incorporated by reference from our Form 8-K dated February 14, 2008.
- (10.25) Amendment of 3M Deferred Compensation Plan is incorporated by reference from our Form 8-K dated November 14, 2008.
- (10.26) 3M Deferred Compensation Excess Plan is incorporated by reference from our Form 10-K for the year ended December 31, 2009.
- (10.27) 3M Performance Awards Deferred Compensation Plan is incorporated by reference from our Form 10-K for the year ended December 31, 2009.
- (10.28) 3M Executive Annual Incentive Plan is incorporated by reference from our Form 8-K dated May 14, 2007.
- (10.29) Description of changes to 3M Compensation Plan for Non-Employee Directors is incorporated by reference from our Form 8-K dated August 8, 2005.
- (10.30) 3M Compensation Plan for Non-Employee Directors, as amended, through November 8, 2004, is incorporated by reference from our Form 10-K for the year ended December 31, 2004.
- (10.31) Amendment of 3M Compensation Plan for Non-Employee Directors is incorporated by reference from our Form 8-K dated November 14, 2008.
- (10.32) Amendment of 3M Compensation Plan for Non-Employee Directors as of August 12, 2013, is incorporated by reference from our Form 10-Q for the quarter ended September 30, 2013.

## Edgar Filing: 3M CO - Form 10-K

### Table of Contents

- (10.33) 3M Executive Life Insurance Plan, as amended, is incorporated by reference from our Form 10-K for the year ended December 31, 2003.
- (10.34) Summary of Personal Financial Planning Services for 3M Executives is incorporated by reference from our Form 10-K for the year ended December 31, 2003.
- (10.35) 3M policy on reimbursement of incentive payments is incorporated by reference from our Form 10-K for the year ended December 31, 2006.
- (10.36) Amended and Restated 3M Nonqualified Pension Plan I is incorporated by reference from our Form 8-K dated December 23, 2008.
- (10.37) Amended and Restated 3M Nonqualified Pension Plan II is incorporated by reference from our Form 8-K dated December 23, 2008.
- (10.38) 3M Nonqualified Pension Plan III is incorporated by reference from our Form 8-K dated November 14, 2008.
- (10.39) Policy on Reimbursement of Incentive Compensation (effective May 11, 2010) is incorporated by reference from our Form 10-Q dated August 4, 2010.
- (10.40) Amended and restated five-year credit agreement as of September 28, 2012, is incorporated by reference from our Form 8-K dated October 3, 2012.
- (10.41) Letter of credit agreement as of August 23, 2013 is incorporated by reference from our Form 8-K dated August 27, 2013.
- (10.42) Registration Rights Agreement as of August 4, 2009, between 3M Company and State Street Bank and Trust Company as Independent Fiduciary of the 3M Employee Retirement Income Plan, is incorporated by reference from our Form 8-K dated August 5, 2009.

Filed herewith, in addition to items specifically identified above:

- (12) Calculation of ratio of earnings to fixed charges.
- (21) Subsidiaries of the Registrant.
- (23) Consent of independent registered public accounting firm.
- (24) Power of attorney.
- (31.1) Certification of the Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002, 18 U.S.C. Section 1350.
- (31.2) Certification of the Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002, 18 U.S.C. Section 1350.
- (32.1) Certification of the Chief Executive Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, 18 U.S.C. Section 1350.
- (32.2) Certification of the Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, 18 U.S.C. Section 1350.
- (95) Mine Safety Disclosures.
- (101) The following financial information from 3M Company's Annual Report on Form 10-K for the period ended December 31, 2013, filed with the SEC on February 13, 2014, formatted in Extensible Business Reporting Language (XBRL): (i) the Consolidated Statement of Income for the years ended December 31, 2013, 2012 and 2011, (ii) the Consolidated Statement of Comprehensive Income for the years ended December 31, 2013, 2012 and 2011, (iii) the Consolidated Balance Sheet at December 31, 2013 and 2012, (iv) the Consolidated Statement of Changes in Equity for the years ended December 31, 2013, 2012 and 2011, (v) the Consolidated Statement of Cash Flows for the years ended December 31, 2013, 2012 and 2011, and (vi) Notes to Consolidated Financial Statements.

Table of Contents

**SIGNATURES**

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

3M COMPANY

By /s/ David W. Meline  
David W. Meline,  
Senior Vice President and Chief Financial Officer  
(Principal Financial Officer)  
February 13, 2014

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the Registrant and in the capacities indicated on February 13, 2014.

<b>Signature</b>	<b>Title</b>
Inge G. Thulin	Chairman of the Board, President and Chief Executive Officer (Principal Executive Officer and Director)
Nicholas C. Gangestad	Vice President, Controller and Chief Accounting Officer (Principal Accounting Officer)
Linda G. Alvarado	Director
Thomas K. Brown	Director
Vance D. Coffman	Director
Michael L. Eskew	Director
W. James Farrell	Director
Herbert L. Henkel	Director
Muhtar Kent	Director
Edward M. Liddy	Director
Robert S. Morrison	Director
Aulana L. Peters	Director
Robert J. Ulrich	Director

David W. Meline, by signing his name hereto, does hereby sign this document pursuant to powers of attorney duly executed by the other persons named, filed with the Securities and Exchange Commission on behalf of such other persons, all in the capacities and on the date stated, such persons constituting a majority of the directors of the Company.

By /s/ David W. Meline  
David W. Meline, *Attorney-in-Fact*

