3M CO
Form 10-Q
October 31, 2013
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

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

SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended September 30, 2013

Commission file number: 1-3285

3M COMPANY

(Exact name of registrant as specified in its charter)

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

(651) 733-1110

(Registrant s telephone number, including area code)

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes x No o

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

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

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

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

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

This document (excluding exhibits) contains 76 pages.

The table of contents is set forth on page 2.

The exhibit index begins on page 73.

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FORM 10-Q

For the Quarterly Period Ended September 30, 2013

PART I. Financial Information

Item 1. Financial Statements.

3M Company and Subsidiaries

Consolidated Statement of Income

(Unaudited)

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

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

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

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3M Company and Subsidiaries

Consolidated Statement of Comprehensive Income

(Unaudited)

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

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

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3M Company and Subsidiaries

Consolidated Balance Sheet

(Unaudited)

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

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

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

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3M Company and Subsidiaries

Consolidated Statement of Cash Flows

(Unaudited)

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

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

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

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3M Company and Subsidiaries

Notes to Consolidated Financial Statements

(Unaudited)

NOTE 1. Significant Accounting Policies

Basis of Presentation

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

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

Foreign Currency Translation

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

Although local currencies are typically considered as the functional currencies outside the United States, under Accounting Standards Codification (ASC) 830, *Foreign Currency Matters*, the reporting currency of a foreign entity s parent is assumed to be that entity s functional currency when the economic environment of a foreign entity is highly inflationary generally when its cumulative inflation is approximately 100 percent or more for the three years that precede the beginning of a reporting period. 3M has a subsidiary in Venezuela with operating income representing less than 1.0 percent of 3M s consolidated operating income for 2012. 3M has determined that the cumulative inflation rate of Venezuela has exceeded, and continues to exceed, 100 percent since November 2009. Accordingly, since January 1, 2010, the financial statements of the Venezuelan subsidiary have been remeasured as if its functional currency were that of its parent.

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

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

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Earnings Per Share

The difference in the weighted average 3M shares outstanding for calculating basic and diluted earnings per share attributable to 3M common shareholders is a result of the dilution associated with the Company s stock-based compensation plans. Certain options outstanding under these stock-based compensation plans were not included in the computation of diluted earnings per share attributable to 3M common shareholders because they would not have had a dilutive effect (insignificant for the three months ended September 30, 2013; 2.6 million average options for the nine months ended September 30, 2013; 6.3 million average options for the three months ended September 30, 2012; and 15.6 million average options for the nine months ended September 30, 2012). The computations for basic and diluted earnings per share follow:

Earnings Per Share Computations

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

New Accounting Pronouncements

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

In July 2012, the FASB issued ASU No. 2012-02, *Testing Indefinite-Lived Intangible Assets for Impairment.* Under this standard, entities testing long-lived intangible assets for impairment now have an option of performing a qualitative assessment to determine whether further impairment testing is necessary. If an entity determines, on the basis of qualitative factors, that the fair value of the indefinite-lived intangible asset is more-likely-than-not less than the carrying amount, the existing quantitative impairment test is required. Otherwise, no further impairment testing is required. For 3M, this ASU was effective beginning January 1, 2013. The adoption of this standard did not have a material impact on 3M s consolidated results of operations or financial condition.

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

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

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

NOTE 2. Acquisitions and Divestitures

Acquisitions:

3M makes acquisitions of certain businesses from time to time that the Company feels align with its strategic intent with respect to, among other factors, growth markets and adjacent product lines or technologies. Goodwill resulting from business combinations is largely attributable to the existing workforce of the acquired businesses and synergies expected to arise after 3M s acquisition of these businesses. In addition to business combinations, 3M periodically acquires certain tangible and/or intangible assets and purchases interests in certain enterprises that do not otherwise qualify for accounting as business combinations. These transactions are largely reflected as additional asset purchase and investment activity.

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

Divestitures:

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

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NOTE 3. Goodwill and Intangible Assets

There were no acquisitions that closed during the first nine months of 2013. The acquisition activity in the following table includes the net impacts of adjustments to the preliminary allocation of purchase price for prior year acquisitions, which increased goodwill by $3 million. The amounts in the Translation and other column in the following table primarily relate to changes in foreign currency exchange rates. The goodwill balances by business segment as of December 31, 2012 and September 30, 2013, follow:

Goodwill

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

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

As discussed in Note 13, effective in the first quarter of 2013, 3M completed a realignment of its business segments. Concurrent with this business segment realignment, certain products were also moved between business segments, with the resulting impact reflected in the goodwill balances by business segment above for all periods presented. For any product moves that resulted in reporting unit changes, the Company applied the relative fair value method to determine the impact on goodwill of the associated reporting units. During the first quarter of 2013, the Company completed its assessment of any potential goodwill impairment for reporting units impacted by this new structure and determined that no impairment existed.

Acquired Intangible Assets

3M did not complete any business combinations during the nine months ended September 30, 2013. As a result, gross balances of acquired intangible assets were primarily impacted by changes in foreign currency exchange rates. The carrying amount and accumulated amortization of acquired finite-lived intangible assets, in addition to the balance of non-amortizable intangible assets, as of September 30, 2013, and December 31, 2012, follow:

(Millions)	September 30, 2013	December 31, 2012

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

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

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

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

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

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

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NOTE 4. Supplemental Equity and Comprehensive Income Information

Consolidated Statement of Changes in Equity

Three months ended September 30, 2013

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

Nine months ended September 30, 2013

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

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

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Three months ended September 30, 2012

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

Nine months ended September 30, 2012

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

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

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

Three months ended September 30, 2013

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

Nine months ended September 30, 2013

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

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Three months ended September 30, 2012

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

Nine months ended September 30, 2012

[redacted]

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

Income taxes are not provided for foreign translation relating to permanent investments in international subsidiaries, but tax effects within cumulative translation does include impacts from items such as net investment hedge transactions. Reclassification adjustments are made to avoid double counting in comprehensive income items that are also recorded as part of net income.

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Reclassifications out of Accumulated Other Comprehensive Income Attributable to 3M

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

Sale of Subsidiary Shares

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

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NOTE 5. Supplemental Cash Flow Information

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

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

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

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NOTE 6. Income Taxes

The Company files income tax returns in the U.S. federal jurisdiction, and various states and foreign jurisdictions. With few exceptions, the Company is no longer subject to U.S. federal, state and local, or non-U.S. income tax examinations by tax authorities for years before 2004.

The IRS completed its field examination of the Company s U.S. federal income tax returns for the years 2005 through 2007 in the fourth quarter of 2009. The Company protested certain IRS positions within these tax years and entered into the administrative appeals process with the IRS during the first quarter of 2010. During the first quarter of 2010, the IRS completed its field examination of the Company s U.S. federal income tax return for the 2008 year. The Company protested certain IRS positions for 2008 and entered into the administrative appeals process with the IRS during the second quarter of 2010. During the first quarter of 2011, the IRS completed its field examination of the Company s U.S. federal income tax return for the 2009 year. The Company protested certain IRS positions for 2009 and entered into the administrative appeals process with the IRS during the second quarter of 2011. During the first quarter of 2012, the IRS completed its field examination of the Company s U.S. federal income tax return for the 2010 year. The Company protested certain IRS positions for 2010 and entered into the administrative appeals process with the IRS during the second quarter of 2012. In December 2012, the Company received a statutory notice of deficiency for the 2006 year. The Company filed a petition in Tax Court in the first quarter of 2013 relating to the 2006 tax year.

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

During the second quarter of 2011, the Company received a refund from the IRS for the 2004 tax year. During the first quarter of 2012, the Company paid the agreed upon assessments for the 2010 tax year. Payments relating to other proposed assessments arising from the 2005 through 2013 examinations may not be made until a final agreement is reached between the Company and the IRS on such assessments or upon a final resolution resulting from the administrative appeals process or judicial action. In addition to the U.S. federal examination, there is also limited audit activity in several U.S. state and foreign jurisdictions.

3M anticipates changes to the Company s uncertain tax positions due to the closing of various audit years mentioned above. Currently, the Company is not able to reasonably estimate the amount by which the liability for unrecognized tax benefits will increase or decrease during the next 12 months as a result of the ongoing income tax authority examinations. The total amounts of unrecognized tax benefits that, if recognized, would affect the effective tax rate as of September 30, 2013 and December 31, 2012, respectively, are $269 million and $185 million. The increase in uncertain tax positions is a result of ongoing income tax authority examinations.

The Company recognizes interest and penalties accrued related to unrecognized tax benefits in tax expense. The Company recognized in the consolidated statement of income on a gross basis approximately $7 million of expense and $3 million of benefit for the three months ended September 30, 2013 and September 30, 2012, respectively, and approximately $12 million of expense and $8 million of benefit for the nine months ended September 30, 2013 and September 30, 2012, respectively. At September 30, 2013 and December 31, 2012, accrued interest and penalties in the consolidated balance sheet on a gross basis were $53 million and $44 million, respectively. Included in these interest and penalty amounts are interest and penalties related to tax positions for which the ultimate deductibility is highly certain but for which there is uncertainty about the timing of such deductibility. Because of the impact of deferred tax accounting, other than interest and penalties, the disallowance of the shorter deductibility period would not affect the annual effective tax rate but would accelerate the payment of cash to the taxing authority to an earlier period.

The effective tax rate for the third quarter of 2013 was 27.4 percent, compared to 28.2 percent in the third quarter of 2012, a decrease of 0.8 percentage points, impacted by many factors. Factors that decreased the Company s effective tax rate included benefits realized for restoration of tax basis on certain assets for which depreciation deductions were previously limited, international taxes (with this international tax benefit largely due to the estimated current year geographic mix of income before taxes), the reinstatement of the U.S. research and development credit in 2013, and other items. Combined, these factors decreased the Company s effective tax rate by 3.3 percentage points. This benefit was partially offset by factors that increased the effective tax rate by 2.5 percentage points, which largely related to adjustments to 3M s income tax reserves in the third quarter of 2013 when compared to the same period of 2012.

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

The provision for income taxes is determined using the asset and liability approach. Under this approach, deferred income taxes represent the expected future tax consequences of temporary differences between the carrying amounts and tax basis of assets and liabilities. The Company records a valuation allowance to reduce its deferred tax assets when uncertainty regarding their realizability exits. As of both September 30, 2013 and December 31, 2012, the Company had valuation allowances of $29 million on its deferred tax assets.

NOTE 7. Marketable Securities

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

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

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

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Classification of marketable securities as current or non-current is dependent upon management s intended holding period, the security s maturity date and liquidity considerations based on market conditions. If management intends to hold the securities for longer than one year as of the balance sheet date, they are classified as non-current. At September 30, 2013, gross unrealized losses totaled approximately $7 million (pre-tax), while gross unrealized gains totaled approximately $1 million (pre-tax). At December 31, 2012, gross unrealized losses totaled approximately $6 million (pre-tax), while gross unrealized gains totaled approximately $3 million (pre-tax). Refer to Note 4 for a table that provides the net realized gains (losses) related to sales or impairments of debt and equity securities, which includes marketable securities. The gross amounts of the realized gains or losses were not material. Cost of securities sold use the first in, first out (FIFO) method. Since these marketable securities are classified as available-for-sale securities, changes in fair value will flow through other comprehensive income, with amounts reclassified out of other comprehensive income into earnings upon sale or other-than-temporary impairment.

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

The balances at September 30, 2013 for marketable securities by contractual maturity are shown below. Actual maturities may differ from contractual maturities because the issuers of the securities may have the right to prepay obligations without prepayment penalties.

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

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

3M s marketable securities portfolio includes auction rate securities that represent interests in investment grade credit default swaps; however, currently these holdings comprise less than one percent of this portfolio. The estimated fair value of auction rate securities was $10 million at September 30, 2013 and $7 million at December 31, 2012. Gross unrealized losses within accumulated other comprehensive income related to auction rate securities totaled $3 million (pre-tax) at September 30, 2013 and $6 million (pre-tax) at December 31, 2012. As of September 30, 2013, auction rate securities associated with these balances have been in a loss position for more than 12 months. Since the second half of 2007, these auction rate securities failed to auction due to sell orders exceeding buy orders. Liquidity for these auction-rate securities is typically provided by an auction process that resets the applicable interest rate at pre-determined intervals, usually every 7, 28, 35, or 90 days. The funds associated with failed auctions will not be accessible until a successful auction occurs or a buyer is found outside of the auction process. Refer to Note 10 for a table that reconciles the beginning and ending balances of auction rate securities.

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NOTE 8. Pension and Postretirement Benefit Plans

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

Benefit Plan Information

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

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

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

For the nine months ended September 30, 2013, contributions totaling $381 million were made to the Company s U.S. and international pension plans and $4 million to its postretirement plans. For total year 2013, the Company expects to contribute approximately $400 million to $500 million of cash to its pension and postretirement plans, primarily for its international pension plans. The Company does not have a required minimum cash pension contribution obligation for its U.S. plans in 2013. Therefore, the amount of future discretionary pension contributions could vary significantly depending on the U.S. plans funded status and the anticipated tax deductibility of the contributions. Future contributions will also depend on market conditions, interest rates and other factors. 3M s annual measurement date for pension and postretirement assets and liabilities is December 31 each year, which is also the date used for the related annual measurement assumptions.

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

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3M was informed during the first quarter of 2009 that the general partners of WG Trading Company, in which 3M s benefit plans hold limited partnership interests, are the subject of a criminal investigation as well as civil proceedings by the SEC and CFTC (Commodity Futures Trading Commission). In March 2011, over the objections of 3M and six other limited partners of WG Trading Company, the district court judge ruled in favor of the court appointed receiver s proposed distribution plan (and in April 2013, the United States Court of Appeals for the Second Circuit affirmed the district court s ruling). The benefit plan trustee holdings of WG Trading Company interests were adjusted to reflect the decreased estimated fair market value, inclusive of estimated insurance proceeds, as of the annual measurement dates. The Company has insurance that it believes, based on what is currently known, will result in the recovery of a portion of the decrease in original asset value. As of the 2012 measurement date these holdings represented less than one percent of 3M s fair value of total plan assets. 3M currently believes that the resolution of these events will not have a material adverse effect on the consolidated financial position of the Company.

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

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NOTE 9. Derivatives

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

Additional information with respect to the impacts on other comprehensive income of nonderivative hedging and derivative instruments is included in Note 4. Additional information with respect to the fair value of derivative instruments is included in Note 10. References to information regarding derivatives and/or hedging instruments associated with the Company s long-term debt are also made in Note 9 to the Consolidated Financial Statements in 3M s Current Report on Form 8-K dated May 16, 2013 (which updated 3M s 2012 Annual Report on Form 10-K).

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

Cash Flow Hedges:

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

Cash Flow Hedging - Foreign Currency Forward and Option Contracts: The Company enters into foreign exchange forward and option contracts to hedge against the effect of exchange rate fluctuations on cash flows denominated in foreign currencies and certain intercompany financing transactions. These transactions are designated as cash flow hedges. The settlement or extension of these derivatives will result in reclassifications (from accumulated other comprehensive income) to earnings in the period during which the hedged transactions affect earnings. Generally, 3M dedesignates these cash flow hedge relationships in advance of the occurrence of the forecasted transaction. The portion of gains or losses on the derivative instrument previously accumulated in other comprehensive income for dedesignated hedges remains in accumulated other comprehensive income until the forecasted transaction occurs. Changes in the value of derivative instruments after dedesignation are recorded in earnings and are included in the Derivatives Not Designated as Hedging Instruments section below. Hedge ineffectiveness and the amount excluded from effectiveness testing recognized in income on cash flow hedges were not material for the three and nine months ended September 30, 2013 and 2012. The maximum length of time over which 3M hedges its exposure to the variability in future cash flows for a majority of the forecasted transactions is 12 months and, accordingly, at September 30, 2013, the majority of the Company s open foreign exchange forward and option contracts had maturities of one year or less. The dollar equivalent gross notional amount of the Company s foreign exchange forward and option contracts designated as cash flow hedges at September 30, 2013 was approximately $7.4 billion.

Cash Flow Hedging - Commodity Price Management: The Company manages commodity price risks through negotiated supply contracts, price protection agreements and forward physical contracts. The Company uses commodity price swaps relative to natural gas as cash flow hedges of forecasted transactions to manage price volatility. The related mark-to-market gain or loss on qualifying hedges is included in other comprehensive income to the extent effective, and reclassified into cost of sales in the period during which the hedged transaction affects earnings. Generally, the length of time over which 3M hedges its exposure to the variability in future cash flows for its forecasted natural gas transactions is 12 months. No significant commodity cash flow hedges were discontinued and hedge ineffectiveness was not material for the three and nine months ended September 30, 2013 and 2012. The dollar equivalent gross notional amount of the Company s natural gas commodity price swaps designated as cash flow hedges at September 30, 2013 was $22 million.

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

As of September 30, 2013, the Company had a balance of $15 million associated with the after-tax net unrealized loss associated with cash flow hedging instruments recorded in accumulated other comprehensive income. This net loss

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

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

Three months ended September 30, 2013

(Millions)	Pretax Gain (Loss) Recognized in Other Comprehensive Income on Effective Portion of Derivative	Pretax Gain (Loss) Recognized in Income on Effective Portion of Derivative as a Result of Reclassification from Accumulated Other Comprehensive Income		Ineffective Portion of Gain (Loss) on Derivative and Amount Excluded from Effectiveness Testing Recognized in Income	
Derivatives in Cash Flow Hedging Relationships	**Amount**	**Location**	**Amount**	**Location**	**Amount**
Foreign currency forward/option contracts	$ (39)	Cost of sales	$ 1	Cost of sales	$
Foreign currency forward contracts	59	Interest expense	59	Interest expense	
Commodity price swap contracts		Cost of sales	(1)	Cost of sales	
Interest rate swap contracts		Interest expense	(1)	Interest expense	
Total	$ 20		$ 58		$

Nine months ended September 30, 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	
Derivatives in Cash Flow Hedging Relationships	**Amount**	**Location**	**Amount**	**Location**	**Amount**
Foreign currency forward/option contracts	$ 2	Cost of sales	$ (8)	Cost of sales	$
Foreign currency forward contracts	(93)	Interest expense	(94)	Interest expense	
Commodity price swap contracts	(1)	Cost of sales	(1)	Cost of sales	
Interest rate swap contracts		Interest expense	(1)	Interest expense	
Total	$ (92)		$ (104)		$

Three months ended September 30, 2012

(Millions)	Pretax Gain (Loss) Recognized in Other Comprehensive Income on Effective	Pretax Gain (Loss) Recognized in Income on Effective Portion of Derivative as a Result of Reclassification from	Ineffective Portion of Gain (Loss) on Derivative and Amount Excluded from Effectiveness Testing

Derivatives in Cash Flow Hedging Relationships	Portion of Derivative Amount		Accumulated Other Comprehensive Income Location		Amount	Recognized in Income Location		Amount
Foreign currency forward/option contracts	$	(38)	Cost of sales	$	22	Cost of sales	$	
Foreign currency forward contracts		57	Interest expense		58	Interest expense		
Commodity price swap contracts		2	Cost of sales		(1)	Cost of sales		
Interest rate swap contracts			Interest expense		(1)	Interest expense		
Total	$	21		$	78		$	

Nine months ended September 30, 2012

(Millions)	Pretax Gain (Loss) Recognized in Other Comprehensive Income on Effective Portion of Derivative		Pretax Gain (Loss) Recognized in Income on Effective Portion of Derivative as a Result of Reclassification from Accumulated Other Comprehensive Income			Ineffective Portion of Gain (Loss) on Derivative and Amount Excluded from Effectiveness Testing Recognized in Income		
Derivatives in Cash Flow Hedging Relationships	Amount		Location		Amount	Location		Amount
Foreign currency forward/option contracts	$	(20)	Cost of sales	$	31	Cost of sales	$	
Foreign currency forward contracts		45	Interest expense		45	Interest expense		
Commodity price swap contracts		(3)	Cost of sales		(9)	Cost of sales		
Interest rate swap contracts			Interest expense		(1)	Interest expense		
Total	$	22		$	66		$	

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Fair Value Hedges:

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

Fair Value Hedging - Interest Rate Swaps: The Company manages interest expense using a mix of fixed and floating rate debt. To help manage borrowing costs, the Company may enter into interest rate swaps. Under these arrangements, the Company agrees to exchange, at specified intervals, the difference between fixed and floating interest amounts calculated by reference to an agreed-upon notional principal amount. The mark-to-market of these fair value hedges is recorded as gains or losses in interest expense and is offset by the gain or loss of the underlying debt instrument, which also is recorded in interest expense. These fair value hedges are highly effective and, thus, there is no impact on earnings due to hedge ineffectiveness. The dollar equivalent (based on inception date foreign currency exchange rates) gross notional amount of the Company s interest rate swaps at September 30, 2013 was $342 million.

At September 30, 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, is amortized over this debt s remaining life. Prior to termination of the applicable portion of the interest rate swap, the mark-to-market of the hedge instrument was recorded as gains or losses in interest expense and was offset by the gain or loss on carrying value of the underlying debt instrument. Consequently, the subsequent amortization of the 18 million Euros recorded as part of the underlying debt balance is not part of the gain on hedged items recognized in income in the tables below.

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

Three months ended September 30, 2013 (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	$	(3)	Interest expense	$	3
Total		$	(3)		$	3

Nine months ended September 30, 2013 (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	$	(11)	Interest expense	$	11
Total		$	(11)		$	11

Three months ended September 30, 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	$		Interest expense	$	
Total		$			$	

Nine months ended September 30, 2012 (Millions) Derivatives in Fair Value Hedging Relationships	Gain (Loss) on Derivative Recognized in Income Location	 Amount	Gain (Loss) on Hedged Item Recognized in Income Location	 Amount
Interest rate swap contracts	Interest expense	$ (3)	Interest expense	$ 3
Total		$ (3)		$ 3

Net Investment Hedges:

As circumstances warrant, the Company uses cross currency swaps, forwards and foreign currency denominated debt to hedge portions of the Company s net investments in foreign operations. For hedges that meet the effectiveness requirements, the net gains or losses attributable to changes in spot exchange rates are recorded in cumulative translation within other comprehensive income. The remainder of the change in value of such instruments is recorded in earnings. Recognition in earnings of amounts previously recorded in cumulative translation is limited to circumstances such as complete or substantially complete liquidation of the net investment in the hedged foreign operation. At

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September 30, 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. 3M designated each of these Eurobond issuances as hedging instruments of the Company s net investment in its European subsidiaries.

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

Three months ended September 30, 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	
Foreign currency denominated debt	$	(52)	N/A	$	
Total	$	(52)		$	

Nine months ended September 30, 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	
Foreign currency denominated debt	$	(35)	N/A	$	
Total	$	(35)		$	

Three months ended September 30, 2012

Derivative and Nonderivative Instruments in Net Investment Hedging Relationships	Pretax Gain (Loss) Recognized as Cumulative Translation within Other Comprehensive Income	Ineffective Portion of Gain (Loss) on Instrument and Amount Excluded from Effectiveness Testing

(Millions)	on Effective Portion of Instrument Amount		Recognized in Income Location	Amount
Foreign currency denominated debt	$	(45)	N/A	$
Total	$	(45)		$

Nine months ended September 30, 2012

Derivative and Nonderivative Instruments in Net Investment Hedging Relationships (Millions)	Pretax Gain (Loss) Recognized as Cumulative Translation within Other Comprehensive Income on Effective Portion of Instrument Amount		Ineffective Portion of Gain (Loss) on Instrument and Amount Excluded from Effectiveness Testing Recognized in Income Location	Amount
Foreign currency denominated debt	$	5	N/A	$
Total	$	5		$

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Derivatives Not Designated as Hedging Instruments:

Derivatives not designated as hedging instruments include dedesignated foreign currency forward and option contracts that formerly were designated in cash flow hedging relationships (as referenced in the preceding Cash Flow Hedges section). In addition, 3M enters into foreign currency forward contracts and commodity price swaps to offset, in part, the impacts of certain intercompany activities (primarily associated with intercompany licensing arrangements) and fluctuations in costs associated with the use of certain precious metals, respectively. These derivative instruments are not designated in hedging relationships; therefore, fair value gains and losses on these contracts are recorded in earnings. The dollar equivalent gross notional amount of these forward, option and swap contracts not designated as hedging instruments totaled $928 million as of September 30, 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)	Three months ended September 30, 2013 Gain (Loss) on Derivative Recognized in Income			Nine months ended September 30, 2013 Gain (Loss) on Derivative Recognized in Income		
	Location	**Amount**		**Location**	**Amount**	
Foreign currency forward/option contracts	Cost of sales	$	(16)	Cost of sales	$	15
Foreign currency forward contracts	Interest expense			Interest expense		(27)
Commodity price swap contracts	Cost of sales			Cost of sales		(1)
Total		$	(16)		$	(13)

Derivatives Not Designated as Hedging Instruments (Millions)	Three months ended September 30, 2012 Gain (Loss) on Derivative Recognized in Income			Nine months ended September 30, 2012 Gain (Loss) on Derivative Recognized in Income		
	Location	**Amount**		**Location**	**Amount**	
Foreign currency forward/option contracts	Cost of sales	$	(31)	Cost of sales	$	(26)
Foreign currency forward contracts	Interest expense		14	Interest expense		26
Total		$	(17)		$	

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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 10.

September 30, 2013 (Millions) Fair Value of Derivative Instruments	Assets Location		Amount	Liabilities Location		Amount
Derivatives designated as hedging instruments						
Foreign currency forward/option contracts	Other current assets	$	58	Other current liabilities	$	54
Commodity price swap contracts	Other current assets			Other current liabilities		2
Interest rate swap contracts	Other assets		12	Other liabilities		
Total derivatives designated as hedging instruments		$	70		$	56
Derivatives not designated as hedging instruments						
Foreign currency forward/option contracts	Other current assets	$	19	Other current liabilities	$	14
Total derivatives not designated as hedging instruments		$	19		$	14
Total derivative instruments		$	89		$	70

December 31, 2012 (Millions) Fair Value of Derivative Instruments	Assets Location		Amount	Liabilities Location		Amount
Derivatives designated as hedging instruments						
Foreign currency forward/option contracts	Other current assets	$	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		
Total derivatives designated as hedging instruments		$	62		$	86
Derivatives not designated as hedging instruments						
Foreign currency forward/option contracts	Other current assets	$	10	Other current liabilities	$	20
Total derivatives not designated as hedging instruments		$	10		$	20
Total derivative instruments		$	72		$	106

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 September 30, 2013, 3M has International Swaps and Derivatives Association (ISDA) agreements with eight 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 seven 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

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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

September 30, 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	Gross Amounts not Offset in the Consolidated Balance Sheet that are Subject to Master Netting Agreements: Cash Collateral Received	Net Amount of Derivative Assets
Derivatives subject to master netting agreements	$ 77	$ 30	$	$ 47
Derivatives not subject to master netting agreements	12			12
Total	$ 89			$ 59

September 30, 2013

(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	Gross Amounts not Offset in the Consolidated Balance Sheet that are Subject to Master Netting Agreements: Cash Collateral Pledged	Net Amount of Derivative Liabilities
Derivatives subject to master netting agreements	$ 70	$ 30	$	$ 40
Derivatives not subject to master netting agreements				
Total	$ 70			$ 40

December 31, 2012

	Gross Amount of	Gross Amounts not Offset in the Consolidated Balance Sheet that are Subject to Master Netting Agreements

(Millions)	Derivative Assets Presented in the Consolidated Balance Sheet	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
Total	$ 72			$ 47

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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	Gross Amounts not Offset in the Consolidated Balance Sheet that are Subject to Master Netting Agreements: Cash Collateral Pledged	Net Amount of Derivative Liabilities
Derivatives subject to master netting agreements	$ 106	$ 25	$	$ 81
Derivatives not subject to master netting agreements				
Total	$ 106			$ 81

Currency Effects

3M estimates that year-on-year currency effects, including hedging impacts, decreased net income attributable to 3M by approximately $26 million for the three months ended September 30, 2013 and decreased net income attributable to 3M by approximately $44 million for the nine months ended September 30, 2013. This estimate includes the effect of translating profits from local currencies into U.S. dollars and the impact of currency fluctuations on the transfer of goods between 3M operations in the United States and abroad. This estimate also includes year-on-year currency effects from transaction gains and losses, including derivative instruments designed to reduce foreign currency exchange rate risks and the negative impact of swapping Venezuelan bolivars into U.S. dollars, which 3M estimates decreased net income attributable to 3M by approximately $14 million for three months ended September 30, 2013 and decreased net income attributable to 3M by approximately $4 million for the nine months ended September 30, 2013.

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NOTE 10. Fair Value Measurements

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

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

For 3M, assets and liabilities that are measured at fair value on a recurring basis primarily relate to available-for-sale marketable securities, available-for-sale investments (included as part of investments in the Consolidated Balance Sheet) and certain derivative instruments. Derivatives include cash flow hedges, interest rate swaps and most net investment hedges. The information in the following paragraphs and tables primarily addresses matters relative to these financial assets and liabilities. Separately, there were no material fair value measurements with respect to nonfinancial assets or liabilities that are recognized or disclosed at fair value in the Company s financial statements on a recurring basis for the three and nine month periods ended September 30, 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 7.

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

As discussed in Note 7, auction rate securities held by 3M failed to auction since the second half of 2007. As a result, investments in auction rate securities are valued utilizing third-party indicative bid levels in markets that are not active and broker-dealer valuation models that utilize inputs such as current/forward interest rates, current market conditions and credit default swap spreads. 3M classifies these securities as level 3.

Available-for-sale investments:

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

Derivative instruments:

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

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

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

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

(Millions) Description	Fair Value at September 30, 2013	Level 1	Fair Value Measurements Using Inputs Considered as Level 2	Level 3
Assets:				
Available-for-sale:				
Marketable securities:				
U.S. government agency securities	$ 377	$	$ 377	$
Foreign government agency securities	131		131	
Corporate debt securities	732		732	
Certificates of deposit/time deposits	68		68	
Commercial paper	60		60	
Asset-backed securities:				
Automobile loan related	738		738	
Credit card related	166		166	
Equipment lease related	85		85	
Other	60		60	
U.S. treasury securities	89	89		
U.S. municipal securities	2		2	
Auction rate securities	10			10
Investments	3	3		
Derivative instruments assets:				
Foreign currency forward/option contracts	77	77		
Interest rate swap contracts	12		12	
Liabilities:				
Derivative instruments liabilities:				
Foreign currency forward/option contracts	68	68		
Commodity price swap contracts	2	2		

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(Millions) Description	Fair Value at December 31, 2012	Level 1	Fair Value Measurements Using Inputs Considered as Level 2	Level 3
Assets:				
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	
Liabilities:				
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) Marketable securities auction rate securities only	Three months ended September 30, 2013	2012	Nine months ended September 30, 2013	2012
Beginning balance	**$ 10**	$ 4	**$ 7**	$ 4
Total gains or losses:				
Included in earnings				
Included in other comprehensive income		2	**3**	2
Purchases, issuances, and settlements				
Transfers in and/or out of Level 3				
Ending balance	**10**	6	**10**	6
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 in 3M s Current Report on Form 8-K dated May 16, 2013 (which updated 3M s 2012 Annual Report on Form 10-K).

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 the three and nine months ended September 30, 2013 and 2012.

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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 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:

	September 30, 2013		**December 31, 2012**	
(Millions)	**Carrying Value**	**Fair Value**	**Carrying Value**	**Fair Value**
Eurobond securities (long-term in 2012 and short-term at September 30, 2013)	**$ 1,404**	**$ 1,435**	$ 1,383	$ 1,443
Long-term debt, excluding current portion and Eurobond securities	**3,533**	**3,695**	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 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. Most of 3M s fixed-rate bonds were trading at a premium at September 30, 2013 and December 31, 2012 due to lower interest rates and tighter 3M credit spreads compared to levels at issuance.

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NOTE 11. Commitments and Contingencies

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. Additional information can be found in Note 13 Commitments and Contingencies in the Company s Annual Report on Form 10-K for the year ended December 31, 2012, as updated by the Company s Current Report on Form 8-K dated May 16, 2013, including information about the Company s process for disclosure and recording of liabilities and insurance receivables related to legal proceedings.

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 taken accruals and the related insurance receivables:

Liability and Receivable Balances

(Millions)	**September 30, 2013**	**December 31, 2012**
Respirator mask/asbestos liabilities	**$ 156**	$ 154
Respirator mask/asbestos insurance receivables	**67**	87
Environmental remediation liabilities	**$ 26**	$ 29
Environmental remediation insurance receivables	**11**	11
Other environmental liabilities	**$ 49**	$ 57
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 September 30, 2013, the Company is a named defendant, with multiple co-defendants, in numerous lawsuits in various courts that purport to represent approximately 2,180 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, 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

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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, but no further activity has occurred in the case since that conference. 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 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 a jury allocates to each defendant if the case is ultimately tried.

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), (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 the first nine months of 2013 for respirator mask/asbestos liabilities by $37 million, $13 million of which occurred in the third quarter of 2013. In the first nine months of 2013, the Company made payments for fees and settlements of $33 million related to the respirator mask/asbestos litigation, $13 million of which occurred in the third quarter of 2013. As of September 30, 2013, the Company had accruals for respirator mask/asbestos liabilities of $130 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 September 30, 2013, the Company s receivable for insurance recoveries related to the respirator mask/asbestos litigation was $67 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

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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 the first nine months of 2013, the Company received payments of $20 million from settlements with insurers, $10 million of which occurred in the third quarter of 2013.

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 September 30, 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 September 30, 2013, the Company, through its Aearo subsidiary, has recorded $26 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 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.

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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.

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 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 late 2013 or 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.

3M continues 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 includes 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 will submit an updated analysis of the sampling work in 2013.

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.

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 2013 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

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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 2013.

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 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

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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 damages in excess of $50,000 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. 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. 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. The trial court stayed the NRD Lawsuit for up to 180 days following issuance of the Minnesota Supreme Court s decision to give the State time 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. The settlement is subject to Court approval. A hearing to approve the settlement has been scheduled for December 2013. The proposed 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 proposed 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 September 30, 2013, the Company had recorded liabilities of $26 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

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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 September 30, 2013, the Company had recorded liabilities of $49 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 September 30, 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 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).