3M CO
Form 10-Q
August 02, 2012
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

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

For the quarterly period ended June 30, 2012

Commission file number: 1-3285

3M COMPANY

(Exact name of registrant as specified in its charter)

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

(651) 733-1110

(Registrant s telephone number, including area code)

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

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

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

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

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

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

Class	**Outstanding at June 30, 2012**
Common Stock, $0.01 par value per share	691,319,463 shares

This document (excluding exhibits) contains 75 pages.

The table of contents is set forth on page 2.

The exhibit index begins on page 72.

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FORM 10-Q

For the Quarterly Period Ended June 30, 2012

PART I. Financial Information

Item 1. Financial Statements.

3M Company and Subsidiaries

Consolidated Statement of Income

(Unaudited)

(Millions, except per share amounts)	Three months ended June 30, 2012	Three months ended June 30, 2011	Six months ended June 30, 2012	Six months ended June 30, 2011
Net sales	**$ 7,534**	$ 7,680	**$ 15,020**	$ 14,991
Operating expenses				
Cost of sales	**3,870**	4,040	**7,759**	7,842
Selling, general and administrative expenses	**1,528**	1,581	**3,080**	3,114
Research, development and related expenses	**408**	404	**819**	802
Total operating expenses	**5,806**	6,025	**11,658**	11,758
Operating income	**1,728**	1,655	**3,362**	3,233
Interest expense and income				
Interest expense	**43**	50	**83**	93
Interest income	**(10)**	(9)	**(19)**	(19)
Total interest expense net	**33**	41	**64**	74
Income before income taxes	**1,695**	1,614	**3,298**	3,159
Provision for income taxes	**509**	437	**971**	879
Net income including noncontrolling interest	**$ 1,186**	$ 1,177	**$ 2,327**	$ 2,280
Less: Net income attributable to noncontrolling interest	**19**	17	**35**	39
Net income attributable to 3M	**$ 1,167**	$ 1,160	**$ 2,292**	$ 2,241
Weighted average 3M common shares outstanding basic	**694.3**	713.4	**695.5**	712.5
Earnings per share attributable to 3M common shareholders basic	**$ 1.68**	$ 1.63	**$ 3.30**	$ 3.15
Weighted average 3M common shares outstanding diluted	**702.6**	726.5	**704.4**	726.4
Earnings per share attributable to 3M common shareholders diluted	**$ 1.66**	$ 1.60	**$ 3.25**	$ 3.09
Cash dividends paid per 3M common share	**$ 0.59**	$ 0.55	**$ 1.18**	$ 1.10

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 June 30, 2012	Three months ended June 30, 2011	Six months ended June 30, 2012	Six months ended June 30, 2011
Net income including noncontrolling interest	**$ 1,186**	$ 1,177	**$ 2,327**	$ 2,280
Other comprehensive income (loss), net of tax:				
Cumulative translation adjustment	**(335)**	234	**(201)**	476
Defined benefit pension and postretirement plans adjustment	**98**	54	**195**	130
Debt and equity securities, unrealized gain (loss)	**(2)**	(2)	**1**	(3)
Cash flow hedging instruments, unrealized gain (loss)	**23**		**8**	(17)
Total other comprehensive income (loss), net of tax	**(216)**	286	**3**	586
Comprehensive income (loss) including noncontrolling interest	**970**	1,463	**2,330**	2,866
Comprehensive (income) loss attributable to noncontrolling interest	**(30)**	(27)	**(25)**	(43)
Comprehensive income (loss) attributable to 3M	**$ 940**	$ 1,436	**$ 2,305**	$ 2,823

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)		June 30, 2012		December 31, 2011
Assets				
Current assets				
Cash and cash equivalents	$	3,308	$	2,219
Marketable securities current		1,595		1,461
Accounts receivable net		4,364		3,867
Inventories				
Finished goods		1,688		1,536
Work in process		1,095		1,061
Raw materials and supplies		873		819
Total inventories		3,656		3,416
Other current assets		1,165		1,277
Total current assets		14,088		12,240
Marketable securities non-current		1,031		896
Investments		152		155
Property, plant and equipment		21,443		21,166
Less: Accumulated depreciation		(13,737)		(13,500)
Property, plant and equipment net		7,706		7,666
Goodwill		7,069		7,047
Intangible assets net		1,842		1,916
Prepaid pension benefits		45		40
Other assets		1,406		1,656
Total assets	$	33,339	$	31,616
Liabilities				
Current liabilities				
Short-term borrowings and current portion of long-term debt	$	650	$	682
Accounts payable		1,792		1,643
Accrued payroll		593		676
Accrued income taxes		440		355
Other current liabilities		2,232		2,085
Total current liabilities		5,707		5,441
Long-term debt		5,657		4,484
Pension and postretirement benefits		3,355		3,972
Other liabilities		1,747		1,857
Total liabilities	$	16,466	$	15,754
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		3,954		3,767
Retained earnings		29,465		28,348
		(12,010)		(11,679)

Treasury stock, at cost: 252,713,593 shares at June 30, 2012; 249,063,015 shares at December 31, 2011				
Accumulated other comprehensive income (loss)		**(5,012)**		(5,025)
Total 3M Company shareholders equity		**16,406**		15,420
Noncontrolling interest		**467**		442
Total equity	**$**	**16,873**	$	15,862
Total liabilities and equity	**$**	**33,339**	$	31,616

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

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3M Company and Subsidiaries

Consolidated Statement of Cash Flows

(Unaudited)

(Millions)	Six months ended June 30, 2012	2011
Cash Flows from Operating Activities		
Net income including noncontrolling interest	**$ 2,327**	$ 2,280
Adjustments to reconcile net income including noncontrolling interest to net cash provided by operating activities		
Depreciation and amortization	**634**	608
Company pension and postretirement contributions	**(672)**	(125)
Company pension and postretirement expense	**335**	268
Stock-based compensation expense	**145**	172
Deferred income taxes	**86**	5
Excess tax benefits from stock-based compensation	**(41)**	(49)
Changes in assets and liabilities		
Accounts receivable	**(553)**	(586)
Inventories	**(268)**	(376)
Accounts payable	**150**	100
Accrued income taxes (current and long-term)	**226**	128
Product and other insurance receivables and claims	**(63)**	(39)
Other net	**(89)**	(202)
Net cash provided by operating activities	**2,217**	2,184
Cash Flows from Investing Activities		
Purchases of property, plant and equipment (PP&E)	**(619)**	(526)
Proceeds from sale of PP&E and other assets	**8**	5
Acquisitions, net of cash acquired	**(144)**	(487)
Purchases of marketable securities and investments	**(2,311)**	(1,425)
Proceeds from sale of marketable securities and investments	**1,027**	686
Proceeds from maturities of marketable securities	**1,181**	944
Other investing	**4**	(6)
Net cash used in investing activities	**(854)**	(809)
Cash Flows from Financing Activities		
Change in short-term debt net	**(34)**	(13)
Repayment of debt (maturities greater than 90 days)	**(18)**	(143)
Proceeds from debt (maturities greater than 90 days)	**1,244**	109
Purchases of treasury stock	**(1,163)**	(1,358)
Proceeds from issuance of treasury stock pursuant to stock option and benefit plans	**479**	753
Dividends paid to shareholders	**(820)**	(783)
Excess tax benefits from stock-based compensation	**41**	49
Other net		(51)
Net cash used in financing activities	**(271)**	(1,437)
Effect of exchange rate changes on cash and cash equivalents	**(3)**	61
Net increase (decrease) in cash and cash equivalents	**1,089**	(1)
Cash and cash equivalents at beginning of year	**2,219**	3,377
Cash and cash equivalents at end of period	**$ 3,308**	$ 3,376

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

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3M Company and Subsidiaries

Notes to Consolidated Financial Statements

(Unaudited)

NOTE 1. Significant Accounting Policies

Basis of Presentation

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

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 (21.3 million average options for the three months ended June 30, 2012; 20.3 million average options for the six months ended June 30, 2012; 3.7 million average options for the three months ended June 30, 2011; and 3.6 million average options for the six months ended June 30, 2011). The computations for basic and diluted earnings per share follow:

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Earnings Per Share Computations

(Amounts in millions, except per share amounts)	Three months ended June 30, 2012	Three months ended June 30, 2011	Six months ended June 30, 2012	Six months ended June 30, 2011
Numerator:				
Net income attributable to 3M	**$ 1,167**	$ 1,160	**$ 2,292**	$ 2,241
Denominator:				
Denominator for weighted average 3M common shares outstanding basic	**694.3**	713.4	**695.5**	712.5
Dilution associated with the Company s stock-based compensation plans	**8.3**	13.1	**8.9**	13.9
Denominator for weighted average 3M common shares outstanding diluted	**702.6**	726.5	**704.4**	726.4
Earnings per share attributable to 3M common shareholders basic	**$ 1.68**	$ 1.63	**$ 3.30**	$ 3.15
Earnings per share attributable to 3M common shareholders diluted	**$ 1.66**	$ 1.60	**$ 3.25**	$ 3.09

New Accounting Pronouncements

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

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

In December 2011, the FASB issued ASU No. 2011-11, *Disclosures About Offsetting Assets and Liabilities*, which creates new disclosure requirements regarding the nature of an entity s rights of setoff and related arrangements associated with its financial instruments and derivative instruments. Certain disclosures of the amounts of certain instruments subject to enforceable master netting arrangements or similar agreements would be required, irrespective of whether the entity has elected to offset those instruments in the statement of financial position. For 3M, the ASU is effective January 1, 2013 with retrospective application required. Since this standard impacts disclosure requirements only, its adoption will not have a material impact on 3M s consolidated results of operations or financial condition.

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NOTE 2. Acquisitions

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

During the six months ended June 30, 2012, the purchase price paid for business combinations (net of cash acquired) aggregated to $144 million. Adjustments in the first half of 2012 to the preliminary purchase price allocations of other acquisitions within the allocation period were not material and related to the 2011 acquisitions of Wintherthur Technologie AG and the business acquired from GPI Group. The allocation of purchase price related to the business purchased from GPI Group in October 2011 is considered preliminary, largely with respect to tax-related assets and liabilities. Refer to Note 2 in 3M s 2011 Annual Report on Form 10-K for more information on 3M s 2011 acquisitions.

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

Purchased identifiable finite-lived intangible assets related to the acquisition which closed in the first six months of 2012 totaled $60 million and will be amortized on a straight-line basis over a weighted-average life of 14 years (lives ranging from 2 to 15 years). Acquired in-process research and development and identifiable intangible assets for which significant assumed renewals or extensions of underlying arrangements impacted the determination of their useful lives were not material. Pro forma information related to acquisitions was not included because the impact on the Company s consolidated results of operations was not considered to be material.

The following two transactions are expected to be completed in the second half of 2012, subject to customary closing conditions including any necessary regulatory approvals:

In December 2011, 3M (Consumer and Office Business) entered into a definitive agreement to acquire the Office and Consumer Products business of Avery Dennison Corp. for a total purchase price of approximately $550 million, subject to post-closing adjustments. The Office and Consumer Products business of Avery Dennison, which is headquartered in Brea, California, is a leading supplier of office and education products, including labels, binders, presentation products, filing and indexing products, writing instruments, and other office and home organization products.

In June 2012, 3M (Display and Graphics Business) entered into an agreement to acquire the business of Federal Signal Technologies Group from Federal Signal Corp., for a total purchase price of approximately $110 million, subject to post-closing adjustments. This business focuses on electronic toll collection and parking management hardware and software services, with primary facilities in Arizona, California, Illinois, Michigan, Missouri, North Carolina, Tennessee, Texas, Hong Kong, Dubai and the U.K.

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NOTE 3. Goodwill and Intangible Assets

Purchased goodwill related to the acquisition which closed during the first six months of 2012 totaled $94 million, none of which is deductible for tax purposes. The acquisition activity in the following table includes the net impacts of adjustments to the preliminary allocation of purchase price for prior year acquisitions, which increased goodwill by $12 million. The amounts in the Translation and other column in the following table primarily relate to changes in foreign currency exchange rates. The goodwill balances by business segment as of December 31, 2011 and June 30, 2012, follow:

Goodwill

(Millions)	December 31, 2011 Balance	Acquisition activity	Translation and other	June 30, 2012 Balance
Industrial and Transportation	$ 1,961	$ 6	$ (9)	$ 1,958
Health Care	1,514	94	(28)	1,580
Consumer and Office	228	6	2	236
Safety, Security and Protection Services	1,675		(21)	1,654
Display and Graphics	993		(11)	982
Electro and Communications	676		(17)	659
Total Company	$ 7,047	$ 106	$ (84)	$ 7,069

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

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

Acquired Intangible Assets

For the six months ended June 30, 2012, intangible assets (excluding goodwill) acquired through business combinations increased balances, with this impact more than offset 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 June 30, 2012, and December 31, 2011, follow:

(Millions)	June 30, 2012	December 31, 2011

Patents	**$**	**555**	$	561
Other amortizable intangible assets (primarily tradenames and customer related intangibles)		**2,280**		2,323
Total gross carrying amount	**$**	**2,835**	$	2,884
Accumulated amortization patents		**(385)**		(374)
Accumulated amortization other		**(729)**		(717)
Total accumulated amortization	**$**	**(1,114)**	$	(1,091)
Total finite-lived intangible assets net	**$**	**1,721**	$	1,793
Non-amortizable intangible assets (tradenames)		**121**		123
Total intangible assets net	**$**	**1,842**	$	1,916

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Amortization expense for acquired intangible assets for the three-month and six-month periods ended June 30, 2012 and 2011 follows:

	Three months ended June 30,		Six months ended June 30,	
(Millions)	**2012**	**2011**	**2012**	**2011**
Amortization expense	**$ 58**	$ 63	**$ 116**	$ 117

The table below shows expected amortization expense for acquired amortizable intangible assets recorded as of June 30, 2012:

	Remainder of 2012	**2013**	**2014**	**2015**	**2016**	**2017**	**After 2017**
Amortization expense	$ 115	$ 216	$ 193	$ 180	$ 167	$ 154	$ 696

The expected amortization expense is an estimate. Actual amounts of amortization expense may differ from estimated amounts due to 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 June 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 March 31, 2012	$ 16,619	$ 3,903	$ 28,858	$ (11,794)	$ (4,785)	$ 437
Net income	1,186		1,167			19
Other comprehensive income (loss), net of tax:						
Cumulative translation adjustment	(335)				(346)	11
Defined benefit pension and post-retirement plans adjustment	98				98	
Debt and equity securities - unrealized gain (loss)	(2)				(2)	
Cash flow hedging instruments - unrealized gain/(loss)	23				23	
Total other comprehensive income (loss), net of tax	(216)					
Dividends paid	(410)		(410)			
Stock-based compensation, net of tax impacts	60	60				
Reacquired stock	(633)			(633)		
Issuances pursuant to stock option and benefit plans	267		(150)	417		
Balance at June 30, 2012	$ 16,873	$ 3,963	$ 29,465	$ (12,010)	$ (5,012)	$ 467

Six months ended June 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	2,327		2,292			35
Other comprehensive income (loss), net of tax:						
Cumulative translation adjustment	(201)				(191)	(10)
	195				195	

Defined benefit pension and post-retirement plans adjustment						
Debt and equity securities - unrealized gain (loss)	1				1	
Cash flow hedging instruments - unrealized gain/(loss)	8				8	
Total other comprehensive income (loss), net of tax	3					
Dividends paid	(820)		(820)			
Stock-based compensation, net of tax impacts	187	187				
Reacquired stock	(1,167)			(1,167)		
Issuances pursuant to stock option and benefit plans	481		(355)	836		
Balance at June 30, 2012	$ 16,873	$ 3,963	$ 29,465	$ (12,010)	$ (5,012)	$ 467

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Three months ended June 30, 2011

		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 March 31, 2011	$ 16,887	$ 3,608	$ 26,521	$ (10,398)	$ (3,237)	$ 393
Net income	1,177		1,160			17
Other comprehensive income (loss), net of tax:						
Cumulative translation adjustment	234				225	9
Defined benefit pension and post-retirement plans adjustment	54				53	1
Debt and equity securities - unrealized gain (loss)	(2)				(2)	
Cash flow hedging instruments - unrealized gain/(loss)						
Total other comprehensive income (loss), net of tax	286					
Dividends paid	(391)		(391)			
Purchase and sale of subsidiary shares - net	(9)	(1)				(8)
Stock-based compensation, net of tax impacts	85	85				
Reacquired stock	(669)			(669)		
Issuances pursuant to stock option and benefit plans	376		(180)	556		
Balance at June 30, 2011	$ 17,742	$ 3,692	$ 27,110	$ (10,511)	$ (2,961)	$ 412

Six months ended June 30, 2011

		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, 2010	$ 16,017	$ 3,477	$ 25,995	$ (10,266)	$ (3,543)	$ 354
Net income	2,280		2,241			39
Other comprehensive income (loss), net of tax:						
Cumulative translation adjustment	476				473	3
Defined benefit pension and post-retirement plans adjustment	130				129	1
Debt and equity securities - unrealized gain (loss)	(3)				(3)	
Cash flow hedging instruments - unrealized gain/(loss)	(17)				(17)	

Total other comprehensive income (loss), net of tax	586					
Dividends paid	(783)		(783)			
Business combination allocation to noncontrolling interest	56					56
Purchase and sale of subsidiary shares - net	(42)	(1)				(41)
Stock-based compensation, net of tax impacts	216	216				
Reacquired stock	(1,344)			(1,344)		
Issuances pursuant to stock option and benefit plans	756		(343)	1,099		
Balance at June 30, 2011	$ 17,742	$ 3,692	$ 27,110	$ (10,511)	$ (2,961)	$ 412

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Accumulated Other Comprehensive Income (Loss) Attributable to 3M

(Millions)	June 30, 2012	December 31, 2011
Cumulative translation adjustment	$ (77)	$ 114
Defined benefit pension and postretirement plans adjustment	(4,960)	(5,155)
Debt and equity securities, unrealized gain (loss)	(5)	(6)
Cash flow hedging instruments, unrealized gain (loss)	30	22
Total accumulated other comprehensive income (loss)	$ (5,012)	$ (5,025)

Components of Comprehensive Income (Loss) Attributable to 3M

	Three months ended June 30,		Six months ended June 30,	
(Millions)	2012	2011	2012	2011
Net income attributable to 3M	$ 1,167	$ 1,160	$ 2,292	$ 2,241
Cumulative translation	(324)	205	(169)	426
Tax effect	(22)	20	(22)	47
Cumulative translation - net of tax	(346)	225	(191)	473
Defined benefit pension and postretirement plans adjustment	154	119	307	238
Tax effect	(56)	(66)	(112)	(109)
Defined benefit pension and postretirement plans adjustment - net of tax	98	53	195	129
Debt and equity securities, unrealized gain (loss)	(3)	(3)	2	(5)
Tax effect	1	1	(1)	2
Debt and equity securities, unrealized gain (loss) - net of tax	(2)	(2)	1	(3)
Cash flow hedging instruments, unrealized gain (loss)	37	1	13	(26)
Tax effect	(14)	(1)	(5)	9
Cash flow hedging instruments unrealized gain (loss) - net of tax	23		8	(17)
Total comprehensive income (loss) attributable to 3M	$ 940	$ 1,436	$ 2,305	$ 2,823

Reclassification adjustments are made to avoid double counting in comprehensive income items that are also recorded as part of net income. Reclassifications to earnings from accumulated other comprehensive income including noncontrolling interest that related to pension and postretirement expense in the income statement were $154 million pre-tax ($98 million after-tax) for the three months ended June 30, 2012, $307 million pre-tax ($195 million after-tax) for the six months ended June 30, 2012, $119 million pre-tax ($54 million after-tax) for the three months ended June 30, 2011, and $238 million pre-tax ($130 million after-tax) for the six months ended June 30, 2011. These pension and postretirement expense pre-tax amounts are shown in the table in Note 8 as amortization of transition (asset) obligation, amortization of prior service cost (benefit) and amortization of net actuarial (gain) loss. Cash flow hedging instruments reclassifications are provided in Note 9. Reclassifications to earnings from accumulated other comprehensive income that related to realized losses due to sales or impairments (net of realized gains) for debt and equity securities were not material for the three months ended June 30, 2012 and $1 million pre-tax ($1 million after-tax) for the six months ended June 30, 2012. Reclassifications to earnings from accumulated other comprehensive income that related to realized gains due to sales of debt and equity securities were $2 million pre-tax ($1 million after-tax) for the three months ended June 30, 2011 and $2 million pre-tax ($1 million after-tax) for the six months ended June 30, 2011. Income taxes are not provided for foreign translation relating to permanent investments in international subsidiaries, but tax effects within cumulative translation does include impacts from items such as net investment hedge transactions.

Purchase and Sale of Subsidiary Shares

As discussed in Note 2 in 3M s 2011 Annual Report on Form 10-K, in early March 2011, 3M acquired a controlling interest in Winterthur Technologie AG (Winterthur), making Winterthur a consolidated subsidiary as of this business acquisition date. As of this business acquisition date, noncontrolling interest related to Winterthur totaled $56 million. Subsequent to this business acquisition date, 3M purchased additional outstanding shares of its Winterthur subsidiary increasing 3M s

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ownership interest from approximately 86 percent as of the business acquisition date to approximately 98 percent as of June 30, 2011, and subsequently to 100 percent as of December 31, 2011. The $50 million of cash paid in the first six months of 2011 as a result of these additional purchases of Winterthur shares was classified as other financing activity in the consolidated statement of cash flows. These additional purchases did not result in a material transfer from noncontrolling interest to 3M Company shareholders equity. In addition, during the first six months of 2011, 3M sold a noncontrolling interest in a newly formed subsidiary for an immaterial amount, which was also classified as other financing activity in the consolidated statement of cash flows.

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NOTE 5. Income Taxes

The Company files income tax returns in the U.S. federal jurisdiction, and various states and foreign jurisdictions. With few exceptions, the Company is no longer subject to U.S. federal, state and local, or non-U.S. income tax examinations by tax authorities for years before 2003.

The IRS completed its field examination of the Company s U.S. federal income tax returns for the years 2005 through 2007 in the fourth quarter of 2009. The Company protested certain IRS positions within these tax years and entered into the administrative appeals process with the IRS during the first quarter of 2010. During the first quarter of 2010, the IRS completed its field examination of the Company s U.S. federal income tax return for the 2008 year. The Company protested certain IRS positions for 2008 and entered into the administrative appeals process with the IRS during the second quarter of 2010. During the first quarter of 2011, the IRS completed its field examination of the Company s U.S. federal income tax return for the 2009 year. The Company protested certain IRS positions for 2009 and entered into the administrative appeals process with the IRS during the second quarter of 2011. During the first quarter of 2012, the IRS completed its field examination of the Company s U.S. federal income tax return for the 2010 year. The Company protested certain IRS positions for 2010 and entered into the administrative appeals process with the IRS during the second quarter of 2012.

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

During the first quarter of 2010, the Company paid the agreed upon assessments for the 2005 tax year. During the second quarter of 2010, the Company paid the agreed upon assessments for the 2008 tax year. During the second quarter of 2011, the Company received a refund from the IRS for the 2004 tax year. During the first quarter of 2012, the Company paid the agreed upon assessments for the 2010 tax year. Payments relating to other proposed assessments arising from the 2005 through 2012 examinations may not be made until a final agreement is reached between the Company and the IRS on such assessments or upon a final resolution resulting from the administrative appeals process or judicial action. In addition to the U.S. federal examination, there is also limited audit activity in several U.S. state and foreign jurisdictions.

3M anticipates changes to the Company s uncertain tax positions due to the closing of various audit years mentioned above. Currently, the Company is not able to reasonably estimate the amount by which the liability for unrecognized tax benefits will increase or decrease during the next 12 months as a result of the ongoing income tax authority examinations. The total amounts of unrecognized tax benefits that, if recognized, would affect the effective tax rate are $242 million and $295 million as of June 30, 2012 and December 31, 2011, respectively.

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 $1 million of benefit and $5 million of expense for the three months ended June 30, 2012 and June 30, 2011, respectively, and approximately $5 million of benefit and $3 million of expense for the six months ended June 30, 2012 and June 30, 2011, respectively. At June 30, 2012 and December 31, 2011, accrued interest and penalties in the consolidated balance sheet on a gross basis were $51 million and $56 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 second quarter of 2012 was 30.1 percent, compared to 27.1 percent in the second quarter of 2011, an increase of 3.0 percentage points. The effective tax rate for the first six months of 2012 was 29.5 percent, compared to 27.8 percent in the first six months of 2011, an increase of 1.7 percentage points. Various factors increased or decreased the effective tax rate when compared to the same periods last year. Factors which increased the Company s effective tax rate year-on-year included international taxes, specifically with respect to the corporate reorganization of a wholly owned international subsidiary (which benefited 2011), adjustments to its income tax reserves, and the lapse of the U.S. research and development credit. These factors, when compared to the same periods last year, increased the effective tax rate in the second quarter and first six months of 2012 by 4.9 and 2.9 percentage points, respectively. Factors which decreased the effective tax rate year-on-year included international taxes as a result of changes to the geographic mix of income before taxes and benefits from certain realized credits. These factors, when compared to the

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same periods last year, decreased the effective tax rate in the second quarter and first six months of 2012 by 1.9 and 1.2 percentage points, respectively.

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 June 30, 2012 and December 31, 2011, the Company had valuation allowances of $29 million and $82 million on its deferred tax assets, respectively. The valuation allowance was reduced in the first quarter of 2012 due to the closure of audits with certain taxing authorities.

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NOTE 6. Marketable Securities

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

(Millions)	June 30, 2012	December 31, 2011
U.S. government agency securities	**$ 188**	$ 119
Foreign government agency securities	**3**	8
Corporate debt securities	**455**	413
Commercial paper	**254**	30
Certificates of deposit/time deposits	**36**	49
U.S. treasury securities	**20**	
U.S. municipal securities	**17**	9
Asset-backed securities:		
Automobile loan related	**453**	530
Credit card related	**112**	244
Equipment lease related	**56**	54
Other	**1**	5
Asset-backed securities total	**622**	833
Current marketable securities	**$ 1,595**	$ 1,461
U.S. government agency securities	**$ 400**	$ 361
Foreign government agency securities	**31**	15
Corporate debt securities	**364**	255
U.S. treasury securities	**17**	34
U.S. municipal securities	**24**	5
Auction rate securities	**4**	4
Asset-backed securities:		
Automobile loan related	**159**	188
Credit card related	**23**	24
Equipment lease related	**9**	10
Asset-backed securities total	**191**	222
Non-current marketable securities	**$ 1,031**	$ 896
Total marketable securities	**$ 2,626**	$ 2,357

Classification of marketable securities as current or non-current is dependent upon management s intended holding period, the security s maturity date and liquidity considerations based on market conditions. If management intends to hold the securities for longer than one year as of the balance sheet date, they are classified as non-current. At June 30, 2012, gross unrealized losses totaled approximately $9 million (pre-tax), while gross unrealized gains totaled approximately $2 million (pre-tax). At December 31, 2011, gross unrealized losses totaled approximately $12 million (pre-tax), while gross unrealized gains totaled approximately $3 million (pre-tax). Gross realized gains and losses on sales or maturities of marketable securities for the first six months of 2012 and 2011 were not material. Cost of securities sold use the first in, first out (FIFO) method. Since these marketable securities are classified as available-for-sale securities, changes in fair value will flow through other comprehensive income, with amounts reclassified out of other comprehensive income into earnings upon sale or other-than-temporary impairment.

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

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The balances at June 30, 2012 for marketable securities by contractual maturity are shown below. Actual maturities may differ from contractual maturities because the issuers of the securities may have the right to prepay obligations without prepayment penalties.

(Millions)		June 30, 2012
Due in one year or less	$	1,154
Due after one year through three years		1,225
Due after three years through five years		241
Due after five years		6
Total marketable securities	$	2,626

3M has a diversified marketable securities portfolio of $2.626 billion as of June 30, 2012. Within this portfolio, current and long-term asset-backed securities (estimated fair value of $813 million) are primarily comprised of interests in automobile loans and credit cards. At June 30, 2012, all asset-backed securities were rated AAA or A-1+ by Standard & Poor s and/or Aaa or P-1 by Moody s.

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 $4 million as of June 30, 2012 and December 31, 2011. Gross unrealized losses within accumulated other comprehensive income related to auction rate securities totaled $9 million (pre-tax) as of June 30, 2012 and December 31, 2011. As of June 30, 2012, auction rate securities associated with these balances have been in a loss position for more than 12 months. Since the second half of 2007, these auction rate securities failed to auction due to sell orders exceeding buy orders. Liquidity for these auction-rate securities is typically provided by an auction process that resets the applicable interest rate at pre-determined intervals, usually every 7, 28, 35, or 90 days. The funds associated with failed auctions will not be accessible until a successful auction occurs or a buyer is found outside of the auction process. Refer to Note 10 for a table that reconciles the beginning and ending balances of auction rate securities.

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NOTE 7. Long-Term Debt and Short-Term Borrowings

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

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NOTE 8. Pension and Postretirement Benefit Plans

Components of net periodic benefit cost and other supplemental information for the three and six months ended June 30, 2012 and 2011 follow:

Benefit Plan Information

	Three months ended June 30, Qualified and Non-qualified Pension Benefits					
	United States		International		Postretirement Benefits	
(Millions)	2012	2011	2012	2011	2012	2011
Net periodic benefit cost (benefit)						
Service cost	**$ 64**	$ 52	**$ 31**	$ 28	**$ 20**	$ 15
Interest cost	**146**	155	**62**	62	**21**	23
Expected return on plan assets	**(248)**	(232)	**(73)**	(69)	**(22)**	(20)
Amortization of transition (asset) obligation						
Amortization of prior service cost (benefit)	**1**	3	**(5)**	(4)	**(18)**	(18)
Amortization of net actuarial (gain) loss	**118**	84	**30**	28	**28**	26
Net periodic benefit cost (benefit)	**$ 81**	$ 62	**$ 45**	$ 45	**$ 29**	$ 26
Settlements, curtailments, special termination benefits and other						
Net periodic benefit cost (benefit) after settlements, curtailments, special termination benefits and other	**$ 81**	$ 62	**$ 45**	$ 45	**$ 29**	$ 26

	Six months ended June 30, Qualified and Non-qualified Pension Benefits					
	United States		International		Postretirement Benefits	
(Millions)	2012	2011	2012	2011	2012	2011
Net periodic benefit cost (benefit)						
Service cost	**$ 127**	$ 103	**$ 62**	$ 56	**$ 39**	$ 30
Interest cost	**293**	313	**123**	124	**43**	46
Expected return on plan assets	**(496)**	(464)	**(146)**	(139)	**(43)**	(39)
Amortization of transition (asset) obligation			**(1)**			
Amortization of prior service cost (benefit)	**3**	6	**(9)**	(7)	**(36)**	(36)
Amortization of net actuarial (gain) loss	**235**	167	**60**	56	**55**	52
Net periodic benefit cost (benefit)	**$ 162**	$ 125	**$ 89**	$ 90	**$ 58**	$ 53
Settlements, curtailments, special termination benefits and other	**26**					
Net periodic benefit cost (benefit) after settlements, curtailments, special termination benefits and other	**$ 188**	$ 125	**$ 89**	$ 90	**$ 58**	$ 53

For the six months ended June 30, 2012, contributions totaling $609 million were made to the Company s U.S. and international pension plans and $63 million to its postretirement plans. On July 2, 2012, the Company contributed an additional $200 million to its U.S. qualified pension plan. For total year 2012, the Company expects to contribute approximately $1 billion of cash to its U.S. and international pension and postretirement plans. The Company does not have a required minimum cash pension contribution obligation for its U.S. plans in 2012.

Therefore, the amount of the anticipated discretionary pension contribution could vary significantly depending on the U.S. plans funded status and the anticipated tax deductibility of the contribution. Future contributions will also depend on market conditions, interest rates and other factors. 3M s annual measurement date for pension and postretirement assets and liabilities is December 31 each year, which is also the date used for the related annual measurement assumptions.

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

In December 2011, the Company began offering a voluntary early retirement incentive program to certain eligible participants of its U.S. pension plans who met age and years of pension service requirements. The eligible participants who accepted the offer and retired on February 1, 2012 received an enhanced pension benefit. Pension benefits are enhanced by adding one additional year of pension service and one additional year of age for certain benefit calculations.

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616 participants accepted the offer and retired on February 1, 2012. As a result, the Company incurred a $26 million charge related to these special termination benefits in the first quarter of 2012.

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

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NOTE 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 10 to the Consolidated Financial Statements in 3M s 2011 Annual Report on Form 10-K.

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

Cash Flow Hedges:

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

Cash Flow Hedging - Foreign Currency Forward and Option Contracts: The Company enters into foreign exchange forward and option contracts to hedge against the effect of exchange rate fluctuations on cash flows denominated in foreign currencies and certain intercompany financing transactions. These transactions are designated as cash flow hedges. The settlement or extension of these derivatives will result in reclassifications (from accumulated other comprehensive income) to earnings in the period during which the hedged transactions affect earnings. Generally, 3M dedesignates these cash flow hedge relationships in advance of the occurrence of the forecasted transaction. The portion of gains or losses on the derivative instrument previously accumulated in other comprehensive income for dedesignated hedges remains in accumulated other comprehensive income until the forecasted transaction occurs. Changes in the value of derivative instruments after dedesignation are recorded in earnings and are included in the Derivatives Not Designated as Hedging Instruments section below. Hedge ineffectiveness and the amount excluded from effectiveness testing recognized in income on cash flow hedges were not material for the three and six months ended June 30, 2012 and 2011. The maximum length of time over which 3M hedges its exposure to the variability in future cash flows for a majority of the forecasted transactions is 12 months and, accordingly, at June 30, 2012, the majority of the Company s open foreign exchange forward and option contracts had maturities of one year or less. The dollar equivalent gross notional amount of the Company s foreign exchange forward and option contracts designated as cash flow hedges at June 30, 2012 was approximately $5.9 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 six months ended June 30, 2012 and 2011. The dollar equivalent gross notional amount of the Company s natural gas commodity price swaps designated as cash flow hedges at June 30, 2012 was $20 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 June 30, 2012, the Company had a balance of $30 million associated with the after-tax net unrealized gain associated with cash flow hedging instruments recorded in accumulated other comprehensive income. This includes a $4

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

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

Three months ended June 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	$ 42	Cost of sales	$ 9	Cost of sales	$
Foreign currency forward contracts	(13)	Interest expense	(13)	Interest expense	
Commodity price swap contracts		Cost of sales	(4)	Cost of sales	
Total	$ 29		$ (8)		$

Six months ended June 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	$ 18	Cost of sales	$ 9	Cost of sales	$
Foreign currency forward contracts	(12)	Interest expense	(13)	Interest expense	
Commodity price swap contracts	(5)	Cost of sales	(8)	Cost of sales	
Total	$ 1		$ (12)		$

Three months ended June 30, 2011

(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	$	(27)	Cost of sales	$	(28)	Cost of sales	$	
Foreign currency forward contracts		(7)	Interest expense		(8)	Interest expense		
Commodity price swap contracts		(1)	Cost of sales			Cost of sales		
Total	$	(35)		$	(36)		$	

Six months ended June 30, 2011

(Millions) Derivatives in Cash Flow Hedging Relationships	Pretax Gain (Loss) Recognized in Other Comprehensive Income on Effective Portion of Derivative Amount		Pretax Gain (Loss) Recognized in Income on Effective Portion of Derivative as a Result of Reclassification from Accumulated Other Comprehensive Income Location		Amount	Ineffective Portion of Gain (Loss) on Derivative and Amount Excluded from Effectiveness Testing Recognized in Income Location		Amount
Foreign currency forward/option contracts	$	(61)	Cost of sales	$	(34)	Cost of sales	$	
Foreign currency forward contracts		1	Interest expense		2	Interest expense		
Commodity price swap contracts		(2)	Cost of sales		(4)	Cost of sales		
Total	$	(62)		$	(36)		$	

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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 June 30, 2012 was $342 million.

At June 30, 2012, the Company had interest rate swaps designated as fair value hedges of underlying fixed rate obligations. In July 2007, in connection with the issuance of a seven-year Eurobond for an amount of 750 million Euros, the Company completed a fixed-to-floating interest rate swap on a notional amount of 400 million Euros as a fair value hedge of a portion of the fixed interest rate Eurobond obligation. In August 2010, the Company terminated 150 million Euros of the notional amount of this swap. As a result, a gain of 18 million Euros, recorded as part of the balance of the underlying debt, will be amortized over this debt s remaining life. Prior to termination of the applicable portion of the interest rate swap, the mark-to-market of the hedge instrument was recorded as gains or losses in interest expense and was offset by the gain or loss on carrying value of the underlying debt instrument. Consequently, the subsequent amortization of the 18 million Euros recorded as part of the underlying debt balance is not part of gain on hedged items recognized in income in the tables below.

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

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

Three months ended June 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	$	(2)	Interest expense	$	2
Total		$	(2)		$	2

Six months ended June 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

Three months ended June 30, 2011

(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	$	2	Interest expense	$	(2)
Total		$	2		$	(2)

Six months ended June 30, 2011

(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	$	(8)	Interest expense	$	8
Total		$	(8)		$	8

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

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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 June 30, 2012, there were no cross currency swaps and foreign currency forward contracts designated as net investment hedges.

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

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

Three months ended June 30, 2012

Derivative and Nonderivative Instruments in Net Investment Hedging Relationships	Pretax Gain (Loss) Recognized as Cumulative Translation within Other Comprehensive Income on Effective Portion of In