

3M CO  
Form 10-Q  
August 04, 2011  
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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, 2011**

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)

**3M Center, St. Paul, Minnesota**  
(Address of principal executive offices)

**41-0417775**

(I.R.S. Employer  
Identification No.)

**55144**

(Zip Code)

**(651) 733-1110**

(Registrant's telephone number, including area code)

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§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  No

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

Large accelerated filer

Accelerated filer

Non-accelerated filer  (Do not check if a smaller reporting company)

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  No

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, 2011
Common Stock, \$0.01 par value per share	709,535,731 shares

This document (excluding exhibits) contains 68 pages.

The table of contents is set forth on page 2.

The exhibit index begins on page 65.

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## 3M COMPANY

Form 10-Q for the Quarterly Period Ended June 30, 2011

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## 3M COMPANY

## FORM 10-Q

For the Quarterly Period Ended June 30, 2011

## 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,		Six months ended June 30,	
	2011	2010	2011	2010
Net sales	\$ 7,680	\$ 6,731	\$ 14,991	\$ 13,079
Operating expenses				
Cost of sales	4,040	3,435	7,842	6,673
Selling, general and administrative expenses	1,581	1,350	3,114	2,673
Research, development and related expenses	404	350	802	692
Total operating expenses	6,025	5,135	11,758	10,038
Operating income	1,655	1,596	3,233	3,041
Interest expense and income				
Interest expense	50	52	93	100
Interest income	(9)	(10)	(19)	(16)
Total interest expense (income)	41	42	74	84
Income before income taxes	1,614	1,554	3,159	2,957
Provision for income taxes	437	414	879	862
Net income including noncontrolling interest	\$ 1,177	\$ 1,140	\$ 2,280	\$ 2,095
Less: Net income attributable to noncontrolling interest	17	19	39	44
Net income attributable to 3M	\$ 1,160	\$ 1,121	\$ 2,241	\$ 2,051
Weighted average 3M common shares outstanding basic	713.4	714.5	712.5	713.1
Earnings per share attributable to 3M common shareholders basic	\$ 1.63	\$ 1.57	\$ 3.15	\$ 2.88
Weighted average 3M common shares outstanding diluted	726.5	725.7	726.4	724.6

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Earnings per share attributable to 3M common shareholders diluted	\$	<b>1.60</b>	\$	1.54	\$	<b>3.09</b>	\$	2.83
Cash dividends paid per 3M common share	\$	<b>0.55</b>	\$	0.525	\$	<b>1.10</b>	\$	1.05

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

Table of Contents**3M Company and Subsidiaries****Consolidated Balance Sheet****(Unaudited)**

<b>(Dollars in millions, except per share amount)</b>	<b>June 30, 2011</b>	<b>Dec. 31, 2010</b>
<b>Assets</b>		
Current assets		
Cash and cash equivalents	\$ 3,376	\$ 3,377
Marketable securities - current	1,148	1,101
Accounts receivable - net	4,385	3,615
Inventories		
Finished goods	1,703	1,476
Work in process	1,107	950
Raw materials and supplies	907	729
Total inventories	3,717	3,155
Other current assets	911	967
Total current assets	13,537	12,215
Marketable securities - non-current	407	540
Investments	166	146
Property, plant and equipment	21,188	20,253
Less: Accumulated depreciation	(13,564)	(12,974)
Property, plant and equipment - net	7,624	7,279
Goodwill	7,233	6,820
Intangible assets - net	2,025	1,820
Prepaid pension benefits	82	74
Other assets	1,208	1,262
Total assets	\$ 32,282	\$ 30,156
<b>Liabilities</b>		
Current liabilities		
Short-term borrowings and current portion of long-term debt	\$ 1,116	\$ 1,269
Accounts payable	1,851	1,662
Accrued payroll	586	778
Accrued income taxes	365	358
Other current liabilities	2,285	2,022
Total current liabilities	6,203	6,089
Long-term debt	4,484	4,183
Pension and postretirement benefits	1,932	2,013
Other liabilities	1,921	1,854
Total liabilities	\$ 14,540	\$ 14,139
Commitments and contingencies (Note 11)		
<b>Equity</b>		
3M Company shareholders' equity:		
Common stock par value, \$.01 par value, 944,033,056 shares issued	\$ 9	\$ 9
Additional paid-in capital	3,683	3,468
Retained earnings	27,110	25,995
	(10,511)	(10,266)

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Treasury stock, at cost: 234,497,325 shares at June 30, 2011; 232,055,448 shares at Dec. 31, 2010

Accumulated other comprehensive income (loss)		<b>(2,961)</b>		(3,543)
Total 3M Company shareholders' equity		<b>17,330</b>		15,663
Noncontrolling interest		<b>412</b>		354
Total equity	\$	<b>17,742</b>	\$	16,017
Total liabilities and equity	\$	<b>32,282</b>	\$	30,156

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



Table of Contents**3M Company and Subsidiaries****Consolidated Statement of Cash Flows****(Unaudited)**

(Millions)	Six months ended	
	2011	June 30, 2010
<b>Cash Flows from Operating Activities</b>		
Net income including noncontrolling interest	\$ 2,280	\$ 2,095
Adjustments to reconcile net income including noncontrolling interest to net cash provided by operating activities		
Depreciation and amortization	608	559
Company pension and postretirement contributions	(125)	(128)
Company pension and postretirement expense	268	155
Stock-based compensation expense	172	171
Deferred income taxes	5	18
Excess tax benefits from stock-based compensation	(49)	(36)
Changes in assets and liabilities		
Accounts receivable	(586)	(586)
Inventories	(376)	(428)
Accounts payable	100	243
Accrued income taxes (current and long-term)	128	108
Product and other insurance receivables and claims	(39)	5
Other net	(202)	44
Net cash provided by operating activities	2,184	2,220
<b>Cash Flows from Investing Activities</b>		
Purchases of property, plant and equipment (PP&E)	(526)	(337)
Proceeds from sale of PP&E and other assets	5	4
Acquisitions, net of cash acquired	(487)	(30)
Purchases of marketable securities and investments	(1,425)	(2,435)
Proceeds from sale of marketable securities and investments	686	572
Proceeds from maturities of marketable securities	944	851
Other investing	(6)	
Net cash used in investing activities	(809)	(1,375)
<b>Cash Flows from Financing Activities</b>		
Change in short-term debt net	(13)	(32)
Repayment of debt (maturities greater than 90 days)	(143)	(45)
Proceeds from debt (maturities greater than 90 days)	109	9
Purchases of treasury stock	(1,358)	(393)
Reissuances of treasury stock	753	386
Dividends paid to shareholders	(783)	(749)
Excess tax benefits from stock-based compensation	49	36
Other net	(51)	27
Net cash used in financing activities	(1,437)	(761)
Effect of exchange rate changes on cash and cash equivalents	61	(102)
Net increase (decrease) in cash and cash equivalents	(1)	(18)

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Cash and cash equivalents at beginning of year		<b>3,377</b>		3,040
Cash and cash equivalents at end of period	\$	<b>3,376</b>	\$	3,022

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 26, 2011 (which updated 3M's 2010 Annual Report on Form 10-K) and 3M's Quarterly Report on Form 10-Q for the period ended March 31, 2011, during the first quarter of 2011 the Company made certain product moves between its business segments in its continuing effort to drive growth by aligning businesses around markets and customers (Note 13). Segment 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 26, 2011.

For the six months ended June 30, 2011 and 2010, the Company revised the amounts previously presented for cash used in investing activities and cash used in financing activities by \$33 million and \$63 million related to purchases of additional shares (noncontrolling interest) of non-wholly owned consolidated subsidiaries during the three months ended March 31, 2011 and 2010, respectively. These immaterial revisions increased cash used in financing activities and decreased cash used in investing activities by the amounts indicated above for the respective periods.

**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 (3.7 million average options for the three months ended June 30, 2011; 3.6 million average options for the six months ended June 30, 2011; 30.7 million average options for the three months ended June 30, 2010; and 30.5 million average options for the six months ended June 30, 2010). The conditions for conversion related to the Company's Convertible Notes were not met (refer to 3M's Current Report on Form 8-K dated May 26, 2011, Note 10 to the Consolidated Financial Statements, for more detail). If the conditions for conversion are met, 3M may choose to pay in cash and/or common stock; however, if this occurs, the Company has the intent and ability to settle this debt security in cash. Accordingly, there was no impact on diluted earnings per share attributable to 3M common shareholders. The computations for basic and diluted earnings per share follow:



Table of Contents**Earnings Per Share Computations**

(Amounts in millions, except per share amounts)	Three months ended			Six months ended		
	2011	June 30, 2011	2010	2011	June 30, 2011	2010
Numerator:						
Net income attributable to 3M	\$	1,160	\$	1,121	\$	2,241
					\$	2,051
Denominator:						
Denominator for weighted average 3M common shares outstanding basic		713.4		714.5		712.5
						713.1
Dilution associated with the Company's stock-based compensation plans		13.1		11.2		13.9
						11.5
Denominator for weighted average 3M common shares outstanding diluted		726.5		725.7		726.4
						724.6
Earnings per share attributable to 3M common shareholders basic	\$	1.63	\$	1.57	\$	3.15
					\$	2.88
Earnings per share attributable to 3M common shareholders diluted	\$	1.60	\$	1.54	\$	3.09
					\$	2.83

**New Accounting Pronouncements**

In October 2009, the FASB issued ASU No. 2009-13, *Multiple-Deliverable Revenue Arrangements a consensus of the FASB Emerging Issues Task Force*, that provides amendments to the criteria for separating consideration in multiple-deliverable arrangements. As a result of these amendments, multiple-deliverable revenue arrangements are separated in more circumstances than under pre-existing U.S. GAAP. The ASU does this by establishing a selling price hierarchy for determining the selling price of a deliverable. The selling price used for each deliverable is based on vendor-specific objective evidence if available, third-party evidence if vendor-specific objective evidence is not available, or estimated selling price if neither vendor-specific objective evidence nor third-party evidence is available. A vendor is required to determine its best estimate of selling price in a manner that is consistent with that used to determine the price to sell the deliverable on a standalone basis. This ASU also eliminates the residual method of allocation and requires that arrangement consideration be allocated at the inception of the arrangement to all deliverables using the relative selling price method, which allocates any discount in the overall arrangement proportionally to each deliverable based on its relative selling price. Expanded disclosures of qualitative and quantitative information regarding application of the multiple-deliverable revenue arrangement guidance are also required under the ASU. The ASU does not apply to arrangements for which industry specific allocation and measurement guidance exists, such as long-term construction contracts and software transactions. For 3M, ASU No. 2009-13 was effective beginning January 1, 2011. 3M elected to adopt the provisions of this standard prospectively to new or materially modified arrangements beginning on the effective date. The adoption of this standard did not have a material impact on 3M's consolidated results of operations or financial condition.

In October 2009, the FASB issued ASU No. 2009-14, *Certain Revenue Arrangements That Include Software Elements a consensus of the FASB Emerging Issues Task Force*, that reduces the types of transactions that fall within the scope of software revenue recognition guidance. Pre-existing software revenue recognition guidance required that its provisions be applied to an entire arrangement when the sale of any products or services containing or utilizing software when the software was considered more than incidental to the product or service. As a result of the amendments included in ASU No. 2009-14, many tangible products and services that rely on software are accounted for under the multiple-element arrangements revenue recognition guidance rather than under the software revenue recognition guidance. Under the ASU, the

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following components are excluded from the scope of software revenue recognition guidance: the tangible element of the product, software products bundled with tangible products where the software components and non-software components function together to deliver the product's essential functionality, and undelivered components that relate to software that is essential to the tangible product's functionality. The ASU also provides guidance on how to allocate transaction consideration when an arrangement contains both deliverables within the scope of software revenue guidance (software deliverables) and deliverables not within the scope of that guidance (non-software deliverables). For 3M, ASU No. 2009-14 was effective beginning January 1, 2011. 3M elected to adopt the provisions of this standard prospectively to new or materially modified arrangements beginning on the effective date. The adoption of this standard did not have a material impact on 3M's consolidated results of operations or financial condition.

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In January 2010, the FASB issued ASU No. 2010-06, *Improving Disclosures About Fair Value Measurements*, that amends pre-existing disclosure requirements under ASC 820 by adding required disclosures about items transferring into and out of levels 1 and 2 in the fair value hierarchy; adding separate disclosures about purchases, sales, issuances, and settlements relative to level 3 measurements; and clarifying, among other things, the pre-existing fair value disclosures about the level of disaggregation. For 3M, this ASU was effective for the first quarter of 2010, except for the requirement to provide level 3 activity of purchases, sales, issuances, and settlements on a gross basis, which was effective beginning the first quarter of 2011. Since this standard impacts disclosure requirements only, its adoption did not have a material impact on 3M's consolidated results of operations or financial condition.

In April 2010, the FASB issued ASU No. 2010-17, *Milestone Method of Revenue Recognition - a consensus of the FASB Emerging Issues Task Force* that recognizes the milestone method as an acceptable revenue recognition method for substantive milestones in research or development arrangements. This standard requires its provisions be met in order for an entity to recognize consideration that is contingent upon achievement of a substantive milestone as revenue in its entirety in the period in which the milestone is achieved. In addition, this ASU requires disclosure of certain information with respect to arrangements that contain milestones. For 3M, this standard was effective prospectively beginning January 1, 2011. The adoption of this standard did not have a material impact on 3M's consolidated results of operations or financial condition.

In May 2011, the FASB issued 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 is effective prospectively beginning January 1, 2012. The adoption of this standard is not expected to have a material impact on 3M's consolidated results of operations or financial condition.

In June 2011, the FASB issued ASU No. 2011-05, *Presentation of Comprehensive Income*. This standard requires entities to present items of net income and other comprehensive income either in a single continuous statement, or in separate, but consecutive, statements of net income and other comprehensive income. The new requirements do not change which components of comprehensive income are recognized in net income or other comprehensive income, or when an item of other comprehensive income must be reclassified to net income. Also, the earnings-per share computation does not change. However, the current option under existing standards to report other comprehensive income and its components in the statement of changes in equity is eliminated. In addition, the previous option to disclose reclassification adjustments in the notes to the financial statements is also eliminated, as reclassification adjustments will be required to be shown on the face of the statement under the new standard. For 3M, this ASU is effective retrospectively beginning January 1, 2012, with early adoption permitted. 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.

Table of Contents**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.

The impact on the consolidated balance sheet of the purchase price allocations related to acquisitions, including adjustments relative to other acquisitions within the allocation period, follows. Adjustments to previous acquisitions were not material and primarily related to changes in the preliminary allocations of purchase price of businesses acquired in the fourth quarter of 2010 and first quarter of 2011. The allocation of purchase price related to acquisitions in the first six months of 2011, primarily Winterthur Technologie AG (Winterthur), is considered preliminary, largely with respect to certain acquired intangible assets and tax-related assets and liabilities.

(Millions) Asset (Liability)	First Six Months 2011 Acquisition Activity		
	Winterthur Technologie AG	Other Acquisitions	Total
Accounts receivable	\$ 43	\$ 38	\$ 81
Inventory	76	26	102
Other current assets	6	4	10
Property, plant, and equipment	73	80	153
Purchased finite-lived intangible assets	226	35	261
Purchased goodwill	151	58	209
Accounts payable and other liabilities, net of other assets	(76)	(35)	(111)
Interest bearing debt	(79)	(7)	(86)
Deferred tax asset/(liability)	(59)	(7)	(66)
Net assets acquired	\$ 361	\$ 192	\$ 553
Noncontrolling interest	(56)		(56)
Net assets acquired excluding noncontrolling interest	\$ 305	\$ 192	\$ 497
Supplemental information:			
Cash paid	\$ 327	\$ 196	\$ 523
Less: Cash acquired	32	4	36
Cash paid, net of cash acquired	\$ 295	\$ 192	\$ 487
Non-cash	10		10
Net assets acquired excluding noncontrolling interest	\$ 305	\$ 192	\$ 497

Goodwill resulting from business combinations is largely attributable to the existing workforce of the acquired businesses and synergies expected to arise after 3M's acquisition of these businesses. In-process research and development associated with these business combinations 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.

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.



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During the six months ended June 30, 2011, 3M completed six business combinations. The purchase price paid for these business combinations (net of cash acquired) and the impact of other matters (net) during the six months ended June 30, 2011 aggregated to \$487 million.

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

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

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

(4) In early March 2011, 3M (Industrial and Transportation Business) acquired a controlling interest in Winterthur via completion of a public tender offer. Winterthur, based in Zug, Switzerland, is a leading global supplier of precision grinding technology serving customers in the area of hard-to-grind precision applications in industrial, automotive, aircraft and cutting tools. As of the settlement date of the tendered shares (the business acquisition date), 3M owned approximately 86 percent of Winterthur shares via the tender and previous open market share purchases. The purchase price paid in the preceding table includes non-cash consideration of \$10 million representing the business acquisition date fair value of shares previously owned by 3M as of December 31, 2010 and cash consideration paid, net of cash acquired, of \$295 million for subsequently tendered and open market purchased shares through the business acquisition date. Following the business acquisition date, 3M also purchased additional outstanding shares of its consolidated Winterthur subsidiary, increasing 3M's ownership interest to approximately 98 percent as of June 30, 2011 as discussed in Note 4.

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

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

Purchased identifiable finite-lived intangible assets related to acquisitions which closed in the first six months of 2011 totaled \$261 million and will be amortized on a straight-line basis over a weighted-average life of 14 years (lives ranging from 3 to 17 years). Acquired identifiable intangible assets for which significant assumed renewals or extensions of underlying arrangements impacted the determination of their useful lives were not material.

**NOTE 3. Goodwill and Intangible Assets**

Purchased goodwill related to the acquisitions which closed in the first six months of 2011 totaled \$211 million, \$6 million of which is deductible for tax purposes. The acquisition activity in the following table also includes the impacts of adjustments to the preliminary allocation of purchase price for prior year acquisitions, which decreased goodwill by \$2 million. The amounts in the Translation and other column in the following table primarily relate to changes in foreign currency exchange rates. The goodwill balance by business segment as of December 31, 2010 and June 30, 2011, follow:

**Goodwill**

(Millions)

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	Dec. 31, 2010 Balance		Acquisition activity		Translation and other		June 30, 2011 Balance
Industrial and Transportation	\$ 1,783	\$	189	\$	69	\$	2,041
Health Care	1,506		(1)		59		1,564
Display and Graphics	994		4		3		1,001
Consumer and Office	187		13		3		203
Safety, Security and Protection Services	1,670		(2)		43		1,711
Electro and Communications	680		6		27		713
Total Company	\$ 6,820	\$	209	\$	204	\$	7,233

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 2011, 3M made certain product moves between its 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 to reporting units. During the first quarter of 2011, the Company completed its assessment of any potential goodwill impairment for reporting units impacted by this new structure and determined that no impairment existed.

Table of Contents**Acquired Intangible Assets**

For the six months ended June 30, 2011, intangible assets (excluding goodwill) acquired through business combinations increased balances by \$261 million. Balances are also 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 June 30, 2011, and December 31, 2010, follow:

(Millions)	June 30, 2011	Dec. 31, 2010
Patents	\$ 572	\$ 551
Other amortizable intangible assets (primarily tradenames and customer related intangibles)	2,351	2,016
Total gross carrying amount	\$ 2,923	\$ 2,567
Accumulated amortization patents	(370)	(345)
Accumulated amortization other	(658)	(527)
Total accumulated amortization	\$ (1,028)	\$ (872)
Total finite-lived intangible assets net	\$ 1,895	\$ 1,695
Non-amortizable intangible assets (tradenames)	130	125
Total intangible assets net	\$ 2,025	\$ 1,820

Amortization expense for acquired intangible assets for the three-month and six-month periods ended June 30, 2011 and 2010 follows:

(Millions)	Three months ended June 30,			Six months ended June 30,		
	2011	2010		2011	2010	
Amortization expense	\$ 63	\$ 43		\$ 117	\$ 86	

The table below shows expected amortization expense for acquired amortizable intangible assets recorded as of June 30, 2011:

(Millions)	Last 2 Quarters 2011	2012	2013	2014	2015	2016	After 2016
Amortization expense	\$ 115	\$ 226	\$ 215	\$ 191	\$ 178	\$ 165	\$ 805

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.



Table of Contents**NOTE 4. Supplemental Equity and Comprehensive Income Information****Consolidated Statement of Changes in Equity****3M Company and Subsidiaries****Three months ended June 30, 2011**

	3M Company Shareholders					
	Common	Additional	Retained	Treasury	Accumulated	Non-
(Millions)	Stock and	Paid-in	Earnings	Stock	Income	controlling
	Capital	Capital			(Loss)	Interest
Balance at March 31, 2011	\$ 16,887	\$ 3,608	\$ 26,521	\$ (10,398)	\$ (3,237)	\$ 393
Net income		1,177	1,160			17
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 comprehensive income		1,463				
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

**3M Company and Subsidiaries****Six months ended June 30, 2011**

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	3M Company Shareholders					Accumulated Other Comprehensive Income (Loss)	Non- controlling Interest
	Common Stock and Additional Paid-in Capital	Retained Earnings	Treasury Stock				
(Millions)	Total	Capital	Earnings	Stock	(Loss)	Interest	
<b>Balance at Dec. 31, 2010</b>	\$ 16,017	\$ 3,477	\$ 25,995	\$ (10,266)	\$ (3,543)	\$ 354	
Net income	2,280		2,241			39	
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 comprehensive income	2,866						
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			
<b>Balance at June 30, 2011</b>	\$ 17,742	\$ 3,692	\$ 27,110	\$ (10,511)	\$ (2,961)	\$ 412	

Table of Contents**3M Company and Subsidiaries****Three months ended June 30, 2010**

(Millions)	Total	3M Company Shareholders			Accumulated	Non-
		Common	Retained	Treasury	Other	
		Stock and	Earnings	Stock	Comprehensive	controlling
		Additional			Income	Interest
		Paid-in			(Loss)	
		Capital				
<b>Balance at March 31, 2010</b>	\$ 13,851	\$ 3,269	\$ 24,231	\$ (10,187)	\$ (3,747)	\$ 285
Net income	1,140		1,121			19
Cumulative translation adjustment	(358)				(370)	12
Defined benefit pension and postretirement plans adjustment	48				48	
Debt and equity securities - unrealized gain (loss)	1				1	
Cash flow hedging instruments - unrealized gain (loss)	40				40	
Total comprehensive income	871					
Dividends paid	(375)		(375)			
Transfers from noncontrolling interest		12			12	(24)
Stock-based compensation, net of tax impacts	64	64				
Reacquired stock	(384)			(384)		
Issuances pursuant to stock option and benefit plans	236		(189)	425		
<b>Balance at June 30, 2010</b>	\$ 14,263	\$ 3,345	\$ 24,788	\$ (10,146)	\$ (4,016)	\$ 292

**3M Company and Subsidiaries****Six months ended June 30, 2010**

(Millions)	Total	3M Company Shareholders			Accumulated	Non-
		Common	Retained	Treasury	Other	controlling
		Stock and	Earnings	Stock	Comprehensive	Interest
		Additional			Income	
		Paid-in				



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	Capital		(Loss)			
<b>Balance at December 31, 2009</b>	\$ 13,302	\$ 3,162	\$ 23,753	\$ (10,397)	\$ (3,754)	\$ 538
Net income	2,095		2,051			44
Cumulative translation adjustment	(453)				(464)	11
Defined benefit pension and postretirement plans adjustment	99				98	1
Debt and equity securities - unrealized gain (loss)	2				2	
Cash flow hedging instruments - unrealized gain (loss)	63				63	
Total comprehensive income	1,806					
Dividends paid	(749)		(749)			
Purchase of subsidiary shares and transfers from noncontrolling interest	(256)	7			39	(302)
Stock-based compensation, net of tax impacts	176	176				
Reacquired stock	(404)				(404)	
Issuances pursuant to stock option and benefit plans	388		(267)		655	
<b>Balance at June 30, 2010</b>	\$ 14,263	\$ 3,345	\$ 24,788	\$ (10,146)	\$ (4,016)	\$ 292

Table of Contents**Consolidated Statement of Comprehensive Income (Loss)**

(Millions)	Three months ended				Six months ended			
	2011	June 30,	2010		2011	June 30,	2010	
Net income including noncontrolling interest	\$	1,177	\$	1,140	\$	2,280	\$	2,095
Other comprehensive income, net of tax:								
Cumulative translation adjustment		234		(358)		476		(453)
Defined benefit pension and postretirement plans adjustment		54		48		130		99
Debt and equity securities, unrealized gain (loss)		(2)		1		(3)		2
Cash flow hedging instruments, unrealized gain (loss)				40		(17)		63
Total other comprehensive income (loss), net of tax		286		(269)		586		(289)
Comprehensive income (loss) including noncontrolling interest		1,463		871		2,866		1,806
Comprehensive (income) loss attributable to noncontrolling interest		(27)		(31)		(43)		(56)
Comprehensive income (loss) attributable to 3M	\$	1,436	\$	840	\$	2,823	\$	1,750

**Accumulated Other Comprehensive Income (Loss) Attributable to 3M**

(Millions)	June 30,	Dec. 31,
	2011	2010
Cumulative translation adjustment	\$ 847	\$ 374
Defined benefit pension and postretirement plans adjustment	(3,750)	(3,879)
Debt and equity securities, unrealized gain (loss)	(9)	(6)
Cash flow hedging instruments, unrealized gain (loss)	(49)	(32)
Total accumulated other comprehensive income (loss)	\$ (2,961)	\$ (3,543)

**Components of Comprehensive Income (Loss) Attributable to 3M**

(Millions)	Three months ended				Six months ended			
	2011	June 30,	2010		2011	June 30,	2010	
<b>Net income attributable to 3M</b>	\$	1,160	\$	1,121	\$	2,241	\$	2,051
Cumulative translation		205		(324)		426		(401)
Tax effect		20		(46)		47		(63)
<b>Cumulative translation - net of tax</b>		225		(370)		473		(464)
Defined benefit pension and postretirement plans adjustment		119		80		238		156
Tax effect		(66)		(32)		(109)		(58)
		53		48		129		98

<b>Defined benefit pension and postretirement plans adjustment - net of tax</b>				
Debt and equity securities, unrealized gain (loss)	(3)	1	(5)	4
Tax effect	1		2	(2)
<b>Debt and equity securities, unrealized gain (loss) - net of tax</b>	<b>(2)</b>	<b>1</b>	<b>(3)</b>	<b>2</b>
Cash flow hedging instruments, unrealized gain (loss)	1	64	(26)	100
Tax effect	(1)	(24)	9	(37)
<b>Cash flow hedging instruments, unrealized gain (loss) - net of tax</b>		<b>40</b>	<b>(17)</b>	<b>63</b>
<b>Total comprehensive income (loss) attributable to 3M</b>	<b>\$ 1,436</b>	<b>\$ 840</b>	<b>\$ 2,823</b>	<b>\$ 1,750</b>

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 \$119 million pre-tax (\$54 million after-tax) for the three months ended June 30, 2011, \$238 million pre-tax (\$130 million after-tax) for the six months ended June 30, 2011, \$78 million pre-tax (\$48 million after-tax) for the three months ended June 30, 2010, and \$154 million pre-tax (\$99 million after-tax) for the six months ended June 30, 2010. These pension and postretirement expense pre-tax amounts (including noncontrolling interest) are shown in the tables 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

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instruments reclassifications are provided in Note 9. Reclassifications to earnings from accumulated other comprehensive income for debt and equity securities were not material for the three and six months ended June 30, 2011 and 2010. Other reclassification adjustments were not material. Income taxes are not provided for foreign translation relating to permanent investments in international subsidiaries, but tax effects within cumulative translation does include impacts from items such as net investment hedge transactions.

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

As discussed in Note 2, in early March 2011, 3M acquired a controlling interest in Winterthur Technologie AG (Winterthur), making Winterthur a consolidated subsidiary as of that business acquisition date. Subsequent to this business acquisition date, 3M purchased additional outstanding shares of its Winterthur subsidiary increasing 3M's ownership interest from approximately 86 percent as of the business acquisition date to approximately 98 percent as of June 30, 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.

During the second half of 2009 and the first half of 2010, 3M effected a purchase of subsidiary shares and transfers of ownership interests to align activities in Japan and to simplify the Company's ownership structure. As a result of these activities, beginning in June 2010 the Company has a wholly owned subsidiary in the region in addition to its majority owned Sumitomo 3M Limited entity (Sumitomo 3M). Because the Company retained its controlling interest in the subsidiaries involved, these activities resulted in changes to 3M Company shareholders' equity and noncontrolling interest. These activities included the following:

- During the second half of 2009, a wholly owned subsidiary that, in turn, owned a portion of the Company's majority owned Sumitomo 3M, was transferred to another subsidiary (referred to herein as 3M HC) that was majority, rather than wholly, owned. Sumitomo 3M also owned a portion of 3M HC. As a result of the transaction, 3M's effective ownership in Sumitomo 3M was reduced from 75 percent to 71.5 percent. The transfer resulted in a decrease in 3M Company shareholders' equity and an increase in noncontrolling interest of \$81 million in the second half of 2009.
- During the first quarter of 2010, majority owned 3M HC which, as a result of the transfer above owned a portion of the Company's majority owned Sumitomo 3M, transferred this interest to Sumitomo 3M. In addition, Sumitomo 3M purchased a portion of its shares held by its noncontrolling interest, Sumitomo Electric Industries, Ltd. (SEI), by paying cash of 5.8 billion Japanese Yen and entering into a note payable to SEI of 17.4 billion Japanese Yen (approximately \$63 million and \$188 million, respectively, based on applicable exchange rates at that time). As a result of these transactions, 3M's effective ownership in Sumitomo 3M was increased from 71.5 percent to 75 percent. The cash paid as a result of the purchase of Sumitomo 3M shares from SEI was classified as other financing activity in the consolidated statement of cash flows. The remainder of the purchase financed by the note payable to SEI was considered non-cash financing activity in the first quarter of 2010. These transactions resulted in an increase in 3M Company shareholders' equity of \$22 million and a decrease in noncontrolling interest of \$278 million in the first quarter of 2010.
- During the second quarter of 2010, majority owned Sumitomo 3M transferred its interest in 3M HC to 3M HC. As a result of this transaction, 3M HC became wholly owned by the Company. The transfer resulted in an increase in 3M Company shareholders' equity and a decrease in noncontrolling interest of \$24 million in the second quarter of 2010.

Additionally, 3M acquired the remaining noncontrolling interest of a previously owned majority owned subsidiary for an immaterial amount during the first half of 2010.

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The following table summarizes the effects of the 2010 transactions on equity attributable to 3M Company shareholders for the three months and six months ended June 30, 2010.

(Millions)	Three months ended June 30, 2010		Six months ended June 30, 2010	
Net income attributable to 3M	\$	1,121	\$	2,051
Transfers from noncontrolling interest		24		46
Change in 3M Company shareholders' equity from net income attributable to 3M and transfers from noncontrolling interest	\$	1,145	\$	2,097

**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. Currently, the Company is under examination by the IRS for its U.S. federal income tax returns for the years 2010 and 2011. It is anticipated that the IRS will complete its examination of the Company for 2010 by the end of the first quarter of 2012, and for 2011 by the end of the first quarter of 2013. As of June 30, 2011, 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. Payments relating to other proposed assessments arising from the 2005 through 2011 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 the 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 June 30, 2011 and December 31, 2010, respectively, are \$355 million and \$394 million.

The Company recognizes interest and penalties accrued related to unrecognized tax benefits in tax expense. The Company recognized in the consolidated statement of income on a gross basis approximately \$5 million of expense and \$13 million of benefit for the three months ended

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June 30, 2011 and June 30, 2010, respectively, and approximately \$3 million of expense and \$9 million of benefit for the six months ended June 30, 2011 and June 30, 2010, respectively. At June 30, 2011 and December 31, 2010, accrued interest and penalties in the consolidated balance sheet on a gross basis were \$60 million and \$52 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 first six months of 2011 was 27.8 percent, compared to 29.1 percent in the first six months of 2010, a decrease of 1.3 percent. The first six months of 2010 includes a one-time income tax charge of \$84 million as a result of the March 2010 enactment of the Patient Protection and Affordable Care Act, including modifications made in the Health Care and Education Reconciliation Act of 2010, which increased the first six months 2010 effective tax rate by approximately 2.8 percent. Since future anticipated retiree health care liabilities and related tax subsidies were already

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reflected in 3M's financial statements, the change in law resulted in a reduction of the value of the company's deferred tax asset related to the subsidy. Other factors on a combined net basis increased the effective tax rate for the first six months of 2011 when compared to the first six months of 2010 by 1.5 percent, with the most significant item related to international taxes. This was due primarily to the one-time 2010 tax benefits resulting from the corporate alignment transactions that allowed the Company to increase its ownership of a foreign subsidiary. These transactions are described in the section of Note 4 entitled "Purchase and Sale of Subsidiary Shares and Transfers of Ownership Interests Involving Non-Wholly Owned Subsidiaries". In addition to the transaction noted above, a corporate reorganization of a wholly owned subsidiary provided a one-time benefit to international taxes in the second quarter of 2011. The Company's effective tax rate also benefited during the first six months of 2011 from the reinstatement of the research and development credit and adjustments to its income tax reserves.

The provision for income taxes is determined using the asset and liability approach. Under this approach, deferred income taxes represent the expected future tax consequences of temporary differences between the carrying amounts and tax basis of assets and liabilities. The Company records a valuation allowance to reduce its deferred tax assets when uncertainty regarding their realizability exists. As of June 30, 2011 and December 31, 2010, the Company had valuation allowances of \$129 million and \$128 million, respectively, on its deferred tax assets.

**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, 2011	Dec. 31, 2010
U.S. government agency securities	\$ 203	\$ 246
Foreign government agency securities	10	52
Corporate debt securities	240	280
Commercial paper	148	55
Certificates of deposit	15	
U.S. treasury securities	15	55
U.S. municipal securities	12	20
Asset-backed securities:		
Automobile loan related	328	253
Credit card related	43	79
Equipment lease related	56	24
Other	17	8
Asset-backed securities total	444	364
Other securities	61	29
<b>Current marketable securities</b>	<b>\$ 1,148</b>	<b>\$ 1,101</b>
U.S. government agency securities	\$ 57	\$ 63
Foreign government agency securities	3	3
Corporate debt securities	141	192
U.S. treasury securities	35	44
U.S. municipal securities	3	3
Asset-backed securities:		
Automobile loan related	96	144
Credit card related	50	70



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Equipment lease related		<b>14</b>		14
Asset-backed securities total		<b>160</b>		228
Auction rate securities		<b>8</b>		7
<b>Non-current marketable securities</b>	<b>\$</b>	<b>407</b>	<b>\$</b>	540
<b>Total marketable securities</b>	<b>\$</b>	<b>1,555</b>	<b>\$</b>	1,641

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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 June 30, 2011, gross unrealized losses totaled approximately \$6 million (pre-tax), while gross unrealized gains totaled approximately \$2 million (pre-tax). At December 31, 2010, gross unrealized losses totaled approximately \$9 million (pre-tax), while gross unrealized gains totaled approximately \$5 million (pre-tax). Gross realized gains and losses on sales or maturities of marketable securities for the first six months of 2011 and 2010 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 June 30, 2011 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, 2011	
Due in one year or less	\$	809
Due after one year through three years		685
Due after three years through five years		43
Due after five years		18
Total marketable securities	\$	1,555

3M has a diversified marketable securities portfolio of \$1.555 billion as of June 30, 2011. Within this portfolio, current and long-term asset-backed securities (estimated fair value of \$604 million) are primarily comprised of interests in automobile loans and credit cards. At June 30, 2011, the asset-backed securities credit ratings were AAA or A-1+, with the exception of four securities rated A+ or AA with a fair market value of \$15 million.

3M's marketable securities portfolio includes auction rate securities that represent interests in investment grade credit default swaps; however, currently these holdings comprise less than one percent of this portfolio. The estimated fair value of auction rate securities is \$8 million at June 30, 2011 and \$7 million at December 31, 2010. Gross unrealized losses within accumulated other comprehensive income related to auction rate securities totaled \$5 million (pre-tax) at June 30, 2011 and \$6 million (pre-tax) at December 31, 2010. As of June 30, 2011, 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.

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

As disclosed in 3M's Current Report on Form 8-K dated May 26, 2011 (which updated 3M's 2010 Annual Report on Form 10-K), in the fourth quarter of 2010, the Company entered into a 100.5 million Canadian Dollar loan, with four equal installments due in April 2011, July 2011, October 2011 and January 2012. At December 31, 2010, the floating interest rate on this loan was 1.8%. During March 2011, this loan agreement was amended to increase the loan amount to 201 million Canadian Dollars and to allow for repayment of the total loan in July 2012, instead of in four equal installments. However, 3M has the option to repay the principal amount of this loan before July 2012. All other terms and conditions of the loan agreement remain in full force.

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As also disclosed in 3M's Current Report on Form 8-K dated May 26, 2011 (which updated 3M's 2010 Annual Report on Form 10-K), during the first quarter of 2010, the Company entered into a floating rate note payable of 17.4 billion Japanese Yen (approximately \$188 million based on exchange rates at that time) in connection with the purchase of additional interest in the Company's Sumitomo 3M Limited subsidiary as discussed in Note 4. This note is due in three equal installments of 5.8 billion Japanese Yen, with one installment paid on September 30, 2010, one installment paid on March 30, 2011, and the remaining installment due on September 30, 2011. Interest accrues on the note based on the three-month Tokyo Interbank Offered Rate (TIBOR) plus 40 basis points.

**NOTE 8. Pension and Postretirement Benefit Plans**

Components of net periodic benefit cost and other supplemental information for the three-month and six-month periods ended June 30 follow:

**Benefit Plan Information**

(Millions)	Three months ended June 30, Qualified and Non-qualified						
	United States		International		Postretirement Benefits		
	2011	2010	2011	2010	2011	2010	
<b>Net periodic benefit cost (benefit)</b>							
Service cost	\$ 52	\$ 51	\$ 28	\$ 27	\$ 15	\$ 14	
Interest cost	155	159	62	63	23	22	
Expected return on plan assets	(232)	(232)	(69)	(72)	(20)	(21)	
Amortization of transition (asset) obligation				1			
Amortization of prior service cost (benefit)	3	3	(4)	(1)	(18)	(24)	
Amortization of net actuarial (gain) loss	84	55	28	22	26	22	
Net periodic benefit cost (benefit)	\$ 62	\$ 36	\$ 45	\$ 40	\$ 26	\$ 13	
Settlements, curtailments, special termination benefits and other				(22)			
Net periodic benefit cost (benefit) after settlements, curtailments, special termination benefits and other	\$ 62	\$ 36	\$ 45	\$ 18	\$ 26	\$ 13	

(Millions)	Six months ended June 30, Qualified and Non-qualified						
	United States		International		Postretirement Benefits		
	2011	2010	2011	2010	2011	2010	

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<b>Net periodic benefit cost (benefit)</b>												
Service cost	\$	<b>103</b>	\$	101	\$	<b>56</b>	\$	55	\$	<b>30</b>	\$	28
Interest cost		<b>313</b>		319		<b>124</b>		125		<b>46</b>		44
Expected return on plan assets		<b>(464)</b>		(464)		<b>(139)</b>		(143)		<b>(39)</b>		(42)
Amortization of transition (asset) obligation								1				
Amortization of prior service cost (benefit)		<b>6</b>		6		<b>(7)</b>		(2)		<b>(36)</b>		(47)
Amortization of net actuarial (gain) loss		<b>167</b>		110		<b>56</b>		43		<b>52</b>		43
Net periodic benefit cost (benefit)	\$	<b>125</b>	\$	72	\$	<b>90</b>	\$	79	\$	<b>53</b>	\$	26
Settlements, curtailments, special termination benefits and other								(22)				
Net periodic benefit cost (benefit) after settlements, curtailments, special termination benefits and other	\$	<b>125</b>	\$	72	\$	<b>90</b>	\$	57	\$	<b>53</b>	\$	26

For the six months ended June 30, 2011, contributions totaling \$77 million were made to the Company's U.S. and international pension plans and \$48 million to its postretirement plans. In 2011, the Company is considering contributing in the range of \$400 million to \$600 million to its U.S. and international pension and postretirement plans. The Company does not have a required minimum pension contribution obligation for its U.S. plans in 2011. 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

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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 June 2010, 3M's Brazilian subsidiary received approval from the government in Brazil to freeze its defined benefit pension plan. Effective March 31, 2010, participants in this subsidiary's pension plan no longer accrue additional pension benefits. As a result, the Company recorded a \$22 million curtailment gain in the second quarter of 2010.

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 2010 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.

**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 Current Report on Form 8-K dated May 26, 2011 (which updated 3M's 2010 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 month periods ended June 30, 2011 and 2010. 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, 2011, 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, 2011 was approximately \$3.9 billion.

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*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 month periods ended June 30, 2011 and 2010. The dollar equivalent gross notional amount of the Company's natural gas commodity price swaps designated as cash flow hedges at June 30, 2011 was \$31 million.

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.

	Pretax Gain (Loss) Recognized		Pretax Gain (Loss) Recognized		
	in Income on Effective Portion		in Income on Effective Portion		
Three months ended June 30, 2011	Recognized in Other		of Derivative as a Result of		Ineffective Portion of Gain
	Comprehensive Income on		Reclassification from		
(Millions)	Effective Portion of		Accumulated Other		Amount Excluded from
	Derivative		Comprehensive Income		
Derivatives in Cash Flow Hedging Relationships	Amount	Location	Amount	Location	Effectiveness Testing Recognized in Income
					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)		\$

	Pretax Gain (Loss) Recognized		Pretax Gain (Loss) Recognized		
	in Income on Effective Portion		in Income on Effective Portion		
Six months ended June 30, 2011	Recognized in Other		of Derivative as a Result of		Ineffective Portion of Gain
	Comprehensive Income on		Reclassification from		
(Millions)	Effective Portion of		Accumulated Other		Amount Excluded from
	Derivative		Comprehensive Income		
Derivatives in Cash Flow Hedging Relationships	Amount	Location	Amount	Location	Effectiveness Testing Recognized in Income
					Amount
Foreign currency forward/option contracts	\$ (61)	Cost of sales	\$ (34)	Cost of sales	\$
Foreign currency forward contracts	1	Interest expense	2	Interest expense	



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Commodity price swap contracts		(2) Cost of sales		(4) Cost of sales	
Total	\$	(62)	\$	(36)	\$

Three months ended June 30, 2010  (Millions) Derivatives in Cash Flow Hedging Relationships	Pretax Gain (Loss) Recognized in Other Comprehensive Income on Effective Portion of Derivative		Pretax Gain (Loss) Recognized in Income on Effective Portion of Derivative as a Result of Reclassification from Accumulated Other Comprehensive Income		Ineffective Portion of Gain (Loss) on Derivative and Amount Excluded from Effectiveness Testing Recognized in Income	
	Amount	Location	Amount	Location	Amount	Location
Foreign currency forward/option contracts	\$ 48	Cost of sales	\$ (13)	Cost of sales	\$	
Foreign currency forward contracts	(62)	) Interest expense	(62)	Interest expense		
Commodity price swap contracts	2	Cost of sales	(1)	Cost of sales		
Total	\$ (12)		\$ (76)		\$	

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Six months ended June 30, 2010	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
(Millions)	Amount	Location	Amount
<b>Derivatives in Cash Flow Hedging Relationships</b>			
Foreign currency forward/option contracts	\$ 51	Cost of sales	\$ (53)
Foreign currency forward contracts	(67)	Interest expense	(67)
Commodity price swap contracts	(7)	Cost of sales	(3)
Total	\$ (23)		\$ (123)

As of June 30, 2011, the Company had a balance of \$49 million associated with the after tax net unrealized loss associated with cash flow hedging instruments recorded in accumulated other comprehensive income. 3M expects to reclassify to earnings over the next 12 months a majority of this balance (with the impact offset by cash flows from underlying hedged items).

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, 2011 was \$1.1 billion.

At June 30, 2011, 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. The Company also has 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.

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:

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Three months ended June 30, 2011

(Millions) Derivatives in Fair Value Hedging Relationships	Gain (Loss) on Derivative		Gain (Loss) on Hedged Item	
	Recognized in Income		Recognized in Income	
	Location	Amount	Location	Amount
	Interest		Interest	
Interest rate swap contracts	expense	\$ 2	expense	\$ (2)
Total		\$ 2		\$ (2)

Six months ended June 30, 2011

(Millions) Derivatives in Fair Value Hedging Relationships	Gain (Loss) on Derivative		Gain (Loss) on Hedged Item	
	Recognized in Income		Recognized in Income	
	Location	Amount	Location	Amount
	Interest		Interest	
Interest rate swap contracts	expense	\$ (8)	expense	\$ 8
Total		\$ (8)		\$ 8

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Three months ended June 30, 2010 (Millions)	Gain (Loss) on Derivative Recognized in Income		Gain (Loss) on Hedged Item Recognized in Income	
	Location	Amount	Location	Amount
<b>Derivatives in Fair Value Hedging Relationships</b>				
	Interest		Interest	
Interest rate swap contracts	expense	\$ 2	expense	\$ (2)
Total		\$ 2		\$ (2)

Six months ended June 30, 2010 (Millions)	Gain (Loss) on Derivative Recognized in Income		Gain (Loss) on Hedged Item Recognized in Income	
	Location	Amount	Location	Amount
<b>Derivatives in Fair Value Hedging Relationships</b>				
	Interest		Interest	
Interest rate swap contracts	expense	\$ 10	expense	\$ (10)
Total		\$ 10		\$ (10)

Net Investment Hedges:

As circumstances warrant, the Company uses cross currency swaps, forwards and foreign currency denominated debt to hedge portions of the Company's net investments in foreign operations. For hedges that meet the effectiveness requirements, the net gains or losses attributable to changes in spot exchange rates are recorded in cumulative translation within other comprehensive income. The remainder of the change in value of such instruments is recorded in earnings. Recognition in earnings of amounts previously recorded in cumulative translation is limited to circumstances such as complete or substantially complete liquidation of the net investment in the hedged foreign operation. At June 30, 2011, 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, 2011**

(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	
	Location	Amount	Location	Amount
<b>Derivative and Nonderivative Instruments in Net Investment Hedging Relationships</b>				
Foreign currency denominated debt		\$ (35)	N/A	\$
Total		\$ (35)		\$

**Six months ended June 30, 2011**

(Millions)	Pretax Gain (Loss) Recognized as Cumulative Translation within Other Comprehensive Income on Effective	Ineffective Portion of Gain (Loss) on Instrument and Amount Excluded from Effectiveness Testing Recognized in Income
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Derivative and Nonderivative Instruments in Net Investment Hedging Relationships	Portion of Instrument Amount	Location	Amount
Foreign currency denominated debt	\$ (120)	N/A	\$
Total	\$ (120)		\$

Three months ended June 30, 2010

(Millions) Derivative and Nonderivative Instruments in Net Investment Hedging Relationships	Pretax Gain (Loss) Recognized as Cumulative Translation within Other Comprehensive Income on Effective Portion of Instrument	Ineffective Portion of Gain (Loss) on Instrument and Amount Excluded from Effectiveness Testing Recognized in Income	Location	Amount
	Amount	Amount		
Foreign currency denominated debt	\$ 135		N/A	\$
Total	\$ 135			\$

Six months ended June 30, 2010

(Millions) Derivative and Nonderivative Instruments in Net Investment Hedging Relationships	Pretax Gain (Loss) Recognized as Cumulative Translation within Other Comprehensive Income on Effective Portion of Instrument	Ineffective Portion of Gain (Loss) on Instrument and Amount Excluded from Effectiveness Testing Recognized in Income	Location	Amount
	Amount	Amount		
Foreign currency denominated debt	\$ 225		N/A	\$
Total	\$ 225			\$

Table of ContentsDerivatives Not Designated as Hedging Instruments:

Derivatives not designated as hedging instruments include dedesignated foreign currency forward and option contracts that formerly were designated in cash flow hedging relationships (as referenced in the preceding Cash Flow Hedges section). In addition, 3M enters into foreign currency forward contracts and commodity price swaps to offset, in part, the impacts of certain intercompany activities (primarily associated with intercompany licensing arrangements) and fluctuations in costs associated with the use of certain precious metals, respectively. These derivative instruments are not designated in hedging relationships; therefore, fair value gains and losses on these contracts are recorded in earnings. The dollar equivalent gross notional amount of these forward, option and swap contracts not designated as hedging instruments totaled \$1.0 billion as of June 30, 2011. 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:

(Millions)	Three months ended June 30, 2011			Six months ended June 30, 2011		
	Location	Gain (Loss) on Derivative Recognized in Income		Location	Gain (Loss) on Derivative Recognized in Income	
Derivatives Not Designated as Hedging Instruments	Location	Amount		Location	Amount	
Foreign currency forward/option contracts	Cost of sales	\$	(16)	Cost of sales	\$	(28)
	Interest			Interest		
Foreign currency forward contracts	expense		(4)	expense		12
Total		\$	(20)		\$	(16)

(Millions)	Three months ended June 30, 2010			Six months ended June 30, 2010		
	Location	Gain (Loss) on Derivative Recognized in Income		Location	Gain (Loss) on Derivative Recognized in Income	
Derivatives Not Designated as Hedging Instruments	Location	Amount		Location	Amount	
Foreign currency forward/option contracts	Cost of sales	\$	27	Cost of sales	\$	26
	Interest			Interest		
Foreign currency forward contracts	expense		(18)	expense		(11)
Total		\$	9		\$	15

*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.

June 30, 2011 (Millions)	Assets			Liabilities		
	Location	Amount		Location	Amount	
<b>Derivatives designated as hedging instruments</b>						
Foreign currency forward/option contracts	Other current assets	\$	12		\$	63

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				Other current liabilities	
Commodity price swap contracts	Other current assets			Other current liabilities	1
Interest rate swap contracts	Other assets		29	Other liabilities	
<b>Total derivatives designated as hedging instruments</b>		\$	41		\$ 64
<b>Derivatives not designated as hedging instruments</b>					
				Other current liabilities	
Foreign currency forward/option contracts	Other current assets	\$	5		\$ 51
<b>Total derivatives not designated as hedging instruments</b>		\$	5		\$ 51
<b>Total derivative instruments</b>		\$	46		\$ 115

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December 31, 2010

(Millions)

Fair Value of Derivative Instruments	Assets		Liabilities	
	Location	Amount	Location	Amount
<b>Derivatives designated as hedging instruments</b>				
Foreign currency forward/option contracts	Other current assets	\$ 26	Other current liabilities	\$ 48
Commodity price swap contracts	Other current assets		Other current liabilities	5
Interest rate swap contracts	Other assets	39	Other liabilities	
<b>Total derivatives designated as hedging instruments</b>		<b>\$ 65</b>		<b>\$ 53</b>
<b>Derivatives not designated as hedging instruments</b>				
Foreign currency forward/option contracts	Other current assets	\$ 12	Other current liabilities	\$ 34
<b>Total derivatives not designated as hedging instruments</b>		<b>\$ 12</b>		<b>\$ 34</b>
<b>Total derivative instruments</b>		<b>\$ 77</b>		<b>\$ 87</b>

Additional information with respect to the fair value of derivative instruments is included in Note 10.

*Currency Effects and Credit Risk*

*Currency Effects:* 3M estimates that year-on-year currency effects, including hedging impacts, increased net income attributable to 3M by approximately \$33 million for the three months ended June 30, 2011 and increased net income attributable to 3M by approximately \$80 million for the six months ended June 30, 2011. 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, which 3M estimates decreased net income attributable to 3M by approximately \$42 million for the three months ended June 30, 2011 and decreased net income attributable to 3M by approximately \$26 million for the six months ended June 30, 2011.

*Credit risk:* The Company is exposed to credit loss in the event of nonperformance by counterparties in interest rate swaps, currency swaps, commodity price swaps, and forward and option contracts. However, the Company's risk is limited to the fair value of the instruments. The Company actively monitors its exposure to credit risk through the use of credit approvals and credit limits, and by selecting major international banks and financial institutions as counterparties. The Company does not anticipate nonperformance by any of these counterparties. 3M has credit support agreements in place with two of its primary derivatives counterparties. Under these agreements, either party is required to post eligible collateral when the market value of transactions covered by these agreements exceeds specified thresholds, thus limiting credit exposure for both parties.

**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.

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*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 six month periods ended June 30, 2011 and 2010.

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

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

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

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

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

Available-for-sale investments:

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

Derivative instruments:

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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 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.

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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 June 30, 2011	Level 1	Fair Value Measurements Using Inputs Considered as Level 2	Level 3
<b>Assets:</b>				
Available-for-sale:				
Marketable securities:				
U.S. government agency securities	\$ 260		\$ 260	
Foreign government agency securities	13		13	
Corporate debt securities	381		381	
Certificates of deposit	15		15	
Commercial paper	148		148	
Asset-backed securities:				
Automobile loan related	424		424	
Credit card related	93		93	
Equipment lease related	70		70	
Other	17		17	
U.S. treasury securities	50	50		
U.S. municipal securities	15		15	
Auction rate securities	8			8
Other securities	61		61	
Investments	7	7		
Derivative instruments assets:				
Foreign currency forward/option contracts	17	15	2	
Interest rate swap contracts	29		29	
<b>Liabilities:</b>				
Derivative instruments liabilities:				
Foreign currency forward/option contracts	114	114		
Commodity price swap contracts	1	1		

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(Millions) Description	Fair Value at Dec. 31, 2010	Fair Value Measurements Using Inputs Considered as		
		Level 1	Level 2	Level 3
<b>Assets:</b>				
Available-for-sale:				
Marketable securities:				
U.S. government agency securities	\$ 309	\$	\$ 309	\$
Foreign government agency securities	55		55	
Corporate debt securities	472		472	
Commercial paper	55		55	
Asset-backed securities:				
Automobile loan related	397		397	
Credit card related	149		149	
Equipment lease related	38		38	
Other	8		8	
U.S. treasury securities	99	99		
U.S. municipal securities	23		23	
Auction rate securities	7			7
Other securities	29		29	
Investments	21	21		
Derivative instruments assets:				
Foreign currency forward/option contracts	38	36	2	
Interest rate swap contracts	39		39	
<b>Liabilities:</b>				
Derivative instruments liabilities:				
Foreign currency forward/option contracts	82	82		
Commodity price swap contracts	5	5		

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 June 30,			Six months ended June 30,		
	2011	2010	2010	2011	2010	2010
Beginning balance	\$ 7	\$ 6	\$ 6	\$ 7	\$ 7	\$ 5
Total gains or losses:						
Included in earnings						
Included in other comprehensive income	1	1	1	1	2	2
Purchases, issuances, and settlements						
Transfers in and/or out of Level 3						
Ending balance (June 30)	8	7	7	8	7	7
Additional losses included in earnings due to reclassifications from other comprehensive income for:						
Securities sold during the period ended June 30						
Securities still held at June 30						

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 11 in 3M's Current Report on Form 8-K dated May 26, 2011 (which updated 3M's 2010 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 six months ended June 30, 2011 and 2010.

Table of Contents*Fair Value of Financial Instruments:*

The Company's financial instruments include cash and cash equivalents, marketable securities, accounts receivable, certain investments, accounts payable, borrowings, and derivative contracts. The fair values of cash and cash equivalents, accounts receivable, accounts payable, and short-term borrowings and current portion of long-term debt 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. The Company utilized third-party quotes to estimate fair values for its long-term debt. Information with respect to the carrying amounts and estimated fair values of these financial instruments follow:

(Millions)	June 30, 2011		Dec. 31, 2010	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Long-term debt, excluding current portion	\$ 4,484	\$ 4,740	\$ 4,183	\$ 4,466

The fair values reflected above consider the terms of the related debt absent the impacts of derivative/hedging activity. The carrying amount of long-term debt referenced above is impacted by certain fixed-to-floating interest rate swaps that are designated as fair value hedges and by the designation of fixed rate Eurobond securities issued by the Company as hedging instruments of the Company's net investment in its European subsidiaries. 3M's fixed-rate bonds were trading at a premium at June 30, 2011 and December 31, 2010 due to the low interest rates and tightening of 3M's credit spreads.

Table of Contents**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 14 "Commitments and Contingencies" in the Company's Annual Report on Form 10-K for the year ended December 31, 2010, as updated by the Company's Current Report on Form 8-K dated May 26, 2011, 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), 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 reserves and the related insurance receivables:

<b>Liability and Receivable Balances (Millions)</b>	<b>June 30, 2011</b>	<b>Dec. 31, 2010</b>
Respirator mask/asbestos liabilities	\$ 113	\$ 126
Respirator mask/asbestos insurance receivables	121	122
Environmental remediation liabilities	\$ 30	\$ 24
Environmental remediation insurance receivables	15	15
Other environmental liabilities	\$ 80	\$ 90

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 June 30, 2011, the Company is a named defendant, with multiple co-defendants, in numerous lawsuits in various courts that purport to represent approximately 2,200 individual claimants compared to approximately 2,148 individual claimants with actions pending at December 31, 2010.

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 claimants 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, while remaining relatively constant and consistent with historical experience, 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. This case is being appealed by the plaintiffs and briefing is complete and the parties are waiting for the court to set a hearing date for oral argument.

The Company has demonstrated in these past trial proceedings that its respiratory protection products are effective as claimed when used in the intended manner and in the intended circumstances. Consequently the Company believes that claimants are unable to establish that their medical conditions, even if significant, are attributable to the Company's respiratory protection products. Nonetheless the Company's litigation experience indicates that claims of persons with malignant conditions are costlier to resolve than the claims of unimpaired persons, and it therefore believes the average

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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 a 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 of June 30, 2011, the Company had reserves for respirator mask/asbestos liabilities of \$82 million (excluding Aearo reserves). The Company can not estimate the amount or range of amounts by which the liability may exceed the reserve the Company has established because of the (i) inherent difficulty in projecting the number of claims that have not yet been asserted, particularly with respect to the Company's respiratory products that themselves did not contain any harmful materials, (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 June 30, 2011, the Company's receivable for insurance recoveries related to the respirator mask/asbestos litigation was \$121 million.

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. The difference between the accrued liability and insurance receivable represents in part the time delay between payment of claims on the one hand and receipt of insurance reimbursements on the other hand. Because of the lag time between settlement and payment of a claim, no meaningful conclusions may be drawn from quarterly or annual changes in the amount of receivables for expected insurance recoveries or changes in the number of claimants.

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. These insurers represent approximately \$14 million of the \$121 million insurance recovery receivable referenced in the above table. The action, pending in the District Court in Ramsey County, Minnesota, seeks 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. This action is similar in nature to an action filed in 1994 with respect to breast implant coverage, which ultimately resulted in the Minnesota Supreme Court's ruling of 2003 that was largely in the Company's favor. The plaintiff insurers have served an amended complaint that names some additional insurers and deletes others. A significant number of the insurer defendants named in the amended complaint have been dismissed because of settlements they

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have reached with 3M regarding the matters at issue in the lawsuit. The case is currently in the discovery phase. Trial is scheduled to begin in the fall of 2012.

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 manufactures and sells various products, including personal protection equipment, such as eye, ear, head, face, fall and certain respiratory protection products.

As of June 30, 2011, 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 June 30, 2011, the Company, through its Aearo subsidiary, has recorded \$31 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 an annual fee of \$400,000, Cabot will retain responsibility and liability for, and indemnify Aearo against, asbestos and silica-related product liability claims for respirators manufactured prior to July 11, 1995. Because the date of manufacture for a particular respirator allegedly used in the past is often difficult to determine, Aearo and Cabot have applied the agreement to claims arising out of the alleged use of respirators while exposed to asbestos or silica or products containing asbestos or silica 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 while exposed to asbestos, silica or other occupational dusts on or after January 1, 1997.

To date, Aearo has elected to pay the annual 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.

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, (ix) the outcome of pending insurance coverage litigation among certain other members of the Payor Group and their respective insurers, and/or (x) 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 reserved amount.

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 can not estimate the amount or range of amounts by which Aearo's liability may exceed the reserve the Company has established.

Environmental Matters and Litigation

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

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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 paragraph entitled "Environmental Liabilities and Insurance Receivables" that follows for information on the amount of the reserve.

*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 perfluorooctanoate or PFOA and perfluorooctane sulfonate or PFOS and other perfluorooctanyl compounds. As a result of its phase-out decision in May 2000, the Company no longer manufactures perfluorooctanyl compounds, and through changes to its manufacturing process at the end of 2008, no longer uses such compounds in its manufacturing process.

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 2011. 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 has proposed to have public water suppliers monitor for six PFCs to determine the extent of their occurrence.

In late 2008 and early 2009, the EPA undertook testing of private wells and soils at certain agricultural sites in Alabama where wastewater treatment sludge was applied from the municipal wastewater treatment plant in Decatur, Alabama that received wastewater from numerous sources, including sanitary wastewater from 3M. In this same timeframe, the EPA also issued provisional health advisory values for drinking water for PFOA of 0.4 parts per billion (ppb) and PFOS of 0.2 ppb. Pursuant to an information request from EPA, a group of local industries, including 3M, and the Decatur utility have been working to identify and test private wells in the area, and to connect to municipal water any private wells used for drinking water that exceed the EPA's provisional health advisory levels. EPA's and the industry's testing of public drinking water supplies in the area indicate that the levels of PFOA and PFOS in municipal water supplies are well below the provisional health advisories. 3M and other companies have completed a survey of properties near the sites where Decatur utility's wastewater treatment sludge was applied to identify any additional private drinking water wells not already identified by the EPA, and have connected a small number of wells that exceeded the provisional health advisory levels for PFOS and PFOA to municipal water. 3M and the other companies have continued to monitor those few private wells that showed levels of PFOS or PFOA above detection levels but below the EPA's provisional health advisory levels. EPA has recently notified 3M that the agency is satisfied that 3M has completed its obligations under the information request and that EPA is closing its request.

The Agency for Toxic Substances and Disease Registry (ATSDR) has completed a bio-monitoring study evaluating PFC blood levels in volunteers living near the sludge application fields. The Company expects ATSDR to release its report in 2011.

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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 Decatur facility (unrelated to the work described above involving the Decatur utility's wastewater treatment sludge) as well as at three local landfills used by the facility.

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. For approximately twenty years, the Company incorporated its wastewater treatment plant sludge containing PFCs in fields at its Decatur facility pursuant to a permit issued by ADEM. 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 2011 and is expected to be completed in 2015.

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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 perfluorinated compounds in the soil and groundwater at former disposal sites in Washington County, Minnesota (Oakdale and Woodbury) and at the Company's manufacturing facility at Cottage Grove, Minnesota. Under this agreement, the Company's principal obligations include (i) evaluating releases of perfluorinated compounds 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 to be safe for people to drink for a lifetime) for any perfluorinated compounds as a result of contamination from these sites; (iii) remediating any source of other PFCs at these sites that is not controlled by actions to remediate PFOA and PFOS; and (iv) sharing information with the MPCA about 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 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 among those recommended by the Company. Remediation work will continue at all three sites during 2011.

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 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. 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 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 March 2011, several residents of Lawrence County, Alabama, filed a lawsuit in the Circuit Court of Lawrence County seeking unspecified compensatory and punitive damages and other relief for alleged personal injuries due to the exposure to PFCs. The named defendants in the case include the City of Decatur, Alabama, 3M, its subsidiary Dyneon LLC, Daikin America, Inc., Toray Industries, Inc. and two of its US



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subsidiaries, Synagro-WWT, Inc., Synagro South, LLC and Biological Processors of America, and certain individuals not associated with 3M. According to the complaint, Synagro acquired wastewater treatment sludge that allegedly contained PFOA, PFOS and other perfluorochemicals from the Decatur utility's wastewater treatment plant, and made it into a fertilizer that it sold to farmers who applied it to their farmland in Morgan, Limestone and Lawrence counties, including land adjacent to the plaintiffs' residence. Plaintiffs have dismissed the City of Decatur from the case.

On December 30, 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,

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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 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. On January 14, 2011, the City of Lake Elmo filed a motion to intervene in the State of Minnesota lawsuit and seeks damages in excess of \$50,000 and other legal and equitable relief, including reasonable attorneys' fees, for alleged contamination of city property, wells, groundwater and water contained in the wells with PFCs under several theories, including common law and statutory nuisance, strict liability, trespass, negligence, and conversion. The court granted the City of Lake Elmo's motion to intervene in this lawsuit.

In June 2009, the Company, along with more than 250 other companies, was served with a third-party complaint seeking contribution towards the cost of cleaning up a 17-mile stretch of the Passaic River in New Jersey. After commencing an enforcement action in 1990, the State of New Jersey filed suit against Maxus Energy, Tierra Solutions, Occidental Chemical and two other companies seeking cleanup and removal costs and other damages associated with the presence of dioxin and other hazardous substances in the sediment of the Passaic. The third-party complaint seeks to spread those costs among the third-party defendants, including the Company. Based on the cleanup remedy currently proposed by the EPA, the total costs at issue could easily exceed \$1 billion. The Company's recent involvement in the case appears to relate to its past disposal of industrial waste at two commercial waste disposal facilities in New Jersey. Whether, and to what extent, the Company may be required to contribute to the costs at issue in the case remains to be determined. The Company does not yet have a basis for estimating its potential exposure in this case, although the Company currently believes its allocable share, if any, is likely to be a fraction of one percent of the total costs.

The Company has not recorded any liabilities for the Company's environmental litigation described in this section because the Company believes that liability is not probable and estimable at this time. Because of the limited activity in these cases, the Company is not able to estimate a possible loss or range of loss, with the exception of the Passaic River litigation, where the Company indicated that its potential exposure, if any, is likely to be a fraction of one percent of the total costs.

*Environmental Liabilities and Insurance Receivables*

As of June 30, 2011, the Company had recorded liabilities of \$30 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 \$15 million. The Company records liabilities for remediation costs on an undiscounted basis when they are probable and reasonably estimable, generally no later than the completion of feasibility studies or the Company's commitment to a plan of action. Liabilities for estimated costs of environmental remediation, depending on the site, are based primarily upon internal or third-party environmental studies, and estimates as to the number, participation level and financial viability of any other potentially responsible parties, the extent of the contamination and the nature of required remedial actions. The Company adjusts recorded liabilities as further information develops or circumstances change. The Company expects that it will pay the amounts recorded over the periods of remediation for the applicable sites, currently ranging up to 20 years.

As of June 30, 2011, the Company had recorded liabilities of \$80 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 and Lake Elmo, 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 five years.

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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

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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 on-going, the Company cannot estimate a possible loss or range of loss in excess of the associated established reserves for the reasons described above.

Employment Litigation

In January 2011, 3M reached an agreement in principle with plaintiffs' counsel to resolve the *Whitaker and Garcia* lawsuits. The *Whitaker* settlement agreement was signed by all parties in March 2011. The court granted preliminary approval of the settlement on April 6, 2011, and provisionally certified a class for settlement purposes only. The final approval hearing is scheduled in December 2011. The *Garcia* settlement agreement has been signed by the parties. All plaintiffs subject to the *Garcia* settlement have signed and not timely revoked individual releases of claims against 3M, and the parties anticipate filing a stipulation of dismissal, with prejudice, in that matter following administration of the settlement, which will occur concurrently with administration of the *Whitaker* settlement. 3M is currently in discussions with the Equal Employment Opportunity Commission to resolve related charges described below. If finalized and approved by the court, administration of the settlement agreements will take several months to complete. The amount of the proposed settlements is not material to the Company's consolidated results of operations or financial condition. The background of this litigation is set forth below.

*Whitaker Lawsuit:*

As previously reported, in December, 2004, one current and one former employee of the Company filed a purported class action in the District Court of Ramsey County, Minnesota, seeking to represent a class of all current and certain former salaried employees employed by the Company in Minnesota below a certain salary grade who were age 46 or older at any time during the applicable period to be determined by the Court (the *Whitaker* lawsuit). The complaint alleges the plaintiffs suffered various forms of employment discrimination on the basis of age in violation of the Minnesota Human Rights Act and seeks injunctive relief, unspecified compensatory damages (which they seek to treble under the statute), including back and front pay, punitive damages (limited by statute to \$8,500 per claimant) and attorneys' fees. In January 2006, the plaintiffs filed a motion to join four additional named plaintiffs. This motion was unopposed by the Company and the four plaintiffs were joined in the case, although one plaintiff's claim was dismissed following an individual settlement. On April 11, 2008, the Court granted the plaintiffs motion to certify the case as a class action. On April 28, 2009, the Minnesota Court of Appeals reversed the District Court's class certification decision, finding that the District Court had not required plaintiffs to meet the proper legal standards for certification of a class under Minnesota law and incorrectly had deferred resolving certain factual disputes that were relevant to the class certification requirements. The Court of Appeals remanded the case to the District Court for further proceedings in line with the evidentiary standards defined in its opinion. The trial court took expert testimony and held a hearing on the class certification question and had the matter under advisement when the parties reached a tentative settlement which rendered the certification issues moot.

*Garcia Lawsuit*

The Company was served on May 7, 2009 with a purported class action/collective action age discrimination lawsuit, which was filed in United States District Court for the Northern District of California, San Jose Division (the *Garcia* lawsuit). The case was subsequently transferred to the U.S. District Court for the District of Minnesota.

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In this case, five former and one current employee of the Company are seeking to represent all current and former salaried employees employed by the Company in the United States during the liability period, which plaintiffs define as 2001 to the present. In addition to the six named plaintiffs, there are approximately 130 other current or former employees who have signed opt-in forms, seeking to join the action. The *Garcia* lawsuit expressly excludes those persons encompassed within the proposed class in the *Whitaker* lawsuit. The same firm, joined by additional California counsel and local Minnesota counsel for the *Garcia* lawsuit, represents the plaintiffs in both cases.

The allegations of the complaint in the *Garcia* lawsuit are similar to those in the *Whitaker* lawsuit. Plaintiffs claim that they and other similarly situated employees suffered various forms of employment discrimination on the basis of age in violation of the federal Age Discrimination in Employment Act. In regard to these claims, plaintiffs seek to represent all persons who were 46 or older when employed by 3M in the United States in a salaried position below the level of director, or salary grade 18, during the liability period. Because federal law protects persons age 40 and older from age discrimination, with respect to their claim of disparate impact only, plaintiffs also propose an alternative definition of similarly situated persons that would begin at age 40. On behalf of this group, plaintiffs seek injunctive relief, unspecified compensatory damages including back and front pay, benefits, liquidated damages and attorneys' fees.

Certain of the plaintiffs and putative class members' employment terminated under circumstances in which they were eligible for group severance plan benefits and in connection with those plans they signed waivers of claims, including age discrimination claims. Plaintiffs claim the waivers of age discrimination claims were invalid in various respects. This subset of

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release-signing plaintiffs seeks a declaration that the waivers of age discrimination claims are invalid, other injunctive, but non-monetary, remedies, and attorneys' fees.

*EEOC Age-Discrimination Charges*

Six former employees and one current employee, all but one of whom are named plaintiffs in the *Garcia* lawsuit, have also filed age discrimination charges against the Company with the U.S. Equal Employment Opportunity Commission and various pertinent state agencies, alleging age discrimination similar to the *Whitaker* and *Garcia* lawsuits and claiming that a class of similarly situated persons exists. Of these, three former employees filed charges in 2005 in Minnesota, Texas, and California. These filings include allegations that the release of claims signed by certain former employees in the purported class defined in the charges is invalid for various reasons and assert age discrimination claims on behalf of certain current and former salaried employees in states other than Minnesota and New Jersey. In 2006, a current employee filed an age discrimination charge against the Company with the U.S. Equal Employment Opportunity Commission and the pertinent state agency in Missouri, asserting claims on behalf of a class of all current and certain former salaried employees who worked in Missouri and states other than Minnesota and New Jersey. In 2007, a former employee filed an age discrimination charge against the Company with the U.S. Equal Employment Opportunity Commission and the pertinent state agency in California, asserting claims on behalf of a class of all current and certain former salaried employees who worked in California. In January 2009, two former employees filed age discrimination charges against the Company with the U.S. Equal Employment Opportunity Commission and the pertinent state agency in Minnesota. The filings include allegations that the release of claims signed by certain former employees in the purported class defined in the charges is invalid for various reasons and assert age discrimination claims on behalf of certain current and former salaried employees in states other than Minnesota. The same law firm represents the plaintiffs in the *Whitaker* lawsuit as well as the claimants in each of these EEOC proceedings.

Compliance Matters

On November 12, 2009, the Company contacted the Department of Justice (DOJ) and Securities and Exchange Commission (SEC) to voluntarily disclose that the Company was conducting an internal investigation as a result of reports it received about its subsidiary in Turkey, alleging bid rigging and bribery and other inappropriate conduct in connection with the supply of certain reflective and other materials and related services to Turkish government entities. The Company also contacted certain affected government agencies in Turkey. The Company retained outside counsel to conduct an assessment of its policies, practices, and controls and to evaluate its overall compliance with the Foreign Corrupt Practices Act, including an ongoing review of our practices in certain other countries and acquired entities. The Company continues to cooperate with the DOJ and SEC and government agencies in Turkey in the Company's ongoing investigation of this matter. The Company cannot predict at this time the outcome of its investigation or what regulatory actions may be taken or what other consequences may result.

Other Matters

*Commercial Litigation*

In September 2010, various parties, on behalf of a purported class of shareholders of Cogent, Inc. (Cogent), commenced three lawsuits against the Company, Cogent, and its directors in the Delaware Court of Chancery. Plaintiffs allege that 3M, in connection with its tender offer for Cogent shares, aided and abetted the breach of fiduciary duties by Cogent directors and seek an unspecified amount of damages. The three cases

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were consolidated, expedited discovery was conducted, and Plaintiffs' motion for a preliminary injunction to enjoin the transaction was denied on October 1, 2010. On November 15, 2010, plaintiffs filed an amended complaint that added directors of Cogent, Inc. appointed by 3M, as named defendants, and asserted additional claims of breach of fiduciary duties in connection with the transaction and a subsequent offering period. 3M has moved to dismiss all claims. The transaction closed on December 1, 2010.

In September 2010, various parties, again on behalf of a purported class of Cogent shareholders, commenced six lawsuits against the Company, Cogent and its directors in the Los Angeles Superior Court for the State of California that contained similar claims that 3M had aided and abetted the breach of fiduciary duties by Cogent directors. The parties have reached a resolution of these matters. A separate lawsuit was commenced in September 2010 by an individual, again on behalf of a purported class of Cogent shareholders, against Cogent and its directors in the United States District Court for the Central District of California that raised similar claims; plaintiff later filed an amended complaint that also named the Company. The plaintiff has voluntarily dismissed that lawsuit.

Separately, several purported holders of Cogent shares, representing a total of approximately 5.8 million shares, have asserted appraisal rights under Delaware law. The Company has answered the appraisal petition and is defending this matter vigorously.

3M filed suit against Avery Dennison Corporation in the United States District Court for the District of Minnesota in June 2010, alleging that Avery's OmniCube full cube retroreflective sheeting products, which are used for highway signage,

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infringe a number of 3M patents. 3M also sought a declaratory judgment from the District Court in Minnesota that 3M's Diamond Grade DG3 full cube retroreflective sheeting does not infringe two Avery patents. In October 2010, Avery Dennison filed a lawsuit against the Company in the United States District Court for the Central District of California, alleging that 3M monopolized or attempted to monopolize the markets for Type XI retroreflective sheeting and for broad high performance sheeting in violation of the Sherman Act, as well as other claims. Avery alleges that 3M manipulated the standards-setting process of the American Society for Testing and Materials (ASTM), a private organization responsible for creating standards for, among other things, retroreflective sheeting used for highway signage; entered into illegal and anticompetitive contracts; and engaged in other anticompetitive acts including false advertising and disparagement. 3M moved to transfer the antitrust case to the United States District Court for the District of Minnesota, which motion was granted in February 2011. In the patent case, 3M's motion to preliminarily enjoin the sales of Avery's OmniCube retroreflective sheeting was denied in December 2010. The District Court also granted Avery's motion to dismiss 3M's declaratory judgment suit in March 2011. 3M has appealed the dismissal of the declaratory judgment lawsuit. In the meantime, 3M's patent infringement lawsuit against Avery and Avery's antitrust suit against 3M are moving forward in the Minnesota Court.

In December 2010, Meda AB filed a lawsuit in the Supreme Court of the State of New York, County of New York, alleging breach of certain representations and warranties contained in the October 2006 acquisition agreement pursuant to which Meda AB acquired the Company's European pharmaceutical business. The lawsuit seeks to recover an amount to be determined at trial, but not less than \$200 million, in compensatory damages alleging that 3M failed to disclose, during the due diligence period, certain pricing arrangements between 3M's French subsidiary and the French government agency that determines the eligible levels of reimbursement for prescription pharmaceuticals. The damage amounts specified in complaints are not a meaningful factor in any assessment of the Company's potential liability. The Company believes it has a number of legal and factual defenses to this claim and will vigorously defend it.

In December 2008, the investors that sold Acolyte Biomedica, Ltd. to the Company's subsidiary in the United Kingdom filed suit in London's High Court seeking damages for breach of the acquisition agreement, including damages of 40 million pounds sterling for loss of potential earnout payments under the acquisition agreement. Notwithstanding significant investments and efforts by the Company to support the sales of BacLite, a methicillin-resistant staphylococcus aureus (MRSA) screening device, the product was not a commercial success. A trial in London's High Court began on June 13, 2011. The trial concluded July 18, 2011. Written post trial submissions were served July 27, 2011 and oral closing arguments are tentatively scheduled for October 4 and 5, 2011. The Company expects a decision in October or November 2011.

No liability has been recorded for the Company's commercial litigation described in this section because the Company believes that liability is not probable and estimable and the Company is not able to estimate a possible loss or range of loss at this time.

**NOTE 12. Stock-Based Compensation**

The Company's annual stock option and restricted stock unit grant is made in February to provide a strong and immediate link between the performance of individuals during the preceding year and the size of their annual stock compensation grants. The grant to eligible employees uses the closing stock price on the grant date. Stock options vest over a period from one year to three years with the expiration date at 10 years from date of grant. Accounting rules require recognition of expense under a non-substantive vesting period approach, requiring compensation expense recognition when an employee is eligible to retire. Employees are considered eligible to retire at age 55 and after having completed five years of service. This retiree-eligible population represents 28 percent of the 2011 annual grant stock-based compensation award expense dollars; therefore, higher stock-based compensation expense is recognized in the first quarter. The remaining total shares available for grant under the 2008 Long Term Incentive Plan Program are 21,900,036 as of June 30, 2011.



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Amounts recognized in the financial statements with respect to stock-based compensation programs, which include stock options, restricted stock, restricted stock units and the General Employees' Stock Purchase Plan (GESPP), are provided in the following table. The income tax benefits shown in the table can fluctuate by period due to the amount of employee disqualifying dispositions related to Incentive Stock Options (ISOs). The Company last granted ISOs in 2002.

Table of Contents**Stock-Based Compensation Expense**

(Millions)	Three months ended June 30,		Six months ended June 30,	
	2011	2010	2011	2010
Cost of sales	\$ 6	\$ 6	\$ 20	\$ 20
Selling, general and administrative expenses	44	47	131	129
Research, development and related expenses	6	6	21	22
Stock-based compensation expenses	\$ 56	\$ 59	\$ 172	\$ 171
Income tax benefits	\$ (15)	\$ (19)	\$ (56)	\$ (55)
Stock-based compensation expenses, net of tax	\$ 41	\$ 40	\$ 116	\$ 116

The following table summarizes stock option activity during the six months ended June 30, 2011:

**Stock Option Program**

	Number of Options	Exercise Price*	Remaining Contractual Life* (months)	Aggregate Intrinsic Value (millions)
Under option				
January 1	70,335,044	\$ 74.80		
Granted				
Annual	5,514,500	89.46		
Progressive (Reload)	227,977	94.14		
Other	4,857	91.89		
Exercised	(10,212,885)	67.99		
Canceled	(139,862)	68.17		
June 30	65,729,631	\$ 77.17	60	\$ 1,163
Options exercisable				
June 30	53,841,327	\$ 76.70	50	\$ 977

\*Weighted average

As of June 30, 2011, there was \$87 million of compensation expense that has yet to be recognized related to non-vested stock option based awards. This expense is expected to be recognized over the remaining weighted-average vesting period of 2.0 years. The total intrinsic values of stock options exercised were \$256 million and \$180 million during the six months ended June 30, 2011 and 2010, respectively. Cash received from options exercised was \$694 million and \$336 million for the six months ended June 30, 2011 and 2010, respectively. The Company's actual tax benefits realized for the tax deductions related to the exercise of employee stock options were \$74 million and \$52 million for the six months ended June 30, 2011 and 2010, respectively. Capitalized stock-based compensation amounts were not material at June 30, 2011.

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For the primary 2011 annual stock option grant, the weighted average fair value at the date of grant was calculated using the Black-Scholes option-pricing model and the assumptions that follow.

<b>Stock Option Assumptions</b>	<b>Annual</b>	<b>2011</b>
Exercise price	\$	<b>89.47</b>
Risk-free interest rate		<b>2.8%</b>
Dividend yield		<b>2.6%</b>
Expected volatility		<b>22.0%</b>
Expected life (months)		<b>72</b>
Black-Scholes fair value	\$	<b>16.10</b>

Expected volatility is a statistical measure of the amount by which a stock price is expected to fluctuate during a period. For the 2011 annual grant date, the Company estimated the expected volatility based upon the average of the most recent one year volatility, the median of the term of the expected life rolling volatility, the median of the most recent term of

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

The following table summarizes restricted stock and restricted stock unit activity during the six months ended June 30, 2011:

<b>Restricted Stock and Restricted Stock Units</b>	<b>Number of Awards</b>	<b>Grant Date Fair Value*</b>
Nonvested balance		
As of January 1	5,573,302	\$ 70.43
Granted		
Annual	889,448	89.46
Performance shares	444,161	82.97
Other	228,479	90.06
Vested	(1,273,100)	72.35
Forfeited	(37,456)	72.81
As of June 30	5,824,834	\$ 74.62

\*Weighted average

As of June 30, 2011, there was \$142 million of compensation expense that has yet to be recognized related to non-vested restricted stock and restricted stock units. This expense is expected to be recognized over the remaining weighted-average vesting period of 1.9 years. The total grant date fair value of restricted stock and restricted stock units that vested during the six months ended June 30, 2011 and 2010 was \$92 million and \$60 million, respectively. The Company's actual tax benefits realized for the tax deductions related to the vesting of restricted stock and restricted stock units was \$28 million and \$20 million for the six months ended June 30, 2011 and 2010, respectively.

Restricted stock units granted under the 3M 2008 Long-Term Incentive Plan generally vest three years following the grant date assuming continued employment. The one-time buyout restricted stock unit grant in 2007 vests at the end of five years. Restricted stock unit grants issued in 2008 and prior did not accrue dividends during the vesting period. Beginning in 2009, dividend equivalents equal to the dividends payable on the same number of shares of 3M common stock accrue on these restricted stock units during the vesting period, although no dividend equivalents are paid on any of these restricted stock units that are forfeited prior to the vesting date. Dividends are paid out in cash at the vest date on restricted stock units, except for performance shares which do not earn dividends. Since the rights to dividends are forfeitable, there is no impact on basic earnings per share calculations. Weighted average restricted stock unit shares outstanding are included in the computation of diluted earnings per share.

In addition, the Company issues cash settled Restricted Stock Units and Stock Appreciation Rights in certain countries. These grants do not result in the issuance of Common Stock and are considered immaterial by the Company.

**NOTE 13. Business Segments**

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Effective in the first quarter of 2011, 3M made certain product moves between its business segments in its continuing effort to drive growth by aligning businesses around markets and customers. There were no changes impacting business segments related to product moves for the Display and Graphics segment or the Consumer and Office segment. The product moves between business segments are summarized as follows:

- Certain pressure sensitive adhesives products within the Industrial Adhesives and Tapes Division and shock absorption and vibration dampening products used in electronics within the Aerospace and Aircraft Maintenance Department (both within the Industrial and Transportation business segment) were transferred to the Electronic Markets Materials Division (part of the Electro and Communications business segment). In addition, certain medical respirator products within the Infection Prevention Division (part of the Health Care business segment) were transferred to the Occupational Health and Environmental Safety Division (within the Safety, Security and Protection Services business segment). The preceding product moves resulted in decreases in net sales for the total year 2010 of \$152 million in the Industrial and Transportation business segment and \$8 million in the Health Care business segment. These decreases were offset by increases in net sales for the total year 2010 of \$121 million for the Electro and Communications business segment and \$8 million for the Safety, Security and Protection Services business segment along with a \$31 million change in the elimination of dual credit sales and corporate and unallocated.

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

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

**Business Segment Information**

(Millions)	Three months ended		Six months ended	
	2011	June 30, 2010	2011	June 30, 2010
<b>Net Sales</b>				
Industrial and Transportation	\$ 2,641	\$ 2,121	\$ 5,091	\$ 4,157
Health Care	1,269	1,110	2,524	2,224
Display and Graphics	973	1,047	1,916	1,916
Consumer and Office	1,038	954	2,038	1,866
Safety, Security and Protection Services	1,011	844	1,940	1,657
Electro and Communications	864	757	1,700	1,451
Corporate and Unallocated	3	4	8	8
Elimination of Dual Credit	(119)	(106)	(226)	(200)
Total Company	\$ 7,680	\$ 6,731	\$ 14,991	\$ 13,079
<b>Operating Income</b>				
Industrial and Transportation	\$ 544	\$ 463	\$ 1,060	\$ 906
Health Care	364	344	733	690
Display and Graphics	222	308	452	520
Consumer and Office	202	211	417	430
Safety, Security and Protection Services	242	198	441	380
Electro and Communications	200	176	378	323
Corporate and Unallocated	(93)	(81)	(198)	(164)
Elimination of Dual Credit	(26)	(23)	(50)	(44)
Total Company	\$ 1,655	\$ 1,596	\$ 3,233	\$ 3,041

Corporate and unallocated operating income includes a variety of miscellaneous items, such as corporate investment gains and losses, certain derivative gains and losses, insurance-related gains and losses, certain litigation and environmental expenses, corporate restructuring charges and certain under- or over-absorbed costs (e.g. pension, stock-based compensation) that the Company may choose not to allocate directly to its business segments. Because this category includes a variety of miscellaneous items, it is subject to fluctuation on a quarterly and annual basis.

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3M business segment reporting measures include dual credit to business segments for certain U.S. sales and related operating income. Management evaluates each of its six operating business segments based on net sales and operating income performance, including dual credit U.S. reporting to further incentivize U.S. sales growth. As a result, 3M provides additional ( dual ) credit to those business segments selling products in the U.S. to an external customer when that segment is not the primary seller of the product. For example, certain respirators are primarily sold by the Occupational Health and Environmental Safety Division within the Safety, Security and Protection Services business segment; however, the Industrial and Transportation business segment also sells this product to certain customers in its U.S. markets. In this example, the non-primary selling segment (Industrial and Transportation) would also receive credit for the associated net sales it initiated and the related approximate operating income. The assigned operating income related to dual credit activity may differ from operating income that would result from actual costs associated with such sales. The offset to the dual credit business segment reporting is reflected as a reconciling item entitled Elimination of Dual Credit, such that sales and operating income for the U.S. in total are unchanged.

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**REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM\***

To the Stockholders and Board of Directors of 3M Company:

We have reviewed the accompanying consolidated balance sheet of 3M Company and its subsidiaries as of June 30, 2011, and the related consolidated statements of income for the three-month and six-month periods ended June 30, 2011 and 2010 and the consolidated statement of cash flows for the six-month periods ended June 30, 2011 and 2010. These interim financial statements are the responsibility of the Company's management.

We conducted our review in accordance with the standards of the Public Company Accounting Oversight Board (United States). A review of interim financial information consists principally of applying analytical procedures and making inquiries of persons responsible for financial and accounting matters. It is substantially less in scope than an audit conducted in accordance with the standards of the Public Company Accounting Oversight Board (United States), the objective of which is the expression of an opinion regarding the financial statements taken as a whole. Accordingly, we do not express such an opinion.

Based on our review, we are not aware of any material modifications that should be made to the accompanying consolidated interim financial statements for them to be in conformity with accounting principles generally accepted in the United States of America.

We previously audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheet as of December 31, 2010, and the related consolidated statements of income, of changes in equity and comprehensive income, and of cash flows for the year then ended (not presented herein), and in our report dated February 16, 2011, except with respect to our opinion on the consolidated financial statements insofar as it relates to the effects of the segment realignments discussed in Notes 3 and 17 as to which the date is May 26, 2011, we expressed an unqualified opinion on those consolidated financial statements. In our opinion, the information set forth in the accompanying consolidated balance sheet information as of December 31, 2010, is fairly stated in all material respects in relation to the consolidated balance sheet from which it has been derived.

/s/ PricewaterhouseCoopers LLP

PricewaterhouseCoopers LLP

Minneapolis, Minnesota

August 4, 2011

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\* Pursuant to Rule 436(c) of the Securities Act of 1933 ( " Act " ) this should not be considered a report within the meaning of Sections 7 and 11 of the Act and the independent registered public accounting firm liability under Section 11 does not extend to it.





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**Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations.**

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

- Overview
- Results of Operations
- Performance by Business Segment
- Financial Condition and Liquidity
- Cautionary Note Concerning Factors That May Affect Future Results

**OVERVIEW**

3M is a diversified global manufacturer, technology innovator and marketer of a wide variety of products and services. 3M manages its operations in six operating business segments: Industrial and Transportation; Health Care; Display and Graphics; Consumer and Office; Safety, Security and Protection Services; and Electro and Communications. As discussed in Note 13 to the Consolidated Financial Statements, effective in the first quarter of 2011, 3M made certain product moves between its business segments in its continuing effort to drive growth by aligning businesses around markets and customers. The financial information presented herein reflects the impact of these business segment changes for all periods presented.

Second-quarter 2011 sales totaled \$7.7 billion, an increase of 14.1 percent from the second quarter of 2010, with five of the Company's six business segments showing improvement, led by Industrial and Transportation at 24.6 percent and Safety, Security and Protection Services at 19.7 percent. As expected, sales of optical films for LCD TVs declined in the second quarter as OEMs worked to reduce inventories and lower their costs. In addition, consumer-related end markets were impacted by high unemployment levels and low consumer confidence. Second-quarter 2011 sales increased in every major geographic region, with Europe/Middle East/Africa up 24.1 percent, Latin America/Canada up 20.2 percent, Asia Pacific up 11 percent, and the U.S up 8.7 percent. Of the 14.1 percent sales growth, 4 points was from the combined impact of higher organic volume (3.2 points) and price growth (0.8 points), 4 points was from acquisitions, and another 6.1 points was from favorable currency effects. The combined estimated impact of the natural disaster in Japan (discussed further in next paragraph), optical systems sales declines, and H1N1 impacts held back worldwide organic sales volume and total sales growth in the second quarter by 4 percentage points. The impact of the Japan natural disaster negatively impacted organic sales volume by 2.4 percentage points. The decline in optical systems sales also negatively impacted organic sales volume by 1.3 percentage points. In addition, from the second quarter of 2009 through the third quarter of 2010, 3M received a benefit from H1N1-related sales, primarily in 3M's personal protection business within the Safety, Security and Protection Services business segment. The absence of H1N1-related sales in the second quarter of 2011 reduced second-quarter 2011 sales growth by approximately 0.3 percentage points.

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3M estimates that combined direct and indirect business disruption resulting from the recent Japan natural disaster, net of the benefit from sales of 3M products used in the reconstruction efforts, reduced second-quarter 2011 sales growth by 2.4 percentage points, operating margins by 0.50 percentage points, and earnings by approximately 7 cents per diluted share. Automobile and electronic manufacturers are most impacted, which largely impacts 3M's automotive OEM and consumer electronics-related businesses. 3M expects that Japan-related impacts should begin to wane in the second half of 2011. Japan represented approximately 9 percent of total 3M sales for total year 2010. Based on 3M's current assessment, no material asset or investment impairments have been recorded. In addition, 3M is not aware of any significant issues related to this natural disaster concerning inventory, customer receivables, lease terminations, environmental exposures, guarantees, indemnifications, debt covenant compliance, or significant tax issues. 3M does have certain insurance coverage which could limit its exposure.

Net income attributable to 3M was \$1.160 billion, or \$1.60 per diluted share in the second quarter of 2011, compared to \$1.121 billion, or \$1.54 per diluted share, in the second quarter of 2010. As discussed above, 3M delivered these results despite some previously anticipated near-term challenges. The impact of the earthquake in Japan, net of the benefit from sales of 3M products used in the reconstruction efforts, penalized results in the second quarter. As conditions improve in Japan, 3M has been working to capture additional sales for its businesses, such as products used in clean-up (construction and home improvement products), safety related products (respirator masks and personal protective equipment), energy savings/refurbishment products (window films) and products that help in the rebuilding effort (traffic safety, telecommunication/utility and commercial construction).

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Net income attributable to 3M was \$2.241 billion, or \$3.09 per diluted share in the first six months of 2011, compared to \$2.051 billion, or \$2.83 per diluted share, in the first six months of 2010 (including the first quarter of 2010 special item discussed below). Sales in the first six months of 2011 increased 14.6 percent to \$15.0 billion, with all business segments showing improvement, led by Industrial and Transportation, Electro and Communications, and Safety, Security and Protection Services. All major geographic regions also showed improvement, led by local-currency sales growth in Latin America and Asia Pacific (excluding Japan). Sales globally were helped by improved market penetration and new product flow along with significant growth in important end-markets such as general industrial and personal safety.

The first quarter of 2010 results include a one-time, non-cash income tax charge of \$84 million (12 cents per diluted share for the six months ended June 30, 2010), resulting from the March 2010 enactment of the Patient Protection and Affordable Care Act, including modifications made in the Health Care and Education Reconciliation Act of 2010. Refer to the special items discussion at the end of this overview section for more detail.

The following table contains sales and operating income results by business segment for the three months ended June 30, 2011 and 2010.

(Dollars in millions)	2011		2010		% change	
	Net Sales	Operating Income	Net Sales	Operating Income	Net Sales	Operating Income
<b>Business Segments</b>						
Industrial and Transportation	\$ 2,641	\$ 544	\$ 2,121	\$ 463	24.6%	17.2%
Health Care	1,269	364	1,110	344	14.3	6.2
Display and Graphics	973	222	1,047	308	(7.1)	(28.3)
Consumer and Office	1,038	202	954	211	8.9	(4.3)
Safety, Security and Protection Services	1,011	242	844	198	19.7	22.7
Electro and Communications	864	200	757	176	14.1	13.8
Corporate and Unallocated	3	(93)	4	(81)		
Elimination of Dual Credit	(119)	(26)	(106)	(23)		
Total Company	\$ 7,680	\$ 1,655	\$ 6,731	\$ 1,596	14.1%	3.7%

Sales in the second quarter of 2011 increased 14.1 percent, as five of six business segments experienced solid growth, led by Industrial and Transportation at 24.6 percent, Safety, Security and Protection Services at 19.7, Health Care at 14.3 percent, Electro and Communications at 14.1 percent, and Consumer and Office at 8.9 percent. Display and Graphics sales, due to fewer orders for optical films, declined 7.1 percent. Local-currency sales (which includes volume, selling price and acquisition impacts, but excludes divestiture and translation impacts) increased 8.0 percent and foreign currency impacts added 6.1 percent. 3M's business segments posted operating income margins ranging from 19.5 percent to 28.7 percent in the second quarter of 2011. Worldwide operating income margins for the second quarter of 2011 were 21.6 percent, compared to 23.7 percent for the second quarter of 2010. Refer to the sections entitled Results of Operations and Performance by Business Segment later in MD&A for a more detailed discussion of the sales and income results of the Company and its respective business segments. Refer to Note 13 for discussion of Corporate and Unallocated and Elimination of Dual Credit.

3M generated \$2.184 billion of operating cash flows for the six months ended June 30, 2011, compared to \$2.220 billion for the six months ended June 30, 2010. Refer to the section entitled Cash Flows from Operating Activities later in the MD&A for a discussion of items impacting cash flows. In February 2011, 3M's Board of Directors authorized the repurchase of up to \$7.0 billion of 3M's outstanding common stock, which replaced the Company's previous repurchase program. This authorization has no pre-established end date. In the first six months of 2011, the Company purchased \$1.358 billion of treasury stock, of which a portion was under the previous authorization, compared to \$393 million of treasury stock repurchases in the six months ended June 30, 2010. As of June 30, 2011, approximately \$5.9 billion of 3M common stock

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remained available for repurchase under the current authorization. In February 2011, 3M's Board of Directors authorized a dividend increase of 4.8 percent for 2011, marking the 53rd consecutive year of dividend increases for 3M. 3M's debt to total capital ratio (total capital defined as debt plus equity) was 24 percent at June 30, 2011, compared to 25 percent at December 31, 2010. 3M has an AA- credit rating with a stable outlook from Standard & Poor's and an Aa2 credit rating with a stable outlook from Moody's Investors Service. In addition to cash on hand, the Company has sufficient access to capital markets to meet currently anticipated growth and acquisition investment funding needs.

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For total year 2011, 3M estimates that combined direct and indirect business disruption resulting from events in Japan, net of the benefit from sales of 3M products used in the reconstruction efforts, will reduce full year 2011 sales growth by approximately 1 percentage point, operating income margins by approximately 0.3 percentage points, and earnings by approximately 11 to 12 cents per diluted share. 3M expects sales to exceed \$30 billion for total year 2011. This assumes organic sales volume growing at a rate of 6 to 7.5 percent, currency effects adding 3.5 to 4.5 percent (assuming June 30, 2011 exchange rates), and acquisitions adding 3 to 4 percent for the year. This expected sales growth and related incremental operating income, including a benefit from currency effects (assuming June 30, 2011 exchange rates), should more than offset the items that will negatively impact earnings, as summarized below.

There are a few major items that will negatively impact earnings in 2011. First, as discussed further below, 3M expects that pension and postretirement expense will decrease 2011 earnings, when compared to 2010, by approximately 22 cents per diluted share. A banked vacation policy change made in 2009 will also negatively impact earnings in 2011 when compared to 2010. Prior to 2009, 3M allowed employees to bank a certain amount of unused vacation. Effective January 1, 2009, 3M employees were given two years to use their previously banked vacation, with the resulting reduction in 3M's liability benefiting both 2009 and 2010 operating results. This change resulted in an estimated 8 cent per diluted share benefit in 2010 results, which will not carry-over into 2011, and thus, will negatively impact 2011 versus 2010 comparisons. Finally, 3M's assessment of the income tax rate indicates an expected 2011 effective tax rate of approximately 29 percent compared to 27.7 percent for 2010.

On a worldwide basis, 3M's pension and postretirement plans were 90 percent funded at year-end 2010. The U.S. qualified plan, which is approximately 71 percent of the worldwide pension obligation, was 97 percent funded, the non-qualified pension plan was not funded, and the international pension plans were 89 percent funded. Asset returns in 2010 for the U.S. qualified plan were 14.4% while the year-end 2010 discount rate was 5.23%, down 0.54 percentage points from the 2009 discount rate of 5.77%. 3M is considering contributing in the range of \$400 million to \$600 million of cash to its global pension and postretirement plans in 2011. The Company does not have a required minimum pension contribution obligation for its U.S. plans in 2011. 3M expects pension and postretirement benefit expense in 2011 to increase by approximately \$215 million pre-tax, or 22 cents per diluted share, when compared to 2010.

Forward-looking statements in Part I, Item 2 may involve risks and uncertainties that could cause results to differ materially from those projected (refer to the section entitled "Cautionary Note Concerning Factors That May Affect Future Results" in Part I, Item 2 and the risk factors provided in Part II, Item 1A for discussion of these risks and uncertainties).

Special Items:

Special items represent significant charges or credits that are important to understanding changes in the Company's underlying operations.

First quarter 2010 special items:

The first quarter of 2010 results include a one-time, non-cash income tax charge of \$84 million (12 cents per diluted share for the six months ended June 30, 2010), resulting from the March 2010 enactment of the Patient Protection and Affordable Care Act, including modifications made in the Health Care and Education Reconciliation Act of 2010 (collectively, the "Act"). The charge is due to a reduction in the value of the company's deferred tax asset as a result of the Act's change to the tax treatment of Medicare Part D reimbursements. This item is discussed in

more detail in Note 5 (Income Taxes).

Table of Contents**RESULTS OF OPERATIONS**

Percent change information compares the second quarter or first six months of 2011 with the same period last year, unless otherwise indicated.

*Net Sales:*

	Three months ended June 30, 2011					
	United States	Asia Pacific	Europe, Middle East and Africa	Latin America/Canada	Other Unallocated	Worldwide
Net sales (millions)	\$ 2,580	\$ 2,317	\$ 1,903	\$ 883	\$ (3)	\$ 7,680
% of worldwide sales	33.6%	30.1%	24.8%	11.5%		100.0%
Components of net sales change:						
Volume organic	3.0%	2.8%	3.0%	6.2%		3.2%
Price	1.7	(1.5)	1.2	3.2		0.8
Organic local-currency sales	4.7	1.3	4.2	9.4		4.0
Acquisitions	4.0	3.6	5.7	1.8		4.0
Local-currency sales	8.7	4.9	9.9	11.2		8.0
Divestitures						
Translation		6.1	14.2	9.0		6.1
Total sales change	8.7%	11.0%	24.1%	20.2%		14.1%

Sales in the second quarter of 2011 increased 14.1 percent, with broad-based geographic area growth across all major geographic regions. Local-currency sales growth was 11.2 percent for the combined Latin America/Canada region, 9.9 percent for the Europe, Middle East and Africa region, 8.7 percent for the United States, and 4.9 percent for Asia Pacific. The lower growth in Asia Pacific was partially attributable to organic volume and selling price declines in 3M's optical systems business. Acquisitions added 4 percent to worldwide growth and currency impacts benefited second-quarter 2011 worldwide sales growth by 6.1 percent. Worldwide selling prices rose 0.8 percent in the second quarter, even though selling prices were negatively impacted by 3M's electronics-related businesses, where price-down is a necessary part of the business. Selling prices in 3M's non electronics-related businesses increased approximately 1.5 percent.

	Six months ended June 30, 2011					
	United States	Asia Pacific	Europe, Middle East and Africa	Latin America/Canada	Other Unallocated	Worldwide
Net sales (millions)	\$ 4,986	\$ 4,658	\$ 3,667	\$ 1,685	\$ (5)	\$ 14,991
% of worldwide sales	33.2%	31.1%	24.5%	11.2%		100.0%
Components of net sales change:						
Volume organic	4.5%	8.2%	4.6%	7.2%		5.9%
Price	1.2	(1.6)	0.9	2.8		0.5
Organic local-currency sales	5.7	6.6	5.5	10.0		6.4
Acquisitions	3.7	3.4	4.6	1.7		3.6
Local-currency sales	9.4	10.0	10.1	11.7		10.0
Divestitures						
Translation		5.8	8.4	8.1		4.6



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Total sales change	<b>9.4%</b>	<b>15.8%</b>	<b>18.5%</b>	<b>19.8%</b>	<b>14.6%</b>
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Sales in the first six months of 2011 increased 14.6 percent, with broad-based geographic area growth across all major geographic regions. Local-currency sales growth was 11.7 percent for the combined Latin America/Canada region, 10.1 percent for the Europe, Middle East and Africa region, 10.0 percent for Asia Pacific, and 9.4 percent for the United States. Acquisitions added 3.6 percent to worldwide growth and currency impacts benefited second-quarter 2011 worldwide sales growth by 4.6 percent. Worldwide selling prices rose 0.5 percent in the first six months, even though selling prices were negatively impacted by 3M's electronics-related businesses, where price-down is a necessary part of business. Selling prices in 3M's non electronics-related businesses increased by approximately 1.1 percent.

Table of Contents**Operating Expenses:**

(Percent of net sales)	Three months ended			Six months ended		
	2011	June 30, 2010	Change	2011	June 30, 2010	Change
Cost of sales	<b>52.6%</b>	51.0%	1.6%	<b>52.3%</b>	51.1%	1.2%
Selling, general and administrative expenses	<b>20.6</b>	20.1	0.5	<b>20.8</b>	20.4	0.4
Research, development and related expenses	<b>5.2</b>	5.2		<b>5.3</b>	5.3	
Operating income	<b>21.6%</b>	23.7%	(2.1)%	<b>21.6%</b>	23.2%	(1.6)%

As discussed in the overview section, 3M expects pension and postretirement expense (excluding any possible settlement, curtailment or other special termination benefits in 2011) to increase approximately \$215 million for total year 2011 when compared to 2010. The year-on-year increase for the second-quarter and first six months of 2011 was \$66 million and \$113 million, respectively. This increase negatively impacted cost of sales; selling, general and administrative expenses (SG&A); and research, development and related expenses (R&D).

Cost of sales includes manufacturing, engineering and freight costs. Cost of sales as a percent of net sales was 52.6 percent in the second quarter of 2011, an increase of 1.6 percentage points from the same quarter last year. In addition to the negative pension and postretirement impact discussed above (of which a portion impacts cost of sales), foreign currency effects and the impact of the natural disaster in Japan also negatively impacted cost of sales as a percent of net sales. Selling price increases only partially offset raw material inflation in the second quarter, but for total year 2011 3M expects price increases to largely offset raw material inflation for the majority of its businesses. The preceding negative impacts were partially offset by the benefit from organic sales volume growth of 3.2 percent.

Cost of sales in the first six months of 2011 was 52.3 percent, an increase of 1.2 percentage points from the same period last year. Like the second quarter, first six months cost of sales as a percent of net sales was also negatively impacted by higher pension and postretirement costs, foreign currency effects, and the impact of the natural disaster in Japan. Selling price increases only partially offset raw material inflation in the first six months of 2011. The preceding negative impacts were partially offset by the benefit from organic sales volume growth of 5.9 percent.

SG&A in dollars increased in both the second quarter and first six months of 2011 by 17 percent, due to several factors. Primary factors that increased second-quarter SG&A included foreign exchange effects (7 percentage points), as the weak U.S. dollar resulted in higher translated costs from 3M's international subsidiaries, and SG&A increases from businesses acquired in the last twelve months (6 percentage points), primarily related to SG&A spending for the Winterthur Technologie AG, Arizant Inc., Cogent Inc. and Attenti Holdings S.A. acquisitions, which were not in 3M's second-quarter or first six-months 2010 base spending. To a lesser extent, higher year-on-year pension and postretirement expense (3 percentage points) and continued investments to support future growth in areas such as sales representatives, advertising and promotion also increased SG&A in the second-quarter. Factors that increased first six-months 2011 SG&A included foreign exchange effects, increases related to businesses acquired in the last 12 months, higher year-on-year pension and postretirement expense, and continued investments. SG&A as a percent of net sales increased 0.5 percentage points in the second quarter of 2011 and 0.4 percentage points in the first six months of 2011 when compared to the same periods last year.

R&D expense in dollars increased in the second quarter and first six months by 15 percent and 16 percent, respectively. R&D expense was impacted by foreign exchange effects, R&D increases from businesses acquired in the last 12 months, and higher pension and postretirement expense, in addition to 3M's continued investment in new products. R&D as a percent of sales remained unchanged.

***Operating Income:***

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

Operating income margins were 21.6 percent in the second quarter of 2011 compared to 23.7 in the second quarter of 2010, a decrease of 2.1 points. Items which negatively impacted operating income margins include an estimated 0.8 points related to increased pension and postretirement expense, 0.6 points from foreign currency effects, 0.5 points from the net impact of selling price changes and raw material effects, and 0.5 points from the Japan natural disaster. These negative impacts were partially offset by an estimated 0.3 point benefit from organic volume leverage. Operating income in dollars increased 3.7 percent to \$1.7 billion, held back by the net impact of these factors.

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Operating income margins were 21.6 percent in the first six months of 2011 compared to 23.2 percent of sales in the first six months of 2010, impacted by many of the same factors as in the second quarter. From an operating income margin perspective, the benefits from organic sales volume leverage were more than offset by increased pension and postretirement expense, the net impact of selling price changes and raw material effects, and the impact of the natural disaster in Japan. Despite these factors, operating income dollars increased 6 percent to \$3.2 billion.

*Interest Expense and Income:*

(Millions)	Three months ended June 30,		Six months ended June 30,	
	2011	2010	2011	2010
Interest expense	\$ 50	\$ 52	\$ 93	\$ 100
Interest income	(9)	(10)	(19)	(16)
Total	\$ 41	\$ 42	\$ 74	\$ 84

Interest expense was lower in the second quarter and first six months of 2011 compared to the same period last year, primarily due to reductions in U.S. long-term average debt balances and lower rates on floating rate debt. Interest income was relatively stable year-on-year for the second quarter, but increased in the first six months of 2011 compared to the same period last year, primarily due to higher U.S. and international rates.

*Provision for Income Taxes:*

(Percent of pre-tax income)	Three months ended June 30,		Six months ended June 30, June 30,	
	2011	2010	2011	2010
Effective tax rate	27.1%	26.6%	27.8%	29.1%

The effective tax rate for the second quarter of 2011 was 27.1 percent, compared to 26.6 percent in the second quarter of 2010, an increase of 0.5 percent. The effective tax rate for the first six months of 2011 was 27.8 percent, compared to 29.1 percent in the first six months of 2010, a decrease of 1.3 percent. The first six months of 2010 includes a one-time income tax charge of \$84 million as a result of the March 2010 enactment of the Patient Protection and Affordable Care Act, including modifications made in the Health Care and Education Reconciliation Act of 2010, which increased the first six months 2010 effective tax rate by approximately 2.8 percent. Other factors on a combined net basis increased the effective tax rate for the first six months of 2011 when compared to the first six months of 2010 by 1.5 percent, with the most significant item related to international taxes. This was due primarily to the one-time 2010 tax benefits resulting from the corporate alignment transactions that allowed the Company to increase its ownership of a foreign subsidiary. In addition to the transaction noted above, a corporate reorganization of a wholly owned subsidiary provided a one-time benefit to international taxes in the second quarter of 2011. The Company's effective tax rate also benefited during the first six months of 2011 from the reinstatement of the research and development credit and adjustments to its income tax reserves. Refer to Note 5 for further discussion of income taxes.

The company currently expects that its effective tax rate for total year 2011 will be approximately 29 percent. The rate will change from quarter to quarter due to discrete items, such as the settlement of income tax audits and changes in tax laws, as well as recurring factors, such as the geographic mix of income before taxes.

*Net Income Attributable to Noncontrolling Interest:*

(Millions)	Three months ended June 30,		Six months ended June 30,	
	2011	2010	2011	2010
Net income attributable to noncontrolling interest	\$ 17	\$ 19	\$ 39	\$ 44

Net income attributable to noncontrolling interest represents the elimination of the income or loss attributable to non-3M ownership interests in 3M consolidated entities. The changes in noncontrolling interest amounts are primarily related to Sumitomo 3M Limited (Japan), which is 3M's most significant consolidated entity with non-3M ownership interests. As of June 30, 2011, 3M's effective ownership in Sumitomo 3M Limited is 75 percent.

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*Currency Effects:*

3M estimates that year-on-year currency effects, including hedging impacts, increased net income attributable to 3M by approximately \$33 million for the three months ended June 30, 2011 and increased net income attributable to 3M by approximately \$80 million for the six months ended June 30, 2011. 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, which 3M estimates decreased net income attributable to 3M by approximately \$42 million for the three months ended June 30, 2011 and decreased net income attributable to 3M by approximately \$26 million for the six months ended June 30, 2011.

*Significant Accounting Policies:*

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

**PERFORMANCE BY BUSINESS SEGMENT**

As discussed in Note 13 to the Consolidated Financial Statements, effective in the first quarter of 2011, 3M made certain product moves between its business segments. Segment information for all periods presented has been reclassified to reflect the new segment structure.

Information related to 3M's business segments for the second quarter and first six months of both 2011 and 2010 is presented in the tables that follow. Organic local-currency sales include both organic volume impacts plus selling price impacts. Acquisition impacts, a component of local currency sales growth, are measured separately for the first twelve months of the acquisition. The divestiture impact, if any, translation impact and total sales change are also provided for each business segment. Any references to Europe relate to Europe, Middle East and Africa on a combined basis.

Table of Contents**Industrial and Transportation Business:**

	Three months ended June 30,		Six months ended June 30,	
	2011	2010	2011	2010
Sales (millions)	\$ 2,641	\$ 2,121	\$ 5,091	\$ 4,157
Sales change analysis:				
Organic local currency.	10.4%	22.9%	11.8%	22.9%
Acquisitions	7.1		5.4	
Local currency	17.5	22.9	17.2	22.9
Translation	7.1	0.1	5.3	2.8
Total sales change	24.6%	23.0%	22.5%	25.7%
Operating income (millions)	\$ 544	\$ 463	\$ 1,060	\$ 906
Percent change	17.2%	65.2%	16.9%	100.5%
Percent of sales	20.6%	21.9%	20.8%	21.8%

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

## Second quarter of 2011:

Sales in Industrial and Transportation increased 24.6 percent to \$2.6 billion. In local-currency terms, sales increased 17.5 percent, which included 7.1 percent from acquisitions, primarily Winterthur Technologie AG (Winterthur) and Alpha Beta Enterprise Co. Ltd. (Alpha Beta), which are discussed further below. Foreign currency impacts added 7.1 percent to second quarter sales growth. Sales growth was broad-based, as every business in this segment, except automotive, posted local-currency sales increases. Sales growth declined in the automotive OEM business, impacted by Japan earthquake-related disruptions. Renewable energy sales grew 61 percent, helped by recent investments in Singapore and elsewhere. Abrasives sales grew more than 50 percent, a combination of organic growth along with acquired sales from Winterthur. Aerospace and aircraft maintenance grew 35 percent. Finally, 3M's largest division, industrial adhesives and tapes, grew 25 percent. Geographically, sales grew in all major regions, with increases of 40 percent in Europe, 28 percent in Asia Pacific, 22 percent in Latin America/Canada, and 13 percent in the U.S.

Industrial and Transportation continues to invest aggressively to accelerate its growth capability. In March 2011, 3M acquired a controlling interest in Winterthur via completion of a public tender offer. Winterthur, based in Zug, Switzerland, is a leading global supplier of precision grinding technology serving customers in the area of hard-to-grind precision applications in industrial, automotive, aircraft, and cutting tools. In addition, in February 2011, 3M completed its acquisition of the tape-related assets of Alpha Beta, a leading manufacturer of box sealing tape and masking tape headquartered in Taipei, Taiwan.

Operating income was \$544 million in the second quarter, 17.2 percent higher than the second quarter of last year. Strong revenue growth and operational excellence drove operating income growth. Considering 3M's continued investments, including purchase accounting impacts from

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the recent acquisitions discussed above, higher raw material costs, and higher pension/postretirement benefit costs, 3M was still able to maintain operating income margins above 20 percent.

First six months of 2011:

Sales in Industrial and Transportation increased 22.5 percent to \$5.1 billion. In local-currency terms, sales increased 17.2 percent, with 11.8 percent of this increase driven by organic local-currency growth. Acquisitions increased sales by 5.4 percent, primarily driven by Winterthur and Alpha Beta (discussed above). Foreign currency impacts added 5.3 percent to first six months sales growth. Geographically, local-currency sales growth increased in all major regions, led by Europe and Asia Pacific. Like the second quarter, sales growth was broad-based across the portfolio, led by renewable energy, abrasives systems, aerospace and aircraft maintenance, and industrial adhesives and tapes.

Operating income was \$1.1 billion in the first six months of 2011, 16.9 percent higher than the same period last year. As discussed in the second-quarter recap above, despite 3M's continued investments, higher raw material costs, and higher pension/postretirement benefit costs, 3M was able to achieve operating income margins of 20.8 percent.



Table of Contents**Health Care Business:**

	Three months ended June 30,		Six months ended June 30,	
	2011	2010	2011	2010
Sales (millions)	\$ 1,269	\$ 1,110	\$ 2,524	\$ 2,224
Sales change analysis:				
Organic local currency.	2.8%	5.8%	3.7%	6.7%
Acquisitions	5.0		5.1	
Local currency	7.8	5.8	8.8	6.7
Divestitures		(0.2)		(0.2)
Translation	6.5	(1.0)	4.7	1.7
Total sales change	14.3%	4.6%	13.5%	8.2%
Operating income (millions)	\$ 364	\$ 344	\$ 733	\$ 690
Percent change	6.2%	4.7%	6.4%	8.8%
Percent of sales	28.7%	30.9%	29.1%	31.0%

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

## Second quarter of 2011:

Health Care local-currency sales increased 7.8 percent, including a benefit of 5.0 percent from acquisitions, primarily related to the Arizant Inc. acquisition in the fourth quarter of 2010. Arizant Inc. is a leading manufacturer of patient warming solutions designed to prevent hypothermia in surgical settings. Currency impacts increased sales by 6.5 percent. On a geographic basis, all regions posted positive sales growth, with Asia Pacific up 24 percent, Latin America/Canada up 20 percent, Europe up 14 percent, and the U.S. up 10 percent. Local currency sales were led by growth in infection prevention, health information systems, food safety, skin and wound care and oral care. Drug delivery systems sales declined, penalized by delays in some anticipated sales agreements and year-on-year comparisons, as drug delivery systems had a strong second-quarter of 2010.

Operating income increased 6.2 percent to \$364 million. Operating income margins were 28.7 percent in the second quarter of 2011 compared to 30.9 percent in the second quarter of 2010, with this decrease partially due to continued investments to grow this business and the decline in drug delivery systems sales.

## First six months of 2011:

Health Care local-currency sales increased 8.8 percent, including 5.1 percent from acquisitions. Acquisition growth primarily related to the Arizant Inc. acquisition (discussed above). Currency impacts increased sales by 4.7 percent. On a geographic basis, all regions posted positive

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local-currency sales growth, led by Asia Pacific, Latin America/Canada and the U.S. Local currency sales were led by infection prevention, food safety, health information systems, skin and wound care, and oral care. Drug delivery systems sales declined, penalized by items referenced in the second-quarter discussion above.

Operating income increased 6.4 percent to \$733 million. Operating income margins were 29.1 percent, compared to 31.0 percent in the first six months of 2010, with this decrease partially due to continued investments and the decline in drug delivery system sales. 3M's long-term expectation is that operating income margins will be in the high 20's for this business segment, as 3M continues to invest to grow this business.

Table of Contents**Display and Graphics Business:**

	Three months ended June 30,		Six months ended June 30,	
	2011	2010	2011	2010
Sales (millions)	\$ 973	\$ 1,047	\$ 1,916	\$ 1,916
Sales change analysis:				
Organic local currency	(10.7)%	29.2%	(2.9)%	33.2%
Acquisitions	0.1			
Local currency	(10.6)	29.2	(2.9)	33.2
Translation	3.5	0.3	2.9	1.9
Total sales change	(7.1)%	29.5%	%	35.1%
Operating income (millions)	\$ 222	\$ 308	\$ 452	\$ 520
Percent change	(28.3)%	68.6%	(13.2)%	114.3%
Percent of sales	22.8%	29.5%	23.6%	27.2%

The Display and Graphics segment serves markets that include electronic display, traffic safety and commercial graphics. This segment includes optical film solutions for LCD electronic displays; computer screen filters; reflective sheeting for transportation safety; commercial graphics sheeting and systems; and mobile interactive solutions, including mobile display technology, visual systems products, and computer privacy films.

## Second quarter of 2011:

Sales in Display and Graphics were \$973 million, a decline of 7.1 percent year-on-year. Optical systems was the biggest driver of the sales decline, with LCD TV-related declines partially offset by continued strength in smart phones and tablet PCs. On the new product front, optical recently introduced a family of new film solutions for tablet applications that increase brightness, enhance outdoor viewing and reduce the overall thickness of backlight films. Foreign currency impacts increased sales by 3.5 percent. Local-currency sales increased in 3M's commercial graphics and architectural markets businesses. The architectural markets business brings new solutions and technologies for surface and glass finishes and lighting into the architectural and design market. Traffic safety systems also posted positive sales growth, albeit all currency-related, as underlying organic growth was down slightly in that business. Highway construction spending remains soft in both the U.S. and Western Europe. Sales increased in all geographic regions, except Asia Pacific, where the decline in optical systems sales had a negative impact.

Operating income in the second quarter of 2011 totaled \$222 million, or 22.8 percent of sales, compared to 29.5 percent in the second quarter of 2010, with the difference largely attributable to the decline in optical systems sales.

## First six months of 2011:

Sales in Display and Graphics were \$1.916 billion, the same as last year. Sales declined 2.9 percent in local currencies, which was entirely organic, but this decline was offset by positive foreign currency impacts. Sales growth was led by commercial graphics and architectural markets. Traffic safety systems posted sales growth, albeit all currency related. Optical Systems sales decreased due to lower LCD TV-related

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sales in the second quarter of 2011 (discussed above). Sales increased in all geographic regions, except Asia Pacific, where the decline in optical systems sales had a negative impact.

Operating income in the first half of 2011 totaled \$452 million, or 23.6 percent of sales. 3M achieved strong operating income margins in this business segment, despite the slowdown in optical systems.

Table of Contents*Consumer and Office Business:*

	Three months ended June 30,			Six months ended June 30,		
	2011	2010	2010	2011	2010	2010
Sales (millions)	\$ 1,038	\$ 954	\$ 954	\$ 2,038	\$ 1,866	\$ 1,866
Sales change analysis:						
Organic local currency	3.8%	5.2%	5.2%	4.3%	6.6%	6.6%
Acquisitions	0.2	4.5	4.5	1.2	3.6	3.6
Local currency	4.0	9.7	9.7	5.5	10.2	10.2
Translation	4.9	0.4	0.4	3.7	2.1	2.1
Total sales change	8.9%	10.1%	10.1%	9.2%	12.3%	12.3%
Operating income (millions)	\$ 202	\$ 211	\$ 211	\$ 417	\$ 430	\$ 430
Percent change	(4.3)%	6.9%	6.9%	(3.1)%	18.7%	18.7%
Percent of sales	19.5%	22.1%	22.1%	20.4%	23.0%	23.0%

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

## Second quarter of 2011:

Sales in Consumer and Office increased 8.9 percent in the second quarter to \$1 billion, with all businesses posting positive sales growth. Local-currency sales increased 4 percent, which was largely organic. Acquisition growth in the second quarter of 2011 primarily related to the first quarter 2011 acquisition of Hybrivet Systems Inc., a provider of instant-read products to detect lead and other contaminants and toxins. Foreign currency impacts contributed 4.9 percent to sales growth. On a geographic basis, sales increased in all regions, with sales growth in Asia Pacific, and Latin America/Canada and Europe all in excess of 20 percent. U.S. sales growth was one percent, influenced by low consumer confidence levels and high unemployment.

Consumer and Office operating income decreased 4.3 percent to \$202 million, reflecting continued ongoing investments in brand development, marketing and sales coverage in developing economies. These investments are delivering accelerated growth in China, for example, where Consumer and Office sales increased 51 percent in the second quarter, and in India, which grew its Consumer and Office sales by 29 percent. Even with these investments, Consumer and Office generated operating income margins of 19.5 percent. 3M is committed to investing in and driving this business for the longer term. In addition, like other businesses, raw material increases also impacted operating income margins.

## First six months of 2011:

Sales in Consumer and Office increased 9.2 percent in the first six months to \$2 billion, with all businesses posting positive sales growth. Local-currency sales increased 5.5 percent, which included 4.3 percent from organic growth and 1.2 percent from acquisitions. Acquisition

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growth was largely due to the April 2010 acquisition of the A-One branded label business and related operations. A-One is the largest branded label business in Asia and the second largest worldwide. As discussed above, 3M also acquired Hybrivet Systems Inc. in the first quarter of 2011. Foreign currency impacts contributed 3.7 percent to sales growth. On a geographic basis, sales growth was led by Asia Pacific, Latin America/Canada and Europe. Sales in the U.S. increased only slightly, impacted by low consumer confidence levels and high unemployment.

Consumer and Office operating income decreased 3.1 percent to \$417 million, reflecting continued ongoing investments as reflected in the second quarter discussion above.

3M announced in July 2011 that it entered into an agreement to acquire the do-it-yourself and professional business of GPI Group, headquartered in France. GPI is a manufacturer and marketer of home improvement products such as tapes, hooks, insulation and floor protection products and accessories. The addition of GPI's products will expand 3M's product portfolio in core and complementary categories in the construction and home improvement markets. This transaction is expected to close in the fourth quarter of 2011, subject to customary closing conditions, including regulatory approvals.

Table of Contents*Safety, Security and Protection Services Business:*

	Three months ended June 30,			Six months ended June 30,		
	2011	2010		2011	2010	
Sales (millions)	\$ 1,011	\$ 844	\$	\$ 1,940	\$ 1,657	
Sales change analysis:						
Organic local currency	5.4%	10.1%		5.2%	12.3%	
Acquisitions	7.0			6.6		
Local currency	12.4	10.1		11.8	12.3	
Translation	7.3	(0.8)		5.3	2.2	
Total sales change	19.7%	9.3%		17.1%	14.5%	
Operating income (millions)	\$ 242	\$ 198	\$	\$ 441	\$ 380	
Percent change	22.7%	8.5%		16.2%	23.7%	
Percent of sales	24.0%	23.4%		22.8%	22.9%	

The Safety, Security and Protection Services segment serves a broad range of markets that increase the safety, security and productivity of workers, facilities and systems. Major product offerings include personal protection products, cleaning and protection products for commercial establishments, safety and security products (including border and civil security solutions), roofing granules for asphalt shingles, corrosion protection products used in the oil and gas pipeline markets, and track and trace solutions.

## Second quarter of 2011:

Safety, Security and Protection Services sales increased 19.7 percent in the second quarter of 2011. H1N1-related comparisons reduced second quarter 2011 sales growth by 2.7 percent, as 3M had sales related to the H1N1 virus in the first three quarters of 2010. Even with this difficult comparison, local-currency sales growth was 12.4 percent, which included 7 percent growth from acquisitions. The acquisition benefit primarily related to two fourth-quarter 2010 acquisitions, namely Attenti Holdings S.A. and Cogent Inc. Attenti Holdings S.A. is a supplier of remote people-monitoring technologies used for offender-monitoring applications and to assist eldercare facilities in monitoring and enhancing the safety of patients. Cogent Inc. is a provider of finger, palm, face and iris biometric systems for governments, law enforcement agencies, and commercial enterprises. Foreign currency effects added 7.3 percent to second-quarter sales. All geographic regions posted sales growth, led by Asia Pacific at 24 percent, and Latin America/Canada at 23 percent.

Local-currency sales grew in all businesses, led by personal protection, security systems, and track and trace. Sales growth in personal protection products, or more specifically, respiratory products, was hampered by H1N1-related comparisons. On the other hand, 3M did see some additional sales of personal protective equipment related to the cleanup efforts in Japan, albeit somewhat less than the loss of H1N1.

Operating income for the second quarter of 2011 rose 22.7 percent to \$242 million, with a 24.0 percent operating income margin. H1N1-related comparisons negatively impacted year-on-year sales and operating income growth.

## First six months of 2011:

Safety, Security and Protection Services sales increased 17.1 percent in the first six months of 2011. H1N1-related comparisons reduced first six months 2011 sales growth by 4.6 percent, as 3M had sales related to the H1N1 virus in the first three quarters of 2010. Even with this difficult comparison, local-currency sales growth was 11.8 percent, which included 6.6 percent growth from acquisitions. The acquisition benefit primarily related to two fourth-quarter 2010 acquisitions, namely Attenti Holdings S.A. and Cogent Inc. (which are discussed above). Foreign currency effects added 5.3 percent to first six months sales. All geographic regions posted sales growth, led by Asia Pacific at 24 percent, and Latin America/Canada at 21 percent.

Local-currency sales growth was led by track and trace, security systems, and corrosion protection products. 3M also saw growth in its personal protection products, but this growth was hampered by H1N1-related comparisons.

Operating income for the first six months of 2011 rose 16.2 percent to \$441 million, with a 22.8 percent operating income margin. H1N1-related comparisons negatively impacted year-on-year sales and operating income growth.



Table of Contents*Electro and Communications Business:*

	Three months ended June 30,		Six months ended June 30,	
	2011	2010	2011	2010
Sales (millions)	\$ 864	\$ 757	\$ 1,700	\$ 1,451
Sales change analysis:				
Organic local currency	8.1%	31.0%	12.4%	32.7%
Acquisitions	0.1		0.1	
Local currency	8.2	31.0	12.5	32.7
Divestitures		(0.9)		(0.9)
Translation	5.9	1.1	4.7	2.9
Total sales change	14.1%	31.2%	17.2%	34.7%
Operating income (millions)	\$ 200	\$ 176	\$ 378	\$ 323
Percent change	13.8%	139.5%	17.2%	227.5%
Percent of sales	23.1%	23.2%	22.2%	22.2%

The Electro and Communications segment serves the electrical, electronics and communications industries, including electrical utilities; electrical construction, maintenance and repair; original equipment manufacturer (OEM) electrical and electronics; computers and peripherals; consumer electronics; telecommunications central office, outside plant and enterprise; as well as aerospace, military, automotive and medical markets; with products that enable the efficient transmission of electrical power and speed the delivery of information. Products include electronic and interconnect solutions, micro interconnect systems, high-performance fluids, high-temperature and display tapes, telecommunications products, electrical products, and touch screens and touch monitors.

## Second quarter of 2011:

Electro and Communications sales totaled \$864 million in the second quarter, an increase of 14.1 percent in U.S. dollars and 8.2 percent in local currency. Foreign currency impacts added 5.9 percent to second-quarter sales growth. Sales expanded in all geographic regions, led by approximately 21 percent growth in Europe, 17 percent in Latin America/Canada and 16 percent in Asia Pacific. Sales in the United States grew approximately 4 percent. Sales growth was led by 3M's electronics markets materials business, driven by solutions for semiconductor and consumer electronics, most notably tablet PCs. 3M also saw strong growth in the electrical markets business, which supplies connectors and other such solutions to the power utility, MRO (maintenance, repair and overhaul) and appliance markets. The telecom and touch systems businesses also posted solid sales growth.

Operating income increased 13.8 percent to \$200 million in the second quarter of 2011, driven by higher year-on-year sales growth. Operating income margins were 23.1 percent, slightly lower than the second quarter of 2010.

## First six months of 2011:

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Electro and Communications sales were \$1.7 billion in the first six months of 2011, an increase of 17.2 percent in U.S. dollars and 12.5 percent in local currency. Foreign currency impacts added 4.7 percent to first six months sales growth. Sales expanded in all geographic regions, led by approximately 20 percent growth in Asia Pacific, Latin America/Canada and Europe. Sales in the United States grew approximately 8 percent. Sales growth was led by 3M's electronics markets materials business and the electrical markets business. The telecom and touch systems businesses also posted solid sales growth.

Operating income increased 17.2 percent to \$378 million in the first six months of 2011, driven by higher year-on-year sales growth. Operating income margins were 22.2 percent, the same as the first six months of 2010.

Table of Contents**FINANCIAL CONDITION AND LIQUIDITY**

As indicated in the following table, 3M's net debt at June 30, 2011 totaled \$669 million, compared to \$434 million at December 31, 2010. At June 30, 2011, 3M had \$4.9 billion of cash, cash equivalents, and marketable securities and \$5.6 billion of debt. Debt included \$4.5 billion of long-term debt and \$1.1 billion related to the current portion of long-term debt and other borrowings. The current portion of long-term debt includes \$800 million in medium-term notes due in November 2011. The strength of 3M's capital structure and consistency of its cash flows provide 3M reliable access to capital markets. Additionally, the Company's debt maturity profile is staggered to ensure refinancing needs in any given year are reasonable in proportion to the total portfolio.

The Company generates significant ongoing cash flow, which has been used, in part, to fund share repurchase activities, pay dividends on 3M common stock, and for acquisitions. As discussed in Note 2, in the first six months of 2011, the Company acquired Winterthur Technologie AG and other businesses for an aggregate \$487 million in cash. This is in addition to several significant fourth-quarter 2010 acquisitions, when the Company purchased Arizant Inc., Attenti Holdings S.A. and Cogent Inc. 3M was able to complete these acquisitions without incurring significant additional debt, while maintaining a strong cash, cash equivalents and marketable securities position.

(Millions)	June 30, 2011	Dec. 31, 2010
Total Debt	\$ 5,600	\$ 5,452
Less: Cash and cash equivalents and marketable securities	4,931	5,018
Net Debt	\$ 669	\$ 434

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

Operating cash flow of \$2.184 billion in the first six months of 2011 was primarily utilized for items such as dividends paid to shareholders (\$783 million), net treasury stock repurchases (\$605 million), capital spending (\$526 million), and acquisitions (\$487 million). The Company has sufficient liquidity to meet currently anticipated growth plans, including capital expenditures, working capital investments and acquisitions. The Company does not utilize derivative instruments linked to the Company's stock. However, the Company does have contingently convertible debt that, if conditions for conversion are met, is convertible into shares of 3M common stock (refer to Note 10 in 3M's Current Report on Form 8-K dated May 26, 2011, which updated 3M's 2010 Annual Report on Form 10-K).

The Company's financial condition and liquidity are strong. Various assets and liabilities, including cash and short-term debt, can fluctuate significantly from month to month depending on short-term liquidity needs. Working capital (defined as current assets minus current liabilities) totaled \$7.334 billion at June 30, 2011, compared with \$6.126 billion at December 31, 2010. Working capital increases were primarily attributable to increases in accounts receivable and inventory, which was partially attributable to the increase in demand in the first six months of 2011.

Primary short-term liquidity needs are met through U.S. commercial paper and euro commercial paper issuances. The Company maintains a commercial paper program that allows 3M to have a maximum of \$3 billion outstanding with a maximum maturity of 397 days from date of

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issuance. As of June 30, 2011 and December 31, 2010, 3M had no outstanding commercial paper. The Company believes it is unlikely that its access to the commercial paper market will be restricted. Effective April 30, 2007, the Company has a \$1.5-billion five-year credit facility, which has provisions for the Company to request an increase of the facility up to \$2 billion (at the lenders' discretion), and providing for up to \$150 million in letters of credit. As of June 30, 2011, approximately \$148 million was utilized for letters of credit in connection with normal business activities. Debt covenants do not restrict the payment of dividends.

The Company has a well-known seasoned issuer shelf registration statement, effective February 17, 2009, which registers an indeterminate amount of debt or equity securities for future sales. No securities have been issued under this shelf. The Company intends to use the proceeds from future securities sales off this shelf for general corporate purposes. In connection with a prior well-known seasoned issuer shelf registration, in June 2007 the Company established a \$3 billion medium-term notes program. Three debt securities have been issued under this medium-term notes program. First, in December 2007, 3M issued a five-year, \$500 million, fixed rate note with a coupon rate of 4.65%. Second, in August 2008, 3M issued a five-year, \$850 million, fixed rate note with a coupon rate of 4.375%. Third, in October 2008,

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the Company issued a three-year \$800 million, fixed rate note with a coupon rate of 4.50%. The Company entered into an interest rate swap to convert this \$800 million note to a floating rate.

The Company has an AA- credit rating, with a stable outlook, from Standard & Poor's and an Aa2 credit rating, with a stable outlook, from Moody's Investors Service. Under its \$1.5-billion five-year credit facility agreement, 3M is required to maintain its EBITDA to Interest Ratio as of the end of each fiscal quarter at not less than 3.0 to 1. This is calculated (as defined in the agreement) as the ratio of consolidated total EBITDA for the four consecutive quarters then ended to total interest expense on all funded debt for the same period. At June 30, 2011, this ratio was approximately 37 to 1.

3M's strong balance sheet and liquidity provide the Company with significant flexibility to take advantage of numerous opportunities going forward. The Company will continue to invest in its operations to drive growth, including continual review of acquisition opportunities. 3M has a long history of dividend increases. In February 2011, the Board of Directors increased the quarterly dividend on 3M common stock by 4.8 percent to 55 cents per share, equivalent to an annual dividend of \$2.20 per share. In February 2011, 3M's Board of Directors authorized the repurchase of up to \$7.0 billion of 3M's outstanding common stock, which replaced the Company's previous repurchase program. This authorization has no pre-established end date. At June 30, 2011, the Company has \$5.9 billion remaining under the current authorization.

For the six months ended June 30, 2011, contributions totaling \$77 million were made to the Company's U.S. and international pension plans and \$48 million to its postretirement plans. In 2011, the Company is considering contributing in the range of \$400 million to \$600 million to its U.S. and international pension and postretirement plans. The Company does not have a required minimum pension contribution obligation for its U.S. plans in 2011. Therefore, the amount of the anticipated discretionary contribution could vary significantly depending on the U.S. qualified plans funded status as of the 2011 measurement date and the anticipated tax deductibility of the contribution. Future contributions will also depend on market conditions, interest rates and other factors. 3M believes its strong cash flow and balance sheet will allow it to fund future pension needs without compromising growth opportunities.

The Company uses various working capital measures that place emphasis and focus on certain working capital assets and liabilities. These measures are not defined under U.S. generally accepted accounting principles and may not be computed the same as similarly titled measures used by other companies. One of the primary working capital measures 3M uses is a combined index, which includes accounts receivable, inventory and accounts payable. This combined index (defined as current quarterly net sales multiplied by four, divided by the sum of ending net accounts receivable plus inventory less accounts payable) was 4.9 at June 30, 2011, down from 5.3 at December 31, 2010 and 5.4 at June 30, 2010. Receivables increased \$770 million, or 21 percent, compared with December 31, 2010, with higher June 2011 sales compared to December 2010 sales contributing to this increase. In addition, acquisitions increased accounts receivable by \$81 million and currency translation increased accounts receivable by \$102 million, as the U.S. dollar weakened in aggregate against a multitude of currencies. Inventories increased \$562 million, or 18 percent, compared with December 31, 2010. The inventory increases are partially attributable to the increase in demand in the first six months of 2011. In addition, acquisitions increased inventory by \$102 million and currency translation increased inventory by \$85 million, as the U.S. dollar weakened in aggregate against a multitude of currencies. Accounts payable increased \$189 million compared with December 31, 2010, with acquisitions accounting for \$48 million of this increase and currency translation accounting for \$44 million, with the balance primarily related to improvement in business activity.

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

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For the six months ended June 30, 2011 and 2010, the Company revised the amounts previously presented for cash used in investing activities and cash used in financing activities by \$33 million and \$63 million related to purchases of additional shares (noncontrolling interest) of non-wholly owned consolidated subsidiaries during the three months ended March 31, 2011 and 2010, respectively. These immaterial revisions increased cash used in financing activities and decreased cash used in investing activities by the amounts indicated above for the respective periods.

Table of Contents***Cash Flows from Operating Activities:***

(Millions)	Six months ended	
	2011	June 30, 2010
Net income including noncontrolling interest	\$ 2,280	\$ 2,095
Depreciation and amortization	608	559
Company pension contributions	(77)	(98)
Company postretirement contributions	(48)	(30)
Company pension expense	215	129
Company postretirement expense	53	26
Stock-based compensation expense	172	171
Income taxes (deferred and accrued income taxes)	133	126
Excess tax benefits from stock-based compensation	(49)	(36)
Accounts receivable	(586)	(586)
Inventories	(376)	(428)
Accounts payable	100	243
Product and other insurance receivables and claims	(39)	5
Other net	(202)	44
Net cash provided by operating activities	\$ 2,184	\$ 2,220

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

In the first six months of 2011, cash flows provided by operating activities decreased \$36 million compared to the first six months of 2010. The main positive contribution to operating cash flows related to year-on-year increases in net income including noncontrolling interest. Two primary items reduced operating cash flows. First, 3M invested in working capital (which includes accounts receivable, inventories and accounts payable) in support of its growth. Working capital increased \$862 million in the first six months of 2011, partially attributable to the increase in demand in the first six months of 2011, with higher June 2011 sales compared to December 2010 sales contributing to this increase. This compared to working capital increases of \$771 million in the first six months of 2010. Second, Other-net decreased cash flows by \$202 million in the first six months of 2011 compared to an increase of \$44 million in the first six months of 2010. The category, Other-net, in the preceding table reflects changes in other asset and liability accounts, such as a significant decrease in accrued payroll amounts in the first six months of 2011, which reduced liabilities.

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

In addition to net cash provided by operating activities, 3M uses free cash flow as a useful measure of performance and as an indication of the strength of the Company and its ability to generate cash. 3M defines free cash flow as net cash provided by operating activities less purchases of property, plant and equipment (which is classified as an investing activity). Free cash flow is not defined under U.S. generally accepted accounting principles (GAAP). Therefore, it should not be considered a substitute for income or cash flow data prepared in accordance with U.S. GAAP and may not be comparable to similarly titled measures used by other companies. It should not be inferred that the entire free cash flow amount is available for discretionary expenditures. Below find a recap of free cash flow for the six months ended June 30, 2011 and 2010.

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(Millions)	Six months ended	
	2011	June 30, 2010
Net cash provided by operating activities	\$ 2,184	\$ 2,220
Purchases of property, plant and equipment (PP&E)	(526)	(337)
Free Cash Flow	\$ 1,658	\$ 1,883



Table of Contents*Cash Flows from Investing Activities:*

(Millions)	Six months ended	
	2011	June 30, 2010
Purchases of property, plant and equipment (PP&E)	\$ (526)	\$ (337)
Proceeds from sale of PP&E and other assets	5	4
Acquisitions, net of cash acquired	(487)	(30)
Purchases and proceeds from sale or maturities of marketable securities and investments, net	205	(1,012)
Other investing	(6)	
Net cash used in investing activities	\$ (809)	\$ (1,375)

Investments in property, plant and equipment enable growth in many diverse markets, helping to meet product demand and increasing manufacturing efficiency. Capital expenditures were \$526 million in the first six months of 2011, an increase of \$189 million when compared to the first six months of 2010. A substantial portion of this investment is addressing supply constraints in a number of businesses that are growing rapidly, including renewable energy, traffic signage in developing economies, and optically clear adhesives and glass bubbles. Importantly, 3M's capital spending is increasingly shifting toward international markets and, in particular, fast-growing developing economies, as 3M continues to migrate manufacturing to better balance sales with manufacturing capability. The Company expects 2011 capital spending to be approximately \$1.3 to \$1.5 billion as 3M continues to fund growth opportunities around the world.

Refer to Note 2 for information on 2011 acquisitions. The Company is actively considering additional acquisitions, investments and strategic alliances, and from time to time may also divest certain businesses.

Purchases of marketable securities and investments and proceeds from sale (or maturities) of marketable securities and investments are primarily attributable to asset-backed securities, agency securities, corporate medium-term note securities and other securities, which are classified as available-for-sale. Interest rate risk and credit risk related to the underlying collateral may impact the value of investments in asset-backed securities, while factors such as general conditions in the overall credit market and the nature of the underlying collateral may affect the liquidity of investments in asset-backed securities. The coupon interest rates for asset-backed securities are either fixed rate or floating. Floating rate coupons reset monthly or quarterly based upon the corresponding monthly or quarterly LIBOR rate. Each individual floating rate security has a coupon based upon the respective LIBOR rate +/- an amount reflective of the credit risk of the issuer and the underlying collateral on the original issue date. Terms of the reset are unique to individual securities. Fixed rate coupons are established at the time the security is issued and are based upon a spread to a related maturity treasury bond. The spread against the treasury bond is reflective of the credit risk of the issuer and the underlying collateral on the original issue date. 3M does not currently expect risk related to its holdings in asset-backed securities to materially impact its financial condition or liquidity. Refer to Note 6 for more details about 3M's diversified marketable securities portfolio, which totaled \$1.555 billion as of June 30, 2011. Proceeds from sale or maturities of marketable securities, net of purchases, totaled \$205 million in the first six months of 2011. Purchases of marketable securities and investments, net of proceeds from sales or maturities, totaled \$1.012 billion in the first six months of 2010. Purchases of investments also include additional survivor benefit insurance and equity investments.

Table of Contents*Cash Flows from Financing Activities:*

(Millions)	Six months ended	
	2011	June 30, 2010
Change in short-term debt net	\$ (13)	\$ (32)
Repayment of debt (maturities greater than 90 days)	(143)	(45)
Proceeds from debt (maturities greater than 90 days)	109	9
Total cash change in debt	\$ (47)	\$ (68)
Purchases of treasury stock	(1,358)	(393)
Reissuances of treasury stock	753	386
Dividends paid to stockholders	(783)	(749)
Excess tax benefits from stock-based compensation	49	36
Other net	(51)	27
Net cash used in financing activities	\$ (1,437)	\$ (761)

Total debt at June 30, 2011, was \$5.6 billion, up slightly from \$5.452 billion year-end 2010. Total debt was 24 percent of total capital (total capital is defined as debt plus equity) at June 30, 2011, compared to 25 percent of total capital at year-end 2010. Repayment of debt in the first six months of 2011 includes repayment of a portion of debt related to the 5.8 billion Japanese Yen installment paid in March 2011 (refer to Note 7 for more detail) and repayment of a portion of debt that was acquired, primarily related to the Winterthur acquisition. Proceeds from debt in the first six months of 2011 primarily relate to an amendment to a loan agreement which increased the principal amount of the loan by 100.5 million Canadian Dollars (refer to Note 7 for further detail).

Repurchases of common stock are made to support the Company's stock-based employee compensation plans and for other corporate purposes. In February 2011, 3M's Board of Directors authorized the repurchase of up to \$7.0 billion of 3M's outstanding common stock, which replaced the Company's previous repurchase program. This authorization has no pre-established end date. In the first six months of 2011, the Company purchased \$1.358 billion of treasury stock, of which a portion was under the previous authorization, compared to \$393 million of treasury stock in the first six months of 2010. As of June 30, 2011, approximately \$5.9 billion of 3M common stock remained available for repurchase under the current authorization. For more information, refer to the table titled "Issuer Purchases of Equity Securities" in Part II, Item 2.

Cash dividends paid to stockholders totaled \$783 million in the first six months of 2011 compared to \$749 million in the first six months of 2010. 3M has paid dividends since 1916. In February 2011, the Board of Directors increased the quarterly dividend on 3M common stock by 4.8 percent to 55 cents per share, equivalent to an annual dividend of \$2.20 per share. This marked the 53rd consecutive year of dividend increases.

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

In the first six months of 2011, as discussed in Note 4, subsequent to acquiring a controlling interest in Winterthur, 3M purchased additional outstanding shares of its Winterthur subsidiary for \$50 million, increasing 3M's ownership interest from approximately 86 percent to approximately 98 percent as of June 30, 2011. These additional purchases are reflected as other financing activities in the statement of cash flows. 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.

In the first quarter of 2010, the Company's majority owned Sumitomo 3M Limited entity (Sumitomo 3M) purchased a portion of its shares held by its noncontrolling interest, Sumitomo Electric Industries, Ltd. (SEI), by paying cash of 5.8 billion Japanese Yen and entering into a note payable to SEI of 17.4 billion Japanese Yen (approximately \$63 million and \$188 million, respectively, based on March 31, 2010 exchange rates). The cash paid during the first six months ended June 30, 2010 as a result of the first-quarter 2010 purchase of Sumitomo 3M shares from SEI is classified as other financing activity in the consolidated statement of cash flows.

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

This Quarterly Report on Form 10-Q, including Management's Discussion and Analysis of Financial Condition and Results of Operations in Part I, Item 2, contains forward-looking statements within the meaning of the Private Securities

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Litigation Reform Act of 1995. The Company may also make forward-looking statements in other reports filed with the Securities and Exchange Commission, in materials delivered to shareholders and in press releases. In addition, the Company's representatives may from time to time make oral forward-looking statements.

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

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

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

Forward-looking statements are based on certain assumptions and expectations of future events and trends that are subject to risks and uncertainties. Actual future results and trends may differ materially from historical results or those reflected in any such forward-looking statements depending on a variety of factors. Important information as to these factors can be found in this document, including, among others, Management's Discussion and Analysis of Financial Condition and Results of Operations under the headings of Overview, Financial Condition and Liquidity and annually in Critical Accounting Estimates. Discussion of these factors is incorporated by reference from Part II, Item 1A, Risk Factors, of this document, and should be considered an integral part of Part I, Item 2, Management's Discussion and Analysis of Financial Condition and Results of Operations. For additional information concerning factors that may cause actual results to vary materially from those stated in the forward-looking statements, see our reports on Form 10-K, 10-Q and 8-K filed with the SEC from time to time.

**Item 3. Quantitative and Qualitative Disclosures About Market Risk.**

In the context of Item 3, market risk refers to the risk of loss arising from adverse changes in financial and derivative instrument market rates and prices, such as fluctuations in interest rates and foreign currency exchange rates. For a discussion of sensitivity analysis related to these types of market risks, refer to Part II, Item 7A, Quantitative and Qualitative Disclosures About Market Risk, in 3M's Current Report on Form 8-K dated May 26, 2011 (which updated 3M's 2010 Annual Report on Form 10-K). The Company also discusses risk management in various places throughout this document, including discussions in MD&A concerning Financial Condition and Liquidity and in the Notes to Consolidated Financial Statements (refer to the Marketable Securities, Derivatives and Fair Value Measurements notes).

**Item 4. Controls and Procedures.**

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

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

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**3M COMPANY**

**FORM 10-Q**

**For the Quarterly Period Ended June 30, 2011**

**PART II. Other Information**

**Item 1. Legal Proceedings.**

Discussion of legal matters is incorporated by reference from Part I, Item 1, Note 11, Commitments and Contingencies, of this document, and should be considered an integral part of Part II, Item 1, Legal Proceedings.

**Item 1A. Risk Factors.**

Provided below is a cautionary discussion of what we believe to be the most important risk factors applicable to the Company. Discussion of these factors is incorporated by reference into and considered an integral part of Part I, Item 2, Management's Discussion and Analysis of Financial Conditions and Results of Operations.

*\* Results are impacted by the effects of, and changes in, worldwide economic and capital markets conditions.* The Company operates in more than 65 countries and derives approximately two-thirds of its revenues from outside the United States. The Company's business is subject to global competition and may be adversely affected by factors in the United States and other countries that are beyond its control, such as disruptions in financial markets or downturns in economic activity in specific countries or regions, or in the various industries in which the Company operates; social, political or labor conditions in specific countries or regions; natural and other disasters affecting the operations of the Company or its customers; or adverse changes in the availability and cost of capital, interest rates, tax rates, or regulations in the jurisdictions in which the Company operates.

*\* The Company's credit ratings are important to 3M's cost of capital.* The major rating agencies routinely evaluate the Company's credit profile and assign debt ratings to 3M. The Company currently has an AA- credit rating, with a stable outlook, from Standard & Poor's and an Aa2 credit rating, with a stable outlook, from Moody's Investors Service. This evaluation is based on a number of factors, which include financial strength, business and financial risk, as well as transparency with rating agencies and timeliness of financial reporting. The Company's current ratings have served to lower 3M's borrowing costs and facilitate access to a variety of lenders. Failure to maintain the current ratings level would adversely affect the Company's cost of funds and could adversely affect liquidity and access to capital markets.

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

of products offered by our competitors, and changes in customer designs for their products that can affect the demand for some of the Company's products.

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

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

*\* The Company's future results are subject to fluctuations in the costs and availability of purchased components, compounds, raw materials and energy, including oil and natural gas and their derivatives, due to shortages, increased demand, supply interruptions, currency exchange risks, natural disasters and other factors.* The Company depends on various components, compounds, raw materials, and energy (including oil and natural gas and their derivatives) supplied by others for the manufacturing of its products. It is possible that any of its supplier relationships could be interrupted due to natural and other disasters and other events, or be terminated in the future. Any sustained interruption in the

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Company's receipt of adequate supplies could have a material adverse effect on the Company. In addition, while the Company has a process to minimize volatility in component and material pricing, no assurance can be given that the Company will be able to successfully manage price fluctuations or that future price fluctuations or shortages will not have a material adverse effect on the Company.

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

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

*\* The Company's future results may be affected by various legal and regulatory proceedings and legal compliance risks, including those involving product liability, antitrust, environmental, the U.S. Foreign Corrupt Practices Act and other anti-bribery, anti-corruption, or other matters.* The outcome of these legal proceedings may differ from the Company's expectations because the outcomes of litigation, including regulatory matters, are often difficult to reliably predict. Various factors or developments can lead the Company to change current estimates of liabilities and related insurance receivables where applicable, or make such estimates for matters previously not susceptible of reasonable estimates, such as a significant judicial ruling or judgment, a significant settlement, significant regulatory developments or changes in applicable law. A future adverse ruling, settlement or unfavorable development could result in future charges that could have a material adverse effect on the Company's results of operations or cash flows in any particular period. For a more detailed discussion of the legal proceedings involving the Company and the associated accounting estimates, see the discussion in Note 11 - Commitments and Contingencies within the Notes to Consolidated Financial Statements.

**Item 2. Unregistered Sales of Equity Securities and Use of Proceeds.**

**(e) Issuer Purchases of Equity Securities**

Repurchases of common stock are made to support the Company's stock-based employee compensation plans and for other corporate purposes. In February 2007, 3M's Board of Directors authorized a two-year share repurchase of up to \$7.0 billion for the period from February 12, 2007 to February 28, 2009. In February 2009, 3M's Board of Directors extended this share repurchase authorization with no pre-established end date. In February 2011, 3M's Board of Directors replaced the Company's existing repurchase program with a new repurchase program. This new program authorizes the repurchase of up to \$7.0 billion of 3M's outstanding common stock, with no pre-established end date.



Table of Contents**Issuer Purchases of Equity****Securities (registered pursuant to****Section 12 of the Exchange Act)**

<b>Period</b>	<b>Total Number of Shares Purchased (1)</b>	<b>Average Price Paid per Share</b>	<b>Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs (2)</b>	<b>Maximum Approximate Dollar Value of Shares that May Yet Be Purchased under the Plans or Programs (Millions)</b>
January 1-31, 2011	1,555,879	\$ 87.76	1,514,800	\$ 1,610
February 1-28, 2011	3,361,267	\$ 90.59	3,189,700	\$ 6,778
March 1-31, 2011	2,573,955	\$ 91.12	2,467,479	\$ 6,553
Total January 1-March 31, 2011	7,491,101	\$ 90.19	7,171,979	\$ 6,553
April 1-30, 2011	1,774,734	\$ 94.12	1,670,000	\$ 6,396
May 1-31, 2011	3,139,104	\$ 94.18	2,806,000	\$ 6,132
June 1-30, 2011	2,262,596	\$ 90.88	2,107,282	\$ 5,939
Total April 1-June 30, 2011	7,176,434	\$ 93.13	6,583,282	\$ 5,939
Total January 1-June 30, 2011	14,667,535	\$ 91.62	13,755,261	\$ 5,939

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

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

**Item 3. Defaults Upon Senior Securities.** No matters require disclosure.

**Item 4. Removed and Reserved.**

**Item 5. Other Information.**

Pursuant to Section 1503 of the Dodd-Frank Wall Street Reform and Consumer Protection Act (the "Act") which became effective August 20, 2010, the Company is required to disclose, in connection with the four mines it operates, certain safety information in its periodic reports filed with the SEC.

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During the second quarter of 2011, the Wausau, Wisconsin mine received citations for one violation as defined under Section 1503(a)(1)(A) of the Act, from the Mine Safety and Health Administration (the Violation ). The Wausau facility received proposed assessments of \$485 which are reportable under Section 1503(a)(1)(F) of the Act. The Corona, California mine received citations for four Violations. The Corona facility received proposed assessments of \$3,566 which are reportable under Section 1503(a)(1)(F) of the Act. The Pittsboro, North Carolina mine did not receive any citations for any Violations as defined. The Pittsboro facility did receive proposed assessments of \$308 which are reportable under Section 1503(a)(1)(F) of the Act. The Little Rock, Arkansas mine did not receive any citations for Violations as defined nor any proposed assessments reportable under Section 1503(a)(1)(F) of the Act.

During the second quarter of 2011, the Company did not receive any other citations or orders reportable under Section 1503(a)(1) or have other violations reportable thereunder, had no mining-related fatalities, received no written notices from the Mine Safety and Health Administration reportable under Section 1503(a)(2), and had no pending legal action before the Federal Mine Safety and Health Review Commission.

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**Item 6. Exhibits.**

Exhibits. These exhibits are either incorporated by reference into this report or filed herewith with this report. Exhibit numbers 10.1 through 10.46 are management contracts or compensatory plans or arrangements.

**Index to Exhibits:**

- (3) Articles of Incorporation and bylaws
  - (3.1) Certificate of incorporation, as amended as of May 11, 2007, is incorporated by reference from our Form 8-K dated May 14, 2007.
  - (3.2) Bylaws, as amended as of February 10, 2009, are incorporated by reference from our Form 8-K dated February 12, 2009.
- (4) Instruments defining the rights of security holders, including indentures:
  - (4.1) Indenture, dated as of November 17, 2000, between 3M and The Bank of New York Mellon Trust Company, N.A., as successor trustee, with respect to 3M's senior debt securities, is incorporated by reference from our Form 8-K dated December 7, 2000.
  - (4.2) First Supplemental Indenture, dated as of July 29, 2011, to Indenture dated as of November 17, 2000, between 3M and The Bank of New York Mellon Trust Company, N.A., as successor trustee, with respect to 3M's senior debt securities, is filed herewith.
  - (4.3) Indenture, dated as of November 21, 2002, between 3M and The Bank of New York Mellon Trust Company, N.A., as successor trustee, with respect to Liquid Yield Option Notes zero coupon senior debt securities, is incorporated by reference from Registration No. 333-103234 on Form S-3 filed on February 14, 2003.
  - (4.4) First Supplemental Indenture, dated as of November 16, 2005, to Indenture between 3M and the Bank of New York Mellon Trust Company, N.A., as successor trustee, with respect to Liquid Yield Option Notes zero coupon senior debt securities, is incorporated by reference from our 8-K dated November 17, 2005.
  - (4.5) Except as set forth in the preceding Exhibits 4.1, 4.2, 4.3 and 4.4, the instruments defining the rights of holders of long-term debt securities of 3M have been omitted. We agree to furnish to the SEC, upon request, a copy of such instruments with respect to issuances of long-term debt of 3M.
- (10) Material contracts and management compensation plans and arrangements:
  - (10.1) 3M 2008 Long-Term Incentive Plan (including amendments through February 2010) is incorporated by reference from our Form 8-K dated May 12, 2010.
  - (10.2) Form of Agreement for Stock Option Grants to Executive Officers under 3M 2008 Long-Term Incentive Plan is incorporated by reference from our Form 8-K dated May 13, 2008.

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- (10.3) Form of Stock Option Agreement for options granted to Executive Officers under the 3M 2008 Long-Term Incentive Plan, commencing February 9, 2010, is incorporated by reference from our Form 10-K for the year ended December 31, 2009.
- (10.4) Form of Restricted Stock Unit Agreement for restricted stock units granted to Executive Officers under the 3M Long-Term Incentive Plan, effective February 9, 2010, is incorporated by reference from our Form 10-K for the year ended December 31, 2009.
- (10.5) Form of 3M 2010 Performance Share Award under the 3M 2008 Long-Term Incentive Plan is incorporated by reference from our Form 8-K dated March 4, 2010.
- (10.6) Form of Stock Option Agreement for U.S. Employees under 3M 2008 Long-Term Incentive Plan is incorporated by reference from our Form 10-K for the year ended December 31, 2008.
- (10.7) Form of Restricted Stock Unit Agreement for U.S. Employees under 3M 2008 Long-Term Incentive Plan is incorporated by reference from our Form 10-K for the year ended December 31, 2008.
- (10.8) Amendment of the 3M 2005 Management Stock Ownership Program and the 3M 2008 Long-term Incentive Plan transfer of stock options to former spouses, is incorporated by reference from our Form 10-K for the year ended December 31, 2010.
- (10.9) 3M 2005 Management Stock Ownership Program is incorporated by reference from our Proxy Statement for the 2005 Annual Meeting of Stockholders.
- (10.10) 3M 2002 Management Stock Ownership Program is incorporated by reference from our Proxy Statement for the 2002 Annual Meeting of Stockholders.
- (10.11) 3M 1997 Management Stock Ownership Program is incorporated by reference from our Proxy Statement for the 1997 Annual Meeting of Stockholders.
- (10.12) Amendments of 3M 1997, 2002 and 2005 Management Stock Ownership Programs are incorporated by reference from our Form 8-K dated November 14, 2008.

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- (10.13) Form of award agreement for non-qualified stock options granted under the 2005 Management Stock Ownership Program, is incorporated by reference from our Form 8-K dated May 16, 2005.
- (10.14) Form of award agreement for non-qualified stock options granted under the 2002 Management Stock Ownership Program, is incorporated by reference from our Form 10-K for the year ended December 31, 2004.
- (10.15) 3M 1997 General Employees Stock Purchase Plan, as amended through November 8, 2004, is incorporated by reference from our Form 10-K for the year ended December 31, 2004.
- (10.16) 3M Board resolution dated May 12, 2009, regarding three-year extension of 3M 1997 General Employees Stock Purchase Plan is incorporated by reference from our Form 10-Q for the quarter ended June 30, 2009.
- (10.17) Amendment of the 3M 1997 General Employees Stock Purchase Plan approved on February 9, 2010 is incorporated by reference from our Form 10-K for the year ended December 31, 2009.
- (10.18) 3M VIP Excess Plan is incorporated by reference from our Form 8-K dated November 14, 2008.
- (10.19) Amendment of 3M VIP Excess Plan is incorporated by reference from our Form 8-K dated November 24, 2009.
- (10.20) 3M VIP (Voluntary Investment Plan) Plus is incorporated by reference from Registration Statement No. 333-73192 on Form S-8, filed on November 13, 2001.
- (10.21) Amendment of 3M VIP Plus is incorporated by reference from our Form 8-K dated November 14, 2008.
- (10.22) 3M Deferred Compensation Plan, as amended through February 2008, is incorporated by reference from our Form 8-K dated February 14, 2008.
- (10.23) Amendment of 3M Deferred Compensation Plan is incorporated by reference from our Form 8-K dated November 14, 2008.
- (10.24) 3M Deferred Compensation Excess Plan is incorporated by reference from our Form 10-K for the year ended December 31, 2009.
- (10.25) 3M Performance Awards Deferred Compensation Plan is incorporated by reference from our Form 10-K for the year ended December 31, 2009.
- (10.26) 3M Executive Annual Incentive Plan is incorporated by reference from our Form 8-K dated May 14, 2007.
- (10.27) Form of Agreement for Performance Unit or Share Awards to Executive Officers during 2008 under 3M Performance Unit Plan is incorporated by reference from our Form 8-K dated May 8, 2008.
- (10.28) 3M Performance Unit Plan, as amended through February 11, 2007, is incorporated by reference from our Form 8-K dated May 14, 2007.
- (10.29) Amendment of 3M Performance Unit Plan is incorporated by reference from our Form 8-K dated November 14, 2008.
- (10.30) Description of changes to Non-Employee Director Compensation and Stock Ownership Guidelines dated as of August 13, 2007 is incorporated by reference from our Form 10-Q for the quarter ended September 30, 2007.
- (10.31) Description of changes to 3M Compensation Plan for Non-Employee Directors is incorporated by reference from our Form 8-K dated August 8, 2005.
- (10.32) 3M Compensation Plan for Non-Employee Directors, as amended, through November 8, 2004, is incorporated by reference from our Form 10-K for the year ended December 31, 2004.
- (10.33) Amendment of 3M Compensation Plan for Non-Employee Directors is incorporated by reference from our Form 8-K dated November 14, 2008.
- (10.34) 3M Executive Life Insurance Plan, as amended, is incorporated by reference from our Form 10-K for the year ended December 31, 2003.
- (10.35) Summary of Personal Financial Planning Services for 3M Executives is incorporated by reference from our Form 10-K for the year ended December 31, 2003.
- (10.36) 3M policy on reimbursement of incentive payments is incorporated by reference from our Form 10-K for the year ended December 31, 2006.
- (10.37) Amended and Restated 3M Nonqualified Pension Plan I is incorporated by reference from our Form 8-K dated December 23, 2008.
- (10.38) Amended and Restated 3M Nonqualified Pension Plan II is incorporated by reference from our Form 8-K dated December 23, 2008.
- (10.39) 3M Nonqualified Pension Plan III is incorporated by reference from our Form 8-K dated November 14, 2008.
- (10.40) Employment agreement dated as of December 6, 2005, between 3M and George W. Buckley is incorporated by reference from our Form 8-K dated December 9, 2005.
- (10.41) Amendment, dated August 14, 2006, to employment agreement between 3M and George W. Buckley is incorporated by reference from our Form 10-Q for the quarter ended September 30, 2006.
- (10.42) Amendment to Employment Agreement between 3M and George W. Buckley is incorporated by reference from our Form 8-K dated December 17, 2008.



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- (10.43) Employment agreement dated as of January 23, 2002, between 3M and Patrick D. Campbell is incorporated by reference from our Form 10-K for the year ended December 31, 2001.
- (10.44) Amendment to Employment Agreement between 3M and Patrick D. Campbell is incorporated by reference from our Form 8-K dated November 18, 2008.
- (10.45) Appointment and Compensatory arrangements between 3M and David W. Meline are incorporated by reference from our Form 8-K dated July 23, 2008.
- (10.46) Policy on Reimbursement of Incentive Compensation (effective May 11, 2010) is incorporated by reference from our Form 10-Q dated August 4, 2010.
- (10.47) Five-year credit agreement as of April 30, 2007, is incorporated by reference from our Form 8-K dated May 3, 2007.
- (10.48) Registration Rights Agreement as of August 4, 2009, between 3M Company and State Street Bank and Trust Company as Independent Fiduciary of the 3M Employee Retirement Income Plan, is incorporated by reference from our Form 8-K dated August 5, 2009.

Filed herewith, in addition to Exhibit 4.2 as specifically identified above:

- (12) Calculation of ratio of earnings to fixed charges.
- (15) A letter from the Company's independent registered public accounting firm regarding unaudited interim consolidated financial statements.
- (31.1) Certification of the Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002, 18 U.S.C. Section 1350.
- (31.2) Certification of the Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002, 18 U.S.C. Section 1350.
- (32.1) Certification of the Chief Executive Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, 18 U.S.C. Section 1350.
- (32.2) Certification of the Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, 18 U.S.C. Section 1350.
- (101) The following financial information from 3M Company's Quarterly Report on Form 10-Q for the period ended June 30, 2011, filed with the SEC on August 4, 2011, formatted in Extensible Business Reporting Language (XBRL): (i) the Consolidated Statement of Income for the three-month and six-month periods ended June 30, 2011 and 2010, (ii) the Consolidated Balance Sheet at June 30, 2011 and December 31, 2010, (iii) the Consolidated Statement of Cash Flows for the six-month periods ended June 30, 2011 and 2010, and (iv) Notes to Consolidated Financial Statements.\*

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\*Pursuant to Rule 406T of Regulation S-T, the XBRL related information in Exhibit 101 to this Quarterly Report on Form 10-Q shall not be deemed to be filed for purposes of Section 18 of the Exchange Act, or otherwise subject to the liability of that section, and shall not be deemed part of a registration statement, prospectus or other document filed under the Securities Act or the Exchange Act, except as shall be expressly set forth by specific reference in such filings.

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**SIGNATURES**

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

3M COMPANY

(Registrant)

Date: August 4, 2011

By /s/ David W. Meline  
David W. Meline,

Senior Vice President and Chief Financial Officer

(Mr. Meline is the Principal Financial Officer and has  
been duly authorized to sign on behalf of the Registrant.)