3M CO
Form 10-K
February 14, 2013
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

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

SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended December 31, 2012

Commission file number 1-3285

3M COMPANY

State of Incorporation: **Delaware** I.R.S. Employer Identification No. **41-0417775**

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

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

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

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

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

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

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

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

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

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

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

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

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

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

The aggregate market value of voting stock held by nonaffiliates of the Registrant, computed by reference to the closing price and shares outstanding, was approximately $69.4 billion as of January 31, 2013 (approximately $61.9 billion as of June 30, 2012, the last business day of the Registrant s most recently completed second quarter).

Shares of common stock outstanding at January 31, 2013: 689,990,255.

DOCUMENTS INCORPORATED BY REFERENCE

Parts of the Company s definitive proxy statement (to be filed pursuant to Regulation 14A within 120 days after Registrant s fiscal year-end of December 31, 2012) for its annual meeting to be held on May 14, 2013, are incorporated by reference in this Form 10-K in response to Part III, Items 10, 11, 12, 13 and 14.

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For the Year Ended December 31, 2012

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3M COMPANY

ANNUAL REPORT ON FORM 10-K

For the Year Ended December 31, 2012

PART I

Item 1. Business.

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

Available Information

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

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

General

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

At December 31, 2012, the Company employed 87,677 people (full-time equivalents), with 34,746 employed in the United States and 52,931 employed internationally.

Business Segments

In 2012, 3M managed its operations in six operating business segments: Industrial and Transportation; Health Care; Consumer and Office; Safety, Security and Protection Services; Display and Graphics; 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. Certain small businesses and lab-sponsored products, as well as various corporate assets and expenses, are not attributed to the business segments. Financial information and other disclosures relating to 3M s business segments and operations in major geographic areas are provided in the Notes to Consolidated Financial Statements.

Consistent with 3M s strategy of building relevance and presence in the marketplace, the Company announced in October 2012 that it was immediately beginning to align resources and management toward a new structure comprised of five business groups: Consumer; Industrial; Health Care; Safety and Graphics; and Electronics and Energy. The company s operating results were managed on the basis of its existing segment structure through 2012, with the intention that results be managed under the new alignment once it is fully effective in the first quarter of 2013.

Industrial and Transportation Business: The Industrial and Transportation segment serves a broad range of markets, such as automotive original equipment manufacturer (OEM) and automotive aftermarket (auto body shops and retail), renewable energy, electronics, paper and packaging, food and beverage, and appliance. 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

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

Major industrial products include vinyl, polyester, foil and specialty industrial tapes and adhesives; Scotch® Masking Tape, Scotch® Filament Tape and Scotch® Packaging Tape; packaging equipment; 3M VHB Bonding Tapes; conductive, low surface energy, hot melt, spray and structural adhesives; reclosable fasteners; label materials for durable goods; and coated, nonwoven and microstructured surface finishing and grinding abrasives for the industrial market. 3M Purification Inc. provides a comprehensive line of filtration products for the separation, clarification and purification of fluids and gases. Other industrial products include fluoroelastomers for seals, tubes and gaskets in engines; and engineering fluids. In addition, this segment provides 3M Scotchtint Window Film for buildings; 3M Ultra Safety and Security Window Film for property and personal protection during destructive weather conditions; closure systems for personal hygiene products; and acoustic systems products.

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

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

In the medical and surgical areas, 3M is a supplier of medical tapes, dressings, wound closure products, orthopedic casting materials, electrodes and stethoscopes. In infection prevention, 3M markets a variety of surgical drapes, masks and preps, as well as sterilization assurance equipment. Other products include drug delivery systems, such as metered-dose inhalers, transdermal skin patches and related components. In addition, in the fourth quarter of 2010, 3M acquired Arizant Inc., a manufacturer of patient warming solutions designed to prevent hypothermia in surgical settings. Dental and orthodontic products include restoratives, adhesives, finishing and polishing products, crowns, impression materials, preventive sealants, professional tooth whiteners, prophylaxis and orthodontic appliances. In health information systems, 3M develops and markets computer software for hospital coding and data classification, and provides related consulting services. 3M provides food safety products that make it faster and easier for food processors to test the microbiological quality of food.

Consumer and Office Business: 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.

Major consumer and office products include Scotch® brand products, such as Scotch® Magic Tape, Scotch® Glue Stick and Scotch® Cushioned Mailer; Post-it® Products, such as Post-it® Flags, Post-it® Note Pads, Post-it® Labeling & Cover-up Tape, and Post-it® Pop-up Notes and Dispensers; construction and home improvement products, including surface-preparation and wood-finishing materials, Command

Adhesive Products and Filtrete Filters for furnaces and air conditioners; home care products, including Scotch-Brite® Scour Pads, Scotch-Brite® Scrub Sponges, Scotch-Brite Microfiber Cloth products, O-Cel-O Sponges and Scotchgard Fabric Protectors; protective material products; certain maintenance-free respirators; certain consumer retail personal safety products, including safety glasses and hearing protectors; Nexcare Adhesive Bandages; and ACE® branded (and related brands) elastic bandage, supports and thermometer product lines.

Safety, Security and Protection Services Business: 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, infrastructure protection products used in the oil and gas pipeline markets, and track and trace solutions. In the fourth quarter of 2010, 3M acquired Cogent Inc. and Attenti Holdings S.A. Cogent Inc. is a provider of finger, palm, face and iris biometric

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systems for governments, law enforcement agencies, and commercial enterprises. 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.

This segment s products include personal protection products, such as certain maintenance-free and reusable respirators, personal protective equipment, head and face protection, body protection, hearing protection and protective eyewear. In addition, this segment provides electronic surveillance products, films that protect against counterfeiting, and reflective materials that are widely used on apparel, footwear and accessories, enhancing visibility in low-light situations. 3M s Track and Trace Solutions business utilizes radio frequency identification (RFID) technology to provide a growing array of solutions. Other products include spill-control sorbents; 3M Thinsulate Insulation and 3M Thinsulate Lite Loft Insulation; nonwoven abrasive materials for floor maintenance and commercial cleaning; floor matting; natural and color-coated mineral granules for asphalt shingles; and infrastructure protection products.

Display and Graphics Business: 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; reflective sheeting for transportation safety; commercial graphics sheeting and systems; architectural surface and lighting solutions; and mobile interactive solutions, including mobile display technology, visual systems products, and computer screen films.

The optical film business provides films that serve numerous market segments of the electronic display industry. 3M provides distinct products for five market segments, including products for: 1) LCD computer monitors, 2) LCD televisions, 3) hand-held devices such as cellular phones and tablets, 4) notebook PCs and 5) automotive displays. In traffic safety systems, 3M provides reflective sheeting used on highway signs, vehicle license plates, construction work-zone devices, trucks and other vehicles, and also provides pavement marking systems. Major commercial graphics products include films, inks, digital signage systems and related products used to produce graphics for vehicles, signs and interior surfaces. The mobile interactive solutions business focuses on bringing technology to the projection market, including mobile display technology in addition to its visual communication products that serve the world s office and education markets with overhead projectors and transparency films, as well as equipment and materials for electronic and multimedia presentations. In addition, this business includes desktop and notebook computer screen filters that address needs for light control, privacy viewing and glare reduction.

Electro and Communications Business: 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, microinterconnect systems, high-performance fluids, high-temperature and display tapes, telecommunications products, electrical products, and touch screens and touch monitors.

Major electronic and electrical products include packaging and interconnection devices; high-performance fluids used in the manufacture of computer chips, and for cooling electronics and lubricating computer hard disk drives; high-temperature and display tapes; insulating materials, including pressure-sensitive tapes and resins; and related items. 3M Flexible Circuits use electronic packaging and interconnection technology, providing more connections in less space, and are used in ink-jet printer cartridges, cell phones and electronic devices. This segment serves the world s telecommunications companies with a wide array of products for fiber-optic and copper-based telecommunications systems for rapid deployment in fixed and wireless networks. The 3M Aluminum Conductor Composite Reinforced (ACCR) electrical power cable, with an aluminum-based metal matrix at its core, increases transmission capacity for existing power lines. The touch systems business includes touch screens and touch monitors.

Distribution

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

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Research and Patents

Research and product development constitutes an important part of 3M s activities and has been a major driver of 3M s sales growth. Research, development and related expenses totaled $1.634 billion in 2012, $1.570 billion in 2011 and $1.434 billion in 2010. Research and development, covering basic scientific research and the application of scientific advances in the development of new and improved products and their uses, totaled $1.079 billion in 2012, $1.036 billion in 2011 and $919 million in 2010. Related expenses primarily include technical support provided by 3M to customers who are using existing 3M products; internally developed patent costs, which include costs and fees incurred to prepare, file, secure and maintain patents; and amortization of acquired patents.

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

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

Raw Materials

In 2012, the Company experienced stable to declining cost for most raw material categories and transportation fuel costs. This was driven by year-on-year cost decreases in many feedstock categories, including petroleum based materials, minerals, metals and wood pulp based products. To date, the Company is receiving sufficient quantities of all raw materials to meet its reasonably foreseeable production requirements. It is impossible to predict future shortages of raw materials or the impact any such shortages would have. 3M has avoided disruption to its manufacturing operations through careful management of existing raw material inventories and development and qualification of additional supply sources. 3M manages commodity price risks through negotiated supply contracts, price protection agreements and forward physical contracts.

Environmental Law Compliance

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

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

In 2012, 3M invested about $27 million in capital projects to protect the environment. This amount excludes expenditures for remediation actions relating to existing matters caused by past operations that do not contribute to current or future revenues, which are expensed. Capital expenditures for environmental purposes have included pollution control devices such as wastewater treatment plant improvements, scrubbers, containment structures, solvent recovery units and thermal oxidizers at new and existing facilities constructed or upgraded in the normal course of business. Consistent with the Company s policies stressing environmental responsibility, capital expenditures (other than for remediation projects) for known projects are presently expected to be about $36 million over the next two years for new or expanded programs to build facilities or modify manufacturing processes to minimize waste and reduce emissions.

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

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Executive Officers

Following is a list of the executive officers of 3M, and their age, present position, the year elected to their present position and other positions they have held during the past five years. No family relationships exist among any of the executive officers named, nor is there any undisclosed arrangement or understanding pursuant to which any person was selected as an officer. This information is presented in the table below as of the date of the 10-K filing (February 14, 2013).

Name	Age	Present Position	Year Elected to Present Position	Other Positions Held During 2008-2012
Inge G. Thulin	59	Chairman of the Board, President and Chief Executive Officer	2012	President and Chief Executive Officer, 2012 Executive Vice President and Chief Operating Officer, 2011-2012 Executive Vice President, International Operations, 2004-2011
Julie L. Bushman	51	Executive Vice President, Safety and Graphics	2012	Executive Vice President, Safety Security and Protection Services Business, 2011-2012 Vice President and General Manager, Occupational Health and Environmental Safety Division, 2007-2011
Joaquin Delgado	53	Executive Vice President, Health Care	2012	Executive Vice President, Electro and Communications Business, 2009-2012 Vice President and General Manager, Electronics Markets Materials Division, 2007-2009
Ivan K. Fong	51	Senior Vice President, Legal Affairs and General Counsel	2012	General Counsel, U.S. Department of Homeland Security, 2009-2012 Chief Legal Officer and Secretary, Cardinal Health Inc., 2005-2009
Ian F. Hardgrove	62	Senior Vice President, Marketing, Sales and Communications	2011	Senior Vice President, Marketing and Sales, 2011 Vice President and General Manager, Automotive Aftermarket Division, 2007-2011
Christopher D. Holmes	53	Senior Vice President, Corporate Supply Chain Operations	2012	Executive Vice President, Industrial and Transportation Business, 2011-2012

				Vice President and General Manager, Abrasives Systems Division, 2007-2011
Michael A. Kelly	56	Executive Vice President, Electronics and Energy	2012	Executive Vice President, Display and Graphics Business, 2006-2012
Roger H.D. Lacey	62	Senior Vice President, Strategy and Corporate Development	2010	Vice President, Corporate Strategy and Marketing Development, 2007-2009

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Executive Officers (continued)

Name	Age	Present Position	Year Elected to Present Position	Other Positions Held During 2008-2012
Marlene M. McGrath	50	Senior Vice President, Human Resources	2012	Senior Vice President, Human Resources and Interim General Counsel, 2012 Vice President, Human Resources, International Operations, 2010-2012 Director, Human Resources, International Operations, 2006-2010
David W. Meline	55	Senior Vice President and Chief Financial Officer	2011	Vice President, Corporate Controller and Chief Accounting Officer, 2008-2011 Chief Financial Officer, North America, General Motors Corp., 2007-2008
Frederick J. Palensky	63	Executive Vice President, Research and Development and Chief Technology Officer	2006	
Brad T. Sauer	53	Executive Vice President, Industrial	2012	Executive Vice President, Health Care Business, 2004-2012
Hak Cheol Shin	55	Executive Vice President, International Operations	2011	Executive Vice President, Industrial and Transportation Business, 2006-2011
Michael G. Vale	46	Executive Vice President, Consumer	2012	Executive Vice President, Consumer and Office Business, 2011-2012 Managing Director, 3M Brazil, 2009-2011 Vice President and General Manager, Aearo Technologies Inc., 2008-2009

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Cautionary Note Concerning Factors That May Affect Future Results

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

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

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

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

Forward-looking statements are based on certain assumptions and expectations of future events and trends that are subject to risks and uncertainties. Actual future results and trends may differ materially from historical results or those reflected in any such forward-looking statements depending on a variety of factors. Important information as to these factors can be found in this document, including, among others, Management s Discussion and Analysis of Financial Condition and Results of Operations under the headings of Overview, Critical Accounting Estimates and Financial Condition and Liquidity. Discussion of these factors is incorporated by reference from Part I, Item 1A, Risk Factors, of this document, and should be considered an integral part of Part II, Item 7, Management s Discussion and Analysis of Financial Condition and Results of Operations. For additional information concerning factors that may cause actual results to vary materially from those stated in the forward-looking statements, see our reports on Form 10-K, 10-Q and 8-K filed with the SEC from time to time.

Item 1A. **Risk Factors.**

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

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

• *The Company s credit ratings are important to 3M s cost of capital.* The major rating agencies routinely evaluate the Company s credit profile and assign debt ratings to 3M. The Company currently has an AA- credit rating, with a stable 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 Company s receipt of adequate supplies could have a material adverse effect on the Company. In addition, while the Company has a process to minimize volatility in component and material pricing, no assurance can be given that the Company will be able to successfully manage price fluctuations or that future price fluctuations or shortages will not have a material adverse effect on the Company.

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

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

• *The Company employs information technology systems to support its business, including ongoing phased implementation of an enterprise resource planning (ERP) system on a worldwide basis over the next several years. Security breaches and other disruptions to the Company s information technology infrastructure could interfere with the Company s operations, compromise information belonging to the Company and its customers and suppliers, and expose the Company to liability which could adversely impact the Company s business and reputation.* In the ordinary course of business, the Company relies on information technology networks and systems, some of which are managed by third parties, to process, transmit and store electronic information, and to manage or support a variety of business processes and activities. Additionally, the Company collects and stores sensitive data, including proprietary business information. Despite security measures and business continuity plans, the Company s information technology networks and infrastructure may be vulnerable to damage, disruptions or shutdowns due to attack by hackers or breaches, employee error or malfeasance, power outages, computer viruses, telecommunication or utility failures, systems failures, natural disasters or other catastrophic events. There may be other challenges and risks as the Company upgrades and

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standardizes its ERP system on a worldwide basis. Any such events could result in legal claims or proceedings, liability or penalties under privacy laws, disruption in operations, and damage to the Company s reputation, which could adversely affect the Company s business.

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

Item 1B. Unresolved Staff Comments.

None.

Item 2. Properties.

3M s general offices, corporate research laboratories, and certain division laboratories are located in St. Paul, Minnesota. The Company operates 93 manufacturing facilities in 30 states. The Company operates 133 manufacturing and converting facilities in 40 countries outside the United States.

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

Item 3. Legal Proceedings.

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

Item 4. Mine Safety Disclosures.

Pursuant to Section 1503 of the Dodd-Frank Wall Street Reform and Consumer Protection Act (the Act), the Company is required to disclose, in connection with the mines it operates, information concerning mine safety violations or other regulatory matters in its periodic reports filed with the SEC. For the year 2012, the information concerning mine safety violations or other regulatory matters required by Section 1503(a) of the Act is included in Exhibit 95 to this annual report.

PART II

Item 5. Market for Registrant s Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities.

Equity compensation plans information is incorporated by reference from Part III, Item 12, Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters, of this document, and should be considered an integral part of Item 5. At January 31, 2013, there were 96,263 shareholders of record. 3M s stock is listed on the New York Stock Exchange, Inc. (NYSE), the Chicago Stock Exchange, Inc., and the SWX Swiss Exchange. Cash dividends declared and paid totaled 59 cents per share for each quarter of 2012, and 55 cents per share for each quarter of 2011. Stock price comparisons follow:

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Stock price comparisons (NYSE composite transactions)

(Per share amounts)	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	Total
2012 High	**$ 90.00**	**$ 89.95**	**$ 94.30**	**$ 95.46**	**$ 95.46**
2012 Low	**82.70**	**81.99**	**85.34**	**86.74**	**81.99**
2011 High	$ 94.16	$ 97.95	$ 98.19	$ 83.10	$ 98.19
2011 Low	85.63	90.19	71.71	68.63	68.63

Issuer Purchases of Equity Securities

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

Issuer Purchases of Equity Securities

(registered pursuant to Section 12 of the Exchange Act)

Period	Total Number of Shares Purchased (1)	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs (2)	Maximum Approximate Dollar Value of Shares that May Yet Be Purchased under the Plans or Programs (Millions)
January 1-31, 2012	1,263,561	$ 84.83	1,252,356	$ 4,483
February 1-29, 2012	2,396,317	$ 87.73	1,745,000	$ 4,330
March 1-31, 2012	2,466,062	$ 87.94	2,433,944	$ 4,116
Total January 1-March 31, 2012	6,125,940	$ 87.22	5,431,300	$ 4,116
April 1-30, 2012	2,452,708	$ 87.24	2,434,773	$ 3,904
May 1-31, 2012	2,654,275	$ 85.98	2,363,345	$ 3,701
June 1-30, 2012	2,218,795	$ 85.99	2,212,897	$ 3,511
Total April 1-June 30, 2012	7,325,778	$ 86.41	7,011,015	$ 3,511
July 1-31, 2012	1,588,973	$ 88.99	1,584,376	$ 3,370
August 1-31, 2012	1,087,478	$ 92.11	1,066,823	$ 3,271
September 1-30, 2012	807,242	$ 92.39	796,874	$ 3,198
Total July 1-September 30, 2012	3,483,693	$ 90.75	3,448,073	$ 3,198
October 1-31, 2012	1,050,152	$ 90.27	1,044,517	$ 3,104
November 1-30, 2012	3,942,165	$ 89.12	3,941,600	$ 2,752
December 1-31, 2012	3,126,478	$ 92.98	3,091,056	$ 2,465
Total October 1-December 31, 2012	8,118,795	$ 90.76	8,077,173	$ 2,465
Total January 1-December 31, 2012	25,054,206	$ 88.62	23,967,561	$ 2,465

(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.

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Item 6. Selected Financial Data.

(Dollars in millions, except per share amounts)	2012	2011	2010	2009	2008
Years ended December 31:					
Net sales	**$ 29,904**	$ 29,611	$ 26,662	$ 23,123	$ 25,269
Net income attributable to 3M	**4,444**	4,283	4,085	3,193	3,460
Per share of 3M common stock:					
Net income attributable to 3M basic	**6.40**	6.05	5.72	4.56	4.95
Net income attributable to 3M diluted	**6.32**	5.96	5.63	4.52	4.89
Cash dividends declared and paid per 3M common share	**2.36**	2.20	2.10	2.04	2.00
At December 31:					
Total assets	**$ 33,876**	$ 31,616	$ 30,156	$ 27,250	$ 25,793
Long-term debt (excluding portion due within one year) and long-term capital lease obligations	**4,987**	4,563	4,277	5,204	5,224

Items included in the preceding table which had a significant impact on results are summarized as follows. 2010 included a one-time, non-cash income tax charge of $84 million, or 12 cents per diluted share, resulting from the March 2010 enactment of the Patient Protection and Affordable Care Act, including modifications made in the Health Care and Education Reconciliation Act of 2010. 2009 results included net losses that decreased operating income by $194 million and net income attributable to 3M by $119 million. 2009 included restructuring actions ($209 million pre-tax, $128 million after tax and noncontrolling interest), which were partially offset by a gain on sale of real estate ($15 million pre-tax, $9 million after tax). 2008 results included net losses that decreased operating income by $269 million and net income attributable to 3M by $194 million. 2008 included restructuring actions ($229 million pre-tax, $147 million after-tax and noncontrolling interest), exit activities ($58 million pre-tax, $43 million after-tax) and losses related to the sale of businesses ($23 million pre-tax, $32 million after-tax), which were partially offset by a gain on sale of real estate ($41 million pre-tax, $28 million after-tax).

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

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

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

OVERVIEW

3M is a diversified global manufacturer, technology innovator and marketer of a wide variety of products. In 2012, 3M managed its operations in six operating business segments: Industrial and Transportation; Health Care; Consumer and Office; Safety, Security and Protection Services; Display and Graphics; and Electro and Communications.

Consistent with 3M s strategy of building relevance and presence in the marketplace, the Company announced in October 2012 that it was immediately beginning to align resources and management toward a new structure comprised of five business groups: Consumer; Industrial; Health Care; Safety and Graphics; and Electronics and Energy. The company s operating results were managed on the basis of its existing segment structure through 2012, with the intention that results be managed under the new alignment once it is fully effective in the first quarter of 2013.

Fourth-quarter 2012 net income attributable to 3M was $991 million, or $1.41 per diluted share, compared to $954 million, or $1.35 per diluted share, in the fourth quarter of 2011. Fourth-quarter 2012 sales totaled $7.4 billion, an increase of 4.2 percent from the fourth quarter of 2011. Organic local-currency sales (which include organic volume and selling price impacts) grew 4.3 percent, acquisitions added 0.9 percent to sales, and currency effects reduced sales by 1.0 percent year-on-year. From a business segment perspective, Consumer and Office led with organic local-currency sales growth of 8.7 percent, driven by consumer health care, construction and home improvement markets, and stationery and office supplies. Display and Graphics organic local-currency sales growth was 8.3 percent, led by optical systems, with sales also increasing in architectural markets, traffic safety systems and commercial graphics. Health Care organic local-currency sales grew 5.9 percent, with sales growth in all businesses, led by food safety, health information systems, skin and wound care, and oral care. Industrial and Transportation organic local-currency sales grew 3.9 percent, led by liquid filtration, aerospace, industrial adhesives and tapes, abrasives and automotive OEM. Both the advanced materials and renewable energy businesses declined year-on-year. Electro and Communications organic local-currency sales growth was 1.8 percent, with sales increases in electrical and telecommunication markets partially offset by a decline in consumer electronics-related businesses. Organic local-currency sales declined 1.7 percent in Safety, Security and Protection Services, as sales growth in infrastructure protection, personal safety and roofing granules was more than offset by a year-on-year decline in security systems.

From a geographic area perspective, fourth-quarter 2012 organic local-currency sales growth was 9.7 percent in Latin America/Canada, 5.8 percent in Asia Pacific, and 5.2 percent in the United States. Europe, Middle East and Africa (EMEA) organic local-currency sales declined 1.0 percent, impacted by a weak economy in Western Europe. Latin America/Canada sales growth was broad-based, with all six of our business segments generating positive organic local-currency sales growth, led by Health Care; Safety, Security and Protection Services; Consumer and Office; and Electro and Communications. Organic local-currency sales growth increased 11 percent in Brazil, in the face of a still-recovering economy, and Mexico grew nearly 10 percent. In Asia Pacific, Japan declined year-on-year, reflecting continued challenging economic conditions. Organic local-currency sales in the rest of Asia Pacific grew nearly 10 percent, with China up over 16 percent. Organic local-currency sales growth in the United States was led by Consumer and Office.

For total year 2012, net income attributable to 3M was $4.444 billion, or $6.32 per diluted share, compared to $4.283 billion, or $5.96 per diluted share, in 2011, an increase of 6.0 percent on a per diluted share basis. Sales totaled $29.9 billion, an increase of 1.0 percent from 2011. Organic local-currency sales grew 2.6 percent, acquisitions added 0.8 percent to sales and currency effects reduced sales by 2.4 percent year-on-year. From a business segment perspective, organic local-currency sales growth was 4.7 percent in Health Care, 4.5 percent in Industrial and Transportation, 3.8

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percent in Consumer and Office, and 2.2 percent in Safety, Security and Protection Services. Local-currency sales declined 0.8 percent in Electro and Communications and 2.4 percent in Display and Graphics. From a geographic area perspective, 2012 organic local-currency sales growth was 10.9 percent in Latin America/Canada, 4.2 percent in the United States, and 0.1 percent in Asia Pacific. Asia Pacific was impacted by a soft global consumer electronics industry. EMEA organic local-currency sales declined 0.6 percent, impacted by a weak economy in Western Europe.

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

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

Fourth-quarter 2011 sales totaled $7.1 billion, an increase of 5.7 percent from the fourth quarter of 2010. Net income attributable to 3M was $954 million, or $1.35 per diluted share, in the fourth quarter of 2011, compared to $928 million, or $1.28 per diluted share, in the fourth quarter of 2010. 3M s sales growth was led by its industrial-oriented businesses, along with steady growth in consumer and health care. The business environment remained challenging, impacted by deteriorating demand in Western Europe and slower consumer electronics activity. While sales grew across much of the portfolio, sales of optical films for LCD TVs remained weak and momentum also slowed in other parts of electronics. Four of the Company s six business segments showed growth in sales, led by Industrial and Transportation at 14.3 percent, Safety, Security and Protection Services at 9.4 percent, Consumer and Office at 6.1 percent, and Health Care at 5.4 percent. A slowdown in electronics-related businesses negatively impacted both the Electro and Communications and Display and Graphics business segments. Electro and Communications sales decreased 2.7 percent and Display and Graphics sales declined 8.8 percent. Sales declined 17 percent in optical systems, which is part of Display and Graphics, impacted by end-market weakness and lower attachment rates in LCD TVs.

Fourth-quarter 2011 sales increased in every major geographic region, with Latin America/Canada up 9.7 percent, the U.S. up 7.4 percent, EMEA up 4.4 percent, and Asia Pacific up 2.8 percent. Excluding optical systems, Asia Pacific sales increased 7.6 percent. Of the 5.7 percent worldwide sales growth, 3.3 points was from the combined impact of higher organic volume of 1.3 points and selling price growth of 2.0 points, 2.3 points was from acquisitions, and 0.1 points was from favorable currency effects. Organic volume growth of 1.3 percent reflected slower growth in Asia Pacific, partially due to weakness across the electronics market and slower growth in China, in addition to weakness in Western Europe.

For total year 2011, sales increased 11.1 percent to $29.6 billion, led by Industrial and Transportation, Safety, Security and Protection Services, and Health Care. All major geographic regions showed improvement, led by Latin America/Canada. The increase in global sales reflected improved market penetration and new product flow along with significant growth in important end-markets such as general industrial and personal safety. Net income attributable to 3M was $4.283 billion, or $5.96 per diluted share in 2011, compared to $4.085 billion, or $5.63 per diluted share, in 2010 (including the first-quarter 2010 special item discussed below).

During 2011, 3M was impacted by the first-quarter earthquake and tsunami in Japan and by the fourth-quarter flooding in Thailand. Automobile and electronic manufacturers were most impacted; thus, 3M s automotive OEM and electronics-related businesses were most affected. 3M estimates that combined direct and indirect business disruption resulting from the 2011 Japan natural disaster, net of the benefit from sales of 3M products used in the reconstruction efforts and initial insurance recoveries, plus the impact of Thailand flooding, reduced 2011 sales growth by an estimated 0.8 percentage points and earnings by approximately 6 cents per diluted share, with most of this impact in the first half of 2011. In the fourth quarter of 2011, the flooding in Thailand reduced sales growth by an estimated $35 million and operating income by $20 million, with this operating income effect offset by $23 million in insurance recoveries related to the earthquake and tsunami in Japan. Japan represented approximately 9 percent of total 3M sales for total year 2011. Related to these natural disasters, no material asset or investment impairments were recorded. In addition, 3M did not have any significant issues related to these natural disasters concerning inventories, customer receivables, lease terminations, environmental exposures, guarantees, indemnifications, debt covenant compliance, or significant tax issues. 3M does have certain

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insurance coverage which limited its exposure and resulted in some initial recovery in the fourth quarter of 2011 (as discussed above).

In 2010, 3M recorded a one-time, non-cash income tax charge of $84 million, or 12 cents per diluted share, resulting from the March 2010 enactment of the Patient Protection and Affordable Care Act, including modifications made in the Health Care and Education Reconciliation Act of 2010. 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 years ended December 31, 2012 and 2011. In addition to the discussion below, refer to the section entitled Performance by Business Segment and Performance by Geographic Area later in MD&A for a more detailed discussion of the sales and income results of the Company and its respective business segments (including Corporate and Unallocated). Refer to Note 15 for additional information on business segments, including Elimination of Dual Credit.

	2012			2011			2012 vs. 2011 % change	
(Dollars in millions)	**Net Sales**	**% of Total**	**Oper. Income**	**Net Sales**	**% of Total**	**Oper. Income**	**Net Sales**	**Oper. Income**
Business Segments								
Industrial and Transportation	**$ 10,346**	**34.6%**	**$ 2,258**	$ 10,073	34.0%	$ 2,057	2.7%	9.8%
Health Care	**5,158**	**17.3%**	**1,646**	5,031	17.0%	1,489	2.5%	10.6%
Consumer and Office	**4,316**	**14.4%**	**930**	4,153	14.0%	840	3.9%	10.8%
Safety, Security and Protection Services	**3,802**	**12.7%**	**847**	3,821	12.9%	814	(0.5)%	4.1%
Display and Graphics	**3,560**	**11.9%**	**693**	3,674	12.4%	788	(3.1)%	(12.1)%
Electro and Communications	**3,228**	**10.8%**	**691**	3,306	11.2%	712	(2.4)%	(2.8)%
Corporate and Unallocated	**5**	**%**	**(469)**	11	%	(421)		
Elimination of Dual Credit	**(511)**	**(1.7)%**	**(113)**	(458)	(1.5)%	(101)		
Total Company	**$ 29,904**	**100.0%**	**$ 6,483**	$ 29,611	100.0%	$ 6,178	1.0%	4.9%

Sales in 2012 increased 1.0 percent, led by Consumer and Office at 3.9 percent, Industrial and Transportation at 2.7 percent and Health Care at 2.5 percent. Sales declined 0.5 percent in Safety, Security and Protection Services, 2.4 percent in Electro and Communications and 3.1 percent in Display and Graphics. Total company organic local-currency sales growth (which includes organic volume and selling price impacts) was 2.6 percent, acquisitions added 0.8 percent, and foreign currency impacts reduced sales by 2.4 percent. Five of 3M s six business segments posted operating income margins in excess of 21 percent in 2012. Worldwide operating income margins for 2012 were 21.7 percent, compared to 20.9 percent for 2011.

Sales in 2011 increased 11.1 percent, led by Industrial and Transportation at 19.5 percent, Safety, Security and Protection Services at 15.2 percent, and Health Care at 11.5 percent. Electro and Communications sales increased 8.6 percent and Consumer and Office sales increased 7.8 percent. Sales declined 5.4 percent in Display and Graphics, due to fewer orders for optical films. Total company organic local-currency sales growth was 4.7 percent, acquisitions added 3.3 percent, and foreign currency impacts added 3.1 percent. 3M s six business segments all posted operating income margins in excess of 20 percent in 2011 and 2010. Worldwide operating income margins for 2011 were 20.9 percent, compared to 22.2 percent for 2010.

3M generated $5.3 billion of operating cash flow in 2012, an increase of $16 million when compared to 2011. This followed an increase of $110 million when comparing 2011 to 2010. Refer to the section entitled Financial Condition and Liquidity later in MD&A for a discussion of items impacting cash flows. In February 2013, 3M s Board of Directors authorized the repurchase of up to $7.5 billion of 3M s outstanding common stock, which replaced the Company s previous repurchase program. This new program has no pre-established end date. In 2012, the Company purchased $2.204 billion of treasury stock, compared to $2.701 billion in 2011 and $854 million in 2010. In February 2013, 3M s Board of Directors authorized a dividend increase of 7.6 percent for 2013, marking the 55th consecutive year of dividend increases for 3M. 3M s debt to total capital ratio (total capital defined as debt plus equity) was 25 percent at December 31, 2012, 2011 and 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. The Company has significant cash on hand and sufficient additional access to capital markets to meet its funding needs.

In 2012, the Company experienced stable to declining cost for most raw material categories and transportation fuel costs. This was driven by year-on-year cost decreases in many feedstock categories, including petroleum based materials,

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minerals, metals and wood pulp based products. To date the Company is receiving sufficient quantities of all raw materials to meet its reasonably foreseeable production requirements. It is impossible to predict future shortages of raw materials or the impact any such shortages would have. 3M has avoided disruption to its manufacturing operations through careful management of existing raw material inventories and development and qualification of additional supply sources. 3M manages commodity price risks through negotiated supply contracts, price protection agreements and forward physical contracts.

On a worldwide basis, 3M s pension and postretirement plans were 87 percent funded at year-end 2012. The U.S. qualified plans, which are approximately 67 percent of the worldwide pension obligation, were 96 percent funded, the international pension plans were 81 percent funded, and the U.S. non-qualified pension plan is not funded. Asset returns in 2012 for the U.S. qualified plan were 13.6%. For the U.S. qualified pension plan, the expected long-term rate of return on an annualized basis for 2013 is 8.00%, a decrease of 0.25 percentage points from 2012. The U.S. qualified plan year-end 2012 discount rate was 4.14%, down 0.01 percentage points from the year-end 2011 discount rate of 4.15%.

3M expects to contribute approximately $400 million to $600 million of cash to its global pension and postretirement plans in 2013. The Company does not have a required minimum cash pension contribution obligation for its U.S. plans in 2013. 3M expects pension and postretirement benefit expense in 2013 to decrease by approximately $100 million pre-tax, or approximately 10 cents per diluted share, when compared to 2012. Refer to Critical Accounting Estimates within MD&A and Note 10 (Pension and Postretirement Benefit Plans) for additional information concerning 3M s pension and post-retirement plans.

There are a few major items that will impact earnings in 2013. As discussed further above, 3M expects that a decrease in pension and postretirement expense will increase 2013 earnings, when compared to 2012, by approximately 10 cents per diluted share. 3M currently expects that its effective tax rate for 2013 will be approximately 29.5 to 30.0 percent, compared to 29.0 percent for 2012. 3M expects to incur restructuring and one-time acquisition costs of approximately $30 million in the first quarter of 2013. Currency effects are not expected to have a material impact on earnings in 2013. Considering these items, 3M currently expects that sales growth and related incremental income, in addition to other benefits, should more than offset the items that will negatively impact earnings.

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

Special Items:

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

In 2010, 3M recorded a one-time, non-cash income tax charge of $84 million, or 12 cents per diluted share, resulting from the March 2010 enactment of the Patient Protection and Affordable Care Act, including modifications made in the Health Care and Education Reconciliation Act of 2010 (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 7 (Income Taxes).

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RESULTS OF OPERATIONS

Net Sales:

	2012 U.S.	2012 Intl.	2012 Worldwide	2011 U.S.	2011 Intl.	2011 Worldwide
Net sales (millions)	**$ 10,528**	**$ 19,376**	**$ 29,904**	$ 10,028	$ 19,583	$ 29,611
% of worldwide sales	**35.2%**	**64.8%**		33.9%	66.1%	
Components of net sales change:						
Volume organic	**2.1%**	**0.8%**	**1.2%**	4.0%	3.5%	3.7%
Price	**2.1**	**0.9**	**1.4**	1.9	0.5	1.0
Organic local-currency sales	**4.2**	**1.7**	**2.6**	5.9	4.0	4.7
Acquisitions	**0.8**	**0.8**	**0.8**	3.0	3.5	3.3
Translation		**(3.6)**	**(2.4)**		4.7	3.1
Total sales change	**5.0%**	**(1.1)%**	**1.0%**	8.9%	12.2%	11.1%

In 2012, organic local-currency sales increased 2.6 percent. Organic local-currency sales growth was led by Latin America/Canada and the United States, while Asia Pacific was flat, and EMEA was down slightly. Worldwide organic local-currency sales grew 4.7 percent in Health Care, 4.5 percent in Industrial and Transportation, 3.8 percent in Consumer and Office, and 2.2 percent in Safety, Security and Protection Services. Organic local-currency sales declined 0.8 percent in Electro and Communications and 2.4 percent in Display and Graphics. Acquisitions added 0.8 percent to worldwide growth and currency impacts reduced 2012 worldwide sales growth by 2.4 percent. Worldwide selling prices rose 1.4 percent in 2012, despite selling price declines in 3M s optical systems business, where prices typically decline each year, which is common for the electronics industry.

In 2011, organic local-currency sales increased 4.7 percent. All major geographic areas showed organic local-currency sales increases, led by Latin America/Canada and the United States. Worldwide organic local-currency sales grew 10.0 percent in Industrial and Transportation, 7.1 percent in Safety, Security and Protection Services, 5.2 percent in Electro and Communications, 4.6 percent in Health Care, and 4.0 percent in Consumer and Office. Organic local-currency sales declined 7.5 percent in Display and Graphics. Acquisitions added 3.3 percent to worldwide growth and currency impacts benefited 2011 worldwide sales growth by 3.1 percent. Worldwide selling prices rose 1.0 percent in 2011, despite selling price declines in 3M s optical systems business.

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

Operating Expenses:

(Percent of net sales)	2012	2011	2010	2012 Versus 2011	2011 Versus 2010
Cost of sales	**52.4%**	53.0%	51.9%	(0.6)%	1.1%
Selling, general and administrative expenses	**20.4**	20.8	20.5	(0.4)	0.3

Research, development and related expenses	**5.5**	5.3	5.4	0.2	(0.1)
Operating income	**21.7%**	20.9%	22.2%	0.8%	(1.3)%

Pension and postretirement expense increased in both 2012 and 2011. The year-on-year increases for 2012 compared to 2011, and 2011 compared to 2010, were $95 million and $233 million, respectively. The year-on-year increase in 2012 includes a $26 million charge related to the first-quarter 2012 voluntary early retirement incentive program (discussed in Note 10). These increases negatively impacted cost of sales; selling, general and administrative expenses (SG&A); and research, development and related expenses (R&D).

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Cost of Sales:

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

Cost of sales, measured as a percent of net sales, was 53.0 percent in 2011, an increase of 1.1 percentage points from 2010. On a dollar basis, selling price increases largely offset raw material inflation for total year 2011, as selling prices increased 1 percent year-on-year and raw material prices increased approximately 4 percent year-on-year. However, measured as a percent of sales, selling price/raw material impacts accounted for approximately 0.5 percentage points of the cost of sales increase. Cost of sales as a percent of net sales was also negatively impacted by higher pension and postretirement costs. These impacts were partially offset by organic sales volume growth of 3.7 percent.

Selling, General and Administrative Expenses:

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

SG&A expenses increased 13 percent in 2011 when compared to 2010, due to several factors. Approximately 5 percentage points of this growth in SG&A was due to increases from acquired businesses not in 3M s full year 2010 base spending, which primarily related to SG&A spending for the Winterthur Technologie AG, Arizant Inc., Cogent Inc. and Attenti Holdings S.A. acquisitions. Another 3 percentage points of growth in 2011 SG&A was due to foreign exchange effects, which resulted in higher translated costs from 3M s non-U.S. subsidiaries. Finally, 2011 SG&A increased in part due to higher year-on-year pension and postretirement expense and continued investments to support future growth, such as sales representatives, advertising and promotional investments. SG&A expenses, measured as a percent of net sales, increased 0.3 percentage points in 2011 compared to 2010.

Research, Development and Related Expenses:

Research, development and related expenses (R&D) increased 4.1 percent in 2012 compared to 2011 and increased 9.5 percent in 2011 compared to 2010, as 3M continued to support its key growth initiatives. In 2012, these investments, along with higher pension and postretirement expense, were partially offset by cost-control efforts and savings from 3M s first-quarter 2012 voluntary early retirement incentive program. In 2011, R&D expense increased versus 2010 due to R&D related to businesses acquired in the last 12 months, foreign exchange effects, and higher pension and postretirement expense, in addition to 3M s continued investment in new products. R&D, measured as a percent of sales, was 5.5 percent in 2012, compared to 5.3 percent in 2011 and 5.4 percent in 2010.

Operating Income:

3M uses operating income as one of its primary business segment performance measurement tools. Operating income was 21.7 percent of sales in 2012, compared to 20.9 percent of sales in 2011, an improvement of 0.8 percentage points. The improvement was driven by a 1.6 percentage point benefit from the combination of selling price increases and raw material cost decreases. This was partially offset by increased pension/postretirement benefit costs and acquisition impacts, each of which reduced margins by 0.3 percentage points, and other net impacts, which decreased margins by 0.2 percentage points. Operating income was 20.9 percent of sales in 2011, compared to 22.2 percent of sales in 2010, primarily due to higher cost of sales (as a percent of sales) in 2011 when compared to 2010.

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Interest Expense and Income:

(Millions)	2012	2011	2010
Interest expense	**$ 171**	$ 186	$ 201
Interest income	**(39)**	(39)	(38)
Total	**$ 132**	$ 147	$ 163

Interest Expense: Interest expense decreased in both 2012 and 2011. The 2012 decrease was driven by lower average international debt balances, while the 2011 decrease was attributable to lower U.S. debt balances. Both years were favorably impacted by lower interest rates on U.S. debt.

Interest Income: In 2012, lower U.S. cash balances and lower interest rates internationally were offset by higher international cash balances and higher interest rates in the U.S. In 2011, interest income increased slightly, as higher international cash balances and better investment yields were largely offset by a lower U.S. cash balance.

Provision for Income Taxes:

(Percent of pre-tax income)	2012	2011	2010
Effective tax rate	**29.0%**	27.8%	27.7%

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

The effective tax rate for 2011 was 27.8 percent, compared to 27.7 percent in 2010, an increase of 0.1 percentage points. The year-on-year change in international income taxes increased the effective tax rate for 2011 when compared to 2010 by approximately 2.5 percentage points, which includes a partial offsetting benefit from the corporate reorganization of a wholly owned international subsidiary in 2011. This 2.5 percentage point net increase was due primarily to certain 2010 tax benefits, which did not repeat in 2011, related to net operating losses partially offset by a valuation allowance resulting from the 2010 corporate alignment transactions that allowed the Company to increase its ownership of a foreign subsidiary. These transactions are described in the section of Note 5 entitled Purchase and Sale of Subsidiary Shares and Transfers of Ownership Interest Involving Non-Wholly Owned Subsidiaries Other significant items impacting the year-on-year comparison include a one-time 2010 income tax charge of $84 million, which benefited the 2011 tax rate when compared to 2010 by 1.5 percentage points, as this charge did not repeat in 2011. The Company s effective tax rate also benefited during 2011 when compared to 2010 by approximately 0.7 percentage points from adjustments to its income tax reserves.

On January 2, 2013, the American Taxpayer Relief Act of 2012 was signed into law. Included in this Act was the extension of the research and development credit for years 2012 and 2013. As this Act was enacted during 2013, the impacts of this law are not included in the 2012 financial results. The Company anticipates a beneficial impact on the effective tax rate in 2013 for both the 2012 and 2013 research and development credit.

The Company currently expects that its effective tax rate for total year 2013 will be approximately 29.5 to 30.0 percent. The rate can vary from quarter to quarter due to discrete items, such as the settlement of income tax audits and changes in tax laws, as well as recurring factors, such as the geographic mix of income before taxes.

Refer to Note 7 for further discussion of income taxes.

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Net Income Attributable to Noncontrolling Interest:

(Millions)	2012	2011	2010
Net income attributable to noncontrolling interest	**$ 67**	$ 74	$ 78

Net income attributable to noncontrolling interest represents the elimination of the income or loss attributable to non-3M ownership interests in 3M consolidated entities. The changes in noncontrolling interest amounts are primarily related to Sumitomo 3M Limited (Japan), which is 3M s most significant consolidated entity with non-3M ownership interests. As of December 31, 2012, 3M s effective ownership in Sumitomo 3M Limited is 75 percent.

Currency Effects:

3M estimates that year-on-year currency effects, including hedging impacts, decreased net income attributable to 3M by approximately $103 million in 2012 and increased net income attributable to 3M by approximately $154 million in 2011. These estimates include the effect of translating profits from local currencies into U.S. dollars; the impact of currency fluctuations on the transfer of goods between 3M operations in the United States and abroad; and transaction gains and losses, including derivative instruments designed to reduce foreign currency exchange rate risks and the negative impact of swapping Venezuelan bolivars into U.S. dollars. 3M estimates that year-on-year derivative and other transaction gains and losses increased net income attributable to 3M by approximately $49 million in 2012 and had an immaterial impact on net income attributable to 3M in 2011.

PERFORMANCE BY BUSINESS SEGMENT

Disclosures relating to 3M s business segments are provided in Item 1, Business Segments. Financial information and other disclosures are provided in the Notes to the Consolidated Financial Statements. The reportable segments are Industrial and Transportation; Health Care; Consumer and Office; Safety, Security and Protection Services; Display and Graphics; and Electro and Communications. Information related to 3M s business segments is presented in the tables that follow. Organic local-currency sales include both organic volume impacts plus selling price impacts. Acquisition impacts are measured separately for the first twelve months of the acquisition. The acquisition and divestiture impacts, if any, foreign currency translation impact and total sales change are also provided for each business segment. Any references to EMEA relate to Europe, Middle East and Africa on a combined basis.

In addition to these six operating business segments, 3M assigns certain costs to Corporate and Unallocated, which is presented separately in the preceding business segments table and in Note 15. Corporate and unallocated includes a variety of miscellaneous items, such as corporate investment gains and losses, certain derivative gains and losses, certain insurance-related gains and losses, certain litigation and environmental expenses, corporate restructuring charges and certain under- or over-absorbed costs (e.g. pension, stock-based compensation) that the Company may choose not to allocate directly to its business segments. Because this category includes a variety of miscellaneous items, it is subject to fluctuation on a quarterly and annual basis. The primary items driving higher expenses in Corporate and Unallocated in 2012 when compared to 2011 were pension and postretirement expense, as a portion of the 2012 increase in these expenses were not allocated directly to the six operating business segments ($63 million), and the impact of an increase in other environmental insurance receivables, which benefited 2012 by $15 million (as discussed in Note 13). The impacts of changes in respirator mask/asbestos liabilities and receivables netted to a $32 million charge in 2012, which was similar to 2011, resulting in a minimal year-on-year effect. The primary item driving higher 2011 expenses when compared to 2010 relates to pension and postretirement expense, as a portion of the 2011 increase in these expenses was not allocated directly to the six operating business segments.

The following discusses total year results for 2012 compared to 2011, and also discusses 2011 compared to 2010, for each business segment.

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Industrial and Transportation Business (34.6% of consolidated sales):

	2012	2011	2010
Sales (millions)	**$ 10,346**	$ 10,073	$ 8,429
Sales change analysis:			
Organic local currency	**4.5%**	10.0%	17.0%
Acquisitions	**1.1**	5.9	0.2
Translation	**(2.9)**	3.6	1.2
Total sales change	**2.7%**	19.5%	18.4%
Operating income (millions)	**$ 2,258**	$ 2,057	$ 1,754
Percent change	**9.8%**	17.3%	42.6%
Percent of sales	**21.8%**	20.4%	20.8%

The Industrial and Transportation segment serves a broad range of markets, such as automotive original equipment manufacturer (OEM) and automotive aftermarket (auto body shops and retail), renewable energy, electronics, paper and packaging, food and beverage, and appliance. 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.

Year 2012 results:

Sales in Industrial and Transportation totaled $10.3 billion, up 2.7 percent in U.S. dollars. Organic local-currency sales increased 4.5 percent, acquisitions added 1.1 percent, and foreign currency translation reduced sales by 2.9 percent. Acquisitions growth was primarily driven by Winterthur Technologie AG (Winterthur) in the abrasives market, Ceradyne, Inc. (Ceradyne) in the advanced technical ceramics market, and Alpha Beta Enterprise Co. Ltd. (Alpha Beta) in industrial tapes, all of which are discussed further below. On an organic local-currency basis, sales growth was strongest in automotive OEM, aerospace, abrasives and filtration. On an organic local-currency basis, sales declined in renewable energy, impacted by weak end market demand.

Geographically, organic local-currency sales increased 7 percent in both the United States and Latin America/Canada, 3.5 percent in Asia Pacific, and 1 percent in EMEA.

Operating income was $2.3 billion in 2012, 9.8 percent higher than 2011, with the primary benefit related to the combination of selling price increases and raw material cost decreases. Operating income growth was led by the United States. Operating income margins increased by 1.4 percentage points to 21.8 percent.

As disclosed in Note 2, in November 2012, 3M acquired Ceradyne, Inc. (Ceradyne), which is headquartered in Costa Mesa, California. Ceradyne is involved in the development and production of advanced technical ceramics for demanding applications in the automotive, oil and gas, solar, industrial, electronics and defense industries.

Year 2011 results:

Sales in Industrial and Transportation increased 19.5 percent to $10.1 billion, with 10.0 percent of this increase attributable to organic local-currency growth. Acquisitions increased sales by 5.9 percent, primarily driven by Winterthur and Alpha Beta (discussed below). Foreign currency impacts added 3.6 percent to 2011 sales growth. Geographically, sales increased in all major regions, led by Asia Pacific and Europe. Organic local-currency sales growth was broad-based across the portfolio, led by renewable energy, aerospace and aircraft maintenance, energy and advanced materials, abrasives systems, and industrial adhesives and tapes. In addition, despite the Japan and Thailand natural disasters, 3M also achieved growth in its automotive aftermarket and automotive OEM businesses.

3M continued to invest in its Industrial and Transportation business. 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.

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Operating income was $2.1 billion in 2011, 17.3 percent higher than 2010. 3M achieved operating income margins of 20.4 percent, even with continued investments to support growth.

Investment:

In March 2005, 3M s automotive business completed the purchase of 19 percent of TI&M Beteiligungsgesellschaft mbH (TI&M) for approximately $55 million. TI&M is the parent company of I&T Innovation Technology Entwicklungsund Holding Aktiengesellschaft (I&T), an Austrian maker of flat flexible cable and circuitry. Pursuant to a Shareholders Agreement, 3M marketed I&T s flat flexible wiring systems for automotive interior applications to the global automotive market. I&T filed a petition for bankruptcy protection in August 2006. As part of its agreement to purchase the shares of TI&M, the Company was granted a put option that gave the Company the right to sell back its entire ownership interest in TI&M to the other investors from whom the Company acquired its 19 percent interest. The put option became exercisable January 1, 2007. The Company exercised the put option and recovered approximately $25 million of its investment from one of the investors based in Belgium in February 2007. The other two TI&M investors from whom the Company purchased its shares filed a bankruptcy petition in Austria in January 2007. The Company has recovered approximately 6.7 million Euros through the Austrian bankruptcy process. The Company then pursued recovery from the bank that held the 3M purchase price paid to the two bankrupt investors, and in March 2012 recovered 4.5 million Euros, leaving a balance of 7.4 million Euros (approximately $10 million). In September 2012, 3M Austria commenced proceedings in the Commercial Court of Vienna against the co-sellers of the shares to recover the remaining balance plus accrued interest pursuant to the terms of the Share Purchase Agreement and Austrian law. The Company believes collection of its remaining investment is probable and, as a result, no impairment reserve has been recorded.

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Health Care Business (17.3% of consolidated sales):

	2012	2011	2010
Sales (millions)	**$ 5,158**	$ 5,031	$ 4,513
Sales change analysis:			
Organic local currency	**4.7%**	4.6%	4.1%
Acquisitions	**0.3**	3.8	1.2
Divestitures			(0.2)
Translation	**(2.5)**	3.1	0.3
Total sales change	**2.5%**	11.5%	5.4%
Operating income (millions)	**$ 1,646**	$ 1,489	$ 1,362
Percent change	**10.6%**	9.3%	1.1%
Percent of sales	**31.9%**	29.6%	30.2%

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

Year 2012 results:

Health Care sales totaled $5.2 billion, an increase of 2.5 percent in U.S. dollars. Organic local-currency sales increased 4.7 percent, led by food safety, health information systems, and skin/wound care. Sales declined year-on-year in drug delivery systems. Acquisitions added 0.3 percent, as 3M further strengthened its health information systems business in April 2012 by acquiring CodeRyte, Inc., which provides clinical natural language processing technology and computer-assisted coding solutions for outpatient providers. Foreign currency translation reduced sales by 2.5 percent.

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

Operating income increased 10.6 percent to $1.6 billion. Operating income margins were 31.9 percent in 2012 compared to 29.6 percent in 2011, driven by strong manufacturing cost control, improved utilization and production efficiencies. Operating income grew in all major geographic areas.

Year 2011 results:

Health Care sales increased 11.5 percent to $5.0 billion. Organic local-currency sales increased 4.6 percent and acquisition added 3.8 percent. Acquisition growth primarily related to Arizant Inc., a leading manufacturer of patient warming solutions designed to prevent hypothermia in surgical settings. Currency impacts increased sales by 3.1 percent in Health Care. On a geographic basis, all regions posted positive sales growth. Asia Pacific, Latin America/Canada, and Europe all reported sales growth of 10 percent or more, while the U.S. grew at 9 percent. Organic local-currency sales growth increased in the food safety, health information systems, infection prevention, skin and wound care, and oral care businesses. Sales in the drug-delivery systems business increased in the fourth quarter of 2011 compared to the same period in 2010, but were down slightly for total-year 2011 when compared to 2010.

Operating income in Health Care increased 9.3 percent in 2011 to $1.5 billion. Operating income margins were 29.6 percent, compared to 30.2 percent in 2010, with this decrease due in part to growth investments in the health information systems and infection prevention businesses. 3M also invested in emerging markets to improve market penetration levels. The year-on-year decline in operating income margins was also due in part to sales declines in drug delivery systems.

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Consumer and Office Business (14.4% of consolidated sales):

	2012	2011	2010
Sales (millions)	**$ 4,316**	$ 4,153	$ 3,853
Sales change analysis:			
Organic local currency	**3.8%**	4.0%	7.1%
Acquisitions	**2.0**	1.4	2.9
Translation	**(1.9)**	2.4	1.0
Total sales change	**3.9%**	7.8%	11.0%
Operating income (millions)	**$ 930**	$ 840	$ 840
Percent change	**10.8%**	%	12.3%
Percent of sales	**21.6%**	20.2%	21.8%

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.

Year 2012 results:

Sales in Consumer and Office totaled $4.3 billion, up 3.9 percent in U.S. dollars. Organic local-currency sales increased 3.8 percent, acquisitions added 2.0 percent, and foreign currency translation reduced sales by 1.9 percent. Organic local-currency sales growth was led by the consumer health care and construction and home improvement businesses. Organic local-currency sales increased slightly in stationery and office supplies, impacted by continued softness in the office wholesale and retail markets. Acquisition growth was largely due to the October 2011 acquisition of the do-it-yourself and professional business of GPI Group. GPI is a manufacturer and marketer of home improvement products such as tapes, hooks, insulation and floor protection products and accessories. The addition of GPI s products expands 3M s product portfolio in core and complementary categories in the construction and home improvement markets.

On a geographic basis, organic local-currency sales increased 9.5 percent in Latin America/Canada, 5 percent in Asia Pacific, and 4 percent in the United States. EMEA organic local-currency sales decreased 2 percent.

Consumer and Office operating income increased 10.8 percent to $930 million. Operating income margins were 21.6 percent, compared to 20.2 percent in 2011, as all businesses and major geographic areas posted operating income increases. Consumer and Office benefited from the combination of selling price increases and raw material cost decreases, in addition to cost-control efforts.

In December 2011, 3M (Consumer and Office Business) entered into a definitive agreement to acquire the Office and Consumer Products business of Avery Dennison Corp. (Avery). 3M and Avery withdrew from the regulatory approval process for this acquisition in September 2012 and subsequently announced that they had terminated this agreement in October 2012.

Year 2011 results:

Sales in Consumer and Office increased 7.8 percent in 2011 to $4.2 billion, with all businesses posting positive sales growth. Organic local-currency sales increased 4.0 percent and acquisitions added 1.4 percent. Acquisition growth was largely due to the October 2011 acquisition of the do-it-yourself and professional business of GPI Group and 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. 3M also acquired Hybrivet Systems Inc. in the first quarter of 2011, a provider of instant-read products to detect lead and other contaminants and toxins. Foreign currency impacts contributed 2.4 percent to sales growth in the Consumer and Office segment.

On a geographic basis, sales increased in all regions, led by Asia Pacific, Latin America/Canada and Europe, which all had sales growth rates in excess of 10 percent. U.S. sales also grew, albeit at a slower rate.

Consumer and Office operating income was flat when comparing 2011 to 2010, reflecting continued ongoing investments in developing economies in brand development and marketing and sales coverage. Even with these investments, Consumer and Office generated operating income margins of 20.2 percent.

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Safety, Security and Protection Services Business (12.7% of consolidated sales):

		2012		2011		2010
Sales (millions)	**$**	**3,802**	$	3,821	$	3,316
Sales change analysis:						
Organic local currency		**2.2%**		7.1%		6.1%
Acquisitions				4.7		1.2
Translation		**(2.7)**		3.4		0.5
Total sales change		**(0.5)%**		15.2%		7.8%
Operating income (millions)	**$**	**847**	$	814	$	709
Percent change		**4.1%**		14.9%		(2.6)%
Percent of sales		**22.3%**		21.3%		21.4%

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, infrastructure protection products used in the oil and gas pipeline markets, and track and trace solutions.

Year 2012 results:

Safety, Security and Protection Services sales totaled $3.8 billion, down 0.5 percent in U.S. dollars. Organic local-currency sales grew 2.2 percent and foreign currency translation reduced sales by 2.7 percent. Organic local-currency sales growth was led by infrastructure protection and personal safety, with growth also in building and commercial services and roofing granules.

2012 organic local-currency sales declined 18 percent in security systems, as government spending for security solutions has been declining over the last few years. As discussed later in the Critical Accounting Estimates section, 3M will continue to monitor this business to assess whether long-term expectations have been significantly impacted such that an asset or goodwill impairment test would be required. The Company completed its annual goodwill impairment test in the fourth quarter of 2012, with no impairment indicated.

Geographically, organic local-currency sales increased 19 percent in Latin America/Canada. Organic local-currency sales were flat in Asia Pacific and the United States, and declined 2 percent in EMEA.

The combination of selling price increases and raw material cost reductions, plus factory efficiencies, drove a 4.1 percent increase in operating income. Operating income margins increased 1.0 percentage points to 22.3 percent.

Year 2011 results:

Safety, Security and Protection Services sales increased 15.2 percent in 2011. H1N1-related comparisons reduced 2011 sales growth by 2.5 percent, as 3M generated sales related to the H1N1 virus in the first three quarters of 2010. Even with this difficult comparison, organic local-currency sales growth was 7.1 percent. Acquisitions added 4.7 percent, with this benefit primarily related to Attenti Holdings S.A. and Cogent Inc., which were acquired in the fourth quarter of 2010. 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 3.4 percent to 2011 sales. All geographic regions posted positive sales growth, with sales growth led by Asia Pacific, Latin America/Canada, and the U.S. These three regions all had sales growth in excess of 15 percent.

Sales increased in all businesses. Sales dollar increases were largest in personal protection products, security systems, building and commercial services, and infrastructure protection. Sales growth in personal protection products, or more specifically, respiratory products, was hampered by H1N1-related comparisons, partially offset by some modest additional sales of personal protective equipment related to the cleanup efforts in Japan.

Operating income for 2011 rose 14.9 percent to $814 million. 3M achieved a 21.3 percent operating income margin, despite H1N1-related comparisons that negatively impacted results.

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Display and Graphics Business (11.9% of consolidated sales):

	2012	2011	2010
Sales (millions)	**$ 3,560**	$ 3,674	$ 3,884
Sales change analysis:			
Organic local currency	**(2.4)%**	(7.5)%	23.0%
Acquisitions	**0.9**	0.1	
Translation	**(1.6)**	2.0	1.0
Total sales change	**(3.1)%**	(5.4)%	24.0%
Operating income (millions)	**$ 693**	$ 788	$ 946
Percent change	**(12.1)%**	(16.6)%	60.3%
Percent of sales	**19.5%**	21.5%	24.4%

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

Year 2012 results:

Sales in Display and Graphics were $3.6 billion, down 3.1 percent in U.S. dollars. Organic local-currency sales decreased 2.4 percent, as optical systems sales declined 10 percent, driven by lower optical film volumes for LCD TVs. Organic local-currency sales increased in both commercial graphics and architectural markets and were up slightly in traffic safety systems. Acquisitions added 0.9 percent to sales growth. This related to the September 2012 purchase of assets that comprised the business of Federal Signal Technologies Group from Federal Signal Corp. This business focuses on electronic toll collection and parking management hardware and software services. Foreign currency translation reduced sales by 1.6 percent.

Organic local-currency sales increased 11 percent in Latin America/Canada and 6 percent in the United States. Organic local-currency sales declined 4 percent in EMEA and 6 percent in Asia Pacific, where the decrease in optical systems sales was a major factor.

Operating income in 2012 totaled $693 million, down 12.1 percent. Operating income margins were 19.5 percent of sales, compared to 21.5 percent in 2011. The year-on-year decline was largely attributable to the decline in optical systems, along with softness in traffic safety systems, which has been impacted by lower government spending.

Year 2011 results:

Sales in Display and Graphics were $3.7 billion in 2011, a decline of 5.4 percent in U.S. dollars. Organic local-currency sales declined 7.5 percent. Acquisitions added 0.1 percent to sales growth and foreign currency impacts increased sales by 2.0 percent. Optical Systems sales decreased 17 percent due to lower year-on-year LCD TV-related sales over the last three quarters of 2011. Sales grew in commercial graphics and architectural markets. Traffic safety systems also posted sales growth, which was all currency related. Sales increased in Latin America/Canada and the U.S., but declined in Europe. Sales also declined in Asia Pacific, where the decline in optical systems sales was a major factor.

Operating income in 2011 totaled $788 million, down 16.6 percent from 2010. 3M achieved 21.5 percent operating income margins in this business segment, as productivity improvements helped to partially offset negative impacts from lower sales of optical films for LCD TVs, impacted by LCD TV volume reductions, as well as continued LCD selling price declines.

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Electro and Communications Business (10.8% of consolidated sales):

	2012	2011	2010
Sales (millions)	**$ 3,228**	$ 3,306	$ 3,043
Sales change analysis:			
Organic local currency	**(0.8)%**	5.2%	26.1%
Acquisitions		0.1	
Divestitures			(0.4)
Translation	**(1.6)**	3.3	1.8
Total sales change	**(2.4)%**	8.6%	27.5%
Operating income (millions)	**$ 691**	$ 712	$ 670
Percent change	**(2.8)%**	6.2%	90.6%
Percent of sales	**21.4%**	21.5%	22.0%

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.

Year 2012 results:

Electro and Communications sales totaled $3.2 billion, down 2.4 percent in U.S. dollars. Organic local-currency sales declined 0.8 percent and foreign currency translation reduced sales by 1.6 percent. Organic local-currency sales declined in the consumer electronics-related businesses and telecommunications markets business. Organic local-currency sales increased in 3M s touch systems and electrical markets businesses.

On a geographic basis, organic local-currency sales increased 12 percent in Latin America/Canada and 5 percent in the United States. Organic local-currency sales declined 4 percent in both EMEA and Asia Pacific.

Operating income decreased 2.8 percent to $691 million in 2012. Operating income margins were 21.4 percent, similar to the 21.5 percent operating income margins achieved in 2011.

Year 2011 results:

Electro and Communications sales were $3.3 billion in 2011, an increase of 8.6 percent in U.S. dollars. Organic local-currency sales increased 5.2 percent and acquisitions added 0.1 percent to sales growth. Foreign currency impacts added 3.3 percent to 2011 sales growth. Sales expanded in all geographic regions, led by greater than 10 percent sales increases in both Europe and Latin America/Canada. From a business standpoint, sales growth was led by 3M s electronics markets materials business and the electrical markets business. The telecom business also posted solid sales growth, while sales declined in the electronic solutions business.

Operating income increased 6.2 percent to $712 million in 2011, driven by higher year-on-year sales growth. Operating income margins were 21.5 percent, slightly lower than 2010.

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PERFORMANCE BY GEOGRAPHIC AREA

While 3M manages its businesses globally and believes its business segment results are the most relevant measure of performance, the Company also utilizes geographic area data as a secondary performance measure. Export sales are generally reported within the geographic area where the final sales to 3M customers are made. A portion of the products or components sold by 3M s operations to its customers are exported by these customers to different geographic areas. As customers move their operations from one geographic area to another, 3M s results will follow. Thus, net sales in a particular geographic area are not indicative of end-user consumption in that geographic area. Financial information related to 3M operations in various geographic areas is provided in Note 16.

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

	2012					
	United States	**Asia Pacific**	**Europe, Middle East & Africa**	**Latin America/ Canada**	**Other Unallocated**	**Worldwide**
Net sales (millions)	**$ 10,528**	**$ 9,092**	**$ 6,730**	**$ 3,572**	**$ (18)**	**$ 29,904**
% of worldwide sales	**35.2%**	**30.4%**	**22.5%**	**11.9%**		**100.0%**
Components of net sales change:						
Volume organic	**2.1%**	**1.3%**	**(2.8)%**	**6.9%**		**1.2%**
Price	**2.1**	**(1.2)**	**2.2**	**4.0**		**1.4**
Organic local-currency sales	**4.2**	**0.1**	**(0.6)**	**10.9**		**2.6**
Acquisitions	**0.8**	**0.3**	**1.9**	**0.1**		**0.8**
Translation		**(0.6)**	**(6.2)**	**(6.3)**		**(2.4)**
Total sales change	**5.0%**	**(0.2)%**	**(4.9)%**	**4.7%**		**1.0%**
Operating income (millions)	**$ 1,929**	**$ 2,450**	**$ 1,163**	**$ 945**	**$ (4)**	**$ 6,483**
Percent change	**18.4%**	**(2.9)%**	**1.2%**	**5.5%**		**4.9%**

For total year 2012, as shown in the preceding table, sales rose 1.0 percent, with organic volume increases of 1.2 percent and selling price increases of 1.4 percent. Acquisitions added 0.8 percent, while foreign currency effects reduced sales by 2.4 percent. Organic local-currency sales growth was led by Latin American/Canada at 10.9 percent and the United States at 4.2 percent. Organic local-currency sales increased in Asia Pacific by 0.1 percent and declined in EMEA by 0.6 percent. For 2012, international operations represented 64.8 percent of 3M s sales.

	2011					
	United States	**Asia Pacific**	**Europe, Middle East & Africa**	**Latin America/ Canada**	**Other Unallocated**	**Worldwide**
Net sales (millions)	$ 10,028	$ 9,108	$ 7,076	$ 3,411	$ (12)	$ 29,611
% of worldwide sales	33.9%	30.7%	23.9%	11.5%		100.0%
Components of net sales change:						
Volume organic	4.0%	3.5%	1.6%	7.4%		3.7%
Price	1.9	(1.4)	1.6	3.5		1.0

Organic local-currency sales	5.9	2.1	3.2	10.9		4.7
Acquisitions	3.0	3.5	4.6	1.1		3.3
Translation		4.7	5.3	3.6		3.1
Total sales change	8.9%	10.3%	13.1%	15.6%		11.1%
Operating income (millions)	$ 1,629	$ 2,523	$ 1,150	$ 896	$ (20)	$ 6,178
Percent change	(0.4)%	5.1%	3.4%	12.3%		4.4%

For total year 2011, as shown in the preceding table, sales rose 11.1 percent, with organic volume increases of 3.7 percent, selling price increases of 1.0 percent, acquisitions of 3.3 percent, and foreign currency effects of 3.1 percent. Every major geographic region expanded sales, with organic local-currency sales in Latin America/Canada up 10.9 percent, the United States up 5.9 percent, Europe, Middle East and Africa up 3.2 percent, and Asia Pacific up 2.1 percent. For 2011, international operations represented 66.1 percent of 3M s sales.

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Geographic Area Supplemental Information

(Millions, except Employees)	Employees as of December 31, 2012	2011	2010	Capital Spending 2012	2011	2010	Property, Plant and Equipment - net as of December 31, 2012	2011
United States	**34,746**	33,128	32,955	**$ 815**	$ 688	$ 569	**$ 4,277**	$ 3,979
Asia Pacific	**18,210**	18,015	16,324	**332**	409	290	**2,029**	1,887
Europe, Middle East and Africa	**20,638**	20,113	18,120	**226**	180	151	**1,499**	1,271
Latin America and Canada	**14,083**	12,942	12,658	**111**	102	81	**573**	529
Total Company	**87,677**	84,198	80,057	**$ 1,484**	$ 1,379	$ 1,091	**$ 8,378**	$ 7,666

Employment:

Employment increased by 3,479 positions in 2012 and 4,141 positions in 2011. Acquisitions increased employment by approximately 2,500 and 2,250 full-time equivalents for 2012 and 2011, respectively. In addition, the other primary factor that increased employment in both years was additions in developing economies to support growth.

Capital Spending/Net Property, Plant and Equipment:

Investments in property, plant and equipment enable growth across many diverse markets, helping to meet product demand and increasing manufacturing efficiency. Capital spending was $1.484 billion in 2012, compared to $1.379 billion in 2011 and $1.091 billion in 2010. The Company expects 2013 capital spending to be approximately $1.6 to $1.8 billion, as 3M continues to invest in its businesses. In 2012, 3M expanded manufacturing capacity in key growth markets, particularly with respect to international and emerging market countries. This included investments in China, Turkey and Poland, in addition to investments in Singapore and the U.S. 3M also increased investments in IT systems and infrastructure and made strategic investments in research/development infrastructure and manufacturing sites to lay the foundation for future growth. In 2011, a large portion of the capital investment was used to address supply constraints in a number of businesses with significant growth potential, such as renewable energy, traffic signage in developing economies, and optically clear adhesives and glass bubbles. In addition, some of the following 2010 capital projects carried forward into 2011. In 2010, in the U.S., 3M invested in film manufacturing assets for optical systems and other non-optical businesses which use similar technology. Also, in 2010, 3M increased capacity at its multi-purpose manufacturing facility in Singapore and invested in optical film capacity in Korea. Lastly, in 2010, investments in the Industrial and Transportation business included solar energy in the U.S. and industrial adhesives and tapes in China.

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

CRITICAL ACCOUNTING ESTIMATES

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

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

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Legal Proceedings:

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

Pension and Postretirement Obligations:

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

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

The Company determines the discount rate used to measure plan liabilities as of the December 31 measurement date for its pension and postretirement benefit plans. The discount rate reflects the current rate at which the associated liabilities could be effectively settled at the end of the year. The Company sets its rate to reflect the yield of a portfolio of high quality, fixed-income debt instruments that would produce cash flows sufficient in timing and amount to settle projected future benefits. Using this methodology, the Company determined a discount rate of 4.14% for U.S. pension and 4.00% for U.S. postretirement benefits to be appropriate as of December 31, 2012, which represents a decrease from the 4.15% and 4.04% rates, respectively, used as of December 31, 2011. The weighted average discount rate for international pension plans as of December 31, 2012 was 3.78%, a decrease from the 4.58% rate used as of December 31, 2011.

A significant element in determining the Company s pension expense in accordance with ASC 715 is the expected return on plan assets, which is based on historical results for similar allocations among asset classes. For the U.S. pension plan, the 2013 expected long-term rate of return on an annualized basis for 2013 is 8.00%, a 0.25% decrease from 2012. Refer to Note 10 for information on how the 2013 rate was determined. Return on assets assumptions for international pension and other post-retirement benefit plans are calculated on a plan-by-plan basis using plan asset allocations and expected long-term rate of return assumptions. The weighted average expected return for the international pension plan is 5.87% for 2013, compared to 6.38% for 2012.

For the year ended December 31, 2012, the Company recognized total consolidated pre-tax pension and postretirement expense (after settlements, curtailments and special termination benefits) of $650 million, up from $555 million in 2011. Pension and postretirement expense (before settlements, curtailments and special termination benefits) is anticipated to decrease to approximately $550 million in 2013, a decrease of $100 million compared to 2012. For the pension plans, holding all other factors constant, a 0.25 percentage point increase/decrease in the expected long-term rate of return on plan assets would decrease/increase 2013 pension expense by approximately $33 million for U.S. pension plans and approximately $13 million for international pension plans. Also, holding all other factors constant, a 0.25 percentage point increase in the discount rate used to measure plan liabilities would decrease 2013 pension expense by approximately $37 million for U.S. pension plans and approximately $19 million for international pension plans. In addition, a 0.25 percentage point decrease in the discount rate used to measure plan liabilities would increase 2013 pension expense by approximately $39 million for U.S. pension plans and approximately $21 million for international pension plans.

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Asset Impairments:

As of December 31, 2012, net property, plant and equipment totaled $8.4 billion and net identifiable intangible assets totaled $1.9 billion. Management makes estimates and assumptions in preparing the consolidated financial statements for which actual results will emerge over long periods of time. This includes the recoverability of long-lived assets employed in the business, including assets of acquired businesses. These estimates and assumptions are closely monitored by management and periodically adjusted as circumstances warrant. For instance, expected asset lives may be shortened or an impairment recorded based on a change in the expected use of the asset or performance of the related asset group.

3M goodwill totaled approximately $7.4 billion as of December 31, 2012. 3M s annual goodwill impairment testing is performed in the fourth quarter of each year. Impairment testing for goodwill is done at a reporting unit level, with all goodwill assigned to a reporting unit. Reporting units are one level below the business segment level (3M has six business segments at December 31, 2012), but can be combined when reporting units within the same segment have similar economic characteristics. At 3M, reporting units generally correspond to a division. 3M did not combine any of its reporting units for impairment testing.

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

As discussed in Note 3 to the Consolidated Financial Statements, effective in the first quarter of 2012, 3M made certain product moves across divisions within its business segments, but none were across business segments. For any product moves that resulted in reporting unit changes, the Company applied the relative fair value method to determine the impact to reporting units. During the first quarter of 2012, the Company completed its assessment of any potential goodwill impairment for reporting units impacted by this new structure and determined that no impairment existed. The discussion that follows relates to the separate fourth quarter 2012 annual impairment test and is in the context of the segment structure that existed at that time.

As of September 30, 2012, 3M had 36 primary reporting units, with ten reporting units accounting for approximately 77 percent of the goodwill. These ten reporting units were comprised of the following divisions: 3M Purification Inc., Occupational Health and Environmental Safety, Optical Systems, Security Systems, Infection Prevention, 3M ESPE, Industrial Adhesives and Tapes, Communication Markets, Health Information Systems, and Abrasive Systems. The fair values for all these significant reporting units were in excess of carrying value by approximately 50 percent or more.

In 2012, 3M primarily used an industry price-earnings ratio approach, but also used a discounted cash flows approach for certain reporting units, to determine fair values. Where applicable, 3M used a weighted-average discounted cash flow analysis for certain divisions, using projected cash flows that were weighted based on different sales growth and terminal value assumptions, among other factors. The weighting was based on management s estimates of the likelihood of each scenario occurring.

Based on fourth-quarter 2012 testing, 3M s estimated fair value when valuing each reporting unit individually would aggregate to approximately $77 billion, implying a control premium of 21 percent when compared to 3M s market value of approximately $64 billion at both September 30, 2012 and December 31, 2012. The control premium is defined as the sum of the individual reporting units estimated market values compared to 3M s total Company estimated fair value, with the sum of the individual values typically being larger than the value for the total Company. 3M s market value at both September 30, 2012 and December 31, 2012 was significantly in excess of its equity of approximately $18 billion. 3M is an integrated materials enterprise, thus many of 3M s businesses could not easily be sold on a stand-alone basis. 3M s focus on research and development has resulted in a portion of 3M s value being comprised of internally developed businesses that have no goodwill associated with them. Based on its annual test in the fourth quarter of 2012, no goodwill impairment was indicated for any of the reporting units.

Factors which could result in future impairment charges include, among others, changes in worldwide economic conditions, changes in competitive conditions and customer preferences, and fluctuations in foreign currency exchange rates. These risk factors are discussed in Item 1A, Risk Factors, of this document. In addition, changes in the weighted average cost of capital could also impact impairment testing results. Given the current overall economic and other conditions in markets served by certain reporting units and asset groups within these reporting units (particularly Security

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Systems Division), 3M will continue to monitor conditions to assess whether long term expectations have been significantly impacted such that future interim impairment tests would be required. As of December 31, 2012, 3M had approximately $600 million of goodwill and approximately $300 million of long-lived assets related to Security Systems. Long-lived assets with a definite life are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset (asset group) may not be recoverable. If future non-cash asset impairment charges are taken, 3M would expect that only a portion of the long-lived assets or goodwill would be impaired. 3M will continue to monitor its reporting units and asset groups in 2013 for any triggering events or other indicators of impairment.

Income Taxes:

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

NEW ACCOUNTING PRONOUNCEMENTS

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

FINANCIAL CONDITION AND LIQUIDITY

As indicated in the following table, at December 31, 2012, 3M had $5.693 billion of cash, cash equivalents, and marketable securities and $6.001 billion of debt. Debt included $4.916 billion of long-term debt, $986 million related to the current portion of long-term debt and short-term borrowings of $99 million. The current portion of long-term debt includes $850 million (principal amount) of medium-term notes due in August 2013. 3M repaid $500 million (principal amount) of medium term notes that matured in December 2012. As discussed in Note 9, in June 2012, 3M issued $650 million aggregate principal amount of five-year fixed rate notes due 2017 and $600 million aggregate principal amount of ten-year fixed rate notes due 2022. The strength of 3M s capital structure and consistency of its cash flows provide 3M reliable access to capital markets. Additionally, the Company s maturity profile is staggered to ensure refinancing needs in any given year are reasonable in proportion to the total portfolio. The Company has an AA- credit rating, with a stable outlook, from Standard & Poor s and an Aa2 credit rating, with a stable outlook, from Moody s Investors Service.

The Company generates significant ongoing operating cash flow, which has been used, in part, to pay dividends on 3M common stock, for acquisitions, and to fund share repurchase activities. As discussed in Note 2, in 2012 3M acquired Ceradyne, Inc. and other acquisitions for approximately $1 billion. In 2011, 3M acquired Winterthur Technologie AG and other acquisitions for approximately $700 million (including purchases of noncontrolling interest). 3M was able to complete these acquisitions while maintaining a strong net debt position, as shown in the table below.

At December 31 **(Millions)**		**2012**		**2011**
Total Debt	**$**	**6,001**	$	5,166
Less: Cash and cash equivalents and marketable securities		**5,693**		4,576
Net Debt	**$**	**308**	$	590

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

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Cash, cash equivalents and marketable securities at December 31, 2012 totaled approximately $5.7 billion, helped by cash flows from operating activities of $5.3 billion. The Company has sufficient liquidity to meet currently anticipated growth plans, including capital expenditures, working capital investments and acquisitions. At December 31, 2012 and 2011, cash, cash equivalents and marketable securities held internationally totaled $3.7 billion and $2.7 billion, respectively, and in the United States totaled $2.0 billion and $1.9 billion, respectively. Cash available in the United States has historically been sufficient to fund dividend payments to shareholders and share repurchases, in addition to funding U.S. acquisitions, U.S. capital spending, U.S. pension/other postemployment benefit contributions, and other items as needed. For those international earnings planned to be reinvested indefinitely, the Company currently has no intention to repatriate these funds. If these international funds are needed for operations in the U.S., 3M would be required to accrue and pay U.S. taxes to repatriate these funds. However, for the international funds considered to be reinvested indefinitely, 3M s current plans do not indicate a need to repatriate these funds for U.S. operations. Refer to Note 7 for additional information on unremitted earnings attributable to international companies that have been considered to be reinvested indefinitely.

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 $7.430 billion at December 31, 2012, compared with $6.799 billion at December 31, 2011, an increase of $631 million. Working capital increases in cash, cash equivalents, current marketable securities, inventories and accounts receivable were partially offset by increases in all major current liability accounts, especially short-term borrowings and current portion of long-term debt.

Primary short-term liquidity needs are met through cash on hand, 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 issuance. As of December 31, 2012 and 2011, 3M had no outstanding commercial paper. The Company believes it is unlikely that its access to the commercial paper market will be restricted.

The Company has an AA- credit rating, with a stable outlook, from Standard & Poor s and an Aa2 credit rating, with a stable outlook, from Moody s Investors Service. In September 2012, 3M entered into a $1.5 billion, five-year multi-currency revolving credit agreement, which amended the existing agreement that was entered into in August 2011. This amended agreement extended the expiration date from August 2016 to September 2017. This credit agreement includes a provision under which 3M may request an increase of up to $500 million, bringing the total facility up to $2 billion (at the lenders discretion). This facility was undrawn at December 31, 2012. In August 2012, 3M entered into a $150 million, one-year committed letter of credit facility with HSBC Bank USA, which replaced the one-year $200 million committed credit facility that was entered into in August 2011. As of December 31, 2012, 3M letters of credit issued under this $150 million committed facility totaled $121 million. In December 2012, 3M entered into a three-year 66 million British Pound (approximately $106 million) committed credit agreement with JP Morgan Chase Bank, which is fully drawn as of December 31, 2012. Apart from the committed facilities, an additional $100 million in stand-alone letters of credit are also issued and outstanding at December 31, 2012. The Company also utilized $37 million in international lines of credit and $6 million in U.S. lines of credit with other banking partners as of December 31, 2012. These letters of credit are utilized in connection with normal business activities. Under both the $1.5 billion and $150 million credit agreements, the Company is required to maintain its EBITDA to Interest Ratio as of the end of each fiscal quarter at not less than 3.0 to 1. This is calculated (as defined in the agreement) as the ratio of consolidated total EBITDA for the four consecutive quarters then ended to total interest expense on all funded debt for the same period. At December 31, 2012, this ratio was approximately 45 to 1. Debt covenants do not restrict the payment of dividends.

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

3M s cash and cash equivalents balance at December 31, 2012 totaled $2.883 billion, with an additional $2.810 billion in current and long-term marketable securities. 3M s strong balance sheet and liquidity provide the Company with significant flexibility to take advantage of numerous opportunities going forward. The Company will continue to invest in its operations to drive growth, including continual review of acquisition opportunities. 3M paid dividends of $1.635 billion in 2012, and has a long history of dividend increases. In February 2013, 3M s Board of Directors increased the quarterly

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dividend on 3M common stock by 7.6 percent to 63.5 cents per share, equivalent to an annual dividend of $2.54 per share. In February 2013, 3M s Board of Directors also authorized the repurchase of up to $7.5 billion of 3M s outstanding common stock, replacing the Company s existing repurchase program. This authorization has no pre-established end date.

In 2013, the Company plans to contribute an amount in the range of $400 million to $600 million of cash to its U.S. and international pension and postretirement plans. The Company does not have a required minimum cash pension contribution obligation for its U.S. plans in 2013. Therefore, the amount of the anticipated discretionary contribution could vary significantly depending on the U.S. qualified plans funded status as of the 2013 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, inventories and accounts payable. This combined index (defined as quarterly net sales fourth quarter at year-end multiplied by four, divided by ending net accounts receivable plus inventories less accounts payable) was 4.8 at December 31, 2012, a decline from 5.0 at December 31, 2011. Receivables increased $194 million, or 5.0 percent, compared with December 31, 2011, driven by a year-on-year increase in fourth quarter sales. Acquisitions increased accounts receivable by $84 million and currency translation decreased accounts receivable by $23 million. Inventories increased $421 million, or 12.3 percent, compared with December 31, 2011, with the increases partially attributable to an increase in demand in the fourth-quarter of 2012 when compared to the fourth quarter of 2011. Acquisitions increased inventories by $125 million, while currency translation increased inventories by $46 million. Accounts payable increased $119 million compared with December 31, 2011. Acquisitions increased the accounts payable balance by $26 million, while currency translation increased accounts payable by $13 million.

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

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Cash Flows from Operating Activities:

Years Ended December 31 (Millions)	**2012**	**2011**	**2010**
Net income including noncontrolling interest	**$ 4,511**	$ 4,357	$ 4,163
Depreciation and amortization	**1,288**	1,236	1,120
Company pension contributions	**(1,079)**	(517)	(556)
Company postretirement contributions	**(67)**	(65)	(62)
Company pension expense	**534**	449	271
Company postretirement expense	**116**	106	51
Stock-based compensation expense	**223**	253	274
Income taxes (deferred and accrued income taxes)	**123**	132	85
Excess tax benefits from stock-based compensation	**(62)**	(53)	(53)
Accounts receivable	**(133)**	(205)	(189)
Inventories	**(251)**	(196)	(404)
Accounts payable	**72**	(83)	146
Product and other insurance receivables and claims	**(32)**	9	49
Other net	**57**	(139)	279
Net cash provided by operating activities	**$ 5,300**	$ 5,284	$ 5,174

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

In 2011, cash flows provided by operating activities increased $110 million compared to 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 in support of its growth. The combination of accounts receivable, inventories and account payable increased $484 million in 2011, compared to increases of $447 million in 2010, with higher fourth-quarter 2011 sales compared to fourth-quarter 2010 sales contributing to this increase. Second, Other-net decreased cash flows by $139 million in 2011 compared to an increase of $279 million in 2010. The category, Other-net, in the preceding table reflects changes in other asset and liability accounts, such as a decrease in accrued payroll amounts in 2011 related to certain annual incentives, 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 2012, 2011 and 2010.

Years ended December 31 (Millions)	**2012**	**2011**	**2010**
Net cash provided by operating activities	**$ 5,300**	$ 5,284	$ 5,174
Purchases of property, plant and equipment (PP&E)	**(1,484)**	(1,379)	(1,091)
Free Cash Flow	**$ 3,816**	$ 3,905	$ 4,083

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Cash Flows from Investing Activities:

Years ended December 31 (Millions)	**2012**	**2011**	**2010**
Purchases of property, plant and equipment (PP&E)	**$ (1,484)**	$ (1,379)	$ (1,091)
Proceeds from sale of PP&E and other assets	**41**	55	25
Acquisitions, net of cash acquired	**(1,046)**	(649)	(1,830)
Purchases and proceeds from sale or maturities of marketable securities and investments, net	**(211)**	(745)	273
Other investing activities	**14**		(3)
Net cash used in investing activities	**$ (2,686)**	$ (2,718)	$ (2,626)

Investments in property, plant and equipment enable growth across many diverse markets, helping to meet product demand and increasing manufacturing efficiency. Capital spending was $1.484 billion in 2012, compared to $1.379 billion in 2011 and $1.091 billion in 2010. The Company expects 2013 capital spending to be approximately $1.6 to $1.8 billion, as 3M continues to invest in its businesses. In 2012, 3M expanded manufacturing capacity in key growth markets, particularly with respect to international and emerging market countries. This included investments in China, Turkey and Poland, in addition to investments in Singapore and the U.S. 3M also increased investments in IT systems and infrastructure and made strategic investments in research/development infrastructure and manufacturing sites to lay the foundation for future growth. In 2011, a large portion of the capital investment was used to address supply constraints in a number of businesses with significant growth potential, such as renewable energy, traffic signage in developing economies, and optically clear adhesives and glass bubbles. In addition, some of the following 2010 capital projects carried forward into 2011. In 2010, in the U.S., 3M invested in film manufacturing assets for optical systems and other non-optical businesses which use similar technology. Also, in 2010, 3M increased capacity at its multi-purpose manufacturing facility in Singapore and invested in optical film capacity in Korea. Lastly, in 2010, investments in the Industrial and Transportation business included solar energy in the U.S. and industrial adhesives and tapes in China.

Refer to Note 2 for information on 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 8 for more details about 3M s diversified marketable securities portfolio, which totaled $2.810 billion as of December 31, 2012. Additional purchases of investments include additional survivor benefit insurance and equity investments.

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Cash Flows from Financing Activities:

Years Ended December 31 (Millions)	**2012**	**2011**	**2010**
Change in short-term debt net	**$ (36)**	$ 11	$ (24)
Repayment of debt (maturities greater than 90 days)	**(612)**	(1,429)	(556)
Proceeds from debt (maturities greater than 90 days)	**1,370**	1,111	108
Total cash change in debt	**$ 722**	$ (307)	$ (472)
Purchases of treasury stock	**(2,204)**	(2,701)	(854)
Proceeds from issuances of treasury stock pursuant to stock option and benefit plans	**1,012**	902	666
Dividends paid to stockholders	**(1,635)**	(1,555)	(1,500)
Excess tax benefits from stock-based compensation	**62**	53	53
Other net	**(15)**	(67)	(77)
Net cash used in financing activities	**$ (2,058)**	$ (3,675)	$ (2,184)

Total debt at December 31, 2012 was $6.0 billion, compared to $5.2 billion at year-end 2011 and $5.5 billion at year-end 2010. Total debt was 25 percent of total capital (total capital is defined as debt plus equity) at year-end 2012, 2011 and 2010. In 2012, repayment of debt included $500 million (principal amount) of medium-term notes and repayment of debt acquired, primarily Ceradyne, Inc. Proceeds from debt in 2012 related to the June 2012 issuance of $650 million aggregate principal amount of five-year fixed rate medium-term notes due 2017 and $600 million aggregate principal amount of ten-year fixed rate medium-term notes due 2022, in addition to 66 million GBP (approximately $106 million) in UK borrowings (refer to Note 9 for further detail on these items). In 2011, major items in repayment of debt (maturities greater than 90 days) included redemption of $800 million (principal amount) of medium-term notes in November 2011, redemption of Convertible Notes, repayment of debt related to the 11.6 billion Japanese Yen note (installments paid in March and September 2011), repayment of the remainder of the Canadian Dollar loan, and repayment of a portion of debt that was acquired, primarily related to the Winterthur acquisition. In 2011, proceeds from debt (maturities greater than 90 days) primarily related to the issuance of a $1 billion medium term note and an amendment to a Canada loan agreement which increased the principal amount of the loan by 100.5 million Canadian Dollars. In 2010, major items in repayment of debt (maturities greater than 90 days) included repayment of $350 million in Dealer Remarketable Securities, which matured in December 2010, and repayment of a portion of debt related to the 5.8 billion Japanese Yen installment paid on September 30, 2010. In addition, approximately $105 million in acquired debt related to 2010 acquisitions was subsequently repaid. In 2010, proceeds from debt primarily include a 100.5 million Canadian Dollar loan.

Repurchases of common stock are made to support the Company s stock-based employee compensation plans and for other corporate purposes. In February 2013, 3M s Board of Directors authorized the repurchase of up to $7.5 billion of 3M s outstanding common stock, replacing the Company s existing repurchase program. This authorization has no pre-established end date. The Company purchased $2.204 billion in shares in 2012, $2.701 billion in shares in 2011, and $854 million in shares in 2010. For more information, refer to the table titled Issuer Purchases of Equity Securities in Part II, Item 5. The Company does not utilize derivative instruments linked to the Company s stock.

Cash dividends paid to shareholders totaled $1.635 billion ($2.36 per share) in 2012, $1.555 billion ($2.20 per share) in 2011 and $1.500 billion ($2.10 per share) in 2010. 3M has paid dividends since 1916. In February 2013, the Board of Directors increased the quarterly dividend on 3M common stock by 7.6 percent to 63.5 cents per share, equivalent to an annual dividend of $2.54 per share. This marked the 55th 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 2011, as discussed in Note 5, subsequent to acquiring a controlling interest in Winterthur, 3M purchased additional outstanding shares of its Winterthur subsidiary for $57 million, increasing 3M s ownership interest from approximately 86 percent to 100 percent as of December 31, 2011. These additional purchases are reflected as other financing activities in the statement of cash flows. In addition, during 2011, 3M sold a noncontrolling interest in a newly formed subsidiary for an immaterial amount, which was also classified as other financing activity in the consolidated statement of cash flows.

During the quarter ended March 31, 2010, as discussed in Note 5, 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

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Japanese Yen (approximately $63 million and $188 million, respectively, based on applicable exchange rates at that time). The cash paid of approximately $63 million during the quarter ended March 31, 2010 as a result of the purchase of Sumitomo 3M shares from SEI is classified as Other financing activities in the consolidated statement of cash flows. The remainder of the purchase financed by the note payable to SEI is considered non-cash financing activity in the first quarter of 2010. As discussed in Note 2, during the second quarter of 2010, 3M recorded a financed liability of 1.7 billion Japanese yen (approximately $18 million based on applicable exchange rates at that time) related to the A-One acquisition, which is also considered a non-cash financing activity.

Off-Balance Sheet Arrangements and Contractual Obligations:

As of December 31, 2012, the Company has not utilized special purpose entities to facilitate off-balance sheet financing arrangements. Refer to the section entitled Warranties/Guarantees in Note 13 for discussion of accrued product warranty liabilities and guarantees.

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

A summary of the Company s significant contractual obligations as of December 31, 2012, follows:

Contractual Obligations

		Payments due by year					
(Millions)	**Total**	**2013**	**2014**	**2015**	**2016**	**2017**	**After 2017**
Long-term debt, including current portion (Note 9)	$ 5,902	$ 986	$ 1,481	$ 107	$ 994	$ 648	$ 1,686
Interest on long-term debt	1,721	189	152	97	96	79	1,108
Operating leases (Note 13)	735	194	158	119	77	68	119
Capital leases (Note 13)	96	22	21	8	7	4	34
Unconditional purchase obligations and other	1,489	1,060	209	111	48	33	28
Total contractual cash obligations	$ 9,943	$ 2,451	$ 2,021	$ 442	$ 1,222	$ 832	$ 2,975

Long-term debt payments due in 2013 and 2014 include floating rate notes totaling $132 million (classified as current portion of long-term debt) and $97 million, respectively, as a result of put provisions associated with these debt instruments.

Unconditional purchase obligations are defined as an agreement to purchase goods or services that is enforceable and legally binding on the Company. Included in the unconditional purchase obligations category above are certain obligations related to take or pay contracts, capital commitments, service agreements and utilities. These estimates include both unconditional purchase obligations with terms in excess of one year and normal ongoing purchase obligations with terms of less than one year. Many of these commitments relate to take or pay contracts, in which 3M guarantees payment to ensure availability of products or services that are sold to customers. The Company expects to receive consideration (products or services) for these unconditional purchase obligations. Contractual capital commitments are included in the preceding table, but these commitments represent a small part of the Company s expected capital spending in 2013 and beyond. The purchase obligation amounts do not represent the entire anticipated purchases in the future, but represent only those items for which the Company is contractually obligated. The majority of 3M s products and services are purchased as needed, with no unconditional commitment. For this reason, these amounts will not provide a reliable indicator of the Company s expected future cash outflows on a stand-alone basis.

Other obligations, included in the preceding table within the caption entitled Unconditional purchase obligations and other, include the current portion of the liability for uncertain tax positions under ASC 740, which is expected to be paid out in cash in the next 12 months. The Company is not able to reasonably estimate the timing of the long-term payments or the amount by which the liability will increase or decrease over time; therefore, the long-term portion of the net tax liability of $170 million is excluded from the preceding table. Refer to Note 7 for further details.

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As discussed in Note 10, the Company does not have a required minimum cash pension contribution obligation for its U.S. plans in 2013 and Company contributions to its U.S. and international pension plans are expected to be largely discretionary in future years; therefore, amounts related to these plans are not included in the preceding table.

FINANCIAL INSTRUMENTS

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

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

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

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

The Company is exposed to credit loss in the event of nonperformance by counterparties in interest rate swaps, currency swaps, commodity price swaps, and forward and option contracts. However, the Company s risk is limited to the fair value of the instruments. The Company actively monitors its exposure to credit risk through the use of credit approvals and credit limits, and by selecting major international banks and financial institutions as counterparties. The Company does not anticipate nonperformance by any of these counterparties.

Foreign Exchange Rates Risk:

Foreign currency exchange rates and fluctuations in those rates may affect the Company s net investment in foreign subsidiaries and may cause fluctuations in cash flows related to foreign denominated transactions. 3M is also exposed to the translation of foreign currency earnings to the U.S. dollar. The Company enters into foreign exchange forward and option contracts to hedge against the effect of exchange rate fluctuations on cash flows denominated in foreign currencies and certain intercompany financing transactions. These transactions are designated as cash flow hedges. Generally, 3M dedesignates these cash flow hedge relationships in advance of the occurrence of the forecasted transaction. The maximum length of time over which 3M hedges its exposure to the variability in future cash flows for a majority of the forecasted transactions is 12 months and, accordingly, at December 31, 2012, the majority of the Company s open foreign exchange forward and option contracts had maturities of one year or less. In addition, 3M enters into foreign currency forward contracts that are not designated in hedging relationships to offset, in part, the impacts of certain intercompany activities (primarily associated with intercompany licensing arrangements). As circumstances warrant, the Company also uses cross currency swaps, forwards and foreign currency denominated debt as hedging instruments to hedge portions of the Company s net investments in foreign operations. The dollar equivalent gross notional amount of the Company s foreign exchange forward and option contracts designated as cash flow hedges and those not designated as hedging instruments were $5.8 billion and $1.0 billion, respectively, at December 31, 2012. As of December 31, 2012, the Company had no cross currency swap and foreign currency forward contracts designated as net investment hedges, but had designated certain of 3M s foreign currency denominated debt as nonderivative hedging instruments in certain net investment hedges as discussed in Note 11 in the Net Investment Hedges section.

Interest Rates Risk:

The Company may be impacted by interest rate volatility with respect to existing debt and future debt issuances. 3M manages interest expense using a mix of fixed and floating rate debt. To help manage borrowing costs, the Company may enter into interest rate swaps that are designated and qualify as fair value hedges. Under these arrangements, the Company agrees to exchange, at specified intervals, the difference between fixed and floating interest amounts calculated by reference to an agreed-upon notional principal amount. The dollar equivalent (based on inception date foreign currency exchange rates) gross notional amount of the Company s interest rate swaps at December 31, 2012 was $342 million. Additional details about 3M s long-term debt can be found in Note 9, including references to information regarding derivatives and/or hedging instruments associated with the Company s long-term debt.

Commodity Prices Risk:

Certain commodities the Company uses in the production of its products are exposed to market price risks. 3M manages commodity price risks through negotiated supply contracts, price protection agreements and forward physical contracts. The Company uses commodity price swaps relative to natural gas as cash flow hedges of forecasted transactions to manage price volatility. Generally, the length of time over which 3M hedges its exposure to the variability in future cash flows for its forecasted natural gas transactions is 12 months. 3M also enters into commodity price swaps that are not designated in hedge relationships to offset, in part, the impacts of fluctuations in costs associated with the use of certain precious metals.

The dollar equivalent gross notional amount of the Company s natural gas commodity price swaps designated as cash flow hedges and precious metal commodity price swaps not designated in hedge relationships were $18 million and $1 million, respectively, at December 31, 2012.

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Value At Risk:

The value at risk analysis is performed annually. A Monte Carlo simulation technique was used to test the Company s exposure to changes in currency rates, interest rates, and commodity prices and assess the risk of loss or benefit in after-tax earnings of financial instruments (primarily debt), derivatives and underlying exposures outstanding at December 31, 2012. The model (third-party bank dataset) used a 95 percent confidence level over a 12-month time horizon. The exposure to changes in currency rates model used 18 currencies, interest rates related to four currencies, and commodity prices related to five commodities. This model does not purport to represent what actually will be experienced by the Company. This model does not include certain hedge transactions, because the Company believes their inclusion would not materially impact the results. Foreign exchange rate risk of loss or benefit decreased in 2012, primarily due to decreases in exposures, which is one of the key drivers in the valuation model. Interest rate volatility remained stable in 2012 because interest rates are currently very low and are projected to remain low, based on forward rates. The following table summarizes the possible adverse and positive impacts to after-tax earnings related to these exposures.

	Adverse impact on after-tax earnings		Positive impact on after-tax earnings	
(Millions)	**2012**	**2011**	**2012**	**2011**
Foreign exchange rates	**$ (97)**	$ (131)	**$ 105**	$ 146
Interest rates	**(2)**	(2)	**1**	2
Commodity prices	**(9)**	(10)	**7**	7

In addition to the possible adverse and positive impacts discussed in the preceding table related to foreign exchange rates, recent historical information is as follows. 3M estimates that year-on-year currency effects, including hedging impacts, had the following effects on net income attributable to 3M: full-year 2012 ($103 million decrease) and full-year 2011 ($154 million increase). This estimate includes the effect of translating profits from local currencies into U.S. dollars; the impact of currency fluctuations on the transfer of goods between 3M operations in the United States and abroad; and transaction gains and losses, including derivative instruments designed to reduce foreign currency exchange rate risks and the negative impact of swapping Venezuelan bolivars into U.S. dollars. 3M estimates that year-on-year derivative and other transaction gains and losses had the following effects on net income attributable to 3M: full-year 2012 ($49 million increase) and full-year 2011 (immaterial impact).

An analysis of the global exposures related to purchased components and materials is performed at each year-end. A one percent price change would result in a pre-tax cost or savings of approximately $71 million per year. The global energy exposure is such that a 10 percent price change would result in a pre-tax cost or savings of approximately $42 million per year.

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Item 8. Financial Statements and Supplementary Data.

Index to Financial Statements

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Management s Responsibility for Financial Reporting

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

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

3M Company

Management s Report on Internal Control Over Financial Reporting

Management is responsible for establishing and maintaining an adequate system of internal control over financial reporting. Management conducted an assessment of the Company s internal control over financial reporting based on the framework established by the Committee of Sponsoring Organizations of the Treadway Commission in *Internal Control Integrated Framework*. Based on the assessment, management concluded that, as of December 31, 2012, the Company s internal control over financial reporting is effective.

Management s assessment of the effectiveness of the Company s internal control over financial reporting as of December 31, 2012 excluded Ceradyne, Inc., which was acquired by the Company in November 2012 in a purchase business combination. Ceradyne, Inc. is a wholly-owned subsidiary of the Company whose total assets and total net sales represented less than 5% of consolidated total assets and less than 1% of consolidated net sales, respectively, of the Company as of and for the year ended December 31, 2012. As permitted by guidelines established by the Securities and Exchange Commission, companies are allowed to exclude certain acquisitions from their assessment of internal control over financial reporting during the first year of an acquisition while integrating the acquired company.

The Company s internal control over financial reporting as of December 31, 2012 has been audited by PricewaterhouseCoopers LLP, an independent registered public accounting firm, as stated in their report which is included herein, which expresses an unqualified opinion on the effectiveness of the Company s internal control over financial reporting as of December 31, 2012.

3M Company

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Report of Independent Registered Public Accounting Firm

To the Stockholders and Board of Directors of 3M Company

In our opinion, the consolidated financial statements listed in the accompanying index present fairly, in all material respects, the financial position of 3M Company and its subsidiaries (the Company) at December 31, 2012 and 2011, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2012 in conformity with accounting principles generally accepted in the United States of America. Also in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2012, based on criteria established in Internal Control - Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). The Company s management is responsible for these financial statements, for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management s Report on Internal Control over Financial Reporting. Our responsibility is to express opinions on these financial statements and on the Company s internal control over financial reporting based on our integrated audits. We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement and whether effective internal control over financial reporting was maintained in all material respects. Our audits of the financial statements included examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audits also included performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinions.

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

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

As described in Management s Report on Internal Control Over Financial Reporting, management has excluded Ceradyne, Inc. from its assessment of internal control over financial reporting as of December 31, 2012, because it was acquired by the Company in a purchase business combination during 2012. We have also excluded Ceradyne, Inc. from our audit of internal control over financial reporting. Ceradyne, Inc. is a wholly-owned subsidiary of the Company whose total assets and total net sales represent less than 5% and 1%, respectively, of the related consolidated financial statement amounts as of and for the year ended December 31, 2012.

/s/ PricewaterhouseCoopers LLP

Minneapolis, Minnesota

February 14, 2013

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Consolidated Statement of Income

3M Company and Subsidiaries

Years ended December 31

(Millions, except per share amounts)		2012		2011		2010
Net sales	**$**	**29,904**	$	29,611	$	26,662
Operating expenses						
Cost of sales		**15,685**		15,693		13,831
Selling, general and administrative expenses		**6,102**		6,170		5,479
Research, development and related expenses		**1,634**		1,570		1,434
Total operating expenses		**23,421**		23,433		20,744
Operating income		**6,483**		6,178		5,918
Interest expense and income						
Interest expense		**171**		186		201
Interest income		**(39)**		(39)		(38)
Total interest expense net		**132**		147		163
Income before income taxes		**6,351**		6,031		5,755
Provision for income taxes		**1,840**		1,674		1,592
Net income including noncontrolling interest	**$**	**4,511**	$	4,357	$	4,163
Less: Net income attributable to noncontrolling interest		**67**		74		78
Net income attributable to 3M	**$**	**4,444**	$	4,283	$	4,085
Weighted average 3M common shares outstanding basic		**693.9**		708.5		713.7
Earnings per share attributable to 3M common shareholders basic	**$**	**6.40**	$	6.05	$	5.72
Weighted average 3M common shares outstanding diluted		**703.3**		719.0		725.5
Earnings per share attributable to 3M common shareholders diluted	**$**	**6.32**	$	5.96	$	5.63
Cash dividends paid per 3M common share	**$**	**2.36**	$	2.20	$	2.10

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

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Consolidated Statement of Comprehensive Income

3M Company and Subsidiaries

Years ended December 31

(Millions)		2012		2011		2010
Net income including noncontrolling interest	**$**	**4,511**	$	4,357	$	4,163
Other comprehensive income (loss), net of tax:						
Cumulative translation adjustment		**71**		(250)		244
Defined benefit pension and postretirement plans adjustment		**201**		(1,280)		(42)
Debt and equity securities, unrealized gain (loss)		**4**				3
Cash flow hedging instruments, unrealized gain (loss)		**(45)**		54		4
Total other comprehensive income (loss), net of tax		**231**		(1,476)		209
Comprehensive income (loss) including noncontrolling interest		**4,742**		2,881		4,372
Comprehensive (income) loss attributable to noncontrolling interest		**(23)**		(80)		(115)
Comprehensive income (loss) attributable to 3M	**$**	**4,719**	$	2,801	$	4,257

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

Consolidated Balance Sheet

3M Company and Subsidiaries

At December 31

(Dollars in millions, except per share amount)		2012		2011
Assets				
Current assets				
Cash and cash equivalents	$	**2,883**	$	2,219
Marketable securities current		**1,648**		1,461
Accounts receivable net of allowances of $105 and $108		**4,061**		3,867
Inventories				
Finished goods		**1,754**		1,536
Work in process		**1,186**		1,061
Raw materials and supplies		**897**		819
Total inventories		**3,837**		3,416
Other current assets		**1,201**		1,277
Total current assets		**13,630**		12,240
Marketable securities non-current		**1,162**		896
Investments		**163**		155
Property, plant and equipment		**22,525**		21,166
Less: Accumulated depreciation		**(14,147)**		(13,500)
Property, plant and equipment net		**8,378**		7,666
Goodwill		**7,385**		7,047
Intangible assets net		**1,925**		1,916
Prepaid pension benefits		**16**		40
Other assets		**1,217**		1,656
Total assets	$	**33,876**	$	31,616
Liabilities				
Current liabilities				
Short-term borrowings and current portion of long-term debt	$	**1,085**	$	682
Accounts payable		**1,762**		1,643
Accrued payroll		**701**		676
Accrued income taxes		**371**		355
Other current liabilities		**2,281**		2,085
Total current liabilities		**6,200**		5,441
Long-term debt		**4,916**		4,484
Pension and postretirement benefits		**3,086**		3,972
Other liabilities		**1,634**		1,857
Total liabilities	$	**15,836**	$	15,754
Commitments and contingencies (Note 13)				
Equity				
3M Company shareholders equity:				
Common stock, par value $.01 per share	$	**9**	$	9
Shares outstanding - 2012: 687,091,650				
Shares outstanding - 2011: 694,970,041				
Additional paid-in capital		**4,044**		3,767
Retained earnings		**30,679**		28,348

Treasury stock		**(12,407)**		(11,679)
Accumulated other comprehensive income (loss)		**(4,750)**		(5,025)
Total 3M Company shareholders equity		**17,575**		15,420
Noncontrolling interest		**465**		442
Total equity	**$**	**18,040**	$	15,862
Total liabilities and equity	**$**	**33,876**	$	31,616

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

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Consolidated Statement of Changes in Equity

3M Company and Subsidiaries

Years Ended December 31

		3M Company Shareholders				
(Dollars in millions, except per share amounts)	**Total**	**Common Stock and Additional Paid-in Capital**	**Retained Earnings**	**Treasury Stock**	**Accumulated Other Comprehensive Income (Loss)**	**Non-controlling Interest**
Balance at December 31, 2009	**$ 13,302**	**$ 3,162**	**$ 23,753**	**$ (10,397)**	**$ (3,754)**	**$ 538**
Net income	4,163		4,085			78
Other comprehensive income (loss), net of tax:						
Cumulative translation adjustment	244				205	39
Defined benefit pension and post-retirement plans adjustment	(42)				(40)	(2)
Debt and equity securities - unrealized gain (loss)	3				3	
Cash flow hedging instruments - unrealized gain (loss)	4				4	
Total other comprehensive income (loss), net of tax	209					
Dividends paid ($2.10 per share)	(1,500)		(1,500)			
Purchase of subsidiary shares and transfers from noncontrolling interest	(256)	4			39	(299)
Stock-based compensation, net of tax impacts	311	311				
Reacquired stock	(880)			(880)		
Issuances pursuant to stock option and benefit plans	668		(343)	1,011		
Balance at December 31, 2010	**$ 16,017**	**$ 3,477**	**$ 25,995**	**$ (10,266)**	**$ (3,543)**	**$ 354**
Net income	4,357		4,283			74
Other comprehensive income (loss), net of tax:						
Cumulative translation adjustment	(250)				(260)	10
Defined benefit pension and post-retirement plans adjustment	(1,280)				(1,276)	(4)
Debt and equity securities - unrealized gain (loss)						
Cash flow hedging instruments - unrealized gain (loss)	54				54	
Total other comprehensive income (loss), net of tax	(1,476)					
Dividends paid ($2.20 per share)	(1,555)		(1,555)			
Business combination allocation to noncontrolling interest	56					56
Purchase and sale of subsidiary shares - net	(49)	(1)				(48)
Stock-based compensation, net of tax impacts	300	300				
Reacquired stock	(2,694)			(2,694)		

Issuances pursuant to stock option and benefit plans	906		(375)	1,281		
Balance at December 31, 2011	**$ 15,862**	**$ 3,776**	**$ 28,348**	**$ (11,679)**	**$ (5,025)**	**$ 442**

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Consolidated Statement of Changes in Equity (continued)

		3M Company Shareholders				
(Dollars in millions, except per share amounts)	Total	Common Stock and Additional Paid-in Capital	Retained Earnings	Treasury Stock	Accumulated Other Comprehensive Income (Loss)	Non-controlling Interest
Balance at December 31, 2011	$ 15,862	$ 3,776	$ 28,348	$ (11,679)	$ (5,025)	$ 442
Net income	4,511		4,444			67
Other comprehensive income (loss), net of tax:						
Cumulative translation adjustment	71				116	(45)
Defined benefit pension and post-retirement plans adjustment	201				200	1
Debt and equity securities - unrealized gain (loss)	4				4	
Cash flow hedging instruments - unrealized gain/(loss)	(45)				(45)	
Total other comprehensive income (loss), net of tax	231					
Dividends paid ($2.36 per share)	(1,635)		(1,635)			
Stock-based compensation, net of tax impacts	277	277				
Reacquired stock	(2,220)			(2,220)		
Issuances pursuant to stock option and benefit plans	1,014		(478)	1,492		
Balance at December 31, 2012	$ 18,040	$ 4,053	$ 30,679	$ (12,407)	$ (4,750)	$ 465

Supplemental share information	2012	2011	2010
Treasury stock			
Beginning balance	**249,063,015**	232,055,448	233,433,937
Reacquired stock	**25,054,207**	31,331,469	10,572,666
Issuances pursuant to stock options and benefit plans	**(17,175,816)**	(14,323,902)	(11,951,155)
Ending balance	**256,941,406**	249,063,015	232,055,448

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

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Consolidated Statement of Cash Flows

3M Company and Subsidiaries

Years ended December 31

(Millions)	2012	2011	2010
Cash Flows from Operating Activities			
Net income including noncontrolling interest	**$ 4,511**	$ 4,357	$ 4,163
Adjustments to reconcile net income including noncontrolling interest to net cash provided by operating activities			
Depreciation and amortization	**1,288**	1,236	1,120
Company pension and postretirement contributions	**(1,146)**	(582)	(618)
Company pension and postretirement expense	**650**	555	322
Stock-based compensation expense	**223**	253	274
Deferred income taxes	**33**	177	(170)
Excess tax benefits from stock-based compensation	**(62)**	(53)	(53)
Changes in assets and liabilities			
Accounts receivable	**(133)**	(205)	(189)
Inventories	**(251)**	(196)	(404)
Accounts payable	**72**	(83)	146
Accrued income taxes (current and long-term)	**90**	(45)	255
Product and other insurance receivables and claims	**(32)**	9	49
Other net	**57**	(139)	279
Net cash provided by operating activities	**5,300**	5,284	5,174
Cash Flows from Investing Activities			
Purchases of property, plant and equipment (PP&E)	**(1,484)**	(1,379)	(1,091)
Proceeds from sale of PP&E and other assets	**41**	55	25
Acquisitions, net of cash acquired	**(1,046)**	(649)	(1,830)
Purchases of marketable securities and investments	**(5,492)**	(4,162)	(3,287)
Proceeds from sale of marketable securities and investments	**3,151**	1,679	1,995
Proceeds from maturities of marketable securities	**2,130**	1,738	1,565
Other investing	**14**		(3)
Net cash used in investing activities	**(2,686)**	(2,718)	(2,626)
Cash Flows from Financing Activities			
Change in short-term debt net	**(36)**	11	(24)
Repayment of debt (maturities greater than 90 days)	**(612)**	(1,429)	(556)
Proceeds from debt (maturities greater than 90 days)	**1,370**	1,111	108
Purchases of treasury stock	**(2,204)**	(2,701)	(854)
Proceeds from issuance of treasury stock pursuant to stock option and benefit plans	**1,012**	902	666
Dividends paid to shareholders	**(1,635)**	(1,555)	(1,500)
Excess tax benefits from stock-based compensation	**62**	53	53
Other net	**(15)**	(67)	(77)
Net cash used in financing activities	**(2,058)**	(3,675)	(2,184)
Effect of exchange rate changes on cash and cash equivalents	**108**	(49)	(27)
Net increase (decrease) in cash and cash equivalents	**664**	(1,158)	337
Cash and cash equivalents at beginning of year	**2,219**	3,377	3,040
Cash and cash equivalents at end of year	**$ 2,883**	$ 2,219	$ 3,377

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

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Notes to Consolidated Financial Statements

NOTE 1. Significant Accounting Policies

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

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

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

Regulations in Venezuela require the purchase and sale of foreign currency to be made at official rates of exchange that are fixed from time to time by the Venezuelan government. Certain laws in the country, however, provided an exemption for the purchase and sale of certain securities and resulted in an indirect parallel market through which companies obtained foreign currency without having to purchase it from Venezuela s Commission for the Administration of Foreign Exchange (CADIVI). In May 2010, the Venezuelan government took control of the previously freely-traded parallel market. The government-controlled rate that emerged under the new Transaction System for Foreign Currency Denominated Securities (SITME) is not as unfavorable as the previous parallel rate in comparison to the official rates. As previously disclosed, as of December 31, 2009 (prior to the change in functional currency of 3M s Venezuelan subsidiary in January 2010), 3M changed to use of the parallel exchange rate for translation of the financial statements of its Venezuelan subsidiary. Beginning January 1, 2010, as discussed above, the financial statements of the Venezuelan subsidiary are remeasured as if its functional currency were that of its parent. This remeasurement utilized the parallel rate through May 2010 and the SITME rate thereafter.

The Company continues to monitor circumstances relative to its Venezuelan subsidiary. Other factors notwithstanding, the change in functional currency of this subsidiary and associated remeasurement beginning January 1, 2010 as a result of Venezuela s economic environment decreased net sales of the Venezuelan subsidiary by approximately two-thirds in 2010 in comparison to 2009 (based on exchange rates at 2009 year-end), but did not otherwise have a material impact on operating income and 3M s consolidated results of operations.

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

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

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

Marketable securities: The classification of marketable securities as current or non-current is dependent upon management s intended holding period, the security s maturity date and liquidity considerations based on market conditions. If management intends to hold the securities for longer than one year as of the balance sheet date, they are classified as non-current. 3M reviews impairments associated with its marketable securities in accordance with the measurement guidance provided by ASC 320*, Investments-Debt and Equity Securities*, when determining the classification of the impairment as temporary or other-than-temporary . A temporary impairment charge results in an unrealized loss being recorded in the other comprehensive income component of shareholders equity. Such an

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unrealized loss does not reduce net income for the applicable accounting period because the loss is not viewed as other-than-temporary. The factors evaluated to differentiate between temporary and other-than-temporary include the projected future cash flows, credit ratings actions, and assessment of the credit quality of the underlying collateral, as well as other factors.

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

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

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

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

Conditional asset retirement obligations: A liability is initially recorded at fair value for an asset retirement obligation associated with the retirement of tangible long-lived assets in the period in which it is incurred if a reasonable estimate of fair value can be made. Conditional asset retirement obligations exist for certain long-term assets of the Company. The obligation is initially measured at fair value using expected present value techniques. Over time the liabilities are accreted for the change in their present value and the initial capitalized costs are depreciated over the remaining useful lives of the related assets. The asset retirement obligation liability was $86 million and $79 million at December 31, 2012 and 2011, respectively.

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

Intangible assets: Intangible assets include patents, tradenames and other intangible assets acquired from an independent party. Intangible assets with an indefinite life, namely certain tradenames, are not amortized. Intangible assets with a definite life are amortized over a period ranging from one to 20 years generally on a straight line basis, unless another systematic and rational basis is more representative of the asset s use. Indefinite-lived intangible assets are tested for impairment annually, and are tested for impairment between annual tests if an event occurs or circumstances change that would indicate that the carrying amount may be impaired. Intangible assets with a definite life are tested for impairment whenever events or circumstances indicate that the carrying amount of an asset (asset group)

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may not be recoverable. An impairment loss is recognized when the carrying amount of an asset exceeds the estimated undiscounted cash flows used in determining the fair value of the asset. The amount of the impairment loss recorded is calculated by the excess of the asset s carrying value over its fair value. Fair value is generally determined using a discounted cash flow analysis. Costs related to internally developed intangible assets, such as patents, are expensed as incurred, primarily in Research, development and related expenses.

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

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

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

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

For arrangements (or portions of arrangements) falling within software revenue recognition standards and that do not involve significant production, modification, or customization, revenue for each software or software-related element is recognized when the Company has VSOE of the fair value of all of the undelivered elements and applicable criteria have been met for the delivered elements. When the arrangements involve significant production, modification or customization, long-term construction-type accounting involving proportional performance is generally employed.

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

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

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

Advertising and merchandising: These costs are charged to operations in the period incurred, and totaled $482 million in 2012, $518 million in 2011 and $512 million in 2010.

Research, development and related expenses: These costs are charged to operations in the period incurred and are shown on a separate line of the Consolidated Statement of Income. Research, development and related expenses totaled $1.634 billion in 2012, $1.570 billion in 2011 and $1.434 billion in 2010. Research and development expenses, covering basic scientific research and the application of scientific advances in the development of new and improved products and their uses, totaled $1.079 billion in 2012, $1.036 billion in 2011 and $919 million in 2010. Related expenses primarily include technical support provided by 3M to customers who are using existing 3M products; internally developed patent costs, which include costs and fees incurred to prepare, file, secure and maintain patents; and amortization of acquired patents.

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

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

Income taxes: The provision for income taxes is determined using the asset and liability approach. Under this approach, deferred income taxes represent the expected future tax consequences of temporary differences between the carrying amounts and tax basis of assets and liabilities. The Company records a valuation allowance to reduce its deferred tax assets when uncertainty regarding their realizability exists. As of December 31, 2012 and 2011, the Company recorded $29 million and $82 million, respectively, of valuation allowances. The Company recognizes and measures its uncertain tax positions based on the rules under ASC 740, *Income Taxes*.

Earnings per share: The difference in the weighted average 3M shares outstanding for calculating basic and diluted earnings per share attributable to 3M common shareholders is the result of the dilution associated with the Company s stock-based compensation plans. Certain options outstanding under these stock-based compensation plans during the years 2012, 2011 and 2010 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 (12.6 million average options for 2012, 17.4 million average options for 2011, and 26.3 million average options for 2010). The computations for basic and diluted earnings per share for the years ended December 31 follow:

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Earnings Per Share Computations

(Amounts in millions, except per share amounts)	2012	2011	2010
Numerator:			
Net income attributable to 3M	**$ 4,444**	$ 4,283	$ 4,085
Denominator:			
Denominator for weighted average 3M common shares outstanding basic	**693.9**	708.5	713.7
Dilution associated with the Company s stock-based compensation plans	**9.4**	10.5	11.8
Denominator for weighted average 3M common shares outstanding diluted	**703.3**	719.0	725.5
Earnings per share attributable to 3M common shareholders basic	**$ 6.40**	$ 6.05	$ 5.72
Earnings per share attributable to 3M common shareholders diluted	**$ 6.32**	$ 5.96	$ 5.63

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

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

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

Credit risk: The Company is exposed to credit loss in the event of nonperformance by counterparties in interest rate swaps, currency swaps, commodity price swaps, and forward and option contracts. However, the Company s risk is limited to the fair value of the instruments. The Company actively monitors its exposure to credit risk through the use of credit approvals and credit limits, and by selecting major international banks and financial institutions as counterparties. 3M enters into master netting agreements with counterparties when possible to mitigate credit risk in derivative transactions. A master netting arrangement may allow counterparties to net settle amounts owed to each other as a result of multiple, separate derivative transactions. The Company does not anticipate nonperformance by any of these counterparties. In addition to the one master agreement supported by a primary counterparty s parent guarantee, 3M has credit support agreements in place with six of its primary derivative 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. For presentation purposes on 3M s consolidated balance sheet, the fair value of derivative assets or liabilities are presented on a gross basis even when derivative transactions are subject to master netting arrangements and may qualify for net presentation.

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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.

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

New Accounting Pronouncements

In October 2009, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (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 (VSOE) if available, third-party evidence (TPE) if VSOE is not available, or estimated selling price if neither VSOE nor TPE 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. 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 involving 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 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 was effective prospectively beginning January 1, 2012. The adoption of this standard did not have a material impact on 3M s consolidated results of operations or financial condition.

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

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

In December 2011, the FASB issued ASU No. 2011-11, *Disclosures About Offsetting Assets and Liabilities*, and in January 2013 issued ASU No. 2013-01, *Clarifying the Scope of Disclosures About Offsetting Assets and Liabilities*. These standards create new disclosure requirements regarding the nature of an entity s rights of setoff and related arrangements associated with its derivative instruments, repurchase agreements, and securities lending transactions. Certain disclosures of the amounts of certain instruments subject to enforceable master netting arrangements would be required, irrespective of whether the entity has elected to offset those instruments in the statement of financial position. For 3M, these

ASUs are effective January 1, 2013 with retrospective application required. Since these standards impact disclosure requirements only, their adoption will not have a material impact on 3M s consolidated results of operations or financial condition.

In July 2012, the FASB issued ASU No. 2012-02, *Testing Indefinite-Lived Intangible Assets for Impairment.* Under this standard, entities testing long-lived intangible assets for impairment now have an option of performing a qualitative assessment to determine whether further impairment testing is necessary. If an entity determines, on the basis of qualitative factors, that the fair value of the indefinite-lived intangible asset is more-likely-than-not less than the carrying

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amount, the existing quantitative impairment test is required. Otherwise, no further impairment testing is required. For 3M, this ASU is effective beginning January 1, 2013, with early adoption permitted under certain conditions. The adoption of this standard is not expected to have a material impact on 3M s consolidated results of operations or financial condition.

In February 2013, the FASB issued ASU No. 2013-02, *Reporting of Amounts Reclassified Out of Accumulated Other Comprehensive Income*. Under this standard, entities will be required to disclose additional information with respect to changes in accumulated other comprehensive income (AOCI) balances by component and significant items reclassified out of AOCI. Expanded disclosures for presentation of changes in AOCI involve disaggregating the total change of each component of other comprehensive income (for example, unrealized gains or losses on available for sale marketable securities) as well as presenting separately for each such component the portion of the change in AOCI related to (1) amounts reclassified into income and (2) current-period other comprehensive income. Additionally, for amounts reclassified into income, disclosure in one location would be required, based upon each specific AOCI component, of the amounts impacting individual income statement line items. Disclosure of the income statement line item impacts will be required only for components of AOCI reclassified into income in their entirety. Therefore, disclosure of the income statement line items affected by AOCI components such as net periodic benefit costs would not be included. The disclosures required with respect to income statement line item impacts would be made in either the notes to the consolidated financial statements or parenthetically on the face of the financial statements. For 3M, this ASU is effective beginning January 1, 2013. Because this standard only impacts presentation and disclosure requirements, its adoption will not have a material impact on 3M s consolidated results of operations or financial condition.

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NOTE 2. Acquisitions

3M makes acquisitions of certain businesses from time to time that the Company feels align with its strategic intent with respect to, among other factors, growth markets and adjacent product lines or technologies.

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. The allocations of purchase price related to the acquisitions of the business purchased from Federal Signal Corp. in September 2012, and Ceradyne, Inc. in November 2012 are considered preliminary, largely with respect to certain acquired property, plant and equipment; intangible assets; and tax-related assets and liabilities. Adjustments in 2012 to the preliminary purchase price allocations of other acquisitions within the allocation period were not material and primarily related to the 2011 acquisitions of Winterthur Technologie AG and the business acquired from GPI Group.

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

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

Noncontrolling interest		(56)				(56)
Net assets acquired excluding noncontrolling interest	$	303	$	356	$	659
Supplemental information:						
Cash paid	$	327	$	376	$	703
Less: Cash acquired		34		20		54
Cash paid, net of cash acquired	$	293	$	356	$	649
Non-cash		10				10
Net assets acquired excluding noncontrolling interest	$	303	$	356	$	659

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	2010 Acquisitions Activity				
(Millions) **Asset (Liability)**	**Arizant Inc.**	**Attenti Holdings S.A.**	**Cogent Inc.**	**Other Acquisitions**	**Total**
Accounts receivable	$ 15	$ 23	$ 34	$ 21	$ 93
Inventory	36	5	17	19	77
Other current assets	3	7	31	2	43
Marketable securities			380		380
Property, plant, and equipment	38	9	30	29	106
Purchased finite-lived intangible assets	362	90	142	69	663
Purchased goodwill	512	122	295	51	980
Accounts payable and other liabilities, net of other assets	(29)	(12)	(88)	(35)	(164)
Interest bearing debt					