

3M CO  
Form 10-Q  
April 30, 2015  
Table of Contents

**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION**

WASHINGTON, D.C. 20549

**FORM 10-Q**

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

**For the quarterly period ended March 31, 2015**

**Commission file number: 1-3285**

**3M COMPANY**

(Exact name of registrant as specified in its charter)

**DELAWARE**

(State or other jurisdiction of  
incorporation or organization)

**41-0417775**

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

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

**55144**  
(Zip Code)

**(651) 733-1110**

(Registrant's telephone number, including area code)

Edgar Filing: 3M CO - Form 10-Q

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

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

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

Large accelerated filer

Accelerated filer

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

Smaller reporting company

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

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

Class	Outstanding at March 31, 2015
Common Stock, \$0.01 par value per share	634,340,975 shares

This document (excluding exhibits) contains 70 pages.

The table of contents is set forth on page 2.

The exhibit index begins on page 67.

Table of Contents

## 3M COMPANY

Form 10-Q for the Quarterly Period Ended March 31, 2015

## TABLE OF CONTENTS

	<b>BEGINNING PAGE</b>
<b><u>PART I</u></b>	<b><u>FINANCIAL INFORMATION</u></b>
<b><u>ITEM 1.</u></b>	<b><u>Financial Statements</u></b>
	<b><u>Index to Financial Statements:</u></b>
	<u>Consolidated Statement of Income</u> 3
	<u>Consolidated Statement of Comprehensive Income</u> 4
	<u>Consolidated Balance Sheet</u> 5
	<u>Consolidated Statement of Cash Flows</u> 6
	<u>Notes to Consolidated Financial Statements</u>
	<u>Note 1. Significant Accounting Policies</u> 7
	<u>Note 2. Acquisitions and Divestitures</u> 10
	<u>Note 3. Goodwill and Intangible Assets</u> 11
	<u>Note 4. Supplemental Equity and Comprehensive Income Information</u> 13
	<u>Note 5. Income Taxes</u> 16
	<u>Note 6. Marketable Securities</u> 17
	<u>Note 7. Pension and Postretirement Benefit Plans</u> 19
	<u>Note 8. Derivatives</u> 20
	<u>Note 9. Fair Value Measurements</u> 28
	<u>Note 10. Commitments and Contingencies</u> 32
	<u>Note 11. Stock-Based Compensation</u> 39
	<u>Note 12. Business Segments</u> 43
	<u>Report of Independent Registered Public Accounting Firm</u> 44
<b><u>ITEM 2.</u></b>	<b><u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u></b>
	<b><u>Index to Management's Discussion and Analysis:</u></b>
	<u>Overview</u> 45
	<u>Results of Operations</u> 48
	<u>Performance by Business Segment</u> 51
	<u>Financial Condition and Liquidity</u> 57
	<u>Cautionary Note Concerning Factors That May Affect Future Results</u> 62
<b><u>ITEM 3.</u></b>	<b><u>Quantitative and Qualitative Disclosures About Market Risk</u></b> 62
<b><u>ITEM 4.</u></b>	<b><u>Controls and Procedures</u></b> 63
<b><u>PART II</u></b>	<b><u>OTHER INFORMATION</u></b>
<b><u>ITEM 1.</u></b>	<b><u>Legal Proceedings</u></b> 64
<b><u>ITEM 1A.</u></b>	<b><u>Risk Factors</u></b> 64
<b><u>ITEM 2.</u></b>	<b><u>Unregistered Sales of Equity Securities and Use of Proceeds</u></b> 66
<b><u>ITEM 3.</u></b>	<b><u>Defaults Upon Senior Securities</u></b> 66

Edgar Filing: 3M CO - Form 10-Q

<u>ITEM 4.</u>	<u>Mine Safety Disclosures</u>	66
<u>ITEM 5.</u>	<u>Other Information</u>	66
<u>ITEM 6.</u>	<u>Exhibits</u>	67

Table of Contents

## 3M COMPANY

## FORM 10-Q

For the Quarterly Period Ended March 31, 2015

## PART I. Financial Information

Item 1. Financial Statements.

## 3M Company and Subsidiaries

## Consolidated Statement of Income

(Unaudited)

(Millions, except per share amounts)	Three months ended March 31,	
	2015	2014
Net sales	\$ 7,578	\$ 7,831
Operating expenses		
Cost of sales	3,821	4,031
Selling, general and administrative expenses	1,564	1,632
Research, development and related expenses	463	452
Total operating expenses	5,848	6,115
Operating income	1,730	1,716
Interest expense and income		
Interest expense	31	37
Interest income	(4)	(9)
Total interest expense net	27	28
Income before income taxes	1,703	1,688
Provision for income taxes	502	463
Net income including noncontrolling interest	\$ 1,201	\$ 1,225
Less: Net income attributable to noncontrolling interest	2	18
Net income attributable to 3M	\$ 1,199	\$ 1,207
Weighted average 3M common shares outstanding basic	636.2	661.5
Earnings per share attributable to 3M common shareholders basic	\$ 1.88	\$ 1.83
Weighted average 3M common shares outstanding diluted	649.2	674.5
Earnings per share attributable to 3M common shareholders diluted	\$ 1.85	\$ 1.79
Cash dividends paid per 3M common share	\$ 1.025	\$ 0.855

Edgar Filing: 3M CO - Form 10-Q

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

Table of Contents**3M Company and Subsidiaries****Consolidated Statement of Comprehensive Income****(Unaudited)**

(Millions)	Three months ended			
		2015	March 31,	2014
Net income including noncontrolling interest	\$	1,201	\$	1,225
Other comprehensive income (loss), net of tax:				
Cumulative translation adjustment		(193)		20
Defined benefit pension and postretirement plans adjustment		91		61
Debt and equity securities, unrealized gain (loss)				1
Cash flow hedging instruments, unrealized gain (loss)		70		2
Total other comprehensive income (loss), net of tax		(32)		84
Comprehensive income (loss) including noncontrolling interest		1,169		1,309
Comprehensive (income) loss attributable to noncontrolling interest		(2)		(30)
Comprehensive income (loss) attributable to 3M	\$	1,167	\$	1,279

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

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

<b>(Dollars in millions, except per share amount)</b>	<b>March 31, 2015</b>	<b>December 31, 2014</b>
<b>Assets</b>		
Current assets		
Cash and cash equivalents	\$ 1,791	\$ 1,897
Marketable securities - current	1,018	626
Accounts receivable - net	4,408	4,238
Inventories		
Finished goods	1,713	1,723
Work in process	1,116	1,081
Raw materials and supplies	875	902
Total inventories	3,704	3,706
Other current assets	1,597	1,298
Total current assets	12,518	11,765
Marketable securities - non-current	13	828
Investments	102	102
Property, plant and equipment	22,473	22,841
Less: Accumulated depreciation	(14,187)	(14,352)
Property, plant and equipment - net	8,286	8,489
Goodwill	6,934	7,050
Intangible assets - net	1,396	1,435
Prepaid pension benefits	56	46
Other assets	1,338	1,554
Total assets	\$ 30,643	\$ 31,269
<b>Liabilities</b>		
Current liabilities		
Short-term borrowings and current portion of long-term debt	\$ 132	\$ 106
Accounts payable	1,801	1,807
Accrued payroll	446	732
Accrued income taxes	464	435
Other current liabilities	2,239	2,918
Total current liabilities	5,082	5,998
Long-term debt	6,459	6,731
Pension and postretirement benefits	3,764	3,843
Other liabilities	1,386	1,555
Total liabilities	\$ 16,691	\$ 18,127
Commitments and contingencies (Note 10)		
<b>Equity</b>		
3M Company shareholders' equity:		
Common stock par value, \$.01 par value, 944,033,056 shares issued	\$ 9	\$ 9
Additional paid-in capital	4,607	4,379
Retained earnings	35,080	34,317
Treasury stock, at cost: 309,692,081 shares at March 31, 2015; 308,898,462 shares at December 31, 2014	(19,458)	(19,307)
Accumulated other comprehensive income (loss)	(6,321)	(6,289)



Edgar Filing: 3M CO - Form 10-Q

Total 3M Company shareholders' equity		<b>13,917</b>		13,109
Noncontrolling interest		<b>35</b>		33
Total equity	\$	<b>13,952</b>	\$	13,142
Total liabilities and equity	\$	<b>30,643</b>	\$	31,269

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

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

(Millions)	Three months ended March 31,	
	2015	2014
<b>Cash Flows from Operating Activities</b>		
Net income including noncontrolling interest	\$ 1,201	\$ 1,225
Adjustments to reconcile net income including noncontrolling interest to net cash provided by operating activities		
Depreciation and amortization	339	350
Company pension and postretirement contributions	(91)	(42)
Company pension and postretirement expense	134	98
Stock-based compensation expense	138	122
Deferred income taxes	44	(83)
Excess tax benefits from stock-based compensation	(101)	(51)
Changes in assets and liabilities		
Accounts receivable	(296)	(347)
Inventories	(131)	(131)
Accounts payable	56	84
Accrued income taxes (current and long-term)	100	135
Other net	(313)	(268)
Net cash provided by operating activities	1,080	1,092
<b>Cash Flows from Investing Activities</b>		
Purchases of property, plant and equipment (PP&E)	(291)	(293)
Proceeds from sale of PP&E and other assets	4	3
Acquisitions, net of cash acquired	(150)	
Purchases of marketable securities and investments	(191)	(601)
Proceeds from maturities and sale of marketable securities and investments	605	599
Proceeds from sale of businesses	19	
Other investing	4	5
Net cash used in investing activities		(287)
<b>Cash Flows from Financing Activities</b>		
Change in short-term debt net	(4)	466
Repayment of debt (maturities greater than 90 days)		(64)
Proceeds from debt (maturities greater than 90 days)		172
Purchases of treasury stock	(886)	(1,708)
Proceeds from issuance of treasury stock pursuant to stock option and benefit plans	309	267
Dividends paid to shareholders	(652)	(566)
Excess tax benefits from stock-based compensation	101	51
Other net	(22)	(17)
Net cash used in financing activities	(1,154)	(1,399)
Effect of exchange rate changes on cash and cash equivalents	(32)	(33)
Net increase (decrease) in cash and cash equivalents	(106)	(627)
Cash and cash equivalents at beginning of year	1,897	2,581
Cash and cash equivalents at end of period	\$ 1,791	\$ 1,954

Edgar Filing: 3M CO - Form 10-Q

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

Table of Contents

**3M Company and Subsidiaries**

**Notes to Consolidated Financial Statements**

**(Unaudited)**

**NOTE 1. Significant Accounting Policies**

**Basis of Presentation**

The interim consolidated financial statements are unaudited but, in the opinion of management, reflect all adjustments necessary for a fair statement of the Company's consolidated financial position, results of operations and cash flows for the periods presented. These adjustments consist of normal, recurring items. The results of operations for any interim period are not necessarily indicative of results for the full year. The interim consolidated financial statements and notes are presented as permitted by the requirements for Quarterly Reports on Form 10-Q. This Quarterly Report on Form 10-Q should be read in conjunction with the Company's consolidated financial statements and notes included in its 2014 Annual Report on Form 10-K.

**Foreign Currency Translation**

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

Although local currencies are typically considered as the functional currencies outside the United States, under Accounting Standards Codification (ASC) 830, *Foreign Currency Matters*, the reporting currency of a foreign entity's parent is assumed to be that entity's functional currency when the economic environment of a foreign entity is highly inflationary—generally when its cumulative inflation is approximately 100 percent or more for the three years that precede the beginning of a reporting period. 3M has a subsidiary in Venezuela with operating income representing less than 1.0 percent of 3M's consolidated operating income for 2014. 3M has determined that the applicable cumulative inflation rate of Venezuela has exceeded, and continues to exceed, 100 percent since November 2009. Accordingly, since January 1, 2010, the financial statements of the Venezuelan subsidiary have been remeasured as if its functional currency were that of its parent.

The Venezuelan government sets official rates of exchange and conditions precedent to purchase foreign currency at these rates with local currency. Such rates and conditions are subject to change. In January 2014, the Venezuelan government announced that a new agency, the National Center for Foreign Commerce (CENCOEX), had assumed the role with respect to the continuation of the existing official exchange rate; significantly expanded the use of a second foreign exchange mechanism called the Complementary System for Foreign Currency Acquisition (or SICAD1); and issued exchange regulations indicating the SICAD1 rate of exchange would be used for payments related to international investments. The SICAD1 exchange mechanism, a complementary currency auction system, had previously been created for purchases of foreign currency by only certain eligible importers and tourists. In late March 2014, the Venezuelan government launched a third

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

foreign exchange mechanism, SICAD2, which relied on U.S. dollar cash and U.S. dollar denominated bonds offered by the Venezuelan Central Bank, PDVSA (the Venezuelan national oil and gas company) and certain private companies. SICAD2 was announced as being available to all industry sectors and that its use would not be restricted as to purpose. In February 2015, the Venezuelan government introduced another foreign currency exchange platform called the Marginal System of Foreign Currency (SIMADI), resulting in the elimination and replacement of the SICAD2 rate. The SIMADI rate was described as being derived from daily private bidders and buyers exchanging offers through authorized agents and approved and published by the Venezuelan Central Bank.

Since January 1, 2010, as discussed above, the financial statements of 3M's Venezuelan subsidiary have been remeasured as if its functional currency were that of its parent. For the periods presented, this remeasurement utilized the official CENCOEX rate into March 2014, the SICAD1 rate beginning in late March 2014, the SICAD2 rate beginning in June 2014, and the SIMADI rate beginning in February 2015. 3M's uses of these applicable exchange rates were based upon evaluation of a number of factors including, but not limited to, the exchange rate the Company's Venezuelan subsidiary may legally use to convert currency, settle transactions or pay dividends; the probability of accessing and obtaining currency by use of a particular rate or mechanism; and the Company's intent and ability to use a particular exchange mechanism. Other factors notwithstanding, the remeasurement impacts as a result of the changes in use of these exchange rates did not have material impacts on 3M's consolidated results of operations or financial condition.

Table of Contents

The Company continues to monitor circumstances relative to its Venezuelan subsidiary. Changes in applicable exchange rates or exchange mechanisms may continue in the future. These changes could impact the rate of exchange applicable to remeasure the Company's net monetary assets (liabilities) denominated in Venezuelan Bolivars (VEF). As March 31, 2015, the Company had a balance of net monetary assets denominated in VEF of less than 100 million VEF and the CENCOEX, SICAD (formerly SICAD1), and SIMADI exchange rates were approximately 6 VEF, 12 VEF, and 190 VEF per U.S. dollar, respectively.

A need to deconsolidate the Company's Venezuelan subsidiary's operations may result from a lack of exchangeability of VEF-denominated cash coupled with an acute degradation in the ability to make key operational decisions due to government regulations in Venezuela. 3M monitors factors such as its ability to access various exchange mechanisms; the impact of government regulations on the Company's ability to manage its Venezuelan subsidiary's capital structure, purchasing, product pricing, and labor relations; and the current political and economic situation within Venezuela. Based upon such factors as of March 31, 2015, the Company continues to consolidate its Venezuelan subsidiary. As of March 31, 2015, the balance of intercompany receivables due from this subsidiary is less than \$20 million and its equity balance is not significant.

**Earnings Per Share**

The difference in the weighted average 3M shares outstanding for calculating basic and diluted earnings per share attributable to 3M common shareholders is a result of the dilution associated with the Company's stock-based compensation plans. Certain options outstanding under these stock-based compensation plans were not included in the computation of diluted earnings per share attributable to 3M common shareholders because they would not have had a dilutive effect (3.5 million average options for the three months ended March 31, 2015 and 2.3 million average options for the three months ended March 31, 2014). The computations for basic and diluted earnings per share follow:

**Earnings Per Share Computations**

(Amounts in millions, except per share amounts)	Three months ended	
	2015	March 31, 2014
Numerator:		
Net income attributable to 3M	\$ 1,199	\$ 1,207
Denominator:		
Denominator for weighted average 3M common shares outstanding basic	636.2	661.5
Dilution associated with the Company's stock-based compensation plans	13.0	13.0
Denominator for weighted average 3M common shares outstanding diluted	649.2	674.5
Earnings per share attributable to 3M common shareholders basic	\$ 1.88	\$ 1.83
Earnings per share attributable to 3M common shareholders diluted	\$ 1.85	\$ 1.79

**New Accounting Pronouncements**

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

In April 2014, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2014-08, *Reporting Discontinued Operations and Disclosures of Disposals of Components of an Entity*, which changed the criteria for determining which disposals can be presented as discontinued operations and modified related disclosure requirements. This standard has the impact of reducing the frequency of disposals reported as discontinued operations, by requiring such a disposal to represent a strategic shift that has or will have a major effect on an entity's operations and financial results. However, existing provisions that prohibited an entity from reporting a discontinued operation if it had certain continuing cash flows or involvement with the component after disposal were eliminated by this standard. The ASU also expands the disclosures for discontinued operations and requires new disclosures related to individually significant disposals that do not qualify as discontinued operations. For 3M, this ASU was effective prospectively beginning January 1, 2015. This ASU was applied to the 2015 divestiture discussed in Note 2 and had no material impact on consolidated results of operations and financial condition.

Table of Contents

In May 2014, the FASB issued ASU No. 2014-09, *Revenue from Contracts with Customers*, which provides a single comprehensive model to be used in the accounting for revenue arising from contracts with customers and supersedes most current revenue recognition guidance, including industry-specific guidance. The standard's stated core principle is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. To achieve this core principle the ASU includes provisions within a five step model that includes identifying the contract with a customer, identifying the performance obligations in the contract, determining the transaction price, allocating the transaction price to the performance obligations, and recognizing revenue when (or as) an entity satisfies a performance obligation. The standard also specifies the accounting for some costs to obtain or fulfill a contract with a customer and requires expanded disclosures about revenue recognition. The standard provides for either full retrospective adoption or a modified retrospective adoption by which it is applied only to the most current period presented. For 3M, this ASU is effective January 1, 2017. The Company is currently assessing this ASU's impact on 3M's consolidated results of operations and financial condition.

In February 2015, the FASB issued ASU No. 2015-02, *Amendments to the Consolidation Analysis*, which changes guidance related to both the variable interest entity (VIE) and voting interest entity (VOE) consolidation models. With respect to the VIE model, the standard changes, among other things, the identification of variable interests associated with fees paid to a decision maker or service provider, the VIE characteristics for a limited partner or similar entity, and the primary beneficiary determination. With respect to the VOE model, the ASU eliminates the presumption that a general partner controls a limited partnership or similar entity unless the presumption can otherwise be overcome. Under the new guidance, a general partner would largely not consolidate a partnership or similar entity under the VOE model. For 3M, this ASU is effective January 1, 2016, with early adoption permitted. 3M does not have significant involvement with entities subject to consolidation considerations impacted by the VIE model changes or with limited partnerships potentially impacted by the VOE model changes. As a result, 3M does not expect this ASU to have a material impact on the Company's consolidated results of operations and financial condition.

In April 2015, the FASB issued ASU No. 2015-03, *Simplifying the Presentation of Debt Issuance Costs*. Under this new standard, debt issuance costs reported on the consolidated balance sheet would be reflected as a direct deduction from the related debt liability rather than as an asset. For 3M, this ASU is effective January 1, 2016, with early adoption permitted. Retrospective application to prior periods is required. As this standard impacts only the classification of certain amounts within the consolidated balance sheet, 3M does not expect this ASU to have a material impact on the Company's consolidated results of operations and financial condition.

In April 2015, the FASB issued ASU No. 2015-05, *Customer's Accounting for Fees Paid in a Cloud Arrangement*, which requires a customer to determine whether a cloud computing arrangement contains a software license. If the arrangement contains a software license, the customer would account for fees related to the software license element in a manner consistent with how the acquisition of other acquired software licenses is accounted. If the arrangement does not contain a software license, the customer would account for the arrangement as a service contract. An arrangement would contain a software license element if both (1) the customer has the contractual right to take possession of the software at any time during the hosting period without significant penalty and (2) it is feasible for the customer to either run the software on its own hardware or contract with another party unrelated to the vendor to host the software. For 3M, this ASU is effective January 1, 2016, with early adoption permitted. The standard provides for adoption either fully retrospectively or prospectively to arrangements entered into, or materially modified, after the effective date. The Company is currently assessing this ASU's impact on 3M's consolidated results of operations and financial condition.



Table of Contents

**NOTE 2. Acquisitions and Divestitures**

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

During the three months ended March 31, 2015, the purchase price paid for business combinations (net of cash acquired) was \$150 million, which primarily related to 3M's acquisition of Ivera Medical Corp. (discussed below).

In March 2015, 3M (Health Care Business) purchased all of the outstanding shares of Ivera Medical Corp., headquartered in San Diego, California. Ivera Medical Corp., with annual sales of approximately \$30 million, is a manufacturer of health care products that disinfect and protect devices used for access into a patient's bloodstream. The allocation of purchase price related to this acquisition is considered preliminary, largely with respect to intangible assets, and tax-related assets and liabilities. In addition, in the first quarter of 2015, 3M (Industrial Business) purchased the remaining interest in a former equity method investment for an immaterial amount.

Purchased identifiable finite-lived intangible assets related to the Ivera Medical Corp. acquisition which closed in the three months ended March 31, 2015 totaled \$52 million. The associated finite-lived intangible assets acquired will be amortized on a systematic and rational basis (generally straight line) over a weighted-average life of 13 years (lives ranging from two to 16 years). Acquired in-process research and development and identifiable intangible assets for which significant assumed renewals or extensions of underlying arrangements impacted the determination of their useful lives were not material. Pro forma information related to acquisitions was not included because the impact on the Company's consolidated results of operations was not considered to be material.

In February 2015, 3M announced that it had entered into a definitive agreement with Polypore International Inc., headquartered in Charlotte, North Carolina, to acquire the assets and liabilities associated with Polypore's Separations Media business for a total purchase price of approximately \$1.0 billion. Polypore's Separations Media business is a leading provider of microporous membranes and modules for filtration in the life sciences, industrial and specialty segments with annual sales of approximately \$208 million for the 2014 fiscal year ended January 3, 2015. Separately, Asahi Kasei, a leading diversified chemical manufacturer based in Tokyo, Japan, announced that it entered into a definitive merger agreement to acquire Polypore's Energy Storage business. Both transactions are subject to regulatory approvals and customary closing conditions. In addition, both transactions are conditioned on 3M's transaction with Polypore closing immediately prior to the closing of Asahi Kasei's transaction with Polypore.

In January 2015, 3M (Electronics and Energy Business) completed the sale of its global static control business to Desco Industries Inc., based in Chino, California. 2014 sales of this business were \$46 million. This transaction was not considered material.

Refer to Note 2 in 3M's 2014 Annual Report on Form 10-K for more information on 3M's acquisitions and divestitures.



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

Purchased goodwill from acquisitions totaled \$96 million during the first three months of 2015, none of which is deductible for tax purposes. The amounts in the Translation and other column in the following table primarily relate to changes in foreign currency exchange rates. The goodwill balances by business segment as of December 31, 2014 and March 31, 2015, follow:

**Goodwill**

(Millions)	December 31, 2014 Balance	Acquisition activity	Translation and other	March 31, 2015 Balance
Industrial	\$ 2,037	\$ 1	\$ (66)	\$ 1,972
Safety and Graphics	1,650		(46)	1,604
Electronics and Energy	1,559		(35)	1,524
Health Care	1,589	95	(58)	1,626
Consumer	215		(7)	208
Total Company	\$ 7,050	\$ 96	\$ (212)	\$ 6,934

**Acquired Intangible Assets**

For the three months ended March 31, 2015, changes in foreign currency exchange rates decreased the gross carrying amount of intangible assets, with this impact partially offset by gross intangible assets (excluding goodwill) acquired through business combinations. The carrying amount and accumulated amortization of acquired finite-lived intangible assets, in addition to the balance of non-amortizable intangible assets, as of March 31, 2015, and December 31, 2014, follow:

(Millions)	March 31, 2015	December 31, 2014
Customer related intangible assets	\$ 1,339	\$ 1,348
Patents	561	581
Other technology-based intangible assets	400	407
Definite-lived tradenames	396	401
Other amortizable intangible assets	224	221
Total gross carrying amount	\$ 2,920	\$ 2,958
Accumulated amortization customer related	(599)	(597)
Accumulated amortization patents	(457)	(472)
Accumulated amortization other technology-based	(218)	(215)
Accumulated amortization definite-lived tradenames	(197)	(195)
Accumulated amortization other	(168)	(167)
Total accumulated amortization	\$ (1,639)	\$ (1,646)
Total finite-lived intangible assets net	\$ 1,281	\$ 1,312
Non-amortizable intangible assets (primarily tradenames)	115	123

Edgar Filing: 3M CO - Form 10-Q

Total intangible assets net	\$	<b>1,396</b>	\$	1,435
-----------------------------	----	--------------	----	-------

Table of Contents

Amortization expense for acquired intangible assets for the three months ended March 31, 2015 and 2014 follows:

(Millions)	Three months ended March 31,	
	2015	2014
Amortization expense	\$ 53	\$ 57

The table below shows expected amortization expense for acquired amortizable intangible assets recorded as of March 31, 2015:

(Millions)	Remainder of 2015	2016	2017	2018	2019	2020	After 2020
Amortization expense	\$ 150	\$ 177	\$ 155	\$ 139	\$ 127	\$ 117	\$ 416

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

Table of Contents**NOTE 4. Supplemental Equity and Comprehensive Income Information****Consolidated Statement of Changes in Equity****Three months ended March 31, 2015**

(Millions)	Total	3M Company Shareholders			Accumulated Other Comprehensive Income (Loss)	Non- controlling Interest
		Common Stock and Additional Paid-in Capital	Retained Earnings	Treasury Stock		
<b>Balance at December 31, 2014</b>	\$ 13,142	\$ 4,388	\$ 34,317	\$ (19,307)	\$ (6,289)	\$ 33
Net income	1,201		1,199			2
Other comprehensive income (loss), net of tax:						
Cumulative translation adjustment	(193)				(193)	
Defined benefit pension and post-retirement plans adjustment	91				91	
Debt and equity securities - unrealized gain (loss)						
Cash flow hedging instruments - unrealized gain (loss)	70				70	
Total other comprehensive income (loss), net of tax	(32)					
Dividends declared	(3)		(3)			
Stock-based compensation, net of tax impacts	228	228				
Reacquired stock	(896)			(896)		
Issuances pursuant to stock option and benefit plans	312		(433)	745		
<b>Balance at March 31, 2015</b>	\$ 13,952	\$ 4,616	\$ 35,080	\$ (19,458)	\$ (6,321)	\$ 35

**Three months ended March 31, 2014**

(Millions)	Total	3M Company Shareholders			Accumulated Other Comprehensive Income (Loss)	Non- controlling Interest
		Common Stock and Additional Paid-in Capital	Retained Earnings	Treasury Stock		
<b>Balance at December 31, 2013</b>	\$ 17,948	\$ 4,384	\$ 32,416	\$ (15,385)	\$ (3,913)	\$ 446
Net income	1,225		1,207			18
Other comprehensive income (loss), net of tax:						
Cumulative translation adjustment	20				8	12
	61				61	

Edgar Filing: 3M CO - Form 10-Q

Defined benefit pension and post-retirement plans adjustment									
Debt and equity securities - unrealized gain (loss)	1							1	
Cash flow hedging instruments - unrealized gain (loss)	2							2	
Total other comprehensive income (loss), net of tax	84								
Dividends declared	1				1				
Stock-based compensation, net of tax impacts	170		170						
Reacquired stock	(1,773)						(1,773)		
Issuances pursuant to stock option and benefit plans	269				(312)		581		
<b>Balance at March 31, 2014</b>	\$ 17,924	\$ 4,554	\$ 33,312	\$ (16,577)	\$ (3,841)	\$ 476			

In December 2014, 3M's Board of Directors declared a first-quarter 2015 dividend of \$1.025 per share (paid in March 2015). In December 2013, 3M's Board of Directors declared a first-quarter 2014 dividend of \$0.855 per share (paid in March 2014). This reduced 3M's stockholder equity and increased other current liabilities as of both December 31, 2014 and December 31, 2013, by approximately \$0.6 billion.

Table of Contents**Changes in Accumulated Other Comprehensive Income (Loss) Attributable to 3M by Component****Three months ended March 31, 2015**

(Millions)	Cumulative Translation Adjustment	Defined Benefit Pension and Postretirement Plans Adjustment	Debt and Equity Securities, Unrealized Gain (Loss)	Cash Flow Hedging Instruments, Unrealized Gain (Loss)	Total Accumulated Other Comprehensive Income (Loss)
<b>Balance at December 31, 2014, net of tax</b>	\$ (1,095)	\$ (5,293)	\$	\$ 99	\$ (6,289)
Other comprehensive income (loss), before tax:					
Amounts before reclassifications	(44)	24		136	116
Amounts reclassified out		124		(27)	97
Total other comprehensive income (loss), before tax	(44)	148		109	213
Tax effect	(149)	(57)		(39)	(245)
Total other comprehensive income (loss), net of tax	(193)	91		70	(32)
<b>Balance at March 31, 2015, net of tax</b>	\$ (1,288)	\$ (5,202)	\$	\$ 169	\$ (6,321)

**Three months ended March 31, 2014**

(Millions)	Cumulative Translation Adjustment	Defined Benefit Pension and Postretirement Plans Adjustment	Debt and Equity Securities, Unrealized Gain (Loss)	Cash Flow Hedging Instruments, Unrealized Gain (Loss)	Total Accumulated Other Comprehensive Income (Loss)
<b>Balance at December 31, 2013, net of tax</b>	\$ (188)	\$ (3,715)	\$ (2)	\$ (8)	\$ (3,913)
Other comprehensive income (loss), before tax:					
Amounts before reclassifications	5		2	9	16
Amounts reclassified out		91		(6)	85
Total other comprehensive income (loss), before tax	5	91	2	3	101
Tax effect	3	(30)	(1)	(1)	(29)
Total other comprehensive income (loss), net of tax	8	61	1	2	72
<b>Balance at March 31, 2014, net of tax</b>	\$ (180)	\$ (3,654)	\$ (1)	\$ (6)	\$ (3,841)

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





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

(Millions) Details about Accumulated Other Comprehensive Income Components	Amount Reclassified from Accumulated Other Comprehensive Income		Location on Income Statement
	Three months ended March 31, 2015	Three months ended March 31, 2014	
Gains (losses) associated with, defined benefit pension and postretirement plans amortization			
Transition asset	\$	\$	See Note 7
Prior service benefit	18	15	See Note 7
Net actuarial loss	(159)	(106)	See Note 7
Curtailments/Settlements	17		See Note 7
Total before tax	(124)	(91)	
Tax effect	46	30	Provision for income taxes
Net of tax	\$ (78)	\$ (61)	
Debt and equity security gains (losses)			
Sales or impairments of securities	\$	\$	Selling, general and administrative expenses
Total before tax			
Tax effect			Provision for income taxes
Net of tax	\$	\$	
Cash flow hedging instruments gains (losses)			
Foreign currency forward/option contracts	\$ 30	\$ 4	Cost of sales
Commodity price swap contracts	(2)	2	Cost of sales
Interest rate swap contracts	(1)		Interest expense
Total before tax	27	6	
Tax effect	(10)	(2)	Provision for income taxes
Net of tax	\$ 17	\$ 4	
Total reclassifications for the period, net of tax	\$ (61)	\$ (57)	

Table of Contents

**NOTE 5. Income Taxes**

The Company files income tax returns in the U.S. federal jurisdiction, and various states and foreign jurisdictions. With few exceptions, the Company is no longer subject to U.S. federal, state and local, or non-U.S. income tax examinations by tax authorities for years before 2005.

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

Currently, the Company is under examination by the IRS for its U.S. federal income tax returns for the years 2014 and 2015. It is anticipated that the IRS will complete its examination of the Company for 2014 by the end of the first quarter of 2016 and for 2015 by the end of the first quarter of 2017. As of March 31, 2015, the IRS has not proposed any significant adjustments to the Company's tax positions for which the Company is not adequately reserved.

Payments relating to other proposed assessments arising from the 2005 through 2015 examinations may not be made until a final agreement is reached between the Company and the IRS on such assessments or upon a final resolution resulting from the administrative appeals process or judicial action. In addition to the U.S. federal examination, there is also audit activity in several U.S. state and foreign jurisdictions.

3M anticipates changes to the Company's uncertain tax positions due to the closing of various audit years mentioned above and closure of statutes. Currently, the Company is not estimating a significant increase or decrease in unrecognized tax benefits as of March 31, 2015, during the next 12 months. The total amounts of unrecognized tax benefits that, if recognized, would affect the effective tax rate as of March 31, 2015 and December 31, 2014 are \$268 million and \$265 million, respectively.

The Company recognizes interest and penalties accrued related to unrecognized tax benefits in tax expense. The Company recognized in the consolidated statement of income on a gross basis approximately \$2 million of expense and \$15 million of benefit for the three months ended March 31, 2015 and March 31, 2014, respectively. At March 31, 2015, and December 31, 2014, accrued interest and penalties in the consolidated balance sheet on a gross basis were \$46 million and \$44 million, respectively. Included in these interest and penalty amounts are interest and penalties related to tax positions for which the ultimate deductibility is highly certain but for which there is uncertainty about the timing of such deductibility. Because of the impact of deferred tax accounting, other than interest and penalties, the disallowance of the shorter deductibility period would not affect the annual effective tax rate but would accelerate the payment of cash to the taxing authority to an earlier period.

The effective tax rate for the first quarter of 2015 was 29.5 percent, compared to 27.4 percent in the first quarter of 2014, an increase of 2.1 percentage points. Primary factors that increased the Company's effective tax rate on a combined basis by 2.1 percentage points year-on-year included the 2014 restoration of tax basis on certain assets for which depreciation deductions were previously limited, adjustments to 3M's income tax reserves for the first quarter of 2015 when compared to the same period in 2014, and international taxes, including changes in foreign currency rates and changes to the geographic mix of income before 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 both March 31, 2015 and December 31, 2014, the Company had valuation allowances of \$22 million on its deferred tax assets.

Table of Contents**NOTE 6. Marketable Securities**

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

(Millions)	March 31, 2015	December 31, 2014
U.S. government agency securities	\$ 67	\$ 67
Foreign government agency securities	60	75
Corporate debt securities	551	241
Commercial paper	27	
Certificates of deposit/time deposits	24	41
U.S. municipal securities	3	
Asset-backed securities:		
Automobile loan related	167	122
Credit card related	66	59
Equipment lease related	7	21
Other	46	
Asset-backed securities total	286	202
<b>Current marketable securities</b>	<b>\$ 1,018</b>	<b>\$ 626</b>
U.S. government agency securities	\$ 1	\$ 41
Foreign government agency securities		20
Corporate debt securities		378
U.S. treasury securities		38
U.S. municipal securities	12	15
Asset-backed securities:		
Automobile loan related		160
Credit card related		103
Equipment lease related		27
Other		46
Asset-backed securities total		336
<b>Non-current marketable securities</b>	<b>\$ 13</b>	<b>\$ 828</b>
<b>Total marketable securities</b>	<b>\$ 1,031</b>	<b>\$ 1,454</b>

Classification of marketable securities as current or non-current is dependent upon management's intended holding period, the security's maturity date and liquidity considerations based on market conditions. If management intends to hold the securities for longer than one year as of the balance sheet date, they are classified as non-current. The classification as of March 31, 2015, was impacted by the February 2015 announcement that 3M has entered into a definitive agreement with Polypore International Inc. to acquire Polypore's Separations Media business (discussed in Note 2).

At March 31, 2015, gross unrealized losses were immaterial, while gross unrealized gains totaled approximately \$1 million (pre-tax). At December 31, 2014, gross unrealized losses totaled approximately \$1 million (pre-tax), while gross unrealized gains totaled approximately \$1 million (pre-tax). Refer to Note 4 for a table that provides the net realized gains (losses) related to sales or impairments of debt and equity

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

securities, which includes marketable securities. The gross amounts of the realized gains or losses were not material. Cost of securities sold use the first in, first out (FIFO) method. Since these marketable securities are classified as available-for-sale securities, changes in fair value will flow through other comprehensive income, with amounts reclassified out of other comprehensive income into earnings upon sale or other-than-temporary impairment.

3M reviews impairments associated with its marketable securities in accordance with the measurement guidance provided by ASC 320, *Investments-Debt and Equity Securities*, when determining the classification of the impairment as temporary or other-than-temporary. A temporary impairment charge results in an unrealized loss being recorded in the other comprehensive income component of shareholders' equity. Such an unrealized loss does not reduce net income.

Table of Contents

attributable to 3M for the applicable accounting period because the loss is not viewed as other-than-temporary. The factors evaluated to differentiate between temporary and other-than-temporary include the projected future cash flows, credit ratings actions, and assessment of the credit quality of the underlying collateral, as well as other factors.

The balances at March 31, 2015 for marketable securities by contractual maturity are shown below. Actual maturities may differ from contractual maturities because the issuers of the securities may have the right to prepay obligations without prepayment penalties.

(Millions)	March 31, 2015
Due in one year or less	\$ 357
Due after one year through five years	654
Due after five years through ten years	5
Due after ten years	15
Total marketable securities	\$ 1,031

3M has a diversified marketable securities portfolio of \$1.031 billion as of March 31, 2015. Within this portfolio, current and long-term asset-backed securities (estimated fair value of \$286 million) primarily include interests in automobile loans, credit cards and equipment leases. 3M's investment policy allows investments in asset-backed securities with minimum credit ratings of Aa2 by Moody's Investors Service or AA by Standard & Poor's or Fitch Ratings or DBRS. Asset-backed securities must be rated by at least two of the aforementioned rating agencies, one of which must be Moody's Investors Service or Standard & Poor's. At March 31, 2015, all asset-backed security investments were in compliance with this policy. Approximately 92.2 percent of all asset-backed security investments were rated AAA or A-1+ by Standard & Poor's and/or Aaa or P-1 by Moody's Investors Service and/or AAA or F1+ by Fitch Ratings. 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. 3M does not currently expect risk related to its holding in asset-backed securities to materially impact its financial condition or liquidity.

Table of Contents**NOTE 7. Pension and Postretirement Benefit Plans**

Net periodic benefit cost is recorded in cost of sales, selling, general and administrative expenses, and research, development and related expenses. Components of net periodic benefit cost and other supplemental information for the three months ended March 31, 2015 and 2014 follow:

**Benefit Plan Information**

(Millions)	Three months ended March 31,					
	Qualified and Non-qualified Pension Benefits				Postretirement Benefits	
	United States		International		2015	2014
	2015	2014	2015	2014	2015	2014
<b>Net periodic benefit cost (benefit)</b>						
Service cost	\$ 73	\$ 60	\$ 42	\$ 36	\$ 21	\$ 16
Interest cost	164	169	55	64	25	24
Expected return on plan assets	(267)	(261)	(81)	(79)	(22)	(22)
Amortization of transition (asset) obligation						
Amortization of prior service cost (benefit)	(6)	1	(4)	(4)	(8)	(12)
Amortization of net actuarial (gain) loss	102	61	38	31	19	14
Net periodic benefit cost (benefit)	\$ 66	\$ 30	\$ 50	\$ 48	\$ 35	\$ 20
Settlements, curtailments, special termination benefits and other			(17)			
Net periodic benefit cost (benefit) after settlements, curtailments, special termination benefits and other	\$ 66	\$ 30	\$ 33	\$ 48	\$ 35	\$ 20

For the three months ended March 31, 2015, contributions totaling \$90 million were made to the Company's U.S. and international pension plans and \$1 million to its postretirement plans. For total year 2015, the Company expects to contribute approximately \$200 million of cash to its global defined benefit pension and postretirement plans. The Company does not have a required minimum cash pension contribution obligation for its U.S. plans in 2015. Future contributions will depend on market conditions, interest rates and other factors. 3M's annual measurement date for pension and postretirement assets and liabilities is December 31 each year, which is also the date used for the related annual measurement assumptions.

3M was informed during the first quarter of 2009, that the general partners of WG Trading Company, in which 3M's benefit plans hold limited partnership interests, are the subject of a criminal investigation as well as civil proceedings by the SEC and CFTC (Commodity Futures Trading Commission). In March 2011, over the objections of 3M and six other limited partners of WG Trading Company, the district court judge ruled in favor of the court appointed receiver's proposed distribution plan (and in April 2013, the United States Court of Appeals for the Second Circuit affirmed the district court's ruling). The benefit plan trustee holdings of WG Trading Company interests were adjusted to reflect the decreased estimated fair market value, inclusive of estimated insurance proceeds, as of the annual measurement dates. The Company has insurance that it believes, based on what is currently known, will result in the probable recovery of a portion of the decrease in original asset value. In the first quarter of 2014, 3M and certain 3M benefit plans filed a lawsuit in the U.S. District Court for the District of Minnesota against five insurers seeking insurance coverage for the WG Trading Company claim. As of the 2014 measurement date, these holdings represented less than one half of one percent of 3M's fair value of total plan assets for the 3M pension plan. 3M currently believes that the resolution of these events will not have a material adverse effect on the consolidated financial position of the Company.



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

In March 2015, 3M Japan modified the Japan Limited Defined Benefit Corporate Pension Plan (DBCPP). Beginning July 1, 2015, eligible employees will receive a company provided contribution match of 6.12% of their eligible salary to their defined contribution plan. Employees will no longer earn additional service towards their defined benefit pension plans after July 1, 2015, except for eligible salaries above the statutory defined contribution limits. As a result of this plan modification, the Company re-measured the DBCPP, which resulted in a \$17 million pre-tax curtailment gain for the period ended March 31, 2015.

In addition, the Company also sponsors employee savings plans under Section 401(k) of the Internal Revenue Code, as discussed in Note 10 in 3M's 2014 Annual Report on Form 10-K.

Table of Contents

**NOTE 8. Derivatives**

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

Additional information with respect to the impacts on other comprehensive income of nonderivative hedging and derivative instruments is included in Note 4. Additional information with respect to the fair value of derivative instruments is included in Note 9. References to information regarding derivatives and/or hedging instruments associated with the Company's long-term debt are also made in Note 9 in 3M's 2014 Annual Report on Form 10-K.

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

Cash Flow Hedges:

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

*Cash Flow Hedging - Foreign Currency Forward and Option Contracts:* The Company enters into foreign exchange forward and option contracts to hedge against the effect of exchange rate fluctuations on cash flows denominated in foreign currencies. These transactions are designated as cash flow hedges. The settlement or extension of these derivatives will result in reclassifications (from accumulated other comprehensive income) to earnings in the period during which the hedged transactions affect earnings. 3M may dedesignate these cash flow hedge relationships in advance of the occurrence of the forecasted transaction. The portion of gains or losses on the derivative instrument previously accumulated in other comprehensive income for dedesignated hedges remains in accumulated other comprehensive income until the forecasted transaction occurs. Changes in the value of derivative instruments after dedesignation are recorded in earnings and are included in the Derivatives Not Designated as Hedging Instruments section below. Hedge ineffectiveness and the amount excluded from effectiveness testing recognized in income on cash flow hedges were not material for the three months ended March 31, 2015 and 2014. Beginning in the second quarter of 2014 3M began extending the maximum length of time over which it hedges its exposure to the variability in future cash flows of the forecasted transactions from a previous term of 12 months to a longer term of 24 months, with certain currencies being extended further to 36 months starting in the first quarter of 2015. The dollar equivalent gross notional amount of the Company's foreign exchange forward and option contracts designated as cash flow hedges at March 31, 2015 was approximately \$2.8 billion.

*Cash Flow Hedging - Commodity Price Management:* The Company manages commodity price risks through negotiated supply contracts, price protection agreements and forward contracts. 3M discontinued the use of commodity price swaps as cash flow hedges of forecasted commodity transactions in the first quarter of 2015. The Company used commodity price swaps as cash flow hedges of forecasted commodity transactions to manage price volatility. The related mark-to-market gain or loss on qualifying hedges was included in other comprehensive income to the extent

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

effective, and reclassified into cost of sales in the period during which the hedged transaction affected earnings.

*Cash Flow Hedging Interest Rate Contracts:* In August 2011, in anticipation of the September 2011 issuance of \$1 billion in five-year fixed rate notes, 3M executed a pre-issuance cash flow hedge on a notional amount of \$400 million by entering into a forward-starting five-year floating-to-fixed interest rate swap. Upon debt issuance in September 2011, 3M terminated the floating-to-fixed interest rate swap. The termination of the swap resulted in a \$7 million pre-tax loss (\$4 million after-tax) that will be amortized over the five-year life of the note.

In the third and fourth quarters of 2014, the Company entered into forward starting interest rate swaps with notional amounts totaling 500 million Euros as a hedge against interest rate volatility associated with the forecasted issuance of fixed rate debt. Upon issuance in November 2014 of 750 million Euros aggregate principal amount of twelve-year fixed rate notes, 3M terminated these interest rate swaps. The termination resulted in a \$8 million pre-tax (\$5 million after-tax) loss within accumulated other comprehensive income that will be amortized over the twelve-year life of the notes.

Table of Contents

The amortization of losses referenced in the two preceding paragraphs is included in the tables below as part of the loss recognized in income on the effective portion of derivatives as a result of reclassification from accumulated other comprehensive income.

As of March 31, 2015, the Company had a balance of \$169 million (as shown in Note 4) associated with the after-tax net unrealized gain associated with cash flow hedging instruments recorded in accumulated other comprehensive income. This includes a remaining balance of \$6 million (loss) related to the forward starting interest rate swaps (discussed in the preceding paragraphs), which will be amortized over the respective lives of the notes. Based on exchange rates as of March 31, 2015, 3M expects to reclassify approximately \$116 million of the after-tax net unrealized foreign exchange cash flow hedging gains to earnings over the next 12 months, of which 3M expects to reclassify approximately \$91 million over the remainder of 2015. 3M expects to reclassify approximately \$70 million of the after-tax net unrealized foreign exchange cash flow hedging gains to earnings in 2016. This impact will be offset by cash flows from underlying hedged items.

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

**Three months ended March 31, 2015**

(Millions)	Pretax Gain (Loss) Recognized in Other Comprehensive Income on Effective Portion of Derivative Amount	Pretax Gain (Loss) Recognized in Income on Effective Portion of Derivative as a Result of Reclassification from Accumulated Other Comprehensive Income		Ineffective Portion of Gain (Loss) on Derivative and Amount Excluded from Effectiveness Testing Recognized in Income	
		Location	Amount	Location	Amount
<b>Derivatives in Cash Flow Hedging Relationships</b>					
Foreign currency forward/option contracts	\$ 136	Cost of sales	\$ 30	Cost of sales	\$
Commodity price swap contracts		Cost of sales	(2)	Cost of sales	
Interest rate swap contracts		Interest expense	(1)	Interest expense	
<b>Total</b>	<b>\$ 136</b>		<b>\$ 27</b>		<b>\$</b>

**Three months ended March 31, 2014**

(Millions)	Pretax Gain (Loss) Recognized in Other Comprehensive Income on Effective Portion of Derivative Amount	Pretax Gain (Loss) Recognized in Income on Effective Portion of Derivative as a Result of Reclassification from Accumulated Other Comprehensive Income		Ineffective Portion of Gain (Loss) on Derivative and Amount Excluded from Effectiveness Testing Recognized in Income	
		Location	Amount	Location	Amount
<b>Derivatives in Cash Flow Hedging Relationships</b>					
Foreign currency forward/option contracts	\$ 7	Cost of sales	\$ 4	Cost of sales	\$
Commodity price swap contracts	2	Cost of sales	2	Cost of sales	
<b>Total</b>	<b>\$ 9</b>		<b>\$ 6</b>		<b>\$</b>



Table of Contents

Fair Value Hedges:

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

*Fair Value Hedging - Interest Rate Swaps:* The Company manages interest expense using a mix of fixed and floating rate debt. To help manage borrowing costs, the Company may enter into interest rate swaps. Under these arrangements, the Company agrees to exchange, at specified intervals, the difference between fixed and floating interest amounts calculated by reference to an agreed-upon notional principal amount. The mark-to-market of these fair value hedges is recorded as gains or losses in interest expense and is offset by the gain or loss of the underlying debt instrument, which also is recorded in interest expense. These fair value hedges are highly effective and, thus, there is no impact on earnings due to hedge ineffectiveness. The dollar equivalent (based on inception date foreign currency exchange rates) gross notional amount of the Company's interest rate swaps at March 31, 2015 was \$1 billion.

At March 31, 2015, the Company had interest rate swaps designated as fair value hedges of underlying fixed rate obligations. In July 2007, in connection with the issuance of a seven-year Eurobond for an amount of 750 million Euros, the Company completed a fixed-to-floating interest rate swap on a notional amount of 400 million Euros as a fair value hedge of a portion of the fixed interest rate Eurobond obligation. In August 2010, the Company terminated 150 million Euros of the notional amount of this swap. As a result, a gain of 18 million Euros, recorded as part of the balance of the underlying debt, was amortized as an offset to interest expense over this debt's remaining life. Prior to termination of the applicable portion of the interest rate swap, the mark-to-market of the hedge instrument was recorded as gains or losses in interest expense and was offset by the gain or loss on carrying value of the underlying debt instrument. Consequently, the subsequent amortization of the 18 million Euros recorded as part of the underlying debt balance was not part of gains on hedged items recognized in income in the tables below. The remaining interest rate swap of 250 million Euros (notional amount) matured in July 2014.

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

In June 2014, 3M issued a five-year 1.625% fixed rate medium-term note for a face amount of \$625 million. Upon debt issuance, 3M completed a fixed-to-floating interest rate swap on a notional amount of \$600 million as a fair value hedge of a portion of the fixed interest rate medium-term note obligation.

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

**Three months ended March 31, 2015**

**Gain (Loss) on Derivative**

**Gain (Loss) on Hedged Item**

Edgar Filing: 3M CO - Form 10-Q

(Millions) Derivatives in Fair Value Hedging Relationships	Recognized in Income		Recognized in Income	
	Location	Amount	Location	Amount
Interest rate swap contracts	Interest expense	\$ 6	Interest expense	\$ (6)
Total		\$ 6		\$ (6)

Three months ended March 31, 2014

(Millions) Derivatives in Fair Value Hedging Relationships	Gain (Loss) on Derivative Recognized in Income		Gain (Loss) on Hedged Item Recognized in Income	
	Location	Amount	Location	Amount
Interest rate swap contracts	Interest expense	\$ 7	Interest expense	\$ (7)
Total		\$ 7		\$ (7)

Net Investment Hedges:

The Company may use non-derivative (foreign currency denominated debt) and derivative (foreign exchange forward contracts) instruments to hedge portions of the Company's investment in foreign subsidiaries and manage foreign exchange risk. The extent of 3M's use of forward contracts may depend on the volume of foreign currency denominated debt already designated in net investment hedges. For instruments that are designated and qualify as hedges of net investments in foreign operations and that meet the effectiveness requirements, the net gains or losses attributable to changes in spot exchange rates are recorded in cumulative translation within other comprehensive income. The remainder of the change in value of such instruments is recorded in earnings. Recognition in earnings of amounts previously recorded in cumulative translation is limited to circumstances such as complete or substantially complete liquidation of the net investment in the hedged foreign operation. To the extent foreign currency denominated debt is not

Table of Contents

designated in or is dedesignated from a net investment hedge relationship, changes in value of that portion of foreign currency denominated debt due to exchange rate changes are recorded in earnings through their maturity date.

3M's use of foreign exchange forward contracts designated in hedges of the Company's net investment in European subsidiaries can vary by time period depending on when foreign currency denominated debt balances designated in such relationships are dedesignated, matured, or are newly issued and designated. Additionally, variation can occur in connection with the extent of the Company's desired exchange risk coverage.

3M also began using foreign exchange forward contracts designated in hedges of the Company's net investment in Korean subsidiaries during the first quarter of 2015.

At March 31, 2015, the total notional amount of foreign exchange forward contracts designated in net investment hedges was 2.45 billion Euros and approximately 275 billion South Korean Won along with a principal amount of long-term debt instruments designated in net investment hedges totaling 1.85 billion Euros (as discussed in Note 9 in 3M's 2014 Annual Report on Form 10-K, specifically items C, D1, D2, and H). The maturity dates of these derivative and nonderivative instruments designated in net investment hedges range from 2015 to 2026.

The Company revised amounts previously presented in the tables below for the pretax gain (loss) recognized as cumulative translation within other comprehensive income on effective portion of instrument (Gain Recognized as CTA) for three months March 31, 2014 relative to foreign currency denominated debt and in total. These immaterial corrections increased the previously presented amounts of the Gain recognized as CTA in the disclosure tables below by \$18 million for three months March 31, 2014. The revisions had no impact on the Company's consolidated results of operations, financial condition, or cash flows.

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

**Three months ended March 31, 2015**

Derivative and Nonderivative Instruments in Net Investment Hedging Relationships (Millions)	Pretax Gain (Loss) Recognized as Cumulative Translation within Other Comprehensive Income on Effective Portion of Instrument		Ineffective Portion of Gain (Loss) on Instrument and Amount Excluded from Effectiveness Testing Recognized in Income	
	Amount	Amount	Location	Amount
Foreign currency denominated debt	\$	240	N/A	\$
Foreign currency forward contracts		157	Cost of Sales	
Total	\$	397		\$

**Three months ended March 31, 2014**



Derivative and Nonderivative Instruments in Net Investment Hedging Relationships (Millions)	Pretax Gain (Loss) Recognized as Cumulative Translation within Other Comprehensive Income on Effective Portion of Instrument Amount		Ineffective Portion of Gain (Loss) on Instrument and Amount Excluded from Effectiveness Testing Recognized in Income Location Amount	
Foreign currency denominated debt	\$	9	N/A	\$
Total	\$	9		\$

Table of ContentsDerivatives Not Designated as Hedging Instruments:

Derivatives not designated as hedging instruments include dedesignated foreign currency forward and option contracts that formerly were designated in cash flow hedging relationships (as referenced in the Cash Flow Hedges section above). In addition, 3M enters into foreign currency forward contracts to offset, in part, the impacts of certain intercompany activities (primarily associated with intercompany licensing arrangements) and enters into commodity price swaps to offset, in part, fluctuations in costs associated with the use of certain commodities and precious metals. These derivative instruments are not designated in hedging relationships; therefore, fair value gains and losses on these contracts are recorded in earnings. The dollar equivalent gross notional amount of these forward, option and swap contracts not designated as hedging instruments totaled \$7.1 billion as of March 31, 2015. The Company does not hold or issue derivative financial instruments for trading purposes.

The location in the consolidated statements of income and amounts of gains and losses related to derivative instruments not designated as hedging instruments are as follows:

Derivatives Not Designated as Hedging Instruments (Millions)	Three months ended March 31, 2015	
	Gain (Loss) on Derivative Recognized in Income Location	Amount
Foreign currency forward/option contracts	Cost of sales	\$ 4
Foreign currency forward contracts	Interest expense	89
Commodity price swap contracts	Cost of sales	(4)
Total		\$ 89

Derivatives Not Designated as Hedging Instruments (Millions)	Three months ended March 31, 2014	
	Gain (Loss) on Derivative Recognized in Income Location	Amount
Foreign currency forward/option contracts	Cost of sales	\$ (1)
Foreign currency forward contracts	Interest expense	33
Total		\$ 32

Table of Contents*Location and Fair Value Amount of Derivative Instruments*

The following tables summarize the fair value of 3M's derivative instruments, excluding nonderivative instruments used as hedging instruments, and their location in the consolidated balance sheet. Additional information with respect to the fair value of derivative instruments is included in Note 9.

**March 31, 2015**

(Millions) Fair Value of Derivative Instruments	Location	Assets Amount	Location	Liabilities Amount
<b>Derivatives designated as hedging instruments</b>				
Foreign currency forward/option contracts	Other current assets	\$ 310	Other current liabilities	\$ 6
Foreign currency forward/option contracts	Other assets	100	Other liabilities	
Interest rate swap contracts	Other assets	31	Other liabilities	
<b>Total derivatives designated as hedging instruments</b>		<b>\$ 441</b>		<b>\$ 6</b>
<b>Derivatives not designated as hedging instruments</b>				
Foreign currency forward/option contracts	Other current assets	\$ 118	Other current liabilities	\$ 62
Foreign currency forward/option contracts	Other assets	1	Other liabilities	1
Commodity price swap contracts	Other current assets	1	Other current liabilities	4
<b>Total derivatives not designated as hedging instruments</b>		<b>\$ 120</b>		<b>\$ 67</b>
<b>Total derivative instruments</b>		<b>\$ 561</b>		<b>\$ 73</b>

**December 31, 2014**

(Millions) Fair Value of Derivative Instruments	Location	Assets Amount	Location	Liabilities Amount
<b>Derivatives designated as hedging instruments</b>				
Foreign currency forward/option contracts	Other current assets	\$ 116	Other current liabilities	\$ 2
Foreign currency forward/option contracts	Other assets	47	Other liabilities	1
Commodity price swap contracts	Other current assets		Other current liabilities	4
Interest rate swap contracts	Other assets	27	Other liabilities	3
<b>Total derivatives designated as hedging instruments</b>		<b>\$ 190</b>		<b>\$ 10</b>

**Derivatives not designated as hedging instruments**

Foreign currency forward/option contracts	Other current assets	\$	66	Other current liabilities	\$	33
<b>Total derivatives not designated as hedging instruments</b>		\$	66		\$	33
<b>Total derivative instruments</b>		\$	256		\$	43

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

The Company is exposed to credit loss in the event of nonperformance by counterparties in interest rate swaps, currency swaps, commodity price swaps, and forward and option contracts. However, the Company's risk is limited to the fair value of the instruments. The Company actively monitors its exposure to credit risk through the use of credit approvals and credit limits, and by selecting major international banks and financial institutions as counterparties. 3M enters into master netting arrangements with counterparties when possible to mitigate credit risk in derivative transactions. A master netting arrangement may allow each counterparty to net settle amounts owed between a 3M entity and the counterparty as a result of multiple, separate derivative transactions. As of March 31, 2015, 3M has International Swaps and Derivatives Association (ISDA) agreements with 16 applicable banks and financial institutions which contain netting provisions. In addition to a master agreement with 3M supported by a primary counterparty's parent guarantee, 3M also has associated credit support agreements in place with 15 of its primary derivative counterparties which, among other things, provide the circumstances under which either party is required to post eligible collateral (when the market value of transactions covered by these agreements exceeds specified thresholds or if a counterparty's credit rating has been downgraded to a predetermined rating). The Company does not anticipate nonperformance by any of these counterparties.

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

**Offsetting of Financial Assets/Liabilities under Master Netting Agreements with Derivative Counterparties****March 31, 2015**

(Millions)	Gross Amount of Derivative Assets Presented in the Consolidated Balance Sheet	Gross Amounts not Offset in the Consolidated Balance Sheet that are Subject to Master Netting Agreements		Cash Collateral Received	Net Amount of Derivative Assets
		Gross Amount of Eligible Offsetting Recognized Derivative Liabilities			
Derivatives subject to master netting agreements	\$ 561	\$ 38		\$	\$ 523
Derivatives not subject to master netting agreements					
<b>Total</b>	<b>\$ 561</b>				<b>\$ 523</b>

**March 31, 2015**

Edgar Filing: 3M CO - Form 10-Q

(Millions)	Gross Amount of Derivative Liabilities Presented in the Consolidated Balance Sheet	Gross Amounts not Offset in the Consolidated Balance Sheet that are Subject to Master Netting Agreements			Net Amount of Derivative Liabilities
		Gross Amount of Eligible Offsetting Recognized Derivative Assets	Cash Collateral Pledged		
Derivatives subject to master netting agreements	\$ 68	\$ 38	\$	\$	30
Derivatives not subject to master netting agreements	5				5
<b>Total</b>	\$ 73			\$	35

Table of Contents**December 31, 2014**

(Millions)	Gross Amount of Derivative Assets Presented in the Consolidated Balance Sheet	Gross Amounts not Offset in the Consolidated Balance Sheet that are Subject to Master Netting Agreements			Net Amount of Derivative Assets
		Gross Amount of Eligible Offsetting Recognized Derivative Liabilities	Cash Collateral Received		
Derivatives subject to master netting agreements	\$ 256	\$ 20	\$	\$	236
Derivatives not subject to master netting agreements					
<b>Total</b>	<b>\$ 256</b>				<b>236</b>

**December 31, 2014**

(Millions)	Gross Amount of Derivative Liabilities Presented in the Consolidated Balance Sheet	Gross Amounts not Offset in the Consolidated Balance Sheet that are Subject to Master Netting Agreements			Net Amount of Derivative Liabilities
		Gross Amount of Eligible Offsetting Recognized Derivative Assets	Cash Collateral Pledged		
Derivatives subject to master netting agreements	\$ 36	\$ 20	\$	\$	16
Derivatives not subject to master netting agreements	7				7
<b>Total</b>	<b>\$ 43</b>				<b>23</b>

*Currency Effects*

3M estimates that year-on-year currency effects, including hedging impacts, decreased pre-tax income by approximately \$90 million for the three months ended March 31, 2015. 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. 3M estimates that year-on-year derivative and other transaction gains and losses increased pre-tax income by approximately \$40 million for the three months ended March 31, 2015.

Table of Contents

**NOTE 9. Fair Value Measurements**

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

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

For 3M, assets and liabilities that are measured at fair value on a recurring basis primarily relate to available-for-sale marketable securities, available-for-sale investments (included as part of investments in the Consolidated Balance Sheet) and certain derivative instruments. Derivatives include cash flow hedges, interest rate swaps and most net investment hedges. The information in the following paragraphs and tables primarily addresses matters relative to these financial assets and liabilities. Separately, there were no material fair value measurements with respect to nonfinancial assets or liabilities that are recognized or disclosed at fair value in the Company's financial statements on a recurring basis for the three month periods ended March 31, 2015 and 2014.

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

Available-for-sale marketable securities – except certain U.S. municipal securities:

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

Available-for-sale marketable securities – certain U.S. municipal securities only:



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

In the fourth quarter 2014, 3M obtained a municipal bond with the City of Nevada, Missouri, which represent 3M's only U.S. municipal securities holding as of March 31, 2015 and December 31, 2014. Due to the nature of this security, the valuation method utilized will include the financial health of the City of Nevada, any recent municipal bond issuances by Nevada, and macroeconomic considerations related to the direction of interest rates and the health of the overall municipal bond market, and as such will be classified as a level 3 security.

Available-for-sale investments:

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

Derivative instruments:

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

Table of Contents

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

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

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

(Millions) Description	Fair Value at March 31, 2015	Level 1	Fair Value Measurements Using Inputs Considered as Level 2	Level 3
<b>Assets:</b>				
Available-for-sale:				
Marketable securities:				
U.S. government agency securities	\$ 68	\$	\$ 68	\$
Foreign government agency securities	60		60	
Corporate debt securities	551		551	
Certificates of deposit/time deposits	24		24	
Commercial paper	27		27	
Asset-backed securities:				
Automobile loan related	167		167	
Credit card related	66		66	
Equipment lease related	7		7	
Other	46		46	
U.S. municipal securities	15			15
Investments	1	1		
Derivative instruments assets:				
Foreign currency forward/option contracts	529		529	
Commodity price swap contracts	1		1	
Interest rate swap contracts	31		31	
<b>Liabilities:</b>				
Derivative instruments liabilities:				
Foreign currency forward/option contracts	69		69	
Commodity price swap contracts	4		4	

Table of Contents

(Millions) Description	Fair Value at December 31, 2014		Fair Value Measurements Using Inputs Considered as		
			Level 1	Level 2	Level 3
<b>Assets:</b>					
Available-for-sale:					
Marketable securities:					
U.S. government agency securities	\$	108	\$	\$	108
Foreign government agency securities		95			95
Corporate debt securities		619			619
Certificates of deposit/time deposits		41			41
Asset-backed securities:					
Automobile loan related		282			282
Credit card related		162			162
Equipment lease related		48			48
Other		46			46
U.S. treasury securities		38	38		
U.S. municipal securities		15			15
Investments		1	1		
Derivative instruments assets:					
Foreign currency forward/option contracts		229			229
Interest rate swap contracts		27			27
<b>Liabilities:</b>					
Derivative instruments liabilities:					
Foreign currency forward/option contracts		36			36
Commodity price swap contracts		4			4
Interest rate swap contracts		3			3

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

(Millions) Marketable securities auction rate securities and certain U.S. municipal securities only	Three months ended March 31,		
	2015	2014	
Beginning balance	\$	15	\$ 11
Total gains or losses:			
Included in earnings			
Included in other comprehensive income			1
Purchases and issuances			
Sales and settlements			
Transfers in and/or out of Level 3			
Ending balance (March 31)		15	12

Change in unrealized gains or losses for the period included in earnings for securities held at the end of the reporting period

In addition, the plan assets of 3M's pension and postretirement benefit plans are measured at fair value on a recurring basis (at least annually). Refer to Note 10 in 3M's 2014 Annual Report on Form 10-K.

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

Disclosures are required for certain assets and liabilities that are measured at fair value, but are recognized and disclosed at fair value on a nonrecurring basis in periods subsequent to initial recognition. For 3M, such measurements of fair value relate primarily to long-lived asset impairments. There were no material long-lived asset impairments for the three months ended March 31, 2015 and 2014.

Table of Contents*Fair Value of Financial Instruments:*

The Company's financial instruments include cash and cash equivalents, marketable securities, accounts receivable, certain investments, accounts payable, borrowings, and derivative contracts. The fair values of cash and cash equivalents, accounts receivable, accounts payable, and short-term borrowings and current portion of long-term debt approximated carrying values because of the short-term nature of these instruments. Available-for-sale marketable securities and investments, in addition to certain derivative instruments, are recorded at fair values as indicated in the preceding disclosures. For its long-term debt the Company utilized third-party quotes to estimate fair values (classified as level 2). Information with respect to the carrying amounts and estimated fair values of these financial instruments follow:

(Millions)	March 31, 2015		December 31, 2014	
	Carrying Value	Fair Value	Carrying Value	Fair Value
Long-term debt, excluding current portion	\$ 6,459	\$ 6,938	\$ 6,731	\$ 7,203

The fair values reflected above consider the terms of the related debt absent the impacts of derivative/hedging activity. The carrying amount of long-term debt referenced above is impacted by certain fixed-to-floating interest rate swaps that are designated as fair value hedges and by the designation of fixed rate Eurobond securities issued by the Company as hedging instruments of the Company's net investment in its European subsidiaries. Many of 3M's fixed-rate bonds were trading at a premium at March 31, 2015 and December 31, 2014 due to the low interest rates and tightening of 3M's credit spreads.

Table of Contents

**NOTE 10. Commitments and Contingencies**

*Legal Proceedings:*

The Company and some of its subsidiaries are involved in numerous claims and lawsuits, principally in the United States, and regulatory proceedings worldwide. These include various products liability (involving products that the Company now or formerly manufactured and sold), intellectual property, and commercial claims and lawsuits, including those brought under the antitrust laws, and environmental proceedings. Unless otherwise stated, the Company is vigorously defending all such litigation. Additional information about the Company's process for disclosure and recording of liabilities and insurance receivables related to legal proceedings can be found in Note 13 Commitments and Contingencies in the Company's Annual Report on Form 10-K for the year ended December 31, 2014.

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

Respirator Mask/Asbestos Litigation

As of March 31, 2015, the Company is a named defendant, with multiple co-defendants, in numerous lawsuits in various courts that purport to represent approximately 2,150 individual claimants, compared to approximately 2,220 individual claimants with actions pending at December 31, 2014.

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

The Company's current volume of new and pending matters is substantially lower than it experienced at the peak of filings in 2003. The Company expects that filing of claims by unimpaired claimants in the future will continue to be at much lower levels than in the past. Accordingly, the number of claims alleging more serious injuries, including mesothelioma and other malignancies, will represent a greater percentage of total claims than in the past. The Company has prevailed in all nine cases taken to trial, including seven of the eight cases tried to verdict (such trials occurred in 1999, 2000, 2001, 2003, 2004, and 2007), and an appellate reversal in 2005 of the 2001 jury verdict adverse to the Company. The ninth case, tried in 2009, was dismissed by the court at the close of plaintiff's evidence, based on the court's legal finding that the plaintiff had not presented sufficient evidence to support a jury verdict.

The Company has demonstrated in these past trial proceedings that its respiratory protection products are effective as claimed when used in the intended manner and in the intended circumstances. Consequently the Company believes that claimants are unable to establish that their medical

conditions, even if significant, are attributable to the Company's respiratory protection products. Nonetheless the Company's litigation experience indicates that claims of persons with malignant conditions are costlier to resolve than the claims of unimpaired persons, and it therefore believes the average cost of resolving pending and future claims on a per-claim basis will continue to be higher than it experienced in prior periods when the vast majority of claims were asserted by the unimpaired.

As previously reported, the State of West Virginia, through its Attorney General, filed a complaint in 2003 against the Company and two other manufacturers of respiratory protection products in the Circuit Court of Lincoln County, West Virginia and amended its complaint in 2005. The amended complaint seeks substantial, but unspecified, compensatory damages primarily for reimbursement of the costs allegedly incurred by the State for worker's compensation and healthcare benefits provided to all workers with occupational pneumoconiosis and unspecified punitive damages. The case has been inactive since the fourth quarter of 2007, other than a case management conference in March 2011. In November 2013, the State filed a motion to bifurcate the lawsuit into separate liability and damages proceedings. At the hearing on the motion, the Court declined to bifurcate, and set a status conference during the second quarter of 2015. No liability has been recorded for this matter because the Company believes that liability is not probable and estimable at this time. In addition, the Company is not able to estimate a possible loss or range of loss given the lack of any meaningful discovery responses by the State of West Virginia, the otherwise minimal activity in this case and the fact that the complaint asserts claims against two other manufacturers where a defendant's share of liability may turn on the law of joint and several liability and by the amount of fault, if any, a jury might allocate to each defendant if the case is ultimately tried.

*Respirator Mask/Asbestos Liabilities and Insurance Receivables:* The Company estimates its respirator mask/asbestos liabilities, including the cost to resolve the claims and defense costs, by examining: (i) the Company's experience in

Table of Contents

resolving claims, (ii) apparent trends, (iii) the apparent quality of claims (*e.g.*, whether the claim has been asserted on behalf of asymptomatic claimants), (iv) changes in the nature and mix of claims (*e.g.*, the proportion of claims asserting usage of the Company's mask or respirator products and alleging exposure to each of asbestos, silica, coal or other occupational dusts, and claims pleading use of asbestos-containing products allegedly manufactured by the Company), (v) the number of current claims and a projection of the number of future asbestos and other claims that may be filed against the Company, (vi) the cost to resolve recently settled claims, and (vii) an estimate of the cost to resolve and defend against current and future claims.

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

As a result of the Company's cost of resolving claims of persons who claim more serious injuries, including mesothelioma and other malignancies, the Company increased its accruals in the first quarter of 2015 for respirator mask/asbestos liabilities by \$14 million. In the first quarter of 2015, the Company made payments for fees and settlements of \$10 million related to the respirator mask/asbestos litigation. As of March 31, 2015, the Company had accruals for respirator mask/asbestos liabilities of \$144 million (excluding Aearo accruals). This accrual represents the low end in a range of loss. The Company cannot estimate the amount or upper end of the range of amounts by which the liability may exceed the accrual the Company has established because of the (i) inherent difficulty in projecting the number of claims that have not yet been asserted or the time period in which future claims may be asserted, (ii) the complaints nearly always assert claims against multiple defendants where the damages alleged are typically not attributed to individual defendants so that a defendant's share of liability may turn on the law of joint and several liability, which can vary by state, (iii) the multiple factors described above that the Company considers in estimating its liabilities, and (iv) the several possible developments described above that may occur that could affect the Company's estimate of liabilities.

As of March 31, 2015, the Company's receivable for insurance recoveries related to the respirator mask/asbestos litigation was \$41 million. The Company estimates insurance receivables based on an analysis of its policies, including their exclusions, pertinent case law interpreting comparable policies, its experience with similar claims, and assessment of the nature of each claim and remaining coverage, and then records an amount it has concluded is likely to be recovered. Various factors could affect the timing and amount of recovery of this receivable, including (i) delays in or avoidance of payment by insurers; (ii) the extent to which insurers may become insolvent in the future, and (iii) the outcome of negotiations with insurers and legal proceedings with respect to respirator mask/asbestos liability insurance coverage.

The Company has unresolved coverage with claims-made carriers for respirator mask claims. The Company is also seeking coverage under the policies of certain insolvent insurers. Once those claims for coverage are resolved, the Company will have collected substantially all of its remaining insurance coverage for respirator mask/asbestos claims.

Respirator Mask/Asbestos Litigation – Aearo Technologies

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



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

As of March 31, 2015, Aearo and/or other companies that previously owned and operated Aearo's respirator business (American Optical Corporation, Warner-Lambert LLC, AO Corp. and Cabot Corporation ( Cabot )) are named defendants, with multiple co-defendants, including the Company, in numerous lawsuits in various courts in which plaintiffs allege use of mask and respirator products and seek damages from Aearo and other defendants for alleged personal injury from workplace exposures to asbestos, silica-related, or other occupational dusts found in products manufactured by other defendants or generally in the workplace.

As of March 31, 2015, the Company, through its Aearo subsidiary, had accruals of \$23 million for product liabilities and defense costs related to current and future Aearo-related asbestos and silica-related claims. Responsibility for legal costs, as well as for settlements and judgments, is currently shared in an informal arrangement among Aearo, Cabot, American Optical Corporation and a subsidiary of Warner Lambert and their insurers (the Payor Group ). Liability is allocated among the parties based on the number of years each company sold respiratory products under the AO Safety brand and/or owned the AO Safety Division of American Optical Corporation and the alleged years of exposure of the individual plaintiff. Aearo's share of the contingent liability is further limited by an agreement entered into between Aearo and Cabot on July 11, 1995. This agreement provides that, so long as Aearo pays to Cabot a quarterly fee of \$100,000, Cabot will retain responsibility and liability for, and indemnify Aearo against, any product liability claims involving exposure to asbestos, silica, or silica products for respirators sold prior to July 11, 1995. Because of the difficulty in determining how long a particular respirator remains in the stream of commerce after being sold, Aearo and Cabot have applied the agreement to claims arising out of the alleged use of respirators involving exposure to asbestos, silica or silica products prior to January 1, 1997.

Table of Contents

With these arrangements in place, Aearo's potential liability is limited to exposures alleged to have arisen from the use of respirators involving exposure to asbestos, silica, or silica products on or after January 1, 1997. To date, Aearo has elected to pay the quarterly fee. Aearo could potentially be exposed to additional claims for some part of the pre-July 11, 1995 period covered by its agreement with Cabot if Aearo elects to discontinue its participation in this arrangement, or if Cabot is no longer able to meet its obligations in these matters.

In March 2012, Cabot CSC Corporation and Cabot Corporation filed a lawsuit against Aearo in the Superior Court of Suffolk County, Massachusetts seeking declaratory relief as to the scope of Cabot's indemnity obligations under the July 11, 1995 agreement, including whether Cabot has retained liability for coal workers' pneumoconiosis claims, and seeking damages for breach of contract. In June 2014, the court granted Aearo's motion for summary judgment on all claims. Cabot filed a motion for reconsideration, and Aearo filed a motion for clarification of the court's order granting Aearo summary judgment. In October 2014, the court denied Aearo's motion for clarification. The court also denied, in part, Cabot's motion for reconsideration and reaffirmed its ruling that Cabot retained liability for claims involving exposure to silica in coal mine dust. The court granted Cabot's motion, in part, ruling that Aearo was not entitled to summary judgment on Cabot's claim for equitable allocation, and on whether the 258 underlying claims were Cabot's responsibility. These two issues remain in the case for further proceedings and the parties have engaged in discovery related to them. New motions for summary judgment will be presented to the court in the third quarter of 2015.

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

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

Environmental Matters and Litigation

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

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

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

### *Environmental Matters*

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

Table of Contents

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

Regulatory activities concerning PFOA and/or PFOS continue in the United States, Europe and elsewhere, and before certain international bodies. These activities include gathering of exposure and use information, risk assessment, and consideration of regulatory approaches. As the database of studies of both chemicals has expanded, the EPA has developed draft human health effects documents summarizing the available data from these studies. In February 2014, the EPA initiated external peer review of its draft human health effects documents for PFOA and PFOS. The peer review panel met in August 2014. The EPA has stated that following the peer review process it will revise its health effects documents and use them to establish lifetime health advisories for PFOS and PFOA in drinking water. Lifetime health advisories, while not enforceable, serve as guidance and are benchmarks for determining if concentrations of chemicals in tap water from public utilities are safe for public consumption. Once finalized, the EPA stated that the lifetime health advisories are expected to supersede the provisional health advisories for PFOA and PFOS in drinking water issued by the EPA in 2009 – currently at 0.4 micrograms per liter for PFOA and 0.2 micrograms per liter for PFOS. In an effort to collect exposure information under the Safe Drinking Water Act, the EPA published on May 2, 2012 a list of unregulated substances, including six PFCs, required to be monitored during the period 2013-2015 by public water system suppliers to determine the extent of their occurrence.

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

As previously reported, the Company entered into a voluntary remedial action agreement with the Alabama Department of Environmental Management (ADEM) to address the presence of PFCs in the soil at the Company's manufacturing facility in Decatur, Alabama. Pursuant to a permit issued by ADEM, for approximately twenty years, the Company incorporated its wastewater treatment plant sludge containing PFCs in fields at its Decatur facility. After a review of the available options to address the presence of PFCs in the soil, ADEM agreed that the preferred remediation option is to use a multilayer cap over the former sludge incorporation areas on the manufacturing site with subsequent groundwater migration controls and treatment. Implementation of that option will continue and is expected to be completed in 2018.

The Company continues to work with the Minnesota Pollution Control Agency (MPCA) pursuant to the terms of the previously disclosed May 2007 Settlement Agreement and Consent Order to address the presence of certain PFCs in the soil and groundwater at former disposal sites in Washington County, Minnesota (Oakdale and Woodbury) and at the Company's manufacturing facility at Cottage Grove, Minnesota. Under this agreement, the Company's principal obligations include (i) evaluating releases of certain PFCs from these sites and proposing response actions; (ii) providing treatment or alternative drinking water upon identifying any level exceeding a Health Based Value ( HBV ) or Health Risk Limit ( HRL ) (i.e., the amount of a chemical in drinking water determined by the Minnesota Department of Health (MDH) to be safe for human consumption over a lifetime) for certain PFCs for which a HBV and/or HRL exists as a result of contamination from these sites; (iii) remediating identified sources of other PFCs at these sites that are not controlled by actions to remediate PFOA and PFOS; and (iv) sharing information with the MPCA about certain perfluorinated compounds. During 2008, the MPCA issued formal decisions adopting remedial options for the former disposal sites in Washington County, Minnesota (Oakdale and Woodbury). In August 2009, the MPCA issued a formal decision adopting remedial options for the Company's Cottage Grove manufacturing facility. During the spring and summer of 2010, 3M began implementing the agreed upon remedial options at the Cottage Grove and Woodbury sites. 3M commenced the remedial option at the Oakdale site in late 2010. At each location the remedial options were recommended by the Company and approved by the MPCA. Remediation work has been completed at the Oakdale and Woodbury sites, and they are in an operational maintenance mode. Remediation will continue at the Cottage Grove site during 2015.

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

In August 2014, the Illinois EPA approved a request by the Company to establish a groundwater management zone at its manufacturing facility in Cordova, Illinois, which includes ongoing pumping of impacted site groundwater, groundwater monitoring and routine reporting of results.

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

### *Environmental Litigation*

As previously reported, a former employee filed a purported class action lawsuit in 2002 in the Circuit Court of Morgan County, Alabama, seeking unstated damages and alleging that the plaintiffs suffered fear, increased risk, subclinical injuries, and property damage from exposure to certain perfluorochemicals at or near the Company's Decatur, Alabama, manufacturing facility. The court in 2005 granted the Company's motion to dismiss the named plaintiff's personal injury-

Table of Contents

related claims on the basis that such claims are barred by the exclusivity provisions of the state's Workers Compensation Act. The plaintiffs counsel filed an amended complaint in November 2006, limiting the case to property damage claims on behalf of a purported class of residents and property owners in the vicinity of the Decatur plant.

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

In February 2009, a resident of Franklin County, Alabama, filed a purported class action lawsuit in the Circuit Court of Franklin County seeking compensatory damages and injunctive relief based on the application by the Decatur utility's wastewater treatment plant of wastewater treatment sludge to farmland and grasslands in the state that allegedly contain PFOA, PFOS and other perfluorochemicals. The named plaintiff seeks to represent a class of all persons within the State of Alabama who have had PFOA, PFOS, and other perfluorochemicals released or deposited on their property. In March 2010, the Alabama Supreme Court ordered the case transferred from Franklin County to Morgan County. In May 2010, consistent with its handling of the other matters, the Morgan County Circuit Court abated this case, putting it on hold pending the resolution of the class certification issues in the first case filed there. In May 2013, the court placed the case on its administrative docket due to co-defendant Synagro's bankruptcy filing. Pursuant to directions from the Morgan County court, the parties reported that the Synagro Chapter 11 bankruptcy case was concluded and closed in September 2014. The parties will request a status conference with the Morgan County court in the first half of 2015.

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

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

In April 2012, 3M filed a motion to disqualify the State of Minnesota's counsel, Covington & Burling, LLP (Covington). In October 2012, the court granted 3M's motion to disqualify Covington as counsel to the State and the State and Covington appealed the court's disqualification to the Minnesota Court of Appeals. In July 2013, the Minnesota Court of Appeals affirmed the district court's disqualification order. In October 2013, the Minnesota Supreme Court granted both the State's and Covington's petition for review of the decision of the Minnesota Court of Appeals. In April 2014, the Minnesota Supreme Court affirmed in part, reversed in part, and remanded the case to the district court for further proceedings. In a separate but related action, the Company filed suit against Covington for breach of its fiduciary duties to the Company and for breach of contract arising out of Covington's representation of the State of Minnesota in the NRD Lawsuit.

For environmental litigation matters described in this section for which a liability, if any, has been recorded, the Company believes the amount recorded, as well as the possible loss or range of loss in excess of the established accrual is not

Table of Contents

material to the Company's consolidated results of operations or financial condition. For those matters for which a liability has not been recorded, the Company believes such liability is not probable and estimable and the Company is not able to estimate a possible loss or range of loss at this time.

*Environmental Liabilities and Insurance Receivables*

As of March 31, 2015, the Company had recorded liabilities of \$27 million for estimated environmental remediation costs based upon an evaluation of currently available facts with respect to each individual site and also recorded related insurance receivables of \$11 million. The Company records liabilities for remediation costs on an undiscounted basis when they are probable and reasonably estimable, generally no later than the completion of feasibility studies or the Company's commitment to a plan of action. Liabilities for estimated costs of environmental remediation, depending on the site, are based primarily upon internal or third-party environmental studies, and estimates as to the number, participation level and financial viability of any other potentially responsible parties, the extent of the contamination and the nature of required remedial actions. The Company adjusts recorded liabilities as further information develops or circumstances change. The Company expects that it will pay the amounts recorded over the periods of remediation for the applicable sites, currently ranging up to 20 years.

As of March 31, 2015, the Company had recorded liabilities of \$41 million for other environmental liabilities based upon an evaluation of currently available facts to implement the Settlement Agreement and Consent Order with the MPCA, the remedial action agreement with ADEM, and to address trace amounts of perfluorinated compounds in drinking water sources in the City of Oakdale, Minnesota, as well as presence in the soil and groundwater at the Company's manufacturing facilities in Decatur, Alabama, and Cottage Grove, Minnesota, and at two former disposal sites in Washington County, Minnesota (Oakdale and Woodbury). The Company expects that most of the spending will occur over the next four years. As of March 31, 2015, the Company's receivable for insurance recoveries related to other environmental liabilities was \$15 million.

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

Other Matters

*Commercial Litigation*



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

3M sued TransWeb Corporation in Minnesota in 2010 for infringement of several 3M patents covering fluorination and hydrocharging of filter media used in 3M's respirators and furnace filters. TransWeb does not make finished goods, but sells filter media to competitors of 3M's respirator and furnace filter businesses. TransWeb filed a declaratory judgment action in and successfully moved the litigation to the U.S. District Court for the District of New Jersey, seeking a declaration of invalidity and non-infringement of 3M's patents, and further alleging that 3M waited too long to enforce its rights. TransWeb also alleged 3M obtained the patents through inequitable conduct and that 3M's attempt to enforce the patents constituted a violation of the antitrust laws. In November 2012, a jury returned a verdict in favor of TransWeb on all but one count, including findings that 3M's patents were invalid and not infringed, and that 3M had committed an antitrust violation by seeking to enforce a patent it had obtained fraudulently. The jury also recommended that the court find 3M had committed inequitable conduct in obtaining the patents, and that the patents were therefore unenforceable. Since the vast majority of TransWeb's claim for treble antitrust damages was in the form of its attorneys' fees and expenses in connection with the defense of the patent case, the parties agreed that the measure of damages would not go to the jury, but rather would be submitted to a special master after the trial. The special master's recommendations were forwarded to the court in September 2013. On April 21, 2014, the court issued an order denying 3M's motions to set aside the jury's verdict. In addition, the court found two 3M patents unenforceable due to inequitable conduct. The court accepted the Special Master's recommendation as to the amount of attorneys' fees to be awarded as damages, and entered judgment against 3M in the amount of approximately \$26 million. In July 2014, 3M filed a notice of appeal of the

Table of Contents

judgment to the U.S. Court of Appeals for the Federal Circuit. The parties' briefing has been completed. Oral argument is expected in May or June 2015, with a decision to follow thereafter.

No liability has been recorded in the TransWeb matter since the Company believes that such liability is not probable and estimable, but the range of potential exposure, if any, could be approximately \$26 million.

*Product Liability Litigation*

Électricité de France (EDF) filed a lawsuit against 3M France in the French courts in 2006 claiming commercial loss and property damage after experiencing electrical network failures which EDF claims were caused by allegedly defective 3M transition splices. The French Court of Appeals at Versailles affirmed the commercial trial court's decision that the transition splices conformed to contract specifications and that EDF thoroughly analyzed and tested the splices before purchase and installation. The Court of Appeals, however, ordered a court-appointed expert to study the problem and issue a technical opinion on the cause of the network failures. The court-appointed expert submitted his report to the commercial court in May 2014. The expert found potential defects in 3M's product and found that EDF incurred damages in excess of 100 million Euros. The expert's opinion is not dispositive of liability or damages and is subject to numerous factual and legal challenges that will be raised with the court. The parties are briefing the court on their respective positions. Once the briefing is complete, the commercial court may take from six months to one year to render its decision.

One customer obtained an order in the French courts against 3M Purification SAS (a French subsidiary) in October 2011 appointing an expert to determine the amount of commercial loss and property damage allegedly caused by allegedly defective 3M filters used in the customer's manufacturing process. An Austrian subsidiary of this same customer also filed a claim against 3M Austria GmbH (an Austrian subsidiary) and 3M Purification SAS in the Austrian courts in September 2012 seeking damages for the same issue. Another customer filed a lawsuit against 3M Deutschland GmbH (a German subsidiary) in the German courts in March 2012 seeking commercial loss and property damage allegedly caused by the same 3M filters used in that customer's manufacturing process. The Company has resolved on an amicable basis claims of two other customers arising out of the same issue for an amount that is not material to the Company's consolidated results of operations or financial condition.

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

Table of Contents**NOTE 11. Stock-Based Compensation**

The 3M 2008 Long-Term Incentive Plan, as discussed in 3M's 2014 Annual Report on Form 10-K, provides for the issuance or delivery of up to 100 million shares of 3M common stock pursuant to awards granted under the plan (including additional shareholder approvals subsequent to 2008). Awards under this plan may be issued in the form of incentive stock options, nonqualified stock options, progressive stock options, stock appreciation rights, restricted stock units, restricted stock, other stock awards, and performance units and performance shares. The remaining total shares available for grant under the 2008 Long Term Incentive Plan Program are 19,593,667 as of March 31, 2015.

The Company's annual stock option and restricted stock unit grant is made in February to provide a strong and immediate link between the performance of individuals during the preceding year and the size of their annual stock compensation grants. The grant to eligible employees uses the closing stock price on the grant date. Accounting rules require recognition of expense under a non-substantive vesting period approach, requiring compensation expense recognition when an employee is eligible to retire. Employees are considered eligible to retire at age 55 and after having completed five years of service. This retiree-eligible population represents 35 percent of the 2015 annual grant stock-based compensation award expense dollars; therefore, higher stock-based compensation expense is recognized in the first quarter.

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

Amounts recognized in the financial statements with respect to stock-based compensation programs, which include stock options, restricted stock units, restricted stock, performance shares and the General Employees' Stock Purchase Plan (GESPP), are provided in the following table. Capitalized stock-based compensation amounts were not material for the three months ended March 31, 2015 and 2014.

**Stock-Based Compensation Expense**

(Millions)	Three months ended	
	2015	March 31, 2014
Cost of sales	\$ 23	\$ 22
Selling, general and administrative expenses	88	77
Research, development and related expenses	27	23
Stock-based compensation expenses	\$ 138	\$ 122
Income tax benefits	\$ (47)	\$ (40)
Stock-based compensation expenses, net of tax	\$ 91	\$ 82

Table of Contents

The following table summarizes stock option activity during the three months ended March 31, 2015:

**Stock Option Program**

	Number of Options	Weighted Average Exercise Price	Weighted Average Remaining Contractual Life (months)	Aggregate Intrinsic Value (millions)
Under option				
January 1	39,235,557	\$ 90.38		
Granted:				
Annual	5,529,615	165.91		
Exercised	(3,164,169)	84.03		
Canceled	(25,786)	130.40		
March 31	41,575,217	\$ 100.89	72	\$ 2,669
Options exercisable				
March 31	30,089,556	\$ 85.71	58	\$ 2,384

Stock options vest over a period from one year to three years with the expiration date at 10 years from date of grant. As of March 31, 2015, there was \$123 million of compensation expense that has yet to be recognized related to non-vested stock option based awards. This expense is expected to be recognized over the remaining weighted-average vesting period of 27 months. The total intrinsic values of stock options exercised were \$258 million and \$143 million during the three months ended March 31, 2015 and 2014, respectively. Cash received from options exercised was \$266 million and \$229 million for the three months ended March 31, 2015 and 2014, respectively. The Company's actual tax benefits realized for the tax deductions related to the exercise of employee stock options were \$96 million and \$52 million for the three months ended March 31, 2015 and 2014, respectively.

For the primary 2015 annual stock option grant, the weighted average fair value at the date of grant was calculated using the Black-Scholes option-pricing model and the assumptions that follow.

Stock Option Assumptions	Annual 2015
Exercise price	\$ 165.94
Risk-free interest rate	1.5%
Dividend yield	2.5%
Expected volatility	20.1%
Expected life (months)	76
Black-Scholes fair value	\$ 23.98

Expected volatility is a statistical measure of the amount by which a stock price is expected to fluctuate during a period. For the 2015 annual grant date, the Company estimated the expected volatility based upon the average of the most recent one year volatility, the median of the term of the expected life rolling volatility, the median of the most recent term of the expected life volatility of 3M stock, and the implied volatility on the grant date. The expected term assumption is based on the weighted average of historical grants.



Table of Contents

The following table summarizes restricted stock and restricted stock unit activity during the three months ended March 31, 2015:

**Restricted Stock Units and Restricted Stock**

<b>Restricted Stock Units and Restricted Stock</b>	<b>Number of Awards</b>	<b>Weighted Average Grant Date Fair Value</b>
Nonvested balance		
As of January 1	2,817,786	\$ 104.41
Granted:		
Annual	671,204	165.86
Other	6,435	163.01
Vested	(931,210)	90.38
Forfeited	(12,372)	104.19
As of March 31	2,551,843	\$ 125.84

As of March 31, 2015, there was \$140 million of compensation expense that has yet to be recognized related to non-vested restricted stock units and restricted stock. This expense is expected to be recognized over the remaining weighted-average vesting period of 28 months. The total fair value of restricted stock units and restricted stock that vested during the three months ended March 31, 2015 and 2014 was \$155 million and \$138 million, respectively. The Company's actual tax benefits realized for the tax deductions related to the vesting of restricted stock units and restricted stock was \$58 million and \$52 million for the three months ended March 31, 2015 and 2014, respectively.

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

**Performance Shares**

Instead of restricted stock units, the Company makes annual grants of performance shares to members of its executive management. The 2015 performance criteria for these performance shares (organic sales volume growth, return on invested capital, free cash flow conversion, and EPS growth) were selected because the Company believes that they are important drivers of long-term stockholder value. The number of shares of 3M common stock that could actually be delivered at the end of the three-year performance period may be anywhere from 0% to 200% of each performance share granted, depending on the performance of the Company during such performance period. Non-substantive vesting requires that expense for the performance shares be recognized over one or three years depending on when each individual became a 3M executive. Performance shares do not accrue dividends during the performance period. Therefore, the grant date fair value is determined by reducing the closing stock price on the date of grant by the net present value of dividends during the performance period.



Table of Contents

The following table summarizes performance share activity during the three months ended March 31, 2015:

Performance Shares	Number of Awards	Weighted Average Grant Date Fair Value
Undistributed balance		
As of January 1	1,099,752	\$ 102.65
Granted	220,439	159.32
Distributed	(323,717)	83.07
Performance change	(18,723)	122.45
Forfeited	(2,682)	100.23
As of March 31	975,069	\$ 121.59

As of March 31, 2015, there was \$49 million of compensation expense that has yet to be recognized related to performance shares. This expense is expected to be recognized over the remaining weighted-average earnings period of 11 months. During the three months ended March 31, 2015 and March 31, 2014, the total fair value of performance shares that were distributed were \$54 million and \$35 million, respectively. The Company's actual tax benefits realized for the tax deductions related to the distribution of performance shares for the three months ended March 31, 2015 and March 31, 2014 were \$15 million and \$11 million, respectively.



Table of Contents**NOTE 12. Business Segments**

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

**Business Segment Information**

(Millions)	Three months ended	
	2015	March 31, 2014
<b>Net Sales</b>		
Industrial	\$ 2,658	\$ 2,776
Safety and Graphics	1,372	1,423
Electronics and Energy	1,322	1,311
Health Care	1,329	1,374
Consumer	1,048	1,079
Corporate and Unallocated	2	3
Elimination of Dual Credit	(153)	(135)
<b>Total Company</b>	<b>\$ 7,578</b>	<b>\$ 7,831</b>
<b>Operating Income</b>		
Industrial	\$ 598	\$ 618
Safety and Graphics	335	318
Electronics and Energy	283	227
Health Care	408	427
Consumer	240	228
Corporate and Unallocated	(100)	(72)
Elimination of Dual Credit	(34)	(30)
<b>Total Company</b>	<b>\$ 1,730</b>	<b>\$ 1,716</b>

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

3M business segment reporting measures include dual credit to business segments for certain U.S. sales and related operating income. Management evaluates each of its five operating business segments based on net sales and operating income performance, including dual credit U.S. reporting to further incentivize U.S. sales growth. As a result, 3M provides additional ( dual ) credit to those business segments selling

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

products in the U.S. to an external customer when that segment is not the primary seller of the product. For example, certain respirators are primarily sold by the Personal Safety Division within the Safety and Graphics business segment; however, the Industrial business segment also sells this product to certain customers in its U.S. markets. In this example, the non-primary selling segment (Industrial) would also receive credit for the associated net sales it initiated and the related approximate operating income. The assigned operating income related to dual credit activity may differ from operating income that would result from actual costs associated with such sales. The offset to the dual credit business segment reporting is reflected as a reconciling item entitled Elimination of Dual Credit, such that sales and operating income for the U.S. in total are unchanged.

Table of Contents

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

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

We have reviewed the accompanying consolidated balance sheet of 3M Company and its subsidiaries as of March 31, 2015, and the related consolidated statements of income, comprehensive income, and cash flows for the three-month periods ended March 31, 2015 and 2014. These interim financial statements are the responsibility of the Company's management.

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

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

We previously audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheet as of December 31, 2014, and the related consolidated statements of income, comprehensive income, changes in equity, and cash flows for the year then ended (not presented herein), and in our report dated February 12, 2015, we expressed an unqualified opinion on those consolidated financial statements. In our opinion, the information set forth in the accompanying consolidated balance sheet information as of December 31, 2014, is fairly stated in all material respects in relation to the consolidated balance sheet from which it has been derived.

/s/ PricewaterhouseCoopers LLP

PricewaterhouseCoopers LLP

Minneapolis, Minnesota

April 30, 2015

---

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



Table of Contents

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

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

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

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

**OVERVIEW**

3M is a diversified global manufacturer, technology innovator and marketer of a wide variety of products and services. 3M manages its operations in five operating business segments: Industrial; Safety and Graphics; Electronics and Energy; Health Care; and Consumer. From a geographic perspective, any references to EMEA refer to Europe, Middle East and Africa on a combined basis.

***First quarter of 2015 results:***

3M faced a challenging economic backdrop in the first quarter of 2015. The stronger U.S. dollar negatively impacted sales and earnings in the first quarter, and global economic growth was mixed. Despite these near-term challenges, 3M experienced organic local-currency growth in all business segments and major geographic areas, and also expanded operating income margins by nearly a full percentage point.

3M continued to invest for long-term success through research and development, commercialization and acquisitions. In February, 3M announced its plan to acquire Polypore's Separations Media business for approximately \$1.0 billion, which will enhance 3M's existing filtration platform and help generate new growth opportunities across the company.

First-quarter 2015 sales decreased 3.2 percent to \$7.6 billion, as foreign currency translation reduced worldwide sales by 6.5 percent. 3M achieved organic local-currency sales growth (which includes organic volume impacts plus selling price impacts) in all five of its business segments. Organic local-currency sales increased 5.8 percent in Electronics and Energy, 4.1 percent in Safety and Graphics, 3.0 percent in Health Care, 2.7 percent in Industrial, and 2.1 percent in Consumer. For the Company in total, organic local-currency sales grew 3.3 percent, with higher organic volumes contributing 2.3 percent and selling price increases contributing 1.0 percent.

Two Health Care related acquisitions, namely Ivera Medical Corp. (March 2015) and Treo Solutions LLC (April 2014), added 0.1 percent to organic local-currency sales growth. Ivera Medical Corp. is a manufacturer of health care products that disinfect and protect devices used for access into a patient's bloodstream. Treo Solutions LLC is a provider of data analytics and business intelligence to healthcare payers and providers. This acquisition growth was offset by the static control business divestiture which reduced sales by 0.1 percent.

On a geographic basis, foreign currency translation reduced year-on-year sales by 16.2 percent in EMEA, 12.3 percent in Latin America/Canada, and 4.3 percent in Asia Pacific. In particular, 3M experienced an 18 percent year-on-year first-quarter decline in the average Euro rate versus the U.S. dollar, while the Yen declined 14 percent and the Brazilian Real declined 19 percent.

In Asia Pacific, organic local-currency sales grew 5.6 percent. China/Hong Kong organic local-currency sales grew 7 percent, or 8 percent excluding electronics. Japan organic local-currency growth was up slightly in the first quarter of 2015 against a challenging comparison. Japan's organic growth was 20 percent in the first quarter of 2014 leading up to the April 2014 consumption tax increase. All five business segments within Asia Pacific generated positive organic local-currency sales growth, led by Safety and Graphics at 9 percent, Health Care at 8 percent, and Electronics and Energy at 7 percent.

Table of Contents

In Latin America/Canada, organic local-currency sales grew 3.6 percent, led by Industrial, Safety and Graphics, and Health Care, all of which posted approximately 5 percent growth. Latin America/Canada organic local-currency sales growth was up 15 percent in Mexico, while Brazil was down 2 percent.

In the United States, organic local-currency sales growth was 3.1 percent. Organic local-currency sales growth was led by Industrial, Health Care, and Consumer, each growing at 4 percent, while Safety and Graphics, and Electronics and Energy, each grew 3 percent.

In EMEA, organic local-currency sales increased 0.3 percent. Central/East Europe grew 3 percent, while West Europe was flat, and Middle East/Africa declined slightly. Sales growth in EMEA was led by Electronics and Energy at 4 percent, and Safety and Graphics at 1 percent, while the other 3 business segments experienced slight declines.

Operating income increased 0.8 percent in the first quarter and operating margins were 22.8 percent, an increase of 0.9 percentage points year-on-year. Operating income margins increased due to the combination of selling price increases and raw material cost decreases, leverage from organic volume growth, and productivity. These factors were partially offset by higher defined benefit pension and postretirement expense, the impact of strategic investments, and margin dilution from first-year acquisitions. Refer to the section entitled Results of Operations for further discussion.

Net income attributable to 3M was \$1.199 billion, or \$1.85 per diluted share, in the first quarter of 2015, compared to \$1.207 billion, or \$1.79 per diluted share, in the first quarter of 2014. Operational benefits increased earnings by 14 cents per diluted share, which is net of a reduction of 4 cents per diluted share related to higher defined benefit pension and postretirement expenses. Operational benefits included the combination of higher selling prices and lower raw material costs, in addition to organic volume leverage and productivity. Weighted-average diluted shares outstanding in the first quarter of 2015 declined 3.7 percent year-on-year to 649.2 million, which increased earnings by approximately 7 cents per diluted share.

Factors which decreased earnings per share included foreign currency impacts and higher tax rates. Foreign currency impacts decreased pre-tax earnings by approximately \$90 million, or the equivalent of 10 cents per diluted share, excluding the impact of foreign currency changes on tax rates. The income tax rate was 29.5 percent in the first quarter, up 2.1 percentage points versus last year's first quarter, which decreased earnings by approximately 5 cents per diluted share. The income tax rate increased due to a 2014 tax deduction which did not repeat, adjustments to income tax reserves, and international taxes, including changes in foreign currency rates and changes to the geographic mix of income before taxes.

***Managing currency risks:***

As discussed above, the stronger U.S. dollar negatively impacted sales and earnings in the first quarter of 2015. 3M utilizes a number of tools to hedge currency risk related to earnings. 3M uses natural hedges such as pricing, productivity, hard currency billings, and localizing source of supply. 3M also uses financial hedges to mitigate currency risk. In the case of more liquid currencies, 3M hedges a portion of its aggregate exposure, using a 12, 24 or 36 month horizon, depending on the currency in question. In mid-2014, 3M began extending its hedging tenor for several major currencies, most notably the Euro and Yen, out as far as 24 months, and in the first quarter of 2015 extended this to 36 months. These longer-dated hedges will help to reduce currency headwinds into 2016 and early 2017, based on exchange rates at March 31, 2015.

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

Previously, 3M had limited its hedge horizon to 12 months. For less liquid currencies, financial hedging is frequently more expensive with more limitations on tenor. Thus this risk is largely managed via local operational actions using natural hedging tools as discussed above. In either case, 3M's hedging approach is designed to reduce volatility, and ultimately to allow time for 3M's businesses to respond to changes in the marketplace.

### *Sales and operating income by business segment:*

The following table contains sales and operating income results by business segment for the three months ended March 31, 2015 and 2014. In addition to the discussion below, refer to the section entitled "Performance by Business Segment" later in MD&A for a more detailed discussion of the sales and income results of the Company and its respective business segments (including Corporate and Unallocated). Refer to Note 12 for additional information on business segments, including Elimination of Dual Credit.



Table of Contents

(Dollars in millions)	Three months ended March 31,							
	2015		2014		% change			
	Net Sales	Operating Income	Net Sales	Operating Income	Net Sales	Operating Income	Net Sales	Operating Income
<b>Business Segments</b>								
Industrial	\$ 2,658	\$ 598	\$ 2,776	\$ 618	(4.3)%	(3.3)%		
Safety and Graphics	1,372	335	1,423	318	(3.6)	5.3		
Electronics and Energy	1,322	283	1,311	227	0.8	24.3		
Health Care	1,329	408	1,374	427	(3.3)	(4.3)		
Consumer	1,048	240	1,079	228	(2.9)	5.2		
Corporate and Unallocated	2	(100)	3	(72)				
Elimination of Dual Credit	(153)	(34)	(135)	(30)				
Total Company	\$ 7,578	\$ 1,730	\$ 7,831	\$ 1,716	(3.2)%	0.8%		

Sales in U.S. dollars in the first quarter of 2015 decreased 3.2 percent, substantially impacted by foreign currency translation, which reduced sales by 6.5 percent. Sales in U.S. dollars increased in Electronics and Energy by 0.8 percent, but declined in Consumer by 2.9 percent, Health Care by 3.3 percent, Safety and Graphics by 3.6 percent, and Industrial by 4.3 percent. Total company organic local-currency sales increased 3.3 percent, with growth in all five business segments. In addition, all five business segments achieved operating income margins in excess of 21 percent. Worldwide operating income margins for the first quarter of 2015 were 22.8 percent, compared to 21.9 percent for the first quarter of 2014.

**Financial condition:**

3M generated \$1.080 billion of operating cash flows in the first three months of 2015, a decrease of \$12 million when compared to the first three months of 2014. Refer to the section entitled *Financial Condition and Liquidity* later in MD&A for a discussion of items impacting cash flows.

In February 2014, 3M's Board of Directors authorized the repurchase of up to \$12 billion of 3M's outstanding common stock, with no pre-established end date. In the first quarter of 2015, the Company purchased \$886 million of stock, compared to \$1.708 billion of stock purchases in the first quarter of 2014. As of March 31, 2015, approximately \$5.9 billion remained available under the February 2014 authorization. The Company expects to purchase \$3 billion to \$5 billion of stock in 2015. In December 2014, 3M's Board of Directors declared a first-quarter 2015 dividend of \$1.025 per share, an increase of 20 percent. This marked the 57th consecutive year of dividend increases for 3M.

3M's debt to total capital ratio (total capital defined as debt plus equity) was 32 percent at March 31, 2015 and 34 percent at December 31, 2014. 3M has an AA- credit rating with a stable outlook from Standard & Poor's and an Aa3 credit rating with a negative outlook from Moody's Investors Service. The Company generates significant ongoing cash flow and has proven access to capital markets funding throughout business cycles.

3M has updated its effective tax rate estimate for total year 2015 to 28.5 to 29.5 percent (from 28.0 to 29.0 percent), as a result of the geographic mix of income and foreign currency effects. This estimate also assumes that the U.S. research and development credit will be reinstated for 2015.

*Pension and postretirement defined benefit plans:*

3M expects to contribute approximately \$200 million of cash to its global defined benefit pension and postretirement plans in 2015. The Company does not have a required minimum cash pension contribution obligation for its U.S. plans in 2015. 3M expects global defined benefit pension and postretirement expense in 2015 (before settlements, curtailments, special termination benefits and other) to increase by approximately \$210 million pre-tax when compared to 2014. This increase primarily related to lower discount rates and the adoption of new mortality tables. Refer to Note 7 (Pension and Postretirement Benefit Plans) for additional information concerning 3M's pension and post-retirement plans.

Table of Contents**RESULTS OF OPERATIONS**

Percent change information compares the first quarter of 2015 with the same period last year, unless otherwise indicated.

*Net Sales:*

	Three months ended March 31, 2015						Worldwide
	United States	Asia Pacific	Europe, Middle East & Africa	Latin America/Canada	Other Unallocated		
Net sales (millions)	\$ 2,859	\$ 2,390	\$ 1,566	\$ 767	\$ (4)	\$	\$ 7,578
% of worldwide sales	37.7%	31.5%	20.7%	10.1%			100.0%
Components of net sales change:							
Volume organic	2.5%	5.4%	(1.2)%	(0.2)%			2.3%
Price	0.6	0.2	1.5	3.8			1.0
Organic local-currency sales	3.1	5.6	0.3	3.6			3.3
Acquisitions	0.4						0.1
Divestitures	(0.3)	(0.1)		(0.1)			(0.1)
Translation		(4.3)	(16.2)	(12.3)			(6.5)
Total sales change	3.2%	1.2%	(15.9)%	(8.8)%			(3.2)%

Sales in the first quarter of 2015 decreased 3.2 percent when compared to the first quarter of 2014. Organic local-currency sales grew 3.3 percent, with increases of 5.6 percent in Asia Pacific, 3.6 percent in Latin America/Canada, 3.1 percent in the United States, and 0.3 percent in Europe, Middle East and Africa. Organic local-currency sales growth was 6.4 percent across all developing markets, and was 1.7 percent in developed markets. Currency impacts reduced first quarter 2015 worldwide sales growth by 6.5 percent.

Worldwide selling prices rose 1.0 percent in the first quarter of 2015. 3M continues to generate positive selling price changes across most of its businesses, boosted by world-class innovation and strong new product flow, both of which are important elements of the 3M business model. In addition, 3M has been raising selling prices in certain developing countries to help offset the impact of currency devaluations.

*Operating Expenses:*

(Percent of net sales)	Three months ended		Change
	2015	March 31, 2014	
Cost of sales	50.5%	51.5%	(1.0)%
Selling, general and administrative expenses	20.6	20.8	(0.2)
Research, development and related expenses	6.1	5.8	0.3
Operating income	22.8%	21.9%	0.9%

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

As discussed in the overview section, 3M expects defined benefit pension and postretirement expense for total year 2015 to increase by approximately \$210 million pre-tax (excluding curtailment gains) when compared to 2014, which impacts cost of sales; selling, general and administrative expenses (SG&A); and research, development and related expenses (R&D). Refer to the 3M's 2014 Annual Report on Form 10-K (MD&A section entitled Critical Accounting Estimates - Pension and Postretirement Obligations and Note 10, Pension and Postretirement Plans) for background concerning this increase, as both lower discount rates and new mortality tables were the primary factors that resulted in increased expenses in 2015. The year-on-year increase in defined benefit pension and postretirement expense for the first quarter was \$36 million, which includes the impact of a first-quarter 2015 Japan pension curtailment gain of \$17 million.

The Company is investing in an initiative called business transformation. This encompasses the ongoing multi-year phased implementation of an enterprise resource planning (ERP) system on a worldwide basis, as well as changes in processes and internal/external service delivery across 3M.

Table of Contents

***Cost of Sales:***

Cost of sales includes manufacturing, engineering and freight costs.

Cost of sales as a percent of net sales was 50.5 percent in the first quarter of 2015 compared to 51.5 percent in the first quarter of 2014. Cost of sales, measured as a percent of sales, decreased due to selling price increases and raw material cost decreases. Selling prices increased net sales by 1.0 percent and raw material cost deflation was favorable by approximately 2 percent year-on-year. In addition, organic volume leverage decreased cost of sales as a percent of sales. This was partially offset by higher defined benefit pension and postretirement expense (of which a portion impacts cost of sales).

***Selling, General and Administrative Expenses:***

SG&A decreased 4.2 percent in the first quarter of 2015 when compared to the first quarter of 2014, benefitting from foreign currency translation and strong productivity. These benefits were partially offset by continued investments in business transformation, and higher defined benefit pension and postretirement expense. SG&A, measured as a percent of sales, was 20.6 percent of sales in the first quarter of 2015 compared to 20.8 percent in the first quarter of 2014.

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

R&D expense increased 2.4 percent in the first quarter of 2015 when compared to the same period last year. 3M continued to invest in its key growth initiatives, including more R&D aimed at disruptive innovation programs with the potential to create entirely new markets and disrupt existing markets. These increases were also impacted by higher defined benefit pension and postretirement expense. R&D, measured as a percent of sales, increased to 6.1 percent of sales in the first three months of 2015, compared to 5.8 percent of sales in the first three months of 2014.

***Operating Income:***

Operating income margins were 22.8 percent in the first quarter of 2015 compared to 21.9 in the first quarter of 2014, an improvement of 0.9 percentage points. These results included a 1.2 percentage point benefit from the combination of higher selling prices and lower raw material costs, plus a 0.2 percentage point benefit from profit leverage on organic volume growth. Productivity also added a 0.3 percentage point benefit, helped by portfolio prioritization. Foreign exchange impacts, net of hedge gains, had no impact on operating income margins. Items that reduced operating income margins included higher year-on-year defined benefit pension and postretirement expense, which reduced operating income margins by 0.5 percentage points. In addition, strategic investments reduced operating income margins by 0.2 percentage points. Strategic investments included incremental programs around disruptive R&D and business transformation, which are expected to strengthen 3M for the future. Lastly, first-year acquisitions reduced operating income margins by 0.1 percentage points.

*Interest Expense and Income:*

(Millions)	Three months ended			
		2015	March 31,	2014
Interest expense	\$		31	\$ 37
Interest income			(4)	(9)
Total	\$		27	\$ 28

Interest expense was lower in the first quarter of 2015 compared to the same period last year, primarily due to lower U.S. borrowing costs as prior year debt maturities were replaced with lower cost financing on new debt issuances. Interest income decreased when comparing the first quarter of 2015 to the same period last year due to derivative instrument impacts.

Table of Contents***Provision for Income Taxes:***

(Percent of pre-tax income)	Three months ended	
	2015	March 31, 2014
Effective tax rate	29.5%	27.4%

The effective tax rate for the first quarter of 2015 was 29.5 percent, compared to 27.4 percent in the first quarter of 2014, an increase of 2.1 percentage points. Primary factors that increased the Company's effective tax rate on a combined basis by 2.1 percentage points year-on-year included the 2014 restoration of tax basis on certain assets for which depreciation deductions were previously limited, adjustments to 3M's income tax reserves for the first quarter of 2015 when compared to the same period in 2014, and international taxes, including changes in foreign currency rates and changes to the geographic mix of income before taxes. Refer to Note 5 for further discussion of income taxes.

The company updated its tax rate guidance for total year 2015 to 28.5 to 29.5 percent (from 28.0 to 29.0 percent) as a result of the geographic mix of income and foreign currency effects. This continues to assume that the U.S. research and development credit will be reinstated for 2015. 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 geographic mix of income before taxes and foreign currency effects.

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

(Millions)	Three months ended	
	2015	March 31, 2014
Net income attributable to noncontrolling interest	\$ 2	\$ 18

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 first-quarter year-on-year change in noncontrolling interest amounts was largely related to Sumitomo 3M Limited (Japan), which historically was 3M's most significant consolidated entity with non-3M ownership interests. As discussed in Note 5 in 3M's 2014 Annual Report on Form 10-K, on September 1, 2014, 3M purchased the remaining 25 percent ownership in Sumitomo 3M Limited, bringing 3M's ownership to 100 percent. Thus, effective September 1, 2014, net income attributable to noncontrolling interest was significantly reduced. The primary remaining noncontrolling interest relates to 3M India Limited, of which 3M's effective ownership is 75 percent.

***Currency Effects:***

3M estimates that year-on-year currency effects, including hedging impacts, decreased pre-tax income by approximately \$90 million for the three months ended March 31, 2015. 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. 3M estimates that year-on-year derivative and other transaction gains and losses increased pre-tax income by approximately \$40 million for the three months ended March 31, 2015.

*Significant Accounting Policies:*

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



Table of Contents

**PERFORMANCE BY BUSINESS SEGMENT**

Disclosures related to 3M's business segments are provided in Note 12. The reportable segments are Industrial; Safety and Graphics; Electronics and Energy; Health Care; and Consumer.

***Corporate and Unallocated:***

In addition to these five operating business segments, 3M assigns certain costs to Corporate and Unallocated, which is presented separately in the preceding business segments table and in Note 12. Corporate and Unallocated includes a variety of miscellaneous items, such as corporate investment gains and losses, certain derivative gains and losses, certain insurance-related gains and losses, certain litigation and environmental expenses, corporate restructuring charges and certain under- or over-absorbed costs (e.g. pension, stock-based compensation) that the Company may choose not to allocate directly to its business segments. Because this category includes a variety of miscellaneous items, it is subject to fluctuation on a quarterly and annual basis.

Corporate and Unallocated operating income decreased by \$28 million in the first quarter of 2015 when compared to the same period last year, reflecting higher defined benefit pension and postretirement expense. 3M's defined benefit pension and postretirement expense increased in total by \$36 million when comparing first-quarter 2015 to first-quarter 2014, with \$27 million of this increase allocated to Corporate and Unallocated. This \$27 million net year-on-year increase included defined benefit pension and postretirement expense allocations to Corporate and Unallocated of \$44 million, which were partially offset by a first-quarter 2015 Japan pension curtailment gain of \$17 million.

***Operating Business Segments:***

Information related to 3M's business segments for the first quarter of both 2015 and 2014 is presented in the tables that follow. Organic local-currency sales include both organic volume impacts plus selling price impacts. Acquisition impacts, if any, are measured separately for the first twelve months of the acquisition. The divestiture impacts, if any, foreign currency translation impacts and total sales change are also provided for each business segment. Any references to EMEA relate to Europe, Middle East and Africa on a combined basis.

Table of Contents**Industrial Business:**

	Three months ended			
	March 31,			
	2015		2014	
Sales (millions)	\$	2,658	\$	2,776
Sales change analysis:				
Organic local currency		2.7%		4.9%
Translation		(7.0)		(1.8)
Total sales change		(4.3)%		3.1%
Operating income (millions)	\$	598	\$	618
Percent change		(3.3)%		6.7%
Percent of sales		22.5%		22.3%

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

Sales in Industrial totaled \$2.7 billion, down 4.3 percent in U.S. dollars. Organic local-currency sales increased 2.7 percent, and foreign currency translation reduced sales by 7.0 percent. On an organic local-currency basis, sales growth was led by aerospace and commercial transportation, automotive OEM, and 3M Purification Inc. Organic local-currency sales also grew in advanced materials, and industrial adhesives and tapes.

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

Operating income was \$598 million in the first quarter of 2015, a decrease of 3.3 percent. Operating income margins increased by 0.2 percentage points to 22.5 percent, helped by the combination of selling price increases and raw material cost decreases.

3M continues to invest for the future within Industrial. During the first quarter of 2015, 3M announced its intent to acquire Polypore's Separations Media business for approximately \$1 billion. This business is a provider of microporous membranes and modules for filtration in the life sciences, industrial, and specialty segments. This acquisition will enhance 3M's core filtration platform and help generate new growth opportunities across the company.

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

	Three months ended			
	March 31,		2014	
	2015		2014	
Sales (millions)	\$	1,372	\$	1,423
Sales change analysis:				
Organic local currency		4.1%		4.6%
Translation		(7.7)		(2.9)
Total sales change		(3.6)%		1.7%
Operating income (millions)	\$	335	\$	318
Percent change		5.3%		(4.2)%
Percent of sales		24.4%		22.3%

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

Sales in Safety and Graphics totaled \$1.4 billion, down 3.6 percent in U.S. dollars. Organic local-currency sales increased 4.1 percent, and foreign currency translation reduced sales by 7.7 percent.

On an organic local-currency basis, sales growth was led by personal safety, as 3M continues to see strong demand for its safety solutions for the manufacturing sector. In addition, 3M respirators are continuing to sell well in China, where air quality is an ongoing concern. Organic local-currency sales also grew in commercial solutions, and traffic safety and security. Sales in roofing granules declined year-on-year.

Organic local-currency sales increased 9 percent in Asia Pacific, 5 percent in Latin America/Canada, 3 percent in the United States, and 1 percent in EMEA.

Operating income in the first quarter of 2015 totaled \$335 million, up 5.3 percent. Operating income margins were 24.4 percent of sales, compared to 22.3 percent in the first quarter of 2014. Operating income margins continue to be boosted by strong productivity and a keen focus on prioritization and portfolio management.

Table of Contents*Electronics and Energy Business:*

	Three months ended March 31,			
	2015		2014	
Sales (millions)	\$	1,322	\$	1,311
Sales change analysis:				
Organic local currency		5.8%		4.1%
Divestitures		(0.9)		
Translation		(4.1)		(1.4)
Total sales change		0.8%		2.7%
Operating income (millions)	\$	283	\$	227
Percent change		24.3%		16.1%
Percent of sales		21.4%		17.3%

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

Electronics and Energy sales totaled \$1.3 billion, up 0.8 percent in U.S. dollars. Organic local-currency sales increased 5.8 percent, and foreign currency translation reduced sales by 4.1 percent. Divestitures reduced sales by 0.9 percent, as 3M completed the sale of its static control business in January 2015 (discussed in Note 2).

Organic local-currency sales increased approximately 12 percent in 3M's electronics-related businesses, with strong growth in both electronics materials solutions and display materials and systems, as 3M continues to see strong consumer demand enhanced by spec-in wins at several OEMs. In 3M's energy-related businesses, organic local-currency sales decreased approximately 3 percent. The electronics markets business was flat, while telecommunications and renewable energy both declined year-on-year.

On a geographic basis, organic local-currency sales increased 7 percent in Asia Pacific, 4 percent in EMEA, and 3 percent in both Latin America/Canada and the United States.

Operating income increased 24.3 percent to \$283 million in the first quarter of 2015. Operating income margins were 21.4 percent, compared to 17.3 percent in the first quarter of 2014. Recent portfolio management actions are improving 3M's relevance with customers, enhancing growth capabilities, and contributing to higher productivity and margins.



Table of Contents**Health Care Business:**

	<b>Three months ended</b>			
	<b>March 31,</b>			
	<b>2015</b>		<b>2014</b>	
Sales (millions)	\$	<b>1,329</b>	\$	1,374
Sales change analysis:				
Organic local currency		<b>3.0%</b>		6.2%
Acquisitions		<b>0.7</b>		
Translation		<b>(7.0)</b>		(1.4)
Total sales change		<b>(3.3)%</b>		4.8%
Operating income (millions)	\$	<b>408</b>	\$	427
Percent change		<b>(4.3)%</b>		5.6%
Percent of sales		<b>30.7%</b>		31.1%

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.

Health Care sales totaled \$1.3 billion, a decrease of 3.3 percent in U.S. dollars. Organic local-currency sales increased 3.0 percent, acquisitions added 0.7 percentage points, and foreign currency translation reduced sales by 7.0 percent.

Organic local-currency sales growth was led by food safety, critical and chronic care, and health information systems. The infection prevention and oral care businesses also posted positive organic growth in the first quarter. Organic local-currency sales declined in drug delivery systems.

Acquisition growth related to the following two acquisitions. In March 2015, 3M acquired Ivera Medical Corp., headquartered in San Diego, California. Ivera Medical Corp. is a manufacturer of health care products that disinfect and protect devices used for access into a patient's bloodstream. In April 2014, 3M completed its purchase of Treo Solutions LLC, headquartered in Troy, New York. Treo Solutions LLC is a provider of data analytics and business intelligence to healthcare payers and providers.

On a geographic basis, organic local-currency sales increased 8 percent in Asia Pacific, while Latin America/Canada and the United States each grew 4 percent. Organic local-currency sales declined approximately 1 percent in EMEA.

Health Care organic local-currency sales grew 10 percent in developing markets, continuing a trend of strong growth. This has been a high priority investment area for 3M, as health care markets gain importance in developing countries.

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

Operating income decreased 4.3 percent to \$408 million. Operating income margins were 30.7 percent in the first quarter of 2015, compared to 31.1 percent in the first quarter of 2014. First-quarter 2015 operating income margins were negatively impacted by 0.4 percentage points due to margin dilution related to the Ivera Medical Corp. and Treo Solutions LLC acquisitions.

Table of Contents**Consumer Business:**

	<b>Three months ended</b>			
	<b>March 31,</b>			
	<b>2015</b>		<b>2014</b>	
Sales (millions)	\$	<b>1,048</b>	\$	1,079
Sales change analysis:				
Organic local currency		<b>2.1%</b>		2.6%
Divestitures				(0.3)
Translation		<b>(5.0)</b>		(2.5)
Total sales change		<b>(2.9)%</b>		(0.2)%
Operating income (millions)	\$	<b>240</b>	\$	228
Percent change		<b>5.2%</b>		(3.5)%
Percent of sales		<b>22.9%</b>		21.2%

The Consumer segment serves markets that include consumer retail, office retail, office business to business, home improvement, drug and pharmacy retail, 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.

Sales in Consumer totaled \$1.0 billion, down 2.9 percent in U.S. dollars. Organic local-currency sales increased 2.1 percent, and foreign currency translation reduced sales by 5.0 percent. All businesses grew on an organic local-currency basis, with sales growth led by construction and home improvement, and home care.

On a geographic basis, organic local-currency sales increased 4 percent in the United States, and 2 percent in Asia Pacific. Organic local-currency sales in EMEA and Latin America/Canada declined slightly year-on-year.

Consumer operating income was \$240 million, up 5.2 percent from the first quarter last year. Operating income margins were 22.9 percent, compared to 21.2 percent in the same period last year. This business continues to drive efficiencies through portfolio prioritization and executing on productivity programs.



Table of Contents**FINANCIAL CONDITION AND LIQUIDITY**

3M continues to manage towards a better-optimized capital structure by adding balance sheet leverage, which is being used for two purposes: first, to invest in 3M's businesses, and second, to increase cash returns to shareholders. The strength and stability of 3M's business model and strong free cash flow capability, together with proven capital markets access, enables 3M to implement this strategy while continuing to invest in its businesses. Organic growth remains a high priority, thus 3M will continue to invest in research and development, capital expenditures, and commercialization capability. In addition, sources for cash availability in the United States, such as ongoing cash flow from operations and access to capital markets, have historically been sufficient to fund dividend payments to shareholders and share repurchases, as well as funding U.S. acquisitions and other items as needed. For those international earnings considered to be reinvested indefinitely, the Company currently has no plans or intentions to repatriate these funds for U.S. operations. However, if these international funds are needed for operations in the U.S., 3M would be required to accrue and pay U.S. taxes to repatriate them. See Note 7 in 3M's 2014 Annual Report on Form 10-K for further information on earnings considered to be reinvested indefinitely.

3M's primary short-term liquidity needs are met through cash on hand and U.S. commercial paper issuances. 3M believes it will have continuous access to the commercial paper market. 3M's commercial paper program permits the Company to have a maximum of \$3 billion outstanding with a maximum maturity of 397 days from date of issuance.

As discussed in Note 2, 3M announced in February 2015 that it entered into a definitive agreement with Polypore International Inc. to acquire Polypore's Separations Media business for a total purchase price of approximately \$1.0 billion, subject to certain conditions. 3M has access to sufficient capital to fund this acquisition, including marketable securities, nearly all of which were classified as current as of March 31, 2015.

***Net Debt:***

The Company defines net debt as total debt less the total of cash, cash equivalents and current and long-term marketable securities. 3M considers net debt and its components to be an important indicator of liquidity and a guiding measure of capital structure strategy. Net debt 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. The following table provides net debt as of March 31, 2015, and December 31, 2014.

(Millions)	March 31, 2015	December 31, 2014
Total Debt	\$ 6,591	\$ 6,837
Less: Cash and cash equivalents and marketable securities	2,822	3,351
Net Debt	\$ 3,769	\$ 3,486

In the first quarter of 2015, net debt increased by \$283 million to a net debt balance of \$3.8 billion. The first-quarter 2015 net debt increase was driven by a combination of lower cash, cash equivalents, and marketable securities balances, partially offset by lower debt due to foreign currency impacts on foreign denominated debt. Specific actions related to cash, cash equivalents, and marketable securities, in addition to debt, are discussed further below.

***Cash, cash equivalents and marketable securities:***

At March 31, 2015, 3M had \$2.8 billion of cash, cash equivalents and marketable securities, of which approximately \$2.7 billion was held by the Company's foreign subsidiaries and less than \$150 million was held by the United States. Of the \$2.7 billion held internationally, U.S. dollar-based cash, cash equivalents and marketable securities totaled \$1.2 billion, or 46 percent, which was invested in money market funds, asset-backed securities, agency securities, corporate medium-term note securities and other high-quality fixed income securities. At December 31, 2014, cash, cash equivalents and marketable securities held by the Company's foreign subsidiaries and by the United States totaled approximately \$3.3 billion and less than \$100 million, respectively.

***Total debt:***

The Company's total debt was \$246 million lower at March 31, 2015 when compared to December 31, 2014, largely due to foreign currency impacts on foreign denominated debt. The strength of 3M's capital structure and significant ongoing cash flows provide 3M proven access to capital markets. Additionally, 3M has chosen to stagger its maturity profile to help

Table of Contents

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 Aa3 credit rating, with a negative outlook, from Moody's Investors Service. The Company's ongoing transition to a more optimized capital structure, financed with additional low-cost debt, could impact 3M's credit rating in the future.

Effective May 16, 2014, the Company updated its well-known seasoned issuer shelf registration statement, which registers an indeterminate amount of debt or equity securities for future sales. This replaced 3M's previous shelf registration dated August 5, 2011. In June 2014, in connection with the May 16, 2014 shelf registration, 3M re-commenced its medium-term notes program (Series F) under which 3M may issue, from time to time, up to \$9 billion aggregate principal amount of notes. Included in this \$9 billion are \$2.25 billion of notes previously issued in 2011 and 2012 as part of Series F.

Significant long-term debt activity in 2014 is summarized below:

- In June 2014, 3M issued \$625 million aggregate principal amount of five-year fixed-rate medium-term notes due 2019 with a coupon rate of 1.625%. Upon debt issuance, the Company entered into an interest rate swap to convert \$600 million of this amount to an interest rate based on a floating LIBOR index (Series F).
- In addition, in June 2014, 3M issued \$325 million aggregate principal amount of thirty-year fixed-rate medium-term notes due 2044 with a coupon rate of 3.875% (Series F).
- In July 2014, 3M repaid 1.025 billion Euros (principal amount) of maturing Eurobond notes.
- In November 2014, the Company issued 500 million Euros aggregate principal amount of four-year floating rate medium-term notes due 2018 with interest based on a floating EURIBOR index (Series F).
- Also, in November 2014, the Company issued a 750 million Euros aggregate principal amount of 12-year fixed rate medium-term notes due 2026 with a coupon rate of 1.5% (Series F).

In the first quarter of 2015, there were no significant repayments of debt or proceeds from debt.

In August 2014, 3M amended and extended the existing \$1.5 billion five-year multi-currency revolving credit agreement to a \$2.25 billion five-year multi-currency revolving credit agreement, with an expiration date of August 2019. This credit agreement includes a provision under which 3M may request an increase of up to \$2.25 billion, bringing the total facility up to \$4.5 billion (at the lenders' discretion). This facility was undrawn at March 31, 2015. Under the \$2.25 billion credit agreement, 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 March 31, 2015, this ratio was approximately 63 to 1. Debt covenants do not restrict the payment of dividends.

In December 2012, 3M entered into a three-year 66 million British Pound (approximately \$106 million based on agreement date exchange rates) committed credit agreement, which was fully drawn as of December 31, 2012. 3M repaid 36 million British Pounds in the first quarter of 2014,

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

with the remaining balance of 30 million British Pounds repaid in December 2014. Apart from the committed facilities, an additional \$217 million in stand-alone letters of credit and \$16 million in bank guarantees were also issued and outstanding at March 31, 2015. These lines of credit are utilized in connection with normal business activities.

### ***Balance Sheet:***

3M's strong balance sheet and liquidity provide the Company with significant flexibility to take advantage of investment opportunities going forward. The Company will continue to invest in its operations to drive both organic growth and acquisition opportunities.

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 \$7.436 billion at March 31, 2015, compared with \$5.767 billion at December 31, 2014, an increase of \$1.669 billion. Current asset balance changes increased working capital by \$753 million, driven by increases in current marketable securities and other current assets. Current liability balance changes increased working capital by \$916 million, largely due to decreases in other current liabilities and accrued payroll. The other current liability decrease largely related to the dividend that was declared in December 2014, but not paid until March 2015 (discussed in Note 4.) The reduction in accrued payroll was driven by annual incentive plan payments.

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

Table of Contents

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 current quarter net sales multiplied by four, divided by ending net accounts receivable plus inventories less accounts payable) was 4.8 at March 31, 2015 compared to 5.0 at December 31, 2014. Receivables increased \$170 million, or 4.0 percent, compared with December 31, 2014, with higher March 2015 sales compared to December 2014 sales contributing to this increase. Currency translation impacts decreased accounts receivable by \$133 million. Inventories decreased \$2 million compared with December 31, 2014. The inventory decrease was attributable to currency translation, which decreased inventories by \$131 million, largely offset by an increase in inventory on hand due to anticipated demand. Accounts payable decreased \$6 million when compared with December 31, 2014.

**Cash Flows:**

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 as separate line items within the statement of 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.

**Cash Flows from Operating Activities:**

(Millions)	Three months ended	
	2015	March 31, 2014
Net income including noncontrolling interest	\$ 1,201	\$ 1,225
Depreciation and amortization	339	350
Company pension contributions	(90)	(40)
Company postretirement contributions	(1)	(2)
Company pension expense	99	78
Company postretirement expense	35	20
Stock-based compensation expense	138	122
Income taxes (deferred and accrued income taxes)	144	52
Excess tax benefits from stock-based compensation	(101)	(51)
Accounts receivable	(296)	(347)
Inventories	(131)	(131)
Accounts payable	56	84
Other net	(313)	(268)
Net cash provided by operating activities	\$ 1,080	\$ 1,092

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

In the first quarter of 2015, cash flows provided by operating activities decreased \$12 million compared to the same period last year, impacted by slightly higher pension contributions and lower net income including noncontrolling interest. The combination of accounts receivable, inventories and accounts payable increased working capital by \$371 million in the first quarter of 2015, compared to increases of \$394 million in

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

the first quarter of 2014, primarily driven by year-on-year increases in working capital requirements due to increasing sales. Additional discussion on working capital changes is provided earlier in the Financial Condition and Liquidity section.

Table of Contents**Free Cash Flow (non-GAAP measure):**

In addition to net cash provided by operating activities, the Company believes free cash flow and free cash flow conversion are useful measures of performance. 3M uses these measures as an indication of the strength of the Company and its ability to generate cash. Free cash flow and free cash flow conversion are not defined under U.S. generally accepted accounting principles (GAAP). Therefore, they 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. 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). It should not be inferred that the entire free cash flow amount is available for discretionary expenditures. 3M defines free cash flow conversion as free cash flow divided by net income attributable to 3M. Below find a recap of free cash flow for the three months ended March 31, 2015 and 2014.

(Millions)	Three months ended March 31,	
	2015	2014
Net cash provided by operating activities	\$ 1,080	\$ 1,092
Purchases of property, plant and equipment (PP&E)	(291)	(293)
Free Cash Flow	\$ 789	\$ 799
Free Cash Flow Conversion	66%	66%

**Cash Flows from Investing Activities:**

(Millions)	Three months ended March 31,	
	2015	2014
Purchases of property, plant and equipment (PP&E)	\$ (291)	\$ (293)
Proceeds from sale of PP&E and other assets	4	3
Acquisitions, net of cash acquired	(150)	
Purchases and proceeds from sale or maturities of marketable securities and investments, net	414	(2)
Proceeds from sale of businesses	19	
Other investing	4	5
Net cash used in investing activities	\$	\$ (287)

Investments in property, plant and equipment enable growth across many diverse markets, helping to meet product demand and increasing manufacturing efficiency. Capital spending was \$291 million in the first three months of 2015, compared to \$293 million in the first three months of 2014. The Company expects 2015 capital spending to be approximately \$1.4 billion to \$1.6 billion. This is down \$100 million versus prior estimates, primarily due to the stronger U.S. dollar.

3M invests in renewal and maintenance programs, which pertain to cost reduction, cycle time, maintaining and renewing current capacity, pollution reduction, and compliance. Costs related to maintenance, ordinary repairs, and certain other items are expensed. 3M also invests in new growth capacity, both through expansion of current facilities and by building new facilities. 3M also invests in corporate laboratory facilities and information technology (IT).

Refer to Note 2 for information on acquisitions and divestitures. The Company is actively considering additional acquisitions, investments and strategic alliances, and from time to time may also divest certain businesses. Proceeds from sale of businesses in the first quarter of 2015 relate to the divestiture of the static control business within the Electronics and Energy business segment.

Purchases of marketable securities and investments and proceeds from maturities and sale of marketable securities and investments are primarily attributable to asset-backed securities, agency securities, corporate medium-term note securities and other securities, which are classified as available-for-sale. Refer to Note 6 for more details about 3M's diversified marketable securities portfolio. Purchases of investments include additional survivor benefit insurance, plus cost method and equity investments.



Table of Contents*Cash Flows from Financing Activities:*

(Millions)	Three months ended	
	2015	March 31, 2014
Change in short-term debt net	\$ (4)	\$ 466
Repayment of debt (maturities greater than 90 days)		(64)
Proceeds from debt (maturities greater than 90 days)		172
Total cash change in debt	\$ (4)	\$ 574
Purchases of treasury stock	(886)	(1,708)
Proceeds from issuances of treasury stock pursuant to stock option and benefit plans	309	267
Dividends paid to stockholders	(652)	(566)
Excess tax benefits from stock-based compensation	101	51
Other net	(22)	(17)
Net cash used in financing activities	\$ (1,154)	\$ (1,399)

Total debt at March 31, 2015 was \$6.6 billion, down from \$6.8 billion at year-end 2014, with the decrease primarily due to foreign currency impacts on foreign denominated debt. Total debt was 32 percent of total capital (total capital is defined as debt plus equity) at March 31, 2015, compared to 34 percent of total capital at year-end 2014. There were no repayments of debt or proceeds from debt (greater than 90 days) for the three months ended March 31, 2015. Changes in short-term debt for the three months ended March 31, 2014 primarily related to commercial paper activity and bank borrowings by international subsidiaries. Repayment of debt for the three months ended March 31, 2014 primarily includes repayment of 36 million British Pounds related to the three-year 66 million British Pound committed credit facility agreement entered into in December 2012. Proceeds from debt for the three months ended March 31, 2014 related to bank borrowings by international subsidiaries and additional parent company debt.

Repurchases of common stock are made to support the Company's stock-based employee compensation plans and for other corporate purposes. In February 2014, 3M's Board of Directors authorized the repurchase of up to \$12 billion of 3M's outstanding common stock, with no pre-established end date. In the first quarter of 2015, the Company purchased \$886 million of stock, compared to \$1.708 billion in the first quarter of 2014. The Company expects full-year 2015 gross share repurchases will be in the range of \$3.0 billion to \$5.0 billion. 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 \$652 million (\$1.025 per share) in the first quarter of 2015, compared to \$566 million (\$0.855 per share) in the first quarter of 2014. 3M has paid dividends each year since 1916. In December 2014, 3M's Board of Directors declared a first-quarter 2015 dividend of \$1.025 per share, an increase of 20 percent. This is equivalent to an annual dividend of \$4.10 per share and marked the 57th consecutive year of dividend increases for 3M.

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.

Table of Contents

**CAUTIONARY NOTE CONCERNING FACTORS THAT MAY AFFECT FUTURE RESULTS**

This Quarterly Report on Form 10-Q, including Management's Discussion and Analysis of Financial Condition and Results of Operations in Part I, Item 2, contains forward-looking statements within the meaning of the Private Securities 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, forecast and similar meaning, typically identify such forward-looking statements. In particular, these include, among others, statements relating to

- the Company's strategy for growth, future revenues, earnings, cash flow, uses of cash and other measures of financial performance, and market position,
- worldwide economic and capital markets conditions, such as interest rates, foreign currency exchange rates, financial conditions of our suppliers and customers, and natural and other disasters affecting the operations of the Company or its suppliers and customers,
- new business opportunities, product development, and future performance or results of current or anticipated products,
- the scope, nature or impact of acquisitions, strategic alliances and divestitures,
- 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 many countries in which 3M operates.

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

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

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

In the context of Item 3, 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 impact the Company's results of operations and financial condition. For a discussion of sensitivity analysis related to these types of market risks, refer to Part II, Item 7A, Quantitative and Qualitative Disclosures About Market Risk, in 3M's 2014 Annual Report on Form 10-K. There have been no material changes in information that would have been provided in the context of Item 3 from the end of the preceding year until March 31, 2015. However, the Company does provide risk management discussion in various places in this Quarterly Report on Form 10-Q, primarily in the Derivatives note.

Table of Contents

**Item 4. Controls and Procedures.**

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

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

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

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

Table of Contents

**3M COMPANY**

**FORM 10-Q**

**For the Quarterly Period Ended March 31, 2015**

**PART II. Other Information**

**Item 1. Legal Proceedings.**

Discussion of legal matters is incorporated by reference from Part I, Item 1, Note 10, Commitments and Contingencies of this document, and should be considered an integral part of Part II, Item 1, Legal Proceedings.

**Item 1A. Risk Factors.**

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

- *Results are impacted by the effects of, and changes in, worldwide economic and capital markets conditions.* The Company operates in more than 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 has an AA- credit rating, with a stable outlook, from Standard & Poor's and an Aa3 credit rating, with a negative outlook, from Moody's Investors Service. This evaluation is based on a number of factors, which include financial strength, business and financial risk, as well as transparency with rating agencies and timeliness of financial reporting. The Company's current ratings have served to lower 3M's borrowing costs and facilitate access to a variety of lenders. Failure to maintain strong investment grade ratings would adversely affect the Company's cost of funds and could adversely affect liquidity and access to capital markets.

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

programs, or the customer's ability to achieve incentive goals; and (iv) changes in customer's 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

Table of Contents

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

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

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

- *The Company employs information technology systems to support its business, including ongoing phased implementation of an enterprise resource planning (ERP) system on a worldwide basis over the next several years. Security breaches and other disruptions to the Company's information technology infrastructure could interfere with the Company's operations, compromise information belonging to the Company and its customers and suppliers, and expose the Company to liability which could adversely impact the Company's business and reputation.* In the ordinary course of business, the Company relies on information technology networks and systems, some of which are managed by third parties, to process, transmit and store electronic information, and to manage or support a variety of business processes and activities. Additionally, the Company collects and stores certain data, including proprietary business information, and may have access to confidential or personal information in certain of our businesses that is subject to privacy and security laws, regulations and customer-imposed controls. Despite our cybersecurity measures (including employee and third-party training, monitoring of networks and systems, and maintenance of backup and protective systems) which are continuously reviewed and upgraded, the Company's information technology networks and infrastructure may still be vulnerable to damage, disruptions or shutdowns due to attack by hackers or breaches, employee error or malfeasance, power outages, computer viruses, telecommunication or utility failures, systems failures, natural disasters or other catastrophic events. It is possible for such vulnerabilities to remain undetected for an extended period, up to and including several years. While we have experienced, and expect to continue to experience, these types of threats to the Company's information technology networks and infrastructure, none of them to date has had a material impact to the Company. There may be other challenges and risks as the Company upgrades and standardizes its ERP system on a worldwide basis. Any such events could result in legal claims or proceedings, liability or penalties under privacy laws, disruption in operations, and damage to the Company's reputation, which could adversely affect the Company's business. Although the Company maintains insurance coverage for various cybersecurity risks, there can be no guarantee that all costs or losses incurred will be fully insured.

- *The Company's future results may be affected by various legal and regulatory proceedings and legal compliance risks, including those involving product liability, antitrust, intellectual property, 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 10 Commitments and Contingencies within the Notes to Consolidated Financial Statements.





Table of Contents**Item 2. Unregistered Sales of Equity Securities and Use of Proceeds.****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 2014, 3M's Board of Directors authorized the repurchase of up to \$12 billion of 3M's outstanding common stock, with no pre-established end date.

**Issuer Purchases of Equity**

**Securities (registered pursuant to**

**Section 12 of the Exchange Act)**

	<b>Total Number of Shares Purchased (1)</b>	<b>Average Price Paid per Share</b>	<b>Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs (2)</b>	<b>Maximum Approximate Dollar Value of Shares that May Yet Be Purchased under the Plans or Programs (Millions)</b>
January 1-31, 2015	1,628,420	\$ 161.61	1,628,420	\$ 6,440
February 1-28, 2015	1,451,986	\$ 166.64	1,449,538	\$ 6,198
March 1-31, 2015	2,001,351	\$ 164.58	2,000,848	\$ 5,869
Total January 1-March 31, 2015	5,081,757	\$ 164.22	5,078,806	\$ 5,869

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

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

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

**Item 4. 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. 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 quarterly report.

**Item 5. Other Information.** No matters require disclosure.

Table of Contents

**Item 6. Exhibits.**

Exhibits. These exhibits are either incorporated by reference into this report or filed herewith with this report. Exhibit numbers 10.1 through 10.39 are management contracts or compensatory plans or arrangements.

**Index to Exhibits:**

- (3) Articles of Incorporation and bylaws
  - (3.1) Certificate of incorporation, as amended as of May 11, 2007, is incorporated by reference from our Form 8-K dated May 14, 2007.
  - (3.2) Bylaws, as amended as of February 10, 2009, are incorporated by reference from our Form 8-K dated February 12, 2009.
- (4) Instruments defining the rights of security holders, including indentures:
  - (4.1) Indenture, dated as of November 17, 2000, between 3M and The Bank of New York Mellon Trust Company, N.A., as successor trustee, with respect to 3M's senior debt securities, is incorporated by reference from our Form 8-K dated December 7, 2000.
  - (4.2) First Supplemental Indenture, dated as of July 29, 2011, to Indenture dated as of November 17, 2000, between 3M and The Bank of New York Mellon Trust Company, N.A., as successor trustee, with respect to 3M's senior debt securities, is incorporated by reference from our Form 10-Q for the quarter ended June 30, 2011.
- (10) Material contracts and management compensation plans and arrangements:
  - (10.1) 3M 2008 Long-Term Incentive Plan (including amendments through February 2012) is incorporated by reference from our Proxy Statement for the 2012 Annual Meeting of Stockholders.
  - (10.2) Amendment of the 3M 2008 Long-Term Incentive Plan is incorporated by reference from our Form 10-K for the year ended December 31, 2013.
  - (10.3) Form of Agreement for Stock Option Grants to Executive Officers under 3M 2008 Long-Term Incentive Plan is incorporated by reference from our Form 8-K dated May 13, 2008.
  - (10.4) Form of Stock Option Agreement for options granted to Executive Officers under the 3M 2008 Long-Term Incentive Plan, commencing February 9, 2010, is incorporated by reference from our Form 10-K for the year ended December 31, 2009.
  - (10.5) Form of Restricted Stock Unit Agreement for restricted stock units granted to Executive Officers under the 3M Long-Term Incentive Plan, effective February 9, 2010, is incorporated by reference from our Form 10-K for the year ended December 31, 2009.
  - (10.6) Form of 3M 2010 Performance Share Award under the 3M 2008 Long-Term Incentive Plan is incorporated by reference from our Form 8-K dated March 4, 2010.

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

- (10.7) Form of Stock Option Agreement for U.S. Employees under 3M 2008 Long-Term Incentive Plan is incorporated by reference from our Form 10-K for the year ended December 31, 2008.
- (10.8) Form of Restricted Stock Unit Agreement for U.S. Employees under 3M 2008 Long-Term Incentive Plan is incorporated by reference from our Form 10-K for the year ended December 31, 2008.
- (10.9) Amendment of the 3M 2005 Management Stock Ownership Program and the 3M 2008 Long-term Incentive Plan transfer of stock options to former spouses, is incorporated by reference from our Form 10-K for the year ended December 31, 2010.
- (10.10) 3M 2005 Management Stock Ownership Program is incorporated by reference from our Proxy Statement for the 2005 Annual Meeting of Stockholders.
- (10.11) 3M 2002 Management Stock Ownership Program is incorporated by reference from our Proxy Statement for the 2002 Annual Meeting of Stockholders.
- (10.12) Amendments of 3M 2002 and 2005 Management Stock Ownership Programs are incorporated by reference from our Form 8-K dated November 14, 2008.
- (10.13) Form of award agreement for non-qualified stock options granted under the 2005 Management Stock Ownership Program, is incorporated by reference from our Form 8-K dated May 16, 2005.
- (10.14) Form of award agreement for non-qualified stock options granted under the 2002 Management Stock Ownership Program, is incorporated by reference from our Form 10-K for the year ended December 31, 2004.
- (10.15) 3M 1997 General Employees Stock Purchase Plan, as amended through November 8, 2004, is incorporated by reference from our Form 10-K for the year ended December 31, 2004.

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

### Table of Contents

- (10.16) 3M Board resolution dated May 12, 2009, regarding three-year extension of 3M 1997 General Employees Stock Purchase Plan is incorporated by reference from our Form 10-Q for the quarter ended June 30, 2009.
- (10.17) Amendment of the 3M 1997 General Employees Stock Purchase Plan approved on February 9, 2010 is incorporated by reference from our Form 10-K for the year ended December 31, 2009.
- (10.18) 3M Board resolution dated February 7, 2012 extending for three additional one-year periods the General Employees Stock Purchase Plan, is incorporated by reference from our Form 10-K for the year ended December 31, 2011.
- (10.19) 3M 2012 Amended and Restated General Employees Stock Purchase Plan is incorporated by reference from our Proxy Statement for the 2012 Annual Meeting of Shareholders.
- (10.20) 3M VIP Excess Plan is incorporated by reference from our Form 8-K dated November 14, 2008.
- (10.21) Amendment of 3M VIP Excess Plan is incorporated by reference from our Form 8-K dated November 24, 2009.
- (10.22) 3M VIP (Voluntary Investment Plan) Plus is incorporated by reference from Registration Statement No. 333-73192 on Form S-8, filed on November 13, 2001.
- (10.23) Amendment of 3M VIP Plus is incorporated by reference from our Form 8-K dated November 14, 2008.
- (10.24) 3M Deferred Compensation Plan, as amended through February 2008, is incorporated by reference from our Form 8-K dated February 14, 2008.
- (10.25) Amendment of 3M Deferred Compensation Plan is incorporated by reference from our Form 8-K dated November 14, 2008.
- (10.26) 3M Deferred Compensation Excess Plan is incorporated by reference from our Form 10-K for the year ended December 31, 2009.
- (10.27) 3M Performance Awards Deferred Compensation Plan is incorporated by reference from our Form 10-K for the year ended December 31, 2009.
- (10.28) 3M Executive Annual Incentive Plan is incorporated by reference from our Form 8-K dated May 14, 2007.
- (10.29) Description of changes to 3M Compensation Plan for Non-Employee Directors is incorporated by reference from our Form 8-K dated August 8, 2005.
- (10.30) 3M Compensation Plan for Non-Employee Directors, as amended, through November 8, 2004, is incorporated by reference from our Form 10-K for the year ended December 31, 2004.
- (10.31) Amendment of 3M Compensation Plan for Non-Employee Directors is incorporated by reference from our Form 8-K dated November 14, 2008.
- (10.32) Amendment of 3M Compensation Plan for Non-Employee Directors as of August 12, 2013, is incorporated by reference from our Form 10-Q for the quarter ended September 30, 2013.
- (10.33) 3M Executive Life Insurance Plan, as amended, is incorporated by reference from our Form 10-K for the year ended December 31, 2003.
- (10.34) Summary of Personal Financial Planning Services for 3M Executives is incorporated by reference from our Form 10-K for the year ended December 31, 2003.
- (10.35) 3M policy on reimbursement of incentive payments is incorporated by reference from our Form 10-K for the year ended December 31, 2006.

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

- (10.36) Amended and Restated 3M Nonqualified Pension Plan I is incorporated by reference from our Form 8-K dated December 23, 2008.
- (10.37) Amended and Restated 3M Nonqualified Pension Plan II is incorporated by reference from our Form 8-K dated December 23, 2008.
- (10.38) 3M Nonqualified Pension Plan III is incorporated by reference from our Form 8-K dated November 14, 2008.
- (10.39) Policy on Reimbursement of Incentive Compensation (effective May 11, 2010) is incorporated by reference from our Form 10-Q dated August 4, 2010.
- (10.40) Amended and restated five-year credit agreement as of August 5, 2014, is incorporated by reference from our Form 8-K dated August 8, 2014.
- (10.41) Registration Rights Agreement as of August 4, 2009, between 3M Company and State Street Bank and Trust Company as Independent Fiduciary of the 3M Employee Retirement Income Plan, is incorporated by reference from our Form 8-K dated August 5, 2009.

Table of Contents

Filed herewith, in addition to items, if any, specifically identified above:

- (12) Calculation of ratio of earnings to fixed charges.
- (15) A letter from the Company's independent registered public accounting firm regarding unaudited interim consolidated financial statements.
- (31.1) Certification of the Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002, 18 U.S.C. Section 1350.
- (31.2) Certification of the Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002, 18 U.S.C. Section 1350.
- (32.1) Certification of the Chief Executive Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, 18 U.S.C. Section 1350.
- (32.2) Certification of the Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, 18 U.S.C. Section 1350.
- (95) Mine Safety Disclosures.
- (101) The following financial information from 3M Company's Quarterly Report on Form 10-Q for the period ended March 31, 2015, filed with the SEC on April 30, 2015, formatted in Extensible Business Reporting Language (XBRL): (i) the Consolidated Statement of Income for the three-month periods ended March 31, 2015 and 2014, (ii) the Consolidated Statement of Comprehensive Income for the three-month periods ended March 31, 2015 and 2014 (iii) the Consolidated Balance Sheet at March 31, 2015 and December 31, 2014, (iv) the Consolidated Statement of Cash Flows for the three-month periods ended March 31, 2015 and 2014, and (v) Notes to Consolidated Financial Statements.

Table of Contents

**SIGNATURES**

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

3M COMPANY

(Registrant)

Date: April 30, 2015

By /s/ Nicholas C. Gangestad  
Nicholas C. Gangestad,

Senior Vice President and Chief Financial Officer

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