3M CO
Form 10-Q
October 29, 2015
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

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

SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended September 30, 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)

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	Smaller reporting company
(Do not check if a smaller reporting company)	

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes 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 September 30, 2015
Common Stock, $0.01 par value per share	615,712,937 shares

This document (excluding exhibits) contains 80 pages.

The table of contents is set forth on page 2.

The exhibit index begins on page 77.

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3M COMPANY

FORM 10-Q

For the Quarterly Period Ended September 30, 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 September 30, 2015	Three months ended September 30, 2014	Nine months ended September 30, 2015	Nine months ended September 30, 2014
Net sales	$ 7,712	$ 8,137	$ 22,976	$ 24,102
Operating expenses				
Cost of sales	3,877	4,205	11,556	12,420
Selling, general and administrative expenses	1,530	1,597	4,644	4,875
Research, development and related expenses	429	434	1,330	1,334
Total operating expenses	5,836	6,236	17,530	18,629
Operating income	1,876	1,901	5,446	5,473
Interest expense and income				
Interest expense	38	28	104	110
Interest income	(7)	(7)	(18)	(25)
Total interest expense — net	31	21	86	85
Income before income taxes	1,845	1,880	5,360	5,388
Provision for income taxes	547	569	1,558	1,569
Net income including noncontrolling interest	$ 1,298	$ 1,311	$ 3,802	$ 3,819
Less: Net income attributable to noncontrolling interest	2	8	7	42
Net income attributable to 3M	$ 1,296	$ 1,303	$ 3,795	$ 3,777
Weighted average 3M common shares outstanding — basic	620.6	645.3	629.4	652.9
Earnings per share attributable to 3M common shareholders — basic	$ 2.09	$ 2.02	$ 6.03	$ 5.78

Weighted average 3M common shares outstanding — diluted	631.2	657.9	641.2	665.7
Earnings per share attributable to 3M common shareholders — diluted	$ 2.05	$ 1.98	$ 5.92	$ 5.67
Cash dividends paid per 3M common share	$ 1.025	$ 0.855	$ 3.075	$ 2.565

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

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3M Company and Subsidiaries

Consolidated Statement of Comprehensive Income

(Unaudited)

	Three months ended September 30,		Nine months ended September 30,	
(Millions)	2015	2014	2015	2014
Net income including noncontrolling interest	$ 1,298	$ 1,311	$ 3,802	$ 3,819
Other comprehensive income (loss), net of tax:				
Cumulative translation adjustment	(472)	(603)	(642)	(456)
Defined benefit pension and postretirement plans adjustment	236	59	423	180
Debt and equity securities, unrealized gain (loss)	—	(1)	—	1
Cash flow hedging instruments, unrealized gain (loss)	1	68	39	61
Total other comprehensive income (loss), net of tax	(235)	(477)	(180)	(214)
Comprehensive income (loss) including noncontrolling interest	1,063	834	3,622	3,605
Comprehensive (income) loss attributable to noncontrolling interest	(1)	2	(5)	(48)
Comprehensive income (loss) attributable to 3M	$ 1,062	$ 836	$ 3,617	$ 3,557

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

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3M Company and Subsidiaries

Consolidated Balance Sheet

(Unaudited)

(Dollars in millions, except per share amount)	September 30, 2015	December 31, 2014
Assets		
Current assets		
Cash and cash equivalents	$ 1,605	$ 1,897
Marketable securities — current	153	626
Accounts receivable — net	4,610	4,238
Inventories		
Finished goods	1,745	1,723
Work in process	1,061	1,081
Raw materials and supplies	903	902
Total inventories	3,709	3,706
Other current assets	1,531	1,298
Total current assets	11,608	11,765
Marketable securities — non-current	13	828
Investments	112	102
Property, plant and equipment	22,940	22,841
Less: Accumulated depreciation	(14,470)	(14,352)
Property, plant and equipment — net	8,470	8,489
Goodwill	9,354	7,050
Intangible assets — net	2,632	1,435
Prepaid pension benefits	60	46
Other assets	1,009	1,554
Total assets	$ 33,258	$ 31,269
Liabilities		
Current liabilities		
Short-term borrowings and current portion of long-term debt	$ 2,279	$ 106
Accounts payable	1,600	1,807
Accrued payroll	684	732
Accrued income taxes	105	435
Other current liabilities	2,364	2,918
Total current liabilities	7,032	5,998
Long-term debt	8,974	6,731
Pension and postretirement benefits	3,462	3,843
Other liabilities	1,566	1,555
Total liabilities	$ 21,034	$ 18,127
Commitments and contingencies (Note 11)		
Equity		
3M Company shareholders' equity:		

Common stock, par value $.01 par value, 944,033,056 shares issued	$ 9	$ 9
Additional paid-in capital	4,731	4,379
Retained earnings	36,235	34,317
Treasury stock, at cost: 328,320,119 shares at September 30, 2015: 308,898,462 shares at December 31, 2014	(22,322)	(19,307)
Accumulated other comprehensive income (loss)	(6,467)	(6,289)
Total 3M Company shareholders' equity	12,186	13,109
Noncontrolling interest	38	33
Total equity	$ 12,224	$ 13,142
Total liabilities and equity	$ 33,258	$ 31,269

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

3M Company and Subsidiaries

Consolidated Statement of Cash Flows

(Unaudited)

(Millions)	Nine months ended September 30, 2015	2014
Cash Flows from Operating Activities		
Net income including noncontrolling interest	$ 3,802	$ 3,819
Adjustments to reconcile net income including noncontrolling interest to net cash provided by operating activities		
Depreciation and amortization	1,038	1,058
Company pension and postretirement contributions	(216)	(112)
Company pension and postretirement expense	418	293
Stock-based compensation expense	233	221
Deferred income taxes	393	(61)
Excess tax benefits from stock-based compensation	(137)	(121)
Changes in assets and liabilities		
Accounts receivable	(478)	(587)
Inventories	(139)	(232)
Accounts payable	(112)	55
Accrued income taxes (current and long-term)	(588)	36
Other — net	(132)	74
Net cash provided by operating activities	4,082	4,443
Cash Flows from Investing Activities		
Purchases of property, plant and equipment (PP&E)	(1,015)	(1,003)
Proceeds from sale of PP&E and other assets	17	116
Acquisitions, net of cash acquired	(2,910)	(94)
Purchases of marketable securities and investments	(486)	(1,028)
Proceeds from maturities and sale of marketable securities and investments	1,742	1,411
Proceeds from sale of businesses	19	—
Other investing	22	20
Net cash used in investing activities	(2,611)	(578)
Cash Flows from Financing Activities		
Change in short-term debt — net	1,160	1,935
Repayment of debt (maturities greater than 90 days)	(793)	(1,551)
Proceeds from debt (maturities greater than 90 days)	3,420	1,064
Purchases of treasury stock	(4,104)	(4,373)
Proceeds from issuance of treasury stock pursuant to stock option and benefit plans	518	739
Dividends paid to shareholders	(1,933)	(1,672)
Excess tax benefits from stock-based compensation	137	121
Purchase of noncontrolling interest	—	(699)

Other — net	(99)	(37)
Net cash used in financing activities	(1,694)	(4,473)
Effect of exchange rate changes on cash and cash equivalents	(69)	(44)
Net increase (decrease) in cash and cash equivalents	(292)	(652)
Cash and cash equivalents at beginning of year	1,897	2,581
Cash and cash equivalents at end of period	$ 1,605	$ 1,929

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

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3M Company and Subsidiaries

Notes to Consolidated Financial Statements

(Unaudited)

NOTE 1. Significant Accounting Policies

Basis of Presentation

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

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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.

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 of September 30, 2015, the Company had a balance of net monetary assets denominated in VEF of less than 500 million VEF and the CENCOEX, SICAD (formerly SICAD1), and SIMADI exchange rates were approximately 6 VEF, 13 VEF, and 200 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 September 30, 2015, the Company continues to consolidate its Venezuelan subsidiary. As of September 30, 2015, the balance of intercompany receivables due from this subsidiary is less than $25 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 (5.5 million average options for the three months ended September 30, 2015; 4.8 million average options for the nine months ended September 30, 2015; insignificant for the three months ended September 30, 2014; and 1.8 million average options for the nine months ended September 30, 2014). The computations for basic and diluted earnings per share follow:

Earnings Per Share Computations

	Three months ended September 30,	Nine months ended September 30,

(Amounts in millions, except per share amounts)	2015	2014	2015	2014
Numerator:				
Net income attributable to 3M	$ 1,296	$ 1,303	$ 3,795	$ 3,777
Denominator:				
Denominator for weighted average 3M common shares outstanding — basic	620.6	645.3	629.4	652.9
Dilution associated with the Company's stock-based compensation plans	10.6	12.6	11.8	12.8
Denominator for weighted average 3M common shares outstanding — diluted	631.2	657.9	641.2	665.7
Earnings per share attributable to 3M common shareholders — basic	$ 2.09	$ 2.02	$ 6.03	$ 5.78
Earnings per share attributable to 3M common shareholders — diluted	$ 2.05	$ 1.98	$ 5.92	$ 5.67

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New Accounting Pronouncements

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 information discussed in Note 2 and had no material impact on consolidated results of operations and financial condition.

In May 2014, the FASB issued ASU No. 2014-09, Revenue from Contracts with Customers, and in August 2015 issued ASU No. 2015-14, which amended ASU No. 2014-09 as to effective date. The ASU, as amended, 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, the ASU, as amended, is effective January 1, 2018. The Company is currently assessing this standard'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, and in August 2015 issued ASU No. 2015-15, Presentation and Subsequent Measurement of Debt Issuance Costs Associated with Line-of-Credit Arrangements. Under ASU 2015-03, 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. While ASU 2015-03 addresses costs related to term debt, ASU No. 2015-15 provides clarification regarding costs to secure revolving lines of credit, which are, at the outset, not associated with an outstanding borrowing. ASU No. 2015-15 provides commentary that the SEC staff would not object to an entity deferring and presenting costs associated with line-of-credit arrangements as an asset and subsequently amortizing them ratably over the term of the revolving debt arrangement. For 3M, ASU No. 2015-03 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.

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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 accounting for the acquisition of other acquired software licenses. 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.

In May 2015, the FASB issued ASU No. 2015-07, Disclosures for Investments in Certain Entities That Calculate Net Asset Value per Share (or Its Equivalent). This standard modifies existing disclosure requirements such that investments for which the practical expedient is used to measure their fair value at net asset value (NAV) would be removed from the fair value hierarchy disclosures. Instead, an entity would be required to include those investments as a reconciling item such that the total fair value amount of investments in the fair value hierarchy disclosure is consistent with the amount on the balance sheet. Changes were also made to the requirements in a sponsor's employee benefit plan asset disclosures. For 3M, this standard is effective January 1, 2016, with retrospective application required. Early adoption is permitted. As this ASU only impacts certain disclosures, it will not impact the Company's consolidated results of operations and financial condition.

In July 2015, the FASB issued ASU No. 2015-11, Simplifying the Measurement of Inventory, which modifies existing requirements regarding measuring inventory at the lower of cost or market. Under existing standards, the market amount requires consideration of replacement cost, net realizable value (NRV), and NRV less an approximately normal profit margin. The new ASU replaces market with NRV, defined as estimated selling prices in the ordinary course of business, less reasonably predictable costs of completion, disposal and transportation. This eliminates the need to determine and consider replacement cost or NRV less an approximately normal profit margin when measuring inventory. For 3M, this standard is effective prospectively beginning January 1, 2017, with early adoption permitted. The Company is currently assessing this ASU's impacts on 3M's consolidated results of operations and financial condition.

In September 2015, the FASB issued ASU No. 2015-16, Simplifying the Accounting for Measurement-Period Adjustments, that eliminates the requirement for an acquirer in a business combination to account for measurement-period adjustments retrospectively. Under existing standards, an acquirer in a business combination reports provisional amounts with respect to acquired assets and liabilities when their measurements are incomplete as of the end of the reporting period. Prior to the impact of this ASU, an acquirer is required to adjust provisional amounts (and the related impact on earnings) by restating prior period financial statements during the measurement period which cannot exceed one year from the date of acquisition. The new guidance requires that the cumulative impact of a measurement-period adjustment (including the impact on prior periods) be recognized in the reporting period in which the adjustment is identified—eliminating the requirement to restate prior period financial statements. The new standard requires disclosure of the nature and amount of measurement-period adjustments as well as information with respect to the portion of the adjustments recorded in current-period earnings that would have been recorded in previous reporting periods if the adjustments to provisional amounts had been recognized as of the acquisition date. The ASU is applied prospectively to measurement-period adjustments that occur after the effective date. For 3M, this standard is required prospectively beginning January 1, 2016, with early adoption permitted. The Company expects to adopt this standard to measurement-period adjustments beginning October 1, 2015.

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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 nine months ended September 30, 2015, the purchase price paid for business combinations (net of cash acquired) was $2.9 billion (discussed below). The allocation of substantially all the purchase consideration related to the August 2015 Capital Safety and Polypore Separations Media acquisitions is considered preliminary. 3M expects to finalize the allocation of purchase price within the one year measurement-period following these acquisitions.

(Millions)	2015 Acquisition Activity			
Asset (Liability)	Capital Safety	Polypore Separations Media	Other	Total
Accounts receivable	$ 66	$ 30	$ 7	$ 103
Inventory	64	35	4	103
Other current assets	10	1	4	15
Property, plant, and equipment	35	132	7	174
Purchased finite-lived intangible assets	1,009	329	51	1,389
Purchased goodwill	1,782	628	95	2,505
Accounts payable and other liabilities, net of other assets	(77)	(118)	(5)	(200)
Interest bearing debt	(767)	—	—	(767)
Deferred tax asset/(liability)	(402)	—	(10)	(412)
Net assets acquired	$ 1,720	$ 1,037	$ 153	$ 2,910
Supplemental information:				
Cash paid	$ 1,754	$ 1,037	$ 154	$ 2,945
Less: Cash acquired	34	—	1	35
Cash paid, net of cash acquired	$ 1,720	$ 1,037	$ 153	$ 2,910

Purchased identifiable finite-lived intangible assets related acquisitions which closed in the nine months ended September 30, 2015 totaled $1.4 billion. 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 17 years (lives ranging from two to 23 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 March 2015, 3M (Health Care Business) purchased all of the outstanding shares of 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 addition, in the first quarter of 2015, 3M (Industrial Business) purchased the remaining interest in a former equity method investment for an immaterial amount.

In August 2015, 3M (Safety and Graphics Business) acquired all of the outstanding shares of Capital Safety Group S.A.R.L., with operating headquarters in Bloomington, Minnesota, from KKR & Co. L.P. for $1.7 billion, net of cash acquired. The net assets acquired included the assumption of $0.8 billion of debt. Capital Safety is a leading global provider of fall protection equipment.

In August 2015, 3M (Industrial Business) acquired the assets and liabilities associated with Polypore International, Inc.'s Separations Media business, headquartered in Wuppertal, Germany, for $1.0 billion. Polypore's Separations Media

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business is a leading provider of microporous membranes and modules for filtration in the life sciences, industrial and specialty segments.

Divestitures:

3M may divest certain businesses from time to time based upon review of the Company's portfolio considering, among other items, factors relative to the extent of strategic and technological alignment and optimization of capital deployment, in addition to considering if selling the businesses results in the greatest value creation for the Company and for shareholders.

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.

In October 2015, 3M (Safety and Graphics Business) announced that it completed the sale of assets of its North American library systems business to One Equity Partners Capital Advisors L.P. (OEP) and that it entered into agreements for OEP to purchase the assets of its remaining global library systems business. In October 2015, 3M (Safety and Graphics Business) also announced that it received a binding offer from Hills Numberplates Limited to purchase Faab Fabricauto, a wholly-owned subsidiary of 3M. The library systems business, part of the Traffic Safety and Security Division, delivers circulation management solutions to library customers with on-premise hardware and software, maintenance and service, and an emerging cloud-based digital lending platform. Faab Fabricauto, also part of the Traffic Safety and Security Division, is a leading French manufacturer of license plates and signage solutions. The aggregate selling price relative to the global library systems and Faab Fabricauto divestiture transactions is approximately $120 million, subject to working capital at close. The remaining transactions are expected to close in the fourth quarter of 2015. The Company expects a net pre-tax gain of approximately $45 million (approximately $10 million after tax) as a result of the sale and any adjustment of carrying value related to these divestitures. The aggregate operating income of these businesses included in the Company's operating results for the periods presented and the amounts of major assets and liabilities of associated disposal groups classified as held-for-sale as of September 30, 2015 were not material.

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

NOTE 3. Goodwill and Intangible Assets

Purchased goodwill from acquisitions totaled $2.5 billion during the first nine months of 2015, $628 million 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 September 30, 2015, follow:

Goodwill

(Millions)	December 31, 2014 Balance	Acquisition activity	Translation and other	September 30, 2015 Balance
Industrial	$ 2,037	$ 629	$ (84)	$ 2,582
Safety and Graphics	1,650	1,782	(41)	3,391
Electronics and Energy	1,559	—	(26)	1,533
Health Care	1,589	94	(44)	1,639
Consumer	215	—	(6)	209
Total Company	$ 7,050	$ 2,505	$ (201)	$ 9,354

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

Effective in the third quarter of 2015, the Company formed the Oral Care Solutions Division, which combined the former 3M ESPE and 3M Unitek divisions (both within the Health Care business segment). During the third quarter of

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2015, the Company completed its assessment of any potential goodwill impairment for reporting units impacted by this new structure and determined that no impairment existed.

Acquired Intangible Assets

For the nine months ended September 30, 2015, intangible assets (excluding goodwill) acquired through business combinations increased the gross carrying amount. Balances are also impacted by changes in foreign currency exchange rates. The carrying amount and accumulated amortization of acquired finite-lived intangible assets, in addition to the balance of non-amortizable intangible assets, as of September 30, 2015, and December 31, 2014, follow:

(Millions)	September 30, 2015	December 31, 2014
Customer related intangible assets	$ 2,063	$ 1,348
Patents	620	581
Other technology-based intangible assets	527	407
Definite-lived tradenames	834	401
Other amortizable intangible assets	230	221
Total gross carrying amount	$ 4,274	$ 2,958
Accumulated amortization — customer related	(659)	(597)
Accumulated amortization — patents	(477)	(472)
Accumulated amortization — other technology based	(239)	(215)
Accumulated amortization — definite-lived tradenames	(214)	(195)
Accumulated amortization — other	(169)	(167)
Total accumulated amortization	$ (1,758)	$ (1,646)
Total finite-lived intangible assets — net	$ 2,516	$ 1,312
Non-amortizable intangible assets (primarily tradenames)	116	123
Total intangible assets — net	$ 2,632	$ 1,435

Amortization expense for acquired intangible assets for the three-month and nine-month periods ended September 30, 2015 and 2014 follows:

	Three months ended September 30,		Nine months ended September 30,	
(Millions)	2015	2014	2015	2014
Amortization expense	$ 66	$ 56	$ 169	$ 170

The table below shows expected amortization expense for acquired amortizable intangible assets recorded as of September 30, 2015:

(Millions)	Remainder of 2015	2016	2017	2018	2019	2020	After 2020
Amortization expense	$ 71	$ 273	$ 247	$ 226	$ 213	$ 203	$ 1,283

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.

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NOTE 4. Supplemental Equity and Comprehensive Income Information

Consolidated Statement of Changes in Equity

Three months ended September 30, 2015

		3M Company Shareholders				
(Millions)	Total	Common Stock and Additional Paid-in Capital	Retained Earnings	Treasury Stock	Accumulated Other Comprehensive Income (Loss)	Non-controlling Interest
Balance at June 30, 2015	$ 13,130	$ 4,694	$ 35,615	$ (20,983)	$ (6,233)	$ 37
Net income	1,298		1,296			2
Other comprehensive income (loss), net of tax:						
Cumulative translation adjustment	(472)				(471)	(1)
Defined benefit pension and post-retirement plans adjustment	236				236	—
Debt and equity securities - unrealized gain (loss)	—				—	—
Cash flow hedging instruments - unrealized gain (loss)	1				1	—
Total other comprehensive income (loss), net of tax	(235)					
Dividends declared	(635)		(635)			
Stock-based compensation, net of tax impacts	46	46				
Reacquired stock	(1,449)			(1,449)		
Issuances pursuant to stock option and benefit plans	69		(41)	110		
Balance at September 30, 2015	$ 12,224	$ 4,740	$ 36,235	$ (22,322)	$ (6,467)	$ 38

Nine months ended September 30, 2015

(Millions)	Total	3M Company Shareholders Common Stock and Additional Paid-in Capital	Retained Earnings	Treasury Stock	Accumulated Other Comprehensive Income (Loss)	Non-controlling Interest
Balance at December 31, 2014	$ 13,142	$ 4,388	$ 34,317	$ (19,307)	$ (6,289)	$ 33
Net income	3,802		3,795			7
Other comprehensive income (loss), net of tax:						
Cumulative translation adjustment	(642)				(640)	(2)
Defined benefit pension and post-retirement plans adjustment	423				423	—
Debt and equity securities - unrealized gain (loss)	—				—	—
Cash flow hedging instruments - unrealized gain (loss)	39				39	—
Total other comprehensive income (loss), net of tax	(180)					
Dividends declared	(1,284)		(1,284)			
Stock-based compensation, net of tax impacts	352	352				
Reacquired stock	(4,132)			(4,132)		
Issuances pursuant to stock option and benefit plans	524		(593)	1,117		
Balance at September 30, 2015	$ 12,224	$ 4,740	$ 36,235	$ (22,322)	$ (6,467)	$ 38

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Three months ended September 30, 2014

(Millions)	Total	3M Company Shareholders Common Stock and Additional Paid-in Capital	Retained Earnings	Treasury Stock	Accumulated Other Comprehensive Income (Loss)	Non-controlling Interest
Balance at June 30, 2014	$ 17,846	$ 4,650	$ 33,836	$ (17,466)	$ (3,666)	$ 492
Net income	1,311		1,303			8
Other comprehensive income (loss), net of tax:						
Cumulative translation adjustment	(603)				(593)	(10)
Defined benefit pension and post-retirement plans adjustment	59				59	—
Debt and equity securities - unrealized gain (loss)	(1)				(1)	—
Cash flow hedging instruments - unrealized gain (loss)	68				68	—
Total other comprehensive income (loss), net of tax	(477)					
Dividends declared	(550)		(550)			
Purchase of subsidiary shares	(865)	(433)			25	(457)
Stock-based compensation, net of tax impacts	69	69				
Reacquired stock	(1,283)			(1,283)		
Issuances pursuant to stock option and benefit plans	155		(105)	260		
Balance at September 30, 2014	$ 16,206	$ 4,286	$ 34,484	$ (18,489)	$ (4,108)	$ 33

Nine months ended September 30, 2014

(Millions)	Total	3M Company Shareholders Common Stock and Additional Paid-in Capital	Retained Earnings	Treasury Stock	Accumulated Other Comprehensive Income (Loss)	Non-controlling Interest
Balance at December 31, 2013	$ 17,948	$ 4,384	$ 32,416	$ (15,385)	$ (3,913)	$ 446

Net income	3,819		3,777			42
Other comprehensive income (loss), net of tax:						
Cumulative translation adjustment	(456)				(462)	6
Defined benefit pension and post-retirement plans adjustment	180				180	—
Debt and equity securities - unrealized gain (loss)	1				1	—
Cash flow hedging instruments - unrealized gain (loss)	61				61	—
Total other comprehensive income (loss), net of tax	(214)					
Dividends declared	(1,105)		(1,105)			
Purchase of subsidiary shares	(870)	(434)			25	(461)
Stock-based compensation, net of tax impacts	336	336				
Reacquired stock	(4,438)			(4,438)		
Issuances pursuant to stock option and benefit plans	730		(604)	1,334		
Balance at September 30, 2014	$ 16,206	$ 4,286	$ 34,484	$ (18,489)	$ (4,108)	$ 33

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.

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

Three months ended September 30, 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)
Balance at June 30, 2015, net of tax:	$ (1,264)	$ (5,106)	$ —	$ 137	$ (6,233)
Other comprehensive income (loss), before tax:					
Amounts before reclassifications	(477)	233	—	57	(187)
Amounts reclassified out	—	134	—	(55)	79
Total other comprehensive income (loss), before tax	(477)	367	—	2	(108)
Tax effect	6	(131)	—	(1)	(126)
Total other comprehensive income (loss), net of tax	(471)	236	—	1	(234)
Balance at September 30, 2015, net of tax:	$ (1,735)	$ (4,870)	$ —	$ 138	$ (6,467)

Nine months ended September 30, 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)
Balance at December 31, 2014, net of tax:	$ (1,095)	$ (5,293)	$ —	$ 99	$ (6,289)
Other comprehensive income (loss), before tax:					
Amounts before reclassifications	(533)	257	—	177	(99)
Amounts reclassified out	—	399	—	(116)	283
Total other comprehensive income (loss), before tax	(533)	656	—	61	184
Tax effect	(107)	(233)	—	(22)	(362)

Total other comprehensive income (loss), net of tax	(640)	423	—	39	(178)
Balance at September 30, 2015, net of tax:	$ (1,735)	$ (4,870)	$ —	$ 138	$ (6,467)

Three months ended September 30, 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)
Balance at June 30, 2014, net of tax:	$ (57)	$ (3,594)	$ —	$ (15)	$ (3,666)
Other comprehensive income (loss), before tax:					
Amounts before reclassifications	(537)	—	(1)	98	(440)
Amounts reclassified out	—	89	—	9	98
Total other comprehensive income (loss), before tax	(537)	89	(1)	107	(342)
Tax effect	(56)	(30)	—	(39)	(125)
Total other comprehensive income (loss), net of tax	(593)	59	(1)	68	(467)
Impact from purchase of subsidiary shares	41	(16)	—	—	25
Balance at September 30, 2014, net of tax:	$ (609)	$ (3,551)	$ (1)	$ 53	$ (4,108)

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Nine months ended September 30, 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)
Balance at December 31, 2013, net of tax:	$ (188)	$ (3,715)	$ (2)	$ (8)	$ (3,913)
Other comprehensive income (loss), before tax:					
Amounts before reclassifications	(403)	—	2	86	(315)
Amounts reclassified out	—	272	—	8	280
Total other comprehensive income (loss), before tax	(403)	272	2	94	(35)
Tax effect	(59)	(92)	(1)	(33)	(185)
Total other comprehensive income (loss), net of tax	(462)	180	1	61	(220)
Impact from purchase of subsidiary shares	41	(16)	—	—	25
Balance at September 30, 2014, net of tax	$ (609)	$ (3,551)	$ (1)	$ 53	$ (4,108)

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.

Reclassifications out of Accumulated Other Comprehensive Income Attributable to 3M

(Millions)	Amount Reclassified from Accumulated Other Comprehensive Income				
Details about Accumulated Other Comprehensive Income Components	Three months ended September 30, 2015	2014	Nine months ended September 30, 2015	2014	Location on Income Statement
Gains (losses) associated with, defined benefit pension and postretirement plans amortization					
Transition asset	$ —	$ 1	$ 1	$ 1	See Note 8
Prior service benefit	19	15	54	45	See Note 8

Net actuarial loss	(153)	(105)	(471)	(318)	See Note 8
Curtailments/Settlements	—	—	17	—	See Note 8
Total before tax	(134)	(89)	(399)	(272)	
Tax effect	44	30	135	92	Provision for income taxes
Net of tax	$ (90)	$ (59)	$ (264)	$ (180)	
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	$ 55	$ (7)	$ 120	$ (9)	Cost of sales
Commodity price swap contracts	—	(1)	(2)	2	Cost of sales
Interest rate swap contracts	—	(1)	(2)	(1)	Interest expense
Total before tax	55	(9)	116	(8)	
Tax effect	(20)	3	(42)	3	Provision for income taxes
Net of tax	$ 35	$ (6)	$ 74	$ (5)	
Total reclassifications for the period, net of tax	$ (55)	$ (65)	$ (190)	$ (185)	

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Purchase and Sale of Subsidiary Shares

On September 1, 2014, 3M (via Sumitomo 3M Limited) acquired Sumitomo Electric Industries, Ltd.'s 25 percent interest in 3M's consolidated Sumitomo 3M Limited subsidiary for 90 billion Japanese Yen (approximately $865 million at closing date exchange rates). Upon completion of the transaction, 3M owned 100 percent of Sumitomo 3M Limited. Approximately $694 million was recorded as a financing activity in the statement of cash flows while the remainder was recorded as a current liability (paid in October 2014). This purchase of the remaining noncontrolling interest resulted in a decrease in 3M Company shareholder's equity of $408 million and a decrease in noncontrolling interest equity of $457 million.

In April 2014, 3M purchased the remaining noncontrolling interest in a consolidated 3M subsidiary for an immaterial amount, which was classified as a financing activity in the consolidated statement of cash flows.

The following table summarizes the effects of these 2014 transactions on equity attributable to 3M Company shareholders for the respective periods.

(Millions)	Three months ended September 30, 2014	Nine months ended September 30, 2014
Net income attributable to 3M	$ 1,303	$ 3,777
Impact of purchase of subsidiary shares	(408)	(409)
Change in 3M Company shareholders' equity from net income attributable to 3M and impact of purchase of subsidiary shares	$ 895	$ 3,368

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 September 30, 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 and resolution of audit issues for various audit years mentioned above and closure of statutes. The Company is not currently able to reasonably estimate the amount by which the liability for unrecognized tax benefits will increase or decrease during the next 12 months as a result of the ongoing income tax authority examinations. The total amounts of unrecognized tax benefits that, if recognized, would affect the effective tax rate as of September 30, 2015 and December 31, 2014 are $279 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 $5 million of expense and

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$1 million of benefit for the three months ended September 30, 2015 and September 30, 2014, respectively, and approximately $3 million of expense and $14 million of benefit for the nine months ended September 30, 2015 and September 30, 2014, respectively. At September 30, 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 third quarter of 2015 was 29.6 percent, compared to 30.3 percent in the third quarter of 2014, a decrease of 0.7 percentage points. Primary factors that decreased the Company's effective tax rate on a combined basis by 3.1 percentage points year-on-year included the restoration of tax basis on certain assets for which depreciation deductions were previously limited, an increase in the domestic manufacturer's deduction benefit, and international taxes, which were impacted by changes in foreign currency rates and changes to the geographic mix of income before taxes. This decrease was partially offset by a 2.4 percentage points year-on-year increase to the Company's effective tax rate. Primary factors that increased the effective tax rate included remeasurements of 3M's uncertain tax positions and other items.

The effective tax rate for the first nine months of 2015 and 2014 was 29.1 percent, with factors that increased the tax rate completely offset by factors that decreased the tax rate. Primary factors that increased the Company's effective tax rate on a combined basis by 1.2 percentage points for the first nine months of 2015 when compared to the same period for 2014 included international taxes, which were impacted by changes in foreign currency rates and changes to the geographic mix of income before taxes, and other items. This increase was offset by a 1.2 percentage point year-on-year decrease, which included remeasurements of 3M's uncertain tax positions, as a result of, among other factors, matters related to transfer pricing, the restoration of tax basis on certain assets for which depreciation deductions were previously limited, and an increase in the domestic manufacturer's deduction benefit.

The provision for income taxes is determined using the asset and liability approach. Under this approach, deferred income taxes represent the expected future tax consequences of temporary differences between the carrying amounts and tax basis of assets and liabilities. The Company records a valuation allowance to reduce its deferred tax assets when uncertainty regarding their realizability exits. As of September 30, 2015 and December 31, 2014, the Company had valuation allowances of $37 million and $22 million, respectively, on its deferred tax assets. The increase in valuation allowance at September 30, 2015 is a result of the Capital Safety acquisition, which was completed in August 2015.

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NOTE 6. Marketable Securities

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

(Millions)	September 30, 2015	December 31, 2014
U.S. government agency securities	$ —	$ 67
Foreign government agency securities	10	75
Corporate debt securities	11	241
Commercial paper	25	—
Certificates of deposit/time deposits	34	41
U.S. municipal securities	3	—
Asset-backed securities:		
Automobile loan related	38	122
Credit card related	10	59
Equipment lease related	3	21
Other	19	—
Asset-backed securities total	70	202
Current marketable securities	$ 153	$ 626
U.S. government agency securities	$ 1	$ 41
Foreign government agency securities	—	20
Corporate debt securities	—	378
Certificates of deposit/time deposits	—	—
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
Non-current marketable securities	$ 13	$ 828
Total marketable securities	$ 166	$ 1,454

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 lower balance of marketable securities as of September 30, 2015, was driven by the 2015 acquisitions of Polypore's Separations Media business and Capital Safety, as discussed in Note 2.

At September 30, 2015, both gross unrealized gains and losses were immaterial. 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 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.

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

The balances at September 30, 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)	September 30, 2015
Due in one year or less	$ 71
Due after one year through five years	78
Due after five years through ten years	2
Due after ten years	15
Total marketable securities	$ 166

3M has a diversified marketable securities portfolio of $166 million as of September 30, 2015. Within this portfolio, current and long-term asset-backed securities (estimated fair value of $70 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 September 30, 2015, all asset-backed security investments were in compliance with this policy. Approximately 80.5 percent of all asset-backed security investments were rated AAA or A-1+ by Standard & Poor’s and/or Aaa or P-1 by Moody’s 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.

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

The Company has a "well-known seasoned issuer" shelf registration statement, effective May 16, 2014, 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, as discussed in Note 9 in 3M's 2014 Annual Report on Form 10-K, 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.

In May 2015, 3M issued 650 million Euros aggregate principal amount of five-year floating rate medium term notes due 2020 with an interest rate based on a floating three-month EURIBOR index, 600 million Euros aggregate principal amount of eight-year fixed rate medium-term notes due 2023 with a coupon rate of 0.95%, and 500 million Euros aggregate principal amount of fifteen-year fixed rate medium-term notes due 2030 with a coupon rate of 1.75%. As discussed in Note 9, the May 2015 debt issuances were designated in net investment hedges. In August 2015, 3M issued $450 million aggregate principal amount of three-year fixed rate medium-term notes due 2018 with a coupon rate of 1.375%, $500 million aggregate principal amount of five-year fixed rate medium-term notes due 2020 with a coupon rate of 2.0%, and $550 million aggregate principal amount of 10-year fixed rate medium-term notes due 2025 with a coupon rate of 3.0%. Upon debt issuance, the Company entered into two interest rate swaps; the first converted the entire $450 million three-year fixed rate note, and the second converted $300 million of the five-year fixed rate note to an interest rate based on a floating three-month LIBOR index. The May 2015 and August 2015 debt issuances were from

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the medium-term notes program (Series F). As of September 30, 2015, the total amount of debt issued as part of the medium-term note program (Series F), inclusive of debt issued in 2011, 2012, 2014 and the 2015 debt referenced above, is approximately $8.17 billion (utilizing the foreign exchange rate applicable at the time of issuance for the Euro denominated debt).

NOTE 8. Pension and Postretirement Benefit Plans

Net periodic benefit cost is recorded in cost of sales, selling, general and administrative expenses, and research, development and related expenses. Components of net periodic benefit cost and other supplemental information for the three and nine months ended September 30, 2015 and 2014 follow:

Benefit Plan Information

	Three months ended September 30, Qualified and Non-qualified Pension Benefits					
	United States		International		Postretirement Benefits	
(Millions)	2015	2014	2015	2014	2015	2014
Net periodic benefit cost (benefit)						
Service cost	$ 73	$ 60	$ 36	$ 36	$ 19	$ 16
Interest cost	163	169	49	65	25	24
Expected return on plan assets	(267)	(261)	(74)	(79)	(23)	(22)
Amortization of transition (asset) obligation	—	—	—	(1)	—	—
Amortization of prior service cost (benefit)	(6)	1	(3)	(4)	(10)	(12)
Amortization of net actuarial (gain) loss	101	60	34	31	18	14
Net periodic benefit cost (benefit)	$ 64	$ 29	$ 42	$ 48	$ 29	$ 20
Settlements, curtailments, special termination benefits and other	—	—	—	—	—	—
Net periodic benefit cost (benefit) after settlements, curtailments, special termination benefits and other	$ 64	$ 29	$ 42	$ 48	$ 29	$ 20

	Nine months ended September 30, Qualified and Non-qualified Pension Benefits					
	United States		International		Postretirement Benefits	
(Millions)	2015	2014	2015	2014	2015	2014

Net periodic benefit cost (benefit)						
Service cost	$ 219	$ 180	$ 118	$ 107	$ 62	$ 49
Interest cost	491	507	159	194	75	72
Expected return on plan assets	(801)	(783)	(236)	(238)	(68)	(67)
Amortization of transition (asset) obligation	—	—	(1)	(1)	—	—
Amortization of prior service cost (benefit)	(18)	3	(10)	(12)	(26)	(36)
Amortization of net actuarial (gain) loss	305	182	110	93	56	43
Net periodic benefit cost (benefit)	$ 196	$ 89	$ 140	$ 143	$ 99	$ 61
Settlements, curtailments, special termination benefits and other	—	—	(17)	—	—	—
Net periodic benefit cost (benefit) after settlements, curtailments, special termination benefits and other	$ 196	$ 89	$ 123	$ 143	$ 99	$ 61

For the nine months ended September 30, 2015, contributions totaling $213 million were made to the Company's U.S. and international pension plans and $3 million to its postretirement plans. For total year 2015, the Company expects to contribute approximately $250 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

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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. In September 2015, the court ruled in favor of the defendant insurance companies on a motion for summary judgment and dismissed the lawsuit. In October 2015, 3M and the 3M benefit plans filed a notice of appeal to the United States Court of Appeals for the Eighth Circuit. 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.

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 nine months ended September 30, 2015.

In August 2015, 3M modified the 3M Retiree Welfare Benefit Plan postretirement medical benefit reducing the future benefit for participants not retired as of January 1, 2016. Current retirees and employees who retire on or before January 1, 2016, will not be impacted by these changes. The Retiree Medical Savings Account (RMSA) will no longer be credited with interest, and the indexation on both the RMSA and the Medicare Health Reimbursement Arrangement will be reduced from 3 percent to 1.5 percent per year (for those employees who are eligible for these accounts). Also effective January 1, 2016, 3M will no longer offer 3M Retiree Health Care Accounts to new hires. Due to these changes the plan was re-measured in the third quarter of 2015, resulting in a decrease to the projected benefit obligation liability of approximately $233 million, and a related increase to shareholders' equity, specifically accumulated other comprehensive income.

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.

NOTE 9. Derivatives

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

3M uses such instruments, how such instruments are accounted for, and how such instruments impact 3M's financial position and performance.

Additional information with respect to the impacts on other comprehensive income of nonderivative hedging and derivative instruments is included in Note 4. Additional information with respect to the fair value of derivative instruments is included in Note 10. References to information regarding derivatives and/or hedging instruments associated with the Company's long-term debt are also made in Note 7 herein and 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

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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 affects earnings. 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. 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 September 30, 2015 was approximately $2.9 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 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 an $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.

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 September 30, 2015, the Company had a balance of $138 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 $5 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 September 30, 2015, 3M expects to reclassify approximately $36 million of the after-tax net unrealized foreign exchange cash flow hedging gains to earnings over the remainder of 2015, approximately $88 million of the after-tax net unrealized foreign exchange cash flow hedging gains to earnings in 2016, and approximately $14 million of the after-tax net unrealized foreign exchange cash flow hedging gains to earnings after 2016. 3M expects to reclassify approximately $109 million of the after-tax net unrealized foreign exchange cash flow hedging gains to earnings over the next 12 months.

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

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amounts from accumulated other comprehensive income into income include accumulated gains (losses) on dedesignated hedges at the time earnings are impacted by the forecasted transaction.

Three months ended September 30, 2015

(Millions)	Pretax Gain (Loss) Recognized in Other Comprehensive Income on Effective Portion of Derivative	Pretax Gain (Loss) Recognized in Income on Effective Portion of Derivative as a Result of Reclassification from Accumulated Other Comprehensive Income		Ineffective Portion of Gain (Loss) on Derivative and Amount Excluded from Effectiveness Testing Recognized in Income	
Derivatives in Cash Flow Hedging Relationships	Amount	Location	Amount	Location	Amount
Foreign currency forward/option contracts	$ 57	Cost of sales	$ 55	Cost of sales	$ —
Interest rate swap contracts	—	Interest expense	—	Interest expense	—
Total	$ 57		$ 55		$ —

Nine months ended September 30, 2015

(Millions)	Pretax Gain (Loss) Recognized in Other Comprehensive Income on Effective Portion of Derivative	Pretax Gain (Loss) Recognized in Income on Effective Portion of Derivative as a Result of Reclassification from Accumulated Other Comprehensive Income		Ineffective Portion of Gain (Loss) on Derivative and Amount Excluded from Effectiveness Testing Recognized in Income	
Derivatives in Cash Flow Hedging Relationships	Amount	Location	Amount	Location	Amount
Foreign currency forward/option contracts	$ 177	Cost of sales	$ 120	Cost of sales	$ —
Commodity price swap contracts	—	Cost of sales	(2)	Cost of sales	—
Interest rate swap contracts	—	Interest expense	(2)	Interest expense	—
Total	$ 177		$ 116		$ —

Three months ended September 30, 2014

(Millions) Derivatives in Cash Flow Hedging Relationships	Pretax Gain (Loss) Recognized in Other Comprehensive Income on Effective Portion of Derivative Amount	Pretax Gain (Loss) Recognized in Income on Effective Portion of Derivative as a Result of Reclassification from Accumulated Other Comprehensive Income Location	 Amount	Ineffective Portion of Gain (Loss) on Derivative and Amount Excluded from Effectiveness Testing Recognized in Income Location	 Amount
Foreign currency forward/option contracts	$ 103	Cost of sales	$ (7)	Cost of sales	$ —
Commodity price swap contracts	(3)	Cost of sales	(1)	Cost of sales	—
Interest rate swap contracts	(2)	Interest expense	(1)	Interest expense	—
Total	$ 98		$ (9)		$ —

Nine months ended September 30, 2014

(Millions) Derivatives in Cash Flow Hedging Relationships	Pretax Gain (Loss) Recognized in Other Comprehensive Income on Effective Portion of Derivative Amount	Pretax Gain (Loss) Recognized in Income on Effective Portion of Derivative as a Result of Reclassification from Accumulated Other Comprehensive Income Location	 Amount	Ineffective Portion of Gain (Loss) on Derivative and Amount Excluded from Effectiveness Testing Recognized in Income Location	 Amount
Foreign currency forward/option contracts	$ 90	Cost of sales	$ (9)	Cost of sales	$ —
Commodity price swap contracts	(2)	Cost of sales	2	Cost of sales	—
Interest rate swap contracts	(2)	Interest expense	(1)	Interest expense	—
Total	$ 86		$ (8)		$ —

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

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calculated by reference to an agreed-upon notional principal amount. The mark-to-market of these fair value hedges is recorded as gains or losses in interest expense and is offset by the gain or loss of the underlying debt instrument, which also is recorded in interest expense. These fair value hedges are highly effective and, thus, there is no impact on earnings due to hedge ineffectiveness. The dollar equivalent (based on inception date foreign currency exchange rates) gross notional amount of the Company's interest rate swaps at September 30, 2015 was $1.8 billion.

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.

In August 2015, in connection with the issuance of medium-term notes as discussed in Note 7, 3M completed two fixed-to-floating interest rate swaps as fair value hedges of a portion of these fixed interest rate obligations. The first was for a notional amount equivalent to the full $450 million aggregate principal amount of three-year 1.375% fixed rate notes due 2018. The second was for a notional amount of $300 million associated with the $500 million aggregate principal amount of five-year 2.0% fixed rate notes due 2020.

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

Three months ended September 30, 2015

(Millions)	Gain (Loss) on Derivative Recognized in Income		Gain (Loss) on Hedged Item Recognized in Income	
Derivatives in Fair Value Hedging Relationships	Location	Amount	Location	Amount
Interest rate swap contracts	Interest expense	$ 20	Interest expense	$ (20)
Total		$ 20		$ (20)

Nine months ended September 30, 2015

(Millions)	Gain (Loss) on Derivative Recognized in Income		Gain (Loss) on Hedged Item Recognized in Income	
Derivatives in Fair Value Hedging Relationships	Location	Amount	Location	Amount
Interest rate swap contracts	Interest expense	$ 15	Interest expense	$ (15)
Total		$ 15		$ (15)

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Three months ended September 30, 2014

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

Nine months ended September 30, 2014

(Millions) Derivatives in Fair Value Hedging Relationships	Gain (Loss) on Derivative Recognized in Income Location	Amount	Gain (Loss) on Hedged Item Recognized in Income Location	Amount
Interest rate swap contracts	Interest expense	$ 13	Interest expense	$ (13)
Total		$ 13		$ (13)

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 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 foreign 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 foreign exchange risk coverage.

At September 30, 2015, the total notional amount of foreign exchange forward contracts designated in net investment hedges was approximately 974 million Euros and approximately 440 billion South Korean Won, along with a principal amount of long-term debt instruments designated in net investment hedges totaling 3.6 billion Euros (as discussed in Note 9 in 3M's 2014 Annual Report on Form 10-K, specifically items C, D1, D2, and H, with additional discussion within Note 7 of this report for the May 2015 debt issuances that were designated in net investment hedges). The maturity dates of these derivative and nonderivative instruments designated in net investment hedges range from 2015 to 2030.

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 the three and nine months ended September 30, 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 $108 million and $162 million for the three and nine months ended September 30, 2014, respectively. 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.

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Three months ended September 30, 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) o[n] Instrument and Amount Excluded from Effectiveness Testing Recognized in Income	
	Amount	Location	Amount
Foreign currency denominated debt	$ (24)	N/A	$ —
Foreign currency forward contracts	19	Cost of sales	4
Total	$ (5)		$ 4

Nine months ended September 30, 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) o[n] Instrument and Amount Excluded from Effectiveness Testing Recognized in Income	
	Amount	Location	Amount
Foreign currency denominated debt	$ 161	N/A	$ —
Foreign currency forward contracts	121	Cost of sales	8
Total	$ 282		$ 8

Three months ended September 30, 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	Ineffective Portion of Gain (Loss) o[n] Instrument and Amount Excluded from Effectiveness Testing Recognized in Income	
	Amount	Location	Amount

Foreign currency denominated debt	$	54	N/A	$ —
Foreign currency forward contracts		55	Cost of sales	—
Total	$	109		$ —

Nine months ended September 30, 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	$	81	N/A	$ —
Foreign currency forward contracts		56	Cost of sales	—
Total	$	137		$ —

Derivatives Not Designated as Hedging Instruments:

Derivatives not designated as hedging instruments include dedesignated foreign currency forward and option contracts that formerly were designated in cash flow hedging relationships (as referenced in the Cash Flow Hedges section above),

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dedesignated foreign exchange forward contracts that formerly were designated in net investment hedging relationships, and forward and option contracts entered into, in part, as offsetting trades to such dedesignated items. 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 $6.2 billion as of September 30, 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:

	Three months ended September 30, 2015		Nine months ended September 30, 2015	
	Gain (Loss) on Derivative Recognized in Income		Gain (Loss) on Derivative Recognized in Income	
Derivatives Not Designated as Hedging Instruments (Millions)	Location	Amount	Location	Amount
Foreign currency forward/option contracts	Cost of sales	$ (5)	Cost of sales	$ —
Foreign currency forward contracts	Interest expense	(34)	Interest expense	(6)
Commodity price swap contracts	Cost of sales	1	Cost of sales	(3)
Total		$ (38)		$ (9)

	Three months ended September 30, 2014		Nine months ended September 30, 2014	
	Gain (Loss) on Derivative Recognized in Income		Gain (Loss) on Derivative Recognized in Income	
Derivatives Not Designated as Hedging Instruments (Millions)	Location	Amount	Location	Amount
Foreign currency forward/option contracts	Cost of sales	$ 8	Cost of sales	$ 5
Foreign currency forward contracts	Interest expense	(72)	Interest expense	(4)
Total		$ (64)		$ 1

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Location and Fair Value Amount of Derivative Instruments

The following tables summarize the fair value of 3M's derivative instruments, excluding nonderivative instruments used as hedging instruments, and their location in the consolidated balance sheet. Additional information with respect to the fair value of derivative instruments is included in Note 10.

September 30, 2015				
(Millions)	Assets		Liabilities	
Fair Value of Derivative Instruments	Location	Amount	Location	Amount
Derivatives designated as hedging instruments				
Foreign currency forward/option contracts	Other current assets	$ 204	Other current liabilities	$ 4
Foreign currency forward/option contracts	Other assets	71	Other liabilities	4
Interest rate swap contracts	Other assets	40	Other liabilities	—
Total derivatives designated as hedging instruments		$ 315		$ 8
Derivatives not designated as hedging instruments				
Foreign currency forward/option contracts	Other current assets	$ 53	Other current liabilities	$ 79
Commodity price swap contracts	Other current assets	—	Other current liabilities	1
Total derivatives not designated as hedging instruments		$ 53		$ 80
Total derivative instruments		$ 368		$ 88

December 31, 2014				
(Millions)	Assets		Liabilities	
Fair Value of Derivative Instruments	Location	Amount	Location	Amount
Derivatives designated as hedging instruments				
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
Total derivatives designated as hedging instruments		$ 190		$ 10

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

Credit Risk and Offsetting of Assets and Liabilities of Derivative Instruments

The Company is exposed to credit loss in the event of nonperformance by counterparties in interest rate swaps, currency swaps, commodity price swaps, and forward and option contracts. However, the Company's risk is limited to the fair value of the instruments. The Company actively monitors its exposure to credit risk through the use of credit approvals and credit limits, and by selecting major international banks and financial institutions as counterparties. 3M enters into master netting arrangements with counterparties when possible to mitigate credit risk in derivative transactions. A master netting arrangement may allow each counterparty to net settle amounts owed between a 3M entity and the counterparty as a result of multiple, separate derivative transactions. As of September 30, 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,

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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 under Master Netting Agreements with Derivative Counterparties

September 30, 2015		Gross Amounts not Offset in the Consolidated Balance Sheet that are Subject to Master Netting Agreements		
(Millions)	Gross Amount of Derivative Assets Presented in the Consolidated Balance Sheet	Gross Amount of Eligible Offsetting Recognized Derivative Liabilities	Cash Collateral Received	Net Amount of Derivative Assets
Derivatives subject to master netting agreements	$ 368	$ 28	$ —	$ 340
Derivatives not subject to master netting agreements	—			—
Total	$ 368			$ 340

December 31, 2014		Gross Amounts not Offset in the Consolidated Balance Sheet that are Subject to Master Netting Agreements		
(Millions)	Gross Amount of Derivative Assets Presented in the Consolidated Balance Sheet	Gross Amount of Eligible Offsetting Recognized Derivative Liabilities	Cash Collateral Received	Net Amount of Derivative Assets
Derivatives subject to master netting agreements	$ 256	$ 20	$ —	$ 236
Derivatives not subject to master netting agreements	—			—
Total	$ 256			$ 236

Offsetting of Financial Liabilities under Master Netting Agreements with Derivative Counterparties

September 30, 2015		Gross Amounts not Offset in the Consolidated Balance Sheet that are Subject to Master Netting Agreements
	Gross Amount of	

(Millions)	Derivative Liabilities Presented in the Consolidated Balance Sheet	Gross Amount of Eligible Offsetting Recognized Derivative Assets	Cash Collateral Pledged	Net Amount of Derivative Liabilities
Derivatives subject to master netting agreements	$ 81	$ 28	$ —	$ 53
Derivatives not subject to master netting agreements	7			7
Total	$ 88			$ 60

December 31, 2014		Gross Amounts not Offset in the Consolidated Balance Sheet that are Subject to Master Netting Agreements		
(Millions)	Gross Amount of Derivative Liabilities Presented in the Consolidated Balance Sheet	Gross Amount of Eligible Offsetting Recognized Derivative Assets	Cash Collateral Pledged	Net Amount of Derivative Liabilities
Derivatives subject to master netting agreements	$ 36	$ 20	$ —	$ 16
Derivatives not subject to master netting agreements	7			7
Total	$ 43			$ 23

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Currency Effects

3M estimates that year-on-year currency effects, including hedging impacts, decreased pre-tax income by approximately $95 million for the three months ended September 30, 2015 and decreased pre-tax income by approximately $295 million for the nine months ended September 30, 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 $70 million for three months ended September 30, 2015 and increased pre-tax income by approximately $150 million for the nine months ended September 30, 2015.

NOTE 10. Fair Value Measurements

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

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

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

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

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 September 30, 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 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.

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

(Millions)	Fair Value at September 30, 2015	Fair Value Measurements Using Inputs Considered as		
Description		Level 1	Level 2	Level 3
Assets:				
Available-for-sale:				
Marketable securities:				
U.S. government agency securities	$ 1	$ —	$ 1	$ —
Foreign government agency securities	10	—	10	—
Corporate debt securities	11	—	11	—
Commercial paper	25	—	25	—
Certificates of deposit/time deposits	34	—	34	—
Asset-backed securities:				
Automobile loan related	38	—	38	—
Credit card related	10	—	10	—
Equipment lease related	3	—	3	—
Other	19	—	19	—
U.S. municipal securities	15	—	—	15
Investments	1	1	—	—
Derivative instruments — assets:				
Foreign currency forward/option contracts	328	—	328	—
Interest rate swap contracts	40	—	40	—
Liabilities:				
Derivative instruments — liabilities:				
Foreign currency forward/option contracts	87	—	87	—
Commodity price swap contracts	1	—	1	—

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(Millions)	Fair Value at	Fair Value Measurements Using Inputs Considered as		
Description	December 31, 2014	Level 1	Level 2	Level 3
Assets:				
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	—
Liabilities:				
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)	Three months ended		Nine months ended	
Marketable securities — auction rate securities and certain U.S. municipal securities only	September 30, 2015	September 30, 2014	September 30, 2015	September 30, 2014
Beginning balance	$ 15	$ 12	$ 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	$ 15	$ 12	$ 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 and nine months ended September 30, 2015 and 2014.

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Fair Value of Financial Instruments:

The Company’s financial instruments include cash and cash equivalents, marketable securities, accounts receivable, certain investments, accounts payable, borrowings, and derivative contracts. The fair values of cash and cash equivalents, accounts receivable, accounts payable, and short-term borrowings and current portion of long-term debt 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: