3M CO
Form 10-Q
July 26, 2018
Table of Contents

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

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

SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended June 30, 2018

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 every Interactive Data File required to be submitted 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, smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth 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)	Emerging growth company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for

complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

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

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

Class	Outstanding at June 30, 2018

Common Stock, $0.01 par value per share	586,613,476 shares

Table of Contents

3M COMPANY

Form 10-Q for the Quarterly Period Ended June 30, 2018

	TABLE OF CONTENTS	BEGINNING PAGE
PART I	FINANCIAL INFORMATION	
ITEM 1.	Financial Statements	
	Index to Financial Statements:	
	Consolidated Statement of Income	3
	Consolidated Statement of Comprehensive Income	4
	Consolidated Balance Sheet	5
	Consolidated Statement of Cash Flows	6
	Notes to Consolidated Financial Statements	
	Note 1. Significant Accounting Policies	7
	Note 2. Revenue	13
	Note 3. Acquisitions and Divestitures	16
	Note 4. Goodwill and Intangible Assets	17
	Note 5. Restructuring Actions and Exit Activities	19
	Note 6. Supplemental Income Statement Information	20

	Note 7. Supplemental Equity and Comprehensive Income Information	20
	Note 8. Income Taxes	24
	Note 9. Marketable Securities	26
	Note 10. Long-Term Debt and Short-Term Borrowings	26
	Note 11. Pension and Postretirement Benefit Plans	27
	Note 12. Derivatives	28
	Note 13. Fair Value Measurements	34
	Note 14. Commitments and Contingencies	37
	Note 15. Stock-Based Compensation	46
	Note 16. Business Segments	50
	Report of Independent Registered Public Accounting Firm	52
ITEM 2.	Management's Discussion and Analysis of Financial Condition and Results of Operations	
	Index to Management's Discussion and Analysis:	
	Overview	53
		60

	Results of Operations	
	Performance by Business Segment	65
	Financial Condition and Liquidity	72
	Cautionary Note Concerning Factors That May Affect Future Results	78
ITEM 3.	Quantitative and Qualitative Disclosures About Market Risk	78
ITEM 4.	Controls and Procedures	79
PART II	OTHER INFORMATION	
ITEM 1.	Legal Proceedings	80
ITEM 1A.	Risk Factors	80
ITEM 2.	Unregistered Sales of Equity Securities and Use of Proceeds	82
ITEM 3.	Defaults Upon Senior Securities	83
ITEM 4.	Mine Safety Disclosures	83
ITEM 5.	Other Information	83
ITEM 6.	Exhibits	83

Table of Contents

3M COMPANY

FORM 10-Q

For the Quarterly Period Ended June 30, 2018

PART I. Financial Information

Item 1. Financial Statements.

3M Company and Subsidiaries

Consolidated Statement of Income

(Unaudited)

	Three months ended June 30,		Six months ended June 30,	
(Millions, except per share amounts)	2018	2017	2018	2017
Net sales	$ 8,390	$ 7,810	$ 16,668	$ 15,495
Operating expenses				
Cost of sales	4,227	4,020	8,463	7,902
Selling, general and administrative expenses	1,800	1,620	4,373	3,234
Research, development and related expenses	468	478	954	954
Gain on sale of businesses	(506)	(461)	(530)	(490)
Total operating expenses	5,989	5,657	13,260	11,600
Operating income	2,401	2,153	3,408	3,895
Other expense (income), net	51	11	93	16
Income before income taxes	2,350	2,142	3,315	3,879
Provision for income taxes	488	557	847	968
Net income including noncontrolling interest	$ 1,862	$ 1,585	$ 2,468	$ 2,911
Less: Net income attributable to noncontrolling interest	5	2	9	5
Net income attributable to 3M	$ 1,857	$ 1,583	$ 2,459	$ 2,906
Weighted average 3M common shares outstanding — basic	591.4	598.1	593.8	598.1
Earnings per share attributable to 3M common shareholders — basic	$ 3.14	$ 2.65	$ 4.14	$ 4.86

Weighted average 3M common shares outstanding — diluted	604.2	612.8	608.5	612.4
Earnings per share attributable to 3M common shareholders — diluted	$ 3.07	$ 2.58	$ 4.04	$ 4.74
Cash dividends paid per 3M common share	$ 1.36	$ 1.175	$ 2.72	$ 2.35

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

Table of Contents

3M Company and Subsidiaries

Consolidated Statement of Comprehensive Income

(Unaudited)

	Three months ended June 30,		Six months ended June 30,	
(Millions)	2018	2017	2018	2017
Net income including noncontrolling interest	$ 1,862	$ 1,585	$ 2,468	$ 2,911
Other comprehensive income (loss), net of tax:				
Cumulative translation adjustment	(496)	(67)	(329)	225
Defined benefit pension and postretirement plans adjustment	114	78	230	161
Cash flow hedging instruments, unrealized gain (loss)	162	(51)	101	(127)
Total other comprehensive income (loss), net of tax	(220)	(40)	2	259
Comprehensive income (loss) including noncontrolling interest	1,642	1,545	2,470	3,170
Comprehensive (income) loss attributable to noncontrolling interest	(1)	(2)	(4)	(8)
Comprehensive income (loss) attributable to 3M	$ 1,641	$ 1,543	$ 2,466	$ 3,162

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

Table of Contents

3M Company and Subsidiaries

Consolidated Balance Sheet

(Unaudited)

(Dollars in millions, except per share amount)	June 30, 2018	December 31, 2017
Assets		
Current assets		
Cash and cash equivalents	$ 2,801	$ 3,053
Marketable securities — current	385	1,076
Accounts receivable — net	5,383	4,911
Inventories		
Finished goods	1,979	1,915
Work in process	1,292	1,218
Raw materials and supplies	967	901
Total inventories	4,238	4,034
Prepaids	713	937
Other current assets	370	266
Total current assets	13,890	14,277
Property, plant and equipment	24,758	24,914
Less: Accumulated depreciation	(16,113)	(16,048)
Property, plant and equipment — net	8,645	8,866
Goodwill	10,107	10,513
Intangible assets — net	2,787	2,936
Other assets	1,349	1,395
Total assets	$ 36,778	$ 37,987
Liabilities		
Current liabilities		
Short-term borrowings and current portion of long-term debt	$ 3,225	$ 1,853
Accounts payable	1,871	1,945
Accrued payroll	646	870
Accrued income taxes	293	310
Other current liabilities	2,867	2,709
Total current liabilities	8,902	7,687
Long-term debt	11,294	12,096
Pension and postretirement benefits	3,254	3,620
Other liabilities	2,900	2,962
Total liabilities	$ 26,350	$ 26,365
Commitments and contingencies (Note 14)		
Equity		
3M Company shareholders' equity:		
Common stock par value, $.01 par value; 944,033,056 shares issued	$ 9	$ 9
Additional paid-in capital	5,550	5,352

Retained earnings	39,442	39,115
Treasury stock, at cost: 357,419,580 shares at June 30, 2018;		
349,148,819 shares at December 31, 2017	(27,617)	(25,887)
Accumulated other comprehensive income (loss)	(7,019)	(7,026)
Total 3M Company shareholders' equity	10,365	11,563
Noncontrolling interest	63	59
Total equity	$ 10,428	$ 11,622
Total liabilities and equity	$ 36,778	$ 37,987

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

Table of Contents

3M Company and Subsidiaries

Consolidated Statement of Cash Flows

(Unaudited)

(Millions)	Six months ended June 30, 2018	2017
Cash Flows from Operating Activities		
Net income including noncontrolling interest	$ 2,468	$ 2,911
Adjustments to reconcile net income including noncontrolling interest to net cash provided by operating activities		
Depreciation and amortization	762	818
Company pension and postretirement contributions	(261)	(279)
Company pension and postretirement expense	204	163
Stock-based compensation expense	208	206
Gain on sale of businesses	(530)	(490)
Deferred income taxes	(1)	(120)
Changes in assets and liabilities		
Accounts receivable	(606)	(412)
Inventories	(337)	(347)
Accounts payable	(12)	(60)
Accrued income taxes (current and long-term)	234	257
Other — net	(87)	(17)
Net cash provided by operating activities	2,042	2,630
Cash Flows from Investing Activities		
Purchases of property, plant and equipment (PP&E)	(669)	(589)
Proceeds from sale of PP&E and other assets	96	13
Acquisitions, net of cash acquired	13	—
Purchases of marketable securities and investments	(964)	(407)
Proceeds from maturities and sale of marketable securities and investments	1,636	543
Proceeds from sale of businesses, net of cash sold	806	862
Other — net	(11)	5
Net cash provided by investing activities	907	427
Cash Flows from Financing Activities		
Change in short-term debt — net	774	(113)
Repayment of debt (maturities greater than 90 days)	(6)	(650)
Proceeds from debt (maturities greater than 90 days)	6	—
Purchases of treasury stock	(2,537)	(1,184)
Proceeds from issuance of treasury stock pursuant to stock option and benefit plans	305	496
Dividends paid to shareholders	(1,612)	(1,403)
Other — net	(26)	(2)
Net cash used in financing activities	(3,096)	(2,856)

Effect of exchange rate changes on cash and cash equivalents	(105)	55
Net increase (decrease) in cash and cash equivalents	(252)	256
Cash and cash equivalents at beginning of year	3,053	2,398
Cash and cash equivalents at end of period	$ 2,801	$ 2,654

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

Table of Contents

3M Company and Subsidiaries

Notes to Consolidated Financial Statements

(Unaudited)

NOTE 1. Significant Accounting Policies

Basis of Presentation

The interim consolidated financial statements are unaudited but, in the opinion of management, reflect all adjustments necessary for a fair statement of the Company's consolidated financial position, results of operations and cash flows for the periods presented. These adjustments consist of normal, recurring items. The results of operations for any interim period are not necessarily indicative of results for the full year. The interim consolidated financial statements and notes are presented as permitted by the requirements for Quarterly Reports on Form 10-Q. This Quarterly Report on Form 10-Q should be read in conjunction with the Company's consolidated financial statements and notes included in its Current Report on Form 8-K dated May 8, 2018 (which updated 3M's 2017 Annual Report on Form 10-K).

As described in the "New Accounting Pronouncements" section, the Company adopted Accounting Standards Update (ASU) No. 2017-07, Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost, effective January 1, 2018 on a retrospective basis. This ASU changed how 3M presents net periodic benefit cost within its consolidated statement of income, as reflected in the table that follows. The financial information presented herein reflects these impacts for all periods presented.

Three months ended June 30, 2017 (Millions)	Previously Reported	Revised	Change
Net Sales	$ 7,810	$ 7,810	$ —
Operating expenses			
Cost of sales	4,007	4,020	13
Selling, general and administrative expenses	1,607	1,620	13
Research, development and related expenses	473	478	5
Gain on sale of businesses	(461)	(461)	—
Total operating expenses	5,626	5,657	31
Operating income	$ 2,184	$ 2,153	$ (31)
Other expense (income), net	$ 42	$ 11	$ (31)

Income before income taxes	$ 2,142	$ 2,142	$ —

Six months ended June 30, 2017 (Millions)	Previously Reported	Revised	Change
Net Sales	$ 15,495	$ 15,495	$ —
Operating expenses			
Cost of sales	7,876	7,902	26
Selling, general and administrative expenses	3,207	3,234	27
Research, development and related expenses	944	954	10
Gain on sale of businesses	(490)	(490)	—
Total operating expenses	11,537	11,600	63
Operating income	$ 3,958	$ 3,895	$ (63)
Other expense (income), net	$ 79	$ 16	$ (63)
Income before income taxes	$ 3,879	$ 3,879	$ —

Table of Contents

In addition, as described in Note 16, effective in the first quarter of 2018, the Company changed its business segment reporting in its continuing effort to improve the alignment of businesses around markets and customers. These changes included the consolidation of customer account activity within international countries (expanding dual credit reporting) and the centralization of manufacturing and supply chain technology platforms. Segment information presented herein reflects the impact of these changes for all periods presented.

The Company updated its financial information and disclosures in its Current Report on Form 8-K dated May 8, 2018 (which updated 3M's 2017 Annual Report on Form 10-K) to reflect the retrospective application of ASU No. 2017-07 and the preceding business reporting changes.

Changes to Significant Accounting Policies

The following accounting policies have been updated since the Company's 2017 Annual Report on Form 10-K (which was updated by 3M's Current Report on Form 8-K dated May 8, 2018 in regards to the adoption of ASU 2017-07 and the business segment reporting changes discussed above).

Revenue (sales) recognition: As described in the "New Accounting Pronouncements" section, 3M adopted ASU No. 2014-09, Revenue from Contracts with Customers, and other related ASUs on January 1, 2018 using the modified retrospective transition approach. The Company's accounting policy with respect to revenue recognition and additional disclosure relative to this ASU are included in Note 2.

Investments: As described in the "New Accounting Pronouncements" section, 3M adopted ASU No. 2016-01, Recognition and Measurement of Financial Assets and Financial Liabilities, effective January 1, 2018. As a result, all equity securities that do not result in consolidation and are not accounted for under the equity method are measured at fair value with changes therein reflected in net income. 3M utilizes the measurement alternative for equity investments that do not have readily determinable fair values and measures these investments at cost less impairment plus or minus observable price changes in orderly transactions. Further, the change in balance of these securities for the three and six months ended June 30, 2018 was not considered material for additional disclosure.

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.

3M has a subsidiary in Venezuela, the financial statements of which are remeasured as if its functional currency were that of its parent because Venezuela's economic environment is considered highly inflationary. The operating income of this subsidiary is immaterial as a percent of 3M's consolidated operating income for 2017. The Venezuelan government sets official rates of exchange and conditions precedent to purchase foreign currency at these rates with local currency. The government has also operated various expanded secondary currency exchange mechanisms that have been eliminated and replaced from time to time. Such rates and conditions have been and continue to be subject to change. For the periods presented, the financial statements of 3M's Venezuelan subsidiary were remeasured utilizing the rate associated with the secondary auction mechanism, Tipo de Cambio Complementario (DICOM), or its predecessor. During the same periods, the Venezuelan government's official exchange was Tipo de Cambio Protegido (DIPRO), or its predecessor, until its discontinuance in the first quarter of 2018.

Note 1 in 3M's Current Report on Form 8-K dated May 8, 2018 (which updated 3M's 2017 Annual Report on Form 10-K) provides additional information the Company considers in determining the exchange rate used relative to its Venezuelan subsidiary as well as factors which could lead to its deconsolidation. The Company continues to monitor these circumstances. 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 June 30, 2018, the Company had a balance of net monetary assets denominated in VEF of less than 860 billion VEF and the DIPRO exchange rate was approximately 96,000 VEF per U.S. dollar. 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. Based upon a review of factors as of June 30, 2018, the Company continues to

Table of Contents

consolidate its Venezuelan subsidiary. As of June 30, 2018, the balance of accumulated other comprehensive loss associated with this subsidiary was approximately $145 million, and the amount of intercompany receivables due from this subsidiary and its equity balance were not significant.

3M has subsidiaries in Argentina, the operating income of which is less than one half of one percent of 3M's consolidated operating income for 2017. Based on various indices, Argentina's cumulative three-year inflation rate exceeded 100 percent in the second quarter of 2018, thus being considered highly inflationary. As a result, the financial statements of the Argentine subsidiaries will be remeasured as if its functional currency were that of its parent, starting in the third quarter of 2018. As of June 30, 2018, the Company had a balance of net monetary assets denominated in Argentine pesos (ARS) of less than 230 million ARS and the exchange rate was approximately 28 ARS per U.S. dollar.

Earnings Per Share

The difference in the weighted average 3M shares outstanding for calculating basic and diluted earnings per share attributable to 3M common shareholders is a result of the dilution associated with the Company's stock-based compensation plans. Certain options outstanding under these stock-based compensation plans were not included in the computation of diluted earnings per share attributable to 3M common shareholders because they would not have had a dilutive effect (3.5 million average options for the three months ended June 30, 2018; 2.7 million average options for the six months ended June 30, 2018; insignificant for the three months ended June 30, 2017; 1.6 million average options for the six months ended June 30, 2017). The computations for basic and diluted earnings per share follow:

Earnings Per Share Computations

	Three months ended June 30,		Six months ended June 30,	
(Amounts in millions, except per share amounts)	2018	2017	2018	2017
Numerator:				
Net income attributable to 3M	$ 1,857	$ 1,583	$ 2,459	$ 2,906
Denominator:				
Denominator for weighted average 3M common shares outstanding – basic	591.4	598.1	593.8	598.1
Dilution associated with the Company's stock-based compensation plans	12.8	14.7	14.7	14.3
Denominator for weighted average 3M common shares outstanding – diluted	604.2	612.8	608.5	612.4

Earnings per share attributable to 3M common shareholders – basic	$ 3.14	$ 2.65	$ 4.14	$ 4.86
Earnings per share attributable to 3M common shareholders – diluted	$ 3.07	$ 2.58	$ 4.04	$ 4.74

Table of Contents

New Accounting Pronouncements

See the Company's Current Report on Form 8-K dated May 8, 2018 (which updated 3M's 2017 Annual Report on Form 10-K) for a more detailed discussion of the standards in the tables that follow, except for those pronouncements issued subsequent to the most recent Form 10-K filing date for which separate, more detailed discussion is provided below.

Standards Adopted During the Current Fiscal Year

Standard	Relevant Description	Effective Date for 3M	Impact and Other Matters
ASU No. 2014-09, Revenue from Contracts with Customers (as amended by ASU Nos. 2015-14, 2016-08, 2016-10, 2016-12, and 2016-20) and related ASU No. 2017-10, Determining the Customer of the Operation Services	Provides a single comprehensive model to be used in the accounting for revenue arising from contracts with customers and supersedes most previous revenue recognition guidance, including industry-specific guidance. 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. Requires disclosures about the nature, amount, timing, and uncertainty of revenue and cash flows arising from contracts with customers. Specifies the accounting for some costs to obtain or fulfill a contract with a customer.	January 1, 2018	See Note 2 for detailed discussion and disclosures. Adopted using a modified retrospective approach. January 1, 2018 balance of retained earnings was increased by less than $2 million.
ASU No. 2016-01, Recognition and Measurement of Financial Assets and Financial Liabilities	Requires investments in equity securities in an entity that do not result in consolidation and are not accounted for under the equity method to be measured at fair value with changes therein reflected in net income.	January 1, 2018	Measurement alternative adopted prospectively. See the preceding "Changes to Significant Accounting Policies" section for impact.

	Simplifies the impairment assessment and allows for a fair value measurement alternative for equity investments without a readily determinable fair value. Eliminates the previous cost method of accounting for certain equity securities that did not have readily determinable fair values.		
ASU No. 2016-16, Intra-Entity Transfers of Assets Other Than Inventory	Exempts income tax accounting that requires companies to defer the income tax effects of certain intercompany transactions only for intercompany inventory transactions. The exception no longer applies to intercompany sales and transfers of other assets (e.g., intangible assets).	January 1, 2018	Adopted using a modified retrospective approach. January 1, 2018 balance of retained earnings was decreased by less than $2 million.
ASU No. 2017-01, Clarifying the Definition of a Business	Narrows the previous definition of a business and provides a framework for evaluating whether a transaction should be accounted for as an acquisition (or disposal) of assets or a business.	January 1, 2018	Adopted prospectively with no immediate impact. Fewer sets of transferred assets and activities are expected to be considered businesses.
ASU No. 2017-05, Clarifying the Scope of Asset Derecognition Guidance and Accounting for Partial Sales of Nonfinancial Assets	Largely impacts the sale of nonfinancial assets (such as real estate and intellectual property) that do not constitute a business, when the purchaser is not a customer. Seller applies certain recognition and measurement principles of ASU No. 2014-09, Revenue from Contracts with Customers, even though the purchaser is not a customer.	January 1, 2018	Adopted coincident with the adoption of ASU No. 2014-09 with no material impact.

Table of Contents

Standards Adopted During the Current Fiscal Year (continued)

Standard	Relevant Description	Effective Date for 3M	Impact and Other Matters
ASU No. 2017-07, Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost	Changes previous classification of net periodic defined benefit pension and postretirement benefit costs within operating expenses. Requires that only the service cost component of net periodic benefit cost be included in operating expenses and that only the service cost component is eligible for capitalization into assets such as inventory. Specifies that other net periodic benefit costs components (such as interest, expected return on plan assets, prior service cost amortization and actuarial gain/loss amortization) would be reported outside of operating income.	January 1, 2018	Adopted on a retrospective basis. No impact on previously reported income before income taxes and net income attributable to 3M. However, non-service cost components of net periodic benefit costs in prior periods have been reclassified from operating expenses and are now reported outside of operating income within other expense (income), net. See the “Basis of Presentation” section above for impact of this ASU’s adoption on prior period income statement amounts. Prospective impact on costs capitalized into assets was not material.
ASU No. 2017-09, Scope of Modification Accounting	Provides that fewer changes to the terms of share-based payment awards will require accounting under the modification model (which generally would have required additional compensation cost).	January 1, 2018	Adopted prospectively with no immediate impact. 3M does not typically make changes to the terms or conditions of its issued share-based payments.
ASU No. 2017-09, Scope of Modification Accounting	Provides that fewer changes to the terms of share-based payment awards will require accounting under the modification model (which generally would have required additional compensation cost).	January 1, 2018	Adopted prospectively with no immediate impact. 3M does not typically make changes to the terms or conditions of its issued share-based payments.

Standards Issued and Not Yet Adopted

Standard	Relevant Description	Effective Date for 3M	Impact and Other Matters
ASU No. 2016-02, Leases (as amended by ASU No. 2018-10)	Introduces a lessee model that requires entities to recognize assets and liabilities for most leases, but recognize expenses on their income statements in a manner similar to current accounting. This ASU does not make fundamental changes to existing lessor accounting.	January 1, 2019	Requires modified retrospective transition applied to earliest period presented 3M is currently assessing this ASU's impact. See the "Relevant New Standards Issued Subsequent to Most Recent Annual Report" below for further discussion on ASU No. 2018-10 issued in July 2018.
ASU No. 2016-13, Measurement of Credit Losses on Financial Instruments	Introduces an approach, based on expected losses, to estimate credit losses on certain types of financial instruments and modifies the impairment model for available-for-sale debt securities. Amends the current other-than-temporary impairment model for available-for-sale debt securities. For such securities with unrealized losses, entities will still consider if a portion of any impairment is related only to credit losses and therefore recognized as a reduction in income.	January 1, 2020	Required to make a cumulative-effect adjustment to retained earnings as of the beginning of the first reporting period in which the guidance is adopted. 3M is currently assessing this ASU's impact.
ASU No. 2017-08, Premium Amortization on Purchased Callable Debt Securities	Shortens the amortization period to the earliest call date for the premium related to certain callable debt securities that have explicit, noncontingent call features and are callable at a fixed price and preset date.	January 1, 2019	3M's marketable security portfolio includes limited instances of callable debt securities held at a premium. 3M does not expect this ASU to have a material impact.

Table of Contents

Standards Issued and Not Yet Adopted (continued)

Standard	Relevant Description	Effective Date for 3M	Impact and Other Matters
ASU No. 2017-11, (Part I) Accounting for Certain Financial Instruments with Down Round Features, (Part II) Replacement of the Indefinite Deferral for Mandatorily Redeemable Financial Instruments of Certain Nonpublic Entities and Certain Mandatorily Redeemable Noncontrolling Interests with a Scope Exception	Amends (1) the classification of financial instruments with down-round features as liabilities or equity by revising certain guidance relative to evaluating if they must be accounted for as derivative instruments and (2) the guidance on recognition and measurement of freestanding equity-classified instruments.	January 1, 2019	No financial instruments with down-round features have been issued. 3M does not expect this ASU to have a material impact.
ASU No. 2017-12, Targeted Improvements to Accounting for Hedging Activities	Amends existing guidance to simplify application of hedge accounting in certain situations and allow companies to better align their hedge accounting with risk management activities. Simplifies related accounting by eliminating requirement to separately measure and report hedge ineffectiveness. Expands an entity's ability to hedge nonfinancial and financial risk components.	January 1, 2019	Required to make a cumulative-effect adjustment to retained earnings as of the beginning of the first reporting period in which the guidance is adopted. 3M is currently assessing this ASU's impact.

Relevant New Standards Issued Subsequent to Most Recent Annual Report

In February 2018, the FASB issued ASU No. 2018-02, Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income, which permits entities to reclassify, to retained earnings, the one-time income tax effects stranded in accumulated other comprehensive income (AOCI) arising from the change in the U.S. federal corporate tax rate as a result of the Tax Cuts and Jobs Act of 2017. An entity that elects to make this reclassification must consider all items in AOCI that have tax effects stranded as a result of the tax rate change, and must disclose the reclassification of these tax effects as well as the entity's policy for releasing income tax effects from AOCI. The ASU may be applied either retrospectively or as of the beginning of the period of adoption. For 3M, the ASU is effective January 1, 2019. While this ASU will have no impact on 3M's results of operations, the Company is currently assessing this standard's impact on its consolidated financial condition.

In June 2018, the FASB issued ASU No. 2018-07, Improvements to Nonemployee Share-Based Payment Accounting, which largely aligns the measurement and classification guidance for share-based payments to nonemployees with the guidance for share-based payments to employees. The ASU also clarifies that any share-based payment issued to a customer should be evaluated under ASC 606, Revenue from Contracts with Customers. The ASU requires a modified retrospective transition approach. For 3M, the ASU is effective as of January 1, 2019. Because the Company does not grant share-based payments to nonemployees or customers, this ASU will not have a material impact on its consolidated results of operations and financial condition.

In June 2018, the FASB issued ASU No. 2018-08, Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made. The ASU applies to entities that receive or make contributions, which primarily are not-for-profit entities but also affects business entities that make contributions. In the context of business entities that make contributions, the FASB clarified that a contribution is conditional if the arrangement includes both a barrier for the recipient to be entitled to the assets transferred and a right of return for the assets transferred (or a right of release of the business entity’s obligation to transfer assets). The recognition of contribution expense is deferred for conditional arrangements and is immediate for unconditional arrangements. The ASU requires modified prospective transition to arrangements that have not been completed as of the effective date or that are entered into after the effective date, but full retrospective application to each period presented is permitted. For 3M, the ASU is effective as of January 1, 2019. The Company does not expect this ASU to have a material impact on its consolidated results of operations and financial condition.

In July 2018, the FASB issued ASU No. 2018-10, Codification Improvements to Topic 842, Leases, which amends ASU No. 2016-02, Leases. The new ASU includes certain clarifications to address potential narrow-scope implementation issues which the Company is incorporating into its assessment and adoption of ASU No. 2016-02. This ASU has the same transition requirements and effective date as ASU No. 2016-02, which for 3M is January 1, 2019.

NOTE 2. Revenue

The Company adopted ASU No. 2014-09 and related standards (collectively, Accounting Standards Codification (ASC) 606, Revenue from Contracts with Customers), as described in Note 1, on January 1, 2018 using the modified retrospective method of adoption. Prior periods have not been restated. Due to the cumulative net impact of adopting ASC 606, the January 1, 2018 balance of retained earnings was increased by less than $2 million, primarily relating to the accelerated recognition for software installation service and training revenue. This cumulative impact reflects retrospective application of ASC 606 only to contracts that were not completed as of January 1, 2018. Further, the Company applied the practical expedient permitting the effect of all contract modifications that occurred before January 1, 2018 to be aggregated in the transition accounting. The impact of applying ASC 606 as compared with previous guidance applied to revenues and costs was not material for the three and six months ended June 30, 2018.

Performance Obligations:

The Company sells a wide range of products to a diversified base of customers around the world and has no material concentration of credit risk or significant payment terms extended to customers. The vast majority of 3M’s customer arrangements contain a single performance obligation to transfer manufactured goods as the promise to transfer the individual goods is not separately identifiable from other promises in the contracts and, therefore, not distinct. However, to a limited extent 3M also enters into customer arrangements that involve intellectual property out-licensing, multiple performance obligations (such as equipment, installation and service), software with coterminous post-contract support, services and non-standard terms and conditions.

Revenue is recognized when control of goods has transferred to customers. For the majority of the Company’s customer arrangements, control transfers to customers at a point-in-time when goods/services have been delivered as that is generally when legal title, physical possession and risks and rewards of goods/services transfers to the customer. In limited arrangements, control transfers over time as the customer simultaneously receives and consumes the benefits as 3M completes the performance obligation(s).

Revenue is recognized at the transaction price which the Company expects to be entitled. When determining the transaction price, 3M estimates variable consideration applying the portfolio approach practical expedient under ASC 606. The main sources of variable consideration for 3M are customer rebates, trade promotion funds, and cash discounts. These sales incentives are recorded as a reduction to revenue at the time of the initial sale using the most-likely amount estimation method. The most-likely amount method is based on the single most likely outcome from a range of possible consideration outcomes. The range of possible consideration outcomes are primarily derived from the following inputs: sales terms, historical experience, trend analysis, and projected market conditions in the various markets served. Because 3M serves numerous markets, the sales incentive programs offered vary across businesses, but the most common incentive relates to amounts paid or credited to customers for achieving defined volume levels or growth objectives. There are no material instances where variable consideration is constrained and not recorded at the initial time of sale. Free goods are accounted for as an expense and recorded in cost of sales.

Product returns are recorded as a reduction to revenue based on anticipated sales returns that occur in the normal course of business. 3M primarily has assurance-type warranties that do not result in separate performance obligations. Sales, use, value-added, and other excise taxes are not recognized in revenue. The Company has elected to present revenue net of sales taxes and other similar taxes.

For substantially all arrangements recognized over time, the Company applies the “right to invoice” practical expedient. As a result, 3M recognizes revenue at the invoice amount when the entity has a right to invoice a customer at an amount that corresponds directly with the value to the customer of the Company’s performance completed to date.

For contracts with multiple performance obligations, the Company allocates the contract’s transaction price to each performance obligation using 3M’s best estimate of the standalone selling price of each distinct good or service in the contract.

The Company did not recognize any material revenue in the current reporting period for performance obligations that were fully satisfied in previous periods.

Contract Balances:

Deferred income (current portion) as of June 30, 2018 and December 31, 2017 was $512 million and $513 million, respectively, and primarily relates to revenue that is recognized over time for one-year software license contracts, the changes in balance of which are related to the satisfaction or partial satisfaction of these contracts. The balance also contains a deferral of income for goods that are in-transit at period end for which control transfers to the customer upon delivery. Approximately $110 million and $390 million of the

Table of Contents

December 31, 2017 balance was recognized as revenue during the three and six months ended June 30, 2018, respectively. The amount of noncurrent deferred income is not considered significant.

Exemptions and Practical Expedients Applied or Elected:

3M applies ASC 606 utilizing the following allowable exemptions or practical expedients:

· Exemption to not disclose the unfulfilled performance obligation balance for contracts with an original length of one year or less.
· Practical expedient relative to costs of obtaining a contract by expensing sales commissions when incurred because the amortization period would have been one year or less.
· Portfolio approach practical expedient relative to estimation of variable consideration.
· “Right to invoice” practical expedient based on 3M’s right to invoice the customer at an amount that reasonably represents the value to the customer of 3M’s performance completed to date.
· Election to present revenue net of sales taxes and other similar taxes.
· Sales-based royalty exemption permitting future intellectual property out-licensing royalty payments to be excluded from the otherwise required remaining performance obligations disclosure.

Disaggregated revenue information:

The Company views the following disaggregated disclosures as useful to understanding the composition of revenue recognized during the respective reporting periods:

	Three months ended June 30,		Six months ended June 30,	
Net Sales (Millions)	2018	2017	2018	2017
Abrasives	$ 473	$ 437	$ 948	$ 867
Adhesives and Tapes	1,165	1,096	2,318	2,171
Advanced Materials	317	287	621	574
Automotive and Aerospace	519	489	1,078	997
Automotive Aftermarket	438	418	856	835
Separation and Purification	238	219	474	439
Other Industrial	(2)	—	(3)	(1)
Total Industrial Business Group	$ 3,148	$ 2,946	$ 6,292	$ 5,882
Commercial Solutions	$ 502	$ 457	$ 987	$ 900
Personal Safety	957	721	1,919	1,428
Roofing Granules	99	96	200	193
Transportation Safety	257	295	493	598
Other Safety and Graphics	—	—	(1)	—
Total Safety and Graphics Business Group	$ 1,815	$ 1,569	$ 3,598	$ 3,119
Drug Delivery	$ 119	$ 120	$ 238	$ 241

Food Safety	84	76	166	149
Health Information Systems	205	195	410	386
Medical Solutions	772	729	1,548	1,443
Oral Care	342	330	696	666
Other Health Care	(2)	(1)	(2)	(1)
Total Health Care Business Group	$ 1,520	$ 1,449	$ 3,056	$ 2,884
Electronics	$ 925	$ 883	$ 1,856	$ 1,761
Energy	411	404	831	817
Other Electronics and Energy	1	3	—	3
Total Electronics and Energy Business Group	$ 1,337	$ 1,290	$ 2,687	$ 2,581
Consumer Health Care	$ 100	$ 104	$ 202	$ 206
Home Care	255	253	524	514
Home Improvement	507	460	954	868
Stationery and Office	351	340	650	632
Other Consumer	10	12	20	22
Total Consumer Business Group	$ 1,223	$ 1,169	$ 2,350	$ 2,242
Corporate and Unallocated	$ 12	$ 2	$ 12	$ 3
Elimination of Dual Credit	(665)	(615)	(1,327)	(1,216)
Total Company	$ 8,390	$ 7,810	$ 16,668	$ 15,495

Table of Contents

Three months ended June 30, 2018

Net Sales (Millions)	United States	Asia Pacific	Europe, Middle East and Africa	Latin America and Canada	Other Unallocated	Worldwide
Industrial	$ 1,182	$ 870	$ 777	$ 318	$ 1	$ 3,148
Safety and Graphics	747	419	443	206	—	1,815
Health Care	703	292	381	145	(1)	1,520
Electronics and Energy	244	899	131	63	—	1,337
Consumer	742	236	138	105	2	1,223
Corporate and Unallocated	8	1	1	4	(2)	12
Elimination of Dual Credit	(278)	(213)	(113)	(60)	(1)	(665)
Total Company	$ 3,348	$ 2,504	$ 1,758	$ 781	$ (1)	$ 8,390

Six months ended June 30, 2018

Net Sales (Millions)	United States	Asia Pacific	Europe, Middle East and Africa	Latin America and Canada	Other Unallocated	Worldwide
Industrial	$ 2,282	$ 1,814	$ 1,562	$ 634	$ —	$ 6,292
Safety and Graphics	1,399	916	879	404	—	3,598
Health Care	1,405	591	775	286	(1)	3,056
Electronics and Energy	473	1,810	276	129	(1)	2,687
Consumer	1,352	508	279	211	—	2,350
Corporate and Unallocated	8	—	1	3	—	12
Elimination of Dual Credit	(527)	(459)	(222)	(119)	—	(1,327)
Total Company	$ 6,392	$ 5,180	$ 3,550	$ 1,548	$ (2)	$ 16,668

Three months ended June 30, 2017

Net Sales (Millions)	United States	Asia Pacific	Europe, Middle East and Africa	Latin America and Canada	Other Unallocated	Worldwide
Industrial	$ 1,114	$ 810	$ 709	$ 314	$ (1)	$ 2,946
Safety and Graphics	639	370	364	195	1	1,569
Health Care	697	261	353	137	1	1,449
Electronics and Energy	233	855	136	67	(1)	1,290
Consumer	694	231	139	105	—	1,169
Corporate and Unallocated	2	2	—	(1)	(1)	2
Elimination of Dual Credit	(252)	(207)	(96)	(60)	—	(615)
Total Company	$ 3,127	$ 2,322	$ 1,605	$ 757	$ (1)	$ 7,810

	Six months ended June 30, 2017					
Net Sales (Millions)	United States	Asia Pacific	Europe, Middle East and Africa	Latin America and Canada	Other Unallocated	Worldwide
Industrial	$ 2,196	$ 1,663	$ 1,405	$ 619	$ (1)	$ 5,882
Safety and Graphics	1,220	801	715	383	—	3,119
Health Care	1,387	521	706	270	—	2,884
Electronics and Energy	464	1,706	279	132	—	2,581
Consumer	1,281	490	265	207	(1)	2,242
Corporate and Unallocated	3	1	—	—	(1)	3
Elimination of Dual Credit	(483)	(427)	(188)	(118)	—	(1,216)
Total Company	$ 6,068	$ 4,755	$ 3,182	$ 1,493	$ (3)	$ 15,495

Table of Contents

NOTE 3. Acquisitions and Divestitures

Acquisitions:

3M makes acquisitions of certain businesses from time to time that are aligned 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.

There were no business combinations that closed during the six months ended June 30, 2018 and 2017.

As discussed in 3M's Current Report on Form 8-K dated May 8, 2018 (which updated 3M's 2017 Annual Report on Form 10-K), in October 2017, 3M completed the acquisition of Scott Safety for $2.0 billion of cash, net of cash acquired. Adjustments in 2018 to the purchase price allocation were approximately $16 million and related to identification of certain immaterial acquired assets and resolution of certain acquired working capital and other purchase price adjustments with the seller. The change to provisional amounts did not result in material impacts to results of operations in 2018 or any portion related to earlier quarters in the measurement period. The allocation of purchase consideration related to Scott Safety is considered preliminary with provisional amounts primarily related to intangible assets and certain tax-related and contingent liability items. 3M expects to finalize the allocation of purchase price within the one year measurement-period following the acquisition.

Divestitures:

3M may divest certain businesses from time to time based upon reviews 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 its shareholders.

2018 divestitures:

In February 2018, 3M closed on the sale of certain personal safety product offerings primarily focused on noise, environmental, and heat stress monitoring to TSI, Inc. This business has annual sales of approximately $15 million. The transaction resulted in a pre-tax gain of less than $20 million that was reported within the Company's Safety and Graphics business.

In addition, during the first quarter of 2018, 3M divested a polymer additives compounding business, formerly part of the Company's Industrial business, and reflected a gain on final closing adjustments from a prior divestiture which, in aggregate, were not material.

In May 2018, 3M divested an abrasives glass products business, formerly part of the Company's Industrial business, with annual sales of approximately $10 million. The transaction resulted in a pre-tax gain of less than $15 million.

In June 2018, 3M completed the sale of substantially all of its Communication Markets Division to Corning Incorporated. This business, with annual sales of approximately $400 million, consists of optical fiber and copper passive connectivity solutions for the telecommunications industry including 3M's xDSL, FTTx, and structured cabling solutions and, in certain countries, telecommunications system integration services. 3M received cash proceeds of $772 million and reflected a pre-tax gain of $494 million as a result of this divestiture, which was reported within the Company's Electronics and Energy business. The sale of the telecommunications system integration services portion of the business based in Germany for approximately $30 million remains pending and is expected to be completed by the end of 2018.

2017 divestitures:

During 2017, as described in Note 2 in 3M's Current Report on Form 8-K dated May 8, 2018 (which updated 3M's 2017 Annual Report on Form 10-K), the Company divested of a number of business including its: safety prescription eyewear; identity management; tolling and automated license/number plate recognition; electronic monitoring; and electrical marking/labeling businesses.

The aggregate operating income of these businesses was approximately $25 million and $10 million in the first six months of 2018 and 2017, respectively. The approximate amounts of major assets and liabilities associated with disposal groups classified as held-for-sale as of June 30, 2018 were not material and as of December 31, 2017 included the following:

Table of Contents

(Millions)	December 31, 2017
Accounts receivable	$ 25
Property, plant and equipment (net)	20

In addition, an immaterial amount and approximately $275 million of goodwill was estimated to be attributable to disposal groups classified as held-for-sale as of June 30, 2018 and December 31, 2017, respectively, based upon relative fair value. The amounts above have not been segregated and are classified within the existing corresponding line items on the Company's consolidated balance sheet.

Refer to Note 2 in 3M's Current Report on Form 8-K dated May 8, 2018 (which updated 3M's 2017 Annual Report on Form 10-K) for more information on 3M's acquisitions and divestitures.

NOTE 4. Goodwill and Intangible Assets

There were no acquisitions that closed during the first six months of 2018. The acquisition activity in the following table relates to the net impact of adjustments to the preliminary allocation of purchase price within the one year measurement period following prior acquisitions, which decreased goodwill by $16 million during the six months ended June 30, 2018. Divestiture activity within the Electronics and Energy business segment relates to the sale of substantially all of the Communication Markets Division. 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, 2017 and June 30, 2018, follow:

Goodwill

(Millions)	December 31, 2017 Balance	Acquisition activity	Divestiture activity	Translation and other	June 30, 2018 Balance
Industrial	$ 2,678	$ —	$ (4)	$ (44)	$ 2,630
Safety and Graphics	4,419	(16)	(8)	(57)	4,338
Health Care	1,682	—	—	(19)	1,663
Electronics and Energy	1,524	—	(247)	(10)	1,267
Consumer	210	—	—	(1)	209
Total Company	$ 10,513	$ (16)	$ (259)	$ (131)	$ 10,107

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

As described in Note 16, effective in the first quarter of 2018, the Company changed its business segment reporting in its continuing effort to improve the alignment of its businesses around markets and customers. In addition, certain shared film manufacturing and supply technology platform resources formerly reflected within the Electronics and Energy business segment were combined with other shared and centrally managed material resource centers of expertise within Corporate and Unallocated. For any product changes that resulted in reporting unit changes, the Company applied the relative fair value method to determine the impact on goodwill of the associated reporting units. During the first quarter of 2018, the Company completed its assessment of any potential goodwill impairment for reporting units impacted by this new structure and determined that no impairment existed.

Table of Contents

Acquired Intangible Assets

The carrying amount and accumulated amortization of acquired finite-lived intangible assets, in addition to the balance of non-amortizable intangible assets, as of June 30, 2018, and December 31, 2017, follow:

(Millions)	June 30, 2018	December 31, 2017
Customer related intangible assets	$ 2,302	$ 2,332
Patents	554	561
Other technology-based intangible assets	578	583
Definite-lived tradenames	676	678
Other amortizable intangible assets	204	207
Total gross carrying amount	$ 4,314	$ 4,361
Accumulated amortization — customer related	(931)	(874)
Accumulated amortization — patents	(491)	(489)
Accumulated amortization — other technology based	(312)	(292)
Accumulated amortization — definite-lived tradenames	(272)	(256)
Accumulated amortization — other	(164)	(162)
Total accumulated amortization	$ (2,170)	$ (2,073)
Total finite-lived intangible assets — net	$ 2,144	$ 2,288
Non-amortizable intangible assets (primarily tradenames)	643	648
Total intangible assets — net	$ 2,787	$ 2,936

3M does not amortize certain acquired tradenames because they have been in existence for over 55 years, have a history of leading-market share positions, are intended to be continuously renewed, and the associated products are expected to generate cash flows for 3M for an indefinite period of time.

Amortization expense for acquired intangible assets for the three and six months ended June 30, 2018 and 2017 follows:

	Three months ended June 30,		Six months ended June 30,	
(Millions)	2018	2017	2018	2017
Amortization expense	$ 63	$ 47	$ 127	$ 111

Expected amortization expense for acquired amortizable intangible assets recorded as of June 30, 2018:

(Millions)	Remainder of 2018	2019	2020	2021	2022	2023	After 2023
Amortization expense	$ 123	$ 241	$ 229	$ 220	$ 206	$ 175	$ 950

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

Table of Contents

NOTE 5. Restructuring Actions and Exit Activities

2018 Restructuring Actions:

During the second quarter of 2018, management approved and committed to undertake certain restructuring actions related to addressing corporate functional costs following the Communication Markets Division divestiture. These actions affected approximately 900 positions worldwide and resulted in a second quarter 2018 pre-tax charge of $105 million, essentially all within Corporate and Unallocated.

The restructuring charges were recorded in the income statement as follows:

(Millions)	Second Quarter 2018
Cost of sales	$ 12
Selling, general and administrative expenses	89
Research, development and related expenses	4
Total	$ 105

Components of these restructuring actions, follow:

(Millions)	Employee-Related
Expense incurred in the second quarter of 2018	$ 105
Cash payments	(6)
Accrued restructuring action balances as of June 30, 2018	$ 99

Remaining activities related to this restructuring are expected to be largely completed through the first half of 2019.

2017 Restructuring Actions:

During the second quarter of 2017, management approved and committed to undertake certain restructuring actions primarily focused on portfolio and footprint optimization. These actions affected approximately 1,300 positions worldwide and resulted in a second quarter 2017 pre-tax charge of $99 million.

Components of these restructuring actions, including cash and non-cash impacts, follow:

(Millions)	Employee-Related
Expense incurred in the second quarter of 2017	$ 99
Cash payments	(8)
Adjustments	(3)
Accrued restructuring action balances as of December 31, 2017	$ 88
Cash payments	(13)
Adjustments	(27)
Accrued restructuring action balances as of June 30, 2018	$ 48

Remaining activities related to this restructuring are expected to be completed by the end of 2018. A portion of the adjustments detailed above include certain severance accruals taken in 2017, the obligation for which was relieved and reflected as part of the gain on divestiture when that business was sold in 2018.

2017 Exit Activities:

During the first quarter of 2017, the Company recorded net pre-tax charges of $24 million related to exit activities. These charges related to employee reductions, primarily in Western Europe.

Table of Contents

NOTE 6. Supplemental Income Statement Information

Other expense (income), net consists of the following:

(Millions)	Three months ended June 30, 2018	2017	Six months ended June 30, 2018	2017
Interest expense	$ 88	$ 54	$ 170	$ 99
Interest income	(16)	(12)	(37)	(20)
Pension and postretirement net periodic benefit cost (benefit)	(21)	(31)	(40)	(63)
Total	$ 51	$ 11	$ 93	$ 16

Pension and postretirement net periodic benefit costs described in the table above include all components of defined benefit plan net periodic benefit costs except service cost, which is reported in various operating expense lines. Refer to Note 11 for additional details on the components of pension and postretirement net periodic benefit costs.

NOTE 7. Supplemental Equity and Comprehensive Income Information

Consolidated Statement of Changes in Equity

Three months ended June 30, 2018

		3M Company Shareholders				
(Millions)	Total	Common Stock and Additional Paid-in Capital	Retained Earnings	Treasury Stock	Accumulated Other Comprehensive Income (Loss)	Non-controlling Interest
Balance at March 31, 2018	$ 11,039	$ 5,505	$ 38,453	$ (26,178)	$ (6,803)	$ 62
Net income	1,862		1,857			5
Other comprehensive income (loss), net of tax:						
	(496)				(492)	(4)

Cumulative translation adjustment						
Defined benefit pension and post-retirement plans adjustment	114				114	—
Cash flow hedging instruments - unrealized gain (loss)	162				162	—
Total other comprehensive income (loss), net of tax	(220)					
Dividends declared	(802)		(802)			
Stock-based compensation	54	54				
Reacquired stock	(1,591)			(1,591)		
Issuances pursuant to stock option and benefit plans	86		(66)	152		
Balance at June 30, 2018	$ 10,428	$ 5,559	$ 39,442	$ (27,617)	$ (7,019)	$ 63

20

Table of Contents

Six months ended June 30, 2018

(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, 2017	$ 11,622	$ 5,361	$ 39,115	$ (25,887)	$ (7,026)	$ 59
Net income	2,468		2,459			9
Other comprehensive income (loss), net of tax:						
Cumulative translation adjustment	(329)				(324)	(5)
Defined benefit pension and post-retirement plans adjustment	230				230	—
Cash flow hedging instruments - unrealized gain (loss)	101				101	—
Total other comprehensive income (loss), net of tax	2					
Dividends declared	(1,612)		(1,612)			
Stock-based compensation	198	198				
Reacquired stock	(2,563)			(2,563)		
Issuances pursuant to stock option and benefit plans	313		(520)	833		
Balance at June 30, 2018	$ 10,428	$ 5,559	$ 39,442	$ (27,617)	$ (7,019)	$ 63

Three months ended June 30, 2017

(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 March 31, 2017	$ 11,040	$ 5,198	$ 38,094	$ (25,354)	$ (6,949)	$ 51
Net income	1,585		1,583			2

Other comprehensive income (loss), net of tax:						
Cumulative translation adjustment	(67)				(67)	—
Defined benefit pension and post-retirement plans adjustment	78				78	—
Cash flow hedging instruments - unrealized gain (loss)	(51)				(51)	—
Total other comprehensive income (loss), net of tax	(40)					
Dividends declared	(701)		(701)			
Stock-based compensation	55	55				
Reacquired stock	(475)			(475)		
Issuances pursuant to stock option and benefit plans	180		(183)	363		
Balance at June 30, 2017	$ 11,644	$ 5,253	$ 38,793	$ (25,466)	$ (6,989)	$ 53

21

Table of Contents

Six months ended June 30, 2017

		3M Company Shareholders				
(Millions)	Total	Common Stock and Additional Paid-in Capital	Retained Earnings	Treasury Stock	Accumulated Other Comprehensive Income (Loss)	Non-controlling Interest
Balance at December 31, 2016	$ 10,343	$ 5,070	$ 37,907	$ (25,434)	$ (7,245)	$ 45
Net income	2,911		2,906			5
Other comprehensive income (loss), net of tax:						
Cumulative translation adjustment	225				222	3
Defined benefit pension and post-retirement plans adjustment	161				161	—
Cash flow hedging instruments - unrealized gain (loss)	(127)				(127)	—
Total other comprehensive income (loss), net of tax	259					
Dividends declared	(1,403)		(1,403)			
Stock-based compensation	183	183				
Reacquired stock	(1,153)			(1,153)		
Issuances pursuant to stock option and benefit plans	504		(617)	1,121		
Balance at June 30, 2017	$ 11,644	$ 5,253	$ 38,793	$ (25,466)	$ (6,989)	$ 53

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

Three months ended June 30, 2018

(Millions)	Cumulative Translation Adjustment	Defined Benefit Pension and Postretirement Plans Adjustment	Cash Flow Hedging Instruments, Unrealized Gain (Loss)	Total Accumulated Other Comprehensive Income (Loss)
Balance at March 31, 2018, net of tax:	$ (1,470)	$ (5,160)	$ (173)	$ (6,803)

Other comprehensive income (loss), before tax:				
Amounts before reclassifications	(411)	—	182	(229)
Amounts reclassified out	—	151	28	179
Total other comprehensive income (loss), before tax	(411)	151	210	(50)
Tax effect	(81)	(37)	(48)	(166)
Total other comprehensive income (loss), net of tax	(492)	114	162	(216)
Balance at June 30, 2018, net of tax:	$ (1,962)	$ (5,046)	$ (11)	$ (7,019)

Six months ended June 30, 2018

(Millions)	Cumulative Translation Adjustment	Defined Benefit Pension and Postretirement Plans Adjustment	Cash Flow Hedging Instruments, Unrealized Gain (Loss)	Total Accumulated Other Comprehensive Income (Loss)
Balance at December 31, 2017, net of tax:	$ (1,638)	$ (5,276)	$ (112)	$ (7,026)
Other comprehensive income (loss), before tax:				
Amounts before reclassifications	(282)	—	100	(182)
Amounts reclassified out	—	302	62	364
Total other comprehensive income (loss), before tax	(282)	302	162	182
Tax effect	(42)	(72)	(61)	(175)
Total other comprehensive income (loss), net of tax	(324)	230	101	7
Balance at June 30, 2018, net of tax:	$ (1,962)	$ (5,046)	$ (11)	$ (7,019)

Table of Contents

Three months ended June 30, 2017

(Millions)	Cumulative Translation Adjustment	Defined Benefit Pension and Postretirement Plans Adjustment	Cash Flow Hedging Instruments, Unrealized Gain (Loss)	Total Accumulated Other Comprehensive Income (Loss)
Balance at March 31, 2017, net of tax:	$ (1,719)	$ (5,245)	$ 15	$ (6,949)
Other comprehensive income (loss), before tax:				
Amounts before reclassifications	(167)	—	(74)	(241)
Amounts reclassified out	—	119	(5)	114
Total other comprehensive income (loss), before tax	(167)	119	(79)	(127)
Tax effect	100	(41)	28	87
Total other comprehensive income (loss), net of tax	(67)	78	(51)	(40)
Balance at June 30, 2017, net of tax:	$ (1,786)	$ (5,167)	$ (36)	$ (6,989)

Six months ended June 30, 2017

(Millions)	Cumulative Translation Adjustment	Defined Benefit Pension and Postretirement Plans Adjustment	Cash Flow Hedging Instruments, Unrealized Gain (Loss)	Total Accumulated Other Comprehensive Income (Loss)
Balance at December 31, 2016, net of tax:	$ (2,008)	$ (5,328)	$ 91	$ (7,245)
Other comprehensive income (loss), before tax:				
Amounts before reclassifications	59	—	(175)	(116)
Amounts reclassified out	—	238	(23)	215
Total other comprehensive income (loss), before tax	59	238	(198)	99
Tax effect	163	(77)	71	157
Total other comprehensive income (loss), net of tax	222	161	(127)	256
Balance at June 30, 2017, net of tax	$ (1,786)	$ (5,167)	$ (36)	$ (6,989)

Income taxes are not provided for foreign translation relating to permanent investments in international subsidiaries, but tax effects within cumulative translation do 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

Details about Accumulated Other Comprehensive Income Components (Millions)	Amount Reclassified from Accumulated Other Comprehensive Income Three months ended June 30, 2018	2017	Six months ended June 30, 2018	2017	Location on Income Statement
Gains (losses) associated with defined benefit pension and postretirement plans amortization					
Prior service benefit	$ 19	$ 22	$ 38	$ 44	See Note 11
Net actuarial loss	(170)	(141)	(340)	(282)	See Note 11
Total before tax	(151)	(119)	(302)	(238)	
Tax effect	37	41	72	77	Provision for income taxes
Net of tax	$ (114)	$ (78)	$ (230)	$ (161)	
Cash flow hedging instruments gains (losses)					
Foreign currency forward/option contracts	$ (27)	$ 5	$ (61)	$ 23	Cost of sales
Interest rate swap contracts	(1)	—	(1)	—	Interest expense
Total before tax	(28)	5	(62)	23	
Tax effect	7	(2)	15	(8)	Provision for income taxes
Net of tax	$ (21)	$ 3	$ (47)	$ 15	
Total reclassifications for the period, net of tax	$ (135)	$ (75)	$ (277)	$ (146)	

Table of Contents

NOTE 8. 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 2014, and 2016. The Company protested certain IRS positions within these tax years and entered into the administrative appeals process with the IRS. Currently, the Company is under examination by the IRS for its U.S. federal income tax returns for the years 2015 and 2017. As of June 30, 2018, 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 2017 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. Currently, the Company is estimating a decrease in unrecognized tax benefits during the next 12 months as a result of anticipated resolutions of audit issues. The total amounts of unrecognized tax benefits that, if recognized, would affect the effective tax rate as of June 30, 2018 and December 31, 2017 are $493 million and $526 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 $6 million of benefit and $5 million of expense for the three months ended June 30, 2018 and June 30, 2017, respectively, and approximately $3 million and $8 million of expense for the six months ended June 30, 2018 and June 30, 2017, respectively. At June 30, 2018 and December 31, 2017, accrued interest and penalties in the consolidated balance sheet on a gross basis were $60 million and $68 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.

The provision for income taxes is determined using the asset and liability approach. Under this approach, a valuation allowance is recorded to reduce its deferred tax assets when uncertainty regarding their realizability exists. As of June 30, 2018 and December 31, 2017, the Company had valuation allowances of $83 million and $81 million on its deferred tax assets, respectively.

The effective tax rate for the second quarter of 2018 was 20.8 percent, compared to 26.0 percent in the second quarter of 2017, a decrease of 5.2 percentage points. Primary factors that decreased the Company’s effective tax rate included favorable aspects of the 2017 Tax Cuts and Jobs Act (TCJA) such as the decrease in the U.S. income tax rate and provisions incentivizing foreign-derived intangible income (FDII), in addition to impacts associated with composition of geographic mix of income before taxes. These decreases were partially offset by multiple factors that increased the Company’s effective tax rate. These increases were primarily driven by lower excess tax benefits related to employee share-based payments and impacts of the TCJA such as the global intangible low-taxed income (GILTI) provision and the elimination of the domestic manufacturing deduction.

The effective tax rate for the first six months of 2018 was 25.6 percent, compared to 25.0 percent in the first six months of 2017, an increase of 0.6 percentage points. Factors that increased the Company’s effective tax rate primarily related to impacts of the TCJA such as the first quarter 2018 measurement period adjustment to the provisional accounting of the TCJA’s enactment (discussed further below) as well as the TCJA’s GILTI provision and the elimination of the domestic manufacturing deduction. Lower excess tax benefits year-over-year related to employee share-based payments also increased the Company’s effective tax rate. These increases were partially offset by multiple factors that decreased the Company’s effective tax rate, including favorable aspects of the TCJA such as the decrease in the U.S. income tax rate and FDII, in addition to impacts associated with composition of income before taxes from both a geographic and a discrete item (such as the resolution of the NRD Lawsuit, as defined and described in Note 14) perspective.

The TCJA was enacted in December 2017. Among other things, the TCJA reduces the U.S. federal corporate tax rate from 35 percent to 21 percent beginning in 2018, requires companies to pay a one-time transition tax on previously unremitted earnings of non-U.S.

Table of Contents

subsidiaries that were previously tax deferred and creates new taxes on certain foreign sourced earnings. The SEC staff issued Staff Accounting Bulletin (SAB) 118, which provides guidance on accounting for enactment effects of the TCJA. SAB 118 provides a measurement period of up to one year from the TCJA's enactment date for companies to complete their accounting under ASC 740. In accordance with SAB 118, to the extent that a company's accounting for certain income tax effects of the TCJA is incomplete but it is able to determine a reasonable estimate, it must record a provisional estimate in its financial statements. If a company cannot determine a provisional estimate to be included in its financial statements, it should continue to apply ASC 740 on the basis of the provisions of the tax laws that were in effect immediately before the enactment of the TCJA. In connection with 3M's initial analysis of the impact of the enactment of the TCJA, the Company recorded a net tax expense of $762 million in the fourth quarter of 2017. As further discussed below, during the first quarter of 2018, 3M recognized a measurement period adjustment resulting in an additional tax expense of $217 million to this provisional accounting. The Company made no additional adjustments in the second quarter of 2018.

Transition tax: 3M was able to make a reasonable estimate of the transition tax and recorded a provisional obligation and related income tax expense of $745 million in the fourth quarter of 2017, with an additional $132 million in the first quarter of 2018 as a result of subsequent U.S. Internal Revenue Service guidance. The Company made no additional adjustments in the second quarter of 2018. The Company continues to gather additional information and will consider further guidance to more precisely compute the transition tax. The provisional amount may change when 3M finalizes the calculation of post-1986 foreign earnings and profit previously deferred from U.S. federal taxation and finalizes the amounts held in cash or other specified assets. The TCJA's transition tax is payable over eight years beginning in 2018. As of June 30, 2018, 3M reflected $74 million and $733 million in current accrued income taxes and long-term income taxes payable, respectively, associated with the transition tax.

Remeasurement of deferred tax assets/liabilities and other impacts: 3M remeasured certain deferred tax assets and liabilities based on the rates at which they are expected to reverse in the future, which is generally 21 percent under the TCJA. In the fourth quarter of 2017, 3M recorded a net additional income tax expense of $17 million related to remeasurement of deferred tax assets/liabilities and other impacts. In the first quarter of 2018, 3M recorded an additional tax expense of $85 million as a measurement period adjustment as a result of subsequent U.S. Internal Revenue Service guidance and other impacts related to TCJA. The Company made no additional adjustments in the second quarter of 2018. 3M is still analyzing certain aspects of the TCJA, considering additional technical guidance, and refining its calculations, which could potentially affect the measurement of these balances or potentially give rise to new deferred tax amounts. This includes the potential impacts of the GILTI provision within the TCJA on deferred tax assets/liabilities. 3M also is considering other impacts of the 2017 enactment of the TCJA including, but not limited to, effects on the Company's indefinite reinvestment assertion. 3M previously has not provided deferred taxes on unremitted earnings attributable to international companies that have been considered to be reinvested indefinitely. The full effects of underlying tax rates of the TCJA causes some reassessment of previous indefinite reinvestment assertions with respect to certain jurisdictions. While 3M was able to make a reasonable estimate of these impacts, it may be affected by other analyses related to the TCJA, including, but not limited to, the calculation of the transition tax on deferred foreign income.

3M has not completed its full analysis with respect to the GILTI provision within the TCJA. While 3M has recorded current tax on GILTI relative to 2018 operations, the Company has not yet elected a policy as to whether it will recognize deferred taxes for basis differences expected to reverse as GILTI or whether 3M will account for GILTI as period costs if and when incurred.

Table of Contents

NOTE 9. Marketable Securities

The following is a summary of amounts recorded on the Consolidated Balance Sheet for marketable securities (current and non-current).

(Millions)	June 30, 2018	December 31, 2017
Corporate debt securities	$ —	$ 14
Commercial paper	347	899
Certificates of deposit/time deposits	31	76
U.S. municipal securities	4	3
Asset-backed securities:		
Automobile loan related	3	16
Credit card related	—	68
Asset-backed securities total	3	84
Current marketable securities	$ 385	$ 1,076
U.S. municipal securities	$ 26	$ 27
Non-current marketable securities	$ 26	$ 27
Total marketable securities	$ 411	$ 1,103

At June 30, 2018 and December 31, 2017, gross unrealized, gross realized, and net realized gains and/or losses (pre-tax) were not material.

The balances at June 30, 2018 for marketable securities by contractual maturity are shown below. Actual maturities may differ from contractual maturities because the issuers of the securities may have the right to prepay obligations without prepayment penalties.

(Millions)	June 30, 2018
Due in one year or less	$ 382
Due after one year through five years	15
Due after five years through ten years	14
Total marketable securities	$ 411

3M does not currently expect risk related to its holding in asset-backed securities to materially impact its financial condition or liquidity.

NOTE 10. Long-Term Debt and Short-Term Borrowings

As of June 30, 2018 and December 31, 2017, the Company had approximately $1.5 billion and $745 million, respectively, in commercial paper outstanding.

Table of Contents

NOTE 11. Pension and Postretirement Benefit Plans

The service cost component of defined benefit net periodic benefit cost is recorded in cost of sales, selling, general and administrative expenses, and research, development and related expenses. The other components of net periodic benefit cost are reflected in other expense (income), net. Components of net periodic benefit cost and other supplemental information for the three and six months ended June 30, 2018 and 2017 follow:

Benefit Plan Information

	Three months ended June 30, Qualified and Non-qualified Pension Benefits United States		International		Postretirement Benefits	
(Millions)	2018	2017	2018	2017	2018	2017
Net periodic benefit cost (benefit)						
Operating expense						
Service cost	$ 72	$ 67	$ 37	$ 34	$ 13	$ 12
Non-operating expense						
Interest cost	$ 141	$ 142	$ 40	$ 37	$ 20	$ 20
Expected return on plan assets	(272)	(259)	(79)	(69)	(21)	(21)
Amortization of prior service benefit	(6)	(6)	(3)	(3)	(10)	(13)
Amortization of net actuarial loss	126	97	29	30	15	14
Total non-operating expense (benefit)	(11)	(26)	(13)	(5)	4	—
Total net periodic benefit cost (benefit)	$ 61	$ 41	$ 24	$ 29	$ 17	$ 12

	Six months ended June 30, Qualified and Non-qualified Pension Benefits United States		International		Postretirement Benefits	
(Millions)	2018	2017	2018	2017	2018	2017
Net periodic benefit cost (benefit)						
Operating expense						
Service cost	$ 144	$ 134	$ 73	$ 67	$ 26	$ 25
Non-operating expense						
Interest cost	$ 282	$ 284	$ 80	$ 74	$ 40	$ 39
Expected return on plan assets	(544)	(518)	(157)	(138)	(42)	(42)
Amortization of prior service benefit	(12)	(12)	(6)	(6)	(20)	(26)
Amortization of net actuarial loss	252	194	58	60	30	28

Total non-operating expense (benefit)	(22)	(52)	(25)	(10)	8	(1)
Total net periodic benefit cost (benefit)	$ 122	$ 82	$ 48	$ 57	$ 34	$ 24

For the six months ended June 30, 2018, contributions totaling $259 million were made to the Company's U.S. and international pension plans and $2 million to its postretirement plans. For total year 2018, the Company expects to contribute approximately $300 million to $500 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 2018. 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.

The Company adopted ASU No. 2017-07, Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost, effective January 1, 2018 on a retrospective basis. This ASU changed how employers that sponsor defined benefit pension and/or other postretirement benefit plans present the net periodic benefit cost in the income statement. Under the new standard, only the service cost component of net periodic benefit cost is included in operating expenses and only the service cost component is eligible for capitalization into assets such as inventory. All other net periodic benefit costs components (such as interest, expected return on plan assets, prior service cost amortization and actuarial gain/loss amortization) are reported outside of operating income. See Note 1 for additional details.

Table of Contents

NOTE 12. 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 derivatives is included elsewhere as follows:

- Impact on other comprehensive income of nonderivative hedging and derivative instruments is included in Note 7.
- Fair value of derivative instruments is included in Note 13.
- Derivatives and/or hedging instruments associated with the Company's long-term debt are described in Note 11 in 3M's Current Report on Form 8-K dated May 8, 2018 (which updated 3M's 2017 Annual Report on Form 10-K).

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

Cash Flow Hedges:

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

Cash Flow Hedging - Foreign Currency Forward and Option Contracts: The Company enters into foreign exchange forward and option contracts to hedge against the effect of exchange rate fluctuations on cash flows denominated in foreign currencies. These transactions are designated as cash flow hedges. The settlement or extension of these derivatives will result in reclassifications (from accumulated other comprehensive income) to earnings in the period during which the hedged transactions affect earnings. 3M may dedesignate these cash flow hedge relationships in advance of the occurrence of the forecasted transaction. The portion of gains or losses on the derivative instrument previously accumulated in other comprehensive income for dedesignated hedges remains in accumulated other comprehensive income until the forecasted transaction occurs or becomes probable of not occurring. 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. The maximum length of time over which 3M hedges its exposure to the variability in future cash flows of the forecasted transactions is 36 months.

Cash Flow Hedging — Interest Rate Contracts: The Company may use forward starting interest rate contracts to hedge exposure to variability in cash flows from interest payments on forecasted debt issuances. The amortization of gains and losses on forward starting interest rate swaps is included in the tables below as part of the gain/(loss) recognized in income on the effective portion of derivatives as a result of reclassification from accumulated other comprehensive income. Additional information regarding previously issued but terminated interest rate contracts, which have related balances within accumulated other comprehensive income being amortized over the underlying life of related debt, can be found in Note 13 in 3M's Current Report on Form 8-K dated May 8, 2018 (which updated 3M's 2017 Annual Report on Form 10-K).

During the first six months of 2018, the Company entered into forward starting interest rate swaps with a notional amount of $500 million as hedges against interest rate volatility associated with forecasted issuances of fixed rate debt.

The amortization of gains and losses on forward starting interest rate swaps is included in the tables below as part of the gain/(loss) recognized in income on the effective portion of derivatives as a result of reclassification from accumulated other comprehensive income.

As of June 30, 2018, the Company had a balance of $11 million associated with the after-tax net unrealized loss associated with cash flow hedging instruments recorded in accumulated other comprehensive income. This includes a remaining balance of $9 million (after tax loss) related to the forward starting interest rate swaps, which will be amortized over the respective lives of the debt. Based on exchange rates as of June 30, 2018, 3M expects to reclassify approximately $20 million, $15 million, and $1 million of the after-tax net unrealized foreign exchange cash flow hedging losses to earnings over the remainder of 2018, over the next 12 months, and after

Table of Contents

2019, respectively, and reclassify approximately $10 million of the after-tax net unrealized foreign exchange cash flow hedging gains to earnings in 2019 (with the impact offset by earnings/losses from underlying hedged items).

The location in the consolidated statements of income and comprehensive income and amounts of gains and losses related to derivative instruments designated as cash flow hedges are provided in the following table.

Three months ended June 30, 2018	Pretax Gain (Loss) Recognized in Other Comprehensive Income on Effective Portion of Derivative	Pretax Gain (Loss) Recognized in Income on Effective Portion of Derivative as a Result of Reclassification from Accumulated Other Comprehensive Income		Ineffective Portion of Gain (Loss) on Derivative and Amount Excluded from Effectiveness Testing Recognized in Income	
(Millions)	Amount	Location	Amount	Location	Amount
Foreign currency forward/option contracts	$ 179	Cost of sales	$ (27)	Cost of sales	$ —
Interest rate swap contracts	3	Interest expense	(1)	Interest expense	—
Total	$ 182		$ (28)		$ —

Six months ended June 30, 2018					
(Millions)	Amount	Location	Amount	Location	Amount
Foreign currency forward/option contracts	$ 100	Cost of sales	$ (61)	Cost of sales	$ —
Interest rate swap contracts	—	Interest expense	(1)	Interest expense	—
Total	$ 100		$ (62)		$ —

Three months ended June 30, 2017	Portion of Derivative	Comprehensive Income		Recognized in Income	
(Millions)	Amount	Location	Amount	Location	Amount
Foreign currency forward/option contracts	$ (72)	Cost of sales	$ 5	Cost of sales	$ —
Interest rate swap contracts	(2)	Interest expense	—	Interest expense	—
Total	$ (74)		$ 5		$ —

Six months ended June 30, 2017	Portion of Derivative	Comprehensive Income		Recognized in Income	
(Millions)	Amount	Location	Amount	Location	Amount
	$ (172)	Cost of sales	$ 23	Cost of sales	$ —

Foreign currency forward/option contracts								
Interest rate swap contracts		(3)	Interest expense		—	Interest expense		—
Total	$	(175)		$	23		$	—

Fair Value Hedges:

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

Fair Value Hedging - Interest Rate Swaps: The Company manages interest expense using a mix of fixed and floating rate debt. To help manage borrowing costs, the Company may enter into interest rate swaps. Under these arrangements, the Company agrees to exchange, at specified intervals, the difference between fixed and floating interest amounts calculated by reference to an agreed-upon notional principal amount. The mark-to-market of these fair value hedges is recorded as gains or losses in interest expense and is offset by the gain or loss of the underlying debt instrument, which also is recorded in interest expense. These fair value hedges are highly effective and, thus, there is no impact on earnings due to hedge ineffectiveness. Additional information regarding designated interest rate swaps can be found in Note 13 in 3M’s Current Report on Form 8-K dated May 8, 2018 (which updated 3M’s 2017 Annual Report on Form 10-K).

Table of Contents

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

Three months ended June 30, 2018	Gain (Loss) on Derivative Recognized in Income		Gain (Loss) on Hedged Item Recognized in Income	
(Millions)	Location	Amount	Location	Amount
Interest rate swap contracts	Interest expense	$ (1)	Interest expense	$ 1
Total		$ (1)		$ 1

Six months ended June 30, 2018				
(Millions)	Location	Amount	Location	Amount
Interest rate swap contracts	Interest expense	$ (12)	Interest expense	$ 12
Total		$ (12)		$ 12

Three months ended June 30, 2017				
(Millions)	Location	Amount	Location	Amount
Interest rate swap contracts	Interest expense	$ 1	Interest expense	$ (1)
Total		$ 1		$ (1)

Six months ended June 30, 2017				
(Millions)	Location	Amount	Location	Amount
Interest rate swap contracts	Interest expense	$ (4)	Interest expense	$ 4
Total		$ (4)		$ 4

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. 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.

During the first quarter of 2018, the Company dedesignated 300 million Euros of foreign currency denominated debt from a former net investment hedge relationship.

At June 30, 2018, the total notional amount of foreign exchange forward contracts designated in net investment hedges was approximately 150 million Euros and approximately 248 billion South Korean Won, along with a principal amount of long-term debt instruments designated in net investment hedges totaling 4.1 billion Euros. The maturity dates of these derivative and nonderivative instruments designated in net investment hedges range from 2018 to 2031.

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.

Table of Contents

Three months ended June 30, 2018 (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	$ 299	Cost of sales	$ —
Foreign currency forward contracts	23	Cost of sales	1
Total	$ 322		$ 1

Six months ended June 30, 2018 (Millions)	Comprehensive Income Amount	Instrument and Amount Excluded Location	Amount
Foreign currency denominated debt	$ 171	Cost of sales	$ (2)
Foreign currency forward contracts	17	Cost of sales	—
Total	$ 188		$ (2)

Three months ended June 30, 2017 (Millions)	Comprehensive Income Amount	Instrument and Amount Excluded Location	Amount
Foreign currency denominated debt	$ (270)	Cost of sales	$ —
Foreign currency forward contracts	(7)	Cost of sales	3
Total	$ (277)		$ 3

Six months ended June 30, 2017 (Millions)	Comprehensive Income Amount	Instrument and Amount Excluded Location	Amount
Foreign currency denominated debt	$ (391)	Cost of sales	$ —
Foreign currency forward contracts	(27)	Cost of sales	5
Total	$ (418)		$ 5

Derivatives Not Designated as Hedging Instruments:

Derivatives not designated as hedging instruments include dedesignated foreign currency forward and options contracts that formerly were designated in cash flow hedging relationships (as referenced in the Cash Flow Hedges section above). In addition, 3M enters into foreign exchange forward contracts to offset, in part, the impacts of certain intercompany transactions, foreign currency denominated debt (not otherwise in net investment hedge relationships), and to further mitigate short term currency impacts. In addition, the Company 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 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 June 30, 2018 Gain (Loss) on Derivative Recognized in Income		Six months ended June 30, 2018 Gain (Loss) on Derivative Recognized in Income	
(Millions)	Location	Amount	Location	Amount
Foreign currency forward/option contracts	Cost of sales	$ 3	Cost of sales	$ —
Foreign currency forward contracts	Interest expense	(114)	Interest expense	(91)
Total		$ (111)		$ (91)

31

Table of Contents

(Millions)	Three months ended June 30, 2017 Gain (Loss) on Derivative Recognized in Income Location	Amount	Six months ended June 30, 2017 Gain (Loss) on Derivative Recognized in Income Location	Amount
Foreign currency forward/option contracts	Cost of sales	$ 6	Cost of sales	$ 5
Foreign currency forward contracts	Interest expense	(138)	Interest expense	(96)
Total		$ (132)		$ (91)

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. Notional amounts below are presented at period end foreign exchange rates, except interest rate swaps, which are presented using the contract inception date's foreign exchange rate. Additional information with respect to the fair value of derivative instruments is included in Note 13.

June 30, 2018 (Millions)	Gross Notional Amount	Assets Location	Assets Fair Value Amount	Liabilities Location	Liabilities Fair Value Amount
Derivatives designated as hedging instruments					
Foreign currency forward/option contracts	$ 2,054	Other current assets	$ 46	Other current liabilities	$ 21
Foreign currency forward/option contracts	1,264	Other assets	42	Other liabilities	13
Interest rate swap contracts	1,350	Other current assets	—	Other current liabilities	7
Interest rate swap contracts	1,103	Other assets	20	Other liabilities	10
Total derivatives designated as hedging instruments			$ 108		$ 51
Derivatives not designated as hedging instruments					
Foreign currency forward/option contracts	$ 3,834	Other current assets	$ 22	Other current liabilities	$ 66
Total derivatives not designated as hedging instruments			$ 22		$ 66
Total derivative instruments			$ 130		$ 117

December 31, 2017 (Millions)	Gross Notional Amount	Assets Location	Fair Value Amount	Liabilities Location	Fair Value Amount
Derivatives designated as hedging instruments					
Foreign currency forward/option contracts	$ 2,204	Other current assets	$ 7	Other current liabilities	$ 109
Foreign currency forward/option contracts	1,392	Other assets	20	Other liabilities	56
Interest rate swap contracts	450	Other current assets	—	Other current liabilities	1
Interest rate swap contracts	1,503	Other assets	21	Other liabilities	6
Total derivatives designated as hedging instruments			$ 48		$ 172
Derivatives not designated as hedging instruments					
Foreign currency forward/option contracts	$ 4,974	Other current assets	$ 30	Other current liabilities	$ 25
Total derivatives not designated as hedging instruments			$ 30		$ 25
Total derivative instruments			$ 78		$ 197

Table of Contents

Credit Risk and Offsetting of Assets and Liabilities of Derivative Instruments

The Company is exposed to credit loss in the event of nonperformance by counterparties in interest rate swaps, currency swaps, commodity price swaps, and forward and option contracts. However, the Company's risk is limited to the fair value of the instruments. The Company actively monitors its exposure to credit risk through the use of credit approvals and credit limits, and by selecting major international banks and financial institutions as counterparties. 3M enters into master netting arrangements with counterparties when possible to mitigate credit risk in derivative transactions. A master netting arrangement may allow each counterparty to net settle amounts owed between a 3M entity and the counterparty as a result of multiple, separate derivative transactions. As of June 30, 2018, 3M has International Swaps and Derivatives Association (ISDA) agreements with 17 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 16 of its primary derivative counterparties which, among other things, provide the circumstances under which either party is required to post eligible collateral (when the market value of transactions covered by these agreements exceeds specified thresholds or if a counterparty's credit rating has been downgraded to a predetermined rating). The Company does not anticipate nonperformance by any of these counterparties.

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

Offsetting of Financial Assets under Master Netting Agreements with Derivative Counterparties

		Gross Amounts not Offset in the Consolidated Balance Sheet that are Subject to Master Netting Agreements		
June 30, 2018 (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	$ 130	$ 59	$ —	$ 71
Derivatives not subject to master netting agreements	—			—

Total	$ 130	$ 71

December 31, 2017 (Millions)				
Derivatives subject to master netting agreements	$ 78	$ 27	$ —	$ 51
Derivatives not subject to master netting agreements	—			—
Total	$ 78			$ 51

Table of Contents

Offsetting of Financial Liabilities under Master Netting Agreements with Derivative Counterparties

June 30, 2018 (Millions)	Gross Amount of Derivative Liabilities Presented in the Consolidated Balance Sheet	Gross Amounts not Offset in the Consolidated Balance Sheet that are Subject to Master Netting Agreements: Gross Amount of Eligible Offsetting Recognized Derivative Assets	Cash Collateral Pledged	Net Amount of Derivative Liabilities
Derivatives subject to master netting agreements	$ 115	$ 59	$ —	$ 56
Derivatives not subject to master netting agreements	2			2
Total	$ 117			$ 58

December 31, 2017 (Millions)				
Derivatives subject to master netting agreements	$ 197	$ 27	$ —	$ 170
Derivatives not subject to master netting agreements	—			—
Total	$ 197			$ 170

Currency Effects

3M estimates that year-on-year foreign currency transaction effects, including hedging impacts, decreased pre-tax income by approximately $27 million and $91 million for the three and six months ended June 30, 2018. These estimates include transaction gains and losses, including derivative instruments designed to reduce foreign currency exchange rate risks.

NOTE 13. 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:

Refer to Note 14 in the Current Report on Form 8-K dated May 8, 2018 (which updated 3M's 2017 Annual Report on Form 10-K) for a qualitative discussion of the assets and liabilities that are measured at fair value on a recurring and nonrecurring basis, a description of the valuation methodologies used by 3M, and categorization within the valuation framework of ASC 820.

Table of Contents

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

Description (Millions)	Fair Value at June 30, 2018	Fair Value Measurements Using Inputs Considered as Level 1	Level 2	Level 3
Assets:				
Available-for-sale:				
Marketable securities:				
Commercial paper	$ 347	$ —	$ 347	$ —
Certificates of deposit/time deposits	31	—	31	—
Asset-backed securities:				
Automobile loan related	3	—	3	—
U.S. municipal securities	30	—	—	30
Derivative instruments — assets:				
Foreign currency forward/option contracts	110	—	110	—
Interest rate swap contracts	20	—	20	—
Liabilities:				
Derivative instruments — liabilities:				
Foreign currency forward/option contracts	100	—	100	—
Interest rate swap contracts	17	—	17	—

Description (Millions)	Fair Value at December 31, 2017	Fair Value Measurements Using Inputs Considered as Level 1	Level 2	Level 3
Assets:				
Available-for-sale:				
Marketable securities:				
Corporate debt securities	$ 14	$ —	$ 14	$ —
Commercial paper	899	—	899	—
Certificates of deposit/time deposits	76	—	76	—
Asset-backed securities:				
Automobile loan related	16	—	16	—
Credit card related	68	—	68	—
U.S. municipal securities	30	—	—	30
Derivative instruments — assets:				
Foreign currency forward/option contracts	57	—	57	—
Interest rate swap contracts	21	—	21	—
Liabilities:				

Derivative instruments — liabilities:				
Foreign currency forward/option contracts	190	—	190	—
Interest rate swap contracts	7	—	7	—

Table of Contents

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).

Marketable securities — certain U.S. municipal securities only (Millions)	Three months ended June 30, 2018	2017	Six months ended June 30, 2018	2017
Beginning balance	$ 30	$ 20	$ 30	$ 20
Total gains or losses:				
Included in earnings	—	—	—	—
Included in other comprehensive income	—	—	—	—
Purchases and issuances	—	—	—	—
Sales and settlements	—	—	—	—
Transfers in and/or out of level 3	—	—	—	—
Ending balance	$ 30	$ 20	$ 30	$ 20
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 12 in 3M's Current Report on Form 8-K dated May 8, 2018 (which updated 3M's 2017 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 and adjustment in carrying value of equity securities for which the measurement alternative of cost less impairment plus or minus observable price changes is used. There were no material long-lived asset impairments or adjustments to equity securities using the measurement alternative for the three and six months ended June 30, 2018 and three months ended June 30, 2017. During the six months ended June 30, 2017, the Company recognized approximately $40 million in long-lived asset impairments related to its Electronics and Energy business segment, with the complete carrying amount of such assets written off and included in operating income results.

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 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, 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:

	June 30, 2018		December 31, 2017	
(Millions)	Carrying Value	Fair Value	Carrying Value	Fair Value
Long-term debt, excluding current portion	$ 11,294	$ 11,474	$ 12,096	$ 12,535

The fair values reflected above consider the terms of the related debt absent the impacts of derivative/hedging activity. The carrying amount of long-term debt referenced above is impacted by certain fixed-to-floating interest rate swaps that are designated as fair value hedges and by the designation of certain fixed rate Eurobond securities issued by the Company as hedging instruments of the Company's net investment in its European subsidiaries. Many of 3M's fixed-rate bonds were trading at a premium at June 30, 2018 and December 31, 2017 due to lower interest rates and tighter credit spreads compared to issuance levels.

Table of Contents

NOTE 14. Commitments and Contingencies

Legal Proceedings:

The Company and some of its subsidiaries are involved in numerous claims and lawsuits, principally in the United States, and regulatory proceedings worldwide. These include various products liability (involving products that the Company now or formerly manufactured and sold), intellectual property, and commercial claims and lawsuits, including those brought under the antitrust laws, and environmental proceedings. Unless otherwise stated, the Company is vigorously defending all such litigation. Additional information about the Company's process for disclosure and recording of liabilities and insurance receivables related to legal proceedings can be found in Note 15 "Commitments and Contingencies" in the Company's Annual Report on Form 10-K for the year ended December 31, 2017 as updated by the Company's Current Report on Form 8-K dated May 8, 2018.

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

Respirator Mask/Asbestos Litigation

As of June 30, 2018, the Company is a named defendant, with multiple co-defendants, in numerous lawsuits in various courts that purport to represent approximately 2,260 individual claimants, compared to approximately 2,230 individual claimants with actions pending at December 31, 2017.

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

The Company's current volume of new and pending matters is substantially lower than it experienced at the peak of filings in 2003. The Company expects that filing of claims by unimpaired claimants in the future will continue to be at much lower levels than in the past. Accordingly, the number of claims alleging more serious injuries, including mesothelioma and other malignancies, will represent a greater percentage of total claims than in the past. The

Company has prevailed in thirteen of the fourteen cases taken to trial, including eleven of the twelve cases tried to verdict (such trials occurred in 1999, 2000, 2001, 2003, 2004, 2007, 2015, and the cases tried in 2016, 2017, and 2018-described below), and an appellate reversal in 2005 of the 2001 jury verdict adverse to the Company. The remaining case, tried in 2009, was dismissed by the court at the close of plaintiff's evidence, based on the court's legal finding that the plaintiff had not presented sufficient evidence to support a jury verdict. In August 2016, 3M received a unanimous verdict in its favor from a jury in state court in Kentucky, in 3M's first respirator trial involving coal mine dust. The estate of the plaintiff alleged that the 3M 8710 respirator is defective and caused his death because it did not protect him from harmful coal mine dust. The jury rejected plaintiff's claim and returned a verdict finding no liability against 3M. The verdict is final as the plaintiff did not file an appeal. In September 2017, 3M received a unanimous verdict in its favor from a jury in state court in Kentucky in 3M's second respirator trial involving coal mine dust. The jury ultimately determined that the plaintiff's claims were barred by the statute of limitations. In November 2017, the court denied the plaintiff's motion for a new trial. The plaintiff did not file an appeal, thereby ending the litigation. In February 2018, 3M received a verdict in its favor from a jury in state court in California. The plaintiff alleged that the 3M 8710 respirator was defective and caused his mesothelioma because it did not protect him from asbestos fibers. The jury rejected plaintiff's claim and returned a verdict finding no liability against 3M. In April 2018, a jury in state court in Kentucky found 3M's 8710 respirators failed to protect two coal miners from coal mine dust and awarded aggregate compensatory damages of approximately $2 million and punitive damages totaling $63 million. Once a judgment has been entered by the trial court, the Company plans to appeal the judgment. The Company believes liability in this case is not probable and estimable. In June 2018, the Company also settled a number of coal mine dust lawsuits for an amount that was not material to the Company.

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

Table of Contents

the claims of unimpaired persons, and it therefore believes the average cost of resolving pending and future claims on a per-claim basis will continue to be higher than it experienced in prior periods when the vast majority of claims were asserted by medically unimpaired claimants.

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

Respirator Mask/Asbestos Liabilities and Insurance Receivables:

The Company regularly conducts a comprehensive legal review of its respirator mask/asbestos liabilities. The Company reviews recent and historical claims data, including without limitation, (i) the number of pending claims filed against the Company, (ii) the nature and mix of those claims (i.e., the proportion of claims asserting usage of the Company's mask or respirator products and alleging exposure to each of asbestos, silica, coal or other occupational dusts, and claims pleading use of asbestos-containing products allegedly manufactured by the Company), (iii) the costs to defend and resolve pending claims, and (iv) trends in filing rates and in costs to defend and resolve claims, (collectively, the "Claims Data"). As part of its comprehensive legal review, the Company regularly provides the Claims Data to a third party with expertise in determining the impact of Claims Data on future filing trends and costs. The third party assists the Company in estimating the costs to defend and resolve pending and future claims. The Company uses these estimates to develop its best estimate of probable liability.

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

As a result of the Company's review of its respirator mask/asbestos liabilities and as a result of the cost of resolving claims of persons who claim more serious injuries, including mesothelioma and other malignancies, the Company increased its accruals in the first six months of 2018 for respirator mask/asbestos liabilities by $56 million. In the first six months of 2018, the Company made payments for legal fees and settlements of $33 million related to the respirator mask/asbestos litigation. As of June 30, 2018, the Company had an accrual for respirator mask/asbestos liabilities (excluding Aearo accruals) of $631 million. This accrual represents the Company's best estimate of probable loss and reflects an estimation period for future claims that may be filed against the Company approaching the year 2050. The Company cannot estimate the amount or upper end of the range of amounts by which the liability may exceed the accrual the Company has established because of the (i) inherent difficulty in projecting the number of claims that have not yet been asserted or the time period in which future claims may be asserted, (ii) the complaints nearly always assert claims against multiple defendants where the damages alleged are typically not attributed to individual defendants so that a defendant's share of liability may turn on the law of joint and several liability, which can vary by state, (iii) the multiple factors described above that the Company considers in estimating its liabilities, and (iv) the several possible developments described above that may occur that could affect the Company's estimate of liabilities.

As of June 30, 2018, the Company's receivable for insurance recoveries related to the respirator mask/asbestos litigation was $4 million. The Company continues to seek coverage under the policies of certain insolvent and other insurers. Once those claims for coverage are resolved, the Company will have collected substantially all of its remaining insurance coverage for respirator mask/asbestos claims.

Respirator Mask/Asbestos Litigation — Aearo Technologies

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

As of June 30, 2018, Aearo and/or other companies that previously owned and operated Aearo's respirator business (American Optical Corporation, Warner-Lambert LLC, AO Corp. and Cabot Corporation ("Cabot")) are named defendants, with multiple co-defendants, including the Company, in numerous lawsuits in various courts in which plaintiffs allege use of mask and respirator products and seek damages from Aearo and other defendants for alleged personal injury from workplace exposures to asbestos, silica-related, or other occupational dusts found in products manufactured by other defendants or generally in the workplace.

As of June 30, 2018, the Company, through its Aearo subsidiary, had accruals of $29 million for product liabilities and defense costs related to current and future Aearo-related asbestos and silica-related claims. This accrual represents the Company's best estimate of Aearo's probable loss and reflects an estimation period for future claims that may be filed against the Aearo approaching the year 2050. Responsibility for legal costs, as well as for settlements and judgments, is currently shared in an informal arrangement among Aearo, Cabot, American Optical Corporation and a subsidiary of Warner Lambert and their respective insurers (the "Payor Group"). Liability is allocated among the parties based on the number of years each company sold respiratory products under the "AO Safety" brand and/or owned the AO Safety Division of American Optical Corporation and the alleged years of exposure of the individual plaintiff. Aearo's share of the contingent liability is further limited by an agreement entered into between Aearo and Cabot on July 11, 1995. This agreement provides that, so long as Aearo pays to Cabot a quarterly fee of $100,000, Cabot will retain responsibility and liability for, and indemnify Aearo against, any product liability claims involving exposure to asbestos, silica, or silica products for respirators sold prior to July 11, 1995. Because of the difficulty in determining how long a particular respirator remains in the stream of commerce after being sold, Aearo and Cabot have applied the agreement to claims arising out of the alleged use of respirators involving exposure to asbestos, silica or silica products prior to January 1, 1997. With these arrangements in place, Aearo's potential liability is limited to exposures alleged to have arisen from the use of respirators involving exposure to asbestos, silica, or silica products on or after January 1, 1997. To date, Aearo has elected to pay the quarterly fee. Aearo could potentially be exposed to additional claims for some part of the pre-July 11, 1995 period covered by its agreement with Cabot if Aearo elects to discontinue its participation in this arrangement, or if Cabot is no longer able to meet its obligations in these matters.

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

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

Environmental Matters and Litigation

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

Table of Contents

environmental laws and regulations, the Company has established, and periodically updates, policies relating to environmental standards of performance for its operations worldwide.

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

Environmental Matters

As previously reported, the Company has been voluntarily cooperating with ongoing reviews by local, state, federal (primarily the U.S. Environmental Protection Agency (EPA)), and international agencies of possible environmental and health effects of various perfluorinated compounds, including perfluorooctanyl compounds such as perfluorooctanoate ("PFOA"), perfluorooctane sulfonate ("PFOS"), or other per- and polyfluoroalkyl substances (collectively "PFAS"). As a result of its phase-out decision in May 2000, the Company no longer manufactures perfluorooctanyl compounds. The company ceased manufacturing and using the vast majority of these compounds within approximately two years of the phase-out announcement, and ceased all manufacturing and the last significant use of this chemistry by the end of 2008. Through its ongoing life cycle management and its raw material composition identification processes associated with the Company's policies covering the use of all persistent and bio-accumulative materials, the Company continues to control or eliminate the presence of certain PFAS in purchased materials or as byproducts in some of 3M's fluorochemical manufacturing processes, products, and waste streams.

Regulatory activities concerning PFOA and/or PFOS continue in the United States, Europe and elsewhere, and before certain international bodies. These activities include gathering of exposure and use information, risk assessment, and consideration of regulatory approaches. As the database of studies of both PFOA and PFOS has expanded, the EPA has developed human health effects documents summarizing the available data from these studies. In February 2014, the EPA initiated external peer review of its draft human health effects documents for PFOA and PFOS. The peer review panel met in August 2014. In May 2016, the EPA announced lifetime health advisory levels for PFOA and PFOS at 70 parts per trillion (ppt) (superseding the provisional levels established by the EPA in 2009 of 400 ppt for PFOA and 200 ppt for PFOS). Where PFOA and PFOS are found together, EPA recommends that the concentrations be added together, and the lifetime health advisory for PFOA and PFOS combined is also 70 ppt. Lifetime health advisories, while not enforceable, serve as guidance and are benchmarks for determining if concentrations of chemicals in tap water from public utilities are safe for public consumption. In an effort to collect exposure information under the Safe Drinking Water Act, the EPA published on May 2, 2012 a list of unregulated substances, including six PFAS, required to be monitored during the period 2013-2015 by public water system suppliers to determine the extent of their occurrence. Through January 2017, the EPA reported results for 4,920 public water supplies nationwide. Based on the 2016 lifetime health advisory, 13 public water supplies exceed the level for PFOA and 46 exceed the level for PFOS (unchanged from the July 2016 EPA summary). A technical advisory issued by EPA in September 2016 on laboratory analysis of drinking water samples stated that 65 public water supplies had exceeded the combined level for PFOA and PFOS. These results are based on one or more samples collected during the period 2012-2015 and do not necessarily reflect current conditions of these public water supplies. EPA reporting does not identify the sources of the PFOA and PFOS in the public water supplies.

The Company is continuing to make progress in its work, under the supervision of state regulators, to address its historic disposal of PFAS-containing waste associated with manufacturing operations at the Decatur, Alabama, Cottage Grove, Minnesota, and Cordova, Illinois plants. As previously reported, the Company entered into a voluntary remedial action agreement with the Alabama Department of Environmental Management (ADEM) to address the presence of PFAS in the soil at the Company's manufacturing facility in Decatur, Alabama. Pursuant to a permit issued by ADEM, for approximately twenty years, the Company incorporated its wastewater treatment plant sludge containing PFAS in fields at its Decatur facility. After a review of the available options to address the presence of PFAS in the soil, ADEM agreed that the preferred remediation option is to use a multilayer cap over the former sludge incorporation areas on the manufacturing site with subsequent groundwater migration controls and treatment. Implementation of that plan continues and is expected to be completed in 2018.

The Company continues to work with the Minnesota Pollution Control Agency (MPCA) pursuant to the terms of the previously disclosed May 2007 Settlement Agreement and Consent Order to address the presence of certain PFAS in the soil and groundwater at former disposal sites in Washington County, Minnesota (Oakdale and Woodbury) and at the Company's manufacturing facility at

Table of Contents

Cottage Grove, Minnesota. Under this agreement, the Company's principal obligations include (i) evaluating releases of certain PFAS from these sites and proposing response actions; (ii) providing treatment or alternative drinking water upon identifying any level exceeding a Health Based Value ("HBV") or Health Risk Limit ("HRL") (i.e., the amount of a chemical in drinking water determined by the Minnesota Department of Health (MDH) to be safe for human consumption over a lifetime) for certain PFAS for which a HBV and/or HRL exists as a result of contamination from these sites; (iii) remediating identified sources of other PFAS at these sites that are not controlled by actions to remediate PFOA and PFOS; and (iv) sharing information with the MPCA about certain perfluorinated compounds. During 2008, the MPCA issued formal decisions adopting remedial options for the former disposal sites in Washington County, Minnesota (Oakdale and Woodbury). In August 2009, the MPCA issued a formal decision adopting remedial options for the Company's Cottage Grove manufacturing facility. During the spring and summer of 2010, 3M began implementing the agreed upon remedial options at the Cottage Grove and Woodbury sites. 3M commenced the remedial option at the Oakdale site in late 2010. At each location the remedial options were recommended by the Company and approved by the MPCA. Remediation work has been completed at the Oakdale and Woodbury sites, and they are in an operational maintenance mode. Remediation will continue at the Cottage Grove site during 2018.

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

In May 2017, the MDH issued new HBVs for PFOS and PFOA. The new HBVs are 35 ppt for PFOA and 27 ppt for PFOS. In connection with its announcement the MDH stated that "Drinking water with PFOA and PFOS, even at the levels above the updated values, does not represent an immediate health risk. These values are designed to reduce long-term health risks across the population and are based on multiple safety factors to protect the most vulnerable citizens, which makes them overprotective for most of the residents in our state." In December 2017, the MDH issued a new HBV for perfluorobutane sulfonate (PFBS) of 2 ppb. In February 2018, the MDH published reports finding no unusual rates of certain cancers or adverse birth outcomes (low birth rates or premature births) among residents of Washington and Dakota counties in Minnesota.

EPA announced a four-step action plan in May 2018 regarding PFAS, which includes evaluating the need to set Safe Drinking Water Act maximum contaminant levels (MCLs) for PFOA and PFOS and beginning the steps necessary to designate PFOA and PFOS as "hazardous substances" under CERCLA.

The U.S. Agency for Toxic Substances and Disease Registry (ATSDR) within the Department of Health and Human Services released a draft Toxicological Profile for PFAS for public review and comment in June 2018. In the draft report, ATSDR proposed draft Minimal Risk Levels (MRLs) for PFOS, PFOA and several other PFAS. An MRL is an estimate of the daily human exposure to a hazardous substance that is likely to be without appreciable risk of adverse non-cancer health effects over a specified duration of exposure." MRLs are not regulatory values. ATSDR recently extended the period for comment to 60 days or August 20, 2018.

In several states, the state legislature or the state environmental agency have been considering actions that would evaluate cleanup standards, groundwater values or drinking water values for PFOS, PFOA and other PFAS. States considering such actions include Michigan, New York, New Jersey, New Hampshire, Wisconsin, and Pennsylvania.

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

Litigation Related to Historical PFAS Manufacturing Operations in Alabama

As previously reported, a former employee filed a purported class action lawsuit in 2002 in the Circuit Court of Morgan County, Alabama (the “St. John case”), seeking unstated damages and alleging that the plaintiffs suffered fear, increased risk, subclinical injuries, and property damage from exposure to certain perfluorochemicals at or near the Company’s Decatur, Alabama, manufacturing facility. The court in 2005 granted the Company’s motion to dismiss the named plaintiff’s personal injury-related claims on the basis that such claims are barred by the exclusivity provisions of the state’s Workers Compensation Act. The plaintiffs’ counsel filed an amended complaint in November 2006, limiting the case to property damage claims on behalf of a purported class of residents and property owners in the vicinity of the Decatur plant. In June 2015, the plaintiffs filed an amended complaint adding additional defendants, including BFI Waste Management Systems of Alabama, LLC; BFI Waste Management of North America,

Table of Contents

LLC; the City of Decatur, Alabama; Morgan County, Alabama; Municipal Utilities Board of Decatur; and Morgan County, Alabama, d/b/a Decatur Utilities.

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

In February 2009, a resident of Franklin County, Alabama, filed a purported class action lawsuit in the Circuit Court of Franklin County (the "Stover case") seeking compensatory damages and injunctive relief based on the application by the Decatur utility's wastewater treatment plant of wastewater treatment sludge to farmland and grasslands in the state that allegedly contain PFOA, PFOS and other perfluorochemicals. The named plaintiff seeks to represent a class of all persons within the State of Alabama who have had PFOA, PFOS, and other perfluorochemicals released or deposited on their property. In March 2010, the Alabama Supreme Court ordered the case transferred from Franklin County to Morgan County. In May 2010, consistent with its handling of the other matters, the Morgan County Circuit Court abated this case, putting it on hold pending the resolution of the class certification issues in the St. John case.

In October 2015, West Morgan-East Lawrence Water & Sewer Authority (Water Authority) filed an individual complaint against 3M Company, Dyneon, L.L.C, and Daikin America, Inc., in the U.S. District Court for the Northern District of Alabama. The complaint also includes representative plaintiffs who brought the complaint on behalf of themselves, and a class of all owners and possessors of property who use water provided by the Water Authority and five local water works to which the Water Authority supplies water (collectively, the "Water Utilities"). The complaint seeks compensatory and punitive damages and injunctive relief based on allegations that the defendants' chemicals, including PFOA and PFOS from their manufacturing processes in Decatur, have contaminated the water in the Tennessee River at the water intake, and that the chemicals cannot be removed by the water treatment processes utilized by the Water Authority. In September 2016, the court granted 3M's motion to dismiss plaintiffs' trespass claims with prejudice, negligence claims for personal injuries, and private nuisance claims, and denied the motion to dismiss the plaintiffs' negligence claims for property damage, public nuisance, abatement of nuisance, battery and wantonness.

In June 2016, the Tennessee Riverkeeper, Inc. (Riverkeeper), a non-profit corporation, filed a lawsuit in the U.S. District Court for the Northern District of Alabama against 3M; BFI Waste Systems of Alabama; the City of Decatur, Alabama; and the Municipal Utilities Board of Decatur, Morgan County, Alabama. The complaint alleges that the defendants violated the Resource Conservation and Recovery Act in connection with the disposal of certain PFAS through their ownership and operation of their respective sites. The complaint further alleges such practices may present an imminent and substantial endangerment to health and/or the environment and that Riverkeeper has suffered and will continue to suffer irreparable harm caused by defendants' failure to abate the endangerment unless the court grants the requested relief, including declaratory and injunctive relief.

In August 2016, a group of over 200 plaintiffs filed a class action against West Morgan-East Lawrence Water and Sewer Authority (Water Authority), 3M, Dyneon, Daikin, BFI, and the City of Decatur in state court in Lawrence County, Alabama. Plaintiffs are residents of Lawrence, Morgan and other counties who are or have been customers of the Water Authority. They contend defendants have released PFAS that contaminate the Tennessee River and, in turn, their drinking water, causing damage to their health and properties. In January 2017, the court in the St. John case, discussed above, stayed this litigation pending resolution of the St. John case.

In September 2016, the Water Works and Sewer Board of the City of Gadsden, Alabama filed a lawsuit in the Circuit Court of Etowah County Alabama against 3M and various carpet manufacturers. The complaint alleges that PFAS from the defendants' facilities contaminated the Coosa River as its raw water source for drinking water and seeks unstated damages for the installation and operation of a filtration system, expenses to monitor PFAS levels, and lost profits and sales.

In January 2017, several hundred plaintiffs sued 3M, its subsidiary Dyneon, and Daikin America in Lawrence and Morgan Counties, Alabama. The plaintiffs are owners of property, residents, and holders of property interests who receive their water from the West Morgan-East Lawrence Water and Sewer Authority (Water Authority). They assert common law claims for negligence, nuisance,

Table of Contents

trespass, wantonness, and battery, and they seek injunctive relief and punitive damages. The plaintiffs contend that the defendants own and operate manufacturing and disposal facilities in Decatur that have released and continue to release PFOA, PFOS and related chemicals into the groundwater and surface water of their sites, resulting in discharge into the Tennessee River. The plaintiffs also contend that the defendants have discharged into Bakers Creek and the Decatur Utilities Dry Creek Wastewater Treatment Plant, which, in turn, discharges wastewater containing these chemicals into the Tennessee River. The plaintiffs contend that, as a result the alleged discharges, the water supplied by the Water Authority to the plaintiffs was, and is, contaminated with PFOA, PFOS, and related chemicals at a level dangerous to humans.

In May 2017, the Water Works and Sewer Board of the Town of Centre, Alabama filed a lawsuit in the Circuit Court of Cherokee County Alabama against 3M, DuPont, and various carpet and textile manufacturers. The complaint alleges that PFAS from the defendants' facilities contaminated the town's raw water source for drinking water and seeks unstated damages for the installation and operation of a filtration system, expenses to monitor PFAS levels, lost profits and sales, and injunctive relief.

In November 2017, a purported class action was filed against 3M, its subsidiary Dyneon, Daikin America, and the West Morgan-East Lawrence Water and Sewer Authority (Water Authority) in the U.S. District Court for the Northern District of Alabama. The plaintiffs are residents of Lawrence and Morgan County, Alabama who receive their water from the Water Authority. They assert various common law claims, including negligence, nuisance, wantonness, and fraudulent concealment, and they seek injunctive relief, attorneys' fees, compensatory and punitive damages for their alleged personal injuries. The plaintiffs contend that the defendants own and operate manufacturing and disposal facilities in Decatur that have released and continue to release PFOA, PFOS and related chemicals into the groundwater and surface water of their sites, resulting in discharge into the Tennessee River. The plaintiffs also contend that the defendants have discharged chemicals into the Decatur Utilities Dry Creek Wastewater Treatment Plant, which, in turn, discharged wastewater containing these chemicals into the Tennessee River. The plaintiffs contend that, as a result of the alleged discharges, the water supplied by the Water Authority to the plaintiffs was, and is, contaminated with PFOA, PFOS, and related chemicals at a level dangerous to humans.

In January 2018, certain property owners in Trinity, Alabama filed a lawsuit against 3M, Dyneon, and three unnamed defendants in the U.S. District Court for the Northern District of Alabama. The plaintiffs assert claims for negligence, strict liability, trespass, nuisance, wanton and reckless conduct, and citizen suit claims for violation of the Resource Conservation and Recovery Act. They allege these claims arise from the defendants' contamination of their property by disposal of PFAS in a landfill located on their property. The plaintiffs seek compensatory and punitive damages and a court order directing the defendants to remediate all PFAS contamination on their property.

Litigation Related to Historical PFAS Manufacturing Operations in Minnesota

In July 2016, the City of Lake Elmo filed a lawsuit in the U.S. District Court for the District of Minnesota against 3M alleging that the City suffered damages from drinking water supplies contaminated with PFAS, including costs to construct alternative sources of drinking water. Trial is scheduled to begin in September 2019.

State Attorneys General Litigation related to PFAS

In December 2010, the State of Minnesota, by its Attorney General, filed a lawsuit in Hennepin County District Court against 3M to recover damages (including unspecified assessment costs and reasonable attorney's fees) for alleged injury to, destruction of, and loss of use of certain of the State's natural resources under the Minnesota Environmental Response and Liability Act (MERLA) and the Minnesota Water Pollution Control Act (MWPCA), as well as statutory nuisance and common law claims of trespass, nuisance, and negligence with respect to the presence of PFAS in the groundwater, surface water, fish or other aquatic life, and sediments (the "NRD Lawsuit"). The State also sought declarations under MERLA that 3M is responsible for all damages the State may suffer in the future for injuries to natural resources from releases of PFAS into the environment, and that 3M is responsible for compensation for future loss or destruction of fish, aquatic life, and other damages under the MWPCA. In September 2017, the State's damages expert submitted a report that contended the State incurred $5 billion in damages. In November 2017, the State of Minnesota filed a motion for leave to amend its complaint to seek punitive damages from 3M, and 3M filed a motion for summary judgment contending, among other things, that the State's claims were barred by the applicable statute of limitations. In December 2017, the court urged the parties to attempt to resolve the litigation before trial, and in January 2018, the court appointed a mediator to facilitate that process. In February 2018, 3M and the State of Minnesota reached a resolution of the NRD Lawsuit. Under the terms of the settlement, 3M agreed to provide an $850 million grant to the State for a special "3M Water Quality and Sustainability Fund." This Fund will enable

Table of Contents

projects that support water sustainability in the Twin Cities East Metro region, such as continued delivery of water to residents and enhancing groundwater recharge to support sustainable growth. The projects will also result in habitat and recreation improvements, such as fishing piers, trails, and open space preservation. 3M recorded a pre-tax charge of $897 million, inclusive of legal fees and other related obligations, in the first quarter of 2018 associated with the resolution of this matter.

In June 2018, the State of New York, by its Attorney General, filed a lawsuit in Albany Country Supreme Court against 3M, Tyco Fire Products LP, Chemguard, Inc., Buckeye Fire Equipment Co., National Foam, Inc., and Kidde-Fenwal, Inc., seeking to recover (1) the costs incurred in responding to the contamination caused by Aqueous Film Forming Foam (AFFF) manufactured by 3M and others; (2) damages for injury to, destruction of, and loss of the State's natural resources and related recreational series; and (3) property damage.

In July 2018, the governor of Michigan requested that the Michigan Attorney General file a lawsuit against 3M and others related to PFAS in a public letter. The Michigan Attorney General has not yet determined whether he will do so.

Aqueous Film Forming Foam (AFFF) Environmental Litigation

3M manufactured and marketed AFFF for use in firefighting at airports and military bases from approximately 1963 to 2000. As of June 30, 2018, 70 putative class action and other lawsuits have been filed against 3M and other defendants in various state and federal courts in Colorado, Delaware, Florida, Massachusetts, New York, Pennsylvania, and Washington where current or former airports or military bases are or were located. In these cases, plaintiffs typically allege that certain PFAS used in AFFF contaminated the soil and groundwater where AFFF was used and seek damages for loss of use and enjoyment of properties, diminished property values, investigation costs, remediation costs, and in some cases, funds for medical monitoring. Several companies have been sued along with 3M, including Ansul Co. (acquired by Tyco, Inc.), Angus Fire, Buckeye Fire Protection Co., Chemguard, National Foam, Inc., and United Technologies Corp.

Other PFAS-related Environmental Litigation

3M manufactured and marketed certain products containing PFAS for use by customers in their manufacturing process. As of June 30, 2018, the following four cases have been filed against 3M, another manufacturer, and their customers in connection with the use and disposal of these products.

In September 2017, three complaints were filed in the U.S. District Court for the Northern District of New York against 3M, Saint-Gobain Performance Plastics Corp. ("Saint-Gobain"), Honeywell International Inc. ("Honeywell") and E.I. DuPont De Nemours and Company. Plaintiffs allege that 3M manufactured and sold PFOA that was used for manufacturing purposes at Saint-Gobain's and Honeywell's facilities located in the Village of Hoosick Falls and the Town of Hoosick. Plaintiffs claim that the drinking water around Hoosick Falls became contaminated with unsafe levels of PFOA due to the activities of the defendants, and allege that they suffered bodily injury due to the ingestion and inhalation of PFOA. Plaintiffs seek unstated compensatory, consequential, and punitive damages, as well as attorneys' fees and costs.

In December 2017, eight plaintiffs filed a class action against 3M, Wolverine World Wide and Waste Management, Inc., alleging negligence, trespass, intentional and negligent infliction of emotional distress, battery, products liability, public and private nuisance, fraudulent concealment, and unjust enrichment. Each count was filed against each defendant. The action arises from Wolverine's allegedly improper disposal of materials and wastes related to their shoe manufacturing operations. Plaintiffs allege Wolverine used 3M Scotchgard in its manufacturing process and that chemicals from 3M's product have contaminated the environment after being disposed of near drinking water sources.

For environmental litigation matters described above for which a liability, if any, has been recorded, the Company believes the amount recorded, as well as the possible loss or range of loss in excess of the established accrual is not material to the Company's consolidated results of operations or financial condition. For those matters for which a liability has not been recorded, the Company believes any such liability is not probable and estimable and the Company is not able to estimate a possible loss or range of loss at this time.

Table of Contents

Environmental Liabilities and Insurance Receivables

As of June 30, 2018, the Company had recorded liabilities of $30 million for estimated "environmental remediation" costs based upon an evaluation of currently available facts with respect to each individual site and also recorded related insurance receivables of $8 million. The Company records liabilities for remediation costs on an undiscounted basis when they are probable and reasonably estimable, generally no later than the completion of feasibility studies or the Company's commitment to a plan of action. Liabilities for estimated costs of environmental remediation, depending on the site, are based primarily upon internal or third-party environmental studies, and estimates as to the number, participation level and financial viability of any other potentially responsible parties, the extent of the contamination and the nature of required remedial actions. The Company adjusts recorded liabilities as further information develops or circumstances change. The Company expects that it will pay the amounts recorded over the periods of remediation for the applicable sites, currently ranging up to 20 years.

As of June 30, 2018, the Company had recorded liabilities of $59 million for "other environmental liabilities" based upon an evaluation of currently available facts to implement the Settlement Agreement and Consent Order with the MPCA (including the best estimate of the probable liability under the settlement of the NRD Lawsuit for interim treatment of municipal and private wells), the remedial action agreement with ADEM, and to address trace amounts of perfluorinated compounds in drinking water sources in the City of Oakdale, Minnesota, as well as presence in the soil and groundwater at the Company's manufacturing facilities in Decatur, Alabama, and Cottage Grove, Minnesota, and at two former disposal sites in Washington County, Minnesota (Oakdale and Woodbury). The Company expects that most of the spending will occur over the next four years.

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

Other Matters

Department of Labor Investigation

The U.S. Department of Labor (DOL) notified 3M in April 2015 that it had commenced an investigation of 3M's pension plan pursuant to the federal Employee Retirement Income Security Act of 1974, as amended (ERISA). The DOL has stated its investigation relates to certain private equity investments, plan expenses, securities lending, and distributions of plan benefits. In response to certain DOL requests, 3M produced documents and made employees available for interviews. In December 2016, the DOL issued certain subpoenas to 3M and 3M Investment Management Corp. relating to this investigation. 3M has produced additional responsive documents and is cooperating with the DOL in its investigation. In June 2018, the DOL issued a letter indicating that it did not intend to take further action.

Product Liability Litigation

As of June 30, 2018, the Company is a named defendant in lawsuits involving approximately 4,626 plaintiffs (compared to approximately 4,270 plaintiffs at December 31, 2017), most of which are pending in federal court in Minnesota, in which the plaintiffs claim they underwent various joint arthroplasty, cardiovascular, and other surgeries and later developed surgical site infections due to the use of the Bair Hugger™ patient warming system (the Bair Hugger™ product line was acquired by 3M as part of the 2010 acquisition of Arizant, Inc., a leading manufacturer of patient warming solutions designed to prevent hypothermia and maintain normal body temperature in surgical settings). The complaints seek damages and other relief based on theories of strict liability, negligence, breach of express and implied warranties, failure to warn, design and manufacturing defect, fraudulent and/or negligent misrepresentation/concealment, unjust enrichment, and violations of various state consumer fraud, deceptive or unlawful trade practices and/or false advertising acts. One case, from the U.S. District Court for the Western District of Tennessee is a putative nationwide class action. The U.S. Judicial Panel on Multidistrict Litigation (MDL) granted the plaintiffs' motion to transfer and consolidate all cases pending in federal courts to the U.S. District Court for the District of Minnesota to be managed in a multi-district proceeding during the pre-trial phase of the litigation. In 2017, the U.S. District Court and the Minnesota state courts denied the plaintiffs' motions to amend their complaints to add claims for punitive damages. At a joint hearing before the U.S. District Court and the Minnesota State court, on the parties' motion to exclude each other's experts, and 3M's motion for summary judgment with respect to general causation, the federal court did not exclude the plaintiffs' experts and denied 3M's motion for summary judgment on general causation. In January 2018, the state court, in hearing the same arguments, excluded plaintiffs' experts and granted 3M's motion for summary judgment on general causation, dismissing all 61 cases pending before the state court in Minnesota. Plaintiffs have appealed that ruling and the state court's punitive damages ruling. In April 2018, the federal court partially granted 3M's motion for summary judgment in the first bellwether case, leaving for trial a claim for strict liability based upon design defect. The court dismissed the plaintiff's claims for negligence, failure to warn, and common law and statutory fraud. In the trial of the first bellwether case in May 2018, the jury returned a unanimous verdict in 3M's favor finding that the Bair Hugger™ patient warming system was not defective and was not the cause of the plaintiff's injury.

In June 2016, the Company was served with a putative class action filed in the Ontario Superior Court of Justice for all Canadian residents who underwent various joint arthroplasty, cardiovascular, and other surgeries and later developed surgical site infections due to the use of the Bair Hugger™ patient warming system. The representative plaintiff seeks relief (including punitive damages) under Canadian law based on theories similar to those asserted in the MDL. No liability has been recorded for the Bair Hugger™ litigation because the Company believes that any such liability is not probable and estimable at this time.

In September 2011, 3M Oral Care launched Lava Ultimate CAD/CAM dental restorative material. The product was originally indicated for inlay, onlay, veneer, and crown applications. In June 2015, 3M Oral Care voluntarily removed crown applications from the product's instructions for use, following reports from dentists of patients' crowns debonding, requiring additional treatment. The product remains on the market for other applications. 3M communicated with the U.S. Food and Drug Administration, as well as regulators outside the United States. 3M also informed customers and distributors of its action, offered to accept return of unused materials and provide refunds. In May 2018, 3M reached a preliminary settlement for an amount that did not have a material impact to the Company of the lawsuit pending in the U.S. District Court for the District of Minnesota that sought certification of a class of dentists in the United States and its territories. The settlement is subject to the court's approval and certification of the settlement class, with a right of class members to opt-out of the settlement and bring individual claims against the Company.

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

NOTE 15. Stock-Based Compensation

The 3M 2016 Long-Term Incentive Plan provides for the issuance or delivery of up to 123,965,000 shares of 3M common stock pursuant to awards granted under the plan. Awards may be issued in the form of incentive stock options, nonqualified stock options, progressive stock options, stock appreciation rights, restricted stock, restricted stock units, other stock awards, and performance units and performance shares. The remaining shares available for grant under the LTIP Program are 26.1 million as of June 30, 2018.

The Company's annual stock option and restricted stock unit grant is made in February to provide a strong and immediate link between the performance of individuals during the preceding year and the size of their annual stock compensation grants. The grant to eligible employees uses the closing stock price on the grant date. Accounting rules require recognition of expense under a non-substantive vesting period approach, requiring compensation expense recognition when an employee is eligible to retire. Employees are considered eligible to retire at age 55 and after having completed ten years of service. This retiree-eligible population represents 38 percent of the annual grant stock-based compensation award expense dollars; therefore, higher stock-based compensation expense is recognized in the first quarter.

Table of Contents

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

Amounts recognized in the financial statements with respect to stock-based compensation programs, which include stock options, restricted stock, restricted stock units, performance shares and the General Employees' Stock Purchase Plan (GESPP), are provided in the following table. Capitalized stock-based compensation amounts were not material for the three and six months ended June 30, 2018 and 2017.

Stock-Based Compensation Expense

	Three months ended June 30,		Six months ended June 30,	
(Millions)	2018	2017	2018	2017
Cost of sales	$ 9	$ 9	$ 32	$ 32
Selling, general and administrative expenses	33	43	142	141
Research, development and related expenses	7	7	34	33
Stock-based compensation expenses	$ 49	$ 59	$ 208	$ 206
Income tax benefits	$ (19)	$ (74)	$ (117)	$ (222)
Stock-based compensation expenses (benefits), net of tax	$ 30	$ (15)	$ 91	$ (16)

Stock Option Program

The following table summarizes stock option activity during the six months ended June 30, 2018:

(Options in thousands)	Number of Options	Weighted Average Exercise Price	Weighted Average Remaining Contractual Life (months)	Aggregate Intrinsic Value (millions)
Under option —				
January 1	34,965	$ 125.73		
Granted:				
Annual	3,174	233.62		

Exercised	(2,378)	89.67		
Forfeited	(73)	186.24		
June 30	35,688	$ 137.60	71	$ 2,226
Options exercisable				
June 30	27,222	$ 120.84	60	$ 2,066

Stock options vest over a period from one year to three years with the expiration date at 10 years from date of grant. As of June 30, 2018, there was $102 million of compensation expense that has yet to be recognized related to non-vested stock option based awards. This expense is expected to be recognized over the remaining weighted-average vesting period of 23 months. The total intrinsic values of stock options exercised were $345 million and $465 million during June 30, 2018 and 2017, respectively. Cash received from options exercised was $212 million and $416 million for the six months ended June 30, 2018 and 2017, respectively. The Company's actual tax benefits realized for the tax deductions related to the exercise of employee stock options were $73 million and $158 million for the six months ended June 30, 2018 and 2017, respectively.

For the primary 2018 annual stock option grant, the weighted average fair value at the date of grant was calculated using the Black-Scholes option-pricing model and the assumptions that follow.

Table of Contents

Stock Option Assumptions

	Annual 2018	
Exercise price	$ 233.63	
Risk-free interest rate	2.7	%
Dividend yield	2.4	%
Expected volatility	21.0	%
Expected life (months)	78	
Black-Scholes fair value	$ 41.59	

Expected volatility is a statistical measure of the amount by which a stock price is expected to fluctuate during a period. For the 2018 annual grant date, the Company estimated the expected volatility based upon the following three volatilities of 3M stock: the median of the term of the expected life rolling volatility; the median of the most recent term of the expected life volatility; and the implied volatility on the grant date. The expected term assumption is based on the weighted average of historical grants.

Restricted Stock and Restricted Stock Units

The following table summarizes restricted stock and restricted stock unit activity during the six months ended June 30, 2018:

(Shares in thousands)	Number of Shares	Weighted Average Grant Date Fair Value
Nonvested balance —		
As of January 1	1,994	$ 162.60
Granted		
Annual	467	233.61
Other	3	209.26
Vested	(632)	164.37
Forfeited	(22)	177.93
As of June 30	1,810	$ 180.22

As of June 30, 2018, there was $110 million of compensation expense that has yet to be recognized related to non-vested restricted stock units and restricted stock. This expense is expected to be recognized over the remaining weighted-average vesting period of 24 months. The intrinsic value of restricted stock units and restricted stock that vested during the six months ended June 30, 2018 and 2017 was $154 million and $134 million, respectively. The Company's actual tax benefits realized for the tax deductions related to the vesting of restricted stock units and restricted stock was $29 million and $44 million for the six months ended June 30, 2018 and 2017, respectively.

Restricted stock units granted generally vest three years following the grant date assuming continued employment. Dividend equivalents equal to the dividends payable on the same number of shares of 3M common stock accrue on these restricted stock units during the vesting period, although no dividend equivalents are paid on any of these restricted stock units that are forfeited prior to the vesting date. Dividends are paid out in cash at the vest date on restricted stock units. Since the rights to dividends are forfeitable, there is no impact on basic earnings per share calculations. Weighted average restricted stock unit shares outstanding are included in the computation of diluted earnings per share.

Performance Shares

Instead of restricted stock units, the Company makes annual grants of performance shares to members of its executive management. The 2018 performance criteria for these performance shares (organic volume growth, return on invested capital, free cash flow conversion, and earning per share growth) were selected because the Company believes that they are important drivers of long-term stockholder value. The number of shares of 3M common stock that could actually be delivered at the end of the three-year performance period may be anywhere from 0% to 200% of each performance share granted, depending on the performance of the

Table of Contents

Company during such performance period. When granted, these performance shares are awarded at 100% of the estimated number of shares at the end of the three-year performance period and are reflected under "Granted" in the table below. Non-substantive vesting requires that expense for the performance shares be recognized over one or three years depending on when each individual became a 3M executive. The 2018 performance share grant accrues dividends, therefore the grant date fair value is equal to the closing stock price on the date of grant. Since the rights to dividends are forfeitable, there is no impact on basic earnings per share calculations. Weighted average performance shares whose performance period is complete are included in computation of diluted earnings per share.

The following table summarizes performance share activity during the six months ended June 30, 2018:

(Shares in thousands)	Number of Shares	Weighted Average Grant Date Fair Value
Undistributed balance —		
As of January 1	686	$ 171.90
Granted	156	231.34
Distributed	(206)	159.82
Performance change	2	249.07
Forfeited	(11)	194.69
As of June 30	627	$ 190.52

As of June 30, 2018, there was $43 million of compensation expense that has yet to be recognized related to performance shares. This expense is expected to be recognized over the remaining weighted-average earnings period of 11 months. The total fair values of performance shares that were distributed were $48 million and $55 million for the six months ended June 30, 2018 and 2017, respectively. The Company's actual tax benefits realized for the tax deductions related to the distribution of performance shares were $11 million and $15 million for the six months ended June 30, 2018 and 2017, respectively.

Table of Contents

NOTE 16. Business Segments

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

As part of 3M's continuing effort to improve the alignment of its businesses around markets and customers, the Company made the following changes, effective in the first quarter of 2018, and other revisions impacting business segment reporting:

Consolidation of customer account activity within international countries – expanding dual credit reporting

· The Company consolidated its customer account activity in each country into centralized sales districts for certain countries that make up approximately 70 percent of 3M's 2017 international net sales. Expansion of these initiatives, which previously had been deployed only in the U.S., reduces the complexity for customers when interacting with multiple 3M businesses. 3M business segment reporting measures include dual credit to business segments for certain sales and related operating income. This dual credit is based on which business segment provides customer account activity with respect to a particular product sold in a specific country. The expansion of alignment of customer accounts within additional countries increased the attribution of dual credit across 3M's business segments. Additionally, certain sales and operating income results for electronic bonding product lines that were previously equally divided between the Electronics and Energy business segment and the Industrial business segment are now reported similarly to dual credit.

Centralization of manufacturing and supply technology platforms

· Certain shared film manufacturing and supply technology platform resources formerly reflected within the Electronics and Energy business segment were combined with other shared and centrally managed material resource centers of expertise within Corporate and Unallocated.

In addition, as discussed in Note 1, 3M adopted ASU N0. 2017-07, Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost, effective January 1, 2018 on a retrospective basis. As a result, operating income for 3M's business segments has been revised to reflect non-service cost components of pension and postretirement net periodic benefit costs within other expense (income), net.

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

Table of Contents

Business Segment Information

(Millions)	Three months ended June 30, 2018	2017	Six months ended June 30, 2018	2017
Net Sales				
Industrial	$ 3,148	$ 2,946	$ 6,292	$ 5,882
Safety and Graphics	1,815	1,569	3,598	3,119
Health Care	1,520	1,449	3,056	2,884
Electronics and Energy	1,337	1,290	2,687	2,581
Consumer	1,223	1,169	2,350	2,242
Corporate and Unallocated	12	2	12	3
Elimination of Dual Credit	(665)	(615)	(1,327)	(1,216)
Total Company	$ 8,390	$ 7,810	$ 16,668	$ 15,495
Operating Income				
Industrial	$ 724	$ 568	$ 1,443	$ 1,238
Safety and Graphics	480	851	963	1,250
Health Care	435	408	895	837
Electronics and Energy	865	325	1,202	581
Consumer	261	198	479	421
Corporate and Unallocated	(206)	(51)	(1,252)	(144)
Elimination of Dual Credit	(158)	(146)	(322)	(288)