ASHLAND INC.
Form DEFA14A
December 04, 2015

SCHEDULE 14A INFORMATION

PROXY STATEMENT PURSUANT TO SECTION 14(a)

OF THE SECURITIES EXCHANGE ACT OF 1934 (AMENDMENT NO.)

Filed by the Registrant x Filed by a Party other than the Registrant ¨

Check the appropriate box:

¨ Preliminary Proxy Statement
¨ Confidential, for Use of the Commission Only (as Permitted by Rule 14a-6(E)(2))
¨ Definitive Proxy Statement
x Definitive Additional Materials
¨ Soliciting Material Pursuant to Section 240.14a-11(c) or Section 240.14a-12

ASHLAND INC.

(Name of Registrant as Specified in Its Charter)

N/A

(Name of Person(s) Filing Proxy Statement, if other than the Registrant)

Payment of Filing Fee (Check the appropriate box):

x No fee required

¨ Fee computed on table below per Exchange Act Rules 14a-6(i)(4) and 0-11.

(1) Title of each class of securities to which transaction applies: N/A

(2) Aggregate number of securities to which transaction applies: N/A

(3) Per unit price or other underlying value of transaction computed pursuant to Exchange Act Rule 0-11 (set forth the amount on which the filing fee is calculated and state how it was determined): N/A

(4) Proposed maximum aggregate value of transaction: N/A

(5) Total fee paid: N/A

¨ Fee paid previously with preliminary materials.

¨ Check box if any part of the fee is offset as provided by Exchange Act Rule 0-11(a)(2) and identify the filing for which the offsetting fee was paid previously. Identify the previous filing by registration statement number, or the Form or Schedule and the date of its filing.

(1) Amount Previously Paid: N/A

(2) Form, Schedule or Registration Statement No.: N/A

(3) Filing Party: N/A

(4) Date Filed: N/A

Notes:

Subject Line: Please Vote Your Proxy

[Insert share information here]

Your Control Number: ____________________

Electronic Access Notification

Ashland s Annual Meeting of Shareholders will be held on Thursday, January 28, 2016 at 10:30 a.m. Eastern Standard Time at the Metropolitan Club, 50 E. RiverCenter Boulevard, Covington, Kentucky. As previously announced, participants in the Ashland Inc. Employee Savings Plan (the Employee Savings Plan), the Ashland Inc. Leveraged Employee Stock Ownership Plan (the LESOP), the Ashland Inc. Employee Union Savings Plan (the Union Plan) and the International Specialty Products Inc. 401(k) Plan (the ISP Plan) can view Ashland s Proxy Statement and Annual Report to Shareholders online. We encourage you to take advantage of this service.

Paper copies of the Proxy Statement, the Annual Report to Shareholders and your proxy card can be requested by replying to this e-mail.

As a participant in the Employee Savings Plan, the LESOP, the Union Plan or the ISP Plan, you may instruct the Trustee on how to vote the shares of Ashland Common Stock credited to your account by telephone or over the Internet. This instruction also applies to a proportionate number of those shares of Ashland Common Stock allocated to participants accounts for which voting instructions are not timely received by the Trustee. These shares are collectively referred to as non-directed shares. Each participant who gives the Trustee such an instruction acts as a named fiduciary for the applicable plan under the Employee Retirement Income Security Act of 1974, as amended. Additionally, any participant in the Employee Savings Plan or the LESOP who wishes to vote the non-directed shares differently from the shares credited to his or her account or who wishes not to vote the non-directed shares at all may do so by requesting a separate voting instruction card from Corporate Election Services, P.O. Box 1150, Pittsburgh, PA 15230. Participants in the Union Plan or the ISP Plan, however, cannot direct that the non-directed shares be voted differently from the shares in their accounts.

Votes cast by telephone or over the Internet are tabulated by our proxy tabulator and are confidential. Ashland does not have access to individual votes.

Even if you do not have regular Internet access at work, you will be able to view the Proxy Statement and Annual Report to Shareholders and vote online. **In order for the shares covered by your instructions to the Trustee to be counted, you must vote before 6:00 a.m. Eastern Standard Time on January 26, 2016.**

To access the Proxy Statement and Annual Report to Shareholders and vote:

1. Print out this page or write down your Control Number listed above. This number acts as your electronic signature to ensure security of your vote.

2. Click on this website address (or type this URL address in your browser): *http://www.ViewMaterial.com/ASH*.

3. Click on the links to view or download the Proxy Statement and Annual Report to Shareholders and to vote. When voting, be sure to follow all instructions including the final Submit procedure to ensure that your

instructions are received.

To vote by telephone (you will need a touch-tone telephone):

1. Print out this page or write down your Control Number listed above. This number acts as your electronic signature to ensure the security of your vote.

2. Dial 1-888-693-8683.

3. Be sure to follow all instructions including the final confirmation procedure to ensure that your instructions are received.

Sincerely,

Peter J. Ganz

Senior Vice President,

General Counsel and Secretary, and

Chief Compliance Officer

Notice of Internet Availability of Proxy Materials

WHEN AND WHERE IS THE SHAREHOLDERS MEETING?

The 2016 Annual Meeting of Shareholders of Ashland Inc. will be held at the Metropolitan Club, located at 50 E. RiverCenter Boulevard, Covington, KY 41011, on Thursday, January 28, 2016, at 10:30 a.m. (EST). If you need directions to attend the Annual Meeting and vote in person, please call Investor Relations at 859-815-3527.

WHAT IS BEING VOTED ON AT THE SHAREHOLDERS MEETING?

The election of seven directors: Brendan M. Cummins, Roger W. Hale, Vada O. Manager, Mark C. Rohr, George A. Schaefer, Jr., Janice J. Teal and Michael J. Ward;

The ratification of the appointment of Ernst & Young LLP as independent registered public accountants for fiscal 2016;

A non-binding advisory resolution approving the compensation paid to Ashland s named executive officers, as disclosed pursuant to Item 402 of Regulation S-K, including the Compensation Discussion and Analysis, compensation tables and narrative discussion; and

The consideration of any other business that is properly brought before the Annual Meeting.

WHAT DOES THE BOARD OF DIRECTORS RECOMMEND?

The Board of Directors recommends that shareholders vote FOR the nominees, FOR the ratification of the appointment of Ernst & Young LLP and FOR the resolution approving the compensation paid to the named executive officers.

IMPORTANT NOTICE REGARDING THE AVAILABILITY OF PROXY MATERIALS FOR THE ASHLAND INC. ANNUAL MEETING OF SHAREHOLDERS TO BE HELD ON JANUARY 28, 2016.

This is not a proxy card. If you wish to cast your vote on a traditional proxy card, you must request a paper copy of the proxy materials by following the instructions below.

1. **This communication presents only an overview of the more complete proxy materials that are available to you on the Internet. We encourage you to access and review all of the important information contained in the proxy materials before voting.**

2. **The Proxy Statement and 2015 Annual Report to Shareholders are available at www.ViewMaterial.com/ASH.**

3. **If you want to receive a paper or e-mail copy of these documents, you must request one. There is no charge to you for requesting a copy. Please make your request for a copy as instructed below on or before January 14, 2016 to facilitate timely delivery.**

HOW CAN I GET A COMPLETE SET OF PROXY MATERIALS?

You may access the proxy materials on the Internet as described above. You also may request a paper or e-mail copy of the proxy materials by following the instructions below. You will be asked to provide the control number (located by the arrow in the box below). You will have the opportunity to request copies of proxy materials for all of our future shareholder meetings or only for the 2016 Annual Meeting.

1. Call the toll-free telephone number 1-800-516-1564 and follow the instructions provided; or
2. Access the website, www.SendMaterial.com and follow the instructions provided; or
3. Send an e-mail to papercopy@SendMaterial.com with your control number in the Subject line. Unless you instruct otherwise, we will reply to your email with links to the proxy materials for this meeting only.

To vote your Ashland Inc. shares, you can attend the Annual Meeting of Shareholders and vote in person or request a paper copy of the proxy materials and vote by mail or you can:

1. Go to www.ViewMaterial.com/ASH.

2. Click on the icon to vote your shares.

3. Enter the 11-digit control number (located by the arrow in the box above).

4. Follow the simple instructions to record your vote.

You are able to vote until 6:00 a.m. on January 28, 2016.

01. The company also believes it is impracticable (considering cost-benefit criteria) to perform a comparable calculation for 2000. The company is increasingly striving to move costs outside the United States to naturally protect 3M from currency fluctuations. In 2001, the company increased the amount and duration of its foreign currency hedges to help lessen year-over-year impacts and to improve the predictability of future earnings. However, this hedging program will not make 3M immune to currency impacts. Sensitivity analysis was used to assess commodity

risks. The sensitivity analysis technique used evaluates the effect that changes in the market value of commodities will have on the company's commodity derivative instruments. At year-end 2001 and 2000, the potential change in fair value of commodity derivative instruments, assuming a 10 percent adverse change in the underlying commodity price, was not material ($4 million after tax at December 31, 2001). The global exposures related to purchased components and materials are such that a one percent price change would result in a pre-tax cost or savings of approximately $40 million per year. Derivative instruments are used to hedge about one percent of this purchased components and materials exposure. The global energy exposure is such that a 10 percent price change would result in a pre-tax cost or savings of approximately $25 million per year. Derivative instruments are used to hedge about 10 percent of this energy exposure. The Euro Conversion In February 1997, the company created a European Monetary Union (EMU) Steering Committee and project teams. The objective of these teams was to ensure a smooth transition to EMU for the company. The scope of the teams' efforts included (i) assessing the euro's impact on the company's business and pricing strategies for customers and suppliers, and (ii) ensuring that the company's business processes and information technology (IT) systems could process transactions in euros and local currencies during the transition period and would be converted to the euro by December 31, 2001, in the participating countries. During 2001, all the business processes for all the euroland companies were converted successfully to the euro; all transactions are now denominated in the euro as the base currency, and records are maintained in euros. The company anticipates that the complete conversion activity, including residual activities in 2002, will cost approximately $30 million. The Europe and Middle East area contributed 25 percent of consolidated sales and 21 percent of consolidated operating income (excluding non-recurring items) in 2001. The participating countries accounted for 68 percent of the company's sales in the Europe and Middle East area in 2001. The company believes that the euro will, over time, increase price competition for the company's products across Europe due to cross-border price transparency. The company also believes that the adverse effects of increased price competition will be offset somewhat by new business opportunities and efficiencies. The company, however, is not able to estimate the net long-term impact of the euro introduction on the company. The euro introduction has not had a material impact on the company's overall currency risk. The company anticipates the euro will simplify financial issues related to cross-border trade in the European Union and reduce the transaction costs and administrative time necessary to manage this trade and related risks. The company believes that the associated savings will not be material to corporate results. 30 Forward-Looking Statements This Annual Report on Form 10-K contains forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. These statements may be identified by the use of words like "plan," "expect," "aim," "believe," "project," "anticipate," "intend," "estimate," "will," "should," "could" and other expressions that indicate future events and trends. All statements that address expectations or projections about the future, including statements about the company's strategy for growth, product development, market position, expenditures and financial results, are forward- looking statements. Forward-looking statements are based on certain assumptions and expectations of future events that are subject to risks and uncertainties. Actual future results and trends may differ materially from historical results or those projected in any such forward-looking statements depending on a variety of factors, including but not limited to the following: * The effects of, and changes in, worldwide economic conditions. The company operates in more than 60 countries and derives more than half of its revenues from outside the United States. The company's business may be affected by factors in the United States and other countries that are beyond its control, such as downturns in economic activity in a specific country or region; social, political or labor conditions in a specific country or region; or potential adverse foreign tax consequences. * Foreign currency exchange rates and fluctuations in those rates may affect the company's ability to realize projected growth rates in its sales and net earnings and its results of operations. Because the company derives more than half its revenues from outside the United States, its ability to realize projected growth rates in sales and net earnings and results of operations could be adversely affected if the United States dollar strengthens significantly against foreign currencies. * The company's growth objectives are largely dependent on the timing and market acceptance of its new product offerings, including its ability to renew its pipeline of new products and to bring those products to market. This ability may be adversely affected by difficulties or delays in product development, such as the inability to: identify viable new products; successfully complete clinical trials and obtain regulatory approvals; obtain adequate intellectual property protection; or gain market acceptance of new products. * The company's future results are subject to fluctuations in the costs of purchased components and materials due to market demand, currency exchange risks, shortages and other factors. The company depends on various components and materials for the manufacturing of its products. Although the company has not experienced any difficulty in obtaining components and materials, it is possible that any of its supplier relationships could be terminated in the future. Any sustained interruption in the company's receipt of adequate supplies could have a material adverse effect on the company. In addition, while the company has a process to minimize volatility in component and material pricing, no assurance can be given that the company will be able to successfully manage price fluctuations due to market demand, currency risks, or shortages, or that future price fluctuations will not have a material adverse effect on the company. * The possibility that acquisitions, divestitures and strategic alliances may not meet sales and/or profit expectations. As part of the company's strategy for growth, the company has made and may continue to make acquisitions, 31 divestitures and strategic alliances. However, there can be no assurance that these will be completed or beneficial to the company. * The company is the subject of various legal proceedings. The current estimates of the potential impact on the company's consolidated financial position, results of operations and cash flows for its legal proceedings and claims are predictions made by the company about the future and should be considered forward-looking statements. These estimates could change in the future. For a more detailed discussion of the legal proceedings involving the company, see the discussion of "Legal Proceedings" in Part I, Item 3 of this Annual Report on Form 10-K. Item 7A. Quantitative and Qualitative Disclosures About Market Risk. The company discusses risk management in various places throughout this document, including discussions in Item 7 concerning Financial Condition and Liquidity, and Financial Instruments, and in the Notes to Consolidated Financial Statements (Debt, Other Financial Instruments, and the Derivatives and Hedging Activities accounting policy. All derivative activity is governed by written policies, and a value-at-risk analysis is provided for these derivatives. The company does not have leveraged derivative positions. Item 8. Financial Statements and Supplementary Data. Index to Financial Statements Reference (pages) Form 10-K Report of Independent Auditors .... 32 Consolidated Statement of Income for the years ended December 31, 2001, 2000 and 1999 .... 33 Consolidated Balance Sheet at December 31, 2001 and 2000 .... 34 Consolidated Statement of Changes in Stockholders' Equity and Comprehensive Income for the years ended December 31, 2001, 2000 and 1999.......................... 35 Consolidated Statement of Cash Flows for the years ended December 31, 2001, 2000 and 1999 .... 36 Notes to Consolidated Financial Statements .... 37-62 32 Report of Independent Auditors To the Stockholders and Board of Directors of Minnesota Mining and Manufacturing Company: In our opinion, the consolidated financial statements listed in Item 8 of this Form 10-K present fairly, in all material respects, the consolidated financial position of Minnesota Mining and Manufacturing Company and Subsidiaries at December 31, 2001 and 2000, and the consolidated results of their operations and their cash flows for each of the three years in the period ended December 31, 2001, in conformity with accounting principles generally accepted in the United States of America. These financial statements are the responsibility of the company's management; our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these statements in accordance with auditing standards generally accepted in the United States of America, which require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion. /s/ PricewaterhouseCoopers LLP PricewaterhouseCoopers LLP Minneapolis, Minnesota February 11, 2002 33 Consolidated Statement of Income Minnesota Mining and Manufacturing Company and Subsidiaries Years ended December 31 (Amounts in millions, except per-share amounts) 2001 2000 1999 Net sales $16,079 $16,724 $15,748 Operating expenses Cost of sales 8,749 8,787 8,126 Selling, general and administrative expenses 4,061 3,963 3,712 Research, development and related expenses 1,084 1,101 1,056 Other expense (income) (88) (185) (102) Total 13,806 13,666 12,792 Operating income 2,273 3,058 2,956 Interest expense and income Interest expense 124 111 109 Interest income (37) (27) (33) Total 87 84 76 Income before income taxes, minority interest and cumulative effect of accounting change 2,186 2,974 2,880 Provision for income taxes 702 1,025 1,032 Minority interest 54 92 85 Income before cumulative effect of accounting change 1,430 1,857 1,763 Cumulative effect of accounting change -- (75) -- Net income $ 1,430 $ 1,782 $ 1,763 Weighted average common shares outstanding - basic 394.3 395.7 402.0 Earnings per share - basic Income before cumulative effect of accounting change $ 3.63 $ 4.69 $ 4.39 Cumulative effect of accounting change -- (.19) -- Net income $ 3.63 $ 4.50 $ 4.39 Weighted average common shares outstanding - diluted 399.9 399.9 406.5 Earnings per share - diluted Income before cumulative effect of accounting change $ 3.58 $ 4.64 $ 4.34 Cumulative effect of accounting change -- (.19) -- Net income $ 3.58 $ 4.45 $ 4.34 The accompanying Notes to Consolidated Financial Statements are an integral part of this statement. 34 Consolidated Balance Sheet Minnesota Mining and Manufacturing Company and Subsidiaries At December 31 (Dollars in millions) 2001 2000 Assets Current assets Cash and cash equivalents $ 616 $ 302 Accounts receivable - net 2,482 2,891 Inventories 2,091 2,312 Other current assets 1,107 874 Total current assets 6,296 6,379 Investments 275 310 Property, plant and equipment - net 5,615 5,823 Other assets 2,420 2,010 Total assets $14,606 $14,522 Liabilities and Stockholders' Equity Current liabilities Short-term debt $ 1,373 $ 1,866 Accounts payable 753 932 Payroll 539 382 Income taxes 596 462 Other current liabilities 1,248 1,112 Total current liabilities 4,509 4,754 Long-term debt 1,520 971 Other liabilities 2,491 2,266 Total liabilities 8,520 7,991 Stockholders' equity Common stock, par value $.01 per share 5 5 Shares outstanding - 2001: 391,303,636 2000: 396,085,348 Capital in excess of par value 291 291 Retained earnings 11,914 11,517 Treasury stock (4,633) (4,065) Unearned compensation (286) (303) Accumulated other comprehensive income (loss) (1,205) (914) Stockholders' equity - net 6,086 6,531 Total liabilities and stockholder's equity $14,606 $14,522 The accompanying Notes to Consolidated Financial Statements are an integral part of this statement. 35 Consolidated Statement of Changes in Stockholders' Equity and Comprehensive Income Minnesota Mining and Manufacturing Company and Subsidiaries Accumulated Common Other Stock and Compre- Capital in Unearned hensive (Dollars in millions, Excess Retained Treasury Compen- Income except per-share amounts) Total of Par Earnings Stock sation (Loss) Balance at December 31, 1998 $5,936 $296 $ 9,980 $(3,482) $(350) $(508) Net income 1,763 1,763 Cumulative translation adjustment - net of $2 million tax benefit (176) (176) Minimum pension liability adjustment - net of $36 million tax benefit (30) (30) Debt and equity securities, unrealized gain - net of $77 million tax provision 126 126 Total comprehensive income 1,683 Dividends paid ($2.24 per share) (901) (901) Amortization of unearned compensation 23 23 Reacquired stock (9.0 million shares) (825) (825) Issuances pursuant to stock option and benefit plans (5.7 million shares) 373 (101) 474 Balance at December 31, 1999 $6,289 $296 $10,741 $(3,833) $(327) $(588) Net income 1,782 1,782 Cumulative translation adjustment - net of $5 million tax provision (191) (191) Minimum pension liability adjustment - net of $37 million tax benefit (28) (28) Debt and equity securities, unrealized loss - net of $65 million tax benefit (107) (107) Total comprehensive income 1,456 Dividends paid ($2.32 per share) (918) (918) Amortization of unearned compensation 24 24 Reacquired stock (9.1 million shares) (814) (814) Issuances pursuant to stock option and benefit plans (6.3 million shares) 483 (88) 571 Issuances pursuant to acquisitions (129 thousand shares) 11 11 Balance at December 31, 2000 $6,531 $296 $11,517 $(4,065) $(303) $(914) Net income 1,430 1,430 Cumulative translation adjustment - net of $14 million tax provision (267) (267) Minimum pension liability adjustment - net of $15 million tax benefit (16) (16) Debt and equity securities, unrealized loss - net of $11 million tax benefit (17) (17) Derivative financial instruments - unrealized gain - net of $5 million tax provision 9 9 Total comprehensive income 1,139 Dividends paid ($2.40 per share) (948) (948) Amortization of unearned compensation 17 17 Reacquired stock (12.0 million shares) (1,322) (1,322) Issuances pursuant to stock option and benefit plans (6.1 million shares) 543 (85) 628 Issuances pursuant to acquisitions, net of returns of $1 million from escrow (net 1.1 million shares issued) 126 126 Balance at December 31, 2001 $6,086 $296 $11,914 $(4,633) $(286) $(1,205) The accompanying Notes to Consolidated Financial Statements are an integral part of this statement. 36 Consolidated Statement of Cash Flows Minnesota Mining and Manufacturing Company and Subsidiaries Years ended December 31 2001 2000 1999 (Dollars in millions) Cash Flows from Operating Activities Net income $ 1,430 $1,782 $1,763 Adjustments to reconcile net income to net cash provided by operating activities Depreciation and amortization 1,089 1,025 900 Deferred income tax provision 1 89 95 Changes in assets and liabilities Accounts receivable 345 (171) (186) Inventories 194 (261) 96 Other current assets (97) (69) (11) Other assets - net of amortization (13) (145) 119 Income taxes payable 148 27 196 Accounts payable and other current liabilities (62) 65 (63) Other liabilities (27) (92) 173 Other - net 70 76 (1) Net cash provided by operating activities 3,078 2,326 3,081 Cash Flows from Investing Activities Purchases of property, plant and equipment (980) (1,115) (1,050) Proceeds from sale of property, plant and equipment 102 104 108 Acquisitions of businesses (218) (472) (374) Proceeds from sale of businesses 11 1 249 Purchases of investments (12) (12) (56) Proceeds from sale of investments 47 121 9 Net cash used in investing activities (1,050) (1,373) (1,114) Cash Flows from Financing Activities Change in short-term debt - net (20) (236) (164) Repayment of debt (maturities greater than 90 days) (1,564) (23) (179) Proceeds from debt (maturities greater than 90 days) 1,693 495 2 Purchases of treasury stock (1,322) (814) (825) Reissuances of treasury stock 462 425 347 Dividends paid to stockholders (948) (918) (901) Distributions to minority interests (17) (60) (51) Net cash used in financing activities (1,716) (1,131) (1,771) Effect of exchange rate changes on cash 2 93 (20) Net increase (decrease) in cash and cash equivalents 314 (85) 176 Cash and cash equivalents at beginning of year

302 387 211 Cash and cash equivalents at end of year $ 616 $ 302 $ 387 The accompanying Notes to Consolidated Financial Statements are an integral part of this statement. 37 Notes to Consolidated Financial Statements Significant Accounting Policies Consolidation: All significant subsidiaries are consolidated. All significant intercompany transactions are eliminated. As used herein, the term "3M" or "company" refers to Minnesota Mining and Manufacturing Company and subsidiaries unless the context indicates otherwise. Foreign currency translation: Local currencies generally are considered the functional currencies outside the United States, except in countries treated as highly inflationary. Assets and liabilities for operations in local- currency environments are translated at year-end exchange rates. Income and expense items are translated at average rates of exchange prevailing during the year. Cumulative translation adjustments are recorded as a component of accumulated other comprehensive income in stockholders' equity. For operations in countries treated as highly inflationary, certain financial statement amounts are translated at historical exchange rates, with all other assets and liabilities translated at year-end exchange rates. These translation adjustments are reflected in income and are not material. Reclassifications: Certain prior period balance sheet amounts have been reclassified to conform with the current year presentation. Use of estimates: The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from these estimates. Cash and cash equivalents: Cash and cash equivalents consist of cash and temporary investments with maturities of three months or less when purchased. Investments: Investments primarily include the cash surrender value of life insurance policies and real estate and venture capital investments. Unrealized gains and losses relating to investments classified as available-for-sale are recorded as a component of accumulated other comprehensive income in stockholders' equity. Inventories: Inventories are stated at lower of cost or market, with cost generally determined on a first-in, first-out basis. Property, plant and equipment: Property, plant and equipment are recorded at cost, including capitalized interest and internal engineering cost. Depreciation of property, plant and equipment generally is computed using the straight-line method based on estimated useful lives of the assets. Buildings and improvements estimated useful lives primarily range from 10 to 40 years, with the majority in the 20- to 40-year range. Machinery and equipment estimated useful lives primarily range from 3 to 15 years, with the majority in the 5- to 10-year range. Fully depreciated assets are retained in property and accumulated depreciation accounts until removed from service. Upon disposal, assets and related accumulated depreciation are removed from the accounts and the net amount, less proceeds from disposal, is charged or credited to operations. Other assets: Goodwill is amortized on a straight-line basis over the periods benefited, ranging from 5 to 40 years Other intangible assets are amortized on a straight-line basis over their estimated economic lives. Refer to "New accounting pronouncements" that follows for information about the cessation of 38 goodwill and other indefinite-lived intangible asset amortization effective January 1, 2002. Impairment of long-lived assets: Long-lived assets, including identifiable intangibles and goodwill, are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. An impairment loss would be recognized when the carrying amount of an asset exceeds the estimated undiscounted future cash flows expected to result from the use of the asset and its eventual disposition. The amount of the impairment loss to be recorded is calculated by the excess of the assets carrying value over its fair value. Fair value is determined using a discounted cash flow analysis. Revenue recognition: Revenue is recognized when the risks and rewards of ownership have substantively transferred to customers, regardless of whether legal title has transferred. This condition is normally met when the product has been delivered or upon performance of services. The company sells a wide range of products to a diversified base of customers around the world and, therefore, believes there is no material concentration of credit risk. Prior to 2000, the company recognized revenue upon shipment of goods to customers and upon performance of services (refer to "Cumulative Effect of Accounting Change" that follows). Advertising and merchandising: These costs are charged to operations in the year incurred. Internal-use software: The company capitalizes direct costs of materials and services used in the development of internal-use software. Amounts capitalized are amortized on a straight-line basis over a period of 3 to 5 years and are reported as a component of machinery and equipment within property, plant and equipment. Environmental: Environmental expenditures relating to existing conditions caused by past operations that do not contribute to current or future revenues are expensed. Liabilities for remediation costs are recorded on an undiscounted basis when they are probable and reasonably estimable, generally no later than the completion of feasibility studies or the company's commitment to a plan of

action. Accounting for stock-based compensation: The company uses the intrinsic value method for its Management Stock Ownership Program (MSOP). The General Employees' Stock Purchase Plan is considered non-compensatory. Comprehensive income: Total comprehensive income and the components of accumulated other comprehensive income are presented in the Consolidated Statement of Changes in Stockholders' Equity and Comprehensive Income. Accumulated other comprehensive income is composed of foreign currency translation effects (including hedges of net investments in international companies), minimum pension liability adjustments, unrealized gains and losses on available-for-sale debt and equity securities, and unrealized gains and losses on cash flow hedging instruments. Earnings per share: The difference in the weighted average shares outstanding for calculating basic and diluted earnings per share is attributable to the dilution associated with the company's stock-based compensation plans. Derivatives and hedging activities: Effective January 1, 2001, the company adopted Statement of Financial Accounting Standards (SFAS) No. 133, "Accounting for Derivative Instruments and Hedging Activities," as amended by SFAS No. 138. This new accounting standard requires that all derivative instruments be recorded on the balance sheet at fair value and establishes criteria for designation and 39 effectiveness of hedging relationships. The effect of adopting this standard was not material to the company's consolidated financial statements. The company uses interest rate swaps, currency swaps, and forward and option contracts to manage risks generally associated with foreign exchange rate, interest rate and commodity market volatility. All hedging instruments are designated and effective as hedges, in accordance with U.S. generally accepted accounting principles. If the underlying hedged transaction ceases to exist, all changes in fair value of the related derivatives that have not been settled are recognized in current earnings. Instruments that do not qualify for hedge accounting are marked to market with changes recognized in current earnings. The company does not hold or issue derivative financial instruments for trading purposes and is not a party to leveraged derivatives. New accounting pronouncements: In June 2001, the Financial Accounting Standards Board issued SFAS No. 141, "Business Combinations", and No. 142, "Goodwill and Other Intangible Assets." The most significant changes made by SFAS No. 141 are: 1) requiring that the purchase method of accounting be used for all business combinations initiated after June 30, 2001, and 2) establishing specific criteria for the recognition of intangible assets separately from goodwill. SFAS No. 142 primarily addresses the accounting for acquired goodwill and intangible assets (i.e., the post-acquisition accounting). The provisions of SFAS No. 142 will be effective for fiscal years beginning after December 15, 2001. The most significant changes made by SFAS No. 142 are: 1) goodwill and indefinite-lived intangible assets will no longer be amortized; 2) goodwill and indefinite-lived intangible assets will be tested for impairment at least annually (a preliminary review indicated that no impairment existed at December 31, 2001); and 3) the amortization period of intangible assets with finite lives will no longer be limited to 40 years. SFAS No. 141 applies to all business combinations with a closing date after June 30, 2001. SFAS No. 142 will be adopted effective January 1, 2002. Goodwill and intangible assets acquired after June 30, 2001, are subject immediately to the non-amortization and amortization provisions of this statement. These standards permit only prospective application of the new accounting; accordingly, adoption of these standards will not affect previously reported 3M financial information. The principal effect of SFAS No. 142 will be the elimination of goodwill amortization. Amortization of goodwill and indefinite-lived intangible assets in 2001 was $67 million (net income impact of $51 million, or 12 cents per diluted share). In June 2001, the Financial Accounting Standards Board also issued Statement of Financial Accounting Standards (SFAS) No. 143, "Accounting for Asset Retirement Obligations", which must be adopted no later than January 1, 2003. This statement establishes accounting standards for recognition and measurement of a liability for an asset retirement obligation and the associated asset retirement cost. The company is reviewing the requirements of this standard. Although the company expects that this standard will not materially affect its financial position or results of operations, it has not yet finalized its determination of the impact of this standard on its consolidated financial statements. In August 2001, the Financial Accounting Standards Board issued SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets", which will be adopted by the company on January 1, 2002. The company does not expect this standard to have a material impact on its consolidated financial statements. This standard broadens the presentation of discontinued operations to include more disposal transactions, thus the recognition of discontinued operations is expected to become more common under this new standard. 40 The company will adopt Emerging Issues Task Force Issue No. 00-25, "Vendor Income Statement Characterization of Consideration Paid to a Reseller of the Vendor's Products", effective January 1, 2002. This statement addresses whether certain consideration from a vendor to a reseller of the vendor's products is an adjustment to selling prices or a cost. It is estimated that this statement will result in Consumer and Office segment annual net sales and advertising cost (included in selling, general and administrative expenses) being reduced by approximately $25 million annually for years 1999 through 2001. This statement would have no effect on the company's net income or its financial position. Cumulative Effect of Accounting Change During the fourth quarter of 2000, the company changed its revenue recognition policies. Essentially, the new policies recognize that the risks and rewards of ownership in many transactions do not substantively transfer to customers until the product has been delivered, regardless of whether legal title has transferred. In addition to this change in accounting that affected a substantial portion of its product sales, the company has revised aspects of its accounting for services provided in several of its smaller businesses. These new policies are consistent with the guidance contained in SEC Staff Accounting Bulletin No. 101. The effect of these changes in revenue recognition policies, as of January 1, 2000, is reported as the cumulative effect of an accounting change in 2000. This change did not have a significant effect on previously reported 2000 quarters or on prior years. Restructuring Charges and Other Non-recurring Items During the first half of 2001, the company developed and announced a restructuring plan that consolidates certain operations and streamlines the organization to increase speed and productivity. In June 2001, the company completed the identification of all significant actions to be taken and obtained final approvals from the appropriate level of management. In the fourth quarter of 2001, the company obtained approvals for certain additional actions. In 2001 the company recorded charges of $569 million ($353 million after tax and minority interest), principally related to the restructuring plan. These charges were classified as a component of cost of sales ($249 million); selling, general and administrative expenses ($300 million); and research, development and related expenses ($20 million). Of the total charges, $472 million related to employee severance and benefits, $80 million related to accelerated depreciation (incremental charges resulting from shortened depreciable lives, primarily related to downsizing or consolidating manufacturing operations), and $17 million related to other exit activities. The accelerated depreciation (related to assets included in property, plant and equipment) primarily involved specialized 3M manufacturing machinery and equipment. Estimated salvage values were based on estimates of proceeds upon sale of certain affected assets. The charges related to other exit activities include incremental costs and contractual obligations for items such as lease termination payments and other facility exit costs incurred as a direct result of this plan. In connection with its restructuring plan, the company expects to eliminate a total of about 6,000 positions, with most of these reductions occurring by June 30, 2002. Through December 31, 2001, the company had eliminated about 3,500 positions. These positions represent a wide range of functions throughout the company. Of the 6,000 employment reduction for the total plan, about 40 percent will occur in the United States, 35 percent in Europe, and the balance in other international areas. All business segments were impacted directly and also indirectly through reduced allocations of corporate staff service costs. Employee severance and benefit charges totaling $472 million were taken during 2001. These charges were taken in the quarter when management approved the plans and after severance benefits had been communicated to the employees. 41 Of the company's remaining current liability at December 31, 2001, $185 million is classified in current liabilities (payroll) and $13 million is classified in other current liabilities on the Consolidated Balance Sheet. The company classified $124 million of the current year's charges as long-term liabilities. Special termination pension and medical benefits, aggregating $62 million, were offered to eligible employees. These benefits will generally be paid over their life expectancies. In addition, the company estimates that $62 million of deferred separation pay will be paid in 2003 and beyond. The company also recorded $8 million of non-cash stock option expense due to the reclassification of certain employees age 50 and older to retiree status, resulting in a modification of their original stock option awards for accounting purposes. The current liabilities and a portion of the non-current liabilities will be funded through cash provided by operations, with additional funding for non-current liabilities provided through established pension and postretirement trust funds. The restructuring plan includes actions in 25 locations in the United States, 27 in Europe, eight in the Asia Pacific area, 13 in Latin America, and four in Canada. Substantially all actions required by the plan are expected to be completed by June 30, 2002. The company has not discontinued any major product lines as a result of the restructuring plan. The restructuring charges do not include any write-down of goodwill or other intangible assets. Selected information related to these 2001 charges follows. Employee Severance and Accelerated (Millions) Benefits Depreciation Other Total -------- ----------- ------ ------ 2001 charges Second quarter $386 $-- $11 $397 Third quarter 27 39 3 69 Fourth quarter 59 41 3 103 ---- ---- ---- ---- Total charges $472 $80 $17 $569 Cash payments (155) (4) (159) Non-cash (8) (80) -- (88) Long-term portion of liability (124) -- (124) Current liability at December 31, 2001 $185 $13 $198 ==== ==== ==== 42 Selected information related to the company's 1998 restructuring program follows. Employee Write-down Severance of Property, and Plant and

(Millions) Benefits Equipment Other Total -------- ----------- ------- --------- 1998 charges $271 $143 $79 $493 1999 changes in estimates 4 (31) (1) (28) Total charges $275 $112 $78 $465 December 31, 1998 liability $232 $32 $264 1999 cash payments (205) (23) (228) 1999 changes in estimates 4 (1) 3 December 31, 1999 liability $ 31 $ 8 $ 39 2000 cash payments (24) (4) (28) December 31, 2000 liability $ 7 $ 4 $ 11 2001 cash payments (3) (2) (5) December 31, 2001 liability $ 4 $ 2 $ 6 Acquisitions and Divestitures General: In 2001, 2000 and 1999, all business combinations completed by the company used the purchase method of accounting. Effective January 1, 2002, with the adoption of SFAS No. 142, goodwill and indefinite-lived intangibles will no longer be amortized. Year 2001 acquisitions: In 2001, the company completed three notable business combinations, all in the first quarter of the year. 3M acquired MicroTouch Systems, Inc., a touch screen manufacturer, for $158 million in cash, net of cash acquired. 3M also acquired Robinson Nugent, Inc., a telecommunications supplier, in exchange for 1,124,135 shares of 3M common stock that had a fair market value of $127 million as of the acquisition date. 3M also combined its German dental business (3M Inter-Unitek GmbH, an existing 3M subsidiary) with ESPE Dental AG, a dental products manufacturer. 3M Inter-Unitek GmbH acquired 100 percent of the outstanding shares of ESPE Dental AG in exchange for 43 percent ownership in 3M Inter-Unitek GmbH and $25 million, net of cash acquired. Upon completion of this transaction, 3M holds a 57 percent controlling interest in 3M Inter-Unitek GmbH and consolidates it with a provision for the minority interest that does not have participating rights. 3M entered into put/call option agreements with former shareholders of ESPE Dental AG. Under the put agreements, 3M would be required to purchase the 43 percent minority interest in 3M Inter-Unitek GmbH from former shareholders of ESPE Dental AG for cash of approximately $266 million. These put options became exercisable on the acquisition date and expire on January 10, 2003. The call options, if exercised, would require the minority shareholders to sell their 3M Inter-Unitek GmbH shares to 3M, based upon a formula set forth in the agreement. These call options become exercisable on December 20, 2003, and expire on June 30, 2004. The 2001 purchased intangible assets, including goodwill, through December 31, 2001, are being amortized on a straight-line basis over the periods benefited, ranging from 4 to 40 years. In-process research and development charges associated with these acquisitions were not material. Pro forma information related to these acquisitions is not provided because the impact of these acquisitions on the company's consolidated results of operations is not considered to be significant. 43 Consolidated balance sheet purchase price allocations: The purchase price allocations and the resulting impact on the consolidated balance sheet relating to all 2001 business combinations, including five small acquisitions not discussed previously, are summarized in the following table. The impact on the consolidated balance sheet for 2000 and 1999 acquisitions (discussed later) are also summarized in the table that follows. Asset (Liability) (Millions) 2001 2000 1999 ----- ----- ----- Accounts receivable $ 67 $ 86 $ 5 Inventories 64 112 8 Other current assets 19 13 6 Property, plant and equipment 110 179 14 Purchased intangible assets 473 326 254 Other assets 23 30 15 Accounts payable and other current liabilities (138) (93) -- Interest bearing debt (16) (123) -- Minority interest liability (243) -- 72 Other long-term liabilities (14) (47) -- ----- ----- ----- Net assets acquired $345 $483 $374 ===== ===== ===== Cash, net of cash acquired $218 $472 $374 Non-cash (3M shares at fair value) 127 11 -- ----- ----- ----- Net assets acquired $345 $483 $374 ===== ===== ===== Year 2000 acquisitions: During 2000, 3M acquired 91 percent (subsequently increased to 93 percent), of Quante AG (a telecommunications supplier), 100 percent of the multi-layer integrated circuit packaging line of W.L. Gore and Associates, and seven smaller businesses for a total purchase price of $472 million in cash (net of cash acquired) plus 128,994 shares of 3M common stock. The stock had a fair market value of $11 million at the acquisition date and was previously held as 3M treasury stock. The 2000 purchased intangible assets, including goodwill, through December 31, 2001, are being amortized on a straight-line basis over the periods benefited, ranging from 3 to 20 years. In-process research and development charges associated with these acquisitions were not significant. Pro forma information related to these acquisitions is not included because the impact of these acquisitions on the company's consolidated results of operations is not considered to be significant. Year 1999 acquisition: During 1999, 3M had one notable acquisition and acquired seven smaller businesses. In December 1999, 3M finalized the acquisition of the outstanding 46 percent minority interest in Dyneon LLC from Celanese AG for approximately $340 million in cash, primarily financed by debt. The purchase price exceeded the fair value of the minority interest net assets by approximately $267 million, of which approximately $242 million represents goodwill and other intangible assets that will be amortized over 20 years or less. If this acquisition had occurred at the beginning of 1999, the effect on consolidated results of operations would not have been significant. 44 Year 1999 divestitures: On June 30, 1999, the company closed the sale of Eastern Heights Bank, a subsidiary banking operation, and the sale of the assets of its cardiovascular systems business. These divestitures generated cash proceeds of $203 million and resulted in a pre-tax gain of $118 million ($69 million after tax) in the second quarter of 1999. 3M also recorded a pre-tax gain of $32 million ($20 million after tax) related to divestitures, mainly in the Health Care segment, in the third quarter of 1999. These pre-tax gains are recorded in the other expense (income) line within operating income. The primary impact of these divestitures on the 1999 Consolidated Balance Sheet was to reduce investments by about $350 million and decrease current and other liabilities by a similar amount. Supplemental Statement of Income Information (Millions) 2001 2000 1999 Research, development and related expenses $1,084 $1,101 $1,056 Advertising and merchandising costs 432 544 484 Research and development expenses, covering basic scientific research and the application of scientific advances to the development of new and improved products and their uses, totaled $745 million, $727 million and $688 million in 2001, 2000 and 1999, respectively. Related expenses primarily include technical support provided by the laboratories for existing products. Supplemental Balance Sheet Information (Millions) 2001 2000 Accounts receivable Accounts receivable $ 2,569 $ 2,975 Less allowances 87 84 Accounts receivable - net $ 2,482 $ 2,891 Inventories Finished goods $ 1,103 $ 1,231 Work in process 611 663 Raw materials 377 418 Total inventories $ 2,091 $ 2,312 Other current assets Product and other insurance receivables $ 304 $ 267 Deferred income taxes 290 152 Other 513 455 Total other current assets $ 1,107 $ 874 Investments Available-for-sale (fair value) $ 37 $ 72 Other (cost, which approximates fair value) 238 238 Total investments $ 275 $ 310 45 TABLE Supplemental Balance Sheet Information (continued) (Millions) 2001 2000 Property, plant and equipment - at cost Land $ 224 $ 249 Buildings and leasehold improvements 3,510 3,477 Machinery and equipment 10,208 9,958 Construction in progress 423 486 14,365 14,170 Less accumulated depreciation 8,750 8,347 Property, plant and equipment - net $ 5,615 $ 5,823 Other assets Goodwill $ 984 $ 647 Patents 141 141 Tradenames 52 34 Other intangible assets 36 35 Prepaid pension benefits 537 412 Product and other insurance receivables 481 566 Deferred income taxes 152 143 Other 37 32 Total other assets $ 2,420 $ 2,010 Other current liabilities Employee benefits and withholdings $ 295 $ 237 Accrued trade payables 267 277 Deferred income 188 132 Property and other taxes 153 137 Product and other claims 119 107 Deferred income taxes 16 8 Other 210 214 Total other current liabilities $ 1,248 $ 1,112 Other liabilities Non-funded pension and postretirement benefits $ 633 $ 754 Minority interest in subsidiaries 527 346 Deferred income taxes 469 362 Employee benefits 355 289 Product and other claims 335 339 Deferred income 94 12 Other 78 164 Total other liabilities $ 2,491 $ 2,266 At December 31, 2001 and 2000, respectively, product and other insurance receivables (current and long-term) include $406 million and $519 million related to the breast implant matter, $223 million and $155 million related to respirator/mask/asbestos litigation, and $156 million and $159 million of other insurance receivables. Although at December 31, 2001, receivables for insurance recoveries related to the breast implant matter of $324 million continue to be contested by insurance carriers, management, based on the opinion of counsel, believes such amounts will ultimately be collected. Accounts payable included drafts payable on demand of $83 million at December 31, 2001, and $109 million at December 31, 2000. 46 Supplemental Stockholders' Equity and Comprehensive Income Information Common stock ($.01 par value per share; $.50 par value at December 31, 1999) of 1.5 billion shares is authorized (1 billion shares at December 31, 1999), with 472,016,528 shares issued in 2001, 2000 and 1999. Common stock and capital in excess of par includes $231 million transferred from common stock to capital in excess of par value during 2000 in connection with the change in par value of the company's common stock from $.50 to $.01 per share. Preferred stock, without par value, of 10 million shares is authorized but unissued. The following table shows the ending balances of the components of accumulated other comprehensive income (loss). Accumulated Other Comprehensive Income (Loss) (Millions) 2001 2000 1999 Cumulative translation - net $(1,152) $(885) $(694) Minimum pension liability adjustments - net (74) (58) (30) Debt and equity securities, unrealized gain - net 12 29 136 Cash flow hedging instruments, unrealized gain - net 9 -- -- Total accumulated other comprehensive income (loss) $(1,205) $(914) $(588) Reclassification adjustments are made to avoid double counting in comprehensive income items that are also displayed as part of net income. A summary of these reclassification adjustments follows. Reclassification Adjustments to Comprehensive Income (Millions) 2001 2000 1999 Gains on sale or donation of equity securities, net of tax provision of $9 million, $39 million and $16 million, respectively, for 2001, 2000 and 1999 $ 14 $ 62 $ 25 Write-down of equity securities, net of tax benefit of $3 million (5) -- -- Cash flow hedging instruments, gains - net of tax provision of $8 million 13 -- -- In 1999, the equity security gains related to appreciated equity securities donated to the 3M Foundation. In 2001, 2000 and 1999, other reclassification adjustments were not material. No tax provision has been made for the translation of foreign currency financial statements into U.S. dollars. Supplemental Cash Flow Information (Millions) 2001 2000 1999 Cash income tax payments $ 520 $ 852 $ 653 Cash interest payments 137 104 114 Capitalized interest 26 31 26 Depreciation 916 915 822 Amortization of software 74 45 39 Amortization of goodwill and indefinite-lived tradenames 67 44 24 Amortization of patents and other identifiable intangibles 32 21 15 Individual amounts on the Consolidated Statement of Cash Flows exclude the effects of acquisitions, divestitures and exchange rate impacts, which are presented separately. In 2000, the net impact of cumulative effect of accounting changes is recorded in "Other - net" within operating activities. 47 Non-cash transactions occurring during 2001 included: *3M acquired Robinson Nugent, Inc. in exchange for shares of 3M common stock that had a fair market value of $127 million. *The company exchanged 43 percent ownership in 3M Inter-Unitek GmbH, previously a wholly owned subsidiary, for 87 percent of ESPE Dental AG. The value of this transaction is estimated at approximately $245 million. *Dividends declared, but not paid at December 31, 2001, of $40 million were payable to minority interests in consolidated subsidiaries. In 1999, 3M exchanged assets used in the business, but not held for sale, with a fair market value of $61 million plus cash of $12 million, for similar assets having a fair market value of $73 million. No gain was recognized on this nonmonetary exchange of productive assets. Also in 1999, 3M donated to the 3M Foundation appreciated equity securities with a market value of $66 million, resulting in $8 million of pre-tax expense, which represented the company's cost of the securities. Debt Short-Term Debt Effective (Millions) Interest Rate* 2001 2000 U.S. dollar commercial paper 2.60% $ 731 $ 655 Non-U.S. dollar commercial paper 3.92% 145 -- 5.6523% dealer remarketable securities 5.65% 350 352 Long-term debt - current portion 8.94% 5 616 Long-term debt - current portion - ESOP debt guarantee 5.62% 32 30 Other borrowings 7.25% 110 213 Total short-term debt $1,373 $1,866 Long-Term Debt Currency/ Effective Fixed vs. Interest Maturity (Millions) Floating Rate* Date 2001 2000 U.S. dollar (USD) 6.375% note USD Fixed 6.38% 2028 $ 330 $ 330 ESOP debt guarantee USD Fixed 5.62% 2003-2009 271 303 4.25% medium-term note USD Floating 1.76% 2004 200 -- 4.90% medium-term note USD Floating 1.87% 2004 150 -- Japanese Yen (JPY) 1% Eurobond JPY Fixed 1.00% 2003 122 139 4.57% medium-term note USD Fixed 4.57% 2003 100 -- Dec. 2041 floating rate note USD Floating 1.67% 2041 100 -- Sumitomo 3M Limited 0.795% note JPY Fixed 0.80% 2003 76 87 Other borrowings Various 2.25% 2003-2040 171 112 Total long-term debt $1,520 $ 971 Weighted-Average Effective Interest Rate* Total Excluding ESOP debt At December 31 2001 2000 2001 2000 Short-Term 3.98% 6.29% 3.94% 6.30% Long-Term 3.60% 4.84% 3.15% 4.48% *Reflects the effects of interest rate and currency swaps at December 31. In December 2001, the company's dealer remarketable securities were remarketed for one year. They were reissued with a fixed coupon rate of 5.6523 percent. The remarketable securities can be remarketed annually, at the option of the dealer, for a year each time, with a final maturity date of December 2010. 48 In October 2000, the company filed a shelf registration with the Securities and Exchange Commission relating to the potential offering of debt securities of up to $1.5 billion. After the shelf registration became effective, the company in May 2001 established under the shelf a medium-term notes program through which up to $1.4 billion of medium-term notes may be offered. As of December 31, 2001, $550 million of medium-term notes had been issued under the medium term note program and another $56 million of debt securities had been issued directly from the shelf, aggregating $606 million debt securities offered for 2001 under the shelf. The ESOP debt is serviced by dividends on stock held by the ESOP and by company contributions. These contributions are not reported as interest expense, but are reported as an employee benefit expense in the Consolidated Statement of Income. Other borrowings includes debt held by 3M's international companies, and floating rate notes and industrial bond issues in the United States, with the long-term portion of this debt primarily comprised of U.S. Dollar floating rate debt. Maturities of long-term debt for the next five years are: 2002, $37 million; 2003, $331 million; 2004, $385 million; 2005, $37 million; and 2006, $39 million. At year-end 2001, available short-term lines of credit totaled about $658 million, of which $59 million was outstanding. An additional letter of credit of $266 million is dedicated to the reacquisition of 3M Inter-Unitek shares issued in connection with the ESPE Dental AG business combination, with the shares subject to put options exercisable by former shareholders of ESPE Dental AG from the date of acquisition until January 10, 2003. The company also has uncommitted lines of credit totaling $125 million. Debt covenants do not restrict the payment of dividends. Other Financial Instruments Foreign Currency Forward and Option Contracts: The company enters into foreign exchange forward contracts, options and swaps to hedge against the effect of exchange rate fluctuations on cash flows denominated in foreign currencies and certain intercompany financing transactions. These transactions are designated as cash flow hedges. At December 31, 2001, the company had various open foreign exchange forward and option contracts, the majority of which had maturities of one year or less. The amounts at risk are not material because the company has the ability to generate offsetting foreign currency cash flows. For foreign currency cash flow hedges, the net realized gain recorded in cost of sales for the year 2001 totaled $37 million, with the impact largely offset by underlying hedged items. The settlement or extension of these derivatives will result in reclassifications to earnings in the period during which the hedged transactions affect earnings (from other comprehensive income). If exchange rates are unchanged within the next 12 months, the company expects to reclassify to after-tax earnings a majority of the $17 million of unrealized net gains included in cash flow hedging instruments within other comprehensive income at December 31, 2001, with the impact largely offset by underlying hedged items. The maximum length of time over which 3M is hedging its exposure to the variability in future cash flows for a majority of the forecasted transactions, excluding those forecasted transactions related to the payment of variable interest on existing financial instruments, is 12 months. No foreign currency cash-flow hedges were discontinued during 2001. Hedge ineffectiveness was not material for the year 2001. 49 Interest Rate & Currency 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 company uses interest rate and currency swaps to manage interest rate risk related to borrowings. At December 31, 2001, the company had interest rate swaps with a fair value of $7 million designated as fair value hedges of underlying fixed rate obligations. 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 on the underlying debt instrument that is also recorded in interest expense. All existing fair value hedges are 100 percent effective and thus, there is no impact to earnings due to hedge ineffectiveness. From time to time, the company also uses cross-currency interest rate swaps to hedge foreign currency and interest rates. There were no cross-currency interest rate swaps outstanding at December 31, 2001. Net Investment Hedging: From time to time, the company uses foreign currency debt and forwards to hedge portions of the company's net investments in foreign operations. For hedges that meet the effectiveness requirements, the net gains or losses are recorded in cumulative translation within other comprehensive income, with any ineffectiveness recorded in cost of sales. In 2001, an unrealized after-tax gain of $23 million was recorded in cumulative translation. Hedge ineffectiveness resulted in after-tax realized gains totaling $4 million in 2001. Commodity Price Management: The company manages commodity price risks through negotiated supply contracts, price protection swaps and forward physical contracts. The company uses commodity price swaps as cash flow hedges of forecasted transactions to manage price volatility. The related mark-to- market gain or loss on qualifying hedges is included in other comprehensive income to the extent effective (typically 100 percent effective), and reclassified into cost of sales in the period during which the hedged transaction affects earnings. For total year 2001, an unrealized after-tax loss of $8 million was recorded in cash flow hedging instruments within other comprehensive income, with the majority expected to be reclassified to earnings beyond 12 months and expected to be largely offset by underlying hedged items. 3M has hedged its exposure to the variability of future cash flows for certain forecasted transactions through 2005. No commodity cash flow hedges were discontinued during the 12 months ended December 31, 2001. Credit risk: The company is exposed to credit loss in the event of nonperformance by counterparties in interest rate swaps, currency swaps, and option and foreign exchange contracts. However, the company's risk is limited to the fair value of the instruments. The company actively monitors its exposure to credit risk through the use of credit approvals and credit limits, and by selecting major international banks and financial institutions as counterparties. The company does not anticipate nonperformance by any of these counterparties. 50 Fair value of financial instruments: At December 31, 2001 and 2000, the company's financial instruments included cash and cash equivalents, accounts receivable, investments, accounts payable, borrowing, and derivative contracts. The fair values of cash and cash equivalents, accounts receivable, accounts payable, and short-term debt (except the $350 million dealer remarketable security) approximated carrying values because of the short-term nature of these instruments. Available-for-sale investments and year-end 2001 derivative contracts are reported at fair values. Fair values for investments held at cost are not readily available, but are believed to approximate fair value. The carrying amounts and estimated fair values of other financial instruments based on third-party quotes follow. Financial Instruments Carrying Amounts and Estimated Fair Values December 31, 2001 December 31, 2000 Carrying Fair Carrying Fair (Millions) Amount Value Amount Value Short-term debt - dealer remarketable securities $ 350 $ 366 $352 $362 Long-term debt 1,520 1,494 971 950 51 Income Taxes At December 31, 2001, about $3.3 billion of retained earnings attributable to international companies were considered to be indefinitely invested. No provision has been made for taxes that might be payable if these earnings were remitted to the United States. It is not practical to determine the amount of incremental taxes that might arise were these earnings to be remitted. In 2000, the company recorded a cumulative effect of accounting change, reducing earnings by $75 million net of tax. The provision for income taxes excludes a $42 million tax benefit related to this cumulative effect. Income before Income Taxes, Minority Interest and Cumulative Effect of Accounting Change (Millions) 2001 2000 1999 United States $1,368 $1,798 $2,020 International 818 1,176 860 Total $2,186 $2,974 $2,880 Provision for Income Taxes (Millions) 2001 2000 1999 Currently payable Federal $ 376 $ 471 $ 543 State 47 64 72 International 278 401 322 Deferred Federal (7) 92 100 State 6 7 9 International 2 (10) (14) Total $ 702 $1,025 $1,032 Components of Deferred Tax Assets and Liabilities (Millions) 2001 2000 Accruals currently not deductible Employee benefit costs $225 $278 Product and other claims 173 170 Severance and other restructuring costs 73 -- Product and other insurance receivables (286) (308) Accelerated depreciation (464) (436) Other 236 221 Net deferred tax asset (liability) $(43) $(75) Reconciliation of Effective Income Tax Rate 2001 2000 1999 Statutory U.S. tax rate 35.0% 35.0% 35.0% State income taxes - net of federal benefit 1.6 1.6 1.8 International income taxes - net (.7) (.8) .2 Tax benefit of foreign sales corporation (2.2) (.9) (.9) All other - net (1.6) (.4) (.3) Effective worldwide tax rate 32.1% 34.5% 35.8% 52 Business Segments 3M's businesses are organized, managed and internally reported as six operating segments based on differences in products, technologies and services. These segments are Transportation, Graphics and Safety; Health Care; Industrial; Consumer and Office; Electro and Communications; and Specialty Material. These segments have worldwide responsibility for virtually all of the company's product lines. 3M is not dependent on any single product or market. Transactions among reportable segments are recorded at cost. 3M is an integrated enterprise characterized by substantial intersegment cooperation, cost allocations and inventory transfers. Therefore, management does not represent that these segments, if operated independently, would report the operating income and other financial information shown. The allocations resulting from the shared utilization of assets are not necessarily indicative of the underlying activity for segment assets, depreciation and amortization, and capital expenditures. Operating income in 2001 included non-recurring charges of $504 million. Non- recurring charges, principally related to the company's restructuring plan, totaled $569 million (recorded in Corporate and Unallocated). Acquisition- related costs totaled $23 million ($10 million recorded in Health Care; $7 million in Transportation, Graphics and Safety; and $6 million in Electro and Communications). Additional items recorded in Corporate and Unallocated included a reversal of a 1999 litigation accrual of $73 million, and a gain of $15 million related to the net impact of the sale and write-down of available- for-sale equity securities. Depreciation and amortization of $1.089 billion included accelerated depreciation (shortened lives) related to the restructuring of $80 million (recorded in Corporate and Unallocated). Operating income in 2000 included a non-recurring net loss of $23 million. Non-recurring costs included $168 million in the Specialty Material segment related to the company's phase-out of perfluorooctanyl-based chemistry products. This $168 million included $56 million of accelerated depreciation (included in the Specialty Material segment depreciation and amortization), $48 million of impairment losses, and severance and other costs. Other non-recurring costs included a $20 million write-down of corporate and unallocated assets, and $20 million of other non-recurring expenses ($13 million related to acquisitions in the Electro and Communications segment). Non-recurring operating income gains in 2000 of $135 million were largely related to corporate and unallocated asset dispositions, principally the sale of available-for-sale equity securities. Operating income in 2000 also included a $50 million gain from the termination of a product distribution agreement in the Health Care segment. Operating income in 1999 included a non-recurring net gain of $100 million. This related to divestitures of certain health care businesses and Eastern Heights Bank, litigation expense, an investment valuation adjustment, and a change in estimate that reduced 1998 restructuring charges. Of this $100 million net gain, $62 million was recorded in Health Care and $38 million in Corporate and Unallocated. 53 Business segments (continued): Business Segment Products Business Segment Major Products Transportation, Graphics Reflective sheeting, commercial graphics and Safety systems, respirators, automotive components, safety and security products, and optical films Health Care Medical and surgical supplies, skin health and infection prevention products, pharmaceuticals, drug delivery systems, dental and orthondontic products, health information systems, microbiology products, and closures for disposable diapers Industrial Tapes, coated and nonwoven abrasives, and specialty adhesives Consumer and Office Sponges, scouring pads, high performance cloths, consumer and office tapes, repositionable notes, carpet and fabric protectors, energy control products, home improvement products, floor matting and commercial cleaning products, and visual systems Electro and Communications Packaging and interconnection devices, insulating and splicing solutions for the electronics, telecommunications and electrical industries Specialty Material Specialty materials for automotive, electronics, telecommunications, textile and other industries, and roofing granules 54 Business segments (continued): Business

Segment Information Depr. Capital Net Operating and Expendi- (Millions) Sales Income Assets** Amort. tures Transportation, 2001 $ 3,526 $ 695 $ 2,621 $ 238 $ 208 Graphics and Safety 2000 3,518 783 2,741 186 239 1999 3,234 675 2,673 140 199 Health Care 2001 3,419 760 2,264 193 179 2000 3,135 675 2,025 188 189 1999 3,138 680 2,076 203 189 Industrial 2001 3,199 518 2,134 185 191 2000 3,525 641 2,392 213 214 1999 3,409 612 2,357 220 202 Consumer and Office 2001 2,724 447 1,514 121 106 2000 2,848 434 1,711 101 134 1999 2,705 401 1,589 118 123 Electro and 2001 2,171 218 1,807 157 132 Communications 2000 2,467 404 1,961 158 208 1999 2,017 402 1,359 130 194 Specialty Material 2001 1,022 141 1,208 97 136 2000 1,197 57 1,230 144 131 1999 1,194 185 1,323 79 143 Corporate and 2001 18 (506) 3,058 98 28 Unallocated* 2000 34 64 2,462 35 -- 1999 51 1 2,519 10 -- Total Company 2001 $16,079 $2,273 $14,606 $1,089 $ 980 2000 16,724 3,058 14,522 1,025 1,115 1999 15,748 2,956 13,896 900 1,050 *Corporate and Unallocated operating income principally includes corporate investment gains and losses, certain derivative gains and losses, insurance- related gains and losses, banking operating results (divested June 30, 1999), certain litigation expenses, restructuring charges and other miscellaneous items. Because this category includes a variety of miscellaneous items, it is subject to fluctuation on a quarterly and annual basis. **Segment assets primarily include accounts receivable; inventory; property, plant and equipment - net; and other miscellaneous assets. Assets included in Corporate and Unallocated principally are cash and cash equivalents; insurance receivables; deferred income taxes; certain investments and other assets; and certain unallocated property, plant and equipment. 55 Geographic Areas Information in the table below is presented on the basis the company uses to manage its businesses. Export sales and certain income and expense items are reported within the geographic area where the final sales to customers are made. Prior year amounts have been retroactively restated to conform to the current-year presentation. In 2001, operating income for eliminations and other includes non-recurring net losses totaling $504 million, primarily related to the restructuring. Also included were a reversal of a 1999 litigation accrual, acquisition related costs, and a net gain on the sale and write-down of available-for-sale equity securities. In 1999, operating income for eliminations and other includes a $100 million non-recurring net benefit related to gains on divestitures, litigation expense, an investment valuation adjustment, and a change in estimate that reduced 1998 restructuring charges. Geographic Area Information Latin Europe America, Elimina- and Africa tions United Middle Asia and and Total (Millions) States East Pacific Canada Other Company Net sales to 2001 $7,546 $3,960 $3,043 $1,496 $ 34 $16,079 customers 2000 7,858 3,946 3,329 1,564 27 16,724 1999 7,559 3,808 2,887 1,467 27 15,748 Operating 2001 $1,028 $ 571 $ 807 $ 360 $ (493) $ 2,273 Income 2000 1,160 589 961 376 (28) 3,058 1999 1,198 574 768 348 68 2,956 Property, 2001 $3,675 $ 974 $ 634 $ 332 $ -- $ 5,615 plant and 2000 3,699 1,046 711 367 -- 5,823 equipment - 1999 3,647 1,017 757 355 -- 5,776 net Pension and Postretirement Benefit Plans 3M has various company-sponsored retirement plans covering substantially all U.S. employees and many employees outside the United States. Pension benefits are based principally on an employee's years of service and compensation near retirement. In addition to providing pension benefits, the company provides certain postretirement health care and life insurance benefits for substantially all of its U.S. employees who reach retirement age while employed by the company. Most international employees and retirees are covered by government health care programs. The cost of company-provided health care plans for these international employees is not material. The company's pension funding policy is to deposit with independent trustees amounts at least equal to accrued liabilities, to the extent allowed by law. Trust funds and deposits with insurance companies are maintained to provide pension benefits to plan participants and their beneficiaries. In addition, the company has set aside funds for its U.S. postretirement plan with an independent trustee and makes periodic contributions to the plan. During 2001, the company adopted a change in the measurement date of its U.S. employee benefit plans (qualified and nonqualified pension benefit plans and its U.S. postretirement benefit plan) from December 31 to September 30. Information presented in the tables for 2001 reflects a measurement date of September 30, 2001, and December 31 for prior periods. This change did not have a material impact on the determination of periodic pension cost or pension obligations. Management believes this change is preferable to the method previously employed, as it facilitates the benefit cost planning and forecasting process. 56 The company's U.S. non-qualified pension plan had an unfunded accumulated benefit obligation of $196 million at September 30, 2001, and $187 million at December 31, 2000. There are no plan assets in the non-qualified plan due to its nature. Certain international pension plans were underfunded as of year-end 2001 and 2000. The accumulated benefit obligations of these plans were $534 million in 2001 and $499 million in 2000. The assets of these plans were $287 million in 2001 and $300 million in 2000. The net underfunded amounts are included in current and other liabilities on the Consolidated Balance Sheet. Benefit Plan Information Qualified and Non-qualified Postretirement Pension Benefits Benefits United States International (Millions) 2001

2000 2001 2000 2001 2000 Reconciliation of benefit obligation Beginning balance $5,905 $5,597 $2,368 $2,234 $1,166 $1,016 Service cost 123 125 91 83 39 39 Interest cost 449 416 118 98 90 82 Participant contributions - - 8 6 10 11 Foreign exchange rate changes - - 23 (199) - - Plan amendments 1 1 7 - 1 - Actuarial(gain)loss 305 117 (90) 199 74 109 Benefit payments (279) (351) (75) (53) (76) (91) Settlements, curtailments, special termination benefits 49 - (5) - - - Ending balance $6,553 $5,905 $2,445 $2,368 $1,304 $1,166 Reconciliation of plan assets at fair value Beginning balance $6,954 $6,813 $2,011 $2,155 $ 601 $ 537 Actual return on plan assets (726) 384 (99) 5 (117) 4 Company contributions 104 90 53 60 135 139 Participant contributions - - 8 6 10 11 Foreign exchange rate changes - - 60 (157) - - Benefit payments (279) (333) (73) (58) (75) (90) Settlements, curtailments - - (5) - - - Ending balance $6,053 $6,954 $1,955 $2,011 $ 554 $ 601 Funded status of plans Plan assets at fair value less benefit obligation $ (500) $1,049 $ (490) $ (357) $ (750) $ (565) Unrecognized transition (asset) obligation - - - 16 - - Unrecognized prior service cost 117 129 32 25 (15) (26) Unrecognized (gain) loss 643 (1,012) 459 311 406 160 Fourth quarter contribution 3 - - - 89 - Net amount recognized $ 263 $ 166 $ 1 $ (5) $ (270) $ (431) Amounts recognized in the Consolidated Balance Sheet consist of: Prepaid assets $ 424 $ 319 $ 102 $ 80 - - Accrued liabilities (196) (187) (277) (229) $ (270) $ (431) Intangible assets 5 5 6 8 - - Accumulated other comprehensive income - pre-tax 30 29 170 136 - - Net amount recognized $ 263 $ 166 $ 1 $ (5) $ (270) $ (431) 57 Benefit Plan Information Qualified and Non-qualified Postretirement Pension Benefits Benefits United States International (Millions) 2001 2000 1999 2001 2000 1999 2001 2000 1999 Components of net periodic benefit cost Service cost $123 $125 $150 $ 91 $ 83 $ 88 $ 39 $ 39 $ 42 Interest cost 449 416 387 118 98 98 90 82 69 Expected return on assets (615) (565) (501) (142) (117) (108) (53) (47) (34) Amortization of transition (asset)obligation - - (37) 1 2 2 - - - Amortization of prior service cost or benefit 13 13 45 8 8 8 (11) (11) (11) Recognized net actuarial (gain) loss (9) (14) 14 11 7 2 10 3 - Net periodic benefit cost $(39) $(25) $ 58 $ 87 $ 81 $ 90 $ 75 $ 66 $ 66 Curtailment, settlements and special termination benefits 49 - - 1 - - 12 - - Net periodic benefit cost after curtailments and settlements $ 10 $(25) $ 58 $ 88 $ 81 $ 90 $ 87 $ 66 $ 66 Weighted average assumptions Discount rate 7.25% 7.50% 7.50% 5.23% 5.40% 5.67% 7.25% 7.50% 7.50% Expected return on assets 9.00% 9.00% 9.00% 7.42% 7.14% 6.69% 9.50% 8.19% 8.19% Compensation rate increase 4.60% 4.65% 4.65% 4.02% 4.28% 4.12% 4.60% 4.65% 4.65% The company expects its health care cost trend rate for postretirement benefits to slow from 8.5 percent in 2002 to 5.0 percent in 2006, after which the rate is expected to stabilize. A one-percentage point change in the assumed health care cost trend rates would have the effects shown in the following table. Health Care Cost One Percentage One Percentage (Millions) Point Increase Point Decrease Effect on current year's service and interest cost $ 16 $(13) Effect on benefit obligation 132 (113) Leases Rental expense under operating leases was $119 million in both 2001 and 2000, and $113 million in 1999. The table below shows minimum payments under operating leases with non-cancelable terms in excess of one year, as of December 31, 2001. After (Millions) 2002 2003 2004 2005 2006 2006 Total Minimum lease payments $79 $75 $40 $28 $20 $97 $339 58 Employee Savings and Stock Ownership Plans The company sponsors employee savings plans under Section 401(k) of the Internal Revenue Code. These plans are offered to substantially all regular U.S. employees. Employee contributions of up to 6 percent of compensation are matched at rates ranging from 25 to 50 percent, with additional company contributions depending upon company performance. Only the company match is invested in 3M stock, with employee funds invested in a number of investment options. Vested employees may sell up to 50 percent of their 3M shares and diversify into other investment options. The company maintains an Employee Stock Ownership Plan (ESOP). This plan was established in 1989 as a cost-effective way of funding the majority of the company's contributions under 401(k) employee savings plans. Total ESOP shares are considered to be shares outstanding for earnings per share calculations. Dividends on shares held by the ESOP are paid to the ESOP trust and, together with company contributions, are used by the ESOP to repay principal and interest on the outstanding notes. Over the life of the notes, shares are released for allocation to participants based on the ratio of the current year's debt service to the remaining debt service prior to the current payment. The ESOP has been the primary funding source for the company's employee savings plans. Expenses related to the ESOP include total debt service on the notes, less dividends. The company contributes treasury shares, accounted for at fair value, to employee savings plans to cover obligations not funded by the ESOP. These amounts are reported as an employee benefit expense. Unearned compensation, shown as a reduction of stockholders' equity, is reduced symmetrically as the ESOP makes principal payments on the debt. Employee Savings and Stock Ownership Plans (Millions) 2001 2000 1999 Dividends on shares held by the ESOP $ 31 $ 31 $ 31 Company contributions to the ESOP 17 15 7 Interest incurred on ESOP notes 18 19 21 Expenses related to ESOP debt service 14 12 14 Expenses related to treasury shares 3 35 50 ESOP Debt Shares 2001 2000 1999

Allocated 7,241,681 6,898,666 6,596,898 Committed to be released 49,135 194,187 280,615 Unreleased 5,549,275 6,116,961 6,709,549 Total ESOP debt shares 12,840,091 13,209,814 13,587,062 59 General Employees' Stock Purchase Plan In May 1997, shareholders approved 15 million shares for issuance under the company's General Employees' Stock Purchase Plan (GESPP). Substantially all employees are eligible to participate in the plan. Participants are granted options at 85 percent of market value at the date of grant. There are no GESPP shares under option at the beginning or end of each year because options are granted on the first business day and exercised on the last business day of the same month. General Employees' 2001 2000 1999 Stock Purchase Plan Exercise Exercise Exercise Shares Price* Shares Price* Shares Price* Options granted 998,276 $93.85 1,206,262 $77.40 1,210,189 $72.25 Options exercised (998,276) 93.85 (1,206,262) 77.40 (1,210,189) 72.25 Shares available for grant - Dec. 31 9,565,450 10,563,726 11,769,988 *Weighted average The weighted average fair value per option granted during 2001, 2000 and 1999 was $16.56, $13.65 and $12.75, respectively. The fair value of GESPP options was based on the 15 percent purchase discount. Management Stock Ownership Program In May 1997, shareholders approved 35 million shares for issuance under the Management Stock Ownership Program (MSOP). Management stock options are granted at market value at the date of grant. These options generally are exercisable one year after the date of grant and expire 10 years from the date of grant. Thus, outstanding shares under option include grants from previous plans. In May 2001, at the time of the last major grant, there were 11,784 participants in the plan. Management Stock 2001 2000 1999 Ownership Program Exercise Exercise Exercise Shares Price* Shares Price* Shares Price* Under option- Jan. 1 32,347,256 $79.34 30,702,415 $74.67 29,330,549 $67.72 Granted Annual 6,541,299 117.25 6,040,196 88.33 5,194,766 95.00 Progressive (Reload) 671,285 115.45 572,511 98.33 502,567 87.33 Exercised (4,826,135) 71.41 (4,684,779) 62.19 (4,201,886) 52.50 Canceled (183,517) 117.24 (283,087) 86.77 (123,581) 93.35 Dec. 31 34,550,188 $88.12 32,347,256 $79.34 30,702,415 $74.67 Options exercisable- Dec. 31 27,536,534 $80.98 26,159,345 $77.02 25,213,683 $70.27 Shares available for grant - Dec. 31 4,501,427 11,738,624 18,088,285 *Weighted average 60 Management Stock Ownership Program (continued) MSOP Options Outstanding and Exercisable at December 31, 2001 Options Outstanding Options Exercisable Range of Remaining Exercise Contractual Exercise Exercise Prices Shares Life (months)* Price* Shares Price* $46.01-63.10 8,397,652 42 $55.97 8,397,652 $55.97 80.24-96.87 18,638,304 87 91.59 18,638,304 91.59 103.05-122.90 7,514,232 117 115.79 500,578 110.78 *Weighted average For annual and progressive (reload) options the weighted average fair value at date of grant was calculated utilizing the Black-Scholes option-pricing model and the assumptions that follow. Annual Progressive (Reload) MSOP Assumptions 2001 2000 1999 2001 2000 1999 Exercise price $117.25 $88.33 $95.00 $115.45 $98.33 $87.33 Risk-free interest rate 4.8% 6.7% 5.4% 3.8% 6.3% 5.4% Dividend growth rate 4.6% 4.3% 5.0% 4.6% 4.3% 5.0% Volatility 24.1% 22.3% 22.3% 23.7% 25.4% 28.8% Expected life (months) 67 68 66 28 28 26 Black-Scholes fair value $ 29.41 $22.45 $22.86 $ 17.62 $17.18 $16.00 The MSOP options, if exercised, would have had the following dilutive effect on shares outstanding for the year ended 2001, 2000 and 1999, respectively: 5.6 million, 4.2 million and 4.5 million shares. Certain MSOP average options outstanding during the years 2001, 2000 and 1999 (4.2, 11.5 and 8.7 million shares, respectively) were not included in the computation of diluted earnings per share because they would not have had a dilutive effect. Stock-Based Compensation Generally no compensation cost is recognized for either the General Employees' Stock Purchase Plan (GESPP) or the Management Stock Ownership Program (MSOP). Pro forma amounts based on the options' estimated fair value, net of tax, at the grant dates for awards under the GESPP and MSOP are presented below. Pro forma Net Income and Earnings Per Share (Millions) 2001 2000 1999 Net income As reported $1,430 $1,782 $1,763 Pro forma 1,278 1,668 1,652 Earnings per share - basic As reported $ 3.63 $ 4.50 $ 4.39 Pro forma 3.24 4.22 4.11 Earnings per share - diluted As reported $ 3.58 $ 4.45 $ 4.34 Pro forma 3.20 4.17 4.06 61 Legal Proceedings - Discussion of legal matters is incorporated by reference from the subcaption "General" under Legal Proceedings, Part I, Item 3, of this Annual Report on Form 10-K, and should be considered an integral part of the Consolidated Financial Statements and Notes. Quarterly Data (Unaudited) (Millions, except per-share amounts) First Second Third Fourth Year Net sales 2001 $ 4,170 $ 4,079 $ 3,967 $ 3,863 $16,079 2000 4,075 4,243 4,270 4,136 16,724 Cost of sales* 2001 $ 2,196 $ 2,266 $ 2,156 $ 2,131 $ 8,749 2000 2,091 2,181 2,295 2,220 8,787 Income before cumulative effect of accounting change* 2001 $ 453 $ 202 $ 394 $ 381 $ 1,430 2000 487 470 499 401 1,857 Net income* 2001 $ 453 $ 202 $ 394 $ 381 $ 1,430 2000 487 470 499 326 1,782 Basic earnings per share - income before cumulative effect* 2001 $ 1.14 $ .51 $ 1.00 $ .97 $ 3.63 2000 1.22 1.19 1.26 1.02 4.69 Basic earnings per share - net income* 2001 $ 1.14 $ .51 $ 1.00 $ .97 $ 3.63 2000 1.22 1.19 1.26 .83 4.50 Diluted earnings per share - income before cumulative effect* 2001 $ 1.13 $ .50 $ .99 $ .96 $ 3.58 2000 1.21 1.18 1.25 1.00

4.64 Diluted earnings per share - net income* 2001 $ 1.13 $ .50 $ .99 $ .96 $ 3.58 2000 1.21 1.18 1.25 .82 4.45 Stock price comparisons (NYSE composite transactions) 2001 High $121.50 $127.00 $117.50 $121.90 $127.00 2001 Low 98.50 97.16 85.86 95.20 85.86 2000 High 103.81 98.31 97.44 122.94 122.94 2000 Low 78.19 80.44 80.50 83.94 78.19 62 Quarterly Data (continued) (Unaudited) *The impact of non-recurring items in 2001 and 2000 by quarter are as follows: Non-recurring items (Millions, except per-share amounts) 2001 First Second Third Fourth Year Cost of sales $ 23 $141 $ 47 $ 61 $ 272 Selling, general and administrative expenses -- 242 16 42 300 Research, development and related expenses -- 14 6 -- 20 Other expense (income) -- -- -- (88) (88) Operating income (loss) $ (23) $(397) $ (69) $ (15) $(504) Net income (loss) $ (14) $(249) $ (43) $ (6) $(312) Diluted earnings (loss) per share $(.03) $(.62) $(.11) $(.02) $(.78) Operating income (loss) detail: Acquisition-related $ (23) $ -- $ -- $ -- $ (23) Restructuring-related -- (397) (69) (103) (569) Reversal of a 1999 litigation accrual -- -- -- 73 73 Net gain on sale of equity securities, net of equity securities write-down -- -- -- 15 15 Non-recurring items (Millions, except per-share amounts) 2000 First Second Third Fourth Year Cost of sales $ -- $ -- $118 $ 90 $ 208 Other expense (income) (50) -- (119) (16) (185) Operating income (loss) $ 50 -- $ 1 $ (74) $ (23) Cumulative effect of accounting change (loss) $ -- $ -- $ -- $ (75) $ (75) Net income (loss) $ 31 $ -- $ -- $(121) $ (90) Diluted earnings (loss) per share $.08 $ -- $ -- $(.30) $(.23) Operating income (loss) detail: Gain from termination of distribution agreement $ 50 -- -- -- $ 50 Phase out of certain products -- -- (106) (62) (168) Gain on sale of equity securities and other -- -- 107 (12) 95 63 Item 9. Changes in and Disagreements With Accountants on Accounting and Financial Disclosure. None. PART III Item 10. Directors and Executive Officers of the Registrant. The information relating to directors and nominees of 3M is set forth under the caption "Proposal No. 1 - Election of Directors" in 3M's proxy statement for its 2002 annual meeting of stockholders ("3M Proxy Statement") and is incorporated by reference herein. Information about executive officers is included in Item 1 of this Annual Report on Form 10-K. Item 11. Executive Compensation. The information relating to executive compensation is set forth under the captions "Summary Compensation Table," "Option Grants in Last Fiscal Year," "Option Exercises and Year-End Option Values," "Long-Term Incentive Plan Awards," "Employment Contract, Termination of Employment and Change-in-Control Arrangements," "Retirement Benefits," and "Directors' Compensation" in 3M's Proxy Statement and such information is incorporated by reference herein. Item 12. Security Ownership of Certain Beneficial Owners and Management. The information relating to security ownership of certain beneficial owners and management is set forth under the caption "Beneficial Ownership Table" in 3M's Proxy Statement and such information is incorporated by reference herein. Item 13. Certain Relationships and Related Transactions. No matters require disclosure here. The registrant will file with the Commission a definitive proxy statement pursuant to Regulation 14A by April 30, 2002. 64 PART IV Item 14. Exhibits, Financial Statement Schedules, and Reports on Form 8-K. (a) The consolidated financial statements filed as part of this report are listed in the index to financial statements on page 31. All financial statement schedules are omitted because of the absence of the conditions under which they are required or because the required information is included in the consolidated financial statements or the notes thereto. (b) Reports on Form 8-K: 3M filed one Form 8-K on March 5, 2002, and one Form 8-K for the quarter ended December 31, 2001. The Form 8-K dated March 5, 2002, provided the opinion and consent of general counsel in connection with the offering of $400 million in medium-term notes due in the year 2005. The Form 8-K dated November 19, 2001, provided the opinion and consent of general counsel in connection with the offering of certain debt securities due in the year 2041. (c) Exhibits: Incorporated by Reference: Incorporated by Reference in the Report From (3.1) Certificate of incorporation, Form 8-K dated as amended as of May 9, 2000. July 27, 2000. (3.2) Bylaws, as amended as of November 11, 1996. Form 8-K dated November 20, 1996. 65 (c) Exhibits (continued): Incorporated by Reference: Incorporated by Reference in the Report From (4) Instruments defining the rights of security holders, including debentures: (4.1) common stock. Registration No. 333-49830 on Form S-4/A filed on January 11, 2001. Registration No. 333-42660 on Form S-3/A filed on August 18, 2000. (4.2) debt securities. Form 8-K dated December 7, 2000 and Registration No. 333-48922 on Form S-3/A filed on January 12, 2001. (10) Material contracts, management remuneration: (10.1) management stock ownership program. Exhibit 4 of Registration No. 333-30689 on Form S-8 filed on July 2, 1997. (10.2) profit sharing plan, performance Written description contained unit plan and other compensation in issuer's proxy statement arrangements. for the 2002 annual shareholders' meeting. (10.3) director stock ownership program. Exhibit 4 of Registration Statement No. 333-44692 on Form S-8 filed on August 29, 2000. (10.4) deferred compensation obligations. Registration No. 333-73192 on Form S-8 filed on November 13, 2001. Reference (pages) Form 10-K Submitted herewith: (10) Employment agreement dated January 23, 2002 between Registrant and Patrick D. Campbell 67-72 (12) Calculation of ratio of earnings to fixed charges. 73

(21) Subsidiaries of the registrant. 74 (23) Consent of independent auditors. 75 (24) Power of attorney. 76 66 SIGNATURES Pursuant to the requirements of Section 13 of the Securities Exchange Act of l934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized. MINNESOTA MINING AND MANUFACTURING COMPANY By /s/ Patrick D. Campbell Patrick D. Campbell, Senior Vice President and Chief Financial Officer (Principal Financial Officer) March 11, 2002 Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities indicated on March 11, 2002. Signature Title W. James McNerney, Jr. Chairman of the Board and Chief Executive Officer (Principal Executive Officer and Director) Linda G. Alvarado Director Ronald O. Baukol Director Edward A. Brennan Director Edward M. Liddy Director Aulana L. Peters Director Ronald G. Nelson Vice President and Controller Rozanne L. Ridgway Director Kevin W. Sharer Director Frank Shrontz Director Louis W. Sullivan Director Patrick D. Campbell, by signing his name hereto, does hereby sign this document pursuant to powers of attorney duly executed by the other persons named, filed with the Securities and Exchange Commission on behalf of such other persons, all in the capacities and on the date stated, such persons constituting a majority of the directors of the company. By /s/ Patrick D. Campbell Patrick D. Campbell, Attorney-in-Fact