10-Q 1 q20310qmain.txt 10-Q 1 -- UNITED STATES SECURITIES AND EXCHANGE COMMISSION Washington, D.C. 20549 FORM 10-Q QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 For Quarter ended June 30, 2003 Commission file number: 1-3285 3M COMPANY State of Incorporation: Delaware I.R.S. Employer Identification No. 41-0417775 Executive offices: 3M Center, St. Paul, Minnesota 55144 Telephone number: (651) 733-1110 Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the Registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes X No ----- ----- Indicate by check mark whether the registrant is an accelerated filer (as defined in Rule 12b-2 of the Exchange Act). Yes X No ----- ----- On June 30, 2003, there were 391,503,430 shares of the registrant's common stock outstanding. This document contains 43 pages. The exhibit index is set forth on page 35. -- 2 3M Company and Subsidiaries PART I. FINANCIAL INFORMATION ITEM 1. FINANCIAL STATEMENTS 3M Company and Subsidiaries CONSOLIDATED STATEMENT OF INCOME (Unaudited)

-- -- Three months ended Six months ended (Amounts in millions, June 30 June 30 except per share amounts) 2003 2002 2003 2002 -- --

~~Net sales $4,580 $4,161 $8,898 $8,051 --~~

~~Operating expenses Cost of sales 2,323 2,231 4,534 4,267 Selling, general and administrative expenses 1,021 975 1,984 1,852 Research, development and related expenses 276 269 546 533 Other expense -- --~~

~~93 -- -------- -------------- -------------- -------------- -------------- -------- Total 3,620 3,475 7,157 6,652 - -------------- -------------- -------------- -------------- -------------- - Operating income 960 686 1,741 1,399 ------- -------------- -------------- -------------- -------------- --------- Interest expense and income Interest expense 24 20 47 39 Interest income (5) (9) (11) (18) -------------- -------------- -------------- -------------- -------------- -- Total 19 11 36 21 ---- -------------- -------------- -------------- -------------- ----------- Income before income taxes and minority interest 941 675 1,705 1,378 Provision for income taxes 310 210 558 437 Minority interest 12 (1) 26 23 ------- -------------- -------------- -------------- -------------- --------- Net~~

~~income $ 619 $ 466 $1,121 $ 918 ------- -------------- -------------- -------------- -------------- --------- Weighted average common shares outstanding - basic 390.9 390.0 390.5 390.0 Earnings per share - basic $ 1.58 $ 1.19 $ 2.87 $ 2.35 -------------- -------------- -------------- -------------- -------------- -- Weighted average common shares outstanding - diluted 396.2 396.1 395.7 395.7 Earnings per share - diluted $ 1.56 $ 1.18 $ 2.83 $ 2.32 -------------- -------------- -------------- -------------- -------------- -- Cash dividends paid per common share $ 0.66 $ 0.62 $ 1.32 $ 1.24 ------- -------------- -------------- -------------- -------------- --------- The accompanying Notes to Consolidated Financial Statements are an integral part of this~~

~~statement.~~

3 3M Company and Subsidiaries CONSOLIDATED BALANCE SHEET (Unaudited)

----------- Jun. 30 Dec. 31 (Dollars in millions, except per share amounts) 2003 2002 ---------------
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~~ASSETS Current assets Cash and cash equivalents $ 974 $ 618 Accounts receivable - net 2,771 2,527 Inventories Finished goods 1,039 1,011 Work in process 628 591 Raw materials and supplies 323 329 --- --------------------- --------------------- --------------------- --------- Total inventories 1,990 1,931 Other current assets 1,302 983 --- --------------------- --------------------- --------------------- --------- Total current assets 7,037 6,059 Investments 233 238 Property, plant and equipment 15,438 15,058 Less accumulated depreciation (9,883) (9,437) ------------ --------------------- --------------------- --------------------- Property, plant and equipment - net 5,555 5,621 Goodwill 2,259 1,898 Intangible assets 274 269 Other assets 1,208 1,244 -------------- --------------------- --------------------- ------------------- Total assets $16,566 $15,329 ----------- ---------------------~~

~~------------------------------------- - LIABILITIES Current liabilities Short-term debt $ 1,059 $ 1,237 Accounts payable 972 945 Payroll 438 411 Income taxes 813 518 Other current liabilities 1,545 1,346 -- Total current liabilities 4,827 4,457 Long-term debt 1,962 2,140 Other liabilities 2,822 2,739 -- Total liabilities 9,611 9,336 -- Commitments and contingencies STOCKHOLDERS' EQUITY Common stock, $.01 par value, 472,016,528 shares issued 5 5 Capital in excess of par value 291 291 Retained earnings 13,256 12,748 Treasury stock, at cost; 80,513,098 shares at Jun. 30, 2003; 81,820,847 shares at Dec. 31, 2002 (4,609) (4,767) Unearned compensation (244) (258) Accumulated other comprehensive income (loss) (1,744) (2,026) -- Total stockholders' equity 6,955 5,993 --~~

~~----- Total liabilities and stockholders' equity $16,566 $15,329 ----------- ------------------- ------------------- ------------------- - The accompanying Notes to Consolidated Financial Statements are an integral part of this statement.~~

4 3M Company and Subsidiaries CONSOLIDATED STATEMENT OF CASH FLOWS (Unaudited)

-------------- -------------- -------------- -------------- -------------- -- Six months ended June 30 (Dollars in millions) 2003 2002 -------- -------------- -------------- -------------- -------------- --------

~~CASH FLOWS FROM OPERATING ACTIVITIES Net income $1,121 $ 918 Adjustments to reconcile net income to net cash provided by operating activities Depreciation and amortization 475 496 Pension company contributions (53) (44) Deferred income tax provision (18) 20 Changes in assets and liabilities Accounts receivable (155) (204) Inventories 30~~

~~160 Other current assets (289) (48) Other assets - net of amortization 132 (14) Income taxes payable 336 135 Accounts payable and other current liabilities 218 30 Other liabilities 76 93 Other - net 17 54 -- Net cash provided by operating activities 1,890 1,596 --- CASH FLOWS FROM INVESTING ACTIVITIES Purchases of property, plant and equipment (264) (363) Proceeds from sale of property, plant and equipment 80 25 Acquisitions of businesses (424) -- Purchases of investments (10) (1) Proceeds from sale of investments 4 11 --~~

~~----- Net cash used in investing activities (614) (328) -- --- CASH FLOWS FROM FINANCING ACTIVITIES Change in short-term debt - net (328) (394) Repayment of debt (maturities greater than 90 days) (328) (417) Proceeds from debt (maturities greater than 90 days) 307 526 Purchases of treasury stock (280) (705) Reissuances of treasury stock 270 359 Dividends paid to stockholders (515) (483) Distributions to minority interests -- (58) Other - net (23) -- --- --- Net cash used in financing activities (897) (1,172) --- -- Effect of~~

~~exchange rate changes on cash (23) (47) --- Net increase in cash and cash equivalents 356 49 -- Cash and cash equivalents at beginning of year 618 616 --- Cash and cash equivalents at end of period \$ 974 \$ 665 --- The accompanying Notes to Consolidated Financial Statements are an integral part of this statement.~~

5 3M Company and Subsidiaries NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited) The interim consolidated financial statements are unaudited but, in the opinion of management, reflect all adjustments necessary for a fair presentation of the company's consolidated financial position, results of operations and cash flows for the periods presented. These adjustments consist of normal, recurring items. The results of operations for any interim period are not necessarily indicative of results for the full year. The interim consolidated financial statements and notes are presented as permitted by the requirements for Quarterly Reports on Form 10-Q. This Quarterly Report on Form 10-Q should be read in conjunction with the company's consolidated financial statements and notes included in its 2002 Annual Report on Form 10-K and its Current Report on Form 8-K dated May 23, 2003 (which updated 3M's 2002 Annual Report on Form 10-K). Part II, Item 1, Legal Proceedings, should also be read in conjunction with the company's Quarterly Report on Form 10-Q for the period ended March 31, 2003. RECLASSIFICATIONS Certain prior period Consolidated Statement of Cash Flows amounts within the "Net cash provided by operating activities" section have been reclassified to conform to the current year presentation. ACCOUNTING PRONOUNCEMENTS In November 2002, the FASB issued FASB Interpretation No. 45, "Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others." This interpretation elaborates on the disclosures to be made by a guarantor in its interim and annual financial statements concerning its obligations under certain guarantees that it has issued. It also clarifies (for guarantees issued after January 1, 2003), that a guarantor is required to recognize, at the inception of a guarantee, a liability for the fair value of the obligations undertaken in issuing the guarantee. For the six month period ended June 30, 2003, 3M did not have any significant guarantees. In December 2002, the FASB issued SFAS No. 148, "Accounting for Stock- Based Compensation-Transition and Disclosure. An

amendment of FASB Statement No. 123." The company is choosing to continue with its current practice of applying the recognition and measurement principles of APB No. 25, "Accounting for Stock Issued to Employees." The company has adopted the disclosure requirements of SFAS No. 148. Pro forma amounts based on the options' estimated fair value, net of tax, at the grant dates for awards under the General Employees' Stock Purchase Plan and Management Stock Ownership Program for the three and six month periods ended June 30, 2003 and 2002, follow. 6 -- STOCK-BASED COMPENSATION PRO FORMA NET INCOME AND EARNINGS PER SHARE ---

Three months ended Six months ended (Dollars in millions, June 30 June 30 except per share amounts) 2003 2002 2003 2002 -- - Net income, as reported $ 619 $ 466 $1,121 $ 918 Add: Stock-based compensation expense included in net income, net of related tax effects -- -- 1 1 Deduct: Total stock-based compensation expense determined under fair value, net of related tax effects (31) (30) (68) (73) Pro forma net income $ 588 $ 436 $1,054 $ 846 -- Earnings per share - basic As reported

~~$ 1.58 $ 1.19 $ 2.87 $ 2.35 Pro forma 1.50 1.12 2.70 2.17 Earnings per share - diluted As reported $ 1.56 $ 1.18 $ 2.83 $ 2.32 Pro forma 1.48 1.10 2.66 2.14 --~~

Effective January 1, 2003, the company adopted Statement of Financial Accounting Standards (SFAS) No. 143, "Accounting for Asset Retirement Obligations," which was issued by the Financial Accounting Standards Board (FASB). This statement establishes accounting standards for recognition and measurement of a liability for an asset retirement obligation and the associated asset retirement cost. The adoption of this standard did not impact 3M's consolidated financial position or results of operations. In January 2003, the FASB issued FASB Interpretation No. 46, "Consolidation of Variable Interest Entities." This interpretation addresses the requirements for business enterprises to consolidate related entities in which they are determined to be the primary economic beneficiary as a result of their variable economic interests. The interpretation is intended to provide guidance in judging multiple economic interests in an entity and in determining the primary beneficiary. The interpretation outlines disclosure requirements for Variable Interest Entities (VIEs) in existence prior to January 31, 2003, and outlines consolidation requirements for VIEs created after January 31, 2003. The company has reviewed its major commercial relationships and its overall economic interests with other companies consisting of related parties, contracted manufacturing vendors, companies in which it has an equity position, and other suppliers to determine the extent of its variable economic interest in these parties. As a result of this review, 3M determined that no material entities are Variable Interest Entities of 3M and it is not a primary economic beneficiary of any Variable Interest Entity. In April 2003, the FASB issued SFAS No. 149, "Amendment of Statement 133 on Derivative Instruments and Hedging Activities." This statement amends and clarifies financial accounting and reporting for derivative 7 instruments, including certain derivative instruments embedded in other contracts and for hedging activities under SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities." SFAS No. 149 is effective for certain contracts entered into or modified after June 30, 2003 and for hedging relationships designated after June 30, 2003. This standard is not expected to materially impact 3M's consolidated financial position or results of operations. In May 2003, the FASB issued SFAS No. 150, "Accounting for Certain Financial Instruments with Characteristics of Both Liabilities and Equity." SFAS No. 150 requires that an issuer classify certain financial instruments within its scope as a liability (or an asset in some circumstances). SFAS No. 150 is generally effective for financial instruments entered into or modified after May 31, 2003, and otherwise is effective for 3M at the beginning of the third quarter of 2003. This standard is not expected to materially impact 3M's consolidated financial position or results of operations. In May 2003, Emerging Issues Task Force No. 00-21, "Accounting for Revenue Arrangements with Multiple Deliverables" was finalized. This addresses certain aspects of accounting by a vendor for arrangements under which it will perform multiple revenue-generating activities. The guidance in the consensus is effective for revenue arrangements entered into in fiscal periods beginning after June 15, 2003. This standard is not expected to materially impact 3M's consolidated financial position or results of operations. BUSINESS COMBINATIONS In January 2003, 3M purchased an additional 25 percent interest of Sumitomo 3M Limited from NEC Corporation for $377 million in cash. As a result of this acquisition, 3M now owns 75 percent of Sumitomo 3M Limited. Sumitomo Electric Industries, Ltd., a Japanese corporation, owns the remaining 25 percent of Sumitomo 3M Limited. Since all business segments benefit from this combination, goodwill acquired in this acquisition was allocated to 3M's seven business segments. The purchase price allocation at June 30, 2003, was preliminary. During the first quarter of 2003, 3M (Display and Graphics Business) finalized the purchase of Corning Precision Lens, Inc. (Precision Optics), which was acquired in December 2002. The impacts of finalizing the purchase price allocation, including a working capital adjustment and payment of direct acquisition expenses, are displayed in the business combination activity table that follows. During the six-month period ended June 30, 2003, 3M entered into four additional business combinations for $34 million, net of cash acquired. 1) 3M (Industrial Business) purchased 100 percent of the outstanding shares of Solvay Fluoropolymers, Inc. (SFI), a previously wholly owned subsidiary of Solvay America, Inc. SFI is a manufacturer of fluoroplastic products. 2) 3M (Display and Graphics Business) purchased Corning Shanghai Logistics Company Limited, a previously wholly owned subsidiary of Corning Incorporated. This business is involved in the distribution of lens systems for projection televisions. 8 3) 3M (Safety, Security and Protection Services Business) purchased 100 percent of the outstanding shares of GuardiaNet Systems, Inc., a software company. 4) 3M (Electro and Communications Business) purchased the outstanding minority interest of Pouyet Communications, Inc. (PCI), an Indian company. PCI is a telecommunications supplier. The business combination activity for the six-month period ending June 30, 2003, is summarized in the following table. Pro forma information related to these acquisitions is not included because the impact of these acquisitions, either individually or in the aggregate, on the company's consolidated results of operations is not considered to be significant.

------------------ ------------------ ------------------ ------------------ -- BUSINESS COMBINATION ACTIVITY Sumitomo Aggregation Asset (Liability) 3M Precision of Remaining Total (Millions) Limited Optics Acquisitions Activity ---------- ------------------ ------------------ ------------------ ----------

Accounts receivable $ -- $-- $ 4 $ 4 Inventory 9 -- 8 17 Investments -- -- (15) (15) Property, plant and equipment - net -- (3) 29 26 Purchased intangible assets -- 4 4 8 Purchased goodwill 289 8 7 304 Deferred tax asset 37 -- -- 37 Accounts payable and other current liabilities -- 4 (6) (2) Minority interest liability 139 -- 1 140 Other long-term liabilities (97) -- 2 (95) ------------- ------------------ ------------------ ------------------ ------- Net assets acquired $377 $13 $34 $424 --- ------------------ ------------------ ------------------ ------------------

GOODWILL As discussed in the "Business Segments" note, 3M realigned its business segments and began reporting under this new structure effective January 1, 2003. The business segment realignment resulted in certain changes in reporting units for 3M. Effective January 1, 2003, 3M has 18 reporting units under the criteria set forth by Statement of Financial Accounting Standards (SFAS) No. 142. SFAS No. 142 requires that goodwill be tested for impairment when reporting units are changed. During the first quarter of 2003, the company completed its assessment of any potential goodwill impairments under this new structure and determined that no impairments existed. The goodwill balance by business segment as of December 31, 2002 and June 30, 2003 follows. Goodwill acquired in the first six months of 2003 totaled $304 million, with $8 million expected to be fully deductible for tax purposes. The increase in the goodwill balance during the six month period ended June 30, 2003, primarily relates to 2003 business combination activity and changes in foreign currency exchange rates. The increase in the goodwill balance in the second quarter of 2003 (when compared to the first quarter of 2003) primarily relates to purchase accounting refinements for the aforementioned acquisition of an additional 25 percent of Sumitomo 3M Limited. 9

-- GOODWILL Dec. 31 2003 2003 Jun. 30 2002 acquisition translation 2003 (Millions) balance activity and other balance --

~~Health Care $ 393 $ 52 $ 21 $ 466 Industrial 220 64 15 299 Consumer and Office 17 33 -- 50 Display and Graphics 824 65 1 890 Electro and Communications 380 38 17 435 Safety, Security and Protection Services 59 32 2 93 Transportation 5 20 1 26 -- Total Company $1,898 $304 $ 57 $2,259 ---~~

ACQUIRED INTANGIBLE ASSETS The carrying amount and accumulated amortization of acquired intangible assets follow.

-- Jun. 30 Dec. 31 (Millions) 2003 2002 -

~~Patents $315 $297 Other amortizable intangible assets 98 93 Non-amortizable intangible assets (tradenames) 65 61 -- Total gross carrying amount 478 451 Accumulated amortization - patents (139) (123) Accumulated amortization - other (65) (59) -- Less total accumulated amortization (204) (182) Total intangible assets, net $274 $269 ---~~

Amortization expense for acquired intangible assets for the quarter and six-month periods ended June 30, 2003 and 2002 follow.

------------ ------------ ------------ ------------ ------------ ------------ --- (Millions) Quarter Ended Six Month Period Ended Jun. 30 Jun. 30 Jun. 30 Jun. 30 2003 2002 2003 2002 ------ ------------ ------------ ------------ ------------ ------------ ---------
~~Amortization expense $ 11 $ 9 $ 21 $ 18 ------- ------------ ------------ ------------ ------------ ------------ --------~~

The table that follows shows estimated amortization expense for acquired intangible assets recorded as of June 30, 2003. Actual amounts of amortization expense may differ from estimated amounts due to additional intangible asset acquisitions, changes in foreign currency exchange rates, impairment of intangible assets, accelerated amortization of intangible assets, and other events.

-- Last 2 Quarters Year Year Year Year After (Millions) 2003 2004 2005 2006 2007 2007

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~~Estimated amortization expense $19 $37 $30 $25 $22 $76 --~~
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10 RESTRUCTURING Restructuring program actions were substantially completed by June 30, 2002. Selected information related to the restructuring follows.

RESTRUCTURING Employee Severance and Accelerated (Millions) Benefits Depreciation Other Total ---------------
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~~Charges Year 2001 charges $472 $ 80 $ 17 $569 First quarter 2002 charges 24 26 4 54 Second quarter 2002 charges 87 21 40 148 ------------~~
~~---------------------~~
~~---------------------~~
~~-----------------~~
~~Total charges $583~~

~~$127 $61 $771 ---- -------------------- -------------------- -------------------- ------- ------------ -------------------- -------------------- ------------------~~

~~Current liability at December 31, 2000 $ -- $ -- $ -- ------- -------------------- -------------------- -------------------- ---- 2001 Charges 472 $ 80 17 569 2001 Cash payments (155) (4) (159) 2001 Non-cash and long-term portion of liability (132) (80) -- (212) -------------------- -------------------- -------------------- ----------- Current liability at December 31, 2001 $185 $13 $198 --------------- -------------------- -------------------- ----------------~~

~~2002 Charges 111 47 44 202 2002 Cash payments (267) (39) (306) 2002 Reclassification from long-term portion of liability 47 -- 47 2002 Non-cash and long-term portion of liability (46) (47) -- (93) ---------------- -------------------- -------------------- ---------------~~

~~Current liability at December 31, 2002 $ 30 $ 18 $ 48 ----- -------------------- -------------------- -------------------- ------ First quarter 2003 cash payments (22) (8) (30) Second quarter 2003 cash payments (2) (4) (6) ---------- -------------------- --------------------~~

- Current liability at June 30, 2003 $ 6 $ 6 $ 12 ------------
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11 ACCOUNTING FOR DERIVATIVE INSTRUMENTS 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. The table that follows provides the amounts recorded in cumulative translation related to net investment hedging, and also provides cash flow hedging instrument disclosures. Reclassification adjustments are made to avoid double counting in comprehensive income items that are also included as part of net income. The amount of the reclassification adjustment recognized in other comprehensive income is equal to, but opposite in sign from, the amount of the realized gain or loss in net income.

DERIVATIVES Three months ended Six months ended Net of Tax June 30 June 30 (Millions) 2003 2002 2003 2002

UNREALIZED GAIN/(LOSS) RECORDED IN CUMULATIVE TRANSLATION Net investment hedging $ 2 $(19) $ 1 $(17) -------
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--------- CASH FLOW HEDGING INSTRUMENTS BALANCE AND ACTIVITY Beginning balance $(31) $ 5 $(39) $ 9 ----------------
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Net unrealized holding gain/(loss)* (40) (56) (53) (59) Reclassification adjustment* 28 14 49 13 --------
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~~------------------ --------- Total activity (12) (42) (4) (46) --------- ------------------ ------------------ ------------------ -------- Ending balance $(43)** $(37) $(43)** $(37) ----------- ------------------ ------------------ ------------------ ------ *TAX EXPENSE OR BENEFIT Net unrealized holding gain/(loss) $ 12 $ 32 $ 23 $ 34 Reclassification adjustment (5) (8) (22) (8) --------- ------------------ ------------------ ------------------ -------- ** Based on exchange rates at June 30, 2003, the company expects to reclassify to earnings over the next 12 months a majority of the cash flow hedging instruments after-tax loss of $43 million (with the impact largely offset by foreign currency cash flows from underlying hedged items).~~

12 BUSINESS SEGMENTS 3M announced in September 2002 a strategic realignment of its organization, designed to achieve faster growth and a closer focus on its markets and customers. This realignment resulted in seven reportable business segments compared to the previous structure of six reportable business segments. Internal management reporting for the new reportable business segments commenced on January 1, 2003. Results under the new structure for the three and six month periods ended June 30, 2003 and 2002, follow.

------------------ ------------------ ------------------ ------------ BUSINESS SEGMENT Three months ended Six months ended INFORMATION June 30 June 30 (Millions) 2003

2002 2003 2002 ------------------ ------------------ ------------------ ------------ ~~NET SALES Health Care $ 1,017 $ 896 $ 1,963 $ 1,741 Industrial 838 804 1,659 1,557 Consumer and Office 637 602 1,249 1,171 Display and Graphics 719 582 1,380 1,087 Electro and Communications 458 479 892 923 Safety, Security and Protection Services 518 445 976 858 Transportation 383 339 764 688 Corporate and Unallocated 10 14 15 26 -------- ------------------ ------------------ ------------------ ---- Total Company $ 4,580 $ 4,161 $ 8,898 $ 8,051 --------- ------------------ ------------------ ------------------ --- OPERATING INCOME Health Care $ 263 $ 213 $ 501 $ 433 Industrial 102 131 234 242 Consumer and Office 108 108 218 213 Display and Graphics 209 146 391 263 Electro and Communications 71 79 118 131 Safety, Security and Protection Services 131 92 236 178 Transportation 95 80 195 165 Corporate and Unallocated (19) (163) (152) (226)~~

~~------------------ ------------------ ------------------ ------------ Total Company $ 960 $ 686 $ 1,741 $ 1,399 ----------- ------------------ ------------------ ------------------~~
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Corporate and Unallocated operating income principally includes corporate investment gains and losses, certain derivative gains and losses, insurance-related gains and losses, 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. Significant items included in Corporate and Unallocated for the periods presented follow. Corporate and Unallocated for 2003 includes a pre-tax charge of $93 million recorded during the first quarter related to an adverse ruling associated with a lawsuit filed against 3M in 1997 by LePage's Inc. 13 Corporate and Unallocated in the first quarter of 2003 also includes certain acquisition-related costs and respirator mask/asbestos litigation expenses. Corporate and Unallocated for 2002 includes charges related to employee separation costs, accelerated depreciation and other business exit costs, under the Company's previously announced restructuring plan. During the first six months of 2002, 3M incurred pre-tax charges of $202 million ($148 million in the second quarter and $54 million in the first quarter), related to this restructuring plan. EARNINGS PER SHARE The computations for basic and diluted earnings per share for each period presented follow.

------------- ------------- ------------- ------------- ------------- --------- EARNINGS PER SHARE Three months ended Six months ended (Amounts in millions, June 30 June 30 except per share amounts) 2003 2002 2003 2002 - ------------- ------------- ------------- ------------- ------------- --------

~~Numerator: Net income $ 619 $ 466 $1,121 $ 918 --------- ------------- ------------- ------------- ------------- -------------~~

~~Denominator: Denominator for weighted average~~

~~common shares outstanding - basic 390.9 390.0 390.5 390.0 Dilution associated with the company's stock-based compensation plans 5.3 6.1 5.2 5.7~~ ~~-----~~ ~~Denominator for weighted average common shares outstanding - diluted 396.2 396.1 395.7 395.7~~ ~~-----~~ ~~Earnings per share - basic $1.58 $1.19 $2.87 $2.35 Earnings per share - diluted 1.56 1.18 2.83 2.32~~ ~~-----~~

Certain stock options outstanding were not included in the computation of diluted earnings per share because they would not have had a dilutive effect (6.4 million average options for the three and six month period ended June 30, 2003 and 3.2 million and 4.8 million for the three and six month period ended June 30, 2002, respectively). The conditions for conversion related to the company's $639 million in aggregate face amount of convertible notes were not met for the second quarter of 2003; accordingly, there was no impact on 3M's second quarter or year to date diluted earnings per share. If the conditions for conversion are met, 3M may choose to pay in cash and/or common stock. 14 STOCKHOLDERS' EQUITY AND COMPREHENSIVE INCOME INFORMATION The components of the ending balances of accumulated other comprehensive income (loss) follow.

ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS)

(Millions)	Jun. 30, 2003	Dec. 31 2002
Cumulative translation - net	$ (572)	$ (858)
Minimum pension liability adjustments	(1,130)	(1,130)
Debt and equity securities, unrealized gain - net	1	1
Cash flow hedging instruments, unrealized loss - net	(43)	(39)
Accumulated other comprehensive income (loss)	$(1,744)	$(2,026)

The components of total comprehensive income follow. Income tax effects for cumulative translation are not significant because no tax provision has been made for the translation of foreign currency financial statements into U.S. dollars. Reclassification adjustments (other than for cash flow hedging instruments discussed in the "Accounting for Derivative Instruments" section) were not material.

--------------------- --------------------- --------------------- ---- TOTAL COMPREHENSIVE INCOME Three months ended June 30 (Millions) 2003 2002 --------------- --------------------- --------------------- ---------- Net income $ 619 $ 466 Other comprehensive income (loss) Cumulative translation - net of $3 million tax benefit in 2003 and $13 million tax benefit in 2002 252 192 Debt and equity securities, unrealized gain (loss) - net of $1 million tax provision in 2003 and $3 million tax benefit in 2002 1 (6) Cash flow hedging instruments, unrealized gain (loss) - net of $7 million tax benefit in 2003 and $24 million tax benefit in 2002 (12) (42) --------------- --------------------- --------------------- ---------- Total comprehensive income $ 860 $ 610 --------------------- --------------------- --------------------- ----

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---- TOTAL COMPREHENSIVE INCOME Six months ended June 30 (Millions) 2003 2002 ---------------
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---------- Net income $1,121 $ 918 Other comprehensive income (loss) Cumulative translation - net of $1 million tax benefit in 2003 and $12 million tax benefit in 2002 286 183 Debt and equity securities, unrealized gain (loss) - no tax impact in 2003 and $7 million tax benefit in 2002 - (12) Cash flow hedging instruments, unrealized gain (loss) - net of $1 million tax benefit in 2003 and $26 million tax benefit in 2002 (4) (46) ----------------
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--------- Total comprehensive income $1,403 $1,043 -------------
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COMMITMENTS AND CONTINGENCIES Discussion of legal matters is cross-referenced to this Quarterly Report on Form 10-Q, Part II, Item 1, Legal Proceedings, and should be considered an integral part of the interim consolidated financial statements. SUBSEQUENT EVENT On August 11, 2003, 3M's Board of Directors declared a two-for-one split of the company's common stock. The stock split will be in the form of a stock dividend of one additional share for each share owned by stockholders of record and each share held in treasury as of the close of business on September 22, 2003 and will be distributed to such holders on September 29, 2003. Information (such as per share amounts, weighted average shares and shares outstanding) has not been restated in the accompanying financial statements and related notes to reflect this split. This information will be presented on a post split basis effective with third quarter 2003 reporting. Information on a pro forma basis, showing the impact of this split on all periods presented in this Form 10-Q, follows. 16 3M Company and Subsidiaries SUPPLEMENTAL UNAUDITED CONSOLIDATED STATEMENT OF INCOME INFORMATION

------ Three months ended Six months

ended (Amounts in millions, June 30 June 30 except per share amounts) 2003 2002 2003 2002 --- ~~PRE SPLIT BASIS - AS REPORTED Net income \$ 619 \$ 466 \$1,121 \$ 918~~ -- ~~Weighted average common shares outstanding - basic 390.9 390.0 390.5 390.0 Earnings per share - basic \$ 1.58 \$ 1.19 \$ 2.87 \$ 2.35~~ -- ~~Weighted average common shares outstanding - diluted 396.2 396.1 395.7 395.7 Earnings per share - diluted \$ 1.56 \$ 1.18 \$ 2.83 \$ 2.32~~ -------------------------------

~~------------ ------------ ----------- Cash dividends paid per common share $ 0.66 $ 0.62 $ 1.32 $ 1.24 ------------ ------------ ------------ ------------ ------------ ------ POST SPLIT BASIS - PRO FORMA Net income $ 619 $ 466 $1,121 $ 918 -------- ------------ ------------ ------------ ------------ ---------- Weighted average common shares outstanding - basic 781.8 780.0 780.9 779.9 Earnings per share - basic $ 0.79 $ 0.60 $ 1.44 $ 1.18 ----- ------------ ------------ ------------ ------------ ------------ - Weighted average common shares outstanding - diluted 792.3 792.1 791.4 791.3 Earnings per share - diluted $ 0.78 $ 0.59 $ 1.42 $ 1.16 -------~~

------------- ------------- ------------- ------------- ------------ ~~Cash dividends paid per common share $ 0.33 $ 0.31 $ 0.66 $ 0.62~~ ------------- ------------- ------------- ------------- ------------- ------

First quarter 2003 reported results on a pre split basis totaled $1.29 for basic earnings per share, $1.27 for diluted earnings per share. Post split first quarter 2003 results would total $.64 for basic earnings per share, $.63 for diluted earnings per share. Quarterly and annual unaudited data on both a pre split basis and post split basis for 2002 and 2001 follows. 17 Quarterly Data (Unaudited)

------------- ------------- ------------- ------------- ------------- --------- (Millions, except per-share amounts) PRE SPLIT BASIS First Second Third Fourth REPORTED Quarter Quarter Quarter Quarter Year ------- ------------- ------------- ------------- ------------- ------------- -- ~~Basic earnings per share - net income 2002 $ 1.16 $ 1.19 $ 1.40 $ 1.31 $ 5.06 2001 1.14 .51 1.00 .97 3.63~~ ------- ------------- ------------- ------------- -------------

~~------------- Diluted earnings per share - net income 2002 $ 1.14 $ 1.18 $ 1.38 $ 1.29 $ 4.99 2001 1.13 .50 .99 .96 3.58 ---~~

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~~------ POST SPLIT BASIS First Second Third Fourth PRO FORMA Quarter Quarter Quarter Quarter Year -------~~

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~~--- Basic earnings per share - net income 2002 $ 0.58 $ 0.60 $ 0.70 $ 0.65 $ 2.53 2001 0.57 0.26 0.50 0.49 1.81 -------~~

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~~--- Diluted earnings per share - net income 2002 $ 0.57 $ 0.59 $ 0.69 $ 0.65 $ 2.50 2001 0.56 0.25 0.49 0.48 1.79 -------~~

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OTHER PricewaterhouseCoopers LLP, the company's independent accountants, have performed reviews of the unaudited interim consolidated financial statements included herein, and their review report thereon accompanies this filing. Pursuant to Rule 436(c) of the Securities Act of 1933 ("Act") their report on these reviews should not be considered a "report" within the meaning of Sections 7 and 11 of the Act and the independent accountant liability under Section 11 does not extend to it. 18 REVIEW REPORT OF INDEPENDENT AUDITORS To the Stockholders and Board of Directors of 3M Company: We have reviewed the accompanying consolidated balance sheet of 3M Company and its subsidiaries as of June 30, 2003, and the related consolidated statements of income for each of the three-month and six-month periods ended June 30, 2003 and 2002, and of cash flows for the six-month periods ended June 30, 2003 and 2002. These interim financial statements are the responsibility of the Company's management. We conducted our reviews in accordance with standards established by the American Institute of Certified Public Accountants. A review of interim financial information consists principally of applying analytical procedures to financial data and making inquiries of persons responsible for financial and accounting matters. It is substantially less in scope than an audit conducted in accordance with auditing standards generally accepted in the United States of America, the objective of which is the expression of an opinion regarding the financial statements taken as a whole. Accordingly, we do not express such an opinion. Based on our reviews, we are not aware of any material modifications that should be made to the accompanying interim consolidated financial statements for them to be in conformity with accounting principles generally accepted in the United States of America. We previously audited, in accordance with auditing standards generally accepted in the United States of America, the consolidated balance sheet as of December 31, 2002, and the related consolidated statements of income, of changes in stockholders' equity and comprehensive income, and of cash flows for the year then ended (not presented herein); and in our report dated February 10, 2003, except as to Note 12, for which the date is May 22, 2003, relating to the consolidated financial statements in the Current Report on Form 8-K, we expressed an unqualified opinion on those consolidated financial statements. In our opinion, the information set forth in the accompanying consolidated balance sheet as of December 31, 2002, is fairly stated in all material respects in relation to the consolidated balance sheet from which it has been derived. /s/ PricewaterhouseCoopers LLP ------------------------------ PricewaterhouseCoopers LLP Minneapolis, Minnesota July 21, 2003 19 3M Company and Subsidiaries ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS FORWARD-LOOKING STATEMENTS This Quarterly Report on Form 10-Q 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; obtain adequate intellectual property protection; gain market acceptance of new products, or successfully complete clinical trials and obtain regulatory approvals. For example, new 3M pharmaceutical products, like any pharmaceutical under development, face substantial risks and uncertainties in the process of development and regulatory review. There are no guarantees that products will receive regulatory approvals or prove to be commercially successful. 20 * 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, divestitures and strategic alliances. However, there can be no absolute 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 II, Item 1 of this Quarterly Report on Form 10-Q. RESULTS OF OPERATIONS Second Quarter -------------- Overview: 3M had strong sales and earnings in the second quarter of 2003. Sales in the second quarter were a record $4.580 billion, with six of seven business segments achieving worldwide volume growth. The company reported net income of $619 million, or $1.56 per diluted share, in the second quarter of 2003, versus $466 million, or $1.18 per diluted share, in the second quarter of 2002. The second quarter of 2002 results include special items (discussed later) that reduced earnings by 18

cents per diluted share. 3M's five corporate initiatives, aimed at improving organic growth, productivity and cash flow, continue to contribute to improved results. While the company is on track to achieve its objective of at least $300 million in cost savings from these initiatives in 2003, 3M also faces many challenges. These challenges include continued economic uncertainty in many parts of the world, possible downstream impacts from the SARS (Severe Acute Respiratory Syndrome) outbreak, as well as an uncertain currency environment. 21 Special items: The company did not have any significant special items during the second quarter of 2003. During the second quarter of 2002, under its previously announced restructuring plan, 3M incurred pre-tax charges of $148 million ($73 million after-tax and minority interest, or $.18 per diluted share) related to employee separation costs, accelerated depreciation charges and other exit activities. These charges have been classified as a component of cost of sales ($91 million); selling, general and administrative expenses ($56 million); and research, development and related expenses ($1 million). Net Sales:

Components of Net Sales Change Second Quarter 2003	Worldwide	U.S.	International
Volume - core	3.8%	0.4%	6.6%
Volume - acquisitions	1.8	1.7	1.9
Volume - total	5.6	2.1	8.5
Price	(0.1)	(0.2)	(0.1)
Translation	4.6	--	8.5
Total	10.1%	1.9%	16.9%

Worldwide net sales for the second quarter of 2003 totaled $4.580 billion, up 10.1 percent from the same period last year. Volumes increased 5.6

percent, with 1.8 percentage points of this growth due to acquisitions. The weaker U.S dollar increased worldwide sales by 4.6 percent, while selling prices decreased sales by one-tenth of one percent. In the United States, net sales totaled $1.925 billion, up 1.9 percent from the same period last year. Volumes increased 2.1 percent, benefiting from 1.7 points of growth from acquisitions. Display and Graphics, Consumer and Office, Health Care, Safety, Security and Protection Services, and Transportation all posted volume growth. Selling prices were down two-tenths of one percent. International net sales totaled $2.655 billion, an increase of 16.9 percent in U.S. dollars. Volumes increased 8.5 percent, which included 1.9 points of growth from acquisitions. In the Asia Pacific area, volumes increased almost 18 percent. Volume increased 7 percent in Japan and 28 percent in the rest of the Asia Pacific area. All business segments experienced positive growth in Asia Pacific, with five of seven segments posting double-digit sales growth. In Latin America, volumes increased 9.7 percent, benefiting from the acquisition of Corning Precision Lens, Inc. In Europe, volumes increased six-tenths of one percent. Selling prices decreased international sales by one-tenth of one percent. Currency effects increased international sales by 8.5 percent, driven by positive currency translation of 16.4 percent in Europe and 3.5 percent in the Asia Pacific area. Currency translation negatively impacted sales in Latin America by 8.9 percent. 22 Costs: Cost of sales was 50.7 percent of sales, down about 3 percentage points from the same quarter last year. Gross margins were positively impacted by Six Sigma and other projects aimed at improving throughput, yield and productivity. Raw material costs were flat in the second quarter of 2003, despite significant cost pressures in certain commodities. Corporate restructuring charges (totaling $91 million) negatively impacted second quarter 2002 cost of sales. Cost of sales includes manufacturing, engineering and freight costs. Selling, general and administrative (SG&A) expenses were 22.3 percent of sales, down 1.1 percentage points from the second quarter of 2002. SG&A expenses were $46 million higher than the same period last year, an increase of 4.7 percent. This increase in SG&A dollar spending reflects the impacts of currency translation, as well as 3M's continued investments in advertising and merchandising. Second quarter 2002 SG&A expenses include corporate restructuring charges of $56 million. Operating income: Operating income was 21.0 percent of sales, compared with 16.5 percent in the same period last year. This margin improvement was driven by higher sales and increased productivity. Second quarter 2003 results included costs associated with additional employment reduction actions in the United States and Europe, primarily in the Industrial and Electro and Communications businesses. The second quarter of 2002 included $148 million of charges related to the corporate restructuring plan. Interest expense and income: Second quarter interest expense was $24 million, $4 million higher than in the same period last year, with the increase primarily due to higher average debt levels. Interest income was $5 million, compared with $9 million in the same period last year, impacted by lower interest rates. Provision for income taxes: The worldwide effective income tax rate for the quarter was 33.0 percent, up from 31.2 percent in the second quarter last year and 32.1 percent for total year 2002. The company expects a rate in the 33 percent range for the rest of 2003 due to taxes associated with repatriating cash from outside the United States. Minority interest: Minority interest expense for the quarter was $12 million, compared with income of $1 million in the same period last year. The increase primarily related to higher profitability of Sumitomo 3M Limited (a Japanese company), partially offset by a decrease in minority interest ownership related to the purchase of an additional 25 percent of the shares of Sumitomo 3M Limited in January 2003, and the purchase of the minority interest shares of 3M Inter-Unitek GmbH in December 2002. In the second quarter of 2002, Sumitomo 3M Limited profitability was negatively impacted by the corporate restructuring plan. Net income: Net income for the second quarter of 2003 totaled $619 million, or $1.56 per diluted share, compared with $466 million, or $1.18 per diluted share, in the same period last year. The company estimates that currency effects 23 increased net income for the quarter by about $31 million. This estimate includes the effect of translating profits from local currencies into U.S. dollars; the impact of currency fluctuations on the transfer of goods between 3M entities and with third parties; and transaction gains and losses, including derivative instruments designed to reduce exchange rate risks. These derivative instruments and other transaction impacts decreased net income by an estimated $14 million in the second quarter of 2003. First Six Months ---------------- Overview: The company reported net income of $1.121 billion, or $2.83 per diluted share, in the first six months of 2003, versus $918 million, or $2.32 per diluted share, in the same period last year. Aided by an increase in volumes and a weaker U.S. dollar, sales in the first six months of 2003 were $8.898 billion, up 10.5 percent from the same period last year, with six of seven business segments achieving worldwide volume growth. 3M's five corporate initiatives, aimed at improving organic growth, productivity and cash flow, continue to contribute to improved results. Special items: As announced by 3M on March 26, 2003, a court issued an adverse ruling associated with a lawsuit filed against 3M in 1997 by LePage's Inc. During the first quarter of 2003, 3M recorded pre-tax charges of $93 million ($58 million after-tax, or $.15 per diluted share) related to this proceeding. The pre-tax charge of $93 million has been classified as "Other expense" within operating income. During the first six months of 2002, under its previously announced restructuring plan, 3M incurred pre-tax charges of $202 million ($108 million after-tax and minority interest, or $0.27 per diluted share) related to employee separation costs, accelerated depreciation charges and other exit activities. These charges have been classified as a component of cost of sales ($121 million), selling, general and administrative expenses ($77 million) and research and development expenses ($4 million). Net Sales:

Components of Net Sales Change First Six Months 2003 Worldwide U.S. International
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---- Volume - core 3.6% -- 6.7% Volume - acquisitions 1.9 1.7 2.0

---- Volume - total 5.5 1.7 8.7 Price (0.1) (0.3) 0.1 Translation 5.1 -- 9.4 --
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-- Total 10.5% 1.4% 18.2% -----

Worldwide sales for the first six months of 2003 totaled \$8.898 billion, up 10.5 percent from the same period last year. Core volume increased 3.6 percent from the same period last year, with acquisitions contributing an 24 additional 1.9 percent to growth. Currency translation increased sales by 5.1 percent. In the United States, sales for the first six months of 2003 totaled \$3.725 billion, an increase of 1.4 percent from the same period last year. This growth was driven by acquisitions, which increased sales by 1.7 percent. Pricing decreased sales in the United States by three-tenths of one percent. International sales for the first six months of 2003 totaled \$5.173 billion. This increase in international sales was driven by core volume growth of 6.7 percent. Acquisitions increased international sales by 2.0 percent. In the Asia Pacific area, volumes increased 18.6 percent. All business segments experienced positive growth in Asia Pacific, with six of seven segments posting double-digit sales growth. In Latin America, volumes increased 13.6 percent, benefiting from the acquisition of Corning Precision Lens, Inc. In Europe, volumes decreased two-tenths of one percent. Selling prices increased international sales by one-tenth of one percent. Currency effects increased international sales by 9.4 percent, driven by positive currency translation of 17.8 percent in Europe and 6.1 percent in the Asia Pacific area. Currency translation negatively impacted sales in Latin America by 15.4 percent. Costs: Cost of sales was 51.0 percent of sales in the first six months of 2003, down from 53.0 percent in the same period last year. Gross margins were positively impacted by Six Sigma and other projects aimed at improving throughput, yield and productivity. Raw material costs were flat for the first six months of 2003. Corporate restructuring charges in the first six months of 2002 (totaling $121 million) negatively impacted cost of sales. Cost of sales includes manufacturing, engineering and freight costs. Selling, general and administrative (SG&A) expenses were 22.3 percent of sales, down from 23.0 percent in the same period last year. SG&A expenses were $132 million higher than the same period last year, an increase of 7.1 percent. This increase in SG&A dollar spending reflects the impacts of currency translation, as well as increased advertising and merchandising spending. SG&A expenses for the first six months of 2002 include a charge of $77 million relating to the corporate restructuring plan. Operating income: Operating income was 19.6 percent of sales, compared with 17.4 percent in the same period last year. This margin improvement was driven by higher sales and increased productivity. The first six months of 2003 included a $93 million loss related to an adverse ruling associated with a lawsuit filed by LePage's Inc. The first six months of 2002 included $202 million of charges related to the corporate restructuring plan. Interest expense and income: Interest expense in the first six months of 2003 was $47 million, $8 million higher than in the same period last year. The increase was primarily due to higher average debt levels compared with the same period last year. Interest income was $11 million, compared with $18 million in the same period last year, impacted by lower interest rates. 25 Provision for income taxes: The worldwide effective income tax rate for the six-month period ended June 30, 2003 was 32.8 percent, up from 31.7 percent in the same period last year and 32.1 percent for total year 2002. Minority interest: Minority interest expense was $26 million, compared with $23 million in the same period last year. The increase primarily related to higher profitability of Sumitomo 3M Limited (a Japanese company), partially offset by a decrease in minority interest ownership related to the purchase of an additional 25 percent of the shares of Sumitomo 3M Limited in January 2003, and the purchase of the minority interest shares of 3M Inter-Unitek GmbH in December 2002. In the first six months of 2002, primarily in the second quarter, Sumitomo 3M Limited profitability was negatively impacted by the corporate restructuring plan. Net income: Net income for the first six months of 2003 totaled $1.121 billion, or $2.83 per diluted share, compared with $918 million, or $2.32 per diluted share, in the same period last year. The company estimates that currency effects increased net income for the first six months by about $35 million. This estimate includes the effect of translating profits from local currencies into U.S. dollars; the impact of currency fluctuations on the transfer of goods between 3M entities and with third parties; and transaction gains and losses, including derivative instruments designed to reduce exchange rate risks. These derivative instruments and other transaction impacts decreased net income by an estimated $48 million in the first six months of 2003. Accounting pronouncements: Information regarding accounting pronouncements is included in the Notes to Consolidated Financial Statements. 26 RESTRUCTURING The restructuring program actions were substantially completed by June 30, 2002. The company estimates incremental savings under this plan of approximately $100 million on a pre-tax basis in 2003, primarily in the first half. The majority of the savings will be from reduced employee costs. Selected information related to the restructuring follows.

RESTRUCTURING Employee Severance and Accelerated (Millions) Benefits Depreciation Other Total ---

~~Charges Year 2001 charges $472 $ 80 $ 17 $569 First quarter 2002 charges 24 26 4 54 Second quarter 2002 charges 87 21 40 148~~

~~Total charges $583 $127 $61 $771~~

~~Current liability at~~

~~December 31, 2000 $ -- $ -- $ -- ------- ------------------- ------------------- ------------------- - 2001 Charges 472 $ 80 17 569 2001 Cash payments (155) (4) (159) 2001 Non-cash and long-term portion of liability (132) (80) -- (212) -------------- ------------------- ------------------- --------------- Current liability at December 31, 2001 $185 $13 $198 ---- ------------------- ------------------- ------------------- ---- 2002 Charges 111 47 44 202 2002 Cash payments (267) (39) (306) 2002 Reclassification from long-term portion of liability 47 -- 47 2002 Non-cash and long-term portion of liability (46) (47) -- (93) ---------------- ------------------- ------------------- -------------- Current liability at December 31, 2002 $ 30 $ 18 $ 48 ----- ------------------- ------------------- ------------------- ---- First quarter 2003 cash payments (22) (8) (30) Second quarter 2003 cash payments (2) (4) (6) ---------- ------------------- ------------------- ------------------ Current liability at June 30, 2003 $ 6 $ 6 $ 12 ------------- ------------------- ------------------- ----------------~~

27 PERFORMANCE BY BUSINESS SEGMENT Following is a discussion of the global operating results of the company's seven business segments in the second quarter and first six months of 2003 compared with the same periods last year. As discussed in the "Business Segments" note, 3M realigned its business segments and began reporting under this new structure effective January 1, 2003. With the exception of the Electro and

Communications business segment, all of the segments showed sales growth in both the second quarter and the first six months of 2003. All businesses benefited from the corporate initiatives, which are designed to drive improvement in sales growth, productivity and cash flow. In the Health Care business segment, volumes grew 5.6 percent in the second quarter of 2003 and 5.2 percent in the first six months of 2003 when compared to the same periods last year. Virtually all of the businesses in the Health Care segment posted volume growth in the second quarter and the six-month period ended June 30, 2003, with the largest dollar growth in the medical and drug delivery systems businesses. Operating income in Health Care increased by 23.4 percent to $263 million in the second quarter of 2003 and by 15.8 percent to $501 million in the first six months of 2003. In September 2001, 3M signed an agreement with Eli Lilly and Company to collaborate on resiquimod, a potential treatment for genital herpes. In the first quarter of 2003, Eli Lilly and 3M announced the suspension of Phase III studies for resiquimod. Lilly continues to evaluate its strategic options with respect to this potential treatment. 3M is encouraged by the Phase III results for Aldara brand (Imiquimod) Cream, 5%, in treating superficial basal cell carcinoma and actinic keratosis. In 2003, 3M submitted a supplemental new drug application (sNDA) for Aldara cream for the treatment of actinic keratosis and has also submitted an sNDA for Aldara cream for the treatment of superficial basal cell carcinoma. IVAX Corporation has agreed to assume exclusive rights to 3M's branded health care respiratory products, together with related marketing and sales personnel, in nine European countries. The agreement covers a "maintenance" medication (QVAR) used to prevent asthma attacks and a "rescue" medication (Airomir) used to relieve acute asthma symptoms. 3M will continue to manufacture and supply these products to IVAX and provide transitional services for 12 months. The transaction is pending regulatory and other approvals. In the Industrial business segment, volumes were basically flat in the second quarter of 2003 and increased 1.9 percent in the first six months of 2003. Core volumes remain sluggish, especially in the United States and Europe, with Asia Pacific continuing to grow. Operating income in Industrial decreased 22.3 percent to $102 million in the second quarter of 2003. This decrease in profitability was driven by lower production in factories and additional employee reduction costs incurred in the second quarter of 2003. Operating income in the first six months of 2003 decreased 3.3 percent from the same period last year. In the Consumer and Office business segment, volumes increased approximately 3 percent in both the second quarter and first six months of 28 2003. 3M's construction and home improvement, stationery products and home care businesses more than offset weakness in other product categories. Operating income in Consumer and Office was essentially unchanged in the second quarter of 2003. Increased advertising and merchandising spending negatively impacted operating income in the second quarter of 2003. Operating income increased by 2.2 percent to $218 million during the first six months of 2003. In the Display and Graphics business segment, volumes increased 21.9 percent in the second quarter of 2003 and 23.0 percent in the first six months of 2003, with the December 2002 Corning Precision Lens acquisition adding 9 percentage points of growth in the second quarter of 2003 and nearly 10.5 percentage points of growth in the first six months of 2003. Core volume growth in both the second quarter and first six months of 2003 was led by the Optical Systems business. Operating income in Display and Graphics increased 43.1 percent in the second quarter of 2003 and 48.2 percent in the first six months of 2003. In the Electro and Communications business segment, volumes declined 6.8 percent in the second quarter of 2003 and 6.0 percent in the first six months of 2003. This volume decrease reflects continuing weakness in the global telecommunications industry. Operating income of the Electro and Communications business segment declined about 10 percent in both the second quarter and first six months of 2003, largely due to lower sales. In the Safety, Security and Protection Services business segment, volumes increased 11.0 percent in the second quarter of 2003 and 8.1 percent in the first six months of 2003. This volume increase was fueled by strong demand for 3M's respiratory protection products, as well as increased global demand for safety products and solutions. Operating income in this business segment increased by 42.4 percent to $131 million in the second quarter of 2003 and by 32.3 percent to $236 million for the first six months of 2003. In the Transportation business segment, volumes increased 7.1 percent in the second quarter of 2003 and 4.4 percent in the first six months of 2003. This growth was driven by both the automotive aftermarket and the automotive OEM businesses. Operating income in Transportation increased more than 18 percent in both the second quarter of 2003 and the first six months of 2003. FINANCIAL CONDITION AND LIQUIDITY The company's financial condition and liquidity remain strong. Various assets and liabilities, including cash and short-term debt, can fluctuate significantly from month to month depending on short-term liquidity needs. Working capital (defined as current assets minus current liabilities) totaled $2.210 billion at June 30, 2003, increasing $608 million from December 31, 2002. This increase was largely related to an increase in current assets, primarily due to the reclassification of certain insurance receivables from long-term to current and an increase in various prepaid items, as well as an increase in cash as of June 30, 2003. The accounts receivable turnover index (defined as quarterly net sales divided by ending accounts receivable, multiplied by 4) totaled 6.61 at June 30, 2003, compared with 6.55 at December 31, 2002, and an improvement 29 from 5.95 at June 30, 2002. The inventory turnover index (defined as quarterly factory cost divided by ending inventory, multiplied by 4) continues to improve. The inventory turnover index was 4.47 at June 30, 2003, an improvement from 4.17 at December 31, 2002, and 4.27 at June 30, 2002. Net cash provided by operating activities totaled $1.890 billion in the first six months of 2003, an increase of $294 million from the same period last year, driven by higher net income along with certain tax timing benefits. Restructuring-related cash payments made by 3M totaled $36 million in the first six months of 2003, compared with $239 million in the same period last year. Restructuring-related cash payments made by 3M related to the 2001 corporate restructuring plan are not expected to be significant in the future. Pension funding decisions, additional tax timing differences, and other items could significantly impact cash flows in the second half of 2003. There were several legal proceeding developments during the first six months of 2003. As discussed earlier, in the first quarter of 2003, the company recorded a $93 million pre-tax charge related to an adverse ruling associated with a lawsuit filed against 3M in 1997 by LePage's Inc. At the end of the first quarter of 2003, the company also increased its respirator mask/asbestos liabilities by $100 million and its related insurance receivables by $94 million, resulting in $6 million of pre-tax expense being recorded. For a more detailed discussion of these and other legal proceedings, refer to Part II, Item 1, Legal Proceedings, of this Quarterly Report on Form 10-Q and 3M's first quarter 2003 Form 10-Q. 3M's insurance recoveries, net of claims paid, related to the mammary implant matter, resulted in $10 million of net cash inflows in the first half of 2003, compared with $27 million of net cash inflows in the first half of 2002. Because most of the company's implant liabilities have been paid, receipt of related insurance recoveries will increase future cash flows. Cash used in investing activities totaled $614 million in the first six months of 2003, compared with $328 million in the same period last year. Capital expenditures for the first six months of 2003 were $264 million, a decrease of $99 million from the same period last year. Capital expenditures are expected to total approximately $750 million to $800 million during 2003, as the company anticipates capital spending to ramp up later in the year. Cash used for acquisitions of businesses totaled $424 million in the first six months of 2003, with $377 million related to the purchase of an additional 25 percent ownership in Sumitomo 3M Limited. The company is actively considering additional acquisitions. Financing activities in the first six months of 2003 for both short-term and long-term debt included net cash outflows of $349 million, compared with net cash outflows of $285 million in the same period last year. The cash flow decrease in net short-term debt of $328 million includes the portion of short-term debt with original maturities of 90 days or less. Repayment of other debt of $328 million includes $220 million of commercial paper having original maturities greater than 90 days and the repayment of a $100 million medium term note. Proceeds from other debt of $307 million primarily related to commercial paper having original maturities greater than 90 days. 30 Total debt decreased $356 million from December 31, 2002. As of June 30, 2003, total debt was 30 percent of total capital, down from 36 percent as of December 31, 2002. The company believes its strong credit rating provides ready and ample access to funds in the global capital markets. The company's available short-term lines of credit facilities have not materially changed since December 31, 2002. In March 2003, the company completed its annual renewal of $565 million of certain short-term lines of credit. While the previous agreement would require repayment of debt based on ratings triggers, the new agreement has a covenant that indicates that 3M is not to exceed a funded debt to capital limit of 60 percent (capital defined as funded debt plus stockholders' equity). Treasury stock repurchases for the first six months of 2003 were $280 million, compared with $705 million in the same period last year. The company repurchased about 2.2 million shares of common stock in the first six months of 2003, compared with about 6.0 million shares in the same period last year. In November 2001, the Board of Directors authorized the repurchase of up to $2.5 billion of the company's stock between January 1, 2002 and December 31, 2003. As of June 30, 2003, about $1.3 billion remained authorized for repurchase. Stock repurchases are made to support the company's stock-based compensation plans and for other corporate purposes. Cash dividends paid to shareholders totaled $515 million in the first six months of 2003, compared with $483 million in the same period last year. In February 2003, the quarterly dividend was increased by 6.5 percent to 66 cents per share, marking the 45th consecutive annual dividend increase for 3M. Included in the financing section of the Consolidated Statement of Cash Flows is $23 million classified as "Other - net". This category represents changes in cash overdraft balances and principal payments for capital leases. 31 ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK In the context of Item 3, market risk refers to the risk of loss arising from adverse changes in financial and derivative instrument market rates and prices, such as fluctuations in interest rates and foreign-currency exchange rates. For a discussion of sensitivity analysis related to these types of market risks, refer to Part II, Item 7A, Quantitative and Qualitative Disclosures About Market Risk, in 3M's Annual Report on Form 10-K for the year ended December 31, 2002 and its Current Report on Form 8-K dated May 23, 2003 (which updated 3M's 2002 Annual Report on Form 10-K). The company believes that there have been no material changes in these market risks since year-end 2002. ITEM 4. CONTROLS AND PROCEDURES a. The company carried out an evaluation, under the supervision and with the participation of the company's management, including the company's Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of the company's "disclosure controls and procedures" (as defined in the Exchange Act Rule 13a-15(e)) as of the end of the period covered by this report. Based upon that evaluation, the Chief Executive Officer and Chief Financial Officer concluded that the company's disclosure controls and procedures are effective in timely alerting them to material information relating to the company (including its consolidated subsidiaries) required to be included in the company's periodic SEC filings. b. There was no significant change in the company's internal controls over financial reporting, that occurred during the company's most recently completed fiscal quarter, that has materially affected, or is reasonably likely to materially affect, the company's internal control over financial reporting. 32 3M Company and Subsidiaries PART II. OTHER INFORMATION ITEM 1. LEGAL PROCEEDINGS A description of the significant legal proceedings in which the company is involved, both in general and with respect to specific matters, is contained in the company's Annual Report on Form 10-K for the period ending December 31, 2002, the company's Current Report on Form 8-K dated May 23, 2003 (which updated the company's 2002 Annual Report on Form 10- K), and the company's Quarterly Report on Form 10-Q for the period ending March 31, 2003 (collectively the "Reports"). This section describes significant developments since the preparation of the Reports and should be read with reference to them. Unless specifically indicated, all previously reported matters remain pending. Breast Implant Insurance Recovery Litigation -- As previously reported, the Minnesota Supreme Court granted the company's petition for review permitting the company to appeal the Court of Appeal's decision in the breast implant insurance coverage litigation. Oral arguments were held on June 3, 2003. The company expects a decision from the Minnesota Supreme Court later in 2003. Antitrust Litigation --------------------- The company filed its petition requesting the United States Supreme Court to review the Third Circuit's ruling in the LePage's case on June 20, 2003. The Supreme Court is not expected to act upon the company's petition until the fall of this year at the earliest. During the second quarter and in August of 2003, certain tape purchasers filed four additional purported class actions against the company. Of the seven class actions filed after the LePage's verdict (the four mentioned above and three previously reported), the plaintiff appealed summary judgment in the company's favor in one; the company moved to dismiss three others, in one of which the court denied the company's motion while pre-trial proceedings related to the plaintiff's request for class certification are occurring; and the court stayed another one pending the outcome of the company's petition for Supreme Court review of the LePage's case; and the company is reviewing the complaints in two of the most recently filed cases. Respirator Mask/Asbestos/Litigation ---------------------------------- As of June 30, 2003, the company is a named defendant, with multiple co- defendants, in numerous lawsuits in various courts that purport to represent approximately 82,700 individual claimants. The company continued to experience an increase in the number of claims and an increase in the proportion of silica-related claims in the second quarter of 2003. The company believes that the increased number of claims filed over the past three quarters is due to claimants filing claims before recent and anticipated tort reform legislation becomes effective and that many of these newer claims are asserted on behalf of asymptomatic claimants. As of June 30, 2003, the company has accrued liabilities of $211 million and 33 receivables for the probable amount of insurance recoveries of $357 million related to this litigation. Such accruals are subject to the various factors previously disclosed. Environmental Matters --------------------- As previously reported, the company has been voluntarily cooperating with ongoing reviews by the U.S. Environmental Protection Agency (EPA) and international agencies of possible environmental and health effects of perfluorooctanyl chemistry. The previously disclosed EPA consent order negotiating process concerning one perfluorooctanyl compound is in progress. The company moved to dismiss the complaint and the class action allegations in a purported class action previously reported that was filed against the company by a former employee in the Circuit Court of Morgan County, Alabama. As previously reported, the company entered into a voluntary agreement with the EPA under both an "Agreement for TSCA Compliance" and the EPA's Incentives for Self Policing Policy. The company voluntarily conducted auditing under the Toxic Substances Control Act (TSCA) of its facilities and business units. As part of that auditing, the company identified studies relating to perfluorooctanyl and other chemistries that potentially could be subject to notification under TSCA section 8(e) under current EPA guidelines. An agreement in principle governing the first two phases of that section 8(e) audit involving a penalty of approximately $222,000 was previously reported. The company has now reached an agreement in principle encompassing all three phases of the section 8(e) auditing under which the company would pay a total of approximately $380,000 in penalties. The proposed agreement also contemplates approximately $75,000 in additional penalties related to other TSCA notification requirements and economic benefit related thereto and limited additional section 8(e) auditing the results of which will be subject to the same stipulated penalty schedule if reported to the EPA within nine months of execution of the consent agreement. 34 ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS (a) The registrant held its Annual Meeting of Stockholders on May 13, 2003. (b) Proxies for the meeting were solicited pursuant to Regulation 14; there was no solicitation in opposition to management's nominees as listed in the Proxy Statement and all such nominees were elected. Directors elected to terms that expire at the 2006 Annual Meeting were Linda G. Alvarado, Edward M. Liddy, Robert S. Morrison and Aulana L. Peters. Election of Directors: Linda G. Alvarado - For 311,218,167; Withhold 17,573,877 Edward M. Liddy - For 310,475,369; Withhold 18,316,675 Robert S. Morrison - For 304,317,033; Withhold 24,475,011 Aulana L. Peters - For 311,670,778; Withhold 17,121,266 Directors whose terms continue after the meeting were Edward A. Brennan, Vance D. Coffman, Michael L. Eskew, W. James McNerney, Jr., Rozanne L. Ridgway, Kevin W. Sharer and Louis W. Sullivan. (c) The ratification of the appointment of PricewaterhouseCoopers LLP, independent accountants, to audit the consolidated financial statements of the company and its subsidiaries for the year 2003. For 315,231,611 Against 7,128,732 Abstain 6,431,701 (d) Stockholder proposal relating to shareholder rights plan. For 170,171,432 Against 109,674,668 Abstain 9,193,941 Broker Non-Vote 39,752,003 35 ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K (a) The following documents are filed as exhibits to this Report. (12) A statement setting forth the calculation of the ratio of earnings to fixed charges. Page 38. (15) A letter from the company's independent accountants regarding unaudited interim consolidated financial statements. Page 39. (31.1) Certification of the Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002, 18 U.S.C. Section 1350. Page 40. (31.2) Certification of the Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002, 18 U.S.C. Section 1350. Page 41. (32.1) Certification of the Chief Executive Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, 18 U.S.C. Section 1350. Page 42. (32.2) Certification of the Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, 18 U.S.C. Section 1350. Page 43. Reports on Form 8-K: 3M filed a Form 8-K dated August 13, 2003. 3M filed a Form 8-K dated July 23, 2003, that furnished information as indicated below. For the quarter ended June 30, 2003, 3M filed a Form 8-K dated May 23, 2003, April 22, 2003, and April 4, 2003. The Form 8-K dated August 13, 2003, indicated that 3M's Board of Directors declared a two-for-one split of the company's common stock. The stock split will be in the form of a stock dividend to be distributed September 29, 2003, to shareholders of record at the close of business on September 22, 2003. 3M's Board of Directors also declared a quarterly cash dividend. 3M's previously announced Q3 and year 2003 earnings outlook was provided on a split-adjusted basis. The Form 8-K dated July 23, 2003, furnished 3M's earnings press release dated July 21, 2003, which reported 3M's unaudited consolidated financial results for the second quarter of 2003. The Form 8-K dated May 23, 2003, provided an update to 3M's 2002 Annual Report on Form 10-K related to segments and non-GAAP financial measures. Segment information was reclassified to reflect 3M's realigned segments effective January 1, 2003. Other information was updated to be consistent with the new requirements of Item 10 of Regulation S-K (non-GAAP financial measures) that became effective on March 28, 2003. The Form 8-K dated April 22, 2003, furnished 3M's earnings press release dated April 21, 2003, which reported 3M's unaudited consolidated financial results for the first quarter of 2003. 36 The Form 8-K dated April 4, 2003, furnished supplemental unaudited financial information concerning 3M's realignment that resulted in seven reportable business segments compared to the previous structure of six reportable business segments. Reporting for the new reportable business segments commenced on January 1, 2003. None of the other item requirements of Part II of Form 10-Q is applicable to the company for the quarter ended June 30, 2003. 37 SIGNATURE PAGE for Form 10-Q for the quarter ended June 30, 2003 -- Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized. 3M Company ------------ (Registrant) Date: August 13, 2003 -------------------------- /s/ Patrick D. Campbell -- Patrick D. Campbell, Senior Vice President and Chief Financial Officer (Mr. Campbell is the Principal Financial and Accounting Officer and has been duly authorized to sign on behalf of the registrant.)