

asset retirement obligations in 2005, the manner in which it accounts for defined benefit pension and other post-retirement plans in 2006, and the manner in which it accounts for uncertain tax positions in 2007.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

/s/ PricewaterhouseCoopers LLP
PricewaterhouseCoopers LLP
Minneapolis, Minnesota
February 11, 2008

Consolidated Statement of Income

3M Company and Subsidiaries

Years ended December 31

(Millions, except per share amounts)

	2007	2006	2005
Net sales	\$ 24,462	\$ 22,923	\$ 21,167
Operating expenses			
Cost of sales	12,735	11,713	10,408
Selling, general and administrative expenses	5,015	5,066	4,631
Research, development and related expenses	1,368	1,522	1,274
Gain on sale of businesses	(849)	(1,074)	
Total	18,269	17,227	16,313
Operating income	6,193	5,696	4,854
Interest expense and income			
Interest expense	210	122	82
Interest income	(132)	(51)	(56)
Total	78	71	26
Income before income taxes, minority interest and cumulative effect of accounting change	6,115	5,625	4,828
Provision for income taxes	1,964	1,723	1,627
Minority interest	55	51	55
Income before cumulative effect of accounting change	4,096	3,851	3,146
Cumulative effect of accounting change			(35)
Net income	\$ 4,096	\$ 3,851	\$ 3,111
Weighted average common shares outstanding basic	718.3	747.5	764.9
Earnings per share basic			
Income before cumulative effect of accounting change	\$ 5.70	\$ 5.15	\$ 4.11
Cumulative effect of accounting change			(0.04)
Net income	\$ 5.70	\$ 5.15	\$ 4.07
Weighted average common shares outstanding diluted	732.0	761.0	781.3

Earnings per share diluted			
Income before cumulative effect of accounting change	\$ 5.60	\$ 5.06	\$ 4.03
Cumulative effect of accounting change			(0.05)
Net income	<u>\$ 5.60</u>	<u>\$ 5.06</u>	<u>\$ 3.98</u>

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

Consolidated Balance Sheet

3M Company and Subsidiaries

At December 31

(Dollars in millions, except per share amount)

	2007	2006
Assets		
Current assets		
Cash and cash equivalents	\$ 1,896	\$ 1,447
Marketable securities current	579	471
Accounts receivable net of allowances of \$75 and \$71	3,362	3,102
Inventories		
Finished goods	1,349	1,235
Work in process	880	795
Raw materials and supplies	623	571
Total inventories	2,852	2,601
Other current assets	1,149	1,325
Total current assets	<u>9,838</u>	<u>8,946</u>
Marketable securities non-current	480	166
Investments	298	314
Property, plant and equipment	18,390	17,017
Less: Accumulated depreciation	(11,808)	(11,110)
Property, plant and equipment net	6,582	5,907
Goodwill	4,589	4,082
Intangible assets net	801	708
Prepaid pension and postretirement benefits	1,378	395
Other assets	728	776
Total assets	<u>\$ 24,694</u>	<u>\$ 21,294</u>

Liabilities and Stockholders Equity

Current liabilities

Short-term borrowings and current portion of long-term debt	\$ 901	\$ 2,506
Accounts payable	1,505	1,402
Accrued payroll	580	520
Accrued income taxes	543	1,134
Other current liabilities	1,833	1,761
Total current liabilities	<u>5,362</u>	<u>7,323</u>

Long-term debt

Long-term debt	4,019	1,047
Other liabilities	3,566	2,965
Total liabilities	<u>\$ 12,947</u>	<u>\$ 11,335</u>

Commitments and contingencies (Note 13)

Stockholders equity

Common stock, par value \$.01 per share	9	9
Shares outstanding 2007: 709,156,031		
Shares outstanding 2006: 734,362,802		
Additional paid-in capital	2,785	2,484

Retained earnings	20,316	17,933
Treasury stock	(10,520)	(8,456)
Unearned compensation	(96)	(138)
Accumulated other comprehensive income (loss)	(747)	(1,873)
Stockholders equity net	11,747	9,959
Total liabilities and stockholders equity	\$ 24,694	\$ 21,294

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

Consolidated Statement of Changes in Stockholders Equity and Comprehensive Income

3M Company and Subsidiaries
Years Ended December 31
(Millions)

	2007	2006	2005
Common Stock, par value	\$ 9	\$ 9	\$ 9
Additional Paid-in Capital			
Beginning balance	2,484	2,225	2,018
Stock-based compensation expense (excluding tax benefit)	228	200	155
Stock-based compensation tax benefit	73	59	52
Ending balance	2,785	2,484	2,225
Retained Earnings			
Beginning balance	17,933	15,715	14,198
Adjustment to beginning balance to initially apply FIN 48	(1)		
Net income	4,096	3,851	3,111
Dividends paid	(1,380)	(1,376)	(1,286)
Issuances pursuant to stock option and benefit plans	(332)	(257)	(308)
Ending balance	20,316	17,933	15,715
Treasury Stock			
Beginning balance	(8,456)	(6,965)	(5,503)
Reacquired stock	(3,237)	(2,332)	(2,377)
Issuances pursuant to stock option and benefit plans	1,160	841	915
Issuances pursuant to acquisitions	13		
Ending balance	(10,520)	(8,456)	(6,965)
Unearned Compensation			
Beginning balance	(138)	(178)	(196)
Amortization of unearned compensation	42	40	18
Ending balance	(96)	(138)	(178)
Accumulated Other Comprehensive Income (Loss)			
Beginning balance	(1,873)	(411)	132
Cumulative translation adjustment	532	506	(578)
Defined benefit pension plans adjustment	614	7	(46)
Adjustment to initially apply SFAS No. 158		(1,918)	
Debt and equity securities unrealized gain (loss)	(10)	(1)	1
Cash flow hedging instruments unrealized gain (loss)	(10)	(56)	80
Ending balance	(747)	(1,873)	(411)
Total Stockholders Equity	\$ 11,747	\$ 9,959	\$ 10,395
Comprehensive Income			
Net income	4,096	3,851	3,111
Cumulative translation adjustment	532	506	(578)
Defined benefit pension plans adjustment	614	7	(46)

Debt and equity securities unrealized gain (loss)	(10)	(1)	1
Cash flow hedging instruments unrealized gain (loss)	(10)	(56)	80
Total Comprehensive Income	\$ 5,222	\$ 4,307	\$ 2,568

Supplemental share information:

	2007	2006	2005
Treasury stock			
Beginning balance	209.7	189.5	170.5
Reacquired stock	39.7	31.2	30.7
Issuances pursuant to stock options and benefit plans	(14.3)	(11.0)	(11.7)
Issuances pursuant to acquisitions	(0.2)		
Ending balance	<u>234.9</u>	<u>209.7</u>	<u>189.5</u>

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

Consolidated Statement of Cash Flows

3M Company and Subsidiaries

Years ended December 31

(Millions)

	2007	2006	2005
Cash Flows from Operating Activities			
Net income	\$ 4,096	\$ 3,851	\$ 3,111
Adjustments to reconcile net income to net cash provided by operating activities			
Depreciation and amortization	1,072	1,079	986
Company pension and postretirement contributions	(379)	(385)	(788)
Company pension and postretirement expense	255	440	437
Stock-based compensation expense	228	200	155
Gain from sale of businesses	(849)	(1,074)	
Deferred income taxes	11	(316)	132
Excess tax benefits from stock-based compensation	(74)	(60)	(54)
Changes in assets and liabilities			
Accounts receivable	(35)	(103)	(184)
Inventories	(54)	(309)	(294)
Accounts payable	(4)	68	113
Accrued income taxes	(45)	138	270
Product and other insurance receivables and claims	158	58	122
Other net	(105)	252	198
Net cash provided by operating activities	<u>4,275</u>	<u>3,839</u>	<u>4,204</u>
Cash Flows from Investing Activities			
Purchases of property, plant and equipment (PP&E)	(1,422)	(1,168)	(943)
Proceeds from sale of PP&E and other assets	103	49	41
Acquisitions, net of cash acquired	(539)	(888)	(1,293)
Purchases of marketable securities and investments	(8,194)	(3,253)	(1,627)
Proceeds from sale of marketable securities and investments	6,902	2,287	1,573
Proceeds from maturities of marketable securities	886	304	8
Proceeds from sale of businesses	897	1,209	
Net cash used in investing activities	<u>(1,367)</u>	<u>(1,460)</u>	<u>(2,241)</u>
Cash Flows from Financing Activities			
Change in short-term debt net	(1,222)	882	(258)
Repayment of debt (maturities greater than 90 days)	(1,580)	(440)	(656)
Proceeds from debt (maturities greater than 90 days)	4,024	693	429
Purchases of treasury stock	(3,239)	(2,351)	(2,377)
Reissuances of treasury stock	796	523	545
Dividends paid to stockholders	(1,380)	(1,376)	(1,286)
Distributions to minority interests	(20)	(38)	(56)

Excess tax benefits from stock-based compensation	74	60	54
Other net		(14)	(20)
Net cash used in financing activities	<u>(2,547)</u>	<u>(2,061)</u>	<u>(3,625)</u>
Effect of exchange rate changes on cash and cash equivalents	88	57	(23)
Net increase/(decrease) in cash and cash equivalents	449	375	(1,685)
Cash and cash equivalents at beginning of year	1,447	1,072	2,757
Cash and cash equivalents at end of year	<u>\$ 1,896</u>	<u>\$ 1,447</u>	<u>\$ 1,072</u>

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

Notes to Consolidated Financial Statements

NOTE 1. Significant Accounting Policies

Consolidation: 3M is a diversified global manufacturer, technology innovator and marketer of a wide variety of products. All significant subsidiaries are consolidated. All significant intercompany transactions are eliminated. As used herein, the term 3M or Company refers to 3M Company and subsidiaries unless the context indicates otherwise.

Foreign currency translation: Local currencies generally are considered the functional currencies outside the United States. Assets and liabilities for operations in local-currency environments are translated at 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 (loss) in stockholders' equity.

Reclassifications: Certain amounts in the prior years' consolidated financial statements have been reclassified to conform to 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, real estate not used in the business, venture capital and equity-method investments. Unrealized gains and losses relating to investments classified as available-for-sale are recorded as a component of accumulated other comprehensive income (loss) in stockholders' equity.

Inventories: Inventories are stated at the lower of cost or market, with cost generally determined on a first-in, first-out basis.

Property, plant and equipment: Property, plant and equipment, including capitalized interest and internal engineering costs, are recorded at cost. Depreciation of property, plant and equipment generally is computed using the straight-line method based on the estimated useful lives of the assets. The estimated useful lives of buildings and improvements primarily range from 10 to 40 years, with the majority in the range of 20 to 40 years. The estimated useful lives of machinery and equipment primarily range from three to 15 years, with the majority in the range of five to 10 years. Fully depreciated assets are retained in property and accumulated depreciation accounts until disposal. 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. Property, plant and equipment amounts are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset (asset group) 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 asset's carrying value over its fair value. Fair value is generally determined using a discounted cash flow analysis.

Goodwill: Goodwill is the excess of cost of an acquired entity over the amounts assigned to assets acquired and liabilities assumed in a business combination. Goodwill is not amortized. Goodwill is tested for impairment annually, and will be tested for impairment between annual tests if an event occurs or circumstances change that would indicate the carrying amount may be impaired. Impairment testing for goodwill is done at a reporting unit level. Reporting units are one level below the business segment level, but can be combined when reporting units within the same segment have similar economic characteristics. The majority of goodwill relates to and