3M CO
Form 10-Q
May 08, 2018
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

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

SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended March 31, 2018

Commission file number: 1-3285

3M COMPANY

(Exact name of registrant as specified in its charter)

DELAWARE (State or other jurisdiction of incorporation or organization)	41-0417775 (I.R.S. Employer Identification No.)
3M Center, St. Paul, Minnesota (Address of principal executive offices)	55144 (Zip Code)

(651) 733-1110

(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer	Accelerated filer
Non-accelerated filer	Smaller reporting company
(Do not check if a smaller reporting company)	Emerging growth company

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

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

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

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

Class	Outstanding at March 31, 2018
Common Stock, $0.01 par value per share	593,692,282 shares

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FORM 10-Q

For the Quarterly Period Ended March 31, 2018

PART I. Financial Information

Item 1. Financial Statements.

3M Company and Subsidiaries

Consolidated Statement of Income

(Unaudited)

	Three months ended March 31,	
(Millions, except per share amounts)	2018	2017
Net sales	$ 8,278	$ 7,685
Operating expenses		
Cost of sales	4,236	3,882
Selling, general and administrative expenses	2,573	1,614
Research, development and related expenses	486	476
Gain on sale of businesses	(24)	(29)
Total operating expenses	7,271	5,943
Operating income	1,007	1,742
Other expense (income), net	42	5
Income before income taxes	965	1,737
Provision for income taxes	359	411
Net income including noncontrolling interest	$ 606	$ 1,326
Less: Net income attributable to noncontrolling interest	4	3
Net income attributable to 3M	$ 602	$ 1,323
Weighted average 3M common shares outstanding — basic	596.2	598.1
Earnings per share attributable to 3M common shareholders — basic	$ 1.01	$ 2.21
Weighted average 3M common shares outstanding — diluted	612.7	612.0

Earnings per share attributable to 3M common shareholders — diluted	$ 0.98	$ 2.16
Cash dividends paid per 3M common share	$ 1.36	$ 1.175

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

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3M Company and Subsidiaries

Consolidated Statement of Comprehensive Income

(Unaudited)

	Three months ended March 31,	
(Millions)	2018	2017
Net income including noncontrolling interest	$ 606	$ 1,326
Other comprehensive income (loss), net of tax:		
Cumulative translation adjustment	167	292
Defined benefit pension and postretirement plans adjustment	116	83
Cash flow hedging instruments, unrealized gain (loss)	(61)	(76)
Total other comprehensive income (loss), net of tax	222	299
Comprehensive income (loss) including noncontrolling interest	828	1,625
Comprehensive (income) loss attributable to noncontrolling interest	(3)	(6)
Comprehensive income (loss) attributable to 3M	$ 825	$ 1,619

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

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3M Company and Subsidiaries

Consolidated Balance Sheet

(Unaudited)

(Dollars in millions, except per share amount)	March 31, 2018	December 31, 2017
Assets		
Current assets		
Cash and cash equivalents	$ 3,491	$ 3,053
Marketable securities — current	604	1,076
Accounts receivable — net	5,252	4,911
Inventories		
Finished goods	2,025	1,915
Work in process	1,313	1,218
Raw materials and supplies	957	901
Total inventories	4,295	4,034
Prepaids	832	937
Other current assets	344	266
Total current assets	14,818	14,277
Property, plant and equipment	25,174	24,914
Less: Accumulated depreciation	(16,310)	(16,048)
Property, plant and equipment — net	8,864	8,866
Goodwill	10,570	10,513
Intangible assets — net	2,885	2,936
Other assets	1,438	1,395
Total assets	$ 38,575	$ 37,987
Liabilities		
Current liabilities		
Short-term borrowings and current portion of long-term debt	$ 3,449	$ 1,853
Accounts payable	1,874	1,945
Accrued payroll	563	870
Accrued income taxes	282	310
Other current liabilities	2,791	2,709
Total current liabilities	8,959	7,687
Long-term debt	12,211	12,096
Pension and postretirement benefits	3,381	3,620
Other liabilities	2,985	2,962
Total liabilities	$ 27,536	$ 26,365
Commitments and contingencies (Note 14)		
Equity		
3M Company shareholders’ equity:		
Common stock par value, $.01 par value; 944,033,056 shares issued	$ 9	$ 9
Additional paid-in capital	5,496	5,352

Retained earnings	38,453	39,115
Treasury stock, at cost: 350,340,774 shares at March 31, 2018; 349,148,819 shares at December 31, 2017	(26,178)	(25,887)
Accumulated other comprehensive income (loss)	(6,803)	(7,026)
Total 3M Company shareholders’ equity	10,977	11,563
Noncontrolling interest	62	59
Total equity	$ 11,039	$ 11,622
Total liabilities and equity	$ 38,575	$ 37,987

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

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3M Company and Subsidiaries

Consolidated Statement of Cash Flows

(Unaudited)

(Millions)	Three months ended March 31, 2018	2017
Cash Flows from Operating Activities		
Net income including noncontrolling interest	$ 606	$ 1,326
Adjustments to reconcile net income including noncontrolling interest to net cash provided by operating activities		
Depreciation and amortization	382	438
Company pension and postretirement contributions	(232)	(248)
Company pension and postretirement expense	102	81
Stock-based compensation expense	159	147
Gain on sale of businesses	(24)	(29)
Deferred income taxes	(103)	(84)
Changes in assets and liabilities		
Accounts receivable	(260)	(237)
Inventories	(209)	(149)
Accounts payable	(88)	(124)
Accrued income taxes (current and long-term)	212	225
Other — net	(402)	(358)
Net cash provided by operating activities	143	988
Cash Flows from Investing Activities		
Purchases of property, plant and equipment (PP&E)	(304)	(287)
Proceeds from sale of PP&E and other assets	83	1
Purchases of marketable securities and investments	(517)	(213)
Proceeds from maturities and sale of marketable securities and investments	990	351
Proceeds from sale of businesses, net of cash sold	40	53
Other — net	(11)	5
Net cash provided by (used in) investing activities	281	(90)
Cash Flows from Financing Activities		
Change in short-term debt — net	1,581	(68)
Repayment of debt (maturities greater than 90 days)	(6)	—
Proceeds from debt (maturities greater than 90 days)	6	—
Purchases of treasury stock	(937)	(690)
Proceeds from issuance of treasury stock pursuant to stock option and benefit plans	219	315
Dividends paid to shareholders	(810)	(702)
Other — net	(7)	(6)
Net cash provided by (used in) financing activities	46	(1,151)

Effect of exchange rate changes on cash and cash equivalents	(32)	28
Net increase (decrease) in cash and cash equivalents	438	(225)
Cash and cash equivalents at beginning of year	3,053	2,398
Cash and cash equivalents at end of period	$ 3,491	$ 2,173

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

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3M Company and Subsidiaries

Notes to Consolidated Financial Statements

(Unaudited)

NOTE 1. Significant Accounting Policies

Basis of Presentation

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

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

Three months ended March 31, 2017 (Millions)	Previously Reported	Revised	Change
Net Sales	$ 7,685	$ 7,685	$ —
Operating expenses			
Cost of sales	3,869	3,882	13
Selling, general and administrative expenses	1,600	1,614	14
Research, development and related expenses	471	476	5
Gain on sale of businesses	(29)	(29)	—
Total operating expenses	5,911	5,943	32
Operating income	$ 1,774	$ 1,742	$ (32)
Other expense (income), net	$ 37	$ 5	$ (32)

Income before income taxes	$ 1,737	$ 1,737	$ —

In addition, as described in Note 16, effective in the first quarter of 2018, the Company changed its business segment reporting in its continuing effort to improve the alignment of businesses around markets and customers. These changes included the consolidation of customer account activity within international countries (expanding dual credit reporting) and the centralization of manufacturing and supply chain technology platforms. The Company began reporting comparative results under this new structure with the filing of this Quarterly Report on Form 10-Q.

In the second quarter of 2018, the Company plans to update its financial information and disclosure in its 2017 Annual Report on Form 10-K via a Current Report on Form 8-K to reflect the retrospective application of ASU No. 2017-07 and the preceding business segment reporting changes.

Changes to Significant Accounting Policies

The following accounting policies have been updated since the Company's 2017 Annual Report on Form 10-K.

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

Investments: As described in the "New Accounting Pronouncements" section, 3M adopted ASU No. 2016-01, Recognition and Measurement of Financial Assets and Financial Liabilities, effective January 1, 2018. As a result, all equity securities that do not result in consolidation and are not accounted for under the equity method are measured at fair value with changes therein reflected in net income. 3M utilizes the measurement alternative for equity investments that do not have readily determinable fair values and measures these investments at cost less impairment plus or minus observable price changes in orderly transactions. Further, the change in balance of these securities for the three months ended March 31, 2018 was not considered material for additional disclosure.

Foreign Currency Translation

Local currencies generally are considered the functional currencies outside the United States. Assets and liabilities for operations in local-currency environments are translated at month-end exchange rates of the period reported. Income and expense items are translated at month-end exchange rates of each applicable month. Cumulative translation adjustments are recorded as a component of accumulated other comprehensive income (loss) in shareholders' equity.

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

Note 1 in 3M's 2017 Annual Report on Form 10-K provides additional information the Company considers in determining the exchange rate used relative to its Venezuelan subsidiary as well as factors which could lead to its deconsolidation. The Company continues to monitor these circumstances. Changes in applicable exchange rates or exchange mechanisms may continue in the future. These changes could impact the rate of exchange applicable to remeasure the Company's net monetary assets (liabilities) denominated in Venezuelan Bolivars (VEF). As of March 31, 2018, the Company had a balance of net monetary assets denominated in VEF of less than 20 billion VEF and the DIPRO exchange rate was approximately 49,000 VEF per U.S. dollar. A need to deconsolidate the Company's Venezuelan subsidiary's operations may result from a lack of exchangeability of VEF-denominated cash coupled with an acute degradation in the ability to make key operational decisions due to government regulations in Venezuela. Based upon a review of factors as of March 31, 2018, the Company continues to consolidate its Venezuelan subsidiary. As of March 31, 2018, the balance of accumulated other comprehensive loss associated with this subsidiary was approximately $145 million, and the amount of intercompany receivables due from this subsidiary and its equity balance were not significant.

Earnings Per Share

The difference in the weighted average 3M shares outstanding for calculating basic and diluted earnings per share attributable to 3M common shareholders is a result of the dilution associated with the Company’s stock-based compensation plans. Certain options outstanding under these stock-based compensation plans were not included in the computation of diluted earnings per share attributable to 3M common shareholders because they would not have had a dilutive effect (1.9 million average options for the three months ended March 31, 2018; 3.2 million average options for the three months ended March 31, 2017). The computations for basic and diluted earnings per share follow:

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Earnings Per Share Computations

(Amounts in millions, except per share amounts)	Three months ended March 31, 2018	2017
Numerator:		
Net income attributable to 3M	$ 602	$ 1,323
Denominator:		
Denominator for weighted average 3M common shares outstanding – basic	596.2	598.1
Dilution associated with the Company’s stock-based compensation plans	16.5	13.9
Denominator for weighted average 3M common shares outstanding – diluted	612.7	612.0
Earnings per share attributable to 3M common shareholders – basic	$ 1.01	$ 2.21
Earnings per share attributable to 3M common shareholders – diluted	$ 0.98	$ 2.16

New Accounting Pronouncements

See the Company’s 2017 Annual Report on Form 10-K for a more detailed discussion of the standards in the tables that follow, except for those pronouncements issued subsequent to the most recent Form 10-K filing date for which separate, more detailed discussion is provided below.

Standards Adopted During the Current Fiscal Year

Standard	Relevant Description	Effective Date for 3M	Impact and Other Matters
ASU No. 2014-09, Revenue from Contracts with Customers (as amended by ASU Nos. 2015-14, 2016-08, 2016-10, 2016-12, and 2016-20) and related ASU No. 2017-10, Determining the Customer of the Operation Services	Provides a single comprehensive model to be used in the accounting for revenue arising from contracts with customers and supersedes most previous revenue recognition guidance, including industry-specific guidance. Core principle is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods	January 1, 2018	See Note 2 for detailed discussion and disclosures. Adopted using a modified retrospective approach. January 1, 2018 balance of retained earnings was increased by less than $2 million.

	or services. Requires disclosures about the nature, amount, timing, and uncertainty of revenue and cash flows arising from contracts with customers. Specifies the accounting for some costs to obtain or fulfill a contract with a customer.		
ASU No. 2016-01, Recognition and Measurement of Financial Assets and Financial Liabilities	Requires investments in equity securities in an entity that do not result in consolidation and are not accounted for under the equity method to be measured at fair value with changes therein reflected in net income. Simplifies the impairment assessment and allows for a fair value measurement alternative for equity investments without a readily determinable fair value. Eliminates the previous cost method of accounting for certain equity securities that did not have readily determinable fair values.	January 1, 2018	Measurement alternative adopted prospectively. See the preceding “Changes to Significant Accounting Policies” section for impact.
ASU No. 2016-16, Intra-Entity Transfers of Assets Other Than Inventory	Exempts income tax accounting that requires companies to defer the income tax effects of certain intercompany transactions only for intercompany inventory transactions. The exception no longer applies to intercompany sales and transfers of other assets (e.g., intangible assets).	January 1, 2018	Adopted using a modified retrospective approach. January 1, 2018 balance of retained earnings was decreased by less than $2 million.
ASU No. 2017-01, Clarifying the Definition of a Business	Narrows the previous definition of a business and provides a framework for evaluating whether a transaction should be accounted for as an acquisition (or disposal) of assets or a business.	January 1, 2018	Adopted prospectively with no immediate impact. Fewer sets of transferred assets and activities are expected to be considered businesses.

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Standards Adopted During the Current Fiscal Year (continued)

Standard	Relevant Description	Effective Date for 3M	Impact and Other Matters
ASU No. 2017-05, Clarifying the Scope of Asset Derecognition Guidance and Accounting for Partial Sales of Nonfinancial Assets	Largely impacts the sale of nonfinancial assets (such as real estate and intellectual property) that do not constitute a business, when the purchaser is not a customer. Seller applies certain recognition and measurement principles of ASU No. 2014-09, Revenue from Contracts with Customers, even though the purchaser is not a customer.	January 1, 2018	Adopted coincident with the adoption of ASU No. 2014-09 with no material impact.
ASU No. 2017-07, Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost	Changes previous classification of net periodic defined benefit pension and postretirement benefit costs within operating expenses. Requires that only the service cost component of net periodic benefit cost be included in operating expenses and that only the service cost component is eligible for capitalization into assets such as inventory. Specifies that other net periodic benefit costs components (such as interest, expected return on plan assets, prior service cost amortization and actuarial gain/loss amortization) would be reported outside of operating income.	January 1, 2018	Adopted on a retrospective basis. No impact on previously reported income before income taxes and net income attributable to 3M. However, non-service cost components of net periodic benefit costs in prior periods have been reclassified from operating expenses and are now reported outside of operating income within other expense (income), net. See the “Basis of Presentation” section above for impact of this ASU’s adoption on prior period income statement amounts. Prospective impact on costs capitalized into assets was not material.
ASU No. 2017-09, Scope of Modification Accounting	Provides that fewer changes to the terms of share-based payment awards will require	January 1, 2018	Adopted prospectively with no immediate impact.

accounting under the modification model (which generally would have required additional compensation cost).	3M does not typically make changes to the terms or conditions of its issued share-based payments.

Standards Issued and Not Yet Adopted

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

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Standards Issued and Not Yet Adopted (continued)

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

Relevant New Standards Issued Subsequent to Most Recent Annual Report

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

NOTE 2. Revenue

The Company adopted ASU No. 2014-09 and related standards (collectively, Accounting Standards Codification (ASC) 606, Revenue from Contracts with Customers), as described in Note 1, on January 1, 2018 using the modified retrospective method of adoption. Prior periods have not been restated. Due to the cumulative net impact of adopting ASC 606, the January 1, 2018 balance of retained earnings was increased by less than $2 million, primarily relating to the accelerated recognition for software installation service and training revenue. This cumulative impact reflects retrospective application of ASC 606 only to contracts that were not completed as of January 1, 2018. Further, the Company applied the practical expedient permitting the effect of all contract modifications that occurred before January 1, 2018 to be aggregated in the transition accounting. The impact of applying ASC 606 as compared with previous guidance applied to revenues and costs was not material for the three months ended March 31, 2018.

Performance Obligations:

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

Revenue is recognized when control of goods has transferred to customers. For the majority of the Company's customer arrangements, control transfers to customers at a point-in-time when goods/services have been delivered as that is generally when legal title, physical

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possession and risks and rewards of goods/services transfers to the customer. In limited arrangements, control transfers over time as the customer simultaneously receives and consumes the benefits as 3M completes the performance obligation(s).

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

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

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

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

Contract Balances:

Deferred income (current portion) as of March 31, 2018 and December 31, 2017 was $519 million and $513 million, respectively, and primarily relates to revenue that is recognized over time for one-year software license contracts, the changes in balance of which are related to the satisfaction or partial satisfaction of these contracts. The balance also contains a deferral of income for goods that are in-transit at period end for which control transfers to the customer upon delivery. Approximately $280 million of the December 31, 2017 balance was recognized as revenue during the first quarter of 2018. The amount of noncurrent deferred income is not considered significant.

Exemptions and Practical Expedients Applied or Elected:

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

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

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Disaggregated revenue information:

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

	Three months ended March 31,	
Net Sales (Millions)	2018	2017
Abrasives	$ 475	$ 430
Adhesives and Tapes	1,153	1,075
Advanced Materials	304	287
Automotive and Aerospace	559	508
Automotive Aftermarket	418	417
Separation and Purification	236	220
Other Industrial	(1)	(1)
Total Industrial Business Group	$ 3,144	$ 2,936
Commercial Solutions	$ 485	$ 443
Personal Safety	962	707
Roofing Granules	101	97
Transportation Safety	236	303
Other Safety and Graphics	(1)	—
Total Safety and Graphics Business Group	$ 1,783	$ 1,550
Drug Delivery	$ 119	$ 121
Food Safety	82	73
Health Information Systems	205	191
Medical Consumables	776	714
Oral Care	354	336
Other Health Care	—	—
Total Health Care Business Group	$ 1,536	$ 1,435
Electronics	$ 931	$ 878
Energy	420	413
Other Electronics and Energy	(1)	—
Total Electronics and Energy Business Group	$ 1,350	$ 1,291
Consumer Health Care	$ 102	$ 102
Home Care	269	261
Home Improvement	447	408
Stationery and Office	299	292
Other Consumer	10	10
Total Consumer Business Group	$ 1,127	$ 1,073
Corporate and Unallocated	$ —	$ 1
Elimination of Dual Credit	(662)	(601)

Total Company	$ 8,278	$ 7,685

Net Sales (Millions)	Three months ended March 31, 2018 United States	Asia Pacific	Europe, Middle East and Africa	Latin America and Canada	Other Unallocated	Worldwide
Industrial	$ 1,100	$ 944	$ 785	$ 316	$ (1)	$ 3,144
Safety and Graphics	652	497	436	198	—	1,783
Health Care	702	299	394	141	—	1,536
Electronics and Energy	229	911	145	66	(1)	1,350
Consumer	610	272	141	106	(2)	1,127
Corporate and Unallocated	—	(1)	—	(1)	2	—
Elimination of Dual Credit	(249)	(246)	(109)	(59)	1	(662)
Total Company	$ 3,044	$ 2,676	$ 1,792	$ 767	$ (1)	$ 8,278

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	Three months ended March 31, 2017					
Net Sales (Millions)	United States	Asia Pacific	Europe, Middle East and Africa	Latin America and Canada	Other Unallocated	Worldwide
Industrial	$ 1,082	$ 853	$ 696	$ 305	$ —	$ 2,936
Safety and Graphics	581	431	351	188	(1)	1,550
Health Care	690	260	353	133	(1)	1,435
Electronics and Energy	231	851	143	65	1	1,291
Consumer	587	259	126	102	(1)	1,073
Corporate and Unallocated	1	(1)	—	1	—	1
Elimination of Dual Credit	(231)	(220)	(92)	(58)	—	(601)
Total Company	$ 2,941	$ 2,433	$ 1,577	$ 736	$ (2)	$ 7,685

NOTE 3. Acquisitions and Divestitures

Acquisitions:

3M makes acquisitions of certain businesses from time to time that are aligned with its strategic intent with respect to, among other factors, growth markets and adjacent product lines or technologies. Goodwill resulting from business combinations is largely attributable to the existing workforce of the acquired businesses and synergies expected to arise after 3M's acquisition of these businesses.

There were no business combinations that closed during the three-month periods ended March 31, 2018 and 2017.

As discussed in the Company's 2017 Annual Report on Form 10-K, in October 2017, 3M completed the acquisition of Scott Safety for $2.0 billion of cash, net of cash acquired. Adjustments in 2018 to the purchase price allocation were approximately $20 million and related to identification of certain immaterial acquired assets. The change to provisional amounts did not result in material impacts to results of operations in 2018 or any portion related to earlier quarters in the measurement period. The allocation of purchase consideration related to Scott Safety is considered preliminary with provisional amounts primarily related to intangible assets and certain tax-related, contingent liability and working capital items. 3M expects to finalize the allocation of purchase price within the one year measurement-period following the acquisition.

Divestitures:

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

2018 divestitures:

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

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

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

2017 divestitures:

During the first quarter of 2017 (January 2017), 3M sold the assets of its safety prescription eyewear business, with annual sales of approximately $45 million, to HOYA Vision Care. The Company recorded a pre-tax gain of $29 million in the first quarter of 2017 as a result of this sale, which was reported within the Company's Safety and Graphics business.

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During the remainder of 2017, as further described in Note 2 in 3M's 2017 Annual Report on Form 10-K, the Company closed on the divestiture of a number of business including its: identity management; tolling and automated license/number plate recognition; electronic monitoring; and electrical marking/labeling businesses.

Other:

In December 2017, 3M agreed to sell substantially all of its Communication Markets Division to Corning Incorporated, for $900 million, subject to closing and other adjustments. This business, with annual sales of approximately $400 million consists of optical fiber and copper passive connectivity solutions for the telecommunications industry including 3M's xDSL, FTTx, and structured cabling solutions and, in certain countries, telecommunications system integration services. This sale is expected to close in 2018, subject to consultation or information requirements with relevant works councils and to customary closing conditions and regulatory approvals. 3M expects a pre-tax gain of approximately $500 million as a result of this divestiture that will be reported within the Company's Electronics and Energy business.

The aggregate operating income of these businesses was approximately $15 million and $10 million in the first quarters of 2018 and 2017, respectively. The approximate amounts of major assets and liabilities associated with disposal groups classified as held-for-sale as of March 31, 2018 and December 31, 2017 included the following:

(Millions)	March 31, 2018	December 31, 2017
Accounts receivable	$ 20	$ 25
Property, plant and equipment (net)	—	20

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

Refer to Note 2 in 3M's 2017 Annual Report on Form 10-K for more information on 3M's acquisitions and divestitures.

NOTE 4. Goodwill and Intangible Assets

There were no acquisitions that closed during the first three months of 2018. The acquisition activity in the following table relates to the net impact of adjustments to the preliminary allocation of purchase price within the one year measurement period following prior acquisitions, which decreased goodwill by $20 million during the three months ended March 31, 2018. The amounts in the "Translation and other" column in the following table primarily relate to changes in foreign currency exchange rates. The goodwill balances by business segment as of December 31, 2017 and March 31, 2018, follow:

Goodwill

(Millions)	December 31, 2017 Balance	Acquisition activity	Divestiture activity	Translation and other	March 31, 2018 Balance
Industrial	$ 2,678	$ —	$ (4)	$ 38	$ 2,712
Safety and Graphics	4,419	(20)	(8)	18	4,409
Health Care	1,682	—	—	17	1,699
Electronics and Energy	1,524	—	—	12	1,536
Consumer	210	—	—	4	214
Total Company	$ 10,513	$ (20)	$ (12)	$ 89	$ 10,570

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

As described in Note 16, effective in the first quarter of 2018, the Company changed its business segment reporting in its continuing effort to improve the alignment of its businesses around markets and customers. In addition, certain shared film manufacturing and supply technology platform resources formerly reflected within the Electronics and Energy business segment were combined with

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other shared and centrally managed material resource centers of expertise within Corporate and Unallocated. For any product changes that resulted in reporting unit changes, the Company applied the relative fair value method to determine the impact on goodwill of the associated reporting units. During the first quarter of 2018, the Company completed its assessment of any potential goodwill impairment for reporting units impacted by this new structure and determined that no impairment existed.

Acquired Intangible Assets

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

(Millions)	March 31, 2018	December 31, 2017
Customer related intangible assets	$ 2,341	$ 2,332
Patents	564	561
Other technology-based intangible assets	584	583
Definite-lived tradenames	679	678
Other amortizable intangible assets	208	207
Total gross carrying amount	$ 4,376	$ 4,361
Accumulated amortization — customer related	(912)	(874)
Accumulated amortization — patents	(496)	(489)
Accumulated amortization — other technology based	(304)	(292)
Accumulated amortization — definite-lived tradenames	(265)	(256)
Accumulated amortization — other	(166)	(162)
Total accumulated amortization	$ (2,143)	$ (2,073)
Total finite-lived intangible assets — net	$ 2,233	$ 2,288
Non-amortizable intangible assets (primarily tradenames)	652	