

1998 Annual Report

*Solutions
for Growing
Markets*



3M *Innovation*

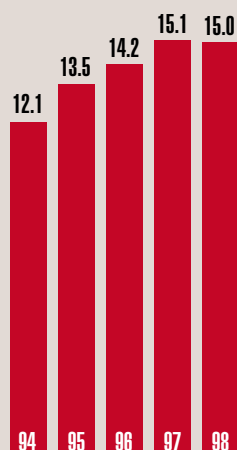
FINANCIAL HIGHLIGHTS

Years ended December 31	1998	1997	Change in U.S. dollars	Change in local currencies
(Dollars in millions, except per-share amounts)				
Net sales	\$15,021	\$ 15,070	(0.3)%	3.1%
Operating income	\$ 2,532	\$ 2,675	(5.4)%	3.5%
Percent to sales	16.9%	17.7%		
Net income	\$ 1,526	\$ 1,626	(6.1)%	2.6%
Percent to sales	10.2%	10.8%		
Per share – diluted	\$ 3.74	\$ 3.88	(3.6)%	5.4%
Return on invested capital	15.9%	18.0%		
Return on average stockholders' equity	25.6%	26.1%		
Cash dividends per share	\$ 2.20	\$ 2.12	3.8%	

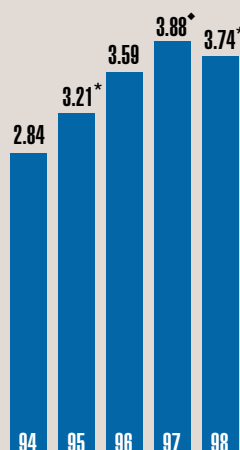
1998 results exclude a restructuring charge of \$493 million (\$313 million after tax), or 77 cents per diluted share, and an extraordinary loss on early extinguishment of debt of \$38 million (net of tax), or 9 cents per diluted share.

1997 results exclude a gain of \$803 million (\$495 million after tax), or \$1.18 per diluted share, on the sale of National Advertising Company.

Net Sales
(\$ Billions)



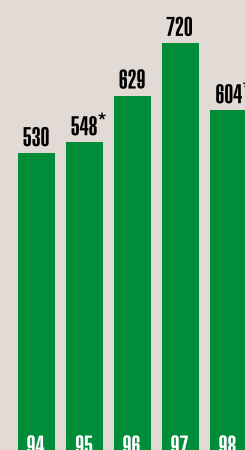
Diluted Earnings Per Share from Continuing Operations (\$)



* Excludes one-time charges

* Excludes gain on sale of business

Economic Profit
(\$ Millions)



* Excludes one-time charges

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On the Cover: Sales from 3M's Pacing Plus programs, including those highlighted on the front and back cover of this year's report, reached \$1 billion in 1998. Pacing Plus programs address important needs in growing markets worldwide.

While 1998 was a challenging year, we are confident that our direction, strategies and actions will create value for shareholders in 1999 and beyond.



*L. D. DeSimone
Chairman of the Board
and Chief Executive Officer*

Dear Shareholders:

During 1998, we encountered a difficult set of challenges – large negative currency effects, economic contractions in many international markets where we have a strong presence, and softness in a few key U.S. markets.

As a result, earnings – after increasing an average of more than 10 percent a year during the preceding four years – declined slightly in 1998. Earnings were \$3.74 a share on a diluted basis, down 3.6 percent from 1997.* Currency effects reduced earnings by 35 cents a share, or 9 percent.

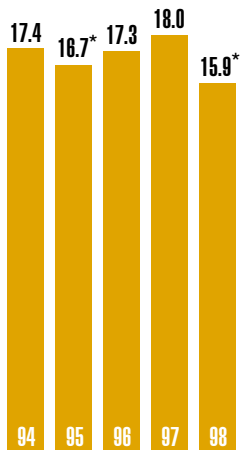
Sales, at \$15.0 billion, were roughly the same as in 1997. Currency translation reduced sales by more than \$500 million, or 3 percent.

In the United States, we posted good growth in our consumer, office, pharmaceuticals and automotive products businesses, but softness in electronics, transportation safety and industrial markets affected overall growth.

Internationally – where we generate more than half our revenues – sales in local currencies increased 6 percent. This followed four consecutive years of double-digit volume gains abroad. While we had another good year in Europe, we were impacted by a particularly difficult economic backdrop in Japan and many countries in Asia.

* Excludes 1998 one-time charges and 1997 gain on sale of business

Return on Invested Capital (%)

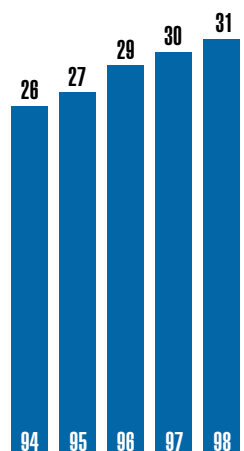


* Excludes one-time charges



With Scotch® Pop-up Tape Strips and Dispensers, 3M is extending its leadership in tapes for the home and office.

New Product Sales (% of Total Sales)



Throughout the Asia Pacific area, we sustained our strong market positions through an outstanding flow of new products and first-rate customer service. Longer term, we remain confident about the prospects for Asia Pacific economies and our ability to generate solid growth there.

While worldwide profits declined in 1998, the quality of 3M earnings continued to be high. Excluding one-time charges:

- Operating income was 16.9 percent of sales.
- Net income was 10.2 percent of sales.
- Return on stockholders' equity was 25.6 percent.
- And return on invested capital was 15.9 percent, about six percentage points above our cost of capital.

1999 Outlook

We expect to regain our growth momentum in 1999, even though there still are a number of economic challenges and uncertainties around the world. Our results will benefit from a stronger flow of new products and greater productivity gains.

During 1998, we generated 31 percent of our sales from products new to the market within the past four years. We expect an even higher proportion of sales to come from new products in 1999.

Our high-impact Pacing Plus programs generated sales of \$1 billion, up about 50 percent from 1997. We expect sales of Pacing Plus programs to exceed \$1.5 billion in 1999.

To sustain a strong flow of new products, we continue to make substantial investments – about \$1 billion a year – in research and development. During 1998, we were awarded 611 U.S. patents, placing us 11th among U.S. companies.

Restoring Solid Productivity Gains

Productivity, as measured by sales per employee in local currencies, increased about 3 percent in 1998. This followed gains of 9 percent, on average, during the preceding four years.

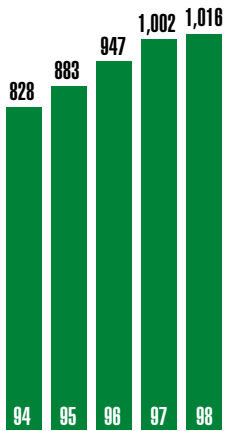
To resume healthy productivity gains, reduce costs and further strengthen our competitiveness, we are implementing several actions. We are streamlining corporate structure, consolidating manufacturing operations and withdrawing from product lines that have low returns or where we no longer see a strategic fit.

We're ahead of schedule in our plan, announced in mid-1998, to eliminate about 4,500 positions – 6 percent of our worldwide total – by the end of 1999.



3M™ Dual Brightness Enhancement Film, which makes computer screens brighter and easier to read over wider viewing angles, continued to generate strong growth in 1998.

R&D Spending
(\$ Millions)



3M is the leader in closures for disposable diapers. Our new reclosable fasteners hold securely even in the presence of lotions and powders, and help ensure a comfortable fit.

Building on Strengths

3M is a global leader in industrial, consumer, office, health care, safety and other markets. We draw on many strengths, including a rich pool of technology, innovative products, strong customer service and efficient manufacturing. We have companies in more than 60 countries and sell our products in nearly 200 countries.

Throughout our businesses, we're focused on strengthening our presence in existing markets and entering new markets. As part of our efforts to continue to build customer satisfaction and loyalty, we're providing convenient access to a wide range of 3M products, services and technologies. We also help customers improve quality, streamline manufacturing and strengthen their businesses in other ways.

We're confident that our direction, strategies and actions will create value for shareholders in 1999 and beyond.

In the pages that follow, we discuss our strengths, strategies and growth drivers in detail.

In closing, I would like to thank Dr. Ronald A. Mitsch, vice chairman of the board and executive

vice president, who retired in November 1998. During his 38 years at 3M, Ron distinguished himself with strong leadership and operational contributions. He also was an inspirational new product champion, and we greatly appreciate his service to our company.

I also want to recognize 3M employees – especially in a difficult year – for their efforts to make 3M the most innovative enterprise and the preferred supplier and to position the company for resumed growth in 1999.

L. D. DeSimone
Chairman of the Board
and Chief Executive Officer
February 8, 1999

A Tremendous Pipeline of Innovative New Products

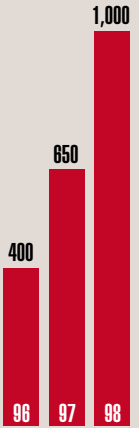
In 1998, sales from our Pacing Plus products totaled \$1 billion, up from about \$650 million in 1997 and \$400 million in 1996.

Pacing Plus programs change the basis of competition in new or existing markets and offer large sales and profit potential. As a result, they receive priority access to 3M resources and are developed and commercialized in an accelerated time frame. In the pages that follow, we highlight many of the more than 35 Pacing Plus programs that currently are under way.

In creating Pacing Plus and other innovative new products, our 7,100 scientists and technicians draw on more than two dozen important technology platforms. These technologies range from adhesives and nonwoven materi to microreplication and multilayer films.

Pacing Plus Sales
(\$ Millions)

Through our Pacing Plus initiative, we're accelerating the development of high-impact new products and bringing them to market faster. Sales from Pacing Plus programs are expected to top \$1.5 billion in 1999.



Major Pacing Plus Programs

In Development

Advanced Surgical and Wound Care Products

Bonding Systems for Automotive Glass

Immune Response Modifiers for New Indications

Next-generation Floor Matting

Optical Components for Projection Displays

Products for Polishing Surfaces of Semiconductors and Memory Disks

Superabrasive Products

Recently Launched

3M™ Advanced Meeting Solutions

3M™ Scotchprint™ Printer 2000 System

3M™ Volition™ Fiber Optic Cabling System

Aldara™ (imiquimod) Cream for Genital Warts

Graphic Marking Films 2000

High Performance Wipe Products

Scotch® Pop-up Tape Strips and Dispensers

Weatherable Materials for Use with Ink-jet Printers

Established on the Market

3M™ Dual Brightness Enhancement Film

3M™ Microflex Circuits

3M™ Mounting Products with Command™ Adhesive

3M™ Novec™ HFE-Based Engineered Fluids

3M™ Scotchlite™ Diamond Grade™ Reflective Sheeting

3M™ Trizact™ Abrasives

CFC-free Inhaler Technology

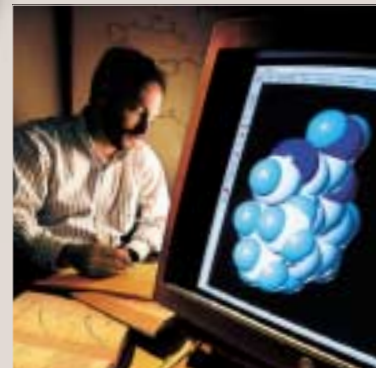
Elastics for Disposable Diapers

Dyneon™ High Performance Fluoropolymers

New Respirators for Worker Safety

Post-it® Flag Products

Reclosable Fastener Systems for Disposable Diapers



*A New Generation
of Respiratory
Protection Products*



3M invented and created the market for lightweight, maintenance-free respirators that help protect against certain airborne contaminants. Today, 3M is the global leader in the respiratory protection market. Workers and employers depend on us not only for top-quality products, but also for respiratory safety training worldwide.

To meet new, more stringent regulations, we've invented a new line of particulate respirators. Employing entirely new filtration technology, our respirators meet or exceed regulatory requirements, while remaining comfortable to wear and easy to breathe through. We've filed for two dozen patents and are launching this latest generation of respirators globally, further strengthening our market position.



3M Reflective Sheeting Sets Performance Standard

Pedestrians, bicyclists and motorists have a new safety edge with 3M™ Scotchlite™ Diamond Grade™ Reflective Sheeting.

Our eye-catching fluorescent yellow-green sheeting was approved in 1998 for signs near schools, playgrounds, bike paths and other areas where driver awareness is critical. Another product in the line, Diamond Grade fluorescent orange sheeting, rapidly is becoming the standard in many states for signs in construction work zones. 3M's durable fluorescent sheetings are the first to include a warranty for fluorescent-color retention.

Our Diamond Grade sheeting, which also makes large vehicles highly visible at night, draws on many 3M technologies and extends our leadership in reflective materials for transportation safety.



Microflex Circuits Open the Door for Ever-Smaller Electronic Devices

The unrelenting drive toward smaller, lighter, more powerful and more economical electronic products creates strong demand for leading-edge 3M™ Microflex Circuits. We're the world's number-one supplier of adhesiveless flexible circuitry. 3M microflex circuits connect components in many of the world's ink-jet printers. They also link integrated circuits to printed circuit boards efficiently and reliably, making it possible to develop even smaller cellular phones, portable computers, pagers and other electronic devices. An emerging application is "flex-on suspension," which is designed to replace traditional wire interconnects for the newest generation of read/write heads in hard disk drives.

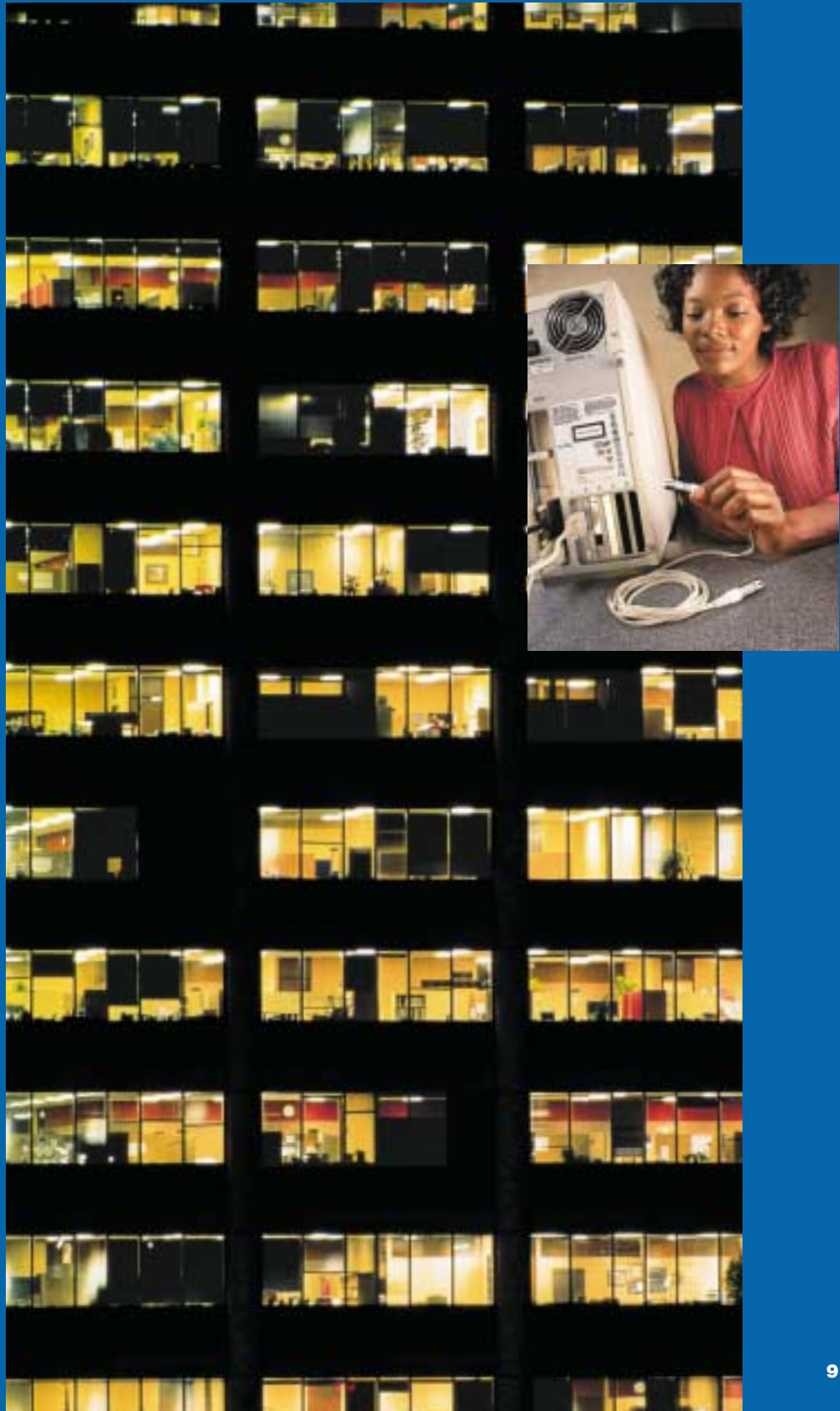


Unleashing Network Power at the Desk

Local area networks increasingly are pushed to transmit more and more data ever faster due to dramatic hikes in computer processing speed, desktop video conferencing capabilities and multimedia applications.

Launched in 1998, the 3M™ Volition™ Fiber Optic Cabling System is an easier and more economical way to bring far greater speed and data-carrying capacity to the desktop.

The system employs a patented 3M connector that allows computers to be connected to the network as easily as plugging into a telephone jack, eliminating the need for skilled technicians.



CFC-Free Inhalers Help Growing Population of Asthma Sufferers

Worldwide, millions of people suffer from asthma or chronic obstructive pulmonary disease – conditions that are treated with metered-dose inhalers (MDIs). In developed countries alone, about one in 20 people has asthma.

3M is one of the world's largest producers of MDIs and was the first company to develop and gain approval for an inhaler free of ozone-depleting chlorofluorocarbons.

Our newest CFC-free inhaler – which is approved in the United Kingdom and New Zealand and is under active regulatory review in many other countries – delivers beclomethasone, one of the world's leading medications for asthma. This inhaler not only provides environmental advantages, but also incorporates a softer, finer spray that allows more medication to reach deeper into the lungs. Compared with CFC-beclomethasone inhalers, patients now can receive the same effectiveness at lower daily doses.

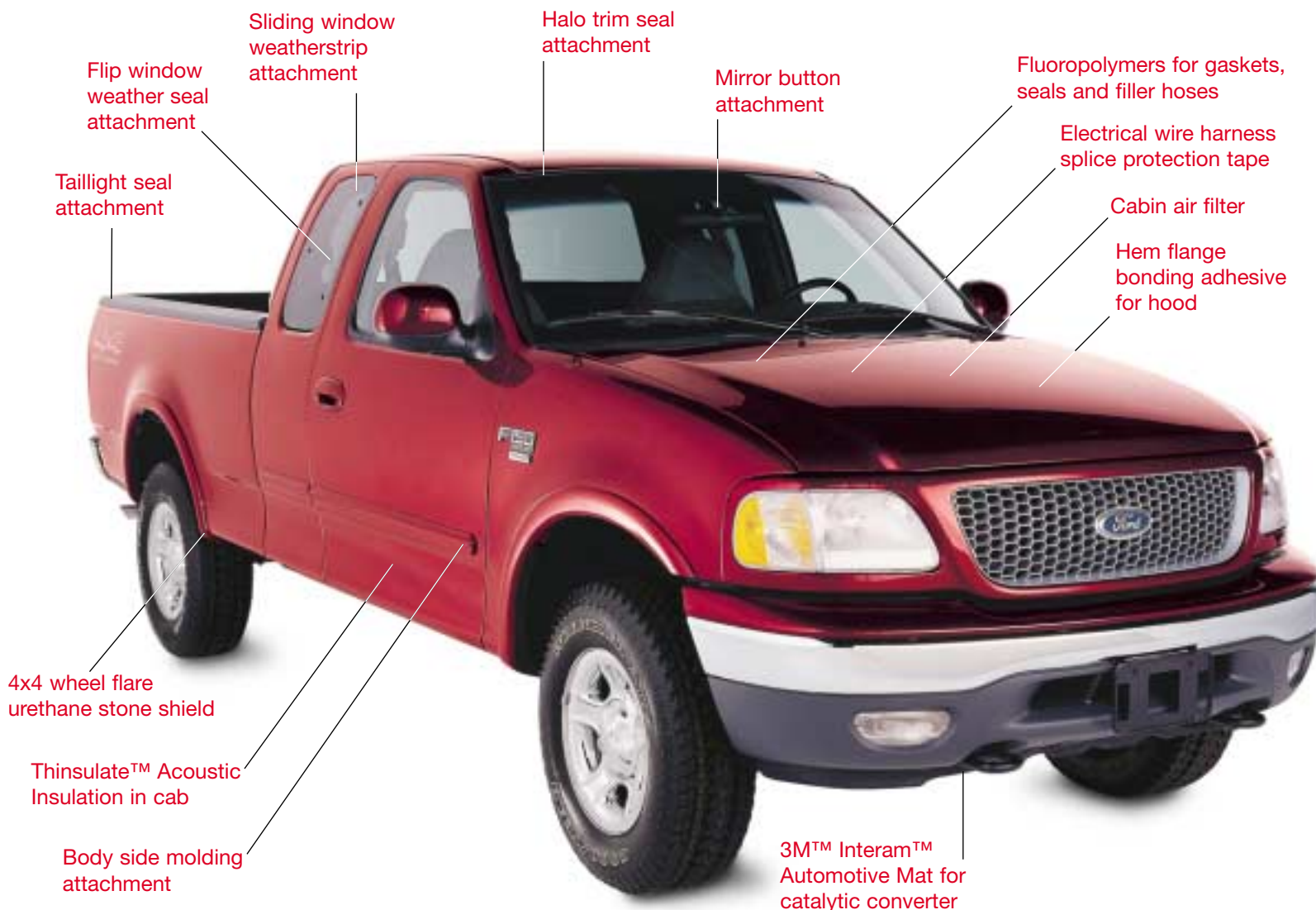


3M Products Are on the Road in Vehicles Worldwide

From super-strong structural adhesives and weatherable vehicle graphics to insulation materials and fluoropolymers for seals and gaskets, 3M products help the world's auto manufacturers improve the performance, safety and appearance of their vehicles.

Currently, we're developing an innovative glass bonding method for windshields and other stationary glass. By offering simple assembly, immediate structural bonding and significant cost savings, this new Pacing Plus program holds potential to become the preferred method of auto glass installation.

Other recent innovations include a rearview mirror attachment system that is less susceptible to heat and humidity than conventional mirror-adhesive products, and a new generation of insulated mounts for catalytic converters.



Breakthrough Drug Helps Immune System Battle Disease



Imiquimod, an entirely new 3M compound, is revolutionizing the treatment of genital warts, one of the world's fastest-growing sexually transmitted diseases. This compound locally stimulates the immune system to combat the virus that causes genital warts, which afflict more than 4 million people in the United States alone.

This breakthrough medicine – marketed as Aldara™ (imiquimod) Cream – is applied topically and is an alternative to painful treatments involving surgical procedures or application of acids or freezing compounds. Clinical studies also show warts recur less often with Aldara cream.

Now, imiquimod and related 3M compounds are progressing well in early clinical trials for promising new treatments of common and plantar warts, basal cell carcinoma, genital herpes and the virus that can lead to cervical cancer. We're also partnering with Vanguard Medica in the United Kingdom to develop a potential oral treatment for hepatitis C.





Innovative Cloth Cleans Up



3M's innovative new Scotch-Brite™ High Performance Cloth traps dust, water and oils all at the same time, even when the cloth is completely dry. Constructed of unique microfibers, it's the most effective multipurpose, reusable cleaning cloth of its kind.

Because it leaves surfaces cleaner than traditional wipes and doesn't scratch, the cloth is ideal for many uses – from cleaning tabletops to computer screens to eyeglasses. Often, chemical cleaners aren't even needed.

The high performance cloth was launched in Europe in 1998 for the professional cleaning, residential and office markets, and is winning outstanding acceptance. It's also being introduced in the United States, Latin America and Asia, with promise in a broad range of consumer, professional cleaning, and industrial applications. This product is the first in a new line of innovative cleaning cloths from 3M.

Industrial and Consumer Markets

We draw on a vast pool of 3M technology and powerful brands to provide innovative, high-impact products to important markets.



Harold J. Wiens
Executive Vice President



3M™ Trizact™ Abrasives are ideal for finishing stainless steel, titanium, aluminum and other metals used in products such as jet engine turbine blades, medical implants and golf clubs.

Following four consecutive years of healthy growth, profits of Industrial and Consumer Markets declined 6.3 percent to \$1.3 billion in 1998. Sales totaled \$7.7 billion, down 0.8 percent from 1997. Results were negatively impacted by the strong U.S. dollar, the Asian economic crisis, softness in the electronics industry and slowing in the manufacturing sector of the U.S. economy. Through stronger volume growth and significant cost reduction, we expect improved results in 1999.

Our businesses provide innovative, high-quality products to important and growing segments of industrial, electronics, telecommunications, consumer and office markets. 3M is the world's largest manufacturer of tapes and is the global leader in coated and nonwoven abrasives. We're also a leading supplier of connecting, splicing, terminating, protecting and insulating products. In addition, 3M invented and is the market leader in transparent tapes, repositionable notes and flags, nonwoven scouring products, and a host of other products for home and office use.

In providing solutions to customer needs, we draw on a vast pool of 3M technology, extensive product lines and powerful brands – including Scotch®, Post-it®, Scotch-Brite™, O-Cel-O™, Scotchgard™ and 3M™. We meet the needs of customers with manufacturing facilities throughout the world and

knowledgeable sales people focused on both users and distributors of our products.

To resume solid growth in Industrial and Consumer Markets, we're developing high-impact new products and expanding existing product lines, intensifying our focus on key accounts, and continuing to increase our penetration of international markets.

New Products

Led by Pacing Plus programs, we expect a significant increase in new product sales in 1999 and beyond. We currently have 14 Pacing Plus programs on the market or under development. Sales from these products totaled \$470 million in 1998, up about 35 percent from 1997. Pacing Plus sales are expected to increase about 60 percent in 1999.

To meet growing demand for our largest Pacing Plus program, 3M™ Microflex Circuits, we're significantly expanding manufacturing capacity. We recently opened a large plant in Singapore to serve electronics manufacturers throughout Asia.

The 3M™ Volition™ Fiber Optic Cabling System, another major Pacing Plus program, marks our entry into the on-premise networking market and is the first optical fiber networking solution competitively priced with copper cabling. To enhance our leading position in the global telecommunications market, we acquired substantial

New electrically conductive 3M films attach flexible circuits to printed circuit boards, liquid crystal displays and other circuitry in products ranging from cordless telephones to satellites.



Innovative new Scotch® Tamper Indicating Tape leaves a security “alert” message when peeled from most materials.



3M™ Mounting Products with Command™ Adhesive are ideal for temporary use. The hooks and clips remove quickly and cleanly with a pull on the unique stretch tab.



New Post-it® Products help people worldwide stay organized and communicate quickly.

assets of PSI Telecom in December 1998. This acquisition adds to our line of solutions for outside-plant telecommunications systems and provides new technology for future product development.

In the abrasives market, our newest offerings last longer than conventional abrasives, create a superior finish, and improve the speed and productivity of finishing processes. 3M™ Trizact™ Abrasives are setting new standards in fine finishing of metals.

Promising applications for this technology also exist in the electronics industry for polishing the surfaces of semiconductors and memory disks. In February 1999, we formed an alliance with Rodel, Inc., to accelerate the commercialization of these applications. This alliance combines 3M's advanced technology and Rodel's strong market knowledge and position.

In consumer and office markets, 3M™ Mounting Products with Command™ Adhesive, Scotch® Pop-up Tape and Post-it® Flags are among key Pacing Plus programs.

3M mounting products with Command adhesive are the first self-adhesive hooks, picture hangers and clips that adhere to most surfaces and stay in place as long as desired, yet can be quickly and cleanly removed. This new product received a *Good Housekeeping* magazine 1999 Good Buy Award.

Our unique Scotch® Pop-up Tape makes it possible to conveniently dispense a piece of tape with one hand. Our dispensers deliver precut strips of tape right to the fingertips. As each strip is removed, the next one pops up automatically. Scotch® Pop-up Tape, which received a 1998 Good Buy Award from *Good Housekeeping*, is the only product of its kind and is being enthusiastically received around the world.

Post-it® Flags, which are ideal for flagging and indexing important information, now are available in many additional colors and sizes, as well as with preprinted messages.

Key-Account Focus

We're a preferred supplier to many of the world's most important retailers and distributors, providing easy access to the broad range of 3M consumer and office products. In 1998, our performance again was recognized by major customers. For example, we earned Vendor of the Year status from Kmart.

We help customers build traffic, sales, market share and profits through customized marketing and merchandising programs. We also provide state-of-the-art comanaged inventory and electronic commerce capabilities, which help customers drive earnings and cash flow by increasing product turns and optimizing stock levels.

We're also making 3M's capabilities more easily available to our industrial customers. Our sales teams provide convenient, single-source access to a broad range of 3M products. In addition, we're working even more closely with key industrial accounts to help them grow, improve quality, reduce costs and increase productivity.

International Market Penetration

In developed international markets, new products and our intense focus on key accounts will drive growth. We'll also benefit from the addition of in-country 3M specialists who demonstrate the superior value of 3M industrial and consumer products to customers.

In developing economies, we're increasing sales, distribution and manufacturing capabilities. We're expanding manufacturing of abrasives, scouring products and floor matting in China. We're also developing an extensive distribution network there. In Latin America, we've recently added manufacturing capacity for tapes, abrasives and scouring products.

Transportation, Safety and Specialty Material Markets

In transportation safety, respiratory protection and several other businesses, we not only created the market, we remain the global leader.



Raymond C. Richelsen
Executive Vice President



3M™ Confirm™ Security Laminate makes passports, drivers' licenses and other valuable documents virtually impossible to alter or duplicate.

Our Transportation, Safety and Specialty Material businesses hold leading positions in important markets – traffic safety, respiratory protection, automotive technologies, commercial graphics, specialty materials and others. Products from 12 Pacing Plus programs are generating sales or are under development for these and other fast-growing markets.

In 1998, our businesses generated sales of \$4.1 billion, down 1.8 percent from 1997. Operating income totaled \$753 million, a decline of 6.9 percent.

The stronger U.S. dollar, the Asian economic crisis, delays in the passage of new federal legislation for highway funding and softness in the electronics industry affected sales and profits.

Transportation Safety

3M invented reflective sheeting and leads the way with innovative solutions for transportation safety. We offer products for highway signs, construction work zones, commercial trucking fleets and vehicle registration.

In June 1998, the federal government passed legislation that provides funding over the next six years to repair and upgrade highways, roads and bridges in the United States. This funding represents a significant increase over the previous legislation and will contribute to our growth.

New products also will drive our growth in transportation safety. 3M™ Scotchlite™ Diamond Grade™

Reflective Sheeting, the industry benchmark, is about 10 times brighter than materials still found on many highway signs. Because of its unique construction, it also reflects light at sharper angles, such as on curved roadways.

Our red-and-white reflective markings help make large vehicles highly visible at night. In the United States, reflective markings have been required on all new semitrailers since 1993. The United Nations recently adopted similar standards for trucks in Europe and Asia.

We also will grow through continued expansion internationally. Many developing countries are making significant investments in transportation safety. In China, we're building a new plant to serve that country and other Asian markets.

Respiratory Protection

We're extending our leadership in respiratory protection products for worker safety. We recently invented an entirely new line of maintenance-free particulate respirators to meet new performance requirements. In addition, we're developing a line that addresses the preference of certain users for respirators that can be folded when not in use.

In 1998, we acquired Racial Health & Safety, Inc., which added powered air-purifying respirators and other products to our respirator family. We now offer the most complete line of high-quality respirators in the world.



Featured on apparel, footwear and accessories, 3M™ Scotchlite™ Reflective Material is up to 1,500 times brighter at night than white clothing.



The 3M™ Scotchprint™ Printer 2000 creates high-quality, self-adhesive graphics quickly and economically.



3M™ Novec™ HFE-Based Engineered Fluids perform as well as CFCs, but don't deplete the Earth's ozone layer.



Dyneon™ Products, used in O-rings, seals, gaskets and other parts in automobiles and aircraft, outperform the competition under the harshest conditions.

Automotive Technologies

3M supplies a wide variety of products to the automotive market, including high-performance tape attachment systems; structural adhesives; catalytic converter mounts; decorative, functional and protective films; and trim and identification products.

For vehicle brand identity, our line of badges, nameplates, trim and identification products is gaining wide acceptance. With 3M™ Dimensional Graphics, tooling costs and production lead times are significantly reduced. Our newest products offer a wide range of attractive looks, such as chrome, pewter and gold tones.

We're also developing multilayer films that block infrared and ultraviolet wavelengths of sunlight without reducing visibility. Use of these films will enhance comfort and reduce air-conditioning loads, thus improving fuel efficiency.

Commercial Graphics

We're the world's leading supplier of materials and systems for producing high-performance, self-adhesive graphic images. 3M offers the widest range of customer solutions available, and our graphics products are unmatched in quality, reliability and functionality.

We're changing the basis of competition by revolutionizing how graphics are produced. The 3M™ Scotchprint™ Electronic Graphic System can produce from one to hundreds of high-quality, large-format graphics with unprecedented speed and affordability.

We also are extending our horizons with materials for other digital-imaging technologies. 3M materials bring new image graphics capabilities to sign shops, quick printers and other small-business graphic fabricators.

Optical Markets

3M is the leading supplier of brightness enhancement films that make laptop computer screens brighter and easier to read, while extending battery life. 3M™ Dual Brightness Enhancement Film yields the brightest, most efficient screens with the widest viewing angle of any system available.

Our optical films experienced strong demand again in 1998, and we expect continued solid growth going forward. We're bringing 3M technology to electronic display manufacturers to help replace bulky CRT monitors with LCD flat-panel displays. Moreover, the market for optical films is expanding with the proliferation of hand-held electronic devices, such as pagers, palm-sized computers and cellular phones.

Specialty Materials

3M is a global leader in fluorochemicals, focusing on high-value market segments. We're home to the Scotchgard™ brand, which sets the standard in soil, stain and water resistance for carpet, fabrics and leather. Our newest formulations extend our leadership position. Our broad product line also includes chlorofluorocarbon replacement materials, fluoropolymers and other specialty materials.

3M™ Novec™ HFE-Based Engineered Fluids replace ozone-depleting CFCs and provide a desirable balance of performance, safety and environmental properties. Applications for 3M's specialty fluids continue to expand. Precision cleaning systems utilize Novec fluids in the medical device, aerospace and electronics industries, and 3M™ Specialty Gases are used in semiconductor manufacturing.

Dyneon LLC, our strategic alliance with Hoechst AG, combines 3M's strength in fluoroelastomers and Hoechst's expertise in fluoroplastics. New melt-processable products from Dyneon help automakers meet stricter United States EPA emissions requirements.

Health Care Markets

Drawing on 3M technology platforms, our health care businesses provide innovative solutions that help improve lives of people around the world.



*John W. Benson
Executive Vice President*



The 3M™ Attest™ Rapid Readout System, which monitors sterilization of reusable medical instruments, provides results in as little as one hour.



3M™ Nexcare™ Waterproof Bandages provide superior protection for injured skin by sealing around the pad to block out water, dirt and germs.

We lead in key segments of the medical, pharmaceutical, dental and personal care markets. Our health care products employ 3M expertise in technologies ranging from adhesives and substrates to drug delivery and ceramics. Currently, we have 10 Pacing Plus programs on the market or in development.

In 1998, worldwide sales totaled \$3.1 billion. Sales rose 2.4 percent in U.S. dollars and more than 5 percent in local currencies. Operating income totaled \$600 million, up 9.1 percent from 1997, despite negative currency effects. Operating income was 19.5 percent of sales, up from 18.3 percent in 1997.

Medical Markets

3M leads in key areas of the skin health and infection prevention markets. In skin health, 3M is a top supplier of medical tapes and dressings, and we're moving into the fast-growing segment of chronic wound care. We're developing an advanced dressing for serious wounds that helps reduce the frequency of dressing changes. We also

continue to build 3M's presence in consumer health care. 3M™ Nexcare™ Adhesive Bandages hold the number-two position in the United States. Now, we're expanding this line with waterproof bandages based on our hypoallergenic, transparent adhesive dressings used in hospitals.

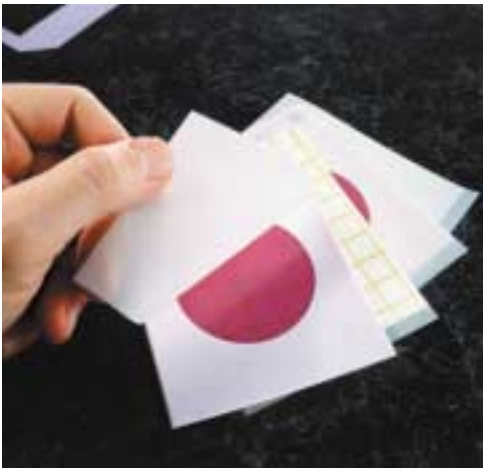
In infection prevention, 3M offers leading products that help reduce the threat of acquiring infectious diseases during medical treatment. We continue to be a leader in the surgical-site preparation segment with innovative draping and skin-prepping products. In sterilization assurance, our advanced biological indicators, together with chemical monitoring products, provide customers with a wide range of products that monitor the sterilization of reusable medical devices and supplies.

In addition, we hold leading positions in biomedical electrodes, stethoscopes and immobilization products.

We have promising opportunities in the fields of food quality and health information systems. 3M microbiology products make it faster and easier for food processors to test for microbiological quality of food. This business experienced solid growth again in 1998, as it continued to help the food industry manage microbial risk and build consumer confidence in food quality.

In health information systems, we provide coding and data analysis systems to nearly 4,000 hospitals worldwide. We're expanding our software offerings – as well as our training, consulting and other services – in the United States and abroad.

Our newest offering is 3M™ Care Innovation, a seven-component suite that forms the industry's most comprehensive computer-based patient record system.



3M™ Petrifilm™ Plates quickly confirm if E. coli or other microorganisms are present in a food sample.



New 3M tooth-colored filling materials offer dentists superior contouring and curing capabilities.



3M™ Unitek™ Clarity™ Metal-Reinforced Ceramic Brackets are as strong as metal brackets and are easy for orthodontists to apply and remove.

The Care Innovation suite includes alert management software, which studies have shown can have a highly positive impact on quality of care. Recently, we've extended our health information systems business into home health care management.

Personal Care

Drawing on pressure-sensitive adhesive technology, 3M invented tape closures for disposable diapers in the early 1970s. Today, our personal care business is the global leader in diaper closure systems. Although about 80 billion disposable diapers are sold globally each year, they are used by only 14 percent of the world's babies, so there is a large opportunity for growth.

Two Pacing Plus programs – reclosable fasteners and diaper elastics – help improve diaper fit and comfort and further strengthen our disposable diaper components business. Using a systems approach, we tailor 3M diaper components to meet customer requirements for fit and design in a wide range of diaper products.

Dental Products

3M sets the standard in quality and customer satisfaction in the dental industry. We provide more than 1,300 dental products that draw on ceramics, adhesives and specialty coating technologies. We pioneered tooth-colored fillings, impression materials and bonding agents. We continue to sustain a strong flow of new and improved products. For example, the new 3M™ Filtek™ Z250 Universal Restorative System offers advanced wear and fracture resistance. 3M dental products are widely used in the United States, Europe and Japan, and we're rapidly penetrating developing markets.

Our orthodontic products showed solid sales and profit gains in 1998, led by 3M™ Unitek™ Clarity™ Metal-Reinforced Ceramic Brackets and

3M™ APC™ Adhesive Coated Brackets. Clarity brackets are more aesthetically pleasing than metal brackets. Our APC product, which uses an adhesive backing for easier application, is showing the fastest growth in the industry.

Pharmaceuticals

3M's pharmaceuticals business turned in strong sales and earnings growth again in 1998. We're taking a two-pronged approach: We make branded pharmaceutical products, and we codevelop and manufacture products for other pharmaceutical companies.

A promising opportunity is our family of immune response modifier compounds. Aldara™ (imiquimod) Cream, used to treat genital warts, is the leader in its therapeutic category. Imiquimod and related molecules now are progressing well in clinical trials as potential treatments for other diseases.

3M's pharmaceuticals business also is a global leader in transdermal and inhaled drug delivery technologies. We draw on adhesive and film expertise to deliver medicines – such as nitroglycerin and estradiol – through the skin. We continue to codevelop new transdermal products with other leading global companies, such as Schering AG.

In inhalation therapy, 3M's first CFC-free inhaler is approved in more than 45 countries. In the United States, Proventil® HFA (albuterol sulfate inhalation aerosol) is marketed by Schering-Plough Corporation. We recently introduced Qvar™ (beclomethasone dipropionate extrafine aerosol) in the United Kingdom and have filed for FDA approval in the United States.

We're also working with several pharmaceutical companies to reformulate drugs to help them transition to CFC-free inhalers.

International Operations

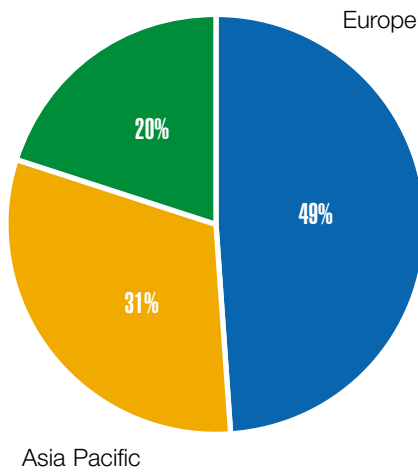
3M's vast international network, strong new product flow and solid customer relationships make us optimistic about our prospects.



Ronald O. Baukol
Executive Vice President

International Sales

Latin America,
Africa and Canada



Asia Pacific

Used in oil refineries throughout Latin America, the 3M™ High Flow Filter Cartridge provides superior dirt-holding capabilities and helps keep systems clean.



Economic slowing in many countries and across-the-board strengthening of the U.S. dollar affected 3M international sales and profits during 1998. Sales totaled \$7.8 billion, roughly the same as in 1997. The stronger U.S. dollar reduced sales by 6 percent.

We grew several points faster than GDP in many regions of the world, but the difficult economic backdrop in many countries affected our overall growth.

Unit sales increased 4 percent, compared with consecutive double-digit volume gains during the previous four years. 3M operations in Europe turned in a good year, but growth slowed significantly in Japan and Latin America, and volume declined in Asia outside Japan.

International profits totaled \$1.35 billion, down 2.8 percent from 1997. Changes in currency exchange rates reduced operating income by about \$235 million, or about 17 percent. Price increases, cost controls and productivity gains helped offset much of this currency impact. Operating income was 17.3 percent of sales, compared with 17.7 percent in 1997. Currency effects reduced margins by 1.8 percentage points.

Europe

In Europe, sales reached \$3.85 billion, an increase of about 8 percent in local currencies and about 6 percent in U.S. dollars. Good local-currency sales growth, together with streamlining of operations, resulted in a 1.6 percentage point improvement in operating profit margins. Among streamlining actions, we're consolidating operations in warehousing, order processing, information technology and manufacturing.

In Western Europe, we increased volume about 6 percent, with good gains in most countries. Led by Pacing Plus programs and a market-focused approach to customers, we continued to grow faster than the economy.

In Eastern Europe, where we traditionally have posted very strong double-digit volume gains, unit sales rose about 11 percent, affected by the spillover from the turmoil in Russia. We have 3M companies in Turkey, Poland, the Czech Republic, Russia and Romania. We also have branch offices in 10 other countries in this region. We market a wide range of products that help nations develop infrastructure and make life easier around the home. We operate in these and other emerging markets knowing that there will be occasional economic setbacks, but we continue to look for solid growth on a longer-term basis.

Asia Pacific

Recession in Japan, economic turmoil in many Asian nations and depreciating currencies throughout the area affected our Asia Pacific sales and profits. Sales increased about 2 percent in local currencies, but were down 10 percent in U.S. dollars. Revenues totaled \$2.4 billion. Profits were \$503 million, down 18 percent from 1997. Currency effects reduced profits by about 25 percent. Operating income was 21.2 percent of sales, compared with 23.2 percent in 1997.

In Japan, we continued to grow despite the deepest recession since World War II. We increased unit sales 2 percent, led by strong demand for 3M optical films for electronic displays. More than 45 percent of our sales in Japan came from products introduced within the past four years.

In Asia outside Japan, unit sales were down about 6 percent. While we continued to post solid gains in China and Singapore, unit sales declined in Korea, Malaysia, Thailand and other countries where economic activity contracted sharply in 1998.

3M's Asia Pacific operations have built a solid record of growth over the years, and we have confidence in the area's long-term economic prospects. We're committed to maintaining our operations in the Asia Pacific region, and we're investing to support 3M growth there. For example, we're completing construction of a second manufacturing site in Shanghai, China, to produce reflective sheeting, scouring products and floor matting. In Singapore, a major new plant for production of microflex circuits opened in late 1998.

Latin America, Africa and Canada

In Latin America, we increased unit sales about 6 percent. Slowing economies throughout the region restrained 3M growth. Revenues in Latin America totaled \$1.1 billion. We expect that the currency devaluation in Brazil, which occurred early in 1999, will impact growth throughout Latin America during the year.

We are well-positioned to capitalize on opportunities as these economies resume growth. 3M products help fulfill the need for safer roads, better telecommunications systems and other types of infrastructure. Freer trade in Latin America enables us to significantly broaden our product offerings, as well as to serve customers at a lower cost.

In Canada, we achieved solid volume growth. We're introducing new products in fast-growing market segments, including automotive parts manufacturing and telecommunications.

In Africa, our results were impacted by soft economies and weak currencies, but we remain focused on increasing our presence. We recently opened sales offices in Tunisia and the Ivory Coast.

Looking Ahead

In 1999, we will continue to solve problems for our customers, focus on growth opportunities in each country, and improve our productivity and competitiveness. These actions should set the stage for healthy sales and profit growth as economic conditions improve.

Longer term, we are confident we can deliver strong results. With our highly diverse product offerings, we're able to match products to customer needs in all types of economies – emerging to developed. While we have operated in international markets for more than 50 years, our market penetration remains well below 3M's U.S. levels, so we have a lot of room to grow.



A leading product in Asia, 3M™ Nomad™ Floor Matting traps and hides dirt and moisture to keep floors cleaner, reduce maintenance costs and improve the appearance of building entrances.



The 3M™ Breathe Easy™ Powered Air-Purifying Respiratory System is a leading product in Europe for use in welding, grinding and other industrial applications.

Community and Environmental Leadership

3M's dedicated people and innovative products create a powerful combination for supporting our communities and the environment around the world.



Habitat for Humanity volunteers from 3M help build and rehabilitate homes in the St. Paul metro area and other communities in the United States.

3M scientists are developing new technologies for energy alternatives that hold promise in automotive, aerospace and other applications.



For decades, 3M has used its resources to help build stronger, safer communities.

In 1998, the 3M Foundation and Corporate Contributions Program donated more than \$32 million in cash, products and services to educational and charitable institutions.

Our support of education ranges from grade school to postgraduate levels. Through Science Encouragement programs, 3M scientists and engineers in the United States, Japan, the United Kingdom and other countries visit local grade schools to share scientific knowledge with students. In addition, teachers are invited to work alongside 3M scientists during the summer to gain hands-on experience they can take back to the classroom.

In higher education, 3M provides grants for science and math programs, as well as scholarships, fellowships and other support for students working toward careers in science, engineering and business.

3M employees and retirees volunteer numerous hours to charitable organizations. We also donate many health care, safety and other products to humanitarian organizations that help improve lives around the world. For example, in 1998, more than \$600,000 in 3M products and matching-gift donations went to relief efforts for victims of Hurricane Georges and Hurricane Mitch.

Environmental, Health and Safety Initiatives

3M is further strengthening its commitment to environmentally sustainable products and operations. Advances in Life Cycle Management, progress toward environmental goals, and emphasis on worker health and safety demonstrated our commitment again in 1998.

3M employees have intensified their focus on improving environmental, energy, health and safety aspects of 3M products from development to disposal. For example, we've developed the 3M™ Recycling Compatible Identification System, a product label compatible with recycling processes for thermoplastic resins that enables electronic equipment manufacturers to more easily recycle their products.

3M plants made excellent progress toward obtaining ISO 14001 international environmental management standards certification, as well as toward achieving our challenging environmental goals. In air emissions, we've achieved a reduction of more than 80 percent from 1990 levels. For air and water emissions, we're on track to reach our 90 percent reduction goal by 2000. From 1995 through 1998, we improved energy efficiency by more than 7 percent.

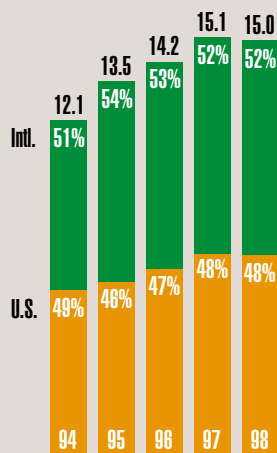
In worker safety, we achieved a 10 percent reduction in our rate of recordable workplace illnesses and injuries during 1998. Going forward, our goal is at least a 25 percent annual reduction.

FINANCIAL REVIEW

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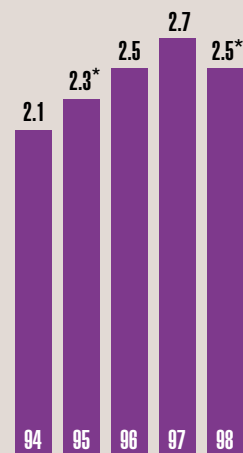
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Net Sales
(\$ Billions)



Net sales totaled \$15.0 billion in 1998. Sales in local currencies increased 3 percent. Changes in currency exchange rates reduced sales by more than \$500 million.

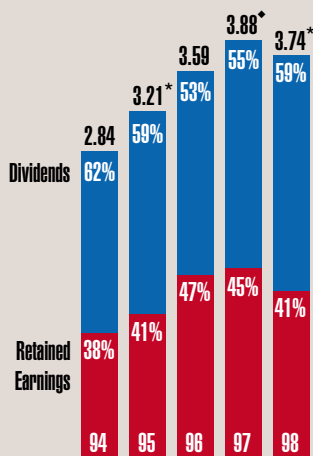
Operating Income
(\$ Billions)



1998 operating income declined 5.4 percent. Changes in currency exchange rates reduced operating income by more than \$235 million, or 9 percent.

* Excludes one-time charges

Diluted Earnings Per Share from Continuing Operations (\$)

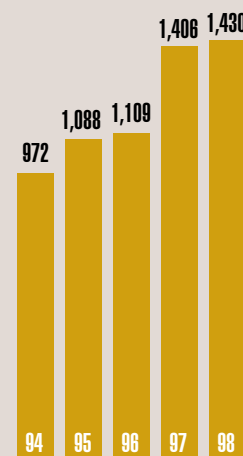


Diluted earnings per share decreased 3.6 percent in 1998. Changes in currency exchange rates reduced earnings by 35 cents per share, or 9 percent.

* Excludes one-time charges

♦ Excludes gain on sale of business

Capital Expenditures
(\$ Millions)



Capital expenditures totaled \$1.4 billion in 1998, similar to 1997 levels. Capital expenditures are expected to be down about 10 percent in 1999.



What are 3M's financial goals?



We strive to maximize shareholder value through sustainable, profitable growth and effective use of capital. Specific financial goals are to achieve (1) growth in earnings per share of more than 10 percent a year, on average; (2) growth in economic profit

exceeding earnings per share growth, and return on invested capital among the highest of industrial companies; and (3) at least 30 percent of sales from products introduced during the past four years.

ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Operating Results

Sales in 1998 totaled \$15.021 billion, compared with \$15.070 billion in 1997. This followed increases of 5.9 percent in 1997 and 5.8 percent in 1996. Sales in all three years were reduced by the stronger U.S. dollar. In 1998, currency translation reduced sales by more than \$500 million, or 3 percent.

In the United States, sales totaled \$7.231 billion, similar to 1997. Adjusting for the 1997 sale of the outdoor advertising business, sales rose about 2 percent. The company posted good growth in its consumer, office, pharmaceuticals and automotive products businesses, but softness in electronics, transportation safety and industrial markets affected overall growth.

Internationally, sales totaled \$7.790 billion, also similar to 1997. Flat sales in 1998 reflected negative currency effects and a difficult economic backdrop in Japan and many developing countries. International volume increased about 4 percent and selling prices were up about 2 percent. The stronger U.S. dollar reduced international sales by about 6 percent.

Components of Sales Change

	1998			1997		
	U.S.	Intl.	W.W.	U.S.	Intl.	W.W.
Volume	0%	4%	2%	9%	13%	11%
Price	0	2	1	0	(1)	0
Translation	—	(6)	(3)	—	(9)	(5)
Total	0%	0%	0%	9%	3%	6%

In 1998, 3M recorded a \$493 million (\$313 million after tax) restructuring charge. Details of the restructuring charge are discussed in the Notes to Consolidated Financial Statements. The discussion that follows excludes the restructuring charge.

Cost of goods sold was 57.9 percent of sales, up about one percentage point from 1997 and 1996. In both 1998 and 1997, gross margins benefited from slightly lower raw material costs, but were negatively affected by the stronger U.S. dollar. Cost of goods sold includes manufacturing, research and development, and engineering expenses.

Selling, general and administrative expenses were 25.2 percent of sales, down from 25.3 percent in 1997 and 25.6 percent in 1996. Continued tight expense controls had a positive effect on this spending.

Operating income totaled \$2.532 billion, down 5.4 percent from 1997. In 1997, operating income increased 7.4 percent. In 1998, operating income was 16.9 percent of sales, down from 17.7 percent in 1997 and 17.5 percent in 1996. Modest volume growth and the stronger U.S. dollar negatively affected profits. The company estimates that currency effects reduced operating income by \$237 million in 1998 and \$189 million in 1997.

In the United States, operating income decreased 8 percent and profit margins were down 1.4 percentage points. In 1997, operating income increased 15 percent and profit margins increased by nine-tenths of a percentage point.

Internationally, operating income decreased about 3 percent and profit margins declined by four-tenths of a percentage point. Currency effects reduced international profits by 17 percent and profit margins by 1.8 percentage points. In 1997, operating income rose about 1 percent and profit margins declined by three-tenths of a percentage point. Currency effects reduced international profits in 1997 by 15 percent.

Interest expense was \$139 million, compared with \$94 million in 1997 and \$79 million in 1996. The 1998 increase reflects the company's strategy to lower its cost of capital by moderately increasing financial leverage. The 1997 increase was due to several factors, including slightly higher debt balances and higher interest rate resets on certain long-term floating rate issues.

Investment and other income was \$42 million, compared with \$56 million in 1997 and \$67 million in 1996. Lower cash and securities balances resulted in less interest income in both 1998 and 1997.

In 1997, the company realized a gain of \$803 million (\$495 million after tax) on the sale of National Advertising Company, which is discussed in the Notes to Consolidated Financial Statements. In 1998, a \$10 million gain was recorded to finalize the accounting for this sale.

The impact of the 1998 restructuring charge and the 1997 gain on divestiture on 3M's Consolidated Statement of Income and tax rate follows.

Q.

Why was 3M's credit rating downgraded, and do you expect to increase debt levels in the future?

A.

Both Moody's and Standard & Poor's downgraded 3M's long-term debt credit rating slightly in early 1998 because of the company's plan to increase debt. Consistent with our strategy to more effectively leverage our financial strength, we replaced equity with lower-cost debt during the year, reducing

our overall cost of capital. We're comfortable with our current debt levels because 3M's businesses are well-diversified and historically have produced strong, stable cash flows. At this time, we aren't planning for significant additional leverage, and 3M's financial condition remains very strong.

Supplemental Consolidated Statement of Income Information

Years ended December 31

	1998			1997		
	Excluding Restructuring Charge	Restructuring Charge	Reported Total	Excluding Gain on Divestiture	Gain on Divestiture	Reported Total
(Millions, except per-share amounts)						
Operating income	\$2,532	\$ (493)	\$2,039	\$2,675	\$ —	\$2,675
Other income and expense	87	—	87	38	(803)	(765)
Income before income taxes, minority interest and extraordinary loss	2,445	(493)	1,952	2,637	803	3,440
Provision for income taxes	865	(180)	685	933	308	1,241
Effective tax rate	35.4%	36.5%	35.1%	35.4%	38.4%	36.1%
Minority interest	54	—	54	78	—	78
Income before extraordinary loss	\$1,526	\$ (313)	\$1,213	\$1,626	\$ 495	\$2,121
Per share – diluted	3.74	(0.77)	2.97	3.88	1.18	5.06

3M's effective tax rate was 35.1 percent in 1998, compared with 36.1 percent in 1997 and 35.8 percent in 1996. Excluding the 1998 restructuring charge and the 1997 gain on divestiture, the worldwide effective tax rate was 35.4 percent in both 1998 and 1997. The 1998 restructuring charge was taxed at a rate of 36.5 percent. The 1997 gain on divestiture was taxed entirely in the United States at a rate of 38.4 percent.

Minority interest was \$54 million, compared with \$78 million in 1997 and \$77 million in 1996. Minority interest relates primarily to 3M's partial ownership of Sumitomo 3M Limited and Dyneon LLC. These companies' results are fully consolidated in 3M's financial statements and then partially eliminated on the minority interest line to reflect 3M's net position in these companies. The decrease in 1998 minority interest was driven by lower profits in these companies.

The company refinanced debt relating to its Employee Stock Ownership Plan in 1998, replacing the debt with a new bond carrying a significantly lower interest rate. This resulted in a charge of \$38 million (net of tax), or 9 cents per diluted share. This is reported as an extraordinary loss from early extinguishment of debt.

Net income totaled \$1.175 billion, or \$2.88 per diluted share, compared with \$2.121 billion, or \$5.06 per diluted share, in 1997. Excluding the 1998 restructuring charge, the 1998 extraordinary loss and the 1997 gain on divestiture, net income totaled \$1.526 billion, or \$3.74 per diluted share, compared with \$1.626 billion, or \$3.88 per diluted share, in 1997. In 1996, income from continuing operations totaled \$1.516 billion, or \$3.59 per diluted share.

In 1998, 1997 and 1996, changes in the value of the U.S. dollar reduced net income by an estimated \$141 million, \$112 million and \$65 million, or 35 cents per share, 27 cents per share and 15 cents per share, respectively. These estimates include the effect of translating profits from local currencies into U.S. dollars; the impact of currency fluctuations on the value of goods transferred

between 3M operations in the United States and abroad; and transaction gains and losses in countries not considered to be highly inflationary.

Excluding the impact of the restructuring charge, economic profit totaled \$604 million and return on invested capital was 15.9 percent. This compared with economic profit of \$720 million and a return on invested capital of 18.0 percent in 1997. Economic profit equals after-tax operating income less a charge for the operating capital employed in 3M's businesses. Return on invested capital is after-tax operating income divided by average operating capital.

At year-end 1998, 3M employed 73,564 people, a decrease of 2,075 from year-end 1997. Sales per employee in local currencies increased about 3 percent in 1998. During the preceding four years, 3M's productivity increased an average of about 9 percent a year.

Financial Position

3M's financial condition remained strong in 1998, and working capital remained well-controlled. The company's key inventory index was 3.4 months, down about 10 percent from year-end 1997. The year-end accounts receivable index was 61 days, up one day from year-end 1997. The current ratio was 1.4, down from 1.5 at year-end 1997.

Total debt was \$3.106 billion, up from \$2.514 billion at year-end 1997. Total debt was 34 percent of total capital, compared with 30 percent in 1997. Of debt outstanding at year-end 1998, \$385 million represented a guarantee of debt of the 3M Employee Stock Ownership Plan.

Various assets and liabilities, including cash and short-term debt, can fluctuate significantly on a month-to-month basis depending on short-term liquidity needs.

Legal proceedings are discussed in the Notes to Consolidated Financial Statements.

Q. Does 3M hedge the impact of changes in currency exchange rates?

A. We have elected not to hedge the impact of translating international profits into U.S. dollars for reporting purposes because substantial costs would be incurred to protect against what are largely accounting gains and losses. We continue to hedge a portion of our global cash flows, including those related to

intercompany product shipments and intercompany financing transactions. Our wide geographic presence and extensive local manufacturing capability help minimize the company's overall currency risk. Over the long term, currency gains and losses have tended to offset one another.

Financial Instruments

The company enters into contractual arrangements (derivatives) in the ordinary course of business to manage foreign currency exposure, interest rate risks and commodity price risks. A financial risk management committee, composed of senior management, provides oversight for risk management and derivative activities. This committee determines the company's financial risk policies and objectives, and provides guidelines for derivative instrument utilization. This committee also establishes procedures for control and valuation, risk analysis, counterparty credit approval, and ongoing monitoring and reporting.

The company enters into forward contracts and swaps to hedge certain intercompany financing transactions, and the company purchases options to hedge against the effect of exchange rate fluctuations on cash flows denominated in foreign currencies.

The company manages interest expense using a mix of fixed, floating and variable rate debt. To help manage borrowing costs, the company may enter into interest rate swaps. Under these arrangements, the company agrees to exchange, at specified intervals, the difference between fixed and floating interest amounts calculated by reference to an agreed-upon notional principal amount.

The company manages commodity price risks through negotiated supply contracts, price protection swaps and forward physical contracts.

Based on a value-at-risk analysis of the company's foreign exchange, interest rate and commodity derivative instruments outstanding at December 31, 1998, probable near-term changes in exchange rates, interest rates or commodity prices would not materially affect the company's consolidated financial position, results of operations or cash flows.

Liquidity

During 1998, cash flows provided by operating activities of continuing operations totaled \$2.374 billion, up from \$1.818 billion in 1997. In 1997, operating cash flows were negatively impacted by \$308 million of income taxes paid relating to the gain on the sale of National Advertising Company. Operating cash flows in 1998 were affected by net outflows of \$255 million relating to implant litigation, compared with net inflows of \$35 million in 1997. In both 1998 and 1997, cash flows benefited from effective asset management.

Capital spending totaled \$1.430 billion, an increase of about 2 percent from 1997. This followed increases of 27 percent in 1997 and 2 percent in 1996. These investments are helping to meet global demand for new products and to increase manufacturing efficiency.

Cash used for acquisitions and investments totaled \$265 million, \$40 million and \$263 million in 1998, 1997 and 1996, respectively. The higher amount in 1998 primarily was due to acquisitions in the

respiratory protection and telecommunications areas, and in 1996 primarily was due to acquisitions in the health care field and the purchase of the minority interest in 3M Korea.

In 1997, cash proceeds from the sale of National Advertising Company totaled \$1 billion, with net after-tax cash proceeds of nearly \$700 million. Cash proceeds from other divestitures and investments totaled \$98 million, \$51 million and \$62 million in 1998, 1997 and 1996, respectively.

Stockholder dividends increased 3.8 percent to \$2.20 per share. Cash dividend payments totaled \$887 million. 3M has paid dividends since 1916. In February 1999, the Board of Directors increased the quarterly dividend on 3M common stock to 56 cents per share, equivalent to an annual dividend of \$2.24 per share.

Repurchases of 3M common stock totaled \$618 million in 1998, \$1.693 billion in 1997 and \$532 million in 1996. The combination of a reduction in average shares outstanding and higher interest expense resulted in a net benefit to earnings of 3 cents per diluted share in 1998. In 1997, net proceeds from the National Advertising Company divestiture primarily were used to repurchase shares. Repurchases are made to support employee stock purchase plans and for other corporate purposes.

In February 1999, the Board of Directors authorized the repurchase of up to 12 million of the company's shares. This share repurchase authorization extends through December 31, 1999. Under a preceding authorization, the company purchased about 9.8 million shares.

The company's strong credit rating provides ready and ample access to funds in global capital markets. At year-end 1998, the company had available short-term lines of credit totaling about \$670 million.

Timing differences between payment of implant liabilities and receipt of related insurance recoveries could affect future cash flows. Legal proceedings are discussed in the Notes to Consolidated Financial Statements.

Future Outlook

The company encountered a difficult set of challenges in 1998 – large negative currency effects, economic contractions in many international markets, and softness in a few key U.S. markets. To improve productivity and reduce costs, the company is exiting certain product lines, consolidating manufacturing operations, and eliminating lower-value activities in corporate service functions. Relating to these actions, the company recorded a restructuring charge in 1998. This charge is discussed in the Notes to Consolidated Financial Statements.

In addition, the company is divesting certain businesses, primarily in its Health Care segment, as part of its restructuring plan. These businesses have annual revenues of about \$200 million and marginal

Q.

What is the company's goal for productivity improvement?

A.

3M's goal is 8 percent productivity improvement per year, measured in terms of sales per employee in local currencies. We met or exceeded this goal in 1995, 1996 and 1997. In 1998, productivity increased about 3 percent, affected by lower worldwide

volume growth. Looking ahead, we expect to resume solid productivity gains through a combination of stronger sales growth and effective management of the size of our global work force.

operating income. Potential gains from divesting these businesses with a decreasing strategic fit are not expected to be material and will be recognized when realized as part of selling, general and administrative expenses.

The company experienced a net reduction of about 2,200 positions in the second half of 1998, with a total net reduction of about 4,500 positions expected by December 31, 1999. Each business segment and geographic area of the company will be affected by this restructuring plan. The company expects to eliminate about 1,500 positions in the United States, 1,500 in Europe, 700 in the Asia Pacific area, and 800 in the company's Latin America, Africa and Canada geographic area.

When fully implemented by the end of 1999, the restructuring plan is expected to provide annual pre-tax savings of about \$250 million. The company anticipates implementation costs associated with this restructuring plan to be about \$35 million in 1999. These costs, not included in the restructuring charge, include expenses for relocating employees, inventory and equipment; unfavorable overhead variances; and other expenses. If the company does not generate adequate sales growth, normal increases in salaries and wages and additional depreciation from capital expenditures will create offsets to the annual savings.

3M expects sales growth in 1999 of 4 to 5 percent in local currencies. Sales are expected to grow 3 to 4 percent in the United States. Internationally, the company is expecting to increase sales in local currencies 5 to 6 percent. Volume growth is anticipated to be about 5 percent in Europe, 5 percent in the Asia Pacific area and 3 to 4 percent in Japan. In Asia outside Japan, volume growth is expected to resume in 1999. In Latin America, it is difficult to predict ramifications of the Brazilian currency devaluation, and therefore the company is not expecting any contribution to earnings growth from Latin America.

The company is not able to project what the consequences will be from the turmoil in various economies around the world. The company is monitoring business conditions closely and is prepared to make adjustments in costs, pricing and investments as appropriate. The company expects to resume earnings growth in 1999, driven by volume growth, new products, greater productivity gains and tight expense controls.

Based on exchange rates as of February 10, 1999, the company believes that currency effects will have a minimal impact on sales and earnings in 1999.

Capital spending totaled \$1.430 billion in 1998 and is expected to be about 10 percent lower in 1999. The company does not expect a significant change in its tax rate in 1999.

Year 2000 Issue

The Year 2000 issue is the result of using only the last two digits to indicate the year in computer hardware and software programs and in embedded technology. Certain programs do not properly recognize a year that begins with "20." If uncorrected, such programs will be unable to interpret dates beyond the year 1999, which could cause computer system failure or other errors, disrupting normal business operations.

In November 1996, the company created a corporate-wide Year 2000 project team representing all company business and staff units. The team's objective is to ensure an uninterrupted transition to the year 2000 by assessing, testing and modifying information technology (IT) and non-IT systems and date-sensitive company products so that (a) they will perform as intended, regardless of the date (before, during and after December 31, 1999), and (b) dates (before, during and after December 31, 1999, and including February 29, 2000) can be processed with expected results ("Year 2000 Compliant"). Year 2000 compliance efforts include (i) IT systems, such as software and hardware; (ii) non-IT systems or embedded technology, such as microcontrollers contained in various manufacturing and laboratory equipment, and environmental and safety systems, facilities and utilities; (iii) date-sensitive company products; and (iv) the readiness of key third parties, including suppliers and customers, and electronic data interchange with them.

The Year 2000 project team has taken an inventory of IT and non-IT systems and date-sensitive company products that might malfunction or fail as a result of using only the last two digits to indicate the year. The project team categorized the potential date-component failures into three categories: "Vital" (stops business operation and no short-term solution is available); "Critical" (inconvenient to business operation and a short-term solution is available); and "Marginal" (inconsequential to business operation).

IT systems: As of December 31, 1998, about 95 percent of the core IT systems, such as general ledger, payroll, procurement and order management, in the United States and in subsidiaries outside the United States that are Vital or Critical are Year 2000 Compliant.

Non-IT systems: The company has more than 100 manufacturing and laboratory locations worldwide with varying degrees of non-IT systems, such as programmable logic controllers, gauging guidance and adjustment systems, and testing equipment. Assessment and testing of non-IT systems for Year 2000 compliance have proven much more difficult than assessing compliance of IT systems because testing of non-IT systems often requires shutdown of the manufacturing operations.

As of December 31, 1998, about 85 percent of the non-IT systems in the United States that are Vital or Critical and about 90 percent of

Q. What is 3M's exposure to Brazil, and how is the company responding to recent economic difficulties there?

A. In 1998, Brazil represented about 3 percent of 3M's worldwide sales and profits. We are raising prices there to offset a portion of the impact from the recent currency devaluation. About 75 percent of 3M sales in Brazil are from products that are locally produced, which helps cushion us from the weakening

of the Brazilian currency. During 1998, we reduced employment in Brazil by about 8 percent in anticipation of slower economic activity. Our management team in Brazil is experienced in dealing with dynamic economic situations.

the non-IT systems in subsidiaries outside the United States that are Vital or Critical are believed to be Year 2000 Compliant.

Company products: The majority of the company's products are not date-sensitive. The company has collected information on current and discontinued date-sensitive products, and this information is available to customers.

Third parties: The company is in contact with key suppliers and electronic commerce customers to minimize potential disruptions in the relationships between the company and these important third parties. The company has focused efforts on vendors that supply goods or services deemed Vital to the company's business. While the company cannot guarantee compliance by third parties, the company is developing contingency plans with its key suppliers that include the availability of appropriate inventories if the supplier is not Year 2000 Compliant.

Contingency planning: By March 31, 1999, the company expects to finalize contingency plans specifying what the company will do if failures occur in IT and non-IT systems. By April 30, 1999, the company expects to finalize contingency plans in case key suppliers are not Year 2000 Compliant.

Costs: Through December 31, 1998, the company had spent \$53 million of an estimated \$86 million related to Year 2000 readiness. This includes costs incurred for external consultants and professional advisors and for software and hardware. The company's process for tracking internal costs does not capture all of the costs incurred for each of the teams working on the Year 2000 project. Such internal costs are principally the related payroll costs for its information systems group and other employees working on the Year 2000 project.

The company's current estimates of the time and costs necessary to remediate and test computer systems are based on facts and circumstances at this time. Estimates were made using assumptions of future events, including continued availability of resources, such as skilled IT personnel and electrical power; modification of Year 2000 plans; and implementation success by key third parties. New developments could affect the company's estimates of the time and costs needed to modify and test IT and non-IT systems. These developments include, but are not limited to, (i) availability and cost of personnel trained in this area; (ii) the ability to locate and correct all relevant date-sensitive code in IT and non-IT systems; (iii) unanticipated failures in IT and non-IT systems; and (iv) the Year 2000 compliance success that key customers and suppliers attain.

The company cannot determine the impact of these potential developments on the current estimate of probable costs of making its products and IT and non-IT systems Year 2000 Compliant. Accordingly, the company is not able to estimate possible future costs beyond the current estimates. As developments occur, these

cost estimates may be revised to reflect the impact of these developments on the costs to the company of making its products and IT and non-IT systems Year 2000 Compliant. Such cost revisions could have a material adverse impact on the company's net income in the quarter in which they are recorded. Although the company considers it unlikely, such revisions could also have a material adverse effect on the consolidated financial position or annual results of operations of the company.

The Euro Conversion

On January 1, 1999, 11 of the 15 member countries of the European Union (EU) established fixed conversion rates through the European Central Bank (ECB) between existing local currencies and the euro, the EU's new single currency. The participating countries agreed to adopt the euro as their common legal currency on that date. From that date, the euro is traded on currency exchanges and is available for non-cash transactions.

In February 1997, the company created a European Monetary Union (EMU) Steering Committee and project teams representing all company business and staff units in Europe. The objective of these teams is to ensure a smooth transition to EMU for the company and its constituencies. The teams are assessing the euro's impact on the company's business and pricing strategies for customers and suppliers. The teams also are focused on ensuring that the company's business processes and IT systems can process transactions in both euros and local currencies during the transition period and can convert all relevant local-currency data to the euro by December 31, 2001, in the participating countries.

The European market contributed 26 percent of consolidated 3M sales and 20 percent of consolidated operating income, excluding the restructuring charge, in 1998. The company believes that the euro will, over time, increase price competition for the company's products across Europe due to cross-border price transparency, but adverse effects of increased price competition will be offset somewhat by new business opportunities and efficiencies. The company, however, is not able to estimate the anticipated net long-term impact of the euro introduction on the company.

The company has made significant investments in IT systems and has consolidated IT operations in Europe. These investments are expected to enable the company to manage customer orders, invoices, payments and accounts in both euros and in local currencies during the transition period. During this period, the company anticipates spending \$35 million to \$50 million to complete the conversion. Because the company believes its IT systems will be ready by December 31, 2001, for the euro conversion, it has not developed contingency plans at this time.

Q. Has the company made significant acquisitions in the past, and what are your plans for the future?

A. Acquisition-related investments totaled \$265 million, \$40 million and \$263 million in 1998, 1997 and 1996, respectively. The largest acquisitions made during 1998

were in the respiratory protection and telecommunications areas. We continue to look for acquisitions that enhance our position in existing businesses.

RESPONSIBILITY FOR FINANCIAL REPORTING

Management is responsible for the integrity and objectivity of the financial information included in this report. The financial statements have been prepared in accordance with generally accepted accounting principles. Where necessary, the financial statements reflect estimates based on management judgment.

Established accounting procedures and related systems of internal control provide reasonable assurance that assets are safeguarded, that the books and records properly reflect all transactions, and that policies and procedures are implemented by qualified personnel. Internal auditors continually review the accounting and control systems.

The Audit Committee, composed of four members of the Board of Directors who are not employees of the company, meets regularly with representatives of management, the independent auditors and the company's internal auditors to monitor the functioning of the accounting control systems and to review the results of the auditing activities. The Audit Committee recommends independent auditors for appointment by the Board, subject to stockholder ratification. The independent auditors and the internal auditors have full and free access to the Audit Committee.

The independent auditors conduct an objective, independent audit of the financial statements. Their report appears at right.



Giulio Agostini
Senior Vice President
and Chief Financial Officer

REPORT OF INDEPENDENT AUDITORS

To the Stockholders and Board of Directors of Minnesota Mining and Manufacturing Company:

In our opinion, the consolidated balance sheet and the related consolidated statements of income, changes in stockholders' equity and comprehensive income, and cash flows present fairly, in all material respects, the consolidated financial position of Minnesota Mining and Manufacturing Company and Subsidiaries at December 31, 1998 and 1997, and the consolidated results of their operations and their cash flows for each of the three years in the period ended December 31, 1998, in conformity with generally accepted accounting principles. These financial statements are the responsibility of the company's management; our responsibility is to express an opinion on these financial statements based on our audits. The Q. and A. presented on each of the basic financial statements are not part of the audited consolidated financial statements. We conducted our audits of these statements in accordance with generally accepted auditing standards which require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for the opinion expressed above.



PricewaterhouseCoopers LLP
St. Paul, Minnesota
February 8, 1999

FORWARD-LOOKING STATEMENTS

The Private Securities Litigation Reform Act of 1995 provides a "safe harbor" for certain forward-looking statements. This annual report contains forward-looking statements, which reflect the company's current views with respect to future events and financial performance.

These forward-looking statements are subject to certain risks and uncertainties, including those identified here, which could cause actual results to differ materially from historical results or

those anticipated. The words "aim," "believe," "expect," "anticipate," "intend," "estimate," "will," "should," "could" and other expressions that indicate future events and trends identify forward-looking statements.

Actual future results and trends may differ materially from historical results or those anticipated depending on a variety of factors, including, but not limited to, foreign exchange rates and fluctuations in those rates; the effects of, and changes in, worldwide economic conditions; raw materials, including shortages and increases in the costs of key raw materials; the impact of the Year 2000 issue; and legal proceedings.

Q.

What is the company seeing with respect to raw material costs?

A.

1998 marked the third successive year in which we experienced a slight reduction in raw material costs, driven by lower prices for several key crude oil derivatives and other important feedstocks. We continue

our efforts to ensure adequate supplies of raw materials at favorable prices. Material costs represent nearly 25 percent of 3M sales.

CONSOLIDATED STATEMENT OF INCOME

Minnesota Mining and Manufacturing Company and Subsidiaries

Years ended December 31

(Amounts in millions, except per-share amounts)

	1998	1997	1996
Net sales	\$15,021	\$15,070	\$14,236
Operating expenses			
Cost of goods sold	8,705	8,580	8,099
Restructuring charge – inventory	39	—	—
Total cost of goods sold	8,744	8,580	8,099
Selling, general and administrative expenses	3,784	3,815	3,646
Restructuring charge – other	454	—	—
Total	12,982	12,395	11,745
Operating income	2,039	2,675	2,491
Other income and expense			
Interest expense	139	94	79
Investment and other income – net	(42)	(56)	(67)
Gain on divestiture – net	(10)	(803)	—
Total	87	(765)	12
Income from continuing operations before income taxes, minority interest and extraordinary loss	1,952	3,440	2,479
Provision for income taxes	685	1,241	886
Minority interest	54	78	77
Income from continuing operations	1,213	2,121	1,516
Gain on disposal of discontinued businesses – net of income taxes	—	—	10
Income before extraordinary loss	1,213	2,121	1,526
Extraordinary loss from early extinguishment of debt – net of income taxes	(38)	—	—
Net income	\$ 1,175	\$ 2,121	\$ 1,526
Weighted average common shares outstanding	403.3	412.7	418.2
Earnings per share – basic			
Income from continuing operations	\$ 3.01	\$ 5.14	\$ 3.63
Discontinued operations	—	—	.02
Extraordinary loss	(.10)	—	—
Net income	\$ 2.91	\$ 5.14	\$ 3.65
Weighted average common and common equivalent shares outstanding	408.0	418.7	422.1
Earnings per share – diluted			
Income from continuing operations	\$ 2.97	\$ 5.06	\$ 3.59
Discontinued operations	—	—	.02
Extraordinary loss	(.09)	—	—
Net income	\$ 2.88	\$ 5.06	\$ 3.62

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

Q.

What is economic profit, and how is the company using it to improve performance?

A.

Economic profit equals after-tax operating income less a charge for the capital employed in the company's businesses. It indicates whether individual 3M businesses and the company overall are generating returns greater than 3M's cost of capital – currently about 10 percent. Over the long

term, we believe that growth in economic profit increases shareholder value. Each of our businesses is evaluated in terms of its contribution to 3M's economic profit. In addition, economic profit performance is a key component of compensation plans for many 3M employees.

CONSOLIDATED BALANCE SHEET

Minnesota Mining and Manufacturing Company and Subsidiaries

At December 31

(Dollars in millions)

	1998	1997
Assets		
Current assets		
Cash and cash equivalents	\$ 211	\$ 230
Other securities	237	247
Accounts receivable – net	2,666	2,434
Inventories	2,219	2,399
Other current assets	985	858
Total current assets	6,318	6,168
Investments	623	613
Property, plant and equipment – net	5,566	5,034
Other assets	1,646	1,423
Total	\$14,153	\$13,238
Liabilities and Stockholders' Equity		
Current liabilities		
Accounts payable	\$ 868	\$ 898
Payroll	487	306
Income taxes	261	238
Short-term debt	1,492	1,499
Other current liabilities	1,278	1,042
Total current liabilities	4,386	3,983
Other liabilities	2,217	2,314
Long-term debt	1,614	1,015
Stockholders' equity – net	5,936	5,926
Shares outstanding – 1998: 401,924,248 1997: 404,724,947		
Total	\$14,153	\$13,238

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



What is the company's dividend practice?



The company has a long-standing practice of providing a yield competitive with that of comparable U.S. companies. Historically,

earnings retained in the business have funded the bulk of the company's growth. 3M has paid dividends since 1916.

CONSOLIDATED STATEMENT OF CHANGES IN STOCKHOLDERS' EQUITY AND COMPREHENSIVE INCOME

Minnesota Mining and Manufacturing Company and Subsidiaries

(Dollars in millions, except per-share amounts)	Total	Common Stock and Capital in Excess of Par	Retained Earnings	Treasury Stock	Unearned Compensation ESOP	Accumulated Other Comprehensive Income
Balance at December 31, 1995	\$6,884	\$296	\$9,164	\$(2,053)	\$(437)	\$(86)
Net income	1,526		1,526			
Cumulative translation – net	(76)					(76)
Fair value adjustments	(1)					(1)
Total comprehensive income	1,449					
Dividends paid (\$1.92 per share)	(803)		(803)			
Special dividend of Imation Corp. common stock	(1,008)		(1,008)			
Amortization of unearned compensation	25				25	
Reacquired stock (7.6 million shares)	(532)			(532)		
Issuances pursuant to stock option and benefit plans (5.7 million shares)	269		(123)	392		
Balance at December 31, 1996	\$6,284	\$296	\$8,756	\$(2,193)	\$(412)	\$(163)
Net income	2,121		2,121			
Cumulative translation – net	(369)					(369)
Fair value adjustments	(7)					(7)
Total comprehensive income	1,745					
Dividends paid (\$2.12 per share)	(876)		(876)			
Amortization of unearned compensation	33				33	
Reacquired stock (18.7 million shares)	(1,693)			(1,693)		
Issuances pursuant to stock option and benefit plans (6.6 million shares)	433		(153)	586		
Balance at December 31, 1997	\$5,926	\$296	\$9,848	\$(3,300)	\$(379)	\$(539)
Net income	1,175		1,175			
Cumulative translation – net	29					29
Fair value adjustments	2					2
Total comprehensive income	1,206					
Dividends paid (\$2.20 per share)	(887)		(887)			
Amortization of unearned compensation	29				29	
Reacquired stock (7.4 million shares)	(618)			(618)		
Issuances pursuant to stock option and benefit plans (4.6 million shares)	280		(156)	436		
Balance at December 31, 1998	\$5,936	\$296	\$9,980	\$(3,482)	\$(350)	\$(508)

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



What are your capital spending and R&D plans for 1999?



Capital expenditures, which were about \$1.4 billion in both 1998 and 1997, are expected to be about 10 percent lower in 1999. R&D spending, as a percent to sales, should remain around recent levels. We continue to invest in capital projects

and R&D to support innovation and growth, to enhance our leading market positions, and to increase operational efficiency. We are directing our investments to high-growth, high-return opportunities, including our Pacing Plus programs.

CONSOLIDATED STATEMENT OF CASH FLOWS

Minnesota Mining and Manufacturing Company and Subsidiaries

Years ended December 31

(Dollars in millions)

	1998	1997	1996
Cash Flows from Operating Activities			
Net income	\$1,175	\$2,121	\$1,526
Adjustments to reconcile net income to net cash provided by operating activities			
Depreciation	798	800	825
Amortization	68	70	58
Asset impairment charges – restructuring	182	—	—
Gain on divestiture – net	(6)	(495)	—
Income tax paid relating to divestiture	(4)	(308)	—
Implant litigation – net	(255)	35	(275)
Accounts receivable	(160)	(149)	(170)
Inventories	195	(295)	(75)
Other – net	381	39	152
Net cash provided by continuing operations	2,374	1,818	2,041
Net cash (used) provided by discontinued operations	—	(112)	170
Net cash provided by operating activities	2,374	1,706	2,211
Cash Flows from Investing Activities			
Capital expenditures	(1,430)	(1,406)	(1,109)
Proceeds from sale of property, plant and equipment	25	38	66
Acquisitions and other investments	(265)	(40)	(263)
Proceeds from National Advertising Company divestiture	—	1,000	—
Proceeds from other divestitures and investments	98	51	62
Discontinued operations – net	—	—	(17)
Net cash used in investing activities	(1,572)	(357)	(1,261)
Cash Flows from Financing Activities			
Change in short-term debt – net	55	705	(76)
Repayment of long-term debt	(129)	(565)	(15)
Proceeds from long-term debt	645	337	173
Purchases of treasury stock	(618)	(1,693)	(532)
Reissuances of treasury stock	292	355	268
Payment of dividends	(887)	(876)	(803)
Other	(96)	(22)	79
Net cash used in financing activities	(738)	(1,759)	(906)
Effect of exchange rate changes on cash	(83)	57	54
Net (decrease) increase in cash and cash equivalents	(19)	(353)	98
Cash and cash equivalents at beginning of year	230	583	485
Cash and cash equivalents at end of year	\$ 211	\$ 230	\$ 583

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Accounting Policies

Consolidation: All significant subsidiaries are consolidated. All intercompany transactions are eliminated.

Foreign currency translation: Local currencies generally are considered the functional currencies outside the United States, except in countries treated as highly inflationary. Assets and liabilities for operations in local-currency environments are translated at year-end exchange rates. Income and expense items are translated at average rates of exchange prevailing during the year. Cumulative translation adjustments are recorded as a component of stockholders' equity.

For operations in countries treated as highly inflationary, certain financial statement amounts are translated at historical exchange rates, with all other assets and liabilities translated at year-end exchange rates. These translation adjustments are reflected in income and are not material.

Use of estimates: The preparation of financial statements in conformity with 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.

Other securities and investments: Other securities consist of marketable securities and interest-bearing bank deposits with varied maturity dates. These securities are employed in the company's banking, captive insurance and cash management operations. Investments primarily include debt securities held by captive insurance and banking operations; individual and commercial loans receivable held by banking operations; the cash surrender value of life insurance policies; and real estate and venture capital investments.

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

Other assets: Other assets include product and other insurance receivables, goodwill, patents, other intangibles, deferred taxes and other noncurrent assets. Goodwill is amortized on a straight-line basis over the periods benefited, typically 10 to 40 years. Other intangible items are amortized on a straight-line basis over their estimated economic lives.

Revenue recognition: Revenue is recognized upon shipment of goods to customers and upon performance of services. The company sells a wide range of products to a diversified base of customers around the world and, therefore, believes there is no material concentration of credit risk.

Property, plant and equipment: Depreciation of property, plant and equipment generally is computed using the straight-line method based on estimated useful lives of the assets. Fully depreciated assets are

retained in property and accumulated depreciation accounts until removed from service. Upon disposal, assets and related accumulated depreciation are removed from the accounts and the net amount, less proceeds from disposal, is charged or credited to operations.

Advertising and merchandising: These costs are charged to operations in the year incurred.

Derivatives and hedging activities: The company uses interest rate swaps, currency swaps, and forward and option contracts to manage risks generally associated with foreign exchange rate, interest rate and commodity market volatility. All hedging instruments are designated as and effective as hedges, as required by generally accepted accounting principles. Instruments that do not qualify for hedge accounting are marked to market with changes recognized in current earnings. The company does not hold or issue derivative financial instruments for trading purposes and is not a party to leveraged derivatives.

Realized and unrealized gains and losses for qualifying hedge instruments are deferred until offsetting gains and losses on the underlying transactions are recognized in earnings. These gains and losses generally are recognized either as interest expense over the borrowing period for interest rate and currency swaps; as an adjustment to cost of goods sold for inventory-related hedge transactions; or in stockholders' equity for hedges of net investments in international companies. Cash flows attributable to these financial instruments are included with the cash flows of the associated hedged items.

In June 1998, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards (SFAS) No. 133, "Accounting for Derivative Instruments and Hedging Activities." The company must adopt this standard no later than January 1, 2000. The company is reviewing the requirements of this standard. Although the company expects that this standard will not materially affect its financial position or results of operations, it has not yet determined the impact of this standard on its financial statements.

Accounting for stock-based compensation: The company uses the intrinsic value method for the Management Stock Ownership Program (MSOP). The General Employees' Stock Purchase Plan (GESPP) is considered noncompensatory.

Comprehensive income: Effective January 1, 1998, the company adopted SFAS No. 130, "Reporting Comprehensive Income." Total comprehensive income and the components of accumulated other comprehensive income are presented in the Consolidated Statement of Changes in Stockholders' Equity and Comprehensive Income.

Earnings per share: The difference in the weighted average shares outstanding for calculating basic and diluted earnings per share is attributable to the assumed exercise of MSOP stock options, if dilutive, and also includes the effect of the assumed exercise of GESPP options for periods through June 30, 1997. Effective July 1, 1997, GESPP options no longer have a dilutive effect.

Restructuring Charge

To reduce costs and improve productivity, the company is streamlining corporate structure, consolidating manufacturing operations and exiting certain product lines.

In 1998, the company recorded a restructuring charge of \$332 million (\$214 million after tax) in the third quarter and \$161 million (\$99 million after tax) in the fourth quarter, for a total of \$493 million (\$313 million after tax). A portion of this restructuring charge (\$39 million) has been classified as a component of cost of goods sold. The restructuring charge does not include the write-down of goodwill or other intangible assets.

Of the total restructuring charge, \$271 million relates to employee termination benefits. The company expects to terminate approximately 4,800 employees by December 31, 1999. These reductions will take place in each business segment and geographic area of the company and in all major functions.

Under the plan, the company terminated 1,225 employees in the second half of 1998, of whom about one-third were in the United States and two-thirds were abroad. Because certain employees can defer receipt of termination benefits for up to 12 months, cash payments lag job eliminations. After subtracting payments of \$39 million made through December 31, 1998, the company had a remaining liability of \$232 million related to employee termination benefits at year-end. This has been classified in current liabilities (payroll) on the Consolidated Balance Sheet and will be funded through cash provided by operating activities.

The company plans to consolidate or downsize manufacturing operations, including actions in seven locations in the United States, nine in Europe, four in the Asia Pacific area and two in Latin America. As part of the restructuring plan, the company is also discontinuing product lines that had combined annual sales of less than \$100 million and marginal operating income in each of the years 1998, 1997 and 1996.

The restructuring charge includes \$143 million, net of salvage value, for the write-down of assets included in property, plant and equipment. These assets primarily include specialized 3M manufacturing machinery and equipment. Estimated salvage values are based on estimates of proceeds upon sale of certain of the affected assets.

The restructuring charge also includes \$79 million for losses on inventory write-downs and exit plans. The company has taken an inventory write-down of \$39 million, which has been classified as a component of cost of goods sold, for certain product lines that are being discontinued. The losses on exit plans include \$40 million in incremental costs and contractual obligations for items such as leasehold termination payments and other facility exit costs incurred as a direct result of this plan. After subtracting \$8 million in payments made through December 31, 1998, the company had a remaining balance in other current liabilities of \$32 million for these exit costs at year-end.

Selected information relating to the restructuring charge follows.

Restructuring Information

(Millions)	Employee Termination Benefits	Write-down of Property, Plant and Equipment	Other	Total
1998 restructuring charge				
Third quarter	\$102	\$ 161	\$ 69	\$ 332
Fourth quarter	169	—	10	179
Fourth-quarter change in estimate	—	(18)	—	(18)
Total restructuring charge	\$271	\$ 143	\$ 79	\$ 493
Write-down of assets to net realizable value	—	(143)	(39)	(182)
Cash payments	(39)	—	(8)	(47)
Restructuring liability as of December 31, 1998	\$232	\$ —	\$ 32	\$ 264

Gain on Divestiture

Effective August 15, 1997, the company sold National Advertising Company, an outdoor and mall advertising subsidiary, for cash proceeds of \$1 billion. After adjusting for the net cost of the assets sold and for the expenses associated with the divestiture, the company realized a gain of \$803 million (\$495 million after tax), or \$1.18 per diluted share, in 1997. National Advertising Company had annual sales of about \$200 million and operating income of about \$35 million. In 1998, a \$10 million gain was recorded to finalize the accounting for this sale.

Discontinued Operations

In November 1995, the Board of Directors approved a plan to launch the company's data storage and imaging businesses as an independent, publicly owned company and to discontinue 3M's audio

and video business. In June 1996, the Board of Directors approved the tax-free distribution by 3M of the common stock of Imation Corp. (Imation) as a special dividend of one share of Imation common stock for every 10 shares of outstanding 3M common stock held of record as of June 28, 1996. The company recorded the special dividend of Imation common stock by reducing retained earnings by \$1.008 billion, which represented the carrying value of the net assets underlying the common stock distributed. The company's consolidated financial statements and notes reported Imation and the audio and video business as discontinued operations.

The 1995 loss on disposal of \$373 million included the estimated future results of operations through the estimated date of spin-off or closure. The \$10 million 1996 gain on disposal reflects final adjustments to the company's 1995 estimated loss on disposal.

Supplemental Balance Sheet Information

(Millions)	1998	1997
Accounts receivable		
Accounts receivable	\$ 2,751	\$ 2,523
Less allowances	85	89
Accounts receivable – net	\$ 2,666	\$ 2,434
Inventories		
Finished goods	\$ 1,161	\$ 1,293
Work in process	613	605
Raw materials and supplies	445	501
Total inventories	\$ 2,219	\$ 2,399
Other current assets		
Product and other insurance receivables	\$ 291	\$ 254
Deferred income taxes	175	134
Other	519	470
Total other current assets	\$ 985	\$ 858
Other securities and investments*		
Held-to-maturity (amortized cost)	\$ 164	\$ 181
Available-for-sale (fair value)	214	179
Other (cost, which approximates fair value)	482	500
Total other securities and investments	\$ 860	\$ 860
Property, plant and equipment – at cost		
Land	\$ 283	\$ 275
Buildings and leasehold improvements	3,328	2,916
Machinery and equipment	9,102	8,178
Construction in progress	684	729
	\$13,397	\$12,098
Less accumulated depreciation	7,831	7,064
Property, plant and equipment – net	\$ 5,566	\$ 5,034
Other assets		
Product and other insurance receivables	\$ 862	\$ 805
Deferred income taxes	88	167
Other	696	451
Total other assets	\$ 1,646	\$ 1,423
Other current liabilities		
Product and other claims	\$ 221	\$ 202
Restructuring	32	—
Deposits – banking operations**	149	128
Deferred income taxes	6	9
Other	870	703
Total other current liabilities	\$ 1,278	\$ 1,042
Other liabilities		
Product and other claims	\$ 447	\$ 698
Minority interest in subsidiaries	390	361
Nonpension postretirement benefits	497	477
Deposits – banking operations**	260	249
Deferred income taxes	193	89
Other	430	440
Total other liabilities	\$ 2,217	\$ 2,314

*Unrealized gains and losses relating to other securities and investments classified as available-for-sale are included as a component of accumulated other comprehensive income in stockholders' equity. Realized gains and losses in 1998 and 1997 were not material.

**Primarily demand deposits and, as such, the carrying amount approximates fair value.

Supplemental Statement of Income Information

Research and development costs and advertising and merchandising costs included in the Consolidated Statement of Income are shown in the table that follows.

(Millions)	1998	1997	1996
Research and development costs	\$1,016	\$1,002	\$947
Advertising and merchandising costs	448	471	459

Supplemental Stockholders' Equity and Comprehensive Income Information

Common stock (\$.50 par value per share; without par value at December 31, 1996) of 1 billion shares is authorized, with 472,016,528 shares issued in 1998, 1997 and 1996. Common stock and capital in excess of par includes \$60 million transferred from common stock to capital in excess of par value during 1997. Preferred stock, without par value, of 10 million shares is authorized but unissued. The following table shows the ending balances of the components of accumulated other comprehensive income. The tax effects and reclassification adjustments were not material.

(Millions)	1998	1997	1996
Cumulative translation – net	\$ (518)	\$ (547)	\$ (178)
Debt and equity securities unrealized gain – net	10	8	15
Total accumulated other comprehensive income	\$ (508)	\$ (539)	\$ (163)

Supplemental Cash Flow Information

Income tax payments and interest payments included in the Consolidated Statement of Cash Flows are shown below.

(Millions)	1998	1997	1996
Income tax payments	\$467	\$1,123	\$761
Interest payments	130	91	78

Income tax payments in 1997 included \$308 million related to the gain on the sale of National Advertising Company.

In 1998, the 3M Employee Stock Ownership Plan (ESOP) refinanced its existing debt by issuing new debt of \$385 million. Because the company has guaranteed repayment of the ESOP debt, the debt and related unearned compensation are recorded on the Consolidated Balance Sheet. The repayment of principal and proceeds of long-term debt relating to the ESOP have been excluded from the financing activities of the company in the Consolidated Statement of Cash Flows because the funds involved were received and disbursed by the ESOP trust.

In connection with the spin-off of Imation, the company recorded cash proceeds of \$79 million in 1996, primarily related to the sale of international assets to Imation. Imation also retired \$65 million of short-term debt related to its businesses as of June 30, 1996.

In 1996, 3M increased its ownership in 3M Korea from 60 percent to 100 percent by purchasing the remaining interest from minority shareholders. The purchase price included the deferral of \$72 million in installment payments over the period 1997 through 1999.

Debt

Short-Term Debt (Millions)	Effective		1998	1997
	Interest Rate*			
Commercial paper	5.05%		\$ 978	\$1,070
Long-term debt – current portion	5.03%		131	163
Other borrowings	6.09%		383	266
Total short-term debt			\$1,492	\$1,499

Long-Term Debt (Millions)	Effective		Maturity Date	1998	1997
	Interest Rate*				
ESOP debt guarantee	5.62%	2000-2009	\$ 359	\$ 338	
U.S. dollar 6.375% note	6.38%	2028	330	—	
U.S. dollar 6.625% Eurobond	4.67%	2001	250	250	
3M Deutschland GmbH 5.75% Eurobond	3.56%	2001	216	—	
German mark 5.0% Euronote	4.90%	2001	165	165	
Medium-term 6.25% note	—	1999	—	100	
Sumitomo 3M Limited 0.795% note	0.795%	2003	88	—	
Other borrowings	5.57%	2000-2037	206	162	
Total long-term debt			\$1,614	\$1,015	

*Reflects the effects of interest rate and currency swaps at December 31, 1998.

Debt with fixed interest rates includes the ESOP debt guarantee, U.S. dollar 6.375 percent note, Sumitomo 3M Limited note, and a portion of other borrowings. ESOP debt is serviced by dividends on stock held by the ESOP and by company contributions. These contributions are reported as an employee benefit expense. Debt not denominated in U.S. dollars includes the 5.75 percent Eurobond, the Sumitomo 3M Limited note, and most of other borrowings. Other borrowings include debt held by 3M's international companies, and floating rate notes and industrial bond issues in the United States.

Maturities of long-term debt for the next five years are: 1999, \$131 million; 2000, \$39 million; 2001, \$674 million; 2002, \$36 million; and 2003, \$140 million.

The company estimates that the fair value of short-term and long-term debt approximates the carrying amount of this debt. Debt covenants do not restrict the payment of dividends.

At year-end 1998, the company had available short-term lines of credit totaling about \$670 million.

Other Financial Instruments

Interest rate and currency swaps: The company uses interest rate and currency swaps to manage interest rate risk related to borrowings. The notional amounts shown in the table that follows serve solely as a basis for the calculation of payment streams to be exchanged. These notional amounts are not a measure of the company's exposure through its use of derivatives. These instruments generally mature in relationship to their underlying debt and have maturities extending to 2001. Unrealized gains and losses and exposure to changes in market conditions were not material at December 31, 1998 and 1997.

Notional Amounts

(Millions)	1998	1997
Interest rate swaps	\$350	\$514
Currency swaps	265	452

Foreign exchange forward and option contracts: The company has entered into foreign exchange forward and option contracts, the majority of which have maturities of less than one year. The face amounts represent contracted U.S. dollar equivalents of forward and option contracts denominated in foreign currencies. The amounts at risk are not material because the company has the ability to generate offsetting foreign currency cash flows. Unrealized gains and losses at December 31, 1998 and 1997, were not material.

Face Amounts

(Millions)	1998	1997
Forward contracts	\$1,050	\$966
Options purchased	590	472
Options sold	88	123

The company engages in hedging activities to reduce exchange rate risks arising from cross-border cash flows denominated in foreign currencies. The company operates on a global basis, generating more than half its revenues internationally and engaging in substantial product and financial transfers among geographic areas. Major forward contracts at December 31, 1998, were denominated in British pounds, Japanese yen, German marks, Singapore dollars and Belgian francs.

Credit risk: The company is exposed to credit loss in the event of nonperformance by counterparties in interest rate swaps, currency swaps, and option and foreign exchange contracts, but does not anticipate nonperformance by any of these counterparties. The company actively monitors its exposure to credit risk through the use of credit approvals and credit limits, and by selecting major international banks and financial institutions as counterparties.

Leases

Rental expense under operating leases was \$125 million in both 1998 and 1997, and \$138 million in 1996. The table below shows minimum payments under operating leases with noncancelable terms in excess of one year, as of December 31, 1998.

(Millions)	1999	2000	2001	2002	2003	After 2003	Total
Minimum lease payments	\$65	\$47	\$31	\$22	\$16	\$61	\$242

Income Taxes

In 1998, the company refinanced debt related to its Employee Stock Ownership Plan. The provision for income taxes shown below excludes a \$21 million tax benefit related to this refinancing. In 1997, the gain on the sale of National Advertising Company, a U.S. business, was taxed at a rate of 38.4 percent (federal statutory rate of 35.0 percent and a net effective state tax rate of 3.4 percent). The 1997 information reflects the pre-tax gain of \$803 million on the sale and related income taxes paid of \$308 million.

Income from Continuing Operations before Income Taxes, Minority Interest and Extraordinary Loss

(Millions)	1998	1997	1996
United States	\$1,326	\$2,607	\$1,534
International	626	833	945
Total	\$1,952	\$3,440	\$2,479

Provision for Income Taxes

(Millions)	1998	1997	1996
Currently payable			
Federal	\$ 186	\$ 823	\$ 331
State	52	127	63
International	308	370	405
Deferred			
Federal	149	(57)	76
State	13	(5)	7
International	(23)	(17)	4
Total	\$ 685	\$1,241	\$ 886

Business Segments

Effective at year-end 1998, the company adopted SFAS No. 131, "Disclosure about Segments of an Enterprise and Related Information." Prior period amounts have been restated to conform to the requirements of this statement.

3M's businesses are organized, managed and internally reported as three segments. These segments, which are based on differences in products, technologies and services, are Industrial and Consumer; Transportation, Safety and Specialty Material; and Health Care. These segments have worldwide responsibility for virtually all of the company's product lines. These product lines serve a wide range of markets, including automotive, communications, consumer, electronics, health care, industrial, office, personal care and safety. 3M is not dependent on any single product or market.

Transactions between reportable segments are recorded at cost. 3M is an integrated enterprise characterized by substantial inter-segment cooperation, cost allocations and inventory transfers. Therefore, management does not represent that these segments, if operated independently, would report the operating income and other financial information shown.

Components of Deferred Tax Assets and Liabilities

(Millions)	1998	1997
Accruals currently not deductible		
Benefit costs	\$ 288	\$ 247
Severance and other restructuring costs	93	—
Product and other claims	254	343
Product and other insurance receivables	(439)	(404)
Accelerated depreciation	(333)	(243)
Other	201	260
Net deferred tax asset	\$ 64	\$ 203

At December 31, 1998, about \$2.643 billion of retained earnings attributable to international companies were considered to be indefinitely invested. No provision has been made for taxes that might be payable if these earnings were remitted to the United States. It is not practical to determine the amount of incremental taxes that might arise were these earnings to be remitted.

Reconciliation of Effective Income Tax Rate

	1998	1997	1996
Statutory U.S. tax rate	35.0%	35.0%	35.0%
State income taxes – net	2.4	2.3	1.8
International income taxes – net	0.8	0.2	0.5
All other – net	(3.1)	(1.4)	(1.5)
Effective worldwide tax rate	35.1%	36.1%	35.8%

Revenue by Classes of Similar Products or Services* (Unaudited)

(Millions)	1998	1997	1996
Tapes (I&C)	\$ 2,005	\$ 2,080	\$ 2,096
Abrasives (I&C)	1,332	1,326	1,270
Automotive products and specialty materials (TS&SM)	1,687	1,647	1,460
Connecting and insulating (I&C)	1,733	1,739	1,564
Consumer and office (I&C)	2,611	2,603	2,460
Health care (HC)	2,540	2,476	2,356
Safety and personal care (TS&SM, HC)	1,497	1,355	1,301
All other products (All)	1,616	1,844	1,729
Total	\$15,021	\$15,070	\$14,236

*Business segments are Industrial and Consumer (I&C); Transportation, Safety and Specialty Material (TS&SM); and Health Care (HC).

Business Segment Information

(Millions)		Industrial and Consumer	Transportation, Safety and Specialty Material	Health Care	Corporate and Unallocated	Total Company
Net sales	1998	\$7,714	\$4,125	\$3,076	\$ 106	\$15,021
	1997	7,774	4,202	3,004	90	15,070
	1996	7,377	3,896	2,897	66	14,236
Operating income	1998	\$1,285	\$ 753	\$ 600	\$ (599)*	\$ 2,039
	1997	1,371	808	550	(54)*	2,675
	1996	1,256	812	574	(151)*	2,491
Assets**	1998	\$5,185	\$3,764	\$2,168	\$3,036	\$14,153
	1997	5,030	3,296	2,042	2,870	13,238
	1996	4,771	3,129	2,012	3,452	13,364
Depreciation and amortization	1998	\$ 446	\$ 236	\$ 161	\$ 23	\$ 866
	1997	405	261	183	21	870
	1996	425	270	160	28	883
Capital expenditures	1998	\$ 676	\$ 517	\$ 221	\$ 16	\$ 1,430
	1997	581	563	217	45	1,406
	1996	430	445	216	18	1,109

*Operating income includes unallocated corporate overhead expenses, some of which historically were allocated to discontinued operations. Operating income for 1998 includes a \$493 million restructuring charge.

**Segment assets primarily include accounts receivable; inventory; property, plant and equipment – net; and other miscellaneous assets. Assets included in Corporate and Unallocated principally are cash and cash equivalents; other securities; insurance receivables; deferred income taxes; certain investments and other assets; and certain unallocated property, plant and equipment.

Geographic Areas

Information in the table below is presented on the basis the company uses to manage its businesses. Export sales and certain income and expense items are reported within the geographic area where the final sales to customers are made.

Geographic Area Information

(Millions)		United States	Europe and Middle East	Asia Pacific	Latin America, Africa and Canada	Eliminations and Other	Total Company
Net sales to customers	1998	\$7,231	\$3,850	\$2,375	\$1,539	\$ 26	\$15,021
	1997	7,242	3,640	2,632	1,530	26	15,070
	1996	6,655	3,620	2,577	1,359	25	14,236
Operating income	1998	\$1,185	\$ 516	\$ 503	\$ 349	\$(514)*	\$ 2,039
	1997	1,290	431	611	360	(17)	2,675
	1996	1,125	463	617	304	(18)	2,491
Property, plant and equipment – net	1998	\$3,376	\$1,107	\$ 709	\$ 374	\$ —	\$ 5,566
	1997	3,133	1,013	532	356	—	5,034
	1996	2,842	1,099	598	305	—	4,844

*Operating income for 1998 includes a \$493 million restructuring charge.

Retirement and Postretirement Benefit Plans

Effective at year-end 1998, the company adopted SFAS No. 132, "Employers' Disclosures about Pensions and Other Postretirement Benefits." Information for prior years has been restated to conform to the requirements of this statement.

3M has various company-sponsored retirement plans covering substantially all U.S. employees and many employees outside the United States. Pension benefits are based principally on an employee's years of service and compensation near retirement. In addition to providing pension benefits, the company provides certain postretirement health care and life insurance benefits for substantially all of its U.S.

employees who reach retirement age while employed by the company. Most international employees and retirees are covered by government health care programs. The cost of company-provided health care plans for these international employees is not material.

The company's pension funding policy is to deposit with an independent trustee amounts at least equal to those required by law. A trust fund is maintained to provide pension benefits to plan participants and their beneficiaries. A number of plans are maintained by deposits with insurance companies. In addition, the company has set aside funds for its U.S. postretirement plan with an independent trustee and makes periodic contributions to the plan.

Benefit Plan Information (Millions)	Pension Benefits						Other Benefits	
	U.S.			International				
	1998	1997		1998	1997		1998	1997
Reconciliation of benefit obligation								
Beginning balance	\$5,392	\$4,800		\$1,435	\$1,439		\$ 995	\$ 943
Service cost	130	115		69	52		36	36
Interest cost	377	354		95	96		62	65
Participant contributions	—	—		6	6		6	6
Foreign exchange rate changes	—	—		60	(96)		—	—
Plan amendments	100	1		—	—		—	5
Actuarial (gain) loss	492	382		194	(20)		(2)	1
Benefit payments	(290)	(260)		(44)	(42)		(67)	(61)
Ending balance	\$6,201	\$5,392		\$1,815	\$1,435		\$1,030	\$ 995

Reconciliation of plan assets at fair value								
Beginning balance	\$5,411	\$4,642		\$1,458	\$1,369		\$ 482	\$ 449
Actual return on plan assets	1,018	908		164	165		52	38
Company contributions	83	121		58	47		50	50
Participant contributions	—	—		6	6		6	6
Foreign exchange rate changes	—	—		45	(89)		—	—
Benefit payments	(279)	(260)		(41)	(40)		(67)	(61)
Ending balance	\$6,233	\$5,411		\$1,690	\$1,458		\$ 523	\$ 482

Plan assets at fair value								
less benefit obligation	\$ 32	\$ 19		\$ (125)	\$ 23		\$ (507)	\$(513)
Unrecognized transition								
(asset) obligation	(37)	(74)		24	22		—	—
Unrecognized prior service cost	179	116		49	51		(48)	(59)
Unrecognized (gain) loss	(181)	(94)		47	(82)		58	95
Net prepaid (payable) recognized	\$ (7)	\$ (33)		\$ (5)	\$ 14		\$ (497)	\$(477)

Benefit Plan Information (Millions)	Pension Benefits						Other Benefits		
	U.S.			International					
	1998	1997	1996	1998	1997	1996	1998	1997	1996
Components of net periodic benefit cost									
Service cost	\$ 130	\$ 115	\$ 121	\$ 80	\$ 67	\$ 69	\$ 36	\$ 36	\$ 36
Interest cost	377	354	332	95	96	94	62	65	66
Expected return on assets	(440)	(381)	(349)	(103)	(106)	(97)	(32)	(28)	(26)
Amortization of transition									
(asset) obligation	(37)	(37)	(37)	(1)	(1)	(1)	—	—	—
Amortization of prior									
service cost	38	36	38	8	9	9	(11)	(11)	(6)
Recognized net actuarial									
(gain) loss	—	—	(6)	3	(1)	—	—	1	(9)
Net periodic benefit cost	\$ 68	\$ 87	\$ 99	\$ 82	\$ 64	\$ 74	\$ 55	\$ 63	\$ 61

Weighted average assumptions									
Discount rate	6.50%	7.00%	7.50%	5.58%	6.47%	7.10%	6.50%	7.00%	7.50%
Expected return on assets	9.00%	9.00%	9.00%	6.72%	7.03%	7.68%	6.25%	6.25%	6.25%
Compensation rate increase	4.65%	4.85%	4.85%	4.02%	4.35%	5.60%	4.65%	4.85%	4.85%

The company's U.S. nonqualified pension plan had an unfunded accumulated benefit obligation of \$175 million at December 31, 1998, and \$143 million at December 31, 1997. There are no plan assets in the nonqualified plan due to its nature.

Certain international pension plans were underfunded as of year-end 1998 and 1997. The accumulated benefit obligations of these plans were \$418 million in 1998 and \$84 million in 1997, and the assets of these plans were \$384 million and \$69 million, respectively. The net underfunded amounts are included in other liabilities in the Consolidated Balance Sheet.

The company expects its health care cost trend rate for post-retirement benefits to slow from 6.4 percent in 1999 to 5.0 percent in 2004, after which the rate is expected to stabilize. A one percentage point change in the assumed health care cost trend rate would have the following effects.

(Millions)	One Percentage Point Increase	One Percentage Point Decrease
Effect on current year's benefit expense	\$ 12	\$(10)
Effect on benefit obligation	102	(84)

Employee Savings and Stock Ownership Plans

The company sponsors employee savings plans under Section 401(k) of the Internal Revenue Code. These plans are offered to substantially all regular U.S. employees. Employee contributions of up to 6 percent of compensation are matched at rates ranging from 10 to 35 percent, with additional company contributions depending upon company performance.

The company maintains an Employee Stock Ownership Plan (ESOP). This plan was established in 1989 as a cost effective way of funding the majority of the company's contributions under 401(k) employee savings plans. Total ESOP shares are considered to be shares outstanding for earnings per share calculations.

In 1998, the ESOP refinanced its existing debt by issuing new debt of \$385 million at an interest rate of 5.62 percent. This refinancing extended the life of the original ESOP from 2004 to 2009. The company incurred a one-time charge of \$59 million (\$38 million net of tax), or 9 cents per diluted share, which is reported as an extraordinary loss from early extinguishment of debt.

Dividends on shares held by the ESOP are paid to the ESOP trust and, together with company contributions, are used by the ESOP to repay principal and interest on the outstanding notes. Over the life of the notes, shares are released for allocation to participants based on the ratio of the current year's debt service to the remaining debt service prior to the current payment.

The ESOP has been the primary funding source for the company's employee savings plans. Expenses related to the ESOP

generally represent total debt service on the notes, less dividends. The company contributes treasury shares to employee savings plans to cover obligations not funded by the ESOP. These amounts are reported as an employee benefit expense. Unearned compensation, shown as a reduction of stockholders' equity, is reduced symmetrically as the ESOP makes principal payments.

ESOP Information

(Millions)	1998	1997	1996
Dividends on shares held by the ESOP	\$31	\$30	\$28
Company contributions to the ESOP	44	37	37
Interest incurred on ESOP notes	29	32	34
Expenses related to the ESOP	37	36	36

In July 1996, the ESOP received Imation shares from the spin-off distribution. These shares were sold and the proceeds were used to purchase additional 3M shares.

ESOP Shares	1998	1997	1996
Allocated	6,586,192	6,006,099	5,202,188
Committed to be released	85,153	184,181	399,220
Unreleased	7,457,885	8,286,949	9,103,730
Total ESOP shares	14,129,230	14,477,229	14,705,138

General Employees' Stock Purchase Plan

Substantially all employees are eligible to participate in the company's General Employees' Stock Purchase Plan (GESPP). Participants are granted options at 85 percent of market value at

the date of grant. Effective July 1, 1997, options are granted on the first business day and exercised on the last business day of the same month. Previously, GESPP options were exercised within 27 months from the date of grant.

	1998		1997		1996	
	Shares	Exercise Price*	Shares	Exercise Price*	Shares	Exercise Price*
Under option –						
January 1	—	\$ —	292,495	\$62.35	350,805	\$50.21
Granted	1,271,120	69.91	1,123,358	77.50	1,498,538	58.78
Exercised	(1,271,120)	69.91	(1,293,282)	74.67	(1,501,011)	55.67
Canceled	—	—	(122,571)	71.21	(55,837)	52.07
December 31	—	—	—	—	292,495	\$62.35
Options exercisable – December 31	—	—	—	—	84,893	\$63.87
Shares available for grant –						
December 31	10,521,542		11,792,662		12,793,449	

*Weighted average

Management Stock Ownership Program

In May 1997, shareholders approved an additional 35 million shares for issuance under the Management Stock Ownership Program (MSOP). Management stock options are granted at market value at the date of grant. These options generally are exercisable one year after the date of grant and expire 10 years

from the date of grant. At year-end, there were 10,594 participants in the plan. To preserve the intrinsic value of management stock options after the Imation spin-off, the number of outstanding options and related exercise prices were adjusted in 1996, resulting in no economic impact to participants or the company.

	1998		1997		1996	
	Shares	Exercise Price*	Shares	Exercise Price*	Shares	Exercise Price*
Under option –						
January 1	26,831,852	\$59.75	26,487,335	\$52.61	23,974,715	\$47.93
Granted	5,872,537	92.78	5,598,761	91.25	5,810,480	65.54
Imation Corp. adjustment	—	—	—	—	1,097,520	50.07
Exercised	(3,300,215)	47.76	(5,241,804)	46.99	(4,225,544)	43.11
Canceled	(73,625)	93.35	(12,440)	91.70	(169,836)	53.17
December 31	29,330,549	\$67.72	26,831,852	\$59.75	26,487,335	\$52.61
Options exercisable –						
December 31	24,031,395	\$62.09	21,673,983	\$52.12	20,462,410	\$49.54
Shares available for grant –						
December 31	30,123,936		35,968,913		6,555,234	

*Weighted average

Options Outstanding and Exercisable at December 31, 1998

Range of Exercise Prices	Options Outstanding			Options Exercisable	
	Shares	Contractual Life (months)*	Exercise Price*	Shares	Exercise Price*
\$34.76 - 47.00	5,476,178	34	\$41.79	5,476,178	\$41.79
48.00 - 64.00	11,932,262	80	57.03	11,932,262	57.03
67.00 - 98.60	11,922,109	106	90.33	6,622,955	87.99

*Weighted average

Stock-Based Compensation

No compensation cost has been recognized for the General Employees' Stock Purchase Plan (GESPP) or the Management Stock Ownership Program (MSOP). Pro forma amounts based on the options' estimated fair value, net of tax, at the grant dates for awards under the GESPP and MSOP are presented below.

Pro Forma Net Income and Earnings Per Share

(Millions)	1998	1997	1996
Net income			
As reported	\$1,175	\$2,121	\$1,526
Pro forma	1,072	2,032	1,439
Earnings per share – basic			
As reported	\$ 2.91	\$ 5.14	\$ 3.65
Pro forma	2.66	4.92	3.44
Earnings per share – diluted			
As reported	\$ 2.88	\$ 5.06	\$ 3.62
Pro forma	2.63	4.85	3.41

The weighted average fair value per option granted during 1998, 1997 and 1996 was \$12.34, \$13.67 and \$10.37, respectively, for the GESPP, and \$20.41, \$21.81 and \$13.43, respectively, for the incentive MSOP grants. The weighted average fair value was calculated by using the fair value of each option on the date of grant. The fair value of GESPP options was based on the 15 percent purchase discount. For MSOP options, the fair value was calculated utilizing the Black-Scholes option-pricing model and the assumptions that follow.

MSOP Assumptions	1998	1997	1996
Risk-free interest rate	5.7%	6.6%	6.4%
Dividend growth rate	5.8%	5.8%	4.3%
Volatility	17.6%	15.0%	14.2%
Expected life (months)	69	67	66

The GESPP and MSOP options, if exercised, would have the following dilutive effect on shares outstanding for 1998, 1997 and 1996, respectively: 4.7 million, 6.0 million and 3.9 million shares. Beginning July 1, 1997, GESPP options had no dilutive effect. MSOP options to purchase 10.8 million shares of common stock at an average price of \$92.14 were outstanding at year-end 1998. These MSOP options were not included in the computation of diluted earnings per share because they would not have had a dilutive effect.

Quarterly Data (Unaudited)

(Millions, except per-share amounts)					
	First	Second	Third	Fourth	Year
Net sales					
1998	\$3,700	\$ 3,770	\$ 3,766	\$ 3,785	\$15,021
1997	3,714	3,817	3,826	3,713	15,070
Cost of goods sold*					
1998	\$2,096	\$ 2,162	\$ 2,219	\$ 2,267	\$ 8,744
1997	2,089	2,156	2,173	2,162	8,580
Income before extraordinary loss*					
1998	\$ 400	\$ 386	\$ 178	\$ 249	\$ 1,213
1997	410	418	927	366	2,121
Net income*					
1998	\$ 400	\$ 386	\$ 178	\$ 211	\$ 1,175
1997	410	418	927	366	2,121
Basic earnings per share – income before extraordinary loss*					
1998	\$.99	\$.95	\$.44	\$.62	\$ 3.01
1997	.99	1.01	2.25	.90	5.14
Basic earnings per share – net income*					
1998	\$.99	\$.95	\$.44	\$.52	\$ 2.91
1997	.99	1.01	2.25	.90	5.14
Diluted earnings per share – income before extraordinary loss*					
1998	\$.98	\$.94	\$.44	\$.61	\$ 2.97
1997	.97	.99	2.21	.89	5.06
Diluted earnings per share – net income*					
1998	\$.98	\$.94	\$.44	\$.52	\$ 2.88
1997	.97	.99	2.21	.89	5.06
Stock price comparisons (NYSE composite transactions)					
1998 High	\$96.13	\$ 97.88	\$ 84.44	\$ 87.50	\$ 97.88
1998 Low	80.06	80.38	65.63	69.38	65.63
1997 High	93.25	105.50	104.50	101.19	105.50
1997 Low	80.00	80.13	86.00	81.38	80.00

*Third-quarter 1998 includes a restructuring charge of \$332 million (\$214 million after tax), or 53 cents per diluted share. Fourth-quarter 1998 includes a restructuring charge of \$161 million (\$99 million after tax), or 25 cents per diluted share, and an extraordinary loss from early extinguishment of debt of \$38 million (net of tax), or 9 cents per diluted share. The inventory portion of the restructuring charge, included in cost of goods sold, totaled \$29 million in third-quarter 1998 and \$10 million in fourth-quarter 1998. Third-quarter 1997 includes a gain of \$803 million (\$495 million after tax), or \$1.18 per diluted share, on the sale of National Advertising Company.

Legal Proceedings

The company and certain of its subsidiaries are named as defendants in a number of actions, governmental proceedings and claims, including environmental proceedings and products liability claims involving products now or formerly manufactured and sold by the company. In some actions, the claimants seek damages as well as other relief, which, if granted, would require substantial expenditures. The company has accrued certain liabilities, which represent reasonable estimates of its probable liabilities for these matters. The company also has recorded receivables for the probable amount of insurance recoverable with respect to these matters.

Some of these matters raise difficult and complex factual and legal issues and are subject to many uncertainties, including, but not limited to, the facts and circumstances of each particular action, the jurisdiction and forum in which each action is proceeding, and differences in applicable law. Accordingly, the company is not always able to estimate the amount of its possible future liabilities with respect to such matters.

There can be no certainty that the company may not ultimately incur charges, whether for governmental proceedings and claims, products liability claims, environmental proceedings or other actions, in excess of presently established accruals. While such future charges could have a material adverse impact on the company's net income in the quarterly period in which they are recorded, the company believes that such additional charges, if any, would not have a material adverse effect on the consolidated financial position or annual results of operations of the company. (Note: The preceding sentence applies to all legal proceedings involving the company except the breast implant litigation, which is separately discussed below.)

Breast implant litigation: As of December 31, 1998, the company had been named as a defendant, often with multiple co-defendants, in 5,863 lawsuits and 121 claims in various courts, all seeking damages for personal injuries from allegedly defective breast implants. These claims and lawsuits purport to represent 21,001 individual claimants. It is not yet certain how many of these lawsuits and claims involve products manufactured and sold by the company, as opposed to other manufacturers, but the company has confirmed that 1,117 of these claimants have 3M implants. The company entered the business of manufacturing breast implants in 1977 by purchasing McGhan Medical Corporation. In 1984, the company sold the business to a corporation that also was named McGhan Medical Corporation.

The typical claim or lawsuit alleges that the individual's breast implants caused one or more of a wide variety of ailments. Plaintiffs in these cases typically seek monetary damages, often in unspecified amounts, and also may seek certain types of equitable relief, including requiring the company to fund the costs associated with removal of the breast implants.

A number of breast implant claims and lawsuits seek to impose liability on the company under various theories for personal injuries allegedly caused by breast implants manufactured and sold by manufacturers other than the company. These manufacturers include, but are not limited to, McGhan Medical Corporation and manufacturers that are no longer in business or that are insolvent, whose breast implants may or may not have been used in conjunction with implants manufactured and sold by the company. These claims raise many difficult and complex factual and legal issues that are subject to many uncertainties, including the facts and circumstances of each particular claim, the jurisdiction in which each suit is brought, and differences in applicable law and insurance coverage.

In addition to individual suits against the company, a class action on behalf of all women with breast implants filed against all manufacturers of such implants has been conditionally certified and is pending in the United States District Court for the Northern District of Alabama (the "Court"). Class actions, some of which have been certified, are pending in various state courts, including, among others, Louisiana, Florida and Illinois, and in the British Columbia courts in Canada.

On December 22, 1995, the Court approved a revised class action settlement program for resolution of claims seeking damages for personal injuries from allegedly defective breast implants (the "Revised Settlement Program"). The Revised Settlement Program is a revision of a previous settlement pursuant to a Breast Implant Litigation Settlement Agreement (the "Settlement Agreement").

The Court ordered that, beginning after November 30, 1995, members of the plaintiff class may choose to participate in the Revised Settlement Program or opt out, which would then allow them to proceed with separate products liability actions.

The Revised Settlement Program includes domestic class members with implants manufactured by certain manufacturer defendants, including Baxter International, Bristol-Myers Squibb Company, the company and McGhan Medical Corporation. The company's obligations under the Revised Settlement Program are limited to eligible claimants with implants manufactured by the company or its predecessors ("3M implants") or manufactured only by McGhan Medical Corporation after its divestiture from the company on August 3, 1984 ("Post 8/84 McGhan implants"). With respect to claimants with only Post 8/84 McGhan implants (or only Post 8/84 McGhan implants plus certain other manufacturers' implants), the benefits are more limited than for claimants with 3M implants. Post 8/84 McGhan implant benefits are payable in fixed shares by the company, Union Carbide Corporation and McGhan Medical Corporation. McGhan Medical Corporation has defaulted on its fixed share obligation (which does not affect 3M's obligation to pay its share) and has a request for a mandatory class action recently approved by the Court.

In general, the amounts payable to individual current claimants (as defined in the Court's order) under the Revised Settlement Program, and the company's obligations to make those payments, are not affected by the number of class members who have elected to opt out of the Revised Settlement Program or the number of class members making claims under the Revised Settlement Program. In addition to certain miscellaneous benefits, the Revised Settlement Program provides for two compensation options for current claimants with 3M implants.

Under the first option, denominated as Fixed Amount Benefits, current claimants with 3M implants who satisfy disease criteria established in the prior Settlement Agreement will receive amounts ranging from \$5,000 to \$100,000, depending on disease severity or disability level; whether the claimant can establish that her implants have ruptured; and whether the claimant also has had implants manufactured by Dow Corning. Under the second option, denominated as Long-Term Benefits, current claimants with 3M implants who satisfy more restrictive disease and severity criteria specified under the Revised Settlement Program can receive benefits ranging from \$37,500 to \$250,000.

Eligible participants with 3M implants who did not file current claims but are able to satisfy the more restrictive disease and severity criteria during an ongoing period of 15 years will be eligible for the Long-Term Benefits, subject to certain funding limitations. Certain one-time payments and advance payments are also available to certain claimants if specified conditions are met.

On June 10, 1998, the Court approved the terms of a settlement program offered by Baxter International, Bristol-Myers Squibb Company and the company to eligible foreign implant recipients (the "Foreign Settlement Program"). Notices and claim forms were mailed on June 15, 1998. Benefits to eligible foreign claimants range from \$3,500 to \$50,000.

The company believes that approximately 90 percent of the registrants, including those claimants who filed current claims, have elected to participate in the Revised Settlement Program. It is still unknown as to what disease criteria all claimants have satisfied and what options they have chosen. As a result, the total amount and timing of the company's prospective payments under the Revised Settlement Program cannot be determined with precision at this time. As of December 31, 1998, the company had paid \$232 million into the court-administered fund as a reserve against costs of claims payable by the company under the Revised Settlement Program (including a \$5 million administrative assessment). Additional payments will be made as necessary. Payments to date have been consistent with the company's estimates of the total liability for these claims.

In the first quarter of 1994, the company took a pre-tax charge of \$35 million (\$22 million after tax) in recognition of its then best estimate of its probable liabilities and associated expenses, net of the probable amount of insurance recoverable from its carriers. In the second quarter of 1998, the company increased its estimate of the minimum probable liabilities and associated expenses to approximately \$1.1 billion, with an offsetting increase in the probable amount of insurance recoveries. This amount represents the company's best estimate of the minimum amount to cover the cost and expense of the Revised Settlement Program and the cost and expense of resolving opt-out claims and recovering insurance proceeds. After subtracting payments of \$963 million as of December 31, 1998, for defense and other costs and settlements with litigants and claimants, the company had accrued liabilities of \$137 million.

The company has substantial primary and excess products liability occurrence insurance coverage and claims-made products liability insurance coverage, which it believes provide coverage for substantially all of its current exposure for breast implant claims and defense costs. Most insurers have alleged reservations of rights to deny all or part of the coverage for differing reasons, including

each insurer's obligations in relation to the other insurers (i.e., allocation) and which claims trigger both the various occurrence and claims-made insurance policies. Some insurers have resolved and paid, or committed to, their policy obligations. The company believes the failure of many insurers to voluntarily perform as promised subjects them to the company's claims for excess liability and damages for breach of the insurers' obligation of good faith.

On September 22, 1994, three excess coverage occurrence insurers initiated in the courts of the State of Minnesota a declaratory judgment action against the company and numerous insurance carriers seeking adjudication of certain coverage issues and allocation among insurers. On December 9, 1994, the company initiated an action against its occurrence insurers in the Texas State Court in and for Harrison County, seeking a determination of responsibility among the company's various occurrence insurers with applicable coverages. This action has been stayed pending resolution of the litigation in the Minnesota courts.

The insurers that are parties to these actions generally acknowledge that they issued products liability insurance to the company and that breast implant claims are products liability claims. The insurers, however, have attempted to shift all or a portion of the responsibility for those claims the company believes fall within the period of occurrence-based coverage (before 1986) into the period of claims-made coverage (from and after 1986). The trial in Minnesota to resolve the company's insurance coverage and the financial responsibility of occurrence insurers for breast implant claims and defense costs began on June 4, 1996, and is continuing in phases. The most recent phase was completed on January 20, 1999. The next phase is scheduled to begin later in the first quarter of 1999.

In the trial's first phase in 1996, the court granted 3M partial declaratory judgment on the question of when insurance coverage is "triggered." The court also granted the insurers' motion for partial declaratory judgment on the question of the allocation method to be applied in the case. In July 1997, the trial court ruled further on the trigger issue and on the general allocation method. That ruling was consistent with and further supported the company's opinion as stated in the following paragraph. In November 1997, upon reconsideration, the court reversed a portion of its July ruling and reinstated a portion of its previous ruling. The company believes that conflicting rulings now exist that need to be clarified by the court and reconciled with applicable law. Motions to clarify the allocation methodology of triggered policies under these rulings were filed and have been ruled upon by the Court. While the Court clarified certain aspects of these rulings, it also conducted an additional evidentiary hearing on the issue. The court is expected to rule on this issue in the first quarter of 1999.

The company believes it ultimately will prevail in this insurance litigation. The company's belief is based on an analysis of its insurance policies, court decisions on these and similar issues, reimbursement by insurers for these types of claims, and consultation with outside counsel who are experts in insurance coverage matters. If, however, the occurrence insurers ultimately prevail in this insurance litigation, the company could be effectively deprived of significant and potentially material insurance coverage for breast implant claims. (See discussion of the accrued receivables for insurance recoveries that follows.)

As of December 31, 1998, the company had accrued receivables for insurance recoveries of \$767 million, substantially all of which is contested by the insurance carriers. Various factors could affect the timing and amount of proceeds to be received under the company's various insurance policies, including (i) the timing of payments made in settlement of claims; (ii) the outcome of occurrence insurance litigation in the courts of Minnesota and Texas; (iii) potential arbitration with claims-made insurers; (iv) delays in payment by insurers; and (v) the extent to which insurers may become insolvent in the future. There can be no absolute assurance that the company will collect all amounts accrued as being probable of recovery from its insurers.

The company's current estimate of the probable liabilities, associated expenses and probable insurance recoveries related to the breast implant claims is based on the facts and circumstances existing at this time. New developments may occur that could affect the company's estimates of probable liabilities (including associated expenses) and the probable amount of insurance recoveries. These developments include, but are not limited to, (i) the ultimate Fixed Amount Benefit distribution to claimants in the Revised Settlement Program; (ii) the success of and costs to the company in defending opt-out claims, including claims involving breast implants not manufactured or sold by the company; (iii) the outcome of the occurrence insurance litigation in the courts of Minnesota and Texas; and (iv) the outcome of potential arbitration with claims-made insurers.

The company cannot determine the impact of these potential developments on the current estimate of probable liabilities (including associated expenses) and the probable amount of insurance recoveries. Accordingly, the company is not able to estimate its possible future liabilities and recoveries beyond the current estimates of probable amounts. As new developments occur, these estimates may be revised, or additional charges may be necessary to reflect the impact of these developments on the costs to the company of resolving breast implant litigation, claims and insurance recoveries. Such revisions or additional future charges could have a material adverse impact on the company's net income in the quarterly period in which they are recorded. Although the company considers it unlikely, such revisions or additional future charges could also have a material adverse effect on the consolidated financial position or annual results of operations of the company.

The company conducts ongoing reviews, assisted by outside counsel, to determine the adequacy and extent of insurance coverage provided by its occurrence and claims-made insurers. The company believes, based on these ongoing reviews and the bases described in the fourth preceding paragraph, it is probable that the collectible coverage provided by its applicable insurance policies is sufficient to cover substantially all of its current exposure for breast implant claims and defense costs. Based on the availability of this insurance coverage, the company believes that its uninsured financial exposure has not materially changed since the first quarter of 1994. Therefore, no recognition of additional charges has been made.

FINANCIAL SUMMARY

(Dollars in millions, except per-share amounts)	1998*	1997*	1996	1995	1994	1993	1992	1991	1990
Operating Results									
Net sales	\$15,021	\$15,070	\$14,236	\$13,460	\$12,148	\$11,053	\$10,817	\$10,281	\$ 9,931
Operating income	2,039	2,675	2,491	2,221	2,095	1,796	1,811	1,683	1,804
Income from continuing operations	1,213	2,121	1,516	1,306	1,207	1,133	1,116	984	1,070
Per share – basic	3.01	5.14	3.63	3.11	2.85	2.61	2.55	2.24	2.42
Per share – diluted	2.97	5.06	3.59	3.09	2.84	2.59	2.54	2.23	2.41
Net income	1,175	2,121	1,526	976	1,322	1,263	1,233	1,154	1,308
Per share – basic	2.91	5.14	3.65	2.32	3.13	2.91	2.81	2.63	2.95
Per share – diluted	2.88	5.06	3.62	2.31	3.11	2.89	2.80	2.62	2.94
Economic profit	307	720	629	502	530	429	404	270	N.A.

Financial Ratios

Percent of sales									
Cost of goods sold	58.2%	57.0%	56.9%	57.3%	56.3%	57.4%	57.3%	57.3%	55.9%
Selling, general and administrative expenses	25.2	25.3	25.6	25.6	26.5	26.4	26.8	26.3	25.9
Operating income	13.6	17.7	17.5	16.5	17.2	16.2	16.7	16.4	18.2
Income from continuing operations	8.1	14.1	10.7	9.7	9.9	10.3	10.3	9.6	10.8
Return on invested capital	13.0%	18.0%	17.3%	16.3%	17.4%	16.0%	16.8%	16.1%	N.A.
Return on average stockholders' equity	19.7	34.1	24.4	19.2	18.2	17.3	17.3	15.9	18.6
Total debt to total capital	34	30	24	23	22	19	18	19	20
Current ratio	1.4	1.5	1.8	1.8	1.8	1.8	1.8	1.7	1.6

Additional Information

Cash dividends paid	\$ 887	\$ 876	\$ 803	\$ 790	\$ 744	\$ 721	\$ 701	\$ 685	\$ 647
Per share	2.20	2.12	1.92	1.88	1.76	1.66	1.60	1.56	1.46
Stock price at year-end	71.13	82.06	83.00	66.38	53.38	54.38	50.31	47.63	42.88
Book value per share	14.77	14.64	15.08	16.44	16.04	15.16	15.06	14.36	13.90
Working capital	1,932	2,185	2,880	2,847	2,516	2,348	2,246	1,899	1,701
Capital expenditures	1,430	1,406	1,109	1,088	972	898	968	1,065	1,040
Depreciation	798	800	825	795	793	768	754	710	628
Research and development	1,016	1,002	947	883	828	794	800	713	675
Number of employees at year-end*	73,564	75,639	74,289	85,313	85,296	85,940	86,793	88,370	89,474
Average shares outstanding (in millions)	403.3	412.7	418.2	419.8	423.0	434.3	438.2	439.1	442.8
Average shares and equivalents outstanding (in millions)	408.0	418.7	422.1	422.5	425.3	436.8	440.2	441.0	444.6

*1998 results include a restructuring charge of \$493 million (\$313 million after tax), or 77 cents per diluted share, and an extraordinary loss on early extinguishment of debt of \$38 million (net of tax), or 9 cents per diluted share.

*1997 results include a gain of \$803 million (\$495 million after tax), or \$1.18 per diluted share, on the sale of National Advertising Company.

* Includes both continuing and discontinued operations; decrease in 1996 primarily reflects Imation Corp. spin-off.

DIRECTORS AND OFFICERS

Directors

L. D. DeSimone (1986)
*Chairman of the Board and
Chief Executive Officer*^{2,4}

Ronald O. Baukol (1996)
*Executive Vice President,
International Operations*⁴

Edward A. Brennan (1986)
*Retired Chairman of the Board,
President and Chief Executive
Officer, Sears, Roebuck and
Co., diversified company
engaged in merchandising*^{2,3}

Edward R. McCracken (1997)
*Chairman of the Board,
The PRASAD Project,
charitable foundation*^{1,2}

W. George Meredith (1996)
*Executive Vice President,
Corporate Services and
Supply Chain Management*⁴

Ronald A. Mitsch (1993)
*Retired Vice Chairman of
the Board and Executive
Vice President, Industrial
and Consumer Markets
and Corporate Services*^{4,5}

Allen E. Murray (1985)
*Retired Chairman of the Board
and Chief Executive Officer,
Mobil Corporation,
petroleum exploration,
manufacturing and marketing
of petroleum and petroleum-
based products*^{3,5}

Aulana L. Peters (1990)
*Partner, Gibson, Dunn &
Crutcher LLP, law firm*^{1,2}

Rozanne L. Ridgway (1989)
*Former Assistant Secretary of
State for Europe and Canada*^{2,3}

Frank Shrontz (1992)
*Chairman Emeritus,
The Boeing Company,
manufacturer and seller of
aircraft and related products*^{3,5}

F. Alan Smith (1986)
*Chairman, Advanced
Accessory Systems, Inc.,
supplier of automotive
accessories*^{1,5}

Louis W. Sullivan (1993)
*President, Morehouse School
of Medicine*^{1,5}

*1 Audit Committee
2 Board Organization
Committee
3 Compensation Committee
4 Finance Committee
5 Public Issues Committee*

*Numbers next to names
indicate year first elected
to the Board.*

Corporate Officers

L. D. DeSimone (1957)
*Chairman of the Board and
Chief Executive Officer*

J. Marc Adam (1964)
Vice President, Marketing

Giulio Agostini (1966)
*Senior Vice President,
Finance and Administrative
Services*

Ronald O. Baukol (1966)
*Executive Vice President,
International Operations*

John W. Benson (1968)
*Executive Vice President,
Health Care Markets*

William E. Coyne (1968)
*Senior Vice President,
Research and Development*

M. Kay Grenz (1969)
*Vice President, Human
Resources*

Charles E. Kiestler (1962)
*Senior Vice President,
Engineering, Quality and
Manufacturing Services*

W. George Meredith (1967)
*Executive Vice President,
Corporate Services and
Supply Chain Management*

Raymond C. Richelsen (1963)
*Executive Vice President,
Transportation, Safety
and Specialty Material
Markets*

John J. Ursu (1972)
*Senior Vice President,
Legal Affairs and
General Counsel*

Harold J. Wiens (1968)
*Executive Vice President,
Industrial and Consumer
Markets*

Vice Presidents and Group Vice Presidents

Harry C. Andrews (1980)
*Corporate Enterprise
Development*

David P. Drew (1962)
Information Technology

Antonio Gastaldo (1958)
Asia Pacific

Keith E. Moe (1967)
*Electro and Communications
Markets Group*

Ronald G. Nelson (1971)
Controller

Moe S. Nozari (1971)
*Consumer and Office
Markets Group*

Edoardo I. Pieruzzi (1963)
Europe and Middle East

Charles Reich (1968)
*Specialty Material
Markets Group*

L. James Schoenwetter (1960)
Logistics

Karen E. Welke (1976)
Medical Markets Group

Janet L. Yeomans (1983)
Treasurer

Additional Officers

Thomas A. Boardman (1973)
Assistant Secretary

Gregg M. Larson (1979)
Assistant Secretary

Stephen J. Rowley (1968)
Assistant Secretary

Roger P. Smith (1969)
Secretary

*Numbers next to names
indicate year joined 3M.*

EXECUTIVES

Business Unit Executives

Industrial and Consumer Markets

Joseph T. Bailey
Research and Development

Ronald R. Belschner
Industrial Tape and Specialties

D. Drew Davis
Commercial Care

Michael L. Denoma
Abrasive Systems

Robert T. Doughty
Home Care

JoAnn Fernandez
Construction and Home Improvement Markets

Richard P. Iverson
Electronic Products

Roger H. D. Lacey
Telecom Systems

Steven J. Landwehr
Automotive Aftermarket

James T. Mahan
Bonding Systems

William G. Matthews
Integrated Solutions

C. Agnew Meek
Visual Systems

Henry W. Menzies
Electrical Products

John J. Mueller
Packaging Systems

David W. Powell
Stationery and Office Supplies

Bruce A. Thalacker
Tape Manufacturing

Antonius J. Theunissen
Adhesives

John R. Voorhees
Key Accounts and Group Services

Victor Yones
Electronic Handling and Protection

Transportation, Safety and Specialty Material Markets

Thomas F. Beddow
Automotive Industry Center

Tom L. Chaffin
Traffic Control Materials

Alexander C. Cirillo Jr.
Research and Development

James E. Gregory
Specialty Materials Manufacturing

Paul F. Guehler
Optical Markets and Technologies

Robert L. Harms
Occupational Health and Environmental Safety

Michael C. Harnetty
Protective Materials

Jay V. Ihlenfeld
Performance Materials

Richard G. Morris
Commercial Graphics

Thomas E. Niccum
Industrial Mineral Products

Peter J. Swain
Safety and Security Systems

Ronald A. Weber
Automotive

Andrew H. Wong
Optical Systems

Health Care Markets

Alexander C. Cirillo Jr.
Research and Development

Edward H. Erickson
Medical-Surgical

Fred Harris Jr.
Personal Care and Related Products

Thomas B. Harrison
Pharmaceuticals

Robert D. MacDonald
Skin Health

Frederick J. Palensky
Dental Products

International Executives

William G. Allen
Sumitomo 3M Limited

Harry W. Borrelli
Latin America and Africa

Wayne W. Brown
United Kingdom and Ireland

Robert J. Burgstahler
Canada

Frank W. Ellis
Health Care Markets, Europe

Thomas R. Engels
Mexico

Stig G. Eriksson
France

Joseph A. Giordano*
South and Southeast Asia

Ronald G. Harber♦
South and Southeast Asia

Peter Hickman
Western Europe Marketing Subsidiaries

Reinhold Hiersemann
Germany

Paul C. Husby
Brazil

Alan C. Kilberg
Electro-Telecom Markets, Europe

Jean Lobey
Consumer and Office Markets, Europe

Raymond A. Longbottom
Traffic and Personal Safety Markets, Europe

James B. Stake
Italy

Peter T. Williams
Industrial Markets, Europe and Middle East

*Effective January 1, 1999

♦Retired March 1, 1999

Staff and Shared Services Executives

Margaret E. Alldredge
Selection, Assessment and Leadership Development

Daniel D. Arndt
Corporate Auditing

Thomas A. Boardman
Office of General Counsel

Leo R. Dunn
Corporate Services, Austin, Texas

Dan E. Gahlon
Public Relations and Corporate Communications

Gary L. Griswold
Office of Intellectual Property Counsel

Charles E. Harstad
Corporate Marketing

Tim R. Hoffmann
Administrative Services

Ralph E. Larson
Corporate Quality and Manufacturing Services

Harold B. Laskin
Equipment Servicing

John A. Muilenburg
Human Resources Operations

Geoffrey C. Nicholson
Corporate Technical Planning and International Technical Operations

John R. Oakland
Procurement Operations

William J. Schmoll
Taxes

David A. Sonstegard
Environmental Technology and Safety Services

L. Joseph Thompson
Total Compensation Resource Center

Frank T. Vikingstad
Engineering

Thomas E. Wollner
Corporate Research Laboratories

Larry R. Zobel
Medical

SHAREHOLDER INFORMATION

Stock Transfer Agent and Registrar

Please contact Norwest Bank Shareowner Services with inquiries about:

- Address or name changes
- Direct deposit of dividends
- Dividend payments
- Dividend reinvestment
- Duplicate mailings
- Lost dividend checks
- Lost stock certificates
- Shareholder records
- Stock transfers

Norwest Bank Minnesota, N.A.
Shareowner Services
161 North Concord Exchange
P.O. Box 64854
South St. Paul, MN 55164-0854
Phone: (651) 450-4064 or
1-800-401-1952
E-mail: shareowner@aol.com

Dividends

Quarterly dividends on 3M common stock are paid on or about the 12th of March, June, September and December. 3M has paid dividends since 1916.

3M shareholders may have dividends automatically deposited into checking or savings accounts through the Electronic Dividend Deposit Service. Through the Automatic Dividend Reinvestment Plan, shareholders may have quarterly cash dividends reinvested to purchase shares of 3M stock. Participants also may purchase additional shares through voluntary cash contributions or through automatic transfers from checking or savings accounts. 3M pays all service charges and commissions on stock bought through this plan.

Stock Listings

3M's common stock is listed on the New York, Chicago, Pacific and Swiss stock exchanges (symbol: MMM). 3M is one of 30 companies in the Dow Jones Industrial Average.

Information Resources

Investor Inquiries

Securities analysts, portfolio managers and representatives of financial institutions should contact:

Jon Greer
Director, Investor Relations
3M Center 225-1S-15
St. Paul, MN 55144-1000
Phone: (651) 736-1915
Fax: (651) 736-2133

Fax-On-Demand

3M news releases, including earnings and dividend announcements, are available by fax 24 hours a day through Company News On Call at **1-800-758-5804, ext. 000400**.

Toll-Free Telephone Service

To listen to earnings and dividend announcements, and other information, call our toll-free telephone service at **1-800-364-9436**. It's available 24 hours a day.

Internet

Access www.3M.com to reach the 3M web site. You will find financial and product information that helps make it easy for customers worldwide to do business with 3M.

Annual Meeting

The Annual Meeting of 3M shareholders will be held on Tuesday, May 11, 1999, at 10 a.m. at RiverCentre, 175 West Kellogg Boulevard, St. Paul, Minnesota. We invite shareholders to attend the meeting, and we urge shareholders to exercise their right to vote.

Financial Reports

3M's Annual Reports and Forms 10-K and 10-Q are available from:

3M Investor Relations
3M Center 225-1S-15
St. Paul, MN 55144-1000
Phone: (651) 737-4262
Fax: (651) 736-2133
E-mail: innovation@mmm.com

Community and Environmental Reports

For information on community programs, access www.3M.com/profile/community on the Internet, or call **1-800-3M HELPS** for a Contributions Annual Report. To learn more about 3M environmental programs, access www.3M.com/profile/envt, or call **1-800-3M HELPS** for an Environmental Progress Report.

Product Information

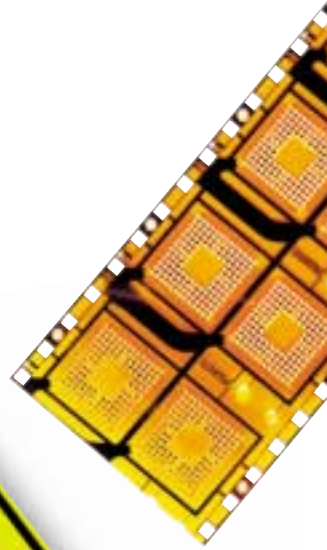
For information about 3M products and services, please contact:

3M Product Information Center
3M Center 515-3N-06
St. Paul, MN 55144-1000
Phone: (651) 737-6501 or
1-800-3M HELPS
Fax: (651) 737-7117 or
1-800-713-6329
E-mail: innovation@mmm.com

Design: Arnold Saks Associates
Photography: Steve Niedorf, Jim Barber
Printing: Graphic Arts Center

Dyneon™ is a trademark of Dyneon LLC.

Proventil® HFA is a registered trademark of Schering-Plough Corporation.



General Offices
3M Center
St. Paul, MN 55144-1000
(651) 733-1110



Recycled Paper
40% Pre-consumer paper
10% Post-consumer paper