

Investors Conference March 17, 2011

## 3M China – Building “Strength on Strength”

Kenneth Yu, Managing Director, China Region & 3M China

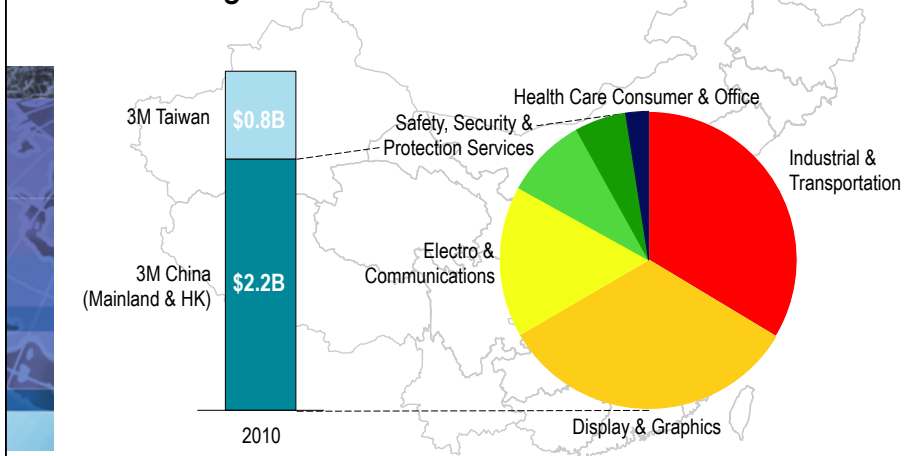


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3M China Update

>> 3M China Region Overview

### China Region Sales



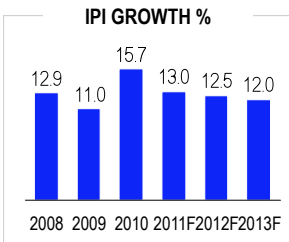
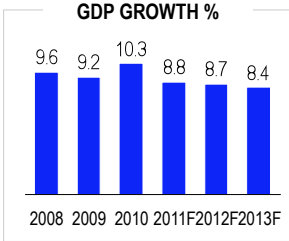
**A Broad-Based Portfolio of Business: Sales Reaching US\$3B and Growing**



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## China's Business Environment Has Remained Favorable



F=Forecast, Source: NBS, EIU

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### KEY POLICY DIRECTIVES in THE 12<sup>th</sup> FIVE-YEAR PLAN

#### New Industrial Drive

- Transform traditional manufacturing sectors
- Develop emerging and strategic sectors
- Enhance service sector
- Refine transportation network
- Develop the oceanic economy

#### Boost Domestic Consumption

- Increase household income
- Rural development
- Systematic overhaul in social, economic, financial, fiscal mechanism

#### Regional Development

- Build four functional regions nationwide
- Balanced development between urban vs. rural, coastal vs. inland

#### Resource / Environmental Protection

- Industry consolidation for energy efficiency
- Develop strategic sectors



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## 3M China Profile

- Founded in **1984**
- The first Wholly-Owned Foreign-invested Enterprise (WOFE)
- 8200+ employees<sup>(1)</sup>
- Total investment nearly \$ 1Billion



(1) Includes permanent and contract employees

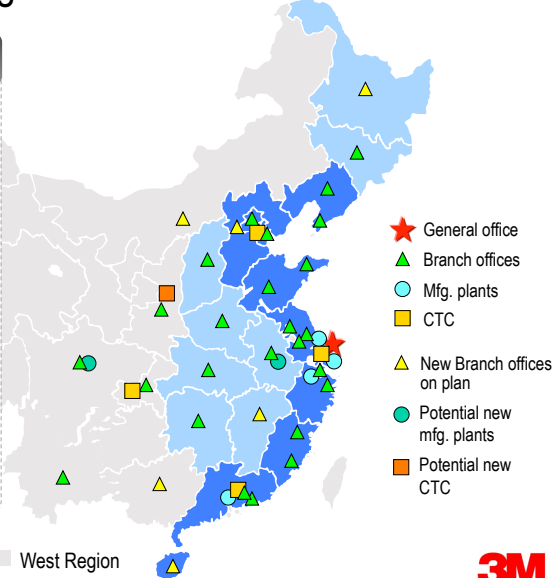
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## Geographic Coverage – Current and Future

### Current Footprint

- ★ **HQ:** Shanghai
- ▲ **3M Branch Offices:**  
26 municipal cities & districts
- 3M R&D Center:**  
Shanghai
- **3M CTCs:**  
Beijing, Guangzhou, Suzhou, Chongqing
- **Manufacturing:**  
Shanghai, Suzhou, Guangzhou, Hangzhou
- Distribution Centers:**  
Shanghai, Tianjin, Shenzhen



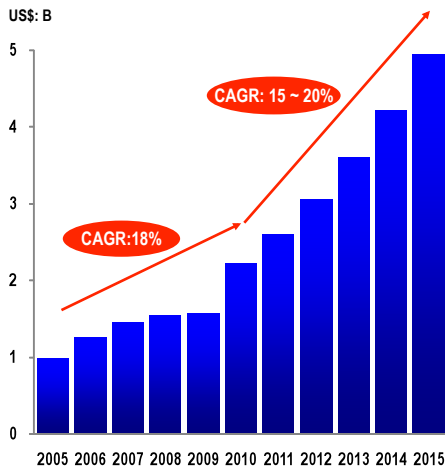
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## 3M China<sup>(1)</sup> Financials

### Historical & Forecast Sales



### Major Products/Technologies

- Industrial adhesives & tapes
- Optical film
- Occupational health & environmental safety
- Automotive products
- Electrical products
- Renewable energy products
- Electronics material & solutions
- Traffic safety systems
- Personal care
- Skin & wound care

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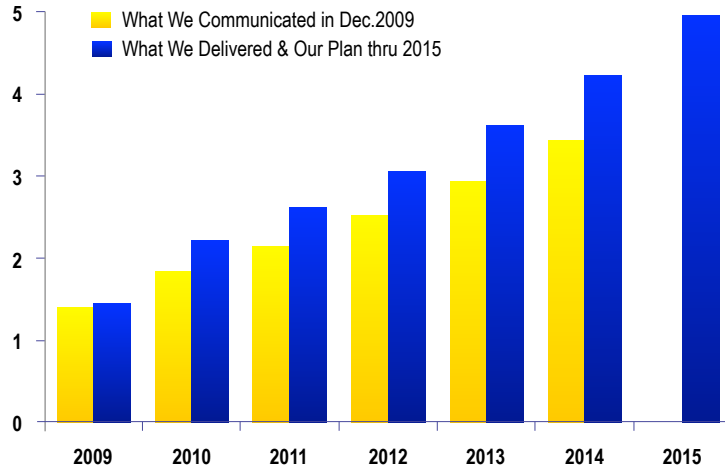
(1) Includes 3M HK, but excludes 3M Taiwan

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## Proven Record on Delivering What We've Promised

US\$: B

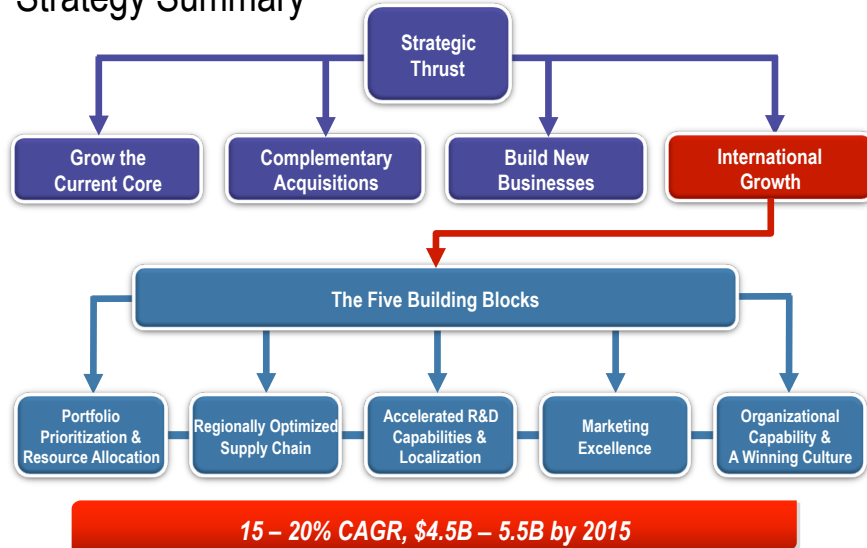


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## Strategy Summary



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## Capture Mega Opportunities While Addressing Challenges

DRIVERS	SITUATION	IMPLICATIONS to 3M
Regional Development	<ul style="list-style-type: none"> <li>Build four functional regions nationwide</li> <li>Balanced development between urban vs. rural, coastal vs. inland</li> </ul>	<ul style="list-style-type: none"> <li>+ New business opportunities, with lower labor cost and favorable business environment in the west</li> </ul>
Development of Seven Strategic Sectors	<ul style="list-style-type: none"> <li>Government to invest up to US\$1.5 trillion over five years</li> <li>Sectors include alternative energy, advanced material, adv. equipment mfg., next generation IT, etc</li> </ul>	<ul style="list-style-type: none"> <li>+ Align with all 3M China's focused markets, e.g. electronics, transportation, renewable energy, healthcare, etc</li> </ul>
Currency Appreciation	<ul style="list-style-type: none"> <li>Starting in Jul'2010, RMB resumed gradual appreciation</li> </ul>	<ul style="list-style-type: none"> <li>? Challenge for export business</li> <li>+ Good for RM / inter-company import</li> </ul>
Evolving Competitive Landscape	<ul style="list-style-type: none"> <li>Chinese competitors going global</li> <li>Global competitors more localized</li> <li>Recent unfavorable legislation (e.g. anti-trust law)</li> </ul>	<ul style="list-style-type: none"> <li>? More fierce regulatory and competitive landscape</li> <li>- Competition for local talent</li> </ul>

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## Capture Mega Opportunities While Addressing Challenges (Cont.)

DRIVERS	SITUATION	IMPLICATIONS to 3M
Aging Population	<ul style="list-style-type: none"> <li>Aging people close to ~170 million, or 12% of population</li> <li>Prevalent style of independent living for old people</li> </ul>	<ul style="list-style-type: none"> <li>+ Increased healthcare expenditure</li> <li>+ Opportunities for in-house security solutions</li> <li>- Ending labor surplus</li> </ul>
Urbanization & Clustering	<ul style="list-style-type: none"> <li>Two-thirds of Chinese will live in urban areas by 2025</li> <li>Emerging cities and production clusters</li> </ul>	<ul style="list-style-type: none"> <li>+ Opportunities due to urbanization &amp; redevelopment</li> <li>? Need to refine marketing strategy</li> </ul>
Rising Affluent or Middle Class	<ul style="list-style-type: none"> <li>Close to 100 million Chinese household will rise into the middle or affluent classes</li> </ul>	<ul style="list-style-type: none"> <li>+ Increased domestic demand</li> <li>- Labor unrest / rising labor cost due to improved living conditions</li> </ul>
Sustainability	<ul style="list-style-type: none"> <li>Government plans to invest ~RMB 3 trillion on solar, wind, etc.</li> <li>Government incentives on hybrid automobiles</li> </ul>	<ul style="list-style-type: none"> <li>+ Significant opportunities for renewable energy business, fuel cells, etc.</li> <li>? More strict compliance requirements</li> </ul>

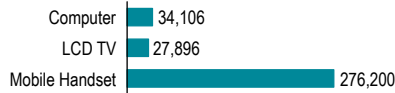
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## Electronics Market: Domestic Demand will Become a Bigger Contributor to Growth

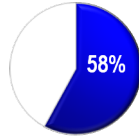
### Domestic Demand [2010 estimation; in '000 units]



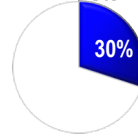
### Domestic Demand Growth Forecast [CAGR 2010-2015]



CURRENT

% of Export in  
Total Production

58%

LONG TERM  
TARGET

Source: BMI, MIIT

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## Electronics Market: Domestic Demand will Become a Bigger Contributor to Growth

- China accounts for the vast majority of global PC & mobile phone production
- China electronics & information industry under way to transform from 58% export dependent to become more balanced between domestic and export
- Advent of iPhones and iPads triggered a new wave of demand for new electronic devices
- Cloud Computing demands a new breed of input/output devices

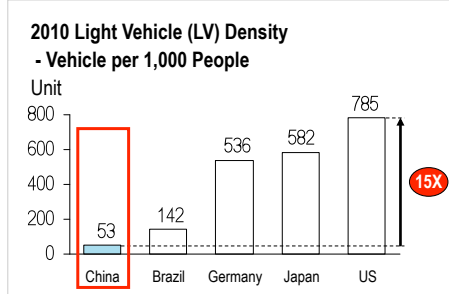
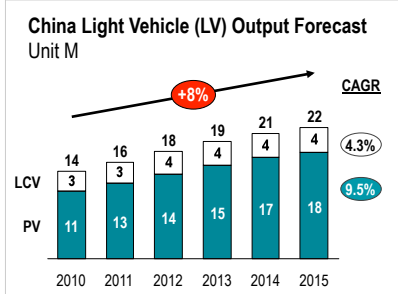
Source: BMI, MIIT

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# Transportation Market (Auto) Has Strong Growth Potential



Source: CSM Worldwide, CEI, Global Insight, Automotive Insights by Roland Berger;  
LCV: Light commercial vehicle, PV: Passenger vehicle, LV=LCV+PV

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# Transportation Market (Auto) Has Strong Growth Potential

## Market Trend & Impact

- |  |   |
|--|---|
| <ul style="list-style-type: none"> <li>Increased emphasis on emission control &amp; safety (+)</li> <li>Urbanization &amp; wealthier consumers (+)</li> <li>Auto production grows rapidly, small vehicles in particular (+)</li> <li>China OEMs' efforts to close the capability gap in R&amp;D (+)</li> <li>Electrification with Gov't subsidy (~)</li> </ul> | <ul style="list-style-type: none"> <li>Passenger car price reduction (-)</li> <li>Multinational competitors aim to become solution providers (e.g. Dow &amp; Henkel) (-)</li> <li>Local competitors are expanding aggressively (-)</li> <li>Some suppliers become competitors through vertical integration (-)</li> </ul> |
|--|---|

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# Energy - Green Initiatives Bring Sustainable Opportunities



**15%**  
Share of Energy

Targeting share of non-fossil fuels in energy consumption to **15%** by 2020

**~ US\$800B**  
Investment thru 2020

**60%** on nuclear, wind, solar & other new energy sources

**40%** on upgrading & reforming the traditional energy sources

~ US\$ 80B: smart grid  
~ US\$ 160B: electric vehicle  
~ US\$ 80B: diversification of energy sources, clean coal, etc.

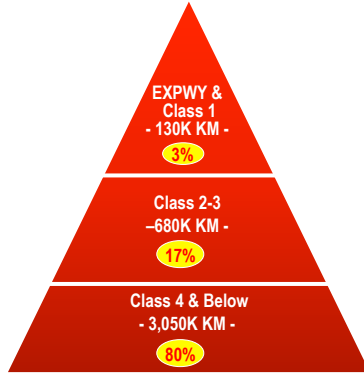


# Civil Infrastructure Market





## Roads: Great Opportunities in B/C Tiers



2009 China Roadway Length

Over 2,000 country-level local Departments of Traffic responsible for rural road management

### Market Dynamics & Opportunities

- China soon to become No.1 in the world for length of roads
- 80% of roads are rural
- 150,000 KM of new roads added every year
- Very poor traffic safety condition on rural roads
- Big room for growth of traffic signs & pavement materials

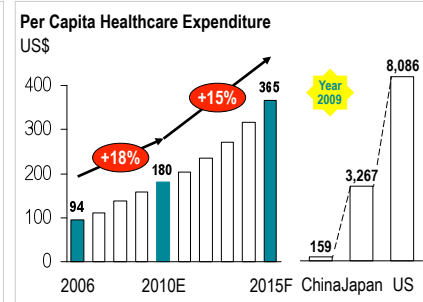
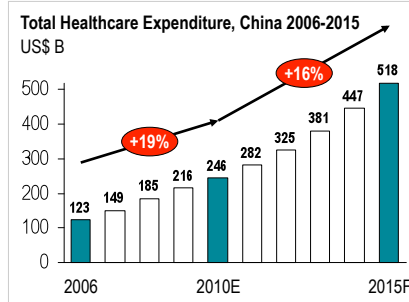
	Road Length (KM, Mln)	No. of Traffic Sign (Mln)	Average (Pieces/KM)
US	6.5	58	9
China	3.8	3.5	0.9



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## Healthcare Market is Expected to Sustain Strong Growth



E=Estimate, F= Forecast, Source: World Health Organization (WHO), BMI, OECD, Internal Analysis



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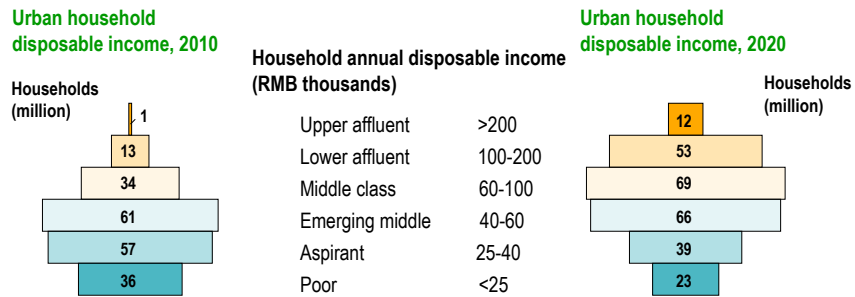
## Healthcare Market is Expected to Sustain Strong Growth

### Market Dynamics & Impact

- Expenditure on healthcare expected to grow constantly +
- Increased expenditure on private healthcare service providers and VIP treatment at public hospitals +
- Lifestyle and demographic shift +
- Fast expansion on medical insurance coverage +
- Increasing medical insurance reimbursement level +
- Medical insurance prioritizes basic medical service ~
- Less-than-ideal IP environment -
- Downward pricing pressure and growing local competition, esp. in low tiers -



## Consumer Market Expects Increased Domestic Consumption from a Rising Middle Class



- From 2010 to 2020, ~100 million households will rise into middle or affluent class
- Consumers' overall spending increases - but at different rates depending on category
- Creating economies of scale are critical for profitability in the Chinese market

Source: BCG



# 3M Aggressively Penetrates Chinese Consumer Market through Innovative Marketing Campaigns



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# CAPEX on R&D Lab and CTCs



**R&D Investment Plan**

- Planned R&D CAPEX: ~US\$ 50M in next 5 years
- Increase headcount from 450 to 750 by 2015

**Target to Boost New Product Vitality Index<sup>(1)</sup> from 38% to 45% in 5 Years**

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# Significant New Product Introduction Success from China

Industrial & Transport.	Safety, Security & Protection	Health Care	Display & Graphics	Electro & Comm.	Consumer & Office
 Local Knitted Loop	 Thinsulate Thermal Insulation (Type K & V)	 Biofilm Removal Enzyme Cleaner	 Tier B Conspicuity Marking	 110KV Terminator	 All-in-1 Window Cleaner
 Drinking Water System (Gen. II)	 IV Kits	 2208 Translucent Color Film	 One-Step Closure for Wireless	 Air Purifiers	
 Double Coated Tissue Tape	 Electronic Marking System Data Management				

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# 3M Expands Manufacturing Capacity

 CAOHEJING	 XINQIAO	 SUZHOU
 HANGZHOU	<b>8 Manufacturing Sites in China</b>	 WAIGAOQIAO
 GUANGZHOU	 PUJIANG	 JINSHAN

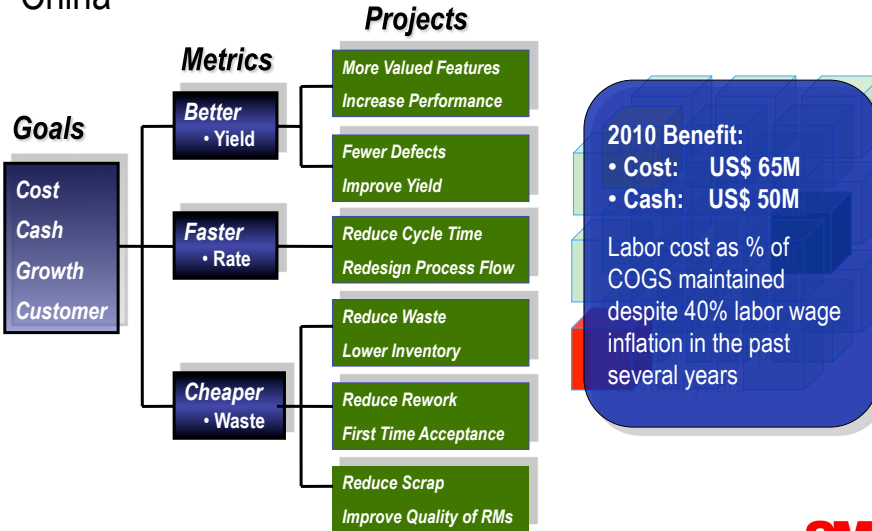
- 2 new plants in Middle/West China in the next 5 years
- Sales from local production: CAGR ~20%
- Regional Source of Supply up to 70%+ of Sales by 2015

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# Lean Six Sigma is Generating Significant Value for 3M China

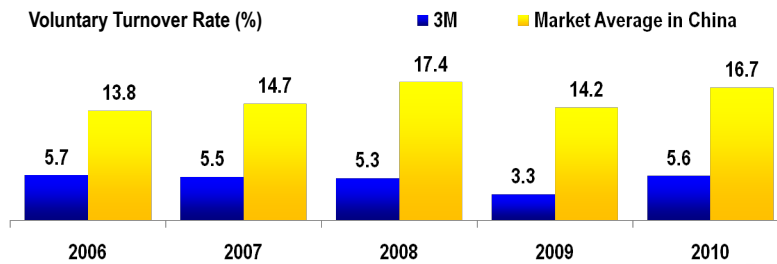


**2010 Benefit:**  
 • Cost: US\$ 65M  
 • Cash: US\$ 50M

Labor cost as % of COGS maintained despite 40% labor wage inflation in the past several years



# People Development



- "Best 50 Working Places" by Staffers
- One of the "Most Admired Foreign Investment Company in China" by Fortune
- Developed Leaders thru World Class Design and Delivery of Training Programs, Development Resources and Processes



## Customer Engagement



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## Conclusion

- China remains the greatest opportunity of our generation
- 3M China continues to be a high performer in a complex business environment
- 3M China has the capabilities to capture the opportunities
  - Broad portfolio of businesses participating in every sector of the economy
  - “China for China” continues to be the cornerstone of the strategy
  - Additional growth opportunities in adjacent and complementary markets

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## Conclusion (cont.)

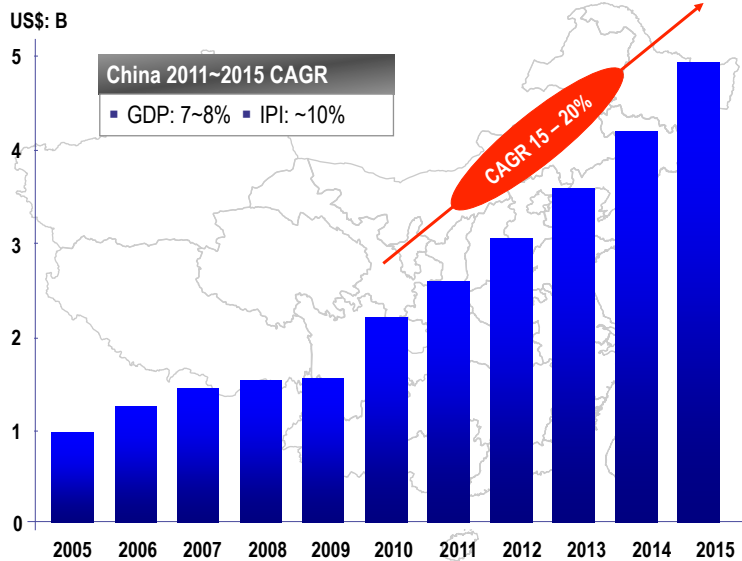
- 3M China has the capabilities to capture the opportunities
  - Strong fundamental capabilities to drive competitiveness
  - World-class, highly capable leadership
- 3M China continues to evolve and build internal capabilities towards self-sufficiency

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## Our Vision for 2015 – 3M China Sales



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