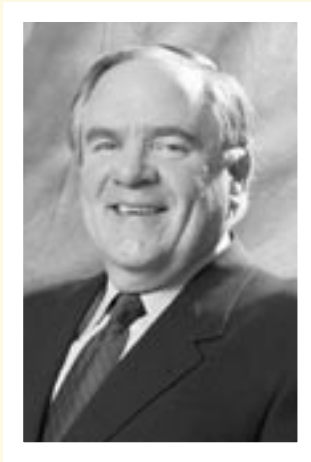


Building Trust

LEADING CEOs SPEAK OUT:
HOW THEY CREATE IT,
STRENGTHEN IT, AND SUSTAIN IT.



William T. Monahan

CHAIRMAN OF THE BOARD, PRESIDENT AND CHIEF EXECUTIVE OFFICER
IMATION CORPORATION

*“Your reputation, hard won and built up over years...can easily
be destroyed in moments by a perceived betrayal of trust.”*

– William T. Monahan

AFTER THE SPIN(OFF)

I'm privileged to serve as the CEO of Imation Corp., the data storage company. And I want to share a key element of what we have tried to build in this company that was created by the spin-off from 3M Company on July 1, 1996, of several businesses in the imaging and information technology industries.

Prior to the spin, I was heading up 3M's Austin, Texas, operations and the telecommunications and health care businesses. I was not involved in the businesses that were being spun off—though I had headed up the largest one, data storage, earlier in my career.

3M's CEO at the time, L.D. DeSimone—Desi to his friends and colleagues—called me to ask if I would consider becoming CEO of “NewCo,” as it was called. After a twenty-three year career at 3M, I was being given the chance to lead a brand new company, with more than \$2 billion in revenue and more than 10,000 employees. But it would mean I had to leave the company I had known my whole professional career.

I knew it was an opportunity I couldn't pass up. I also knew that it would be one of the biggest challenges of my career and would serve up surprises no one could fully anticipate or plan for.

At the start of any business endeavor, you never know exactly what obstacles you will encounter or the answers you will come up with. All that you can count on is that no matter how much you plan and anticipate, you should expect to be surprised. So it's critical to have a compass, a set of principles to help find a way through the challenges, problems, conflicts and confusion. The disciplines of finance and management have been developed and refined to provide that compass for many of the problems in business. But they cannot provide all the answers.

The surprises that business—and life—serve up are too unpredictable. People are involved, each with their differing needs and expectations. Sometimes, the only way you can bridge the gap between a problem and its resolution is by saying, “Trust me.” Your reputation is your most valuable asset. The trust that all stakeholders are willing to extend to you, from employees and customers to shareholders, partners, suppliers and distributors, is often based on your reputation,

hard won and built up over years. But it can easily be destroyed in moments by a perceived betrayal of trust. These are simple truths that every business person knows. Easy to say, not always easy to live up to.

Many of the businesses spun off into Imation were solid businesses, but in very competitive and fast-changing, technology-driven markets. For over 50 years, first as part of 3M, then as Imation, our Data Storage and Information Management business has been a worldwide leader in developing and manufacturing a full line of removable data storage products to help customers manage, store and share data for the desktop and mobile, network and data center environments. With more than 300 technology scientists and more than 300 data storage patents in the United States alone, Imation continues to pioneer today's proven magnetic and optical media technologies.

Imation's other businesses at "spin" included the world's leading supplier of color proofing materials for the graphic arts industry, as well a strong position in printing plates. Its medical imaging business was a leading supplier of laser imagers for medical diagnostics, with unique dry film technology just being introduced, and also was a supplier of conventional X-ray films. It had a private-label color photography film business for the consumer market, a microfilm document management business, an imaging equipment services business, a CD replication business and a carbonless paper business.

What these businesses all had in common was that they came from 3M. As valued as the 3M culture and heritage are, they also needed a new model, focused on their core, quick to respond to fast-changing digital technologies and competitive markets, with low operating costs and a lean corporate structure. In other words, a lot of change was ahead for this new company.

It was clear that we were going into new territory: creating a new company and shedding many of the 3M ways that would not work within this new, smaller entity. But we also realized that there were elements that we needed to bring with us. In addition to the significant product and patent portfolio, business agreements, skills, know-how and facilities, we needed to bring something else. Our success lay in the people, in our employees and customers, partners, suppliers and distributors sticking with us as we made this journey together. So we needed to preserve that part of our 3M legacy that would bridge our first days as a new, unknown company into one with a solid future. We did not know all the massive changes that the new company would go through, but knew that the values put in place at the outset would be critical to our success.

These values, which have remained unchanged since the first days of Imation, are:

- Delivering unsurpassed value to our customers, shareholders, employees and community;
- Maintaining the highest level of integrity and honesty;
- Valuing and respecting our people and their diversity;
- Protecting the environment, the safety of our people and the respect of our local communities;
- Providing the highest quality in everything we do.

So we launched ourselves into the world, confident and excited, and quickly got down to the hard work of establishing an independent company. We had to create a new company—a \$2 billion start-up—not quite from scratch. We faced the immediate challenge of

removing Imation from the 3M hierarchy, systems and processes. Every system, every process, every relationship had to be evaluated for who Imation was, and redesigned and re-established without interrupting our ongoing business of imagining, creating, manufacturing and selling products. We had to ensure that our customers experienced this transition seamlessly. At the same time, a new way of doing business—quicker-acting, leaner, more responsive—needed to be created. We were defining and cultivating a new culture for this new company.

Within 18 months of the spin, we realized that there was no synergy between our disparate businesses. Our success as a company depended on our ability to streamline our operations, focus on our core technologies and better position our various businesses for success in the future. That meant we had to rationalize our portfolio and restructure the entire company if Imation was going to survive.

We began to evaluate each business to find the highest-value home for each, recognizing the needs of customers, shareholders and employees alike. We evaluated the potential for each business by asking three questions: Is this a growth industry? Do we hold a strong technology position and intellectual property portfolio that differentiates us? Do we have a global market presence? If we could not answer yes to all three, then we had to find another home for that business, where it could succeed.

At the same time, we were faced with deteriorating financial results. We recognized that we had to aggressively reduce the cost structure and that meant taking significant restructuring actions.

Once the business decision was made to restructure the company, the management team faced a choice. We could announce just the restructuring and quietly continue the tough work on the portfolio, only announcing what we were doing as we went along. Or we could level with people and tell them as much as we could say publicly about what needed to be done: that we could not at that time precisely describe the endpoint to them, but that we would keep everyone updated.

We recognized how risky it can be to announce to the world that you are “reviewing strategic alternatives” without describing the endpoint in detail. We got plenty of opinions, both from within the management team and from outside advisors. Most of it was along the lines of, “Don’t say anything, just announce to the world when you have a transaction. Employees will be paralyzed, customers will flee.”

But there were other considerations as well. First, from a practical standpoint, we recognized that it could be more damaging for the inevitable rumors to circulate without any comments at all from management. More importantly, Imation was building its own identity and culture. While many employees had come with the spin, we were also bringing in people who had experiences with different companies. We had established a respect policy and encouraged openness and accountability, fostering an open exchange of ideas and the opportunity for all employees to personally impact the business. Personal accountability and responsibility became critical components of employee performance evaluation and development.

So how could we foster that atmosphere if we were not going to treat employees with honesty and openness? Similarly, we had made a commitment to deliver value to customers who were concerned that

the business was going to provide long-term support. And many of our shareholders, as new to Imation as we were to them, needed to understand management plans and see results.

We knew the only way to maintain the credibility of the company with these various stakeholders and to hold their trust through an admittedly difficult time was to come clean. So that's what we did. We announced that we were going to restructure the company and we had hired an investment bank to help us in our portfolio review.

The reaction of employees was better than reasonably could have been expected. By and large, employees appreciated our full disclosure, acted with great maturity and redoubled their efforts to create value within their particular businesses, recognizing that the value in their business was the key to their individual success. We showed our customers that we valued their trust in Imation by being willing to take a chance—by asking them to come along on the journey with us, even if we could not precisely describe the destination. Customers stuck with us, based on the trusted relationships that had been established over the years and that remained unbroken. Shareholders by and large supported the moves, although they were impatient for results.

Imation's first divestiture was also its largest. The sale of our Medical Imaging Systems business was finalized in late 1998, and the people working in that division were given the opportunity to transfer to the acquiring company. That business has become one of the most successful with the new company.

A total of 16 transactions were completed, with the last one completed in August, 2002, enabling the company and its remaining 2,800 employees to focus on its core data storage business. About half these employees trace their careers back to 3M and half do not, so we truly have become our own company.

Over the course of this process, reported net sales went from \$2.4 billion to a little more than \$1 billion as a result of the divestitures, while the core data storage revenue continued to grow. From 1998 to the end of 2002, we generated significant earnings growth and a financial turnaround of nearly \$1 billion in increased cash, reduced debt and stock buyback.

What have the results been for customers, employees and shareholders? Customers of divested businesses were protected as the products and services they relied upon were transferred to organizations better focused and equipped to meet their long-term needs. With our sharpened focus and financial strength, we have been able to invest more than \$600 million in data storage R&D and capital since the spin. Imation's data storage customers continue to rely on us and we now have the broadest portfolio of products in the industry.

Employees of the divested businesses were considered as part of every negotiation, and most were taken into the acquiring company. Where jobs were eliminated, we sought to ensure that employees were treated fairly and with respect. Shareholders were rewarded for their patience, as Imation's stock was one of the best performing stocks in 2001 and 2002, up 39 percent and 62 percent, respectively.

There has been other recognition, as well. Imation was named by *Business Ethics* magazine as one of the "100 Best Corporate Citizens." In this blind evaluation, we ranked 39 out of 1,000 employers in 2002. The company has received top recognition from *Working Mother* magazine as one of "100 Best Companies for Working Mothers" and was recognized as one of the "10 Great Places to Work" in Minnesota by a regional business publication. Readers of *Fortune*

magazine have voted Imation one of “America’s Most Admired Companies” in its industry category. While the recognition is gratifying, particularly for such a young company, I know that everyone who has worn an Imation badge really has earned that recognition through their dedication, sacrifice, passion—and the values we brought forth.

Today, Imation is focused on data storage. The advantage we gain from that focus will be proven in our future results. But as important as that is, the reputation of Imation has been built and enhanced throughout all our change. We have been constant in our core values of integrity and honesty, respect for employees and focus on delivering value to customers and shareholders, building for the long-term success.

The future is always uncertain, but we’re confident in the future because of where we’ve been before.

William T. (Bill) Monahan

CHAIRMAN OF THE BOARD, PRESIDENT AND CHIEF EXECUTIVE OFFICER
IMATION CORPORATION.

Bill Monahan is chairman of the board of directors and chief executive officer of Imation. He was named to the position in November 1995 and since then has led the development and creation of the company, its structure and management team.

Prior to leading the Imation team, Monahan was group vice president of 3M's Electro and Communication Systems Group in Austin, Texas. He joined 3M in 1972, and has held numerous management positions, including group vice president of Electronics, Electrical and Telecommunications Group, division vice president of Data Storage Products and senior managing director of 3M Italy.

Monahan serves on the board of directors of Hutchinson Technology, Inc. and Pentair, Inc. He is also on the board of directors of the Greater Twin Cities United Way and on the board of overseers of the Carlson School of Management, University of Minnesota.

Born in Scranton, Pennsylvania, Monahan spent most of his youth in New York and New Jersey. He holds a bachelor of science degree in economics from St. Peter's College and a master's in business administration from Rutgers University.

IMATION CORPORATION

Imation Corp. is a global company that develops, manufactures and markets the broadest portfolio of magnetic and optical removable data storage media products for both business and consumers. Imation's product portfolio includes diskettes, optical discs and tape cartridges that provide a wide spectrum of storage capacities. These products span major application areas from enterprise data centers to the network server environment, mobile and professional desktops to the personal consumer electronics user. Removable data storage media provide the benefits of easily expanded capacity, data transportability, high reliability, convenient access, long-term storage and data security.

Imation's roots in the data storage industry go back half a century. In 1952, the first commercial magnetic tape for computers was introduced by Minnesota Mining and Manufacturing Company (3M). Imation was created in 1996 as a result of the spin-off of several separate businesses that comprised the data storage and imaging systems groups of 3M. Since the spin-off, Imation has divested non-strategic business segments and readjusted the basic operational infrastructure to compete profitably as a focused data storage company. Today, Imation leverages 50 years of experience to deliver value to customers and to remain their trusted partner for removable data storage media.

The name Imation combines the essence of the company's core business-information management, with its core values of imagination and innovation. Pronounce it with a short "i," just as the words that generated the name are said. Imation is headquartered in Oakdale, Minnesota.

For more information, visit: www.imation.com.

Stock Symbol: IMN