

DOW CHEMICAL CO /DE/
Form 10-Q
October 29, 2007

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF
THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended **SEPTEMBER 30, 2007**

Commission File Number: 1-3433

THE DOW CHEMICAL COMPANY

(Exact name of registrant as specified in its charter)

Delaware
(State or other jurisdiction of
incorporation or organization)

38-1285128
(I.R.S. Employer Identification No.)

2030 DOW CENTER, MIDLAND, MICHIGAN 48674
(Address of principal executive offices) (Zip Code)

989-636-1000
(Registrant's telephone number, including area code)

Not applicable
(Former name, former address and former fiscal year, if changed since last report)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject

Edgar Filing: DOW CHEMICAL CO /DE/ - Form 10-Q

to such filing requirements for the past 90 days. Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of accelerated filer and large accelerated filer in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer

Accelerated filer

Non-accelerated filer

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

Class
Common Stock, par value \$2.50 per share

Outstanding at September 30, 2007
944,397,632 shares

The Dow Chemical Company

QUARTERLY REPORT ON FORM 10-Q

For the quarterly period ended September 30, 2007

TABLE OF CONTENTS

	PAGE
<u>PART I FINANCIAL INFORMATION</u>	
<u>Item 1.</u>	<u>Financial Statements.</u> 3
	<u>Consolidated Statements of Income</u> 3
	<u>Consolidated Balance Sheets</u> 4
	<u>Consolidated Statements of Cash Flows</u> 5
	<u>Consolidated Statements of Comprehensive Income</u> 6
	<u>Notes to the Consolidated Financial Statements</u> 7
<u>Item 2.</u>	<u>Management's Discussion and Analysis of Financial Condition and Results of Operations.</u> 26
	<u>Disclosure Regarding Forward-Looking Information</u> 26
	<u>Results of Operations</u> 26
	<u>Changes in Financial Condition</u> 34
	<u>Other Matters</u> 35
<u>Item 3.</u>	<u>Quantitative and Qualitative Disclosures About Market Risk.</u> 39
<u>Item 4.</u>	<u>Controls and Procedures.</u> 40
<u>PART II OTHER INFORMATION</u>	
<u>Item 1.</u>	<u>Legal Proceedings.</u> 41
<u>Item 1A.</u>	<u>Risk Factors.</u> 41
<u>Item 2.</u>	<u>Unregistered Sales of Equity Securities and Use of Proceeds.</u> 41
<u>Item 6.</u>	<u>Exhibits.</u> 41
<u>SIGNATURE</u>	43
<u>EXHIBIT INDEX</u>	44

PART I FINANCIAL INFORMATION**Item 1. Financial Statements.****The Dow Chemical Company and Subsidiaries****Consolidated Statements of Income**

In millions, except per share amounts (Unaudited)	Three Months Ended		Nine Months Ended	
	Sept. 30, 2007	Sept. 30, 2006	Sept. 30, 2007	Sept. 30, 2006
Net Sales	\$ 13,589	\$ 12,359	\$ 39,286	\$ 36,888
Cost of sales	11,864	10,600	33,867	31,027
Research and development expenses	329	291	951	856
Selling, general and administrative expenses	476	420	1,371	1,210
Amortization of intangibles	22	13	51	37
Restructuring charges (credit)		579	(4)	579
Purchased in-process research and development charges	59		59	
Equity in earnings of nonconsolidated affiliates	296	317	828	717
Sundry income - net	70	4	262	87
Interest income	28	48	101	128
Interest expense and amortization of debt discount	148	155	423	462
Income before Income Taxes and Minority Interests	1,085	670	3,759	3,649
Provision for income taxes	659	137	1,271	831
Minority interests share in income	23	21	73	69
Net Income Available for Common Stockholders	\$ 403	\$ 512	\$ 2,415	\$ 2,749
Share Data				
Earnings per common share - basic	\$ 0.42	\$ 0.53	\$ 2.53	\$ 2.85
Earnings per common share - diluted	\$ 0.42	\$ 0.53	\$ 2.49	\$ 2.82
Common stock dividends declared per share of common stock	\$ 0.42	\$ 0.375	\$ 1.215	\$ 1.125
Weighted-average common shares outstanding - basic	948.9	959.1	955.6	963.5
Weighted-average common shares outstanding - diluted	961.5	969.9	968.3	975.5
Depreciation	\$ 499	\$ 492	\$ 1,439	\$ 1,418
Capital Expenditures	\$ 519	\$ 420	\$ 1,311	\$ 1,118

See Notes to the Consolidated Financial Statements.

The Dow Chemical Company and Subsidiaries

Consolidated Balance Sheets

In millions (Unaudited)	Sept. 30, 2007	Dec. 31, 2006
Assets		
Current Assets		
Cash and cash equivalents	\$ 1,945	\$ 2,757
Marketable securities and interest-bearing deposits	1	153
Accounts and notes receivable:		
Trade (net of allowance for doubtful receivables - 2007: \$115; 2006: \$122)	6,007	4,988
Other	3,420	3,060
Inventories	6,772	6,058
Deferred income tax assets - current	108	193
Total current assets	18,253	17,209
Investments		
Investment in nonconsolidated affiliates	3,190	2,735
Other investments	2,417	2,143
Noncurrent receivables	412	288
Total investments	6,019	5,166
Property		
Property	46,607	44,381
Less accumulated depreciation	32,397	30,659
Net property	14,210	13,722
Other Assets		
Goodwill	3,519	3,242
Other intangible assets (net of accumulated amortization - 2007: \$697; 2006: \$620)	752	457
Deferred income tax assets - noncurrent	3,062	4,006
Asbestos-related insurance receivables - noncurrent	687	725
Deferred charges and other assets	1,167	1,054
Total other assets	9,187	9,484
Total Assets	\$ 47,669	\$ 45,581
Liabilities and Stockholders Equity		
Current Liabilities		
Notes payable	\$ 306	\$ 219
Long-term debt due within one year	1,372	1,291
Accounts payable:		
Trade	4,233	3,825
Other	2,006	1,849
Income taxes payable	753	569
Deferred income tax liabilities - current	187	251
Dividends payable	400	382
Accrued and other current liabilities	2,277	2,215
Total current liabilities	11,534	10,601
Long-Term Debt		
Other Noncurrent Liabilities		
Deferred income tax liabilities - noncurrent	903	999
Pension and other postretirement benefits - noncurrent	3,306	3,094
Asbestos-related liabilities - noncurrent	1,061	1,079
Other noncurrent obligations	3,378	3,342
Total other noncurrent liabilities	8,648	8,514
Minority Interest in Subsidiaries	400	365
Preferred Securities of Subsidiaries	1,000	1,000
Stockholders Equity		

Edgar Filing: DOW CHEMICAL CO /DE/ - Form 10-Q

Common stock	2,453	2,453
Additional paid-in capital	858	830
Retained earnings (includes cumulative effect of adopting FIN No. 48 of \$(290))	17,941	16,987
Accumulated other comprehensive loss	(1,560)	(2,235)
Treasury stock at cost	(1,624)	(970)
Net stockholders' equity	18,068	17,065
Total Liabilities and Stockholders' Equity	\$ 47,669	\$ 45,581

See Notes to the Consolidated Financial Statements.

The Dow Chemical Company and Subsidiaries

Consolidated Statements of Cash Flows

In millions (Unaudited)	Nine Months Ended	
	Sept. 30, 2007	Sept. 30, 2006
Operating Activities		
Net Income Available for Common Stockholders	\$ 2,415	\$ 2,749
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	1,601	1,544
Purchased in-process research and development charges	59	
Provision for deferred income tax	712	246
Earnings of nonconsolidated affiliates in excess of dividends received	(310)	(239)
Minority interests share in income	73	69
Pension contributions	(137)	(395)
Net (gain) loss on sales of investments	(120)	2
Net gain on sales of property and businesses	(71)	(48)
Other net gain	(88)	
Restructuring (credit) charges	(4)	579
Excess tax benefits from share-based payment arrangements	(14)	
Changes in assets and liabilities:		
Accounts and notes receivable	(857)	(304)
Inventories	(614)	(811)
Accounts payable	469	(435)
Other assets and liabilities	140	(53)
Cash provided by operating activities	3,254	2,904
Investing Activities		
Capital expenditures	(1,311)	(1,118)
Proceeds from sales of property and businesses	110	69
Acquisitions of businesses	(143)	
Purchase of previously leased assets	(12)	(205)
Investments in consolidated companies, net of cash acquired	(742)	(109)
Investments in nonconsolidated affiliates	(60)	(56)
Distributions from nonconsolidated affiliates	5	4
Proceeds from sale of nonconsolidated affiliate	30	
Purchases of investments	(1,367)	(1,079)
Proceeds from sales and maturities of investments	1,404	1,172
Cash used in investing activities	(2,086)	(1,322)
Financing Activities		
Changes in short-term notes payable	38	9
Payments on long-term debt	(71)	(598)
Proceeds from issuance of long-term debt	13	
Purchases of treasury stock	(1,144)	(650)
Proceeds from sales of common stock	291	97
Excess tax benefits from share-based payment arrangements	14	
Distributions to minority interests	(48)	(54)
Dividends paid to stockholders	(1,115)	(1,044)
Cash used in financing activities	(2,022)	(2,240)
Effect of Exchange Rate Changes on Cash	42	(14)
Summary		
Decrease in cash and cash equivalents	(812)	(672)
Cash and cash equivalents at beginning of year	2,757	3,806
Cash and cash equivalents at end of period	\$ 1,945	\$ 3,134

See Notes to the Consolidated Financial Statements.

The Dow Chemical Company and Subsidiaries

Consolidated Statements of Comprehensive Income

In millions (Unaudited)	Three Months Ended		Nine Months Ended	
	Sept. 30, 2007	Sept. 30, 2006	Sept. 30, 2007	Sept. 30, 2006
Net Income Available for Common Stockholders	\$ 403	\$ 512	\$ 2,415	\$ 2,749
Other Comprehensive Income (Loss), Net of Tax				
Net unrealized gains on investments	15	42	24	17
Translation adjustments	353	(39)	487	325
Minimum pension liability adjustments				(2)
Adjustments to pension and other postretirement benefit plans	32		108	
Net gains (losses) on cash flow hedging derivative instruments	26	(89)	56	(129)
Total other comprehensive income (loss)	426	(86)	675	211
Comprehensive Income	\$ 829	\$ 426	\$ 3,090	\$ 2,960

See Notes to the Consolidated Financial Statements.

The Dow Chemical Company and Subsidiaries

PART I FINANCIAL INFORMATION, Item 1. Financial Statements.

(Unaudited)

Notes to the Consolidated Financial Statements

NOTE A CONSOLIDATED FINANCIAL STATEMENTS

The unaudited interim consolidated financial statements of The Dow Chemical Company and its subsidiaries (Dow or the Company) were prepared in accordance with accounting principles generally accepted in the United States of America (GAAP) and reflect all adjustments (including normal recurring accruals) which, in the opinion of management, are considered necessary for the fair presentation of the results for the periods presented. These statements should be read in conjunction with the audited consolidated financial statements and notes thereto included in the Company's Annual Report on Form 10-K for the year ended December 31, 2006.

Certain reclassifications of prior year amounts have been made to conform to current year presentation.

NOTE B RECENT ACCOUNTING PRONOUNCEMENTS

In June 2006, the Financial Accounting Standards Board (FASB) issued FASB Interpretation (FIN) No. 48, Accounting for Uncertainty in Income Taxes, which clarifies the accounting for uncertainty in income taxes recognized in an enterprise's financial statements in accordance with Statement of Financial Accounting Standards (SFAS) No. 109, Accounting for Income Taxes. This interpretation prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. This interpretation also provides guidance on derecognition, classification, interest and penalties, accounting in interim periods, disclosure, and transition. FIN No. 48 was effective for fiscal years beginning after December 15, 2006.

On January 1, 2007, the Company adopted the provisions of FIN No. 48. The cumulative effect of adoption was a \$290 million reduction of retained earnings. At January 1, 2007, the total amount of unrecognized tax benefits was \$865 million, of which \$704 million would impact the effective tax rate, if recognized.

Interest and penalties associated with uncertain tax positions are recognized as components of the Provision for income taxes. The Company's accrual for interest and penalties was \$123 million upon adoption of FIN No. 48.

The tax years 1998-2003 are currently under audit by the U.S. Internal Revenue Service, and the review of these years is expected to be completed during 2007. It is reasonably possible that a reduction in the unrecognized tax benefits may occur; however, quantification of an estimated range cannot be made at this time.

The tax years that remain subject to examination for the Company's major tax jurisdictions are shown below:

Tax Years Subject to Examination for Major Tax Jurisdictions at January 1, 2007

1998	2006	United States	federal income tax
2001	2006	Argentina	
		Brazil	
2002	2006	Germany	
		Italy	
		United States	state and local income tax
2003	2006	Spain	
2004	2006	Canada	
		France	
		Switzerland	
2005	2006	United Kingdom	
2006		The Netherlands	

In September 2006, the FASB issued SFAS No. 158, *Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans - an amendment of FASB Statements No. 87, 88, 106, and 132(R)*. This Statement, which was effective December 31, 2006 for the Company, required employers to recognize the funded status of defined benefit postretirement plans as an asset or liability on the balance sheet and to recognize changes in that funded status through comprehensive income. See Note G for the Company's disclosures related to pension and other postretirement benefits.

SAB No. 74 Disclosures for Accounting Standards Issued But Not Yet Adopted

In September 2006, the FASB issued SFAS No. 157, Fair Value Measurements, which defines fair value, establishes a framework for measuring fair value in GAAP, and expands disclosures about fair value measurements. This Statement applies under other accounting pronouncements that require or permit fair value measurements and is effective for fiscal years beginning after November 15, 2007. The Company is currently evaluating the impact of adopting this Statement.

In February 2007, the FASB issued SFAS No. 159, The Fair Value Option for Financial Assets and Financial Liabilities - Including an amendment of FASB Statement No. 115, which permits entities to choose to measure many financial instruments and certain other items at fair value. SFAS No. 159 is effective as of the beginning of an entity's first fiscal year that begins after November 15, 2007. The Company is currently evaluating if it will elect the fair value option for any of its eligible financial instruments and other items.

In April 2007, the FASB issued FASB Staff Position (FSP) No. FIN 39-1, Amendment of FASB Interpretation No. 39. This FSP replaces certain terms in FIN No. 39 with derivative instruments (as defined in SFAS No. 133, Accounting for Derivative Instruments and Hedging Activities) and permits the offsetting of fair value amounts recognized for the right to reclaim cash collateral or the obligation to return cash collateral against fair value amounts recognized for derivative instruments executed with the same counterparty under the same master netting arrangement. The FSP is effective for fiscal years beginning after November 15, 2007. The Company is currently evaluating the impact of applying the guidance in this FSP.

NOTE C INVENTORIES

The following table provides a breakdown of inventories:

Inventories	Sept. 30,	Dec. 31,
In millions	2007	2006
Finished goods	\$ 3,928	\$ 3,498
Work in process	1,545	1,319
Raw materials	667	672
Supplies	632	569
Total inventories	\$ 6,772	\$ 6,058

The reserves reducing inventories from the first-in, first-out (FIFO) basis to the last-in, first-out (LIFO) basis amounted to \$1,272 million at September 30, 2007 and \$1,092 million at December 31, 2006.

NOTE D ACQUISITIONS**Acquisition of Wolff Walsrode**

Consistent with the Company's strategy to invest in its Performance businesses, the Company announced on December 18, 2006, that it had reached an agreement with the Bayer Group to acquire Wolff Walsrode AG and certain related affiliates and assets ("Wolff Walsrode"), subject to regulatory approval. Wolff Walsrode, headquartered in Bomlitz, Germany, specializes in cellulose derivatives, food casings and site services. Following approval from the European Commission on June 20, 2007, Dow acquired Wolff Walsrode on June 30, 2007 for a cash purchase price of approximately \$603 million.

On July 2, 2007, the Company announced the creation of a new specialty business unit, Dow Wolff Cellulosics, which combines the newly acquired Wolff Walsrode with Dow's Water Soluble Polymers business. Dow Wolff Cellulosics will encompass cellulose and related chemistries, providing application formulation expertise and other technical services to a broad range of strategic industry sectors, including construction, paint, personal care, pharmaceuticals, food and a number of specialty industrial applications.

The following table summarizes the values of the assets acquired and liabilities assumed at the date of the acquisition, as well as adjustments that have been made primarily as a result of initial third-party valuations. Allocation of the purchase price is subject to additional third-party valuation and has not been completed for this acquisition. Final determination of the values to be assigned may result in further adjustments to the preliminary values presented below.

Assets Acquired and Liabilities Assumed				
In millions	At June 30,	Purchase Price		At Sept. 30,
	2007	Adjustments (1)		2007
Current assets	\$ 188	\$ 15	\$ 203	
Property	233	68	301	
Goodwill (2)	364	(167)	197	
Other intangible assets (2)	8	174	182	
Other assets	11	(5)	6	
Total assets acquired	\$ 804	\$ 85	\$ 889	
Accounts payable	\$ 27		\$ 27	
Long-term debt	10		10	
Accrued and other liabilities	47		47	
Pension benefits	117	(11)	106	
Deferred tax liabilities - noncurrent		98	98	
Total liabilities assumed	\$ 201	\$ 87	\$ 288	
Net assets acquired	\$ 603	\$ (2)	\$ 601	

(1) Includes a \$9 million write-off of purchased in-process research and development and the addition of transaction costs of \$7 million in the third quarter of 2007.

(2) See Note E for additional information.

Beginning in the third quarter of 2007, the results of Wolff Walsrode's operations were reflected in the Company's consolidated income statement.

The Company evaluated the materiality of assets acquired and liabilities assumed, individually and in the aggregate, and concluded that such assets and liabilities were not material to the consolidated financial statements.

Purchased In-Process Research and Development

Purchased in-process research and development (IPR&D) represents the value assigned in a business combination to acquired research and development projects that, as of the date of the acquisition, had not established technological feasibility and had no alternative future use. In accordance with GAAP, amounts assigned to IPR&D meeting these criteria must be charged to expense as part of the allocation of the purchase price of the business combination.

The Company recorded pretax charges totaling \$59 million in the third quarter of 2007 for IPR&D projects associated with several recent acquisitions. The estimated values assigned to the IPR&D projects were determined primarily based on a discounted cash flow model and are shown below:

In-Process Research and Development Projects Acquired	Date of Acquisition	Estimated Value Assigned
--	----------------------------	---------------------------------

Edgar Filing: DOW CHEMICAL CO /DE/ - Form 10-Q

In millions		to IPR&D
Germplasm from Maize Technologies International	May 1, 2007	\$ 2
Manufacturing process R&D from Wolff Walsrode	June 30, 2007	9
Germplasm from Agromen Tecnologia Ltda.	August 1, 2007	26
Germplasm from Duo Maize	August 30, 2007	3
Intellectual property for crop trait discovery from Exelixis Plant Sciences	September 4, 2007	19
Total		\$ 59

The third quarter charges were shown as Purchased in-process research and development charges in the consolidated statements of income. \$50 million of the charges was related to projects within the Agricultural Sciences segment. The \$9 million charge related to IPR&D acquired from Wolff Walsrode impacted the results for the Performance Chemicals segment.

NOTE E GOODWILL AND OTHER INTANGIBLE ASSETS

The following table shows the carrying amount of goodwill by operating segment:

Goodwill In millions	Performance Plastics	Performance Chemicals	Agricultural Sciences	Basic Plastics	Hydrocarbons and Energy	Total
Balance at December 31, 2006	\$ 915	\$ 850	\$ 1,320	\$ 94	\$ 63	\$ 3,242
Increase related to acquisition of:						
Additional 50% interest in Styron Asia Limited				6		6
Hyperlast Limited	126					126
Wolff Walsrode		364				364
Purchase price adjustments:						
Zhejiang Omex Environmental Engineering Co. LTD		(52)				(52)
Wolff Walsrode		(167)				(167)
Balance at September 30, 2007	\$ 1,041	\$ 995	\$ 1,320	\$ 100	\$ 63	\$ 3,519

On May 1, 2007, Dow Chemical Company Limited, a wholly owned subsidiary of the Company, acquired Hyperlast Limited, British Vita's polyurethane systems business, for \$151 million. The initial recording of the acquisition resulted in goodwill of \$126 million, none of which is expected to be deductible for tax purposes. Final determination of the values to be assigned to the assets acquired and liabilities assumed may result in adjustments to the preliminary values assigned at the date of acquisition.

In the second quarter of 2007, the Company completed the purchase price allocation related to the acquisition of Zhejiang Omex Environmental Engineering Co. LTD (Omex), resulting in the recording of \$51 million of intangible assets as follows:

Omex Intangible Assets In millions	Gross Carrying Amount	Weighted-average Amortization Period
Intangible assets with finite lives:		
Trademarks	\$ 23	10 years
Patents	19	17 years
Other	9	2-5 years
Total	\$ 51	11 years

On June 30, 2007, the Company completed the acquisition of Wolff Walsrode. The initial recording of the acquisition at June 30, 2007 resulted in goodwill of \$364 million. In the third quarter of 2007, based on initial third-party valuations, the Company adjusted the estimated values of certain assets and liabilities, resulting in a reduction in goodwill of \$167 million and the recording of an estimated \$174 million of additional intangible assets. Approximately \$22 million of the goodwill is expected to be deductible for tax purposes. Final determination of the values to be assigned to the assets acquired and liabilities assumed may result in further adjustments to the preliminary values. See Note D for additional information related to the purchase price adjustments.

Wolff Walsrode Intangible Assets	Estimated Gross Carrying	Weighted-average Amortization
---	-------------------------------------	--

Edgar Filing: DOW CHEMICAL CO /DE/ - Form 10-Q

In millions	Amount	Period
Intangible assets with finite lives:		
Intellectual property	\$ 63	10 years
Trademarks	9	10 years
Software	5	5 years
Other (customer-related)	105	5 years
Total	\$ 182	7 years

On August 1 2007, Dow AgroSciences acquired the corn seed business of Agromen Tecnologia Ltda for \$116 million. Allocation of the purchase price resulted in the recording of an estimated \$72 million of intellectual property with a weighted-average amortization period of seven years. Final determination of the values to be assigned to the assets acquired and liabilities assumed may result in further adjustments to the preliminary values.

The following table provides information regarding the Company's other intangible assets:

Other Intangible Assets	At September 30, 2007			At December 31, 2006		
	Gross Carrying Amount	Accumulated Amortization	Net	Gross Carrying Amount	Accumulated Amortization	Net
In millions						
Intangible assets with finite lives:						
Licenses and intellectual property	\$ 382	\$ (162)	\$ 220	\$ 234	\$ (142)	\$ 92
Patents	153	(111)	42	148	(117)	31
Software	519	(305)	214	452	(269)	183
Trademarks	166	(49)	117	133	(40)	93
Other	229	(70)	159	110	(52)	58
Total	\$ 1,449	\$ (697)	\$ 752	\$ 1,077	\$ (620)	\$ 457

The following table provides information regarding amortization expense:

Amortization Expense	Three Months Ended		Nine Months Ended	
	Sept. 30, 2007	Sept. 30, 2006	Sept. 30, 2007	Sept. 30, 2006
In millions				
Other intangible assets, excluding software	\$ 22	\$ 13	\$ 51	\$ 37
Software, included in Cost of sales	\$ 11	\$ 12	\$ 32	\$ 33

Total estimated amortization expense for 2007 and the five succeeding fiscal years is as follows:

Estimated Amortization Expense

In millions	
2007	\$ 121
2008	\$ 132
2009	\$ 122
2010	\$ 118
2011	\$ 108
2012	\$ 74

NOTE F COMMITMENTS AND CONTINGENT LIABILITIES

Litigation

Breast Implant Matters

On May 15, 1995, Dow Corning Corporation (Dow Corning), in which the Company is a 50 percent shareholder, voluntarily filed for protection under Chapter 11 of the Bankruptcy Code to resolve litigation related to Dow Corning s breast implant and other silicone medical products. On June 1, 2004, Dow Corning s Joint Plan of Reorganization (the Joint Plan) became effective and Dow Corning emerged from bankruptcy. The Joint Plan contains release and injunction provisions resolving all tort claims brought against various entities, including the Company, involving Dow Corning s breast implant and other silicone medical products.

To the extent not previously resolved in state court actions, cases involving Dow Corning s breast implant and other silicone medical products filed against the Company were transferred to the U.S. District Court for the Eastern District of Michigan (the District Court) for resolution in the context of the Joint Plan. On October 6, 2005, all such cases then pending in the District Court against the Company were dismissed. Should cases involving Dow Corning s breast implant and other silicone medical products be filed against the Company in the future, they will be accorded similar treatment. It is the opinion of the Company s management that the possibility is remote that a resolution of all future cases will have a material adverse impact on the Company s consolidated financial statements.

As part of the Joint Plan, Dow and Corning Incorporated have agreed to provide a credit facility to Dow Corning in an aggregate amount of \$300 million. The Company's share of the credit facility is \$150 million and is subject to the terms and conditions stated in the Joint Plan. At September 30, 2007, no draws had been taken against the credit facility.

DBCP Matters

Numerous lawsuits have been brought against the Company and other chemical companies, both inside and outside of the United States, alleging that the manufacture, distribution or use of pesticides containing dibromochloropropane (DBCP) has caused personal injury and property damage, including contamination of groundwater. It is the opinion of the Company's management that the possibility is remote that the resolution of such lawsuits will have a material adverse impact on the Company's consolidated financial statements.

Environmental Matters

Accruals for environmental matters are recorded when it is probable that a liability has been incurred and the amount of the liability can be reasonably estimated, based on current law and existing technologies. At September 30, 2007, the Company had accrued obligations of \$352 million for environmental remediation and restoration costs, including \$27 million for the remediation of Superfund sites. This is management's best estimate of the costs for remediation and restoration with respect to environmental matters for which the Company has accrued liabilities, although the ultimate cost with respect to these particular matters could range up to twice that amount. Inherent uncertainties exist in these estimates primarily due to unknown conditions, changing governmental regulations and legal standards regarding liability, and evolving technologies for handling site remediation and restoration. At December 31, 2006, the Company had accrued obligations of \$347 million for environmental remediation and restoration costs, including \$31 million for the remediation of Superfund sites.

Midland Site Environmental Matters

On June 12, 2003, the Michigan Department of Environmental Quality (MDEQ) issued a Hazardous Waste Operating License (the License) to the Company's Midland, Michigan manufacturing site (the Midland site), which included provisions requiring the Company to conduct an investigation to determine the nature and extent of off-site contamination in Midland area soils; Tittabawassee and Saginaw River sediment and floodplain soils; and Saginaw Bay. The License required the Company, by August 11, 2003, to propose a detailed Scope of Work for the off-site investigation for the City of Midland and the Tittabawassee River and floodplain for review and approval by the MDEQ. Revised Scopes of Work were approved by the MDEQ on October 18, 2005. The Company was required to submit a Scope of Work for the investigation of the Saginaw River and Saginaw Bay by August 11, 2007. The Company submitted the Scope of Work for the Saginaw River and Saginaw Bay on July 13, 2007. The Company received a Notice of Deficiency dated August 29, 2007, from the MDEQ with respect to the Scope of Work for the Saginaw River and Saginaw Bay. The Company submitted a revised Scope of Work for the Saginaw River and Saginaw Bay to the MDEQ on October 15, 2007.

Discussions between the Company and the MDEQ that occurred in 2004 and early 2005 regarding how to proceed with off-site corrective action under the License resulted in the execution of the Framework for an Agreement Between the State of Michigan and The Dow Chemical Company (the Framework) on January 20, 2005. The Framework committed the Company to propose a remedial investigation work plan by the end of 2005, conduct certain studies, and take certain immediate interim remedial actions in the City of Midland and along the Tittabawassee River.

Remedial Investigation Work Plans

The Company submitted Remedial Investigation Work Plans for the City of Midland and for the Tittabawassee River on December 29, 2005. By letters dated March 2, 2006 and April 13, 2006, the MDEQ provided two Notices of Deficiency (Notices) to the Company regarding the Remedial Investigation Work Plans. The Company responded, as required, to some of the items in the Notices on May 1, 2006, and as required responded to the balance of the items and submitted revised Remedial Investigation Work Plans on December 1, 2006. In response to subsequent discussions with the MDEQ, the Company submitted further revised Remedial Investigation Work Plans on September 17, 2007, for the Tittabawassee River and on October 15, 2007, for the City of Midland.

Studies Conducted

On July 12, 2006, the MDEQ approved the sampling for the first six miles of the Tittabawassee River. On December 1, 2006, the MDEQ approved the Sampling and Analysis Plan in Support of Bioavailability Study for Midland (the Plan). The results of the Plan were provided to the MDEQ on March 22, 2007. On May 3, 2007, the MDEQ approved the GeoMorph® Pilot Site Characterization Report for the first six miles and approved this approach for the balance of the Tittabawassee River with some qualifications. On July 12, 2007, the MDEQ approved, with qualifications, the sampling for the next 11 miles of the Tittabawassee River.

Interim Remedial Actions

The Company has been working with the MDEQ to implement Interim Response Activities and Pilot Corrective Action Plans in specific areas in and along the Tittabawassee River, where elevated levels of dioxins and furans were found during the investigation of the first six miles of the river.

Removal Actions

On June 27, 2007, the U.S. Environmental Protection Agency (EPA) sent a letter to the Company demanding that the Company enter into consent orders under Section 106 of the Comprehensive Environmental Response, Compensation, and Liability Act (CERCLA) for three areas identified during investigation of the first six miles of the Tittabawassee River as areas for interim remedial actions under MDEQ oversight. The EPA sought a commitment that the Company immediately engage in remedial actions to remove soils and sediments. Three removal orders were negotiated and were signed on July 12, 2007, and the work has commenced under EPA oversight.

The Framework also contemplates that the Company, the State of Michigan and other federal and tribal governmental entities will negotiate the terms of an agreement or agreements to resolve potential governmental claims against the Company related to historical off-site contamination associated with the Midland site. The Company and the governmental parties began to meet in the fall of 2005 and entered into a Confidentiality Agreement in December 2005. The Company continues to conduct negotiations with the governmental parties under the Federal Alternative Dispute Resolution Act.

On September 12, 2007, the EPA issued a press release reporting that they were withdrawing from the alternative dispute resolution process. On September 28, 2007, the Company entered into a Funding and Participation Agreement with the natural resource damage trustees that addressed the Company's payment of past costs incurred by the trustees, payment of the costs of a trustee coordinator and a process to review additional cooperative studies that the Company might agree to fund or conduct with the natural resource damage trustees.

On October 10, 2007, the EPA presented a Special Notice letter to the Company offering to enter into negotiations for an administrative order on consent for the Company to conduct or fund a remedial investigation, a feasibility study, interim remedial actions and a remedial design for what the EPA has called the Tittabawassee River Dioxin Spill Site. The Company has agreed to enter into negotiations. The negotiations are subject to a 60-day period ending on December 10, 2007, which can be extended another 30 days at the discretion of the EPA.

At the end of 2006, the Company had an accrual for off-site corrective action of \$7 million (included in the total accrued obligation of \$347 million at December 31, 2006) based on the range of activities that the Company proposed and discussed implementing with the MDEQ and which is set forth in the Framework. At September 30, 2007, the accrual for off-site corrective action was \$26 million (included in the total accrued obligation of \$352 million at September 30, 2007).

Environmental Matters Summary

It is the opinion of the Company's management that the possibility is remote that costs in excess of those disclosed will have a material adverse impact on the Company's consolidated financial statements.

Asbestos-Related Matters of Union Carbide Corporation

Union Carbide Corporation (Union Carbide), a wholly owned subsidiary of the Company, is and has been involved in a large number of asbestos-related suits filed primarily in state courts during the past three decades. These suits principally allege personal injury resulting from exposure to asbestos-containing products and frequently seek both actual and punitive damages. The alleged claims primarily relate to products that Union Carbide sold in the past, alleged exposure to asbestos-containing products located on Union Carbide's premises, and Union Carbide's responsibility for asbestos suits filed against a former Union Carbide subsidiary, Amchem Products, Inc. (Amchem). In many cases, plaintiffs are unable to demonstrate that they have suffered any compensable loss as a result of such exposure, or that injuries incurred in fact resulted from exposure to Union Carbide's products.

Influenced by the bankruptcy filings of numerous defendants in asbestos-related litigation and the prospects of various forms of state and national legislative reform, the rate at which plaintiffs filed asbestos-related suits against various companies, including Union Carbide and Amchem, increased in 2001, 2002 and the first half of 2003. Since then, the rate of filing has significantly abated. Union Carbide expects more asbestos-related suits to be filed against Union Carbide and Amchem in the future, and will aggressively defend or reasonably resolve, as appropriate, both pending and future claims.

Based on a study completed by Analysis, Research & Planning Corporation (ARPC) in January 2003, Union Carbide increased its December 31, 2002 asbestos-related liability for pending and future claims for the 15-year period ending in 2017 to \$2.2 billion, excluding future defense and processing costs. Since then, Union Carbide has compared current asbestos claim and resolution activity to the results of the most recent ARPC study at each balance sheet date to determine whether the accrual continues to be appropriate.

In November 2004, Union Carbide requested ARPC to review Union Carbide's historical asbestos claim and resolution activity and determine the appropriateness of updating its January 2003 study. In January 2005, ARPC provided Union Carbide with a report summarizing the results of its study. At December 31, 2004, Union Carbide's recorded asbestos-related liability for pending and future claims was \$1.6 billion. Based on the low end of the range in the January 2005 study, Union Carbide's recorded asbestos-related liability for pending and future claims at December 31, 2004 would be sufficient to resolve asbestos-related claims against Union Carbide and Amchem into 2019. As in its January 2003 study, ARPC did provide estimates for a longer period of time in its January 2005 study, but also reaffirmed its prior advice that forecasts for shorter periods of time are more accurate than those for longer periods of time.

In November 2005, Union Carbide requested ARPC to review Union Carbide's 2005 asbestos claim and resolution activity and determine the appropriateness of updating its January 2005 study. In response to that request, ARPC reviewed and analyzed data through October 31, 2005. In January 2006, ARPC stated that an update of its study would not provide a more likely estimate of future events than the estimate reflected in its study of the previous year and, therefore, the estimate in that study remained applicable. Based on Union Carbide's own review of the asbestos claim and resolution activity and ARPC's response, Union Carbide determined that no change to the accrual was required. At December 31, 2005, Union Carbide's asbestos-related liability for pending and future claims was \$1.5 billion.

In November 2006, Union Carbide requested ARPC to review Union Carbide's historical asbestos claim and resolution activity and determine the appropriateness of updating its January 2005 study. In response to that request, ARPC reviewed and analyzed data through October 31, 2006 and concluded that the experience from 2004 through 2006 was sufficient for the purpose of forecasting future filings and values of asbestos claims filed against Union Carbide and Amchem, and could be used in place of previous assumptions to update its January 2005 study. The resulting study, completed by ARPC in December 2006, stated that the undiscounted cost of resolving pending and future asbestos-related claims against Union Carbide and Amchem, excluding future defense and processing costs, through 2021 was estimated to be between approximately \$1.2 billion and \$1.5 billion. As in its January 2005 study, ARPC provided estimates for a longer period of time in its December 2006 study, but also reaffirmed its prior advice that forecasts for shorter periods of time are more accurate than those for longer periods of time.

Based on ARPC's December 2006 study and Union Carbide's own review of the asbestos claim and resolution activity, Union Carbide decreased its asbestos-related liability for pending and future claims to \$1.2 billion at December 31, 2006 which covers the 15-year period ending in 2021 (excluding future defense and processing costs). The reduction was \$177 million and was shown as Asbestos-related credit in the consolidated statements of income for 2006. At December 31, 2006, approximately 25 percent of the recorded liability related to pending claims and approximately 75 percent related to future claims.

Based on Union Carbide's review of 2007 activity, Union Carbide determined that no adjustment to the accrual was required at September 30, 2007. Union Carbide's asbestos-related liability for pending and future claims was \$1.2 billion at September 30, 2007. Approximately 28 percent of the recorded liability related to pending claims and approximately 72 percent related to future claims.

At December 31, 2002, Union Carbide increased the receivable for insurance recoveries related to its asbestos liability to \$1.35 billion, substantially exhausting its asbestos product liability coverage. The insurance receivable related to the asbestos liability was determined by Union Carbide after a thorough review of applicable insurance policies and the 1985 Wellington Agreement, to which Union Carbide and many of its liability insurers are signatory parties, as well as other insurance settlements, with due consideration given to applicable deductibles, retentions and policy limits, and taking into account the solvency and historical payment experience of various insurance carriers. The Wellington Agreement and other agreements with insurers are designed to facilitate an orderly resolution and collection of Union Carbide's insurance policies and to resolve issues that the insurance carriers may raise.

In September 2003, Union Carbide filed a comprehensive insurance coverage case, now proceeding in the Supreme Court of the State of New York, County of New York, seeking to confirm its rights to insurance for various asbestos claims and to facilitate an orderly and timely

collection of insurance proceeds. This lawsuit was filed against insurers that are not signatories to the Wellington Agreement and/or do not otherwise have agreements in place with Union Carbide regarding their asbestos-related insurance coverage, in order to facilitate an orderly resolution and collection of such insurance policies and to resolve issues that the insurance carriers may raise. Although the lawsuit is continuing, through the end of the third quarter of 2007, Union Carbide had reached settlements with several of the carriers involved in this litigation.

Union Carbide's receivable for insurance recoveries related to its asbestos liability was \$476 million at September 30, 2007 and \$495 million at December 31, 2006. At September 30, 2007 and December 31, 2006, all of the receivable for insurance recoveries was related to insurers that are not signatories to the Wellington Agreement and/or do not otherwise have agreements in place regarding their asbestos-related insurance coverage.

In addition to the receivable for insurance recoveries related to its asbestos liability, Union Carbide had receivables for defense and resolution costs submitted to insurance carriers for reimbursement as follows:

Receivables for Costs Submitted to Insurance Carriers

In millions	Sept. 30, 2007	Dec. 31, 2006
Receivables for defense costs	\$ 29	\$ 34
Receivables for resolution costs	254	266
Total	\$ 283	\$ 300

Union Carbide expenses defense costs as incurred. The pretax impact for defense and resolution costs, net of insurance, was \$16 million in the third quarter of 2007 (\$1 million in the third quarter of 2006) and \$58 million in the first nine months of 2007 (\$29 million in the first nine months of 2006), and was reflected in Cost of sales.

After a review of its insurance policies, with due consideration given to applicable deductibles, retentions and policy limits, after taking into account the solvency and historical payment experience of various insurance carriers; existing insurance settlements; and the advice of outside counsel with respect to the applicable insurance coverage law relating to the terms and conditions of its insurance policies, Union Carbide continues to believe that its recorded receivable for insurance recoveries from all insurance carriers is probable of collection.

The amounts recorded by Union Carbide for the asbestos-related liability and related insurance receivable described above were based upon current, known facts. However, future events, such as the number of new claims to be filed and/or received each year, the average cost of disposing of each such claim, coverage issues among insurers, and the continuing solvency of various insurance companies, as well as the numerous uncertainties surrounding asbestos litigation in the United States, could cause the actual costs and insurance recoveries for Union Carbide to be higher or lower than those projected or those recorded.

Because of the uncertainties described above, Union Carbide's management cannot estimate the full range of the cost of resolving pending and future asbestos-related claims facing Union Carbide and Amchem. Union Carbide's management believes that it is reasonably possible that the cost of disposing of Union Carbide's asbestos-related claims, including future defense costs, could have a material adverse impact on Union Carbide's results of operations and cash flows for a particular period and on the consolidated financial position of Union Carbide.

It is the opinion of Dow's management that it is reasonably possible that the cost of Union Carbide disposing of its asbestos-related claims, including future defense costs, could have a material adverse impact on the Company's results of operations and cash flows for a particular period and on the consolidated financial position of the Company.

Synthetic Rubber Industry Matters

In 2003, the U.S., Canadian and European competition authorities initiated separate investigations into alleged anticompetitive behavior by certain participants in the synthetic rubber industry. Certain subsidiaries of the Company (but as to the investigation in Europe only) have responded to requests for documents and are otherwise cooperating in the investigations.

On June 10, 2005, the Company received a Statement of Objections from the European Commission (the "EC") stating that it believed that the Company and certain subsidiaries of the Company (the "Dow Entities"), together with other participants in the synthetic rubber industry, engaged in conduct in violation of European competition laws with respect to the butadiene rubber and emulsion styrene butadiene rubber businesses. In connection therewith, on November 29, 2006, the EC issued its decision alleging infringement of Article 81 of the Treaty of Rome and imposed a fine of Euro 64.575 million (approximately \$85 million) on the Dow Entities. Several other companies were also named and fined. Subsequently, the Company has been named in various related U.S. civil actions. In the fourth quarter of 2006, the Company recognized a loss contingency of \$85 million related to the fine. The Company has appealed the EC's decision.

Additionally, on March 10, 2007, the Company received a Statement of Objections from the EC stating that it believed that DuPont Dow Elastomers L.L.C. ("DDE"), a former 50:50 joint venture with E.I. du Pont de Nemours and Company ("DuPont"), together with other participants in the synthetic rubber industry, engaged in conduct in violation of European competition laws with respect to the polychloroprene business. This Statement of Objections specifically names the Company, but only in its capacity as a former joint venture owner of DDE. The Company transferred its joint venture ownership interest in DDE to DuPont in 2005, and DDE then changed its name to DuPont Performance Elastomers L.L.C. ("DPE"). Based on agreements reached between the Company and DuPont in 2004, DuPont will manage DPE's response to this Statement of Objections. Further, based on the Company's allocation agreement with DuPont, it is the opinion of the Company's management that the possibility is remote that its financial responsibility with respect to any potential DDE liabilities will have a material adverse impact on the Company's consolidated financial statements.

Polyurethane Subpoena Matter

On February 16, 2006, the Company, among others, received a subpoena from the U.S. Department of Justice as part of an antitrust investigation of polyurethane chemicals, including methylene diphenyl diisocyanate, toluene diisocyanate and polyols. The Company is fully cooperating with the investigation.

Other Litigation Matters

In addition to breast implant, DBCP, environmental, synthetic rubber industry, and polyurethane subpoena matters, the Company is party to a number of other claims and lawsuits arising out of the normal course of business with respect to commercial matters, including product liability, governmental regulation and other actions. Certain of these actions purport to be class actions and seek damages in very large amounts. All such claims are being contested. Dow has an active risk management program consisting of numerous insurance policies secured from many carriers at various times. These policies provide coverage that will be utilized to minimize the impact, if any, of the contingencies described above.

Summary

Except for the possible effect of Union Carbide's asbestos-related liability described above, it is the opinion of the Company's management that the possibility is remote that the aggregate of all claims and lawsuits will have a material adverse impact on the Company's consolidated financial statements.

Purchase Commitments

The Company has numerous agreements for the purchase of ethylene-related products globally. The purchase prices are determined on a cost-of-service basis, which, in addition to covering all operating expenses and debt service costs, provides the owners of the manufacturing plants with a specified return on capital. Total purchases under these agreements were \$1,356 million in 2006, \$1,175 million in 2005 and \$1,063 million in 2004. The Company's commitments at December 31, 2006 associated with these agreements are included in the table below.

The Company also has various commitments for take or pay and throughput agreements. Such commitments are at prices not in excess of current market prices. The terms of all but one of these agreements extend from one to 25 years. One agreement has terms extending to 80 years. The determinable future commitment for this agreement is included for 10 years in the following table which presents the fixed and determinable portion of obligations under the Company's purchase commitments at December 31, 2006:

Fixed and Determinable Portion of Take or Pay and Throughput Obligations at December 31, 2006

In millions

2007	\$	2,107
2008		1,802
2009		1,579
2010		1,339
2011		889
2012 and beyond		5,281
Total	\$	12,997

In addition to the take or pay obligations at December 31, 2006, the Company had outstanding commitments which ranged from one to six years for steam, electrical power, materials, property and other items used in the normal course of business of approximately \$459 million. Such commitments were at prices not in excess of current market prices.

Guarantees

The Company provides a variety of guarantees, as described more fully in the following sections.

Guarantees

Guarantees arise during the ordinary course of business from relationships with customers and nonconsolidated affiliates when the Company undertakes an obligation to guarantee the performance of others (via delivery of cash or other assets) if specified triggering events occur. With guarantees, such as commercial or financial contracts, non-performance by the guaranteed party triggers the obligation of the Company to make payments to the beneficiary of the guarantee. The majority of the Company's guarantees relate to debt of nonconsolidated affiliates, which have expiration dates ranging from less than one year to eight years, and trade financing transactions in Latin America and Asia Pacific, which typically expire within one year of their inception.

Residual Value Guarantees

The Company provides guarantees related to leased assets specifying the residual value that will be available to the lessor at lease termination through sale of the assets to the lessee or third parties.

The following tables provide a summary of the final expiration, maximum future payments and recorded liability reflected in the consolidated balance sheets for each type of guarantee:

Guarantees at September 30, 2007

In millions	Final Expiration	Maximum Future Payments	Recorded Liability
Guarantees	2014	\$ 303	\$ 14
Residual value guarantees	2015	1,035	5
Total guarantees		\$ 1,338	\$ 19

Guarantees at December 31, 2006

In millions	Final Expiration	Maximum Future Payments	Recorded Liability
Guarantees	2014	\$ 340	\$ 20
Residual value guarantees	2015	1,044	6
Total guarantees		\$ 1,384	\$ 26

Asset Retirement Obligations

In accordance with SFAS No. 143, as interpreted by FIN No. 47, the Company has recognized asset retirement obligations for the following activities: demolition and remediation activities at manufacturing sites in the United States and Europe; capping activities at landfill sites in the United States, Canada, Italy and Brazil; and asbestos encapsulation as a result of planned demolition and remediation activities at manufacturing and administrative sites in the United States, Canada and Europe.

The aggregate carrying amount of asset retirement obligations recognized by the Company was \$110 million at September 30, 2007 and \$106 million at December 31, 2006. The discount rate used to calculate the Company's asset retirement obligation was 4.6 percent. These obligations were included in the consolidated balance sheets as Other noncurrent obligations.

The Company has not recognized conditional asset retirement obligations for which a fair value cannot be reasonably estimated in its consolidated financial statements. It is the opinion of the Company's management that the possibility is remote that such conditional asset retirement obligations, when estimable, will have a material adverse impact on the Company's consolidated financial statements based on current costs.

NOTE G PENSION PLANS AND OTHER POSTRETIREMENT BENEFITS

Edgar Filing: DOW CHEMICAL CO /DE/ - Form 10-Q

Net Periodic Benefit Cost for All Significant Plans

In millions	Three Months Ended		Nine Months Ended	
	Sept. 30, 2007	Sept. 30, 2006	Sept. 30, 2007	Sept. 30, 2006
<i>Defined Benefit Pension Plans:</i>				
Service cost	\$ 72	\$ 71	\$ 215	\$ 212
Interest cost	218	208	652	619
Expected return on plan assets	(294)	(276)	(877)	(824)
Amortization of prior service cost	6	5	18	15
Amortization of net loss	48	56	147	166
Termination benefits/curtailment costs		33	1	33
Net periodic benefit cost	\$ 50	\$ 97	\$ 156	\$ 221
<i>Other Postretirement Benefits:</i>				
Service cost	\$ 5	\$ 6	\$ 15	\$ 18
Interest cost	29	29	86	87
Expected return on plan assets	(9)	(7)	(27)	(21)
Amortization of prior service credit	(1)	(2)	(3)	(6)
Amortization of net loss	1	2	3	6
Net periodic benefit cost	\$ 25	\$ 28	\$ 74	\$ 84

NOTE H STOCK-BASED COMPENSATION

The Company grants stock-based compensation to employees under the Employees' Stock Purchase Plans (ESPP) and the 1988 Award and Option Plan (the 1988 Plan), and to non-employee directors under the 2003 Non-Employee Directors' Stock Incentive Plan. Most of the Company's stock-based compensation awards are granted in the first quarter of each year. There was minimal grant activity in the second and third quarters of 2007. Details for awards granted in the first quarter of 2007 are included below.

During the first quarter of 2007, employees subscribed to the right to purchase 5.3 million shares with a weighted-average exercise price of \$30.81 per share and a weighted-average fair value of \$10.62 per share under the ESPP.

During the first quarter of 2007, the Company granted the following stock-based compensation awards to employees under the 1988 Plan:

7.6 million stock options with a weighted-average exercise price of \$43.59 per share and a weighted-average fair value of \$9.81 per share.

1.8 million shares of deferred stock with a weighted-average fair value of \$43.58 per share.

1.0 million shares of performance deferred stock with a weighted-average fair value of \$43.59 per share.

During the first quarter of 2007, the Company granted the following stock-based compensation awards to non-employee directors under the 2003 Non-Employee Directors' Stock Incentive Plan:

48,400 stock options with a weighted-average fair value of \$9.83 per share.

9,200 shares of restricted stock with a weighted-average fair value of \$41.97 per share.

Total unrecognized compensation cost at March 31, 2007, including unrecognized cost related to first quarter 2007 activity, is provided in the following table:

Total Unrecognized Compensation Cost at March 31, 2007

In millions	Unrecognized Compensation Cost	Weighted-average Recognition Period
ESPP purchase rights	\$ 45	4.6 months
Unvested stock options	\$ 106	1.00 year
Deferred stock awards	\$ 163	1.94 years
Performance deferred stock awards	\$ 75	1.02 years

NOTE I 2006 RESTRUCTURING

On August 29, 2006, the Company's Board of Directors approved a plan to shut down a number of assets around the world as the Company continues its drive to improve the competitiveness of its global operations. As a consequence of these shutdowns, which are scheduled to be completed by the end of 2008, and other optimization activities, the Company recorded pretax restructuring charges totaling \$591 million in the third and fourth quarters of 2006. The charges consisted of asset write-downs and write-offs of \$346 million, costs associated with exit or disposal activities of \$172 million and severance costs of \$73 million. The impact of the charges was shown as Restructuring charges (credit) in the consolidated statements of income.

The following table summarizes 2007 activities related to the Company's restructuring reserve:

Activities Related to 2006 Restructuring

In millions	Costs associated with Exit or Disposal Activities	Severance Costs	Total
Reserve balance at December 31, 2006	\$ 171	\$ 69	\$ 240
Cash payments	(1)	(8)	(9)
Reserve balance at March 31, 2007	\$ 170	\$ 61	\$ 231
Adjustments to reserve	(4)		(4)
Cash payments	(40)	(9)	(49)
Reserve balance at June 30, 2007	\$ 126	\$ 52	\$ 178
Cash payments	(5)	(4)	(9)
Reserve balance at September 30, 2007	\$ 121	\$ 48	\$ 169

In the second quarter of 2007, the Company reached agreements with certain suppliers regarding the early cancellation of supply agreements related to the shutdown of manufacturing assets, resulting in a \$4 million reduction of the restructuring reserve for contract termination fees. The adjustment was credited against the Performance Plastics segment.

As a result of the Company's plans to shut down assets around the world, and conduct other optimization activities principally in Europe, the restructuring charges recorded in 2006 included severance of \$73 million for the separation of approximately 810 employees under the terms of Dow's ongoing benefit arrangements, primarily over the next two years. As of September 30, 2007, severance of \$25 million had been paid to 310 employees, and a liability of \$48 million remained for approximately 500 employees.

Dow expects to incur future costs related to its restructuring activities, as the Company continually looks for ways to enhance the efficiency and cost effectiveness of its operations, to ensure competitiveness across its businesses and across geographic areas. Future costs are expected to include demolition costs related to the closed facilities, which will be recognized as incurred. The Company also expects to incur additional employee-related costs, including involuntary termination benefits, related to its other optimization activities, and pension plan settlement costs. These costs cannot be reasonably estimated at this time.

NOTE J EARNINGS PER SHARE CALCULATIONS

Earnings Per Share Calculations

In millions, except per share amounts	Three Months Ended Sept. 30, 2007		Three Months Ended Sept. 30, 2006	
	Basic	Diluted	Basic	Diluted
Net income available for common stockholders	\$ 403	\$ 403	\$ 512	\$ 512
Weighted-average common shares outstanding	948.9	948.9	959.1	959.1
Add dilutive effect of stock options and awards		12.6		10.8
Weighted-average common shares for EPS calculations	948.9	961.5	959.1	969.9
Earnings per common share	\$ 0.42	\$ 0.42	\$ 0.53	\$ 0.53
Stock options and deferred stock awards excluded from EPS calculations (1)		25.7		20.6

Earnings Per Share Calculations

In millions, except per share amounts	Nine Months Ended Sept. 30, 2007		Nine Months Ended Sept. 30, 2006	
	Basic	Diluted	Basic	Diluted
Net income available for common stockholders	\$ 2,415	\$ 2,415	\$ 2,749	\$ 2,749
Weighted-average common shares outstanding	955.6	955.6	963.5	963.5
Add dilutive effect of stock options and awards		12.7		12.0
Weighted-average common shares for EPS calculations	955.6	968.3	963.5	975.5
Earnings per common share	\$ 2.53	\$ 2.49	\$ 2.85	\$ 2.82
Stock options and deferred stock awards excluded from EPS calculations (1)		20.4		17.5

(1) Outstanding options to purchase shares of common stock and deferred stock awards that were not included in the calculation of diluted earnings per share because the effect of including them would have been anti-dilutive.

NOTE K INCOME TAXES

The tax rate for the third quarter of 2007 was negatively impacted by a change in German tax law that was enacted in August and included a reduction in the German income tax rate, which is effective January 1, 2008. As a result of the change, the Company adjusted the value of its net deferred tax assets in Germany (using the lower tax rate) and recorded a charge of \$362 million (equivalent to \$0.38 per share) against the provision for income taxes in the third quarter of 2007.

NOTE L OPERATING SEGMENTS AND GEOGRAPHIC AREAS

Corporate Profile

Dow is a diversified chemical company that offers a broad range of innovative chemical, plastic and agricultural products and services to customers in more than 175 countries, helping them to provide everything from fresh water, food and pharmaceuticals to paints, packaging and personal care. In 2006, Dow had annual sales of \$49 billion and employed approximately 42,600 people worldwide. The Company has 150 manufacturing sites in 37 countries and produces more than 3,100 products. The following descriptions of the Company's operating segments include a representative listing of products for each business.

PERFORMANCE PLASTICS

Applications: automotive interiors, exteriors, under-the-hood and body engineered systems building and construction, thermal and acoustic insulation, roofing communications technology, telecommunication cables, electrical and electronic connectors footwear home and office furnishings: kitchen appliances, power tools, floor care products, mattresses, carpeting, flooring, furniture padding, office furniture information technology equipment and consumer electronics packaging, food and beverage containers, protective packaging sports and recreation equipment wire and cable insulation and jacketing materials for power utility and telecommunications

Dow Automotive serves the global automotive market and is a leading supplier of plastics, adhesives, sealants and other plastics-enhanced products for interior, exterior, under-the-hood, vehicle body structure and acoustical management technology solutions. With offices and application development centers around the world, Dow Automotive provides materials science expertise and comprehensive technical capabilities to its customers worldwide.

Products: AFFINITY polyolefin plastomers; AMPLIFY functional polymers; BETABRACE reinforcing composites; BETADAMP acoustical damping systems; BETAFOAM NVH and structural foams; BETAGUARD sealants; BETAMATE structural adhesives; BETASEAL glass bonding systems; CALIBRE polycarbonate resins; DOW polyethylene resins; DOW polypropylene resins and automotive components made with DOW polypropylene; IMPAXX energy management foam; INSPIRE performance polymers; INTEGRAL adhesive film; ISONATE pure and modified methylene diphenyl diisocyanate (MDI) products; ISOPLAST engineering thermoplastic polyurethane resins; MAGNUM ABS resins; PAPI polymeric MDI; PELLETHANE thermoplastic polyurethane elastomers; Premium brake fluids and lubricants; PULSE engineering resins; SPECFLEX semi-flexible polyurethane foam systems; SPECTRIM reaction moldable polymers; STRANDFOAM polypropylene foam; VERSIFY plastomers and elastomers; VORANATE specialty isocyanates; VORANOL polyether polyols

Dow Building Solutions manufactures and markets an extensive line of insulation, weather barrier, and oriented composite building solutions, as well as a line of cushion packaging foam solutions. The business is the recognized

leader in extruded polystyrene (XPS) insulation, known industry-wide by its distinctive Blue color and the Dow STYROFOAM brand for more than 50 years. The business also manufactures foam solutions for a wide range of applications including cushion packaging, electronics protection and material handling.

Products: EQUIFOAM comfort products; ETHAFOAM polyethylene foam; FROTH-PAK polyurethane spray foam; GREAT STUFF polyurethane foam sealant; IMMOTUS acoustic panels; INSTA-STIK roof insulation adhesive; QUASH sound management foam; SARAN vapor retarder film and tape; STYROFOAM brand insulation products (including XPS and polyisocyanurate rigid foam sheathing products); SYMMATRIX oriented composites; SYNERGY soft touch foam; TILE BOND roof tile adhesive; TRYMER polyisocyanurate foam pipe insulation; WEATHERMATE weather barrier solutions (housewraps, sill pans, flashings and tapes)

Dow Epoxy is a leading global producer of epoxy resins, intermediates and specialty resins for a wide range of industries and applications such as coatings, electrical laminates, civil engineering, adhesives and composites. With plants strategically located across four continents, the business is focused on providing customers around the world with differentiated solution-based epoxy products and innovative technologies and services.

Products: D.E.H. epoxy curing agents or hardeners; D.E.N. epoxy novolac resins; D.E.R. epoxy resins (liquids, solids and solutions); Epoxy intermediates (Acetone, Allyl chloride, Bisphenol-A, Epichlorohydrin, OPTIM synthetic glycerine and Phenol); Peroxymeric chemicals (CYRACURE cycloaliphatic epoxides, FLEXOL plasticizers; and TONE monomers, polyols and polymers); Specialty acrylic monomers (Glycidyl methacrylate, Hydroxyethyl acrylate and Hydroxypropyl acrylate); UCAR solution vinyl resins

The **Polyurethanes and Polyurethane Systems** business is a leading global producer of polyurethane raw materials and polyurethane systems. Differentiated by its ability to globally supply a high-quality, consistent and complete product range, this business emphasizes both existing and new business developments while facilitating customer success with a global market and technology network.

Products: ENFORCER Technology and ENHANCER Technology for polyurethane carpet and turf backing; ISONATE MDI; PAPI polymeric MDI; Propylene glycol; Propylene oxide; SPECFLEX copolymer polyols; SYNTEGRA waterborne polyurethane dispersions; VORACOR, VORALAST, VORALUX and VORASTAR polyurethane systems; VORANATE isocyanate; VORANOL and VORANOL VORACTIV polyether and copolymer polyols

Specialty Plastics and Elastomers is a business portfolio of specialty products including a broad range of engineering plastics and compounds, performance elastomers and plastomers, specialty copolymers, synthetic rubber, polyvinylidene chloride resins and films (PVDC), and specialty film substrates. The business serves such industries as automotive, civil construction, wire and cable, building and construction, consumer electronics and appliances, food and specialty packaging, and footwear.

Products: AFFINITY polyolefin plastomers (POPs); AMPLIFY functional polymers; CALIBRE polycarbonate resins; DOW XLA elastic fiber; EMERGE advanced resins; ENGAGE polyolefin elastomers; FLEXOMER very low density polyethylene (VLDPE) resins; INTEGRAL adhesive films; ISOPLAST engineering thermoplastic polyurethane resins; MAGNUM ABS resins; NORDEL hydrocarbon rubber; PELLETHANE thermoplastic polyurethane elastomers; PRIMACOR copolymers; PROCITE window envelope films; PULSE engineering resins; REDI-LINK polyethylene-based wire & cable insulation compounds; SARAN PVDC resin and SARAN PVDC film; SARANEX barrier films; SI-LINK polyethylene-based low voltage insulation compounds; TRENCHCOAT protective films; TYRIL SAN resins; TYRIN chlorinated polyethylene; UNIGARD HP high-performance flame-retardant compounds; UNIGARD RE reduced emissions flame-retardant compounds; UNIPURGE purging compound; VERSIFY plastomers and elastomers; ZETABON coated metal cable armor

The **Technology Licensing and Catalyst** business includes licensing and supply of related catalysts, process control software and services for the UNIPOL polypropylene process, the METEOR process for ethylene oxide (EO) and ethylene glycol (EG), the LP OXO process for oxo alcohols, the QBIS bisphenol A process, and Dow's proprietary technology for production of purified terephthalic acid (PTA). Licensing of the UNIPOL polyethylene process and sale of related catalysts, including metallocene catalysts, are handled through Univation Technologies, LLC, a 50:50 joint venture of Union Carbide.

Products: LP OXO process technology and NORMAX catalysts; METEOR EO/EG process technology and catalysts; PTA process technology; QBIS bisphenol A process technology and DOWEX QCAT catalyst; UNIPOL PP process technology and SHAC catalyst systems

The Performance Plastics segment also includes a portion of the results of the Siam Group, a group of Thailand-based joint ventures.

PERFORMANCE CHEMICALS

Applications: agricultural and pharmaceutical products and processing building materials chemical processing and intermediates electronics food processing and ingredients gas treating solvents household products metal degreasing and dry cleaning oil and gas treatment paints, coatings, inks, adhesives, lubricants personal care products pulp and paper manufacturing, coated paper and paperboard textiles and carpet water purification

Designed Polymers is a business portfolio of products and systems characterized by unique chemistry, specialty functionalities, and people with deep expertise in regulated industries. Within Designed Polymers, Dow Water Solutions offers world-class brands and enabling component technologies designed to advance the science of desalination, water purification, trace contaminant removal and water recycling. Also in Designed Polymers, businesses such as Dow Wolff Cellulosics, Dow Biocides and ANGUS Chemical Company (a wholly owned subsidiary of Dow), develop and market a range of products that enhance or enable key physical and sensory properties of end-use products in applications such as food, pharmaceuticals, oil and gas, paints and coatings, personal care, and building and construction.

Products and Services: Acrolein derivatives; Basic nitroparaffins and nitroparaffin-based specialty chemicals; CANGUARD BIT preservatives; CELLOSIZE hydroxyethyl cellulose; Chiral compounds and biocatalysts; CYCLOTENE advanced electronics resins; DOW latex powders; DOWEX ion exchange resins; DOWICIDE antimicrobial bactericides and fungicides; ETHOCEL ethylcellulose resins; FILMTEC membranes; FORTEFIBER soluble dietary fiber; Hydrocarbon resins; Industrial biocides; METHOCEL cellulose ethers; OMEXELL ultrafiltration; OMEXELL electrodeionization; Pfēnex Expression Technology ; POLYOX water-soluble resins; Quaternaries; SILK semiconductor dielectric resins; WALOCEL cellulose polymers

The **Dow Latex** business is a major global supplier of latexes, for a wide range of industries and applications. It provides the broadest line of styrene/butadiene (S/B) products supporting customers in paper and paperboard (for magazines, catalogues and food packaging) applications, and the carpet and floor covering industry. UCAR Emulsion Systems (UES) manufactures and sells acrylic, vinyl acrylic, vinyl acetate ethylene (VAE), and S/B and styrene acrylic latexes and NEOCAR branched vinyl ester latexes for use in the architectural and industrial coatings, adhesives, construction products such as caulks and sealants, textile, and traffic paint. It also offers the broadest product range in the dispersion area and produces and markets UCAR POLYPHOBE rheology modifiers.

Products: Acrylic latex; EVOCAR specialty latex; FOUNDATIONS latex; NEOCAR branched vinyl ester latexes; Styrene-acrylate latex; Styrene-butadiene latex; Styrene-butadiene vinyl acetate ethylene (VAE); UCAR all-acrylic, styrene-acrylic and vinyl-acrylic latexes; UCAR POLYPHOBE rheology modifiers; UCARHIDE opacifier

The **Specialty Chemicals** business provides products and services used as functional ingredients or processing aids in the manufacture of a diverse range of products. Applications include agricultural and pharmaceutical products and processing, building and construction, chemical processing and intermediates, electronics, food processing and ingredients, gas treating solvents, fuels and lubricants, oil and gas, household and institutional cleaners, coatings and paints, pulp and paper manufacturing, metal degreasing and dry cleaning, and transportation. Dow Haltermann Custom Processing provides contract and custom manufacturing services to other specialty chemical, agricultural chemical and biodiesel producers.

Products: Acrylic acid/Acrylic esters; AMBITROL and NORKOOL industrial coolants; Butyl CARBITOL and Butyl CELLOSOLVE ethylene oxide; CARBOWAX and CARBOWAX SENTRY polyethylene glycols and methoxypolyethylene glycols; Diphenyloxide; DOW polypropylene glycols; DOWCAL , DOWFROST , DOWTHERM , SYLTHERM and UCARTHERM heat transfer fluids; DOWFAX , TERGITOL and TRITON surfactants; Ethanolamines; Ethyleneamines; Isopropanolamines; MAXIBOOST cleaning boosters; MAXICHECK solvent analysis test kits; MAXISTAB stabilizers; Propylene oxide-based glycol ethers; SAFE-TAINER closed-loop delivery system; SYNALOX lubricants; UCAR deicing fluids; UCARKLEAN amine management; UCARSOL formulated solvents; UCON fluids; VERSENE chelating agents; Fine and specialty chemicals from the Dow Haltermann Custom Processing business; Test and reference fuels, printing ink distillates, pure hydrocarbons and esters, and derivatives from Haltermann Products, a wholly owned subsidiary of Dow

The Performance Chemicals segment also includes the results of Dow Corning Corporation, and a portion of the results of the OPTIMAL Group and the Siam Group, all joint ventures of the Company.

AGRICULTURAL SCIENCES

Applications: control of weeds, insects and plant diseases for agriculture and pest management agricultural seeds and traits (genes)

Dow AgroSciences is a global leader in providing pest management, agricultural and crop biotechnology products and solutions. The business develops, manufactures and markets products for crop production; weed, insect and plant disease management; and industrial and commercial pest management. Dow AgroSciences is building a leading plant genetics and biotechnology business in agricultural seeds, traits, healthy oils, and animal health.

Products: CLINCHER herbicide; DITHANE fungicide; FORTRESS fungicide; GARLON herbicide; GLYPHOMAX herbicide; GRANITE herbicide, HERCULEX I insect protection; HERCULEX RW insect protection; HERCULEX XTRA insect protection; KEYSTONE herbicides; LAREDO fungicide; LONTREL herbicide; LORSBAN insecticides; MILESTONE herbicide; MUSTANG herbicide; MYCOGEN seeds; NEXERA canola and sunflower seeds; PHYTOGEN brand cottonseeds; PROFUME gas fumigant; SENTRICON termite colony elimination system; STARANE herbicide; STINGER herbicide; SURPASS herbicide; TELONE soil fumigant; TORDON herbicide; TRACER NATURALYTE insect control; VIKANE structural fumigant; WIDESTRIKE insect protection

BASIC PLASTICS

Applications: adhesives appliances and appliance housings agricultural films automotive parts and trim beverage bottles bins, crates, pails and pallets building and construction coatings consumer and durable goods consumer electronics disposable diaper liners fibers and nonwovens films, bags and packaging for food and consumer products hoses and tubing household and industrial bottles housewares hygiene and medical films industrial and consumer films and foams information technology oil tanks and road equipment plastic pipe textiles toys, playground equipment and recreational products wire and cable compounds

The **Polyethylene** business is the world's leading supplier of polyethylene-based solutions through sustainable product differentiation. Through the use of multiple catalyst and process technologies, the business offers customers one of the industry's broadest ranges of polyethylene resins via a strong global network of local experts focused on partnering for long-term success.

Products: ASPUN fiber grade resins; ATTANE ultra low density polyethylene (ULDPE) resins; CONTINUUM bimodal polyethylene resins; DOW high density polyethylene (HDPE) resins; DOW low density polyethylene (LDPE) resins; DOWLEX polyethylene resins; ELITE enhanced polyethylene (EPE) resins; TUFLIN linear low density polyethylene (LLDPE) resins; UNIVAL HDPE resins

The **Polypropylene** business, a major global polypropylene supplier, provides a broad range of products and solutions tailored to customer needs by leveraging Dow's leading manufacturing and application technology, research and product development expertise, extensive market knowledge and strong customer relationships.

Products: DOW homopolymer polypropylene resins; DOW impact copolymer polypropylene resins; DOW random copolymer polypropylene resins; INSPIRE performance polymers

The **Polystyrene** business, the global leader in the production of polystyrene resins, is uniquely positioned with geographic breadth and participation in a diversified portfolio of applications. Through market and technical leadership and low cost capability, the business continues to improve product performance and meet customer needs.

Products: STYRON A-TECH and C-TECH advanced technology polystyrene resins and a full line of STYRON general purpose polystyrene resins; STYRON high-impact polystyrene resins

The Basic Plastics segment also includes the results of Equipolymers and a portion of the results of EQUATE Petrochemical Company K.S.C. and the Siam Group, all joint ventures of the Company.

BASIC CHEMICALS

Applications: agricultural products alumina automotive antifreeze and coolant systems carpet and textiles chemical processing dry cleaning dust control household cleaners and plastic products inks metal cleaning packaging, food and beverage containers, protective packaging paints, coatings and adhesives personal care products petroleum refining pharmaceuticals plastic pipe pulp and paper manufacturing snow and ice control soaps and detergents water treatment

The **Core Chemicals** business is a leading global producer of each of its basic chemical products, which are sold to many industries worldwide, and also serve as key raw materials in the production of a variety of Dow's performance and plastics products.

Products: Acids; Alcohols; Aldehydes; Caustic soda; Chlorine; Chloroform; COMBOTHERM blended deicer; DOWFLAKE calcium chloride; DOWPER dry cleaning solvent; Esters; Ethylene dichloride (EDC); LIQUIDOW liquid calcium chloride; MAXICHECK procedure for testing the strength of reagents; MAXISTAB stabilizers for chlorinated solvents; Methyl chloride; Methylene chloride; Monochloroacetic acid (MCAA); Oxo products; PELADOW calcium chloride pellets; Perchloroethylene; Trichloroethylene; Vinyl acetate monomer (VAM); Vinyl chloride monomer (VCM); Vinylidene chloride (VDC)

The **Ethylene Oxide/Ethylene Glycol** business is a key supplier of ethylene glycol to MEGlobal, a 50:50 joint venture and a world leader in the manufacture and marketing of merchant monoethylene glycol and diethylene glycol. Dow also supplies ethylene oxide to internal derivatives businesses. Ethylene glycol is used in polyester fiber, polyethylene terephthalate (PET) for food and beverage container applications, polyester film and antifreeze.

Products: Ethylene glycol (EG); Ethylene oxide (EO)

The Basic Chemicals segment also includes the results of MEGlobal and a portion of the results of EQUATE Petrochemical Company K.S.C. and the OPTIMAL Group, all joint ventures of the Company.

HYDROCARBONS AND ENERGY

Applications: polymer and chemical production power

The **Hydrocarbons and Energy** business encompasses the procurement of fuels, natural gas liquids and crude oil-based raw materials, as well as the supply of monomers, power and steam principally for use in Dow's global operations. The business regularly sells its byproducts; the business also buys and sells products in order to balance regional production capabilities and derivative requirements. The business also sells products to certain Dow joint ventures. Dow is the world leader in the production of olefins and aromatics.

Products: Benzene; Butadiene; Butylene; Cumene; Ethylene; Propylene; Styrene; Power, steam and other utilities

The Hydrocarbons and Energy segment also includes the results of Compañía Mega S.A. and a portion of the results of the Siam Group, both joint ventures of the Company.

Unallocated and Other includes the results of New Ventures (which includes new business incubation platforms focused on identifying and pursuing new commercial opportunities); Venture Capital; the Company's insurance operations and

environmental operations; and overhead and other cost recovery variances not allocated to the operating segments.

Transfers of products between operating segments are generally valued at cost. However, transfers of products to Agricultural Sciences from other segments are generally valued at market-based prices; the revenues generated by these transfers in the first nine months of 2007 and 2006 were immaterial and eliminated in consolidation.

Operating Segments

In millions	Three Months Ended		Nine Months Ended	
	Sept. 30, 2007	Sept. 30, 2006	Sept. 30, 2007	Sept. 30, 2006
Sales by operating segment				
Performance Plastics	\$ 3,877	\$ 3,463	\$ 11,148	\$ 10,398
Performance Chemicals	2,152	2,014	6,225	5,868
Agricultural Sciences	788	662	2,915	2,585
Basic Plastics	3,316	3,106	9,390	8,889
Basic Chemicals	1,507	1,461	4,233	4,245
Hydrocarbons and Energy	1,828	1,569	5,063	4,643
Unallocated and Other	121	84	312	260
Total	\$ 13,589	\$ 12,359	\$ 39,286	\$ 36,888
EBIT(1) by operating segment				
Performance Plastics	\$ 409	\$ 144	\$ 1,232	\$ 1,282
Performance Chemicals	219	286	825	949
Agricultural Sciences	15		505	377
Basic Plastics	556	592	1,612	1,561
Basic Chemicals	205	122	504	495
Hydrocarbons and Energy			(1)	
Unallocated and Other	(199)	(367)	(596)	(681)
Total	\$ 1,205	\$ 777	\$ 4,081	\$ 3,983
Equity in earnings of nonconsolidated affiliates by operating segment (included in EBIT)				
Performance Plastics	\$ 15	\$ 34	\$ 55	\$ 81
Performance Chemicals	90	91	299	275
Agricultural Sciences	1	1	1	1
Basic Plastics	39	65	141	127
Basic Chemicals	115	100	270	163
Hydrocarbons and Energy	35	26	62	68
Unallocated and Other	1			2
Total	\$ 296	\$ 317	\$ 828	\$ 717

(1) The Company uses EBIT (which Dow defines as earnings before interest, income taxes and minority interests) as its measure of profit/loss for segment reporting purposes. EBIT by operating segment includes all operating items relating to the businesses; items that principally apply to the Company as a whole are assigned to Unallocated and Other. A reconciliation of EBIT to Net Income Available for Common Stockholders is provided below:

In millions	Three Months Ended		Nine Months Ended	
	Sept. 30, 2007	Sept. 30, 2006	Sept. 30, 2007	Sept. 30, 2006
EBIT	\$ 1,205	\$ 777	\$ 4,081	\$ 3,983
+ Interest income	28	48	101	128
- Interest expense and amortization of debt discount	148	155	423	462
- Provision for income taxes	659	137	1,271	831
- Minority interests share in income	23	21	73	69
Net Income Available for Common Stockholders	\$ 403	\$ 512	\$ 2,415	\$ 2,749

Geographic Areas

In millions	Three Months Ended		Nine Months Ended	
	Sept. 30, 2007	Sept. 30, 2006	Sept. 30, 2007	Sept. 30, 2006
Sales by geographic area				

Edgar Filing: DOW CHEMICAL CO /DE/ - Form 10-Q

United States	\$	4,700	\$	4,514	\$	13,613	\$	13,903
Europe(1)		4,872		4,211		14,347		12,536
Rest of World(1)		4,017		3,634		11,326		10,449
Total	\$	13,589	\$	12,359	\$	39,286	\$	36,888

(1) Sales to customers in the Middle East and Africa, previously reported with Europe, are now aligned with Rest of World; prior period sales have been adjusted to reflect this realignment.

The Dow Chemical Company and Subsidiaries

PART I FINANCIAL INFORMATION, Item 2. Management's Discussion and

Analysis of Financial Condition and Results of Operations.

DISCLOSURE REGARDING FORWARD-LOOKING INFORMATION

The Private Securities Litigation Reform Act of 1995 provides a "safe harbor" for forward-looking statements made by or on behalf of The Dow Chemical Company and its subsidiaries ("Dow" or the "Company"). This section covers the current performance and outlook of the Company and each of its operating segments. The forward-looking statements contained in this section and in other parts of this document involve risks and uncertainties that may affect the Company's operations, markets, products, services, prices and other factors as more fully discussed elsewhere and in filings with the U.S. Securities and Exchange Commission ("SEC"). These risks and uncertainties include, but are not limited to, economic, competitive, legal, governmental and technological factors. Accordingly, there is no assurance that the Company's expectations will be realized. The Company assumes no obligation to provide revisions to any forward-looking statements should circumstances change, except as otherwise required by securities and other applicable laws.

OVERVIEW

The Company delivered solid results in the third quarter of 2007 with record quarterly sales of \$13.6 billion due to healthy increases in both volume and price.

Reflecting the increased level of demand, Dow's plants ran at an operating rate of 90 percent of capacity in the quarter. This represents the highest quarterly operating rate since the third quarter of 2004.

Feedstock and energy costs rose steeply in the quarter, up approximately \$380 million (6 percent) from the third quarter of 2006.

Operating expenses rose during the third quarter of 2007, but remained low as a percent of total sales as Dow continued the disciplined implementation of its growth strategy.

Dow's nonconsolidated affiliates continued to contribute significantly to the overall results of the Company.

In line with the Company's strategy to invest in the Performance businesses, the Company completed the acquisition of several agricultural businesses in the third quarter. Dow recognized pretax charges of \$59 million for purchased in-process research and development in the third quarter, \$50 million of which was related to these acquisitions. The remaining \$9 million was related to the acquisition of Wolff Walsrode.

The tax rate for the third quarter of 2007 was negatively impacted by a charge of \$362 million related to a change in German tax law that was enacted in August.

Capital spending remained on target; debt as a percent of total capitalization declined almost 1 percent from year-end 2006; and the Company continued to purchase shares under its share repurchase program.

Selected Financial Data In millions, except per share amounts	Three Months Ended		Nine Months Ended	
	Sept. 30, 2007	Sept. 30, 2006	Sept. 30, 2007	Sept. 30, 2006
Net sales	\$ 13,589	\$ 12,359	\$ 39,286	\$ 36,888
Cost of sales	\$ 11,864	\$ 10,600	\$ 33,867	\$ 31,027
Percent of net sales	87.3%	85.8%	86.2%	84.1%
Research and development, and selling, general and administrative expenses	\$ 805	\$ 711	\$ 2,322	\$ 2,066
Percent of net sales	5.9%	5.8%	5.9%	5.6%
Effective tax rate (1)	60.7%	20.4%	33.8%	22.8%
Net income available for common stockholders	\$ 403	\$ 512	\$ 2,415	\$ 2,749
Earnings per common share basic	\$ 0.42	\$ 0.53	\$ 2.53	\$ 2.85
Earnings per common share diluted	\$ 0.42	\$ 0.53	\$ 2.49	\$ 2.82
Operating rate percentage	90%	87%	87%	85%

(1) The effective tax rates for 2007 reflect a charge of \$362 million related to a change in German tax law enacted in the third quarter of 2007.

RESULTS OF OPERATIONS

Net sales for the third quarter of 2007 were \$13.6 billion, up 10 percent from \$12.4 billion in the third quarter of last year. Compared with last year, prices rose 5 percent (with currency accounting for approximately 2 percent of the increase); volume was also up 5 percent. Prices improved in all operating segments, with increases ranging from 3 percent to 6 percent. From a geographic standpoint, prices were up significantly in all geographic areas outside of the United States, where prices were unchanged from last year. Prices were up 9 percent in Europe, 8 percent in Latin America and 5 percent in Asia Pacific.

Compared with the third quarter of last year, volume improved in all operating segments except Basic Chemicals, which reported a 2 percent decline. Volume growth was particularly strong in Agricultural Sciences (up 16 percent), Hydrocarbons and Energy (up 11 percent) and Performance Plastics (up 7 percent), while both Performance Chemicals (up 3 percent) and Basic Plastics (up 2 percent) reported steady growth.

Net sales for the first nine months of 2007 were \$39.3 billion, up 7 percent from \$36.9 billion in the same period last year. Compared with the first nine months of 2006, prices were up 5 percent, with approximately half of the increase related to currency, while volume was up 2 percent. Prices were up across all operating segments and all geographic areas except the United States, where prices declined 1 percent compared with the same period last year. Volume growth was especially strong in Agricultural Sciences (up 11 percent), while Performance Plastics, Performance Chemicals, Basic Plastics, and Hydrocarbons and Energy each reported modest growth. Volume declined 2 percent in Basic Chemicals. For additional details regarding the change in net sales, see the Sales Volume and Price table at the end of the section entitled Segment Results.

Gross margin was \$1,725 million for the third quarter of 2007, down slightly from \$1,759 million in the third quarter of last year. Despite higher sales, gross margin declined versus the third quarter of last year due to significantly higher hydrocarbon and energy (H&E) costs (up approximately \$380 million), higher non-H&E raw material costs, the unfavorable impact of currency on cost, and increased freight costs. Year to date, gross margin was \$5.4 billion, compared with \$5.9 billion in the first nine months of 2006.

The Company's global plant operating rate (for its chemicals and plastics businesses) was 90 percent in the third quarter of 2007, up from 87 percent in the third quarter of 2006. This represents the highest quarterly operating rate since the third quarter of 2004, reflecting a high level of demand. For the first nine months of 2007, Dow's global plant operating rate was 87 percent, up from 85 percent in the same period of 2006. Operating rates in 2006 reflected a higher level of planned maintenance turnarounds at Dow's manufacturing facilities.

Personnel count was 45,315 at September 30, 2007, up from 42,578 at December 31, 2006 and 42,910 at September 30, 2006. The increase in headcount was due to the addition of research and development employees in India and China in support of the Company's growth initiatives; the addition of approximately 110 employees with the second quarter acquisition of Hyperlast Limited; and the addition of approximately 1,700 employees with the second quarter acquisition of Wolff Walsrode.

Operating expenses (research and development, and selling, general and administrative expenses) totaled \$805 million in the third quarter of 2007, up \$94 million or 13 percent, from \$711 million in the third quarter of last year. Compared with last year, research and development (R&D) expenses increased \$38 million; and selling, general and administrative expenses increased \$56 million. For the first nine months of 2007, operating expenses totaled \$2,322 million, up \$256 million (12 percent) from \$2,066 million in the first nine months of 2006. Year to date, approximately 60 percent of the increase in operating expenses was related to planned spending for growth initiatives and product development in the Performance businesses, including expenses related to the second quarter acquisitions of Wolff Walsrode and Hyperlast Limited, consistent with the Company's strategy; and approximately 20 percent of the increase was related to the global expansion of the Company's corporate branding campaign and other promotion and advertising expenses. Despite these increases, operating expenses remained low as a percentage of net sales.

Amortization of intangibles was \$22 million in the third quarter of 2007, compared with \$13 million in the third quarter of last year. For the first nine months of 2007, amortization of intangibles was \$51 million, compared with \$37 million for the same period last year. See Note E to the Consolidated Financial Statements for additional information on intangible assets.

Edgar Filing: DOW CHEMICAL CO /DE/ - Form 10-Q

On August 29, 2006, the Company's Board of Directors approved a plan to shut down a number of assets around the world as the Company continues its drive to improve the competitiveness of its global operations. As a consequence of these shutdowns, which are scheduled to be completed by the end of 2008, and other optimization activities, the Company recorded pretax restructuring charges totaling \$579 million in the third quarter of 2006. The charges included asset write-downs and write-offs of \$327 million, costs associated with exit or disposal activities of \$171 million and severance costs of \$81 million. The impact of the charges was shown as Restructuring charges (credit) in the consolidated statements of income and was reflected in the Company's segment results as follows: Performance Plastics \$242 million, Performance Chemicals \$11 million, Basic Plastics \$16 million, Basic Chemicals \$165 million, and Unallocated and Other \$145 million. When the restructuring plans have been fully implemented, the Company expects to realize ongoing annual savings of approximately \$160 million. See Note I to the Consolidated Financial Statements for additional information on the restructuring charges.

During the third quarter of 2007, pretax charges totaling \$59 million were recorded for purchased in-process research and development (IPR&D). See Note D to the Consolidated Financial Statements for information regarding these charges. Future costs required to bring the purchased IPR&D projects to technological feasibility are expected to be immaterial.

Dow's share of the earnings of nonconsolidated affiliates was \$296 million in the third quarter of 2007, down from \$317 million in the third quarter of last year. Compared with last year, improved earnings at EQUATE Petrochemical Company K.S.C. (EQUATE), Total Raffinaderij Nederland NV and MEGlobal were more than offset by lower earnings from the OPTIMAL Group (OPTIMAL), Equipolymers, Siam Polyethylene Company Limited (Siam Polyethylene) and Univation Technologies, LLC (Univation). For the first nine months of 2007, equity earnings were \$828 million, up from \$717 million for the same period last year principally due to improved earnings from EQUATE, OPTIMAL and MEGlobal.

Sundry income net includes a variety of income and expense items such as the gain or loss on hedging foreign currency exchange, dividends from investments, and gains and losses on sales of investments and assets. Net sundry income for the third quarter of 2007 was \$70 million, up from \$4 million in the same quarter of 2006. Year to date, net sundry income was \$262 million, compared with \$87 million in the first nine months of 2006. The increase in net sundry income for the quarter and year to date reflected the impact of favorable foreign exchange hedging results and gains on the sale of assets.

Net interest expense (interest expense less capitalized interest and interest income) was \$120 million in the third quarter of 2007, compared with \$107 million in the third quarter of last year. Compared with the third quarter of last year, net interest expense was up principally due to lower interest income. Year to date, net interest expense was \$322 million, down from \$334 million in the first nine months of 2006.

The Company's effective tax rate fluctuates based on, among other factors, where income is earned, the level of income relative to tax credits available, and events that occur in a certain period. The effective tax rate for the third quarter of 2007 was 60.7 percent, versus 20.4 percent for the third quarter of 2006. The tax rate for the third quarter of 2007 was negatively impacted by a change in German tax law that was enacted in August and included a reduction in the German income tax rate. As a result of the change, the Company adjusted the value of its net deferred tax assets in Germany (using the lower tax rate) and recorded a charge of \$362 million against the provision for income taxes in the third quarter of 2007. The reduction in the German income tax rate, which is effective January 1, 2008, is expected to have an immaterial impact on the Company's effective tax rate in the future.

The tax rate for the third quarter of 2006 was favorably impacted by: a reduction in the estimated annual tax rate for 2006, caused by a revised forecast of earnings in lower tax jurisdictions relative to total earnings; a higher level of equity earnings, which are mostly taxed at the joint venture level; and the adjustment of current and deferred tax balances based on positions taken on tax returns filed in multiple jurisdictions in the third quarter. Additionally, based on tax planning strategies that were implemented in Brazil, as well as projections of future earnings, it was determined that it was more likely than not that tax loss carryforwards would be utilized, resulting in a reversal of existing valuation allowances of \$73 million. Offsetting this impact was the recognition of a valuation allowance of \$61 million in the third quarter of 2006 resulting from enacted tax law changes in Italy, which limited the time frame during which tax loss carryforwards may be utilized. The Company determined that it was more likely than not that certain tax loss carryforwards would expire unused.

The effective tax rate for the first nine months of 2007 was 33.8 percent, compared with 22.8 percent for the same period last year. In addition to the items noted above for the third quarter of last year, the effective tax rate for 2006 was favorably impacted by the closure of tax audit issues in the United States in the first quarter and an enacted reduction in the Canadian tax rate in the second quarter.

Net income available for common stockholders was \$403 million or \$0.42 per share for the third quarter of 2007, compared with \$512 million or \$0.53 per share for the third quarter of 2006. Net income for the first nine months of 2007 was \$2,415 million or \$2.49 per share, compared with \$2,749 million or \$2.82 per share for the same period of 2006.

Edgar Filing: DOW CHEMICAL CO /DE/ - Form 10-Q

The following table summarizes the impact of certain items recorded in the three-month periods ended September 30, 2007 and 2006, and previously described in this section:

In millions, except per share amounts	Pretax Impact (1)		Impact on Net Income (2)		Impact on EPS (3)	
	Three Months Ended Sept. 30, 2007	Three Months Ended Sept. 30, 2006	Three Months Ended Sept. 30, 2007	Three Months Ended Sept. 30, 2006	Three Months Ended Sept. 30, 2007	Three Months Ended Sept. 30, 2006
Restructuring charges		\$ (579)		\$ (438)		\$ (0.45)
Purchased in-process research and development charges	\$ (59)		\$ (39)		\$ (0.04)	
German tax law change			(362)		(0.38)	
Total	\$ (59)	\$ (579)	\$ (401)	\$ (438)	\$ (0.42)	\$ (0.45)

(1) Impact on Income before Income Taxes and Minority Interests

(2) Impact on Net Income Available for Common Stockholders

(3) Impact on Earnings per common share diluted

SEGMENT RESULTS

The Company uses EBIT (which Dow defines as earnings before interest, income taxes and minority interests) as its measure of profit/loss for segment reporting purposes. EBIT by operating segment includes all operating items relating to the businesses; items that principally apply to the Company as a whole are assigned to Unallocated. See Note L to the Consolidated Financial Statements for a reconciliation of EBIT to Net Income Available for Common Stockholders.

PERFORMANCE PLASTICS

Performance Plastics sales were \$3,877 million for the third quarter of 2007, up 12 percent from \$3,463 million in the third quarter of 2006. Compared with last year, volume improved 7 percent and prices increased 5 percent, including a 3 percent favorable currency impact. EBIT for the segment totaled \$409 million in the third quarter, up from \$144 million in the same period last year. Results for the third quarter of 2006 reflected the negative impact of restructuring charges totaling \$242 million related to the shutdown of a number of manufacturing facilities. The charges included the write-down of manufacturing assets; the write-off of obsolete capital spending, technology assets and inventories; contract termination fees; and asbestos abatement costs. The most significant charges were an asset write-off of \$115 million related to the permanent closure of the Company's toluene diisocyanate (TDI) plant in Porto Marghera, Italy, at the end of August 2006, and contract termination fees of \$64 million. In addition to the absence of restructuring charges in 2007, EBIT improved as higher volume and higher prices more than offset the impact of higher raw material costs and increased spending on product development and business growth initiatives.

Dow Automotive sales for the third quarter of 2007 were up 7 percent from a year ago with higher volume accounting for 5 percent of the increase. Volume gains were noted across all geographic areas with particular strength in Latin America and Europe. The increase in volume was primarily driven by growth in sales of polyurethane-based technologies and polypropylene. Compared with the third quarter of last year, prices improved 2 percent, principally due to the favorable impact of currency. Despite higher sales, EBIT for the business declined versus the same quarter of last year due to higher raw material costs, increased costs associated with the consolidation of manufacturing operations in North America and Europe, and higher spending on the development of new technologies and products.

Dow Building Solutions sales in the third quarter of 2007 improved slightly versus the same quarter last year principally due to the favorable impact of currency on price. The impact of weakness in U.S. residential construction was mitigated by a shift of volume into U.S. commercial construction. EBIT declined due to increased spending on product development and growth initiatives.

Dow Epoxy sales were down 3 percent from the third quarter of 2006, as a 9 percent decline in volume more than offset a 6 percent increase in prices. The decline in volume was largely due to the Company's decision to exit the peroxymeric chemicals business in the third quarter of 2006, as well as lower sales of intermediate products. In general, demand remained strong in key applications including coatings and electrical laminates. Prices improved across all geographic areas. EBIT for the third quarter of 2007 was down from a year ago due to the lost margin related to the peroxymeric chemicals business, higher raw material costs and increased costs associated with plant operations.

Polyurethanes and Polyurethane Systems sales in the third quarter of 2007 were up 16 percent from the third quarter of last year, as volume grew 10 percent and prices rose 6 percent, including the favorable impact of currency. Volume improved across the entire portfolio of products with strong demand for Polyurethane Systems products in industrial applications, such as insulation panels used in the transportation industry, driving the gain in volume. Volume also improved due to the acquisition of Hyperlast Limited in May 2007. The increase in prices was driven by tight industry supply/demand conditions for isocyanates and strong demand for Polyurethane Systems products. EBIT for the quarter improved significantly versus the same period last year due to the margin on increased volume and the impact of price increases which exceeded higher

Edgar Filing: DOW CHEMICAL CO /DE/ - Form 10-Q

raw material costs and operating expenses, as well as the absence of restructuring charges. EBIT in the third quarter of 2006 was reduced by \$219 million of restructuring charges related to the closure of the Company's TDI manufacturing facility in Porto Marghera, Italy, at the end of August 2006.

Specialty Plastics and Elastomers sales for the third quarter of 2007 were up 13 percent from the third quarter of 2006, establishing a new quarterly record for the third consecutive quarter, with an 8 percent increase in volume and a 5 percent improvement in price, including the favorable impact of currency. Solid volume gains were realized in all geographic areas, except for North America, which was negatively affected by weakness in U.S. residential construction. EBIT was up from the third quarter of 2006 due to the margin on increased sales volume and the impact of price increases, which exceeded higher raw material costs.

Technology Licensing and Catalyst sales for the third quarter of 2007 were unchanged from the same period last year. EBIT declined due to a drop in equity earnings from Univation.

For the first nine months of 2007, Performance Plastics sales were \$11,148 million, up 7 percent from \$10,398 million in the first nine months of 2006. Prices were up 6 percent, including the favorable impact of currency, while volume improved 1 percent. The increase in volume was minimal due to significant lump sum licensing revenue in the first quarter of 2006 that has not recurred in 2007. EBIT was \$1,232 million for the first nine months of 2007, down from \$1,282 million in the same period last year, which included the impact of the restructuring charges of \$242 million recorded in the third quarter of last year. Despite the increase in sales, EBIT declined from the first nine months of last year. In addition to the 2006 restructuring charges, the decline in EBIT was due to lower technology licensing revenue, higher raw material costs, the unfavorable impact of currency on costs, and increased spending on product development and business growth initiatives across the segment.

PERFORMANCE CHEMICALS

Performance Chemicals sales were \$2,152 million in the third quarter of 2007, up 7 percent from \$2,014 million in the third quarter of last year, as prices rose 4 percent, including the favorable impact of currency, and volume increased 3 percent. The increase in prices was broad based, with increases reported in all geographic areas and across all major product lines. The increase in volume was due to the second quarter acquisition of Wolff Walsrode. EBIT for the third quarter of 2007 was \$219 million, down from \$286 million in the third quarter of 2006. Compared with the same quarter last year, EBIT declined as the benefit of higher prices was more than offset by increased raw material costs, higher costs associated with plant outages, and higher spending on new product development and growth initiatives, including integration costs associated with the acquisition of Wolff Walsrode. In addition, EBIT for the third quarter of 2007 was reduced by a \$9 million charge for purchased in-process research and development related to the acquisition of Wolff Walsrode (see Note D to the Consolidated Financial Statements). EBIT in the third quarter of last year was reduced by restructuring charges totaling \$11 million (see Note I to the Consolidated Financial Statements).

Designed Polymers sales for the quarter were up 34 percent from the third quarter of 2006, with volume growth of 31 percent and an increase in prices of 3 percent. Improvements in volume were primarily due to the recent acquisition of Wolff Walsrode. Excluding these sales, volume for the business was up 5 percent with strong sales for biocides, methyl cellulose, CELLOSIZE hydroxyethyl cellulose, and FILMTEC reverse osmosis membranes. From a geographic standpoint, volume (excluding the sales related to Wolff Walsrode) was especially strong in Latin America, Asia Pacific and Europe. Compared with the third quarter of last year, EBIT declined significantly due to higher operating expenses, including expenses related to the acquisition of Wolff Walsrode, and higher raw material costs. In addition, EBIT for the third quarter includes a \$9 million charge for purchased in-process research and development related to the Wolff Walsrode acquisition.

Dow Latex sales for the quarter were flat with the third quarter of 2006, as a 5 percent increase in prices was offset by a 5 percent decline in volume. Compared with last year, paper and carpet latex prices were up in all geographic areas. Volume was down, however, due to challenging conditions in the paper industry in North America and Asia Pacific. Specialty latex prices were up slightly, although volume declined due to sluggish demand for architectural coatings in North America. EBIT for the third quarter of 2007 was down slightly from the same quarter last year due to lower volume.

Specialty Chemicals sales were down 2 percent compared with the third quarter of 2006, as a 6 percent decline in volume was partially offset by a 4 percent increase in prices. Volume declined from the third quarter of last year largely due to planned and unplanned plant outages at several of the Company's manufacturing facilities on the U.S. Gulf Coast, as well as unplanned outages at OPTIMAL. Prices were higher versus the same quarter of last year in all geographic areas except North America where prices were unchanged. EBIT for the third quarter of this year declined due to lower volume, higher raw material costs, higher costs associated with plant outages, and lower equity earnings from OPTIMAL.

Performance Chemicals sales were \$6,225 million for the first nine months of 2007, up 6 percent from \$5,868 million in the same period last year, reflecting a 4 percent increase in prices (including the favorable impact of currency) and a 2 percent increase in volume. EBIT for the first nine months of 2007 was \$825 million, compared with \$949 million in 2006. Despite higher sales and higher equity earnings from OPTIMAL

Edgar Filing: DOW CHEMICAL CO /DE/ - Form 10-Q

and Dow Corning, EBIT declined in 2007 due to increased raw material costs and higher operating expenses, as the business invested in new product development and growth initiatives. EBIT for the first nine months of 2007 included a \$9 million charge for purchased in-process research and development. Results for 2006 were negatively impacted by the restructuring charges of \$11 million.

AGRICULTURAL SCIENCES

Sales for Agricultural Sciences were \$788 million in the third quarter of 2007, up 19 percent from \$662 million a year ago. This represents a new record for third quarter sales for the business. Compared with last year, volume grew 16 percent, while prices rose 3 percent (including the favorable impact of currency in Europe). All geographic areas recorded an increase in sales versus last year, with the exception of Asia Pacific, which was flat; Latin America posted the largest year-over-year gains due to excellent growing conditions across the region. Sales in Latin America were also favorably impacted by the acquisition of the corn seeds business of Agromen Tecnologia Ltda in the third quarter of 2007. EBIT for the third quarter of 2007 of \$15 million, which included in-process research and development charges totaling \$50 million related to recent acquisitions, was a significant improvement from breakeven EBIT in the same quarter of 2006. The improvement in EBIT was principally due to the increase in volume.

For the first nine months of 2007, sales for Agricultural Sciences were \$2,915 million, up 13 percent from \$2,585 million in 2006, as volume increased 11 percent and prices rose 2 percent. Compared with the first nine months of 2006, volume gains were primarily driven by strong herbicide sales across most geographic areas, with particular strength in Latin America, and sales of new products (penoxsulam rice herbicide and aminopyralid herbicide for range and pasture). For the first nine months of 2007, EBIT for the segment was \$505 million (including the third quarter in-process research and development charges of \$50 million), up from \$377 million a year ago, primarily driven by the increase in sales and lower operating expenses.

BASIC PLASTICS

Basic Plastics sales for the third quarter of 2007 were \$3,316 million, up 7 percent from \$3,106 million in the third quarter of last year, as prices rose 5 percent (including the favorable impact of currency) and volume improved 2 percent. Price increases were reported in all geographic areas, except North America, driven by significantly higher feedstock and energy costs. Prices declined in North America as continued softness in industry demand resulted in a highly competitive environment. EBIT for the third quarter of 2007 was \$556 million, down from \$592 million in the third quarter of last year, due to significantly higher feedstock and energy costs, higher operating expenses, and lower equity earnings from Siam Polyethylene. In the third quarter of last year, EBIT was negatively impacted by \$16 million of restructuring charges related to the shutdown of the polystyrene and polyethylene manufacturing facilities in Sarnia, Ontario, Canada, in 2006 (see Note I to the Consolidated Financial Statements).

Polyethylene sales were up 5 percent from the third quarter of 2006, as prices (including the favorable impact of currency) rose 3 percent and volume increased 2 percent. Driven by significantly higher feedstock and energy costs, selling prices were up in all geographic areas, except North America where highly competitive industry conditions did not allow for price increases. Substantial volume growth in Asia Pacific and Europe, combined with a modest increase in North America, more than offset lower volumes in the other geographic areas, with the most notable decline reported in South Africa due to the 2006 sale of a polyethylene plant in that country. EBIT for the polyethylene business declined from the third quarter of 2006 as significantly higher feedstock and energy costs, higher operating expenses and lower equity earnings from Siam Polyethylene offset the increase in sales. EBIT in third quarter of 2006 was reduced by start-up costs associated with a new linear low density polyethylene and specialty polymers production facility in Tarragona, Spain, and \$10 million of restructuring charges related to the shutdown of the polyethylene manufacturing facility in Sarnia (See Note I to the Consolidated Financial Statements).

Polypropylene sales were up 8 percent from the third quarter of 2006, as prices increased 7 percent and volume improved 1 percent. Price increases were reported in all geographic areas, except Latin America, as the business increased prices in response to rising feedstock and energy costs. Despite tight propylene supply, and the sale of the Company's Safripol business in South Africa in the fourth quarter of 2006, demand remained strong and volume improved significantly in Europe, in part due to a planned maintenance turnaround at the Company's facility in Germany in the third quarter of last year. EBIT improved significantly from the third quarter of 2006 as higher selling prices, increased volume

and lower turnaround costs more than offset an increase in feedstock and energy costs.

Polystyrene sales for the third quarter of 2007 were up 9 percent due to higher prices. Compared with the same period last year, volume was unchanged. Prices were up significantly in all geographic areas, driven by higher feedstock and energy costs. In the third quarter of 2007, volume was significantly higher in Asia Pacific due to the consolidation of the SAL Petrochemical (Zhangjiagang) Company Limited, after the Company acquired the remaining 50 percent interest in the joint venture in the first quarter of 2007. In North America, volume was down from the same period last year, reflecting the closure of the Company's polystyrene manufacturing facility at Sarnia, Ontario, Canada in the fourth quarter of 2006. Compared with last year, EBIT for the third quarter of 2007 improved as higher feedstock and energy costs were more than offset by the increase in selling prices. EBIT in 2006 included \$6 million of restructuring charges related to the shutdown of the polystyrene manufacturing facility in Sarnia.

Basic Plastics sales for the first nine months of 2007 were \$9,390 million, up 6 percent from \$8,889 million in the same period of 2006. Compared with 2006, prices were up 5 percent (including a 3 percent favorable impact from currency) and volume improved 1 percent. EBIT for the first nine months of 2007 was \$1,612 million, up from \$1,561 million in 2006. While the increase in selling prices was not sufficient to offset a significant increase in feedstock and energy costs, EBIT improved from the first nine months of last year due to the improvement in volume, lower turnaround costs, higher equity earnings from EQUATE and Siam Polyethylene, and a gain on the sale of the low density polyethylene plant in Cubatao, Brazil. In addition, EBIT for the first nine months of last year included \$16 million of restructuring charges associated with the closure of the Sarnia, Ontario, Canada polystyrene and polyethylene manufacturing facilities.

BASIC CHEMICALS

Sales for the Basic Chemicals segment were \$1,507 million in the third quarter of 2007, up 3 percent from \$1,461 million in the same period last year, as prices rose 5 percent and volume declined 2 percent. Prices were up for most products within the segment, led by ethylene glycol (EG), which was up due to higher raw material costs, constrained industry supply and strong industry demand, particularly from the Asian polyester industry. Price improvements were also reported for caustic soda and oxo products. Volume was mixed within the segment. Solvents and Intermediates continued to report significant improvement in volume, indicating solid demand for oxo products for coatings applications. EG volume declined due to lack of supply related to planned and unplanned outages on the U.S. Gulf Coast and the restructuring of certain supply agreements. Volume for ethylene dichloride (EDC) and vinyl chloride monomer was down, principally in North America, due to continued weakness in residential construction and the shutdown of an EDC production facility in Canada in the fourth quarter of 2006. EBIT for the third quarter of 2007 was \$205 million. In the third quarter of last year, EBIT of \$122 million included the impact of \$165 million in restructuring charges related to the closure of the Company's chlor-alkali plant in Fort Saskatchewan, Alberta, Canada, and a number of other small manufacturing facilities, as part of Dow's restructuring activities (see Note I to the Consolidated Financial Statements). In addition to the impact of the 2006 restructuring charges, EBIT declined in the third quarter of 2007 due to higher feedstock and energy costs and an increase in maintenance turnaround costs.

For the first nine months of 2007, sales for Basic Chemicals were \$4,233 million, essentially flat with \$4,245 million in the same period last year. Prices rose 2 percent due to the favorable impact of currency, as volume declined 2 percent. Year to date, EBIT for 2007 was \$504 million, compared with \$495 million in 2006, which included the restructuring charges of \$165 million. In addition to the absence of restructuring charges in 2007, year-to-date EBIT declined due to higher feedstock and energy costs and higher operating expenses.

HYDROCARBONS AND ENERGY

Hydrocarbons and Energy sales for the third quarter of 2007 were \$1,828 million, up 17 percent from \$1,569 million in the third quarter of last year. Compared with last year, prices rose 6 percent, driven by significantly higher feedstock costs, while volume improved 11 percent. The increase in volume was the result of higher sales of ethylene, ethylbenzene and cumene, as well as an increase in power sales due to the Company's December 2006 purchase of the Plaquemine Cogeneration Facility in Louisiana. For the first nine months of 2007, sales were \$5,063 million for the segment, up 9 percent from \$4,643 million in the same period of 2006, with an 8 percent increase in prices and volume growth of 1 percent.

Overall, purchased feedstock and energy costs rose sharply during the quarter (up 6 percent), adding approximately \$380 million of additional costs compared with the same period of 2006. The Hydrocarbons and Energy business transfers materials to Dow's derivatives businesses at cost. As a result, EBIT for this operating segment was at or near breakeven for the three months and nine months ended September 30, 2007 and 2006.

UNALLOCATED AND OTHER

Sales for Unallocated and Other, which primarily relate to the Company's insurance operations, were \$121 million in the third quarter of 2007, up from \$84 million in the same period of 2006. Sales for the first nine months of 2007 were \$312 million, up from \$260 million in the same period of 2006. Included in the results for Unallocated and Other are:

results of insurance company operations,

gains and losses on sales of financial assets,

stock-based compensation expense,

changes in the allowance for doubtful receivables,

expenses related to New Ventures,

asbestos-related defense and resolution costs,

foreign exchange hedging results, and

overhead and other cost recovery variances not allocated to the operating segments.

EBIT for the third quarter of 2007 was a loss of \$199 million, compared with a loss of \$367 million in the third quarter of 2006. Compared with the same quarter of last year, EBIT for the third quarter of 2007 reflected the absence of last year's restructuring charges of \$145 million, improved results from insurance company operations and an improvement in foreign exchange hedging results, partially offset by an increase in the accrual for off-site corrective action related to the Midland site. See Note I to the Consolidated Financial Statements for information regarding the restructuring charges recorded in the third quarter of 2006. See Note F to the Consolidated Financial Statements (Environmental Matters) for information regarding the Midland site.

EBIT for the first nine months of 2007 was a loss of \$596 million, compared with a loss of \$681 million in the same period last year. Year to date, EBIT improved from last year due to the absence of last year's restructuring charge of \$145 million, improved results from insurance company operations and an improvement in foreign exchange hedging results, partially offset by higher performance-based compensation expense (including stock-based compensation) of approximately \$130 million and the impact of approximately \$40 million in tax contingencies related to franchise taxes.

Sales Volume and Price by Operating Segment and Geographic Area

Percentage change from prior year	Three Months Ended Sept. 30, 2007			Nine Months Ended Sept. 30, 2007		
	Volume	Price	Total	Volume	Price	Total
Operating segments						
Performance Plastics	7%	5%	12%	1%	6%	7%
Performance Chemicals	3	4	7	2	4	6
Agricultural Sciences	16	3	19	11	2	13
Basic Plastics	2	5	7	1	5	6
Basic Chemicals	(2)	5	3	(2)	2	
Hydrocarbons and Energy	11	6	17	1	8	9
Total	5%	5%	10%	2%	5%	7%
Geographic areas						
United States	4%		4%	(1)%	(1)%	(2)%
Europe	7	9%	16	4	10	14
Rest of World	5	6	11	3	5	8
Total	5%	5%	10%	2%	5%	7%

OUTLOOK

Economic conditions are strong in Europe, Asia Pacific and Latin America, and this strength is expected to extend into 2008. However, the U.S. GDP growth rate is forecast to be at 2 percent or less in 2008, with early signs that weakening domestic demand is extending beyond automotive and residential housing.

Solid global macroeconomic conditions should drive increased demand for the chemical industry, particularly in emerging economies. Supply and demand are expected to remain balanced in the ethylene chain well into 2008, but may be impacted by additional industry supplies in 2009 and beyond. Industry conditions for chlor-vinyl may soften with weaker demand from a slower U.S. economy, including the housing sector, coupled with additional industry supply anticipated in the first half of 2008. With oil and oil derivatives trading near record levels, continued volatility in feedstock and energy costs adds uncertainty to the profit outlook.

Edgar Filing: DOW CHEMICAL CO /DE/ - Form 10-Q

Dow's purchased feedstock and energy costs are expected to remain high and volatile in the fourth quarter, with significant increases from the third quarter likely. Many of the Company's Basics businesses have announced price increases in an attempt to sustain margins against the rising feedstock costs. With rapidly rising raw material costs, some of the Company's Performance businesses will likely see margin compression in the near-term.

Healthy year-over-year demand growth is expected to continue outside North America, although historical seasonal patterns would point to slightly lower volume compared with the third quarter, particularly for businesses with ties to the construction industry. As expected, 2007 is turning out to be another very good year for Dow, and expectations are that 2008 will be yet another year of solid earnings performance.

CHANGES IN FINANCIAL CONDITION

The Company's cash flows from operating, investing and financing activities, as reflected in the Consolidated Statements of Cash Flows, are summarized in the following table:

Cash Flow Summary	Nine Months Ended	
	Sept. 30, 2007	Sept. 30, 2006
In millions		
Cash provided by (used in):		
Operating activities	\$ 3,254	\$ 2,904
Investing activities	(2,086)	(1,322)
Financing activities	(2,022)	(2,240)
Effect of exchange rate changes on cash	42	(14)
Net change in cash and cash equivalents	\$ (812)	\$ (672)

Despite a decrease in earnings in the first nine months of 2007, cash provided by operating activities increased from the same period last year due to significantly lower working capital requirements and pension contributions.

Cash used in investing activities in the first nine months of 2007 increased significantly compared with the same period last year due to investments in consolidated companies (including \$603 million for Wolff Walsrode and \$151 million for Hyperlast Limited; see Notes D and E to the Consolidated Financial Statements), an increase in capital expenditures, and several acquisitions of agricultural businesses. Partially offsetting the increase was a reduction in the amount of cash used for the purchase of previously leased assets.

Cash used in financing activities in the first nine months of 2007 decreased compared with the same period last year as lower payments on long-term debt and higher proceeds from sales of common stock (related to the exercise of stock options and the Employees' Stock Purchase Plan) more than offset increases in purchases of treasury stock (related to share repurchase programs) and dividends paid to shareholders.

On August 29, 2006, the Board of Directors approved a plan to shut down a number of the Company's manufacturing facilities. The shutdowns are scheduled to be completed by the end of 2008, resulting in additional cash expenditures of approximately \$169 million over the next few years related to severance costs, contract termination fees, asbestos abatement and environmental remediation (see Note I to the Consolidated Financial Statements). Dow expects to incur future costs related to its restructuring activities, as the Company continually looks for ways to enhance the efficiency and cost effectiveness of its operations, to ensure competitiveness across its businesses and across geographic areas. Future costs are expected to include demolition costs related to the closed facilities, which will be recognized as incurred. The Company also expects to incur additional employee-related costs, including involuntary termination benefits, related to its other optimization activities, and pension plan settlement costs. These costs cannot be reasonably estimated at this time.

The following tables present working capital, total debt and certain balance sheet ratios:

Working Capital	Sept. 30,	Dec. 31,
In millions	2007	2006

Edgar Filing: DOW CHEMICAL CO /DE/ - Form 10-Q

Current assets	\$	18,253	\$	17,209
Current liabilities		11,534		10,601
Working capital	\$	6,719	\$	6,608
Current ratio		1.58:1		1.62:1
Days-sales-outstanding-in-receivables		39		39
Days-sales-in-inventory		62		63

Total Debt

In millions		Sept. 30, 2007		Dec. 31, 2006
Notes payable	\$	306	\$	219
Long-term debt due within one year		1,372		1,291
Long-term debt		8,019		8,036
Total debt	\$	9,697	\$	9,546
Debt as a percent of total capitalization		33.2%		34.1%

As part of its ongoing financing activities, Dow has the ability to issue promissory notes under its U.S. and Euromarket commercial paper programs. At September 30, 2007, there were no commercial paper borrowings outstanding. In the event Dow has short-term liquidity needs and is unable to access these short-term markets for any reason, Dow has the ability to access liquidity through its committed and available \$3 billion 5-year revolving credit facility with various U.S. and foreign banks. This credit facility matures in April 2011.

At September 30, 2007, the Company had \$3.5 billion of SEC-registered securities available for issuance under U.S. shelf registrations, Euro 1.5 billion (approximately \$2.1 billion) available for issuance under the Company's Euro Medium Term Note Program, as well as Japanese yen 50 billion (approximately \$434 million) of securities available for issuance under a shelf registration filed with the Tokyo Stock Exchange on July 31, 2006. In addition, as a well-known seasoned issuer, the Company filed an automatic shelf registration for an unspecified amount of mixed securities with the SEC on February 23, 2007. Under this shelf registration, the Company may offer common stock, preferred stock, depositary shares, debt securities, warrants, stock purchase contracts and stock purchase units.

Dow's public debt instruments and documents for its private funding transactions contain, among other provisions, certain covenants and default provisions. At September 30, 2007, the Company was in compliance with all of these covenants and default provisions.

On July 14, 2005, the Board of Directors authorized the repurchase of up to 25 million shares of Dow common stock over the period ending on December 31, 2007 (the 2005 Program). During the first quarter of 2007, the Company purchased 6,201,593 shares of the Company's common stock under the 2005 Program, bringing the program to a close.

On October 26, 2006, the Company announced that its Board of Directors had approved a new share buy-back program, authorizing up to \$2 billion to be spent on the repurchase of the Company's common stock (the 2006 Program). Purchases under the 2006 Program began in March 2007, following the completion of the 2005 Program. In the third quarter of 2007, the Company purchased 7,138,300 shares of the Company's common stock under the 2006 Program, bringing the total number of shares purchased under the program to 19,054,507 shares. See PART II, Item 2. Unregistered Sales of Equity Securities and Use of Proceeds for additional information.

Contractual Obligations

There have been no material changes in the Company's contractual obligations or commercial commitments since December 31, 2006.

The Company had outstanding guarantees at September 30, 2007. Additional information related to these guarantees can be found in the Guarantees table provided in Note F to the Consolidated Financial Statements.

Dividends

On October 30, 2007, the Company will pay a quarterly dividend of \$0.42 per share to stockholders of record on September 28, 2007. Since 1912, the Company has paid a cash dividend every quarter and, in each instance, Dow has maintained or increased the amount of the dividend, adjusted for stock splits. During that 95-year period, Dow has increased the amount of the quarterly dividend 47 times (approximately 12 percent

of the time) and maintained the amount of the quarterly dividend approximately 88 percent of the time.

OTHER MATTERS

Recent Accounting Pronouncements

See Note B to the Consolidated Financial Statements for a summary of recent accounting pronouncements.

Critical Accounting Policies

The preparation of financial statements and related disclosures in conformity with accounting principles generally accepted in the United States of America (GAAP) requires management to make judgments, assumptions and estimates that affect the amounts reported in the consolidated financial statements and accompanying notes. Note A to the Consolidated Financial Statements in the Company s Annual Report on Form 10-K for the year ended December 31, 2006 (2006 10-K) describes the significant accounting policies and methods used in the preparation of the consolidated financial statements. Dow s critical accounting policies that are impacted by judgments, assumptions and estimates are described in Management s Discussion and Analysis of Financial Condition and Results of Operations in the Company s 2006 10-K. Since December 31, 2006, there have been no material changes in the Company s critical accounting policies.

Asbestos-Related Matters of Union Carbide Corporation*Introduction*

Union Carbide Corporation (Union Carbide), a wholly owned subsidiary of the Company, is and has been involved in a large number of asbestos-related suits filed primarily in state courts during the past three decades. These suits principally allege personal injury resulting from exposure to asbestos-containing products and frequently seek both actual and punitive damages. The alleged claims primarily relate to products that Union Carbide sold in the past, alleged exposure to asbestos-containing products located on Union Carbide s premises, and Union Carbide s responsibility for asbestos suits filed against a former Union Carbide subsidiary, Amchem Products, Inc. (Amchem). In many cases, plaintiffs are unable to demonstrate that they have suffered any compensable loss as a result of such exposure, or that injuries incurred in fact resulted from exposure to Union Carbide s products.

Influenced by the bankruptcy filings of numerous defendants in asbestos-related litigation and the prospects of various forms of state and national legislative reform, the rate at which plaintiffs filed asbestos-related suits against various companies, including Union Carbide and Amchem, increased in 2001, 2002 and the first half of 2003. Since then, the rate of filing has significantly abated. Union Carbide expects more asbestos-related suits to be filed against Union Carbide and Amchem in the future, and will aggressively defend or reasonably resolve, as appropriate, both pending and future claims.

The table below provides information regarding asbestos-related claims filed against Union Carbide and Amchem:

	2007	2006
Claims unresolved at January 1	111,887	146,325
Claims filed	7,696	12,388
Claims settled, dismissed or otherwise resolved	(15,681)	(45,006)
Claims unresolved at September 30	103,902	113,707
Claimants with claims against both UCC and Amchem	35,114	39,432
Individual claimants at September 30	68,788	74,275

Plaintiffs lawyers often sue dozens or even hundreds of defendants in individual lawsuits on behalf of hundreds or even thousands of claimants. As a result, the damages alleged are not expressly identified as to Union Carbide, Amchem or any other particular defendant, even when specific damages are alleged with respect to a specific disease or injury. In fact, there are no personal injury cases in which only Union Carbide and/or Amchem are the sole named defendants. For these reasons and based upon Union Carbide s litigation and settlement experience, Union Carbide does not consider the damages alleged against Union Carbide and Amchem to be a meaningful factor in its determination of any potential asbestos liability.

Estimating the Liability

Based on a study completed by Analysis, Research & Planning Corporation (ARPC) in January 2003, Union Carbide increased its December 31, 2002 asbestos-related liability for pending and future claims for the 15-year period ending in 2017 to \$2.2 billion, excluding future defense and processing costs. Since then, Union Carbide has compared current asbestos claim and resolution activity to the results of the most recent ARPC

study at each balance sheet date to determine whether the accrual continues to be appropriate.

In November 2004, Union Carbide requested ARPC to review Union Carbide's historical asbestos claim and resolution activity and determine the appropriateness of updating its January 2003 study. In January 2005, ARPC provided Union Carbide with a report summarizing the results of its study. At December 31, 2004, Union Carbide's recorded asbestos-related liability for pending and future claims was \$1.6 billion. Based on the low end of the range in the January 2005 study, Union Carbide's recorded asbestos-related liability for pending and future claims at December 31, 2004 would be sufficient to resolve asbestos-related claims against Union Carbide and Amchem into 2019. As in its January 2003 study, ARPC did provide estimates for a longer period of time in its January 2005 study, but also reaffirmed its prior advice that forecasts for shorter periods of time are more accurate than those for longer periods of time.

In November 2005, Union Carbide requested ARPC to review Union Carbide's 2005 asbestos claim and resolution activity and determine the appropriateness of updating its January 2005 study. In response to that request, ARPC reviewed and analyzed data through October 31, 2005. In January 2006, ARPC stated that an update of its study would not provide a more likely estimate of future events than the estimate reflected in its study of the previous year and, therefore, the estimate in that study remained applicable. Based on Union Carbide's own review of the asbestos claim and resolution activity and ARPC's response, Union Carbide determined that no change to the accrual was required. At December 31, 2006, Union Carbide's asbestos-related liability for pending and future claims was \$1.5 billion.

In November 2006, Union Carbide requested ARPC to review Union Carbide's historical asbestos claim and resolution activity and determine the appropriateness of updating its January 2005 study. In response to that request, ARPC reviewed and analyzed data through October 31, 2006 and concluded that the experience from 2004 through 2006 was sufficient for the purpose of forecasting future filings and values of asbestos claims filed against Union Carbide and Amchem, and could be used in place of previous assumptions to update its January 2005 study. The resulting study, completed by ARPC in December 2006, stated that the undiscounted cost of resolving pending and future asbestos-related claims against Union Carbide and Amchem, excluding future defense and processing costs, through 2021 was estimated to be between approximately \$1.2 billion and \$1.5 billion. As in its January 2005 study, ARPC provided estimates for a longer period of time in its December 2006 study, but also reaffirmed its prior advice that forecasts for shorter periods of time are more accurate than those for longer periods of time.

Based on ARPC's December 2006 study and Union Carbide's own review of the asbestos claim and resolution activity, Union Carbide decreased its asbestos-related liability for pending and future claims to \$1.2 billion at December 31, 2006 which covers the 15-year period ending in 2021 (excluding future defense and processing costs). The reduction was \$177 million and was shown as Asbestos-related credit in the consolidated statements of income for 2006. At December 31, 2006, approximately 25 percent of the recorded liability related to pending claims and approximately 75 percent related to future claims.

Based on Union Carbide's review of 2007 activity, Union Carbide determined that no adjustment to the accrual was required at September 30, 2007. Union Carbide's asbestos-related liability for pending and future claims was \$1.2 billion at September 30, 2007. Approximately 28 percent of the recorded liability related to pending claims and approximately 72 percent related to future claims.

Defense and Resolution Costs

The following table provides information regarding defense and resolution costs related to asbestos-related claims filed against Union Carbide and Amchem:

Defense and Resolution Costs In millions	Nine Months Ended		Aggregate Costs to Date as of Sept. 30, 2007
	Sept. 30, 2007	Sept. 30, 2006	
Defense costs	\$ 58	\$ 45	\$ 539
Resolution costs	\$ 48	\$ 95	\$ 1,230

The average resolution payment per asbestos claimant and the rate of new claim filings has fluctuated both up and down since the beginning of 2001. Union Carbide's management expects such fluctuations to continue in the future based upon a number of factors, including the number and type of claims settled in a particular period, the jurisdictions in which such claims arose, and the extent to which any proposed legislative reform related to asbestos litigation is being considered.

Union Carbide expenses defense costs as incurred. The pretax impact for defense and resolution costs, net of insurance, was \$16 million in the third quarter of 2007 (\$1 million in the third quarter of 2006) and \$58 million in the first nine months of 2007 (\$29 million in the first nine months of 2006), and was reflected in Cost of sales.

Insurance Receivables

At December 31, 2002, Union Carbide increased the receivable for insurance recoveries related to its asbestos liability to \$1.35 billion, substantially exhausting its asbestos product liability coverage. The insurance receivable related to the asbestos liability was determined by Union Carbide after a thorough review of applicable insurance policies and the 1985 Wellington Agreement, to which Union Carbide and many of its liability insurers are signatory parties, as well as other insurance settlements, with due consideration given to applicable deductibles, retentions and policy limits, and taking into account the solvency and historical payment experience of various insurance carriers. The Wellington Agreement and other agreements with insurers are designed to facilitate an orderly resolution and collection of Union Carbide's insurance policies and to resolve issues that the insurance carriers may raise.

In September 2003, Union Carbide filed a comprehensive insurance coverage case, now proceeding in the Supreme Court of the State of New York, County of New York, seeking to confirm its rights to insurance for various asbestos claims and to facilitate an orderly and timely collection of insurance proceeds. This lawsuit was filed against insurers that are not signatories to the Wellington Agreement and/or do not otherwise have agreements in place with Union Carbide regarding their asbestos-related insurance coverage, in order to facilitate an orderly resolution and collection of such insurance policies and to resolve issues that the insurance carriers may raise. Although the lawsuit is continuing, through the end of the third quarter of 2007, Union Carbide had reached settlements with several of the carriers involved in this litigation.

Union Carbide's receivable for insurance recoveries related to its asbestos liability was \$476 million at September 30, 2007 and \$495 million at December 31, 2006. At September 30, 2007 and December 31, 2006, all of the receivable for insurance recoveries was related to insurers that are not signatories to the Wellington Agreement and/or do not otherwise have agreements in place regarding their asbestos-related insurance coverage.

In addition to the receivable for insurance recoveries related to its asbestos liability, Union Carbide had receivables for defense and resolution costs submitted to insurance carriers for reimbursement as follows:

Receivables for Costs Submitted to Insurance Carriers

In millions	Sept. 30, 2007	Dec. 31, 2006
Receivables for defense costs	\$ 29	\$ 34
Receivables for resolution costs	254	266
Total	\$ 283	\$ 300

After a review of its insurance policies, with due consideration given to applicable deductibles, retentions and policy limits, after taking into account the solvency and historical payment experience of various insurance carriers; existing insurance settlements; and the advice of outside counsel with respect to the applicable insurance coverage law relating to the terms and conditions of its insurance policies, Union Carbide continues to believe that its recorded receivable for insurance recoveries from all insurance carriers is probable of collection.

Summary

The amounts recorded by Union Carbide for the asbestos-related liability and related insurance receivable described above were based upon current, known facts. However, future events, such as the number of new claims to be filed and/or received each year, the average cost of disposing of each such claim, coverage issues among insurers, and the continuing solvency of various insurance companies, as well as the numerous uncertainties surrounding asbestos litigation in the United States, could cause the actual costs and insurance recoveries for Union Carbide to be higher or lower than those projected or those recorded.

Because of the uncertainties described above, Union Carbide's management cannot estimate the full range of the cost of resolving pending and future asbestos-related claims facing Union Carbide and Amchem. Union Carbide's management believes that it is reasonably possible that the cost of disposing of Union Carbide's asbestos-related claims, including future defense costs, could have a material adverse impact on Union Carbide's results of operations and cash flows for a particular period and on the consolidated financial position of Union Carbide.

It is the opinion of Dow's management that it is reasonably possible that the cost of Union Carbide disposing of its asbestos-related claims, including future defense costs, could have a material adverse impact on the Company's results of operations and cash flows for a particular period and on the consolidated financial position of the Company.

The Dow Chemical Company and Subsidiaries

PART I FINANCIAL INFORMATION

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK.

Dow's business operations give rise to market risk exposure due to changes in foreign exchange rates, interest rates, commodity prices and other market factors such as equity prices. To manage such risks effectively, the Company enters into hedging transactions, pursuant to established guidelines and policies, which enable it to mitigate the adverse effects of financial market risk. Derivatives used for this purpose are designated as hedges per SFAS No. 133, Accounting for Derivative Instruments and Hedging Activities, where appropriate. A secondary objective is to add value by creating additional non-specific exposure within established limits and policies; derivatives used for this purpose are not designated as hedges per SFAS No. 133. The potential impact of creating such additional exposures is not material to the Company's results.

The global nature of Dow's business requires active participation in the foreign exchange markets. As a result of investments, production facilities and other operations on a global basis, the Company has assets, liabilities and cash flows in currencies other than the U.S. dollar. The primary objective of the Company's foreign exchange risk management is to optimize the U.S. dollar value of net assets and cash flows, keeping the adverse impact of currency movements to a minimum. To achieve this objective, the Company hedges on a net exposure basis using foreign currency forward contracts, over-the-counter option contracts, cross-currency swaps, and nonderivative instruments in foreign currencies. Main exposures are related to assets and liabilities denominated in the currencies of Europe, Asia Pacific and Canada; bonds denominated in foreign currencies—mainly the Euro; and economic exposure derived from the risk that currency fluctuations could affect the U.S. dollar value of future cash flows. The majority of the foreign exchange exposure is related to European currencies and the Japanese yen.

The main objective of interest rate risk management is to reduce the total funding cost to the Company and to alter the interest rate exposure to the desired risk profile. Dow uses interest rate swaps, swaptions, and exchange-traded instruments to accomplish this objective. The Company's primary exposure is to the U.S. dollar yield curve.

Dow has a portfolio of equity securities derived from its acquisition and divestiture activity. This exposure is managed in a manner consistent with the Company's market risk policies and procedures.

Inherent in Dow's business is exposure to price changes for several commodities. Some exposures can be hedged effectively through liquid tradable financial instruments. Feedstocks for ethylene production and natural gas constitute the main commodity exposures. Over-the-counter and exchange traded instruments are used to hedge these risks when feasible.

Dow uses value at risk (VAR), stress testing and scenario analysis for risk measurement and control purposes. VAR estimates the potential gain or loss in fair market values, given a certain move in prices over a certain period of time, using specified confidence levels. On an ongoing basis, the Company estimates the maximum gain or loss that could arise in one day, given a two-standard-deviation movement in the respective price levels. These amounts are relatively insignificant in comparison to the size of the equity of the Company. The VAR methodology used by Dow is based primarily on a variance/covariance statistical model. The year-end VAR and average daily VAR for the aggregate of non-trading and trading positions for 2006 and 2005 are shown below:

Edgar Filing: DOW CHEMICAL CO /DE/ - Form 10-Q

Total Daily VAR at December 31* In millions	2006		2005	
	Year-end	Average	Year-end	Average
Foreign exchange	\$ 3	\$ 4	\$ 3	\$ 6
Interest rate	\$ 34	\$ 43	\$ 55	\$ 65
Equity exposures, net of hedges	\$ 9	\$ 3	\$ 2	\$ 2
Commodities	\$ 14	\$ 19	\$ 23	\$ 21

*Using a 95 percent confidence level

Since December 31, 2006, there have been no material changes in the Company's risk management policies. The Company's daily VAR for the aggregate of trading and non-trading positions increased from a total of \$60 million at December 31, 2006 to a total of \$86 million at September 30, 2007. The increase was principally due to the termination of interest rate hedges, increased volatility in interest rate markets, and an increase in equity exposures.

ITEM 4. CONTROLS AND PROCEDURES.

Evaluation of Disclosure Controls and Procedures

As of the end of the period covered by this Quarterly Report on Form 10-Q, the Company carried out an evaluation, under the supervision and with the participation of the Company's Disclosure Committee and the Company's management, including the Chief Executive Officer and the Chief Financial Officer, of the effectiveness of the design and operation of the Company's disclosure controls and procedures pursuant to paragraph (b) of Exchange Act Rules 13a-15 or 15d-15. Based upon that evaluation, the Chief Executive Officer and the Chief Financial Officer concluded that the Company's disclosure controls and procedures were effective.

Changes in Internal Control Over Financial Reporting

There were no changes in the Company's internal control over financial reporting identified in connection with the evaluation required by paragraph (d) of Exchange Act Rules 13a-15 or 15d-15 that was conducted during the last fiscal quarter that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

The Dow Chemical Company and Subsidiaries

PART II OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS.

Asbestos-Related Matters of Union Carbide Corporation

No material developments regarding this matter occurred during the third quarter of 2007. For a summary of the history and current status of this matter, see Note F to the Consolidated Financial Statements; and Management's Discussion and Analysis of Financial Condition and Results of Operations, Asbestos-Related Matters of Union Carbide Corporation.

Environmental Matter

On October 1, 2007, the Company received a Notice of Enforcement (NOE) from the Texas Commission on Environmental Quality related to alleged air emission events at the Company's Freeport, Texas site. The NOE seeks a total civil penalty of \$354,000. While the Company expects that the penalty will ultimately be reduced, resolution of the NOE may result in a civil penalty in excess of \$100,000.

ITEM 1A. RISK FACTORS.

There were no material changes in the Company's risk factors in the third quarter of 2007.

ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS.

The following table provides information regarding purchases of the Company's common stock by the Company during the three months ended September 30, 2007:

Issuer Purchases of Equity Securities	Total number of shares purchased (1)	Average price paid per share	Total number of shares purchased as part of the Company's publicly announced share repurchase program (2)	Approximate dollar value of shares that may yet be purchased under the Company's publicly announced share repurchase program

Edgar Filing: DOW CHEMICAL CO /DE/ - Form 10-Q

Period					
July 2007	2,780,517	\$	43.84	2,779,300	\$ 1,335,480,698
August 2007	3,495,000	\$	41.61	3,495,000	\$ 1,190,044,449
September 2007	864,000	\$	43.85	864,000	\$ 1,152,156,246
Third quarter 2007	7,139,517	\$	42.75	7,138,300	\$ 1,152,156,246

(1) Includes 1,217 shares received from employees and non-employee directors to pay taxes owed to the Company as a result of the exercise of stock options or the delivery of deferred stock.

(2) On October 26, 2006, the Company announced that the Board of Directors had approved a new share buy-back program, authorizing the spending of up to \$2 billion on the repurchase of the Company's common stock. Purchases under this program began in March 2007, following the completion of the Company's previous repurchase program.

ITEM 6. EXHIBITS.

See the Exhibit Index on page 44 of this Quarterly Report on Form 10-Q for exhibits filed with this report.

The Dow Chemical Company and Subsidiaries

Trademark Listing

The following trademarks or service marks of The Dow Chemical Company and certain affiliated companies of Dow appear in this report: AFFINITY, AMBITROL, AMPLIFY, ASPUN, ATTANE, BETABRACE, BETADAMP, BETAFOAM, BETAGUARD, BETAMATE, BETASEAL, CALIBRE, CANGUARD, CARBITOL, CARBOWAX, CELLOSIZO, CELLOSOLVE, COMBOTHERM, CONTINUUM, CYCLOTENE, CYRACURE, D.E.H., D.E.N., D.E.R., DOW, DOW XLA, DOWCAL, DOWEX, DOWEX QCAT, DOWFAX, DOWFLAKE, DOWFROST, DOWICIDE, DOWLEX, DOWPER, DOWTHERM, ELITE, EMERGE, ENFORCER, ENGAGE, ENHANCER, EQUIFOAM, ETHAFOAM, ETHOCEL, EVOCAR, FILMTEC, FLEXOL, FLEXOMER, FORTEFIBER, FOUNDATIONS, FROTH-PAK, GREAT STUFF, IMMOTUS, IMPAXX, INSPIRE, INSTA-STIK, INTEGRAL, ISONATE, ISOPLAST, LIQUIDOW, LP OXO, MAGNUM, MAXIBOOST, MAXICHECK, MAXISTAB, METEOR, METHOCEL, NEOCAR, NORDEL, NORKOOL, NORMAX, OMEXELL, OPTIM, PAPI, PELADOW, PELLETHANE, PFENEX EXPRESSION TECHNOLOGY, POLYOX, POLYPHOBE, PRIMACOR, PROCITE, PULSE, QBIS, QUASH, REDI-LINK, SAFE-TAINER, SARAN, SARANEX, SENTRY, SHAC, SI-LINK, SILK, SPECIFLEX, SPECTRIM, STRANDFOAM, STYROFOAM, STYRON, STYRON A-TECH, STYRON C-TECH, SYMMATRIX, SYNALOX, SYNERGY, SYNTEGRA, TERGITOL, TILE BOND, TONE, TRENCHCOAT, TRITON, TRYMER, TUFLIN, TYRIL, TYRIN, UCAR, UCARHIDE, UCARKLEAN, UCARSOL, UCARTHERM, UCON, UNIGARD, UNIPOL, UNIPURGE, UNIVAL, VERSENE, VERSIFY, VORACOR, VORACTIV, VORALAST, VORALUX, VORANATE, VORANOL, VORASTAR, WALOCEL, WEATHERMATE, ZETABON

The following trademarks or service marks of Dow AgroSciences LLC and certain affiliated companies of Dow AgroSciences LLC appear in this report: CLINCHER, DITHANE, FORTRESS, GARLON, GLYPHOMAX, GRANITE, HERCULEX, KEYSTONE, LAREDO, LONTREL, LORSBAN, MILESTONE, MUSTANG, MYCOGEN, NEXERA, PHYTOGEN, PROFUME, SENTRICON, STARANE, STINGER, SURPASS, TELONE, TORDON, TRACER NATURALYTE, VIKANE, WIDESTRIKE

The following trademark of Dow Corning Corporation appears in this report: SYLTHERM

Dow is a distributor of SYLTHERM products manufactured by Dow Corning Corporation

The following trademark of Ann Arbor Technical Services, Inc. appears in this report: GeoMorph

The Dow Chemical Company and Subsidiaries

Signature

Pursuant to the requirements of the Securities Exchange Act of
1934, the registrant has duly caused this report to be signed
on its behalf by the undersigned thereunto duly authorized.

THE DOW CHEMICAL COMPANY

Registrant

Date: October 29, 2007

/s/ WILLIAM H. WEIDEMAN
William H. Weideman
Vice President and Controller

The Dow Chemical Company and Subsidiaries

Exhibit Index

EXHIBIT NO.	DESCRIPTION
10(ii)	A copy of amended Section 13(a) of the 2003 Non-Employee Directors Stock Incentive Plan, adopted by the Board of Directors of The Dow Chemical Company on October 11, 2007.
23	Analysis, Research & Planning Corporation s Consent.
31(a)	Certification Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31(b)	Certification Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32(a)	Certification Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
32(b)	Certification Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
EX-100.INS	XBRL Instance Document
EX-100.SCH	XBRL Taxonomy Extension Schema Document
EX-100.SCH.1	XBRL Taxonomy Extension Schema Document
EX-100.CAL	XBRL Taxonomy Extension Calculation Linkbase Document
EX-100.LAB	XBRL Taxonomy Extension Label Linkbase Document
EX-100.PRE	XBRL Taxonomy Extension Presentation Linkbase Document

As a participant in the Securities and Exchange Commission s voluntary XBRL (eXtensible Business Reporting Language) program, the Company has attached as Exhibit 100 to this Quarterly Report on Form 10-Q the complete set of financial statements, excluding the notes to the financial statements, formatted in XBRL. Pursuant to Rule 401 of Regulation S-T, users of this data are advised that the financial information contained in the XBRL-related documents is unaudited and that these are not the official publicly filed financial statements of the Company. In accordance with Rule 402 of Regulation S-T, the information in Exhibit 100 shall not be deemed to be filed for purposes of Section 18 of the Securities Exchange Act of 1934, as amended (the Exchange Act), or otherwise subject to the liability of that section, and shall not be incorporated by reference into any registration statement or other document filed under the Securities Act of 1933, as amended, or the Exchange Act, except as shall be expressly set forth by specific reference in such filing.

The purpose of submitting these XBRL-related documents is to test the related format and technology. As a result, investors should continue to rely on the official filed version of the Company s financial statements included in PART I - FINANCIAL INFORMATION to this Quarterly Report on Form 10-Q and not rely on the information in Exhibit 100 in making investment decisions.