

DOW CHEMICAL CO /DE/  
Form 10-Q  
August 01, 2012  
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UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549  
FORM 10-Q

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

For the quarterly period ended JUNE 30, 2012

or

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

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission File Number: 1-3433  
THE DOW CHEMICAL COMPANY  
(Exact name of registrant as specified in its charter)

Delaware 38-1285128  
(State or other jurisdiction of (I.R.S. Employer Identification No.)  
incorporation or organization)  
2030 DOW CENTER, MIDLAND, MICHIGAN 48674  
(Address of principal executive offices) (Zip Code)  
Registrant's telephone number, including area code: 989-636-1000

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes  No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

Yes  No

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

Large accelerated filer  Accelerated filer   
Non-accelerated filer  Smaller reporting company

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes  No

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Class	Outstanding at June 30, 2012
Common Stock, par value \$2.50 per share	1,198,107,132 shares

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## 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		Six Months Ended	
	Jun 30, 2012	Jun 30, 2011	Jun 30, 2012	Jun 30, 2011
Net Sales	\$14,513	\$16,046	\$29,232	\$30,779
Cost of sales	12,200	13,551	24,485	25,668
Research and development expenses	406	411	811	811
Selling, general and administrative expenses	674	695	1,381	1,395
Amortization of intangibles	122	125	244	248
Restructuring charges	—	—	357	—
Acquisition-related integration expenses	—	—	—	31
Equity in earnings of nonconsolidated affiliates	148	291	317	589
Sundry income (expense) - net	27	80	44	(369)
Interest income	10	10	16	17
Interest expense and amortization of debt discount	312	328	641	705
Income Before Income Taxes	984	1,317	1,690	2,158
Provision for income taxes	244	240	430	360
Net Income	740	1,077	1,260	1,798
Net income attributable to noncontrolling interests	6	10	29	21
Net Income Attributable to The Dow Chemical Company	734	1,067	1,231	1,777
Preferred stock dividends	85	85	170	170
Net Income Available for The Dow Chemical Company Common Stockholders	\$649	\$982	\$1,061	\$1,607
Per Common Share Data:				
Earnings per common share - basic	\$0.55	\$0.84	\$0.90	\$1.39
Earnings per common share - diluted	\$0.55	\$0.84	\$0.90	\$1.37
Common stock dividends declared per share of common stock	\$0.32	\$0.25	\$0.57	\$0.40
Weighted-average common shares outstanding - basic	1,169.7	1,149.6	1,165.3	1,144.6
Weighted-average common shares outstanding - diluted	1,176.6	1,160.9	1,172.7	1,156.2
Depreciation	\$506	\$526	\$1,016	\$1,085
Capital Expenditures	\$581	\$564	\$983	\$969

See Notes to the Consolidated Financial Statements.

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Consolidated Statements of Comprehensive Income

In millions (Unaudited)	Three Months Ended		Six Months Ended	
	Jun 30, 2012	Jun 30, 2011	Jun 30, 2012	Jun 30, 2011
Net Income	\$740	\$1,077	\$1,260	\$1,798
Other Comprehensive Income (Loss), Net of Tax				
Net change in unrealized gains (losses) on investments	(25	) (8	) 32	6
Translation adjustments	(456	) 159	(174	) 600
Adjustments to pension and other postretirement benefit plans	97	69	182	141
Net gains (losses) on cash flow hedging derivative instruments	3	14	(11	) 5
Other comprehensive income (loss)	(381	) 234	29	752
Comprehensive Income	359	1,311	1,289	2,550
Comprehensive income attributable to noncontrolling interests, net of tax	6	10	29	21
Comprehensive Income Attributable to The Dow Chemical Company	\$353	\$1,301	\$1,260	\$2,529
See Notes to the Consolidated Financial Statements.				

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## The Dow Chemical Company and Subsidiaries

## Consolidated Balance Sheets

In millions (Unaudited)	Jun 30, 2012	Dec 31, 2011
Assets		
Current Assets		
Cash and cash equivalents (variable interest entities restricted - 2012: \$174; 2011: \$170)	\$4,128	\$5,444
Marketable securities and interest-bearing deposits	2	2
Accounts and notes receivable:		
Trade (net of allowance for doubtful receivables - 2012: \$134; 2011: \$121)	5,251	4,900
Other	4,636	4,726
Inventories	8,380	7,577
Deferred income tax assets - current	462	471
Other current assets	339	302
Total current assets	23,198	23,422
Investments		
Investment in nonconsolidated affiliates	3,190	3,405
Other investments (investments carried at fair value - 2012: \$2,063; 2011: \$2,008)	2,554	2,508
Noncurrent receivables	1,229	1,144
Total investments	6,973	7,057
Property		
Property	52,924	52,216
Less accumulated depreciation	35,571	34,917
Net property (variable interest entities restricted - 2012: \$2,324; 2011: \$2,169)	17,353	17,299
Other Assets		
Goodwill	12,896	12,930
Other intangible assets (net of accumulated amortization - 2012: \$2,605; 2011: \$2,349)	4,898	5,061
Deferred income tax assets - noncurrent	2,582	2,559
Asbestos-related insurance receivables - noncurrent	167	172
Deferred charges and other assets	775	724
Total other assets	21,318	21,446
Total Assets	\$68,842	\$69,224
Liabilities and Equity		
Current Liabilities		
Notes payable	\$473	\$541
Long-term debt due within one year	1,880	2,749
Accounts payable:		
Trade	4,586	4,778
Other	2,262	2,216
Income taxes payable	375	382
Deferred income tax liabilities - current	117	129
Dividends payable	462	376
Accrued and other current liabilities	2,474	2,463
Total current liabilities	12,629	13,634
Long-Term Debt (variable interest entities nonrecourse - 2012: \$1,308; 2011: \$1,138)	18,304	18,310
Other Noncurrent Liabilities		
Deferred income tax liabilities - noncurrent	1,009	1,091
Pension and other postretirement benefits - noncurrent	8,775	9,034
Asbestos-related liabilities - noncurrent	581	608

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Other noncurrent obligations	3,173	3,109
Total other noncurrent liabilities	13,538	13,842
Redeemable Noncontrolling Interest	147	147
Stockholders' Equity		
Preferred stock, series A	4,000	4,000
Common stock	2,996	2,961
Additional paid-in capital	3,018	2,663
Retained earnings	19,473	19,087
Accumulated other comprehensive loss	(5,967	) (5,996 )
Unearned ESOP shares	(399	) (434 )
The Dow Chemical Company's stockholders' equity	23,121	22,281
Noncontrolling interests	1,103	1,010
Total equity	24,224	23,291
Total Liabilities and Equity	\$68,842	\$69,224
See Notes to the Consolidated Financial Statements.		



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Consolidated Statements of Cash Flows

In millions (Unaudited)	Six Months Ended	
	Jun 30, 2012	Jun 30, 2011
Operating Activities		
Net Income	\$1,260	\$1,798
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	1,353	1,428
Credit for deferred income tax	(133)	(99)
Earnings of nonconsolidated affiliates less than dividends received	191	50
Pension contributions	(499)	(282)
Net gain on sales of investments	(6)	(35)
Net gain on sales of property, businesses and consolidated companies	(71)	(6)
Other net loss	32	—
Net gain on sale of ownership interest in nonconsolidated affiliates	—	(61)
Restructuring charges	357	—
Loss on early extinguishment of debt	24	482
Excess tax benefits from share-based payment arrangements	(58)	(14)
Changes in assets and liabilities, net of effects of acquired and divested companies:		
Accounts and notes receivable	(2,143)	(2,721)
Proceeds from interests in trade accounts receivable conduits	1,972	1,224
Inventories	(790)	(1,651)
Accounts payable	(248)	653
Other assets and liabilities	180	(146)
Cash provided by operating activities	1,421	620
Investing Activities		
Capital expenditures	(983)	(969)
Construction of assets pending sale / leaseback	—	(113)
Proceeds from sale / leaseback of assets	—	80
Proceeds from sales of property, businesses and consolidated companies	62	85
Acquisitions of businesses	—	(6)
Investments in consolidated companies, net of cash acquired	(27)	(120)
Investments in and loans to nonconsolidated affiliates	(168)	(45)
Distributions from nonconsolidated affiliates	13	27
Proceeds from sale of ownership interests in nonconsolidated affiliates	—	81
Purchases of investments	(266)	(427)
Proceeds from sales and maturities of investments	254	503
Cash used in investing activities	(1,115)	(904)
Financing Activities		
Changes in short-term notes payable	(63)	(557)
Proceeds from issuance of long-term debt	446	946
Payments on long-term debt	(1,431)	(4,738)
Purchases of treasury stock	—	(19)
Proceeds from issuance of common stock	190	171
Proceeds from sales of common stock	—	98
Excess tax benefits from share-based payment arrangements	58	14
Contribution from noncontrolling interests	—	20

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Distributions to noncontrolling interests	(58	)	(22	)
Dividends paid to stockholders	(751	)	(512	)
Cash used in financing activities	(1,609	)	(4,599	)
Effect of Exchange Rate Changes on Cash	(13	)	64	
Cash Assumed in Initial Consolidation of Variable Interest Entities	—		3	
<b>Summary</b>				
Decrease in cash and cash equivalents	(1,316	)	(4,816	)
Cash and cash equivalents at beginning of year	5,444		7,039	
Cash and cash equivalents at end of period	\$4,128		\$2,223	
See Notes to the Consolidated Financial Statements.				

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Consolidated Statements of Equity

In millions (Unaudited)	Six Months Ended	
	Jun 30, 2012	Jun 30, 2011
Preferred Stock		
Balance at beginning of year and end of period	\$4,000	\$4,000
Common Stock		
Balance at beginning of year	2,961	2,931
Common stock issued	35	22
Balance at end of period	2,996	2,953
Additional Paid-in Capital		
Balance at beginning of year	2,663	2,286
Common stock issued	155	149
Stock-based compensation and allocation of ESOP shares	200	15
Balance at end of period	3,018	2,450
Retained Earnings		
Balance at beginning of year	19,087	17,736
Net income available for The Dow Chemical Company common stockholders	1,061	1,607
Dividends declared on common stock (per share: \$0.57 in 2012, \$0.40 in 2011)	(667)	(460)
Other	(8)	(6)
Balance at end of period	19,473	18,877
Accumulated Other Comprehensive Loss		
Balance at beginning of year	(5,996)	(4,399)
Other comprehensive income	29	752
Balance at end of period	(5,967)	(3,647)
Unearned ESOP Shares		
Balance at beginning of year	(434)	(476)
Shares allocated to ESOP participants	35	28
Balance at end of period	(399)	(448)
Treasury Stock		
Balance at beginning of year	—	(239)
Purchases	—	(19)
Issuance to employees and employee plans	—	258
Balance at end of period	—	—
The Dow Chemical Company's Stockholders' Equity	23,121	24,185
Noncontrolling Interests		
Balance at beginning of year	1,010	803
Net income attributable to noncontrolling interests	29	21
Distributions to noncontrolling interests	(58)	(22)
Capital contributions (noncash capital contributions - 2012: \$95; 2011: \$0)	95	20
Consolidation of a variable interest entity	37	31
Other	(10)	1
Balance at end of period	1,103	854
Total Equity	\$24,224	\$25,039

See Notes to the Consolidated Financial Statements.



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The Dow Chemical Company and Subsidiaries  
(Unaudited) PART I – FINANCIAL INFORMATION, Item 1. Financial Statements.  
Notes to the Consolidated Financial Statements

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## 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, 2011.

## NOTE B – RECENT ACCOUNTING GUIDANCE

On January 1, 2012, the Company adopted Accounting Standards Update (“ASU”) 2011-05, “Comprehensive Income (Topic 220): Presentation of Comprehensive Income,” as amended by ASU 2011-12, “Comprehensive Income (Topic 220): Deferral of the Effective Date for Amendments to the Presentation of Reclassifications of Items Out of Accumulated Other Comprehensive Income in Accounting Standards Update No. 2011-05.” This standard improves the comparability, consistency and transparency of financial reporting and increases the prominence of items reported in other comprehensive income. See the Consolidated Statements of Comprehensive Income and Note P for additional information.

On January 1, 2012, the Company adopted ASU 2011-04, “Fair Value Measurement (Topic 820): Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRS,” which provides common requirements for measuring fair value and disclosing information about fair value measurements in accordance with U.S. GAAP and International Financial Reporting Standards (“IFRS”). See Note H for additional information about fair value measurements.

Accounting Guidance Issued But Not Adopted as of June 30, 2012

In December 2011, the Financial Accounting Standards Board ("FASB") issued ASU 2011-11, "Balance Sheet (Topic 210): Disclosures about Offsetting Assets and Liabilities," which requires entities to disclose both gross and net information about both instruments and transactions eligible for offset in the statement of financial position and instruments and transactions subject to an agreement similar to a master netting agreement. The objective of the disclosure is to facilitate comparison between those entities that prepare their financial statements on the basis of U.S. GAAP and those entities that prepare their financial statements on the basis of IFRS. This ASU is effective for fiscal years, and interim periods within those years, beginning on or after January 1, 2013. Retrospective presentation for all comparative periods presented is required. The Company is currently evaluating the impact of adopting this guidance.

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## NOTE C – RESTRUCTURING

## 2012 Restructuring

On March 27, 2012, the Company's Board of Directors approved a restructuring plan to optimize its portfolio, respond to changing and volatile economic conditions, particularly in Western Europe, and to advance the Company's Efficiency for Growth program, which was initiated by the Company in the second quarter of 2011. The restructuring plan includes the elimination of approximately 900 positions. In addition, the Company will shut down a number of manufacturing facilities. These actions are expected to be completed primarily over the next two years.

As a result of the restructuring activities, the Company recorded pretax restructuring charges of \$357 million in the first quarter of 2012 consisting of costs associated with exit or disposal activities of \$150 million, severance costs of \$113 million and asset write-downs and write-offs of \$94 million. The impact of these charges is shown as "Restructuring charges" in the consolidated statements of income and reflected in the Company's segment results as shown in the following table.

2012 Restructuring Charges by Operating Segment	Costs Associated with Exit or Disposal Activities	Severance Costs	Impairment of Long-Lived Assets and Other Assets	Total
In millions				
Electronic and Functional Materials	\$—	\$—	\$17	\$17
Coatings and Infrastructure Solutions	4	—	37	41
Performance Materials	146	—	40	186
Corporate	—	113	—	113
Total	\$150	\$113	\$94	\$357

Details regarding the components of the 2012 restructuring charges are discussed below:

## Costs Associated with Exit or Disposal Activities

The restructuring charges for costs associated with exit or disposal activities totaled \$150 million in the first quarter of 2012 and included contract cancellation fees of \$149 million, impacting Performance Materials (\$146 million) and Coatings and Infrastructure Solutions (\$3 million), and asbestos abatement costs of \$1 million impacting Coatings and Infrastructure Solutions.

## Severance Costs

The restructuring charges in the first quarter of 2012 included severance of \$113 million for the separation of approximately 900 employees under the terms of the Company's ongoing benefit arrangements, primarily over the next two years. These costs were charged against Corporate. At June 30, 2012, severance of \$17 million had been paid and a liability of \$96 million remained for 747 employees.

## Impairment of Long-Lived Assets and Other Assets

The restructuring charges related to the write-down and write-off of assets in the first quarter of 2012 totaled \$94 million. Details regarding the write-downs and write-offs are as follows:

The Company evaluated its facilities that manufacture STYROFOAM™ brand insulation and as a result, the decision was made to shut down facilities in Balatonfuzfo, Hungary; Estarreja, Portugal; and Charleston, Illinois. In addition, a facility in Terneuzen, The Netherlands will be idled and impaired. Write-downs associated with these facilities of \$37 million were recorded in the first quarter of 2012 against the Coatings and Infrastructure Solutions segment. The Netherlands facility was shut down at the end of the second quarter of 2012. The remaining facilities will be shut down by year-end 2012.

The decision was made to shut down and/or consolidate certain manufacturing assets in the Polyurethanes and Epoxy businesses in Texas and Germany. Write-downs associated with these assets of \$15 million were recorded in the first quarter of 2012 against the Performance Materials segment. These assets are expected to be shut down by the end of the third quarter of 2012.

Certain capital projects were canceled resulting in the write-off of project spending of \$42 million against the Performance Materials (\$25 million) and Electronic and Functional Materials (\$17 million) segments.



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

2012 Restructuring Activities	Costs Associated with Exit or Disposal Activities	Severance Costs	Impairment of Long-Lived Assets and Other Assets	Total
In millions				
Restructuring charges recognized in the first quarter of 2012	\$ 150	\$ 113	\$ 94	\$ 357
Charges against the reserve	—	—	(94	) (94
Reserve balance at March 31, 2012	\$ 150	\$ 113	\$—	\$ 263
Cash payments	(41	) (17	) —	(58
Noncash settlements	(12	) —	—	(12
Foreign currency impact	(2	) —	—	(2
Reserve balance at June 30, 2012	\$ 95	\$ 96	\$—	\$ 191

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, and to ensure competitiveness across its businesses and across geographic areas. Future costs are expected to include demolition costs related to closed facilities; these 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. These costs cannot be reasonably estimated at this time.

## NOTE D – ACQUISITIONS AND DIVESTITURES

## Rohm and Haas Acquisition and Integration Related Expenses

During the first quarter of 2011, pretax charges totaling \$31 million were recorded for integration costs related to the April 1, 2009 acquisition of Rohm and Haas Company ("Rohm and Haas"), which was completed in the first quarter of 2011. These charges were recorded in "Acquisition-related integration expenses" in the consolidated statements of income and reflected in Corporate.

## Divestiture of the Styron Business Unit

On June 17, 2010, the Company sold the Styron business unit ("Styron") to an affiliate of Bain Capital Partners. The proceeds received on the sale included a \$75 million long-term note receivable. In addition, the Company elected to acquire a 7.5 percent equity interest in the resulting privately held, global materials company.

On February 3, 2011, Styron repaid the \$75 million long-term note receivable, plus interest. In the first quarter of 2011, the Company received dividend income of \$25 million, recorded in "Sundry income (expense) - net" in the consolidated statements of income and reflected in Corporate. The Company continued to hold a 6.5 percent equity interest at June 30, 2012.

## NOTE E – INVENTORIES

The following table provides a breakdown of inventories:

Inventories	Jun 30, 2012	Dec 31, 2011
In millions		
Finished goods	\$4,672	\$4,327
Work in process	1,931	1,716

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Raw materials	993	765
Supplies	784	769
Total inventories	\$8,380	\$7,577

The reserves reducing inventories from the first-in, first-out (“FIFO”) basis to the last-in, first-out (“LIFO”) basis amounted to \$788 million at June 30, 2012 and \$1,105 million at December 31, 2011.

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## NOTE F – GOODWILL AND OTHER INTANGIBLE ASSETS

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

Goodwill	Electronic and Functional Materials	Coatings and Infra-structure Solutions	Ag Sciences	Perf Materials	Perf Plastics	Feedstocks and Energy	Total
In millions							
Net goodwill at Dec 31, 2011	\$4,934	\$4,041	\$1,558	\$959	\$1,375	\$63	\$12,930
Goodwill related to 2012 acquisition of:							
Lightscape Materials, Inc.	3	—	—	—	—	—	3
Foreign currency impact	(11 )	(16 )	—	(1 )	(9 )	—	(37 )
Net goodwill at Jun 30, 2012	\$4,926	\$4,025	\$1,558	\$958	\$1,366	\$63	\$12,896

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

Other Intangible Assets	At June 30, 2012			At December 31, 2011		
	Gross Carrying Amount	Accumulated Amortization	Net	Gross Carrying Amount	Accumulated Amortization	Net
In millions						
Intangible assets with finite lives:						
Licenses and intellectual property	\$1,701	\$(670 )	\$1,031	\$1,693	\$(594 )	\$1,099
Patents	130	(98 )	32	119	(97 )	22
Software	1,094	(629 )	465	1,049	(596 )	453
Trademarks	691	(257 )	434	695	(224 )	471
Customer related	3,652	(837 )	2,815	3,652	(730 )	2,922
Other	157	(114 )	43	150	(108 )	42
Total other intangible assets, finite lives	\$7,425	\$(2,605 )	\$4,820	\$7,358	\$(2,349 )	\$5,009
IPR&D (1), indefinite lives	78	—	78	52	—	52
Total other intangible assets	\$7,503	\$(2,605 )	\$4,898	\$7,410	\$(2,349 )	\$5,061

(1) In-process research and development (“IPR&D”) purchased in business combinations.

The following table provides information regarding amortization expense related to intangible assets:

Amortization Expense	Three Months Ended		Six Months Ended	
	Jun 30, 2012	Jun 30, 2011	Jun 30, 2012	Jun 30, 2011
In millions				
Other intangible assets, excluding software	\$122	\$125	\$244	\$248
Software, included in “Cost of sales”	\$16	\$22	\$31	\$45

Total estimated amortization expense for 2012 and the five succeeding fiscal years is as follows:

Estimated Amortization Expense	
In millions	
2012	\$554
2013	\$535
2014	\$513
2015	\$496
2016	\$485

2017

\$450

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## NOTE G – FINANCIAL INSTRUMENTS

## Investments

The Company's investments in marketable securities are primarily classified as available-for-sale.

Investing Results	Six Months Ended	
	Jun 30, 2012	Jun 30, 2011
In millions		
Proceeds from sales of available-for-sale securities	\$236	\$460
Gross realized gains	\$9	\$26
Gross realized losses	\$(5	) \$(7

The following table summarizes the contractual maturities of the Company's investments in debt securities:

## Contractual Maturities of Debt Securities

at June 30, 2012

In millions	Amortized Cost	Fair Value
Within one year	\$38	\$39
One to five years	422	464
Six to ten years	551	605
After ten years	209	251
Total	\$1,220	\$1,359

At June 30, 2012, the Company had \$1,450 million held-to-maturity securities (primarily Treasury Bills) classified as cash equivalents, as these securities had original maturities of three months or less (\$1,836 million at December 31, 2011). The Company's investments in held-to-maturity securities are held at amortized cost, which approximates fair value. At June 30, 2012, the Company had investments in money market funds of \$76 million classified as cash equivalents (\$1,090 million at December 31, 2011).

The net unrealized gain from mark-to-market adjustments recognized in earnings during the three-month period ended June 30, 2012 on trading securities held at June 30, 2012 was \$4 million (\$2 million during the three-month period ended June 30, 2011). The net unrealized gain from mark-to-market adjustments recognized in earnings during the six-month period ended June 30, 2012 on trading securities held at June 30, 2012 was \$28 million (\$13 million during the six-month period ended June 30, 2011).

The following table provides the fair value and gross unrealized losses of the Company's investments that were deemed to be temporarily impaired at June 30, 2012 and December 31, 2011, aggregated by investment category:

## Temporarily Impaired Securities Less than 12 Months (1)

In millions	At June 30, 2012		At December 31, 2011	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Debt securities:				
Corporate bonds	40	(1	) 44	(2
Total debt securities	\$40	\$(1	) \$44	\$(2
Equity securities	195	(27	) 190	(36
Total temporarily impaired securities	\$235	\$(28	) \$234	\$(38

(1) Unrealized losses of 12 months or more were less than \$1 million.

Portfolio managers regularly review the Company's holdings to determine if any investments are other-than-temporarily impaired. The analysis includes reviewing the amount of the impairment, as well as the length of time it has been impaired. In addition, specific guidelines for each instrument type are followed to determine if an other-than-temporary impairment has occurred.

For debt securities, the credit rating of the issuer, current credit rating trends, the trends of the issuer's overall sector, the ability of the issuer to pay expected cash flows and the length of time the security has been in a loss position are considered in determining whether unrealized losses represent an other-than-temporary impairment. The Company did not have any credit-related losses during the six-month periods ended June 30, 2012 or June 30, 2011.

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For equity securities, the Company's investments are primarily in Standard & Poor's ("S&P") 500 companies; however, the Company's policies allow investments in companies outside of the S&P 500. The largest holdings are Exchange Traded Funds that represent the S&P 500 index or an S&P 500 sector or subset; the Company also has holdings in Exchange Traded Funds that represent emerging markets. The Company considers the evidence to support the recovery of the cost basis of a security including volatility of the stock, the length of time the security has been in a loss position, value and growth expectations, and overall market and sector fundamentals, as well as technical analysis, in determining whether unrealized losses represent an other-than-temporary impairment. In the six-month period ended June 30, 2012, other-than-temporary impairment write-downs on investments still held by the Company were \$5 million (\$3 million in the six-month period ended June 30, 2011).

The aggregate cost of the Company's cost method investments totaled \$167 million at June 30, 2012 and \$179 million at December 31, 2011. Due to the nature of these investments, the fair market value is not readily determinable. These investments are reviewed quarterly for impairment indicators. In the six-month period ended June 30, 2012, the Company's impairment analysis resulted in no reduction in the cost basis of these investments (no reduction in the six-month period ended June 30, 2011).

The following table summarizes the fair value of financial instruments at June 30, 2012 and December 31, 2011:

## Fair Value of Financial Instruments

In millions	At June 30, 2012				At December 31, 2011			
	Cost	Gain	Loss	Fair Value	Cost	Gain	Loss	Fair Value
Marketable securities: (1)								
Debt securities:								
Government debt (2)	\$ 520	\$ 62	\$—	\$ 582	\$ 556	\$ 62	\$—	\$ 618
Corporate bonds	700	78	(1 )	777	652	73	(2 )	723
Total debt securities	\$ 1,220	\$ 140	\$ (1 )	\$ 1,359	\$ 1,208	\$ 135	\$ (2 )	\$ 1,341
Equity securities	647	84	(27 )	704	646	57	(36 )	667
Total marketable securities	\$ 1,867	\$ 224	\$ (28 )	\$ 2,063	\$ 1,854	\$ 192	\$ (38 )	\$ 2,008
Long-term debt incl. debt due within one year (3)	\$ (20,184)	\$ 39	\$ (3,163 )	\$ (23,308)	\$ (21,059)	\$ 6	\$ (2,736 )	\$ (23,789)
Derivatives relating to:								
Interest rates	\$—	\$—	\$ (6 )	\$ (6 )	\$—	\$—	\$—	\$—
Commodities (4)	\$—	\$ 22	\$ (11 )	\$ 11	\$—	\$ 16	\$ (1 )	\$ 15
Foreign currency	\$—	\$ 23	\$ (28 )	\$ (5 )	\$—	\$ 31	\$ (17 )	\$ 14

(1) Included in "Other investments" in the consolidated balance sheets.

(2) U.S. Treasury obligations, U.S. agency obligations, agency mortgage-backed securities and other municipalities' obligations.

(3) Cost includes fair value adjustments of \$23 million at June 30, 2012 and \$23 million at December 31, 2011.

(4) Presented net of cash collateral, as disclosed in Note H.

## Risk Management

Dow's business operations give rise to market risk exposure due to changes in interest rates, foreign currency exchange 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 cash flow, fair value or net foreign investment hedges where appropriate. Accounting guidance requires companies to recognize all derivative instruments as either assets or liabilities at fair value. A secondary objective is to add value by creating additional nonspecific exposures within established limits and policies; derivatives used for this purpose are not designated as hedges. The potential impact of creating such additional exposures is not material to the Company's results.

The Company's risk management program for interest rate, foreign currency and commodity risks is based on fundamental, mathematical and technical models that take into account the implicit cost of hedging. Risks created by derivative instruments and the mark-to-market valuations of positions are strictly monitored at all times, using value at risk and stress tests. Counterparty credit risk arising from these contracts is not significant because the Company minimizes counterparty concentration, deals primarily with major financial institutions of solid credit quality, and the majority of its hedging transactions mature in less than three months. In addition, the Company minimizes concentrations of credit risk through its global orientation by transacting with large, internationally diversified financial counterparties. It is the Company's policy to



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not have credit-risk-related contingent features in its derivative instruments. No significant concentration of counterparty credit risk existed at June 30, 2012. The Company does not anticipate losses from credit risk, and the net cash requirements arising from counterparty risk associated with risk management activities are not expected to be material in 2012.

The Company revises its strategies as market conditions dictate and management reviews its overall financial strategies and the impacts from using derivatives in its risk management program with the Company's Board of Directors.

### Interest Rate Risk Management

The Company enters into various interest rate contracts with the objective of lowering funding costs or altering interest rate exposures related to fixed and variable rate obligations. In these contracts, the Company agrees with other parties to exchange, at specified intervals, the difference between fixed and floating interest amounts calculated on an agreed-upon notional principal amount. At June 30, 2012, the Company had open interest rate swaps with maturity dates that extend to 2019.

### Foreign Currency Risk Management

The Company's global operations require active participation in foreign exchange markets. The Company enters into foreign exchange forward contracts and options, and cross-currency swaps to hedge various currency exposures or create desired exposures. Exposures primarily relate to assets, liabilities and bonds denominated in foreign currencies, as well as economic exposure, which is derived from the risk that currency fluctuations could affect the dollar value of future cash flows related to operating activities. The primary business objective of the activity is to optimize the U.S. dollar value of the Company's assets, liabilities and future cash flows with respect to exchange rate fluctuations. Assets and liabilities denominated in the same foreign currency are netted, and only the net exposure is hedged. At June 30, 2012, the Company had forward contracts, options and cross-currency swaps to buy, sell or exchange foreign currencies. These contracts had various expiration dates, primarily in the third quarter of 2012.

### Commodity Risk Management

The Company has exposure to the prices of commodities in its procurement of certain raw materials. The primary purpose of commodity hedging activities is to manage the price volatility associated with these forecasted inventory purchases. At June 30, 2012, the Company had futures contracts, options and swaps to buy, sell or exchange commodities. These agreements had various expiration dates through fourth quarter of 2015.

### Accounting for Derivative Instruments and Hedging Activities

#### Cash Flow Hedges

For derivatives that are designated and qualify as cash flow hedging instruments, the effective portion of the gain or loss on the derivative is recorded in "Accumulated other comprehensive income (loss)" ("AOCI"); it is reclassified to "Cost of sales" in the same period or periods that the hedged transaction affects income. The unrealized amounts in AOCI fluctuate based on changes in the fair value of open contracts at the end of each reporting period. The Company anticipates volatility in AOCI and net income from its cash flow hedges. The amount of volatility varies with the level of derivative activities and market conditions during any period. Gains and losses on the derivative representing either hedge ineffectiveness or hedge components excluded from the assessment of effectiveness are recognized in current period income.

There was a net loss of less than \$1 million after tax from previously terminated interest rate cash flow hedges included in AOCI at June 30, 2012 (\$1 million after tax at December 31, 2011). The Company had open interest rate derivatives designated as cash flow hedges at June 30, 2012 with a net loss of \$4 million after tax and a notional U.S. dollar equivalent of \$320 million (no open interest rate derivatives designated as cash flow hedges at December 31, 2011).

Current open foreign currency forward contracts hedge the currency risk of forecasted feedstock purchase transactions until January 2013. The effective portion of the mark-to-market effects of the foreign currency forward contracts is recorded in AOCI; it is reclassified to income in the same period or periods that the underlying feedstock purchase affects income. The net gain from the foreign currency hedges included in AOCI at June 30, 2012 was \$6 million after tax (net gain of \$2 million after tax at December 31, 2011). At June 30, 2012, the Company had open forward contracts with various expiration dates to buy, sell or exchange foreign currencies with a notional U.S. dollar

equivalent of \$396 million (\$432 million at December 31, 2011).

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Commodity swaps, futures and option contracts with maturities of not more than 36 months are utilized and designated as cash flow hedges of forecasted commodity purchases. Current open contracts hedge forecasted transactions until June 2014. The effective portion of the mark-to-market effect of the cash flow hedge instrument is recorded in AOCI; it is reclassified to income in the same period or periods that the underlying commodity purchase affects income. The net loss from commodity hedges included in AOCI at June 30, 2012 was \$20 million after tax (\$7 million after tax at December 31, 2011). At June 30, 2012 and December 31, 2011, the Company had the following aggregate notionals of outstanding commodity forward and futures contracts to hedge forecasted purchases:

Commodity	Jun 30, 2012	Dec 31, 2011	Notional Volume Unit
Corn	3.2	0.6	million bushels
Crude Oil	0.6	0.2	million barrels
Ethane	2.6	1.6	million barrels
Naphtha	—	90.0	kilotons
Natural Gas	119.2	7.4	million million British thermal units
Ethane / Propane Mix	0.1	0.2	million barrels
Soybeans	1.8	0.3	million bushels

The net after-tax amounts to be reclassified from AOCI to income within the next 12 months are a \$20 million loss for commodity contracts and a \$6 million gain for foreign currency contracts.

Fair Value Hedges

For derivative instruments that are designated and qualify as fair value hedges, the gain or loss on the derivative as well as the offsetting loss or gain on the hedged item attributable to the hedged risk are recognized in current period income and reflected as “Interest expense and amortization of debt discount” in the consolidated statements of income. The short-cut method is used when the criteria are met. The Company had no open interest rate swaps designated as fair value hedges of underlying fixed rate debt obligations at June 30, 2012 or December 31, 2011.

Net Foreign Investment Hedges

For derivative instruments that are designated and qualify as net foreign investment hedges, the effective portion of the gain or loss on the derivative is included in “Cumulative Translation Adjustments” in AOCI. At June 30, 2012 and December 31, 2011, the Company had no open forward contracts or outstanding options to buy, sell or exchange foreign currencies designated as net foreign investment hedges. At June 30, 2012, the Company had outstanding foreign-currency denominated debt designated as a hedge of net foreign investment of \$569 million (\$585 million at December 31, 2011). The results of hedges of the Company’s net investment in foreign operations included in “Cumulative Translation Adjustments” in AOCI was a net gain of \$10 million after tax at June 30, 2012 (net loss of \$48 million after tax at December 31, 2011). See Note P for further detail on changes in AOCI.

Other Derivative Instruments

The Company utilizes futures, options and swap instruments that are effective as economic hedges of commodity price exposures, but do not meet the hedge accounting criteria for derivatives and hedging. At June 30, 2012 and December 31, 2011, the Company had the following aggregate notionals of outstanding commodity contracts:

Commodity	Jun 30, 2012	Dec 31, 2011	Notional Volume Unit
Ethane	1.5	2.1	million barrels
Naphtha	45.0	82.5	kilotons
Natural Gas	1.0	4.6	million million British thermal units

The Company also uses foreign exchange forward contracts, options, and cross-currency swaps that are not designated as hedging instruments primarily to manage foreign currency exposure. The Company had open foreign exchange contracts with various expiration dates to buy, sell or exchange foreign currencies with a notional U.S. dollar equivalent of \$14,659 million at June 30, 2012 (\$14,002 million at December 31, 2011) and open interest rate swaps with a notional U.S. dollar equivalent of \$335 million at June 30, 2012 (no open interest rate swaps at December 31, 2011).

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The following table provides the fair value and gross balance sheet classification of derivative instruments at June 30, 2012 and December 31, 2011:

Fair Value of Derivative Instruments In millions	Balance Sheet Classification	Jun 30, 2012	Dec 31, 2011
<b>Asset Derivatives</b>			
Derivatives designated as hedges:			
Interest rates	Other current assets	\$—	\$—
Commodities	Other current assets	11	5
Foreign currency	Accounts and notes receivable – Other	4	9
Total derivatives designated as hedges		\$15	\$14
Derivatives not designated as hedges:			
Interest rates	Other current assets	\$—	\$—
Commodities	Other current assets	14	19
Foreign currency	Accounts and notes receivable – Other	37	66
Total derivatives not designated as hedges		\$51	\$85
Total asset derivatives		\$66	\$99
<b>Liability Derivatives</b>			
Derivatives designated as hedges:			
Interest rates	Accounts payable – Other	\$6	\$—
Commodities	Accounts payable – Other	33	11
Foreign currency	Accounts payable – Other	1	8
Total derivatives designated as hedges		\$40	\$19
Derivatives not designated as hedges:			
Interest rates	Accounts payable – Other	\$—	\$—
Commodities	Accounts payable – Other	11	9
Foreign currency	Accounts payable – Other	45	53
Total derivatives not designated as hedges		\$56	\$62
Total liability derivatives		\$96	\$81

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## NOTE H – FAIR VALUE MEASUREMENTS

## Fair Value Measurements on a Recurring Basis

The following tables summarize the bases used to measure certain assets and liabilities at fair value on a recurring basis:

Basis of Fair Value Measurements on a Recurring Basis at June 30, 2012	Quoted Prices in Active Markets for Identical Items (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Counterparty and Cash Collateral Netting (1)	Total
In millions					
Assets at fair value:					
Interests in trade accounts receivable conduits (2)	\$—	\$—	\$1,220	\$—	\$1,220
Equity securities (3)	671	33	—	—	704
Debt securities: (3)					
Government debt (4)	—	582	—	—	582
Corporate bonds	—	777	—	—	777
Derivatives relating to: (5)					
Commodities	11	14	—	(3	) 22
Foreign currency	—	41	—	(18	) 23
Total assets at fair value	\$682	\$1,447	\$1,220	\$(21	) \$3,328
Liabilities at fair value:					
Long-term debt (6)	\$—	\$23,308	\$—	\$—	\$23,308
Derivatives relating to: (5)					
Interest rates	—	6	—	—	6
Commodities	27	17	—	(33	) 11
Foreign currency	—	46	—	(18	) 28
Total liabilities at fair value	\$27	\$23,377	\$—	\$(51	) \$23,353

Basis of Fair Value Measurements on a Recurring Basis at December 31, 2011	Quoted Prices in Active Markets for Identical Items (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Counterparty and Cash Collateral Netting (1)	Total
In millions					
Assets at fair value:					
Interests in trade accounts receivable conduits (2)	\$—	\$—	\$1,141	\$—	\$1,141
Equity securities (3)	634	33	—	—	667
Debt securities: (3)					
Government debt (4)	—	618	—	—	618
Corporate bonds	—	723	—	—	723
Derivatives relating to: (5)					
Commodities	10	14	—	(8	) 16
Foreign currency	—	75	—	(44	) 31
Total assets at fair value	\$644	\$1,463	\$1,141	\$(52	) \$3,196
Liabilities at fair value:					
Long-term debt (6)	\$—	\$23,789	\$—	\$—	\$23,789
Derivatives relating to: (5)					
Commodities	13	7	—	(19	) 1
Foreign currency	—	61	—	(44	) 17

Total liabilities at fair value	\$ 13	\$ 23,857	\$—	\$(63 )	\$ 23,807
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(1) Cash collateral is classified as “Accounts and notes receivable – Other” in the consolidated balance sheets. Amounts represent the estimated net settlement amount when applying netting and set-off rights included in master netting arrangements between the Company and its counterparties and the payable or receivable for cash collateral held or placed with the same counterparty.

(2) Included in “Accounts and notes receivable – Other” in the consolidated balance sheets. See Note J for additional information on transfers of financial assets.

(3) The Company’s investments in equity and debt securities are primarily classified as available-for-sale and are included in “Other investments” in the consolidated balance sheets.

(4) U.S. Treasury obligations, U.S. agency obligations, agency mortgage-backed securities and other municipalities’ obligations.

(5) See Note G for the classification of derivatives in the consolidated balance sheets.

(6) See Note G for information on fair value adjustments to long-term debt, included at cost in the consolidated balance sheets.

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Assets and liabilities related to forward contracts, interest rate swaps, currency swaps, options and other conditional or exchange contracts executed with the same counterparty under a master netting arrangement are netted. Collateral accounts are netted with corresponding assets and liabilities. The Company posted cash collateral of \$30 million at June 30, 2012 (\$11 million at December 31, 2011) classified as “Accounts and notes receivable – Other” in the consolidated balance sheets.

For assets and liabilities classified as Level 1 measurements (measured using quoted prices in active markets), total fair value is either the price of the most recent trade at the time of the market close or the official close price, as defined by the exchange in which the asset is most actively traded on the last trading day of the period, multiplied by the number of units held without consideration of transaction costs.

For assets and liabilities classified as Level 2 measurements, where the security is frequently traded in less active markets, fair value is based on the closing price at the end of the period; where the security is less frequently traded, fair value is based on the price a dealer would pay for the security or similar securities, adjusted for any terms specific to that asset or liability, or by using observable market data points of similar, more liquid securities to imply the price. Market inputs are obtained from well-established and recognized vendors of market data and subjected to tolerance/quality checks.

For derivative assets and liabilities, standard industry models are used to calculate the fair value of the various financial instruments based on significant observable market inputs, such as foreign exchange rates, commodity prices, swap rates, interest rates and implied volatilities obtained from various market sources. Market inputs are obtained from well-established and recognized vendors of market data and subjected to tolerance/quality checks. For all other assets and liabilities for which observable inputs are used, fair value is derived through the use of fair value models, such as a discounted cash flow model or other standard pricing models. See Note G for further information on the types of instruments used by the Company for risk management.

There were no transfers between Levels 1 and 2 in the six-month period ended June 30, 2012 or the year ended December 31, 2011.

For assets classified as Level 3 measurements, the fair value is based on significant unobservable inputs including assumptions where there is little, if any, market activity. The fair value of the Company’s interests held in trade receivable conduits is determined by calculating the expected amount of cash to be received using the key input of anticipated credit losses in the portfolio of receivables sold that have not yet been collected. Given the short-term nature of the underlying receivables, discount rate and prepayments are not factors in determining the fair value of the interests. See Note J for further information on assets classified as Level 3 measurements.

The following table summarizes the changes in fair value measurements using Level 3 inputs for the three and six-month periods ended June 30, 2012 and 2011:

Fair Value Measurements Using Level 3 Inputs	Three Months Ended		Six Months Ended	
	Jun 30, 2012	Jun 30, 2011	Jun 30, 2012	Jun 30, 2011
Interests Held in Trade Receivable Conduits (1)				
In millions				
Balance at beginning of period	\$ 1,429	\$ 1,343	\$ 1,141	\$ 1,267
Gain (Loss) included in earnings (2)	1	3	(2	) (5
Purchases	100	277	2,053	1,351
Settlements	(310	) (234	) (1,972	) (1,224
Balance at June 30	\$ 1,220	\$ 1,389	\$ 1,220	\$ 1,389

(1)Included in “Accounts and notes receivable – Other” in the consolidated balance sheets.

(2)Included in “Selling, general and administrative expenses” in the consolidated statements of income.



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## Fair Value Measurements on a Nonrecurring Basis

The following table summarizes the bases used to measure certain assets and liabilities at fair value on a nonrecurring basis in the consolidated balance sheets:

Basis of Fair Value Measurements on a Nonrecurring Basis at June 30, 2012	Significant	Total
	Other Unobservable Inputs (Level 3)	Losses 2012
In millions		
Assets at fair value:		
Long-lived assets and other assets	\$—	\$(94 )

As part of the restructuring plan that was approved on March 27, 2012, the Company will shut down a number of manufacturing facilities during the next two years. The manufacturing assets and facilities associated with this plan were written down to zero in the first quarter of 2012 and a \$94 million impairment charge was included in "Restructuring charges" in the consolidated statements of income. See Note C for additional information.

## NOTE I – 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 impact on the Company's consolidated financial statements.

As part of the Joint Plan, Dow and Corning Incorporated agreed to provide a credit facility to Dow Corning in an aggregate amount of \$300 million; the aggregate amount was reduced to \$100 million effective June 1, 2012. The Company's share of the credit facility was originally \$150 million, but was reduced to \$50 million effective June 1, 2012, and is subject to the terms and conditions stated in the Joint Plan. At June 30, 2012, 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 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 June 30, 2012, the Company had accrued obligations of \$744 million for probable environmental remediation and restoration costs, including \$69 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 it is reasonably possible that the ultimate cost with respect to these particular matters could range up to approximately twice that amount. Consequently, it is reasonably possible that environmental remediation and restoration costs in excess of amounts accrued could have a material impact on the Company's results of operations, financial condition and cash flows. It is the opinion of the Company's management, however, that the possibility is remote that costs in excess of the range disclosed will have a material impact on the Company's results of

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operations, financial condition and cash flows. Inherent uncertainties exist in these estimates primarily due to unknown conditions, changing governmental regulations and legal standards regarding liability, and emerging remediation technologies for handling site remediation and restoration. At December 31, 2011, the Company had accrued obligations of \$733 million for probable environmental remediation and restoration costs, including \$69 million for the remediation of Superfund sites.

### Midland Off-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 the City of Midland soils, the Tittabawassee River and Saginaw River sediment and floodplain soils, and the Saginaw Bay, and, if necessary, undertake remedial action.

### City of Midland

The MDEQ, as a result of ongoing discussions with the Company regarding the implementation of the requirements of the License, announced on February 16, 2012, a proposed plan to resolve the issue of dioxin contamination in residential soils in Midland. As part of the proposed plan, the Company will sample soil at residential properties near the Midland site for the presence of dioxins to determine where clean-up may be required. On March 6, 2012, the Company submitted an Interim Response Activity Plan Designed to Meet Criteria ("Work Plan") to the MDEQ. On May 25, 2012, the Company submitted a revision to the Work Plan to the MDEQ to address agency and public comments. The MDEQ approved the Work Plan on June 1, 2012. Implementation of the Work Plan began on June 4, 2012.

### Tittabawassee and Saginaw Rivers, Saginaw Bay

The Company, the U.S. Environmental Protection Agency ("EPA") and the State of Michigan ("State") entered into an administrative order on consent ("AOC"), effective January 21, 2010, that requires the Company to conduct a remedial investigation, a feasibility study and a remedial design for the Tittabawassee River, the Saginaw River and the Saginaw Bay, and pay the oversight costs of the EPA and the State under the authority of the Comprehensive Environmental Response, Compensation, and Liability Act ("CERCLA"). These actions, to be conducted under the lead oversight of the EPA, will build upon the investigative work completed under the State Resource Conservation Recovery Act ("RCRA") program from 2005 through 2009. The Tittabawassee River, beginning at the Midland site and extending down to the first six miles of the Saginaw River, are designated as the first Operable Unit for purposes of conducting the remedial investigation, feasibility study and remedial design work. This work will be performed in a largely upriver to downriver sequence for eight geographic segments of the Tittabawassee and upper Saginaw Rivers. In the first quarter of 2012, the EPA requested the Company address the Tittabawassee River floodplain as an additional segment. The remainder of the Saginaw River and the Saginaw Bay are designated as a second Operable Unit and the work associated with that unit may also be geographically segmented. The AOC does not obligate the Company to perform removal or remedial action; that action can only be required by a separate order. The Company and the EPA will be negotiating orders separate from the AOC that will obligate the Company to perform remedial actions under the scope of work of the AOC. The Company and the EPA have entered into two separate orders to perform limited remedial actions to implement early actions. In addition, the Company and the EPA have entered into the first order to address remedial actions in the first of the nine geographic segments in the first Operable Unit.

### Alternative Dispute Resolution Process

The Company, the EPA, the U.S. Department of Justice, and the natural resource damage trustees (which include the Michigan Office of the Attorney General, the MDEQ, the U.S. Fish and Wildlife Service, the U.S. Bureau of Indian Affairs and the Saginaw-Chippewa tribe) have been engaged in negotiations to seek to resolve potential governmental claims against the Company related to historical off-site contamination associated with the City of Midland, the Tittabawassee and Saginaw Rivers and the Saginaw Bay. The Company and the governmental parties started meeting

in the fall of 2005 and entered into a Confidentiality Agreement in December 2005. The Company continues to conduct negotiations under the Federal Alternative Dispute Resolution Act with all of the governmental parties, except the EPA which withdrew from the alternative dispute resolution process on September 12, 2007.

On September 28, 2007, the Company and the natural resource damage trustees entered into a Funding and Participation Agreement that addressed the Company's payment of past costs incurred by the natural resource damage 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 March 18, 2008, the Company and the natural resource damage trustees entered into a Memorandum of Understanding to provide a mechanism for the Company to fund cooperative studies related to the assessment of natural resource damages. This Memorandum of Understanding has been amended and extended until March 2013. On April 7, 2008, the natural resource damage trustees released their "Natural Resource Damage Assessment Plan for the Tittabawassee River System Assessment Area."

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At June 30, 2012, the accrual for these off-site matters was \$41 million (included in the total accrued obligation of \$744 million at June 30, 2012). At December 31, 2011, the Company had an accrual for these off-site matters of \$40 million (included in the total accrued obligation of \$733 million at December 31, 2011).

### 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.

#### 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 addition, Union Carbide has requested ARPC to review Union Carbide’s historical asbestos claim and resolution activity each November since 2004 to determine the appropriateness of updating the most recent ARPC study.

In November 2010, Union Carbide requested ARPC to review Union Carbide’s historical asbestos claim and resolution activity and determine the appropriateness of updating its then most recent study completed in December 2008. In response to that request, ARPC reviewed and analyzed data through October 31, 2010. The resulting study, completed by ARPC in December 2010, 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 2025 was estimated to be between \$744 million and \$835 million. As in its earlier studies, ARPC provided estimates for a longer period of time in its December 2010 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 December 2010, based on ARPC’s December 2010 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 \$744 million, which covered the 15-year period ending 2025, excluding future defense and processing costs. The reduction was \$54 million and was shown as “Asbestos-related credit” in the consolidated statements of income and reflected in Corporate. At December 31, 2010, the asbestos-related liability for pending and future claims was \$728 million.

In November 2011, Union Carbide requested ARPC to review Union Carbide’s 2011 asbestos claim and resolution activity and determine the appropriateness of updating its December 2010 study. In response to that request, ARPC

reviewed and analyzed data through October 31, 2011. In January 2012, ARPC stated that an update of its study would not provide a more likely estimate of future events than the estimate reflected in its December 2010 study 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, 2011, the asbestos-related liability for pending and future claims was \$668 million. At December 31, 2011, approximately 18 percent of the recorded liability related to pending claims and approximately 82 percent related to future claims.

Based on Union Carbide's review of 2012 activity, Union Carbide determined that no adjustment to the accrual was required at June 30, 2012. Union Carbide's asbestos-related liability for pending and future claims was \$636 million at June 30, 2012. Approximately 20 percent of the recorded liability related to pending claims and approximately 80 percent related to future claims.

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## 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 (the "Insurance Litigation"). The Insurance Litigation 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. Since the filing of the case, Union Carbide has reached settlements with several of the carriers involved in the Insurance Litigation, including settlements reached with two significant carriers in the fourth quarter of 2009. The Insurance Litigation is ongoing.

Union Carbide's receivable for insurance recoveries related to its asbestos liability was \$40 million at June 30, 2012 and \$40 million at December 31, 2011. At June 30, 2012 and December 31, 2011, 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 that have settlement agreements in place regarding their asbestos-related insurance coverage. The following table summarizes Union Carbide's receivables related to its asbestos-related liability:

Receivables for Asbestos-Related Costs In millions	Jun 30, 2012	Dec 31, 2011
Receivables for defense costs – carriers with settlement agreements	\$19	\$20
Receivables for resolution costs – carriers with settlement agreements	154	158
Receivables for insurance recoveries – carriers without settlement agreements	40	40
Total	\$213	\$218

Union Carbide expenses defense costs as incurred. The pretax impact for defense and resolution costs, net of insurance, was \$23 million in the second quarter of 2012 (\$15 million in the second quarter of 2011) and \$48 million in the first six months of 2012 (\$28 million in the first six months of 2011), and was reflected in "Cost of sales" in the consolidated statements of income.

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 impact on Union Carbide's results of operations and cash flows for a particular period and on the consolidated financial position of Union Carbide.



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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 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 at that time) on the Dow Entities; several other companies were also named and fined. As a result, the Company recognized a loss contingency of \$85 million related to the fine in the fourth quarter of 2006. The Company appealed the EC's decision and a hearing was held before the Court of First Instance on October 13, 2009. On July 13, 2011, the General Court issued a decision that partly affirmed the EC's decision with regard to the amount of the fine and the liability of the parent company, but rejected the EC's decision regarding the length of the conspiracy and determined that it was of a shorter duration. The Dow Entities have filed an appeal of this decision to the Court of Justice of the European Union. Subsequent to the imposition of the fine in 2006, the Company and/or certain subsidiaries of the Company became named parties in various related U.S., United Kingdom and Italian civil actions. The U.S. matter was settled in March 2010 through a confidential settlement agreement, with an immaterial impact on the Company's consolidated financial statements. The United Kingdom and Italian civil actions are still pending.

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, in its capacity as a former joint venture owner of DDE. On December 5, 2007, the EC announced its decision to impose a fine on the Company, among others, in the amount of Euro 48.675 million (approximately \$61 million). The Company previously 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"). In February 2008, DuPont, DPE and the Company each filed an appeal of the December 5, 2007 decision of the EC. On February 2, 2012, the European General Court denied the appeals of the December 5, 2007 decision. The Company has appealed this decision to the European Court of Justice. Based on the Company's allocation agreement with DuPont, the Company's share of this fine, regardless of the outcome of the appeals, will not have a material impact on the Company's consolidated financial statements.

### Rohm and Haas Pension Plan Matters

In December 2005, a federal judge in the U.S. District Court for the Southern District of Indiana (the "District Court") issued a decision granting a class of participants in the Rohm and Haas Pension Plan (the "Rohm and Haas Plan") who had retired from Rohm and Haas Company ("Rohm and Haas"), now a wholly owned subsidiary of the Company, and who elected to receive a lump sum benefit from the Rohm and Haas Plan, the right to a cost-of-living adjustment ("COLA") as part of their retirement benefit. In August 2007, the Seventh Circuit Court of Appeals (the "Seventh Circuit") affirmed the District Court's decision, and in March 2008, the U.S. Supreme Court denied the Rohm and Haas Plan's petition to review the Seventh Circuit's decision. The case was returned to the District Court for further

proceedings. In October 2008 and February 2009, the District Court issued rulings that have the effect of including in the class all Rohm and Haas retirees who received a lump sum distribution without a COLA from the Rohm and Haas Plan since January 1976. These rulings are subject to appeal, and the District Court has not yet determined the amount of the COLA benefits that may be due to the class participants. The Rohm and Haas Plan and the plaintiffs entered into a settlement agreement that, in addition to settling the litigation with respect to the Rohm and Haas retirees, provides for the amendment of the complaint and amendment of the Rohm and Haas Plan to include active employees in the settlement benefits. The District Court preliminarily approved the settlement on November 24, 2009 and, following a hearing on March 12, 2010, issued a final order approving the settlement on April 12, 2010. A group of objectors to the settlement filed an appeal from the final order. In November 2010, the District Court issued an order approving class counsel's fee award petition in an amount consistent with the terms of the settlement. The same objectors also appealed this order. On September 2, 2011, the Seventh Circuit affirmed the approval of the settlement and award of attorneys' fees. A lone objector filed a petition for rehearing, which was denied on October 17, 2011. The objector continued the appeal process by timely filing a petition for a writ of certiorari to the U.S. Supreme Court, which was denied on April 16, 2012, rendering the settlement and award of attorneys' fees final.

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A pension liability associated with this matter of \$185 million was recognized as part of the acquisition of Rohm and Haas on April 1, 2009. The liability, which was determined in accordance with the accounting guidance for contingencies, recognized the estimated impact of the above described judicial decisions on the long-term Rohm and Haas Plan obligations owed to the applicable Rohm and Haas retirees and active employees. The Company had a liability associated with this matter of \$189 million at December 31, 2011. The Rohm and Haas Plan made settlement payments totaling \$122 million during the second quarter of 2012. The Company's remaining liability for this matter was \$67 million at June 30, 2012. Approximately 40 percent of the remaining liability is expected to be settled by the end of 2012 and the remaining liability will be resolved over time through the administration of the Rohm and Haas Plan.

**Other Litigation Matters**

In addition to breast implant, DBCP, environmental and synthetic rubber industry 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 often provide coverage that will be utilized to minimize the financial 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 results of operations, financial condition and cash flows of the Company.

**Purchase Commitments**

The Company has numerous agreements for the purchase of ethylene-related products globally. The purchase prices are determined primarily on a cost-plus basis. Total purchases under these agreements were \$552 million in 2011, \$714 million in 2010 and \$784 million in 2009. The Company's take-or-pay commitments associated with these agreements at December 31, 2011 are included in the table below. There have been no material changes to purchase commitments since December 31, 2011.

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 two of these agreements extend from one to 25 years. One agreement has terms extending to 35 years and another has terms extending to 80 years. The determinable future commitments for these two specific agreements for a period of 10 years are included in the following table along with the fixed and determinable portion of all other obligations under the Company's purchase commitments at December 31, 2011:

**Fixed and Determinable Portion of Take-or-Pay and Throughput Obligations at December 31, 2011**

In millions

2012	\$2,968
2013	2,964
2014	2,371
2015	1,693
2016	1,426
2017 and beyond	9,074
Total	\$20,496

In addition to the take-or-pay obligations at December 31, 2011, the Company had outstanding commitments which ranged from one to ten years for materials, services and other items used in the normal course of business of approximately \$171 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 ten years,

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and trade financing transactions in Latin America, which typically expire within one year of inception. The Company's current expectation is that future payment or performance related to the non-performance of others is considered unlikely.

**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 June 30, 2012 In millions	Final Expiration	Maximum Future Payments (1)	Recorded Liability
Guarantees	2020	\$1,033	\$22
Residual value guarantees (2)	2021	570	31
Total guarantees		\$1,603	\$53

(1) The Company was indemnified by a third party for \$48 million if required to perform under a \$95 million guarantee.

(2) Does not include the residual value guarantee related to the Company's variable interest in an owner trust that was consolidated in the first quarter of 2010; see Note L.

Guarantees at December 31, 2011 In millions	Final Expiration	Maximum Future Payments (1)	Recorded Liability
Guarantees	2020	\$587	\$21
Residual value guarantees (2)	2021	526	24
Total guarantees		\$1,113	\$45

(1) The Company was indemnified by a third party for \$50 million if required to perform under a \$100 million guarantee.

(2) Does not include the residual value guarantee related to the Company's variable interest in an owner trust that was consolidated in the first quarter of 2010; see Note L.

**Asset Retirement Obligations**

The Company has recognized asset retirement obligations for the following activities: demolition and remediation activities at manufacturing sites in the United States, Canada, Brazil, China, Argentina and Europe; and capping activities at landfill sites in the United States, Canada, Brazil and Europe. The Company has also recognized conditional asset retirement obligations related to asbestos encapsulation as a result of planned demolition and remediation activities at manufacturing and administrative sites in the United States, Canada, Brazil, China, Argentina and Europe.

The aggregate carrying amount of asset retirement obligations recognized by the Company was \$88 million at June 30, 2012 and \$88 million at December 31, 2011. The discount rate used to calculate the Company's asset retirement obligations was 1.96 percent at June 30, 2012 and 1.96 percent at December 31, 2011. These obligations are included in the consolidated balance sheets as "Accrued and other current liabilities" and "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 impact on the Company's consolidated financial statements based on current costs.

Gain Contingency

Matters Involving the Formation of K-Dow Petrochemicals

Introduction

On December 13, 2007, the Company and Petrochemical Industries Company (K.S.C.) (“PIC”) of Kuwait, a wholly owned subsidiary of Kuwait Petroleum Corporation, announced plans to form a 50:50 global petrochemicals joint venture. The proposed joint venture, K-Dow Petrochemicals (“K-Dow”), was expected to have revenues of more than \$11 billion and employ more than 5,000 people worldwide.

On November 28, 2008, the Company entered into a Joint Venture Formation Agreement (the “JVFA”) with PIC that provided for the establishment of K-Dow. To form the joint venture, the Company would transfer by way of contribution and sale to K-Dow, assets used in the research, development, manufacture, distribution, marketing and sale of polyethylene,

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polypropylene, polycarbonate, polycarbonate compounds and blends, ethyleneamines, ethanolamines, and related licensing and catalyst technologies; and K-Dow would assume certain related liabilities. PIC would receive a 50-percent equity interest in K-Dow in exchange for the payment by PIC of the initial purchase price, estimated to be \$7.5 billion. The purchase price was subject to certain post-closing adjustments.

### Failure to Close

On December 31, 2008, the Company received a written notice from PIC with respect to the JVFA advising the Company of PIC's position that certain conditions to closing were not satisfied and, therefore, PIC was not obligated to close the transaction. On January 2, 2009, PIC refused to close the K-Dow transaction in accordance with the JVFA. The Company disagreed with the characterizations and conclusions expressed by PIC in the written notice and the Company informed PIC that it breached the JVFA. On January 6, 2009, the Company announced that it would seek to fully enforce its rights under the terms of the JVFA and various related agreements.

### Arbitration

The Company's claims against PIC were subject to an agreement between the parties to arbitrate under the Rules of Arbitration of the International Court of Arbitration of the International Chamber of Commerce ("ICC"). On February 18, 2009, the Company initiated arbitration proceedings against PIC alleging that PIC breached the JVFA by failing to close the transaction on January 2, 2009, and as a result, Dow suffered substantial damages.

On May 24, 2012, the ICC released to the parties a unanimous Partial Award in favor of the Company on both liability and damages. A three-member arbitration Tribunal found that PIC breached the JVFA by not closing K-Dow on January 2, 2009, and awarded the Company \$2.16 billion in damages, not including interest and arbitration costs. The ICC is expected to issue a Final Award covering the Company's substantial claim for pre-Award interest and arbitration costs in the fourth quarter of 2012.

PIC has filed an application for remand under the English Arbitration Act of 1996 ("Remand Application") in the High Court of Justice in London ("High Court"). In its Remand Application, PIC does not challenge the Tribunal's finding of liability but it asks the High Court to remand the case back to the Tribunal for further consideration of the Company's claim for consequential damages. On July 30, 2012, the Company filed its written response. The High Court is expected to rule on PIC's Remand Application by year-end 2012.

The Company expects to record a gain related to this matter when the uncertainty regarding the timing of collection and the amount to be realized have been resolved.

## NOTE J – TRANSFERS OF FINANCIAL ASSETS

### Sale of Trade Accounts Receivable in North America and Europe

The Company sells trade accounts receivable of select North America entities and qualifying trade accounts receivable of select European entities on a revolving basis to certain multi-seller commercial paper conduit entities ("conduits"). The Company maintains servicing responsibilities and the related costs are insignificant. The proceeds received are comprised of cash and interests in specified assets of the conduits (the receivables sold by the Company) that entitle the Company to the residual cash flows of such specified assets in the conduits after the commercial paper has been repaid. Neither the conduits nor the investors in those entities have recourse to other assets of the Company in the event of nonpayment by the debtors.

During the three months ended June 30, 2012, the Company recognized a loss of \$5 million on the sale of these receivables (a gain of less than \$1 million during the three months ended June 30, 2011), which is included in "Interest expense and amortization of debt discount" in the consolidated statements of income. During the six months ended June 30, 2012, the Company recognized a loss of \$9 million on the sale of receivables (\$6 million during the six months ended June 30, 2011).

The Company's interests in the conduits are carried at fair value and included in “Accounts and notes receivable – Other” in the consolidated balance sheets. Fair value of the interests is determined by calculating the expected amount of cash to be received and is based on unobservable inputs (a Level 3 measurement). The key input in the valuation is the percentage of anticipated credit losses in the portfolio of receivables sold that have not yet been collected. Given the short-term nature of the underlying receivables, discount rates and prepayments are not factors in determining the fair value of the interests.



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The following table summarizes the carrying value of interests held, which represents the Company's maximum exposure to loss related to the receivables sold, and the percentage of anticipated credit losses related to the trade accounts receivable sold. Also provided is the sensitivity of the fair value of the interests held to hypothetical adverse changes in the anticipated credit losses; amounts shown below are the corresponding hypothetical decreases in the carrying value of interests.

Interests Held	Jun 30,	Dec 31,	
In millions	2012	2011	
Carrying value of interests held	\$1,220	\$1,141	
Percentage of anticipated credit losses	1.06	% 1.22	%
Impact to carrying value - 10% adverse change	\$2	\$2	
Impact to carrying value - 20% adverse change	\$5	\$4	

Credit losses, net of any recoveries, on receivables sold during the three and six months ended June 30, 2012 and June 30, 2011 were insignificant.

Following is an analysis of certain cash flows between the Company and the conduits:

Cash Proceeds	Three Months Ended		Six Months Ended	
In millions	Jun 30,	Jun 30,	Jun 30,	Jun 30,
	2012	2011	2012	2011
Sale of receivables	\$41	\$2	\$57	\$3
Collections reinvested in revolving receivables	\$7,200	\$7,349	\$13,057	\$13,777
Interests in conduits (1)	\$310	\$234	\$1,972	\$1,224

(1) Presented in "Operating Activities" in the consolidated statements of cash flows.

Following is additional information related to the sale of receivables under these facilities:

Trade Accounts Receivable Sold	Jun 30,	Dec 31,
In millions	2012	2011
Delinquencies on sold receivables still outstanding	\$121	\$155
Trade accounts receivable outstanding and derecognized	\$2,538	\$2,385

#### Sale of Trade Accounts Receivable in Asia Pacific

The Company sells participating interests in trade accounts receivable of select Asia Pacific entities. The Company maintains servicing responsibilities and the related costs are insignificant. The third-party holders of the participating interests do not have recourse to the Company's assets in the event of nonpayment by the debtors.

During the three and six-month periods ended June 30, 2012 and 2011, the Company recognized insignificant losses on the sale of the participating interests in the receivables, which is included in "Interest expense and amortization of debt discount" in the consolidated statements of income. The Company receives cash upon the sale of the participating interests in the receivables.

Following is an analysis of certain cash flows between the Company and the third-party holders of the participating interests:

Cash Proceeds	Three Months Ended		Six Months Ended	
In millions	Jun 30,	Jun 30,	Jun 30,	Jun 30,
	2012	2011	2012	2011
Sale of participating interests	\$16	\$41	\$32	\$87
Collections reinvested in revolving receivables	\$16	\$34	\$29	\$79



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Following is additional information related to the sale of participating interests in the receivables under this facility:

Trade Accounts Receivable	Jun 30,	Dec 31,
In millions	2012	2011
Derecognized from the consolidated balance sheets	\$13	\$13
Outstanding in the consolidated balance sheets	297	303
Total accounts receivable in select Asia Pacific entities	\$310	\$316

There were no credit losses on receivables relating to the participating interests sold during the three and six-month periods ended June 30, 2012 and June 30, 2011. There were no delinquencies on the outstanding receivables related to the participating interests sold at June 30, 2012 or December 31, 2011.

## NOTE K – NOTES PAYABLE, LONG-TERM DEBT AND AVAILABLE CREDIT FACILITIES

Notes Payable	Jun 30,	Dec 31,	
In millions	2012	2011	
Notes payable to banks	\$375	\$421	
Notes payable to related companies	88	92	
Notes payable trade	10	28	
Total notes payable	\$473	\$541	
Period-end average interest rates	2.97	% 3.06	%

Long-Term Debt	2012	Jun 30,	2011	Dec 31,
In millions	Average	2012	Average	2011
	Rate		Rate	
Promissory notes and debentures:				
Final maturity 2012	6.01	% \$904	5.35	% \$2,158
Final maturity 2013	6.03	% 402	6.10	% 395
Final maturity 2014	7.23	% 2,128	7.28	% 2,103
Final maturity 2015	5.85	% 1,281	5.92	% 1,257
Final maturity 2016	2.55	% 780	2.57	% 757
Final maturity 2017	5.92	% 881	6.03	% 857
Final maturity 2018 and thereafter	6.53	% 10,386	6.55	% 10,305
Other facilities:				
U.S. dollar loans, various rates and maturities	2.52	% 314	2.37	% 232
Foreign currency loans, various rates and maturities	3.61	% 1,635	3.52	% 1,609
Medium-term notes, varying maturities through 2022	4.44	% 1,112	4.76	% 902
Pollution control/industrial revenue bonds, varying maturities through 2038	5.67	% 717	5.70	% 860
Capital lease obligations	—	16	—	17
Unamortized debt discount	—	(372)	—	(393)
Long-term debt due within one year	—	(1,880)	—	(2,749)
Long-term debt	—	\$18,304	—	\$18,310

## Annual Installments on Long-Term Debt

For Next Five Years at June 30, 2012

In millions

2012	\$1,439
2013	\$714

2014	\$2,418
2015	\$1,512
2016	\$1,028
2017	\$1,172

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On March 8, 2012, the Company redeemed \$1.25 billion aggregate principal amount of 4.85 percent notes due August 15, 2012, at a price of 101.8 percent of the principal amount of the notes, plus accrued and unpaid interest. As a result of this redemption, the Company realized a \$24 million pretax loss on the early extinguishment of debt, included in "Sundry income (expense) - net" in the consolidated statements of income and reflected in Corporate.

In the first six months of 2012, the Company issued \$210 million aggregate principal amount of InterNotes and approximately \$224 million of long-term debt was entered into by consolidated variable interest entities.

In the first quarter of 2012, the Company redeemed \$37 million of pollution control/industrial revenue bonds that matured on January 1, 2012. During the second quarter of 2012, the Company repurchased \$105 million of pollution control/industrial revenue tax-exempt bonds that were subject to re-marketing.

On March 22, 2011, the Company concluded cash tender offers for \$1.5 billion aggregate principal amount of certain notes issued by the Company. As a result of the tender offers, the Company redeemed \$1.5 billion of the notes and recognized a \$472 million pretax loss on early extinguishment of debt, included in "Sundry income (expense) - net" in the consolidated statements of income and reflected in Corporate.

During the first six months of 2011, the Company redeemed \$800 million of notes that matured on February 1, 2011 and Euro 500 million of notes that matured on May 27, 2011 (\$707 million equivalent at March 31, 2011). The Company also redeemed \$1,208 million of InterNotes and recognized a \$10 million pretax loss on early extinguishment of debt, included in "Sundry income (expense) - net" in the consolidated statements of income and reflected in Corporate. In the second quarter of 2011, the Company issued \$175 million of InterNotes.

The Company's outstanding debt of \$20.2 billion has been issued under indentures which contain, among other provisions, covenants with which the Company must comply while the underlying notes are outstanding. Such covenants include obligations to not allow liens on principal U.S. manufacturing facilities, enter into sale and lease-back transactions with respect to principal U.S. manufacturing facilities, or merge or consolidate with any other corporation, or sell or convey all or substantially all of the Company's assets. The outstanding debt also contains customary default provisions. Failure of the Company to comply with any of these covenants could result in a default under the applicable indenture, which would allow the note holders to accelerate the due date of the outstanding principal and accrued interest on the subject notes.

The Company's primary credit agreements contain covenant and default provisions in addition to the covenants set forth above with respect to the Company's debt. Significant other covenants and default provisions related to these agreements include:

the obligation to maintain the ratio of the Company's consolidated indebtedness to consolidated capitalization at no (a) greater than 0.65 to 1.00 at any time the aggregate outstanding amount of loans under the Five Year Competitive Advance and Revolving Credit Facility Agreement dated October 18, 2011 equals or exceeds \$500 million,

a default if the Company or an applicable subsidiary fails to make any payment on indebtedness of \$50 million or (b) more when due, or any other default under the applicable agreement permits or results in the acceleration of \$200 million or more of principal, and

(c) a default if the Company or any applicable subsidiary fails to discharge or stay within 30 days after the entry of a final judgment of more than \$200 million.

Failure of the Company to comply with any of the covenants or default provisions could result in a default under the applicable credit agreement which would allow the lenders to not fund future loan requests and to accelerate the due date of the outstanding principal and accrued interest on any outstanding loans.



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NOTE L – VARIABLE INTEREST ENTITIES

Consolidated Variable Interest Entities

The Company holds variable interests in eight joint ventures for which the Company is the primary beneficiary.

Three of the joint ventures own and operate manufacturing and logistics facilities, which produce chemicals and provide services in Asia Pacific. The Company's variable interest in these joint ventures relates to arrangements between the joint ventures and the Company, involving the majority of the output on take-or-pay terms with pricing ensuring a guaranteed return to the joint ventures.

Another joint venture will construct, own and operate a membrane chlor-alkali facility to be located at the Company's Freeport, Texas integrated manufacturing complex. The Company's variable interests in this joint venture relate to equity options between the partners and a cost-plus off-take arrangement between the joint venture and the Company, involving proportional purchase commitments on take-or-pay terms and ensuring a guaranteed return to the joint venture. The Company will provide the joint venture with operation and maintenance services, utilities and raw materials; market the joint venture's co-products; and convert the other partner's proportional purchase commitments into ethylene dichloride under a tolling arrangement. The joint venture is expected to begin operations in mid-2013. The fifth joint venture manufactures products in Japan for the semiconductor industry. Each joint venture partner holds several equivalent variable interests, with the exception of a royalty agreement held exclusively between the joint venture and the Company. In addition, the entire output of the joint venture is sold to the Company for resale to third-party customers.

The sixth joint venture is an ethylene storage joint venture located in Alberta, Canada. Previously accounted for as an equity method investment, the Company became the primary beneficiary upon execution of new storage cavern agreements in 2011. The Company's variable interests relate to arrangements involving a majority of the joint venture's storage capacity on take-or-pay terms with pricing ensuring a guaranteed return to the joint venture; and favorably priced leases provided to the joint venture. The Company provides the joint venture with operation and maintenance services and utilities.

The seventh joint venture is a development-stage enterprise located in Brazil that will produce ethanol from sugarcane and expand into downstream derivative products. The Company owned 100 percent of this entity until November 2011, when the Company sold a 50 percent interest to a third party. The Company's variable interests in this joint venture relate to an equity option between the partners and contractual arrangements limiting the partner's initial participation in the economics of certain assets and liabilities. Terms of the equity option require the Company to purchase the partner's equity investment at a fixed price if the partner elects to terminate a specific contract within 24 months of initial equity investment. Therefore, the Company has classified the partner's equity investment as "Redeemable Noncontrolling Interest" in the consolidated balance sheets. The joint venture is expected to begin operations in 2015.

The eighth joint venture manages the growth, harvest and conditioning of soybean seed and grain, corn and wheat in several Midwestern states in the United States. On March 2, 2012, the Company acquired a 49 percent equity interest in this venture. The Company's variable interest in this joint venture relates to an equity option between the partners. Terms of the equity option require the Company to purchase the partner's equity investment at a fixed price, after a specified period of time if the partner elects to sell its equity investment. The joint venture provides seed production services to the Company.

The Company also holds a variable interest in an owner trust, for which the Company is the primary beneficiary. The owner trust leases an ethylene facility in The Netherlands to the Company, whereby substantially all of the rights and obligations of ownership are transferred to the Company. The Company's variable interest in the owner trust relates to a residual value guarantee provided to the owner trust. Upon expiration of the lease, which matures in 2014, the Company may purchase the facility for an amount based on a fair market value determination. At June 30, 2012, the Company had provided to the owner trust a residual value guarantee of \$363 million, which represents the Company's maximum exposure to loss under the lease.

As the primary beneficiary of these variable interest entities ("VIEs"), the entities' assets, liabilities and results of operations are included in the Company's consolidated financial statements. The other equity holders' interests are reflected in "Net income attributable to noncontrolling interests" in the consolidated statements of income and "Redeemable Noncontrolling Interest" and "Noncontrolling interests" in the consolidated balance sheets. The following table summarizes the carrying amounts of the entities' assets and liabilities included in the Company's consolidated balance sheets at June 30, 2012 and December 31, 2011:

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Assets and Liabilities of Consolidated VIEs	Jun 30,	Dec 31,
In millions	2012	2011 (1)
Cash and cash equivalents (2)	\$174	\$170
Other current assets	138	104
Property	2,324	2,169
Other noncurrent assets	151	151
Total assets (3)	\$2,787	\$2,594
Current liabilities (nonrecourse 2012: \$230; 2011: \$226)	\$230	\$226
Long-term debt (nonrecourse 2012: \$1,308; 2011: \$1,138)	1,654	1,484
Other noncurrent liabilities (nonrecourse 2012: \$93; 2011: \$86)	93	86
Total liabilities	\$1,977	\$1,796

(1) December 31, 2011 values do not include assets and liabilities attributable to a seed production joint venture located in the United States that became a VIE in the first quarter of 2012.

(2) Included \$5 million at June 30, 2012 (\$3 million at December 31, 2011) specifically restricted for the construction of a manufacturing facility.

(3) All assets were restricted at June 30, 2012 and December 31, 2011.

In addition, the Company holds a variable interest in an entity created to monetize accounts receivable of select European entities. The Company is the primary beneficiary of this entity as a result of holding subordinated notes while maintaining servicing responsibilities for the accounts receivable. The carrying amounts of assets and liabilities included in the Company's consolidated balance sheets pertaining to this entity, were current assets of \$180 million (zero restricted) at June 30, 2012 (\$233 million, zero restricted, at December 31, 2011) and current liabilities of less than \$1 million (less than \$1 million nonrecourse) at June 30, 2012 (less than \$1 million, less than \$1 million nonrecourse, at December 31, 2011).

Amounts presented in the consolidated balance sheets and the table above as restricted assets or nonrecourse obligations relating to consolidated VIEs at June 30, 2012 and December 31, 2011 are adjusted for intercompany eliminations, parental guarantees and residual value guarantees.

**Nonconsolidated Variable Interest Entity**

The Company holds a variable interest in a joint venture that manufactures crude acrylic acid in the United States and Germany on behalf of the Company and the other joint venture partner. The variable interest relates to a cost-plus arrangement between the joint venture and each joint venture partner. The Company is not the primary beneficiary, as a majority of the joint venture's output is sold to the other joint venture partner; therefore, the entity is accounted for under the equity method of accounting. At June 30, 2012, the Company's investment in the joint venture was \$141 million (\$144 million at December 31, 2011), classified as "Investment in nonconsolidated affiliates" in the consolidated balance sheets, representing the Company's maximum exposure to loss.

**NOTE M – PENSION PLANS AND OTHER POSTRETIREMENT BENEFITS**

Net Periodic Benefit Cost for All Significant Plans	Three Months Ended		Six Months Ended	
	Jun 30,	Jun 30,	Jun 30,	Jun 30,
In millions	2012	2011	2012	2011
<b>Defined Benefit Pension Plans:</b>				
Service cost	\$95	\$86	\$190	\$172
Interest cost	274	282	548	560
Expected return on plan assets	(316)	(326)	(632)	(649)
Amortization of prior service cost	6	7	13	14
Amortization of net loss	130	94	260	186
Net periodic benefit cost	\$189	\$143	\$379	\$283

Other Postretirement Benefits:

Service cost	\$4	\$3	\$8	\$6	
Interest cost	23	25	46	50	
Expected return on plan assets	—	(1	) —	(2	)
Amortization of prior service credit	(1	) —	(2	) —	
Net periodic benefit cost	\$26	\$27	\$52	\$54	

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## NOTE N – STOCK-BASED COMPENSATION

The Company grants stock-based compensation to employees under the Employees' Stock Purchase Plan ("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. Details for awards granted in the first quarter of 2012 are included in the following paragraphs. There was minimal grant activity in the second quarter of 2012.

During the first quarter of 2012, employees subscribed to the right to purchase 9.5 million shares with a weighted-average exercise price of \$25.42 per share and a weighted-average fair value of \$8.32 per share under the ESPP.

During the first quarter of 2012, the Company granted the following stock-based compensation awards to employees under the 1988 Plan:

• 12.8 million stock options with a weighted-average exercise price of \$34.00 per share and a weighted-average fair value of \$9.38 per share;

• 3.5 million shares of deferred stock with a weighted-average fair value of \$34.02 per share; and

• 1.2 million shares of performance deferred stock with a weighted-average fair value of \$43.52 per share.

During the first quarter of 2012, the Company granted the following stock-based compensation awards to non-employee directors under the 2003 Non-Employee Directors' Stock Incentive Plan:

• 34,650 shares of restricted stock with a weighted-average fair value of \$33.69 per share.

Total unrecognized compensation cost at June 30, 2012 is provided in the following table:

## Total Unrecognized Compensation Cost at June 30, 2012

In millions	Unrecognized Compensation Cost	Weighted-average Recognition Period (Years)
ESPP purchase rights	\$22	0.38
Unvested stock options	\$109	0.78
Deferred stock awards	\$138	0.82
Performance deferred stock awards	\$34	0.58

On February 9, 2012, the Company's Board of Directors unanimously approved and adopted The Dow Chemical Company 2012 Stock Incentive Plan ("2012 Plan") and the 2012 Employee Stock Purchase Plan, which was approved by the Company's stockholders at the 2012 Annual Meeting of Stockholders held on May 10, 2012. The Company granted 144,300 deferred shares to employees under the 2012 Plan during the second quarter of 2012.

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## NOTE O – EARNINGS PER SHARE CALCULATIONS

The following tables provide the earnings per share calculations for the three and six-month periods ended June 30, 2012 and 2011:

Net Income	Three Months Ended		Six Months Ended	
	Jun 30, 2012	Jun 30, 2011	Jun 30, 2012	Jun 30, 2011
In millions				
Net income	\$740	\$1,077	\$1,260	\$1,798
Net income attributable to noncontrolling interests	(6	) (10	) (29	) (21
Net income attributable to The Dow Chemical Company	\$734	\$1,067	\$1,231	\$1,777
Preferred stock dividends	(85	) (85	) (170	) (170
Net income attributable to participating securities (1)	(6	) (12	) (10	) (20
Net income attributable to common stockholders	\$643	\$970	\$1,051	\$1,587
Earnings Per Share Calculations - Basic	Three Months Ended		Six Months Ended	
Dollars per share	Jun 30, 2012	Jun 30, 2011	Jun 30, 2012	Jun 30, 2011
Net income	\$0.63	\$0.94	\$1.08	\$1.57
Net income attributable to noncontrolling interests	—	(0.01	) (0.02	) (0.02
Net income attributable to The Dow Chemical Company	\$0.63	\$0.93	\$1.06	\$1.55
Preferred stock dividends	(0.07	) (0.08	) (0.15	) (0.15
Net income attributable to participating securities (1)	(0.01	) (0.01	) (0.01	) (0.01
Net income attributable to common stockholders	\$0.55	\$0.84	\$0.90	\$1.39
Earnings Per Share Calculations - Diluted	Three Months Ended		Six Months Ended	
Dollars per share	Jun 30, 2012	Jun 30, 2011	Jun 30, 2012	Jun 30, 2011
Net income	\$0.63	\$0.93	\$1.07	\$1.56
Net income attributable to noncontrolling interests	—	(0.01	) (0.02	) (0.02
Net income attributable to The Dow Chemical Company	\$0.63	\$0.92	\$1.05	\$1.54
Preferred stock dividends (2)	(0.07	) (0.07	) (0.14	) (0.15
Net income attributable to participating securities (1)	(0.01	) (0.01	) (0.01	) (0.02
Net income attributable to common stockholders	\$0.55	\$0.84	\$0.90	\$1.37
Shares in millions				
Weighted-average common shares - basic	1,169.7	1,149.6	1,165.3	1,144.6
Plus dilutive effect of stock options and awards	6.9	11.3	7.4	11.6
Weighted-average common shares - diluted	1,176.6	1,160.9	1,172.7	1,156.2
Stock options and deferred stock awards excluded from EPS calculations (3)	54.4	42.8	51.3	43.0
Conversion of preferred stock excluded from EPS calculations (4)	96.8	96.8	96.8	96.8

(1) Accounting Standards Codification Topic 260, "Earnings per Share," requires enterprises with participating securities to use the two-class method to calculate earnings per share and to report the most dilutive earnings per share amount. Deferred stock awards are considered participating securities due to Dow's practice of paying dividend equivalents on unvested shares.

(2) Preferred stock dividends were not added back in the calculation of diluted earnings per share because the effect of adding them back would have been antidilutive.

(3) These outstanding options to purchase shares of common stock and deferred stock awards were excluded from the calculation of diluted earnings per share because the effect of including them would have been antidilutive.

Conversion of the Cumulative Convertible Perpetual Preferred Stock, Series A into shares of the Company's (4) common stock was excluded from the calculation of diluted earnings per share because the effect of including them would have been antidilutive.

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## NOTE P – ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS)

The following table provides an analysis of the changes in accumulated other comprehensive income (loss) for the six months ended June 30, 2012 and 2011:

Accumulated Other Comprehensive Income (Loss)	Six Months Ended		
	Jun 30, 2012	Jun 30, 2011	
In millions			
Unrealized Gains on Investments at beginning of year	\$78	\$111	
Net change in unrealized gains	32	6	
Balance at end of period	\$110	\$117	
Cumulative Translation Adjustments at beginning of year	72	367	
Translation adjustments	(174	) 600	
Balance at end of period	\$(102	) \$967	
Pension and Other Postretirement Benefit Plans at beginning of year	(6,134	) (4,871	)
Adjustments to pension and other postretirement benefit plans	182	141	
Balance at end of period	\$(5,952	) \$(4,730	)
Accumulated Derivative Loss at beginning of year	(12	) (6	)
Net hedging results	(21	) (2	)
Reclassification to earnings	10	7	
Balance at end of period	\$(23	) \$(1	)
Total accumulated other comprehensive loss	\$(5,967	) \$(3,647	)

## NOTE Q – OPERATING SEGMENTS AND GEOGRAPHIC AREAS

On January 1, 2012, the Company's Performance Plastics segment reorganized and created new, market-facing businesses to better align with the markets and customers served by this segment. The new businesses, which are reflected in the following updated profile for the segment, are as follows:

- ◆ Dow Elastomers
- ◆ Dow Electrical and Telecommunications
- ◆ Dow Performance Packaging
- ◆ Dow Hygiene and Medical

There were no other changes to the Corporate Profile included in the Company's Annual Report on Form 10-K for the year ended December 31, 2011.

## PERFORMANCE PLASTICS

Applications: adhesives agricultural films appliances and appliance housings 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 food and specialty packaging footwear hoses and tubing household and industrial bottles housewares hygiene and medical films industrial and consumer films and foams information technology infrastructure leather, textile, graphic arts and paper oil tanks and road equipment plastic pipe processing aids for plastic production tapes and labels toys, playground equipment and recreational products wire and cable insulation and jacketing materials for power utility and telecommunications

Dow Elastomers offers a unique portfolio of elastomer and plastomers for customers worldwide, and has established a leadership position in polyolefin and ethylene propylene diene monomer elastomers through its innovative technology, deep market expertise, broad product line and global footprint.

With one of the broadest product portfolios in the industry, strong foundational capabilities (global reach, low cost asset configuration, leading manufacturing and catalysis technology, global application and marketing alignment, and formulation science) and a proven innovation track record, Dow Elastomers is well positioned to meet the needs of the transportation and infrastructure markets. And with the introduction of new and differentiated products, Dow Elastomers has diversified its participation into new market segments, such as hot melt adhesives and consumer durables (i.e., housewares, toys, infant products, sporting goods and leisure products) where the performance benefits of the business' technologies can also be leveraged. Key markets and applications where Dow Elastomers participates

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align with the global megatrends of consumerism, and infrastructure and transportation. These trends drive the need for innovative solutions that deliver valued benefits to customers in the areas of improved durability, haptics, sustainability and lower overall solution cost.

Products: AFFINITY™ polyolefin elastomers; AFFINITY™ GA polyolefin plastomers; ENGAGE™ polyolefin elastomers; ENGAGE™ XLT polyolefin elastomers; INFUSE™ olefin block copolymers; NORDEL™ hydrocarbon rubber; VERSIFY™ plastomers and elastomers

Dow Electrical and Telecommunications is a leading global provider of products, technology, solutions and expertise that set standards for reliability, longevity, efficiency, ease of installation and protection used by the power and telecommunications industries in the transmission, distribution and consumption of power, video, voice and data. Dow Electrical and Telecommunications collaborates with cable manufacturers, original equipment manufacturers, operators, utilities, municipalities, testing institutes and other organizations around the world to develop solutions that create value and will sustain these industries for years to come.

Products: ECOLIBRIUM™ bio-based plasticizers; ENDURANCE™ family of semiconductive and insulation material for power cable insulation; SI-LINK™ moisture crosslinkable polyethylene-based wire and cable insulation compounds; UNIGARD™ flame retardant compound for specialty wire and cable applications

Dow Performance Packaging is an innovator for the world's packaging needs. Global megatrends continue to drive demand for innovative and sustainable packaging solutions that enhance food preservation and food safety, deliver lower costs, improve consumer convenience and appeal, and reduce environmental impact. With one of the largest portfolios of industry-leading materials and technologies, Dow Performance Packaging engages with brand owners, retailers and other stakeholders along the packaging value chain to drive innovation and deliver faster, more profitable growth.

Dow Performance Packaging materials and technology offerings include polyethylene ("PE") resins (low density PE, high density PE, linear low density PE), barrier resins, tie layers, laminating adhesives, high performance sealants, and specialty films.

Products: ADCOTE™ solvent-based laminating adhesives and heat seal coatings; AFFINITY™ polyolefin elastomers; AMPLIFY™ and AMPLIFY™ TY functional polymers; AQUA-LAM™ water-based polyurethane dispersions; ATTANE™ ultra low density polyethylene (ULDPE) copolymers; ATTANE™ ULDPE resins; CONTINUUM™ bimodal polyethylene resins; COSEAL™ cold-seal adhesives; DOW™ adhesive film; DOW™ low density polyethylene; DOW™ medical packaging film; DOW™ very low density polyethylene; DOWLEX™ polyethylene resins; DOWLEX™ NG polyethylene resins; ELITE™ enhanced polyethylene; ELITE™ AT enhanced polyethylene; ENGAGE™ polyolefin elastomers; ENLIGHT™ polyolefin encapsulant films; HEALTH+™ polymers; INFUSE™ olefin block copolymers; INTEGRAL™ adhesive films; LAMAL™ alcohol-based laminating adhesives; MOR-AD™ solvent-based laminating adhesives; MOR-FREE™ solventless adhesives; MORPRIME™ solvent-based polypropylene dispersions; MORSTIK™ solvent-based pressure sensitive adhesives; NYLOPAK™ nylon barrier films; OPTICITE™ films; PRIMACOR™ copolymers; PROCITE™ window envelope films; ROBOND™ acrylic water-based laminating and pressure sensitive adhesives; SARAN™ barrier resins; SARANEX™ barrier films; SEALUTION™ peel polymers; SERFENE™ barrier coatings; Solvent-based polyurethanes and polyesters; TRENCHCOAT™ protective films; TRYCITE™ polystyrene film; TUFLIN™ linear low density polyethylene resins; TYBRITE™ clear packaging film; VERSIFY™ elastomers and plastomers

Dow Hygiene and Medical is a recognized global leader in the hygiene, medical and adjacent fiber markets delivering innovative solutions in personal hygiene, medical end-use products and fiber related markets. Key materials and technology segments include back sheets, nonwoven fibers, elastic components, sealants, binders, additives and dispersants. As a solutions provider across the polyethylene, elastomers, binders, polyolefin emulsions and acrylic



product families, Dow Hygiene and Medical delivers a broad and deep product portfolio as well as the expertise and resources to serve the entire value chain, meeting the needs of hygiene and medical markets in both emerging and developed geographies.

Products: ACRY SOL™ additives; AFFINITY™ polyolefin elastomers; ASPUN™ fiber grade resins; ATTANE™ ultra low density polyethylene resins; DOW™ HEALTH+™ resins; DOWLEX™ polyethylene resins; DOW™ low density polyethylene resins; ELITE™ enhanced polyethylene resins; ENGAGE™ polyolefin elastomers; HYPOD™ polyolefin dispersions; INFUSE™ olefin block copolymers; PRIMAL™ acrylic binders;

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RHOPLEX™ acrylic binders; ROVACE™ acrylic binders; SARANEX™ barrier films; TAMOL™ dispersants; VERSIFY™ plastomers and elastomers

The Performance Plastics business also includes the results of Polypropylene Licensing and Catalyst, which sets the standard for polypropylene process technologies and works closely with customers to elevate their manufacturing capability, enabling them to produce differentiated polypropylene resins. The Performance Plastics segment also includes the results of Univation Technologies, LLC and a portion of the results of EQUATE Petrochemical Company K.S.C., The Kuwait Olefins Company K.S.C. and SCG-Dow Group, all joint ventures of the Company.

Divestiture

On September 30, 2011, the Company sold its global Polypropylene business to Braskem SA. The transaction did not include Dow's Polypropylene Licensing and Catalyst business. The Polypropylene business was reported in the Performance Plastics segment through the date of the divestiture.

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 six months of 2012 and 2011 were immaterial and eliminated in consolidation.

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Operating Segments In millions	Three Months Ended		Six Months Ended	
	Jun 30, 2012	Jun 30, 2011	Jun 30, 2012	Jun 30, 2011
Sales by operating segment				
Electronic and Functional Materials	\$1,151	\$1,197	\$2,272	\$2,331
Coatings and Infrastructure Solutions	1,888	2,002	3,591	3,734
Agricultural Sciences	1,676	1,500	3,514	3,106
Performance Materials	3,369	3,858	6,842	7,399
Performance Plastics	3,711	4,441	7,302	8,484
Feedstocks and Energy	2,657	2,963	5,592	5,551
Corporate	61	85	119	174
Total	\$14,513	\$16,046	\$29,232	\$30,779
EBITDA (1) by operating segment				
Electronic and Functional Materials	\$287	\$287	\$530	\$544
Coatings and Infrastructure Solutions	337	368	541	618
Agricultural Sciences	307	287	758	693
Performance Materials	350	481	682	1,045
Performance Plastics	760	958	1,478	1,939
Feedstocks and Energy	134	254	332	502
Corporate	(215 )	(303 )	(653 )	(1,067 )
Total	\$1,960	\$2,332	\$3,668	\$4,274
Equity in earnings (losses) of nonconsolidated affiliates by operating segment (included in EBITDA)				
Electronic and Functional Materials	\$35	\$25	\$54	\$49
Coatings and Infrastructure Solutions	45	79	67	147
Agricultural Sciences	(1 )	—	—	3
Performance Materials	(20 )	(4 )	(37 )	(9 )
Performance Plastics	39	59	73	121
Feedstocks and Energy	52	138	177	293
Corporate	(2 )	(6 )	(17 )	(15 )
Total	\$148	\$291	\$317	\$589

The Company uses EBITDA (which Dow defines as earnings (i.e., "Net Income") before interest, income taxes, depreciation and amortization) as its measure of profit/loss for segment reporting purposes. EBITDA by operating (1) segment includes all operating items relating to the businesses, except depreciation and amortization; items that principally apply to the Company as a whole are assigned to Corporate. A reconciliation of EBITDA to "Income Before Income Taxes" is provided below.

Reconciliation of EBITDA to "Income Before Income Taxes" In millions	Three Months Ended		Six Months Ended	
	Jun 30, 2012	Jun 30, 2011	Jun 30, 2012	Jun 30, 2011
EBITDA	\$1,960	\$2,332	\$3,668	\$4,274
- Depreciation and amortization	674	697	1,353	1,428
+ Interest income	10	10	16	17
- Interest expense and amortization of debt discount	312	328	641	705
Income Before Income Taxes	\$984	\$1,317	\$1,690	\$2,158

Geographic Areas In millions	Three Months Ended	Six Months Ended
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	Jun 30, 2012	Jun 30, 2011	Jun 30, 2012	Jun 30, 2011
Sales by geographic area				
United States	\$4,785	\$5,238	\$9,635	\$10,020
Europe, Middle East and Africa	4,867	5,713	10,234	11,071
Rest of World	4,861	5,095	9,363	9,688
Total	\$14,513	\$16,046	\$29,232	\$30,779

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The Dow Chemical Company and Subsidiaries  
(Unaudited) 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 reported sales in the second quarter of 2012 of \$14.5 billion, down 10 percent from \$16.0 billion in the second quarter of 2011. The sales decline was led by Europe, Middle East, and Africa ("EMEA"), which decreased 15 percent driven by price declines due to the unfavorable impact of currency and softening demand. Sales in Agricultural Sciences increased 12 percent, achieving a new second quarter record for the segment.

Price was down 5 percent compared with the same period last year, impacted by unfavorable currency which contributed to more than half of the price decrease. Price declines were reported in all geographic areas and all operating segments, except Agricultural Sciences (up 2 percent).

Volume was down 5 percent as increasingly volatile economic conditions and customer de-stocking occurred throughout most value chains. Significant gains were reported in Agricultural Sciences (up 10 percent), driven by healthy agricultural market fundamentals. Excluding recent divestitures,<sup>(1)</sup> volume declined 1 percent.

Purchased feedstock and energy costs, which account for more than one-third of Dow’s total costs, decreased 17 percent or nearly \$1.0 billion compared with the second quarter of 2011. The decrease in these costs was primarily due to lower condensate and naphtha prices in Europe and a decrease in feedstock and energy prices in the United States due to increased supply of shale gas and natural gas liquids.

Research and development expenses decreased slightly in the second quarter of 2012 compared with the second quarter of 2011, as the Company's spending on strategic growth initiatives, led by Electronic and Functional Materials and Agricultural Sciences, was more than offset by lower performance-based compensation costs. Selling, general and administrative expenses decreased \$21 million in the second quarter of 2012 compared with the same period last year, primarily due to lower performance-based compensation costs.

Equity earnings were \$148 million in the second quarter of 2012, down \$143 million from \$291 million in the second quarter of 2011. The decline was primarily due to planned maintenance turnarounds at MEGlobal, as well as ongoing silicon value chain weakness impacting Dow Corning Corporation ("Dow Corning").

In addition to the financial highlights listed above, the Company also made the following announcements during the second quarter of 2012:

The Company announced on April 19, 2012 that it will build a new world-scale ethylene production facility in Freeport, Texas, part of a plan to connect its U.S. operations with cost-advantaged feedstocks available from increasing supplies of low-cost U.S. shale gas. The new ethylene production unit is expected to start-up in 2017 and is part of a \$4 billion investment in ethylene and propylene production capabilities in the U.S. Gulf Coast region.

(1) Excludes sales of the Polypropylene business divested on September 30, 2011 and sales of Dow Haltermann divested during 2011.

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In addition to the new ethylene production facility, the Company has commenced engineering work on a new on-purpose propylene facility located in Freeport, Texas. The new propylene production unit will capitalize on the availability of cost-advantaged feedstocks in the United States. The new propylene production unit is expected to start up in 2015.

On May 24, 2012, the International Court of Arbitration of the International Chamber of Commerce ("ICC") released its findings in the arbitration case between the Company and Petrochemical Industries Company of Kuwait ("PIC") related to the K-Dow transaction. The ICC award holds that PIC was liable, and awards damages to Dow of \$2.16 billion, not including interest and arbitration costs. See Other Matters in Management's Discussion and Analysis of Financial Condition and Results of Operations; and Note I to the Consolidated Financial Statements for additional information on the K-Dow Matter.

On June 29, 2012, the Company, along with Aksa Akriklik Kimya Sanayii A.S., formed DowAksa Advanced Composites Holding BV, a joint venture that will manufacture and commercialize carbon fiber and derivatives.

Selected Financial Data In millions, except per share amounts	Three Months Ended		Six Months Ended		
	Jun 30, 2012	Jun 30, 2011	Jun 30, 2012	Jun 30, 2011	
Net sales	\$ 14,513	\$ 16,046	\$ 29,232	\$ 30,779	
Cost of sales	\$ 12,200	\$ 13,551	\$ 24,485	\$ 25,668	
Percent of net sales	84.1	% 84.5	% 83.8	% 83.4	%
Research and development expenses	\$ 406	\$ 411	\$ 811	\$ 811	
Percent of net sales	2.8	% 2.6	% 2.8	% 2.6	%
Selling, general and administrative expenses	\$ 674	\$ 695	\$ 1,381	\$ 1,395	
Percent of net sales	4.6	% 4.3	% 4.7	% 4.5	%
Effective tax rate	24.8	% 18.2	% 25.4	% 16.7	%
Net income available for common stockholders	\$ 649	\$ 982	\$ 1,061	\$ 1,607	
Earnings per common share – basic	\$ 0.55	\$ 0.84	\$ 0.90	\$ 1.39	
Earnings per common share – diluted	\$ 0.55	\$ 0.84	\$ 0.90	\$ 1.37	
Operating rate percentage	78	% 84	% 81	% 83	%

**RESULTS OF OPERATIONS**

Net sales in the second quarter of 2012 were \$14.5 billion, down 10 percent from \$16.0 billion in the second quarter of last year, with both price and volume down 5 percent. Price was unfavorably impacted by currency which contributed to more than half of the price decrease. Price declined in all geographic areas, led by EMEA (down 8 percent). Price decreased in all operating segments except Agricultural Sciences (up 2 percent) with the most pronounced decreases in Performance Plastics (down 7 percent), Coatings and Infrastructure Solutions (down 6 percent) and Performance Materials (down 6 percent). The decline in volume reflects the impact of recent divestitures. Excluding these divestitures, volume decreased 1 percent, with declines in Feedstocks and Energy (down 7 percent), Performance Materials (down 5 percent) and Electronic and Functional Materials (down 2 percent) more than

offsetting volume increases in Agricultural Sciences (up 10 percent) and Performance Plastics (up 3 percent). Volume remained unchanged in Coatings and Infrastructure Solutions. Volume declined in all geographic areas except Asia Pacific (up 2 percent).

Net sales for the first six months of 2012 were \$29.2 billion, down 5 percent from \$30.8 billion in the same period last year. Compared with the first six months of 2011, price decreased 2 percent and volume decreased 3 percent. The price decrease was primarily due to currency, which accounted for nearly three-fourths of the price decline. Price decreases were reported in all operating segments, except Agricultural Sciences (up 2 percent) and Feedstocks and Energy (up 1 percent).



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Prices declined in EMEA and Asia Pacific and remained unchanged in North America and Latin America. The decline in volume reflects the impact of recent divestitures. Excluding these divestitures, sales declined 1 percent compared with the first six months of 2011. Volume increased 1 percent driven by growth in Agricultural Sciences (up 11 percent), Performance Plastics (up 2 percent) and Coatings and Infrastructure Solutions (up 1 percent). Volume was flat in Feedstocks and Energy and declined in Electronic and Functional Materials (down 2 percent) and Performance Materials (down 1 percent). Volume increases in EMEA (up 3 percent) and Asia Pacific (up 1 percent) more than offset the decline in Latin America (down 3 percent). For additional details regarding the change in net sales, see the Sales Volume and Price tables at the end of the section entitled "Segment Results."

Gross margin was \$2,313 million in the second quarter of 2012, down from \$2,495 million in the second quarter of last year. Year to date, gross margin was \$4,747 million, compared with \$5,111 million in the first six months of 2011. The gross margin decline from the second quarter of last year and year-to-date was due to lower selling prices, decreased sales volume and lower operating rates which more than offset the benefit of a decrease in purchased feedstock and energy costs and lower performance-based compensation costs.

The Company's global plant operating rate was 78 percent of capacity in the second quarter of 2012, down from 84 percent in the second quarter of 2011, reflecting soft demand, coupled with a high number of planned maintenance turnarounds in the quarter. For the first six months of 2012, the Company's global plant operating rate was 81 percent, down from 83 percent in the first six months of 2011.

Personnel count was 52,898 at June 30, 2012, up from 51,705 at December 31, 2011 and up from 51,028 at June 30, 2011. Headcount increased from June 30, 2011 and from year-end 2011 primarily due to the hiring of seasonal employees to support the Company's growth initiatives within the Agricultural Sciences operating segment.

Research and development ("R&D") expenses totaled \$406 million in the second quarter of 2012, down from \$411 million in the second quarter of last year, as lower performance-based compensation costs more than offset the Company's increased spending on strategic growth initiatives in the Electronic and Functional Materials and Agricultural Sciences segments. For the first six months of 2012, R&D expenses totaled \$811 million, unchanged from the first six months of 2011.

Selling, general and administrative ("SG&A") expenses totaled \$674 million in the second quarter of 2012, down \$21 million (3 percent) from \$695 million in the second quarter of last year, primarily due to lower performance-based compensation costs. For the first six months of 2012, SG&A expenses totaled \$1,381 million, down \$14 million (1 percent) from \$1,395 million in the first six months of 2011.

Amortization of intangibles was \$122 million in the second quarter of 2012, down slightly from \$125 million in the second quarter of last year. In the first six months of 2012, amortization of intangibles was \$244 million, down from \$248 million in the same period last year. See Note F to the Consolidated Financial Statements for additional information on intangible assets.

On March 27, 2012, the Company's Board of Directors approved a restructuring plan as part of a series of actions to optimize its portfolio, respond to changing and volatile economic conditions, particularly in Western Europe, and to advance the Company's Efficiency for Growth program, which was initiated by the Company in the second quarter of 2011. The restructuring plan includes the elimination of approximately 900 positions. In addition, the Company will shut down a number of manufacturing facilities. These actions are expected to be completed primarily over the next two years. As a result of the restructuring activities, the Company recorded pretax restructuring charges of \$357 million in the first quarter of 2012 consisting of costs associated with exit and disposal activities of \$150 million, severance costs of \$113 million and asset write-downs and write-offs of \$94 million. The impact of these charges is shown as "Restructuring charges" in the consolidated statements of income and reflected in the Company's segment

results as follows: \$17 million in Electronic and Functional Materials, \$41 million in Coatings and Infrastructure Solutions, \$186 million in Performance Materials and \$113 million in Corporate. See Note C to the Consolidated Financial Statements for details on the Company's restructuring activities.

In the first quarter of 2011, pretax charges totaling \$31 million were recorded for integration costs related to the April 1, 2009 acquisition of Rohm and Haas Company. These charges were reflected in Corporate.

Dow's share of the earnings of nonconsolidated affiliates was \$148 million in the second quarter of 2012, down \$143 million from \$291 million in the second quarter of last year, primarily due to lower earnings at MEGlobal, Dow Corning, Map Ta Phut Olefins Company Limited and The SCG-Dow Group. For the first six months of 2012, Dow's share of the earnings of nonconsolidated affiliates was \$317 million, a decrease of \$272 million from \$589 million for the same period last year, with the same joint ventures driving the decreased earnings. The Company also reported equity losses from Sadara Chemical Company equal to the Company's share of development expenses.

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Sundry income (expense) – net includes a variety of income and expense items such as the gain or loss on foreign currency exchange, dividends from investments, and gains and losses on sales of investments and assets. Sundry income (expense) – net in the second quarter of 2012 was net income of \$27 million, a decrease of \$53 million compared with net income of \$80 million in the same quarter of 2011. The second quarter of 2012 included a gain related to a small divestiture, a gain due to income tax recoveries related to a prior divestiture and gains from the sale of assets which more than offset foreign currency exchange losses. The second quarter of 2011 included a \$10 million loss on the early extinguishment of debt (reflected in Corporate), gains from small divestitures, working capital adjustments from prior divestitures and a gain resulting from the consolidation of a joint venture. Year to date, sundry income (expense) - net was net income of \$44 million, reflecting gains from small divestitures and asset sales, a gain due to income tax recoveries related to a prior divestiture, a \$24 million loss on the early extinguishment of debt (reflected in Corporate) and foreign currency exchange losses. This compared with net expense of \$369 million in the first half of 2011, which included a \$482 million loss on the early extinguishment of debt (reflected in Corporate) (see Note K to the Consolidated Financial Statements), \$25 million of dividend income received from the Company's ownership interest in the divested Styron business unit (reflected in Corporate), gains from small divestitures, working capital adjustments from prior divestitures, and a gain from the consolidation of a joint venture.

Net interest expense (interest expense less capitalized interest and interest income) was \$302 million in the second quarter of 2012, compared with \$318 million in the second quarter of last year. Year to date, net interest expense was \$625 million, compared with \$688 million in the first six months of 2011. The decrease in net interest expense in the second quarter of 2012 as well as year-to-date 2012 reflected the Company's efforts to reduce financing costs and debt in 2011 and in the first quarter of 2012 (see Note K to the Consolidated Financial Statements). Interest income was \$10 million in the second quarter of 2012, unchanged from the second quarter of 2011, and \$16 million for the first six months of 2012, compared with \$17 million in the first six months of 2011.

The effective tax rate for the second quarter of 2012 was 24.8 percent compared with 18.2 percent for the second quarter of 2011. For the first six months of 2012 the effective tax rate was 25.4 percent compared with 16.7 percent for the first six months of 2011. The Company's effective tax rate fluctuates based on, among other factors, where income is earned, reinvestment assertions regarding earned income and the level of income relative to tax credits available. The Company's tax rate is also influenced by the level of equity earnings, since most of the earnings from the Company's equity company investments are taxed at the joint venture level. The increase in the second quarter of 2012 tax rate compared with the second quarter of 2011 tax rate was primarily due to a change in the geographic mix of pretax earnings, notably lower in Europe and higher in the United States, as well as reduced equity earnings. The tax rate was favorably impacted by a change in the reinvestment assertions of certain affiliates; however, this was partially offset by an unfavorable adjustment to an uncertain tax position. The tax rate in the second quarter of 2011 was favorably impacted by tax benefits related to early extinguishment of debt and the reorganization of a joint venture. The increase in the tax rate for the first half of 2012 compared with the first half of 2011 was primarily due to the change in the geographic mix of pretax earnings, reduced equity earnings and the impact of the 2012 restructuring plan. It was also favorably impacted by a change in the reinvestment assertions of certain affiliates; however, this was partially offset by an unfavorable adjustment to an uncertain tax position. The tax rate for the first six months of 2011 was favorably impacted by tax benefits from the early extinguishment of debt in the United States and the reorganization of a joint venture.

Net income attributable to noncontrolling interests was \$6 million in the second quarter of 2012, down from \$10 million in the second quarter of 2011. Net income attributable to noncontrolling interests was \$29 million in the first six months of 2012, compared with \$21 million in the first six months of 2011, reflecting improved results in certain affiliates, primarily in the Performance Materials segment.

Preferred stock dividends of \$85 million were recognized in the second quarters of 2012 and 2011 (\$170 million in the first six months of 2012 and 2011), related to the Company's Cumulative Convertible Perpetual Preferred Stock,

Series A.

Net income available for common stockholders was \$649 million, or \$0.55 per share, in the second quarter of 2012, compared with \$982 million, or \$0.84 per share, in the second quarter of 2011. Net income available for common stockholders for the first six months of 2012 was \$1,061 million, or \$0.90 per share, compared with \$1,607 million, or \$1.37 per share, for the same period of 2011.

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The following table summarizes the impact of certain items recorded in the three and six-month periods ended June 30, 2012 and June 30, 2011, and previously described in this section:

Certain Items Impacting Results	Pretax Impact (1)		Impact on Net Income (2)		Impact on EPS (3)	
	Three Months Ended		Three Months Ended		Three Months Ended	
In millions, except per share amounts	Jun 30, 2012	Jun 30, 2011	Jun 30, 2012	Jun 30, 2011	Jun 30, 2012	Jun 30, 2011
Loss on early extinguishment of debt	\$—	\$(10 )	\$—	\$(7 )	\$—	\$(0.01 )
Total	\$—	\$(10 )	\$—	\$(7 )	\$—	\$(0.01 )

Certain Items Impacting Results	Pretax Impact (1)		Impact on Net Income (2)		Impact on EPS (3)	
	Six Months Ended		Six Months Ended		Six Months Ended	
In millions, except per share amounts	Jun 30, 2012	Jun 30, 2011	Jun 30, 2012	Jun 30, 2011	Jun 30, 2012	Jun 30, 2011
Restructuring charges	\$(357 )	\$—	\$(287 )	\$—	\$(0.25 )	\$—
Acquisition-related integration expenses	—	(31 )	—	(20 )	—	(0.02 )
Loss on early extinguishment of debt	(24 )	(482 )	(15 )	(314 )	(0.01 )	(0.27 )
Total	\$(381 )	\$(513 )	\$(302 )	\$(334 )	\$(0.26 )	\$(0.29 )

(1) Impact on "Income Before Income Taxes."

(2) Impact on "Net Income Attributable to The Dow Chemical Company."

(3) Impact on "Earnings per common share – diluted."

**OUTLOOK**

Despite widespread expectations for global growth heading into the second quarter of 2012, economic activity instead began deteriorating throughout the quarter as Europe's persistent recessionary conditions have instilled increased caution among consumers. As a result, activity in other parts of the world slowed during the quarter, due to weakening consumer confidence, softer trade flows and high unemployment.

In the United States, Dow is seeing improvements in the agriculture and construction industries, and continues to benefit from strong, favorable feedstock conditions due to shale gas dynamics. However, softness in the consumer durables market is expected to continue to moderate overall momentum. Expectations in Europe continue to erode based on steady unemployment levels and fears about the economic stability of Eurozone members.

Growth in the emerging geographies, while still positive, has decelerated. China's economy is showing signs of continued growth, particularly in the agriculture and infrastructure industries, albeit at a more moderate pace. Latin America has shown signs of growth, notably in agriculture, but it, too, has cooled from prior outlooks.

Taken as a whole, the global economy is not improving at the rate initially anticipated. In the midst of this challenging and volatile environment, Dow is accelerating its cost reduction and efficiency programs. The Company remains focused on strategic price and volume management, further reducing costs and capital spending, de-leveraging its balance sheet and generating cash flow. Further, Dow's continued emphasis on managing its broad integrated portfolio, capitalizing on its feedstock advantage and continuing to develop its innovation pipeline is expected to enable the Company to deliver higher returns and value for its shareholders over the long term.



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## SEGMENT RESULTS

The Company uses EBITDA (which Dow defines as earnings (i.e., "Net Income") before interest, income taxes, depreciation and amortization) as its measure of profit/loss for segment reporting purposes. EBITDA by operating segment includes all operating items relating to the businesses, except depreciation and amortization; items that principally apply to the Company as a whole are assigned to Corporate. Additional information regarding the Company's operating segments and a reconciliation of EBITDA to "Income Before Income Taxes" can be found in Note Q to the Consolidated Financial Statements.

Due to the completion of recent divestitures, the change in sales volume from 2011 excluding divestitures is provided by operating segment, where applicable. Sales excluding divestitures exclude the sales of the Polypropylene business that was divested on September 30, 2011 and sales of Dow Haltermann that was divested during 2011.

## ELECTRONIC AND FUNCTIONAL MATERIALS

The Electronic and Functional Materials segment consists of two businesses – Dow Electronic Materials and Functional Materials – and includes a portion of the Company's share of the results of Dow Corning Corporation, a joint venture of the Company. Dow Electronic Materials is a leading global supplier of materials for chemical mechanical planarization; materials used in the production of electronic displays, including brightness films, diffusers, metalorganic light emitting diode precursors and organic light emitting diode materials; products and technologies that drive leading edge semiconductor design; materials used in the fabrication of printed circuit boards; and integrated metallization processes critical for interconnection, corrosion resistance, metal finishing and decorative applications. These enabling materials are found in applications such as consumer electronics, flat panel displays and telecommunications. Dow Electronic Materials includes Display Technologies, Growth Technologies, Interconnect Technologies and Semiconductor Technologies. Functional Materials is a portfolio of businesses characterized by a vast global footprint, a broad array of unique chemistries, multi-functional ingredients and technology capabilities, combined with key positions in the pharmaceuticals; food, home and personal care; and industrial specialties. These technology capabilities and market platforms enable the businesses to develop innovative solutions that address modern societal needs for clean water and air; material preservation; and improved health care, disease prevention, nutrition and wellness. Functional Materials includes Personal Home and Industrial Care, Dow Microbial Control and Dow Wolff Cellulosics.

Electronic and Functional Materials	Three Months Ended		Six Months Ended	
	Jun 30, 2012	Jun 30, 2011	Jun 30, 2012	Jun 30, 2011
In millions				
Sales	\$ 1,151	\$ 1,197	\$ 2,272	\$ 2,331
Price change from comparative period	(2 )%	N/A	(1 )%	N/A
Volume change from comparative period	(2 )%	N/A	(2 )%	N/A
Equity earnings	\$ 35	\$ 25	\$ 54	\$ 49
EBITDA	\$ 287	\$ 287	\$ 530	\$ 544
Certain items impacting EBITDA	\$ —	\$ —	\$ (17 )	\$ —

Electronic and Functional Materials sales were \$1,151 million in the second quarter of 2012, down 4 percent from \$1,197 million in the second quarter of 2011. Compared with the same quarter last year, price decreased 2 percent (with approximately three-fourths of the decrease due to currency) and volume decreased 2 percent. Price decreased in EMEA and Asia Pacific, and in most major business units in response to decreasing raw material costs. Volume decreased in all geographic areas driven by weaker demand for consumer electronics and specialty polymers used in home and personal care applications. EBITDA in the second quarter of 2012 was \$287 million, unchanged from the second quarter of 2011, as lower raw material costs, the favorable impact of currency on costs and lower SG&A expenses were offset by lower selling prices and decreased sales volume.

Dow Electronic Materials sales in the second quarter of 2012 decreased 5 percent from the same quarter last year as price declined 2 percent and volume decreased 3 percent. The decrease in price was driven by competitive pricing pressure and an unfavorable impact of currency. Volume decreased in North America and Asia Pacific driven by a slow recovery in the electronics industry, but increased slightly in EMEA. Volume decreased across most business units, especially in Interconnect Technologies and Display Technologies, due to lower demand for printed circuit boards, backlight film and filter products used in televisions, personal computers and other electronic devices. The volume decline in Display Technologies was partially offset by stronger demand for organic light emitting diode materials. Strategic customer wins, continued participation in leading edge memory production and slightly improved semiconductor foundry utilization rates drove higher volumes for the Semiconductor Technology business unit.



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Functional Materials sales in the second quarter of 2012 decreased 3 percent from the second quarter of 2011, as price declined 1 percent and volume decreased 2 percent. Higher prices in Dow Wolff Cellulosics were more than offset by the unfavorable impact of currency. Volume decreased in all geographic areas, except Asia Pacific, driven by soft global demand, particularly in industrial end-use markets. Volume decreased in North America and EMEA driven by lower industrial demand for specialty amines and polymers, as well as due to a limited supply of acrolein, due to a planned maintenance turnaround.

Electronic and Functional Materials sales were \$2,272 million for the first six months of 2012, down 3 percent from \$2,331 million in the first six months of 2011. Compared with year-to-date sales in 2011, price decreased 1 percent, due to currency, and volume decreased 2 percent. EBITDA for the first six months of 2012 was \$530 million, down from \$544 million in the first six months of 2011. EBITDA decreased from last year as lower selling prices, decreased sales volume, higher operating costs associated with planned maintenance turnarounds and increased R&D expenses related to growth initiatives more than offset lower raw material costs. In addition, EBITDA for the first six months of 2012 was negatively impacted by a \$17 million restructuring charge related to the write-off of a canceled capital project. See Note C to the Consolidated Financial Statements for additional information on the restructuring plan.

On July 20, 2012, the Chinese Ministry of Commerce initiated antidumping and countervailing duty investigations of imports of solar-grade polycrystalline silicon products from the United States and Korea based on a petition filed by Chinese solar-grade polycrystalline silicon producers. The outcome of this matter is uncertain but could potentially have an impact on equity earnings from Dow Corning.

**COATINGS AND INFRASTRUCTURE SOLUTIONS**

The Coatings and Infrastructure Solutions segment includes the following businesses: Dow Building and Construction, Dow Coating Materials, Dow Water and Process Solutions, and Performance Monomers; and includes a portion of the Company's share of the results of Dow Corning Corporation, a joint venture of the Company. These businesses produce a wide variety of products with a broad range of applications – adhesives and sealants, construction materials (insulation, weatherization and vinyl applications), cellulosic-based construction additives, raw materials for architectural paints and industrial coatings, and technologies used for water purification.

Coatings and Infrastructure Solutions	Three Months Ended		Six Months Ended	
	Jun 30, 2012	Jun 30, 2011	Jun 30, 2012	Jun 30, 2011
In millions				
Sales	\$ 1,888	\$ 2,002	\$ 3,591	\$ 3,734
Price change from comparative period	(6 )%	N/A	(5 )%	N/A
Volume change from comparative period	—	% N/A	1	% N/A
Equity earnings	\$45	\$79	\$67	\$147
EBITDA	\$337	\$368	\$541	\$618
Certain items impacting EBITDA	\$—	\$—	\$(41 )	\$—

Coatings and Infrastructure Solutions sales were \$1,888 million in the second quarter of 2012, down from \$2,002 million in the second quarter of 2011. Sales decreased 6 percent, with price declining 6 percent (with approximately one-third of the price decrease due to currency) while volume was flat. The price decrease was across all geographic areas and across most businesses, driven by lower feedstock and energy and other raw material costs. Dow Coating Materials volume increased in North America due to share gains achieved through technology innovation in paper coatings and in paint, notably EVOQUE™, a pre-composite polymer technology that allows paint manufacturers to maximize hiding efficiency and use less titanium dioxide. Volume for architectural coatings was lower in Latin America and Asia Pacific due to weaker end-use market conditions. Industrial coatings volume decreased due to pricing actions taken to protect margins. Dow Building and Construction sales were lower due to slower construction activity in EMEA, which more than offset volume gains in Asia Pacific, particularly in Japan where higher energy

efficiency standards continue to take hold. Dow Water and Process Solutions sales improved slightly driven by higher demand for reverse osmosis membranes used in water desalination projects.

EBITDA in the second quarter of 2012 was \$337 million, down from \$368 million in the second quarter of 2011.

EBITDA decreased from the same quarter last year as lower selling prices and decreased equity earnings from Dow Corning more than offset lower feedstock and energy costs and the positive impact of currency on costs.

Coatings and Infrastructure Solutions sales were \$3,591 million for the first six months of 2012, down 4 percent from \$3,734 million in 2011. Compared with the first six months of 2011, price declined 5 percent (with approximately one-third of the price decrease due to currency) and volume increased 1 percent. The decrease in price was broad-based, with decreases

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across all geographic areas, primarily driven by lower feedstock and energy and other raw material costs. Volume was slightly higher as increased demand for industrial coatings and reverse osmosis membranes was partially offset by lower demand for insulation products in EMEA.

EBITDA for the first six months of 2012 was \$541 million, compared with \$618 million in the first six months of 2011. EBITDA declined from last year as lower selling prices and decreased equity earnings from Dow Corning more than offset lower feedstock and energy and other raw material costs. In addition, EBITDA for the first six months of 2012 was negatively impacted by \$41 million of restructuring charges, consisting of asset write-downs and write-offs of \$37 million and costs associated with exit or disposal activities of \$4 million. See Note C to the Consolidated Financial Statements for additional information on the restructuring plan.

On July 20, 2012, the Chinese Ministry of Commerce initiated antidumping and countervailing duty investigations of imports of solar-grade polycrystalline silicon products from the United States and Korea based on a petition filed by Chinese solar-grade polycrystalline silicon producers. The outcome of this matter is uncertain but could potentially have an impact on equity earnings from Dow Corning.

**AGRICULTURAL SCIENCES**

Dow AgroSciences is a global leader in providing agricultural crop protection and plant biotechnology products, pest management solutions and healthy oils. The business invents, develops, manufactures and markets products for use in agriculture, industrial and commercial pest management, and food service.

Agricultural Sciences	Three Months Ended		Six Months Ended	
	Jun 30, 2012	Jun 30, 2011	Jun 30, 2012	Jun 30, 2011
In millions				
Sales	\$ 1,676	\$ 1,500	\$ 3,514	\$ 3,106
Price change from comparative period	2	% N/A	2	% N/A
Volume change from comparative period	10	% N/A	11	% N/A
Equity earnings (losses)	\$(1 )	\$—	\$—	\$ 3
EBITDA	\$ 307	\$ 287	\$ 758	\$ 693

Agricultural Sciences sales were \$1,676 million in the second quarter of 2012, up 12 percent from \$1,500 million in the second quarter of 2011, a second quarter sales record for the segment. Compared with the second quarter of 2011, volume increased 10 percent and price increased 2 percent, despite an unfavorable currency impact. Double-digit sales growth was reported in North America, Latin America, and Asia Pacific. Seeds, Traits and Oils reported significant second quarter sales growth of more than 30 percent compared with the same period last year. Key contributors to demand growth were the continued adoption of SmartStax® corn hybrids in North America and recent U.S. seed company acquisitions which drove increased soybean seed sales. Crop Protection had strong sales growth in the quarter due to new product sales, which increased 17 percent, led by sales of spinetoram insecticide, aminopyralid range and pasture herbicide and pyroxsulam cereal herbicide. EBITDA for the second quarter of 2012 was \$307 million, up \$20 million from \$287 million in the second quarter of 2011, driven by sales growth, which more than offset increased R&D and SG&A expenses related to growth initiatives.

For the first six months of 2012, sales for Agricultural Sciences were \$3,514 million, up 13 percent from \$3,106 million in 2011, and representing a new sales record for the segment for the first six months of the year. Compared with the same period last year, volume increased 11 percent and price increased 2 percent. Seeds, Traits and Oils reported double-digit growth compared with the first six months of 2011. The corn, soybean and healthy oils portfolios were the key drivers of growth. SmartStax® corn hybrids posted sales volume growth of over 75 percent and soybean sales were up over 50 percent, driven by recent U.S. seed company acquisitions. The healthy oils portfolio continued to receive strong customer and channel support as canola sales grew over 50 percent compared to

the year ago period. Globally, new crop protection product sales were up over 20 percent compared with the first six months of 2011, led by strong volume gains for range and pasture herbicides in North America and Latin America and spinetoram insecticide in North America and Asia Pacific.

For the first six months of 2012, EBITDA was \$758 million, up \$65 million from \$693 million the first six months of 2011. EBITDA increased as favorable global agricultural and food industry conditions, new product sales and new seed technologies led to strong sales increases across all geographic areas, more than offsetting increased R&D and SG&A expenses related to ongoing growth initiatives.

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## PERFORMANCE MATERIALS

The Performance Materials segment includes the following businesses: Amines; Chlorinated Organics; Dow Automotive Systems; Dow Formulated Systems; Dow Oil and Gas; Dow Plastic Additives; Epoxy; Oxygenated Solvents; Polyglycols, Surfactants and Fluids; and Polyurethanes. These businesses produce a wide variety of products with a broad range of applications – adhesives, aircraft and runway deicing fluids, automotive interiors and exteriors, carpeting, footwear, home furnishings, mattresses, personal care products, transportation, waterproofing membranes and wind turbines. The segment also includes a portion of the results of The SCG-Dow Group, joint ventures of the Company.

The segment included Dow Haltermann until it was fully divested at December 31, 2011.

Performance Materials	Three Months Ended		Six Months Ended	
	Jun 30, 2012	Jun 30, 2011	Jun 30, 2012	Jun 30, 2011
In millions				
Sales	\$3,369	\$3,858	\$6,842	\$7,399
Price change from comparative period	(6 )%	N/A	(4 )%	N/A
Volume change from comparative period	(7 )%	N/A	(3 )%	N/A
Volume change, excluding divestitures	(5 )%	N/A	(1 )%	N/A
Equity losses	\$(20 )	\$(4 )	\$(37 )	\$(9 )
EBITDA	\$350	\$481	\$682	\$1,045
Certain items impacting EBITDA	\$—	\$—	\$(186 )	\$—

Performance Materials sales were \$3,369 million in the second quarter of 2012, down 13 percent from \$3,858 million in the second quarter of 2011. Price declined 6 percent, compared with the second quarter of last year, with half of the decline due to the unfavorable impact of currency. Lower feedstock and energy and raw material costs drove price decreases across all geographic areas, except Latin America. Price increases in Dow Oil and Gas and Polyglycols, Surfactants and Fluids were more than offset by price declines in all other businesses. Volume declined 7 percent, reflecting the impact of the 2011 divestiture of the Dow Haltermann business. Excluding the impact of this divestiture, volume was down 5 percent. Volume was down across most businesses and all geographic areas, especially Latin America which reflected the impact of the shutdown of toluene diisocyanate capacity in Brazil. Dow Oil and Gas reported increased volume, driven by strong sector fundamentals, particularly in North America and Latin America. Epoxy sales declined due to continued soft demand for allylics and phenolics as well as extended planned maintenance turnarounds. Volume remained flat for Dow Formulated Systems as increased demand in EMEA and Latin America was offset by weak demand in the wind energy sector in Asia Pacific. Dow Automotive Systems reported lower volume, compared with the second quarter of last year, as demand softened in Latin America and Europe.

EBITDA for the second quarter of 2012 was \$350 million, down from \$481 million in the second quarter of 2011. Compared with the same period last year, lower selling prices, decreased sales volume, increased spending for planned maintenance turnarounds and lower equity earnings more than offset decreased feedstock and energy and other raw material costs and the positive impact of currency on costs.

For the first half of 2012, Performance Materials sales were \$6,842 million, a decrease of 7 percent from \$7,399 million in the first half of 2011. Compared with last year, price declined 4 percent, with half of the decline due to the unfavorable impact of currency, while volume declined by 3 percent. The decrease in price was broad-based, with lower prices across most businesses and geographic areas and largely driven by lower feedstock and energy and raw material costs. The volume decline reflects the impact of the 2011 divestiture of the Dow Haltermann business. Excluding the impact of this divestiture, volume decreased 1 percent. Volume growth in Amines, Dow Oil and Gas, Dow Formulated Systems and Oxygenated Solvents was more than offset by declines in the other businesses.

EBITDA for the first six months of 2012 was \$682 million, down from \$1,045 million in the first six months of 2011. Compared with the same period last year, EBITDA declined as lower selling prices, increased spending for planned maintenance turnarounds and lower equity earnings from Map Tu Phut Olefins Company Limited more than offset the decrease in feedstock and energy and other raw material costs. EBITDA in the first half of 2012 was negatively impacted by \$186 million of restructuring charges related to the shutdown/consolidation of assets in the Polyurethanes and Epoxy businesses in Brazil, Texas and Germany, and the cancellation of a capital project. See Note C to the Consolidated Financial Statements for additional information on the restructuring plan.

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## PERFORMANCE PLASTICS

The Performance Plastics segment is a solutions-oriented portfolio comprised primarily of Dow Performance Packaging, Dow Elastomers, Dow Electrical and Telecommunications, Dow Hygiene and Medical, and Dow Licensing and Catalyst. These businesses serve high-growth, strategic sectors where Dow's world-class technology and rich innovation pipeline create new competitive advantages for customers and the entire value chain. These businesses also have complementary market reach, asset capabilities and technology platforms that provide immediate and long-term growth synergies. Product applications include high performance flexible and rigid packaging; packaging adhesives; disposable diaper components; elastomeric materials for transportation, toys, sporting goods and housewares; plastic pipe; and wire and cable insulation and jacketing materials for power utility and telecommunications. The Performance Plastics segment also includes the results of Univation Technologies, LLC, as well as a portion of the results of EQUATE Petrochemical Company K.S.C., The Kuwait Olefins Company K.S.C. and The SCG-Dow Group, all joint ventures of the Company.

On September 30, 2011, the Company sold its global Polypropylene business to Braskem SA. The transaction did not include Dow's Polypropylene Licensing and Catalyst business. The Polypropylene business was reported in the Performance Plastics segment through the date of the divestiture.

Performance Plastics	Three Months Ended		Six Months Ended	
	Jun 30, 2012	Jun 30, 2011	Jun 30, 2012	Jun 30, 2011
In millions				
Sales	\$3,711	\$4,441	\$7,302	\$8,484
Price change from comparative period	(7 )%	N/A	(4 )%	N/A
Volume change from comparative period	(9 )%	N/A	(10 )%	N/A
Volume change, excluding divestitures	3 %	N/A	2 %	N/A
Equity earnings	\$39	\$59	\$73	\$121
EBITDA	\$760	\$958	\$1,478	\$1,939

Performance Plastics sales in the second quarter of 2012 were \$3,711 million, down 16 percent from \$4,441 million in the second quarter of 2011, with volume down 9 percent and price down 7 percent (with nearly one-third of the decrease due to currency). Volume decreased due to the divestiture of the Polypropylene business. Excluding the impact of this divestiture, volume increased 3 percent. Volume was higher in all geographic areas, except North America, with strong, double-digit increases in Asia Pacific and modest improvement in EMEA and Latin America. Dow Elastomers reported volume growth in all geographic areas, except EMEA, due to strong demand in the transportation and adhesive industries. Dow Electrical and Telecommunications reported strong volume growth in Asia Pacific, partially offset by declines in the other geographic areas, despite modest improvement in demand for power cable products. Asia Pacific reported double-digit volume growth, notably in Greater China, due to higher demand for fiber optic cable. Dow Performance Packaging volume was up modestly, with improvement in all geographic areas, except North America. Dow Performance Packaging volume was down in North America as a result of a planned maintenance turnaround at the cracker supplying production. Dow Hygiene and Medical volume was significantly higher in Latin America and Asia Pacific due to strong demand for diapers and other hygiene products. Volume decreased in North America due to weak demand. Feedstock and energy costs fell during the quarter translating into lower selling prices across all geographic areas and most businesses, most notably Dow Performance Packaging. Double-digit price declines were reported in EMEA, with more than half of the decline due to the unfavorable impact of currency.

EBITDA in the second quarter of 2012 was \$760 million, down from \$958 million in the second quarter of 2011. EBITDA declined as lower selling prices, reduced operating rates, the impact of planned maintenance turnarounds, the absence of earnings from divested businesses and reduced equity earnings from The SCG-Dow Group more than offset the favorable impact of lower feedstock and energy costs.

Performance Plastics sales for the first six months of 2012 were \$7,302 million, down 14 percent from \$8,484 million in the first half of 2011. Compared with the first half of 2011, price decreased 4 percent while volume decreased 10 percent, reflecting the divestiture of the Polypropylene divestiture. Excluding the impact of this divestiture, volume was up 2 percent. EBITDA for the first half of 2012 was \$1,478 million, down from \$1,939 million in the first half of 2011. EBITDA declined as lower selling prices, reduced operating rates and decreased equity earnings from The Kuwait Styrene Company K.S.C. and The SCG-Dow Group more than offset lower feedstock and energy costs.



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## FEEDSTOCKS AND ENERGY

The Feedstocks and Energy segment includes the following businesses: Chlor-Alkali/Chlor-Vinyl; Energy; Ethylene Oxide/Ethylene Glycol; and Hydrocarbons. The Chlor-Alkali/Chlor-Vinyl business focuses on the production of chlorine for consumption by downstream Dow derivatives, as well as production, marketing and supply of ethylene dichloride, vinyl chloride monomer and caustic soda. These products are used for applications such as alumina production, pulp and paper manufacturing, soaps and detergents, and building and construction. The Energy business supplies power, steam and other utilities, principally for use in Dow's global operations. The Ethylene Oxide/Ethylene Glycol ("EO/EG") business is the world's largest producer of purified ethylene oxide, principally used in Dow's downstream performance derivatives. Dow is also a key supplier of ethylene glycol to MEGlobal, a 50:50 joint venture and world leader in the manufacture and marketing of merchant monoethylene glycol and diethylene glycol. Ethylene glycol is used in polyester fiber, polyethylene terephthalate (PET) for food and beverage container applications, polyester film, and aircraft and runway deicers. The Hydrocarbons business encompasses the procurement of natural gas liquids and crude oil-based raw materials, as well as the supply of monomers, principally for use in Dow's global operations. The business regularly sells its by-products and buys and sells products in order to balance regional production capabilities and derivative requirements. The business also sells products to certain Dow joint ventures. Also included in the Feedstocks and Energy segment are the results of Compañia Mega S.A. and MEGlobal, and a portion of the results of EQUATE Petrochemical Company K.S.C., The Kuwait Olefins Company K.S.C., and the SGC-Dow Group, all joint ventures of the Company.

Feedstocks and Energy	Three Months Ended		Six Months Ended	
	Jun 30, 2012	Jun 30, 2011	Jun 30, 2012	Jun 30, 2011
In millions				
Sales	\$2,657	\$2,963	\$5,592	\$5,551
Price change from comparative period	(3 )%	N/A	1	% N/A
Volume change from comparative period	(7 )%	N/A	—	% N/A
Equity earnings	\$52	\$138	\$177	\$293
EBITDA	\$134	\$254	\$332	\$502

Feedstocks and Energy sales were \$2,657 million in the second quarter of 2012, down 10 percent from \$2,963 million in second quarter of 2011. Sales of the Hydrocarbons business decreased 5 percent in the second quarter of 2012, driven by a 3 percent decrease in volume and a 2 percent decrease in price, as price gains were more than offset by the unfavorable impact of currency. The decrease in volume was primarily due to planned maintenance turnaround activity. For the first six months of 2012, sales were up 8 percent from the same period last year. Energy sales decreased 41 percent in the second quarter of 2012, primarily due to volume declines in North America. Sales for the Energy business are primarily opportunistic merchant sales driven by market conditions and sales to customers located on Dow manufacturing sites. For the first six months of 2012, the Energy business' sales were down 30 percent from the same period last year. The Hydrocarbons business transfers materials to Dow's derivative businesses and the Energy business supplies utilities to Dow's businesses at net cost, resulting in EBITDA that is at or near break-even for these businesses.

The Company uses derivatives of crude oil and natural gas as a feedstock in its ethylene facilities. The Company's cost of purchased feedstocks and energy in the second quarter of 2012 decreased \$978 million compared with the same quarter last year, a decrease of 17 percent. The cost of feedstocks decreased primarily due to lower naphtha and condensate prices in Europe, and a decrease in feedstocks and energy prices in the United States due to increased supply of shale gas and natural gas liquids. These trends are expected to continue into the third quarter of 2012. Year to date, the cost of purchased feedstocks and energy was down \$881 million from the same period last year, a decrease of 8 percent.

The Chlor-Alkali/Chlor-Vinyl business reported a 21 percent decrease in sales in the second quarter of 2012 compared with the same period last year, with volume down 14 percent and price down 7 percent (with nearly forty percent of the decline in price due to the unfavorable impact from currency). Caustic soda sales increased, with double-digit increases in North America, driven by strong demand in the alumina and pulp and paper industries. Vinyl chloride monomer ("VCM") price was down, with volume decreasing in all areas, primarily due to a reduction in production capacity in North America and continued weakness in the building and construction industry. Ethylene Oxide/Ethylene Glycol ("EO/EG") sales were down 6 percent in the second quarter of 2012, driven by a 10 percent decrease in price (with more than one-third of the decline due to the unfavorable impact of currency) partially offset by a 4 percent increase in volume. Monoethylene glycol ("MEG") prices decreased due to lower demand primarily from the polyester industry and high inventory levels in Asia. For the first six months of 2012, sales for Chlor-Alkali/Chlor-Vinyl were down 16 percent from the same period last year, driven by a 1 percent

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decrease in price due to currency and a 15 percent decrease in volume. For the six months of 2012, sales for Ethylene Oxide/Ethylene Glycol were up 4 percent from the same period last year, driven by a 7 percent decrease in price and an 11 percent increase in volume.

EBITDA in the second quarter of 2012 was \$134 million, down from \$254 million in the second quarter of 2011 due to a decrease in selling price and sales volume, lower equity earnings from MEGlobal and increased costs related to planned maintenance turnarounds which more than offset lower feedstock and energy costs. EBITDA for the first six months of 2012 was \$332 million, down significantly from \$502 million in the same period last year. EBITDA primarily decreased due to reduced equity earnings from MEGlobal and The Kuwait Olefins Company K.S.C.

The Company recently announced a number of investments in the U.S. Gulf Coast to take advantage of increasing supplies of low-cost natural gas and natural gas liquids ("NGLs") from shale gas. As a result of these investments, the Company's exposure to purchased ethylene and propylene is expected to decline, offset by increased exposure to ethane and propane feedstocks. The first project to come online will be the re-start of an ethylene cracker in St. Charles, Louisiana, which is expected to be completed by the end of 2012. The Company also announced investments in a new on-purpose propylene production unit (expected start-up in 2015) and a new ethylene production unit (expected start-up in 2017), both located in Freeport, Texas. As a result of these investments, Dow's ethylene production capabilities are expected to increase by as much as 20 percent.

**CORPORATE**

Included in the results for Corporate are:

- results of insurance company operations;
- results of Ventures (which includes new business incubation platforms focused on identifying and pursuing new commercial opportunities);
- Venture Capital;
- gains and losses on sales of financial assets;
- stock-based compensation expense and severance costs;
- changes in the allowance for doubtful receivables;
- asbestos-related defense and resolution costs;
- foreign exchange hedging results;
- non-business aligned technology licensing and catalyst activities;
- environmental operations;
- enterprise level mega project activities; and
- certain corporate overhead costs and cost recovery variances not allocated to the operating segments.

Corporate In millions	Three Months Ended		Six Months Ended	
	Jun 30, 2012	Jun 30, 2011	Jun 30, 2012	Jun 30, 2011
Sales	\$61	\$85	\$119	\$174
Equity losses	\$(2 )	\$(6 )	\$(17 )	\$(15 )
EBITDA	\$(215 )	\$(303 )	\$(653 )	\$(1,067 )
Certain items impacting EBITDA	\$—	\$(10 )	\$(137 )	\$(513 )

Sales for Corporate, which primarily relate to the Company's insurance operations, were \$61 million in the second quarter of 2012, down from \$85 million the second quarter of 2011. For the first six months of 2012, sales were \$119 million, down from \$174 million in the same period of 2011.

EBITDA in the second quarter of 2012 was a loss of \$215 million, compared with a loss of \$303 million in the second quarter of 2011. Compared with the same period last year, EBITDA was favorably impacted by a decrease in performance-based compensation costs and lower foreign currency exchange losses. EBITDA in the second quarter of 2011 was negatively impacted by a \$10 million loss related to the early extinguishment of debt.

EBITDA for the first six months of 2012 was a loss of \$653 million, compared with a loss of \$1,067 million in the same period last year. EBITDA was favorably impacted by lower performance-based compensation costs (including expenses related to stock-based compensation and decreased participation in the Employees' Stock Purchase Plan), partially offset by decreased dividend income, higher asbestos-related defense costs and foreign currency losses.

EBITDA for the first six months of 2012 was reduced by \$113 million of severance costs related to the workforce reduction component of the Company's restructuring

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plan as well as a \$24 million loss related to the early extinguishment of debt. EBITDA for the first six months of 2011 was negatively impacted by a \$482 million loss related to the early extinguishment of debt, as well as \$31 million of integration costs related to the April 1, 2009 acquisition of Rohm and Haas. See Note C to the Consolidated Financial Statements for additional information on the restructuring plan.

Sales Volume and Price by Operating Segment and Geographic Area	Three Months Ended			Six Months Ended		
	Jun 30, 2012			Jun 30, 2012		
Percentage change from prior year	Volume	Price	Total	Volume	Price	Total
Operating segments						
Electronic and Functional Materials	(2 )%	(2 )%	(4 )%	(2 )%	(1 )%	(3 )%
Coatings and Infrastructure Solutions	—	(6 )	(6 )	1	(5 )	(4 )
Agricultural Sciences	10	2	12	11	2	13
Performance Materials	(7 )	(6 )	(13 )	(3 )	(4 )	(7 )
Performance Plastics	(9 )	(7 )	(16 )	(10 )	(4 )	(14 )
Feedstocks and Energy	(7 )	(3 )	(10 )	—	1	1
Total	(5 )%	(5 )%	(10 )%	(3 )%	(2 )%	(5 )%
Geographic areas						
United States	(5 )%	(4 )%	(9 )%	(3 )%	(1 )%	(4 )%
Europe, Middle East and Africa	(7 )	(8 )	(15 )	(3 )	(5 )	(8 )
Rest of World	(2 )	(3 )	(5 )	(2 )	(1 )	(3 )
Total	(5 )%	(5 )%	(10 )%	(3 )%	(2 )%	(5 )%

Sales Volume and Price by Operating Segment and Geographic Area Excluding Divestitures (1)	Three Months Ended			Six Months Ended		
	Jun 30, 2012			Jun 30, 2012		
Percentage change from prior year	Volume	Price	Total	Volume	Price	Total
Operating segments						
Electronic and Functional Materials	(2 )%	(2 )%	(4 )%	(2 )%	(1 )%	(3 )%
Coatings and Infrastructure Solutions	—	(6 )	(6 )	1	(5 )	(4 )
Agricultural Sciences	10	2	12	11	2	13
Performance Materials	(5 )	(6 )	(11 )	(1 )	(4 )	(5 )
Performance Plastics	3	(9 )	(6 )	2	(5 )	(3 )
Feedstocks and Energy	(7 )	(3 )	(10 )	—	1	1
Total	(1 )%	(5 )%	(6 )%	1 %	(2 )%	(1 )%
Geographic areas						
United States	(1 )%	(4 )%	(5 )%	1 %	(1 )%	— %
Europe, Middle East and Africa	(1 )	(8 )	(9 )	3	(5 )	(2 )
Rest of World	(1 )	(3 )	(4 )	(1 )	(1 )	(2 )
Total	(1 )%	(5 )%	(6 )%	1 %	(2 )%	(1 )%

(1) Excludes sales of the Polypropylene business that was divested on September 30, 2011 and sales of Dow Haltermann that was divested during 2011.

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## 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 In millions	Six Months Ended	
	Jun 30, 2012	Jun 30, 2011
Cash provided by (used in):		
Operating activities	\$1,421	\$620
Investing activities	(1,115	) (904
Financing activities	(1,609	) (4,599
Effect of exchange rate changes on cash	(13	) 64
Cash assumed in initial consolidation of variable interest entities	—	3
Net change in cash and cash equivalents	\$(1,316	) \$(4,816

In the first six months of 2012, cash provided by operating activities increased compared with the same period last year primarily due to a decrease in working capital requirements that more than offset decreased earnings and higher pension contributions.

In the first six months of 2012, cash used in investing activities increased compared with the same period last year primarily due to lower net proceeds received from purchases and sales/maturities of investments. In the first six months of 2011, cash used in investing activities included \$81 million of proceeds received on the sale of the Company's ownership interest in a nonconsolidated affiliate.

In the first six months of 2012 and 2011, cash was used in financing activities primarily for payments on long- and short-term debt, including the early redemption of \$1.25 billion of debt in the first quarter of 2012 and the retirement of \$4 billion of debt during the first six months of 2011, as well as dividends paid to stockholders.

The Company had cash and cash equivalents of \$4,128 million at June 30, 2012 and \$5,444 million at December 31, 2011, of which \$2,142 million at June 30, 2012 and \$2,047 million at December 31, 2011 was held by subsidiaries in foreign countries, including United States territories. For each of its foreign subsidiaries, the Company makes an assertion regarding the amount of earnings intended for permanent reinvestment, with the balance available to be repatriated to the United States. The cash held by foreign subsidiaries for permanent reinvestment is generally used to finance the subsidiaries' operational activities and future foreign investments. A deferred tax liability has been accrued for the funds that are available to be repatriated to the United States. During the second quarter of 2012, the Company changed the permanent reinvestment assertion of certain subsidiaries located in Europe, resulting in a tax benefit in the quarter. At June 30, 2012, management believed that sufficient liquidity was available in the United States. However, in the unusual event that additional foreign funds are needed in the United States, the Company has the ability to repatriate additional funds. The repatriation could result in an adjustment to the tax liability after considering available foreign tax credits and other tax attributes.

On March 27, 2012, the Board of Directors approved a restructuring plan ("the 2012 Plan") to optimize its portfolio, respond to changing and volatile economic conditions, particularly in Western Europe, and to advance the Company's Efficiency for Growth program, which was initiated by the Company in the second quarter of 2011. The restructuring plan includes the elimination of approximately 900 positions. In addition, the Company will shut down a number of manufacturing facilities. These actions are expected to be completed primarily over the next two years.

The restructuring activities related to the 2012 Plan are expected to result in cash expenditures for contract termination fees and severance costs, to be settled primarily over the next two years. At June 30, 2012, the remaining liability for the 2012 Plan was approximately \$190 million (see Note C to the Consolidated Financial Statements for information on cash payments made at June 30, 2012). The Company 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, and to ensure competitiveness across its businesses and geographic areas. Future costs are expected to include demolition costs related to closed facilities; these 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. These costs cannot be reasonably estimated at this time.

Management expects that the Company will continue to have sufficient liquidity and financial flexibility to meet all of its business obligations.

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The following table presents working capital and certain balance sheet ratios:

Working Capital In millions	Jun 30, 2012	Dec 31, 2011
Current assets	\$23,198	\$23,422
Current liabilities	12,629	13,634
Working capital	\$10,569	\$9,788
Current ratio	1.84 :1	1.72 :1
Days-sales-outstanding-in-receivables	46	44
Days-sales-in-inventory	69	64

Days sales-in-inventory increased in the first six months of 2012 due to an intentional buildup of inventory to address seasonal demand and planned maintenance turnarounds in the second quarter of 2012, and was further impacted by weakened demand.

As shown in the following table, net debt is equal to total gross debt minus "Cash and cash equivalents" and "Marketable securities and interest bearing deposits." As Dow continues to strengthen its balance sheet and increase financial flexibility, management is principally focused on net debt, as Dow believes this is the best measure of the Company's financial leverage.

Total Debt In millions	Jun 30, 2012	Dec 31, 2011	
Notes payable	\$473	\$541	
Long-term debt due within one year	1,880	2,749	
Long-term debt	18,304	18,310	
Gross debt	\$20,657	\$21,600	
Cash and cash equivalents	\$4,128	\$5,444	
Marketable securities and interest-bearing deposits	2	2	
Net debt	\$16,527	\$16,154	
Gross debt as a percent of total capitalization	45.9	% 48.0	%
Net debt as a percent of total capitalization	40.4	% 40.8	%

As part of its ongoing financing activities, Dow has the ability to issue promissory notes under its U.S. and Euromarket commercial paper programs. The Company had no commercial paper outstanding at June 30, 2012 or December 31, 2011. Through July 2012, the Company maintained access to the commercial paper market at competitive rates.

In the event Dow has short-term liquidity needs and is unable to issue commercial paper under these programs for any reason, Dow has the ability to access liquidity through its committed and available \$5 billion Five Year Competitive Advance and Revolving Credit Facility Agreement dated October 18, 2011 (the "Revolving Credit Facility") with various U.S. and foreign banks. The Revolving Credit Facility has a maturity date in October 2016 and provides for interest at a LIBOR-plus rate or Base Rate as defined in the Agreement. At June 30, 2012, the full \$5 billion Revolving Credit Facility was available to the Company.

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 19, 2010. Under this shelf registration, the Company may offer common stock, preferred stock, depositary shares, debt securities, warrants, stock purchase contracts and stock purchase units with pricing and availability dependent on market conditions; and, on February 19, 2010, registered an unlimited amount of securities for issuance under the Company's U.S. retail medium-term note program (InterNotes). At



June 30, 2012, the Company had Euro 5 billion (approximately \$6.3 billion) available for issuance under the Company's Euro Medium Term Note Program, as well as Japanese yen 50 billion (approximately \$630 million) of securities available for issuance under a shelf registration renewed with the Kanto Local Finance Bureau of the Ministry of Finance of Japan effective September 8, 2010, which will expire on September 7, 2012. The Company intends to renew this shelf registration in the third quarter of 2012.

On March 8, 2012, the Company redeemed \$1.25 billion aggregate principal amount of 4.85 percent notes due August 15, 2012, at a price of 101.8 percent of the principal amount of the notes, plus accrued and unpaid interest. As a result of this redemption, the Company realized a \$24 million pretax loss on the early extinguishment of debt, included in "Sundry income (expense) - net" in the consolidated statements of income and reflected in Corporate.

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In the first six months of 2012, the Company issued \$210 million aggregate principal amount of InterNotes and approximately \$224 million of long-term debt was entered into by consolidated variable interest entities.

In the first quarter of 2012, the Company redeemed \$37 million of pollution control/industrial revenue bonds that matured on January 1, 2012. During the second quarter of 2012, the Company repurchased \$105 million of pollution control/industrial revenue tax-exempt bonds that were subject to re-marketing.

On March 22, 2011, the Company concluded cash tender offers for \$1.5 billion aggregate principal amount of certain notes issued by the Company. As a result of the tender offers, the Company redeemed \$1.5 billion of the notes and recognized a \$472 million pretax loss on early extinguishment of debt, included in "Sundry income (expense) – net" in the consolidated statements of income and reflected in Corporate.

During the first six months of 2011, the Company redeemed \$800 million of notes that matured on February 1, 2011 and Euro 500 million of notes that matured on May 27, 2011 (\$707 million equivalent at March 31, 2011). The Company also redeemed \$1,208 million of InterNotes and recognized a \$10 million pretax loss on early extinguishment of debt, included in "Sundry income (expense) - net" in the consolidated statements of income and reflected in Corporate. In the second quarter of 2011, the Company issued \$175 million of InterNotes.

Dow's public debt instruments and documents for its private funding transactions contain, among other provisions, certain covenants and default provisions. The Company's most significant debt covenant with regard to its financial position is the obligation to maintain the ratio of the Company's consolidated indebtedness to consolidated capitalization at no greater than 0.65 to 1.00 at any time the aggregate outstanding amount of loans under the Revolving Credit Facility exceeds \$500 million. The ratio of the Company's consolidated indebtedness to consolidated capitalization as defined in the credit agreements was 0.44 to 1.00 at June 30, 2012. At June 30, 2012, management believes the Company was in compliance with all of its covenants and default provisions.

The Company's credit rating is investment grade. The Company's long-term credit ratings are BBB with a stable outlook (Standard & Poor's), Baa3 with a positive outlook (Moody's) and BBB with a stable outlook (Fitch). The Company's short-term credit ratings are A-2 (Standard & Poor's), P-3 (Moody's) and F2 (Fitch). If the Company's credit ratings are downgraded, borrowing costs will increase on certain indentures, and it could have a negative impact on the Company's ability to access credit markets.

Capital Expenditures

Capital spending was \$581 million in the second quarter of 2012, compared with capital spending of \$564 million in the second quarter of 2011. Year to date, capital spending was \$983 million compared with \$969 million in 2011. The Company expects capital spending in 2012 to be approximately \$2.4 billion.

Contractual Obligations

Information related to the Company's contractual obligations, commercial commitments and expected cash requirements for interest at December 31, 2011 can be found in Notes N, P, Q, R and X to the Consolidated Financial Statements in the Company's Annual Report on Form 10-K for the year ended December 31, 2011. With the exception of the items noted below, there have been no material changes in the Company's contractual obligations since December 31, 2011.

The following table represents long-term debt obligations and expected cash requirements for interest at June 30, 2012, reflecting the early redemptions of debt, the redemption of pollution control/industrial revenue bonds, the issuance of new InterNotes and new debt entered into by consolidated variable interest entities during the first six months of 2012 (see Note K to the Consolidated Financial Statements).

Contractual Obligations at June 30, 2012                      Payments Due by Year

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In millions	2012	2013	2014	2015	2016	2017 and beyond	Total
Long-term debt – current and noncurrent (1)	\$1,439	\$714	\$2,418	\$1,512	\$1,028	\$13,445	\$20,556
Expected cash requirements for interest (2)	\$607	\$1,131	\$1,015	\$900	\$844	\$7,650	\$12,147

(1) Excludes unamortized debt discount of \$372 million.

(2) Cash requirements for interest was calculated using current interest rates at June 30, 2012, and includes approximately \$1.65 billion of various floating rate notes.

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Contractual Obligations at December 31, 2011	Payments Due by Year						
	In millions	2012	2013	2014	2015	2016	2017 and beyond
Long-term debt – current and noncurrent (1)	\$2,749	\$662	\$2,361	\$1,453	\$995	\$13,232	\$21,452
Expected cash requirements for interest (2)	\$1,269	\$1,124	\$1,011	\$897	\$845	\$7,773	\$12,919

(1) Excludes unamortized debt discount of \$393 million.

(2) Cash requirements for interest was calculated using interest rates at December 31, 2011, and includes approximately \$1.1 billion of various floating rate notes.

**Off-Balance Sheet Arrangements**

The Company holds a variable interest in a joint venture accounted for under the equity method of accounting. The Company is not the primary beneficiary of the joint venture and therefore is not required to consolidate the entity (see Note L to the Consolidated Financial Statements). In addition, see Note J to the Consolidated Financial Statements for information regarding the transfer of financial assets.

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 if specific triggering events occur. The Company had outstanding guarantees at June 30, 2012 of \$1,603 million, up from \$1,113 million at December 31, 2011. The increase in the value of the outstanding guarantees in the first half of 2012 is primarily related to debt obligations of Sadara Chemical Company, a nonconsolidated affiliate, which are guaranteed by the Company, in proportion to the Company's ownership interest, for a period of up to 24 months. Additional information related to guarantees can be found in the "Guarantees" section of Note I to the Consolidated Financial Statements.

**Fair Value Measurements**

The Company's assets and liabilities measured at fair value are classified in the fair value hierarchy (Level 1, 2 or 3) based on the inputs used for valuation. Assets and liabilities that are traded on an exchange with a quoted price are classified as Level 1. Assets and liabilities are classified as Level 2 if they are valued based on a bid, bid evaluation, or by using observable market data points of similar, more liquid securities to imply the price. The custodian of the Company's debt and equity securities uses multiple industry-recognized vendors for pricing information and established processes for validation and verification to assist the Company in its process for determining and validating fair values for these assets. For the Company's interests held in trade receivable conduits, classified as Level 3, the fair value is determined by calculating the expected amount of cash to be received using the key input of anticipated credit losses in the portfolio of receivables sold that have not yet been collected. For pension or other post retirement benefit plan assets classified as Level 3, the total fair value is based on significant unobservable inputs including assumptions where there is little, if any, market activity for the investment. The sensitivity of fair value estimates is immaterial relative to the assets and liabilities measured at fair value, as well as to the total equity of the Company. See Notes H and J to the Consolidated Financial Statements for the Company's disclosures about fair value measurements.

Portfolio managers and external investment managers regularly review all of the Company's holdings to determine if any investments are other-than-temporarily impaired. The analysis includes reviewing the amount of the temporary impairment, as well as the length of time it has been impaired. In addition, specific guidelines for each instrument type are followed to determine if an other-than-temporary impairment has occurred. For debt securities, the credit rating of the issuer, current credit rating trends and the trends of the issuer's overall sector are considered in determining whether unrealized losses represent an other-than-temporary impairment. For equity securities, the Company's investments are primarily in Standard & Poor's ("S&P") 500 companies; however, the Company also allows investments in companies outside of the S&P 500. The largest holdings are Exchange Traded Funds that represent the S&P 500 index or an S&P 500 sector or subset; the Company also has holdings in Exchange Traded Funds that represent emerging markets. The Company considers the evidence to support the recovery of the cost basis of a security

including volatility of the stock, the length of time the security has been in a loss position, value and growth expectations, and overall market and sector fundamentals, as well as technical analysis, in determining whether unrealized losses represent an other-than-temporary impairment. Other-than-temporary impairment write-downs on investments still held by the Company were \$5 million in the first six months of 2012 (\$3 million in the first six months of 2011).

#### Dividends

On April 12, 2012, the Board of Directors declared a quarterly dividend for the second quarter of 2012 of \$0.32 per common share, payable July 30, 2012 to stockholders of record on June 29, 2012. The 28 percent increase in the dividend in the second quarter of 2012 (from \$0.25 per common share in the first quarter of 2012) demonstrates the Board's commitment to increasingly reward stockholders. Since 1912, the Company has paid a cash dividend every quarter and, in each instance prior

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to and since February 12, 2009, has maintained or increased the amount of the dividend, adjusted for stock splits. During this 100-year period, Dow has increased the amount of the quarterly dividend 49 times (approximately 12 percent of the time), reduced the dividend once, and maintained the amount of the quarterly dividend approximately 88 percent of the time. The dividend was reduced in February 2009, for the first time since 1912, due to uncertainty in the credit markets, unprecedented lower demand for chemical products and the ongoing global recession.

On May 10, 2012, the Board of Directors declared a quarterly dividend of \$85 million to Cumulative Convertible Perpetual Preferred Stock, Series A shareholders payable July 1, 2012 to shareholders of record on June 15, 2012. Ongoing dividends related to Cumulative Convertible Perpetual Preferred Stock, Series A will accrue at the rate of \$85 million per quarter, and are payable quarterly subject to Board of Directors' approval.

### OTHER MATTERS

#### Recent Accounting Guidance

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

#### 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, 2011 ("2011 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 2011 10-K. Since December 31, 2011, 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 pending against Union Carbide and Amchem, based on criteria developed by Union Carbide and its external consultants:

	2012	2011
Claims unresolved at January 1	53,225	62,582
Claims filed	4,332	4,253
Claims settled, dismissed or otherwise resolved	(19,249	) (8,878
Claims unresolved at June 30	38,308	57,957
Claimants with claims against both UCC and Amchem	(11,098	) (18,098
Individual claimants at June 30	27,210	39,859

Plaintiffs' lawyers often sue numerous defendants in individual lawsuits or on behalf of numerous 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

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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-related 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 addition, Union Carbide has requested ARPC to review Union Carbide’s historical asbestos claim and resolution activity each November since 2004 to determine the appropriateness of updating the most recent ARPC study.

In November 2010, Union Carbide requested ARPC to review Union Carbide’s historical asbestos claim and resolution activity and determine the appropriateness of updating its then most recent study completed in December 2008. In response to that request, ARPC reviewed and analyzed data through October 31, 2010. The resulting study, completed by ARPC in December 2010, 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 2025 was estimated to be between \$744 million and \$835 million. As in its earlier studies, ARPC provided estimates for a longer period of time in its December 2010 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 December 2010, based on ARPC’s December 2010 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 \$744 million, which covered the 15-year period ending 2025, excluding future defense and processing costs. The reduction was \$54 million and was shown as “Asbestos-related credits” in the consolidated statements of income. At December 31, 2010, the asbestos-related liability for pending and future claims was \$728 million.

In November 2011, Union Carbide requested ARPC to review Union Carbide’s 2011 asbestos claim and resolution activity and determine the appropriateness of updating its December 2010 study. In response to that request, ARPC reviewed and analyzed data through October 31, 2011. In January 2012, ARPC stated that an update of its study would not provide a more likely estimate of future events than the estimate reflected in its December 2010 study 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, 2011, the asbestos-related liability for pending and future claims was \$668 million. At December 31, 2011, approximately 18 percent of the recorded liability related to pending claims and approximately 82 percent related to future claims.

Based on Union Carbide’s review of 2012 activity, Union Carbide determined that no adjustment to the accrual was required at June 30, 2012. Union Carbide’s asbestos-related liability for pending and future claims was \$636 million at June 30, 2012. Approximately 20 percent of the recorded liability related to pending claims and approximately 80 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	Six Months Ended	Aggregate Costs to Date as of
In millions		



	Jun 30, 2012	Jun 30, 2011	Jun 30, 2012
Defense costs	\$48	\$28	\$910
Resolution costs	\$32	\$26	\$1,615

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 \$23 million in the second quarter of 2012 (\$15 million in the second quarter of 2011) and \$48 million in the first six

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months of 2012 (\$28 million in the first six months of 2011), and was reflected in “Cost of sales” in the consolidated statements of income.

**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 (the “Insurance Litigation”). The Insurance Litigation 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. Since the filing of the case, Union Carbide has reached settlements with several of the carriers involved in the Insurance Litigation, including settlements reached with two significant carriers in the fourth quarter of 2009. The Insurance Litigation is ongoing.

Union Carbide’s receivable for insurance recoveries related to its asbestos liability was \$40 million at June 30, 2012 and \$40 million at December 31, 2011. At June 30, 2012 and December 31, 2011, 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 that have settlement agreements in place regarding their asbestos-related insurance coverage. The following table summarizes Union Carbide’s receivables related to its asbestos-related liability:

Receivables for Asbestos-Related Costs In millions	Jun 30, 2012	Dec 31, 2011
Receivables for defense costs – carriers with settlement agreements	\$19	\$20
Receivables for resolution costs – carriers with settlement agreements	154	158
Receivables for insurance recoveries – carriers without settlement agreements	40	40
Total	\$213	\$218

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 impact on Union Carbide's results of operations and cash flows for a particular period and on the consolidated financial position of Union Carbide.

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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 impact on the Company's results of operations and cash flows for a particular period and on the consolidated financial position of the Company.

### Matters Involving the Formation of K-Dow Petrochemicals

#### Introduction

On December 13, 2007, the Company and Petrochemical Industries Company (K.S.C.) ("PIC") of Kuwait, a wholly owned subsidiary of Kuwait Petroleum Corporation, announced plans to form a 50:50 global petrochemicals joint venture. The proposed joint venture, K-Dow Petrochemicals ("K-Dow"), was expected to have revenues of more than \$11 billion and employ more than 5,000 people worldwide.

On November 28, 2008, the Company entered into a Joint Venture Formation Agreement (the "JVFA") with PIC that provided for the establishment of K-Dow. To form the joint venture, the Company would transfer by way of contribution and sale to K-Dow, assets used in the research, development, manufacture, distribution, marketing and sale of polyethylene, polypropylene, polycarbonate, polycarbonate compounds and blends, ethyleneamines, ethanolamines, and related licensing and catalyst technologies; and K-Dow would assume certain related liabilities. PIC would receive a 50-percent equity interest in K-Dow in exchange for the payment by PIC of the initial purchase price, estimated to be \$7.5 billion. The purchase price was subject to certain post-closing adjustments.

#### Failure to Close

On December 31, 2008, the Company received a written notice from PIC with respect to the JVFA advising the Company of PIC's position that certain conditions to closing were not satisfied and, therefore, PIC was not obligated to close the transaction. On January 2, 2009, PIC refused to close the K-Dow transaction in accordance with the JVFA. The Company disagreed with the characterizations and conclusions expressed by PIC in the written notice and the Company informed PIC that it breached the JVFA. On January 6, 2009, the Company announced that it would seek to fully enforce its rights under the terms of the JVFA and various related agreements.

#### Arbitration

The Company's claims against PIC were subject to an agreement between the parties to arbitrate under the Rules of Arbitration of the International Court of Arbitration of the International Chamber of Commerce ("ICC"). On February 18, 2009, the Company initiated arbitration proceedings against PIC alleging that PIC breached the JVFA by failing to close the transaction on January 2, 2009, and as a result, Dow suffered substantial damages.

On May 24, 2012, the ICC released to the parties a unanimous Partial Award in favor of the Company on both liability and damages. A three-member arbitration Tribunal found that PIC breached the JVFA by not closing K-Dow on January 2, 2009, and awarded the Company \$2.16 billion in damages, not including interest and arbitration costs. The ICC is expected to issue a Final Award covering the Company's substantial claim for pre-Award interest and arbitration costs in the fourth quarter of 2012.

PIC has filed an application for remand under the English Arbitration Act of 1996 ("Remand Application") in the High Court of Justice in London ("High Court"). In its Remand Application, PIC does not challenge the Tribunal's finding of liability but it asks the High Court to remand the case back to the Tribunal for further consideration of the Company's claim for consequential damages. On July 30, 2012, the Company filed its written response. The High Court is expected to rule on PIC's Remand Application by year-end 2012.

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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 the accounting guidance related to derivatives 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. 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. Exposures primarily relate to assets, liabilities and bonds denominated in foreign currencies, as well as economic exposure, which is derived from the risk that currency fluctuations could affect the dollar value of future cash flows related to operating activities. The largest exposures are denominated in European currencies, the Japanese yen and the Canadian dollar, although exposures also exist in other currencies of Asia Pacific, Latin America, and India, Middle East and Africa.

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 primarily from the investment activities of its insurance subsidiaries. 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 maximum potential loss in fair market values, given a certain move in prices over a certain period of time, using specified confidence levels. The VAR methodology used by the Company is a historical simulation model which captures co-movements in market rates across different instruments and market risk exposure categories. The historical simulation model uses a 97.5 percent confidence level and the historical scenario period includes at least six months of historical data. The June 30, 2012, 2011 year-end and 2011 average daily VAR for the aggregate of all positions are shown below. These amounts are immaterial relative to the total equity of the Company:

Total Daily VAR by Exposure Type		2011	
In millions	At June 30, 2012	Year-end	Average
Foreign exchange	\$2	\$2	\$2

Interest rate	\$ 148	\$ 286	\$ 199
Equities	\$ 12	\$ 29	\$ 20
Commodities	\$ 10	\$ 4	\$ 4
Composite	\$ 177	\$ 300	\$ 220

The Company's daily VAR for the aggregate of all positions decreased from a composite VAR of \$300 million at December 31, 2011 to a composite VAR of \$177 million at June 30, 2012. The decrease in composite VAR was primarily due to reductions in debt outstanding as well as interest rate volatility. The equities VAR declined due to a decrease in equity volatility despite an increase in the size of the exposure. The commodities VAR was higher due to an increase in hedging activity. See Note G to the Consolidated Financial Statements for further disclosure regarding market risk.

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The Dow Chemical Company and Subsidiaries

PART I – FINANCIAL INFORMATION

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.

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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 second quarter of 2012. For a summary of the history and current status of this matter, see Note I 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 Matters

The Company received an Administrative Complaint dated October 26, 2011, from the Texas Council on Environmental Quality ("TCEQ") for alleged violations of various environmental requirements regulating air emissions from operations at its Freeport, Texas manufacturing facility. The Company and the TCEQ settled this matter by entering into an Agreed Order effective June 8, 2012, which obligates the Company to pay a civil penalty in the amount of \$207,000. Half of the payment will be directed to the Houston-Galveston ARECO's Clean Cities/Clean Vehicles Program in lieu of paying the entire amount to the State of Texas.

Following a 2008 Risk Management Program ("RMP") inspection by the Environmental Protection Agency ("EPA") at the Company's Freeport, Texas manufacturing facility, the EPA determined that the facility had two deficiencies in its then-applicable RMP Plan. Although EPA Region Six officials have confirmed that all corrective actions were made within a reasonable period of time, the EPA is seeking to collect an administrative penalty slightly in excess of \$100,000.

Rohm and Haas Pension Plan Matters

In December 2005, a federal judge in the U.S. District Court for the Southern District of Indiana (the "District Court") issued a decision granting a class of participants in the Rohm and Haas Pension Plan (the "Rohm and Haas Plan") who had retired from Rohm and Haas Company ("Rohm and Haas"), now a wholly owned subsidiary of the Company, and who elected to receive a lump sum benefit from the Rohm and Haas Plan, the right to a cost-of-living adjustment ("COLA") as part of their retirement benefit. In August 2007, the Seventh Circuit Court of Appeals (the "Seventh Circuit") affirmed the District Court's decision, and in March 2008, the U.S. Supreme Court denied the Rohm and Haas Plan's petition to review the Seventh Circuit's decision. The case was returned to the District Court for further proceedings. In October 2008 and February 2009, the District Court issued rulings that have the effect of including in the class all Rohm and Haas retirees who received a lump sum distribution without a COLA from the Rohm and Haas Plan since January 1976. These rulings are subject to appeal, and the District Court has not yet determined the amount of the COLA benefits that may be due to the class participants. The Rohm and Haas Plan and the plaintiffs entered into a settlement agreement that, in addition to settling the litigation with respect to the Rohm and Haas retirees, provides for the amendment of the complaint and amendment of the Rohm and Haas Plan to include active employees in the settlement benefits. The District Court preliminarily approved the settlement on November 24, 2009 and, following a hearing on March 12, 2010, issued a final order approving the settlement on April 12, 2010. A group of objectors to the settlement filed an appeal from the final order. In November 2010, the District Court issued an order approving class counsel's fee award petition in an amount consistent with the terms of the settlement. The same objectors also appealed this order. On September 2, 2011, the Seventh Circuit affirmed the approval of the settlement and award of attorneys' fees. A lone objector filed a petition for rehearing, which was denied on October 17, 2011. The objector continued the appeal process by timely filing a petition for a writ of certiorari to the U.S. Supreme Court, which was denied on April 16, 2012, rendering the settlement and award of attorneys' fees final.

A pension liability associated with this matter of \$185 million was recognized as part of the acquisition of Rohm and Haas on April 1, 2009. The liability, which was determined in accordance with the accounting guidance for



contingencies, recognized the estimated impact of the above described judicial decisions on the long-term Rohm and Haas Plan obligations owed to the applicable Rohm and Haas retirees and active employees. The Company had a liability associated with this matter of \$189 million at December 31, 2011. The Rohm and Haas Plan made settlement payments totaling \$122 million during the second quarter of 2012. The Company's remaining liability for this matter was \$67 million at June 30, 2012. Approximately forty percent of the remaining liability is expected to be settled by the end of 2012 and the remaining liability will be resolved over time through the administration of the Rohm and Haas Plan.

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ITEM 1A. RISK FACTORS.

There were no material changes in the Company's risk factors in the second quarter of 2012.

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

Issuer Purchases of Equity Securities

The Company does not currently have a share repurchase program, and there were no purchases of the Company's common stock by the Company during the three months ended June 30, 2012.

ITEM 4. MINE SAFETY DISCLOSURES.

Not applicable.

ITEM 6. EXHIBITS.

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

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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: ACRY SOL, ADCOTE, AFFINITY, AMPLIFY, AQUA-LAM, ASPUN, ATTANE, CONTINUUM, COSEAL, DOW, DOWLEX, ECOLIBRIUM, ELITE, ENDURANCE, ENGAGE, ENLIGHT, EVOQUE, HEALTH+, HYPOD, INFUSE, INTEGRAL, LAMAL, MOR-AD, MOR-FREE, MORPRIME, MORSTIK, NORDEL, NYLOPAK, OPTICITE, PRIMACOR, PRIMAL, PROCITE, RHOPLEX, ROBOND, ROVACE, SARAN, SARANEX, SEALUTION, SERFENE, SI-LINK, STYROFOAM, TAMOL, TRENCHCOAT, TRYCITE, TUFLIN, TYBRITE, UNIGARD, VERSIFY

The following trademark of Monsanto Technology LLC appears in this report: SmartStax. SmartStax multi-event technology developed by Dow AgroSciences LLC and Monsanto

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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: August 1, 2012

/s/ RONALD C. EDMONDS

Ronald C. Edmonds

Vice President and Controller

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The Dow Chemical Company and Subsidiaries  
Exhibit Index

EXHIBIT NO.	DESCRIPTION
2(e)	Shareholders' Agreement, dated as of October 8, 2011, between Dow Saudi Arabia Holding B.V. and Performance Chemicals Holding Company, incorporated by reference to Exhibit 99.1 to The Dow Chemical Company Current Report on Form 8-K/A filed on June 27, 2012.
10(bbb)	The Dow Chemical Company 2012 Stock Incentive Plan, effective as of May 10, 2012, incorporated by reference to Exhibit 10.1 to The Dow Chemical Company Current Report on Form 8-K filed on May 14, 2012.
10(ccc)	A copy of the Performance Shares Deferred Stock Agreement Pursuant to The Dow Chemical Company 2012 Stock Incentive Plan, effective as of May 10, 2012.
10(ddd)	A copy of the Deferred Stock Agreement Pursuant to The Dow Chemical Company 2012 Stock Incentive Plan, effective as of May 10, 2012.
10(eee)	A copy of the Non-Qualified Stock Option Agreement Pursuant to The Dow Chemical Company 2012 Stock Incentive Plan, effective as of May 10, 2012.
12.1	Computation of Ratio of Earnings to Fixed Charges.
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.
101.INS	XBRL Instance Document.
101.SCH	XBRL Taxonomy Extension Schema Document.
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document.
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document.
101.LAB	XBRL Taxonomy Extension Label Linkbase Document.
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document.