DOW CHEMICAL CO /DE/
Form 10-Q
November 06, 2017
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 10-Q

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

For the quarterly period ended SEPTEMBER 30, 2017

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 incorporation or organization)	(I.R.S. Employer Identification No.)

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.
þ 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).
þ Yes ¨ No
Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, smaller reporting company, or an emerging growth company. See the definitions of “large accelerated filer,” “accelerated filer,” “smaller reporting company,” and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer	þ	Accelerated filer	¨
Non-accelerated filer	¨ (Do not check if a smaller reporting company)	Smaller reporting company	¨
		Emerging growth company	¨

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. ¨

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

At September 30, 2017, 100 shares of common stock were outstanding, all of which were held by the registrant's parent, DowDuPont Inc.

The registrant meets the conditions set forth in General Instructions H(l)(a) and (b) for Form 10-Q and is therefore filing this form with a reduced disclosure format.

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The Dow Chemical Company and Subsidiaries

Throughout this Quarterly Report on Form 10-Q, except as otherwise noted by the context, the terms "Company" or "Dow" used herein mean The Dow Chemical Company and its consolidated subsidiaries. Effective August 31, 2017, the Company completed the all-stock merger of equals transaction with E. I. du Pont de Nemours and Company ("DuPont") (the "Merger Transaction") and each of Dow and DuPont became subsidiaries of DowDuPont. For more information, please see each of DowDuPont's, Dow's and DuPont's latest annual, quarterly and current reports on Forms 10-K, 10-Q and 8-K, as the case may be, and the joint proxy statement/prospectus included in the registration statement on Form S-4 filed by DowDuPont with the U.S. Securities and Exchange Commission ("SEC") on March 1, 2016 (File No. 333-209869), as last amended on June 7, 2016, and declared effective by the SEC on June 9, 2016 (the "Registration Statement") in connection with the Merger Transaction.

FORWARD-LOOKING STATEMENTS

This report contains "forward-looking statements" within the meaning of the federal securities laws, including Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. In this context, forward-looking statements often address expected future business and financial performance and financial condition, and often contain words such as "anticipate," "believe," "expect," "intend," "plan," "seek "see," "target," "will," "would," similar expressions, and variations or negatives of these words. Forward-looking statements by their nature address matters that are, to different degrees, uncertain, and are not guarantees of future performance and are based on certain assumptions and expectations of future events which may not be realized. Forward-looking statements also involve risks and uncertainties, many of which are beyond the Company's and DowDuPont's control. A detailed discussion of some of the significant risks and uncertainties which may cause actual results and events to differ materially from the forward-looking statements is included in the section titled "Risk Factors" (Part II, Item 1A of this Form 10-Q) and in the Registration Statement.

Some of the important risks associated with the Merger Transaction and the intended separation of DowDuPont's material science business under the Dow brand as well as the intended separation of DowDuPont's agriculture and specialty products businesses in one or more tax efficient transactions on anticipated terms (the "Intended Business Separations") that could cause Dow's actual results to differ materially from those projected in any such forward-looking statements include, but are not limited to: (i) successful integration of the respective agriculture, materials science and specialty products businesses of Dow and DuPont, including anticipated tax treatment, unforeseen liabilities, future capital expenditures, revenues, expenses, earnings, productivity actions, economic performance, indebtedness, financial condition, losses, future prospects, business and management strategies for the management, expansion and growth of the combined operations; (ii) achievement of the anticipated synergies by DowDuPont's agriculture, materials science and specialty products businesses; (iii) risks associated with the Intended Business Separations, including portfolio changes and anticipated timing; (iv) the risk that disruptions from the Intended Business Separations will harm Dow's business (either directly or indirectly in connection with disruptions to DowDuPont or DuPont), including current plans and operations; and (v) potential adverse reactions or changes to business relationships resulting from the completion of the Merger Transaction or the Intended Business Separations. The list of factors presented here is, and the list of factors presented in the Registration Statement are, representative and unlisted factors may present significant additional obstacles to the realization of forward-looking statements.

Consequences of material differences in results as compared with those anticipated in the forward-looking statements could include, among other things, business disruption, operational problems, financial loss, legal liability to third parties and similar risks, any of which could have a material adverse effect on Dow's consolidated financial condition, results of operations, credit rating or liquidity. Neither Dow nor DowDuPont assumes any obligation to publicly provide revisions or updates to any forward-looking statements whether as a result of new information, future developments or otherwise, should circumstances change, except as otherwise required by securities and other applicable laws.

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PART I - FINANCIAL INFORMATION
Item 1. Financial Statements

The Dow Chemical Company and Subsidiaries
Consolidated Statements of Income

In millions (Unaudited)	Three Months Ended		Nine Months Ended	
	Sep 30, 2017	Sep 30, 2016	Sep 30, 2017	Sep 30, 2016
Net Sales	$13,633	$12,483	$40,697	$35,138
Cost of sales	10,666	9,840	31,626	27,066
Research and development expenses	406	399	1,227	1,159
Selling, general and administrative expenses	723	738	2,201	2,166
Amortization of intangibles	155	162	467	387
Restructuring and asset related charges - net	139	—	126	452
Integration and separation costs	283	127	528	228
Equity in earnings of nonconsolidated affiliates	156	70	406	191
Sundry income (expense) - net	268	22	144	1,369
Interest expense and amortization of debt discount	256	220	701	629
Income Before Income Taxes	1,429	1,089	4,371	4,611
Provision for income taxes	624	271	1,292	291
Net Income	805	818	3,079	4,320
Net income attributable to noncontrolling interests	22	14	87	54
Net Income Attributable to The Dow Chemical Company	783	804	2,992	4,266
Preferred stock dividends	—	85	—	255
Net Income Available for The Dow Chemical Company Common Stockholder	$783	$719	$2,992	$4,011
Depreciation	$598	$573	$1,710	$1,540
Capital Expenditures	$660	$1,060	$2,209	$2,877

See Notes to the Consolidated Financial Statements.

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The Dow Chemical Company and Subsidiaries
Consolidated Statements of Comprehensive Income

In millions (Unaudited)	Three Months Ended Sep 30, 2017	Three Months Ended Sep 30, 2016	Nine Months Ended Sep 30, 2017	Nine Months Ended Sep 30, 2016
Net Income	$805	$818	$3,079	$4,320
Other comprehensive income (loss), net of tax				
Unrealized gains (losses) on investments	(51)	8	(43)	42
Cumulative translation adjustments	193	83	819	325
Pension and other postretirement benefit plans	105	93	308	640
Derivative instruments	32	(20)	(57)	(21)
Total other comprehensive income	279	164	1,027	986
Comprehensive Income	1,084	982	4,106	5,306
Comprehensive income attributable to noncontrolling interests, net of tax	28	35	121	103
Comprehensive Income Attributable to The Dow Chemical Company	$1,056	$947	$3,985	$5,203

See Notes to the Consolidated Financial Statements.

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The Dow Chemical Company and Subsidiaries
Consolidated Balance Sheets

In millions (Unaudited)	Sep 30, 2017	Dec 31, 2016
Assets		
Current Assets		
Cash and cash equivalents (variable interest entities restricted - 2017: $115; 2016: $75)	$8,394	$6,607
Accounts and notes receivable:		
Trade (net of allowance for doubtful receivables - 2017: $125; 2016: $110)	5,174	4,666
Other	5,214	4,312
Inventories	8,477	7,363
Other current assets	773	711
Total current assets	28,032	23,659
Investments		
Investment in nonconsolidated affiliates	3,975	3,747
Other investments (investments carried at fair value - 2017: $1,408; 2016: $1,959)	2,400	2,969
Noncurrent receivables	657	708
Total investments	7,032	7,424
Property		
Property	60,204	57,438
Less accumulated depreciation	35,887	33,952
Net property (variable interest entities restricted - 2017: $925; 2016: $961)	24,317	23,486
Other Assets		
Goodwill	15,485	15,272
Other intangible assets (net of accumulated amortization - 2017: $4,901; 2016: $4,295)	5,752	6,026
Deferred income tax assets	2,507	3,079
Deferred charges and other assets	804	565
Total other assets	24,548	24,942
Total Assets	$83,929	$79,511
Liabilities and Equity		
Current Liabilities		
Notes payable	$584	$272
Long-term debt due within one year	578	635
Accounts payable:		
Trade	4,857	4,519
Other	2,988	2,097
Income taxes payable	595	600
Accrued and other current liabilities	5,373	4,481
Total current liabilities	14,975	12,604
Long-Term Debt (variable interest entities nonrecourse - 2017: $310; 2016: $330)	20,004	20,456
Other Noncurrent Liabilities		
Deferred income tax liabilities	899	923
Pension and other postretirement benefits - noncurrent	10,398	11,375
Asbestos-related liabilities - noncurrent	1,266	1,364
Other noncurrent obligations	6,116	5,560
Total other noncurrent liabilities	18,679	19,222
Stockholders’ Equity		
Common stock (2017: authorized and issued 100 shares of $0.01 par value each; 2016: authorized 1,500,000,000 shares of $2.50 par value each; issued:1,242,794,836 shares)	—	3,107

Additional paid-in capital	6,433	4,262
Retained earnings	31,636	30,338
Accumulated other comprehensive loss	(8,795)	(9,822)
Unearned ESOP shares	(192)	(239)
Treasury stock at cost (2017: zero shares; 2016: 31,661,501 shares)	—	(1,659)
The Dow Chemical Company’s stockholders’ equity	29,082	25,987
Noncontrolling interests	1,189	1,242
Total equity	30,271	27,229
Total Liabilities and Equity	$83,929	$79,511

See Notes to the Consolidated Financial Statements.

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The Dow Chemical Company and Subsidiaries
Consolidated Statements of Cash Flows

In millions (Unaudited)	Nine Months Ended Sep 30, 2017	Sep 30, 2016
Operating Activities		
Net Income	$3,079	$4,320
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	2,318	2,067
Provision (credit) for deferred income tax	387	(990)
Earnings of nonconsolidated affiliates less than dividends received	194	341
Net periodic pension benefit cost	334	312
Pension contributions	(444)	(567)
Net gain on sales of assets, businesses and investments	(474)	(179)
Net gain on step acquisition of nonconsolidated affiliate	—	(2,445)
Restructuring and asset related charges - net	126	452
Other net loss	296	300
Changes in assets and liabilities, net of effects of acquired and divested companies:		
Accounts and notes receivable	(2,241)	(1,435)
Proceeds from interests in trade accounts receivable conduits	939	882
Inventories	(1,175)	(39)
Accounts payable	1,207	1,031
Other assets and liabilities - net	233	(331)
Cash provided by operating activities	4,779	3,719
Investing Activities		
Capital expenditures	(2,209)	(2,877)
Investment in gas field developments	(98)	(81)
Construction of assets pending sale / leaseback	—	(12)
Proceeds from sale / leaseback of assets	—	32
Purchases of previously leased assets	(2)	—
Payment into escrow account	(130)	(835)
Distribution from escrow account	130	835
Proceeds from sales of property and businesses, net of cash divested	521	217
Acquisitions of property and businesses, net of cash acquired	(31)	(187)
Cash acquired in step acquisition of nonconsolidated affiliate	—	1,050
Investments in and loans to nonconsolidated affiliates	(694)	(831)
Distributions and loan repayments from nonconsolidated affiliates	54	10
Proceeds from sale of ownership interests in nonconsolidated affiliates	64	—
Purchases of investments	(450)	(426)
Proceeds from sales and maturities of investments	1,039	607
Cash used in investing activities	(1,806)	(2,498)
Financing Activities		
Changes in short-term notes payable	365	(69)
Proceeds from issuance of long-term debt	—	32
Payments on long-term debt	(550)	(523)
Purchases of treasury stock	—	(416)
Proceeds from issuance of parent company stock	21	—

Proceeds from sales of common stock	423	320
Employee taxes paid for share-based payment arrangements	(89)	(65)
Distributions to noncontrolling interests	(58)	(85)
Purchases of noncontrolling interests	—	(202)
Dividends paid to stockholders	(1,621)	(1,782)
Other financing activities - net	—	(2)
Cash used in financing activities	(1,509)	(2,792)
Effect of Exchange Rate Changes on Cash	323	26
Summary		
Increase (decrease) in cash and cash equivalents	1,787	(1,545)
Cash and cash equivalents at beginning of period	6,607	8,577
Cash and cash equivalents at end of period	$8,394	$7,032

See Notes to the Consolidated Financial Statements.

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The Dow Chemical Company and Subsidiaries
Consolidated Statements of Equity

In millions (Unaudited)	Preferred Stock	Common Stock	Add'l Paid in Capital	Retained Earnings	Accum Other Comp Loss	Unearned ESOP	Treasury Stock	Non-controlling Interests	Total Equity
2016									
Balance at Jan 1, 2016	$ 4,000	$ 3,107	$ 4,936	$ 28,425	$ (8,667)	$ (272)	$ (6,155)	$ 809	$ 26,183
Net income available for The Dow Chemical Company common stockholders	—	—	—	4,011	—	—	—	—	4,011
Other comprehensive income (loss)	—	—	—	—	986	—	—	—	986
Dividends	—	—	—	(1,531)	—	—	—	—	(1,531)
Common stock issued/sold	—	—	320	—	—	—	606	—	926
Stock-based compensation and allocation of ESOP shares	—	—	(340)	—	—	46	—	—	(294)
Impact of noncontrolling interests	—	—	—	—	—	—	—	505	505
Treasury stock purchases	—	—	—	—	—	—	(416)	—	(416)
Other	—	—	—	(21)	—	—	—	—	(21)
Balance at Sep 30, 2016	$ 4,000	$ 3,107	$ 4,916	$ 30,884	$ (7,681)	$ (226)	$ (5,965)	$ 1,314	$ 30,349
2017									
Balance at Jan 1, 2017	$ —	$ 3,107	$ 4,262	$ 30,338	$ (9,822)	$ (239)	$ (1,659)	$ 1,242	$ 27,229
Net income available for The Dow Chemical Company common stockholder	—	—	—	2,992	—	—	—	—	2,992
Other comprehensive income (loss)	—	—	—	—	1,027	—	—	—	1,027
Dividends	—	—	—	(1,673)	—	—	—	—	(1,673)
Common stock issued/sold	—	—	423	—	—	—	724	—	1,147
Issuance of parent company stock	—	—	21	—	—	—	—	—	21
Stock-based compensation and allocation of ESOP shares	—	—	(443)	—	—	47	—	—	(396)
Impact of noncontrolling interests	—	—	—	—	—	—	—	(53)	(53)
Merger impact	—	(3,107)	2,172	—	—	—	935	—	—
Other	—	—	(2)	(21)	—	—	—	—	(23)
Balance at Sep 30, 2017	$ —	$ —	$ 6,433	$ 31,636	$ (8,795)	$ (192)	$ —	$ 1,189	$ 30,271

See Notes to the Consolidated Financial Statements.

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

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NOTE 1 – CONSOLIDATED FINANCIAL STATEMENTS

Basis of Presentation

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 (“U.S. 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, 2016.

Effective August 31, 2017, pursuant to the merger of equals transaction contemplated by the Agreement and Plan of Merger, dated as of December 11, 2015, as amended on March 31, 2017, Dow and E. I. du Pont de Nemours and Company ("DuPont") each merged with subsidiaries of DowDuPont Inc. ("DowDuPont") and, as a result, Dow and DuPont became subsidiaries of DowDuPont (the "Merger"). In accordance with the accounting guidance for earnings per share, the presentation of earnings per share is not required in financial statements of wholly owned subsidiaries. See Note 3 for additional information on the Merger.

Beginning September 1, 2017, transactions between DowDuPont, Dow and DuPont and their affiliates are reflected in these consolidated financial statements and will be disclosed as related party transactions, when material. Transactions between Dow and DuPont primarily consist of the sale and procurement of certain feedstocks and raw materials that are consumed in each company's manufacturing process. Transactions with DuPont during the month of September 2017 were not material to the consolidated financial statements.

Effective with the Merger, Dow's business activities are components of its parent company's business operations. Dow's business activities, including the assessment of performance and allocation of resources, will be reviewed and managed by DowDuPont. Information used by the chief operating decision maker of Dow relates to the Company in its entirety. Accordingly, there are no separate reportable business segments for the Company under Accounting Standards Codification ("ASC") Topic 280 "Segment Reporting" and the Company's business results are reported in this Form 10-Q as a single operating segment.

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Significant Accounting Policy Updates

The Company's significant accounting policies were updated as a result of the Merger. See Note 1 to the Consolidated Financial Statements included in the Company's Annual Report on Form 10-K for the year ended December 31, 2016 for information on the Company's significant accounting policies.

Update to the Income Taxes Significant Accounting Policy

Effective with the Merger, the Company and DuPont are subsidiaries of DowDuPont. The Company is included in DowDuPont's consolidated tax groups and related income tax returns within certain jurisdictions. The Company will continue to record a separate tax liability for its share of the taxable income and tax attributes and obligations on DowDuPont’s consolidated income tax returns following a formula consistent with the economic sharing of tax attributes and obligations. Dow and DuPont compute the amount due to DowDuPont for their share of taxable income and tax attributes and obligations on DowDuPont’s consolidated tax return. The amounts reported as income tax payable or receivable represent the Company’s payment obligation (or refundable amount) to DowDuPont based on a theoretical tax liability calculated based on the methodologies agreed, elected or required in each combined or consolidated filing jurisdiction.

Integration and Separation Costs

The Company classifies expenses related to the Merger and the ownership restructure of Dow Corning Corporation ("Dow Corning") as "Integration and separation costs" in the consolidated statements of income. Merger-related costs include: costs incurred to prepare for and close the Merger, post-Merger integration expenses and costs incurred to prepare for the separation of the Company’s agriculture business, specialty products business and materials science business. The Dow Corning related-costs include: costs incurred to prepare for and close the ownership restructure, as well as integration expenses. These costs primarily consist of financial advisor, information technology, legal, accounting, consulting and other professional advisory fees associated with preparation and execution of these activities.

Adoption of Accounting Standards Update ("ASU") 2016-09, "Compensation - Stock Compensation (Topic 718): Improvements to Employee Share-Based Payment Accounting"

In the first quarter of 2017, the Company adopted ASU 2016-09 and elected to apply changes on a retrospective basis to the consolidated statements of cash flows related to the classification of excess tax benefits and employee taxes paid for share-based payment arrangements. See Note 2 for additional information. A summary of the changes made to the consolidated statements of cash flows for the nine months ended September 30, 2016, is included in the following table:

Summary of Changes to the Consolidated Statements of Cash Flows	Nine Months Ended Sep 30, 2016	
In millions	As Filed	Updated
Operating Activities		
Excess tax benefits from share-based payment arrangements	$(39)	$—
Other assets and liabilities - net	$455	$520
Cash provided by operating activities	$3,615	$3,719
Financing Activities		
Excess tax benefits from share-based payment arrangements	$39	$—
Employee taxes paid for share-based payment arrangements	$—	$(65)
Cash used in financing activities	$(2,688)	$(2,792)

Changes in Financial Statement Presentation

As a result of the Merger, certain reclassifications of prior period amounts have been made to improve comparability and conform to the presentation that will be adopted for DowDuPont. Presentation changes were made to the consolidated statements of income, consolidated balance sheets, consolidated statements of cash flows and consolidated statements of equity. In addition, certain reclassifications of prior year's data have been made in the notes to the Consolidated Financial Statements to conform to the current period presentation.

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The changes to the financial statements are summarized as follows:

Consolidated Statements of Income

Costs associated with integration and separation activities are now separately reported as "Integration and separation costs" and have been reclassified from "Cost of sales" and "Selling, general and administrative expenses." In addition, "Interest income" has been reclassified to "Sundry income (expense) - net." A summary of the changes made to the consolidated statements of income is as follows:

Summary of Changes to the Consolidated Statements of Income	Three Months Ended		Nine Months Ended	
	Sep 30, 2016	Sep 30, 2016	Sep 30, 2016	Sep 30, 2016
In millions	As Filed	Updated	As Filed	Updated
Cost of sales	$9,841	$9,840	$27,067	$27,066
Selling, general and administrative expenses	$864	$738	$2,393	$2,166
Integration and separation costs	$—	$127	$—	$228
Sundry income (expense) - net	$(4)	$22	$1,305	$1,369
Interest income	$26	$—	$64	$—

Consolidated Balance Sheets

The Company reclassified "Dividends payable" to "Accrued and other current liabilities" and the current portion of deferred revenue has been reclassified from "Accounts payable - Other" to "Accrued and other current liabilities." In addition, certain derivative assets have been reclassified from "Accounts and notes receivable - Other" to "Other current assets" and certain derivative liabilities have been reclassified from "Accounts payable - Other" to "Accrued and other current liabilities." A summary of the changes made to the consolidated balance sheets is as follows:

Summary of Changes to the Consolidated Balance Sheets	Dec 31, 2016	
In millions	As Filed	Updated
Accounts and notes receivable - Other	$4,358	$4,312
Other current assets	$665	$711
Accounts payable - Other	$2,401	$2,097
Dividends payable	$508	$—
Accrued and other current liabilities	$3,669	$4,481

Consolidated Statements of Cash Flows

A summary of the changes made to the consolidated statements of cash flows is as follows:

Summary of Changes to the Consolidated Statements of Cash Flows	Nine Months Ended	
	Sep 30, 2016	
In millions	As Filed	Updated
Operating Activities		
Net periodic pension benefit cost	$—	$312
Net gain on sales of assets, businesses and investments	$—	$(179)
Net gain on sales of investments	$(97)	$—

Net gain on sales of property, businesses and consolidated companies	$(82)	$—
Other net loss	$97	$300
Accounts payable	$695	$1,031
Other assets and liabilities - net [1]	$520	$(331)
Financing Activities		
Transaction financing, debt issuance and other costs	$(2)	$—
Other financing activities - net	$—	$(2)

1. As updated for ASU 2016-09.

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Consolidated Statements of Equity
A summary of the changes made to the consolidated statements of equity is as follows:

Summary of Changes to the Consolidated Statements of Equity	Nine Months Ended Sep 30, 2016	
In millions	As Filed	Updated
Dividend equivalents on participating securities	$(21)	$ —
Other	$—	$ (21)

Prior to the Merger, the Company declared dividends of $1.38 per share for the nine months ended September 30, 2017 ($1.38 per share for the nine months ended September 30, 2016). Effective with the Merger, Dow no longer has publicly traded common stock. Dow's common shares are owned solely by its parent company, DowDuPont. As a result, the Company's Board of Directors will review and determine on a periodic basis whether or not there will be a dividend distribution to DowDuPont.

NOTE 2 – RECENT ACCOUNTING GUIDANCE
Recently Adopted Accounting Guidance
In the first quarter of 2017, the Company adopted ASU 2016-09, "Compensation - Stock Compensation (Topic 718): Improvements to Employee Share-Based Payment Accounting," which simplifies several aspects of the accounting for share-based payment awards to employees, including the accounting for income taxes, forfeitures, statutory tax withholding requirements and classification in the statement of cash flows. The new standard was effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2016. Under the new guidance, excess tax benefits related to equity compensation are now recognized in "Provision for income taxes" in the consolidated statements of income rather than in "Additional paid-in capital" in the consolidated balance sheets and this change was applied on a prospective basis. Changes to the consolidated statements of cash flows related to the classification of excess tax benefits and employee taxes paid for share-based payment arrangements were implemented on a retrospective basis. See Note 1 for additional information.

Accounting Guidance Issued But Not Adopted at September 30, 2017
In May 2014, the Financial Accounting Standards Board ("FASB") issued ASU 2014-09, "Revenue from Contracts with Customers (Topic 606)," which is the new comprehensive revenue recognition standard that will supersede all existing revenue recognition guidance under U.S. GAAP. The standard's core principle is that a company will recognize revenue when it transfers promised goods or services to a customer in an amount that reflects the consideration to which the company expects to be entitled in exchange for those goods or services. ASU 2015-14, "Revenue from Contracts with Customers (Topic 606): Deferral of the Effective Date," issued in August 2015, revised the effective date for this ASU to annual and interim periods beginning on or after December 15, 2017, with early adoption permitted, but not earlier than the original effective date of annual and interim periods beginning on or after December 15, 2016, for public entities. Entities will have the option of using either a full retrospective approach or a modified approach to adopt the guidance in ASU 2014-09.

In May 2014, the FASB and International Accounting Standards Board formed The Joint Transition Resource Group for Revenue Recognition ("TRG"), consisting of financial statement preparers, auditors and users, to seek feedback on potential issues related to the implementation of the new revenue standard. As a result of feedback from the TRG, the FASB issued additional guidance to provide clarification, implementation guidance and practical expedients to address some of the challenges of implementation. In March 2016, the FASB issued ASU 2016-08, "Revenue from Contracts with Customers (Topic 606): Principal versus Agent Considerations (Reporting Revenue Gross versus

Net)," which is an amendment on assessing whether an entity is a principal or an agent in a revenue transaction. This amendment addresses issues to clarify the principal versus agent assessment and lead to more consistent application. In April 2016, the FASB issued ASU 2016-10, "Revenue from Contracts with Customers (Topic 606): Identifying Performance Obligations and Licensing," which contains amendments to the new revenue recognition standard on identifying performance obligations and accounting for licenses of intellectual property. The amendments related to identifying performance obligations clarify when a promised good or service is separately identifiable and allows entities to disregard items that are immaterial in the context of a contract. The licensing implementation amendments clarify how an entity should evaluate the nature of its promise in granting a license of intellectual property, which will determine whether revenue is recognized over time or at a point in time. In May 2016, the FASB issued ASU 2016-12, "Revenue from Contracts with Customers (Topic 606): Narrow-Scope Improvements and Practical Expedients," which provides clarity and implementation guidance on assessing collectibility, presentation of sales taxes, noncash consideration, and completed contracts and contract modifications at transition. The new standards have the same effective date and transition requirements as ASU 2014-09.

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The Company has a team in place to analyze ASU 2014-09 and the related ASU's across all revenue streams to evaluate the impact of the new standard on revenue contracts. This includes reviewing current accounting policies and practices to identify potential differences that would result from applying the requirements under the new standard. The Company is completing contract evaluations and validating the results of applying the new revenue guidance. The Company is in the process of finalizing its accounting policies, drafting the new disclosures, quantifying the potential financial adjustment and completing its evaluation of the impact of the accounting and disclosure requirements on its business processes, controls and systems. Full implementation will be completed by the end of 2017. Based on analysis completed to date, the Company expects the potential impact on the recognition of revenue from product sales and licensing arrangements to remain substantially unchanged. The Company expects to adopt the new standard using the modified retrospective approach, under which the cumulative effect of initially applying the new guidance is recognized as an adjustment to the opening balance of retained earnings in the first quarter of 2018.

In January 2016, the FASB issued ASU 2016-01, "Financial Instruments - Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities," which amends the guidance in U.S. GAAP on the classification and measurement of financial instruments. Changes to the current guidance primarily affects the accounting for equity investments, financial liabilities under the fair value option, and the presentation and disclosure requirements for financial instruments. In addition, the ASU clarifies guidance related to the valuation allowance assessment when recognizing deferred tax assets resulting from unrealized losses on available-for-sale debt securities. The new standard is effective for fiscal years and interim periods beginning after December 15, 2017, and upon adoption, an entity should apply the amendments by means of a cumulative-effect adjustment to the balance sheet at the beginning of the first reporting period in which the guidance is effective. Early adoption is not permitted except for the provision to record fair value changes for financial liabilities under the fair value option resulting from instrument-specific credit risk in other comprehensive income. The Company will adopt the new guidance in the first quarter of 2018 and the adoption of this guidance will not have a material impact on the Consolidated Financial Statements.

In February 2016, the FASB issued ASU 2016-02, "Leases (Topic 842)," which requires organizations that lease assets to recognize on the balance sheet the assets and liabilities for the rights and obligations created by those leases. The new guidance requires that a lessee recognize assets and liabilities for leases with lease terms of more than twelve months and recognition, presentation and measurement in the financial statements will depend on its classification as a finance or operating lease. In addition, the new guidance will require disclosures to help investors and other financial statement users better understand the amount, timing and uncertainty of cash flows arising from leases. Lessor accounting remains largely unchanged from current U.S. GAAP but does contain some targeted improvements to align with the new revenue recognition guidance issued in 2014 (ASU 2014-09). The new standard is effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2018, using a modified retrospective approach, and early adoption is permitted. The Company has a team in place to evaluate the new guidance and is in the process of implementing a software solution to facilitate the development of business processes and controls around leases to meet the new accounting and disclosure requirements upon adoption in the first quarter of 2019.

In August 2016, the FASB issued ASU 2016-15, "Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments," which addresses diversity in practice in how certain cash receipts and cash payments are presented and classified in the statements of cash flows with respect to eight specific cash flow issues. The new standard is effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2017. The amendments should be applied using a retrospective transition method to each period presented, if practicable. Early adoption is permitted, including adoption in an interim period, and any adjustments should be reflected as of the beginning of the fiscal year that includes the interim period. All amendments must be adopted in the same period. A key provision in the new guidance will impact the presentation of proceeds from interests in trade accounts receivable conduits in the consolidated statements of cash flows and the Company is currently evaluating the

impact of adopting this guidance in the first quarter of 2018.

In October 2016, the FASB issued ASU 2016-16, "Income Taxes (Topic 740): Intra-Entity Transfers of Assets Other Than Inventory," which requires an entity to recognize the income tax consequences of an intra-entity transfer of an asset other than inventory when the transfer occurs. The amendments are effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2017, and should be applied on a modified retrospective basis through a cumulative-effect adjustment directly to retained earnings at the beginning of the period of adoption. Early adoption is permitted in the first interim period of an annual reporting period for which financial statements have not been issued. The Company will adopt the new guidance in the first quarter of 2018 and the adoption of this guidance will not have a material impact on the Consolidated Financial Statements.

In November 2016, the FASB issued ASU 2016-18, "Statement of Cash Flows (Topic 230): Restricted Cash (a consensus of the FASB Emerging Issues Task Force)," which clarifies how entities should present restricted cash and restricted cash equivalents in the statement of cash flows, and, as a result, entities will no longer present transfers between cash and cash equivalents and restricted cash and restricted cash equivalents in the statement of cash flows. An entity with a material balance of restricted cash and restricted cash equivalents must disclose information about the nature of the restrictions. The new standard is effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2017. Early adoption is permitted and

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the new guidance must be applied retrospectively to all periods presented. The new guidance will change the presentation of restricted cash in the consolidated statements of cash flows and will be applied retrospectively in the first quarter of 2018.

In January 2017, the FASB issued ASU 2017-04, "Intangibles - Goodwill and Other (Topic 350), Simplifying the Test for Goodwill Impairment." The new guidance eliminates the requirement to determine the fair value of individual assets and liabilities of a reporting unit to measure goodwill impairment. Under the amendments in the new guidance, goodwill impairment testing will be performed by comparing the fair value of the reporting unit with its carrying amount and recognizing an impairment charge for the amount by which the carrying amount exceeds the reporting unit's fair value. The new standard is effective for annual and interim goodwill impairment tests in fiscal years beginning after December 15, 2019, and should be applied on a prospective basis. Early adoption is permitted for annual or interim goodwill impairment testing performed after January 1, 2017. The Company is planning to early adopt the new guidance for the annual goodwill impairment tests that will be performed in the fourth quarter of 2017.

In February 2017, the FASB issued ASU 2017-05, "Other Income - Gains and Losses from the Derecognition of Nonfinancial Assets (Subtopic 610-20): Clarifying the Scope of Asset Derecognition Guidance and Accounting for Partial Sales of Nonfinancial Assets," which clarifies the scope of guidance on nonfinancial asset derecognition in ASC 610-20 and the accounting for partial sales of nonfinancial assets. The new guidance also conforms the derecognition guidance for nonfinancial assets with the model in the new revenue standard (ASU 2014-09). The new standard is effective for annual reporting periods, and interim periods within those fiscal years, beginning after December 15, 2017, and an entity is required to apply the amendments at the same time that it applies the amendments in ASU 2014-09. The Company is planning to apply the new guidance with the implementation of the new revenue standard in the first quarter of 2018.

In March 2017, the FASB issued ASU 2017-07, "Compensation - Retirement Benefits (Topic 715): Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost," which amends the requirements related to the income statement presentation of the components of net periodic benefit cost for employer sponsored defined benefit pension and other postretirement benefit plans. Under the new guidance, an entity must disaggregate and present the service cost component of net periodic benefit cost in the same income statement line item(s) as other employee compensation costs arising from services rendered during the period, and only the service cost component will be eligible for capitalization. Other components of net periodic benefit cost will be presented separately from the line item(s) that includes the service cost. The new standard is effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2017. Early adoption is permitted at the beginning of an annual period in which the financial statements have not been issued. Entities must use a retrospective transition method to adopt the requirement for separate presentation of the income statement service cost and other components, and a prospective transition method to adopt the requirement to limit the capitalization of benefit cost to the service component. The Company is currently evaluating the impact of adopting this guidance.

In August 2017, the FASB issued ASU 2017-12, "Derivatives and Hedging (Topic 815): Targeted Improvements to Accounting for Hedging Activities," which amends the hedge accounting recognition and presentation under ASC 815, with the objectives of improving the financial reporting of hedging relationships to better portray the economic results of an entity's risk management activities and simplifying the application of hedge accounting by preparers. The new standard expands the strategies eligible for hedge accounting, relaxes the timing requirements of hedge documentation and effectiveness assessments, and permits, in certain cases, the use of qualitative assessments on an ongoing basis to assess hedge effectiveness. The new guidance also requires new disclosures and presentation. The new standard is effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2018. Early adoption is permitted in any interim or annual period after issuance of the ASU. Entities must adopt the new guidance by applying a modified retrospective approach to hedging relationships existing as of the adoption date. The Company is currently evaluating the impact of adopting this guidance.

NOTE 3 – MERGER WITH DUPONT

Effective August 31, 2017, Dow and DuPont completed the previously announced merger of equals transaction contemplated by the Agreement and Plan of Merger, dated as of December 11, 2015, as amended on March 31, 2017 (the "Merger Agreement"), by and among the Company, DuPont, DowDuPont, Diamond Merger Sub, Inc. and Orion Merger Sub, Inc. Pursuant to the Merger Agreement, (i) Diamond Merger Sub, Inc. was merged with and into Dow, with Dow surviving the merger as a subsidiary of DowDuPont (the "Diamond Merger") and (ii) Orion Merger Sub, Inc. was merged with and into DuPont, with DuPont surviving the merger as a subsidiary of DowDuPont (the "Orion Merger" and, together with the Diamond Merger, the "Mergers"). Following the consummation of the Mergers, each of Dow and DuPont became subsidiaries of DowDuPont (collectively, the "Merger"). Following the Merger, Dow and DuPont intend to pursue, subject to the receipt of regulatory approvals and approval by the board of directors of DowDuPont ("DowDuPont Board"), the separation of the combined company's agriculture business, specialty products business and materials science business through one or more tax-efficient transactions ("Intended Business Separations").

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Additional information about the Merger is included in the Company's Annual Report on Form 10-K for the year ended December 31, 2016, as well as in Current Reports on Form 8-K filed on December 11, 2015, March 31, 2017, August 4, 2017 and September 1, 2017.

Upon completion of the Diamond Merger, each share of common stock, par value $2.50 per share, of Dow ("Dow Common Stock") (excluding any shares of Dow Common Stock that were held in treasury immediately prior to the effective time of the Diamond Merger, which were automatically canceled and retired for no consideration) was converted into the right to receive one fully paid and non-assessable share of common stock, par value $0.01 per share, of DowDuPont ("DowDuPont Common Stock"). As provided in the Merger Agreement, at the effective time of the Mergers, (i) all options, deferred stock, performance deferred stock and other equity awards relating to shares of Dow Common Stock outstanding immediately prior to the effective time of the Mergers were generally automatically converted into options and deferred stock and other equity awards relating to shares of DowDuPont Common Stock after giving effect to appropriate adjustments to reflect the Mergers and otherwise generally on the same terms and conditions as applied under the applicable plans and award agreements immediately prior to the effective time of the Mergers. See Note 17 for additional information on the conversion of the equity awards.

In the third quarter of 2017, as a result of the Diamond Merger and the Merger, the Company recorded a reduction in "Treasury stock" of $935 million, a reduction in "Common stock" of $3,107 million and an increase in "Additional paid in capital" of $2,172 million. As of September 1, 2017, the Company has 100 shares of common stock issued and outstanding, par value $0.01 per share, owned solely by its parent, DowDuPont.

On August 31, 2017, following the Diamond Merger, Dow requested that the New York Stock Exchange ("NYSE") withdraw the shares of Dow Common Stock from listing on the NYSE and filed a Form 25 with the U.S. Securities and Exchange Commission ("SEC") to report that the shares of Dow Common Stock are no longer listed on the NYSE. The shares of Dow Common Stock were suspended from trading on the NYSE prior to the open of trading on September 1, 2017.

As a condition of the regulatory approval of the Merger, Dow and DuPont agreed to certain closing conditions, which are as follows:

- Dow divested its global Ethylene Acrylic Acid ("EAA") copolymers and ionomers business to SK Global Chemical Co., Ltd., on September 1, 2017, as part of a divestiture commitment given to the European Commission ("EC") in connection with the EC's conditional approval of the Merger granted on March 27, 2017. See Note 4 for additional information on this transaction.

- DuPont will divest its Cereal Broadleaf Herbicides and Chewing Insecticides portfolios as well as its Crop Protection research and development ("R&D") pipeline and organization (excluding seed treatment, nematicides, late-stage R&D programs and certain personnel needed to support marketed products and R&D programs that will remain with DuPont) (collectively, the "DuPont Divested Assets") as part of the EC's conditional approval granted on March 27, 2017. On March 31, 2017, in connection with these commitments, DuPont entered into an agreement with FMC Corporation ("FMC") whereby FMC will acquire the DuPont Divested Assets and DuPont will acquire FMC's Health and Nutrition business segment, excluding its Omega-3 products (the "H&N Business"). DuPont's transaction with FMC is expected to close in the fourth quarter of 2017, subject to the waiver or satisfaction of other customary closing conditions, including approval by the EC of FMC as the buyer of the DuPont Divested Assets and the receipt of other required regulatory approvals.

- On May 2, 2017, Dow and DuPont announced that China's Ministry of Commerce ("MOFCOM") granted conditional regulatory approval for the companies' proposed merger of equals which includes commitments already made to the EC including DuPont's divestiture of the DuPont Divested Assets and Dow's divestiture of the EAA copolymers and

ionomers business. In addition, Dow and DuPont have made commitments related to the supply and distribution in China of certain herbicide and insecticide ingredients and formulations for rice crops for five years after the closing of the Merger.

On May 17, 2017, Dow and DuPont announced that Brazil's Administrative Council for Economic Defense ("CADE") granted conditional regulatory approval of the companies' proposed merger of equals. CADE's approval is subject to Dow's divestment of a select portion of Dow AgroSciences' corn seed business in Brazil, including some seed processing plants and seed research centers, a copy of Dow AgroSciences' Brazilian corn germplasm bank, the MORGAN™ brand and a license for the use of the DOW SEMENTES™ brand for a certain period of time (collectively, the "Dow Divested Assets"), and is incremental to commitments already made to the EC, China and regulatory agencies in other jurisdictions. On July 11, 2017, Dow announced it had entered into a definitive agreement to sell the Dow Divested Assets to CITIC Agri Fund, subject to certain closing conditions. This transaction is expected to close in the fourth quarter of 2017.

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• On June 15, 2017, Dow and DuPont announced that a proposed agreement had been reached with the Antitrust Division of the United States Department of Justice that will permit the companies to proceed with the proposed merger of equals transaction. The proposed agreement was consistent with commitments already made to the EC.

In connection with DuPont's proposed transaction with FMC, on March 31, 2017 Dow and DuPont amended the Merger Agreement to, among other things, provide that DuPont cannot take certain specified actions to obtain regulatory approvals with respect to its acquisition of the H&N Business if those actions would reasonably be likely to result in the one-year loss of revenues to Dow, DuPont, DowDuPont, their subsidiaries or the H&N Business in excess of $350 million in the aggregate (based on fiscal year 2016 annual revenues). In addition, the amendment of the Merger Agreement also amended the form of bylaws for DowDuPont to reflect that Dow and DuPont currently intend that the first step in the Intended Business Separations process will be the spin-off of the materials science business (assuming that such sequencing would allow for the completion of all of the intended spin-offs within 18 months following closing of the Merger and would not adversely impact the value of the intended spin-off transaction to DowDuPont's shareholders).

On September 12, 2017, DowDuPont announced that the DowDuPont Board and management, with the assistance of independent advisors, completed their comprehensive review of the portfolio composition of the three intended independent companies. The DowDuPont Board unanimously concluded that, in light of knowledge gained since the announcement of the proposed merger of equals, certain targeted adjustments will be made between the materials science and specialty products businesses, which will enhance the competitive advantages of the intended resulting companies.

NOTE 4 – ACQUISITIONS AND DIVESTITURES

Merger Remedy - Divestiture of the Global EAA Copolymers and Ionomers Business

On February 2, 2017, as a condition of regulatory approval of the Merger, Dow announced it would divest its global EAA copolymers and ionomers business to SK Global Chemical Co., Ltd. The divestiture included production assets located in Freeport, Texas, and Tarragona, Spain, along with associated intellectual property and product trademarks. Under terms of the purchase agreement, SK Global Chemical Co., Ltd will honor certain customer and supplier contracts and other agreements. On September 1, 2017, the sale was completed for $296 million, net of working capital adjustments, costs to sell and other adjustments, with proceeds subject to customary post-closing adjustments.

In the third quarter of 2017, the Company recognized a pretax gain of $227 million on the sale, included in "Sundry income (expense) - net" in the consolidated statements of income.

EAA Copolymers and Ionomers Assets and Liabilities Divested on Sep 1, 2017	
In millions	
Current assets	$34
Net property	12
Goodwill	23
Net carrying value divested	$69

Merger Remedy - Divestiture of a Portion of Dow AgroSciences' Corn Seed Business

On July 11, 2017, as a condition of regulatory approval of the Merger, Dow announced it had entered into a definitive agreement with CITIC Agri Fund to sell a select portion of Dow AgroSciences' corn seed business in Brazil, including some seed processing plants and seed research centers, a copy of Dow AgroSciences' Brazilian corn germplasm bank, the MORGAN™ brand and a license for the use of the DOW SEMENTES™ brand for a certain period of time, for a purchase price of $1.1 billion. The sale is expected to close in the fourth quarter of 2017.

The Company evaluated the divestiture of the EAA copolymers and ionomers business and determined it did not represent a strategic shift that had a major effect on the Company’s operations and financial results and did not qualify as an individually significant component of the Company. The expected divestiture of a portion of Dow AgroSciences' corn seed business does not qualify as a component of the Company. As a result, these divestitures were not reported as discontinued operations.

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Ownership Restructure of Dow Corning
A complete summary of the ownership restructure of Dow Corning can be found in Note 4 to the Consolidated Financial Statements included in the Company's Annual Report on Form 10-K for the year ended December 31, 2016.

On June 1, 2016, the Company announced the closing of the transaction with Corning Incorporated ("Corning"), Dow Corning and HS Upstate Inc., (“Splitco”), pursuant to which Corning exchanged with Dow Corning its 50 percent equity interest in Dow Corning for 100 percent of the stock of Splitco which held Corning's historical proportional interest in the Hemlock Semiconductor Group ("HSC Group") and cash (collectively, the “DCC Transaction”). As a result of the DCC Transaction, Dow Corning, previously a 50:50 joint venture between Dow and Corning, became a wholly owned subsidiary of Dow and is fully consolidated in the Company’s consolidated statements of income.

In the second quarter of 2016, the Company recognized a non-taxable gain on the DCC Transaction of $2,445 million, net of closing costs and other comprehensive loss related to the Company's interest in Dow Corning. The gain was included in "Sundry income (expense) - net" in the consolidated statements of income. The Company also recognized a tax benefit of $141 million on the DCC Transaction in the second quarter of 2016, primarily due to the reassessment of a previously recognized deferred tax liability related to the basis difference in the Company’s investment in Dow Corning. See Notes 6, 12 and 20 for additional information.

Prior to June 2016, the Company’s 50 percent share of Dow Corning’s results of operations was reported in “Equity in earnings of nonconsolidated affiliates” in the consolidated statements of income. The results of the HSC Group continue to be treated as an equity method investment and are reported as “Equity in earnings of nonconsolidated affiliates” in the consolidated statements of income.

NOTE 5 – RESTRUCTURING AND ASSET RELATED CHARGES - NET
DowDuPont Cost Synergy Program
In September 2017, DowDuPont approved initial post-merger actions under the DowDuPont Cost Synergy Program (the "Synergy Program") which is designed to integrate and optimize the organization following the Merger and Intended Business Separations. In connection with the approved actions under the Synergy Program, the Company recorded a pretax restructuring charge for severance and related benefit costs of $139 million in the third quarter of 2017. The impact of this charge is shown as “Restructuring and asset related charges - net” in the consolidated statements of income. These actions are expected to be substantially completed by September 30, 2019. At September 30, 2017, severance of $19 million was paid, leaving a liability of $120 million.

Subsequent Event
On November 1, 2017, the Company approved restructuring actions in connection with the Synergy Program. Based on all actions approved to date under the Synergy Program, the Company expects to record total pretax restructuring charges of about $1.3 billion, comprised of approximately $525 million to $575 million of severance and related benefits costs; $400 million to $440 million of asset related charges, and $290 million to $310 million of costs related to contract terminations. Current estimated total pretax restructuring charges includes the $139 million pretax charge recorded in the third quarter of 2017, comprised of severance and related benefit costs. The Company expects to record pretax restructuring charges of approximately $900 million in the fourth quarter of 2017, with the remaining restructuring charges to be incurred by the end of 2019.

2016 Restructuring Plan
On June 27, 2016, the Board of Directors of the Company approved a restructuring plan that incorporated actions related to the ownership restructure of Dow Corning. These actions, aligned with Dow’s value growth and synergy targets, will result in a global workforce reduction of approximately 2,500 positions, with most of these positions resulting from synergies related to the ownership restructure of Dow Corning. These actions are expected to be

substantially completed by June 30, 2018.

As a result of these actions, the Company recorded pretax restructuring charges of $449 million in the second quarter of 2016 consisting of severance and related benefit costs of $268 million, asset related charges and other of $153 million and costs associated with exit and disposal activities of $28 million. The impact of these charges is shown as "Restructuring and asset related charges - net" in the consolidated statements of income. The following table summarizes the activities related to the Company's 2016 restructuring reserve, which is included in "Accrued and other current liabilities" and "Other noncurrent obligations" in the consolidated balance sheets.

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2016 Restructuring Activities In millions	Severance and Related Benefit Costs	Costs Associated with Exit and Disposal Activities	Total
Reserve balance at Dec 31, 2016	$ 201	$ 27	$ 228
Cash payments	(59)	—	(59)
Reserve balance at Mar 31, 2017	$ 142	$ 27	$ 169
Adjustments to the reserve [1]	—	(3)	(3)
Cash payments	(51)	—	(51)
Reserve balance at Jun 30, 2017	$ 91	$ 24	$ 115
Cash payments	(31)	—	(31)
Reserve balance at Sep 30, 2017	$ 60	$ 24	$ 84

1. Included in "Restructuring and asset related charges - net" in the consolidated statements of income.

Severance and Related Benefit Costs

The restructuring charge included severance and related benefit costs of $268 million for the separation of approximately 2,500 employees under the terms of the Company's ongoing benefit arrangements, primarily by June 30, 2018. At December 31, 2016, severance of $67 million was paid, leaving a liability of $201 million for approximately 1,700 employees. In the first nine months of 2017, severance of $141 million was paid, leaving a liability of $60 million for approximately 630 employees at September 30, 2017.

2015 Restructuring Plan

The 2015 restructuring activities were substantially completed at June 30, 2017, with remaining liabilities for severance and related benefit costs and costs associated with exit and disposal activities to be settled over time.

The following table summarizes adjustments made to the 2015 restructuring reserve for the three- and nine-month periods ended September 30, 2017 and 2016:

Adjustments to the 2015 Restructuring Reserve [1]	Three Months Ended		Nine Months Ended	
In millions	Sep 30, 2017	Sep 30, 2016	Sep 30, 2017	Sep 30, 2016
Severance and related benefit credits	$ —	$ —	$ (9)	$ —
Asset related credits and other	$ —	$ (1)	$ —	$ (3)
Costs (credits) associated with exit and disposal activities	$ —	$ 1	$ (1)	$ 6

1. Included in "Restructuring and asset related charges - net" in the consolidated statements of income.

Severance and Related Benefit Costs

The severance component of the 2015 restructuring charge of $235 million was for the separation of approximately 2,250 positions under the terms of the Company's ongoing benefit arrangements. At December 31, 2016, severance of $190 million was paid, leaving a liability of $45 million for approximately 290 employees. In the first six months of 2017, severance of $33 million was paid and the Company recorded a favorable adjustment of $9 million to the severance reserve, leaving a liability of $3 million for approximately 40 employees at June 30, 2017.

Dow expects to incur additional costs in the future 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 and restructuring plan implementation costs; these costs 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.

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NOTE 6 – SUPPLEMENTARY INFORMATION

The Company uses "Sundry income (expense) – net" to record a variety of income and expense items such as foreign exchange gains and losses, interest income, dividends from investments, gains and losses on sales of investments and assets, and certain litigation matters. For the three months ended September 30, 2017, "Sundry income (expense) - net" was income of $268 million (income of $22 million for the three months ended September 30, 2016). For the nine months ended September 30, 2017, "Sundry income (expense) - net" was income of $144 million (income of $1,369 million for the nine months ended September 30, 2016). The following table provides the most significant transactions recorded in "Sundry income (expense) – net" for the three- and nine-month periods ended September 30, 2017 and 2016.

Sundry Income (Expense) - Net	Three Months Ended		Nine Months Ended	
In millions	Sep 30, 2017	Sep 30, 2016	Sep 30, 2017	Sep 30, 2016
Gain on divestiture of the EAA copolymers and ionomers business [1]	$227	$ —	$227	$—
Foreign exchange losses	$(5)	$ (37)	$(61)	$(102)
Interest income	$27	$ 26	$74	$64
Gain on sales of other assets and investments	$10	$ 45	$147	$130
Gain related to Nova patent infringement award [2]	$—	$ —	$137	$—
Loss related to Bayer CropScience arbitration matter [2]	$—	$ —	$(469)	$—
Gain on ownership restructure of Dow Corning [1]	$—	$ —	$—	$2,445
Settlement of urethane matters class action lawsuit and opt-out cases [2]	$—	$ —	$—	$(1,235)
Obligation related to the split-off of the chlorine value chain	$—	$ (33)	$—	$(33)

1. See Note 4 for additional information.
2. See Note 13 for additional information.

Accrued and Other Current Liabilities

“Accrued and other current liabilities” were $5,373 million at September 30, 2017 and $4,481 million at December 31, 2016. Components of "Accrued and other current liabilities" that were more than 5 percent of total current liabilities were:

Accrued and Other Current Liabilities	Sep	Dec
In millions	30, 2017	31, 2016
Accrued payroll	$1,005	$1,105
Employee retirement plans [1]	$1,150	$364

1. See Note 16 for additional information.

Other Noncurrent Obligations

The Company received $524 million in the third quarter of 2017 for advance payments from customers related to long-term ethylene supply agreements, of which $12 million was classified as "Accrued and other current liabilities" and $512 million was classified as "Other noncurrent obligations" in the consolidated balance sheets at September 30, 2017.

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NOTE 7 – INCOME TAXES

As a result of the Merger and subsequent change in the Company's ownership, certain net operating loss carryforwards available for the Company’s consolidated German tax group were derecognized. In addition, the sale of stock between two consolidated subsidiaries in 2014 created a gain that was initially deferred for tax purposes. This deferred gain became taxable as a result of activities executed in anticipation of the intended separation of DowDuPont into three publicly traded companies. As a result, in the third quarter of 2017, the Company decreased “Deferred income tax assets” in the consolidated balance sheets and recorded a charge to “Provision for income taxes” in the consolidated statements of income of $267 million.

The total amount of gross unrecognized tax benefits for uncertain tax positions, including positions impacting only the timing of tax benefits, was $239 million at September 30, 2017 and $231 million at December 31, 2016. The amount of unrecognized tax benefits that, if recognized, would impact the effective tax rate was $213 million at September 30, 2017 and $223 million at December 31, 2016.

In the second quarter of 2016, an adjustment was made to a reserve for a tax matter regarding a historical change in the legal ownership structure of a former nonconsolidated affiliate. The adjustment arose due to legal proceedings and the Company’s ongoing assessment of the unrecognized tax benefits, which resulted in an unfavorable impact of $57 million to “Provision for income taxes” in the consolidated statements of income.

Interest and penalties associated with uncertain tax positions are recognized as components of "Provision for income taxes" in the consolidated statements of income and totaled a charge of $3 million for the three months ended September 30, 2017 (a benefit of $17 million for the three months ended September 30, 2016). During the nine months ended September 30, 2017, the Company recognized a charge of $7 million for interest and penalties (a charge of $73 million for the nine months ended September 30, 2016).

Each year the Company files hundreds of tax returns in the various national, state and local income taxing jurisdictions in which it operates. These tax returns are subject to examination and possible challenge by the tax authorities. Positions challenged by the tax authorities may be settled or appealed by the Company. As a result, there is an uncertainty in income taxes recognized in the Company’s financial statements in accordance with accounting for income taxes and accounting for uncertainty in income taxes. It is reasonably possible that changes to the Company’s global unrecognized tax benefits could be significant; however, due to the uncertainty regarding the timing of completion of audits and possible outcomes, a current estimate of the range of increases or decreases that may occur within the next twelve months cannot be made.

NOTE 8 – INVENTORIES

The following table provides a breakdown of inventories:

Inventories In millions	Sep 30, 2017	Dec 31, 2016
Finished goods	$4,966	$4,230
Work in process	1,911	1,510
Raw materials	977	853
Supplies	875	823
Total	$8,729	$7,416
Adjustment of inventories to a LIFO basis	(252)	(53)
Total inventories	$8,477	$7,363

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NOTE 9 - PROPERTY

The following table provides a breakdown of property:

Property [1] In millions	Estimated Useful Lives (Years)	Sep 30, 2017	Dec 31, 2016
Land and land improvements	0-25	$2,538	$2,524
Buildings	5-50	5,831	5,935
Machinery and equipment	3-25	40,615	38,499
Other property	3-50	5,218	4,380
Construction in progress	—	6,002	6,100
Total property		$60,204	$57,438

1. Updated to conform with the presentation adopted for DowDuPont.

NOTE 10 – GOODWILL AND OTHER INTANGIBLE ASSETS

The following table shows the carrying amount of goodwill:

Goodwill In millions	
Net goodwill at Dec 31, 2016	$15,272
Sale of SKC Haas Display Films [1]	(34)
Divestiture of EAA Copolymers and Ionomers business [2]	(23)
Foreign currency impact	271
Other	(1)
Net goodwill at Sep 30, 2017	$15,485

1. On June 30, 2017, the Company sold its ownership interest in the SKC Haas Display Films group of companies. See Note 15 for additional information.
2. On September 1, 2017, the Company divested its global EAA copolymers and ionomers business to SK Global Chemical Co., Ltd. See Note 4 for additional information.

Effective with the Merger, the Company updated its reporting units to align with the level at which discrete financial information is available for review by management. A relative fair value method was used to reallocate goodwill for reporting units the composition of which had changed. The new reporting units are: Agriculture, Coatings & Performance Monomers, Construction Chemicals, Consumer Solutions, Electronics & Imaging, Energy Solutions, Hydrocarbons & Energy, Industrial Biosciences, Industrial Solutions, Nutrition & Health, Packaging and Specialty Plastics, Polyurethanes & CAV, Safety & Construction and Transportation & Advanced Polymers. At September 30, 2017, goodwill is carried by all of these reporting units.

As disclosed in Dow's 2016 Form 10-K, as part of its annual goodwill impairment testing the Company performed additional sensitivity analysis, the results of which indicated that the fair value of the Dow Coating Materials reporting unit (now part of Coatings & Performance Monomers) did not significantly exceed its carrying amount. The Company continued to monitor the performance of the Coatings & Performance Monomers reporting unit, as benchmarked against its long-term financial plan, and evaluates industry and company-specific circumstances which affect the financial results of this reporting unit, including customer consolidation, changes in demand growth in certain end-markets, fluctuations in sales growth in emerging geographies and results of new product launches. At September 30, 2017, the Company concluded that no events or changes in circumstances have occurred which would indicate that the fair value of the Coatings & Performance Monomers reporting unit has more likely than not been

reduced below its carrying amount.

The long-term financial plan for the Coatings & Performance Monomers reporting unit, which underlies the above conclusion, contains numerous assumptions including, but not limited to: expected market growth rates; success of sales and marketing efforts; commercialization of innovation programs; benefit of cost reduction programs; availability of capital and expense resources to execute growth initiatives; impact of competitor actions; industry supply and demand balances; and, macroeconomic factors such as foreign currency exchange rates and interest rates. If the Coatings & Performance Monomers reporting unit does not achieve the financial performance that the Company expects, it is reasonably possible that an impairment of goodwill may result. An annual goodwill impairment test for the Coatings & Performance Monomers reporting unit will be completed during the fourth quarter of 2017. At September 30, 2017, the Coatings & Performance Monomers reporting unit had goodwill of $2,509 million.

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

Other Intangible Assets [1]	Sep 30, 2017			Dec 31, 2016		
In millions	Gross Carrying Amount	Accum Amort	Net	Gross Carrying Amount	Accum Amort	Net
Intangible assets with finite lives:						
Developed technology	$3,259	$(1,594)	$1,665	$3,254	$(1,383)	$1,871
Software	1,398	(759)	639	1,336	(696)	640
Trademarks/tradenames	697	(552)	145	696	(503)	193
Customer-related	4,995	(1,844)	3,151	4,806	(1,567)	3,239
Other	243	(152)	91	168	(146)	22
Total other intangible assets with finite lives	$10,592	$(4,901)	$5,691	$10,260	$(4,295)	$5,965
In-process research and development ("IPR&D")	61	—	61	61	—	61
Total other intangible assets	$10,653	$(4,901)	$5,752	$10,321	$(4,295)	$6,026

1. Prior year amounts have been updated to conform with the current year presentation.

In the second quarter of 2016, the Company wrote off $11 million of IPR&D as part of the 2016 restructuring charge. See Note 5 for additional information.

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

Amortization Expense	Three Months Ended		Nine Months Ended	
In millions	Sep 30, 2017	Sep 30, 2016	Sep 30, 2017	Sep 30, 2016
Other intangible assets, excluding software	$155	$ 162	$467	$ 387
Software, included in “Cost of sales”	$21	$ 18	$61	$ 55

Total estimated amortization expense for 2017 and the five succeeding fiscal years is as follows:

Estimated Amortization Expense	
In millions	
2017	$ 727
2018	$ 735
2019	$ 659
2020	$ 621
2021	$ 587
2022	$ 516

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NOTE 11 – TRANSFERS OF FINANCIAL ASSETS

The Company sells trade accounts receivable of select North American entities and qualifying trade accounts receivable of select European entities on a revolving basis to certain multi-seller commercial paper conduit entities ("conduits"). 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.

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	Sep 30,	Dec 31,
In millions	2017	2016
Carrying value of interests held	$1,839	$1,237
Percentage of anticipated credit losses	0.87 %	0.36 %
Impact to carrying value - 10% adverse change	$1	$1
Impact to carrying value - 20% adverse change	$2	$1

Credit losses, net of any recoveries, on receivables sold were insignificant for the three- and nine-month periods ended September 30, 2017 and 2016.

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

Cash Proceeds	Three Months Ended		Nine Months Ended	
In millions	Sep 30, 2017	Sep 30, 2016	Sep 30, 2017	Sep 30, 2016
Collections reinvested in revolving receivables	$6,295	$5,783	$18,027	$15,760
Interests in conduits [1]	$135	$129	$939	$882

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	Sep 30,	Dec 31,
In millions	2017	2016
Delinquencies on sold receivables still outstanding	$128	$86
Trade accounts receivable outstanding and derecognized	$2,865	$2,257

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NOTE 12 – NOTES PAYABLE, LONG-TERM DEBT AND AVAILABLE CREDIT FACILITIES

Notes Payable

In millions	Sep 30, 2017	Dec 31, 2016
Commercial paper	$249	$—
Notes payable to banks and other lenders	293	225
Notes payable to related companies	42	44
Notes payable trade	—	3
Total notes payable	$584	$272
Period-end average interest rates	4.12 %	4.60 %

Long-Term Debt

In millions	2017 Average Rate	Sep 30, 2017	2016 Average Rate	Dec 31, 2016
Promissory notes and debentures:				
Final maturity 2017	9.80 %	$3	6.06 %	$442
Final maturity 2018	5.78 %	339	5.78 %	339
Final maturity 2019	8.55 %	2,122	8.55 %	2,122
Final maturity 2020	4.46 %	1,547	4.46 %	1,547
Final maturity 2021	4.71 %	1,424	4.72 %	1,424
Final maturity 2022	3.00 %	1,252	3.00 %	1,250
Final maturity 2023 and thereafter	5.99 %	7,188	5.98 %	7,199
Other facilities:				
U.S. dollar loans, various rates and maturities	2.26 %	4,580	1.60 %	4,595
Foreign currency loans, various rates and maturities	3.12 %	862	3.42 %	882
Medium-term notes, varying maturities through 2025	3.86 %	995	3.82 %	1,026
Tax-exempt bonds, varying maturities through 2038	5.66 %	343	5.66 %	343
Capital lease obligations	—	281	—	295
Unamortized debt discount and issuance costs	—	(354)	—	(373)
Long-term debt due within one year [1]	—	(578)	—	(635)
Long-term debt	—	$20,004	—	$20,456

1. Presented net of current portion of unamortized debt issuance costs.

Maturities of Long-Term Debt For Next Five Years at Sep 30, 2017 [1]	
In millions	
2017	$78
2018	$752
2019	$6,934
2020	$1,831
2021	$1,561
2022	$1,497

1. Assumes the option to extend a term loan facility related to the DCC Transaction will be exercised.

2017 Activity

In the first nine months of 2017, the Company redeemed $436 million of 6.0 percent notes that matured on September 15, 2017, and $31 million aggregate principal amount of InterNotes at maturity. In addition, approximately $60 million of long-term debt was repaid by consolidated variable interest entities.

2016 Activity

In the first nine months of 2016, the Company redeemed $349 million of 2.5 percent notes that matured on February 15, 2016, and $52 million principal amount of InterNotes at maturity. In addition, approximately $72 million of long-term debt (net of $28 million of additional borrowings) was repaid by consolidated variable interest entities.

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As part of the DCC Transaction, the fair value of debt assumed by Dow was $4,672 million and is reflected in the preceding long-term debt table.

Available Credit Facilities
The following table summarizes the Company's credit facilities:

Committed and Available Credit Facilities at Sep 30, 2017

In millions	Effective Date	Committed Credit	Credit Available	Maturity Date	Interest
Five Year Competitive Advance and Revolving Credit Facility	March 2015	$ 5,000	$ 5,000	March 2020	Floating rate
Bilateral Revolving Credit Facility	August 2015	100	100	March 2018	Floating rate
Bilateral Revolving Credit Facility	August 2015	100	100	March 2020	Floating rate
Bilateral Revolving Credit Facility	August 2015	280	280	March 2020	Floating rate
Bilateral Revolving Credit Facility	August 2015	100	100	March 2020	Floating rate
Bilateral Revolving Credit Facility	August 2015	100	100	March 2020	Floating rate
Bilateral Revolving Credit Facility	August 2015	200	200	March 2020	Floating rate
Bilateral Revolving Credit Facility	May 2016	200	200	May 2018	Floating rate
Bilateral Revolving Credit Facility	July 2016	200	200	July 2018	Floating rate
Bilateral Revolving Credit Facility	August 2016	100	100	August 2018	Floating rate
DCC Term Loan Facility	February 2016	4,500	—	December 2019	Floating rate
Total Committed and Available Credit Facilities		$ 10,880	$ 6,380		

DCC Term Loan Facility
In connection with the DCC Transaction, on May 31, 2016, Dow Corning incurred $4.5 billion of indebtedness under a certain third party credit agreement ("DCC Term Loan Facility"). Subsequent to the DCC Transaction, the Company guaranteed the obligations of Dow Corning under the DCC Term Loan Facility and, as a result, the covenants and events of default applicable to the DCC Term Loan Facility are substantially similar to the covenants and events of default set forth in the Company's Five Year Competitive Advance and Revolving Credit Facility. In the second quarter of 2017, Dow Corning exercised a 364-day extension option making amounts borrowed under the DCC Term Loan Facility repayable on May 29, 2018, and amended the DCC Term Loan Facility to include an additional 19-month extension option, at Dow Corning’s election, upon satisfaction of certain customary conditions precedent. Dow Corning intends to exercise the additional 19-month extension option on the DCC Term Loan Facility.

Debt Covenants and Default Provisions
There were no material changes to the debt covenants and default provisions related to the Company's outstanding long-term debt and primary, private credit agreements in the first nine months of 2017. For additional information on the Company's debt covenants and default provisions, see Note 17 to the Consolidated Financial Statements included

in the Company's Annual Report on Form 10-K for the year ended December 31, 2016.

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NOTE 13 – COMMITMENTS AND CONTINGENT LIABILITIES

Environmental Matters

Accruals for environmental matters are recorded when it is probable that a liability has been incurred and the amount of the liability can be reasonably estimated, based on current law and existing technologies. At September 30, 2017, the Company had accrued obligations of $884 million for probable environmental remediation and restoration costs, including $155 million for the remediation of Superfund sites. These obligations are included in "Accrued and other current liabilities" and "Other noncurrent obligations" in the consolidated balance sheets. 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 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, 2016, the Company had accrued obligations of $909 million for probable environmental remediation and restoration costs, including $151 million for the remediation of Superfund sites.

Environmental Matters Summary

It is the opinion of the Company's management that the possibility is remote that costs in excess of those disclosed will have a material impact on the Company's results of operations, financial condition or cash flows.

Litigation

Asbestos-Related Matters of Union Carbide Corporation

A summary of Asbestos-Related Matters of Union Carbide Corporation can be found in Note 15 to the Consolidated Financial Statements included in the Company's Annual Report on Form 10-K for the year ended December 31, 2016.

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 four 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.

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 Asbestos-Related Liability

Since 2003, Union Carbide has engaged Ankura Consulting Group, LLC ("Ankura"), a third party actuarial specialist, to review Union Carbide's historical asbestos-related claim and resolution activity in order to assist Union Carbide's management in estimating the asbestos-related liability. Each year, Ankura has reviewed the claim and resolution activity to determine the appropriateness of updating the most recent Ankura study. Historically, every other year beginning in October, Ankura has completed a full review and formal update to the most recent Ankura study.

Based on the December 2016 Ankura study and Union Carbide's own review of the data, and taking into account the change in accounting policy that occurred in the fourth quarter of 2016, Union Carbide's total asbestos-related liability through the terminal year of 2049, including asbestos-related defense and processing costs, was $1,490 million at December 31, 2016, and included in “Accrued and other current liabilities” and “Asbestos-related liabilities - noncurrent” in the consolidated balance sheets.

Each quarter, Union Carbide reviews claims filed, settled and dismissed, as well as average settlement and resolution costs by disease category. Union Carbide also considers additional quantitative and qualitative factors such as the nature of pending claims, trial experience of Union Carbide and other asbestos defendants, current spending for defense and processing costs, significant appellate rulings and legislative developments, trends in the tort system, and their respective effects on expected future resolution costs. Union Carbide's management considers all these factors in conjunction with the most recent Ankura study and determines whether a change in the estimate is warranted. Based on Union Carbide's review of 2017 activity, it was determined that no adjustment to the accrual was required at September 30, 2017.

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Union Carbide’s asbestos-related liability for pending and future claims and defense and processing costs was $1,398 million at September 30, 2017, and approximately 15 percent of the recorded liability related to pending claims and approximately 85 percent related to future claims.

Summary

The Company's management believes the amounts recorded by Union Carbide for the asbestos-related liability (including defense and processing costs) reflect reasonable and probable estimates of the liability 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 defending and disposing of each such claim, as well as the numerous uncertainties surrounding asbestos litigation in the United States over a significant period of time, could cause the actual costs for Union Carbide to be higher or lower than those projected or those recorded. Any such events could result in an increase or decrease in the recorded liability.

Because of the uncertainties described above, Union Carbide cannot estimate the full range of the cost of resolving pending and future asbestos-related claims facing Union Carbide and Amchem. As a result, it is reasonably possible that an additional cost of disposing of Union Carbide's asbestos-related claims, including future defense and processing 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.

Urethane Matters

A full description of the Urethane Matters can be found in Note 15 to the Consolidated Financial Statements included in the Company's Annual Report on Form 10-K for the year ended December 31, 2016.

Class Action Lawsuit

On February 26, 2016, the Company announced a proposed settlement of $835 million for the Urethane Matters Class Action Lawsuit, which included damages, class attorney fees and post-judgment interest. As a result, in the first quarter of 2016, the Company recorded a loss of $835 million, included in "Sundry income (expense) - net" in the consolidated statements of income. On May 11, 2016, the Company moved the $835 million settlement amount into an escrow account. On July 29, 2016, the U.S. District Court for the District of Kansas granted final approval of the settlement and the funds were released from escrow on August 30, 2016.

Opt-Out Cases

On April 5, 2016, the Company entered into a binding settlement for the Opt-Out Cases under which the Company would pay the named plaintiffs $400 million, inclusive of damages and attorney fees. As a result, the Company recorded a loss of $400 million in the first quarter of 2016, included in "Sundry income (expense) - net" in the consolidated statements of income. Payment of this settlement occurred on May 4, 2016.

Bayer CropScience v. Dow AgroSciences ICC Arbitration

On August 13, 2012, Bayer CropScience AG and Bayer CropScience NV (together, “Bayer”) filed a request for arbitration with the International Chamber of Commerce ("ICC") International Court of Arbitration against Dow AgroSciences LLC, a wholly owned subsidiary of the Company, and other subsidiaries of the Company (collectively, “DAS”) under a 1992 license agreement executed by predecessors of the parties (the “License Agreement”). In its request for arbitration, Bayer alleged that (i) DAS breached the License Agreement, (ii) the License Agreement was properly terminated with no ongoing rights to DAS, (iii) DAS has infringed and continues to infringe its patent rights related to the use of the pat gene in certain soybean and cotton seed products, and (iv) Bayer is entitled to monetary damages and injunctive relief. DAS denied that it breached the License Agreement and asserted that the License Agreement remained in effect because it was not properly terminated. DAS also asserted that all of Bayer’s patents at issue are invalid and/or not infringed, and, therefore, for these reasons (and others), a license was not required. During the pendency of the arbitration proceeding, DAS filed six re-examination petitions with the United States Patent &

Trademark Office ("USPTO") against the Bayer patents, asserting that each patent is invalid based on the doctrine against double-patenting and/or prior art. The USPTO granted all six petitions, and, on February 26, 2015, the USPTO issued an office action rejecting the patentability of the sole Bayer patent claim in the only asserted Bayer patent that has not expired and that forms the basis for the vast majority of the damages in the arbitral award discussed below.

A three-member arbitration tribunal presided over the arbitration proceeding (the "tribunal"). In a decision dated October 9, 2015, the tribunal determined that (i) DAS breached the License Agreement, (ii) Bayer properly terminated the License Agreement, (iii) all of the patents remaining in the proceeding are valid and infringed, and (iv) that Bayer is entitled to monetary damages in the amount of $455 million inclusive of pre-judgment interest and costs (the "arbitral award"). One of the arbitrators, however, issued a partial dissent finding that all of the patents are invalid based on the double-patenting doctrine. The tribunal also denied Bayer's request for injunctive relief.

On October 16, 2015, Bayer filed a motion in U.S. District Court for the Eastern District of Virginia ("Federal District Court") seeking to confirm the arbitral award. DAS opposed the motion and filed separate motions to vacate the award, or in the alternative, to stay enforcement of the award until the USPTO issued final office actions with respect to the re-examination proceedings. On January 15, 2016, the Federal District Court denied DAS's motions and confirmed the award. DAS appealed the Federal District Court's decision. On March 1, 2017, the U.S. Court of Appeals for the Federal Circuit ("Federal Circuit") affirmed the arbitral award. As a result of this action, in the first quarter of 2017, the Company recorded a loss of $469 million, inclusive of the arbitral award and post-judgment interest, which is included in "Sundry income (expense) - net" in the consolidated statements of income. On March 31, 2017, DAS filed a combined petition for Rehearing or Rehearing En Banc with the Federal Circuit which was denied on May 12, 2017. On May 19, 2017, the Federal Circuit issued a mandate denying DAS's request to stay the arbitral award pending judicial review by the United States Supreme Court. On May 26, 2017, the Company paid the $469 million arbitral award to Bayer. On September 11, 2017, DAS filed a petition for writ of certiorari with the United States Supreme Court.

The Company continues to believe the arbitral award is fundamentally flawed in numerous respects because it (i) violates U.S. public policy prohibiting enforcement of invalid patents, (ii) manifestly disregards applicable law, and (iii) disregards unambiguous contract provisions and ignores the essence of the applicable contracts. The USPTO has now issued office actions rejecting the patentability of all four patents that Bayer asserted in the case. The Company is continuing to pursue its legal rights with respect to this matter.

The arbitral award and subsequent related judicial decisions will not impact DAS’s commercialization of its soybean and cotton seed products, including those containing the ENLIST™ technologies.

Rocky Flats Matter
A summary of the Rocky Flats Matter can be found in Note 15 to the Consolidated Financial Statements included in the Company's Annual Report on Form 10-K for the year ended December 31, 2016.

The Company and Rockwell International Corporation ("Rockwell") (collectively, the "defendants") were defendants in a class action lawsuit filed in 1990 on behalf of property owners ("plaintiffs") in Rocky Flats, Colorado, who asserted claims for nuisance and trespass based on alleged property damage caused by plutonium releases from a nuclear weapons facility owned by the U.S. Department of Energy ("DOE") (the "facility") but operated by Dow and Rockwell. The plaintiffs tried their case as a public liability action under the Price Anderson Act ("PAA"). Dow and Rockwell litigated this matter in the U.S. District Court for the District of Colorado ("District Court"), the U.S. Tenth Circuit Court of Appeals and then filed a petition for writ of certiorari in the United States Supreme Court. On May 18, 2016, Dow, Rockwell and the plaintiffs entered into a settlement agreement for $375 million, of which $131 million was paid by Dow. The DOE authorized the settlement pursuant to the PAA and the nuclear hazards indemnity provisions contained in Dow's and Rockwell's contracts. The District Court granted preliminary approval to the class settlement on August 5, 2016. On April 28, 2017, the District Court conducted a fairness hearing and granted final judgment approving the class settlement and dismissed class claims against the defendants ("final judgment order"). The litigation is now concluded.

On December 13, 2016, the United States Civil Board of Contract Appeals unanimously ordered the United States government to pay the amounts stipulated in the settlement agreement. On January 17, 2017, the Company received a full indemnity payment of $131 million from the United States government for Dow's share of the class settlement. On January 26, 2017, the Company placed $130 million in an escrow account for the settlement payment owed to the plaintiffs. The funds were subsequently released from escrow as a result of the final judgment order. At September 30, 2017, there are no outstanding balances in the consolidated balance sheets related to this matter ($131 million included in "Accounts and notes receivable - Other" and $130 million included in "Accrued and other current liabilities" at December 31, 2016).

Dow Corning Chapter 11 Related Matters
A summary of the Dow Corning Chapter 11 Related Matters can be found in Note 15 to the Consolidated Financial Statements included in the Company's Annual Report on Form 10-K for the year ended December 31, 2016.

Introduction
In 1995, Dow Corning, then a 50:50 joint venture between Dow and Corning voluntarily filed for protection under Chapter 11 of the U.S. Bankruptcy Code in order to resolve Dow Corning's breast implant liabilities and related matters (the "Chapter 11 Proceeding"). Dow Corning emerged from the Chapter 11 Proceeding on June 1, 2004 (the "Effective Date") and is implementing the Joint Plan of Reorganization (the "Plan"). The Plan provides funding for the resolution of breast implant and other product liability litigation covered by the Chapter 11 Proceeding and provides a process for the satisfaction of commercial creditor claims in the Chapter 11 Proceeding. As of June 1, 2016, Dow Corning is a wholly owned subsidiary of Dow.

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Breast Implant and Other Product Liability Claims
Under the Plan, a product liability settlement program administered by an independent claims office (the "Settlement Facility") was created to resolve breast implant and other product liability claims. Product liability claimants rejecting the settlement program in favor of pursuing litigation must bring suit against a litigation facility (the "Litigation Facility"). Under the Plan, total payments committed by Dow Corning to resolving product liability claims are capped at a maximum $2,350 million net present value ("NPV") determined as of the Effective Date using a discount rate of seven percent (approximately $3,716 million undiscounted at September 30, 2017). Of this amount, no more than $400 million NPV determined as of the Effective Date can be used to fund the Litigation Facility.

Dow Corning has an obligation to fund the Settlement Facility and the Litigation Facility over a 16-year period, commencing at the Effective Date. At September 30, 2017, Dow Corning and its insurers have made life-to-date payments of $1,762 million to the Settlement Facility and the Settlement Facility reported an unexpended balance of $138 million.

Dow Corning's liability for breast implant and other product liability claims ("Implant Liability") was $263 million at September 30, 2017 ($263 million at December 31, 2016), which is included in "Other noncurrent obligations" in the consolidated balance sheets. Dow Corning is not aware of circumstances that would change the factors used in estimating the Implant Liability and believes the recorded liability reflects the best estimate of the remaining funding obligations under the Plan; however, the estimate relies upon a number of significant assumptions, including: future claim filing levels in the Settlement Facility will be similar to those in the revised settlement program, which management uses to estimate future claim filing levels for the Settlement Facility; future acceptance rates, disease mix, and payment values will be materially consistent with historical experience; no material negative outcomes in future controversies or disputes over Plan interpretation will occur; and the Plan will not be modified. If actual outcomes related to any of these assumptions prove to be materially different, the future liability to fund the Plan may be materially different than the amount estimated. If Dow Corning was ultimately required to fund the full liability up to the maximum capped value, the liability would be $1,954 million at September 30, 2017.

Commercial Creditor Issues
The Plan provides that each of Dow Corning's commercial creditors (the "Commercial Creditors") would receive in cash the sum of (a) an amount equal to the principal amount of their claims and (b) interest on such claims. The actual amount of interest that will ultimately be paid to these Commercial Creditors is uncertain due to pending litigation between Dow Corning and the Commercial Creditors regarding the appropriate interest rates to be applied to outstanding obligations from the 1995 bankruptcy filing date through the Effective Date, as well as the presence of any recoverable fees, costs and expenses. Upon the Plan becoming effective, Dow Corning paid approximately $1,500 million to the Commercial Creditors, representing principal and an amount of interest that Dow Corning considers undisputed.

In 2006, the U.S. Court of Appeals for the Sixth Circuit concluded that there is a general presumption that contractually specified default interest should be paid by a solvent debtor to unsecured creditors (the "Interest Rate Presumption") and permitting Dow Corning's Commercial Creditors to recover fees, costs, and expenses where allowed by the relevant loan agreements. The matter was remanded to the U.S. District Court for the Eastern District of Michigan ("District Court") for further proceedings, including rulings on the facts surrounding specific claims and consideration of any equitable factors that would preclude the application of the Interest Rate Presumption. On May 10, 2017, the District Court entered a stipulated order resolving pending discovery motions and established a discovery schedule for the Commercial Creditors matter. As a result, Dow Corning and its third party consultants conducted further analysis of the Commercial Creditors claims and defenses. This analysis indicated the estimated remaining liability to Commercial Creditors to be within a range of $77 million to $260 million. No single amount within the range appeared to be a better estimate than any other amount within the range. Therefore, Dow Corning recorded the minimum liability within the range, which resulted in a decrease to the Commercial Creditor liability of

$33 million in the second quarter of 2017, which was included in "Sundry income (expense) - net" in the consolidated statements of income. At September 30, 2017, the liability related to Dow Corning’s potential obligation to pay additional interest to Commercial Creditors in the Chapter 11 Proceeding was $77 million and is included in "Accrued and other current liabilities" in the consolidated balance sheets ($108 million at December 31, 2016). The actual amount of interest that will be paid to these creditors is uncertain and will ultimately be resolved through continued proceedings in the District Court.

Indemnifications

In connection with the June 1, 2016 ownership restructure of Dow Corning, the Company is indemnified by Corning for 50 percent of future losses associated with certain pre-closing liabilities, including the Implant Liability and Commercial Creditors matters described above, subject to certain conditions and limits. The maximum amount of indemnified losses which may be recovered are subject to a cap that declines over time. Indemnified losses are capped at (1) $1.5 billion until May 31, 2018, (2) $1 billion between May 31, 2018 and May 31, 2023, and (3) no recoveries are permitted after May 31, 2023. No indemnification assets were recorded at September 30, 2017 or December 31, 2016.