DOW CHEMICAL CO /DE/
Form 10-Q
May 04, 2011
**Table of Contents**

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

# FORM 10-Q

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF

THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended **MARCH 31, 2011**

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)

989-636-1000

(Registrant s telephone number, including area code)

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, or a smaller reporting company. See the definitions of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act.

| Large accelerated filer þ | Accelerated filer ¨ |
|---|---|

Non-accelerated filer ¨ Smaller reporting company ¨

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

¨ Yes þ No

| Class | Outstanding at March 31, 2011 |
|---|---|
| Common Stock, par value $2.50 per share | 1,175,579,518 shares |

Table of Contents

# The Dow Chemical Company

**QUARTERLY REPORT ON FORM 10-Q**

**For the quarterly period ended March 31, 2011**

**TABLE OF CONTENTS**


| | | PAGE |
|---|---|---|
| **PART I FINANCIAL INFORMATION** | | |
| Item 1. | Financial Statements. | 3 |
| | Consolidated Statements of Income | 3 |
| | Consolidated Balance Sheets | 4 |
| | Consolidated Statements of Cash Flows | 5 |
| | Consolidated Statements of Equity | 6 |
| | Consolidated Statements of Comprehensive Income | 7 |
| | Notes to the Consolidated Financial Statements | 8 |
| Item 2. | Management s Discussion and Analysis of Financial Condition and Results of Operations. | 39 |
| | Disclosure Regarding Forward-Looking Information | 39 |
| | Results of Operations | 40 |
| | Changes in Financial Condition | 54 |
| | Other Matters | 58 |
| Item 3. | Quantitative and Qualitative Disclosures About Market Risk. | 62 |
| Item 4. | Controls and Procedures. | 63 |
| **PART II OTHER INFORMATION** | | |
| Item 1. | Legal Proceedings. | 64 |
| Item 1A. | Risk Factors. | 64 |
| Item 2. | Unregistered Sales of Equity Securities and Use of Proceeds. | 65 |
| Item 6. | Exhibits. | 65 |
| **SIGNATURE** | | 67 |
| **EXHIBIT INDEX** | | 68 |

Table of Contents

**PART I - FINANCIAL INFORMATION**

**Item 1. Financial Statements.**

**The Dow Chemical Company and Subsidiaries**

## Consolidated Statements of Income

| In millions, except per share amounts (Unaudited) | *Three Months Ended March 31, 2011* | *Three Months Ended March 31, 2010* |
|---|---|---|
| Net Sales | $ 14,733 | $ 13,417 |
| Cost of sales | 12,117 | 11,541 |
| Research and development expenses | 400 | 407 |
| Selling, general and administrative expenses | 700 | 662 |
| Amortization of intangibles | 123 | 128 |
| Restructuring charges | - | 16 |
| Acquisition and integration related expenses | 31 | 26 |
| Equity in earnings of nonconsolidated affiliates | 298 | 304 |
| Sundry income (expense) - net | (449) | 83 |
| Interest income | 7 | 7 |
| Interest expense and amortization of debt discount | 377 | 376 |
| Income Before Income Taxes | 841 | 655 |
| Provision for income taxes | 120 | 103 |
| Net Income | 721 | 552 |
| Net income attributable to noncontrolling interests | 11 | 1 |
| Net Income Attributable to The Dow Chemical Company | 710 | 551 |
| Preferred stock dividends | 85 | 85 |
| Net Income Available for The Dow Chemical Company Common Stockholders | $ 625 | $ 466 |
| | | |
| Per Common Share Data: | | |
| Earnings per common share - basic | $ 0.55 | $ 0.42 |
| Earnings per common share - diluted | $ 0.54 | $ 0.41 |
| | | |
| Common stock dividends declared per share of common stock | $ 0.15 | $ 0.15 |
| Weighted-average common shares outstanding - basic | 1,139.5 | 1,117.5 |
| Weighted-average common shares outstanding - diluted | 1,161.2 | 1,137.9 |
| | | |
| Depreciation | $ 559 | $ 591 |
| Capital Expenditures | $ 405 | $ 294 |

*See Notes to the Consolidated Financial Statements.*

Table of Contents

**The Dow Chemical Company and Subsidiaries**

## Consolidated Balance Sheets

| In millions (Unaudited) | *March 31, 2011* | *Dec. 31, 2010* |
|---|---|---|
| **Assets** | | |
| Current Assets | | |
| Cash and cash equivalents (variable interest entities restricted - 2011: $199; 2010: $145) | $ 3,562 | $ 7,039 |
| Accounts and notes receivable: | | |
| Trade (net of allowance for doubtful receivables - 2011: $138; 2010: $128) | 5,413 | 4,616 |
| Other | 4,940 | 4,428 |
| Inventories | 8,132 | 7,087 |
| Deferred income tax assets - current | 557 | 611 |
| Other current assets | 379 | 349 |
| Total current assets | 22,983 | 24,130 |
| Investments | | |
| Investment in nonconsolidated affiliates | 3,299 | 3,453 |
| Other investments (investments carried at fair value - 2011: $2,031; 2010: $2,064) | 2,490 | 2,542 |
| Noncurrent receivables | 318 | 388 |
| Total investments | 6,107 | 6,383 |
| Property | | |
| Property | 52,825 | 51,648 |
| Less accumulated depreciation | 35,040 | 33,980 |
| Net property (variable interest entities restricted - 2011: $1,505; 2010: $1,388) | 17,785 | 17,668 |
| Other Assets | | |
| Goodwill | 13,048 | 12,967 |
| Other intangible assets (net of accumulated amortization - 2011: $1,971; 2010: $1,805) | 5,453 | 5,530 |
| Deferred income tax assets - noncurrent | 2,186 | 2,079 |
| Asbestos-related insurance receivables - noncurrent | 217 | 220 |
| Deferred charges and other assets | 663 | 611 |
| Total other assets | 21,567 | 21,407 |
| Total Assets | $ 68,442 | $ 69,588 |
| **Liabilities and Equity** | | |
| Current Liabilities | | |
| Notes payable | $ 709 | $ 1,467 |
| Long-term debt due within one year | 1,607 | 1,755 |
| Accounts payable: | | |
| Trade | 4,836 | 4,356 |
| Other | 2,263 | 2,249 |
| Income taxes payable | 432 | 349 |
| Deferred income tax liabilities - current | 97 | 105 |
| Dividends payable | 259 | 257 |
| Accrued and other current liabilities | 2,781 | 3,358 |
| Total current liabilities | 12,984 | 13,896 |
| Long-Term Debt | 19,078 | 20,605 |
| Other Noncurrent Liabilities | | |
| Deferred income tax liabilities - noncurrent | 1,284 | 1,295 |
| Pension and other postretirement benefits - noncurrent | 7,526 | 7,492 |
| Asbestos-related liabilities - noncurrent | 655 | 663 |
| Other noncurrent obligations | 3,078 | 2,995 |

| | | |
|---|---|---|
| Total other noncurrent liabilities | 12,543 | 12,445 |
| Stockholders Equity | | |
| Preferred stock, series A | 4,000 | 4,000 |
| Common stock | 2,939 | 2,931 |
| Additional paid-in capital | 2,243 | 2,286 |
| Retained earnings | 18,187 | 17,736 |
| Accumulated other comprehensive loss | (3,881) | (4,399) |
| Unearned ESOP shares | (467) | (476) |
| Treasury stock at cost | - | (239) |
| The Dow Chemical Company s stockholders equity | 23,021 | 21,839 |
| Noncontrolling interests | 816 | 803 |
| Total equity | 23,837 | 22,642 |
| Total Liabilities and Equity | $ 68,442 | $ 69,588 |

*See Notes to the Consolidated Financial Statements.*

Table of Contents

**The Dow Chemical Company and Subsidiaries**

## Consolidated Statements of Cash Flows

| In millions (Unaudited) | *Three Months Ended March 31, 2011* | *March 31, 2010* |
|---|---|---|
| Operating Activities | | |
| Net Income | $ 721 | $ 552 |
| Adjustments to reconcile net income to net cash used in operating activities: | | |
| Depreciation and amortization | 731 | 757 |
| Credit for deferred income tax | (112) | (155) |
| Earnings of nonconsolidated affiliates less than (in excess of) dividends received | 210 | (12) |
| Pension contributions | (220) | (77) |
| Net (gain) loss on sales of investments | (16) | 30 |
| Net gain on sales of property, businesses and consolidated companies | (4) | (92) |
| Other net (gain) loss | (1) | 12 |
| Restructuring charges | - | 16 |
| Loss on early extinguishment of debt | 472 | - |
| Excess tax benefits from share-based payment arrangements | (9) | (1) |
| Changes in assets and liabilities, net of effects of acquired and divested companies: | | |
| Accounts and notes receivable | (1,940) | (1,536) |
| Proceeds from interests in trade accounts receivable conduits | 990 | 528 |
| Inventories | (1,045) | (605) |
| Accounts payable | 351 | 343 |
| Other assets and liabilities | (303) | 226 |
| Cash used in operating activities | (175) | (14) |
| Investing Activities | | |
| Capital expenditures | (405) | (294) |
| Construction of assets pending sale / leaseback | (62) | - |
| Proceeds from sale / leaseback of assets | 46 | - |
| Proceeds from sales of property, businesses and consolidated companies | 81 | 104 |
| Acquisitions of businesses | (6) | (5) |
| Investments in consolidated companies, net of cash acquired | (54) | (62) |
| Investments in nonconsolidated affiliates | (36) | (50) |
| Distributions from nonconsolidated affiliates | 27 | 18 |
| Change in restricted cash | - | 482 |
| Purchases of investments | (159) | (321) |
| Proceeds from sales and maturities of investments | 216 | 327 |
| Cash provided by (used in) investing activities | (352) | 199 |
| Financing Activities | | |
| Changes in short-term notes payable | 55 | 528 |
| Proceeds from notes payable | - | 84 |
| Payments on notes payable | - | (657) |
| Proceeds from issuance of long-term debt | 20 | 171 |
| Payments on long-term debt | (2,923) | (75) |
| Purchases of treasury stock | (19) | (9) |
| Proceeds from issuance of common stock | 54 | 13 |
| Proceeds from sales of common stock | 98 | 51 |

| | | |
|---|---|---|
| Excess tax benefits from share-based payment arrangements | 9 | 1 |
| Contribution from noncontrolling interests | 20 | - |
| Distributions to noncontrolling interests | (18) | - |
| Dividends paid to stockholders | (256) | (253) |
| Cash used in financing activities | (2,960) | (146) |
| Effect of Exchange Rate Changes on Cash | 10 | (8) |
| Cash Assumed in Initial Consolidation of Variable Interest Entities | - | 46 |
| Summary | | |
| Increase (Decrease) in cash and cash equivalents | (3,477) | 77 |
| Cash and cash equivalents at beginning of year | 7,039 | 2,846 |
| Cash and cash equivalents at end of period | $ 3,562 | $ 2,923 |

*See Notes to the Consolidated Financial Statements.*

Table of Contents

**The Dow Chemical Company and Subsidiaries**

## Consolidated Statements of Equity

| In millions (Unaudited) | *Three Months Ended March 31, 2011* | *March 31, 2010* |
|---|---|---|
| Preferred Stock | | |
| Balance at beginning of year and end of period | $ 4,000 | $ 4,000 |
| Common Stock | | |
| Balance at beginning of year | 2,931 | 2,906 |
| Common stock issued | 8 | 2 |
| Balance at end of period | 2,939 | 2,908 |
| Additional Paid-in Capital | | |
| Balance at beginning of year | 2,286 | 1,913 |
| Common stock issued | 47 | 2 |
| Stock-based compensation and allocation of ESOP shares | (90) | (7) |
| Balance at end of period | 2,243 | 1,908 |
| Retained Earnings | | |
| Balance at beginning of year | 17,736 | 16,704 |
| Net income available for The Dow Chemical Company common stockholders | 625 | 466 |
| Dividends declared on common stock (Per share: $0.15 in 2011, $0.15 in 2010) | (172) | (168) |
| Other | (2) | (8) |
| Impact of adoption of ASU 2009-17, net of tax | - | (248) |
| Balance at end of period | 18,187 | 16,746 |
| Accumulated Other Comprehensive Loss | | |
| Unrealized Gains on Investments at beginning of year | 111 | 79 |
| Net change in unrealized gains | 14 | 13 |
| Balance at end of period | 125 | 92 |
| Cumulative Translation Adjustments at beginning of year | 367 | 624 |
| Translation adjustments | 441 | (430) |
| Balance at end of period | 808 | 194 |
| Pension and Other Postretirement Benefit Plans at beginning of year | (4,871) | (4,587) |
| Adjustments to pension and other postretirement benefit plans | 72 | 42 |
| Balance at end of period | (4,799) | (4,545) |
| Accumulated Derivative Loss at beginning of year | (6) | (8) |
| Net hedging results | (2) | 1 |
| Reclassification to earnings | (7) | 8 |

| | | |
|---|---|---|
| Balance at end of period | (15) | 1 |
| Total accumulated other comprehensive loss | (3,881) | (4,258) |
| Unearned ESOP Shares | | |
| Balance at beginning of year | (476) | (519) |
| Shares allocated to ESOP participants | 9 | 11 |
| Balance at end of period | (467) | (508) |
| Treasury Stock | | |
| Balance at beginning of year | (239) | (557) |
| Purchases | (19) | (9) |
| Issuance to employees and employee plans | 258 | 187 |
| Balance at end of period | - | (379) |
| The Dow Chemical Company s Stockholders Equity | 23,021 | 20,417 |
| Noncontrolling Interests | | |
| Balance at beginning of year | 803 | 569 |
| Net income attributable to noncontrolling interests | 11 | 1 |
| Distributions to noncontrolling interests | (18) | - |
| Capital contributions | 20 | - |
| Impact of adoption of ASU 2009-17 | - | 100 |
| Other | - | 5 |
| Balance at end of period | 816 | 675 |
| Total Equity | $ 23,837 | $ 21,092 |

*See Notes to the Consolidated Financial Statements.*

Table of Contents

**The Dow Chemical Company and Subsidiaries**

## Consolidated Statements of Comprehensive Income

| In millions (Unaudited) | *Three Months Ended March 31, 2011* | *March 31, 2010* |
|---|---|---|
| Net Income | $ 721 | $ 552 |
| Other Comprehensive Income (Loss), Net of Tax | | |
| Net change in unrealized gains on investments | 14 | 13 |
| Translation adjustments | 441 | (430) |
| Adjustments to pension and other postretirement benefit plans | 72 | 42 |
| Net gains (losses) on cash flow hedging derivative instruments | (9) | 9 |
| Total other comprehensive income (loss) | 518 | (366) |
| Comprehensive Income | 1,239 | 186 |
| Comprehensive income attributable to noncontrolling interests, net of tax | 11 | 1 |
| Comprehensive Income Attributable to The Dow Chemical Company | $ 1,228 | $ 185 |

*See Notes to the Consolidated Financial Statements.*

Table of Contents

**The Dow Chemical Company and Subsidiaries**

**PART I FINANCIAL INFORMATION, Item 1. Financial Statements.**

(Unaudited)

**Notes to the Consolidated Financial Statements**

**Table of Contents**


| Note | | Page |
|---|---|---|
| A | Consolidated Financial Statements | 8 |
| B | Recent Accounting Guidance | 8 |
| C | Restructuring | 9 |
| D | Acquisitions and Divestitures | 10 |
| E | Inventories | 11 |
| F | Nonconsolidated Affiliates | 11 |
| G | Goodwill and Other Intangible Assets | 12 |
| H | Financial Instruments | 13 |
| I | Fair Value Measurements | 19 |
| J | Commitments and Contingent Liabilities | 21 |
| K | Transfers of Financial Assets | 28 |
| L | Notes Payable, Long-Term Debt and Available Credit Facilities | 31 |
| M | Variable Interest Entities | 33 |
| N | Pension Plans and Other Postretirement Benefits | 34 |
| O | Stock-Based Compensation | 35 |
| P | Earnings Per Share Calculations | 36 |
| Q | Operating Segments and Geographic Areas | 37 |


**NOTE A CONSOLIDATED FINANCIAL STATEMENTS**

The unaudited interim consolidated financial statements of The Dow Chemical Company and its subsidiaries ( Dow or the Company ) were prepared in accordance with accounting principles generally accepted in the United States of America ( GAAP ) and reflect all adjustments (including normal recurring accruals) which, in the opinion of management, are considered necessary for the fair presentation of the results for the periods presented. These statements should be read in conjunction with the audited consolidated financial statements and notes thereto included in the Company s Annual Report on Form 10-K for the year ended December 31, 2010.

Certain changes to prior year cash flow amounts have been made to reflect changes made in the second quarter of 2010. The changes were related to the presentation of transfers of financial assets due to clarifying interpretive guidance issued in the second quarter of 2010 and the proper recording of restricted cash of variable interest entities newly consolidated on January 1, 2010. A change to prior year balance sheet amounts has been made to properly classify the current portion of Deferred charges and other assets of $349 million to Other current assets.

**NOTE B RECENT ACCOUNTING GUIDANCE**

**Recently Adopted Accounting Guidance**

On January 1, 2011, the Company adopted Accounting Standard Update ( ASU ) 2009-13, Revenue Recognition (Topic 605): Multiple-Deliverable Revenue Arrangements a consensus of the FASB Emerging Issues Task Force. This ASU amended the criteria for when to evaluate individual delivered items in a multiple deliverable arrangement and how to allocate consideration received. The adoption of this guidance did not have a material impact on the Company s consolidated financial statements.

Table of Contents

**NOTE C RESTRUCTURING**

**2009 Restructuring**

On June 30, 2009, the Company s Board of Directors approved a restructuring plan related to the Company s acquisition of Rohm and Haas Company ( Rohm and Haas ) as well as actions to advance the Company s strategy and to respond to continued weakness in the global economy. The restructuring plan included the elimination of approximately 2,500 positions primarily resulting from synergies to be achieved as a result of the acquisition of Rohm and Haas. In addition, the plan included the shutdown of a number of manufacturing facilities. These actions were substantially complete at March 31, 2011. As a result of the restructuring activities, the Company recorded pretax restructuring charges of $677 million in the second quarter of 2009, consisting of asset write-downs and write-offs of $454 million, costs associated with exit or disposal activities of $68 million and severance costs of $155 million.

The severance component of the 2009 restructuring charges of $155 million was for the separation of approximately 2,500 employees under the terms of the Company s ongoing benefit arrangements, primarily over two years. At December 31, 2010, severance of $149 million had been paid and a currency adjusted liability of $6 million remained for approximately 189 employees. In the first quarter of 2011, the remaining severance of $6 million was paid, bringing the program to a close.

The following table summarizes the 2011 activities related to the Company s restructuring reserve:

**2011 Activities Related to 2009**

| **Restructuring** In millions | *Costs associated with Exit or Disposal Activities* | *Severance Costs* | *Total* |
|---|---|---|---|
| Reserve balance at December 31, 2010 | $ 68 | $ 6 | $74 |
| Cash payments | - | (6) | (6) |
| Reserve balance at March 31, 2011 | $ 68 | - | $68 |

The shutdowns related to the 2009 restructuring plan are substantially complete, with remaining liabilities primarily related to environmental remediation to be paid over time.

***2010 Adjustments to the 2009 Restructuring Plan***

In the first quarter of 2010, the Company recorded an additional $8 million charge to adjust the impairment of long-lived assets and other assets related to the United States Federal Trade Commission ( FTC ) required divestitures completed in the first quarter of 2010, and an additional $8 million charge related to the shutdown of a small manufacturing facility under the 2009 restructuring plan. The impact of these charges is shown as Restructuring charges in the consolidated statements of income and was reflected in the following operating segments: Electronic and Specialty Materials ($8 million), Coatings and Infrastructure ($5 million) and Performance Products ($3 million).

Table of Contents

**Restructuring Reserve Assumed from Rohm and Haas**

Included in liabilities assumed in the April 1, 2009 acquisition of Rohm and Haas was a reserve for severance and employee benefits for the separation of employees under the terms of Rohm and Haas ongoing benefit arrangement. The separations resulted from plant shutdowns, production schedule adjustments, productivity improvements and reductions in support services. A currency adjusted liability of $12 million remained at December 31, 2010; $5 million for employees who have left the Company and will continue to receive annuity payments primarily through the third quarter of 2011 and $7 million for approximately 44 employees. In the first quarter of 2011, the Company decreased the restructuring reserve $6 million to adjust the reserve to the expected future severance payments. The impact of this adjustment is shown as Cost of sales in the consolidated statements of income and was reflected in Corporate. Severance payments of $4 million were made in the first quarter of 2011, leaving a currency adjusted liability of $3 million at March 31, 2011; $1 million for employees who have left the Company and will continue to receive annuity payments primarily through the third quarter of 2011 and $2 million for approximately 20 employees, with anticipated departure dates primarily through mid-2011.

**Restructuring Reserve Assumed from Rohm and Haas**

| In millions | *Severance Costs* |
|---|---|
| Reserve balance at December 31, 2010 | $ 12 |
| Cash payments | (4) |
| Adjustments to reserve | (6) |
| Foreign currency impact | 1 |
| Reserve balance at March 31, 2011 | $ 3 |

**NOTE D ACQUISITIONS AND DIVESTITURES**

**Rohm and Haas Acquisition and Integration Related Expenses**

During the first quarter of 2011, pretax charges totaling $31 million ($26 million in the first quarter of 2010) were recorded for integration costs related to the April 1, 2009 acquisition of Rohm and Haas. These charges were recorded in Acquisition and integration related expenses and reflected in Corporate.

**Divestitures Required as a Condition to the Acquisition of Rohm and Haas**

As a condition of the FTC s approval of the April 1, 2009 acquisition of Rohm and Haas, the Company was required to divest a portion of its acrylic monomer business, a portion of its specialty latex business and its hollow sphere particle business. On July 31, 2009, the Company entered into a definitive agreement that included the sale of the portion of its acrylic monomer business and the portion of its specialty latex business. The sale was completed on January 25, 2010. Additional impairment charges of $8 million related to these assets were recognized in the first quarter of 2010 (see Note C).

**Divestiture of the Styron Business Unit**

On March 2, 2010, the Company announced the entry into a definitive agreement to sell the Styron business unit ( Styron ) to an affiliate of Bain Capital Partners. The definitive agreement specified the assets and liabilities related to the businesses and products to be included in the sale. On June 17, 2010, the sale was completed. The proceeds included a $75 million long-term note receivable. In addition, the Company elected to acquire a 7.5 percent equity interest in the resulting privately held, global materials company.

On February 3, 2011, Styron repaid the $75 million long-term note receivable, plus interest. In the first quarter of 2011, the Company received dividend income of $25 million, recorded in Sundry income (expense) net in the consolidated statements of income and reflected in Corporate. The Company continues to hold a 6.5 percent equity interest at March 31, 2011.

Table of Contents

**NOTE E INVENTORIES**

The following table provides a breakdown of inventories:

| **Inventories** | *March 31,* | *Dec. 31,* |
|---|---|---|
| In millions | *2011* | *2010* |
| Finished goods | $4,742 | $4,289 |
| Work in process | 1,901 | 1,498 |
| Raw materials | 806 | 644 |
| Supplies | 683 | 656 |
| Total inventories | $8,132 | $7,087 |

The reserves reducing inventories from the first-in, first-out ( FIFO ) basis to the last-in, first-out ( LIFO ) basis amounted to $1,180 million at March 31, 2011 and $1,003 million at December 31, 2010.

**NOTE F NONCONSOLIDATED AFFILIATES**

The table below presents summarized financial information for Dow Corning Corporation, a significant nonconsolidated affiliate (at 100 percent):

| **Summarized Income Statement Information for Dow Corning Corporation** | *Three Months Ended* | |
|---|---|---|
| In millions | *March 31, 2011* | *March 31, 2010* |
| Sales | $1,579 | $1,354 |
| Gross profit | $539 | $506 |
| Net income attributable to Dow Corning Corporation | $179 | $218 |

Table of Contents

**NOTE G GOODWILL AND OTHER INTANGIBLE ASSETS**

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

| **Goodwill** In millions | *Electronic and Specialty Materials* | *Coatings and Infra-structure* | *Health and Ag Sciences* | *Perf Systems* | *Perf Products* | *Plastics* | *Hydro-carbons* | *Total* |
|---|---|---|---|---|---|---|---|---|
| Net goodwill at Dec. 31, 2010 | $5,747 | $4,191 | $1,546 | $859 | $526 | $35 | $63 | $12,967 |
| Foreign currency impact | 33 | 37 | - | 7 | 4 | - | - | 81 |
| Net goodwill at March 31, 2011 | $5,780 | $4,228 | $1,546 | $866 | $530 | $35 | $63 | $13,048 |

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

| **Other Intangible Assets** | *At March 31, 2011* | | | *At December 31, 2010* | | |
|---|---|---|---|---|---|---|
| In millions | *Gross Carrying Amount* | *Accumulated Amortization* | *Net* | *Gross Carrying Amount* | *Accumulated Amortization* | *Net* |
| Intangible assets with finite lives: | | | | | | |
| Licenses and intellectual property | $1,733 | $ (509) | $1,224 | $1,733 | $ (466) | $1,267 |
| Patents | 122 | (97) | 25 | 121 | (95) | 26 |
| Software | 995 | (535) | 460 | 965 | (506) | 459 |
| Trademarks | 693 | (184) | 509 | 693 | (168) | 525 |
| Customer related | 3,700 | (564) | 3,136 | 3,647 | (492) | 3,155 |
| Other | 126 | (82) | 44 | 122 | (78) | 44 |
| Total other intangible assets, finite lives | $7,369 | $(1,971) | $5,398 | $7,281 | $(1,805) | $5,476 |
| IPR&D (1), indefinite lives | 55 | - | 55 | 54 | - | 54 |
| Total other intangible assets | $7,424 | $(1,971) | $5,453 | $7,335 | $(1,805) | $5,530 |

(1) Purchased in-process research and development ( IPR&D ).

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

| **Amortization Expense** | *Three Months Ended March 31,* | |
|---|---|---|
| In millions | *March 31, 2011* | *2010* |
| Other intangible assets, excluding software | $123 | $128 |
| Software, included in Cost of sales | $23 | $21 |

Total estimated amortization expense related to intangible assets for 2011 and the five succeeding fiscal years is as follows:

**Estimated Amortization Expense**

| In millions | |
|---|---|
| 2011 | $613 |
| 2012 | $554 |
| 2013 | $532 |
| 2014 | $508 |

| | |
|---|---|
| 2015 | $491 |
| 2016 | $481 |

Table of Contents

**NOTE H FINANCIAL INSTRUMENTS**

**Investments**

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

| **Investing Results** | *Three Months Ended* | |
|---|---|---|
| In millions | *March 31, 2011* | *March 31, 2010* |
| Proceeds from sales of available-for-sale securities | $190 | $320 |
| Gross realized gains | $9 | $13 |
| Gross realized losses | $(1) | $(1) |

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

**Contractual Maturities of Debt Securities**

| **at March 31, 2011** | | |
|---|---|---|
| In millions | *Amortized Cost* | *Fair Value* |
| Within one year | $ 39 | $ 40 |
| One to five years | 562 | 607 |
| Six to ten years | 525 | 554 |
| After ten years | 233 | 256 |
| Total | $1,359 | $1,457 |

At March 31, 2011, the Company had $1.0 billion of held-to-maturity securities (primarily Treasury Bills) classified as cash equivalents, as these securities had original maturities of three months or less ($3.2 billion at December 31, 2010). The Company s investments in held-to-maturity securities are held at amortized cost, which approximates fair value. At March 31, 2011, the Company had investments in money market funds of $101 million classified as cash equivalents ($35 million at December 31, 2010).

The net unrealized gain recognized during the first quarter of 2011 on trading securities held at March 31, 2011 was $11 million ($7 million at March 31, 2010).

The following tables provide the fair value and gross unrealized losses of the Company s investments that were deemed to be temporarily impaired at March 31, 2011 and December 31, 2010, aggregated by investment category:

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

| | *At March 31, 2011* | | *At Dec. 31, 2010* | |
|---|---|---|---|---|
| In millions | *Fair Value* | *Unrealized Losses* | *Fair Value* | *Unrealized Losses* |
| Debt securities: | | | | |
| Government debt (2) | $ 103 | $ (2) | $ 62 | $ (2) |
| Corporate bonds | 56 | (1) | 43 | (1) |
| Total debt securities | $ 159 | $ (3) | $ 105 | $ (3) |
| Equity securities | 32 | (4) | 52 | (3) |
| Total temporarily impaired securities | $ 191 | $ (7) | $ 157 | $ (6) |

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

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

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

Table of Contents

For debt securities, the credit rating of the issuer, current credit rating trends, the trends of the issuer s overall sector, the ability of the issuer to pay expected cash flows and the length of time the security has been in a loss position are considered in determining whether unrealized losses represent an other-than-temporary impairment. The Company did not have any credit-related losses during the first quarters of 2011 or 2010.

For equity securities, the Company s investments are primarily in Standard & Poor s ( S&P ) 500 companies; however, the Company s policies allow investments in companies outside of the S&P 500. The largest holdings are Exchange Traded Funds that represent the S&P 500 index or an S&P sector or subset. The Company considers the evidence to support the recovery of the cost basis of a security including volatility of the stock, the length of time the security has been in a loss position, value and growth expectations, and overall market and sector fundamentals, as well as technical analysis, in determining whether unrealized losses represent an other-than-temporary impairment. In the first quarter of 2011, other-than-temporary impairment write-downs on investments still held by the Company were $2 million (zero in the first quarter of 2010).

The aggregate cost of the Company s cost method investments totaled $165 million at March 31, 2011 and $171 million at December 31, 2010. Due to the nature of these investments, the fair market value is not readily determinable. These investments are reviewed for impairment indicators. At March 31, 2011, the Company s impairment analysis identified indicators that resulted in no reduction in the cost basis of these investments ($15 million at March 31, 2010).

The following table summarizes the fair value of financial instruments at March 31, 2011 and December 31, 2010:

**Fair Value of Financial Instruments**

| | *At March 31, 2011* | | | | *At December 31, 2010* | | | |
|---|---|---|---|---|---|---|---|---|
| In millions | *Cost* | *Gain* | *Loss* | *Fair Value* | *Cost* | *Gain* | *Loss* | *Fair Value* |
| Marketable securities: (1) | | | | | | | | |
| Debt securities: | | | | | | | | |
| Government debt (2) | $ 616 | $ 35 | $ (2) | $ 649 | $ 603 | $ 40 | $(2) | $ 641 |
| Corporate bonds | 743 | 66 | (1) | 808 | 760 | 72 | (1) | 831 |
| Total debt securities | $1,359 | $101 | $ (3) | $1,457 | $1,363 | $112 | $(3) | $1,472 |
| Equity securities | 464 | 115 | (5) | 574 | 501 | 94 | (3) | 592 |
| Total marketable securities | $1,823 | $216 | $(8) | $2,031 | $1,864 | $206 | $(6) | $2,064 |
| Long-term debt incl. debt due within one year (3) | $(20,685) | $195 | $(2,189) | $(22,679) | $(22,360) | $175 | $(2,530) | $(24,715) |
| Derivatives relating to: | | | | | | | | |
| Foreign currency | - | $11 | $(37) | $(26) | - | $40 | $(38) | $2 |
| Commodities | - | $14 | $(5) | $9 | - | $14 | $(4) | $10 |

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

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

(3) Cost includes fair value adjustments of $23 million at March 31, 2011 and December 31, 2010.

**Risk Management**

Dow s business operations give rise to market risk exposure due to changes in interest rates, foreign currency exchange rates, commodity prices and other market factors such as equity prices. To manage such risks effectively, the Company enters into hedging transactions, pursuant to established guidelines and policies, which enable it to mitigate the adverse effects of financial market risk. Derivatives used for this purpose are designated as cash flow, fair value or net foreign investment hedges where appropriate. The guidance requires companies to recognize all derivative instruments as either assets or liabilities at fair value. A secondary objective is to add value by creating additional nonspecific exposures within established limits and policies; derivatives used for this purpose are not designated as hedges. The potential impact of creating such additional exposures is not material to the Company s results.

Table of Contents

The Company s risk management program for interest rate, foreign currency and commodity risks is based on fundamental, mathematical and technical models that take into account the implicit cost of hedging. Risks created by derivative instruments and the mark-to-market valuations of positions are strictly monitored at all times, using value at risk and stress tests. Credit risk arising from these contracts is not significant because the Company minimizes counterparty concentration, deals primarily with major financial institutions of solid credit quality, and the majority of its hedging transactions mature in less than three months. In addition, the Company minimizes concentrations of credit risk through its global orientation in diverse businesses with a large number of diverse customers and suppliers. It is the Company s policy not to have credit-risk-related contingent features in its derivative instruments. The Company does not anticipate losses from credit risk, and the net cash requirements arising from counterparty risk associated with risk management activities are not expected to be material in 2011. No significant concentration of credit risk existed at March 31, 2011.

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

**Interest Rate Risk Management**

The Company enters into various interest rate contracts with the objective of lowering funding costs or altering interest rate exposures related to fixed and variable rate obligations. In these contracts, the Company agrees with other parties to exchange, at specified intervals, the difference between fixed and floating interest amounts calculated on an agreed-upon notional principal amount. At March 31, 2011, the Company had open interest rate swaps with maturity dates prior to 2013.

**Foreign Currency Risk Management**

The Company s global operations require active participation in foreign exchange markets. The Company enters into foreign exchange forward contracts and options, and cross-currency swaps to hedge various currency exposures or create desired exposures. Exposures primarily relate to assets, liabilities and bonds denominated in foreign currencies, as well as economic exposure, which is derived from the risk that currency fluctuations could affect the dollar value of future cash flows related to operating activities. The primary business objective of the activity is to optimize the U.S. dollar value of the Company s assets, liabilities and future cash flows with respect to exchange rate fluctuations. Assets and liabilities denominated in the same foreign currency are netted, and only the net exposure is hedged. At March 31, 2011, the Company had forward contracts, options and cross-currency swaps to buy, sell or exchange foreign currencies. These contracts had various expiration dates, primarily in the second quarter of 2011.

**Commodity Risk Management**

The Company has exposure to the prices of commodities in its procurement of certain raw materials. The primary purpose of commodity hedging activities is to manage the price volatility associated with these forecasted inventory purchases. At March 31, 2011, the Company had futures contracts, options and swaps to buy, sell or exchange commodities. These agreements had various expiration dates through 2012.

**Accounting for Derivative Instruments and Hedging Activities**

***Cash Flow Hedges***

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

The net loss from previously terminated interest rate cash flow hedges included in AOCI at March 31, 2011 was $1 million after tax ($2 million after tax at December 31, 2010). The Company had no open interest rate derivatives designated as cash flow hedges at March 31, 2011 or December 31, 2010.

Table of Contents

Current open foreign currency forward contracts hedge the currency risk of forecasted feedstock purchase transactions until June 2011. The effective portion of the mark-to-market effects of the foreign currency forward contracts is recorded in AOCI; it is reclassified to income in the same period or periods that the underlying feedstock purchase affects income. The net loss from the foreign currency hedges included in AOCI at March 31, 2011 was $17 million after tax ($4 million after tax at December 31, 2010). At March 31, 2011, the Company had open forward contracts with various expiration dates to buy, sell or exchange foreign currencies with a notional U.S. dollar equivalent of $422 million ($827 million at December 31, 2010).

Commodity swaps, futures and option contracts with maturities of not more than 36 months are utilized and designated as cash flow hedges of forecasted commodity purchases. Current open contracts hedge forecasted transactions until December 2011. The effective portion of the mark-to-market effect of the cash flow hedge instrument is recorded in AOCI; it is reclassified to income in the same period or periods that the underlying commodity purchase affects income. The net gain from commodity hedges included in AOCI at March 31, 2011 was $1 million after tax ($3 million after tax at December 31, 2010). At March 31, 2011 and December 31, 2010, the Company had the following aggregate notionals of outstanding commodity forward contracts to hedge forecasted purchases:

| *Commodity* | *March 31, 2011* | *Dec. 31, 2010* | *Notional Volume Unit* |
|---|---|---|---|
| Crude Oil | 0.1 | 0.1 | million barrels |
| Ethane | 1.3 | 1.6 | million barrels |
| Natural Gas | - | 2.7 | million million British thermal units |

***Fair Value Hedges***

For derivative instruments that are designated and qualify as fair value hedges, the gain or loss on the derivative as well as the offsetting loss or gain on the hedged item attributable to the hedged risk are recognized in current period income and reflected as Interest expense and amortization of debt discount in the consolidated statements of income. The short-cut method is used when the criteria are met. The Company had interest rate swaps designated as fair value hedges of underlying fixed rate debt obligations with a notional U.S. dollar equivalent of $85 million at March 31, 2011 (zero at December 31, 2010).

***Net Foreign Investment Hedges***

For derivative instruments that are designated and qualify as net foreign investment hedges, the effective portion of the gain or loss on the derivative is included in Cumulative Translation Adjustments in AOCI. The results of hedges of the Company s net investment in foreign operations included in Cumulative Translation Adjustments in AOCI was a net loss of $36 million after tax at March 31, 2011 (net gain of $70 million after tax at December 31, 2010). At March 31, 2011 and December 31, 2010, the Company had no open forward contracts or outstanding options to buy, sell or exchange foreign currencies that were designated as net foreign investment hedges. At March 31, 2011, the Company had outstanding foreign-currency denominated debt designated as a hedge of net foreign investment of $1,308 million ($1,250 million at December 31, 2010).

***Other Derivative Instruments***

The Company utilizes futures, options and swap instruments that are effective as economic hedges of commodity price exposures, but do not meet the hedge accounting criteria in the accounting guidance for derivatives and hedging. At March 31, 2011 and December 31, 2010, the Company had the following aggregate notionals of outstanding commodity contracts:

| *Commodity* | *March 31, 2011* | *Dec. 31, 2010* | *Notional Volume Unit* |
|---|---|---|---|
| Crude Oil | 0.2 | - | million barrels |
| Ethane | 3.7 | 3.8 | million barrels |
| Naphtha | 179.8 | - | kilotons |
| Natural Gas | 9.7 | 12.0 | million million British thermal units |

16

Table of Contents

The Company also uses foreign exchange forward contracts, options, and cross-currency swaps that are not designated as hedging instruments primarily to manage foreign currency and interest rate exposure. The Company had open foreign exchange contracts with various expiration dates to buy, sell or exchange foreign currencies with a notional U.S. dollar equivalent of $13,868 million at March 31, 2011 ($13,944 million at December 31, 2010).

The following table provides the fair value and gross balance sheet classification of derivative instruments at March 31, 2011 and December 31, 2010:

| **Fair Value of Derivative Instruments** | | *March 31,* | *Dec. 31,* |
|---|---|---|---|
| In millions | *Balance Sheet Classification* | *2011* | *2010* |
| **Asset Derivatives** | | | |
| Derivatives designated as hedges: | | | |
| Foreign currency | Accounts and notes receivable Other | $ 7 | $ 9 |
| Commodities | Other current assets (1) | 6 | 7 |
| Total derivatives designated as hedges | | $13 | $ 16 |
| Derivatives not designated as hedges: | | | |
| Foreign currency | Accounts and notes receivable Other | $35 | $ 77 |
| Commodities | Other current assets (1) | 27 | 23 |
| Total derivatives not designated as hedges | | $62 | $100 |
| Total asset derivatives | | $75 | $116 |
| **Liability Derivatives** | | | |
| Derivatives designated as hedges: | | | |
| Foreign currency | Accounts payable Other | $14 | $ 20 |
| Commodities | Accounts payable Other | 2 | 8 |
| Total derivatives designated as hedges | | $16 | $ 28 |
| Derivatives not designated as hedges: | | | |
| Foreign currency | Accounts payable Other | $54 | $ 64 |
| Commodities | Accounts payable Other | 20 | 16 |
| Total derivatives not designated as hedges | | $74 | $ 80 |
| Total liability derivatives | | $90 | $108 |

(1) Included in Accounts and notes receivable Other in the consolidated balance sheet at December 31, 2010.

**Table of Contents**

| **Effect of Derivative Instruments for the three months ended March 31, 2011** | *Change in Unrealized Gain (Loss) in AOCI (1,2)* | | *Gain Reclassified from AOCI to Income (3)* | *Additional Gain (Loss) Recognized in Income (3,4)* |
|---|---|---|---|---|
| In millions | | *Income Statement Classification* | | |
| Derivatives designated as hedges: | | | | |
| Fair value: | | | | |
| Interest rates | - | Interest expense (5) | - | $(1) |
| Cash flow: | | | | |
| Commodities | $ 5 | Cost of sales | $ 5 | - |
| Foreign currency | (11) | Cost of sales | 2 | - |
| Total derivatives designated as hedges | $ (6) | | $ 7 | $(1) |
| Derivatives not designated as hedges: | | | | |
| Foreign currency (6) | - | Sundry income (expense) net | - | $(1) |
| Commodities | - | Cost of sales | - | 1 |
| Total derivatives not designated as hedges | - | | - | - |
| Total derivatives | $ (6) | | $ 7 | $(1) |

| **Effect of Derivative Instruments for the three months ended March 31, 2010** | *Change in Unrealized Gain (Loss) in AOCI* (1,2) | *Income Statement Classification* | *Loss Reclassified from AOCI to Income* (3) | *Additional Gain (Loss) Recognized in Income* (3,4) |
|---|---|---|---|---|
| In millions | | | | |
| Derivatives designated as hedges: | | | | |
| Cash flow: | | | | |
| Commodities | $ (4) | Cost of sales | $ (2) | - |
| Foreign currency | 10 | Cost of sales | (6) | - |
| Net foreign investment: | | | | |
| Foreign currency | (3) | n/a | - | - |
| Total derivatives designated as hedges | $ 3 | | $ (8) | - |
| Derivatives not designated as hedges: | | | | |
| Foreign currency (6) | - | Sundry income (expense) net | - | $99 |
| Commodities | - | Cost of sales | - | (1) |
| Total derivatives not designated as hedges | - | | - | $98 |
| Total derivatives | $ 3 | | $ (8) | $98 |

(1) Accumulated other comprehensive income (loss) ( AOCI ).

(2) Net unrealized gains/losses from hedges related to interest rates and commodities are included in Accumulated Derivative Gain (Loss) Net hedging results in the consolidated statements of equity; net unrealized gains/losses from hedges related to foreign currency (net of tax) are included in Cumulative Translation Adjustments Translation adjustments in the consolidated statements of equity.

(3) Pretax amounts.

(4) Amounts impacting income not related to AOCI reclassification; also includes immaterial amounts of hedge ineffectiveness.

(5) Interest expense and amortization of debt discount.

(6) Foreign currency derivatives not designated as hedges are offset by foreign exchange gains/losses resulting from the underlying exposures of foreign currency denominated assets and liabilities.

The net after-tax amounts to be reclassified from AOCI to income within the next 12 months are a $1 million loss for interest rate contracts, a $1 million gain for commodity contracts and a $17 million loss for foreign currency contracts.

Table of Contents

**NOTE I FAIR VALUE MEASUREMENTS**

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

| **Basis of Fair Value Measurements on a Recurring Basis at March 31, 2011** In millions | *Quoted Prices in Active Markets for Identical Items (Level 1)* | *Significant Other Observable Inputs (Level 2)* | *Significant Unobservable Inputs (Level 3)* | *Counterparty and Cash Collateral Netting (1)* | *Total* |
|---|---|---|---|---|---|
| Assets at fair value: | | | | | |
| Interests in trade accounts receivable conduits (2) | - | - | $1,343 | - | $1,343 |
| Equity securities (3) | $536 | $ 38 | - | - | 574 |
| Debt securities: (3) | | | | | |
| Government debt (4) | - | 649 | - | - | 649 |
| Corporate bonds | - | 808 | - | - | 808 |
| Derivatives relating to: (5) | | | | | |
| Foreign currency | - | 42 | - | $ (31) | 11 |
| Commodities | 12 | 21 | - | (19) | 14 |
| Total assets at fair value | $548 | $ 1,558 | $1,343 | $ (50) | $3,399 |
| Liabilities at fair value: | | | | | |
| Derivatives relating to: (5) | | | | | |
| Foreign currency | - | $ 68 | - | $ (31) | $ 37 |
| Commodities | $ 3 | 19 | - | (17) | 5 |
| Total liabilities at fair value | $ 3 | $ 87 | - | $ (48) | $ 42 |

| **Basis of Fair Value Measurements on a Recurring Basis at December 31, 2010** In millions | *Quoted Prices in Active Markets for Identical Items (Level 1)* | *Significant Other Observable Inputs (Level 2)* | *Significant Unobservable Inputs (Level 3)* | *Counterparty and Cash Collateral Netting (1)* | *Total* |
|---|---|---|---|---|---|
| Assets at fair value: | | | | | |
| Interests in trade accounts receivable conduits (2) | - | - | $1,267 | - | $1,267 |
| Equity securities (3) | $556 | $ 36 | - | - | 592 |
| Debt securities: (3) | | | | | |
| Government debt (4) | - | 641 | - | - | 641 |
| Corporate bonds | - | 831 | - | - | 831 |
| Derivatives relating to: (5) | | | | | |
| Foreign currency | - | 86 | - | $(46) | 40 |
| Commodities | 12 | 18 | - | (16) | 14 |
| Total assets at fair value | $568 | $ 1,612 | $1,267 | $(62) | $3,385 |
| Liabilities at fair value: | | | | | |
| Derivatives relating to: (5) | | | | | |
| Foreign currency | - | $ 84 | - | $(46) | $38 |
| Commodities | $ 7 | 17 | - | (20) | 4 |

| | | | | | |
|---|---|---|---|---|---|
| Total liabilities at fair value | $ 7 | $ 101 | - | $(66) | $42 |

(1) Cash collateral is classified as Accounts and notes receivable Other in the consolidated balance sheets. Amounts represent the estimated net settlement amount when applying netting and set-off rights included in master netting arrangements between the Company and its counterparties and the payable or receivable for cash collateral held or placed with the same counterparty.

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

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

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

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

Table of Contents

Assets and liabilities related to forward contracts, interest rate swaps, currency swaps, options and other conditional or exchange contracts executed with the same counterparty under a master netting arrangement are netted. Collateral accounts are netted with corresponding assets and liabilities. The Company had borrowed $2 million of cash collateral against $10 million of unrealized gains at March 31, 2011 (posted $4 million of cash collateral at December 31, 2010). The net $8 million at March 31, 2011 and $4 million at December 31, 2010 were classified as Accounts and notes receivable Other in the consolidated balance sheets.

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

For assets and liabilities classified as Level 2 measurements, where the security is frequently traded in less active markets, fair value is based on the closing price at the end of the period; where the security is less frequently traded, fair value is based on the price a dealer would pay for the security or similar securities, adjusted for any terms specific to that asset or liability. Market inputs are obtained from well-established and recognized vendors of market data and subjected to tolerance/quality checks. For derivative assets and liabilities, standard industry models are used to calculate the fair value of the various financial instruments based on significant observable market inputs, such as foreign exchange rates, commodity prices, swap rates, interest rates and implied volatilities obtained from various market sources.

For all other assets and liabilities for which observable inputs are used, fair value is derived through the use of fair value models, such as a discounted cash flow model or other standard pricing models. See Note H for further information on the types of instruments used by the Company for risk management.

There were no significant transfers between Levels 1 and 2 in the first quarter of 2011 or the year ended December 31, 2010.

For assets classified as Level 3 measurements, the fair value is based on significant unobservable inputs including assumptions where there is little, if any, market activity. The fair value of the Company s interests held in trade receivable conduits is determined by calculating the expected amount of cash to be received using the key input of anticipated credit losses in the portfolio of receivables sold that have not yet been collected (1.55 percent for North America and zero for Europe at March 31, 2011). Given the short-term nature of the underlying receivables, discount rate and prepayments are not factors in determining the fair value of the interests. See Note K for further information on assets classified as Level 3 measurements.

The following table summarizes the changes in fair value measurements using Level 3 inputs for the quarters ended March 31, 2011 and 2010:

**Fair Value Measurements Using Level 3 Inputs**

**Interests Held in Trade Receivable Conduits** (1)

| In millions | *2011* | *2010* |
|---|---|---|
| Balance at January 1 | $1,267 | - |
| Losses included in earnings (2) | (8) | - |
| Purchases North America | 937 | $1,752 |
| Purchases Europe | 137 | - |
| Settlements North America | (902) | (528) |
| Settlements Europe | (88) | - |
| Balance at March 31 | $1,343 | $1,224 |

(1) Included in Accounts and notes receivable Other in the consolidated balance sheets.
(2) Included in Selling, general and administrative expenses in the consolidated statements of income.

Table of Contents

**NOTE J COMMITMENTS AND CONTINGENT LIABILITIES**

**Litigation**

***Breast Implant Matters***

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

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

As part of the Joint Plan, Dow and Corning Incorporated agreed to provide a credit facility to Dow Corning in an aggregate amount of $300 million, which was reduced to $200 million effective June 1, 2010. The Company s share of the credit facility was originally $150 million, but was reduced to $100 million effective June 1, 2010, and is subject to the terms and conditions stated in the Joint Plan. At March 31, 2011, no draws had been taken against the credit facility.

***DBCP Matters***

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

***Environmental Matters***

Accruals for environmental matters are recorded when it is probable that a liability has been incurred and the amount of the liability can be reasonably estimated, based on current law and existing technologies. At March 31, 2011, the Company had accrued obligations of $637 million for probable environmental remediation and restoration costs, including $59 million for the remediation of Superfund sites. This is management s best estimate of the costs for remediation and restoration with respect to environmental matters for which the Company has accrued liabilities, although the ultimate cost with respect to these particular matters could range up to approximately twice that amount. Consequently, it is reasonably possible that environmental remediation and restoration costs in excess of amounts accrued could have a material adverse 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 adverse 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, 2010, the Company had accrued obligations of $607 million for probable environmental remediation and restoration costs, including $59 million for the remediation of Superfund sites.

Table of Contents

*Midland Off-Site Environmental Matters*

On June 12, 2003, the Michigan Department of Natural Resources and Environment ( MDNRE, formerly the Michigan Department of Environmental Quality or MDEQ) issued a Hazardous Waste Operating License (the License ) to the Company s Midland, Michigan manufacturing site (the Midland site ), which included provisions requiring the Company to conduct an investigation to determine the nature and extent of off-site contamination in the City of Midland soils; the Tittabawassee River and Saginaw River sediment and floodplain soils; and the Saginaw Bay; and, if necessary, undertake remedial action.

*City of Midland*

Matters related to the City of Midland remain under the primary oversight of the State of Michigan (the State ) under the License, and the Company and the State are in ongoing discussions regarding the implementation of the requirements of the License.

*Tittabawassee and Saginaw Rivers, Saginaw Bay*

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

*Alternative Dispute Resolution Process*

The Company; the EPA; the U.S. Department of Justice; and the natural resource damage trustees (the Michigan Office of the Attorney General; the MDNRE; the U.S. Fish and Wildlife Service; the U.S. Bureau of Indian Affairs and the Saginaw-Chippewa tribe), have been engaged in negotiations to seek to resolve potential governmental claims against the Company related to historical off-site contamination associated with the City of Midland, the Tittabawassee and Saginaw Rivers and the Saginaw Bay. The Company and the governmental parties started meeting in the fall of 2005 and entered into a Confidentiality Agreement in December 2005. The Company continues to conduct negotiations under the Federal Alternative Dispute Resolution Act with all of the governmental parties, except the EPA which withdrew from the alternative dispute resolution process on September 12, 2007.

On September 28, 2007, the Company and the natural resource damage trustees entered into a Funding and Participation Agreement that addressed the Company s payment of past costs incurred by the natural resource damage trustees, payment of the costs of a trustee coordinator and a process to review additional cooperative studies that the Company might agree to fund or conduct with the natural resource damage trustees. On March 18, 2008, the Company and the natural resource damage trustees entered into a Memorandum of Understanding to provide a mechanism for the Company to fund cooperative studies related to the assessment of natural resource damages. On April 7, 2008, the natural resource damage trustees released their Natural Resource Damage Assessment Plan for the Tittabawassee River System Assessment Area.

At March 31, 2011, the accrual for these off-site matters was $36 million (included in the total accrued obligation of $637 million at March 31, 2011). At December 31, 2010, the Company had an accrual for these off-site matters of $32 million (included in the total accrued obligation of $607 million).

Table of Contents

***Asbestos-Related Matters of Union Carbide Corporation***

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

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

Based on a study completed by Analysis, Research & Planning Corporation ( ARPC ) in January 2003, Union Carbide increased its December 31, 2002 asbestos-related liability for pending and future claims for the 15-year period ending in 2017 to $2.2 billion, excluding future defense and processing costs. Since then, Union Carbide has compared current asbestos claim and resolution activity to the results of the most recent ARPC study at each balance sheet date to determine whether the accrual continues to be appropriate. In addition, Union Carbide has requested ARPC to review Union Carbide s historical asbestos claim and resolution activity each November since 2004 to determine the appropriateness of updating the most recent ARPC study.

In November 2009, Union Carbide requested ARPC to review Union Carbide s 2009 asbestos claim and resolution activity and determine the appropriateness of updating its then most recent study completed in December 2008. In response to that request, ARPC reviewed and analyzed data through October 31, 2009. In December 2009, ARPC stated that an update of its study would not provide a more likely estimate of future events than the estimate reflected in its study of the previous year and, therefore, the estimate in that study remained applicable. Based on Union Carbide s own review of the asbestos claim and resolution activity and ARPC s response, Union Carbide determined that no change to the accrual was required. At December 31, 2009, Union Carbide s asbestos-related liability for pending and future claims was $839 million.

In November 2010, Union Carbide requested ARPC to review Union Carbide s historical asbestos claim and resolution activity and determine the appropriateness of updating its December 2008 study. In response to that request, ARPC reviewed and analyzed data through October 31, 2010. The resulting study, completed by ARPC in December 2010, stated that the undiscounted cost of resolving pending and future asbestos-related claims against Union Carbide and Amchem, excluding future defense and processing costs, through 2025 was estimated to be between $744 million and $835 million. As in its earlier studies, ARPC provided estimates for a longer period of time in its December 2010 study, but also reaffirmed its prior advice that forecasts for shorter periods of time are more accurate than those for longer periods of time.

In December 2010, based on ARPC s December 2010 study and Union Carbide s own review of the asbestos claim and resolution activity, Union Carbide decreased its asbestos-related liability for pending and future claims to $744 million, which covered the 15-year period ending 2025, excluding future defense and processing costs. The reduction was $54 million and was shown as Asbestos-related credits in the consolidated statements of income. At December 31, 2010, the asbestos-related liability for pending and future claims was $728 million. At December 31, 2010, approximately 21 percent of the recorded liability related to pending claims and approximately 79 percent related to future claims.

Based on Union Carbide s review of 2011 activity, Union Carbide determined that no adjustment to the accrual was required at March 31, 2011. Union Carbide s asbestos-related liability for pending and future claims was $720 million at March 31, 2011. Approximately 20 percent of the recorded liability related to pending claims and approximately 80 percent related to future claims.

Table of Contents

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

In September 2003, Union Carbide filed a comprehensive insurance coverage case, now proceeding in the Supreme Court of the State of New York, County of New York, seeking to confirm its rights to insurance for various asbestos claims and to facilitate an orderly and timely collection of insurance proceeds (the Insurance Litigation ). The Insurance Litigation was filed against insurers that are not signatories to the Wellington Agreement and/or do not otherwise have agreements in place with Union Carbide regarding their asbestos-related insurance coverage, in order to facilitate an orderly resolution and collection of such insurance policies and to resolve issues that the insurance carriers may raise. Since the filing of the case, Union Carbide has reached settlements with several of the carriers involved in the Insurance Litigation, including settlements reached with two significant carriers in the fourth quarter of 2009. The Insurance Litigation is ongoing.

Union Carbide s receivable for insurance recoveries related to its asbestos liability was $50 million at March 31, 2011 and December 31, 2010. At March 31, 2011 and December 31, 2010, all of the receivable for insurance recoveries was related to insurers that are not signatories to the Wellington Agreement and/or do not otherwise have agreements in place regarding their asbestos-related insurance coverage.

In addition to the receivable for insurance recoveries related to its asbestos liability, Union Carbide had receivables for defense and resolution costs submitted to insurance carriers that have settlement agreements in place regarding their asbestos-related insurance coverage.

The following table summarizes Union Carbide s receivables related to its asbestos-related liability:

| **Receivables for Asbestos-Related Costs** | *March 31,* | *Dec. 31,* |
|---|---|---|
| In millions | *2011* | *2010* |
| Receivables for defense costs carriers with settlement agreements | $ 25 | $ 12 |
| Receivables for resolution costs carriers with settlement agreements | 204 | 236 |
| Receivables for insurance recoveries carriers without settlement agreements | 50 | 50 |
| Total | $279 | $298 |

Union Carbide expenses defense costs as incurred. The pretax impact for defense and resolution costs, net of insurance, was $13 million in the first quarter of 2011 ($14 million in the first quarter of 2010), and was reflected in Cost of sales.

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

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

Table of Contents

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

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

***Synthetic Rubber Industry Matters***

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

On June 10, 2005, the Company received a Statement of Objections from the European Commission (the EC ) stating that it believed that the Company and certain subsidiaries of the Company (the Dow Entities ), together with other participants in the synthetic rubber industry, engaged in conduct in violation of European competition laws with respect to the butadiene rubber and emulsion styrene butadiene rubber businesses. In connection therewith, on November 29, 2006, the EC issued its decision alleging infringement of Article 81 of the Treaty of Rome and imposed a fine of Euro 64.575 million (approximately $85 million at that time) on the Dow Entities; several other companies were also named and fined. As a result, the Company recognized a loss contingency of $85 million related to the fine in the fourth quarter of 2006. The Company has appealed the EC s decision. On October 13, 2009, the Court of First Instance held a hearing on the appeal of all parties. Subsequent to the imposition of the fine, the Company and/or certain subsidiaries of the Company became named parties in various related U.S., United Kingdom and Italian civil actions. The U.S. matter was settled in March 2010 through a confidential settlement agreement, with an immaterial impact on the Company s consolidated financial statements.

Additionally, on March 10, 2007, the Company received a Statement of Objections from the EC stating that it believed that DuPont Dow Elastomers L.L.C. ( DDE ), a former 50:50 joint venture with E.I. du Pont de Nemours and Company ( DuPont ), together with other participants in the synthetic rubber industry, engaged in conduct in violation of European competition laws with respect to the polychloroprene business. This Statement of Objections specifically names the Company, in its capacity as a former joint venture owner of DDE. On December 5, 2007, the EC announced its decision to impose a fine on the Company, among others, in the amount of Euro 48.675 million (approximately $69 million). The Company previously transferred its joint venture ownership interest in DDE to DuPont in 2005, and DDE then changed its name to DuPont Performance Elastomers L.L.C. ( DPE ). In February 2008, DuPont, DPE and the Company each filed an appeal of the December 5, 2007 decision of the EC. Based on the Company s allocation agreement with DuPont, the Company s share of this fine, regardless of the outcome of the appeals, will not have a material adverse impact on the Company s consolidated financial statements.

Table of Contents

***Rohm and Haas Pension Plan Matters***

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

A pension liability associated with this matter of $185 million was recognized as part of the acquisition of Rohm and Haas on April 1, 2009. The liability, which was determined in accordance with the accounting guidance for contingencies, recognized the estimated impact of the above described judicial decisions on the long-term Rohm and Haas Plan obligations owed to the applicable Rohm and Haas retirees and active employees. At March 31, 2011 and December 31, 2010, the Company had a liability of $186 million associated with this matter.

***Other Litigation Matters***

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

***Summary***

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

Table of Contents

**Purchase Commitments**

The Company has numerous agreements for the purchase of ethylene-related products globally. The purchase prices are determined primarily on a cost-plus basis. Total purchases under these agreements were $714 million in 2010, $784 million in 2009 and $1,502 million in 2008. The Company s take-or-pay commitments associated with these agreements at December 31, 2010 are included in the table below. There have been no material changes to purchase commitments since December 31, 2010.

The Company also has various commitments for take-or-pay and throughput agreements. Such commitments are at prices not in excess of current market prices. The terms of all but two of these agreements extend from one to 25 years. One agreement has terms extending to 35 years and another has terms extending to 80 years. The determinable future commitments for these agreements are included for 10 years in the following table which presents the fixed and determinable portion of obligations under the Company s purchase commitments at December 31, 2010:

**Fixed and Determinable Portion of Take-or-Pay and**

**Throughput Obligations at December 31, 2010**

| In millions | |
|---|---|
| 2011 | $ 3,603 |
| 2012 | 3,261 |
| 2013 | 2,647 |
| 2014 | 2,055 |
| 2015 | 1,341 |
| 2016 and beyond | 8,203 |
| Total | $ 21,110 |

In addition to the take-or-pay obligations at December 31, 2010, the Company had outstanding commitments which ranged from one to ten years for materials, services and other items used in the normal course of business of approximately $180 million. Such commitments were at prices not in excess of current market prices.

**Guarantees**

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

***Guarantees***

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

***Residual Value Guarantees***

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

Table of Contents

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

**Guarantees at March 31, 2011**

| In millions | *Final Expiration* | *Maximum Future Payments* | *Recorded Liability* |
|---|---|---|---|
| Guarantees | 2020 | $ 453 | $ 74 |
| Residual value guarantees | 2021 | 437 | 17 |
| Total guarantees | | $ 890 | $ 91 |

**Guarantees at December 31, 2010**

| In millions | *Final Expiration* | *Maximum Future Payments* | *Recorded Liability* |
|---|---|---|---|
| Guarantees | 2020 | $ 445 | $ 80 |
| Residual value guarantees | 2020 | 391 | 17 |
| Total guarantees | | $ 836 | $ 97 |

**Asset Retirement Obligations**

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

The aggregate carrying amount of asset retirement obligations recognized by the Company was $101 million at March 31, 2011 and $99 million at December 31, 2010. The discount rate used to calculate the Company s asset retirement obligations was 1.78 percent. These obligations are included in the consolidated balance sheets as Other noncurrent obligations.

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

**NOTE K TRANSFERS OF FINANCIAL ASSETS**

**Sale of Trade Accounts Receivable in North America**

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

During the three months ended March 31, 2011, the Company recognized a loss of $2 million on the sale of receivables ($4 million during the three months ended March 31, 2010), which is classified as Interest expense and amortization of debt discount in the consolidated statements of income. The Company classifies its interests in the conduits as Accounts and notes receivable Other on the consolidated balance sheets and those interests are carried at fair value. Fair value of the interests is determined by calculating the expected amount of cash to be received and is based on unobservable inputs (a Level 3 measurement). The key input in the valuation is percentage of anticipated credit losses, which was 1.55 percent, in the portfolio of receivables sold that have not yet been collected. Given the short-term nature of the underlying receivables, discount rates and prepayments are not factors in determining the fair value of the interests. At March 31, 2011, the carrying value of the interests held was $1,137 million ($1,110 million at December 31, 2010), which is the Company s maximum exposure to loss related to the receivables sold.

28

Table of Contents

The sensitivity of the fair value of the interests held to hypothetical adverse changes in the anticipated credit losses assumption are as follows (amounts shown are the corresponding hypothetical decreases in the carrying value of the interests):

**Impact to Carrying Value**

| In millions | |
|---|---|
| 10% adverse change | $ 2 |
| 20% adverse change | $ 5 |

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

| **Cash Proceeds** | *Three Months Ended* | |
|---|---|---|
| In millions | *March 31, 2011* | *March 31, 2010* |
| Sale of receivables | - | $264 |
| Collections reinvested in revolving receivables | $4,566 | $2,949 |
| Interests in conduits (1) | $902 | $528 |

(1) Presented in operating activities in the consolidated statements of cash flows.

Delinquencies on the sold receivables that were still outstanding at March 31, 2011 were $105 million ($127 million at December 31, 2010). Trade accounts receivable outstanding and derecognized from the Company s consolidated balance sheets at March 31, 2011 were $2,272 million ($1,930 million at December 31, 2010). Credit losses, net of any recoveries, on receivables sold during the quarters ended March 31, 2011 and 2010 were insignificant.

**Sale of Trade Accounts Receivable in Europe**

Since June 2010, the Company sold qualifying trade accounts receivable of select European entities on a revolving basis to certain multi-seller commercial paper conduit entities. The Company maintains servicing responsibilities and the related costs are insignificant. The proceeds received are comprised of cash and interests in specified assets (the receivables sold by the Company) of the conduits that entitle the Company to the residual cash flows of such specified assets in the conduits after the commercial paper has been repaid. Neither the conduits nor the investors in those entities have recourse to other assets of the Company in the event of nonpayment by the debtors.

During the three months ended March 31, 2011, the Company recognized a loss of $4 million on the sale of these receivables, which is classified as Interest expense and amortization of debt discount in the consolidated statements of income. The Company classifies its interests in the conduits as Accounts and notes receivable Other on the consolidated balance sheets and those interests are carried at fair value. Fair value of the interests is determined by calculating the expected amount of cash to be received and is based on unobservable inputs (a Level 3 measurement). The key input in the valuation is percentage of anticipated credit losses, which was zero, in the portfolio of receivables sold that have not yet been collected. Given the short-term nature of the underlying receivables, discount rates and prepayments are not factors in determining the fair value of the interests. At March 31, 2011, the carrying value of the interests held was $206 million ($157 million at December 31, 2010), which is the Company s maximum exposure to loss related to the receivables sold.

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

**Cash Proceeds**

| | *Three Months Ended* |
|---|---|
| In millions | *March 31, 2011* |
| Sale of receivables | $1 |
| Collections reinvested in revolving receivables | $1,862 |
| Interests in conduits (1) | $88 |

(1) Presented in operating activities in the consolidated statements of cash flows.

29

Table of Contents

Delinquencies on the sold receivables still outstanding at March 31, 2011 were $27 million ($42 million at December 31, 2010). Trade accounts receivable outstanding and derecognized from the Company s consolidated balance sheets at March 31, 2011 were $430 million ($405 million at December 31, 2010). There were no credit losses on receivables sold during the quarter ended March 31, 2011.

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

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

During the quarters ended March 31, 2011 and 2010, the Company recognized an insignificant loss on the sale of the participating interests in the receivables, which is classified as Interest expense and amortization of debt discount in the consolidated statements of income. The Company receives cash upon the sale of the participating interests in the receivables.

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

| **Cash Proceeds** | *Three Months Ended* | |
|---|---|---|
| In millions | *March 31, 2011* | *March 31, 2010* |
| Sale of participating interests | $46 | $49 |
| Collections reinvested in revolving receivables | $45 | $20 |

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

**Trade Accounts Receivable**

| In millions | *March 31, 2011* | *Dec. 31, 2010* |
|---|---|---|
| Derecognized from the consolidated balance sheet | $ 17 | $ 25 |
| Outstanding in the consolidated balance sheet | 251 | 281 |
| Total accounts receivable in select Asia Pacific entities | $268 | $306 |

There were no credit losses on receivables relating to the participating interests sold during the quarters ended March 31, 2011 and 2010. There were no delinquencies on the outstanding receivables related to the participating interests sold at March 31, 2011 or December 31, 2010.

Table of Contents

**NOTE L NOTES PAYABLE, LONG-TERM DEBT AND AVAILABLE CREDIT FACILITIES**

**Notes Payable**

| In millions | *March 31, 2011* | *Dec. 31, 2010* |
|---|---|---|
| Notes payable to banks | $ 613 | $ 1,310 |
| Notes payable to related companies | 96 | 157 |
| Total notes payable | $ 709 | $ 1,467 |
| Period-end average interest rates | 3.51% | 2.64% |

**Long-Term Debt**

| In millions | *2011 Average Rate* | *March 31, 2011* | *2010 Average Rate* | *Dec. 31, 2010* |
|---|---|---|---|---|
| Promissory notes and debentures: | | | | |
| Final maturity 2011 | 2.75% | $ 257 | 5.30% | $ 1,057 |
| Final maturity 2012 | 5.33% | 2,153 | 5.33% | 2,154 |
| Final maturity 2013 | 6.05% | 388 | 6.05% | 389 |
| Final maturity 2014 | 7.27% | 2,096 | 7.27% | 2,096 |
| Final maturity 2015 | 5.90% | 1,250 | 5.90% | 1,250 |
| Final maturity 2016 and thereafter | 6.70% | 9,761 | 6.95% | 11,260 |
| Other facilities: | | | | |
| U.S. dollar loans, various rates and maturities | 1.53% | 20 | 1.67% | 20 |
| Foreign currency loans, various rates and maturities | 2.71% | 1,046 | 2.95% | 998 |
| Medium-term notes, varying maturities through 2022 | 4.83% | 2,506 | 5.96% | 2,005 |
| Euro medium-term notes, final maturity 2011 | 4.63% | 707 | 4.63% | 665 |
| Pollution control/industrial revenue bonds, varying maturities through 2038 | 5.68% | 907 | 5.68% | 907 |
| Capital lease obligations | - | 18 | - | 17 |
| Unamortized debt discount | - | (424) | - | (458) |
| Long-term debt due within one year | - | (1,607) | - | (1,755) |
| Total long-term debt | - | $ 19,078 | - | $ 20,605 |

**Annual Installments on Long-Term Debt**

**For Next Five Years at March 31, 2011**

| In millions | |
|---|---|
| 2011 | $ 1,570 |
| 2012 | $ 2,900 |
| 2013 | $ 838 |
| 2014 | $ 2,513 |
| 2015 | $ 1,547 |
| 2016 | $ 937 |

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

In addition to the redemption of $800 million of notes that matured on February 1, 2011, the Company redeemed $179 million of InterNotes in the first quarter of 2011. The Company has also announced the planned redemption of $570 million of InterNotes in the second quarter of 2011, which is included in Long-term debt due within one year.

31

**Table of Contents**

The Company s outstanding debt of $20.7 billion has been issued under indentures which contain, among other provisions, covenants with which the Company must comply while the underlying notes are outstanding. Such covenants include obligations to not allow liens on principal U.S. manufacturing facilities, enter into sale and lease-back transactions with respect to principal U.S. manufacturing facilities, or merge or consolidate with any other corporation, or sell or convey all or substantially all of the Company s assets. The outstanding debt also contains customary default provisions. Failure of the Company to comply with any of these covenants could result in a default under the applicable indenture, which would allow the note holders to accelerate the due date of the outstanding principal and accrued interest on the subject notes.

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

(a) the obligation to maintain the ratio of the Company s consolidated indebtedness to consolidated capitalization at no greater than 0.65 to 1.00 at any time the aggregate outstanding amount of loans under the Three Year Competitive Advance and Revolving Credit Facility Agreement dated June 4, 2010 exceeds $500 million,

(b) a default if the Company or an applicable subsidiary fails to make any payment on indebtedness of $50 million or more when due, or any other default under the applicable agreement permits the acceleration of $200 million or more of principal, or results in the acceleration of $100 million or more of principal, and

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

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

At March 31, 2011, management believes the Company was in compliance with all of the covenants and default provisions referred to above.

Table of Contents

**NOTE M VARIABLE INTEREST ENTITIES**

**Consolidated Variable Interest Entities**

The Company holds a variable interest in five joint ventures for which the Company is the primary beneficiary. Three of the joint ventures are development stage enterprises, which will produce certain chemicals and provide certain services in Asia Pacific. The Company s variable interest in these joint ventures relates to arrangements between the joint ventures and the Company, involving the majority of the output on take-or-pay terms with pricing ensuring a guaranteed return to the joint ventures.

Another joint venture will construct, own and operate a membrane chlor-alkali facility to be located at the Company s Freeport, Texas integrated manufacturing complex. The Company s variable interests in this joint venture relate to equity options between the partners and a cost-plus off-take arrangement between the joint venture and the Company, involving proportional purchase commitments on take-or-pay terms and ensuring a guaranteed return to the joint venture. The Company will provide the joint venture with operation and maintenance services, utilities and raw materials; market the joint venture s co-products; and toll convert the other partner s proportional purchase commitments into ethylene dichloride. The joint venture is expected to begin operations in mid-2013.

The fifth joint venture was acquired through the acquisition of Rohm and Haas on April 1, 2009. This joint venture manufactures products in Japan for the semiconductor industry. Each joint venture partner holds several equivalent variable interests, with the exception of a royalty agreement held exclusively between the joint venture and the Company. In addition, the entire output of the joint venture is sold to the Company for resale to third-party customers.

The Company also holds a variable interest in an owner trust, for which the Company is the primary beneficiary. The owner trust leases an ethylene facility in The Netherlands to the Company, whereby substantially all of the rights and obligations of ownership are transferred to the Company. The Company s variable interest in the owner trust relates to a residual value guarantee provided to the owner trust. Upon expiration of the lease, which matures in 2014, the Company may purchase the facility for an amount based on a fair market value determination. At March 31, 2011, the Company had provided to the owner trust a residual value guarantee of $363 million, which represents the Company s maximum exposure to loss under the lease.

As the primary beneficiary of these VIEs, the entities assets, liabilities and results of operations are included in the Company s consolidated financial statements. The other equity holders interests are reflected in Net income attributable to noncontrolling interests in the consolidated statements of income and Noncontrolling interests in the consolidated balance sheets. The following table summarizes the carrying amounts of the entities assets and liabilities included in the Company s consolidated balance sheets at March 31, 2011 and December 31, 2010:

**Assets and Liabilities of Consolidated VIEs**

| In millions | *March 31, 2011* | *Dec. 31, 2010* |
|---|---|---|
| Cash and cash equivalents (1) | $ 199 | $ 145 |
| Other current assets | 79 | 83 |
| Property | 1,505 | 1,388 |
| Other noncurrent assets | 127 | 122 |
| Total assets (2) | $1,910 | $1,738 |
| Current liabilities (nonrecourse 2011: $208; 2010: $190) | $ 303 | $ 837 |
| Long-term debt (nonrecourse 2011: $187: 2010: $167) (3) | 1,213 | 513 |
| Other noncurrent liabilities (nonrecourse 2011: $62; 2010: $64) | 62 | 64 |
| Total liabilities | $1,578 | $1,414 |

(1) Includes $41 million at March 31, 2011 restricted for the construction of a specific manufacturing facility.
(2) All assets were restricted at March 31, 2011 and December 31, 2010.
(3) An additional $680 million became nonrecourse on April 21, 2011.

Table of Contents

The Company holds a variable interest in an entity created in June 2010 to monetize accounts receivable of select European entities. The Company is the primary beneficiary of this entity as a result of holding subordinated notes while maintaining servicing responsibilities for the accounts receivable. The carrying amounts of assets and liabilities included in the Company s consolidated balance sheets pertaining to this entity, were current assets of $207 million (zero restricted) at March 31, 2011 ($158 million, zero restricted, at December 31, 2010) and current liabilities of $1 million ($1 million nonrecourse) at March 31, 2011 ($1 million, $1 million nonrecourse, at December 31, 2010).

Amounts presented in the consolidated balance sheets and the table above as restricted assets or nonrecourse obligations relating to consolidated VIEs at March 31, 2011 and December 31, 2010 are adjusted for intercompany eliminations, parental guarantees and residual value guarantees.

**Nonconsolidated Variable Interest Entity**

The Company holds a variable interest in a joint venture accounted for under the equity method of accounting, acquired through the acquisition of Rohm and Haas on April 1, 2009. The joint venture manufactures crude acrylic acid in the United States and Germany on behalf of the Company and the other joint venture partner. The variable interest relates to a cost-plus arrangement between the joint venture and each joint venture partner. The Company is not the primary beneficiary, as a majority of the joint venture s output is sold to the other joint venture partner, and therefore the entity is not consolidated. At March 31, 2011, the Company s investment in the joint venture was $139 million, classified as Investment in nonconsolidated affiliates in the consolidated balance sheets, representing the Company s maximum exposure to loss.

**NOTE N PENSION PLANS AND OTHER POSTRETIREMENT BENEFITS**

**Net Periodic Benefit Cost for All Significant Plans**

| | *Three Months Ended* | |
|---|---|---|
| | *March 31,* | *March 31,* |
| In millions | *2011* | *2010* |
| *Defined Benefit Pension Plans:* | | |
| Service cost | $ 86 | $ 79 |
| Interest cost | 278 | 276 |
| Expected return on plan assets | (323) | (304) |
| Amortization of prior service cost | 7 | 7 |
| Amortization of net loss | 92 | 67 |
| Net periodic benefit cost | $ 140 | $ 125 |
| *Other Postretirement Benefits:* | | |
| Service cost | $3 | $4 |
| Interest cost | 25 | 28 |
| Expected return on plan assets | (1) | (3) |
| Net periodic benefit cost | $ 27 | $ 29 |

Table of Contents

**NOTE O STOCK-BASED COMPENSATION**

The Company grants stock-based compensation to employees under the Employees Stock Purchase Plan ( ESPP ) and the 1988 Award and Option Plan (the 1988 Plan ) and to non-employee directors under the 2003 Non-Employee Directors Stock Incentive Plan.

During the first quarter of 2011, employees subscribed to the right to purchase 10.8 million shares with a weighted-average exercise price of $23.00 per share and a weighted-average fair value of $11.39 per share under the ESPP.

During the first quarter of 2011, the Company granted the following stock-based compensation awards to employees under the 1988 Plan:

10.5 million stock options with a weighted-average exercise price of $38.38 per share and a weighted-average fair value of $10.67 per share;

3.0 million shares of deferred stock with a weighted-average fair value of $38.35 per share; and

1.1 million shares of performance deferred stock with a weighted-average fair value of $48.94 per share.

During the first quarter of 2011, the Company granted the following stock-based compensation awards to non-employee directors under the 2003 Non-Employee Directors Stock Incentive Plan:

31,350 shares of restricted stock with a weighted-average fair value of $37.26 per share.

Total unrecognized compensation cost at March 31, 2011, including unrecognized cost related to the first quarter of 2011 activity, is provided in the following table:

**Total Unrecognized Compensation Cost at March 31, 2011**

| In millions | *Unrecognized Compensation Cost* | *Weighted-average Recognition Period* |
|---|---|---|
| ESPP purchase rights | $74 | 0.63 year |
| Unvested stock options | $112 | 0.86 year |
| Deferred stock awards | $165 | 0.90 year |
| Performance deferred stock awards | $68 | 0.56 year |

Table of Contents

**NOTE P EARNINGS PER SHARE CALCULATIONS**

| **Net Income** | *Three Months Ended* | |
|---|---|---|
| In millions | *March 31, 2011* | *March 31, 2010* |
| Net income | $721 | $552 |
| Net income attributable to noncontrolling interests | (11) | (1) |
| Net income attributable to The Dow Chemical Company | $710 | $551 |
| Preferred stock dividends | (85) | (85) |
| Net income available for common stockholders | $625 | $466 |

| **Earnings Per Share Calculations - Basic** | *Three Months Ended* | |
|---|---|---|
| Dollars per share | *March 31, 2011* | *March 31, 2010* |
| Net income | $0.63 | $0.49 |
| Net income attributable to noncontrolling interests | (0.01) | - |
| Net income attributable to The Dow Chemical Company | $0.62 | $0.49 |
| Preferred stock dividends | (0.07) | (0.07) |
| Net income available for common stockholders | $0.55 | $0.42 |

| **Earnings Per Share Calculations - Diluted** | *Three Months Ended* | |
|---|---|---|
| Dollars per share | *March 31, 2011* | *March 31, 2010* |
| Net income | $0.62 | $0.48 |
| Net income attributable to noncontrolling interests | (0.01) | - |
| Net income attributable to The Dow Chemical Company | $0.61 | $0.48 |
| Preferred stock dividends (1) | (0.07) | (0.07) |
| Net income available for common stockholders | $0.54 | $0.41 |

| Shares in millions | | |
|---|---|---|
| Weighted-average common shares - basic | 1,139.5 | 1,117.5 |
| Plus dilutive effect of stock options and awards | 21.7 | 20.4 |
| Weighted-average common shares - diluted | 1,161.2 | 1,137.9 |
| Stock options and deferred stock awards excluded from EPS calculations (2) | 43.3 | 47.9 |
| Conversion of preferred stock excluded from EPS calculations (3) | 96.8 | 96.8 |

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

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

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

Table of Contents

**NOTE Q OPERATING SEGMENTS AND GEOGRAPHIC AREAS**

| **Operating Segments** | *Three Months Ended* | |
|---|---|---|
| In millions | *March 31, 2011* | *March 31, 2010* |
| Sales by operating segment | | |
| Electronic and Specialty Materials | $ 1,346 | $ 1,179 |
| Coatings and Infrastructure | 1,398 | 1,285 |
| Health and Agricultural Sciences | 1,606 | 1,369 |
| Performance Systems | 1,667 | 1,675 |
| Performance Products | 2,903 | 2,789 |
| Plastics | 2,998 | 3,022 |
| Chemicals and Energy | 970 | 839 |
| Hydrocarbons | 1,752 | 1,165 |
| Corporate | 93 | 94 |
| Total | $ 14,733 | $ 13,417 |
| EBITDA(1) by operating segment | | |
| Electronic and Specialty Materials | $ 344 | $ 360 |
| Coatings and Infrastructure | 188 | 138 |
| Health and Agricultural Sciences | 406 | 384 |
| Performance Systems | 207 | 205 |
| Performance Products | 456 | 288 |
| Plastics | 809 | 718 |
| Chemicals and Energy | 291 | 120 |
| Hydrocarbons | - | - |
| Corporate | (759) | (432) |
| Total | $ 1,942 | $ 1,781 |
| Equity in earnings (losses) of nonconsolidated affiliates by operating segment (included in EBITDA) | | |
| Electronic and Specialty Materials | $ 91 | $ 113 |
| Coatings and Infrastructure | - | 1 |
| Health and Agricultural Sciences | 3 | 2 |
| Performance Systems | (4) | - |
| Performance Products | (6) | 7 |
| Plastics | 68 | 65 |
| Chemicals and Energy | 144 | 98 |
| Hydrocarbons | 11 | 24 |
| Corporate | (9) | (6) |
| Total | $ 298 | $ 304 |

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

| **Reconciliation of EBITDA to Income Before Income Taxes** | *Three Months Ended* | |
|---|---|---|
| In millions | *March 31, 2011* | *March 31, 2010* |
| EBITDA | $ 1,942 | $ 1,781 |
| - Depreciation and amortization | 731 | 757 |
| + Interest income | 7 | 7 |
| - Interest expense and amortization of debt discount | 377 | 376 |
| Income Before Income Taxes | $ 841 | $ 655 |

37

Table of Contents

Transfers of products between operating segments are generally valued at cost. However, transfers of products to Health and Agricultural Sciences from other segments are generally valued at market-based prices; the revenues generated by these transfers in the first three months of 2011 and 2010 were immaterial and eliminated in consolidation.

| **Geographic Areas** | *Three Months Ended* | |
|---|---|---|
| In millions | *March 31, 2011* | *March 31, 2010* |
| Sales by geographic area | | |
| United States | $ 4,782 | $ 4,361 |
| Europe, Middle East and Africa | 5,358 | 4,747 |
| Rest of World | 4,593 | 4,309 |
| Total | $14,733 | $13,417 |

Table of Contents

**The Dow Chemical Company and Subsidiaries**

## PART I FINANCIAL INFORMATION, Item 2. Management s Discussion and Analysis of Financial Condition and Results of Operations.

**DISCLOSURE REGARDING FORWARD-LOOKING INFORMATION**

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

**OVERVIEW**

The Company reported sales in the first quarter of 2011 of $14.7 billion, up 10 percent from $13.4 billion in the first quarter of 2010. Price was up 11 percent compared with the same period last year, with increases in all operating segments and all geographic areas. Volume was down 1 percent due to recent divestitures. Excluding recent divestitures,[(1)] volume was up 8 percent, with increases in all operating segments and all geographic areas, reflecting continued improvement in global economic conditions. Price, excluding divestitures, was up 12 percent.

Purchased feedstock and energy costs, which account for more than one third of Dow s total costs, increased 13 percent ($706 million) compared with the first quarter of 2010.

Research and development expenses decreased slightly in the first quarter of 2011 compared with the first quarter of 2010. Selling, general and administrative expenses increased slightly in the first quarter of 2011 compared with the first quarter of 2010, as a result of the Company s corporate growth initiatives and continued investments in the Health and Agricultural Sciences, and Electronic and Specialty Materials segments.

Equity earnings were $298 million in the first quarter of 2011, down $6 million compared with the same period in 2010.

The Company retired $2.5 billion of debt in the first quarter of 2011, including a tender offer for $1.5 billion of outstanding debt and the payment of $979 million of maturing and other debt. These actions will reduce annual interest expense by nearly $200 million. The tender offer resulted in a $472 million pretax loss on the early extinguishment of debt included in Sundry income (expense) net and reflected in Corporate.

(1) Excludes sales of the acrylic monomer business and a portion of the specialty latex business divested on January 25, 2010, sales of the Powder Coatings business divested on June 1, 2010, and sales of Styron divested on June 17, 2010.

Table of Contents

**Selected Financial Data**

| In millions, except per share amounts | *Three Months Ended March 31, 2011* | *March 31, 2010* |
|---|---|---|
| Net sales | $14,733 | $13,417 |
| Cost of sales | $12,117 | $11,541 |
| Percent of net sales | 82.2% | 86.0% |
| Research and development expenses | $ 400 | $ 407 |
| Percent of net sales | 2.7% | 3.0% |
| Selling, general and administrative expenses | $ 700 | $ 662 |
| Percent of net sales | 4.8% | 4.9% |
| Net income available for common stockholders | $ 625 | $ 466 |
| Earnings per common share basic | $ 0.55 | $ 0.42 |
| Earnings per common share diluted | $ 0.54 | $ 0.41 |
| Operating rate percentage | 83% | 83% |

**RESULTS OF OPERATIONS**

Net sales in the first quarter of 2011 were $14.7 billion, up 10 percent from $13.4 billion in the first quarter of last year, with price up 11 percent and volume down 1 percent. Excluding recent divestitures, sales were up 20 percent, with double-digit sales increases in all operating segments and in all geographic areas, reflecting continued improvement in global economic conditions.

Price was up 11 percent compared with the same period last year. Excluding recent divestitures, price was up 12 percent, with double-digit price increases in all geographic areas and all operating segments, except Electronic and Specialty Materials (up 3 percent), and Health and Agricultural Sciences (up 3 percent). The increase in price more than offset a $706 million increase in purchased feedstock and energy costs.

Volume was down 1 percent compared with the same period last year, due to recent divestitures. Excluding these divestitures, volume was up 8 percent, with increases in all operating segments and all geographic areas. Double-digit volume gains were reported in Hydrocarbons (up 34 percent), Health and Agricultural Sciences (up 14 percent) and Electronic and Specialty Materials (up 11 percent). From a geographic standpoint, volume growth was led by Europe, Middle East and Africa ( EMEA ) (up 15 percent). For additional details regarding the change in net sales, see the Sales Volume and Price tables at the end of the section titled Segment Results.

Gross margin was $2,616 million in the first quarter of 2011, up from $1,876 million in the first quarter of last year. Gross margin increased due to the impact of higher selling prices, which more than offset an increase in purchased feedstock and energy costs.

The Company s global plant operating rate was 83 percent of capacity in the first quarter of 2011, unchanged from the first quarter of 2010.

The Company has operations at several locations in Japan, including a manufacturing site located in Soma, Japan, that manufactures product primarily for the Dow Water and Process Solutions business, part of the Electronic and Specialty Materials operating segment. The site is located in the area of Japan that was heavily impacted by the March 11, 2011 earthquakes and tsunami, and near the Fukushima Daiichi nuclear power plant. The Company has had limited access to the site since the March 11 disaster and thus has been unable to make a full assessment of the damages or determine when operations may resume. Based on an initial limited assessment of the site, the Company wrote off an immaterial amount of property and inventory in the first quarter of 2011. The Company continues to evaluate the full impact of the disaster on Dow s overall business operations in Japan. Financial impacts of the disaster are expected to continue. It is the opinion of the Company s management, however, that the possibility is remote that the costs, net of insurance recoveries, will have a material adverse impact on the Company s results of operations, financial condition and cash flows.

Table of Contents

Personnel count was 50,012 at March 31, 2011, up from 49,505 at December 31, 2010 and down from 51,493 at March 31, 2010. Headcount increased from year-end 2010 primarily due to the hiring of additional employees to support the Company s growth initiatives in the Performance segments. Compared with March 31, 2010, headcount decreased primarily due to recent divestitures, including Styron and the Powder Coatings business, as well as restructuring activities associated with the integration of Rohm and Haas Company ( Rohm and Haas ) and previously announced restructuring plans.

Research and development ( R&D ) expenses totaled $400 million in the first quarter of 2011, down $7 million (2 percent) from $407 million in the first quarter of last year, reflecting the Company s elimination of R&D expenses due to the divestiture of Styron, partially offset by increased spending on strategic growth initiatives and continued investments in the Health and Agricultural Sciences and Electronic and Specialty Materials segments.

Selling, general and administrative ( SG&A ) expenses totaled $700 million in the first quarter of 2011, up $38 million (6 percent) from $662 million in the first quarter of last year, primarily due to growth initiatives in the Health and Agricultural Sciences and Electronic and Specialty Materials segments.

Amortization of intangibles was $123 million in the first quarter of 2011, down slightly from $128 million in the first quarter of last year. See Note G to the Consolidated Financial Statements for additional information on intangible assets.

In June 2009, the Company s Board of Directors approved a restructuring plan that incorporated actions related to the Company s acquisition of Rohm and Haas, as well as additional actions to advance the Company s strategy and to respond to continued weakness in the global economy. The restructuring plan included the shutdown of a number of facilities and a global workforce reduction. In the first quarter of 2010, the Company recorded pretax adjustments of $16 million to the 2009 restructuring charge for additional asset impairment costs, which were reflected in the Company s segments as follows: $8 million in Electronic and Specialty Materials, $5 million in Coatings and Infrastructure and $3 million in Performance Products. The impact of these adjustments is shown as Restructuring charges in the consolidated statements of income. See Note C to the Consolidated Financial Statements for details on the Company s restructuring activities.

In the first quarter of 2011, pretax charges totaling $31 million were recorded for integration costs related to the April 1, 2009 acquisition of Rohm and Haas; in the first quarter of 2010, pretax charges totaled $26 million. These charges were reflected in Corporate.

Dow s share of the earnings of nonconsolidated affiliates was $298 million in the first quarter of 2011, down slightly from $304 million in the first quarter of last year, as improved earnings at EQUATE Petrochemical Company K.S.C. ( EQUATE ), The Kuwait Olefins Company K.S.C., and MEGlobal, were offset by decreased earnings at Dow Corning Corporation ( Dow Corning ), the SCG-Dow Group and Map Ta Phut Olefins Company Limited.

Sundry income (expense) net includes a variety of income and expense items such as the gain or loss on foreign currency exchange, dividends from investments, and gains and losses on sales of investments and assets. Sundry income (expense) net in the first quarter of 2011 was net expense of $449 million, compared with net income of $83 million in the same quarter of 2010. In 2011, sundry income (expense) net included a loss of $472 million on the early extinguishment of debt (reflected in Corporate) (see Note L to the Consolidated Financial Statements) and $25 million of dividend income received from the Company s ownership interest in the divested Styron business unit (reflected in Corporate). In 2010, sundry income (expense) net included gains on the sale of several miscellaneous assets, none of which were material.

Net interest expense (interest expense less capitalized interest and interest income) was $370 million in the first quarter of 2011, flat with $369 million in the first quarter of last year. Interest expense (net of capitalized interest) and amortization of debt discount totaled $377 million in the first quarter of 2011 and $376 million in the first quarter of 2010. Interest income was $7 million, unchanged from the same period last year.

Table of Contents

The effective tax rate for the first quarter of 2011 was 14.3 percent compared with 15.7 percent for the first quarter of 2010. The Company s effective tax rate fluctuates based on, among other factors, where income is earned, reinvestment assertions regarding earned income and the level of income relative to tax credits available. The Company s tax rate is also influenced by the level of equity earnings, since most of the earnings from the Company s equity company investments are taxed at the joint venture level. Similar to the first quarter of 2010, the tax rate for the first quarter of 2011 was favorably impacted by continued growth in Europe and strong equity earnings. The tax rate in the first quarter of 2011 was also favorably impacted by the tax benefit from the early extinguishment of debt in the United States.

Net income attributable to noncontrolling interests was $11 million in the first quarter of 2011 up from $1 million in the first quarter of 2010, reflecting improved results in certain affiliates, primarily in the Electronic and Specialty Materials segment.

Preferred stock dividends of $85 million were recognized in the first quarters of 2011 and 2010, related to the Company s Cumulative Convertible Perpetual Preferred Stock, Series A, which was issued on April 1, 2009.

Net income available for common stockholders was $625 million or $0.54 per share in the first quarter of 2011, compared with $466 million or $0.41 per share in the first quarter of 2010.

The following table summarizes the impact of certain items recorded in the three-month periods ended March 31, 2011 and 2010, and previously described in this section:

| | **Pretax Impact** (1) | | **Impact on Net Income** (2) | | **Impact on EPS** (3) | |
|---|---|---|---|---|---|---|
| | *Three Months Ended* | | *Three Months Ended* | | *Three Months Ended* | |
| In millions, except per share amounts | *March 31, 2011* | *March 31, 2010* | *March 31, 2011* | *March 31, 2010* | *March 31, 2011* | *March 31, 2010* |
| Restructuring charges | - | $ (16) | - | $ (8) | - | $ (0.01) |
| Acquisition-related integration expenses | $ (31) | (26) | $ (20) | (17) | $ (0.02) | (0.01) |
| Loss on early extinguishment of debt | (472) | - | (307) | - | (0.26) | - |
| Total | $ (503) | $ (42) | $ (327) | $ (25) | $ (0.28) | $ (0.02) |

(1) Impact on Income Before Income Taxes
(2) Impact on Net Income Attributable to The Dow Chemical Company
(3) Impact on Earnings per common share diluted

**SEGMENT RESULTS**

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

Due to the completion of several divestitures (see Note D to the Consolidated Financial Statements), the change in sales volume from 2010 excluding divestitures is provided by operating segment, where applicable. Sales excluding divestitures exclude the sales of the acrylic monomer business and a portion of the specialty latex business divested on January 25, 2010, sales of the Powder Coatings business divested on June 1, 2010, and sales of Styron divested on June 17, 2010.

Table of Contents

**ELECTRONIC AND SPECIALTY MATERIALS**

The Electronic and Specialty Materials segment consists of two businesses Dow Electronic Materials and Specialty Materials and includes the Company s share of the results of Dow Corning Corporation, a joint venture of the Company. Dow Electronic Materials is a leading global supplier of materials for chemical mechanical planarization; materials used in the production of electronic displays; products and technologies that drive leading edge semiconductor design; materials used in the fabrication of printed circuit boards; and integrated metallization processes critical for interconnection, corrosion resistance, metal finishing and decorative applications. These materials are found in applications such as consumer electronics, flat panel displays and telecommunications. Specialty Materials is a portfolio of five global businesses Dow Water and Process Solutions; Dow Home and Personal Care; Dow Microbial Control; Dow Wolff Cellulosics; and Performance Materials characterized by a vast global footprint, a broad array of unique chemistries, multi-functional ingredients and technology capabilities, combined with key positions in the pharmaceuticals, food, home and personal care, water and energy production, and industrial specialty industries.

| **Electronic and Specialty Materials** | *Three Months Ended* | |
|---|---|---|
| In millions | *March 31, 2011* | *March 31, 2010* |
| Sales | $1,346 | $1,179 |
| Price change from comparative period | 3% | N/A |
| Volume change from comparative period | 11% | N/A |
| Equity earnings | $ 91 | $ 113 |
| EBITDA | $ 344 | $ 360 |
| Certain items impacting EBITDA | - | $(8) |

Electronic and Specialty Materials sales were $1,346 million in the first quarter of 2011, up 14 percent from $1,179 million in the first quarter of 2010. Compared with the first quarter of 2010, volume increased 11 percent and price increased 3 percent. Volume increased in all geographic areas, especially in Asia Pacific, and across most businesses, driven by strong demand for consumer electronics, reverse osmosis membranes and cellulosics used in food and pharmaceutical applications. Despite higher sales, EBITDA of $344 million in the first quarter of 2011 was down from $360 million in the first quarter of 2010 due to the write-off of property and inventory associated with the ion exchange resins plant in Soma, Japan that was damaged by the March 11, 2011 earthquakes and tsunami. EBITDA was also lower in the first quarter of 2011 due to increased raw material costs, higher SG&A expenses and reduced equity earnings from Dow Corning. Results in the first quarter of 2010 were negatively impacted by an $8 million adjustment to the 2009 restructuring charge related to the closure of a small manufacturing facility.

Dow Electronic Materials sales in the first quarter of 2011 were up 18 percent from the same quarter last year, driven by double-digit volume growth in Asia Pacific as demand for consumer electronics was strong and semiconductor foundry utilization rates remained high. New product introductions drove higher demand for films and materials used in flat panel displays and consumer electronic devices. Demand for materials for organic light emitting diodes and for advanced packaging applications also improved compared with the same quarter of last year. EBITDA increased compared with the first quarter of 2010 as improved sales more than offset increased raw material costs, increased investment in R&D and higher SG&A expenses.

Specialty Materials sales in the first quarter of 2011 were up 12 percent from the first quarter of 2010, as volume improved 9 percent and price increased by 3 percent. Volume increased in all geographic areas, especially in Latin America and Asia Pacific. Dow Water and Process Solutions reported double-digit volume gains as demand for ion exchange resins and reverse osmosis membranes remained strong, especially in Asia Pacific, due to new infrastructure projects and demand for ultrapure water used in the production of consumer electronics. Demand was also higher for specialty cellulosics used in food and pharmaceutical applications. Despite the increase in sales, EBITDA declined due to the Japan earthquakes and tsunami, higher raw material costs and continued investment in growth initiatives.

Table of Contents

**COATINGS AND INFRASTRUCTURE**

The Coatings and Infrastructure segment consists of the following businesses: Dow Adhesives and Functional Polymers; Dow Building and Construction; and Dow Coating Materials. These businesses produce a wide variety of products with a broad range of applications sticking and bonding solutions, construction materials (insulation and vinyl applications) and raw materials for architectural paints and industrial coatings.

| **Coatings and Infrastructure** | *Three Months Ended* | |
|---|---|---|
| | *March 31,* | *March 31,* |
| In millions | *2011* | *2010* |
| Sales | $1,398 | $1,285 |
| Price change from comparative period | 12% | N/A |
| Volume change from comparative period | (3)% | N/A |
| Volume change, excluding divestitures | 3% | N/A |
| Equity earnings | - | $ 1 |
| EBITDA | $ 188 | $ 138 |
| Certain items impacting EBITDA | - | $(5) |

Coatings and Infrastructure sales were $1,398 million in the first quarter of 2011, up 9 percent from $1,285 million in the first quarter of 2010. Compared with the first quarter of 2010, price increased 12 percent while volume declined 3 percent. The increase in price was broad-based, with double-digit increases across all geographic areas, primarily driven by higher raw material costs. Volume was down due to the United States Federal Trade Commission ( FTC ) required divestiture of certain specialty latex assets on January 25, 2010 (related to the April 1, 2009 acquisition of Rohm and Haas) and the June 1, 2010 divestiture of the Powder Coatings business. Excluding these divestitures, volume increased 3 percent compared with the first quarter of 2010. Sales of Dow Coating Materials increased due to double-digit price increases that impacted all geographic areas. Volume, excluding divestitures, was slightly lower as the business tightly managed price and volume decisions, foregoing low-margin business. Dow Building and Construction sales were higher due to strong demand for insulation products in EMEA and Asia Pacific, and higher prices in North America, despite a continued slowdown in new home sales in the United States. Dow Adhesives and Functional Polymers sales were higher due to price increases in all geographic areas and increased demand for specialty adhesives used in packaging, thermal paper and leather applications.

EBITDA in the first quarter of 2011 was $188 million, up significantly from $138 million in the first quarter of 2010. EBITDA improved from last year as price increases and lower SG&A expenses more than offset higher feedstock and energy costs, increased other raw material costs, ongoing investment in POWERHOUSE solar shingle and the absence of earnings from divested businesses. Results in the first quarter of 2010 were negatively impacted by a $5 million increase in the 2009 restructuring charge related to the divestiture of certain specialty latex assets.

Table of Contents

**HEALTH AND AGRICULTURAL SCIENCES**

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

| **Health and Agricultural Sciences** | *Three Months Ended* | |
|---|---|---|
| | *March 31,* | *March 31,* |
| In millions | *2011* | *2010* |
| Sales | $1,606 | $1,369 |
| Price change from comparative period | 3% | N/A |
| Volume change from comparative period | 14% | N/A |
| Equity earnings | $ 3 | $ 2 |
| EBITDA | $ 406 | $ 384 |
| Certain items impacting EBITDA | - | - |

Health and Agricultural Sciences sales were $1,606 million in the first quarter of 2011, 17 percent higher than $1,369 million in the first quarter of 2010 and a quarterly sales record for the segment. Favorable conditions in the global agricultural and food industry led to sales increases in all geographic areas with particular strength in EMEA, North America and Latin America. Volume increased 14 percent while price increased 3 percent. Seeds, Traits and Oils reported significant volume growth primarily from SmartStax technology, which continued its strong ramp up, and also from the U.S. cotton seed business, which continued to outperform. Agricultural chemicals also reported strong volume growth, primarily in EMEA for Dow AgroSciences strong portfolio of cereal herbicides. Sales of new products, including pyroxsulam cereal herbicide, aminopyralid range and pasture herbicide and spinetoram insecticide, all recorded double-digit sales growth.

EBITDA in the first quarter of 2011 was $406 million, up from $384 million in the first quarter of 2010 and a quarterly record for the segment. Compared with last year, EBITDA improved primarily due to improved volume, which more than offset increased investment in R&D and SG&A in the quarter.

Table of Contents

**PERFORMANCE SYSTEMS**

The Performance Systems segment consists of the following businesses: Dow Automotive Systems; Dow Elastomers; Dow Wire and Cable; Dow Formulated Systems; Dow Oil and Gas; and Dow Fiber Solutions. These businesses produce a wide variety of products with a broad range of applications automotive interiors and exteriors, footwear, mattresses, specialty films, wind turbines, transportation, waterproofing membranes, and electrical and telecommunication applications.

On March 2, 2010, Dow announced the entry into a definitive agreement to sell Styron to an affiliate of Bain Capital Partners; the transaction closed on June 17, 2010. Businesses and products sold included Synthetic Rubber and certain products from Dow Automotive Systems, which were reported in the Performance Systems segment through the date of the divestiture. See Note D to the Consolidated Financial Statements for additional information on this divestiture.

| **Performance Systems** | *Three Months Ended* | |
|---|---|---|
| | *March 31,* | *March 31,* |
| In millions | *2011* | *2010* |
| Sales | $1,667 | $1,675 |
| Price change from comparative period | 9% | N/A |
| Volume change from comparative period | (9)% | N/A |
| Volume change, excluding divestitures | 6% | N/A |
| Equity earnings | $(4) | - |
| EBITDA | $207 | $205 |
| Certain items impacting EBITDA | - | - |

Performance Systems sales were $1,667 million in the first quarter of 2011, down slightly from $1,675 million in the first quarter of 2010. Price increases were reported in all businesses and all geographic areas. Dow Elastomers reported the most significant price increase due to escalating feedstock and energy and other raw material costs as well as tight supply/demand balances. The decline in volume for the segment reflected the divestiture of Synthetic Rubber and certain products from Dow Automotive Systems as part of the Styron divestiture. Excluding the impact of the divestiture, sales volume improved 6 percent, with increases in all geographic areas except Asia Pacific. Dow Automotive Systems and Dow Wire and Cable volume improved significantly in North America, EMEA, and Latin America as the automotive industry continued to recover and demand for wire and cable applications increased.

EBITDA for Performance Systems in the first quarter of 2011 was $207 million, flat compared with the first quarter of 2010. Gains from price increases, reduced freight costs and volume growth were offset by higher feedstock and energy and other raw material costs and the absence of earnings from divested businesses.

Table of Contents

**PERFORMANCE PRODUCTS**

The Performance Products segment consists of the following businesses: Amines; Emulsion Polymers (through the June 17, 2010 divestiture of Styron); Epoxy; Oxygenated Solvents; Performance Monomers; Polyglycols, Surfactants and Fluids; Polyurethanes; Dow Haltermann; and SAFECHEM. These businesses produce a wide variety of products with a broad range of applications adhesives and deicing fluids, solvents, paper and paperboard applications, carpet backing and home furnishings. The segment also includes a portion of the results of the SCG-Dow Group of joint ventures.

On March 2, 2010, Dow announced the entry into a definitive agreement to sell Styron to an affiliate of Bain Capital Partners; the transaction closed on June 17, 2010. Businesses and products sold included Emulsion Polymers (styrene-butadiene latex), which was reported in the Performance Products segment through the date of the divestiture. See Note D to the Consolidated Financial Statements for additional information on this divestiture.

| **Performance Products** | *Three Months Ended* | |
|---|---|---|
| | *March 31,* | *March 31,* |
| In millions | *2011* | *2010* |
| Sales | $2,903 | $2,789 |
| Price change from comparative period | 14% | N/A |
| Volume change from comparative period | (10)% | N/A |
| Volume change, excluding divestitures | 2% | N/A |
| Equity earnings | $(6) | $7 |
| EBITDA | $456 | $288 |
| Certain items impacting EBITDA | - | $(3) |

Performance Products sales were $2,903 million in the first quarter of 2011, up 4 percent from $2,789 million in the first quarter of 2010. Price increased 14 percent primarily driven by increased feedstock and energy costs and other raw material costs. Double-digit price increases were reported across all geographic areas and most businesses. The decline in volume for the segment reflected the divestiture of the Emulsion Polymers business as part of the June 17, 2010 divestiture of Styron. Excluding the impact of this divestiture, volume was up 2 percent compared with 2010, as a volume increase of more than 50 percent in Epoxy and a 6 percent increase in volume in Polyglycols, Surfactants, and Fluids were partially offset by declines in the other businesses in the segment. The strong volume increase reported by the Epoxy business was driven by new product supply agreements with Styron and increased demand for liquid epoxy resins.

EBITDA in the first quarter of 2011 was $456 million, up from $288 million in the first quarter of 2010. Compared with the first quarter of last year, price increases, coupled with reduced freight costs, more than offset a significant increase in feedstock and energy costs and other raw material costs, the absence of earnings from the divested business, and lower equity earnings. Results in the first quarter of 2010 were negatively impacted by a $3 million increase in the 2009 restructuring charge related to the FTC required divestiture of certain acrylic monomer assets.

Table of Contents

**PLASTICS**

The Plastics segment includes the following businesses: Polyethylene; Polypropylene; Styrenics (through the June 17, 2010 divestiture of Styron); Plastics, Licensing and Catalyst; and Polycarbonate and Compounds and Blends (through the June 17, 2010 divestiture of Styron). These world-leading businesses provide a broad range of products and solutions by leveraging Dow s leading manufacturing and application technology, research and product development expertise, extensive market knowledge and strong customer relationships. Product applications range from beverage bottles, disposable diaper liners and toys to plastic pipe, oil tanks and road equipment. The Plastics segment also includes the results of Equipolymers, Americas Styrenics LLC (through the June 17, 2010 divestiture of Styron) and Univation Technologies, LLC, and a portion of the results of EQUATE Petrochemical Company K.S.C., The Kuwait Olefins Company K.S.C. and the SCG-Dow Group, all joint ventures of the Company.

On March 2, 2010, Dow announced the entry into a definitive agreement to sell Styron to an affiliate of Bain Capital Partners; the transaction closed on June 17, 2010. Businesses and products sold included Styrenics (polystyrene, acrylonitrile butadiene styrene, styrene acrylonitrile and expandable polystyrene), Polycarbonate and Compounds and Blends, as well as the Company s 50-percent ownership interest in Americas Styrenics LLC, formerly a principal nonconsolidated affiliate; all of which were reported in the Plastics segment through the date of the divestiture. See Note D to the Consolidated Financial Statements for additional information on this divestiture.

| **Plastics** | *Three Months Ended* | |
|---|---|---|
| | *March 31,* | *March 31,* |
| In millions | *2011* | *2010* |
| Sales | $2,998 | $3,022 |
| Price change from comparative period | 11% | N/A |
| Volume change from comparative period | (12)% | N/A |
| Volume change, excluding divestitures | 5% | N/A |
| Equity earnings | $68 | $65 |
| EBITDA | $809 | $718 |
| Certain items impacting EBITDA | - | - |

Plastics sales in the first quarter of 2011 were $2,998 million, down 1 percent from $3,022 million in the first quarter of 2010, reflecting an 11 percent increase in price and a 12 percent volume decline. Feedstock and energy costs increased significantly during the quarter, driving double-digit price increases in EMEA and Latin America and modest price increases in North America and Asia Pacific for the segment. The decline in volume for the segment reflected the divestiture of the Styrenics and Polycarbonate and Compounds and Blends businesses as part of the June 17, 2010 divestiture of Styron. Excluding the impact of the Styron divestiture, volume improved 5 percent, with significant gains in Asia Pacific and modest gains in EMEA and North America. Polypropylene achieved strong, double-digit price increases in all geographic areas. Polypropylene demand remained strong in the first quarter in the automotive, consumer goods and packaging sectors. In the first quarter of 2010, Polyethylene and Polypropylene volumes were constrained due to limited supplies from production outages at the Company s facilities in North America, Latin America and EMEA.

EBITDA in the first quarter of 2011 was $809 million, up from $718 million in the first quarter of 2010. Compared with last year, EBITDA improved as gains from price increases and reduced freight costs in the first quarter of 2011 offset higher feedstock and energy costs and the absence of earnings from divested businesses.

Table of Contents

**CHEMICALS AND ENERGY**

The Chemicals and Energy segment includes the following businesses: Chlor-Alkali/Chlor-Vinyl; Energy; Ethylene Oxide/Ethylene Glycol; and Chlorinated Organics. The Chlor-Alkali/Chlor-Vinyl business focuses on the production of chlorine for consumption by downstream Dow derivatives, as well as production, marketing and supply of ethylene dichloride, vinyl chloride monomer and caustic soda. These products are used for applications such as alumina production, pulp and paper manufacturing, soaps and detergents, and building and construction. The Energy business supplies power, steam and other utilities, principally for use in Dow s global operations. The Ethylene Oxide/Ethylene Glycol business is the world s largest producer of purified ethylene oxide, principally used in Dow s downstream performance derivatives. Dow is also a key supplier of ethylene glycol to MEGlobal, a 50:50 joint venture. Ethylene glycol is used in polyester fiber, polyethylene terephthalate (PET) for food and beverage container applications, polyester film, and aircraft and runway deicers. Also included in the Chemicals and Energy segment are the results of MEGlobal and a portion of the results of EQUATE Petrochemical Company K.S.C. and The Kuwait Olefins Company K.S.C., all joint ventures of the Company.

| **Chemicals and Energy** | *Three Months Ended* | |
|---|---|---|
| | *March 31,* | *March 31,* |
| In millions | *2011* | *2010* |
| Sales | $970 | $839 |
| Price change from comparative period | 14% | N/A |
| Volume change from comparative period | 2% | N/A |
| Equity earnings | $144 | $98 |
| EBITDA | $291 | $120 |
| Certain items impacting EBITDA | - | - |

Chemicals and Energy sales were $970 million in the first quarter of 2011, up 16 percent from $839 million in the first quarter of 2010, reflecting a 14 percent increase in price and a 2 percent increase in volume. Sales for the Chlor-Alkali/Chlor-Vinyl business increased 26 percent over the first quarter of 2010, with a 17 percent price increase and 9 percent volume growth. Caustic soda volume increased in EMEA and Latin America; however, volumes were lower in North America. Price increased across all geographic areas driven by strong demand in the alumina and pulp and paper industries and several unplanned outages within the industry. Vinyl chloride monomer ( VCM ) prices increased in EMEA; however, this impact was offset by price declines in North America and Latin America. VCM volumes increased in EMEA but declined in North America due to the Company s planned capacity reductions. Sales for the Ethylene Oxide/Ethylene Glycol ( EO/EG ) business were down 12 percent compared with the first quarter of 2010 with a volume decrease of 24 percent partially offset by price increases of 12 percent. Volume declined due to several planned and unplanned outages in North America as well as the shutdown of capacity in Wilton, England in 2010, while price increased as a result of higher ethylene and naphtha costs in Asia Pacific and EMEA. Strong pricing in refrigerant, fluoropolymer and solvent applications resulted in increased sales for the Chlorinated Organics business.

EBITDA in the first quarter of 2011 was $291 million, up from $120 million in the first quarter of 2010. Compared with last year, EBITDA improved primarily due to higher caustic soda sales and higher equity earnings from The Kuwait Olefins Company K.S.C., MEGlobal and EQUATE. The Energy business supplies Dow s businesses at net cost, resulting in EBITDA that is at or near break-even for the business.

Table of Contents

**HYDROCARBONS**

The Hydrocarbons business encompasses the procurement of fuels, natural gas liquids and crude oil-based raw materials, as well as the supply of monomers, principally for use in Dow s global operations. The business regularly sells its by-products and buys and sells its products to balance regional production capabilities and derivative requirements. The business also sells products to certain Dow joint ventures. The Hydrocarbons segment also includes the results of Compañía Mega S.A. and a portion of the results of The Kuwait Olefins Company K.S.C. and the SCG-Dow Group, joint ventures of the Company.

On March 2, 2010, Dow announced the entry into a definitive agreement to sell Styron to an affiliate of Bain Capital Partners; the transaction closed on June 17, 2010. Businesses and products sold included certain styrene monomer assets, which were reported in the Hydrocarbons segment through the date of the divestiture. See Note D to the Consolidated Financial Statements for additional information on this divestiture.

| **Hydrocarbons** | *Three Months Ended* | |
|---|---|---|
| | *March 31,* | *March 31,* |
| In millions | *2011* | *2010* |
| Sales | $1,752 | $1,165 |
| Price change from comparative period | 20% | N/A |
| Volume change from comparative period | 30% | N/A |
| Volume change, excluding divestitures | 34% | N/A |
| Equity earnings | $11 | $24 |
| EBITDA | - | - |
| Certain items impacting EBITDA | - | - |

Hydrocarbons sales were $1,752 million in the first quarter of 2011, up 50 percent from $1,165 million in the first quarter of 2010, with volume increasing 30 percent and price increasing 20 percent. The Company s product supply agreements with Styron led to a substantial increase in trade sales for the segment compared with the first quarter of 2010. The double-digit increase in selling price was the result of higher feedstock and energy costs.

The Hydrocarbons business transfers materials to Dow s derivatives businesses at net cost. As a result, EBITDA for the segment was breakeven in the first quarters of 2011 and 2010.

The Company uses derivatives of crude oil and natural gas as a feedstock in its ethylene facilities. The Company s cost of purchased feedstock and energy in the first quarter of 2011 increased $706 million compared with the same quarter of last year, an increase of 13 percent.

Table of Contents

**CORPORATE**

Included in the results for Corporate are:

- results of insurance company operations,
- gains and losses on sales of financial assets,
- stock-based compensation expense and severance costs,
- changes in the allowance for doubtful receivables,
- expenses related to Ventures,
- asbestos-related defense and resolution costs,
- foreign exchange hedging results, and
- certain overhead and other cost recovery variances not allocated to the operating segments.

| **Corporate** | *Three Months Ended* | |
|---|---|---|
| | *March 31,* | *March 31,* |
| In millions | *2011* | *2010* |
| Sales | $ 93 | $ 94 |
| Equity earnings | $(9) | $ (6) |
| EBITDA | $(759) | $(432) |
| Certain items impacting EBITDA | $(503) | $ (26) |

Sales for Corporate, which primarily relate to the Company s insurance operations, were $93 million in the first quarter of 2011, flat from the first quarter of 2010.

EBITDA in the first quarter of 2011 was a loss of $759 million, compared with a loss of $432 million in the first quarter of 2010. EBITDA in the first quarter of 2011 was negatively impacted by a $472 million loss related to the early extinguishment of debt, as well as $31 million of integration costs related to the April 1, 2009 acquisition of Rohm and Haas. Compared with the first quarter of last year, EBITDA was favorably impacted by reduced performance-based compensation costs (including stock-based compensation), $25 million in dividend income related to the Company s ownership interest in the divested Styron business unit and lower Corporate expenses. EBITDA in the first quarter of 2010 was reduced by $26 million of integration costs related to the acquisition of Rohm and Haas.

Table of Contents

**Sales Volume and Price by Operating Segment and Geographic Area**

| | *Three Months Ended* | | |
|---|---|---|---|
| | *March 31, 2011* | | |
| Percentage change from prior year | *Volume* | *Price* | *Total* |
| Operating segments | | | |
| Electronic and Specialty Materials | 11% | 3% | 14% |
| Coatings and Infrastructure | (3) | 12 | 9 |
| Health and Agricultural Sciences | 14 | 3 | 17 |
| Performance Systems | (9) | 9 | - |
| Performance Products | (10) | 14 | 4 |
| Plastics | (12) | 11 | (1) |
| Chemicals and Energy | 2 | 14 | 16 |
| Hydrocarbons | 30 | 20 | 50 |
| Total | (1)% | 11% | 10% |
| Geographic areas | | | |
| United States | - | 10% | 10% |
| Europe, Middle East and Africa | - | 13 | 13 |
| Rest of World | (3)% | 10 | 7 |
| Total | (1)% | 11% | 10% |

**Sales Volume and Price by Operating Segment and Geographic Area**

**Excluding Divestitures (1)**

| | *Three Months Ended* | | |
|---|---|---|---|
| | *March 31, 2011* | | |
| Percentage change from prior year | *Volume* | *Price* | *Total* |
| Operating segments | | | |
| Electronic and Specialty Materials | 11% | 3% | 14% |
| Coatings and Infrastructure | 3 | 13 | 16 |
| Health and Agricultural Sciences | 14 | 3 | 17 |
| Performance Systems | 6 | 10 | 16 |
| Performance Products | 2 | 16 | 18 |
| Plastics | 5 | 14 | 19 |
| Chemicals and Energy | 2 | 14 | 16 |
| Hydrocarbons | 34 | 21 | 55 |
| Total | 8% | 12% | 20% |
| Geographic areas | | | |
| United States | 4% | 11% | 15% |
| Europe, Middle East and Africa | 15 | 15 | 30 |
| Rest of World | 5 | 11 | 16 |
| Total | 8% | 12% | 20% |

(1) Excludes sales of the acrylic monomer business and a portion of the specialty latex business divested on January 25, 2010, sales of the Powder Coatings business divested on June 1, 2010, and sales of Styron divested on June 17, 2010.

Table of Contents

**OUTLOOK**

In the first quarter of 2011, global growth continued to firm across many of the Company s key end-markets, such as energy, food and nutrition, electronics, water and packaging. Looking ahead, the Company expects global economic recovery to continue, but caution is prudent in the face of lingering uncertainties.

In the United States, improvements in business investments, consumer spending, and early signs of job creation bode well for economic growth prospects. Improving credit conditions and healthy exports provide positive momentum for domestic manufacturing. Despite these favorable developments, high unemployment and tepid construction end-markets continue to temper growth. In Europe, the Company continues to see divergent growth trajectories. Several countries in northern Europe remain on a steady recovery path, particularly those where Dow has a well-established footprint. Meanwhile, growth in southern Europe continues to lag, as sovereign debt concerns, high unemployment and reduced domestic spending remain headwinds to recovery. In the emerging regions, economic growth remains robust, driven by rapidly growing consumer demand and infrastructure investments. Dow continues to see solid demand in these regions for Dow s specialized technologies that enable consumer electronics, environmentally-friendly paints and water filtration all areas where the Company has a leadership position. At the same time, the Company will continue to monitor how governments in these regions manage the risk of rising inflation while moderating growth to a sustainable pace.

In this environment of improving economic conditions, Dow expects feedstock and energy costs to remain at elevated levels and volatility in these costs to continue. Consequently, purchased feedstock and energy costs are expected to be higher in the second quarter. In the United States, the Company expects to continue to benefit from its flexible feedstock cost position, taking advantage of the relatively low cost of natural gas and the growing supply of natural gas liquids.

As global economic growth continues on a positive path, Dow will execute its strategy, while maintaining its financial flexibility, capturing significant opportunities with its innovative technologies and strengthening its leadership positions. In an environment of rising and volatile feedstock and energy costs, the Company will also maintain its tight execution of price and volume to manage margins. The Company will continue to benefit from its joint venture strategy, with equity earnings expected to remain at pre-recession levels. Dow s reshaped and transformed business portfolio is well-positioned to benefit from growth trends. Dow s presence in high-growth end-markets, its vast geographic footprint and continued investments in its specialty chemical and advanced materials businesses and in emerging geographies help to mitigate areas of uncertainty.

Table of Contents

**CHANGES IN FINANCIAL CONDITION**

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

| **Cash Flow Summary** | *Three Months Ended March 31,* | |
|---|---|---|
| In millions | *March 31, 2011* | *2010* |
| Cash provided by (used in): | | |
| Operating activities | $(175) | $(14) |
| Investing activities | (352) | 199 |
| Financing activities | (2,960) | (146) |
| Effect of exchange rate changes on cash | 10 | (8) |
| Cash assumed in initial consolidation of variable interest entities | - | 46 |
| Net change in cash and cash equivalents | $(3,477) | $77 |

In the first three months of 2011, cash used in operating activities increased compared with the same period last year primarily due to increased pension contributions and an increase in working capital requirements that more than offset increased earnings and higher dividends from nonconsolidated affiliates.

Cash used in investing activities in the first three months of 2011 increased compared with cash provided by investing activities in the first three months of 2010 primarily due to increased capital expenditures and the 2010 change in restricted cash.

In the first quarter of 2011, cash was used in financing activities primarily for payments on long-term debt including the early extinguishment of $1.5 billion of debt as further discussed below. In the first quarter of 2010, cash was used in financing activities primarily for payments on notes payable related to the monetization of accounts receivable in Europe.

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

The Company has undertaken restructuring plans during the past two years as follows:

On June 30, 2009, the Board of Directors approved a restructuring plan related to the Company s acquisition of Rohm and Haas (the 2009 Plan ) that includes the elimination of approximately 2,500 positions and the shutdown of a number of manufacturing facilities. These restructuring activities are substantially complete, with remaining liabilities primarily related to environmental remediation to be paid over time.

Included in the liabilities assumed with the April 1, 2009 acquisition of Rohm and Haas was a reserve of $122 million for severance and employee benefits for the separation of 1,255 employees associated with Rohm and Haas 2008 restructuring initiatives. The separations resulted from plant shutdowns, production schedule adjustments, productivity improvements and reductions in support services. These restructuring activities are expected to be complete by mid-2011.

The restructuring activities related to the 2009 Plan and the severance reserve assumed from Rohm and Haas are expected to result in additional cash expenditures of approximately $71 million related to severance costs and environmental remediation to be paid over time (see Note C to the Consolidated Financial Statements). The Company expects to incur future costs related to its restructuring activities, as the Company continually looks for ways to enhance the efficiency and cost effectiveness of its operations to ensure competitiveness across its businesses and across geographic areas. Future costs are expected to include demolition costs related to the closed facilities, which will be recognized as incurred. The Company also expects to incur additional employee-related costs, including involuntary termination benefits and pension plan settlement costs, related to its other optimization activities. These costs cannot be reasonably estimated at this time.

54

Table of Contents

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

**Working Capital**

| In millions | *March 31, 2011* | *Dec. 31, 2010* |
|---|---|---|
| Current assets | $22,983 | $24,130 |
| Current liabilities | 12,984 | 13,896 |
| Working capital | $ 9,999 | $10,234 |
| Current ratio | 1.77:1 | 1.74:1 |
| Days-sales-outstanding-in-receivables | 43 | 43 |
| Days-sales-in-inventory | 70 | 62 |

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

**Total Debt**

| In millions | *March 31, 2011* | *Dec. 31, 2010* |
|---|---|---|
| Notes payable | $ 709 | $ 1,467 |
| Long-term debt due within one year | 1,607 | 1,755 |
| Long-term debt | 19,078 | 20,605 |
| Gross debt | $ 21,394 | $ 23,827 |
| Cash and cash equivalents | $ 3,562 | $ 7,039 |
| Net debt | $ 17,832 | $ 16,788 |
| Gross debt as a percent of total capitalization | 47.3% | 51.3% |
| Net debt as a percent of total capitalization | 42.8% | 42.6% |

As part of its ongoing financing activities, Dow has the ability to issue promissory notes under its U.S. and Euromarket commercial paper programs. The Company had no commercial paper outstanding at March 31, 2011 or December 31, 2010.

In the event Dow has short-term liquidity needs and is unable to issue commercial paper under these programs for any reason, Dow has the ability to access liquidity through its committed and available $3 billion Three Year Competitive Advance and Revolving Credit Facility Agreement dated June 4, 2010 (the Revolving Credit Facility ) with various U.S. and foreign banks. The Revolving Credit Facility has a maturity date in June 2013 and provides for interest at a LIBOR-plus rate or Base Rate as defined in the Agreement. At March 31, 2011, the full $3 billion Revolving Credit Facility was available to the Company.

As a well-known seasoned issuer, the Company filed an automatic shelf registration for an unspecified amount of mixed securities with the SEC on February 19, 2010. Under this shelf registration, the Company may offer common stock, preferred stock, depositary shares, debt securities, warrants, stock purchase contracts and stock purchase units with pricing and availability dependent on market conditions; and, on February 19, 2010, registered an unlimited amount of securities for issuance under the Company s U.S. retail medium-term note program (InterNotes). At March 31, 2011, the Company had Euro 5 billion (approximately $7.1 billion) available for issuance under the Company s Euro Medium Term Note Program, as well as Japanese yen 50 billion (approximately $600 million) of securities available for issuance under a shelf registration renewed with the Tokyo Stock Exchange effective September 8, 2010, which will expire on September 7, 2012.

On March 22, 2011, the Company concluded cash tender offers for $1.5 billion aggregate principal amount of certain notes issued by the Company. As a result of the tender offers, the Company redeemed $1.5 billion of the notes and recognized a $472 million pretax loss on early extinguishment of debt, included in Sundry income (expense) net in the consolidated statements of income and reflected in Corporate. In addition to the redemption of $800 million of notes that matured on February 1, 2011, the Company redeemed $179 million of InterNotes in the first quarter of 2011. Taken together, these actions will reduce the Company s interest expense by nearly $200 million on an annual basis going forward. The Company has also announced the planned redemption of $570 million of InterNotes in the second quarter of 2011.

55

Table of Contents

Dow s public debt instruments and documents for its private funding transactions contain, among other provisions, certain covenants and default provisions. The Company s most significant debt covenant with regard to its financial position is the obligation to maintain the ratio of the Company s consolidated indebtedness to consolidated capitalization at no greater than 0.65 to 1.00 at any time the aggregate outstanding amount of loans under the Revolving Credit Facility exceeds $500 million. The ratio of the Company s consolidated indebtedness to consolidated capitalization as defined in the credit agreements was 0.45 to 1.00 at March 31, 2011. At March 31, 2011, management believes the Company was in compliance with all of its covenants and default provisions.

The Company s credit rating is investment grade. The Company s long-term credit ratings are BBB- with a positive outlook (Standard & Poor s), Baa3 with a stable outlook (Moody s) and BBB with a stable outlook (Fitch). In the third quarter of 2010, Standard & Poor s upgraded the Company s outlook from stable to positive, and in the fourth quarter of 2010, Moody s upgraded the Company s outlook from negative to stable. The Company s short-term credit ratings are A-3 (Standard & Poor s), P-3 (Moody s) and F2 (Fitch). If the Company s credit ratings are downgraded, borrowing costs will increase on certain indentures, and it could have a negative impact on the Company s ability to access credit markets.

**Capital Expenditures**

Capital spending was $405 million in the first quarter of 2011, compared with capital spending of $294 million in the first quarter of 2010. The Company expects capital spending in 2011 to be approximately $2.4 billion.

**Contractual Obligations**

Information related to the Company s contractual obligations, commercial commitments and expected cash requirements for interest at December 31, 2010 can be found in Notes N, P, Q, R and Y to the Consolidated Financial Statements in the Company s Annual Report on Form 10-K for the year ended December 31, 2010. With the exception of the items noted below, there have been no material changes in the Company s contractual obligations since December 31, 2010.

The following table represents long-term debt obligations and expected cash requirements for interest at March 31, 2011, reflecting the early redemption of debt in the first quarter of 2011 (see Note L to the Consolidated Financial Statements).

**Contractual Obligations at March 31, 2011**

| | *Payments Due by Year* | | | | | | |
|---|---|---|---|---|---|---|---|
| In millions | *2011* | *2012* | *2013* | *2014* | *2015* | *2016 and beyond* | *Total* |
| Long-term debt current and noncurrent (1,2) | $ 1,570 | $ 2,900 | $ 838 | $ 2,513 | $ 1,547 | $ 11,741 | $ 21,109 |
| Expected cash requirements for interest | $ 1,063 | $ 1,204 | $ 1,050 | $ 926 | $ 804 | $ 7,226 | $ 12,273 |

(1) Excludes unamortized debt discount of $424 million.

(2) 2011 includes $570 million of InterNotes planned for redemption in the second quarter of 2011.

**Contractual Obligations at December 31, 2010**

| | *Payments Due by Year* | | | | | | |
|---|---|---|---|---|---|---|---|
| In millions | *2011* | *2012* | *2013* | *2014* | *2015* | *2016 and beyond* | *Total* |
| Long-term debt current and noncurrent (1) | $ 1,755 | $ 2,886 | $ 943 | $ 2,548 | $ 1,574 | $ 13,112 | $ 22,818 |
| Expected cash requirements for interest | $ 1,382 | $ 1,332 | $ 1,187 | $ 1,061 | $ 926 | $ 7,659 | $ 13,547 |

(1) Excludes unamortized debt discount of $458 million.

Table of Contents

**Off-Balance Sheet Arrangements**

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

Guarantees arise during the ordinary course of business from relationships with customers and nonconsolidated affiliates when the Company undertakes an obligation to guarantee the performance of others if specific triggering events occur. The Company had outstanding guarantees at March 31, 2011 of $890 million, up from $836 million at December 31, 2010. Additional information related to these guarantees can be found in the Guarantees section of Note J to the Consolidated Financial Statements.

**Fair Value Measurements**

The Company s assets and liabilities measured at fair value are classified in the fair value hierarchy (Level 1, 2 or 3) based on the inputs used for valuation. Assets and liabilities that are traded on an exchange with a quoted price are classified as Level 1. Assets and liabilities that are valued based on a bid or bid evaluation are classified as Level 2. The custodian of the Company s debt and equity securities uses multiple industry-recognized vendors for pricing information and established processes for validation and verification to assist the Company in its process for determining and validating fair values for these assets. For pension or other post retirement benefit plan assets classified as Level 3, the total fair value is based on significant unobservable inputs including assumptions where there is little, if any, market activity for the investment. The sensitivity of fair value estimates is immaterial relative to the assets and liabilities measured at fair value, as well as to the total equity of the Company. See Note I to the Consolidated Financial Statements for the Company s disclosures about fair value measurements.

Portfolio managers and external investment managers regularly review all of the Company s holdings to determine if any investments are other-than-temporarily impaired. The analysis includes reviewing the amount of the temporary impairment, as well as the length of time it has been impaired. In addition, specific guidelines for each instrument type are followed to determine if an other-than-temporary impairment has occurred. For debt securities, the credit rating of the issuer, current credit rating trends and the trends of the issuer s overall sector are considered in determining whether unrealized losses represent an other-than-temporary impairment. For equity securities, the Company s investments are primarily in Standard & Poor s ( S&P ) 500 companies; however, the Company also allows investments in companies outside of the S&P 500. The Company considers the evidence to support the recovery of the cost basis of a security including volatility of the stock, the length of time the security has been in a loss position, value and growth expectations, and overall market and sector fundamentals, as well as technical analysis, in determining impairment. In the first quarter of 2011, other-than-temporary impairment write-downs on investments still held by the Company were $2 million (zero in the first quarter of 2010).

**Dividends**

On February 9, 2011, the Board of Directors declared a quarterly dividend of $0.15 per common share, payable April 29, 2011, to stockholders of record on March 31, 2011. On April 14, 2011, the Board of Directors declared a quarterly dividend for the second quarter of 2011 of $0.25 per common share, payable July 29, 2011, to stockholders of record on June 30, 2011. The 67 percent increase in the second quarter of 2011 dividend demonstrates the Board s commitment to increasingly reward shareholders as the Company continues to grow earnings. Since 1912, the Company has paid a cash dividend every quarter and, in each instance prior to and since February 12, 2009, had maintained or increased the amount of the dividend, adjusted for stock splits. The dividend was reduced in February 2009, for the first time in the 97-year period, due to uncertainty in the credit markets, unprecedented lower demand for chemical products and the global recession. Since 1912, Dow has increased the amount of the quarterly dividend 48 times (approximately 12 percent of the time), reduced the dividend once (in February 2009), and maintained the amount of the quarterly dividend approximately 88 percent of the time.

On February 9, 2011, the Board of Directors declared a quarterly dividend of $85 million to Cumulative Convertible Perpetual Preferred Stock, Series A shareholders of record on March 15, 2011, which was paid on April 1, 2011. Ongoing dividends related to Cumulative Convertible Perpetual Preferred Stock, Series A will accrue at the rate of $85 million per quarter, and are payable quarterly subject to Board of Directors approval.

Table of Contents

**OTHER MATTERS**

**Recent Accounting Guidance**

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

**Critical Accounting Policies**

The preparation of financial statements and related disclosures in conformity with accounting principles generally accepted in the United States of America ( GAAP ) requires management to make judgments, assumptions and estimates that affect the amounts reported in the consolidated financial statements and accompanying notes. Note A to the Consolidated Financial Statements in the Company s Annual Report on Form 10-K for the year ended December 31, 2010 ( 2010 10-K ) describes the significant accounting policies and methods used in the preparation of the consolidated financial statements. Dow s critical accounting policies that are impacted by judgments, assumptions and estimates are described in Management s Discussion and Analysis of Financial Condition and Results of Operations in the Company s 2010 10-K. Since December 31, 2010, there have been no material changes in the Company s critical accounting policies.

**Asbestos-Related Matters of Union Carbide Corporation**

*Introduction*

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

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

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

| | *2011* | *2010* |
|---|---|---|
| Claims unresolved at January 1 | 62,582 | 75,030 |
| Claims filed | 2,039 | 2,029 |
| Claims settled, dismissed or otherwise resolved | (3,372) | (2,220) |
| Claims unresolved at March 31 | 61,249 | 74,839 |
| Claimants with claims against both UCC and Amchem | 18,475 | 23,877 |
| Individual claimants at March 31 | 42,774 | 50,962 |

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

Table of Contents

*Estimating the Liability*

Based on a study completed by Analysis, Research & Planning Corporation ( ARPC ) in January 2003, Union Carbide increased its December 31, 2002 asbestos-related liability for pending and future claims for the 15-year period ending in 2017 to $2.2 billion, excluding future defense and processing costs. Since then, Union Carbide has compared current asbestos claim and resolution activity to the results of the most recent ARPC study at each balance sheet date to determine whether the accrual continues to be appropriate. In addition, Union Carbide has requested ARPC to review Union Carbide s historical asbestos claim and resolution activity each November since 2004 to determine the appropriateness of updating the most recent ARPC study.

In November 2009, Union Carbide requested ARPC to review Union Carbide s 2009 asbestos claim and resolution activity and determine the appropriateness of updating its then most recent study completed in December 2008. In response to that request, ARPC reviewed and analyzed data through October 31, 2009. In December 2009, ARPC stated that an update of its study would not provide a more likely estimate of future events than the estimate reflected in its study of the previous year and, therefore, the estimate in that study remained applicable. Based on Union Carbide s own review of the asbestos claim and resolution activity and ARPC s response, Union Carbide determined that no change to the accrual was required. At December 31, 2009, Union Carbide s asbestos-related liability for pending and future claims was $839 million.

In November 2010, Union Carbide requested ARPC to review Union Carbide s historical asbestos claim and resolution activity and determine the appropriateness of updating its December 2008 study. In response to that request, ARPC reviewed and analyzed data through October 31, 2010. The resulting study, completed by ARPC in December 2010, stated that the undiscounted cost of resolving pending and future asbestos-related claims against Union Carbide and Amchem, excluding future defense and processing costs, through 2025 was estimated to be between $744 million and $835 million. As in its earlier studies, ARPC provided estimates for a longer period of time in its December 2010 study, but also reaffirmed its prior advice that forecasts for shorter periods of time are more accurate than those for longer periods of time.

In December 2010, based on ARPC s December 2010 study and Union Carbide s own review of the asbestos claim and resolution activity, Union Carbide decreased its asbestos-related liability for pending and future claims to $744 million, which covered the 15-year period ending 2025, excluding future defense and processing costs. The reduction was $54 million and was shown as Asbestos-related credits in the consolidated statements of income. At December 31, 2010, the asbestos-related liability for pending and future claims was $728 million. At December 31, 2010, approximately 21 percent of the recorded liability related to pending claims and approximately 79 percent related to future claims.

Based on Union Carbide s review of 2011 activity, Union Carbide determined that no adjustment to the accrual was required at March 31, 2011. Union Carbide s asbestos-related liability for pending and future claims was $720 million at March 31, 2011. Approximately 20 percent of the recorded liability related to pending claims and approximately 80 percent related to future claims.

*Defense and Resolution Costs*

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

| **Defense and Resolution Costs** | *Three Months Ended* | | *Aggregate Costs* |
|---|---|---|---|
| In millions | *March 31, 2011* | *March 31, 2010* | *to Date as of March 31, 2011* |
| Defense costs | $13 | $14 | $787 |
| Resolution costs | $9 | $12 | $1,532 |

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

Table of Contents

Union Carbide expenses defense costs as incurred. The pretax impact for defense and resolution costs, net of insurance, was $13 million in the first quarter of 2011 ($14 million in the first quarter of 2010), and was reflected in Cost of sales in the consolidated statements of income.

*Insurance Receivables*

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

In September 2003, Union Carbide filed a comprehensive insurance coverage case, now proceeding in the Supreme Court of the State of New York, County of New York, seeking to confirm its rights to insurance for various asbestos claims and to facilitate an orderly and timely collection of insurance proceeds (the Insurance Litigation ). The Insurance Litigation was filed against insurers that are not signatories to the Wellington Agreement and/or do not otherwise have agreements in place with Union Carbide regarding their asbestos-related insurance coverage, in order to facilitate an orderly resolution and collection of such insurance policies and to resolve issues that the insurance carriers may raise. Since the filing of the case, Union Carbide has reached settlements with several of the carriers involved in the Insurance Litigation, including settlements reached with two significant carriers in the fourth quarter of 2009. The Insurance Litigation is ongoing.

Union Carbide s receivable for insurance recoveries related to its asbestos liability was $50 million at March 31, 2011 and December 31, 2010. At March 31, 2011 and December 31, 2010, all of the receivable for insurance recoveries was related to insurers that are not signatories to the Wellington Agreement and/or do not otherwise have agreements in place regarding their asbestos-related insurance coverage.

In addition to the receivable for insurance recoveries related to its asbestos liability, Union Carbide had receivables for defense and resolution costs submitted to insurance carriers that have settlement agreements in place regarding their asbestos-related insurance coverage.

The following table summarizes Union Carbide s receivables related to its asbestos-related liability:

| **Receivables for Asbestos-Related Costs** | *March 31,* | *Dec. 31,* |
|---|---|---|
| In millions | *2011* | *2010* |
| Receivables for defense costs carriers with settlement agreements | $ 25 | $ 12 |
| Receivables for resolution costs carriers with settlement agreements | 204 | 236 |
| Receivables for insurance recoveries carriers without settlement agreements | 50 | 50 |
| Total | $279 | $298 |

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

Table of Contents

*Summary*

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

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

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

Table of Contents

**The Dow Chemical Company and Subsidiaries**

# PART I FINANCIAL INFORMATION

## ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK.

Dow s business operations give rise to market risk exposure due to changes in foreign exchange rates, interest rates, commodity prices and other market factors such as equity prices. To manage such risks effectively, the Company enters into hedging transactions, pursuant to established guidelines and policies, which enable it to mitigate the adverse effects of financial market risk. Derivatives used for this purpose are designated as hedges per the accounting guidance related to derivatives and hedging activities, where appropriate. A secondary objective is to add value by creating additional non-specific exposure within established limits and policies; derivatives used for this purpose are not designated as hedges. The potential impact of creating such additional exposures is not material to the Company s results.

The global nature of Dow s business requires active participation in the foreign exchange markets. As a result of investments, production facilities and other operations on a global basis, the Company has assets, liabilities and cash flows in currencies other than the U.S. dollar. The primary objective of the Company s foreign exchange risk management is to optimize the U.S. dollar value of net assets and cash flows, keeping the adverse impact of currency movements to a minimum. To achieve this objective, the Company hedges on a net exposure basis using foreign currency forward contracts, over-the-counter option contracts, cross-currency swaps, and nonderivative instruments in foreign currencies. Exposures primarily relate to assets, liabilities and bonds denominated in foreign currencies, as well as economic exposure, which is derived from the risk that currency fluctuations could affect the dollar value of future cash flows related to operating activities. The largest exposures are denominated in European currencies, the Japanese yen and the Canadian dollar, although exposures also exist in other currencies of Asia Pacific, Latin America, and India, Middle East and Africa.

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

Dow has a portfolio of equity securities derived primarily from the investment activities of its insurance subsidiaries. This exposure is managed in a manner consistent with the Company s market risk policies and procedures.

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

Dow uses value at risk ( VAR ), stress testing and scenario analysis for risk measurement and control purposes. VAR estimates the maximum potential loss in fair market values, given a certain move in prices over a certain period of time, using specified confidence levels. The VAR methodology used by the Company is a historical simulation model which captures co-movements in market rates across different instruments and market risk exposure categories. The historical simulation model uses a 97.5 percent confidence level and the historical scenario period includes at least six months of historical data. The March 31, 2011, 2010 year-end and 2010 average daily VAR for the aggregate of all positions are shown below. These amounts are immaterial relative to the total equity of the Company:

| **Total Daily VAR** | | *2010* | |
|---|---|---|---|
| In millions | *At March 31, 2011* | *Year-end* | *Average* |
| Foreign exchange | $2 | $1 | $3 |
| Interest rate | $163 | $251 | $211 |
| Equities | $11 | $15 | $12 |
| Commodities | $3 | $1 | $2 |
| Composite | $173 | $252 | $218 |

The Company s daily VAR for the aggregate of all positions decreased from a composite VAR of $252 million at December 31, 2010 to a composite VAR of $173 million at March 31, 2011. The decrease related primarily to a decrease in the interest rate VAR from $251 million to $163 million, principally due to a decrease in the amount of debt outstanding.

See Note H to the Consolidated Financial Statements for further disclosure regarding market risk.

Table of Contents

**The Dow Chemical Company and Subsidiaries**

## PART I FINANCIAL INFORMATION

### ITEM 4. CONTROLS AND PROCEDURES.

**Evaluation of Disclosure Controls and Procedures**

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

**Changes in Internal Control Over Financial Reporting**

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

Table of Contents

**The Dow Chemical Company and Subsidiaries**

## PART II OTHER INFORMATION

### ITEM 1. LEGAL PROCEEDINGS.

**Asbestos-Related Matters of Union Carbide Corporation**

No material developments regarding this matter occurred during the first quarter of 2011. For a summary of the history and current status of this matter, see Note J to the Consolidated Financial Statements; and Management s Discussion and Analysis of Financial Condition and Results of Operations, Asbestos-Related Matters of Union Carbide Corporation.

### ITEM 1A. RISK FACTORS.

There were no material changes in the Company s risk factors in the first quarter of 2011.

Table of Contents

**The Dow Chemical Company and Subsidiaries**

# PART II OTHER INFORMATION

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

The following table provides information regarding purchases of the Company s common stock by the Company during the three months ended March 31, 2011:

**Issuer Purchases of Equity Securities**

| *Period* | *Total number of shares purchased* (1) | *Average price paid per share* | *Total number of shares purchased as part of the Company s publicly announced share repurchase program* | *Approximate dollar value of shares that may yet be purchased under the Company s publicly announced share repurchase program* |
|---|---|---|---|---|
| January 2011 | 439 | $ 35.41 | - | - |
| February 2011 | 500,670 | $ 37.93 | - | - |
| March 2011 | 1,002 | $ 37.16 | - | - |
| First quarter 2011 | 502,111 | $ 37.93 | - | - |

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

## ITEM 6. EXHIBITS.

See the Exhibit Index on page 68 of this Quarterly Report on Form 10-Q for exhibits filed with this report.

Table of Contents

**The Dow Chemical Company and Subsidiaries**

## Trademark Listing

The following trademarks or service marks of The Dow Chemical Company and certain affiliated companies of Dow appear in this report: POWERHOUSE

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

Table of Contents

**The Dow Chemical Company and Subsidiaries**

## Signature

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

THE DOW CHEMICAL COMPANY
Registrant

Date: May 4, 2011

/s/ RONALD C. EDMONDS
Ronald C. Edmonds
Vice President and Controller

Table of Contents

**The Dow Chemical Company and Subsidiaries**

## Exhibit Index

| EXHIBIT NO. | DESCRIPTION |
|---|---|
| 12.1 | Computation of Ratio of Earnings to Fixed charges. |
| 23 | Analysis, Research & Planning Corporation s Consent. |
| 31(a) | Certification Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002. |
| 31(b) | Certification Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002. |
| 32(a) | Certification Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002. |
| 32(b) | Certification Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002. |
| 101.INS | XBRL Instance Document (1) |
| 101.SCH | XBRL Taxonomy Extension Schema Document (1) |
| 101.CAL | XBRL Taxonomy Extension Calculation Linkbase Document (1) |
| 101.DEF | XBRL Taxonomy Extension Definition Linkbase Document (1) |
| 101.LAB | XBRL Taxonomy Extension Label Linkbase Document (1) |
| 101.PRE | XBRL Taxonomy Extension Presentation Linkbase Document (1) |

(1) Pursuant to Rule 406T of Regulation S-T, this interactive data file is deemed not filed or part of a registration statement or prospectus for purposes of sections 11 or 12 of the Securities Act of 1933, is deemed not filed for purposes of section 18 of the Securities Exchange Act of 1934, and otherwise is not subject to liability under these sections.