DOW CHEMICAL CO /DE/
Form 10-Q
April 30, 2013
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 10-Q

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

For the quarterly period ended MARCH 31, 2013

or

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

For the transition period from __________to__________

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

Delaware	38-1285128
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

2030 DOW CENTER, MIDLAND, MICHIGAN 48674
(Address of principal executive offices) (Zip Code)
Registrant's telephone number, including area code: 989-636-1000

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.
þ Yes ¨ No
Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).
þ Yes ¨ No
Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, 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, 2013
Common Stock, par value $2.50 per share	1,209,588,981 shares

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For the quarterly period ended March 31, 2013
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The Dow Chemical Company and Subsidiaries

FORWARD-LOOKING STATEMENTS

Certain statements in this report, other than purely historical information, including estimates, projections, statements relating to business plans, objectives, and expected operating results, and the assumptions upon which those statements are based, are “forward-looking statements” within the meaning of the Private Securities Litigation Reform Act of 1995, Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934. Forward-looking statements may appear throughout this report including, without limitation, “Management's Discussion and Analysis,” and “Risk Factors.” These forward-looking statements are generally identified by the words “believe,” “project,” “expect,” “anticipate,” “estimate,” “intend,” “strategy,” “future,” “opportunity,” “plan,” “may,” “should,” be,” “will continue,” “will likely result,” and similar expressions. Forward-looking statements are based on current expectations and assumptions that are subject to risks and uncertainties which may cause actual results to differ materially from the forward-looking statements. A detailed discussion of principal risks and uncertainties which may cause actual results and events to differ materially from such forward-looking statements is included in the section titled “Risk Factors” (see Part II, Item 1A of this Form 10-Q and Part I, Item 1A of the Company's Annual Report on Form 10-K for the year ended December 31, 2012). The Dow Chemical Company undertakes no obligation to update or revise publicly any forward-looking statements whether because of new information, future events, or otherwise, except as required by securities and other applicable laws.

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PART I - FINANCIAL INFORMATION
Item 1. Financial Statements

The Dow Chemical Company and Subsidiaries
Consolidated Statements of Income

In millions, except per share amounts (Unaudited)	Three Months Ended Mar 31, 2013	Three Months Ended Mar 31, 2012
Net Sales	$14,383	$14,719
Cost of sales	11,707	12,285
Research and development expenses	435	405
Selling, general and administrative expenses	772	707
Amortization of intangibles	115	122
Restructuring charges	—	357
Equity in earnings of nonconsolidated affiliates	230	169
Sundry income (expense) - net	(32)	17
Interest income	8	6
Interest expense and amortization of debt discount	296	329
Income Before Income Taxes	1,264	706
Provision for income taxes	604	186
Net Income	660	520
Net income attributable to noncontrolling interests	25	23
Net Income Attributable to The Dow Chemical Company	635	497
Preferred stock dividends	85	85
Net Income Available for The Dow Chemical Company Common Stockholders	$550	$412
Per Common Share Data:		
Earnings per common share - basic	$0.46	$0.35
Earnings per common share - diluted	$0.46	$0.35
Common stock dividends declared per share of common stock	$0.32	$0.25
Weighted-average common shares outstanding - basic	1,181.1	1,160.9
Weighted-average common shares outstanding - diluted	1,187.6	1,168.7
Depreciation	$505	$510
Capital Expenditures	$346	$402

See Notes to the Consolidated Financial Statements.

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The Dow Chemical Company and Subsidiaries
Consolidated Statements of Comprehensive Income

In millions (Unaudited)	Three Months Ended Mar 31, 2013	Three Months Ended Mar 31, 2012
Net Income	$660	$520
Other Comprehensive Income (Loss), Net of Tax		
Net change in unrealized gains on investments	5	57
Translation adjustments	(352)	282
Adjustments to pension and other postretirement benefit plans	141	85
Net gains (losses) on cash flow hedging derivative instruments	28	(14)
Other comprehensive income (loss)	(178)	410
Comprehensive Income	482	930
Comprehensive income attributable to noncontrolling interests, net of tax	25	23
Comprehensive Income Attributable to The Dow Chemical Company	$457	$907

See Notes to the Consolidated Financial Statements.

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The Dow Chemical Company and Subsidiaries
Consolidated Balance Sheets

In millions (Unaudited)	Mar 31, 2013	Dec 31, 2012
Assets		
Current Assets		
Cash and cash equivalents (variable interest entities restricted - 2013: $161; 2012: $146)	$3,514	$4,318
Accounts and notes receivable:		
Trade (net of allowance for doubtful receivables - 2013: $122; 2012: $121)	5,478	5,074
Other	4,927	4,605
Inventories	9,335	8,476
Deferred income tax assets - current	645	877
Other current assets	349	334
Total current assets	24,248	23,684
Investments		
Investment in nonconsolidated affiliates	3,810	4,121
Other investments (investments carried at fair value - 2013: $2,000; 2012: $2,061)	2,503	2,565
Noncurrent receivables	345	313
Total investments	6,658	6,999
Property		
Property	54,144	54,366
Less accumulated depreciation	36,876	36,846
Net property (variable interest entities restricted - 2013: $2,615; 2012: $2,554)	17,268	17,520
Other Assets		
Goodwill	12,695	12,739
Other intangible assets (net of accumulated amortization - 2013: $2,886; 2012: $2,785)	4,577	4,711
Deferred income tax assets - noncurrent	3,218	3,333
Asbestos-related insurance receivables - noncurrent	153	155
Deferred charges and other assets	487	464
Total other assets	21,130	21,402
Total Assets	$69,304	$69,605
Liabilities and Equity		
Current Liabilities		
Notes payable	$472	$396
Long-term debt due within one year	861	672
Accounts payable:		
Trade	4,938	5,010
Other	2,223	2,327
Income taxes payable	487	251
Deferred income tax liabilities - current	95	95
Dividends payable	465	86
Accrued and other current liabilities	2,899	2,656
Total current liabilities	12,440	11,493
Long-Term Debt (variable interest entities nonrecourse - 2013: $1,485; 2012: $1,406)	18,753	19,919
Other Noncurrent Liabilities		
Deferred income tax liabilities - noncurrent	775	837
Pension and other postretirement benefits - noncurrent	11,317	11,459
Asbestos-related liabilities - noncurrent	516	530
Other noncurrent obligations	3,360	3,353

Total other noncurrent liabilities	15,968	16,179
Redeemable Noncontrolling Interest	147	147
Stockholders’ Equity		
Preferred stock, series A	4,000	4,000
Common stock	3,024	3,008
Additional paid-in capital	3,387	3,281
Retained earnings	18,662	18,495
Accumulated other comprehensive loss	(7,694)	(7,516)
Unearned ESOP shares	(381)	(391)
The Dow Chemical Company’s stockholders’ equity	20,998	20,877
Noncontrolling interests	998	990
Total equity	21,996	21,867
Total Liabilities and Equity	$69,304	$69,605

See Notes to the Consolidated Financial Statements.

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The Dow Chemical Company and Subsidiaries
Consolidated Statements of Cash Flows

In millions (Unaudited)	Three Months Ended Mar 31, 2013	Three Months Ended Mar 31, 2012
Operating Activities		
Net Income	$660	$520
Adjustments to reconcile net income to net cash (used in) provided by operating activities:		
Depreciation and amortization	668	679
Provision (credit) for deferred income tax	498	(158)
Earnings of nonconsolidated affiliates less than dividends received	293	316
Pension contributions	(224)	(380)
Net gain on sales of investments	(24)	(7)
Net (gain) loss on sales of property, businesses and consolidated companies	5	(54)
Other net (gain) loss	(13)	25
Restructuring charges	—	357
Loss on early extinguishment of debt	60	24
Excess tax benefits from share-based payment arrangements	(7)	(57)
Changes in assets and liabilities, net of effects of acquired and divested companies:		
Accounts and notes receivable	(892)	(2,416)
Proceeds from interests in trade accounts receivable conduits	46	1,662
Inventories	(869)	(1,300)
Accounts payable	(178)	185
Other assets and liabilities	424	553
Cash (used in) provided by operating activities	447	(51)
Investing Activities		
Capital expenditures	(346)	(402)
Proceeds from sales of property, businesses and consolidated companies	37	61
Investments in consolidated companies, net of cash acquired	(11)	—
Investments in and loans to nonconsolidated affiliates	(11)	(101)
Distributions from nonconsolidated affiliates	1	—
Purchases of investments	(133)	(160)
Proceeds from sales and maturities of investments	228	140
Cash used in investing activities	(235)	(462)
Financing Activities		
Changes in short-term notes payable	45	(58)
Proceeds from issuance of long-term debt	123	224
Payments on long-term debt	(1,165)	(1,313)
Proceeds from issuance of common stock	80	122
Issuance costs on debt and equity securities	(1)	—
Excess tax benefits from share-based payment arrangements	7	57
Contribution from noncontrolling interests	9	—
Distributions to noncontrolling interests	(15)	(46)
Dividends paid to stockholders	(85)	(374)
Cash used in financing activities	(1,002)	(1,388)
Effect of Exchange Rate Changes on Cash	(14)	65
Summary		
Decrease in cash and cash equivalents	(804)	(1,836)

Cash and cash equivalents at beginning of year	4,318	5,444
Cash and cash equivalents at end of period	$3,514	$3,608

See Notes to the Consolidated Financial Statements.

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The Dow Chemical Company and Subsidiaries
Consolidated Statements of Equity

In millions (Unaudited)	Three Months Ended Mar 31, 2013	Mar 31, 2012
Preferred Stock		
Balance at beginning of year and end of period	$4,000	$4,000
Common Stock		
Balance at beginning of year	3,008	2,961
Common stock issued	16	27
Balance at end of period	3,024	2,988
Additional Paid-in Capital		
Balance at beginning of year	3,281	2,663
Common stock issued	64	95
Stock-based compensation and allocation of ESOP shares	42	88
Balance at end of period	3,387	2,846
Retained Earnings		
Balance at beginning of year	18,495	19,087
Net income available for The Dow Chemical Company common stockholders	550	412
Dividends declared on common stock (per share: $0.32 in 2013, $0.25 in 2012)	(379)	(292)
Other	(4)	(4)
Balance at end of period	18,662	19,203
Accumulated Other Comprehensive Loss		
Balance at beginning of year	(7,516)	(5,996)
Other comprehensive income (loss)	(178)	410
Balance at end of period	(7,694)	(5,586)
Unearned ESOP Shares		
Balance at beginning of year	(391)	(434)
Shares allocated to ESOP participants	10	9
Balance at end of period	(381)	(425)
The Dow Chemical Company’s Stockholders’ Equity	20,998	23,026
Noncontrolling Interests		
Balance at beginning of year	990	1,010
Net income attributable to noncontrolling interests	25	23
Distributions to noncontrolling interests	(15)	(46)
Capital contributions	9	—
Consolidation of a variable interest entity	—	37
Other	(11)	1
Balance at end of period	998	1,025
Total Equity	$21,996	$24,051

See Notes to the Consolidated Financial Statements.

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NOTE 1 – 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 (“U.S. GAAP”) and reflect all adjustments (including normal recurring accruals) which, in the opinion of management, are considered necessary for the fair presentation of the results for the periods presented. These statements should be read in conjunction with the audited consolidated financial statements and notes thereto included in the Company’s Annual Report on Form 10-K for the year ended December 31, 2012.

NOTE 2 – RECENT ACCOUNTING GUIDANCE

Recently Adopted Accounting Guidance

During the first quarter of 2013, the Company adopted Accounting Standards Update ("ASU") ASU 2011-11, "Balance Sheet (Topic 210): Disclosures about Offsetting Assets and Liabilities," which requires entities to disclose both gross and net information about both instruments and transactions eligible for offset in the statement of financial position and instruments and transactions subject to an agreement similar to a master netting agreement and ASU 2013-01, "Balance Sheet (Topic 210): Clarifying the Scope of Disclosures about Offsetting Asset and Liabilities," which clarifies the scope of the offsetting disclosures of ASU 2011-11. The objective of the disclosure is to facilitate comparison between those entities that prepare their financial statements on the basis of U.S. GAAP and those entities that prepare their financial statements on the basis of International Financial Reporting Standards. The adoption of this standard was immaterial to the consolidated financial statements.

During the first quarter of 2013, the Company adopted ASU 2013-02, "Comprehensive Income (Topic 220): Reporting of Amounts Reclassified Out of Accumulated Other Comprehensive Income," which requires entities to provide information about the amounts reclassified out of accumulated other comprehensive income, by component.

In addition, entities are required to present, either on the face of the statement where net income is presented or in the notes, significant amounts reclassified out of accumulated other comprehensive income by the respective line items of net income but only if the amount reclassified is required under U.S. GAAP to be reclassified to net income in its entirety in the same reporting period. For other amounts that are not required under U.S. GAAP to be reclassified in their entirety to net income, entities are required to cross-reference to other disclosures required under U.S. GAAP that provide additional detail on these amounts. See Note 16 for the disclosures related to this adoption.

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Accounting Guidance Issued But Not Adopted as of March 31, 2013

In February 2013, the Financial Accounting Standards Board ("FASB") issued ASU 2013-04, "Liabilities (Topic 405): Obligations Resulting from Joint and Several Liability Arrangements for Which the Total Amount of the Obligation is Fixed at the Reporting Date," which defines how entities measure obligations from joint and several liability arrangements for which the total amount of the obligation is fixed at the reporting date and for which no guidance exists, except for obligations addressed within existing guidance in U.S. GAAP. The guidance also requires entities to disclose the nature and amount of the obligation as well as other information about those obligations. This ASU is effective for fiscal years, and interim periods within those years, beginning after December 15, 2013. Retrospective presentation for all comparative periods presented is required and early adoption is permitted. The Company is currently evaluating the impact of adopting this guidance.

In March 2013, the FASB issued ASU 2013-05, "Foreign Currency Matters (Topic 830): Parent's Accounting for the Cumulative Translation Adjustment upon Derecognition of Certain Subsidiaries or Groups of Assets within a Foreign Entity or of an Investment in a Foreign Entity," which defines the treatment of the release of cumulative translation adjustments upon derecognition of certain subsidiaries or groups of assets within a foreign entity or of an investment in a foreign entity. This ASU is effective for fiscal years, and interim periods within those years, beginning after December 15, 2013. Early adoption is permitted and prior periods should not be adjusted. The Company does not expect the adoption of this guidance to have a material impact on the consolidated financial statements.

NOTE 3 – RESTRUCTURING

4Q12 Restructuring

On October 23, 2012, the Company's Board of Directors approved a restructuring plan ("4Q12 Restructuring") to advance the next stage of the Company's transformation and to address macroeconomic uncertainties. The 4Q12 Restructuring plan accelerates the Company's structural cost reduction program and will affect approximately 2,850 positions and result in the shutdown of approximately 20 manufacturing facilities. These actions are expected to be completed primarily by December 31, 2014. As a result of the 4Q12 Restructuring activities, the Company recorded pretax restructuring charges of $990 million in the fourth quarter of 2012 consisting of costs associated with exit or disposal activities of $39 million, severance costs of $375 million and asset write-downs and write-offs of $576 million.

The severance component of the 4Q12 Restructuring charge of $375 million was for the separation of approximately 2,850 employees under the terms of the Company's ongoing benefit arrangements, primarily over two years. At December 31, 2012, severance of $8 million had been paid and a liability of $367 million remained for 2,767 employees. In the first quarter of 2013, severance of $69 million was paid, leaving a liability of $298 million for approximately 2,000 employees at March 31, 2013.

The following table summarizes the activities related to the Company's 4Q12 Restructuring reserve:

4Q12 Restructuring Activities In millions	Costs Associated with Exit or Disposal Activities	Severance Costs	Total
Reserve balance at December 31, 2012	$30	$367	$397
Cash payments	(1)	(69)	(70)
Reserve balance at March 31, 2013	$29	$298	$327

The reserve balance is included in the consolidated balance sheets as "Accrued and other current liabilities" and "Other noncurrent obligations."

1Q12 Restructuring

On March 27, 2012, the Company's Board of Directors approved a restructuring plan ("1Q12 Restructuring") to optimize its portfolio, respond to changing and volatile economic conditions, particularly in Western Europe, and to advance the Company's Efficiency for Growth program. The 1Q12 Restructuring plan included the shutdown of a number of manufacturing facilities and the elimination of approximately 900 positions. These actions are expected to be completed primarily by December 31, 2013. As a result of the 1Q12 Restructuring activities, the Company recorded pretax restructuring charges of $357 million in the first quarter of 2012 consisting of costs associated with exit or disposal activities of $150 million, severance costs of $113 million and asset write-downs and write-offs of $94 million. The impact of these charges was shown as "Restructuring charges" in the consolidated statements of income.

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The severance component of the 1Q12 Restructuring charge of $113 million was for the separation of approximately 900 employees under the terms of the Company's ongoing benefit arrangements, primarily by December 31, 2013. At December 31, 2012, severance of $82 million had been paid and a liability of $31 million remained for 248 employees. In the first quarter of 2013, severance of $20 million was paid, leaving a liability of $11 million for 143 employees at March 31, 2013.

The following table summarizes the activities related to the Company's 1Q12 Restructuring reserve:

1Q12 Restructuring Activities In millions	Costs Associated with Exit or Disposal Activities	Severance Costs	Total
Reserve balance at December 31, 2012	$56	$31	$87
Cash payments	(4)	(20)	(24)
Noncash settlements	(7)	—	(7)
Foreign currency impact	(1)	—	(1)
Reserve balance at March 31, 2013	$44	$11	$55

The reserve balance is included in the consolidated balance sheets as "Accrued and other current liabilities" and "Other noncurrent obligations."

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

NOTE 4 – INVENTORIES

The following table provides a breakdown of inventories:

Inventories In millions	Mar 31, 2013	Dec 31, 2012
Finished goods	$5,384	$4,880
Work in process	2,209	1,910
Raw materials	914	866
Supplies	828	820
Total inventories	$9,335	$8,476

The reserves reducing inventories from the first-in, first-out (“FIFO”) basis to the last-in, first-out (“LIFO”) basis amounted to $887 million at March 31, 2013 and $842 million at December 31, 2012.

NOTE 5 – GOODWILL AND OTHER INTANGIBLE ASSETS

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

Goodwill In millions	Electronic and	Coatings and Infra-	Ag Sciences	Perf Materials	Perf Plastics	Feedstocks and Energy	Total

	Functional Materials	structure Solutions					
Net goodwill at Dec 31, 2012	$4,945	$4,052	$1,558	$740	$1,381	$63	$12,739
Sale of a Plastics Additives product line	—	—	—	(3)	—	—	(3)
Foreign currency impact	(13)	(17)	—	(1)	(10)	—	(41)
Net goodwill at Mar 31, 2013	$4,932	$4,035	$1,558	$736	$1,371	$63	$12,695

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

Other Intangible Assets	At March 31, 2013			At December 31, 2012		
In millions	Gross Carrying Amount	Accumulated Amortization	Net	Gross Carrying Amount	Accumulated Amortization	Net
Intangible assets with finite lives:						
Licenses and intellectual property	$1,762	$(787)	$975	$1,729	$(747)	$982
Patents	119	(100)	19	120	(100)	20
Software	1,084	(563)	521	1,047	(548)	499
Trademarks	685	(298)	387	691	(285)	406
Customer related	3,593	(1,003)	2,590	3,688	(974)	2,714
Other	158	(135)	23	158	(131)	27
Total other intangible assets, finite lives	$7,401	$(2,886)	$4,515	$7,433	$(2,785)	$4,648
IPR&D (1), indefinite lives	62	—	62	63	—	63
Total other intangible assets	$7,463	$(2,886)	$4,577	$7,496	$(2,785)	$4,711

(1) In-process research and development ("IPR&D") purchased in a business combination.

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

Amortization Expense	Three Months Ended	
In millions	Mar 31, 2013	Mar 31, 2012
Other intangible assets, excluding software	$115	$122
Software, included in "Cost of sales"	$16	$15

Total estimated amortization expense for 2013 and the five succeeding fiscal years is as follows:

Estimated Amortization Expense	
In millions	
2013	$526
2014	$504
2015	$486
2016	$475
2017	$441
2018	$424

NOTE 6 – FINANCIAL INSTRUMENTS

Investments

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

Investing Results	Three Months Ended	
In millions	Mar 31, 2013	Mar 31, 2012
Proceeds from sales of available-for-sale securities	$214	$134
Gross realized gains	$36	$5
Gross realized losses	$(9)	$(4)

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

Contractual Maturities of Debt Securities at March 31, 2013		
In millions	Amortized Cost	Fair Value
Within one year	$23	$24
One to five years	413	456
Six to ten years	549	597
After ten years	177	211
Total	$1,162	$1,288

At March 31, 2013, the Company had $1,250 million ($1,701 million at December 31, 2012) of held-to-maturity securities (primarily Treasury Bills) classified as cash equivalents, as these securities had original maturities of three months or less at the time of purchase. The Company's investments in held-to-maturity securities are held at amortized cost, which approximates fair value. At March 31, 2013, the Company had investments in money market funds of $169 million classified as cash equivalents ($252 million at December 31, 2012).

The net unrealized loss from mark-to-market adjustments recognized in earnings during the three-month period ended March 31, 2013 on trading securities held at March 31, 2013 was $2 million ($3 million during the three-month period ended March 31, 2012).

The following table provides the fair value and gross unrealized losses of the Company's investments that were deemed to be temporarily impaired at March 31, 2013 and December 31, 2012, aggregated by investment category:

Temporarily Impaired Securities Less than 12 Months (1)

	At March 31, 2013		At December 31, 2012	
In millions	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Corporate bonds	$44	$(1)	$22	$(1)
Equity securities	157	(3)	30	(2)
Total temporarily impaired securities	$201	$(4)	$52	$(3)

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

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

For debt securities, the credit rating of the issuer, current credit rating trends, the trends of the issuer's overall sector, the ability of the issuer to pay expected cash flows and the length of time the security has been in a loss position are considered in determining whether unrealized losses represent an other-than-temporary impairment. The Company did not have any credit-related losses during the three-month periods ended March 31, 2013 or March 31, 2012.

For equity securities, the Company's investments are primarily in Standard & Poor's ("S&P") 500 companies; however, the Company's policies allow investments in companies outside of the S&P 500. The largest holdings are Exchange Traded Funds that represent the S&P 500 index or an S&P 500 sector or subset; the Company also has holdings in Exchange Traded Funds that represent emerging markets. The Company considers the evidence to support the recovery of the cost basis of a security including volatility of the stock, the length of time the security has been in a loss position, value and growth expectations, and overall market and sector fundamentals, as well as technical analysis, in determining whether unrealized losses represent an other-than-temporary impairment. In the three-month period ended March 31, 2013, other-than-temporary impairment write-downs on investments still held by the Company were $1 million ($4 million in the three-month period ended March 31, 2012).

The aggregate cost of the Company’s cost method investments totaled $174 million at March 31, 2013 ($176 million at December 31, 2012). Due to the nature of these investments, the fair market value is not readily determinable. These investments are reviewed quarterly for impairment indicators. The Company's impairment analysis resulted in no reduction in the cost basis of these investments for the three-month period ended March 31, 2013 (no reduction in the three-month period ended March 31, 2012).

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The following table summarizes the fair value of financial instruments at March 31, 2013 and December 31, 2012:

Fair Value of Financial Instruments

	At March 31, 2013				At December 31, 2012			
In millions	Cost	Gain	Loss	Fair Value	Cost	Gain	Loss	Fair Value
Marketable securities: (1)								
Debt securities:								
Government debt (2)	$492	$51	$—	$543	$506	$59	$—	$565
Corporate bonds	670	76	(1)	745	676	81	(1)	756
Total debt securities	$1,162	$127	$(1)	$1,288	$1,182	$140	$(1)	$1,321
Equity securities	583	132	(3)	712	634	109	(3)	740
Total marketable securities	$1,745	$259	$(4)	$2,000	$1,816	$249	$(4)	$2,061
Long-term debt incl. debt due within one year (3)	$(19,614)	$29	$(2,972)	$(22,557)	$(20,591)	$24	$(3,195)	$(23,762)
Derivatives relating to:								
Interest rates	$—	$1	$(6)	$(5)	$—	$1	$(6)	$(5)
Commodities (4)	$—	$40	$(7)	$33	$—	$26	$(7)	$19
Foreign currency	$—	$19	$(30)	$(11)	$—	$34	$(20)	$14

(1) Included in “Other investments” in the consolidated balance sheets.
(2) U.S. Treasury obligations, U.S. agency obligations, agency mortgage-backed securities and other municipalities’ obligations.
(3) Cost includes fair value adjustments of $23 million at March 31, 2013 and $23 million at December 31, 2012.
(4) Presented net of cash collateral, as disclosed in Note 7.

Risk Management

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

The Company’s risk management program for interest rate, foreign currency and commodity risks is based on fundamental, mathematical and technical models that take into account the implicit cost of hedging. Risks created by derivative instruments and the mark-to-market valuations of positions are strictly monitored at all times, using value at risk and stress tests. Counterparty credit risk arising from these contracts is not significant because the Company minimizes counterparty concentration, deals primarily with major financial institutions of solid credit quality, and the majority of its hedging transactions mature in less than three months. In addition, the Company minimizes concentrations of credit risk through its global orientation by transacting with large, internationally diversified financial counterparties. It is the Company’s policy to not have credit-risk-related contingent features in its derivative instruments. No significant concentration of counterparty credit risk existed at March 31, 2013. 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 2013.
The Company revises its strategies as market conditions dictate and management reviews its overall financial strategies and the impacts from using derivatives in its risk management program with the Company’s Board of Directors.

Interest Rate Risk Management

The Company enters into various interest rate contracts with the objective of lowering funding costs or altering interest rate exposures related to fixed and variable rate obligations. In these contracts, the Company agrees with other parties to exchange, at specified intervals, the difference between fixed and floating interest amounts calculated on an agreed-upon notional principal amount. At March 31, 2013, the Company had open interest rate swaps with maturity dates that extend to 2021.

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, 2013, 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 2013.

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, 2013, the Company had futures contracts, options and swaps to buy, sell or exchange commodities. These agreements had various expiration dates through the fourth quarter of 2015.

Accounting for Derivative Instruments and Hedging Activities

Cash Flow Hedges

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

The Company had open interest rate derivatives designated as cash flow hedges at March 31, 2013 with a net loss of $3 million after tax and a notional U.S. dollar equivalent of $441 million (net loss of $3 million after tax and a notional U.S. dollar equivalent of $433 million December 31, 2012).

Current open foreign currency forward contracts hedge the currency risk of forecasted feedstock purchase transactions until October 2013. The effective portion of the mark-to-market effects of the foreign currency forward contracts is recorded in AOCI; it is reclassified to income in the same period or periods that the underlying feedstock purchase affects income. The net gain from the foreign currency hedges included in AOCI at March 31, 2013 was $2 million after tax (net loss of $14 million after tax at December 31, 2012). At March 31, 2013, 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 $441 million ($366 million at December 31, 2012).

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 2014. The effective portion of the mark-to-market effect of the cash flow hedge instrument is recorded in AOCI; it is reclassified to income in the same period or periods that the underlying commodity purchase affects income. The net gain from commodity hedges included in AOCI at March 31, 2013 was $33 million after tax (net gain of $24 million after tax at December 31, 2012). At March 31, 2013 and December 31, 2012, the Company had the following gross aggregate notionals of outstanding commodity forward and futures contracts to hedge forecasted purchases:

Commodity	Mar 31, 2013	Dec 31, 2012	Notional Volume Unit
Corn	5.8	1.9	million bushels
Crude Oil	0.4	0.4	million barrels
Ethane	1.9	1.8	million barrels
Naphtha	41.0	90.0	kilotons
Natural Gas	162.2	186.0	million million British thermal units
Soybeans	2.1	1.3	million bushels

The net after-tax amounts to be reclassified from AOCI to income within the next 12 months are a $30 million gain for commodity contracts and a $2 million gain for foreign currency contracts.

Fair Value Hedges

For derivative instruments that are designated and qualify as fair value hedges, the gain or loss on the derivative as well as the offsetting loss or gain on the hedged item attributable to the hedged risk are recognized in current period income and reflected

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as “Interest expense and amortization of debt discount” in the consolidated statements of income. The short-cut method is used when the criteria are met. The Company had no open interest rate swaps designated as fair value hedges of underlying fixed rate debt obligations at March 31, 2013 or December 31, 2012.

Net Foreign Investment Hedges

For derivative instruments that are designated and qualify as net foreign investment hedges, the effective portion of the gain or loss on the derivative is included in “Cumulative Translation Adjustments” in AOCI. At March 31, 2013 and December 31, 2012, the Company had no open forward contracts or outstanding options to buy, sell or exchange foreign currencies designated as net foreign investment hedges. At March 31, 2013, the Company had outstanding foreign-currency denominated debt designated as a hedge of net foreign investment of $212 million ($233 million at December 31, 2012). The result of hedges of the Company’s net investment in foreign operations included in “Cumulative Translation Adjustments” in AOCI was a net gain of $13 million after tax at March 31, 2013 (net gain of $22 million after tax at December 31, 2012). See Note 16 for further detail on changes in AOCI.

Other Derivative Instruments

The Company utilizes futures, options and swap instruments that are effective as economic hedges of commodity price exposures, but do not meet the hedge accounting criteria for derivatives and hedging. At March 31, 2013 and December 31, 2012, the Company had the following gross aggregate notionals of outstanding commodity contracts:

Commodity	Mar 31, 2013	Dec 31, 2012	Notional Volume Unit
Ethane	0.8	1.0	million barrels
Naphtha	20.0	—	kilotons
Natural Gas	24.4	33.0	million million British thermal units

The Company also uses foreign exchange forward contracts, options, and cross-currency swaps that are not designated as hedging instruments primarily to manage foreign currency exposure. The Company had open foreign exchange contracts with various expiration dates to buy, sell or exchange foreign currencies with a gross notional U.S. dollar equivalent of $12,861 million at March 31, 2013 ($17,637 million at December 31, 2012) and open interest rate swaps with a gross notional U.S. dollar equivalent of $639 million at March 31, 2013 ($472 million at December 31, 2012).

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The following table provides the fair value and gross balance sheet classification of derivative instruments at March 31, 2013 and December 31, 2012:

Fair Value of Derivative Instruments In millions	Balance Sheet Classification	Mar 31, 2013	Dec 31, 2012
Asset Derivatives			
Derivatives designated as hedges:			
Interest rates	Other current assets	$ 1	$ 1
Commodities	Other current assets	43	28
Foreign currency	Accounts and notes receivable – Other	8	3
Total derivatives designated as hedges		$ 52	$ 32
Derivatives not designated as hedges:			
Commodities	Other current assets	$ 1	$ 3
Foreign currency	Accounts and notes receivable – Other	37	52
Total derivatives not designated as hedges		$ 38	$ 55
Total asset derivatives		$ 90	$ 87
Liability Derivatives			
Derivatives designated as hedges:			
Interest rates	Accounts payable – Other	$ 5	$ 5
Commodities	Accounts payable – Other	11	21
Foreign currency	Accounts payable – Other	1	14
Total derivatives designated as hedges		$ 17	$ 40
Derivatives not designated as hedges:			
Interest rates	Accounts payable – Other	$ 1	