

DOW CHEMICAL CO /DE/  
Form 10-Q  
October 28, 2014  
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UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549  
FORM 10-Q

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

For the quarterly period ended SEPTEMBER 30, 2014

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.

Yes  No

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

Yes  No

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

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

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

Yes  No

| Class                                    | Outstanding at<br>September 30, 2014 |
|--|--------------------------------------|
| Common Stock, par value \$2.50 per share | 1,178,560,644 shares                 |

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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, the following sections: “Management’s Discussion and Analysis,” and “Risk Factors.” These forward-looking statements are generally identified by the words or phrases “anticipate,” “believe,” “estimate,” “expect,” “future,” “intend,” “may,” “opportunity,” “plan,” “project,” “strategy,” “will,” “would,” “will 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 I, Item 1A of the Company’s Annual Report on Form 10-K for the year ended December 31, 2013). 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 |                 | Nine Months Ended |                 |
|---|--------------------|-----------------|-------------------|-----------------|
|   | Sep 30,<br>2014    | Sep 30,<br>2013 | Sep 30,<br>2014   | Sep 30,<br>2013 |
| Net Sales   | \$14,405           | \$13,734        | \$43,783          | \$42,694        |
| Cost of sales   | 11,776             | 11,716          | 35,853            | 35,526          |
| Research and development expenses                                     | 409                | 418             | 1,219             | 1,270           |
| Selling, general and administrative expenses                          | 753                | 698             | 2,283             | 2,186           |
| Amortization of intangibles   | 108                | 114             | 330               | 344             |
| Equity in earnings of nonconsolidated affiliates                      | 229                | 322             | 707               | 780             |
| Sundry income (expense) - net   | (23                | ) 59            | 31                | 2,080           |
| Interest income   | 10                 | 11              | 32                | 29              |
| Interest expense and amortization of debt discount                    | 233                | 264             | 721               | 839             |
| Income Before Income Taxes  | 1,342              | 916             | 4,147             | 5,418           |
| Provision for income taxes  | 378                | 231             | 1,147             | 1,630           |
| Net Income  | 964                | 685             | 3,000             | 3,788           |
| Net income attributable to noncontrolling interests                   | 27                 | 6               | 47                | 49              |
| Net Income Attributable to The Dow Chemical Company                   | 937                | 679             | 2,953             | 3,739           |
| Preferred stock dividends   | 85                 | 85              | 255               | 255             |
| Net Income Available for The Dow Chemical Company Common Stockholders | \$852              | \$594           | \$2,698           | \$3,484         |
| Per Common Share Data:  |                    |                 |                   |                 |
| Earnings per common share - basic                                     | \$0.72             | \$0.50          | \$2.27            | \$2.92          |
| Earnings per common share - diluted                                   | \$0.71             | \$0.49          | \$2.24            | \$2.88          |
| Common stock dividends declared per share of common stock             | \$0.37             | \$0.32          | \$1.11            | \$0.96          |
| Weighted-average common shares outstanding - basic                    | 1,167.2            | 1,187.4         | 1,178.9           | 1,184.9         |
| Weighted-average common shares outstanding - diluted                  | 1,184.1            | 1,194.2         | 1,195.7           | 1,287.8         |
| Depreciation  | \$550              | \$509           | \$1,592           | \$1,518         |
| Capital Expenditures  | \$930              | \$566           | \$2,466           | \$1,418         |
| See Notes to the Consolidated Financial Statements.                   |                    |                 |                   |                 |

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Consolidated Statements of Comprehensive Income

| In millions (Unaudited)   | Three Months Ended |              | Nine Months Ended |              |
|---|--------------------|--------------|-------------------|--------------|
|   | Sep 30, 2014       | Sep 30, 2013 | Sep 30, 2014      | Sep 30, 2013 |
| Net Income  | \$964              | \$685        | \$3,000           | \$3,788      |
| Other Comprehensive Income (Loss), Net of Tax                             |                    |              |                   |              |
| Net change in unrealized gains on investments                             | (24 )              | 20           | (15 )             | (11 )        |
| Translation adjustments   | (716 )             | 303          | (800 )            | 34           |
| Adjustments to pension and other postretirement benefit plans             | 93                 | 149          | 264               | 432          |
| Net gains (losses) on cash flow hedging derivative instruments            | 5                  | (16 )        | 7                 | (9 )         |
| Other comprehensive income (loss)   | (642 )             | 456          | (544 )            | 446          |
| Comprehensive Income  | 322                | 1,141        | 2,456             | 4,234        |
| Comprehensive income attributable to noncontrolling interests, net of tax | 11                 | 9            | 40                | 18           |
| Comprehensive Income Attributable to The Dow Chemical Company             | \$311              | \$1,132      | \$2,416           | \$4,216      |

See Notes to the Consolidated Financial Statements.

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## The Dow Chemical Company and Subsidiaries

## Consolidated Balance Sheets

| In millions (Unaudited)  | Sep 30,<br>2014 | Dec 31,<br>2013 |
|--|-----------------|-----------------|
| Assets   |                 |                 |
| Current Assets   |                 |                 |
| Cash and cash equivalents (variable interest entities restricted - 2014: \$229; 2013: \$147) | \$5,768         | \$5,940         |
| Accounts and notes receivable:   |                 |                 |
| Trade (net of allowance for doubtful receivables - 2014: \$150; 2013: \$148)                 | 5,032           | 4,935           |
| Other  | 4,764           | 4,712           |
| Inventories  | 9,019           | 8,303           |
| Deferred income tax assets - current   | 824             | 743             |
| Other current assets   | 323             | 344             |
| Total current assets   | 25,730          | 24,977          |
| Investments  |                 |                 |
| Investment in nonconsolidated affiliates   | 4,385           | 4,501           |
| Other investments (investments carried at fair value - 2014: \$2,049; 2013: \$2,056)         | 2,489           | 2,541           |
| Noncurrent receivables   | 396             | 365             |
| Total investments  | 7,270           | 7,407           |
| Property   |                 |                 |
| Property   | 55,072          | 55,114          |
| Less accumulated depreciation  | 37,378          | 37,660          |
| Net property (variable interest entities restricted - 2014: \$2,718; 2013: \$2,646)          | 17,694          | 17,454          |
| Other Assets   |                 |                 |
| Goodwill   | 12,688          | 12,798          |
| Other intangible assets (net of accumulated amortization - 2014: \$3,604; 2013: \$3,270)     | 3,976           | 4,314           |
| Deferred income tax assets - noncurrent  | 1,572           | 1,964           |
| Asbestos-related insurance receivables - noncurrent  | 74              | 86              |
| Deferred charges and other assets  | 569             | 501             |
| Total other assets   | 18,879          | 19,663          |
| Total Assets   | \$69,573        | \$69,501        |
| Liabilities and Equity   |                 |                 |
| Current Liabilities  |                 |                 |
| Notes payable  | \$524           | \$443           |
| Long-term debt due within one year   | 257             | 697             |
| Accounts payable:  |                 |                 |
| Trade  | 4,846           | 4,590           |
| Other  | 2,461           | 2,290           |
| Income taxes payable   | 572             | 435             |
| Deferred income tax liabilities - current  | 104             | 133             |
| Dividends payable  | 513             | 467             |
| Accrued and other current liabilities  | 2,810           | 2,916           |
| Total current liabilities  | 12,087          | 11,971          |
| Long-Term Debt (variable interest entities nonrecourse - 2014: \$1,310; 2013: \$1,360)       | 19,001          | 16,820          |
| Other Noncurrent Liabilities   |                 |                 |
| Deferred income tax liabilities - noncurrent   | 637             | 718             |
| Pension and other postretirement benefits - noncurrent                                       | 7,420           | 8,176           |
| Asbestos-related liabilities - noncurrent  | 382             | 434             |
| Other noncurrent obligations   | 3,144           | 3,302           |

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|   |          |          |
|---|----------|----------|
| Total other noncurrent liabilities                  | 11,583   | 12,630   |
| Redeemable Noncontrolling Interest                  | 191      | 156      |
| Stockholders' Equity                                |          |          |
| Preferred stock, series A                           | 4,000    | 4,000    |
| Common stock  | 3,107    | 3,054    |
| Additional paid-in capital                          | 4,741    | 3,928    |
| Retained earnings                                   | 22,792   | 21,407   |
| Accumulated other comprehensive loss                | (5,371 ) | (4,827 ) |
| Unearned ESOP shares                                | (337 )   | (357 )   |
| Treasury stock at cost                              | (3,201 ) | (307 )   |
| The Dow Chemical Company's stockholders' equity     | 25,731   | 26,898   |
| Noncontrolling interests                            | 980      | 1,026    |
| Total equity  | 26,711   | 27,924   |
| Total Liabilities and Equity                        | \$69,573 | \$69,501 |
| See Notes to the Consolidated Financial Statements. |          |          |

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Consolidated Statements of Cash Flows

| In millions (Unaudited)  | Nine Months Ended |                 |
|--|-------------------|-----------------|
|  | Sep 30,<br>2014   | Sep 30,<br>2013 |
| Operating Activities   |                   |                 |
| Net Income   | \$3,000           | \$3,788         |
| Adjustments to reconcile net income to net cash provided by operating activities:            |                   |                 |
| Depreciation and amortization  | 2,055             | 1,992           |
| Provision (credit) for deferred income tax   | (8                | ) 123           |
| Earnings of nonconsolidated affiliates less than (in excess of) dividends received           | 120               | (42             |
| Pension contributions  | (756              | ) (802          |
| Net gain on sales of investments   | (69               | ) (40           |
| Net gain on sales of property, businesses and consolidated companies                         | (36               | ) (35           |
| Net gain on sale of ownership interests in nonconsolidated affiliates                        | —                 | (30             |
| Loss on early extinguishment of debt   | —                 | 173             |
| Excess tax benefits from share-based payment arrangements                                    | (30               | ) (16           |
| Other net loss   | 46                | 15              |
| Changes in assets and liabilities, net of effects of acquired and divested companies:        |                   |                 |
| Accounts and notes receivable  | (1,108            | ) (780          |
| Proceeds from interests in trade accounts receivable conduits                                | 758               | 688             |
| Inventories  | (688              | ) (426          |
| Accounts payable   | 218               | (197            |
| Other assets and liabilities   | 243               | 1,179           |
| Cash provided by operating activities  | 3,745             | 5,590           |
| Investing Activities   |                   |                 |
| Capital expenditures   | (2,466            | ) (1,418        |
| Proceeds from sale-leaseback of assets   | 417               | 39              |
| Proceeds from sales of property, businesses and consolidated companies, net of cash divested | 97                | 68              |
| Investments in consolidated companies, net of cash acquired                                  | (6                | ) (18           |
| Investments in and loans to nonconsolidated affiliates                                       | (47               | ) (78           |
| Distributions and loan repayments from nonconsolidated affiliates                            | 23                | 18              |
| Proceeds from sale of ownership interests in nonconsolidated affiliates                      | —                 | 66              |
| Purchases of investments   | (461              | ) (367          |
| Proceeds from sales and maturities of investments  | 544               | 450             |
| Cash used in investing activities  | (1,899            | ) (1,240        |
| Financing Activities   |                   |                 |
| Changes in short-term notes payable  | 96                | 39              |
| Proceeds from issuance of long-term debt   | 2,328             | 749             |
| Payments on long-term debt   | (643              | ) (3,314        |
| Purchases of treasury stock  | (3,100            | ) (134          |
| Proceeds from issuance of common stock   | 679               | 247             |
| Proceeds from sales of common stock  | 214               | —               |
| Issuance costs on debt and equity securities   | (19               | ) (5            |
| Excess tax benefits from share-based payment arrangements                                    | 30                | 16              |
| Contributions from noncontrolling interests  | 36                | 35              |
| Distributions to noncontrolling interests  | (31               | ) (30           |
| Purchases of noncontrolling interests  | (40               | ) —             |

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|   |          |          |
|---|----------|----------|
| Dividends paid to stockholders                      | (1,507 ) | (1,014 ) |
| Cash used in financing activities                   | (1,957 ) | (3,411 ) |
| Effect of Exchange Rate Changes on Cash             | (61 )    | 15       |
| Summary   |          |          |
| Increase (decrease) in cash and cash equivalents    | (172 )   | 954      |
| Cash and cash equivalents at beginning of period    | 5,940    | 4,318    |
| Cash and cash equivalents at end of period          | \$5,768  | \$5,272  |
| See Notes to the Consolidated Financial Statements. |          |          |

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Consolidated Statements of Equity

| In millions, except per share amounts (Unaudited)                           | Nine Months Ended |                 |
|---|-------------------|-----------------|
|   | Sep 30,<br>2014   | Sep 30,<br>2013 |
| Preferred Stock   |                   |                 |
| Balance at beginning of year and end of period                              | \$4,000           | \$4,000         |
| Common Stock  |                   |                 |
| Balance at beginning of year  | 3,054             | 3,008           |
| Common stock issued   | 53                | 34              |
| Balance at end of period  | 3,107             | 3,042           |
| Additional Paid-in Capital  |                   |                 |
| Balance at beginning of year  | 3,928             | 3,281           |
| Common stock issued   | 840               | 213             |
| Stock-based compensation and allocation of ESOP shares                      | (20               | ) 207           |
| Other   | (7                | ) —             |
| Balance at end of period  | 4,741             | 3,701           |
| Retained Earnings   |                   |                 |
| Balance at beginning of year  | 21,407            | 18,495          |
| Net income available for The Dow Chemical Company common stockholders       | 2,698             | 3,484           |
| Dividends declared on common stock (per share - 2014: \$1.11; 2013: \$0.96) | (1,299            | ) (1,139        |
| Dividend equivalents on participating securities                            | (14               | ) (10           |
| Balance at end of period  | 22,792            | 20,830          |
| Accumulated Other Comprehensive Loss  |                   |                 |
| Balance at beginning of year  | (4,827            | ) (7,516        |
| Other comprehensive income (loss)   | (544              | ) 446           |
| Balance at end of period  | (5,371            | ) (7,070        |
| Unearned ESOP Shares  |                   |                 |
| Balance at beginning of year  | (357              | ) (391          |
| Shares allocated to ESOP participants                                       | 20                | 27              |
| Balance at end of period  | (337              | ) (364          |
| Treasury Stock  |                   |                 |
| Balance at beginning of year  | (307              | ) —             |
| Purchases   | (3,100            | ) (134          |
| Issuances - compensation plans  | 206               | —               |
| Balance at end of period  | (3,201            | ) (134          |
| The Dow Chemical Company's Stockholders' Equity                             | 25,731            | 24,005          |
| Noncontrolling Interests  |                   |                 |
| Balance at beginning of year  | 1,026             | 990             |
| Net income attributable to noncontrolling interests                         | 47                | 49              |
| Distributions to noncontrolling interests                                   | (31               | ) (30           |
| Capital contributions   | 36                | 35              |
| Purchases of noncontrolling interests                                       | (56               | ) —             |
| Transfers to redeemable noncontrolling interests                            | (35               | ) —             |
| Cumulative translation adjustments  | (6                | ) (26           |
| Other   | (1                | ) (5            |
| Balance at end of period  | 980               | 1,013           |
| Total Equity  | \$26,711          | \$25,018        |

See Notes to the Consolidated Financial Statements.

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(Unaudited) PART I – FINANCIAL INFORMATION, Item 1. Financial Statements  
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, 2013.

## NOTE 2 – RECENT ACCOUNTING GUIDANCE

## Recently Adopted Accounting Guidance

During the first quarter of 2014, the Company adopted Accounting Standards Update (“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. The adoption of this standard did not have a material impact on the consolidated financial statements.

During the first quarter of 2014, the Company adopted 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. The adoption of this standard did not have a material impact on the

consolidated financial statements.

During the first quarter of 2014, the Company adopted ASU 2013-11, "Income Taxes (Topic 740): Presentation of an Unrecognized Tax Benefit When a Net Operating Loss Carryforward, a Similar Tax Loss, or a Tax Credit Carryforward Exists," which defines the presentation requirements of an unrecognized tax benefit, or a portion of an unrecognized tax benefit, in the financial statements, impacting the classification of unrecognized tax benefits between "Deferred income taxes" and "Income taxes payable" in the consolidated balance sheets. The adoption of this standard did not have a material impact on the consolidated financial statements.

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Accounting Guidance Issued But Not Yet Adopted as of September 30, 2014

In April 2014, the Financial Accounting Standards Board ("FASB") issued ASU 2014-08, "Presentation of Financial Statements (Topic 205) and Property, Plant and Equipment (Topic 360): Reporting Discontinued Operations and Disclosures of Disposals of Components of an Entity," which changes the criteria for determining which disposals can be presented as discontinued operations and modifies related disclosure requirements. This ASU is effective for fiscal years beginning on or after December 15, 2014, and interim periods within those years. Early adoption is permitted, but only for disposals (or classifications as held for sale) that have not been reported in the financial statements previously issued or available for issuance. The Company is currently evaluating the impact of adopting this guidance. In May 2014, the FASB issued ASU 2014-09, "Revenue from Contracts with Customers (Topic 606)," which is the new comprehensive revenue recognition standard that will supersede all existing revenue recognition guidance under U.S. GAAP. The standard's core principle is that a company will recognize revenue when it transfers promised goods or services to a customer in an amount that reflects the consideration to which the company expects to be entitled in exchange for those goods or services. This ASU is effective for annual and interim periods beginning on or after December 15, 2016, and early adoption is not permitted. Entities will have the option of using either a full retrospective approach or a modified approach to adopt the guidance in the ASU. The Company is currently evaluating the impact of adopting this guidance.

In June 2014, the FASB issued ASU 2014-11, "Transfers and Servicing (Topic 860): Repurchase-to-Maturity Transactions, Repurchase Financing, and Disclosures," which amends the accounting guidance for repurchase-to-maturity transactions and repurchase agreements executed as repurchase financings and introduces additional disclosure requirements. The new guidance is effective for annual and interim reporting periods beginning on or after December 15, 2014, and early adoption is not permitted. The Company is currently evaluating the impact of adopting this guidance.

In June 2014, the FASB issued ASU 2014-12, "Compensation - Stock Compensation (Topic 718): Accounting for Share-Based Payments When the Terms of an Award Provide That a Performance Target Could be Achieved after the Requisite Service Period." This ASU provides more explicit guidance for treating share-based payment awards that require a specific performance target that affects vesting and that could be achieved after the requisite service period as a performance condition. The new guidance is effective for annual and interim reporting periods beginning on or after December 15, 2015. 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 March 31, 2015. 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. In the fourth quarter of 2013, the Company reduced the reserve for costs associated with exit or disposal activities by \$6 million. The impact of these charges was shown as "Restructuring charges (credits)" in the consolidated statements of income.

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 by March 31, 2015. At December 31, 2013, severance of \$236 million was paid and a liability of \$139 million remained for 759 employees. In the first nine months of 2014, severance of \$83 million was paid, leaving a liability of \$56 million for approximately 390 employees at September 30, 2014.



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

| 4Q12 Restructuring Activities         | Costs<br>Associated<br>with Exit or<br>Disposal<br>Activities | Severance<br>Costs | Total  |
|---------------------------------------|---|--------------------|--------|
| In millions                           |   |                    |        |
| Reserve balance at December 31, 2013  | \$ 19   | \$ 139             | \$ 158 |
| Cash payments                         | (1  | ) (43              | ) (44  |
| Reserve balance at March 31, 2014     | \$ 18   | \$ 96              | \$ 114 |
| Cash payments                         | —   | (17                | ) (17  |
| Reserve balance at June 30, 2014      | \$ 18   | \$ 79              | \$ 97  |
| Cash payments                         | (1  | ) (23              | ) (24  |
| Reserve balance at September 30, 2014 | \$ 17   | \$ 56              | \$ 73  |

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       | Sep 30, 2014 | Dec 31, 2013 |
|-------------------|--------------|--------------|
| In millions       |              |              |
| Finished goods    | \$5,059      | \$4,717      |
| Work in process   | 2,143        | 1,948        |
| Raw materials     | 923          | 760          |
| Supplies          | 894          | 878          |
| Total inventories | \$9,019      | \$8,303      |

The reserves reducing inventories from the first-in, first-out ("FIFO") basis to the last-in, first-out ("LIFO") basis amounted to \$819 million at September 30, 2014 and \$854 million at December 31, 2013.

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## NOTE 5 – GOODWILL AND OTHER INTANGIBLE ASSETS

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

| Goodwill                     | Electronic<br>and<br>Functional<br>Materials | Coatings<br>and<br>Infra-<br>structure<br>Solutions | Ag<br>Sciences | Perf<br>Materials | Perf<br>Plastics | Feedstocks<br>and<br>Energy | Total    |
|------------------------------|--|---|----------------|-------------------|------------------|-----------------------------|----------|
| In millions                  |  |   |                |                   |                  |                             |          |
| Net goodwill at Dec 31, 2013 | \$ 4,963                                     | \$4,076   | \$1,563        | \$738             | \$1,395          | \$63                        | \$12,798 |
| Foreign currency impact      | (33 )  | (47 )   | —              | (2 )              | (28 )            | —                           | (110 )   |
| Net goodwill at Sep 30, 2014 | \$ 4,930                                     | \$4,029   | \$1,563        | \$736             | \$1,367          | \$63                        | \$12,688 |

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

| Other Intangible Assets                     | At September 30, 2014       |                             |         | At December 31, 2013        |                             |         |
|---|-----------------------------|-----------------------------|---------|-----------------------------|-----------------------------|---------|
|   | Gross<br>Carrying<br>Amount | Accumulated<br>Amortization | Net     | Gross<br>Carrying<br>Amount | Accumulated<br>Amortization | Net     |
| In millions                                 |                             |                             |         |                             |                             |         |
| Intangible assets with finite lives:        |                             |                             |         |                             |                             |         |
| Licenses and intellectual property          | \$1,775                     | \$(1,016 )                  | \$759   | \$1,774                     | \$(908 )                    | \$866   |
| Patents                                     | 123                         | (109 )                      | 14      | 125                         | (109 )                      | 16      |
| Software                                    | 1,270                       | (633 )                      | 637     | 1,186                       | (591 )                      | 595     |
| Trademarks                                  | 685                         | (391 )                      | 294     | 686                         | (345 )                      | 341     |
| Customer related                            | 3,536                       | (1,312 )                    | 2,224   | 3,622                       | (1,181 )                    | 2,441   |
| Other                                       | 154                         | (143 )                      | 11      | 154                         | (136 )                      | 18      |
| Total other intangible assets, finite lives | \$7,543                     | \$(3,604 )                  | \$3,939 | \$7,547                     | \$(3,270 )                  | \$4,277 |
| IPR&D (1), indefinite lives                 | 37                          | —                           | 37      | 37                          | —                           | 37      |
| Total other intangible assets               | \$7,580                     | \$(3,604 )                  | \$3,976 | \$7,584                     | \$(3,270 )                  | \$4,314 |

(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 |                 | Nine Months Ended |                 |
|---|--------------------|-----------------|-------------------|-----------------|
|   | Sep 30,<br>2014    | Sep 30,<br>2013 | Sep 30,<br>2014   | Sep 30,<br>2013 |
| In millions                                 |                    |                 |                   |                 |
| Other intangible assets, excluding software | \$108              | \$114           | \$330             | \$344           |
| Software, included in "Cost of sales"       | \$18               | \$15            | \$51              | \$48            |

Total estimated amortization expense for 2014 and the five succeeding fiscal years is as follows:

| Estimated Amortization Expense |       |
|--------------------------------|-------|
| In millions                    |       |
| 2014                           | \$503 |
| 2015                           | \$493 |
| 2016                           | \$483 |
| 2017                           | \$452 |
| 2018                           | \$431 |
| 2019                           | \$369 |



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## NOTE 6 – FINANCIAL INSTRUMENTS

A summary of the Company's financial instruments, risk management policies, derivative instruments and hedging activities can be found in Note 10 to the Consolidated Financial Statements included in the Company's Annual Report on Form 10-K for the year ended December 31, 2013. If applicable, updates have been included in the respective section below.

The following table summarizes the fair value of financial instruments at September 30, 2014 and December 31, 2013:

## Fair Value of Financial Instruments

| In millions   | At September 30, 2014 |        |           |               | At December 31, 2013 |        |           |               |
|---|-----------------------|--------|-----------|---------------|----------------------|--------|-----------|---------------|
|   | Cost                  | Gain   | Loss      | Fair Value    | Cost                 | Gain   | Loss      | Fair Value    |
| Marketable securities: (1)                            |                       |        |           |               |                      |        |           |               |
| Debt securities:                                      |                       |        |           |               |                      |        |           |               |
| Government debt (2)                                   | \$ 548                | \$ 24  | \$ (3     | ) \$ 569      | \$ 544               | \$ 28  | \$ (8     | ) \$ 564      |
| Corporate bonds                                       | 674                   | 45     | (3        | ) 716         | 659                  | 43     | (7        | ) 695         |
| Total debt securities                                 | \$ 1,222              | \$ 69  | \$ (6     | ) \$ 1,285    | \$ 1,203             | \$ 71  | \$ (15    | ) \$ 1,259    |
| Equity securities                                     | 593                   | 181    | (10       | ) 764         | 605                  | 196    | (4        | ) 797         |
| Total marketable securities                           | \$ 1,815              | \$ 250 | \$ (16    | ) \$ 2,049    | \$ 1,808             | \$ 267 | \$ (19    | ) \$ 2,056    |
| Long-term debt including debt due within one year (3) | \$ (19,258)           | \$ 11  | \$ (3,710 | ) \$ (22,957) | \$ (17,517)          | \$ 296 | \$ (2,246 | ) \$ (19,467) |
| Derivatives relating to:                              |                       |        |           |               |                      |        |           |               |
| Interest rates  | \$ —                  | \$ —   | \$ (8     | ) \$ (8       | ) \$ —               | \$ —   | \$ (5     | ) \$ (5       |
| Commodities (4)                                       | \$ —                  | \$ 10  | \$ (20    | ) \$ (10      | ) \$ —               | \$ 11  | \$ (2     | ) \$ 9        |
| Foreign currency                                      | \$ —                  | \$ 37  | \$ (85    | ) \$ (48      | ) \$ —               | \$ 45  | \$ (13    | ) \$ 32       |

(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) The cost basis includes fair value hedge adjustments of \$21 million at September 30, 2014 and \$22 million at December 31, 2013.

(4) Presented net of cash collateral, as disclosed in Note 7.

## Investments