

DOW CHEMICAL CO /DE/  
Form 10-Q  
July 27, 2017  
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UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549  
FORM 10-Q

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

For the quarterly period ended JUNE 30, 2017

or

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

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

Commission File Number: 1-3433  
THE DOW CHEMICAL COMPANY  
(Exact name of registrant as specified in its charter)  
Delaware 38-1285128  
(State or other jurisdiction of incorporation or organization) (I.R.S. Employer Identification No.)  
2030 DOW CENTER, MIDLAND, MICHIGAN 48674  
(Address of principal executive offices) (Zip Code)  
Registrant's telephone number, including area code: 989-636-1000

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

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

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

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

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Exchange Act.

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>June 30, 2017 |
|--|---------------------------------|
| Common Stock, par value \$2.50 per share | 1,223,444,930 shares            |

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The Dow Chemical Company and Subsidiaries

Throughout this Quarterly Report on Form 10-Q, except as otherwise noted by the context, the terms "Company" or "Dow" as used herein mean The Dow Chemical Company and its consolidated 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 "anticipate," "believe," "estimate," "expect," "future," "intend," "may," "opportunity," "outlook," "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.

This document also contains statements about Dow's agreement to effect an all-stock, merger of equals strategic combination with E. I. du Pont de Nemours and Company ("DuPont"), resulting in a new combined company DowDuPont Inc. ("DowDuPont"). These and other forward-looking statements are not guarantees of future results and are subject to risks, uncertainties and assumptions that could cause actual results to differ materially from those expressed in any forward-looking statements. Important risk factors that may cause such a difference include, but are not limited to, (i) the completion of the proposed transaction on anticipated terms and timing, including obtaining regulatory approvals, anticipated tax treatment, unforeseen liabilities, future capital expenditures, revenues, expenses, earnings, synergies, economic performance, indebtedness, financial condition, losses, future prospects, business and management strategies for the management, expansion and growth of the new combined company's operations and other conditions to the completion of the merger, (ii) the ability of Dow and DuPont to integrate the business successfully and to achieve anticipated synergies, risks and costs and pursuit and/or implementation of the potential separations, including anticipated timing, any changes to the configuration of businesses included in the potential separations if implemented, (iii) the intended separation of the agricultural, materials science and specialty products businesses of the combined company post-merger in one or more tax efficient transactions on anticipated terms and timing, including a number of conditions which could delay, prevent or otherwise adversely affect the proposed transactions, including possible issues or delays in obtaining required regulatory approvals or clearances, disruptions in the financial markets or other potential barriers, (iv) potential litigation relating to the proposed transaction that could be instituted against Dow, DuPont or their respective directors, (v) the risk that disruptions from the proposed transaction will harm Dow's or DuPont's business, including current plans and operations, (vi) the ability of Dow or DuPont to retain and hire key personnel, (vii) potential adverse reactions or changes to business relationships resulting from the announcement or completion of the merger, (viii) uncertainty as to the long-term value of DowDuPont common stock, (ix) continued availability of capital and financing and rating agency actions, (x) legislative, regulatory and economic developments, (xi) potential business uncertainty, including changes to existing business relationships, during the pendency of the merger that could affect Dow's and/or DuPont's financial performance, (xii) certain restrictions during the pendency of the merger that may impact Dow's or DuPont's ability to pursue certain business opportunities or strategic transactions and (xiii) unpredictability and severity of catastrophic events, including, but not limited to, acts of terrorism or outbreak of war or hostilities, as well as management's response to any of the aforementioned factors. These risks, as well as other risks associated with the proposed merger, are more fully discussed in the joint proxy statement/prospectus included in the Registration Statement on Form S-4 (File No. 333-209869) filed by DowDuPont with the U.S. Securities and Exchange Commission in connection with the proposed merger. While the list of factors presented here is, and the list of factors presented in the Registration Statement are, considered representative, no such list should be considered to be a complete statement of all potential

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

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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, 2016). Dow 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 |              | Six Months Ended |              |
|---|--------------------|--------------|------------------|--------------|
|   | Jun 30, 2017       | Jun 30, 2016 | Jun 30, 2017     | Jun 30, 2016 |
| Net Sales   | \$13,834           | \$11,952     | \$27,064         | \$22,655     |
| Cost of sales   | 10,764             | 9,275        | 20,961           | 17,226       |
| Research and development expenses                                     | 405                | 399          | 821              | 760          |
| Selling, general and administrative expenses                          | 855                | 787          | 1,722            | 1,529        |
| Amortization of intangibles   | 157                | 122          | 312              | 225          |
| Restructuring charges (credits)                                       | (12)               | ) 454        | (13)             | ) 452        |
| Equity in earnings of nonconsolidated affiliates                      | 54                 | 82           | 250              | 121          |
| Sundry income (expense) - net   | 299                | 2,550        | (171)            | ) 1,309      |
| Interest income   | 22                 | 18           | 47               | 38           |
| Interest expense and amortization of debt discount                    | 226                | 208          | 445              | 409          |
| Income Before Income Taxes  | 1,814              | 3,357        | 2,942            | 3,522        |
| Provision for income taxes  | 455                | 130          | 668              | 20           |
| Net Income  | 1,359              | 3,227        | 2,274            | 3,502        |
| Net income attributable to noncontrolling interests                   | 38                 | 19           | 65               | 40           |
| Net Income Attributable to The Dow Chemical Company                   | 1,321              | 3,208        | 2,209            | 3,462        |
| Preferred stock dividends   | —                  | 85           | —                | 170          |
| Net Income Available for The Dow Chemical Company Common Stockholders | \$1,321            | \$3,123      | \$2,209          | \$3,292      |
| Per Common Share Data:  |                    |              |                  |              |
| Earnings per common share - basic                                     | \$1.08             | \$2.79       | \$1.82           | \$2.96       |
| Earnings per common share - diluted                                   | \$1.07             | \$2.61       | \$1.79           | \$2.83       |
| Dividends declared per share of common stock                          | \$0.46             | \$0.46       | \$0.92           | \$0.92       |
| Weighted-average common shares outstanding - basic                    | 1,211.8            | 1,111.1      | 1,207.2          | 1,107.0      |
| Weighted-average common shares outstanding - diluted                  | 1,229.0            | 1,222.8      | 1,225.5          | 1,218.5      |
| Depreciation  | \$534              | \$511        | \$1,112          | \$967        |
| Capital Expenditures  | \$795              | \$997        | \$1,549          | \$1,817      |
| See Notes to the Consolidated Financial Statements.                   |                    |              |                  |              |



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Consolidated Statements of Comprehensive Income

| In millions (Unaudited)   | Three Months             |                 | Six Months               |                 |
|---|--------------------------|-----------------|--------------------------|-----------------|
|   | Ended<br>Jun 30,<br>2017 | Jun 30,<br>2016 | Ended<br>Jun 30,<br>2017 | Jun 30,<br>2016 |
| Net Income  | \$1,359                  | \$3,227         | \$2,274                  | \$3,502         |
| Other Comprehensive Income (Loss), Net of Tax                             |                          |                 |                          |                 |
| Unrealized gains (losses) on investments                                  | (9                       | ) 15            | 8                        | 34              |
| Cumulative translation adjustments  | 387                      | (86             | ) 626                    | 242             |
| Pension and other postretirement benefit plans                            | 101                      | 455             | 203                      | 547             |
| Derivative instruments  | (39                      | ) 33            | (89                      | ) (1            |
| Other comprehensive income  | 440                      | 417             | 748                      | 822             |
| Comprehensive Income  | 1,799                    | 3,644           | 3,022                    | 4,324           |
| Comprehensive income attributable to noncontrolling interests, net of tax | 40                       | 31              | 93                       | 68              |
| Comprehensive Income Attributable to The Dow Chemical Company             | \$1,759                  | \$3,613         | \$2,929                  | \$4,256         |
| See Notes to the Consolidated Financial Statements.                       |                          |                 |                          |                 |

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## The Dow Chemical Company and Subsidiaries

## Consolidated Balance Sheets

| In millions (Unaudited)  | Jun 30,<br>2017 | Dec 31,<br>2016 |
|--|-----------------|-----------------|
| Assets   |                 |                 |
| Current Assets   |                 |                 |
| Cash and cash equivalents (variable interest entities restricted - 2017: \$87; 2016: \$75) | \$6,218         | \$6,607         |
| Accounts and notes receivable:   |                 |                 |
| Trade (net of allowance for doubtful receivables - 2017: \$123; 2016: \$110)               | 5,307           | 4,666           |
| Other  | 5,557           | 4,358           |
| Inventories  | 8,163           | 7,363           |
| Other current assets   | 690             | 665             |
| Total current assets   | 25,935          | 23,659          |
| Investments  |                 |                 |
| Investment in nonconsolidated affiliates   | 3,665           | 3,747           |
| Other investments (investments carried at fair value - 2017: \$1,999; 2016: \$1,959)       | 2,985           | 2,969           |
| Noncurrent receivables   | 755             | 708             |
| Total investments  | 7,405           | 7,424           |
| Property   |                 |                 |
| Property   | 59,573          | 57,438          |
| Less accumulated depreciation  | 35,457          | 33,952          |
| Net property (variable interest entities restricted - 2017: \$942; 2016: \$961)            | 24,116          | 23,486          |
| Other Assets   |                 |                 |
| Goodwill   | 15,439          | 15,272          |
| Other intangible assets (net of accumulated amortization - 2017: \$4,708; 2016: \$4,295)   | 5,812           | 6,026           |
| Deferred income tax assets   | 2,922           | 3,079           |
| Deferred charges and other assets  | 618             | 565             |
| Total other assets   | 24,791          | 24,942          |
| Total Assets   | \$82,247        | \$79,511        |
| Liabilities and Equity   |                 |                 |
| Current Liabilities  |                 |                 |
| Notes payable  | \$480           | \$272           |
| Long-term debt due within one year   | 955             | 635             |
| Accounts payable:  |                 |                 |
| Trade  | 4,623           | 4,519           |
| Other  | 3,113           | 2,401           |
| Income taxes payable   | 531             | 600             |
| Dividends payable  | 559             | 508             |
| Accrued and other current liabilities  | 3,168           | 3,669           |
| Total current liabilities  | 13,429          | 12,604          |
| Long-Term Debt (variable interest entities nonrecourse - 2017: \$306; 2016: \$330)         | 20,072          | 20,456          |
| Other Noncurrent Liabilities   |                 |                 |
| Deferred income tax liabilities  | 916             | 923             |
| Pension and other postretirement benefits - noncurrent                                     | 11,195          | 11,375          |
| Asbestos-related liabilities - noncurrent  | 1,301           | 1,364           |
| Other noncurrent obligations   | 5,745           | 5,560           |
| Total other noncurrent liabilities   | 19,157          | 19,222          |
| Stockholders' Equity   |                 |                 |
| Common stock   | 3,107           | 3,107           |

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|   |          |          |
|---|----------|----------|
| Additional paid-in capital                      | 4,202    | 4,262    |
| Retained earnings                               | 31,417   | 30,338   |
| Accumulated other comprehensive loss            | (9,074 ) | (9,822 ) |
| Unearned ESOP shares                            | (198 )   | (239 )   |
| Treasury stock at cost                          | (1,033 ) | (1,659 ) |
| The Dow Chemical Company's stockholders' equity | 28,421   | 25,987   |
| Noncontrolling interests                        | 1,168    | 1,242    |
| Total equity                                    | 29,589   | 27,229   |
| Total Liabilities and Equity                    | \$82,247 | \$79,511 |

See Notes to the Consolidated Financial Statements.

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Consolidated Statements of Cash Flows

| In millions (Unaudited)  | Six Months<br>Ended |                 |
|--|---------------------|-----------------|
|  | Jun 30,<br>2017     | Jun 30,<br>2016 |
| Operating Activities   |                     |                 |
| Net Income   | \$2,274             | \$3,502         |
| Adjustments to reconcile net income to net cash provided by operating activities:            |                     |                 |
| Depreciation and amortization  | 1,517               | 1,287           |
| Provision (Credit) for deferred income tax   | 40                  | (993 )          |
| Earnings of nonconsolidated affiliates less than dividends received                          | 310                 | 388             |
| Pension contributions  | (381 )              | (506 )          |
| Net gain on sales of investments   | (53 )               | (48 )           |
| Net gain on sales of property, businesses and consolidated companies                         | (135 )              | (74 )           |
| Net gain on sale of ownership interests in nonconsolidated affiliates                        | (2 )                | —               |
| Net gain on step acquisition of nonconsolidated affiliates                                   | —                   | (2,445 )        |
| Restructuring charges (credits)  | (13 )               | 452             |
| Other net loss   | 75                  | 62              |
| Changes in assets and liabilities, net of effects of acquired and divested companies:        |                     |                 |
| Accounts and notes receivable  | (2,123 )            | (1,320 )        |
| Proceeds from interests in trade accounts receivable conduits                                | 804                 | 753             |
| Inventories  | (839 )              | (238 )          |
| Accounts payable   | 620                 | 433             |
| Other assets and liabilities   | (279 )              | 1,114           |
| Cash provided by operating activities  | 1,815               | 2,367           |
| Investing Activities   |                     |                 |
| Capital expenditures   | (1,549 )            | (1,817 )        |
| Investment in gas field developments   | (68 )               | —               |
| Construction of assets pending sale / leaseback  | —                   | (12 )           |
| Proceeds from sale / leaseback of assets   | —                   | 32              |
| Payment into escrow account  | (130 )              | (835 )          |
| Distribution from escrow account   | 130                 | —               |
| Proceeds from sales of property, businesses and consolidated companies, net of cash divested | 215                 | 177             |
| Acquisitions of property, businesses and consolidated companies, net of cash acquired        | (31 )               | (224 )          |
| Cash acquired in step acquisition of nonconsolidated affiliate                               | —                   | 1,050           |
| Investments in and loans to nonconsolidated affiliates                                       | (484 )              | (569 )          |
| Distributions and loan repayments from nonconsolidated affiliates                            | 54                  | 8               |
| Proceeds from sale of ownership interests in nonconsolidated affiliates                      | 54                  | —               |
| Purchases of investments   | (379 )              | (301 )          |
| Proceeds from sales and maturities of investments  | 435                 | 428             |
| Cash used in investing activities  | (1,753 )            | (2,063 )        |
| Financing Activities   |                     |                 |
| Changes in short-term notes payable  | 288                 | (66 )           |
| Proceeds from issuance of long-term debt   | —                   | 30              |
| Payments on long-term debt   | (105 )              | (459 )          |
| Proceeds from sales of common stock  | 357                 | 234             |
| Transaction financing, debt issuance and other costs   | —                   | (2 )            |

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|  |          |          |
|--|----------|----------|
| Employee taxes paid for share-based payment arrangements | (85 )    | (65 )    |
| Distributions to noncontrolling interests                | (51 )    | (66 )    |
| Dividends paid to stockholders                           | (1,063 ) | (1,185 ) |
| Cash used in financing activities                        | (659 )   | (1,579 ) |
| Effect of Exchange Rate Changes on Cash                  | 208      | 7        |
| Summary  |          |          |
| Decrease in cash and cash equivalents                    | (389 )   | (1,268 ) |
| Cash and cash equivalents at beginning of period         | 6,607    | 8,577    |
| Cash and cash equivalents at end of period               | \$6,218  | \$7,309  |
| See Notes to the Consolidated Financial Statements.      |          |          |

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Consolidated Statements of Equity

| In millions, except per share amounts (Unaudited)                           | Six Months Ended |                 |
|---|------------------|-----------------|
|   | Jun 30,<br>2017  | Jun 30,<br>2016 |
| Preferred Stock   |                  |                 |
| Balance at beginning of year and end of period                              | \$—              | \$4,000         |
| Common Stock  |                  |                 |
| Balance at beginning of year and end of period                              | 3,107            | 3,107           |
| Additional Paid-in Capital  |                  |                 |
| Balance at beginning of year  | 4,262            | 4,936           |
| Common stock issued / sold  | 357              | 234             |
| Stock-based compensation and allocation of ESOP shares                      | (415 )           | (280 )          |
| Other   | (2 )             | —               |
| Balance at end of period  | 4,202            | 4,890           |
| Retained Earnings   |                  |                 |
| Balance at beginning of year  | 30,338           | 28,425          |
| Net income available for The Dow Chemical Company common stockholders       | 2,209            | 3,292           |
| Dividends declared on common stock (per share - 2017: \$0.92; 2016: \$0.92) | (1,115 )         | (1,021 )        |
| Dividend equivalents  | (15 )            | (16 )           |
| Balance at end of period  | 31,417           | 30,680          |
| Accumulated Other Comprehensive Loss  |                  |                 |
| Balance at beginning of year  | (9,822 )         | (8,667 )        |
| Other comprehensive income  | 748              | 822             |
| Balance at end of period  | (9,074 )         | (7,845 )        |
| Unearned ESOP Shares  |                  |                 |
| Balance at beginning of year  | (239 )           | (272 )          |
| Shares allocated to ESOP participants                                       | 41               | 40              |
| Balance at end of period  | (198 )           | (232 )          |
| Treasury Stock  |                  |                 |
| Balance at beginning of year  | (1,659 )         | (6,155 )        |
| Issuances - compensation plans  | 626              | 491             |
| Balance at end of period  | (1,033 )         | (5,664 )        |
| The Dow Chemical Company's Stockholders' Equity                             | 28,421           | 28,936          |
| Noncontrolling Interests  | 1,168            | 1,298           |
| Total Equity  | \$29,589         | \$30,234        |
| See Notes to the Consolidated Financial Statements.                         |                  |                 |

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

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## NOTE 1 – CONSOLIDATED FINANCIAL STATEMENTS

## Basis of Presentation

The unaudited interim consolidated financial statements of The Dow Chemical Company and its subsidiaries (“Dow” or the “Company”) were prepared in accordance with accounting principles generally accepted in the United States of America (“U.S. GAAP”) and reflect all adjustments (including normal recurring accruals) which, in the opinion of management, are considered necessary for the fair presentation of the results for the periods presented. These statements should be read in conjunction with the audited consolidated financial statements and notes thereto included in the Company’s Annual Report on Form 10-K for the year ended December 31, 2016.

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

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

Summary of Changes to the Consolidated Statements of Cash Flows for the Six  
Months Ended June 30, 2016

In millions

As Filed Updated

Operating Activities

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|   |           |           |
|---|-----------|-----------|
| Excess tax benefits from share-based payment arrangements | \$(32 )   | \$—       |
| Other assets and liabilities                              | \$1,049   | \$1,114   |
| Cash provided by operating activities                     | \$2,270   | \$2,367   |
| Financing Activities                                      |           |           |
| Excess tax benefits from share-based payment arrangements | \$32      | \$—       |
| Employee taxes paid for share-based payment arrangements  | \$—       | \$(65 )   |
| Cash used in financing activities                         | \$(1,482) | \$(1,579) |

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NOTE 2 – RECENT ACCOUNTING GUIDANCE

Recently Adopted Accounting Guidance

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

Accounting Guidance Issued But Not Adopted as of June 30, 2017

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

In May 2014, the FASB and International Accounting Standards Board formed The Joint Transition Resource Group for Revenue Recognition ("TRG"), consisting of financial statement preparers, auditors and users, to seek feedback on potential issues related to the implementation of the new revenue standard. As a result of feedback from the TRG, the FASB has issued additional guidance to provide clarification, implementation guidance and practical expedients to address some of the challenges of implementation. In March 2016, the FASB issued ASU 2016-08, "Revenue from Contracts with Customers (Topic 606): Principal versus Agent Considerations (Reporting Revenue Gross versus Net)," which is an amendment on assessing whether an entity is a principal or an agent in a revenue transaction. This amendment addresses issues to clarify the principal versus agent assessment and lead to more consistent application. In April 2016, the FASB issued ASU 2016-10, "Revenue from Contracts with Customers (Topic 606): Identifying Performance Obligations and Licensing," which contains amendments to the new revenue recognition standard on identifying performance obligations and accounting for licenses of intellectual property. The amendments related to identifying performance obligations clarify when a promised good or service is separately identifiable and allows entities to disregard items that are immaterial in the context of a contract. The licensing implementation amendments clarify how an entity should evaluate the nature of its promise in granting a license of intellectual property, which will determine whether revenue is recognized over time or at a point in time. In May 2016, the FASB issued ASU 2016-12, "Revenue from Contracts with Customers (Topic 606): Narrow-Scope Improvements and Practical Expedients," which provides clarity and implementation guidance on assessing collectibility, presentation of sales taxes, noncash consideration, and completed contracts and contract modifications at transition. The new standards have the same effective date and transition requirements as ASU 2014-09.

The Company has a team in place to analyze ASU 2014-09 and the related ASU's across all revenue streams to evaluate the impact of the new standard on revenue contracts. This includes reviewing current accounting policies and practices to identify potential differences that would result from applying the requirements under the new standard. The Company is completing contract evaluations and validating the results of applying the new revenue guidance. The

Company has also started drafting its accounting policies and performed an assessment of the new disclosure requirements and expects to complete its evaluation of the impact of the accounting and disclosure requirements on its business processes, controls and systems by the end of the third quarter of 2017. Full implementation will be completed by the end of 2017. Based on analysis completed to date, the Company expects the potential impact on the recognition of revenue from product sales and licensing arrangements to remain substantially unchanged. The Company expects to adopt the new standard using the modified retrospective approach, under which the cumulative effect of initially applying the new guidance is recognized as an adjustment to the opening balance of retained earnings in the first quarter of 2018.

In January 2016, the FASB issued ASU 2016-01, "Financial Instruments - Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities," which amends the guidance in U.S. GAAP on the classification and measurement of financial instruments. Changes to the current guidance primarily affects the accounting for equity investments, financial liabilities under the fair value option, and the presentation and disclosure requirements for financial instruments. In

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addition, the ASU clarifies guidance related to the valuation allowance assessment when recognizing deferred tax assets resulting from unrealized losses on available-for-sale debt securities. The new standard is effective for fiscal years and interim periods beginning after December 15, 2017, and upon adoption, an entity should apply the amendments by means of a cumulative-effect adjustment to the balance sheet at the beginning of the first reporting period in which the guidance is effective. Early adoption is not permitted except for the provision to record fair value changes for financial liabilities under the fair value option resulting from instrument-specific credit risk in other comprehensive income. The Company is currently evaluating the impact of adopting this guidance.

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

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

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

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

In February 2017, the FASB issued ASU 2017-05, "Other Income - Gains and Losses from the Derecognition of Nonfinancial Assets (Subtopic 610-20): Clarifying the Scope of Asset Derecognition Guidance and Accounting for Partial Sales of Nonfinancial Assets," which clarifies the scope of guidance on nonfinancial asset derecognition in

Accounting Standards Codification ("ASC") 610-20 and the accounting for partial sales of nonfinancial assets. The new guidance also conforms the derecognition guidance for nonfinancial assets with the model in the new revenue standard (ASU 2014-09). The new standard is effective for annual reporting periods, and interim periods within those fiscal years, beginning after December 15, 2017, and an entity is required to apply the amendments at the same time that it applies the amendments in ASU 2014-09. The Company is currently evaluating the impact of adopting this guidance.

In March 2017, the FASB issued ASU 2017-07, "Compensation - Retirement Benefits (Topic 715): Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost," which amends the requirements related to the income statement presentation of the components of net periodic benefit cost for employer sponsored defined benefit pension and other postretirement benefit plans. Under the new guidance, an entity must disaggregate and present the service cost component of net periodic benefit cost in the same income statement line item(s) as other employee compensation costs arising

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from services rendered during the period, and only the service cost component will be eligible for capitalization. Other components of net periodic benefit cost will be presented separately from the line item(s) that includes the service cost. The new standard is effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2017. Early adoption is permitted at the beginning of an annual period in which the financial statements have not been issued. Entities must use a retrospective transition method to adopt the requirement for separate presentation of the income statement service cost and other components, and a prospective transition method to adopt the requirement to limit the capitalization of benefit cost to the service component. The Company is currently evaluating the impact of adopting this guidance.

## NOTE 3 – RESTRUCTURING

## 2016 Restructuring

On June 27, 2016, the Board of Directors of the Company approved a restructuring plan that incorporates actions related to the ownership restructure of Dow Corning Corporation ("Dow Corning"). These actions, aligned with Dow's value growth and synergy targets, will result in a global workforce reduction of approximately 2,500 positions, with most of these positions resulting from synergies related to the ownership restructure of Dow Corning. These actions are expected to be substantially completed by June 30, 2018.

As a result of these actions, the Company recorded pretax restructuring charges of \$449 million in the second quarter of 2016 consisting of severance costs of \$268 million, asset write-downs and write-offs of \$153 million and costs associated with exit and disposal activities of \$28 million. The impact of these charges is shown as "Restructuring charges (credits)" in the consolidated statements of income and reflected in the Company's segment results as follows: Consumer Solutions (\$28 million), Infrastructure Solutions (\$97 million), Performance Plastics (\$10 million) and Corporate (\$314 million). The following table summarizes the activities related to the Company's 2016 restructuring reserve, which is included in "Accrued and other current liabilities" and "Other noncurrent obligations" in the consolidated balance sheets.

## 2016 Restructuring Charges

| In millions                          | Severance Costs | Costs Associated with Exit and Disposal Activities | Total  |
|--------------------------------------|-----------------|--|--------|
| Reserve balance at December 31, 2016 | \$ 201          | \$ 27  | \$228  |
| Cash payments                        | (59)            | ) —  | (59 )  |
| Reserve balance at March 31, 2017    | \$ 142          | \$ 27  | \$169  |
| Adjustments to the reserve           | —               | (3   | ) (3 ) |
| Cash payments                        | (51)            | ) —  | (51 )  |
| Reserve balance at June 30, 2017     | \$ 91           | \$ 24  | \$115  |

## Adjustments to the 2016 Restructuring Charge

In the second quarter of 2017, the Company recorded a favorable adjustment to the 2016 restructuring charge related to costs associated with exit and disposal activities of \$3 million, included in "Restructuring charges (credits)" in the consolidated statements of income and reflected in the Infrastructure Solutions segment.

## Severance Costs

The restructuring charge included severance of \$268 million for the separation of approximately 2,500 employees under the terms of the Company's ongoing benefit arrangements, primarily by June 30, 2018. These costs were charged against Corporate. At December 31, 2016, severance of \$67 million was paid, leaving a liability of

\$201 million for approximately 1,700 employees. In the first six months of 2017, severance of \$110 million was paid, leaving a liability of \$91 million for approximately 820 employees at June 30, 2017.

#### 2015 Restructuring

##### Adjustments to the 2015 Restructuring Charge

In the first quarter of 2016, the Company recorded a favorable adjustment to the 2015 restructuring charge related to the impairment of long-lived assets of \$2 million, reflected in the Infrastructure Solutions segment. In the second quarter of 2016, the Company recorded an unfavorable adjustment related to additional accruals for exit and disposal activities of \$5 million, reflected in Agricultural Sciences (\$4 million) and Consumer Solutions (\$1 million). The adjustments were included in "Restructuring charges (credits)" in the consolidated statements of income.

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In the first quarter of 2017, the Company recorded a favorable adjustment to the 2015 restructuring charge related to costs associated with exit and disposal activities of \$1 million, reflected in the Agricultural Sciences segment. In the second quarter of 2017, the Company recorded a favorable adjustment to the severance accrual of \$9 million, reflected in Corporate. The adjustments were included in "Restructuring charges (credits)" in the consolidated statements of income.

### Severance Costs

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

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

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

## NOTE 4 – ACQUISITIONS

### Ownership Restructure of Dow Corning Corporation

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

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

In the second quarter of 2016, the Company recognized a non-taxable gain on the DCC Transaction of \$2,445 million, net of closing costs and other comprehensive loss related to the Company's interest in Dow Corning. The gain was included in "Sundry income (expense) - net" and reflected in the Consumer Solutions (\$1,301 million) and Infrastructure Solutions (\$1,144 million) segments. The Company also recognized a tax benefit of \$141 million on the DCC Transaction in the second quarter of 2016, primarily due to the reassessment of a previously recognized deferred tax liability related to the basis difference in the Company's investment in Dow Corning. See Notes 9, 12 and 13 for additional information.

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





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## NOTE 5 – INVENTORIES

The following table provides a breakdown of inventories:

| Inventories                               | Jun 30, | Dec 31, |
|---|---------|---------|
| In millions                               | 2017    | 2016    |
| Finished goods                            | \$4,699 | \$4,230 |
| Work in process                           | 1,774   | 1,510   |
| Raw materials                             | 963     | 853     |
| Supplies                                  | 876     | 823     |
| Total FIFO inventories                    | \$8,312 | \$7,416 |
| Adjustment of inventories to a LIFO basis | (149 )  | (53 )   |
| Total inventories                         | \$8,163 | \$7,363 |

## NOTE 6 – GOODWILL AND OTHER INTANGIBLE ASSETS

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

| Goodwill                           | Agricultural | Consumer  | Infrastructure | Performance           | Performance | Total    |
|------------------------------------|--------------|-----------|----------------|-----------------------|-------------|----------|
| In millions                        | Sciences     | Solutions | Solutions      | Materials & Chemicals | Plastics    |          |
| Net goodwill at Dec 31, 2016       | \$ 1,472     | \$ 6,017  | \$ 5,840       | \$ 425                | \$ 1,518    | \$15,272 |
| Sale of SKC Haas Display Films (1) | —            | (34 )     | —              | —                     | —           | (34 )    |
| Foreign currency impact            | —            | 70        | 103            | 6                     | 23          | 202      |
| Other                              | —            | —         | —              | —                     | (1 )        | (1 )     |
| Net goodwill at Jun 30, 2017       | \$ 1,472     | \$ 6,053  | \$ 5,943       | \$ 431                | \$ 1,540    | \$15,439 |

(1) On June 30, 2017, the Company sold its ownership interest in the SKC Haas Display Films group of companies. See Note 19 for additional information.

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

| Other Intangible Assets                     | At June 30, 2017      |                          |         | At December 31, 2016  |                          |         |
|---|-----------------------|--------------------------|---------|-----------------------|--------------------------|---------|
|   | Gross Carrying Amount | Accumulated Amortization | Net     | Gross Carrying Amount | Accumulated Amortization | Net     |
| Intangible assets with finite lives:        |                       |                          |         |                       |                          |         |
| Licenses and intellectual property          | \$3,151               | \$ (1,426 )              | \$1,725 | \$3,148               | \$ (1,286 )              | \$1,862 |
| Patents                                     | 108                   | (99 )                    | 9       | 106                   | (97 )                    | 9       |
| Software                                    | 1,382                 | (739 )                   | 643     | 1,336                 | (696 )                   | 640     |
| Trademarks                                  | 696                   | (536 )                   | 160     | 696                   | (503 )                   | 193     |
| Customer-related                            | 4,954                 | (1,759 )                 | 3,195   | 4,806                 | (1,567 )                 | 3,239   |
| Other                                       | 168                   | (149 )                   | 19      | 168                   | (146 )                   | 22      |
| Total other intangible assets, finite lives | \$10,459              | \$ (4,708 )              | \$5,751 | \$10,260              | \$ (4,295 )              | \$5,965 |
| IPR&D (1), indefinite lives                 | 61                    | —                        | 61      | 61                    | —                        | 61      |
| Total other intangible assets               | \$10,520              | \$ (4,708 )              | \$5,812 | \$10,321              | \$ (4,295 )              | \$6,026 |

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

In the second quarter of 2016, the Company wrote off \$11 million of IPR&D as part of the 2016 restructuring charge. See Note 3 for additional information.



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

| Amortization Expense                        | Three Months Ended |              | Six Months Ended |              |
|---|--------------------|--------------|------------------|--------------|
|   | Jun 30, 2017       | Jun 30, 2016 | Jun 30, 2017     | Jun 30, 2016 |
| In millions                                 |                    |              |                  |              |
| Other intangible assets, excluding software | \$157              | \$122        | \$312            | \$225        |
| Software, included in "Cost of sales"       | \$20               | \$19         | \$40             | \$37         |

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

|                                |        |
|--------------------------------|--------|
| Estimated Amortization Expense |        |
| In millions                    |        |
| 2017                           | \$ 724 |
| 2018                           | \$ 731 |
| 2019                           | \$ 655 |
| 2020                           | \$ 618 |
| 2021                           | \$ 584 |
| 2022                           | \$ 514 |

## NOTE 7 – FINANCIAL INSTRUMENTS

A summary of the Company's financial instruments, risk management policies, derivative instruments and hedging activities can be found in Note 11 to the Consolidated Financial Statements included in the Company's Annual Report on Form 10-K for the year ended December 31, 2016. If applicable, updates have been included in the respective section below.

The following table summarizes the fair value of financial instruments at June 30, 2017 and December 31, 2016:

## Fair Value of Financial Instruments

| In millions   | At June 30, 2017 |       |           |            | At December 31, 2016 |       |           |            |
|---|------------------|-------|-----------|------------|----------------------|-------|-----------|------------|
|   | Cost             | Gain  | Loss      | Fair Value | Cost                 | Gain  | Loss      | Fair Value |
| Marketable securities: (1)                            |                  |       |           |            |                      |       |           |            |
| Debt securities:                                      |                  |       |           |            |                      |       |           |            |
| Government debt (2)                                   | \$610            | \$15  | \$(8)     | \$617      | \$607                | \$13  | \$(12)    | \$608      |
| Corporate bonds                                       | 610              | 30    | (3)       | 637        | 623                  | 27    | (5)       | 645        |
| Total debt securities                                 | \$1,220          | \$45  | \$(11)    | \$1,254    | \$1,230              | \$40  | \$(17)    | \$1,253    |
| Equity securities                                     | 690              | 84    | (29)      | 745        | 658                  | 98    | (50)      | 706        |
| Total marketable securities                           | \$1,910          | \$129 | \$(40)    | \$1,999    | \$1,888              | \$138 | \$(67)    | \$1,959    |
| Long-term debt including debt due within one year (3) | \$(21,027)       | \$6   | \$(2,218) | \$(23,239) | \$(21,091)           | \$129 | \$(1,845) | \$(22,807) |
| Derivatives relating to:                              |                  |       |           |            |                      |       |           |            |
| Interest rates  | \$—              | \$—   | \$(5)     | \$(5)      | \$—                  | \$—   | \$(5)     | \$(5)      |
| Commodities (4)                                       | \$—              | \$61  | \$(269)   | \$(208)    | \$—                  | \$56  | \$(213)   | \$(157)    |
| Foreign currency                                      | \$—              | \$25  | \$(182)   | \$(157)    | \$—                  | \$84  | \$(30)    | \$54       |

- (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 hedge adjustments of \$14 million at June 30, 2017 and \$18 million at December 31, 2016.
- (4) Presented net of cash collateral, as disclosed in Note 8.

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## Investments

The Company's investments in marketable securities are primarily classified as available-for-sale. The following table provides the investing results from available-for-sale securities for the six-month periods ended June 30, 2017 and 2016:

| Investing Results                                    | Six Months |         |
|--|------------|---------|
|  | Ended      |         |
| In millions  | Jun 30,    | Jun 30, |
|  | 2017       | 2016    |
| Proceeds from sales of available-for-sale securities | \$383      | \$ 331  |
| Gross realized gains                                 | \$48       | \$ 23   |
| 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 June 30, 2017

| In millions       | Amortized Cost | Fair Value |
|-------------------|----------------|------------|
| Within one year   | \$ 10          | \$ 10      |
| One to five years | 329            | 338        |
| Six to ten years  | 656            | 663        |
| After ten years   | 225            | 243        |
| Total             | \$ 1,220       | \$ 1,254   |

At June 30, 2017, the Company had \$309 million (\$261 million at December 31, 2016) of held-to-maturity securities (primarily Treasury Bills) classified as cash equivalents, as these securities had 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 June 30, 2017, the Company had investments in money market funds of \$850 million classified as cash equivalents (\$239 million at December 31, 2016).

The aggregate cost of the Company's cost method investments totaled \$116 million at June 30, 2017 (\$120 million at December 31, 2016). Due to the nature of these investments, either the cost basis approximates fair market value or fair value is not readily determinable. These investments are reviewed quarterly for impairment indicators. During the second quarter of 2016, a write-down of \$4 million was recorded as part of the 2016 restructuring charge. The Company's impairment analysis resulted in no reduction in the cost basis of these investments for the six-month period ended June 30, 2017 and no reduction, other than the restructuring charge, for the six-month period ended June 30, 2016.

## Accounting for Derivative Instruments and Hedging Activities

## Fair Value Hedges

For interest rate swap 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. During the first six months of 2017, the Company entered into and subsequently terminated interest rate swaps designated as fair value hedges of underlying fixed rate debt obligations with maturity dates extending through 2022. The fair value adjustment resulting from these swaps was a gain on the derivatives of \$3 million. At June 30, 2017 and December 31, 2016, the Company had no open interest rate swaps designated as fair value hedges of underlying fixed rate debt obligations.

Subsequent to June 30, 2017, the Company entered into, and subsequently terminated, interest rate swaps with gross notional U.S. dollar equivalent of \$300 million designated as fair value hedges of underlying fixed rate debt obligations. The fair value adjustment resulting from these swaps was an insignificant gain, which will be recorded in the third quarter of 2017.

#### 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 "Accumulated other comprehensive loss" ("AOCL"). The Company had open foreign currency contracts designated as net foreign investment hedges with a gross notional U.S. dollar equivalent of \$4,670 million at June 30, 2017 (\$2,641 million at December 31, 2016). In addition, at June 30, 2017, the Company had outstanding foreign-currency denominated debt designated as a hedge of net foreign

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investment of \$179 million (\$172 million at December 31, 2016). The results of hedges of the Company's net investment in foreign operations included in "Cumulative Translation Adjustments" in AOCL was a net loss after-tax of \$39 million at June 30, 2017 (net gain after-tax of \$1 million at December 31, 2016).

The following table provides the fair value and gross balance sheet classification of derivative instruments at June 30, 2017 and December 31, 2016:

| Fair Value of Derivative Instruments<br>In millions | Balance Sheet Classification          | Jun 30, Dec 31, |        |
|---|---------------------------------------|-----------------|--------|
|   |                                       | 2017            | 2016   |
| <b>Asset Derivatives</b>                            |                                       |                 |        |
| Derivatives designated as hedges:                   |                                       |                 |        |
| Commodities   | Other current assets                  | \$ 17           | \$ 42  |
| Commodities   | Deferred charges and other assets     | 11              | 10     |
| Foreign currency                                    | Accounts and notes receivable - Other | 38              | 90     |
| Total derivatives designated as hedges              |                                       | \$ 66           | \$ 142 |
| Derivatives not designated as hedges:               |                                       |                 |        |
| Commodities   | Other current assets                  | \$ 40           | \$ 13  |
| Commodities   | Deferred charges and other assets     | 9               | 12     |
| Foreign currency                                    | Accounts and notes receivable - Other | 137             | 103    |
| Total derivatives not designated as hedges          |                                       | \$ 186          | \$ 128 |
| Total asset derivatives                             |                                       | \$ 252          | \$ 270 |
| <b>Liability Derivatives</b>                        |                                       |                 |        |
| Derivatives designated as hedges:                   |                                       |                 |        |
| Interest rates                                      | Accrued and other current liabilities | \$ 3            | \$ 3   |
| Interest rates                                      | Other noncurrent obligations          | 2               | 2      |
| Commodities   | Accrued and other current liabilities | 67              | 32     |
| Commodities   | Other noncurrent obligations          | 190             | 196    |
| Foreign currency                                    | Accrued and other current liabilities | 106             | 55     |
| Total derivatives designated as hedges              |                                       | \$ 368          | \$ 288 |
| Derivatives not designated as hedges:               |                                       |                 |        |
| Commodities   | Accrued and other current liabilities | \$ 49           | \$ 4   |
| Commodities   | Other noncurrent obligations          | 1               | 2      |
| Foreign currency                                    | Accounts payable - Other              | 226             | 84     |
| Total derivatives not designated as hedges          |                                       | \$ 276          | \$ 90  |
| Total liability derivatives                         |                                       | \$ 644          | \$ 378 |

Foreign currency derivatives not designated as hedges are used to offset foreign exchange gains or losses resulting from the underlying exposures of foreign currency denominated assets and liabilities.

The net after-tax amounts to be reclassified from AOCL to income within the next 12 months are a \$2 million loss for interest rate contracts, a \$35 million loss for commodity contracts and a \$14 million loss for foreign currency contracts.

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## NOTE 8 – FAIR VALUE MEASUREMENTS

A summary of the Company's recurring and nonrecurring fair value measurements can be found in Note 12 to the Consolidated Financial Statements included in the Company's Annual Report on Form 10-K for the year ended December 31, 2016. If applicable, updates have been included in the respective section below.

## Fair Value Measurements on a Recurring Basis

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

| Basis of Fair Value Measurements<br>on a Recurring Basis<br>at June 30, 2017 | Quoted Prices<br>in Active<br>Markets for<br>Identical Items<br>(Level 1) | Significant<br>Other<br>Observable<br>Inputs<br>(Level 2) | Significant<br>Unobservable<br>Inputs<br>(Level 3) | Counterparty<br>and Cash<br>Collateral<br>Netting (1) | Total     |
|--|---|---|--|---|-----------|
| In millions  |   |   |  |   |           |
| Assets at fair value:  |   |   |  |   |           |
| Cash equivalents (2)   | \$ —  | \$ 1,159  | \$ —   | \$ —  | \$ 1,159  |
| Interests in trade accounts receivable conduits (3)                          | —   | —   | 1,684  | —   | 1,684     |
| Equity securities (4)  | 656   | 89  | —  | —   | 745       |
| Debt securities: (4)   |   |   |  |   |           |
| Government debt (5)  | —   | 617   | —  | —   | 617       |
| Corporate bonds  | —   | 637   | —  | —   | 637       |
| Derivatives relating to: (6)   |   |   |  |   |           |
| Commodities  | 23  | 54  | —  | (16 )   | 61        |
| Foreign currency   | —   | 175   | —  | (150 )  | 25        |
| Total assets at fair value   | \$ 679  | \$ 2,731  | \$ 1,684   | \$ (166 )   | \$ 4,928  |
| Liabilities at fair value:   |   |   |  |   |           |
| Long-term debt (7)   | \$ —  | \$ 23,239   | \$ —   | \$ —  | \$ 23,239 |
| Derivatives relating to: (6)   |   |   |  |   |           |
| Interest rates   | —   | 5   | —  | —   | 5         |
| Commodities  | 28  | 279   | —  | (38 )   | 269       |
| Foreign currency   | —   | 332   | —  | (150 )  | 182       |
| Total liabilities at fair value  | \$ 28   | \$ 23,855   | \$ —   | \$ (188 )   | \$ 23,695 |

Counterparty and cash collateral amounts represent the estimated net settlement amount when applying netting and (1) set-off rights included in master netting arrangements between the Company and its counterparties and the cash collateral placed with the same counterparty.

(2) Treasury Bills and money market funds included in "Cash and cash equivalents" in the consolidated balance sheets and held at amortized cost, which approximates fair value.

(3) Included in "Accounts and notes receivable – Other" in the consolidated balance sheets. See Note 11 for additional information on transfers of financial assets.

(4) 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.

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

(6) See Note 7 for the classification of derivatives in the consolidated balance sheets.

(7) See Note 7 for information on fair value measurements of long-term debt.



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| Basis of Fair Value Measurements on a Recurring Basis at December 31, 2016 | Quoted Prices in Active Markets for Identical Items (Level 1) | Significant Other Observable Inputs (Level 2) | Significant Unobservable Inputs (Level 3) | Counterparty and Cash Collateral Netting (1) | Total     |
|--|---|---|---|--|-----------|
| In millions  |   |   |   |  |           |
| Assets at fair value:  |   |   |   |  |           |
| Cash equivalents (2)   | \$ —  | \$ 500  | \$ —                                      | \$ —   | \$ 500    |
| Interests in trade accounts receivable conduits (3)                        | —   | —   | 1,237                                     | —  | 1,237     |
| Equity securities (4)  | 619   | 87  | —   | —  | 706       |
| Debt securities: (4)   |   |   |   |  |           |
| Government debt (5)  | —   | 608   | —   | —  | 608       |
| Corporate bonds  | —   | 645   | —   | —  | 645       |
| Derivatives relating to: (6)   |   |   |   |  |           |
| Commodities  | 48  | 29  | —   | (21 )  | 56        |
| Foreign currency   | —   | 193   | —   | (109 )                                       | 84        |
| Total assets at fair value   | \$ 667  | \$ 2,062                                      | \$ 1,237                                  | \$ (130 )                                    | \$ 3,836  |
| Liabilities at fair value:   |   |   |   |  |           |
| Long-term debt (7)   | \$ —  | \$ 22,807                                     | \$ —                                      | \$ —   | \$ 22,807 |
| Derivatives relating to: (6)   |   |   |   |  |           |
| Interest rates   | —   | 5   | —   | —  | 5         |
| Commodities  | 20  | 214   | —   | (21 )  | 213       |
| Foreign currency   | —   | 139   | —   | (109 )                                       | 30        |
| Total liabilities at fair value  | \$ 20   | \$ 23,165                                     | \$ —                                      | \$ (130 )                                    | \$ 23,055 |

Counterparty and cash collateral amounts represent the estimated net settlement amount when applying netting and (1) set-off rights included in master netting arrangements between the Company and its counterparties and the cash collateral placed with the same counterparty.

(2) Treasury Bills and money market funds included in "Cash and cash equivalents" in the consolidated balance sheets and held at amortized cost, which approximates fair value.

(3) Included in "Accounts and notes receivable – Other" in the consolidated balance sheets. See Note 11 for additional information on transfers of financial assets.

(4) 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.

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

(6) See Note 7 for the classification of derivatives in the consolidated balance sheets.

(7) See Note 7 for information on fair value measurements of long-term debt.

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 liabilities. The Company posted cash collateral of \$44 million at June 30, 2017 (less than \$1 million at December 31, 2016).

The following table summarizes the changes in fair value measurements of interests held in trade receivable conduits using Level 3 inputs for the three- and six-month periods ended June 30, 2017 and 2016:

| Fair Value Measurements Using Level 3 Inputs    | Three Months Ended | Six Months Ended |
|---|--------------------|------------------|
| Interests Held in Trade Receivable Conduits (1) |                    |                  |

| In millions                    | Jun 30,<br>2017 | Jun 30,<br>2016 | Jun 30,<br>2017 | Jun 30,<br>2016 |
|--------------------------------|-----------------|-----------------|-----------------|-----------------|
| Balance at beginning of period | \$1,663         | \$1,195         | \$1,237         | \$943           |
| Loss included in earnings (2)  | (2 )            | —               | (2 )            | (1 )            |
| Purchases                      | 713             | 520             | 1,253           | 960             |
| Settlements                    | (690 )          | (566 )          | (804 )          | (753 )          |
| Balance at end of period       | \$1,684         | \$1,149         | \$1,684         | \$1,149         |

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

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

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## NOTE 9 – SUPPLEMENTARY INFORMATION

The Company uses "Sundry income (expense) – net" to record a variety of income and expense items such as foreign exchange gains and losses, dividends from investments, gains and losses on sales of investments and assets, and certain litigation matters. For the three months ended June 30, 2017, "Sundry income (expense) - net" was income of \$299 million (income of \$2,550 million for the three months ended June 30, 2016). For the six months ended June 30, 2017, "Sundry income (expense) - net" was expense of \$171 million (income of \$1,309 million for the six months ended June 30, 2016). The following table provides the most significant transactions recorded in "Sundry income (expense) – net" for the three- and six-month periods ended June 30, 2017 and 2016.

| Sundry Income (Expense) - Net   | Three Months Ended |              | Six Months Ended |              |
|---|--------------------|--------------|------------------|--------------|
|   | Jun 30, 2017       | Jun 30, 2016 | Jun 30, 2017     | Jun 30, 2016 |
| In millions   |                    |              |                  |              |
| Gain related to Nova patent infringement award (1)                        | \$137              | \$—          | \$137            | \$—          |
| Gain on sales of other assets and investments                             | \$133              | \$78         | \$137            | \$85         |
| Loss related to Bayer CropSciences arbitration matter (1)                 | \$—                | \$—          | \$(469)          | \$—          |
| Gain on ownership restructure of Dow Corning (2)                          | \$—                | \$2,445      | \$—              | \$2,445      |
| Settlement of urethane matters class action lawsuit and opt-out cases (1) | \$—                | \$—          | \$—              | \$(1,235)    |

(1) See Note 10 for additional information.

(2) See Note 4 for additional information.

## NOTE 10 – COMMITMENTS AND CONTINGENT LIABILITIES

## Environmental Matters

Accruals for environmental matters are recorded when it is probable that a liability has been incurred and the amount of the liability can be reasonably estimated, based on current law and existing technologies. At June 30, 2017, the Company had accrued obligations of \$904 million for probable environmental remediation and restoration costs, including \$152 million for the remediation of Superfund sites. These obligations are included in "Accrued and other current liabilities" and "Other noncurrent obligations" in the consolidated balance sheets. This is management's best estimate of the costs for remediation and restoration with respect to environmental matters for which the Company has accrued liabilities, although it is reasonably possible that the ultimate cost with respect to these particular matters could range up to approximately twice that amount. Consequently, it is reasonably possible that environmental remediation and restoration costs in excess of amounts accrued could have a material impact on the Company's results of operations, financial condition and cash flows. It is the opinion of the Company's management, however, that the possibility is remote that costs in excess of the range disclosed will have a material impact on the Company's results of operations, financial condition and cash flows. Inherent uncertainties exist in these estimates primarily due to unknown conditions, changing governmental regulations and legal standards regarding liability, and emerging remediation technologies for handling site remediation and restoration. At December 31, 2016, the Company had accrued obligations of \$909 million for probable environmental remediation and restoration costs, including \$151 million for the remediation of Superfund sites.

## Environmental Matters Summary

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

## Litigation

## Asbestos-Related Matters of Union Carbide Corporation

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

#### Introduction

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

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Union Carbide expects more asbestos-related suits to be filed against Union Carbide and Amchem in the future, and will aggressively defend or reasonably resolve, as appropriate, both pending and future claims.

### Estimating the Asbestos-Related Liability

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

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

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

Union Carbide's asbestos-related liability for pending and future claims and defense and processing costs was \$1,422 million at June 30, 2017, and approximately 14 percent of the recorded liability related to pending claims and approximately 86 percent related to future claims.

### Summary

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

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

### Urethane Matters

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

### Class Action Lawsuit

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

#### Opt-Out Cases

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

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### Bayer CropScience v. Dow AgroSciences ICC Arbitration

On August 13, 2012, Bayer CropScience AG and Bayer CropScience NV (together, "Bayer") filed a request for arbitration with the International Chamber of Commerce ("ICC") International Court of Arbitration against Dow AgroSciences LLC, a wholly owned subsidiary of the Company, and other subsidiaries of the Company (collectively, "DAS") under a 1992 license agreement executed by predecessors of the parties (the "License Agreement"). In its request for arbitration, Bayer alleged that (i) DAS breached the License Agreement, (ii) the License Agreement was properly terminated with no ongoing rights to DAS, (iii) DAS has infringed and continues to infringe its patent rights related to the use of the pat gene in certain soybean and cotton seed products, and (iv) Bayer is entitled to monetary damages and injunctive relief. DAS denied that it breached the License Agreement and asserted that the License Agreement remained in effect because it was not properly terminated. DAS also asserted that all of Bayer's patents at issue are invalid and/or not infringed, and, therefore, for these reasons (and others), a license was not required. During the pendency of the arbitration proceeding, DAS filed six re-examination petitions with the United States Patent & Trademark Office ("USPTO") against the Bayer patents, asserting that each patent is invalid based on the doctrine against double-patenting and/or prior art. The USPTO granted all six petitions, and, on February 26, 2015, the USPTO issued an office action rejecting the patentability of the sole Bayer patent claim in the only asserted Bayer patent that has not expired and that forms the basis for the vast majority of the damages in the arbitral award discussed below.

A three-member arbitration tribunal presided over the arbitration proceeding (the "tribunal"). In a decision dated October 9, 2015, the tribunal determined that (i) DAS breached the License Agreement, (ii) Bayer properly terminated the License Agreement, (iii) all of the patents remaining in the proceeding are valid and infringed, and (iv) that Bayer is entitled to monetary damages in the amount of \$455 million inclusive of pre-judgment interest and costs (the "arbitral award"). One of the arbitrators, however, issued a partial dissent finding that all of the patents are invalid based on the double-patenting doctrine. The tribunal also denied Bayer's request for injunctive relief. The arbitration award is not self-executing and must be confirmed by a court for it to be enforceable and to have the legal effect of a judgment.

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

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

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

#### Rocky Flats Matter

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

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



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preliminary approval to the class settlement on August 5, 2016. On April 28, 2017, the District Court conducted a fairness hearing and granted final judgment approving the class settlement and dismissed class claims against the defendants ("final judgment order"). The litigation is now concluded.

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

### Dow Corning Chapter 11 Related Matters

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

### Introduction

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

### Breast Implant and Other Product Liability Claims

Under the Plan, a product liability settlement program administered by an independent claims office (the "Settlement Facility") was created to resolve breast implant and other product liability claims. Product liability claimants rejecting the settlement program in favor of pursuing litigation must bring suit against a litigation facility (the "Litigation Facility"). Under the Plan, total payments committed by Dow Corning to resolving product liability claims are capped at a maximum \$2,350 million net present value ("NPV") determined as of the Effective Date using a discount rate of seven percent (approximately \$3,685 million undiscounted at June 30, 2017). Of this amount, no more than \$400 million NPV determined as of the Effective Date can be used to fund the Litigation Facility.

Dow Corning has an obligation to fund the Settlement Facility and the Litigation Facility over a 16-year period, commencing at the Effective Date. As of June 30, 2017, Dow Corning and its insurers have made life-to-date payments of \$1,762 million to the Settlement Facility and the Settlement Facility reported an unexpended balance of \$140 million.

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

outcomes related to any of these assumptions prove to be materially different, the future liability to fund the Plan may be materially different than the amount estimated. If Dow Corning was ultimately required to fund the full liability up to the maximum capped value, the liability would be \$1,923 million at June 30, 2017.

#### Commercial Creditor Issues

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

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In 2006, the U.S. Court of Appeals for the Sixth Circuit concluded that there is a general presumption that contractually specified default interest should be paid by a solvent debtor to unsecured creditors (the "Interest Rate Presumption") and permitting Dow Corning's Commercial Creditors to recover fees, costs, and expenses where allowed by the relevant loan agreements. The matter was remanded to the U.S. District Court for the Eastern District of Michigan ("District Court") for further proceedings, including rulings on the facts surrounding specific claims and consideration of any equitable factors that would preclude the application of the Interest Rate Presumption. On May 10, 2017, the District Court entered a stipulated order resolving pending discovery motions and established a discovery schedule for the Commercial Creditors matter. As a result, Dow Corning and its third party consultants conducted further analysis of the Commercial Creditors claims and defenses. This analysis indicated the estimated remaining liability to Commercial Creditors to be within a range of \$77 million to \$260 million. No single amount within the range appears to be a better estimate than any other amount within the range. Therefore, Dow Corning recorded the minimum liability within the range, which resulted in a decrease to the Commercial Creditor liability of \$33 million, which was included in "Sundry income (expense) - net" in the consolidated statements of income. At June 30, 2017, the liability related to Dow Corning's potential obligation to pay additional interest to its Commercial Creditors in the Chapter 11 Proceeding was \$77 million and is included in "Accrued and other current liabilities" in the consolidated balance sheets (\$108 million at December 31, 2016). The actual amount of interest that will be paid to these creditors is uncertain and will ultimately be resolved through continued proceedings in the District Court.

### Indemnifications

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

### Summary

The amounts recorded by Dow Corning for the Chapter 11 related matters described above were based on current, known facts, which management believes reflect reasonable and probable estimates of the liability. However, future events could cause the actual costs for Dow Corning to be higher or lower than those projected or those recorded. Any such events could result in an increase or decrease in the recorded liability.

### Other Litigation Matters

In addition to the specific matters described above, the Company is party to a number of other claims and lawsuits arising out of the normal course of business with respect to product liability, patent infringement, employment matters, governmental tax and regulation disputes, contract and commercial litigation, 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 may provide coverage that could be utilized to minimize the financial impact, if any, of certain contingencies described above. It is the opinion of the Company's management that the possibility is remote that the aggregate of all such other claims and lawsuits will have a material adverse impact on the results of operations, financial condition and cash flows of the Company.

### Gain Contingency - Dow v. Nova Chemicals Corporation Patent Infringement Matter

On December 9, 2010, Dow filed suit in the Federal Court in Ontario, Canada ("Federal Court") alleging that Nova Chemicals Corporation ("Nova") was infringing the Company's Canadian polyethylene patent 2,106,705 (the "'705 Patent"). Nova counterclaimed on the grounds of invalidity and non-infringement. In accordance with Canadian practice, the suit was bifurcated into a merits phase, followed by a damages phase. Following trial in the merits phase, in May 2014 the Federal Court ruled that the Company's '705 Patent was valid and infringed by Nova. Nova appealed

to the Canadian Federal Court of Appeal, which affirmed the Federal Court decision in August 2016. Nova then sought leave to appeal its loss to the Supreme Court of Canada, which dismissed Nova's petition in April 2017. As a result, Nova has exhausted all appeal rights on the merits, and it is undisputed that Nova owes Dow the profits it earned from its infringing sales as determined in the trial for the damages phase.

On April 19, 2017, the Federal Court issued a Public Judgment in the damages phase, which detailed its conclusions on how to calculate the profits to be awarded to Dow. Dow and Nova submitted their respective calculations of the damages to the Federal Court in May 2017. On June 29, 2017, the Federal Court issued a Confidential Supplemental Judgment, concluding that Nova must pay \$645 million Canadian dollars (equivalent to \$495 million U.S. dollars) to Dow, plus pre- and post-judgment interest, for which Dow received payment of \$501 million from Nova on July 6, 2017. Although Nova is appealing portions of the damages judgment, certain portions of it are indisputable and will be owed to Dow regardless of the outcome of any further appeals by Nova. As a result of these actions and in accordance with ASC 450-30 "Gain Contingencies," the Company recorded

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a \$160 million pretax gain in the second quarter of 2017, reflected in the Performance Plastics segment, of which \$137 million is included in "Sundry income (expense) - net" and \$23 million is included in "Selling, general and administrative expenses" in the consolidated statements of income. At June 30, 2017, included in the Company's consolidated balance sheets was \$501 million in "Accounts and notes receivable - Other" for the damages judgment and \$341 million in "Other noncurrent obligations" related to the disputed portion of the damages judgment. Dow is confident of its chances of defending the entire judgment on appeal, particularly the trial court's determinations on important factual issues, which will be accorded deferential review on appeal.

**Purchase Commitments**

A summary of the Company's purchase commitments can be found in Note 15 to the Consolidated Financial Statements included in the Company's Annual Report on Form 10-K for the year ended December 31, 2016. There have been no material changes to the purchase commitments since December 31, 2016.

**Guarantees**

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

| Guarantees<br>In millions | At June 30, 2017    |                            |                       | At December 31, 2016 |                            |                       |
|---------------------------|---------------------|----------------------------|-----------------------|----------------------|----------------------------|-----------------------|
|                           | Final<br>Expiration | Maximum Future<br>Payments | Recorded<br>Liability | Final<br>Expiration  | Maximum Future<br>Payments | Recorded<br>Liability |
| Guarantees                | 2021                | \$ 4,886                   | \$ 73                 | 2021                 | \$ 5,096                   | \$ 86                 |
| Residual value guarantees | 2027                | 998                        | 134                   | 2027                 | 947                        | 134                   |
| Total guarantees          |                     | \$ 5,884                   | \$ 207                |                      | \$ 6,043                   | \$ 220                |

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

The Company has entered into guarantee agreements ("Guarantees") related to project financing for Sadara Chemical Company ("Sadara"), a nonconsolidated affiliate. The total of an Islamic bond and additional project financing (collectively "Total Project Financing") obtained by Sadara is approximately \$12.5 billion. Sadara had \$12.4 billion of Total Project Financing outstanding at June 30, 2017 (\$12.4 billion at December 31, 2016). The Company's guarantee of the Total Project Financing is in proportion to the Company's 35 percent ownership interest in Sadara, or up to approximately \$4.4 billion when the project financing is fully drawn. The Guarantees will be released upon completion of construction of the Sadara complex and satisfactory fulfillment of certain other conditions, including passage of an extensive operational testing program, which is currently anticipated by the end of 2018 and must occur no later than December 2020.

**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.

**Asset Retirement Obligations**

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

The aggregate carrying amount of asset retirement obligations recognized by the Company was \$109 million at June 30, 2017 (\$110 million at December 31, 2016). These obligations are included in the consolidated balance sheets as "Accrued and other current liabilities" and "Other noncurrent obligations."

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

**NOTE 11 – TRANSFERS OF FINANCIAL ASSETS**

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

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

|   |         |         |      |   |
|---|---------|---------|------|---|
| Interests Held                                | Jun 30, | Dec 31, |      |   |
| In millions                                   | 2017    | 2016    |      |   |
| Carrying value of interests held              | \$1,684 | \$1,237 |      |   |
| Percentage of anticipated credit losses       | 0.38    | %       | 0.36 | % |
| Impact to carrying value - 10% adverse change | \$1     |         | \$1  |   |
| Impact to carrying value - 20% adverse change | \$2     |         | \$1  |   |

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

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

|   |              |         |            |         |
|---|--------------|---------|------------|---------|
| Cash Proceeds                                   | Three Months |         | Six Months |         |
|   | Ended        | Ended   | Ended      | Ended   |
| In millions                                     | Jun 30,      | Jun 30, | Jun 30,    | Jun 30, |
|   | 2017         | 2016    | 2017       | 2016    |
| Collections reinvested in revolving receivables | \$6,051      | \$5,429 | \$11,732   | \$9,977 |
| Interests in conduits (1)                       | \$690        | \$566   | \$804      | \$753   |

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

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

|  |         |         |
|--|---------|---------|
| Trade Accounts Receivable Sold                         | Jun 30, | Dec 31, |
| In millions  | 2017    | 2016    |
| Delinquencies on sold receivables still outstanding    | \$60    | \$86    |
| Trade accounts receivable outstanding and derecognized | \$2,649 | \$2,257 |

The Company repurchased \$4 million of previously sold receivables during the second quarter of 2016.





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

|  |         |         |
|--|---------|---------|
| Notes Payable                            | Jun 30, | Dec 31, |
| In millions                              | 2017    | 2016    |
| Commercial paper                         | \$ 195  | \$ —    |
| Notes payable to banks and other lenders | 266     | 225     |
| Notes payable to related companies       | 19      | 44      |
| Notes payable trade                      | —       | 3       |
| Total notes payable                      | \$ 480  | \$ 272  |
| Period-end average interest rates        | 4.05 %  | 4.60 %  |

|  |         |          |         |          |
|--|---------|----------|---------|----------|
| Long-Term Debt                                       | 2017    | Jun 30,  | 2016    | Dec 31,  |
| In millions  | Average | 2017     | Average | 2016     |
|  | Rate    |          | Rate    |          |
| Promissory notes and debentures:                     |         |          |         |          |
| Final maturity 2017                                  | 6.03    | % \$439  | 6.06    | % \$442  |
| Final maturity 2018                                  | 5.78    | % 339    | 5.78    | % 339    |
| Final maturity 2019                                  | 8.55    | % 2,122  | 8.55    | % 2,122  |
| Final maturity 2020                                  | 4.46    | % 1,547  | 4.46    | % 1,547  |
| Final maturity 2021                                  | 4.71    | % 1,424  | 4.72    | % 1,424  |
| Final maturity 2022                                  | 3.00    | % 1,253  | 3.00    | % 1,250  |
| Final maturity 2023 and thereafter                   | 5.98    | % 7,200  | 5.98    | % 7,199  |
| Other facilities:                                    |         |          |         |          |
| U.S. dollar loans, various rates and maturities      | 2.07    | % 4,580  | 1.60    | % 4,595  |
| Foreign currency loans, various rates and maturities | 3.16    | % 857    | 3.42    | % 882    |
| Medium-term notes, varying maturities through 2025   | 3.86    | % 996    | 3.82    | % 1,026  |
| Tax-exempt bonds, varying maturities through 2038    | 5.66    | % 343    | 5.66    | % 343    |
| Capital lease obligations                            | —       | 292      | —       | 295      |
| Unamortized debt discount and issuance costs         | —       | (365 )   | —       | (373 )   |
| Long-term debt due within one year (1)               | —       | (955 )   | —       | (635 )   |
| Long-term debt                                       | —       | \$20,072 | —       | \$20,456 |

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

Annual  
Installments  
on  
Long-Term  
Debt  
For Next  
Five Years  
at June 30,  
2017 (1)  
In millions  
2017 \$ 535  
2018 \$ 749  
2019 \$ 6,929  
2020 \$ 1,828  
2021 \$ 1,559  
2022 \$ 1,496

(1) Assumes the option to extend a term loan facility

related to the DCC Transaction will be exercised.

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## 2017 Activity

In the first six months of 2017, the Company redeemed \$30 million aggregate principal amount of InterNotes at maturity. In addition, approximately \$60 million of long-term debt was repaid by consolidated variable interest entities.

## 2016 Activity

In the first six months of 2016, the Company redeemed \$349 million of 2.5 percent notes that matured on February 15, 2016. In addition, approximately \$68 million of long-term debt (net of \$28 million of additional borrowings) was repaid by consolidated variable interest entities.

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

## Available Credit Facilities

The following table summarizes the Company's credit facilities:

## Committed and Available Credit Facilities at June 30, 2017

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

In connection with the DCC Transaction, on May 31, 2016 Dow Corning incurred \$4.5 billion of indebtedness under a certain third party credit agreement ("DCC Term Loan Facility"). Subsequent to the DCC Transaction, the Company guaranteed the obligations of Dow Corning under the DCC Term Loan Facility and, as a result, the covenants and events of default applicable to the DCC Term Loan Facility are substantially similar to the covenants and events of default set forth in the Company's Five Year Competitive Advance and Revolving Credit Facility. In the second quarter of 2017, Dow Corning exercised a 364-day extension option making amounts borrowed under the DCC Term

Loan Facility repayable on May 29, 2018, and amended the DCC Term Loan Facility to include an additional 19-month extension option, at Dow Corning's election, upon satisfaction of certain customary conditions precedent. Dow Corning intends to exercise the additional 19-month extension option on the DCC Term Loan Facility.

#### Debt Covenants and Default Provisions

There were no material changes to the debt covenants and default provisions related to the Company's outstanding long-term debt and primary, private credit agreements in the first six months of 2017. For additional information on the Company's debt covenants and default provisions, see Note 17 to the Consolidated Financial Statements included in the Company's Annual Report on Form 10-K for the year ended December 31, 2016.

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## NOTE 13 – VARIABLE INTEREST ENTITIES

A complete description of the Company's variable interest entities ("VIEs") can be found in Note 20 to the Consolidated Financial Statements included in the Company's Annual Report on Form 10-K for the year ended December 31, 2016.

## Consolidated VIEs

The Company's consolidated financial statements include the assets, liabilities and results of operations of VIEs, for which the Company is the primary beneficiary. 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 consolidated VIEs' assets and liabilities included in the Company's consolidated balance sheets at June 30, 2017 and December 31, 2016.

| Assets and Liabilities of Consolidated VIEs | Jun 30, | Dec 31, |
|---|---------|---------|
| In millions                                 | 2017    | 2016    |
| Cash and cash equivalents                   | \$87    | \$75    |
| Other current assets                        | 105     | 95      |
| Net property                                | 942     | 961     |
| Other noncurrent assets                     | 53      | 55      |
| Total assets (1)                            | \$1,187 | \$1,186 |
| Current liabilities                         | \$271   | \$286   |
| Long-term debt                              | 306     | 330     |
| Other noncurrent obligations                | 44      | 47      |
| Total liabilities (2)                       | \$621   | \$663   |

(1) All assets were restricted at June 30, 2017 and December 31, 2016.

(2) All liabilities were nonrecourse at June 30, 2017 and December 31, 2016.

In addition, the carrying amounts of assets and liabilities included in the Company's consolidated balance sheets pertaining to an entity created to monetize accounts receivable of select European entities were current assets of \$627 million (zero restricted) at June 30, 2017 (\$477 million, zero restricted, at December 31, 2016) and current liabilities of \$2 million (zero nonrecourse) at June 30, 2017 (less than \$1 million, zero nonrecourse, at December 31, 2016).

Amounts presented in the consolidated balance sheets and the preceding table as restricted assets or nonrecourse obligations relating to consolidated VIEs at June 30, 2017 and December 31, 2016 are adjusted for intercompany eliminations.

## Nonconsolidated VIEs

The Company had a negative investment basis of \$844 million in Hemlock Semiconductor L.L.C. at June 30, 2017 (negative investment basis of \$902 million at December 31, 2016), which is classified as "Other noncurrent obligations" in the consolidated balance sheets. The Company's maximum exposure to loss was zero at June 30, 2017 (zero at December 31, 2016).

The Company's investment in certain joint ventures that produce silicon inputs for the Company was \$91 million at June 30, 2017 (\$96 million at December 31, 2016) and is classified as "Investment in nonconsolidated affiliates" in the consolidated balance sheets, representing the Company's maximum exposure to loss.

The Company's investment in its crude acrylic acid joint venture was \$152 million at June 30, 2017 (\$171 million at December 31, 2016) and is classified as "Investment in nonconsolidated affiliates" in the consolidated balance sheets, representing the Company's maximum exposure to loss.

The Company's investment in AgroFresh Solutions, Inc. ("AFSI") was \$34 million at June 30, 2017 (\$46 million at December 31, 2016), and is classified as "Investment in nonconsolidated affiliates" in the consolidated balance sheets. On April 4, 2017, the Company and AFSI revised certain agreements related to the divestiture of the AgroFresh business, including termination of an agreement related to a receivable for six million warrants, which was valued at \$1 million at December 31, 2016. The Company also entered into an agreement to purchase up to 5,070,358 shares of AFSI's common stock, which represented approximately 10 percent of AFSI's common stock outstanding at signing of the agreement, subject to certain terms and conditions. At June 30, 2017, the Company had a receivable with AFSI of \$4 million (\$12 million at December 31, 2016), which is classified as "Accounts and notes receivable - Other" in the consolidated balance sheets. The Company's maximum exposure to loss was \$38 million at June 30, 2017 (\$59 million at December 31, 2016).

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## NOTE 14 – PENSION PLANS AND OTHER POSTRETIREMENT BENEFITS

| Net Periodic Benefit Cost for All Significant Plans | Three Months Ended |              | Six Months Ended |              |
|---|--------------------|--------------|------------------|--------------|
|   | Jun 30, 2017       | Jun 30, 2016 | Jun 30, 2017     | Jun 30, 2016 |
| In millions   |                    |              |                  |              |
| Defined Benefit Pension Plans:                      |                    |              |                  |              |
| Service cost  | \$126              | \$111        | \$251            | \$215        |
| Interest cost                                       | 220                | 207          | 439              | 404          |
| Expected return on plan assets                      | (385 )             | (356 )       | (768 )           | (698 )       |
| Amortization of prior service credit                | (6 )               | (6 )         | (12 )            | (12 )        |
| Amortization of net loss                            | 158                | 148          | 315              | 294          |
| Curtailment/settlement (1)                          | (6 )               | —            | (6 )             | —            |
| Net periodic benefit cost                           | \$107              | \$104        | \$219            | \$203        |
| Other Postretirement Benefits:                      |                    |              |                  |              |
| Service cost  | \$3                | \$3          | \$6              | \$6          |
| Interest cost                                       | 13                 | 12           | 27               | 24           |
| Amortization of prior service credit                | —                  | —            | —                | (1 )         |
| Amortization of net gain                            | (1 )               | (2 )         | (3 )             | (4 )         |
| Net periodic benefit cost                           | \$15               | \$13         | \$30             | \$25         |

(1) The 2017 impact relates to the curtailment and settlement of a pension plan in Korea.

## NOTE 15 – STOCK-BASED COMPENSATION

A summary of the Company's stock-based compensation plans can be found in Note 21 to the Consolidated Financial Statements included in the Company's Annual Report on Form 10-K for the year ended December 31, 2016.

## Employee Stock Purchase Plan

The Company grants stock-based compensation to employees under The Dow Chemical Company 2012 Employee Stock Purchase Plan (the "2012 ESPP"). Under the 2017 annual offering of the 2012 ESPP, most employees were eligible to purchase shares of common stock of the Company valued at up to 10 percent of their annual base salary. The value is determined using the plan price multiplied by the number of shares subscribed to by the employee. The plan price of the stock is set at an amount equal to at least 85 percent of the fair market value (closing price) of the common stock on a date during the fourth quarter of the year prior to the offering, or the average fair market value (closing price) of the common stock over a period during the fourth quarter of the year prior to the offering, in each case, specified by the Executive Vice President of Human Resources.

In the first quarter of 2017, employees subscribed to the right to purchase 3.6 million shares of the Company's common stock with a weighted-average exercise price of \$50.22 per share and a weighted-average fair value of \$10.70 per share under the 2012 ESPP.

## Stock Incentive Plan

The Company also grants stock-based compensation to employees and non-employee directors under The Dow Chemical Company Amended and Restated 2012 Stock Incentive Plan (the "2012 Plan"). Most of the Company's stock-based compensation awards are granted in the first quarter of each year.

In the first quarter of 2017, the Company granted the following stock-based compensation awards to employees under the 2012 Plan:

2.2 million stock options with a weighted-average exercise price of \$61.19 per share and a weighted-average fair value of \$14.44 per share;

1.6 million shares of deferred stock with a weighted-average fair value of \$61.13 per share; and

1.7 million shares of performance deferred stock with a weighted-average fair value of \$81.99 per share.



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During the second quarter of 2017, the Company granted the following stock-based compensation awards to non-employee directors under the 2012 Plan:

33,000 shares of restricted stock with a weighted-average fair value of \$62.04 per share.

Total unrecognized compensation cost at June 30, 2017, is provided in the following table:

| Total Unrecognized Compensation Cost at<br>June 30, 2017<br>In millions | Unrecognized<br>Compensation<br>Cost | Remaining<br>Weighted-average<br>Recognition<br>Period (Years) |
|---|--------------------------------------|--|
| Unvested stock options  | \$ 32                                | .79  |
| Deferred stock awards   | \$ 126                               | .91  |
| Performance deferred stock awards                                       | \$ 153                               | .83  |

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## NOTE 16 – EARNINGS PER SHARE CALCULATIONS

The following tables provide the earnings per share calculations for the three- and six-month periods ended June 30, 2017 and 2016:

|  |                    |              |                    |                  |
|--|--------------------|--------------|--------------------|------------------|
| Net Income for Earnings Per Share Calculations - Basic                     | Three Months Ended |              | Six Months Ended   |                  |
| In millions  | Jun 30, 2017       | Jun 30, 2016 | Jun 30, 2017       | Jun 30, 2016     |
| Net income attributable to The Dow Chemical Company                        | \$1,321            | \$3,208      | \$2,209            | \$3,462          |
| Preferred stock dividends (1)  | —                  | (85 )        | —                  | (170 )           |
| Net income attributable to participating securities (2)                    | (6 )               | (18 )        | (10 )              | (19 )            |
| Net income attributable to common stockholders                             | \$1,315            | \$3,105      | \$2,199            | \$3,273          |
| Earnings Per Share Calculations - Basic                                    | Three Months Ended |              | Six Months Ended   |                  |
| Dollars per share  | Jun 30, 2017       | Jun 30, 2016 | Jun 30, 2017       | Jun 30, 2016     |
| Net income attributable to The Dow Chemical Company                        | \$1.09             | \$ 2.88      | \$1.83             | \$ 3.13          |
| Preferred stock dividends (1)  | —                  | (0.07 )      | —                  | (0.15 )          |
| Net income attributable to participating securities (2)                    | (0.01 )            | (0.02 )      | (0.01 )            | (0.02 )          |
| Net income attributable to common stockholders                             | \$1.08             | \$ 2.79      | \$1.82             | \$ 2.96          |
| Net Income for Earnings Per Share Calculations - Diluted                   | Three Months Ended |              | Six Months Ended   |                  |
| In millions  | Jun 30, 2017       | Jun 30, 2016 | Jun 30, 2017       | Jun 30, 2016     |
| Net income attributable to The Dow Chemical Company                        | \$1,321            | \$3,208      | \$2,209            | \$3,462          |
| Preferred stock dividends (1)  | —                  | —            | —                  | —                |
| Net income attributable to participating securities (2)                    | (6 )               | (18 )        | (10 )              | (19 )            |
| Net income attributable to common stockholders                             | \$1,315            | \$3,190      | \$2,199            | \$3,443          |
| Earnings Per Share Calculations - Diluted                                  | Three Months Ended |              | Six Months Ended   |                  |
| Dollars per share  | Jun 30, 2017       | Jun 30, 2016 | Jun 30, 2017       | Jun 30, 2016     |
| Net income attributable to The Dow Chemical Company                        | \$1.08             | \$ 2.62      | \$1.80             | \$ 2.84          |
| Preferred stock dividends (1)  | —                  | —            | —                  | —                |
| Net income attributable to participating securities (2)                    | (0.01 )            | (0.01 )      | (0.01 )            | (0.01 )          |
| Net income attributable to common stockholders                             | \$1.07             | \$ 2.61      | \$1.79             | \$ 2.83          |
| Share Count Information  |                    |              | Three Months Ended | Six Months Ended |
| Shares in millions   |                    |              | Jun 30, 2017       | Jun 30, 2016     |
| Weighted-average common shares - basic                                     |                    |              | 1,211.8            | 1,111.1          |
| Plus dilutive effect of stock options and awards                           |                    |              | 17.2               | 14.9             |
| Plus dilutive effect of preferred stock (1)                                |                    |              | N/A                | 96.8             |
| Weighted-average common shares - diluted                                   |                    |              | 1,229.0            | 1,222.8          |
| Stock options and deferred stock awards excluded from EPS calculations (3) |                    |              | 2.2                | 3.0              |
|  |                    |              | 1.7                | 3.7              |

On December 30, 2016, the Company converted its outstanding shares of Cumulative Convertible Perpetual (1)Preferred Stock, Series A ("Preferred Stock") into shares of the Company's common stock. As a result of this conversion, no shares of Preferred Stock are issued or outstanding.

(2)

Deferred stock awards are considered participating securities due to Dow's practice of paying dividend equivalents on unvested shares.

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

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## NOTE 17 – INCOME TAXES

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

Interest and penalties associated with uncertain tax positions are recognized as components of "Provision for income taxes" in the consolidated statements of income and totaled a charge of \$3 million for the three months ended June 30, 2017 (a charge of \$97 million for the three months ended June 30, 2016). During the six months ended June 30, 2017, the Company recognized a charge of \$4 million for interest and penalties (a charge of \$90 million for the six months ended June 30, 2016).

## NOTE 18 – ACCUMULATED OTHER COMPREHENSIVE LOSS

The following table provides an analysis of the changes in accumulated other comprehensive loss for the six-month periods ended June 30, 2017 and 2016:

| Accumulated Other Comprehensive Loss   | Six Months Ended |              |
|--|------------------|--------------|
|  | Jun 30, 2017     | Jun 30, 2016 |
| In millions  |                  |              |
| Unrealized Gains on Investments at beginning of year   | \$43             | \$47         |
| Net change in unrealized gains   | 38               | 48           |
| Reclassification to earnings - Net Sales (net of tax of \$(17), \$(8)) (1)                       | (30 )            | (14 )        |
| Balance at end of period   | \$51             | \$81         |
| Cumulative Translation Adjustments at beginning of year  | \$(2,381)        | \$(1,737)    |
| Translation adjustments  | 632              | 246          |
| Reclassification to earnings - Sundry income (expense) - net                                     | (6 )             | (4 )         |
| Balance at end of period   | \$(1,755)        | \$(1,495)    |
| Pension and Other Postretirement Benefit Plans at beginning of year                              | \$(7,389)        | \$(6,769)    |
| Adjustments to pension and other postretirement benefit plans (net of tax of \$95, \$90) (1) (2) | 203              | 187          |
| Reclassification to earnings - Sundry income (expense) - net (3)                                 | —                | 360          |
| Balance at end of period   | \$(7,186)        | \$(6,222)    |
| Derivative Instruments at beginning of year  | \$(95 )          | \$(208 )     |
| Net hedging results  | (73 )            | (30 )        |
| Reclassification to earnings - Cost of sales (net of tax of \$1, \$9) (1)                        | (16 )            | 29           |
| Balance at end of period   | \$(184 )         | \$(209 )     |
| Total Accumulated Other Comprehensive Loss   | \$(9,074)        | \$(7,845)    |

(1) Tax amounts are included in "Provision for income taxes" in the consolidated statements of income.

(2) Included in "Net periodic benefit cost." See Note 14 for additional information.

(3) Related to the DCC Transaction. See Note 4 for additional information.

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## NOTE 19 – NONCONTROLLING INTERESTS

Ownership interests in the Company's subsidiaries held by parties other than the Company are presented separately from the Company's equity in the consolidated balance sheets as "Noncontrolling interests." The amount of consolidated net income attributable to the Company and the noncontrolling interests are both presented on the face of the consolidated statements of income.

The following table summarizes the activity for equity attributable to noncontrolling interests for the three- and six-month periods ended June 30, 2017 and 2016:

| Noncontrolling Interests                            | Three Months |         | Six Months |         |
|---|--------------|---------|------------|---------|
|   | Ended        |         | Ended      |         |
| In millions   | Jun 30,      | Jun 30, | Jun 30,    | Jun 30, |
|   | 2017         | 2016    | 2017       | 2016    |
| Balance at beginning of period                      | \$1,274      | \$835   | \$1,242    | \$809   |
| Net income attributable to noncontrolling interests | 38           | 19      | 65         | 40      |
| Distributions to noncontrolling interests (1)       | (27 )        | (41 )   | (48 )      | (52 )   |
| Acquisition of noncontrolling interests (2)         | —            | 473     | —          | 473     |
| Deconsolidation of noncontrolling interests (3)     | (119 )       | —       | (119 )     | —       |
| Cumulative translation adjustments                  | 3            | 10      | 28         | 27      |
| Other   | (1 )         | 2       | —          | 1       |
| Balance at end of period                            | \$1,168      | \$1,298 | \$1,168    | \$1,298 |

Distributions to noncontrolling interests are net of \$3 million for the three- and six-month periods ended June 30, 2017 (\$14 million for the three- and six-month periods ended June 30, 2016) for dividends paid to a joint venture (1) which were reclassified to "Equity in earnings of nonconsolidated affiliates" in the consolidated statements of income.

(2) Assumed in the DCC Transaction.

(3) On June 30, 2017, the Company sold its ownership interest in the SKC Haas Display Films group of companies. See Note 6 for additional information.

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## NOTE 20 – SEGMENTS AND GEOGRAPHIC AREAS

Effective January 1, 2017, the Company changed its measure of profit/loss for segment reporting purposes from EBITDA to Operating EBITDA to reflect the manner in which the Company's chief operating decision maker now assesses segment performance and allocates resources. The Company defines Operating EBITDA as EBITDA (which Dow defines as earnings (i.e., "Net Income") before interest, income taxes, depreciation and amortization) excluding the impact of certain items. Operating EBITDA by 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 "Income Before Income Taxes" to Operating EBITDA as well as a listing of the certain items impacting results are provided in the following tables. Prior year data has been updated to conform with current year presentation.

| Segment Information  | Three Months Ended |              | Six Months Ended |              |
|--|--------------------|--------------|------------------|--------------|
|  | Jun 30, 2017       | Jun 30, 2016 | Jun 30, 2017     | Jun 30, 2016 |
| In millions  |                    |              |                  |              |
| Sales by segment   |                    |              |                  |              |
| Agricultural Sciences  | \$1,629            | \$1,577      | \$3,197          | \$3,223      |
| Consumer Solutions   | 1,676              | 1,265        | 3,275            | 2,319        |
| Infrastructure Solutions   | 2,789              | 2,085        | 5,314            | 3,679        |
| Performance Materials & Chemicals                                    | 2,566              | 2,264        | 5,008            | 4,445        |
| Performance Plastics   | 5,079              | 4,694        | 10,104           | 8,859        |
| Corporate  | 95                 | 67           | 166              | 130          |
| Total  | \$13,834           | \$11,952     | \$27,064         | \$22,655     |
| Operating EBITDA by segment  |                    |              |                  |              |
| Agricultural Sciences  | \$326              | \$232        | \$677            | \$635        |
| Consumer Solutions   | 541                | 341          | 1,041            | 651          |
| Infrastructure Solutions   | 556                | 432          | 1,067            | 725          |
| Performance Materials & Chemicals                                    | 347                | 295          | 782              | 630          |
| Performance Plastics   | 1,062              | 1,247        | 2,046            | 2,238        |
| Corporate  | (73 )              | (83 )        | (150 )           | (162 )       |
| Total  | \$2,759            | \$2,464      | \$5,463          | \$4,717      |
| Equity in earnings (losses) of nonconsolidated affiliates by segment |                    |              |                  |              |
| Agricultural Sciences  | \$(7 )             | \$(11 )      | \$(8 )           | \$(4 )       |
| Consumer Solutions   | 15                 | 18           | 55               | 38           |
| Infrastructure Solutions   | 28                 | 45           | 83               | 96           |
| Performance Materials & Chemicals                                    | (13 )              | (12 )        | 60               | (43 )        |
| Performance Plastics   | 33                 | 45           | 66               | 44           |
| Corporate  | (2 )               | (3 )         | (6 )             | (10 )        |
| Total  | \$54               | \$82         | \$250            | \$121        |

| Reconciliation of "Income Before Income Taxes" to Operating EBITDA | Three Months Ended |              | Six Months Ended |              |
|--|--------------------|--------------|------------------|--------------|
|  | Jun 30, 2017       | Jun 30, 2016 | Jun 30, 2017     | Jun 30, 2016 |
| In millions  |                    |              |                  |              |
| Income Before Income Taxes   | \$1,814            | \$3,357      | \$2,942          | \$3,522      |
| + Interest expense and amortization of debt discount               | 226                | 208          | 445              | 409          |
| - Interest income  | 22                 | 18           | 47               | 38           |
| + Depreciation and amortization                                    | 739                | 680          | 1,517            | 1,287        |

|                  |         |         |         |         |
|------------------|---------|---------|---------|---------|
| - Certain items  | (2      | ) 1,763 | (606    | ) 463   |
| Operating EBITDA | \$2,759 | \$2,464 | \$5,463 | \$4,717 |

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The following tables summarize the pretax impact of certain items by segment (which are excluded from Operating EBITDA) for the three- and six-month periods ended June 30, 2017 and 2016:

| Certain Items by Segment for the Three Months Ended June 30, 2017 | Agri-culture<br>Sciences | Consumer<br>Solutions | Infra-structure<br>Solutions | Perf<br>Materials<br>&<br>Chemicals | Perf<br>Plastics | Corp | Total   |
|---|--------------------------|-----------------------|------------------------------|-------------------------------------|------------------|------|---------|
| In millions   |                          |                       |                              |                                     |                  |      |         |
| Costs associated with transactions and productivity actions (1)   | \$ —                     | —\$                   | —\$                          | —                                   | \$ —             | —    | \$(158) |
| Nova patent infringement award (2)                                | —                        | —                     | —                            | —                                   | 137              | —    | 137     |
| Restructuring charges and adjustments (3)                         | —                        | —                     | 3                            | —                                   | —                | 9    | 12      |
| Gain adjustment on split-off of chlorine value chain (4)          | —                        | —                     | —                            | —                                   | —                | 7    | 7       |
| Total   | \$ —                     | —\$                   | —\$                          | 3                                   | \$ —             | 137  | \$(142) |

- Primarily financial, legal and professional advisory fees associated with the planned all-stock merger of equals with E. I. du Pont de Nemours and Company ("DuPont"), implementation costs associated with the DCC
- (1) Transaction, implementation costs associated with the Company's restructuring programs and other productivity actions, which were included in "Cost of sales" (\$19 million) and "Selling, general and administrative expenses" (\$139 million) in the consolidated statements of income.
- (2) Included in "Sundry income (expense) - net" in the consolidated statements of income. See Notes 9 and 10 for additional information.
- (3) Included in "Restructuring charges (credits)" in the consolidated statements of income. See Note 3 for additional information.
- (4) Included in "Sundry income (expense) - net" in the consolidated statements of income.

| Certain Items by Segment for the Three Months Ended June 30, 2016 | Agri-culture<br>Sciences | Consumer<br>Solutions | Infra-structure<br>Solutions | Perf<br>Materials<br>&<br>Chemicals | Perf<br>Plastics | Corp    | Total    |
|---|--------------------------|-----------------------|------------------------------|-------------------------------------|------------------|---------|----------|
| In millions   |                          |                       |                              |                                     |                  |         |          |
| Impact of Dow Corning ownership restructure (1)                   | \$ —                     | \$ 1,263              | \$ 1,055                     | \$ —                                | \$ —             | \$ —    | \$ 2,318 |
| Restructuring charges and adjustments (2)                         | (4 )                     | (29 )                 | (97 )                        | —                                   | (10 )            | (314 )  | (454 )   |
| Costs associated with transactions and productivity actions (3)   | —                        | —                     | —                            | —                                   | —                | (107 )  | (107 )   |
| Gain adjustment on split-off of chlorine value chain (4)          | —                        | —                     | —                            | 6                                   | —                | —       | 6        |
| Total   | \$ (4 )                  | \$ 1,234              | \$ 958                       | \$ 6                                | \$ (10 )         | \$(421) | \$ 1,763 |

- Includes the non-taxable gain of \$2,445 million from the DCC Transaction, included in "Sundry income (expense) - net," \$105 million loss for a one-time increase in "Cost of sales" related to the fair value step-up of inventories
- (1) assumed in the ownership restructure and a \$22 million loss related to the early redemption of debt incurred by Dow Corning, reflected in "Equity in earnings of nonconsolidated affiliates" in the consolidated statements of income. See Note 4 for additional information.
- (2) Included in "Restructuring charges (credits)" in the consolidated statements of income. See Note 3 for additional information.
- (3) Primarily financial, legal and professional advisory fees associated with the planned all-stock merger of equals with DuPont, costs associated with the DCC Transaction and implementation costs associated with the 2015 Restructuring program, which were included in "Cost of sales" (\$34 million) and "Selling, general and administrative expenses" (\$73 million) in the consolidated statements of income.
- (4) Included in "Sundry income (expense) - net" in the consolidated statements of income.



| Certain Items by Segment for the Six Months Ended<br>June 30, 2017 | Agri-cultural<br>Sciences | Consumer<br>Solutions | Infra-structure<br>Solutions | Perf<br>Materials<br>&<br>Chemicals | Perf<br>Plastics | Corp     | Total    |
|--|---------------------------|-----------------------|------------------------------|-------------------------------------|------------------|----------|----------|
| In millions  |                           |                       |                              |                                     |                  |          |          |
| Bayer CropScience arbitration matter (1)                           | \$ (469 )                 | \$ —                  | \$ —                         | \$ —                                | \$ —             | \$ —     | \$ (469) |
| Costs associated with transactions and productivity actions (2)    | —                         | —                     | —                            | —                                   | —                | (293 )   | (293 )   |
| Nova patent infringement award                                     | —                         | —                     | —                            | —                                   | 137              | —        | 137      |
| Restructuring charges and adjustments                              | —                         | —                     | 3                            | —                                   | —                | 9        | 12       |
| Gain adjustment on split-off of chlorine value chain               | —                         | —                     | —                            | —                                   | —                | 7        | 7        |
| Total  | \$ (469 )                 | \$ —                  | \$ 3                         | \$ —                                | \$ 137           | \$ (277) | \$ (606) |

(1) Included in "Sundry income (expense) - net" in the consolidated statements of income. See Notes 9 and 10 for additional information.

(2) Included in "Cost of sales" (\$42 million) and "Selling, general and administrative expenses" (\$251 million) in the consolidated statements of income.

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| Certain Items by Segment for the Six Months Ended June 30, 2016 | Agri-cultural Sciences | Consumer Solutions | Infra-structure Solutions | Perf Materials & Chemicals | Perf Plastics | Corp      | Total    |
|---|------------------------|--------------------|---------------------------|----------------------------|---------------|-----------|----------|
| In millions   |                        |                    |                           |                            |               |           |          |
| Impact of Dow Corning ownership restructure                     | \$ —                   | \$ 1,263           | \$ 1,055                  | \$ —                       | \$ —          | \$ —      | \$ 2,318 |
| Urethane matters legal settlements (1)                          | —                      | —                  | —                         | (1,235 )                   | —             | —         | (1,235 ) |
| Restructuring charges and adjustments                           | (4 )                   | (29 )              | (97 )                     | —                          | (10 )         | (314 )    | (454 )   |
| Costs associated with transactions and productivity actions (2) | —                      | —                  | —                         | —                          | —             | (172 )    | (172 )   |
| Gain adjustment on split-off of chlorine value chain            | —                      | —                  | —                         | 6                          | —             | —         | 6        |
| Total   | \$ (4 )                | \$ 1,234           | \$ 958                    | \$ (1,229 )                | \$ (10 )      | \$ (486 ) | \$ 463   |

(1) Included in "Sundry income (expense) - net" in the consolidated statements of income. See Notes 9 and 10 for additional information.

(2) Included in "Cost of sales" (\$57 million) and "Selling, general and administrative expenses" (\$115 million) in the consolidated statements of income.

The following table summarizes sales by geographic area:

| Geographic Area                       | Three Months Ended |              | Six Months Ended |              |
|---------------------------------------|--------------------|--------------|------------------|--------------|
|                                       | Jun 30, 2017       | Jun 30, 2016 | Jun 30, 2017     | Jun 30, 2016 |
| In millions                           |                    |              |                  |              |
| Sales by geographic area              |                    |              |                  |              |
| United States                         | \$4,841            | \$4,252      | \$9,661          | \$8,052      |
| Europe, Middle East, Africa and India | 4,385              | 3,730        | 8,626            | 7,254        |
| Rest of World                         | 4,608              | 3,970        | 8,777            | 7,349        |
| Total                                 | \$13,834           | \$11,952     | \$27,064         | \$22,655     |

**NOTE 21 – PLANNED MERGER WITH DUPONT**

On December 11, 2015, Dow and DuPont entered into an Agreement and Plan of Merger, as amended on March 31, 2017 (the "Merger Agreement") to effect an all-stock, merger of equals strategic combination resulting in a newly formed corporation named DowDuPont Inc. ("DowDuPont"). Pursuant to the terms of the Merger Agreement, Dow and DuPont will each merge with wholly owned subsidiaries of DowDuPont (the "Mergers") and, as a result of the Mergers, will become subsidiaries of DowDuPont (collectively, the "Merger Transaction"). Following the consummation of the Mergers, Dow and DuPont intend to pursue, subject to the receipt of any required regulatory approvals and approval by the board of directors of DowDuPont, the separation of the combined company's agricultural business, specialty products business and materials science business through one or more tax-efficient transactions. Additional information about the Merger Agreement is included in the Company's Annual Report on Form 10-K for the year ended December 31, 2016 as well as in Current Reports on Form 8-K filed with the U.S. Securities and Exchange Commission on December 11, 2015 and March 31, 2017.

On March 27, 2017, Dow and DuPont announced that the European Commission ("EC") granted conditional approval in Europe of the companies' proposed merger of equals. The EC's approval was conditioned on DuPont and Dow fulfilling certain divestiture commitments given to the EC in connection with the clearance. Specifically, DuPont will divest its Cereal Broadleaf Herbicides and Chewing Insecticides portfolios as well as its Crop Protection research and development ("R&D") pipeline and organization (excluding seed treatment, nematicides, late-stage R&D programs

and certain personnel needed to support marketed products and R&D programs that will remain with DuPont) (collectively, the "DuPont Divested Assets"). Dow will divest its global Ethylene Acrylic Acid ("EAA") copolymers and ionomers business to SK Global Chemical Co., Ltd., as announced on February 2, 2017. Dow's divestiture of the EAA business is conditioned on Dow and DuPont closing the Merger Transaction, in addition to other customary closing conditions, including the receipt of certain required regulatory approvals, local employment law and governance obligations.

On March 31, 2017, in connection with the commitments given to the EC with respect to its conditional approval of the Merger Transaction, DuPont entered into an agreement with FMC Corporation ("FMC") whereby FMC will acquire the DuPont Divested Assets and DuPont will acquire FMC's Health and Nutrition business segment, excluding its Omega-3 products (the "H&N Business"). DuPont's transaction with FMC is expected to close in the fourth quarter of 2017, subject to the closing of the Merger Transaction, in addition to the waiver or satisfaction of other customary closing conditions, including approval by the EC of FMC as the buyer of the DuPont Divested Assets and the receipt of other required regulatory approvals.

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In connection with DuPont's proposed transaction with FMC, on March 31, 2017 Dow and DuPont amended the Merger Agreement to, among other things, extend the outside date from June 15, 2017 to August 31, 2017 and to provide that DuPont cannot take certain specified actions to obtain regulatory approvals with respect to its acquisition of the H&N Business if those actions would reasonably be likely to result in the one-year loss of revenues to Dow, DuPont, DowDuPont, their subsidiaries or the H&N Business in excess of \$350 million in the aggregate (based on fiscal year 2016 annual revenues). In addition, the amendment of the Merger Agreement also amended the form of bylaws for DowDuPont to reflect that Dow and DuPont currently intend that the first step in the intended separation process will be the spin-off of the post-merger materials science business (assuming that such sequencing would allow for the completion of all of the intended spin-offs within 18 months following closing of the Merger Transaction and would not adversely impact the value of the intended spin-off transaction to DowDuPont's shareholders).

On May 2, 2017, Dow and DuPont announced that China's Ministry of Commerce ("MOFCOM") granted conditional regulatory approval for the companies' proposed merger of equals which includes commitments already made to the EC including DuPont's divestiture of the DuPont Divested Assets and Dow's divestiture of the EAA copolymers and ionomers business. In addition, Dow and DuPont have made commitments related to the supply and distribution in China of certain herbicide and insecticide ingredients and formulations for rice crops for five years after the closing of the Merger Transaction.

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

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

On June 28, 2017, the Board of Directors ("Boards") of Dow and DuPont reiterated their support of the proposed merger of equals transaction. In addition, the Boards announced their support of a comprehensive portfolio review for DowDuPont, which is intended to assess current business facts and leverage the knowledge gained over the past year and a half to capture any material value-enhancing opportunities in preparation for the intended creation of three industry-leading companies.

Dow and DuPont remain focused on closing the Merger Transaction. Closing is expected to occur in August 2017.

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The Dow Chemical Company and Subsidiaries  
(Unaudited) PART I – FINANCIAL INFORMATION, Item 2. Management’s Discussion and  
Analysis of Financial Condition and Results of Operations.

OVERVIEW

The Company reported sales in the second quarter of 2017 of \$13.8 billion, up 16 percent from \$12.0 billion in the second quarter of 2016, with increases across all operating segments and all geographic areas, primarily reflecting the addition of Dow Corning Corporation's ("Dow Corning") silicones business and increased selling prices.

Volume increased 11 percent compared with the second quarter of 2016, with increases in all operating segments, including double-digit increases in Consumer Solutions (up 33 percent) and Infrastructure Solutions (up 30 percent). Volume increased in all geographic areas, including double-digit increases in Asia Pacific (up 21 percent) and Europe, Middle East, Africa and India ("EMEA") (up 11 percent). Excluding Dow Corning's silicones business<sup>(1)</sup>, volume was up 3 percent with gains in all geographic areas. On the same basis, volume increased in Consumer Solutions (up 9 percent) and Infrastructure Solutions (up 3 percent).

Price was up 5 percent compared with the same period last year, with increases in all operating segments, except Agricultural Sciences (down 3 percent) and Consumer Solutions (down 1 percent), including a double-digit increase in Performance Materials & Chemicals (up 10 percent). Price increased in all geographic areas.

Purchased feedstock and energy costs increased approximately \$460 million (18 percent) compared with the second quarter of 2016, primarily due to higher propane, ethane, natural gas and monomer costs.

Selling, general and administrative ("SG&A") expenses were \$855 million in the second quarter of 2017, up \$68 million from \$787 million in the second quarter of 2016, primarily due to: increased costs associated with transactions and productivity actions, primarily financial, legal and professional advisory fees, including costs associated with the planned all-stock merger of equals with E. I. du Pont de Nemours and Company ("DuPont"); implementation costs associated with the ownership restructure of Dow Corning (the "DCC Transaction"); and costs associated with the Company's restructuring programs.

Sundry income (expense) - net was income of \$299 million in the second quarter of 2017, compared with income of \$2,550 million in the second quarter of 2016, which reflected the gain on the ownership restructure of Dow Corning.

In addition to the financial highlights above, the following events occurred during or subsequent to the second quarter of 2017:

On May 2, 2017, Dow and DuPont announced that China's Ministry of Commerce ("MOFCOM") granted conditional regulatory approval for the companies' proposed merger of equals which includes commitments already made to the European Commission ("EC"). Specifically, DuPont will divest its Cereal Broadleaf Herbicides and Chewing Insecticides portfolios as well as its Crop Protection research and development ("R&D") pipeline and organization (excluding seed treatment, nematicides, late-stage R&D programs and certain personnel needed to support marketed products and R&D programs that will remain with DuPont) and Dow will divest of its global Ethylene Acrylic Acid copolymers and ionomers business. In addition, Dow and DuPont have made commitments related to the supply and distribution in China of certain herbicide and insecticide ingredients and formulations for rice crops for five years after the closing of the merger of equals.

On May 11, 2017, Dow announced an update to the transition of Chairman and Chief Executive Officer Andrew N. Liveris, to reflect that he will serve as Executive Chairman of DowDuPont from closing of the merger of equals through April 1, 2018, at which time he will become Chairman through July 2018, at which time he will retire

from the Company and the Board of Directors.

(1) Excludes current period sales from January 1, 2017 through May 31, 2017 related to the ownership restructure of Dow Corning announced on June 1, 2016 (Consumer Solutions and Infrastructure Solutions).

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On May 11, 2017, the Company announced its next phase of comprehensive investments to further enhance its competitive advantage and deliver earnings growth. The investments are expected to come on-line in a phased manner, beginning in 2020 and will require estimated capital expenditures of approximately \$4 billion, spread over the next five years. Primary components of this plan include expansion of the Company's new TX-9 ethylene production facility; construction of a world-scale 600,000 metric ton polyethylene production facility in the U.S. Gulf Coast; construction of a world-scale 450,000 metric ton polyolefins production facility in Europe; and a series of investments to strengthen its polyurethanes franchise.

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

On June 6, 2017, the Company announced the completion of the construction phase of its new ELITE™ enhanced polymer production facility in Freeport, Texas. Completed on time, the 400,000 metric ton polyethylene unit is the first of four new derivative investments currently under way at Dow's manufacturing sites in Texas and Louisiana as part of the Company's previously announced \$6 billion expansion on the U.S. Gulf Coast.

On June 14, 2017, Dow announced it will launch ENLIST™ corn in the United States and Canada for the 2018 growing season, enabling farmers to access the premier technology to maximize yield by controlling weeds.

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

On June 28, 2017, the Board of Directors ("Boards") of Dow and DuPont reiterated their support of the proposed merger of equals transaction. In addition, the Boards announced their support of a comprehensive portfolio review for DowDuPont, which is intended to assess current business facts and leverage the knowledge gained over the past year and a half to capture any material value-enhancing opportunities in preparation for the intended creation of three industry-leading companies.

On July 13, 2017, the Company announced that Joseph E. Harlan, Vice Chairman and Chief Commercial Officer, will retire from the Company by December 31, 2017.

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| Selected Financial Data<br>In millions, except per share amounts | Three Months Ended |                 | Six Months Ended |                 |   |
|--|--------------------|-----------------|------------------|-----------------|---|
|  | Jun 30,<br>2017    | Jun 30,<br>2016 | Jun 30,<br>2017  | Jun 30,<br>2016 |   |
| Net sales  | \$13,834           | \$11,952        | \$27,064         | \$22,655        |   |
| Cost of sales  | \$10,764           | \$9,275         | \$20,961         | \$17,226        |   |
| Percent of net sales   | 77.8               | % 77.6          | % 77.4           | % 76.0          | % |
| Research and development expenses                                | \$405              | \$399           | \$821            | \$760           |   |
| Percent of net sales   | 2.9                | % 3.3           | % 3.0            | % 3.4           | % |
| Selling, general and administrative expenses                     | \$855              | \$787           | \$1,722          | \$1,529         |   |
| Percent of net sales   | 6.2                | % 6.6           | % 6.4            | % 6.7           | % |
| Effective tax rate   | 25.1               | % 3.9           | % 22.7           | % 0.6           | % |
| Net income available for common stockholders                     | \$1,321            | \$3,123         | \$2,209          | \$3,292         |   |
| Earnings per common share – basic                                | \$1.08             | \$2.79          | \$1.82           | \$2.96          |   |
| Earnings per common share – diluted                              | \$1.07             | \$2.61          | \$1.79           | \$2.83          |   |
| Operating rate percentage  | 84                 | % 82            | % 85             | % 85            | % |

## RESULTS OF OPERATIONS

## Net Sales

Net sales in the second quarter of 2017 were \$13.8 billion, up 16 percent from \$12.0 billion in the second quarter of last year, with volume up 11 percent, primarily reflecting the addition of Dow Corning's silicones business, and price up 5 percent. Price increases in Performance Materials & Chemicals (up 10 percent), Performance Plastics (up 7 percent) and Infrastructure Solutions (up 4 percent) more than offset price declines in Agricultural Sciences (down 3 percent) and Consumer Solutions (down 1 percent). Price increased in all geographic areas. Volume increased in Consumer Solutions (up 33 percent), Infrastructure Solutions (up 30 percent), Agricultural Sciences (up 6 percent), Performance Materials & Chemicals (up 3 percent) and Performance Plastics (up 1 percent). Volume increased in Asia Pacific (up 21 percent), EMEAI (up 11 percent), North America (up 8 percent) and Latin America (up 4 percent). Excluding Dow Corning's silicones business, volume was up 3 percent. On the same basis, volume increased in Consumer Solutions (up 9 percent), Infrastructure Solutions (up 3 percent), Asia Pacific and EMEAI (both up 6 percent), North America (up 2 percent) and Latin America (up 1 percent).

Net sales for the first six months of 2017 were \$27.1 billion, up 19 percent from \$22.7 billion from the same period last year, with volume up 13 percent, primarily reflecting the addition of Dow Corning's silicones business, and price up 6 percent. Price increased in all geographic areas and operating segments, except Agricultural Sciences (down 2 percent) and Consumer Solutions (down 1 percent), including a double-digit increase in Performance Plastics (up 11 percent). Volume increased in Consumer Solutions (up 42 percent), Infrastructure Solutions (up 41 percent), Performance Materials & Chemicals (up 5 percent), Performance Plastics (up 3 percent) and Agricultural Sciences (up 1 percent). Volume increased in Asia Pacific (up 26 percent), North America and EMEAI (both up 12 percent) and Latin America (up 5 percent). Excluding Dow Corning's silicones business, volume was up 4 percent. On the same basis, volume increased in Consumer Solutions (up 8 percent), Infrastructure Solutions (up 4 percent), Asia Pacific (up 6 percent), EMEAI (up 5 percent), North America (up 4 percent) and Latin America (up 1 percent).



### Gross Margin

Gross margin was \$3.1 billion in the second quarter of 2017, up from \$2.6 billion in the second quarter of last year. Year to date, gross margin was \$6.1 billion, up from \$5.4 billion in the first six months of 2016. Gross margin increased as higher sales volume, which reflected broad-based demand growth and new product launches; increased selling prices; the favorable impact from the addition of Dow Corning's silicones business; and cost controls and productivity actions more than offset increased feedstock, energy and other raw material costs; increased planned maintenance turnaround costs; and commissioning expenses related to U.S. Gulf Coast growth projects. Gross margin in the second quarter of 2017 was negatively impacted by \$19 million in pretax charges for temporary costs associated with transactions and productivity actions and reflected in Corporate (\$42 million for the six months ended June 30, 2017). Gross margin in the second quarter of 2016 was negatively impacted by a \$105 million charge related to the fair value step-up of inventories assumed in the DCC Transaction and reflected in Consumer

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Solutions (\$30 million) and Infrastructure Solutions (\$75 million) (\$105 million for the six months ended June 30, 2016), and a \$34 million charge for temporary costs associated with transactions and productivity actions, reflected in Corporate (\$57 million for the six months ended June 30, 2016).

### Operating Rate

The Company's global plant operating rate was 84 percent of capacity in the second quarter of 2017, up from 82 percent in the second quarter of 2016. For the first six months of 2017, the Company's global plant operating rate was 85 percent, flat with the first six months of 2016.

### Personnel Count

The Company permanently employed approximately 55,000 at June 30, 2017, down from approximately 56,000 at December 31, 2016. Headcount decreased from December 31, 2016 primarily as a result of the Company's restructuring programs.

### Research and Development Expenses

Research and development ("R&D") expenses totaled \$405 million in the second quarter of 2017, up \$6 million (2 percent) from \$399 million in the second quarter of 2016. For the first six months of 2017, R&D expenses totaled \$821 million, up from \$760 million in the first six months of 2016. R&D expenses increased primarily due to the addition of Dow Corning's silicones business.

### Selling, General and Administrative Expenses

SG&A expenses were \$855 million in the second quarter of 2017, up \$68 million (9 percent) from \$787 million in the second quarter of last year. For the first six months of 2017, SG&A expenses totaled \$1,722 million, up from \$1,529 million for the first six months of 2016. SG&A expenses increased in the second quarter of 2017 primarily due to \$139 million of temporary costs associated with transactions and productivity actions and reflected in Corporate (\$251 million for the first six months of 2017) and the addition of Dow Corning's silicones business. In the second quarter of 2016, SG&A was negatively impacted by \$73 million of temporary costs associated with transactions and productivity actions (\$115 million for the first six months of 2016 and reflected in Corporate).

### Amortization of Intangibles

Amortization of intangibles was \$157 million in the second quarter of 2017, up from \$122 million in the second quarter of 2016. In the first six months of 2017, amortization of intangibles was \$312 million, up from \$225 million in the same period last year. The increase in amortization is due to the addition of Dow Corning's silicones business. See Note 6 to the Consolidated Financial Statements for additional information on intangible assets.

### Restructuring Charges (Credits)

#### 2016 Restructuring

On June 27, 2016, the Board of Directors of the Company approved a restructuring plan that incorporates actions related to the ownership restructure of Dow Corning. These actions, aligned with Dow's value growth and synergy targets, will result in a global workforce reduction of approximately 2,500 positions, with most of these positions resulting from synergies related to the ownership restructure of Dow Corning. These actions are expected to be substantially completed by June 30, 2018. As a result, the Company recorded pretax restructuring charges of \$449 million in the second quarter of 2016 consisting of severance costs of \$268 million, asset write-downs and write-offs of \$153 million and costs associated with exit and disposal activities of \$28 million which are reflected in the Company's segment results as follows: \$28 million in Consumer Solutions, \$97 million in Infrastructure Solutions, \$10 million in Performance Plastics and \$314 million in Corporate.

#### Adjustments to the 2016 Restructuring Charge

In the second quarter of 2017, the Company recorded a favorable adjustment to the 2016 restructuring charge related to costs associated with exit and disposal activities of \$3 million, reflected in the Infrastructure Solutions segment.

#### 2015 Restructuring

##### Adjustments to the 2015 Restructuring Charge

In the first quarter of 2016, the Company recorded a favorable adjustment to the 2015 restructuring charge related to the impairment of long-lived assets of \$2 million, reflected in the Infrastructure Solutions segment. In the second quarter of 2016, the Company recorded an unfavorable adjustment related to additional accruals for exit and disposal activities of \$5 million, reflected in Agricultural Sciences (\$4 million) and Consumer Solutions (\$1 million).

In the first quarter of 2017, the Company recorded a favorable adjustment to the 2015 restructuring charge related to costs associated with exit and disposal activities of \$1 million, reflected in the Agricultural Sciences segment. In the second quarter

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of 2017, the Company recorded a favorable adjustment to the severance accrual of \$9 million, reflected in Corporate. See Note 3 to the Consolidated Financial Statements for details on the Company's restructuring activities.

### Equity in Earnings of Nonconsolidated Affiliates

Dow's share of the earnings of nonconsolidated affiliates was \$54 million in the second quarter of 2017, down from \$82 million in the second quarter of 2016, as lower equity earnings from Dow Corning as a result of the ownership restructure transaction and lower equity earnings from the Thai joint ventures were partially offset by higher equity earnings from the Kuwait joint ventures. In the first six months of 2017, Dow's share of the earnings of nonconsolidated affiliates was \$250 million, up from \$121 million in the first six months of 2016, as higher equity earnings from the Kuwait joint ventures and the HSC Group were partially offset by lower equity earnings from Dow Corning as a result of the ownership restructure transaction.

### Sundry Income (Expense) - Net

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, gains and losses on sales of investments and assets, and litigation. Sundry income (expense) – net in the second quarter of 2017 was income of \$299 million, a decrease of \$2,251 million compared with income of \$2,550 million in the second quarter of 2016. The second quarter of 2017 included a \$137 million gain related to the Nova patent infringement matter (reflected in Performance Plastics), a \$7 million gain adjustment on the split-off of the Company's chlorine value chain (reflected in Corporate), gains on sales of assets and investments, and foreign currency exchange losses. The second quarter of 2016 included a \$2,445 million gain related to the DCC Transaction (reflected in Consumer Solutions (\$1,301 million) and Infrastructure Solutions (\$1,144 million)), a \$6 million gain adjustment on the split-off of the Company's chlorine value chain (reflected in Performance Materials & Chemicals), gains on sales of assets and foreign currency exchange losses.

Year to date, sundry income (expense) - net was expense of \$171 million, a decrease of \$1,480 million compared with income of \$1,309 million in the same period last year. In addition to the amounts previously discussed, the first six months of 2017 included a \$469 million loss related to the Bayer CropScience arbitration matter (reflected in Agricultural Sciences). The first six months of 2016 included the amounts previously discussed and a \$1,235 million loss related to the Company's settlement of the urethane matters class action lawsuit and the opt-out cases litigation (reflected in Performance Materials & Chemicals). See Notes 4 and 10 to the Consolidated Financial Statements for additional information.

### Net Interest Expense

Net interest expense (interest expense less capitalized interest and interest income) was \$204 million in the second quarter of 2017, up from \$190 million in the second quarter of 2016. Year to date, net interest expense was \$398 million, compared with \$371 million in the first six months of 2016. The increase primarily reflects the effect of the long-term debt assumed in the ownership restructure of Dow Corning. Interest income was \$22 million in the second quarter of 2017, compared with \$18 million in the second quarter of 2016, and \$47 million in the first six months of 2017, compared with \$38 million in the first six months of 2016.

### Provision for Income Taxes

The Company's effective tax rate fluctuates based on, among other factors, where income is earned, reinvestment assertions regarding foreign income and the level of income relative to tax credits available. For example, as the percentage of foreign sourced income increases, the Company's effective tax rate declines. The Company's tax rate is also influenced by the level of equity earnings, since most of the earnings from the Company's equity method investments are taxed at the joint venture level.

The effective tax rate for the second quarter of 2017 was 25.1 percent, compared with a 3.9 percent tax rate for the second quarter of 2016. For the first six months of 2017, the effective tax rate was 22.7 percent, compared with 0.6

percent for the first six months of 2016. The tax rate in the second quarter of 2017 was primarily impacted by the geographic mix of earnings. The tax rate for the first six months of 2017 reflected the tax benefit from the Bayer CropScience arbitration matter and the adoption of Accounting Standards Update ("ASU") 2016-09, which resulted in the recognition of excess tax benefits related to equity compensation in the provision for income taxes. The tax rate in the second quarter of 2016 was impacted by a \$57 million tax charge related to the adjustment of an uncertain tax position. Despite this charge, the tax rate decreased in the second quarter of 2016, primarily due to the non-taxable gain on the DCC Transaction and a tax benefit on the reassessment of a deferred tax liability related to the basis difference in the Company's investment in Dow Corning. These factors impacted the effective tax rate for the first six months of 2016, which was also impacted by a tax benefit related to the urethane matters class action lawsuit and opt-out cases settlements. See Notes 1, 2, 4, 10 and 17 to the Consolidated Financial Statements for additional information.

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Net Income Attributable to Noncontrolling Interests

Net income attributable to noncontrolling interests was \$38 million in the second quarter of 2017, up from \$19 million in the second quarter of 2016. For the first six months of 2017, net income attributable to noncontrolling interests was \$65 million, compared with \$40 million for the same period last year.

Preferred Stock Dividends

On December 30, 2016, the Company converted all outstanding shares of its Cumulative Convertible Perpetual Preferred Stock, Series A ("Preferred Stock") into shares of the Company's common stock. As a result of this conversion, no shares of Preferred Stock are issued or outstanding. Preferred stock dividends of \$85 million were recognized in the second quarter of 2016 related to the Preferred Stock (\$170 million in the first six months of 2016).

Net Income Available for Common Stockholders

Net income available for common stockholders was \$1,321 million, or \$1.07 per share, in the second quarter of 2017, compared with \$3,123 million, or \$2.61 per share, in the second quarter of 2016. Net income available for common stockholders for the first six months of 2017 was \$2,209 million, or \$1.79 per share, compared with \$3,292 million, or \$2.83 per share, for the same period of 2016. See Note 16 to the Consolidated Financial Statements for details on the Company's earnings per share calculations.

Certain Items Impacting Results

The Company provides certain financial measures - Income before income taxes, Net income and Earnings per share - excluding the impact of certain items ("non-GAAP" financial measures). Due to the nature of these certain items, they do not reflect the ongoing operating performance of the Company. Accordingly, Dow's management believes presenting financial measures excluding certain items is useful for investors as it provides financial information on a more comparative basis for the periods presented. Non-GAAP financial measures are not recognized in accordance with principles generally accepted in the United States of America ("U.S. GAAP") and should not be viewed as an alternative to U.S. GAAP financial measures of performance. In addition, these measures are not intended to replace U.S. GAAP measures.

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The following tables summarize the impact of certain items recorded in the three- and six-month periods ended June 30, 2017 and 2016.

| Certain Items Impacting Results  | Pretax Impact<br>(1)                     |  | Net Income (2)                           |  | EPS - Diluted<br>(3) (4)                 |  |
|--|--|--|--|--|--|--|
|  | Three Months<br>Ended<br>Jun 30,<br>2017 | Three Months<br>Ended<br>Jun 30,<br>2016 | Three Months<br>Ended<br>Jun 30,<br>2017 | Three Months<br>Ended<br>Jun 30,<br>2016 | Three Months<br>Ended<br>Jun 30,<br>2017 | Three Months<br>Ended<br>Jun 30,<br>2016 |
| In millions, except per share amounts (Unaudited)                                      |  |  |  |  |  |  |
| Reported U.S. GAAP Amounts (5) (6)   |  |  | \$1,321                                  | \$3,123                                  | \$1.07                                   | \$2.61                                   |
| - Certain items:   |  |  |  |  |  |  |
| Cost of sales:   |  |  |  |  |  |  |
| Costs associated with transactions and productivity actions                            | \$(19)                                   | \$(34)                                   | (12)                                     | (21)                                     | (0.01)                                   | (0.02)                                   |
| Impact of Dow Corning ownership restructure  | —  | (105)                                    | —  | (72)                                     | —  | (0.06)                                   |
| Selling, general and administrative expenses:  |  |  |  |  |  |  |
| Costs associated with transactions and productivity actions                            | (139)                                    | (73)                                     | (93)                                     | (66)                                     | (0.07)                                   | (0.06)                                   |
| Restructuring (charges) credits  | 12                                       | (454)                                    | 8  | (308)                                    | 0.01                                     | (0.27)                                   |
| Equity in earnings of nonconsolidated affiliates:                                      |  |  |  |  |  |  |
| Impact of Dow Corning ownership restructure  | —  | (22)                                     | —  | (20)                                     | —  | (0.02)                                   |
| Sundry income (expense) - net:   |  |  |  |  |  |  |
| Nova patent infringement award   | 137                                      | —  | 90                                       | —  | 0.07                                     | —  |
| Gain adjustment on split-off of chlorine value chain                                   | 7  | 6  | 5  | 6  | —  | 0.01                                     |
| Bayer CropScience arbitration matter   | —  | —  | (10)                                     | —  | (0.01)                                   | —  |
| Impact of Dow Corning ownership restructure  | —  | 2,445                                    | —  | 2,586                                    | —  | 2.28                                     |
| Provision for income taxes:  |  |  |  |  |  |  |
| Uncertain tax position adjustment  | —  | —  | —  | (57)                                     | —  | (0.05)                                   |
| Total certain items  | \$(2)                                    | \$1,763                                  | \$(12)                                   | \$2,048                                  | \$(0.01)                                 | \$1.81                                   |
| + Dilutive effect of assumed preferred stock conversion into shares<br>of common stock |  |  |  |  | N/A                                      | \$0.15                                   |
| = Operating Results (Non-GAAP)   |  |  | \$1,333                                  | \$1,075                                  | \$1.08                                   | \$0.95                                   |

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

"Net Income Available for The Dow Chemical Company Common Stockholders." The income tax effect for each

(2) certain item was calculated based on the statutory tax rate for the jurisdiction(s) in which the certain item was taxable or deductible.

## (3) "Earnings per common share - diluted."

For the three-month period ended June 30, 2016, an assumed conversion of the Company's Preferred Stock into shares of the Company's common stock was excluded from the calculation of "Operating earnings per common

(4) share - diluted" (Non-GAAP) as well as the earnings per share impact of certain items because the effect of including them would have been antidilutive. On December 30, 2016, the Company converted its outstanding shares of Preferred Stock into shares of the Company's common stock. As a result of this conversion, no shares of Preferred Stock are issued or outstanding.

For the three-month period ended June 30, 2016, an assumed conversion of the Company's Preferred Stock into (5) shares of the Company's common stock was included in the calculation of "Earnings per common share - diluted" (GAAP).

The Company used "Net Income Attributable to The Dow Chemical Company" when calculating "Earnings per (6) common share - diluted" (GAAP) for the three-month period ended June 30, 2016, as it excludes quarterly preferred dividends of \$85 million.





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| Certain Items Impacting Results   | Pretax Impact |            | Net Income (2) |            | EPS - Diluted |            |
|---|---------------|------------|----------------|------------|---------------|------------|
|   | (1)           |            |                |            | (3) (4)       |            |
|   | Six Months    | Six Months | Six Months     | Six Months | Six Months    | Six Months |
|   | Ended         | Ended      | Ended          | Ended      | Ended         | Ended      |
| In millions, except per share amounts (Unaudited)                                   | Jun 30,       | Jun 30,    | Jun 30,        | Jun 30,    | Jun 30,       | Jun 30,    |
|   | 2017          | 2016       | 2017           | 2016       | 2017          | 2016       |
| Reported U.S. GAAP Amounts (5) (6)  |               |            | \$2,209        | \$3,292    | \$1.79        | \$2.83     |
| - Certain items:  |               |            |                |            |               |            |
| Cost of sales:  |               |            |                |            |               |            |
| Costs associated with transactions and productivity actions                         | \$(42 )       | \$(57 )    | (27 )          | (36 )      | (0.02 )       | (0.03 )    |
| Impact of Dow Corning ownership restructure   | —             | (105 )     | —              | (72 )      | —             | (0.06 )    |
| Selling, general and administrative expenses:                                       |               |            |                |            |               |            |
| Costs associated with transactions and productivity actions                         | (251 )        | (115 )     | (169 )         | (97 )      | (0.14 )       | (0.09 )    |
| Restructuring (charges) credits   | 12            | (454 )     | 8              | (308 )     | 0.01          | (0.27 )    |
| Equity in earnings of nonconsolidated affiliates:                                   |               |            |                |            |               |            |
| Impact of Dow Corning ownership restructure   | —             | (22 )      | —              | (20 )      | —             | (0.02 )    |
| Sundry income (expense) - net:  |               |            |                |            |               |            |
| Nova patent infringement award  | 137           | —          | 90             | —          | 0.07          | —          |
| Gain adjustment on split-off of chlorine value chain                                | 7             | 6          | 5              | 6          | —             | 0.01       |
| Bayer CropScience arbitration matter  | (469 )        | —          | (305 )         | —          | (0.25 )       | —          |
| Impact of Dow Corning ownership restructure   | —             | 2,445      | —              | 2,586      | —             | 2.28       |
| Urethane matters legal settlements  | —             | (1,235)    | —              | (778 )     | —             | (0.70 )    |
| Provision for income taxes:   |               |            |                |            |               |            |
| Uncertain tax position adjustment   | —             | —          | —              | (57 )      | —             | (0.05 )    |
| Total certain items   | \$(606)       | \$463      | \$(398)        | \$1,224    | \$(0.33)      | \$1.07     |
| + Dilutive effect of assumed preferred stock conversion into shares of common stock |               |            |                |            | N/A           | \$0.09     |
| = Operating Results (Non-GAAP)  |               |            | \$2,607        | \$2,068    | \$2.12        | \$1.85     |

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

"Net Income Available for The Dow Chemical Company Common Stockholders." The income tax effect for each (2) certain item was calculated based on the statutory tax rate for the jurisdiction(s) in which the certain item was taxable or deductible.

(3) "Earnings per common share - diluted."

For the six-month period ended June 30, 2016, an assumed conversion of the Company's Preferred Stock into shares of the Company's common stock was excluded from the calculation of "Operating earnings per common share - diluted" (Non-GAAP) as well as the earnings per share impact of certain items because the effect of (4) including them would have been antidilutive. On December 30, 2016, the Company converted its outstanding shares of Preferred Stock into shares of the Company's common stock. As a result of this conversion, no shares of Preferred Stock are issued or outstanding.

For the six-month period ended June 30, 2016, an assumed conversion of the Company's Preferred Stock into (5) shares of the Company's common stock was included in the calculation of "Earnings per common share - diluted" (GAAP).

The Company used "Net Income Attributable to The Dow Chemical Company" when calculating "Earnings per (6) common share- diluted" (GAAP) for the six-month period ended June 30, 2016, as it excludes quarterly preferred dividends of \$85 million.



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OUTLOOK

Global economic activity is increasing, with notable strength in manufacturing, investment and trade. Robust growth fundamentals continue to fuel expansion in the U.S., led by the strength of the consumer. Europe's improvement is expected to remain on a steady path. Latin America is stabilizing with particular upside from its agriculture sector, and Brazil is showing early signs of recovery from a prolonged recession, though political uncertainty persists. China and India continue to establish themselves as consumption economies, underpinned by fiscal stimulus and infrastructure investments, which are driving domestic growth.

Dow remains well-positioned to capture consumer-led demand and deliver superior solutions to customers around the world through its narrower and deeper end-market focus, industry-leading innovation and broad geographic reach. Dow's track record of disciplined execution and outperformance these last several years underscores the resilience, agility and value creation power of the Company's business model.

Looking forward, the Dow team remains focused and disciplined, with a sharp execution mindset on the successful close of the merger with DuPont, rapid achievement of the synergies and realizing the value-creation of the intended companies, as well as a strong focus on delivering the materials science company, with a portfolio that will be unrivaled versus its peer group. Going into the merger close, Dow is coming from a position of incredible strength, with a proven track record of success. Dow has the right strategy, the right long-term growth drivers and the right portfolio. Dow has never been better positioned to continue delivering for its customers, employees, communities and shareholders.

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## SEGMENT RESULTS

Effective January 1, 2017, the Company changed its measure of profit/loss for segment reporting purposes from EBITDA to Operating EBITDA to reflect the manner in which the Company's chief operating decision maker now assesses segment performance and allocates resources. The Company defines Operating EBITDA as EBITDA (which Dow defines as earnings (i.e., "Net Income") before interest, income taxes, depreciation and amortization) excluding the impact of certain items. Operating EBITDA by 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 "Income Before Income Taxes" to Operating EBITDA as well as a listing of the certain items impacting results can be found in Note 20 to the Consolidated Financial Statements. Prior year data has been updated to conform with current year presentation.

## SALES VOLUME AND PRICE BY SEGMENT AND GEOGRAPHIC AREA

| Sales Volume and Price by Segment and Geographic Area                                    | Three Months Ended |            |             | Six Months Ended |            |             |
|--|--------------------|------------|-------------|------------------|------------|-------------|
|  | Jun 30, 2017       |            |             | Jun 30, 2017     |            |             |
| Percentage change from prior year  | Volume             | Price      | Total       | Volume           | Price      | Total       |
| <b>Segments</b>  |                    |            |             |                  |            |             |
| Agricultural Sciences  | 6 %                | (3) %      | 3 %         | 1 %              | (2) %      | (1) %       |
| Consumer Solutions   | 33                 | (1)        | 32          | 42               | (1)        | 41          |
| Infrastructure Solutions   | 30                 | 4          | 34          | 41               | 3          | 44          |
| Performance Materials & Chemicals  | 3                  | 10         | 13          | 5                | 8          | 13          |
| Performance Plastics   | 1                  | 7          | 8           | 3                | 11         | 14          |
| <b>Total</b>   | <b>11 %</b>        | <b>5 %</b> | <b>16 %</b> | <b>13 %</b>      | <b>6 %</b> | <b>19 %</b> |
| <b>Geographic areas</b>  |                    |            |             |                  |            |             |
| United States  | 8 %                | 6 %        | 14 %        | 12 %             | 8 %        | 20 %        |
| Europe, Middle East, Africa and India  | 11                 | 6          | 17          | 12               | 7          | 19          |
| Rest of World  | 14                 | 2          | 16          | 16               | 3          | 19          |
| <b>Total</b>   | <b>11 %</b>        | <b>5 %</b> | <b>16 %</b> | <b>13 %</b>      | <b>6 %</b> | <b>19 %</b> |
| <b>Sales Volume and Price by Segment and Geographic Area, Excluding Acquisitions (1)</b> |                    |            |             |                  |            |             |
| Percentage change from prior year  | Volume             | Price      | Total       | Volume           | Price      | Total       |
| <b>Segments</b>  |                    |            |             |                  |            |             |
| Agricultural Sciences  | 6 %                | (3) %      | 3 %         | 1 %              | (2) %      | (1) %       |
| Consumer Solutions   | 9                  | (1)        | 8           | 8                | (1)        | 7           |
| Infrastructure Solutions   | 3                  | 4          | 7           | 4                | 3          | 7           |
| Performance Materials & Chemicals  | 3                  | 10         | 13          | 5                | 8          | 13          |
| Performance Plastics   | 1                  | 7          | 8           | 3                | 11         | 14          |
| <b>Total</b>   | <b>3 %</b>         | <b>5 %</b> | <b>8 %</b>  | <b>4 %</b>       | <b>6 %</b> | <b>10 %</b> |
| <b>Geographic areas</b>  |                    |            |             |                  |            |             |
| United States  | 1 %                | 6 %        | 7 %         | 4 %              | 7 %        | 11 %        |
| Europe, Middle East, Africa and India  | 6                  | 6          | 12          | 5                | 7          | 12          |
| Rest of World  | 4                  | 2          | 6           | 4                | 3          | 7           |
| <b>Total</b>   | <b>3 %</b>         | <b>5 %</b> | <b>8 %</b>  | <b>4 %</b>       | <b>6 %</b> | <b>10 %</b> |

(1) Excludes current period sales from January 1, 2017 through May 31, 2017 related to the ownership restructure of Dow Corning announced on June 1, 2016 (Consumer Solutions and Infrastructure Solutions).



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## AGRICULTURAL SCIENCES

The Agricultural Sciences segment is a global leader in providing crop protection and seed/plant biotechnology products and technologies, urban pest management solutions and healthy oils. The business invents, develops, manufactures and markets products for use in agricultural, industrial and commercial pest management. Agricultural Sciences consists of two businesses - Crop Protection and Seeds.

| Agricultural Sciences                 | Three Months Ended |              | Six Months Ended |              |
|---------------------------------------|--------------------|--------------|------------------|--------------|
|                                       | Jun 30, 2017       | Jun 30, 2016 | Jun 30, 2017     | Jun 30, 2016 |
| In millions                           |                    |              |                  |              |
| Sales                                 | \$1,629            | \$1,577      | \$3,197          | \$3,223      |
| Price change from comparative period  | (3 )%              | N/A          | (2 )%            | N/A          |
| Volume change from comparative period | 6 %                | N/A          | 1 %              | N/A          |
| Operating EBITDA                      | \$326              | \$232        | \$677            | \$635        |
| Equity losses                         | \$(7 )             | \$(11 )      | \$(8 )           | \$(4 )       |

Agricultural Sciences sales were \$1,629 million in the second quarter of 2017, up 3 percent from \$1,577 million in the second quarter of 2016. Compared with the second quarter of last year, volume increased 6 percent and price declined 3 percent. Sales increased in all geographic areas, except Asia Pacific which was impacted by reduced demand for rice herbicides. Crop Protection sales were flat compared with the second quarter of 2016, as volume growth was offset by price declines. Strong demand in North America for herbicides and insecticides, notably ISOCLAST™, more than offset reduced demand for fungicides in Latin America and reduced demand for rice herbicides in Asia Pacific. Seeds sales increased 19 percent compared with the second quarter of 2016, with strong demand for corn seeds in Latin America and higher cotton seeds sales in North America driven by increased demand, including ENLIST™ cotton, and licensing activity. Price declined in all geographic areas and in both businesses, including the unfavorable impact of currency which represented approximately 30 percent of the price decline.

Operating EBITDA for the second quarter of 2017 was \$326 million, up from \$232 million in the second quarter of 2016. Compared with the same quarter last year, Operating EBITDA increased as higher sales volume including increased demand for new Seeds and Crop Protection technologies, lower operating costs and reduced R&D spending more than offset selling price declines.

Agricultural Sciences sales were \$3,197 million for the first six months of 2017, down 1 percent from \$3,223 million in the first six months of 2016. Compared with the same period last year, volume increased 1 percent and price decreased 2 percent. Agricultural Sciences reported sales declines in EMEAI and Asia Pacific which more than offset sales growth in North America and Latin America. Crop Protection sales decreased 3 percent compared with the first six months of 2016, driven by price declines. Reduced demand for fungicides in Latin America and rice herbicides in Asia Pacific offset strong demand in North America and EMEAI for insecticides. Seeds sales increased 6 percent compared with the first six months of 2016, as increased demand for corn seeds in Latin America and higher cotton seeds sales in North America more than offset lower demand in North America for corn seeds and soybean seeds.

Operating EBITDA for the first six months of 2017 was \$677 million, up from \$635 million in the first six months of 2016. Compared with the same period last year, Operating EBITDA increased as higher sales volume, lower operating costs and reduced SG&A spending more than offset selling price declines.

In the second quarter of 2017, regulatory approvals were received to allow for the full commercial launch of ENLIST™ corn seeds in the U.S. and Canada for the 2018 growing season.

## CONSUMER SOLUTIONS

The Consumer Solutions segment consists of four global businesses – Consumer Care, Dow Automotive Systems, Dow Electronic Materials and Consumer Solutions - Silicones. This segment also includes a portion of the Company's share of the results of Dow Corning, a joint venture of the Company through May 31, 2016, and the results of the HSC Group. Consumer Care includes Dow Home, Institutional & Personal Care Solutions and Dow Pharma and Food Solutions. Dow Automotive Systems includes Adhesives and Performance Solutions. Dow Electronic Materials includes Semiconductor Technologies, Interconnect Technologies, Display Technologies and Growth Technologies. Consumer Solutions - Silicones includes Beauty and Personal Care, Household Care, Healthcare, Consumer Goods and Automotive.

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As of June 1, 2016, Dow Corning, previously a 50:50 joint venture with Corning Incorporated ("Corning"), became a wholly owned subsidiary of Dow as a result of the ownership restructure of Dow Corning. Dow and Corning continue to maintain their historical proportional equity interest in the HSC Group. Beginning in June 2016, the results of Dow Corning, excluding the HSC Group, are fully consolidated into the Company's consolidated statements of income and aligned with the Consumer Solutions and Infrastructure Solutions segments. The results of the HSC Group will continue to be reported as "Equity in earnings of nonconsolidated affiliates" in the Company's consolidated statements of income and aligned with the Consumer Solutions and Infrastructure Solutions segments.

On December 31, 2016, the Company sold its SAFECHEM™ business. SAFECHEM™ was reported as part of the Consumer Solutions segment through the date of divestiture.

| Consumer Solutions                    | Three Months Ended |              | Six Months Ended |              |
|---------------------------------------|--------------------|--------------|------------------|--------------|
|                                       | Jun 30, 2017       | Jun 30, 2016 | Jun 30, 2017     | Jun 30, 2016 |
| In millions                           |                    |              |                  |              |
| Sales                                 | \$1,676            | \$1,265      | \$3,275          | \$2,319      |
| Price change from comparative period  | (1)%               | N/A          | (1)%             | N/A          |
| Volume change from comparative period | 33%                | N/A          | 42%              | N/A          |
| Volume change, excluding acquisition  | 9%                 | N/A          | 8%               | N/A          |
| Operating EBITDA                      | \$541              | \$341        | \$1,041          | \$651        |
| Equity earnings                       | \$15               | \$18         | \$55             | \$38         |

Consumer Solutions sales were \$1,676 million in the second quarter of 2017, up from \$1,265 million in the second quarter of 2016. Sales increased 32 percent compared with the second quarter of 2016, with volume up 33 percent and price down 1 percent, primarily due to the unfavorable impact of currency. Volume increased in all geographic areas, reflecting the addition of Consumer Solutions - Silicones, and in all businesses. Excluding the addition of Consumer Solutions - Silicones, volume increased 9 percent. Dow Electronic Materials reported increased volume, primarily in Asia Pacific, driven by strong demand in semiconductor and printed circuit board applications as well as new business wins in chemical mechanical planarization polishing pads, lithography and organic light emitting diode technologies. Consumer Care volume increased, primarily due to strong demand in the food, pharmaceutical, home and personal care market sectors, which more than offset the loss of sales from the SAFECHEM™ business. Strong demand for Dow's light-weighting technologies drove volume growth in Dow Automotive Systems in all geographic areas, except North America which was unfavorably impacted by softening industry production. Price decreased in all geographic areas, except North America, and was mixed by business. Price decreased in Dow Electronic Materials, primarily in Asia Pacific, due to continued competitive pricing pressures and the unfavorable impact of currency. Price was flat in Dow Automotive Systems and Consumer Care as the unfavorable impact of currency, primarily in EMEAI, offset selling price increases in both businesses.

Operating EBITDA in the second quarter of 2017 was \$541 million, up from \$341 million in the second quarter of 2016. Operating EBITDA improved from the same quarter last year as the favorable impact of earnings from Consumer Solutions - Silicones; higher sales volume driven by broad-based demand growth and new product launches; and gains from sales of assets and investments more than offset the unfavorable impact of currency on selling prices and higher feedstock, energy and other raw material costs.

Consumer Solutions sales were \$3,275 million for the first six months of 2017, up 41 percent from \$2,319 million in the first six months of 2016. Compared with the same period last year, volume was up 42 percent and price was down 1 percent, primarily due to the unfavorable impact of currency which represented nearly 80 percent of the price decline. Excluding the addition of Consumer Solutions - Silicones, volume increased 8 percent. Volume increased in all businesses and all geographic areas. Price was down in all businesses and all geographic areas, except North



America which was flat.

Operating EBITDA for the first six months of 2017 was \$1,041 million, up from \$651 million in the first six months of 2016. Operating EBITDA for the first six months of 2017 improved compared with the same period last year as the favorable impact of earnings from Consumer Solutions - Silicones, higher sales volume, gains from sales of assets and investments and increased equity earnings from the HSC Group more than offset lower selling prices, including the unfavorable impact of currency, and higher feedstock, energy and other raw material costs.

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## INFRASTRUCTURE SOLUTIONS

The Infrastructure Solutions segment consists of the following businesses: Dow Building & Construction, Dow Coating Materials, Energy & Water Solutions, Performance Monomers and Infrastructure Solutions - Silicones. This segment also includes a portion of the Company's share of the results of Dow Corning, a joint venture of the Company, through May 31, 2016, and the results of the HSC Group.

As of June 1, 2016, Dow Corning, previously a 50:50 joint venture with Corning, became a wholly owned subsidiary of Dow as a result of the ownership restructure of Dow Corning. Dow and Corning continue to maintain their historical proportional equity interest in the HSC Group. Beginning in June 2016, the results of Dow Corning, excluding the HSC Group, are fully consolidated into the Company's consolidated statements of income and aligned with the Consumer Solutions and Infrastructure Solutions segments. The results of the HSC Group will continue to be reported as "Equity in earnings of nonconsolidated affiliates" in the Company's consolidated statements of income and aligned with the Consumer Solutions and Infrastructure Solutions segments.

| Infrastructure Solutions              | Three Months |         | Six Months |         |
|---------------------------------------|--------------|---------|------------|---------|
|                                       | Ended        |         | Ended      |         |
| In millions                           | Jun 30,      | Jun 30, | Jun 30,    | Jun 30, |
|                                       | 2017         | 2016    | 2017       | 2016    |
| Sales                                 | \$2,789      | \$2,085 | \$5,314    | \$3,679 |
| Price change from comparative period  | 4            | % N/A   | 3          | % N/A   |
| Volume change from comparative period | 30           | % N/A   | 41         | % N/A   |
| Volume change, excluding acquisition  | 3            | % N/A   | 4          | % N/A   |
| Operating EBITDA                      | \$556        | \$432   | \$1,067    | \$725   |
| Equity earnings                       | \$28         | \$45    | \$83       | \$96    |

Infrastructure Solutions sales were \$2,789 million in the second quarter of 2017, up 34 percent from \$2,085 million in the second quarter of 2016 with volume up 30 percent and price up 4 percent. Volume increased in all geographic areas, reflecting the addition of Infrastructure Solutions - Silicones, and in all businesses, except Dow Coating Materials. Excluding the addition of Infrastructure Solutions - Silicones, volume increased 3 percent. Energy & Water Solutions reported volume growth for reverse osmosis membranes and for products used in energy exploration and production and microbial control applications. Performance Monomers had volume growth driven by opportunistic merchant sales of acrylates and methacrylates. Dow Building & Construction reported volume growth for methyl cellulose and acrylics-based construction chemicals which more than offset lower demand for STYROFOAM™ in EMEA. Dow Coating Materials volume decreased across all geographic areas as unfavorable weather conditions impacted peak season volume, primarily in the northern hemisphere. Price increased across all geographic areas and all businesses, except Energy & Water Solutions and Dow Building & Construction, primarily in response to increased raw material costs. Price decreased in Energy & Water Solutions and Dow Building & Construction due to the unfavorable impact of currency and competitive pricing pressures as pricing initiatives lagged raw material cost increases, particularly for styrene-based products.

Operating EBITDA for the second quarter of 2017 was \$556 million, up from \$432 million in the second quarter of 2016. Operating EBITDA improved compared with the same quarter last year as the favorable impact of earnings from Infrastructure Solutions - Silicones, higher selling prices, increased sales volume and a gain from the sales of assets more than offset increased feedstock, energy and other raw material costs and lower equity earnings.

Infrastructure Solutions sales for the first six months of 2017 were \$5,314 million, up 44 percent from \$3,679 million in the first six months of 2016. Compared with the same period last year, volume was up 41 percent and price was up 3 percent. Volume increased in all geographic areas reflecting the addition of Infrastructure Solutions - Silicones, and in all businesses, except Dow Coating Materials. Excluding the addition of Infrastructure Solutions - Silicones,

volume increased 4 percent. Price increased in all geographic areas, except Latin America which was flat, with price increases in Performance Monomers and Dow Coating Materials more than offsetting price decreases in Energy & Water Solutions and Dow Building & Construction.

Operating EBITDA for the first six months of 2017 was \$1,067 million, up from \$725 million in the first six months of 2016. Operating EBITDA for the first six months of 2017 was favorably impacted by the earnings from the Infrastructure Solutions - Silicones, higher selling prices and increased sales volume which more than offset increased feedstock, energy and other raw material costs and lower equity earnings.

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## PERFORMANCE MATERIALS &amp; CHEMICALS

The Performance Materials & Chemicals segment consists of the following businesses: Chlor-Alkali and Vinyl, Industrial Solutions and Polyurethanes. The segment also includes a portion of the results of EQUATE Petrochemicals Company K.S.C. ("EQUATE"), The Kuwait Olefins Company K.S.C. ("TKOC"), Map Ta Phut Olefins Company Limited and Sadara Chemical Company ("Sadara"), all joint ventures of the Company.

Dow is responsible for marketing the majority of Sadara products outside of the Middle East zone through the Company's established sales channels. As part of this arrangement, the Company purchases and sells Sadara products for a marketing fee.

| Performance Materials & Chemicals     | Three Months Ended |              | Six Months Ended |              |
|---------------------------------------|--------------------|--------------|------------------|--------------|
|                                       | Jun 30, 2017       | Jun 30, 2016 | Jun 30, 2017     | Jun 30, 2016 |
| In millions                           |                    |              |                  |              |
| Sales                                 | \$2,566            | \$2,264      | \$5,008          | \$4,445      |
| Price change from comparative period  | 10                 | % N/A        | 8                | % N/A        |
| Volume change from comparative period | 3                  | % N/A        | 5                | % N/A        |
| Operating EBITDA                      | \$347              | \$295        | \$782            | \$630        |
| Equity earnings (losses)              | \$(13 )            | \$(12 )      | \$60             | \$(43 )      |

Performance Materials & Chemicals sales were \$2,566 million in the second quarter of 2017, up 13 percent from \$2,264 million in the second quarter of 2016, with price up 10 percent and volume up 3 percent. Compared with the same quarter last year, price increased in all businesses and all geographic areas in response to higher raw material costs. Polyurethanes also reported price increases due to tight supply and demand fundamentals, particularly for isocyanates. Volume increased in Polyurethanes driven by double-digit volume growth in North America and strong demand in EMEAI for downstream, higher margin systems applications, which more than offset decreased volume in Asia Pacific. Volume grew in Industrial Solutions due to increased catalyst sales in Asia Pacific and portfolio optimization actions that drove volume growth for products used in lubricants, crop defense and electronic processing applications, which more than offset a decline in ethylene glycol volume due to a planned maintenance turnaround. Chlor-Alkali and Vinyl volume declined as strong demand for caustic soda and vinyl chloride monomer ("VCM") in EMEAI was more than offset by lower VCM volume in North America due to a supplier's planned maintenance turnaround.

Operating EBITDA for the second quarter of 2017 was \$347 million, compared with \$295 million in the second quarter of 2016. Compared with the same quarter last year, Operating EBITDA increased as higher selling prices, increased sales volume and higher equity earnings from the Kuwait joint ventures more than offset higher feedstock, energy and other raw material costs, higher equity losses from Sadara and lower equity earnings from Map Ta Phut Olefins Company Limited.

For the first six months of 2017, sales for Performance Materials & Chemicals were \$5,008 million, up from \$4,445 million in the first six months of 2016, with price up 8 percent and volume up 5 percent. Compared with the same period last year, volume and price increased in all businesses and all geographic areas.

Operating EBITDA for the first six months of 2017 was \$782 million, up from \$630 million in the first six months of 2016. Operating EBITDA improved compared with the same period last year as higher selling prices, increased sales volume and higher equity earnings from the Kuwait joint ventures more than offset higher feedstock, energy and other raw material costs.

#### PERFORMANCE PLASTICS

The Performance Plastics segment is a market-oriented portfolio comprised of Dow Elastomers, Dow Electrical and Telecommunications, Dow Packaging and Specialty Plastics, Energy and Hydrocarbons. The segment also includes the results of The Kuwait Styrene Company K.S.C. ("TKSC") and The SCG-Dow Group, as well as a portion of the results of EQUATE, TKOC, Map Ta Phut Olefins Company Limited and Sadara, all joint ventures of the Company.

Sales for the Energy business are primarily opportunistic merchant sales driven by market conditions and sales to customers located on Dow manufacturing sites. Sales for the Hydrocarbons business are comprised primarily of monomers and ethylene by-products that are not required for internal use. Hydrocarbons sales can fluctuate significantly based on ethylene production facility feedslates and operating rates, derivatives demand and market prices for monomers and by-products. Selling prices for monomer and ethylene by-products are generally correlated to purchased feedstock costs.

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Dow is responsible for marketing the majority of Sadara products outside of the Middle East zone through the Company's established sales channels. As part of this arrangement, the Company purchases and sells Sadara products for a marketing fee.

| Performance Plastics                  | Three Months Ended |              | Six Months Ended |              |
|---------------------------------------|--------------------|--------------|------------------|--------------|
|                                       | Jun 30, 2017       | Jun 30, 2016 | Jun 30, 2017     | Jun 30, 2016 |
| In millions                           |                    |              |                  |              |
| Sales                                 | \$5,079            | \$4,694      | \$10,104         | \$8,859      |
| Price change from comparative period  | 7 %                | N/A          | 11 %             | N/A          |
| Volume change from comparative period | 1 %                | N/A          | 3 %              | N/A          |
| Operating EBITDA                      | \$1,062            | \$1,247      | \$2,046          | \$2,238      |
| Equity earnings                       | \$33               | \$45         | \$66             | \$44         |

Performance Plastics sales in the second quarter of 2017 were \$5,079 million, up 8 percent from \$4,694 million in the second quarter of 2016, with price up 7 percent and volume up 1 percent. Price was up in all geographic areas and all businesses, except Dow Elastomers, in response to higher feedstock, energy and other raw material costs. Double-digit price increases were reported in Hydrocarbons as prices for monomers and ethylene by-products are generally correlated to Brent crude oil prices, which increased 10 percent compared with the second quarter of 2016. Dow Packaging and Specialty Plastics volume increased across all geographic areas, except Latin America, due to higher demand in food and specialty packaging and industrial and consumer packaging market sectors, and new production from Sadara which benefited EMEAI and Asia Pacific. Dow Elastomers volume increased across all geographic areas, except Asia Pacific, due to higher demand in consumer goods, transportation and infrastructure market sectors. Dow Electrical and Telecommunications volume decreased in all geographic areas as a result of an extended maintenance turnaround. Volume increased in the Hydrocarbons business primarily due to increased sales of ethylene and ethylene by-products resulting from higher operating rates. Energy sales and volume decreased as sales in the second quarter of 2016 included one-time capacity fees on new supply agreements.

Operating EBITDA in the second quarter of 2017 was \$1,062 million, compared with \$1,247 million in the second quarter of 2016. Compared with the same quarter last year, Operating EBITDA decreased as the impact of higher feedstock and energy costs, higher planned maintenance turnaround spending, U.S. Gulf Coast start-up and commissioning costs and lower equity earnings from The SCG-Dow Group more than offset higher selling prices and decreased equity losses from Sadara.

Performance Plastics sales for the first six months of 2017 were \$10,104 million, an increase of 14 percent from \$8,859 million in the first six months of 2016. Compared with the same period last year, price increased 11 percent and volume increased 3 percent. Price increased in all geographic areas and all businesses, except Dow Elastomers, in response to higher feedstock, energy and other raw material costs. Volume was up in all geographic areas, except Latin America, and all businesses, except Dow Electrical and Telecommunications and Energy.

Operating EBITDA for the first six months of 2017 was \$2,046 million, down from \$2,238 million in the first six months of 2016. Operating EBITDA decreased compared with the first six months of 2016 as the impact of higher feedstock and energy costs, higher planned maintenance turnaround spending, U.S. Gulf Coast start-up and commissioning costs and increased equity losses from Sadara more than offset higher selling prices and higher equity earnings from EQUATE and TKSC.

On June 6, 2017, the Company announced the completion of the construction phase of its new ELITE™ enhanced polymer production facility in Texas and startup is expected to occur in August 2017. The Company's new, world-scale ethylene production facility in Freeport, Texas, is also expected to start-up in August 2017.



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## CORPORATE

Corporate includes certain enterprise and governance activities (including insurance operations, geographic management, risk management such as foreign currency hedging activities, audit fees, donations, etc.); the results of Ventures (including business incubation platforms and non-business aligned joint ventures); environmental operations; gains and losses on the sales of financial assets; severance costs; non-business aligned litigation expenses (including asbestos-related defense and processing costs prior to the change in accounting policy that occurred in the fourth quarter of 2016); and foreign exchange results.

| Corporate        | Three Months |          | Six Months |          |
|------------------|--------------|----------|------------|----------|
|                  | Ended        |          | Ended      |          |
| In millions      | Jun 30,      | Jun 30,  | Jun 30,    | Jun 30,  |
|                  | 2017         | 2016     | 2017       | 2016     |
| Sales            | \$95         | \$ 67    | \$166      | \$ 130   |
| Operating EBITDA | \$(73)       | \$( 83 ) | \$(150)    | \$(162 ) |
| Equity losses    | \$(2 )       | \$( 3 )  | \$(6 )     | \$(10 )  |

Sales for Corporate, which primarily relate to the Company's insurance operations, were \$95 million in the second quarter of 2017, up from \$67 million in the second quarter of 2016. For the first six months of 2017, sales were \$166 million, up from \$130 million in the same period of 2016.

Operating EBITDA in the second quarter of 2017 was a loss of \$73 million (loss of \$150 million for the six months ended June 30, 2017), compared with a loss of \$83 million in the second quarter of 2016 (loss of \$162 million for the six months ended June 30, 2016).

## CHANGES IN FINANCIAL CONDITION

The Company had cash and cash equivalents of \$6,218 million at June 30, 2017 and \$6,607 million at December 31, 2016, of which \$4,520 million at June 30, 2017 and \$4,890 million at December 31, 2016 was held by subsidiaries in foreign countries, including United States territories. For each of its foreign subsidiaries, the Company makes an assertion regarding the amount of earnings intended for permanent reinvestment, with the balance available to be repatriated to the United States. The cash held by foreign subsidiaries for permanent reinvestment is generally used to finance the subsidiaries' operational activities and future foreign investments. A deferred tax liability has been accrued for the funds that are available to be repatriated to the United States. At June 30, 2017, management believed that sufficient liquidity was available in the United States. However, in the unusual event that additional foreign funds are needed in the United States, the Company has the ability to repatriate additional funds. The repatriation could result in an adjustment to the tax liability after considering available foreign tax credits and other tax attributes. It is not practicable to calculate the unrecognized deferred tax liability on undistributed foreign earnings.

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           | Six Months |          |
|-----------------------------|------------|----------|
|                             | Ended      |          |
| In millions                 | Jun 30,    | Jun 30,  |
|                             | 2017       | 2016     |
| Cash provided by (used in): |            |          |
| Operating activities (1)    | \$1,815    | \$2,367  |
| Investing activities        | (1,753 )   | (2,063 ) |



|  |          |           |
|--|----------|-----------|
| Financing activities (1)                       | (659 )   | (1,579 )  |
| Effect of exchange rate changes on cash        | 208      | 7         |
| Summary  |          |           |
| Decrease in cash and cash equivalents          | \$(389 ) | \$(1,268) |
| Cash and cash equivalents at beginning of year | 6,607    | 8,577     |
| Cash and cash equivalents at end of period     | \$6,218  | \$7,309   |

(1) Presented in accordance with newly implemented ASU 2016-09. See Notes 1 and 2 to the Consolidated Financial Statements for additional information.

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## Cash Flows from Operating Activities

In the first six months of 2017, cash provided by operating activities decreased compared with the same period last year, primarily due to an increase in cash used for working capital requirements which was partially offset by decreased pension contributions.

| Net Working Capital | Jun 30,  | Dec 31,  |
|---------------------|----------|----------|
| In millions         | 2017     | 2016     |
| Current assets      | \$25,935 | \$23,659 |
| Current liabilities | 13,429   | 12,604   |
| Net working capital | \$12,506 | \$11,055 |
| Current ratio       | 1.93 :1  | 1.88 :1  |

Net working capital increased from December 31, 2016 to June 30, 2017, primarily due to an increase in "Accounts and notes receivable" and "Inventories" which was partially offset by an increase in "Accounts payable."

| Working Capital Ratios                | Jun 30, 2017 | Dec 31, 2016 | Jun 30,<br>2016 |
|---------------------------------------|--------------|--------------|-----------------|
| Days-sales-outstanding-in-receivables | 49           | 47           | 51              |
| Days-sales-in-inventory               | 71           | 67           | 77              |

Days-sales-outstanding-in-receivables increased two days in the first six months of 2017. Days-sales-in-inventory increased four days in the first six months of 2017, as the Company built inventory levels ahead of planned maintenance turnaround activity.

## Cash Flows from Investing Activities

In the first six months of 2017, cash used in investing activities was \$1,753 million, reflecting capital expenditures and investments in and loans to nonconsolidated affiliates, primarily with Sadara. In the first six months of 2016, cash used in investing activities was \$2,063 million, primarily due to capital expenditures, including U.S. Gulf Coast projects, a payment made into escrow for the settlement of the urethanes class action lawsuit, and investments in and loans to nonconsolidated affiliates, primarily with Sadara, which was partially offset by net cash acquired in the DCC Transaction.

Capital spending was \$1,549 million in the first six months of 2017, compared with \$1,817 million in the first six months of 2016. The Company expects capital spending in 2017 to be approximately \$3.4 billion.

In the first six months of 2017, the Company loaned an additional \$473 million to Sadara and converted \$350 million of the loan balance into equity. The Company expects to loan approximately \$270 million to Sadara during the remainder of 2017. All or a portion of the outstanding loans to Sadara could potentially be converted into equity in future periods.

## Cash Flows from Financing Activities

In the first six months of 2017, cash used in financing activities decreased compared with the same period last year, primarily due to lower payments on long-term debt and the issuance of commercial paper.

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## Free Cash Flow

The Company's management believes that free cash flow, a non-GAAP financial measure, provides relevant and meaningful information to investors about the Company's ability to generate cash after investing in its asset base. Free cash flow represents the cash that remains available to fund obligations using the Company's primary source of incremental liquidity - cash provided by operating activities. This financial measure is not recognized in accordance with U.S. GAAP and should not be viewed as an alternative to U.S. GAAP financial measures of performance.

The following table provides a reconciliation of free cash flow to "Cash provided by operating activities" for the six-month periods ended June 30, 2017 and 2016:

| Reconciliation of Free Cash Flow to "Cash Provided by Operating Activities"<br>In millions | Six Months<br>Ended |                 |
|--|---------------------|-----------------|
|  | Jun 30,<br>2017     | Jun 30,<br>2016 |
| Cash provided by operating activities (1)  | \$1,815             | \$2,367         |
| Capital expenditures   | (1,549 )            | (1,817 )        |
| Free Cash Flow   | \$266               | \$550           |

(1) Presented in accordance with newly implemented ASU 2016-09. See Notes 1 and 2 to the Consolidated Financial Statements for additional information.

## Liquidity &amp; Financial Flexibility

The Company's primary source of incremental liquidity is cash provided by operating activities. The generation of cash from operations and the Company's ability to access debt markets is expected to meet the Company's cash requirements for working capital, capital expenditures, debt maturities, dividend payments, share repurchases, contributions to pension plans and other needs. In addition to cash provided by operating activities, the Company's current liquidity sources also include U.S. and Euromarket commercial paper, committed credit facilities, accounts receivable securitization facilities and other debt markets. Additional details on sources of liquidity are as follows:

## Commercial Paper

Dow issues promissory notes under its U.S. and Euromarket commercial paper programs. The Company had \$195 million of commercial paper outstanding at June 30, 2017 (zero at December 31, 2016). The Company maintains access to the commercial paper market at competitive rates.

## Shelf Registration - U.S.

On October 28, 2016, the Company renewed a shelf registration with the U.S. Securities and Exchange Commission ("SEC") for an unspecified amount of debt securities and warrants to purchase debt securities, with pricing and availability dependent on market conditions. A prospectus supplement that registered an unlimited amount of securities for issuance under the Company's InterNotes program expired on February 19, 2016. Due to the pending transaction with DuPont in which the Company and DuPont will combine in an all-stock merger of equals strategic combination, the Company did not file a new prospectus supplement for the InterNotes program. However, the Company remains prepared to file a new prospectus supplement for the InterNotes program with the SEC.

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## Committed Credit Facilities

In the event Dow has short-term liquidity needs and is unable to issue commercial paper for any reason, Dow has the ability to access liquidity through its committed and available credit facilities, as summarized below:

## Committed and Available Credit Facilities at June 30, 2017

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

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

## Accounts Receivable Securitization Facilities

The Company has access to committed accounts receivable securitization facilities in the United States, Europe and Japan, from which amounts available for funding are based upon available and eligible accounts receivable within each of the facilities. The Japan facilities are renewed annually. The Europe facility was renewed in July 2015 for a term that extends to July 2018. The Company renewed the United States facility in June 2015 for a term that extends to June 2018. See Note 11 to the Consolidated Financial Statements for further information.

## Debt

As Dow continues to maintain its strong balance sheet and financial flexibility, management is focused on net debt (a non-GAAP financial measure), as Dow believes this is the best representation of the Company's financial leverage at this point in time. As shown in the following table, net debt is equal to total gross debt minus "Cash and cash equivalents." At June 30, 2017, net debt as a percent of total capitalization was 34.1 percent.

| Total Debt                                      | Jun 30,  | Dec 31,  |   |
|---|----------|----------|---|
| In millions                                     | 2017     | 2016     |   |
| Notes payable                                   | \$480    | \$272    |   |
| Long-term debt due within one year              | 955      | 635      |   |
| Long-term debt                                  | 20,072   | 20,456   |   |
| Gross debt                                      | \$21,507 | \$21,363 |   |
| Cash and cash equivalents                       | \$6,218  | \$6,607  |   |
| Net debt  | \$15,289 | \$14,756 |   |
| Gross debt as a percent of total capitalization | 42.1     | % 44.0   | % |
| Net debt as a percent of total capitalization   | 34.1     | % 35.1   | % |

Dow's public debt instruments and primary, private credit agreements contain, among other provisions, certain customary restrictive covenant and default provisions. The Company's most significant debt covenant with regard to its financial position

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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 Five Year Competitive Advance and Revolving Credit Facility Agreement equals or exceeds \$500 million. The ratio of the Company's consolidated indebtedness to consolidated capitalization as defined in the Five Year Competitive Advance and Revolving Credit Facility Agreement was 0.41 to 1.00 at June 30, 2017. Management believes the Company was in compliance with all of its covenants and default provisions at June 30, 2017. For information on Dow's covenants and default provisions, see Note 17 to the Consolidated Financial Statements in the Company's Annual Report on Form 10-K for the year ended December 31, 2016.

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

**Credit Ratings**

The Company's credit ratings are as follows:

| Credit Ratings<br>Rating Agency | Long-Term Rating | Short-Term Rating | Outlook          |
|---------------------------------|------------------|-------------------|------------------|
| Standard & Poor's               | BBB              | A-2               | Watch Developing |
| Moody's Investors Service       | Baa2             | P-2               | Stable           |
| Fitch Ratings                   | BBB              | F2                | Watch Positive   |

Downgrades in the Company's credit ratings would increase borrowing costs on certain indentures and could have a negative impact on the Company's ability to access credit markets.

**Dividends**

On May 10, 2017, the Board of Directors announced the declaration of a quarterly dividend of \$0.46 per share, payable July 28, 2017, to stockholders of record on June 30, 2017. On July 13, 2017, the Board of Directors announced the declaration of a quarterly dividend of \$0.46 per share, payable October 2, 2017, to stockholders of record on July 31, 2017. Since 1912, the Company has maintained or increased the amount of the quarterly dividend, adjusted for stock splits, with the exception of February 12, 2009. During this 106-year period, Dow has increased the amount of the quarterly dividend 52 times (approximately 12 percent of the time), reduced the dividend once and maintained the amount of the quarterly dividend approximately 88 percent of the time.

**Share Repurchase Program**

On February 13, 2013, the Board of Directors approved a share buy-back program, authorizing up to \$1.5 billion to be spent on the repurchase of the Company's common stock over a period of time. On January 29, 2014, the Board of Directors announced an expansion of the Company's share buy-back authorization, authorizing an additional amount not to exceed \$3 billion to be spent on the repurchase of the Company's common stock over a period of time. On November 12, 2014, the Board of Directors announced a new \$5 billion tranche to its share buy-back program. As a result of these actions, the total authorized amount of the share repurchase program is \$9.5 billion. At June 30, 2017, approximately \$1.4 billion of the share buy-back program authorization remained available for additional repurchases.

For additional information related to the share repurchase program, see Part II, Item 2. Unregistered Sales of Equity Securities and Use of Proceeds.

**Pension Plans**

The Company has defined benefit pension plans in the United States and a number of other countries. The Company's funding policy is to contribute to the plans when pension laws and/or economics either require or encourage funding.

In the second quarter of 2017, the Company increased its estimate and expects to contribute approximately \$520 million to its pension plans in 2017. For additional information regarding the Company's pension plans, see Notes 14 and 18 to the Consolidated Financial Statements in the Company's Annual Report on Form 10-K for the year ended December 31, 2016.

#### Restructuring

The activities related to the 2015 and 2016 restructuring programs are expected to result in additional cash expenditures of approximately \$120 million, primarily through June 30, 2018, related to severance costs and costs associated with exit and disposal activities, including environmental remediation (see Note 3 to the Consolidated Financial Statements). The Company expects to incur additional costs in the future related to its restructuring activities, as the Company continually looks for ways to enhance the efficiency and cost effectiveness of its operations, and to ensure competitiveness across its businesses and geographic areas. Future costs are expected to include demolition costs related to closed facilities and restructuring plan

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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.

**Contractual Obligations**

Information related to the Company's contractual obligations, commercial commitments and expected cash requirements for interest at December 31, 2016 can be found in Notes 15, 17, 18, 19 and 23 to the Consolidated Financial Statements in the Company's Annual Report on Form 10-K for the year ended December 31, 2016. With the exception of the items noted below, there have been no material changes in the Company's contractual obligations since December 31, 2016.

The following table represents the Company's long-term debt obligations and expected cash requirements for interest at June 30, 2017, reflecting the extension option of the DCC Term Loan facility which was exercised in the second quarter of 2017. Additional information related to these obligations can be found in Note 12 to the Consolidated Financial Statements.

| Contractual Obligations at June 30, 2017    | Payments Due by Year |         |         |         |         |                       | Total    |
|---|----------------------|---------|---------|---------|---------|-----------------------|----------|
|   | 2017                 | 2018    | 2019    | 2020    | 2021    | 2022<br>and<br>beyond |          |
| In millions                                 |                      |         |         |         |         |                       |          |
| Long-term debt – current and noncurrent (1) | \$535                | \$749   | \$6,929 | \$1,828 | \$1,559 | \$9,792               | \$21,392 |
| Expected cash requirements for interest (2) | 500                  | 1,004   | 896     | 793     | 611     | 6,740                 | 10,544   |
| Total                                       | \$1,035              | \$1,753 | \$7,825 | \$2,621 | \$2,170 | \$16,532              | \$31,936 |

(1) Excludes unamortized debt discount and issuance costs of \$365 million. Includes \$292 million of capital lease obligations.

(2) Cash requirements for interest was calculated using current interest rates at June 30, 2017, and includes approximately \$5,163 million of various floating rate notes.

**Off-Balance Sheet Arrangements**

Off-balance sheet arrangements are obligations the Company has with nonconsolidated entities related to transactions, agreements or other contractual arrangements. The Company holds variable interests in certain joint ventures accounted for under the equity method of accounting. The Company is not the primary beneficiary of these joint ventures and therefore is not required to consolidate the entities (see Note 13 to the Consolidated Financial Statements). In addition, see Note 11 to the Consolidated Financial Statements for information regarding the transfer of financial assets.

Guarantees arise during the ordinary course of business from relationships with customers and nonconsolidated affiliates when the Company undertakes an obligation to guarantee the performance of others if specific triggering events occur. The Company had outstanding guarantees at June 30, 2017 of \$5,884 million, down from \$6,043 million at December 31, 2016.

Additional information related to guarantees can be found in the "Guarantees" section of Note 10 to the Consolidated Financial Statements.

**Fair Value Measurements**

See Note 8 for additional information concerning fair value measurements, including the Company's interest held in trade receivable conduits.





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## OTHER MATTERS

## Recent Accounting Guidance

See Note 2 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 (“U.S. GAAP”) requires management to make judgments, assumptions and estimates that affect the amounts reported in the consolidated financial statements and accompanying notes. Note 1 to the Consolidated Financial Statements in the Company’s Annual Report on Form 10-K for the year ended December 31, 2016 (“2016 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 2016 10-K. Since December 31, 2016, there have been no material changes in the Company’s critical accounting policies.

## 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 four decades. These suits principally allege personal injury resulting from exposure to asbestos-containing products and frequently seek both actual and punitive damages. The alleged claims primarily relate to products that Union Carbide sold in the past, alleged exposure to asbestos-containing products located on Union Carbide’s premises, and Union Carbide’s responsibility for asbestos suits filed against a former Union Carbide subsidiary, Amchem Products, Inc. (“Amchem”). In many cases, plaintiffs are unable to demonstrate that they have suffered any compensable loss as a result of such exposure, or that injuries incurred in fact resulted from exposure to Union Carbide’s products.

The table below provides information regarding asbestos-related claims pending against Union Carbide and Amchem based on criteria developed by Union Carbide and its external consultants.

| Asbestos-Related Claim Activity                   | 2017     | 2016     |
|---|----------|----------|
| Claims unresolved at January 1                    | 16,141   | 18,778   |
| Claims filed                                      | 3,644    | 4,220    |
| Claims settled, dismissed or otherwise resolved   | (3,875 ) | (3,926 ) |
| Claims unresolved at June 30                      | 15,910   | 19,072   |
| Claimants with claims against both UCC and Amchem | (5,648 ) | (6,947 ) |
| Individual claimants at June 30                   | 10,262   | 12,125   |

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.

For additional information, see Asbestos-Related Matters of Union Carbide Corporation in Note 10 to the Consolidated Financial Statements and Part II, Item 1. Legal Proceedings.



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PART I – FINANCIAL INFORMATION, Item 3. Quantitative and Qualitative Disclosures About Market Risk.

**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, that 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 Chinese yuan, although exposures also exist in other currencies of Asia Pacific, Canada, Latin America, Middle East, Africa and India.

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. Natural gas and crude oil, along with feedstocks for ethylene and propylene production, 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 variance/covariance model. This model uses a 97.5 percent confidence level and includes at least one year of historical data. The June 30, 2017, 2016 year-end and 2016 average daily VAR for the aggregate of all positions are shown below. These amounts are immaterial relative to the total equity of the Company.

|                    |     |          |
|--------------------|-----|----------|
| Total Daily VAR by |     | 2016     |
| Exposure Type      |     |          |
| In millions        | At  | Year-end |
|                    | Jun | Average  |

|                   | 30,    |        |        |
|-------------------|--------|--------|--------|
|                   | 2017   |        |        |
| Commodities       | \$ 39  | \$ 24  | \$ 23  |
| Equity securities | \$ 14  | \$ 17  | \$ 16  |
| Foreign exchange  | \$ 43  | \$ 28  | \$ 9   |
| Interest rate     | \$ 76  | \$ 82  | \$ 90  |
| Composite         | \$ 172 | \$ 151 | \$ 138 |

The Company's daily VAR for the aggregate of all positions increased from a composite VAR of \$151 million at December 31, 2016, to a composite VAR of \$172 million at June 30, 2017. Commodities and foreign exchange VAR increased due to an increase in long-term managed exposures. Equity securities VAR decreased due to a decline in equity volatility. The interest rate VAR decreased due to a drop in yield volatility. See Note 11 to the Consolidated Financial Statements included in the Company's Annual Report on Form 10-K for the year ended December 31, 2016, for further disclosure regarding market risk.

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The Dow Chemical Company and Subsidiaries

PART I – FINANCIAL INFORMATION, Item 4. Controls and Procedures.

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 and 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 and 15d-15 that was conducted during the last fiscal quarter that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

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The Dow Chemical Company and Subsidiaries

## PART II – OTHER INFORMATION

## ITEM 1. LEGAL PROCEEDINGS

## Asbestos-Related Matters of Union Carbide Corporation

No material developments regarding this matter occurred during the second quarter of 2017. For a current status of this matter, see Note 10 to the Consolidated Financial Statements; and Management's Discussion and Analysis of Financial Condition and Results of Operations, Asbestos-Related Matters of Union Carbide Corporation.

## Environmental Matters

On August 17, 2016, Dow Corning Corporation ("Dow Corning") received notification from the Kentucky Department for Environmental Protection of their intent to assess a civil penalty for alleged air violations at Dow Corning's Carrollton, Kentucky, manufacturing facility. Effective June 30, 2017, Dow Corning resolved this matter with the Commonwealth of Kentucky Energy and Environment Cabinet and agreed to pay a \$50,000 civil penalty and fund the purchase of a photochemical assessment monitoring system as a supplemental environmental project at a cost of no less than \$180,000.

## ITEM 1A. RISK FACTORS

There were no material changes in the Company's risk factors in the second quarter of 2017.

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

## Issuer Purchases of Equity Securities

The following table provides information regarding purchases of the Company's common stock by the Company during the three months ended June 30, 2017:

| Issuer Purchases of Equity Securities |                                  | Approximate dollar value of shares that may yet be purchased under the Company's publicly announced share repurchase program (1) (In Millions) |   |
|---------------------------------------|----------------------------------|--|---|
| Period                                | Total number of shares purchased | Average price paid per share   | Total number of shares purchased as part of the Company's publicly announced share repurchase program (1) |
| April 2017                            | —                                | \$ —   | \$ 1,396  |
| May 2017                              | —                                | \$ —   | \$ 1,396  |
| June 2017                             | —                                | \$ —   | \$ 1,396  |
| Second quarter 2017                   | —                                | \$ —   | \$ 1,396  |

(1) On February 13, 2013, the Board of Directors approved a share buy-back program, authorizing up to \$1.5 billion to be spent on the repurchase of the Company's common stock over a period of time. On January 29, 2014, the Board of Directors announced an expansion of the Company's share buy-back authorization, authorizing an additional

amount not to exceed \$3 billion to be spent on the repurchase of the Company's common stock over a period of time. On November 12, 2014, the Board of Directors announced a new \$5 billion tranche to its share buy-back program. As a result of these actions, the total authorized amount of the share repurchase program is \$9.5 billion.

ITEM 4. MINE SAFETY DISCLOSURES

Not applicable.

ITEM 5. OTHER INFORMATION

Not applicable.

ITEM 6. EXHIBITS

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



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The Dow Chemical Company and Subsidiaries  
Trademark Listing

®™ DOW, DOW SEMENTES, ELITE, STYROFOAM are trademarks of The Dow Chemical Company ("Dow") or an affiliated company of Dow.

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The Dow Chemical Company and Subsidiaries

Signature

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

THE DOW CHEMICAL COMPANY

Registrant

Date: July 27, 2017

/s/ RONALD C. EDMONDS

Ronald C. Edmonds

Controller and Vice President

of Controllers and Tax

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The Dow Chemical Company and Subsidiaries  
Exhibit Index

EXHIBIT NO. DESCRIPTION

|              |   |
|--------------|---|
| <u>12.1</u>  | Computation of Ratio of Earnings to Fixed Charges and Combined Fixed Charges and Preferred Stock Dividend Requirements. |
| <u>23</u>    | Ankura Consulting Group, LLC's Consent.   |
| <u>31(a)</u> | Certification Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.  |
| <u>31(b)</u> | Certification Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.  |
| <u>32(a)</u> | Certification Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.  |
| <u>32(b)</u> | Certification Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.  |
| 101.INS      | XBRL Instance Document.   |
| 101.SCH      | XBRL Taxonomy Extension Schema Document.  |
| 101.CAL      | XBRL Taxonomy Extension Calculation Linkbase Document.  |
| 101.DEF      | XBRL Taxonomy Extension Definition Linkbase Document.   |
| 101.LAB      | XBRL Taxonomy Extension Label Linkbase Document.  |
| 101.PRE      | XBRL Taxonomy Extension Presentation Linkbase Document.   |