DOW CHEMICAL CO /DE/
Form 10-Q
October 27, 2016
Table of Contents

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 10-Q

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

For the quarterly period ended SEPTEMBER 30, 2016

or

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

For the transition period from __________to__________

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

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

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

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

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

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

Class	Outstanding at September 30, 2016
Common Stock, par value $2.50 per share	1,121,380,831 shares

Table of Contents

The Dow Chemical Company
QUARTERLY REPORT ON FORM 10-Q
For the quarterly period ended September 30, 2016
TABLE OF CONTENTS

		PAGE
PART I – FINANCIAL INFORMATION		
Item 1.	Financial Statements.	4
	Consolidated Statements of Income.	4
	Consolidated Statements of Comprehensive Income.	5
	Consolidated Balance Sheets.	6
	Consolidated Statements of Cash Flows.	7
	Consolidated Statements of Equity.	8
	Notes to the Consolidated Financial Statements.	9
Item 2.	Management's Discussion and Analysis of Financial Condition and Results of Operations.	47
	Results of Operations.	48
	Changes in Financial Condition.	63
	Other Matters.	68
Item 3.	Quantitative and Qualitative Disclosures About Market Risk.	70
Item 4.	Controls and Procedures.	71
PART II – OTHER INFORMATION		
Item 1.	Legal Proceedings.	72
Item 1A.	Risk Factors.	72
Item 2.	Unregistered Sales of Equity Securities and Use of Proceeds.	73
Item 4.	Mine Safety Disclosures.	74
Item 5.	Other Information.	74
Item 6.	Exhibits.	75

SIGNATURE	77
EXHIBIT INDEX	78

Table of Contents

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,” “projec “strategy,” “will,” “would,” “will be,” “will continue,” “will likely result” and similar expressions. Forward-looking statements 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") and then, subsequent to the merger, Dow and DuPont intend to pursue the separation of DowDuPont's agriculture business, specialty products business and material science business through one or more tax-efficient transactions (collectively, the "Transaction"). Many factors could cause actual results to differ materially from these forward-looking statements with respect to the Transaction, including (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 separation, including anticipated timing, and any changes to the configuration of businesses included in the potential separation, if implemented, (iii) potential litigation relating to the proposed Transaction that could be instituted against Dow, DuPont or their respective directors, (iv) the risk that disruptions from the proposed Transaction will harm Dow’s or DuPont’s business, including current plans and operations, (v) the ability of Dow or DuPont to retain and hire key personnel, (vi) potential adverse reactions or changes to business relationships resulting from the announcement or completion of the merger, (vii) uncertainty as to the long-term value of DowDuPont common stock, (viii) continued availability of capital and financing and rating agency actions, (ix) legislative, regulatory and economic developments, (x) potential business uncertainty during the pendency of the merger that could affect Dow’s and/or DuPont’s economic performance, (xi) certain contractual restrictions that could be imposed on Dow and/or DuPont during the pendency of the merger that might impact Dow’s or DuPont’s ability to pursue certain business opportunities or strategic transactions and (xii) 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 that is included in the registration statement on Form S-4 (File No. 333-209869) that was filed 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 on Form S-4 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.

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” in Part II, Item 1A of this Quarterly Report on Form 10-Q and Part I, Item 1A of the Company's Annual Report on Form 10-K for the year ended December 31, 2015. The Dow Chemical Company undertakes no obligation to update or revise publicly any forward-looking statements whether because of new information, future events, or otherwise, except as required by securities and other applicable laws.

Table of Contents

PART I - FINANCIAL INFORMATION
Item 1. Financial Statements

The Dow Chemical Company and Subsidiaries
Consolidated Statements of Income

In millions, except per share amounts (Unaudited)	Three Months Ended		Nine Months Ended	
	Sep 30, 2016	Sep 30, 2015	Sep 30, 2016	Sep 30, 2015
Net Sales	$12,483	$12,036	$35,138	$37,316
Cost of sales	9,841	9,349	27,067	29,030
Research and development expenses	399	382	1,159	1,194
Selling, general and administrative expenses	864	689	2,393	2,214
Amortization of intangibles	162	105	387	316
Restructuring charges	—	—	452	375
Equity in earnings of nonconsolidated affiliates	70	135	191	575
Sundry income (expense) - net	(4)	632	1,305	1,680
Interest income	26	18	64	46
Interest expense and amortization of debt discount	220	233	629	706
Income Before Income Taxes	1,089	2,063	4,611	5,782
Provision for income taxes	271	627	291	1,630
Net Income	818	1,436	4,320	4,152
Net income attributable to noncontrolling interests	14	61	54	79
Net Income Attributable to The Dow Chemical Company	804	1,375	4,266	4,073
Preferred stock dividends	85	85	255	255
Net Income Available for The Dow Chemical Company Common Stockholders	$719	$1,290	$4,011	$3,818
Per Common Share Data:				
Earnings per common share - basic	$0.64	$1.12	$3.60	$3.33
Earnings per common share - diluted	$0.63	$1.09	$3.48	$3.24
Dividends declared per share of common stock	$0.46	$0.42	$1.38	$1.26
Weighted-average common shares outstanding - basic	1,112.4	1,141.3	1,108.8	1,138.4
Weighted-average common shares outstanding - diluted	1,127.4	1,250.6	1,220.4	1,248.9
Depreciation	$573	$494	$1,540	$1,463
Capital Expenditures	$1,060	$916	$2,877	$2,817

See Notes to the Consolidated Financial Statements.

Table of Contents

The Dow Chemical Company and Subsidiaries
Consolidated Statements of Comprehensive Income

In millions (Unaudited)	Three Months Ended		Nine Months Ended	
	Sep 30, 2016	Sep 30, 2015	Sep 30, 2016	Sep 30, 2015
Net Income	$818	$1,436	$4,320	$4,152
Other Comprehensive Income (Loss), Net of Tax				
Unrealized gains (losses) on investments	8	(54)	42	(55)
Cumulative translation adjustments	83	(135)	325	(755)
Pension and other postretirement benefit plans	93	122	640	370
Derivative instruments	(20)	(108)	(21)	(128)
Other comprehensive income (loss)	164	(175)	986	(568)
Comprehensive Income	982	1,261	5,306	3,584
Comprehensive income attributable to noncontrolling interests, net of tax	35	39	103	48
Comprehensive Income Attributable to The Dow Chemical Company	$947	$1,222	$5,203	$3,536

See Notes to the Consolidated Financial Statements.

Table of Contents

The Dow Chemical Company and Subsidiaries
Consolidated Balance Sheets

In millions (Unaudited)	Sep 30, 2016	Dec 31, 2015
Assets		
Current Assets		
Cash and cash equivalents (variable interest entities restricted - 2016: $135; 2015: $158)	$7,032	$8,577
Accounts and notes receivable:		
Trade (net of allowance for doubtful receivables - 2016: $114; 2015: $94)	4,746	4,078
Other	4,362	3,768
Inventories	8,013	6,871
Other current assets	625	647
Total current assets	24,778	23,941
Investments		
Investment in nonconsolidated affiliates	3,566	3,958
Other investments (investments carried at fair value - 2016: $2,011; 2015: $1,866)	2,995	2,923
Noncurrent receivables	991	765
Total investments	7,552	7,646
Property		
Property	57,499	50,802
Less accumulated depreciation	34,188	32,948
Net property (variable interest entities restricted - 2016: $1,026; 2015: $1,717)	23,311	17,854
Other Assets		
Goodwill	15,491	12,154
Other intangible assets (net of accumulated amortization - 2016: $4,195; 2015: $3,770)	6,326	3,617
Deferred income tax assets	2,483	2,140
Asbestos-related insurance receivables - noncurrent	36	51
Deferred charges and other assets	647	535
Total other assets	24,983	18,497
Total Assets	$80,624	$67,938
Liabilities and Equity		
Current Liabilities		
Notes payable	$236	$454
Long-term debt due within one year	633	541
Accounts payable:		
Trade	4,674	3,577
Other	2,503	2,287
Income taxes payable	480	452
Dividends payable	595	592
Accrued and other current liabilities	3,534	3,212
Total current liabilities	12,655	11,115
Long-Term Debt (variable interest entities nonrecourse - 2016: $395; 2015: $487)	20,423	16,215
Other Noncurrent Liabilities		
Deferred income tax liabilities	1,027	587
Pension and other postretirement benefits - noncurrent	9,839	9,119
Asbestos-related liabilities - noncurrent	348	387
Other noncurrent obligations	5,983	4,332
Total other noncurrent liabilities	17,197	14,425
Stockholders’ Equity		

Preferred stock, series A	4,000	4,000
Common stock	3,107	3,107
Additional paid-in capital	4,916	4,936
Retained earnings	30,884	28,425
Accumulated other comprehensive loss	(7,681)	(8,667)
Unearned ESOP shares	(226)	(272)
Treasury stock at cost	(5,965)	(6,155)
The Dow Chemical Company’s stockholders’ equity	29,035	25,374
Non-redeemable noncontrolling interests	1,314	809
Total equity	30,349	26,183
Total Liabilities and Equity	$80,624	$67,938

See Notes to the Consolidated Financial Statements.

Table of Contents

The Dow Chemical Company and Subsidiaries
Consolidated Statements of Cash Flows

In millions (Unaudited)	Nine Months Ended Sep 30, 2016	Sep 30, 2015
Operating Activities		
Net Income	$4,320	$4,152
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	2,067	1,921
Credit for deferred income tax	(990)	(131)
Earnings of nonconsolidated affiliates less than dividends received	341	188
Pension contributions	(567)	(788)
Net gain on sales of investments	(97)	(33)
Net gain on sales of property, businesses and consolidated companies	(82)	(1,421)
Net gain on sale of ownership interests in nonconsolidated affiliates	—	(27)
Net gain on step acquisition of nonconsolidated affiliates	(2,445)	(361)
Restructuring charges	452	375
Excess tax benefits from share-based payment arrangements	(39)	(22)
Other net loss	97	44
Changes in assets and liabilities, net of effects of acquired and divested companies:		
Accounts and notes receivable	(1,435)	(163)
Proceeds from interests in trade accounts receivable conduits	882	865
Inventories	(39)	188
Accounts payable	695	(707)
Other assets and liabilities	455	1,095
Cash provided by operating activities	3,615	5,175
Investing Activities		
Capital expenditures	(2,877)	(2,817)
Investment in gas field developments	(81)	—
Construction of assets pending sale / leaseback	(12)	—
Proceeds from sale / leaseback of assets	32	—
Payment into escrow account	(835)	—
Distribution from escrow account	835	—
Proceeds from sales of property, businesses and consolidated companies, net of cash divested	217	2,179
Acquisitions of property, businesses and consolidated companies, net of cash acquired	(187)	(62)
Purchases of previously leased assets	—	(40)
Cash acquired in step acquisition of nonconsolidated affiliate	1,050	—
Investments in and loans to nonconsolidated affiliates	(831)	(610)
Distributions and loan repayments from nonconsolidated affiliates	10	13
Proceeds from sale of ownership interests in nonconsolidated affiliates	—	33
Purchases of investments	(426)	(273)
Proceeds from sales and maturities of investments	607	337
Cash used in investing activities	(2,498)	(1,240)
Financing Activities		
Changes in short-term notes payable	(69)	(69)
Proceeds from issuance of long-term debt	32	333
Payments on long-term debt	(523)	(175)

Purchases of treasury stock	(416)	(500)
Proceeds from sales of common stock	320	313
Transaction financing, debt issuance and other costs	(2)	(5)
Excess tax benefits from share-based payment arrangements	39	22
Contributions from noncontrolling interests	—	17
Distributions to noncontrolling interests	(85)	(46)
Purchases of noncontrolling interests	(202)	(42)
Dividends paid to stockholders	(1,782)	(1,689)
Cash used in financing activities	(2,688)	(1,841)
Effect of Exchange Rate Changes on Cash	26	(125)
Summary		
Increase (decrease) in cash and cash equivalents	(1,545)	1,969
Cash and cash equivalents at beginning of period	8,577	5,654
Cash and cash equivalents at end of period	$7,032	$7,623

See Notes to the Consolidated Financial Statements.

Table of Contents

The Dow Chemical Company and Subsidiaries
Consolidated Statements of Equity

In millions, except per share amounts (Unaudited)	Nine Months Ended Sep 30, 2016	Sep 30, 2015
Preferred Stock		
Balance at beginning of year and end of period	$4,000	$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	4,936	4,846
Common stock issued / sold	320	313
Stock-based compensation and allocation of ESOP shares	(340)	(277)
Other	—	18
Balance at end of period	4,916	4,900
Retained Earnings		
Balance at beginning of year	28,425	23,045
Net income available for The Dow Chemical Company common stockholders	4,011	3,818
Dividends declared on common stock (per share - 2016: $1.38; 2015: $1.26)	(1,531)	(1,436)
Dividend equivalents on participating securities	(21)	(16)
Balance at end of period	30,884	25,411
Accumulated Other Comprehensive Loss		
Balance at beginning of year	(8,667)	(8,017)
Other comprehensive income (loss)	986	(568)
Balance at end of period	(7,681)	(8,585)
Unearned ESOP Shares		
Balance at beginning of year	(272)	(325)
Shares allocated to ESOP participants	46	47
Balance at end of period	(226)	(278)
Treasury Stock		
Balance at beginning of year	(6,155)	(4,233)
Purchases	(416)	(500)
Issuances - compensation plans	606	511
Balance at end of period	(5,965)	(4,222)
The Dow Chemical Company’s Stockholders’ Equity	29,035	24,333
Non-redeemable Noncontrolling Interests	1,314	833
Total Equity	$30,349	$25,166

See Notes to the Consolidated Financial Statements.

Table of Contents

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

Table of Contents

Note		Page
1	Consolidated Financial Statements	9
2	Recent Accounting Guidance	10
3	Restructuring	12
4	Acquisitions and Divestitures	14
5	Inventories	18
6	Goodwill and Other Intangible Assets	18
7	Nonconsolidated Affiliates	20
8	Financial Instruments	20
9	Fair Value Measurements	23
10	Supplementary Information	25
11	Commitments and Contingent Liabilities	26
12	Transfers of Financial Assets	34
13	Notes Payable, Long-Term Debt and Available Credit Facilities	35
14	Variable Interest Entities	37
15	Pension Plans and Other Postretirement Benefits	39
16	Stock-Based Compensation	40
17	Earnings Per Share Calculations	41
18	Income Taxes	42
19	Accumulated Other Comprehensive Loss	43
20	Noncontrolling Interests	44
21	Operating Segments and Geographic Areas	45
22	Planned Merger with DuPont	46

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, 2015.

Updated Significant Accounting Policy

Foreign Currency Translation

The local currency has been primarily used as the functional currency throughout the world. Translation gains and losses of those operations that use local currency as the functional currency are included in the consolidated balance sheets in "Accumulated other comprehensive loss" ("AOCL"). For certain subsidiaries, the U.S. dollar is used as the functional currency. This occurs when the subsidiary operates in an economic environment where the products produced and sold are tied to U.S. dollar-denominated markets, or when the foreign subsidiary operates in a hyper-inflationary environment. Where the U.S. dollar is used as the functional currency, foreign currency translation gains and losses are reflected in income.

Table of Contents

Adoption of Accounting Standards Update ("ASU") 2015-17, "Income Taxes (Topic 740): Balance Sheet Classification of Deferred Taxes"

In the first quarter of 2016, the Company early adopted ASU 2015-17. The Company elected to apply the new guidance on a retrospective basis and, as a result, changes have been made to the presentation of deferred income tax assets and liabilities in the consolidated balance sheets at December 31, 2015. See Note 2 for additional information. In addition, a change was made to the prior year consolidated balance sheets to reclassify prepaid tax assets of $293 million to "Other current assets." A summary of the changes made to the consolidated balance sheets at December 31, 2015, is included in the following table:

Summary of Changes to the Consolidated Balance Sheets at December 31, 2015

In millions	As Filed	Updated
Deferred income tax assets - current	$827	$—
Other current assets	$354	$647
Total current assets	$24,475	$23,941
Deferred income tax assets - noncurrent	$1,694	$2,140
Total other assets	$18,051	$18,497
Total Assets	$68,026	$67,938
Deferred income tax liabilities - current	$100	$—
Total current liabilities	$11,215	$11,115
Deferred income tax liabilities - noncurrent	$575	$587
Total other noncurrent liabilities	$14,413	$14,425
Total Liabilities and Equity	$68,026	$67,938

NOTE 2 – RECENT ACCOUNTING GUIDANCE

Recently Adopted Accounting Guidance

In the first quarter of 2016, the Company adopted ASU 2015-02, "Consolidation (Topic 810): Amendments to the Consolidation Analysis," which makes changes to both the variable interest model and voting interest model and eliminates the indefinite deferral of Financial Accounting Standards Board ("FASB") Statement No. 167, included in ASU 2010-10, for certain investment funds. All reporting entities that hold a variable interest in other legal entities had to re-evaluate their consolidation conclusions as well as disclosure requirements. This ASU was effective for annual periods beginning after December 15, 2015, and early adoption was permitted, including any interim period. The adoption of this guidance did not have an impact on the consolidated financial statements.

In the first quarter of 2016, the Company adopted ASU 2015-05, "Intangibles - Goodwill and Other - Internal-Use Software (Subtopic 350-40): Customer's Accounting for Fees Paid in a Cloud Computing Arrangement," which provides guidance about whether a cloud computing arrangement includes a software license. If a cloud computing arrangement includes a software license, the customer should account for the software license element of the arrangement consistent with the acquisition of other software licenses. If a cloud computing arrangement does not include a software license, the customer should account for the arrangement as a service contract. This ASU was effective for annual periods, including interim periods within those annual periods, beginning after December 15, 2015, and early adoption was permitted. The adoption of this guidance did not have an impact on the consolidated financial statements.

In the first quarter of 2016, the Company early adopted ASU 2015-17, "Income Taxes (Topic 740): Balance Sheet Classification of Deferred Taxes," which simplifies the presentation of deferred income taxes by requiring that deferred tax liabilities and assets be classified as noncurrent in a classified statement of financial position. This ASU is effective for financial statements issued for annual periods beginning after December 15, 2016, and interim periods

within those annual periods, and may be applied prospectively or retrospectively. The change is reflected in "Deferred income tax assets" and "Deferred income tax liabilities" in the consolidated balance sheets on a retrospective basis and did not have a material impact on the consolidated financial statements. See Note 1 for additional information.

Accounting Guidance Issued But Not Adopted as of September 30, 2016

In May 2014, the FASB issued ASU 2014-09, "Revenue from Contracts with Customers (Topic 606)," which is the new comprehensive revenue recognition standard that will supersede all existing revenue recognition guidance under U.S. GAAP. The standard's core principle is that a company will recognize revenue when it transfers promised goods or services to a customer in an amount that reflects the consideration to which the company expects to be entitled in exchange for those goods or services. 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

Table of Contents

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. The Company is currently evaluating the impact of adopting this guidance.

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 is currently evaluating the impact of adopting this guidance.

In July 2015, the FASB issued ASU 2015-11, "Inventory (Topic 330): Simplifying the Measurement of Inventory," which applies to inventory that is measured using first-in, first-out ("FIFO") or average cost. Under the updated guidance, an entity should measure inventory that is within scope at the lower of cost and net realizable value, which is the estimated selling prices in the ordinary course of business, less reasonably predictable costs of completion, disposal and transportation. Subsequent measurement is unchanged for inventory that is measured using last-in, first-out ("LIFO"). This ASU is effective for annual and interim periods beginning after December 15, 2016, and should be applied prospectively with early adoption permitted at the beginning of an interim or annual reporting period. The adoption of this guidance is not expected to have a material impact on the consolidated financial statements.

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

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 recent 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 Dow Corning transaction. These actions are expected to be completed during the next two years.

As a result of these actions, the Company recorded pretax restructuring charges of $449 million in the second quarter of 2016 consisting of severance charges 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" in the consolidated statements of income and reflected in the Company's segment results as shown in the following table:

2016 Restructuring Charges by Operating Segment In millions	Severance Costs	Impairment of Long-Lived Assets and Other Assets	Costs Associated with Exit or Disposal Activities	Total
Consumer Solutions	$ —	$ 23	$ 5	$28
Infrastructure Solutions	—	74	23	97
Performance Plastics	—	10	—	10
Corporate	268	46	—	314
Total	$ 268	$ 153	$ 28	$449

Details regarding the components of the 2Q16 restructuring charge are discussed below:

Severance Costs
The restructuring charge includes 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. In the third quarter of 2016, severance of $24 million was paid, leaving a liability of $244 million for approximately 2,200 employees at September 30, 2016.

Table of Contents

Impairment of Long-Lived Assets and Other Assets
The restructuring charges related to the write-down and write-off of assets in the second quarter of 2016 total $153 million. Details regarding the write-downs and write-offs are as follows:

- The Company recorded a charge of $70 million for asset write-downs and write-offs including the shutdown of an Energy & Water Solutions solar manufacturing facility in Midland, Michigan; the write-down of a solar facility in Milpitas, California; and, the write-off of capital projects and in-process research and development. The charge was reflected in the Infrastructure Solutions operating segment. The Midland facility was shut down in the third quarter of 2016.

- To enhance competitiveness and streamline costs associated with the ownership restructure of Dow Corning, silicones manufacturing facilities in Yamakita, Japan, and Greensboro, North Carolina, will be shut down. In addition, an idled facility was shut down in the second quarter of 2016. As a result, the Company recorded a charge of $25 million, reflected in Consumer Solutions ($21 million) and Infrastructure Solutions ($4 million).

- The closure and/or consolidation of certain corporate facilities and data centers. Write-downs of $25 million were charged against Corporate. These facilities will be shut down no later than the end of the second quarter of 2018.

- A decision was made to shut down a small manufacturing facility and to write-down other non-manufacturing assets, including a cost method investment and aircraft. Write-downs of $33 million were recorded, impacting Consumer Solutions ($2 million), Performance Plastics ($10 million) and Corporate ($21 million). The manufacturing facility was shut down in the second quarter of 2016.

Costs Associated with Exit and Disposal Activities
The restructuring charges for costs associated with exit and disposal activities, including contract cancellation penalties, environmental remediation and warranty liabilities, totaled $28 million in the second quarter of 2016, impacting Consumer Solutions ($5 million) and Infrastructure Solutions ($23 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 Activities In millions	Severance Costs	Impairment of Long-Lived Assets and Other Assets	Costs Associated with Exit and Disposal Activities	Total
Restructuring charges recognized in the second quarter of 2016	$ 268	$ 153	$ 28	$ 449
Charges against the reserve	—	(153)	—	(153)
Reserve balance at June 30, 2016	$ 268	$ —	$ 28	$ 296
Cash payments	(24)	—	(1)	(25)
Reserve balance at September 30, 2016	$ 244	$ —	$ 27	$ 271

2015 Restructuring
On April 29, 2015, Dow's Board of Directors approved actions to further streamline the organization and optimize the Company’s footprint as a result of the separation of a significant portion of Dow’s chlorine value chain. These actions, which will further accelerate Dow’s value growth and productivity targets, will result in a reduction of approximately 1,750 positions across a number of businesses and functions and adjustments to the Company's asset footprint to enhance competitiveness. These actions are expected to be completed primarily by March 31, 2017.

As a result of the 2015 restructuring activities, the Company recorded pretax restructuring charges of $375 million in the second quarter of 2015 consisting of costs associated with exit and disposal activities of $10 million, severance costs of $196 million and asset write-downs and write-offs of $169 million. In the fourth quarter of 2015, the Company recorded restructuring charge adjustments of $40 million, including severance costs of $39 million for the separation of approximately 500 additional positions as part of the Company's effort to streamline the organization, and $1 million of costs associated with exit and disposal activities.

Table of Contents

Severance Costs

The restructuring charges recorded in the second quarter of 2015 included severance of $196 million for the separation of approximately 1,750 employees under the terms of the Company's ongoing benefit arrangements. In the fourth quarter of 2015, the Company recorded an additional charge of $39 million related to the separation of approximately 500 additional employees, primarily by March 31, 2017. These costs were charged against Corporate. At December 31, 2015, severance of $92 million was paid, leaving a liability of $143 million for approximately 1,250 employees. In the first nine months of 2016, severance of $79 million was paid, leaving a liability of $64 million for approximately 440 employees at September 30, 2016.

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, included in "Restructuring charges" in the consolidated statements of income and reflected in the Infrastructure Solutions segment.

In the second quarter of 2016, the Company recorded an unfavorable adjustment to the 2015 restructuring charge related to additional accruals for exit and disposal activities of $5 million, included in "Restructuring charges" in the consolidated statements of income and reflected in Agricultural Sciences ($4 million) and Consumer Solutions ($1 million).

During the third quarter of 2016, the Company recorded an unfavorable adjustment to the 2015 restructuring charge related to additional accruals for exit and disposal activities of $1 million, reflected in Agricultural Sciences, offset by a favorable adjustment of $1 million for the impairment of long-lived assets, reflected in Infrastructure Solutions.

The following table summarizes the activities related to the Company's 2015 restructuring reserve, which is included in "Accrued and other current liabilities" and "Other noncurrent obligations" in the consolidated balance sheets:

2015 Restructuring Activities In millions	Severance Costs	Costs Associated with Exit and Disposal Activities	Total
Reserve balance at Dec 31, 2015	$ 143	$ 10	$153
Cash payments	(30)	(1)	(31)
Reserve balance at Mar 31, 2016	$ 113	$ 9	$122
Adjustments to the reserve	—	5	5
Cash payments	(25)	(1)	(26)
Reserve balance at June 30, 2016	$ 88	$ 13	$101
Adjustments to the reserve	—	1	1
Cash payments	(24)	(5)	(29)
Reserve balance at September 30, 2016	$ 64	$ 9	$73

Dow expects to incur future costs related to its 2015 and 2016 restructuring activities, as the Company continually looks for ways to enhance the efficiency and cost effectiveness of its operations, and to ensure competitiveness across its businesses and across geographic areas. Future costs are expected to include demolition costs related to closed facilities and restructuring plan implementation costs; these 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 and are not included in the restructuring activities tables.

NOTE 4 – ACQUISITIONS AND DIVESTITURES

Ownership Restructure of Dow Corning Corporation

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 approximately $4.8 billion in cash (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. In connection with the DCC Transaction, on May 31, 2016, Dow Corning incurred $4.5 billion of indebtedness in order to fund the contribution of cash to Splitco. See Notes 6, 7, 13 and 14 for additional information.

Table of Contents

At June 1, 2016, the Company's equity interest in Dow Corning, excluding the HSC Group, was $1,968 million and previously classified as "Investment in nonconsolidated affiliates" in the consolidated balance sheets. This equity interest was remeasured to fair value. As a result, the Company recognized a non-taxable gain of $2,445 million in the second quarter of 2016, 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 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.

The Company utilized an income approach with a discounted cash flow model to determine the enterprise fair value of Dow Corning. The valuation process resulted in an enterprise fair value of $9,636 million. The following table summarizes the preliminary fair values of Dow Corning's remaining assets and liabilities, excluding the HSC Group, on June 1, 2016, which are now fully consolidated by Dow. The valuation process is not complete at September 30, 2016. Final determination of the fair values may result in further adjustments to the values presented in the following table.

Assets Acquired and Liabilities Assumed on June 1, 2016	
In millions	
Fair Value of Previously Held Equity Investment, excluding the HSC Group	$4,818
Fair Value of Assets Acquired	
Cash and cash equivalents	$1,050
Accounts and notes receivable - Trade	647
Accounts and notes receivable - Other	223
Inventories	1,147
Other current assets	51
Investment in nonconsolidated affiliates	110
Noncurrent receivables	112
Net property	4,010
Other intangible assets (1)	2,987
Deferred income tax assets	996
Other assets	98
Total Assets Acquired	$11,431
Fair Value of Liabilities Assumed	
Accounts payable - Trade	$372
Income taxes payable	261
Accrued and other current liabilities	406
Other current liabilities	92
Long-Term Debt	4,672
Deferred income tax liabilities	1,863
Pension and other postretirement benefits - noncurrent (2)	1,241
Other noncurrent obligations	438
Total Liabilities Assumed	$9,345
Non-redeemable noncontrolling interests	$473
Goodwill	$3,205

(1) Includes $30 million of trademarks, $1,200 million of licenses and intellectual property, $2 million of software and $1,755 million of customer-related intangibles. See Note 6 for additional information.

(2) Includes pension and other postretirement benefits as well as long-term disability obligations.

The DCC Transaction resulted in the recognition of $3,205 million of goodwill which is not deductible for tax purposes. Goodwill largely consists of expected synergies resulting from the DCC Transaction. Cost synergies will be achieved through a combination of workforce consolidations and savings from actions such as harmonizing energy contracts at large sites, optimizing warehouse and logistics footprints, implementing materials and maintenance best practices, combining information technology service structures and leveraging existing research and development knowledge management systems. See Note 6 for additional information on goodwill, including the allocation by segment.

The fair value of "Accounts and notes receivables - Trade" acquired was $647 million, with gross contractual amounts receivable of $654 million. The fair value step-up in "Inventories" acquired was an increase of $317 million, which was expensed to "Cost of sales" over a three-month period beginning on June 1, 2016, and is reflected in the Consumer Solutions

Table of Contents

($147 million) and Infrastructure Solutions ($170 million) segments. Liabilities assumed from Dow Corning on June 1, 2016 included certain contingent liabilities relating to breast implant and other product liability claims valued at $290 million, included in "Other noncurrent obligations" and commercial creditor issues valued at $105 million, included in “Accrued and other current liabilities” in the consolidated balance sheets. See Note 11 for additional information on contingent liabilities. Gross operating loss carryforwards of $568 million were assumed from Dow Corning on June 1, 2016. The operating loss carryforwards expire either in years beyond 2020 or have an indefinite carryforward period.

The following table summarizes the major classes of assets and liabilities underlying the deferred tax assets and liabilities resulting from DCC Transaction:

Deferred Tax Balances at June 1, 2016 In millions	Deferred Tax Assets	Deferred Tax Liabilities
Property	$161	$ 767
Tax loss and credit carryforwards	227	—
Postretirement benefit obligations	474	—
Other accruals and reserves	63	47
Intangibles	11	1,008
Inventory	2	33
Long-term debt	49	—
Investments	23	8
Subtotal	$1,010	$ 1,863
Valuation allowances	(14)	—
Total Deferred Tax Balances	$996	$ 1,863

The Company evaluated the disclosure requirements under Accounting Standards Codification ("ASC") 805 "Business Combinations" and determined the DCC Transaction was not a material business combination for purposes of disclosing the revenue and earnings of Dow Corning since the date of the ownership restructure as well as supplemental pro forma information.

Beginning in June 2016, the results of Dow Corning, excluding the HSC Group, are fully consolidated in the Company’s consolidated statements of income. 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.

Acquisition of Cooperativa Central de Pesquisa Agrícola's Seed Business

On January 30, 2015, Dow AgroSciences LLC acquired Cooperativa Central de Pesquisa Agrícola's ("Coodetec") seed business for $169 million, of which $121 million was paid in 2015, $24 million was paid in the first quarter of 2016 and the remaining portion to be paid by the end of the first quarter of 2017. The acquisition of Coodetec's seed business is expected to advance the development of Dow AgroSciences' soybean program and strengthen the Company’s position in the corn market segment.

Step Acquisition of Univation Technologies, LLC

On May 5, 2015, Univation Technologies, LLC ("Univation"), previously a 50:50 joint venture between Dow and ExxonMobil Chemical Company ("ExxonMobil"), became a wholly owned subsidiary of Dow as a result of ExxonMobil redeeming its entire equity interest in Univation in exchange for certain assets and liabilities of Univation. The Company's equity interest in Univation of $159 million, previously classified as "Investment in

nonconsolidated affiliates" in the consolidated balance sheets, was remeasured to fair value which resulted in a non-taxable gain of $361 million recognized in the second quarter of 2015, included in "Sundry income (expense) - net" and reflected in the Performance Plastics segment.

Beginning in May 2015, Univation's results of operations were fully consolidated in the Company's consolidated statements of income. Prior to May 2015, the Company's 50 percent share of Univation's results of operations was reported as "Equity in earnings of nonconsolidated affiliates" in the consolidated statements of income.

Divestiture of the Global Sodium Borohydride Business
On January 30, 2015, the Company sold its global Sodium Borohydride business ("SBH"), part of the Performance Materials & Chemicals segment, to Vertellus Performance Chemicals LLC. The divestiture included a manufacturing facility located in Elma, Washington, as well as the associated business, inventory, customer contracts and lists, process technology, business

16

know-how and certain intellectual property. The sale was completed for $184 million, net of working capital adjustments and costs to sell, with proceeds subject to customary post-closing adjustments.

In the first quarter of 2015, the Company recognized a pretax gain of $18 million on the sale, included in "Sundry income (expense) - net" and reflected in the Performance Materials & Chemicals segment. The Company recognized an after-tax loss of $9 million on the sale, primarily due to non-deductible goodwill included with this transaction.

Divestiture of ANGUS Chemical Company

On February 2, 2015, the Company sold ANGUS Chemical Company (“ANGUS”), part of the Performance Materials & Chemicals segment, to Golden Gate Capital. The divestiture included the business headquarters and research and development facility in Buffalo Grove, Illinois; manufacturing facilities located in Sterlington, Louisiana, and Ibbenbueren, Germany; a packaging facility in Niagara Falls, New York; as well as the associated business, inventory, customer contracts, process technology, business know-how and certain intellectual property. The sale was completed for $1.151 billion, net of working capital adjustments, costs to sell and other transaction expenses, with proceeds subject to customary post-closing adjustments. The proceeds included a $10 million note receivable included in "Noncurrent receivables" in the consolidated balance sheets.

In the first quarter of 2015, the Company recognized a pretax gain of $670 million on the sale, included in "Sundry income (expense) - net" and reflected in the Performance Materials & Chemicals segment.

Divestiture of the AgroFresh Business

On July 31, 2015, the Company sold its AgroFresh business, part of the Agricultural Sciences segment, to Boulevard Acquisition Corp., which was subsequently renamed AgroFresh Solutions, Inc. (“AFSI”). The divestiture included trade receivables, inventory, property, customer lists, trademarks and certain intellectual property. The sale was completed for $859 million, net of working capital adjustments, costs to sell and other transaction expenses, with proceeds subject to customary post-closing adjustments. The proceeds included a $635 million cash payment; 17.5 million common shares of AFSI, which represents a 35 percent equity interest, valued at $210 million based on the closing stock price on July 31, 2015, and included in “Investment in nonconsolidated affiliates” in the consolidated balance sheets; and, a receivable for six million warrants to purchase common shares of AFSI, which was valued at $14 million at the time of close and classified as “Accounts and notes receivable - Other” in the consolidated balance sheets. At September 30, 2016, the Company has yet to receive the warrants. The Company is also eligible to receive contingent consideration of $50 million, subject to certain performance conditions. In addition, the Company has an ongoing tax receivable agreement with AFSI, where AFSI is obligated to share with Dow tax savings associated with the purchase of the AgroFresh business. The Company did not recognize the contingent consideration or tax receivable agreement as proceeds. See Note 14 for further information on the Company’s equity interest, receivable for the warrants and variable interests in AFSI.

In the third quarter of 2015, the Company recognized a pretax gain of $624 million on the sale, of which $128 million related to the Company's retained equity interest in AFSI. The pretax gain was included in "Sundry income (expense) - net" and reflected in the Agricultural Sciences segment.

The Company evaluated the divestitures of SBH, ANGUS and AgroFresh and determined they did not represent a strategic shift that had a major effect on the Company's operations and financial results and did not qualify as individually significant components of the Company. As a result, these divestitures were not reported as discontinued operations.

Reverse Morris Trust Transaction

A summary of the Reverse Morris Trust transaction can be found in Note 6 to the Consolidated Financial Statements included in the Company's Annual Report on Form 10-K for the year ended December 31, 2015.

On October 5, 2015, the Company completed the split-off of its U.S. Gulf Coast Chlor-Alkali and Vinyl, Global Chlorinated Organics and Global Epoxy businesses ("chlorine value chain"). The Company has not reported the historical results of the chlorine value chain as discontinued operations in Dow's financial statements, as the divestiture of the chlorine value chain did not represent a strategic shift that had a major effect on the Company's operations and financial results. However, the chlorine value chain was considered an individually significant component of the Company. Select income statement information is presented in the following table for the three- and nine-month periods ended September 30, 2015.

17

Table of Contents

Dow Chlorine Value Chain Income Statement Information In millions	Three Months Ended Sep 30, 2015	Nine Months Ended Sep 30, 2015
Income Before Income Taxes (1)	$ 63	$ 139
Loss before income taxes attributable to noncontrolling interests	6	11
Income Before Income Taxes attributable to The Dow Chemical Company (1)	$ 69	$ 150

(1) Excludes transaction costs associated with the separation of the chlorine value chain, which are reported below.

In the second quarter of 2016, the Company recognized a pretax gain of $6 million for post-closing adjustments, included in "Sundry income (expense) - net" in the consolidated statements of income and reflected in the Performance Materials & Chemicals segment.

In the third quarter of 2015, the Company incurred pretax charges of $35 million ($104 million in the first nine months of 2015) for nonrecurring transaction costs associated with the separation of the chlorine value chain, consisting primarily of financial and professional advisory fees, legal fees and information systems infrastructure costs. These charges, which are part of costs associated with transactions and productivity actions, were included in "Sundry income (expense) - net" in the consolidated statements of income and reflected in Corporate.

NOTE 5 – INVENTORIES

The following table provides a breakdown of inventories:

Inventories In millions	Sep 30, 2016	Dec 31, 2015
Finished goods	$4,494	$3,879
Work in process	1,755	1,502
Raw materials	939	730
Supplies	841	768
Total FIFO inventories	$8,029	$6,879
Adjustment of inventories to a LIFO basis	(16)	(8)
Total inventories	$8,013	$6,871

Total inventories increased $1,142 million from December 31, 2015, primarily due to the DCC Transaction. See Note 4 for additional information.

NOTE 6 – GOODWILL AND OTHER INTANGIBLE ASSETS

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

Goodwill In millions	Agricultural Sciences	Consumer Solutions	Infrastructure Solutions	Performance Materials & Chemicals	Performance Plastics	Total
Net goodwill at Dec 31, 2015	$ 1,472	$ 4,374	$ 4,382	$ 391	$ 1,535	$12,154
Acquisition of an aniline plant	—	—	—	37	—	37
Sale of a product line	—	—	—	—	(5)	(5)
Goodwill related to the DCC Transaction (1)	—	1,699	1,506	—	—	3,205

Foreign currency impact	—	44	49	2	5	100
Net goodwill at Sep 30, 2016	$ 1,472	$ 6,117	$ 5,937	$ 430	$ 1,535	$15,491

(1) Final determination of the goodwill value assigned may result in adjustments to the preliminary value recorded.

Table of Contents

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

Other Intangible Assets	At September 30, 2016			At December 31, 2015		
In millions	Gross Carrying Amount	Accumulated Amortization	Net	Gross Carrying Amount	Accumulated Amortization	Net
Intangible assets with finite lives:						
Licenses and intellectual property	$3,152	$ (1,218)	$1,934	$1,943	$ (1,087)	$856
Patents	108	(98)	10	119	(108)	11
Software	1,324	(684)	640	1,253	(628)	625
Trademarks	697	(488)	209	666	(441)	225
Customer-related	5,011	(1,563)	3,448	3,164	(1,366)	1,798
Other	163	(144)	19	165	(140)	25
Total other intangible assets, finite lives	$10,455	$ (4,195)	$6,260	$7,310	$ (3,770)	$3,540
IPR&D (1), indefinite lives	66	—	66	77	—	77
Total other intangible assets	$10,521	$ (4,195)	$6,326	$7,387	$ (3,770)	$3,617

(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.

Intangible assets included as part of the DCC Transaction are presented in the table below. See Note 4 for additional information on this transaction.

Dow Corning Intangible Assets	Gross	
In millions	Carrying Amount	Weighted-average Amortization Period
Intangible assets with finite lives:		
Licenses and intellectual property	$ 1,200	9 years
Software	2	5 years
Trademarks	30	3 years
Customer-related	1,755	19 years
Total	$ 2,987	15 years

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

Amortization Expense	Three Months Ended		Nine Months Ended	
In millions	Sep 30, 2016	Sep 30, 2015	Sep 30, 2016	Sep 30, 2015
Other intangible assets, excluding software	$162	$ 105	$387	$ 316
Software, included in "Cost of sales"	$18	$ 19	$55	$ 54

Total estimated amortization expense for 2016 and the five succeeding fiscal years is as follows:

Estimated
Amortization
Expense

In millions	
2016	$ 626
2017	$ 727
2018	$ 704
2019	$ 629
2020	$ 592
2021	$ 559

Table of Contents

NOTE 7 – NONCONSOLIDATED AFFILIATES

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 as of June 1, 2016. The Company's equity interest in Dow Corning, which was previously classified as "Investment in nonconsolidated affiliates" in the consolidated balance sheets, was remeasured to fair value. See Note 4 for additional information on the DCC Transaction, including details on the fair value of assets acquired and liabilities assumed.

Dow Corning continues to maintain an equity interest in the HSC Group. The HSC Group was included as part of the Dow Corning equity method investment and classified as "Investment in nonconsolidated affiliates" in the consolidated balance sheets. The following table includes the carrying value of the nonconsolidated affiliates included in the HSC Group at June 1, 2016, including the balance sheet classification of each investment:

HSC Group at June 1, 2016 In millions	Ownership Interest	Investment	Balance Sheet Classification
Hemlock Semiconductor L.L.C. (1)	50.1 %	$ (958)	Other noncurrent obligations
DC HSC Holdings LLC (2)	50.0 %	$ 571	Investment in nonconsolidated affiliates

(1) Hemlock Semiconductor L.L.C. is a nonconsolidated variable interest entity. See Note 14 for additional information.

(2) DC HSC Holdings LLC holds an 80.5 percent indirect ownership interest in Hemlock Semiconductor Operations.

At September 30, 2016, the Company had a $424 million note receivable with Sadara Chemical Company ("Sadara"), included in "Noncurrent receivables" in the consolidated balance sheets ($473 million at December 31, 2015). During the first nine months of 2016, the Company loaned an additional $831 million to Sadara and converted approximately $880 million of the loan balance into equity. Dow continues to maintain a 35 percent ownership interest in Sadara.

NOTE 8 – 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, 2015. If applicable, updates have been included in the respective section below.

The following table summarizes the fair value of financial instruments at September 30, 2016 and December 31, 2015:

Fair Value of Financial Instruments

	At September 30, 2016				At December 31, 2015			
In millions	Cost	Gain	Loss	Fair Value	Cost	Gain	Loss	Fair Value
Marketable securities: (1)								
Debt securities:								
Government debt (2)	$599	$36	$—	$635	$597	$22	$(7)	$612
Corporate bonds	623	47	(2)	668	633	26	(8)	651
Total debt securities	$1,222	$83	$(2)	$1,303	$1,230	$48	$(15)	$1,263
Equity securities	640	109	(41)	708	555	108	(60)	603
Total marketable securities	$1,862	$192	$(43)	$2,011	$1,785	$156	$(75)	$1,866
Long-term debt including debt due within one year (3)	$(21,056)	$7	$(2,529)	$(23,578)	$(16,756)	$424	$(1,668)	$(18,000)
Derivatives relating to:								
Interest rates	$—	$—	$(8)	$(8)	$—	$—	$(4)	$(4)

Commodities (4)	$—	$15	$(247)	$(232)	$—	$6	$(248)	$(242)
Foreign currency	$—	$17	$(36)	$(19)	$—	$109	$(32)	$77

(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 $18 million at September 30, 2016 and $18 million at December 31, 2015.

(4) Presented net of cash collateral, as disclosed in Note 9.

Table of Contents

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 nine-month periods ended September 30, 2016 and September 30, 2015:

Investing Results	Nine Months Ended	
In millions	Sep 30, 2016	Sep 30, 2015
Proceeds from sales of available-for-sale securities	$418	$ 279
Gross realized gains	$34	$ 39
Gross realized losses	$(2)	$ (5)

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

Contractual Maturities of Debt Securities at September 30, 2016

In millions	Amortized Cost	Fair Value
Within one year	$ 30	$ 30
One to five years	332	346
Six to ten years	645	681
After ten years	215	246
Total	$ 1,222	$ 1,303

At September 30, 2016, the Company had $850 million ($3,354 million at December 31, 2015) 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 September 30, 2016, the Company had investments in money market funds of $305 million classified as cash equivalents ($1,689 million at December 31, 2015).

The aggregate cost of the Company’s cost method investments totaled $110 million at September 30, 2016 ($157 million at December 31, 2015). 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, other than the restructuring charge, for the nine-month period ended September 30, 2016 (less than $1 million reduction in the nine-month period ended September 30, 2015).

Table of Contents

Accounting for Derivative Instruments and Hedging Activities
The following table provides the fair value and gross balance sheet classification of derivative instruments at September 30, 2016 and December 31, 2015:

Fair Value of Derivative Instruments In millions	Balance Sheet Classification	Sep 30, 2016	Dec 31, 2015
Asset Derivatives			
Derivatives designated as hedges:			
Commodities	Other current assets	$ 10	$ 3
Commodities	Deferred charges and other assets	5	—
Foreign currency	Other current assets	8	5
Total derivatives designated as hedges		$ 23	$ 8
Derivatives not designated as hedges:			
Commodities	Other current assets	$ 3	$ 4
Commodities	Deferred charges and other assets	2	—
Foreign currency	Accounts and notes receivable – Other	38	156
Total derivatives not designated as hedges		$ 43	$ 160
Total asset derivatives		$ 66	$ 168
Liability Derivatives			
Derivatives designated as hedges:			
Interest rates	Accrued and other current liabilities	$ —	$ 4
Interest rates	Other noncurrent obligations	8	—
Commodities	Accrued and other current liabilities	33	28
Commodities	Other noncurrent obligations	223	234
Foreign currency	Accrued and other current liabilities	7	1
Total derivatives designated as hedges		$ 271	$ 267
Derivatives not designated as hedges:			
Commodities	Accrued and other current liabilities	$ 2	$ —
Foreign currency	Accounts payable – Other	58	83
Total derivatives not designated as hedges		$ 60	$ 83
Total liability derivatives		$ 331	$ 350

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, an $8 million loss for commodity contracts and a $3 million loss for foreign currency contracts.

Table of Contents

NOTE 9 – 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, 2015. 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 on a Recurring Basis at September 30, 2016 In millions	Quoted Prices in Active Markets for Identical Items (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Counterparty and Cash Collateral Netting (1)	Total
Assets at fair value:					
Cash equivalents and other current assets (2)	$ —	$ 1,155	$ —	$ —	$1,155
Interests in trade accounts receivable conduits (3)	—	—	1,500	—	1,500
Equity securities (4)	617	91	—	—	708
Debt securities: (4)					
Government debt (5)	—	635	—	—	635
Corporate bonds	—	668	—	—	668
Derivatives relating to: (6)					
Commodities	16	4	—	(5)	15
Foreign currency	—	46	—	(29)	17
Total assets at fair value	$ 633	$ 2,599	$ 1,500	$ (34)	$4,698
Liabilities at fair value:					
Long-term debt (7)	$ —	$ 23,578	$ —	$ —	$23,578
Derivatives relating to: (6)					
Interest rates	—	8	—	—	8
Commodities	9	249	—	(11)	247
Foreign currency	—	65	—	(29)	36
Total liabilities at fair value	$ 9	$ 23,900	$ —	$ (40)	$23,869

(1) Cash collateral amounts represent the estimated net settlement amount when applying netting and set-off rights included in master netting arrangements between the Company and its counterparties and the payable or receivable for cash collateral held or placed with the same counterparty.
(2) 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 12 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 8 for the classification of derivatives in the consolidated balance sheets.
(7) See Note 8 for information on fair value measurements of long-term debt.

Table of Contents

Basis of Fair Value Measurements on a Recurring Basis at December 31, 2015 In millions	Quoted Prices in Active Markets for Identical Items (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Counterparty and Cash Collateral Netting (1)	Total
Assets at fair value:					
Cash equivalents (2)	$ —	$ 5,043	$ —	$ —	$5,043
Interests in trade accounts receivable conduits (3)	—	—	943	—	943
Equity securities (4)	564	39	—	—	603
Debt securities: (4)					
Government debt (5)	—	612	—	—	612
Corporate bonds	—	651	—	—	651
Derivatives relating to: (6)					
Commodities	5	2	—	(1)	6
Foreign currency	—	161	—	(52)	109
Total assets at fair value	$ 569	$ 6,508	$ 943	$ (53)	$7,967
Liabilities at fair value:					
Long-term debt (7)	$ —	$ 18,000	$ —	$ —	$18,000
Derivatives relating to: (6)					
Interest rates	—	4	—	—	4
Commodities	6	256	—	(14)	248
Foreign currency	—	84	—	(52)	32
Total liabilities at fair value	$ 6	$ 18,344	$ —	$ (66)	$18,284

(1) Cash collateral amounts represent the estimated net settlement amount when applying netting and set-off rights included in master netting arrangements between the Company and its counterparties and the payable or receivable for cash collateral held or placed with the same counterparty.
(2) 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 12 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 8 for the classification of derivatives in the consolidated balance sheets.
(7) See Note 8 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 $14 million at September 30, 2016 ($26 million at December 31, 2015).

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 nine-month periods ended September 30, 2016 and September 30, 2015:

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

In millions	Sep 30, 2016	Sep 30, 2015	Sep 30, 2016	Sep 30, 2015
Balance at beginning of period	$1,149	$1,056	$943	$1,328
Loss included in earnings (2)	—	—	(1)	—
Purchases	480	115	1,440	556
Settlements	(129)	(152)	(882)	(865)
Balance at end of period	$1,500	$1,019	$1,500	$1,019

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

Table of Contents

Fair Value Measurements on a Nonrecurring Basis

The following table summarizes the basis used to measure certain assets at fair value on a nonrecurring basis in the consolidated balance sheets at September 30, 2016:

Basis of Fair Value Measurements on a Nonrecurring Basis at September 30, 2016 In millions	Significant Other Unobservable Inputs (Level 3)	Total Losses 2016
Assets at fair value:		
Long-lived assets, investments and other assets	$ 15	$(153)

As part of the 2016 restructuring plan, the Company will shut down a number of manufacturing and corporate facilities. The manufacturing facilities and related assets, corporate facilities and data centers associated with this plan were written down to zero in the second quarter of 2016. The Company also rationalized its aircraft fleet in the second quarter of 2016. Certain of those aircraft, classified as a Level 3 measurement, were considered held for sale with a net carrying value of $15 million at September 30, 2016, using unobservable inputs, including assumptions a market participant would use to measure the fair value of the aircraft. The impairment charges related to the 2016 restructuring plan, totaling $153 million, were included in "Restructuring charges" in the consolidated statements of income. See Note 3 for additional information on the Company's restructuring activities.

NOTE 10 – 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 litigation. During the three months ended September 30, 2016, "Sundry income (expense) - net" was net expense of $4 million (net income of $632 million during the three months ended September 30, 2015). During the nine months ended September 30, 2016, "Sundry income (expense) - net" was net income of $1,305 million (net income of $1,680 million during the nine months ended September 30, 2015). The following table provides the most significant transactions recorded in "Sundry income (expense) – net" for the three- and nine-month periods ended September 30, 2016 and September 30, 2015.

Sundry Income (Expense) - Net	Three Months Ended		Nine Months Ended	
In millions	Sep 30, 2016	Sep 30, 2015	Sep 30, 2016	Sep 30, 2015
Gain on ownership restructure of Dow Corning (1)	$—	$ —	$2,445	$ —
Settlement of the urethane matters class action lawsuit and opt-out cases (2)	$—	$ —	$(1,235)	$ —
Gain on divestiture of ANGUS Chemical Company (1)	$—	$ —	$—	$ 670
Gain on Univation step acquisition (1)	$—	$ —	$—	$ 361
Gain on divestiture of the AgroFresh business (1)	$—	$ 621	$—	$ 621
Obligation related to the split-off of the chlorine value chain	$(33)	$ —	$(33)	$ —

(1) See Note 4 for additional information.
(2) See Note 11 for additional information.

Table of Contents

NOTE 11 – COMMITMENTS AND CONTINGENT LIABILITIES

Environmental Matters

Accruals for environmental matters are recorded when it is probable that a liability has been incurred and the amount of the liability can be reasonably estimated, based on current law and existing technologies. At September 30, 2016, the Company had accrued obligations of $661 million for probable environmental remediation and restoration costs, including $72 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 two and a half times 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, 2015, the Company had accrued obligations of $670 million for probable environmental remediation and restoration costs, including $74 million for the remediation of Superfund sites.

Midland Off-Site Environmental Matters

A complete description of the Company’s Midland Off-Site Environmental 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, 2015.

On July 21, 2016, the Michigan Department of Environmental Quality approved a Corrective Action report, including a Remedial Action Plan ("RAP"), for the City of Midland. This is the final regulatory approval required for the City of Midland. Dow is implementing the monitoring and maintenance requirements of the RAP. At September 30, 2016, the accrual for these off-site matters was $57 million (included in the total accrued obligation of $661 million at September 30, 2016). At December 31, 2015, the Company had an accrual for these off-site matters of $62 million (included in the total accrued obligation of $670 million at December 31, 2015).

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

Introduction

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

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

Based on a study completed in January 2003 by Analysis, Research & Planning Corporation (now known as Ankura Consulting Group, LLC ("Ankura") as a result of the March 2016 merger of Analysis, Research & Planning Corporation and Ankura), Union Carbide increased its December 31, 2002 asbestos-related liability for pending and future claims for the 15-year period ending in 2017 to $2.2 billion, excluding future defense and processing costs. Since then, Union Carbide has compared current asbestos claim and resolution activity to the results of the most recent Ankura study at each balance sheet date to determine whether the accrual continues to be appropriate. In addition, Union Carbide has requested Ankura to review Union Carbide's historical asbestos claim and resolution activity each year since 2004 to determine the appropriateness of updating the most recent Ankura study.

Table of Contents

In October 2015, Union Carbide requested Ankura to review its historical asbestos claim and resolution activity and determine the appropriateness of updating its December 2014 study. In response to that request, Ankura reviewed and analyzed data through September 30, 2015. In December 2015, Ankura stated that an update of its study would not provide a more likely estimate of future events than the estimate reflected in the December 2014 study and, therefore, the estimate in that study remained applicable. Based on Union Carbide's own review of the asbestos claim and resolution activity and Ankura's response, Union Carbide determined that no change to the accrual would be required. At December 31, 2015, the asbestos-related liability for pending and future claims was $437 million. At December 31, 2015, approximately 21 percent of the recorded liability related to pending claims and approximately 79 percent related to future claims.

Based on Union Carbide’s review of 2016 activity, Union Carbide determined that no adjustment to the accrual was required at September 30, 2016. Union Carbide’s asbestos-related liability for pending and future claims was $398 million at September 30, 2016. Approximately 22 percent of the recorded liability related to pending claims and approximately 78 percent related to future claims.

Union Carbide has receivables for insurance recoveries related to its asbestos liability as well as receivables for defense and resolution costs submitted to insurance carriers that have settlement agreements in place regarding their asbestos-related insurance coverage. Union Carbide continues to believe that its recorded receivable for insurance recoveries from all insurance carriers is probable of collection. At September 30, 2016, Union Carbide's receivable for insurance recoveries related to its asbestos liability and defense and resolution costs was $41 million ($61 million at December 31, 2015).

Union Carbide expenses defense costs as incurred. The pretax impact for defense and resolution costs, net of insurance, was $20 million in the third quarter of 2016 ($20 million in the third quarter of 2015) and $55 million in the first nine months of 2016 ($65 million in the first nine months of 2015) and was reflected in "Cost of sales" in the consolidated statements of income.

Summary

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

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

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

Urethane Matters

Class Action Lawsuit

On February 16, 2006, the Company, among others, received a subpoena from the U.S. Department of Justice ("DOJ") as part of a previously announced antitrust investigation of manufacturers of polyurethane chemicals, including

methylene diphenyl diisocyanate, toluene diisocyanate, polyether polyols and system house products. The Company cooperated with the DOJ and, following an extensive investigation, on December 10, 2007, the Company received notice from the DOJ that it had closed its investigation of potential antitrust violations involving these products without indictments or pleas.

In 2005, the Company, among others, was named as a defendant in multiple civil class action lawsuits alleging a conspiracy to fix the price of various urethane chemical products, namely the products that were the subject of the above described DOJ antitrust investigation. These lawsuits were consolidated in the U.S. District Court for the District of Kansas (the "District Court") or have been tolled. On July 29, 2008, the District Court certified a class of purchasers of the products for the six-year period from 1999 through 2004 ("plaintiff class"). In January 2013, the class action lawsuit went to trial in the District Court with the Company as the sole remaining defendant, the other defendants having previously settled. On February 20, 2013, the jury returned a damages verdict of approximately $400 million against the Company, which ultimately was trebled by the District Court under applicable antitrust laws, less offsets from other settling defendants, resulting in a judgment entered in July 2013 in the amount of $1.06 billion. The Company appealed this judgment to the U.S. Tenth Circuit Court of Appeals

("Tenth Circuit" or "Court of Appeals"), and on September 29, 2014, the Court of Appeals issued an opinion affirming the District Court judgment. On October 14, 2014, the Company filed a petition for Rehearing or Rehearing En Banc (collectively the "Rehearing Petition") with the Court of Appeals, which was denied on November 7, 2014.

On March 9, 2015, the Company filed a petition for writ of certiorari ("Writ Petition") with the U.S. Supreme Court, seeking judicial review by the Supreme Court and requesting that it correct fundamental errors in the Circuit Court opinion. In April 2015, six amici filed amicus briefs in support of the Company's Writ Petition. On June 8, 2015, the Supreme Court granted a petition for a writ of certiorari in another case, Tyson Foods, Inc. v. Bouaphakeo, PEG, et al., ("Tyson Foods") (Supreme Court No. 14-1146), which presented an issue core to the questions presented in the Company's Writ Petition: whether class-wide damages can be determined by simply applying the average injury observed in a sample. The Company's case was considered by the Supreme Court in conference on June 11, 2015. On June 15, 2015, the Supreme Court issued its decisions from its conference and did not rule on the Company's Writ Petition. Subsequently, the Writ Petition was not listed for further consideration by the Supreme Court at its weekly conferences. The Company was advised that this meant that the Supreme Court was withholding further consideration of the Company's Writ Petition while it considered the Tyson Foods case on the merits.

On February 26, 2016, the Company announced a proposed settlement under which Dow would pay the plaintiff class $835 million, which includes damages, class attorney fees and post-judgment interest. The agreement was conditioned upon the Supreme Court holding Dow's Writ Petition in abeyance and subsequent approval of the class settlement by the District Court. The proposed settlement resolves the $1.06 billion judgment and any subsequent claim for attorneys' fees, costs and post-judgment interest against Dow. 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 March 7, 2016, the Supreme Court approved the joint motion to hold Dow’s Writ Petition in abeyance and on April 27, 2016, the District Court provided preliminary approval of the settlement. On May 11, 2016, the Company moved the $835 million settlement amount into an escrow account (per the terms of the Settlement Agreement). The District Court granted final approval of the settlement on July 29, 2016, and the settlement amount was released from escrow on August 30, 2016.

In the first quarter of 2016, Dow changed its risk assessment on this matter as a result of new growing political uncertainties due to events within the Supreme Court, including Justice Scalia's death, and the increased likelihood for unfavorable outcomes for businesses involved in class action lawsuits. Of particular importance was the fact that Justice Scalia had written the majority opinions in both the Wal-Mart and Comcast cases. The Company continues to believe that it was not part of any conspiracy and the judgment was fundamentally flawed as a matter of class action law. Regardless, the case is now concluded.

Opt-Out Cases
Shortly after the July 2008 class certification ruling, a series of "opt-out" cases were filed by a number of large volume purchasers who elected not to be class members. These opt-out cases are substantively identical to the class action lawsuit, but expanded the period of time to include 1994 through 1998. On September 30, 2014, the opt-out cases, which had been consolidated with the class action lawsuit for purposes of pre-trial proceedings were remanded from the District Court to the U.S. District Court for the District of New Jersey. A consolidated jury trial of the opt-out cases began on March 8, 2016. On April 5, 2016, the Company entered into a binding settlement for the opt-out cases under which Dow would pay the plaintiffs $400 million, inclusive of damages and attorney fees. Payment of this settlement occurred on May 4, 2016. The Company changed its risk assessment on this matter as a result of the uncertainty of a jury trial outcome along with the automatic trebling of an adverse verdict. 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. The Company continues to deny allegations of price fixing and maintains that it was not part of any conspiracy.

Canadian Matters

In addition to the matters described above, there are two separate but inter-related matters in Ontario and Quebec, Canada. In March 2014, the Superior Court of Justice in London, Ontario, ruled in favor of the plaintiffs' motion for class certification. The Company filed its Notice of Motion for Leave to Appeal in March 2014, which was subsequently denied. This matter is currently in the preliminary pre-trial stage, but no trial date has been set. With a certified class in the Ontario case, the Quebec case is effectively rendered moot and, therefore, the parties have agreed that it will not be prosecuted independently of any future outcome in the Ontario case. The Company has concluded it is not probable a loss has been incurred and, therefore, a liability is not recorded with respect to these matters. The Company has determined that any possible loss on these matters is not material to the Company's results of operations and cash flows as the Company's exposure is significantly less than the Class Action Lawsuit and Opt-Out Cases due to: (i) the limited exposure period based upon other known settlements relating to

Table of Contents

the Canadian Matters, (ii) antitrust verdicts in Canada are not trebled, and (iii) the Canadian cases are based on different legal theories and different applicable law.

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. The USPTO has now issued office actions rejecting the patentability of all four patents that Bayer asserted in the case. The USPTO re-examination proceedings remain ongoing. DAS has appealed the federal district court's decision, and DAS has posted a bond to stay enforcement of the award during the appeal.

The Company believes the arbitral award is fundamentally flawed in numerous respects and is confident that it will be vacated on appeal 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 Company continues to believe that Bayer’s patents are invalid for multiple reasons and that the damages awarded cannot be supported under prevailing patent law, including U.S. Supreme Court precedent. In addition, the Company anticipates that the USPTO will conclude with final office actions declaring each of the patents invalid in the pending re-examination proceedings which will provide a strong basis to vacate the arbitral award. If the federal appellate court denies the Company's appeal, the Company can seek judicial review by the U.S. Supreme Court.

As part of the Company’s review of the arbitral award, the Company assessed the legal and factual circumstances of the case, the record of the arbitration and USPTO re-examination status, and the applicable law to vacate the arbitral award. Based on this review and the reasons stated above, the Company has concluded it is not probable that a loss has been incurred and, therefore, a liability has not been recorded with respect to this matter. While the Company

believes it is not probable that a loss has been incurred, the existence of the arbitral award and the federal district court confirmation of the award indicates that it is reasonably possible that a loss could occur. The estimate of the possible range of loss to the Company is zero to the $455 million amount set forth in the arbitral award (excluding post-judgment interest).

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

Table of Contents

Rocky Flats Matter

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"). Dow and Rockwell were both DOE contractors that operated the facility - Dow from 1952 to 1975 and Rockwell from 1975 to 1989. The facility was permanently shut down in 1989.

In 1993, the United States District Court for the District of Colorado ("District Court") certified the class of property owners. The plaintiffs tried their case as a public liability action under the Price Anderson Act ("PAA"). In 2005, the jury returned a damages verdict of $926 million. Dow and Rockwell appealed the jury award to the U.S. Tenth Circuit Court of Appeals ("Court of Appeals") which concluded the PAA had its own injury requirements, on which the jury had not been instructed, and also vacated the District Court's class certification ruling, reversed and remanded the case, and vacated the District Court's judgment (Cook v. Rockwell Int'l Corp., 618 F.3d 1127, 1133 (10th Cir. 2010)). The plaintiffs argued on remand to the District Court that they were entitled to reinstate the judgment as a state law nuisance claim, independent of the PAA. The District Court rejected that argument and entered judgment in favor of the defendants (Cook v. Rockwell Int'l Corp, 13 F. Supp. 3d 1153 (D. Colo. 2014)). The plaintiffs appealed to the Court of Appeals, which reversed the District Court's ruling, holding that the PAA did not preempt the plaintiffs' nuisance claim under Colorado law and that the plaintiffs could seek reinstatement of the prior nuisance verdict under Colorado law, and remanded for additional proceedings, including consideration of whether the District Court could recertify the class (Cook v. Rockwell Int'l Corp., 790 F.3d 1088 (10th Cir. 2015)).

Dow and Rockwell continued to litigate this matter in the District Court and 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 will be paid by Dow and $244 million will be paid by Rockwell. The DOE authorized the settlement pursuant to the PAA and the nuclear hazards indemnity provisions contained in Dow and Rockwell's contracts. As a result, the Company expects to be fully indemnified by the DOE for the settlement amount. The District Court granted preliminary approval to the class settlement on August 5, 2016, and set a fairness hearing on the settlement for April 28, 2017. At September 30, 2016, the Company had a liability of $130 million related to this matter (having already paid $1 million towards class notice costs), included in "Accrued and other current liabilities" in the consolidated balance sheets and expects to make the settlement payment to the plaintiffs no later than July 28, 2017. The Company also recorded a receivable of $131 million related to this matter, included in "Noncurrent receivables" in the consolidated balance sheets, and expects to receive its indemnification payment in 2017.

Dow Corning Chapter 11 Related Matters

Introduction

In 1995, Dow Corning, then a 50:50 joint venture between Dow and Corning Incorporated, 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

The centerpiece of the Plan is a product liability settlement program administered by an independent claims office (the "Settlement Facility"). 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 $3,600 million undiscounted at September 30, 2016). 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. Under the Plan, Dow Corning is not required to remit additional funds to the Settlement Facility unless and until necessary to preserve liquidity. As of September 30, 2016, 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 $152 million.

At September 30, 2016, the Company had a liability recorded for breast implant and other product liability claims (“Implant Liability”) of $290 million, included in “Other noncurrent obligations” in the consolidated balance sheets. The Company recorded the Implant Liability as part of the ownership restructure of Dow Corning on June 1, 2016, and, in accordance with ASC 450 “Accounting for Contingencies,” recognized the estimated impact of the settlement of future claims primarily based on reported claim filing levels in the Revised Settlement Program (the “RSP”). The RSP was a program sponsored by certain

other breast implant manufacturers in the context of multi-district, coordinated federal breast implant cases and was open from 1995 through 2010. The RSP was also a revised successor to an earlier settlement plan involving Dow Corning (prior to its bankruptcy filing). While Dow Corning withdrew from the RSP, many of the benefit categories and payment levels in Dow Corning's settlement program were drawn from the RSP. Based on the comparability in design and actual claim experience of both plans, management concluded that claim information from the RSP provides a reasonable basis to estimate future claim filing levels for the Settlement Facility. With the assistance of a third-party advisor, Dow Corning developed an estimate of the future Settlement Facility liability, primarily based on the assumption that future claim filings in the remaining periods of the Settlement Facility will be similar to claim filing trends observed in the RSP.

Dow Corning is not aware of circumstances that would change the factors used in estimating the 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 the RSP;
- 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 $1,839 million at September 30, 2016.

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.

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 relevant loan agreements and state law. 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.

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. At September 30, 2016, Dow Corning has estimated its remaining liability to the Commercial Creditors to be within a range of $106 million to $352 million. However, 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. At September 30, 2016, the liability related to Dow Corning's potential obligation to pay additional interest to its Commercial Creditors in the Chapter 11 Proceeding was $106 million and included in "Accrued and other current liabilities" in the consolidated balance sheets. 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 DCC Transaction discussed in Note 4, the Company is indemnified for 50 percent of future losses associated with certain pre-closing liabilities, including the Implant Liability and Commercial Creditors matters described above, subject to certain conditions and limits. The maximum amount of indemnified losses which may be recovered are subject to a cap that declines over time. Indemnified losses are capped at (1) $1.5 billion until May 31, 2018, (2) $1 billion between May 31, 2018 and May 31, 2023, and (3) no recoveries are permitted after May 31, 2023. No indemnification assets were recorded at September 30, 2016.

Summary

The actual amount of Dow Corning's future liabilities to resolve Chapter 11 related matters and future recoveries under related indemnification provisions are uncertain. As additional facts and circumstances develop related to Chapter 11 matters, it is at least reasonably possible that estimates recorded by Dow Corning may be revised. Future revisions, if required, could have a material effect on the Company's financial position and results of operations in the period or periods in which such revisions are recorded. Since any specific future developments, and the impact such developments might have on amounts recorded in

---

Table of Contents

the Company’s consolidated financial statements, are unknown at this time, an estimate of possible future adjustments cannot be made.

It is the opinion of Dow’s management that it is reasonably possible that the cost of Dow Corning disposing of its Chapter 11 liabilities 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 of the Company.

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, governmental regulation, 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.

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, 2015. There have been no material changes to the purchase commitments since December 31, 2015.

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

Guarantees at September 30, 2016 In millions	Final Expiration	Maximum Future Payments	Recorded Liability
Guarantees	2021	$ 4,884	$ 74
Residual value guarantees	2025	917	114
Total guarantees		$ 5,801	$ 188

Guarantees at December 31, 2015 In millions	Final Expiration	Maximum Future Payments	Recorded Liability
Guarantees	2021	$ 4,910	$ 102
Residual value guarantees	2025	912	117
Total guarantees		$ 5,822	$ 219

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 five 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, 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 $12.2 billion of Total Project Financing outstanding at September 30, 2016 ($11.9 billion at December 31, 2015). 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 the first quarter of 2018 and must occur no later than December 2020.

Table of Contents

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.

Warranties

The Company provides warranty policies on certain products and accrues liabilities under warranty policies using historical warranty claim experience. Adjustments are made to accruals as claim data and historical experience change. The following table summarizes changes in the Company's warranty liability:

Warranty Accrual In millions	Sep 30, 2016	Dec 31, 2015
Balance at January 1	$ 93	$ 107
Accruals related to existing warranties (1)	11	5
Settlements	(18)	(19)
Balance at end of period	$ 86	$ 93

(1) In the second quarter of 2016, the Company recorded a pretax charge of $10 million as part of the 2016 restructuring charge. The charge was included in "Restructuring charges" in the consolidated statements of income and reflected in Infrastructure Solutions. See Note 3 for additional information.

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, Chile, 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, Chile, Colombia and Europe.

The aggregate carrying amount of asset retirement obligations recognized by the Company was $113 million at September 30, 2016 ($96 million at December 31, 2015), which included $14 million of asset retirement obligations assumed in the DCC Transaction. These obligations are included in the consolidated balance sheets as "Accrued and other current liabilities" and "Other noncurrent obligations."

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

Table of Contents

NOTE 12 – 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 In millions	Sep 30, 2016	Dec 31, 2015
Carrying value of interests held	$1,500	$ 943
Percentage of anticipated credit losses	0.35 %	0.34 %
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 during the three- and nine-month periods ended September 30, 2016 and September 30, 2015.

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

Cash Proceeds	Three Months Ended		Nine Months Ended	
In millions	Sep 30, 2016	Sep 30, 2015	Sep 30, 2016	Sep 30, 2015
Sale of receivables	$—	$—	$—	$15
Collections reinvested in revolving receivables	$5,783	$5,776	$15,760	$17,366
Interests in conduits (1)	$129	$152	$882	$865

(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 In millions	Sep 30, 2016	Dec 31, 2015
Delinquencies on sold receivables still outstanding	$55	$97
Trade accounts receivable outstanding and derecognized	$2,494	$2,152

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

Table of Contents

NOTE 13 – NOTES PAYABLE, LONG-TERM DEBT AND AVAILABLE CREDIT FACILITIES

Notes Payable In millions	Sep 30, 2016	Dec 31, 2015
Notes payable to banks and other lenders	$ 194	$ 277
Notes payable to related companies	36	171
Notes payable trade	6	6
Total notes payable	$ 236	$ 454
Period-end average interest rates	5.34 %	4.00 %

Long-Term Debt In millions	2016 Average Rate	Sep 30, 2016	2015 Average Rate	Dec 31, 2015
Promissory notes and debentures:				
Final maturity 2016	9.80 %	$3	2.64 %	$356
Final maturity 2017	6.06 %	442	6.06 %	442
Final maturity 2018	5.78 %	339	5.78 %	339
Final maturity 2019	8.55 %	2,122	8.55 %	2,123
Final maturity 2020	4.46 %	1,547	4.46 %	1,547
Final maturity 2021	4.72 %	1,424	4.72 %	1,424
Final maturity 2022 and thereafter	5.54 %	8,449	5.54 %	8,448
Other facilities:				
U.S. dollar loans, various rates and maturities	1.36 %	4,610	2.32 %	125
Foreign currency loans, various rates and maturities	3.32 %	991	2.74 %	856
Medium-term notes, varying maturities through 2025	3.82 %	1,026	3.79 %	1,082
Tax-exempt bonds, varying maturities through 2038	5.66 %	343	5.66 %	343
Capital lease obligations	—	142	—	76
Unamortized debt discount and issuance costs	—	(382)	—	(405)
Long-term debt due within one year (1)	—	(633)	—	(541)
Long-term debt	—	$20,423	—	$16,215

(1) Presented net of current portion of unamortized debt issuance costs of $27 million at September 30, 2016 and $9 million at December 31, 2015.

Annual Installments on Long-Term Debt For Next Five Years at September 30, 2016 (1) In millions	
2016	$66
2017	$698
2018	$5,262
2019	$2,391
2020	$1,825
2021	$1,566

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

2016 Activity

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

As part of the DCC Transaction, the fair value of debt assumed by Dow was $4,672 million and is reflected in the long-term debt table above. See Note 4 for additional information.

2015 Activity

During the first nine months of 2015, the Company issued $322 million aggregate principal amount of InterNotes and approximately $94 million of long-term debt (net of $8 million of additional borrowings) was repaid by consolidated variable interest entities.

Table of Contents

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

Committed and Available Credit Facilities at September 30, 2016

In millions	Effective Date	Committed Credit	Credit Available	Maturity Date	Interest
Five Year Competitive Advance and Revolving Credit Facility ("Revolving Credit Facility")	March 2015	$ 5,000	$ 5,000	March 2020	Floating rate
Bilateral Revolving Credit Facility	August 2015	100	100	March 2017	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 (1)	February 2016	4,500	—	May 2018	Floating rate
Total Committed and Available Credit Facilities		$ 10,880	$ 6,380		

(1) Drawn on May 31, 2016, by Dow Corning, a wholly owned subsidiary of the Company as of June 1, 2016.

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") in order to fund the contribution of cash to Splitco. 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 Revolving Credit Facility. Amounts borrowed under the DCC Term Loan Facility are repayable on May 30, 2017, subject to a 364-day extension option, at Dow Corning's election, upon the satisfaction of certain customary conditions precedent. Dow Corning intends to exercise the 364-day extension option on the DCC Term Loan Facility. See Note 4 for additional information on the DCC Transaction.

Debt Covenants and Default Provisions
There were no material changes to the debt covenants and default provisions related to the Company's outstanding long-term debt and primary, private credit agreements in the first nine months of 2016. 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, 2015.

Table of Contents

NOTE 14 – 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, 2015.

Consolidated VIEs

The Company was a partner in a joint venture located in Brazil that produces ethanol from sugarcane. The Company's variable interests in this joint venture related to an equity option between the partners, a parental loan and guarantee related to debt financing, and contractual arrangements limiting the partner's initial participation in the economics of certain assets and liabilities. Since formation of the joint venture, the partners amended the governing documents, including terms of the equity option. Terms of the equity option required the Company to purchase the partner's equity investment at a price based on a specified formula if the partner elected to exit the joint venture. In August 2015, the partner exercised its equity option which resulted in the Company reclassifying the partner's equity investment from "Redeemable Noncontrolling Interest" to "Accrued and other current liabilities" in the consolidated balance sheets. On March 31, 2016, the partner's equity investment transferred to the Company. On July 11, 2016, the Company paid $202 million to the former partner, which is classified as "Purchases of noncontrolling interests" in the consolidated statements of cash flows. This former joint venture is now 100 percent owned by the Company, therefore its asset and liability balances are not included in the September 30, 2016, balances in the "Assets and Liabilities of Consolidated VIEs" table below. The Company continues to hold variable interests in a related entity that owns a cogeneration facility. The Company's variable interests are the result of a tolling arrangement where it provides fuel to the entity and purchases a majority of the cogeneration facility’s output on terms that ensure a return to the entity’s equity holders. The assets and liabilities of the cogeneration facility continue to be included in the table below.

The Company was a 49 percent owner of a joint venture that managed the growth, harvest and conditioning of soybean seed and grain, corn and wheat in the United States. The Company's variable interest in this joint venture related to an equity option between the partners. Terms of the equity option required the Company to purchase the partner's equity investment at a price based on a specified formula, after a specified period of time, and satisfaction of certain conditions, if the partner elected to sell its equity investment. On August 10, 2015, the equity option was determined to be exercisable and the partner provided notice to the Company of its intent to exercise the equity option, which resulted in a $22 million after-tax loss, included in "Net income attributable to noncontrolling interests" in the consolidated statements of income. The Company purchased the partner's equity investment on September 18, 2015, which resulted in the joint venture becoming a wholly owned subsidiary of Dow. Subsequent to the purchase of the partner's equity investment, the Company sold its entire ownership interest in the subsidiary to a third party and recognized a pretax gain of $44 million on the sale in the third quarter of 2015, included in "Sundry income (expense) - net" in the consolidated statements of income and reflected in the Agricultural Sciences segment.

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 "Non-redeemable noncontrolling interests" and "Accrued and other current liabilities" in the consolidated balance sheets. The table that follows summarizes the carrying amounts of the VIEs’ assets and liabilities included in the Company’s consolidated balance sheets at September 30, 2016 and December 31, 2015.

Assets and Liabilities of Consolidated VIEs In millions	Sep 30, 2016	Dec 31, 2015
Cash and cash equivalents	$ 135	$ 158
Other current assets	111	112
Net property	1,026	1,717
Other noncurrent assets	64	65

Total assets (1)	$ 1,336	$ 2,052
Current liabilities (nonrecourse 2016: $268; 2015: $256)	$ 268	$ 258
Long-term debt (nonrecourse 2016: $395; 2015: $487)	395	504
Other noncurrent obligations (nonrecourse 2016: $55; 2015: $51)	55	51
Total liabilities	$ 718	$ 813

(1) All assets were restricted at September 30, 2016 and December 31, 2015.

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 $497 million (zero restricted) at September 30, 2016 ($103 million, zero restricted, at December 31, 2015) and current liabilities of $8 million (zero nonrecourse) at September 30, 2016 (less than $1 million, zero nonrecourse, at December 31, 2015).

Table of Contents

Amounts presented in the consolidated balance sheets and the preceding table as restricted assets or nonrecourse obligations relating to consolidated VIEs at September 30, 2016 and December 31, 2015 are adjusted for intercompany eliminations and parental guarantees.

Nonconsolidated VIEs

As a result of the DCC Transaction, the Company holds variable interests in a joint venture that sells polysilicon. The variable interests relate to an equity interest held by the Company and arrangements between the Company and the joint venture to provide services. The Company is not the primary beneficiary, as it does not direct the activities that most significantly impact the economic performance of this entity; therefore, the entity is accounted for under the equity method of accounting. At September 30, 2016, the Company had a negative investment basis of $934 million in this joint venture, which is classified as "Other noncurrent obligations" in the consolidated balance sheets. The Company's maximum exposure to loss was zero at September 30, 2016. See Note 7 for additional information on this variable interest entity.

Also as a result of the DCC Transaction, the Company holds minority voting interests in certain joint ventures that produce silicon inputs for the Company. These joint ventures operate under supply agreements that sell inventory to the equity owners using pricing mechanisms that guarantee a return, therefore shielding the joint ventures from the obligation to absorb expected losses. As a result of the pricing mechanisms of these agreements, these entities are determined to be variable interest entities. The Company is not the primary beneficiary, as it does not hold the power to direct the activities that most significantly impact the economic performance of these entities; therefore, the entities are accounted for under the equity method of accounting. The Company's maximum exposure to loss as a result of its involvement with these variable interest entities is determined to be the carrying value of the investment in these entities. At September 30, 2016, the Company's investment in these joint ventures was $95 million and is classified as "Investment in nonconsolidated affiliates" in the consolidated balance sheets, representing the Company's maximum exposure to loss.

At September 30, 2016, the Company’s investment in its crude acrylic acid joint venture was $163 million ($160 million at December 31, 2015) and is classified as “Investment in nonconsolidated affiliates” in the consolidated balance sheets, representing the Company’s maximum exposure to loss.

At September 30, 2016, the Company's investment in AFSI was $190 million ($191 million at December 31, 2015), and is classified as "Investment in nonconsolidated affiliates" in the consolidated balance sheets. In addition, the Company has a receivable with AFSI for six million warrants, which was valued at $5 million at September 30, 2016 ($6 million at December 31, 2015) and classified as "Accounts and notes receivable - Other" in the consolidated balance sheets. The Company's maximum exposure to loss was $195 million at September 30, 2016 ($197 million at December 31, 2015).

NOTE 15 – PENSION PLANS AND OTHER POSTRETIREMENT BENEFITS

As a result of the DCC Transaction, the Company assumed sponsorship of qualified and non-qualified pension and other postretirement benefit plans that provide defined benefits to U.S. and non-U.S. employees. Plan assets and obligations for all significant plans assumed from Dow Corning are as follows:

Plan Assets and Obligations for all Significant Plans Assumed from Dow Corning at June 1, 2016 In millions	Defined Benefit Pension Plans	Other Postretirement Benefits
Fair value of plan assets	$ 2,327	$ —
Projected benefit obligations	3,252	313
Net liability assumed	$ 925	$ 313

The balance sheet classification for the net liability assumed for all significant plans from Dow Corning at June 1, 2016, was recorded as follows:

Balance Sheet Classification for all Significant Plans Assumed from Dow Corning at June 1, 2016 In millions	Defined Benefit Pension Plans	Other Postretirement Benefits
Other assets	$ 4	$ —
Accrued and other current liabilities	(9)	(18)
Pension and other postretirement benefits - noncurrent	(920)	(295)
Net liability assumed	$ (925)	$ (313)

The methodologies used to determine the assumptions applied to measure pension and other postretirement obligations and net periodic benefit cost of the Dow Corning plans were consistent with those utilized by the Company at December 31, 2015. See Note 4 for additional information on the DCC Transaction.

The net periodic benefit cost for all significant plans of the Company are as follows:

Net Periodic Benefit Cost for All Significant Plans (1)	Three Months Ended		Nine Months Ended	
In millions	Sep 30, 2016	Sep 30, 2015	Sep 30, 2016	Sep 30, 2015
Defined Benefit Pension Plans:				
Service cost	$ 122	$ 123	$ 337	$ 371
Interest cost	222	242	626	728
Expected return on plan assets	(376)	(345)	(1,074)	(1,030)
Amortization of prior service credit	(6)	(7)	(18)	(21)
Amortization of net loss	147	182	441	548
Net periodic benefit cost	$ 109	$ 195	$ 312	$ 596
Other Postretirement Benefits:				
Service cost	$ 3	$ 4	$ 9	$ 12
Interest cost	14	15	38	45
Amortization of prior service credit	(1)	(1)	(2)	(3)
Amortization of net gain	(1)	(3)	(5)	(9)
Net periodic benefit cost	$ 15	$ 15	$ 40	$ 45

(1) Includes net periodic benefit cost for plans assumed from Dow Corning for the three months ended September 30, 2016 of $9 million for defined benefit pension plans ($12 million for the nine months ended September 30, 2016) and $3 million for other postretirement benefits ($4 million for the nine months ended September 30, 2016).

Table of Contents

NOTE 16 – STOCK-BASED COMPENSATION
A complete description 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, 2015.

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 2016 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 Vice President of Human Resources.

During the first quarter of 2016, employees subscribed to the right to purchase 2.1 million shares of the Company's common stock with a weighted-average exercise price of $40.44 per share and a weighted-average fair value of $3.40 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. There was minimal employee grant activity in the second and third quarters of 2016.

During the first quarter of 2016, the Company granted the following stock-based compensation awards to employees under the 2012 Plan:

- 3.0 million stock options with a weighted-average exercise price of $46.01 per share and a weighted-average fair value of $10.95 per share;
- 2.1 million shares of deferred stock with a weighted-average fair value of $46.01 per share; and
- 2.3 million shares of performance deferred stock with a weighted-average fair value of $52.68 per share.

During the second quarter of 2016, the Company granted the following stock-based compensation awards to non-employee directors under the 2012 Plan:

- 32,160 shares of restricted stock with a weighted-average fair value of $50.55 per share.

Total unrecognized compensation cost at September 30, 2016, is provided in the following table:

Total Unrecognized Compensation Cost at September 30, 2016 In millions	Unrecognized Compensation Cost	Remaining Weighted-average Recognition Period (Years)
Unvested stock options	$ 24	.76
Deferred stock awards	$ 99	.86
Performance deferred stock awards	$ 108	.78

Table of Contents

NOTE 17 – EARNINGS PER SHARE CALCULATIONS

The following tables provide the earnings per share calculations for the three- and nine-month periods ended September 30, 2016 and 2015:

Net Income for Earnings Per Share Calculations - Basic	Three Months Ended		Nine Months Ended	
In millions	Sep 30, 2016	Sep 30, 2015	Sep 30, 2016	Sep 30, 2015
Net income attributable to The Dow Chemical Company	$804	$1,375	$4,266	$4,073
Preferred stock dividends	(85)	(85)	(255)	(255)
Net income attributable to participating securities (1)	(4)	(9)	(23)	(26)
Net income attributable to common stockholders	$715	$1,281	$3,988	$3,792

Earnings Per Share Calculations - Basic	Three Months Ended		Nine Months Ended	
Dollars per share	Sep 30, 2016	Sep 30, 2015	Sep 30, 2016	Sep 30, 2015
Net income attributable to The Dow Chemical Company	$0.72	$ 1.21	$3.85	$ 3.58
Preferred stock dividends	(0.08)	(0.08)	(0.23)	(0.23)
Net income attributable to participating securities (1)	—	(0.01)	(0.02)	(0.02)
Net income attributable to common stockholders	$0.64	$		