DOW CHEMICAL CO /DE/
Form 10-Q
July 29, 2014
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 10-Q

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

For the quarterly period ended JUNE 30, 2014

or

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

For the transition period from __________to__________

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

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

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

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.
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 June 30, 2014
Common Stock, par value $2.50 per share	1,194,093,171 shares

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For the quarterly period ended June 30, 2014
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The Dow Chemical Company and Subsidiaries

FORWARD-LOOKING STATEMENTS

Certain statements in this report, other than purely historical information, including estimates, projections, statements relating to business plans, objectives, and expected operating results, and the assumptions upon which those statements are based, are “forward-looking statements” within the meaning of the Private Securities Litigation Reform Act of 1995, Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934. Forward-looking statements may appear throughout this report including, without limitation, the following sections: “Management's Discussion and Analysis,” and “Risk Factors.” These forward-looking statements are generally identified by the words or phrases “anticipate,” “believe,” “estimate,” “expect,” “future,” “intend,” “may,” “opportunity,” “plan,” “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. A detailed discussion of principal risks and uncertainties which may cause actual results and events to differ materially from such forward-looking statements is included in the section titled “Risk Factors” (see Part I, Item 1A of the Company's Annual Report on Form 10-K for the year ended December 31, 2013). The Dow Chemical Company undertakes no obligation to update or revise publicly any forward-looking statements whether because of new information, future events, or otherwise, except as required by securities and other applicable laws.

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PART I - FINANCIAL INFORMATION
Item 1. Financial Statements

The Dow Chemical Company and Subsidiaries
Consolidated Statements of Income

In millions, except per share amounts (Unaudited)	Three Months Ended Jun 30, 2014	Three Months Ended Jun 30, 2013	Six Months Ended Jun 30, 2014	Six Months Ended Jun 30, 2013
Net Sales	$14,917	$14,577	$29,378	$28,960
Cost of sales	12,344	12,103	24,077	23,810
Research and development expenses	419	417	810	852
Selling, general and administrative expenses	751	716	1,530	1,488
Amortization of intangibles	108	115	222	230
Equity in earnings of nonconsolidated affiliates	227	228	478	458
Sundry income (expense) - net	25	2,053	54	2,021
Interest income	9	10	22	18
Interest expense and amortization of debt discount	242	279	488	575
Income Before Income Taxes	1,314	3,238	2,805	4,502
Provision for income taxes	344	795	769	1,399
Net Income	970	2,443	2,036	3,103
Net income attributable to noncontrolling interests	3	18	20	43
Net Income Attributable to The Dow Chemical Company	967	2,425	2,016	3,060
Preferred stock dividends	85	85	170	170
Net Income Available for The Dow Chemical Company Common Stockholders	$882	$2,340	$1,846	$2,890
Per Common Share Data:				
Earnings per common share - basic	$0.74	$1.96	$1.54	$2.42
Earnings per common share - diluted	$0.73	$1.87	$1.52	$2.36
Common stock dividends declared per share of common stock	$0.37	$0.32	$0.74	$0.64
Weighted-average common shares outstanding - basic	1,178.9	1,186.1	1,184.7	1,183.6
Weighted-average common shares outstanding - diluted	1,195.2	1,288.2	1,201.5	1,286.3
Depreciation	$525	$504	$1,042	$1,009
Capital Expenditures	$864	$506	$1,536	$852

See Notes to the Consolidated Financial Statements.

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The Dow Chemical Company and Subsidiaries
Consolidated Statements of Comprehensive Income

In millions (Unaudited)	Three Months Ended Jun 30, 2014	Three Months Ended Jun 30, 2013	Six Months Ended Jun 30, 2014	Six Months Ended Jun 30, 2013
Net Income	$970	$2,443	$2,036	$3,103
Other Comprehensive Income (Loss), Net of Tax				
Net change in unrealized gains on investments	20	(36)	9	(31)
Translation adjustments	(13)	83	(84)	(269)
Adjustments to pension and other postretirement benefit plans	90	142	171	283
Net gains (losses) on cash flow hedging derivative instruments	(2)	(21)	2	7
Other comprehensive income (loss)	95	168	98	(10)
Comprehensive Income	1,065	2,611	2,134	3,093
Comprehensive income (loss) attributable to noncontrolling interests, net of tax	9	(6)	29	9
Comprehensive Income Attributable to The Dow Chemical Company	$1,056	$2,617	$2,105	$3,084

See Notes to the Consolidated Financial Statements.

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The Dow Chemical Company and Subsidiaries
Consolidated Balance Sheets

In millions (Unaudited)	Jun 30, 2014	Dec 31, 2013
Assets		
Current Assets		
Cash and cash equivalents (variable interest entities restricted - 2014: $189; 2013: $147)	$3,843	$5,940
Accounts and notes receivable:		
Trade (net of allowance for doubtful receivables - 2014: $158; 2013: $148)	5,536	4,935
Other	4,823	4,712
Inventories	8,926	8,303
Deferred income tax assets - current	770	743
Other current assets	385	344
Total current assets	24,283	24,977
Investments		
Investment in nonconsolidated affiliates	4,257	4,501
Other investments (investments carried at fair value - 2014: $2,106; 2013: $2,056)	2,567	2,541
Noncurrent receivables	419	365
Total investments	7,243	7,407
Property		
Property	55,969	55,114
Less accumulated depreciation	38,068	37,660
Net property (variable interest entities restricted - 2014: $2,709; 2013: $2,646)	17,901	17,454
Other Assets		
Goodwill	12,786	12,798
Other intangible assets (net of accumulated amortization - 2014: $3,527; 2013: $3,270)	4,152	4,314
Deferred income tax assets - noncurrent	1,764	1,964
Asbestos-related insurance receivables - noncurrent	78	86
Deferred charges and other assets	549	501
Total other assets	19,329	19,663
Total Assets	$68,756	$69,501
Liabilities and Equity		
Current Liabilities		
Notes payable	$587	$443
Long-term debt due within one year	208	697
Accounts payable:		
Trade	4,883	4,590
Other	2,410	2,290
Income taxes payable	567	435
Deferred income tax liabilities - current	108	133
Dividends payable	521	467
Accrued and other current liabilities	2,595	2,916
Total current liabilities	11,879	11,971
Long-Term Debt (variable interest entities nonrecourse - 2014: $1,322; 2013: $1,360)	17,036	16,820
Other Noncurrent Liabilities		
Deferred income tax liabilities - noncurrent	669	718
Pension and other postretirement benefits - noncurrent	7,675	8,176
Asbestos-related liabilities - noncurrent	389	434
Other noncurrent obligations	3,182	3,302

Total other noncurrent liabilities	11,915	12,630
Redeemable Noncontrolling Interest	191	156
Stockholders' Equity		
Preferred stock, series A	4,000	4,000
Common stock	3,107	3,054
Additional paid-in capital	4,672	3,928
Retained earnings	22,372	21,407
Accumulated other comprehensive loss	(4,729)	(4,827)
Unearned ESOP shares	(342)	(357)
Treasury stock at cost	(2,327)	(307)
The Dow Chemical Company's stockholders' equity	26,753	26,898
Noncontrolling interests	982	1,026
Total equity	27,735	27,924
Total Liabilities and Equity	$68,756	$69,501

See Notes to the Consolidated Financial Statements.

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The Dow Chemical Company and Subsidiaries
Consolidated Statements of Cash Flows

In millions (Unaudited)	Six Months Ended Jun 30, 2014	Six Months Ended Jun 30, 2013
Operating Activities		
Net Income	$2,036	$3,103
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	1,349	1,327
Provision (credit) for deferred income tax	(54)	173
Earnings of nonconsolidated affiliates less than dividends received	313	160
Pension contributions	(621)	(511)
Net gain on sales of investments	(55)	(37)
Net gain on sales of property, businesses and consolidated companies	(11)	(3)
Net gain on sale of ownership interests in nonconsolidated affiliates	—	(2)
Loss on early extinguishment of debt	—	170
Excess tax benefits from share-based payment arrangements	(23)	(10)
Other net (gain) loss	30	(1)
Changes in assets and liabilities, net of effects of acquired and divested companies:		
Accounts and notes receivable	(1,351)	(1,312)
Proceeds from interests in trade accounts receivable conduits	547	436
Inventories	(594)	(370)
Accounts payable	297	(128)
Other assets and liabilities	107	1,193
Cash provided by operating activities	1,970	4,188
Investing Activities		
Capital expenditures	(1,536)	(852)
Proceeds from sale / leaseback of assets	6	—
Proceeds from sales of property, businesses and consolidated companies, net of cash divested	46	61
Investments in consolidated companies, net of cash acquired	(2)	(11)
Investments in and loans to nonconsolidated affiliates	(47)	(45)
Distributions and loan repayments from nonconsolidated affiliates	19	17
Proceeds from sale of ownership interests in nonconsolidated affiliates	—	3
Purchases of investments	(351)	(266)
Proceeds from sales and maturities of investments	397	381
Cash used in investing activities	(1,468)	(712)
Financing Activities		
Changes in short-term notes payable	73	10
Proceeds from issuance of long-term debt	274	558
Payments on long-term debt	(631)	(2,948)
Purchases of treasury stock	(2,100)	(80)
Proceeds from issuance of common stock	678	149
Proceeds from sales of common stock	89	—
Issuance costs on debt and equity securities	(3)	(2)
Excess tax benefits from share-based payment arrangements	23	10
Contributions from noncontrolling interests	36	17
Distributions to noncontrolling interests	(20)	(26)

Purchases of noncontrolling interests	(20)	—
Dividends paid to stockholders	(988)	(549)
Cash used in financing activities	(2,589)	(2,861)
Effect of Exchange Rate Changes on Cash	(10)	(50)
Summary		
Increase (decrease) in cash and cash equivalents	(2,097)	565
Cash and cash equivalents at beginning of period	5,940	4,318
Cash and cash equivalents at end of period	$3,843	$4,883

See Notes to the Consolidated Financial Statements.

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The Dow Chemical Company and Subsidiaries
Consolidated Statements of Equity

In millions, except per share amounts (Unaudited)	Six Months Ended Jun 30, 2014	Six Months Ended Jun 30, 2013
Preferred Stock		
Balance at beginning of year and end of period	$4,000	$4,000
Common Stock		
Balance at beginning of year	3,054	3,008
Common stock issued	53	23
Balance at end of period	3,107	3,031
Additional Paid-in Capital		
Balance at beginning of year	3,928	3,281
Common stock issued	714	126
Stock-based compensation and allocation of ESOP shares	36	130
Other	(6)	—
Balance at end of period	4,672	3,537
Retained Earnings		
Balance at beginning of year	21,407	18,495
Net income available for The Dow Chemical Company common stockholders	1,846	2,890
Dividends declared on common stock (per share - 2014: $0.74; 2013: $0.64)	(871)	(759)
Dividend equivalents on participating securities	(10)	(6)
Balance at end of period	22,372	20,620
Accumulated Other Comprehensive Loss		
Balance at beginning of year	(4,827)	(7,516)
Other comprehensive income (loss)	98	(10)
Balance at end of period	(4,729)	(7,526)
Unearned ESOP Shares		
Balance at beginning of year	(357)	(391)
Shares allocated to ESOP participants	15	20
Balance at end of period	(342)	(371)
Treasury Stock		
Balance at beginning of year	(307)	—
Purchases	(2,100)	(80)
Issuances - compensation plans	80	—
Balance at end of period	(2,327)	(80)
The Dow Chemical Company’s Stockholders’ Equity	26,753	23,211
Noncontrolling Interests		
Balance at beginning of year	1,026	990
Net income attributable to noncontrolling interests	20	43
Distributions to noncontrolling interests	(20)	(26)
Capital contributions	36	17
Purchases of noncontrolling interests	(54)	—
Transfers to redeemable noncontrolling interests	(35)	—
Cumulative translation adjustments	8	(31)
Other	1	(4)
Balance at end of period	982	989
Total Equity	$27,735	$24,200

See Notes to the Consolidated Financial Statements.

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

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NOTE 1 – CONSOLIDATED FINANCIAL STATEMENTS

The unaudited interim consolidated financial statements of The Dow Chemical Company and its subsidiaries (“Dow” or the “Company”) were prepared in accordance with accounting principles generally accepted in the United States of America (“U.S. GAAP”) and reflect all adjustments (including normal recurring accruals) which, in the opinion of management, are considered necessary for the fair presentation of the results for the periods presented. These statements should be read in conjunction with the audited consolidated financial statements and notes thereto included in the Company’s Annual Report on Form 10-K for the year ended December 31, 2013.

NOTE 2 – RECENT ACCOUNTING GUIDANCE

Recently Adopted Accounting Guidance

During the first quarter of 2014, the Company adopted Accounting Standards Update ("ASU") 2013-04, "Liabilities (Topic 405): Obligations Resulting from Joint and Several Liability Arrangements for Which the Total Amount of the Obligation is Fixed at the Reporting Date," which defines how entities measure obligations from joint and several liability arrangements for which the total amount of the obligation is fixed at the reporting date and for which no guidance exists, except for obligations addressed within existing guidance in U.S. GAAP. The guidance also requires entities to disclose the nature and amount of the obligation as well as other information about those obligations. The adoption of this standard did not have a material impact on the consolidated financial statements.

During the first quarter of 2014, the Company adopted ASU 2013-05, "Foreign Currency Matters (Topic 830): Parent's Accounting for the Cumulative Translation Adjustment upon Derecognition of Certain Subsidiaries or Groups of Assets within a Foreign Entity or of an Investment in a Foreign Entity," which defines the treatment of the release of cumulative translation adjustments upon derecognition of certain subsidiaries or groups of assets within a foreign entity or of an investment in a foreign entity. The adoption of this standard did not have a material impact on the consolidated financial statements.

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

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

In April 2014, the Financial Accounting Standards Board ("FASB") issued ASU 2014-08, "Presentation of Financial Statements (Topic 205) and Property, Plant and Equipment (Topic 360): Reporting Discontinued Operations and Disclosures of Disposals of Components of an Entity," which changes the criteria for determining which disposals can be presented as discontinued operations and modifies related disclosure requirements. This ASU is effective for fiscal years beginning on or after December 15, 2014, and interim periods within those years. Early adoption is permitted, but only for disposals (or classifications as held for sale) that have not been reported in the financial statements previously issued or available for issuance. The Company is currently evaluating the impact of adopting this guidance.

In May 2014, the FASB issued ASU 2014-09, "Revenue from Contracts with Customers (Topic 606)," which is the new comprehensive revenue recognition standard that will supersede all existing revenue recognition guidance under U.S. GAAP. The standard's core principle is that a company will recognize revenue when it transfers promised goods or services to a customer in an amount that reflects the consideration to which the company expects to be entitled in exchange for those goods or services. This ASU is effective for annual and interim periods beginning on or after December 15, 2016, and early adoption is not permitted. Entities will have the option of using either a full retrospective approach or a modified approach to adopt the guidance in the ASU. The Company is currently evaluating the impact of adopting this guidance.

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

In June 2014, the FASB issued ASU 2014-12, "Compensation - Stock Compensation (Topic 718): Accounting for Share-Based Payments When the Terms of an Award Provide That a Performance Target Could be Achieved after the Requisite Service Period." This ASU provides more explicit guidance for treating share-based payment awards that require a specific performance target that affects vesting and that could be achieved after the requisite service period as a performance condition. The new guidance is effective for annual and interim reporting periods beginning after December 15, 2015. The Company does not expect the adoption of this guidance to have a material impact on the consolidated financial statements.

NOTE 3 – RESTRUCTURING

4Q12 Restructuring

On October 23, 2012, the Company's Board of Directors approved a restructuring plan ("4Q12 Restructuring") to advance the next stage of the Company's transformation and to address macroeconomic uncertainties. The 4Q12 Restructuring plan accelerates the Company's structural cost reduction program and will affect approximately 2,850 positions and result in the shutdown of approximately 20 manufacturing facilities. These actions are expected to be completed primarily by March 31, 2015. As a result of the 4Q12 Restructuring activities, the Company recorded pretax restructuring charges of $990 million in the fourth quarter of 2012 consisting of costs associated with exit or disposal activities of $39 million, severance costs of $375 million and asset write-downs and write-offs of $576 million. In the fourth quarter of 2013, the Company reduced the reserve for costs associated with exit or disposal activities by $6 million. The impact of these charges was shown as "Restructuring charges (credits)" in the consolidated statements of income.

The severance component of the 4Q12 Restructuring charge of $375 million was for the separation of approximately 2,850 employees under the terms of the Company's ongoing benefit arrangements, primarily by March 31, 2015. At December 31, 2013, severance of $236 million was paid and a liability of $139 million remained for 759 employees. In the first six months of 2014, severance of $60 million was paid, leaving a liability of $79 million for approximately 490 employees at June 30, 2014.

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

4Q12 Restructuring Activities In millions	Costs Associated with Exit or Disposal Activities	Severance Costs	Total
Reserve balance at December 31, 2013	$19	$139	$158
Cash payments	(1)	(43)	(44)
Reserve balance at March 31, 2014	$18	$96	$114
Cash payments	—	(17)	(17)
Reserve balance at June 30, 2014	$18	$79	$97

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

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

NOTE 4 – INVENTORIES

The following table provides a breakdown of inventories:

Inventories In millions	Jun 30, 2014	Dec 31, 2013
Finished goods	$4,960	$4,717
Work in process	2,226	1,948
Raw materials	823	760
Supplies	917	878
Total inventories	$8,926	$8,303

The reserves reducing inventories from the first-in, first-out (“FIFO”) basis to the last-in, first-out (“LIFO”) basis amounted to $859 million at June 30, 2014 and $854 million at December 31, 2013.

NOTE 5 – GOODWILL AND OTHER INTANGIBLE ASSETS

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

Goodwill In millions	Electronic and Functional Materials	Coatings and Infra-structure Solutions	Ag Sciences	Perf Materials	Perf Plastics	Feedstocks and Energy	Total
Net goodwill at Dec 31, 2013	$4,963	$4,076	$1,563	$738	$1,395	$63	$12,798
Foreign currency impact	(4)	(5)	—	—	(3)	—	(12)
	$4,959	$4,071	$1,563	$738	$1,392	$63	$12,786

Net goodwill at Jun 30, 2014

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

Other Intangible Assets	At June 30, 2014			At December 31, 2013		
In millions	Gross Carrying Amount	Accumulated Amortization	Net	Gross Carrying Amount	Accumulated Amortization	Net
Intangible assets with finite lives:						
Licenses and intellectual property	$1,777	$(982)	$795	$1,774	$(908)	$866
Patents	124	(110)	14	125	(109)	16
Software	1,262	(621)	641	1,186	(591)	595
Trademarks	690	(375)	315	686	(345)	341
Customer related	3,640	(1,298)	2,342	3,622	(1,181)	2,441
Other	149	(141)	8	154	(136)	18
Total other intangible assets, finite lives	$7,642	$(3,527)	$4,115	$7,547	$(3,270)	$4,277
IPR&D (1), indefinite lives	37	—	37	37	—	37
Total other intangible assets	$7,679	$(3,527)	$4,152	$7,584	$(3,270)	$4,314

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

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

Amortization Expense	Three Months Ended		Six Months Ended	
In millions	Jun 30, 2014	Jun 30, 2013	Jun 30, 2014	Jun 30, 2013
Other intangible assets, excluding software	$108	$115	$222	$230
Software, included in "Cost of sales"	$17	$17	$33	$33

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

Estimated Amortization Expense	
In millions	
2014	$512
2015	$493
2016	$480
2017	$447
2018	$430
2019	$371

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NOTE 6 – FINANCIAL INSTRUMENTS

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

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

Fair Value of Financial Instruments

	At June 30, 2014				At December 31, 2013			
In millions	Cost	Gain	Loss	Fair Value	Cost	Gain	Loss	Fair Value
Marketable securities: (1)								
Debt securities:								
Government debt (2)	$547	$30	$(3)	$574	$544	$28	$(8)	$564
Corporate bonds	666	51	(1)	716	659	43	(7)	695
Total debt securities	$1,213	$81	$(4)	$1,290	$1,203	$71	$(15)	$1,259
Equity securities	625	193	(2)	816	605	196	(4)	797
Total marketable securities	$1,838	$274	$(6)	$2,106	$1,808	$267	$(19)	$2,056
Long-term debt including debt due within one year (3)	$(17,244)	$90	$(2,538)	$(19,692)	$(17,517)	$296	$(2,246)	$(19,467)
Derivatives relating to:								
Interest rates	$—	$—	$(8)	$(8)	$—	$—	$(5)	$(5)
Commodities (4)	$—	$5	$(2)	$3	$—	$11	$(2)	$9
Foreign currency	$—	$32	$(14)	$18	$—	$45	$(13)	$32

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

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

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

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

Investments

The Company’s investments in marketable securities are primarily classified as available-for-sale. The following table provides the investing results from available-for-sale securities for the six-month periods ended June 30, 2014 and June 30, 2013:

Investing Results	Six Months Ended	
In millions	Jun 30, 2014	Jun 30, 2013
Proceeds from sales of available-for-sale securities	$360	$352
Gross realized gains	$62	$56
Gross realized losses	$(2)	$(11)

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

Contractual Maturities of Debt Securities at June 30, 2014		
In millions	Amortized Cost	Fair Value
Within one year	$11	$11

One to five years	594	628
Six to ten years	467	486
After ten years	141	165
Total	$1,213	$1,290

At June 30, 2014, the Company had $650 million ($1,581 million at December 31, 2013) of held-to-maturity securities (primarily Treasury Bills) classified as cash equivalents, as these securities had original maturities of three months or less at the time of purchase. The Company’s investments in held-to-maturity securities are held at amortized cost, which approximates fair value. At June 30, 2014, the Company had investments in money market funds of $658 million classified as cash equivalents ($1,331 million at December 31, 2013).

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The aggregate cost of the Company's cost method investments totaled $176 million at June 30, 2014 ($185 million at December 31, 2013). Due to the nature of these investments, either the cost basis approximates fair value or fair value is not readily determinable. These investments are reviewed quarterly for impairment indicators. The Company's impairment analysis resulted in a $6 million reduction in the cost basis of these investments for the six-month period ended June 30, 2014 ($3 million reduction in the six-month period ended June 30, 2013).

Accounting for Derivative Instruments and Hedging Activities

The following table provides the fair value and gross balance sheet classification of derivative instruments at June 30, 2014 and December 31, 2013:

Fair Value of Derivative Instruments In millions	Balance Sheet Classification	Jun 30, 2014	Dec 31, 2013
Asset Derivatives			
Derivatives designated as hedges:			
Commodities	Other current assets	$ 6	$ 13
Foreign currency	Accounts and notes receivable – Other	2	—
Total derivatives designated as hedges		$ 8	$ 13
Derivatives not designated as hedges:			
Commodities	Other current assets	$ 1	$ 1
Foreign currency	Accounts and notes receivable – Other	40	65
Total derivatives not designated as hedges		$ 41	$ 66
Total asset derivatives		$ 49	$ 79
Liability Derivatives			
Derivatives designated as hedges:			
Interest rates	Accounts payable – Other	$ 8	$ 5
Commodities	Accounts payable – Other	4	5
Foreign currency	Accounts payable – Other	2	9
Total derivatives designated as hedges		$ 14	$ 19
Derivatives not designated as hedges:			
Commodities	Accounts payable – Other	$ 1	$ 1
Foreign currency	Accounts payable – Other	22	24
Total derivatives not designated as hedges		$ 23	$ 25
Total liability derivatives		$ 37	$ 44

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 "Accumulated other comprehensive income (loss)" to income within the next 12 months are a $5 million loss for interest rate contracts, a $6 million gain for commodity contracts and a $1 million gain for foreign currency contracts.

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NOTE 7 – FAIR VALUE MEASUREMENTS

A summary of the Company's recurring and nonrecurring fair value measurements 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, 2013. 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 June 30, 2014 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)	$—	$1,308	$—	$—	$1,308
Interests in trade accounts receivable conduits (3)	—	—	1,297	—	1,297
Equity securities (4)	778	38	—	—	816
Debt securities: (4)					
Government debt (5)	—	574	—	—	574
Corporate bonds	—	716	—	—	716
Derivatives relating to: (6)					
Commodities	—	7	—	(2)	5
Foreign currency	—	42	—	(10)	32
Total assets at fair value	$778	$2,685	$1,297	$(12)	$4,748
Liabilities at fair value:					
Long-term debt (7)	$—	$19,692	$—	$—	$19,692
Derivatives relating to: (6)					
Interest rates	—	8	—	—	8
Commodities	1	4	—	(3)	2
Foreign currency	—	24	—	(10)	14
Total liabilities at fair value	$1	$19,728	$—	$(13)	$19,716

(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 9 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 6 for the classification of derivatives in the consolidated balance sheets.

(7) See Note 6 for information on fair value measurements of long-term debt.

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Basis of Fair Value Measurements on a Recurring Basis at December 31, 2013 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)	$—	$2,912	$—	$—	$2,912
Interests in trade accounts receivable conduits (3)	—	—	1,227	—	1,227
Equity securities (4)	760	37	—	—	797
Debt securities: (4)					
Government debt (5)	—	564	—	—	564
Corporate bonds	—	695	—	—	695
Derivatives relating to: (6)					
Commodities	3	11	—	(3)	11
Foreign currency	—	65	—	(20)	45
Total assets at fair value	$763	$4,284	$1,227	$(23)	$6,251
Liabilities at fair value:					
Long-term debt (7)	$—	$19,467	$—	$—	$19,467
Derivatives relating to: (6)					
Interest rates	—	5	—	—	5
Commodities	4	2	—	(4)	2
Foreign currency	—	33	—	(20)	13
Total liabilities at fair value	$4	$19,507	$—	$(24)	$19,487

(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 9 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 6 for the classification of derivatives in the consolidated balance sheets.

(7) See Note 6 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 $3 million at June 30, 2014 ($5 million at December 31, 2013).

The following table summarizes the changes in fair value measurements using Level 3 inputs for the three- and six-month periods ended June 30, 2014 and June 30, 2013:

Fair Value Measurements Using Level 3 Inputs	Three Months Ended		Six Months Ended	
Interests Held in Trade Receivable Conduits (1) In millions	Jun 30, 2014	Jun 30, 2013	Jun 30, 2014	Jun 30, 2013
Balance at beginning of period	$1,339	$1,339	$1,227	$1,057
Loss included in earnings (2)	(1)	(1)	(2)	(2)

Purchases	356	343	619	672
Settlements	(397)	(390)	(547)	(436)
Balance at end of period	$1,297	$1,291	$1,297	$1,291

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

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NOTE 8 – COMMITMENTS AND CONTINGENT LIABILITIES

Dow Corning Credit Facility

The Company is a 50 percent shareholder in Dow Corning Corporation ("Dow Corning"). On June 1, 2004, the Company agreed to provide a ten-year credit facility to Dow Corning as part of Dow Corning's Joint Plan of Reorganization. The aggregate amount available under the credit facility was originally $300 million, of which the Company's share was $150 million. No advances were issued under the credit facility and it expired on June 1, 2014.

Environmental Matters

Accruals for environmental matters are recorded when it is probable that a liability has been incurred and the amount of the liability can be reasonably estimated, based on current law and existing technologies. At June 30, 2014, the Company had accrued obligations of $741 million for probable environmental remediation and restoration costs, including $80 million for the remediation of Superfund sites. This is management’s best estimate of the costs for remediation and restoration with respect to environmental matters for which the Company has accrued liabilities, although 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, 2013, the Company had accrued obligations of $722 million for probable environmental remediation and restoration costs, including $73 million for the remediation of Superfund sites.

Midland Off-Site Environmental Matters

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

City of Midland

On March 6, 2012, the Company submitted an Interim Response Activity Plan Designed to Meet Criteria ("Work Plan") to the MDEQ that involved the sampling of soil at residential properties near the Midland site for the presence of dioxins to determine where clean-up may be required and then conducting remediation for properties that sample above the remediation criteria. The MDEQ approved the Work Plan on June 1, 2012 and implementation of the Work Plan began on June 4, 2012. During 2012 and 2013, the Company submitted and had approved by the MDEQ, amendments to the Work Plan to sample properties in 2012 and 2013 that were originally scheduled for sampling in 2014 through 2017. On March 14, 2014, the Company submitted a plan for properties to be sampled during 2014 ("2014 Plan"), as required by the approved Work Plan. On June 12, 2014, the Company submitted a modified plan based on MDEQ comments. The 2014 Plan was approved on June 27, 2014. As of June 30, 2014, remediation has been completed on 121 of the 125 properties that tested above the remediation criteria.

Tittabawassee and Saginaw Rivers, Saginaw Bay

The Company, the U.S. Environmental Protection Agency (“EPA”) and the State of Michigan ("State") entered into an administrative order on consent (“AOC”), effective January 21, 2010, that requires the Company to conduct a remedial investigation, a feasibility study and a remedial design for the Tittabawassee River, the Saginaw River and the Saginaw Bay, and pay the oversight costs of the EPA and the State under the authority of the Comprehensive Environmental Response, Compensation, and Liability Act (“CERCLA”). These actions, to be conducted under the lead oversight of the EPA, will build upon the investigative work completed under the State Resource Conservation Recovery Act ("RCRA") program from 2005 through 2009. The Tittabawassee River, beginning at the Midland Site and extending down to the first six miles of the Saginaw River, are designated as the first Operable Unit for purposes of conducting the remedial investigation, feasibility study and remedial design work. This work will be performed in a largely upriver to downriver sequence for eight geographic segments of the Tittabawassee and upper Saginaw Rivers. In the first quarter of 2012, the EPA requested the Company address the Tittabawasee River floodplain as an additional segment. The remainder of the Saginaw River and the Saginaw Bay are designated as a second Operable Unit and the work associated with that unit may also be geographically segmented. The AOC does not obligate the Company to perform removal or remedial action; that action can only be required by a separate order. The Company and the EPA will be negotiating orders separate from the AOC that will obligate the Company to perform remedial actions under the scope of work of the AOC. The Company and

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the EPA have entered into three separate orders to perform limited remedial actions to implement early actions. In addition, the Company and the EPA have entered into two separate orders to address remedial actions in two of the nine geographic segments in the first Operable Unit.

Alternative Dispute Resolution Process

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

On September 28, 2007, the Company and the natural resource damage trustees entered into a Funding and Participation Agreement that addressed the Company’s payment of past costs incurred by the natural resource damage trustees, payment of the costs of a trustee coordinator and a process to review additional cooperative studies that the Company might agree to fund or conduct with the natural resource damage trustees. On March 18, 2008, the Company and the natural resource damage trustees entered into a Memorandum of Understanding ("MOU") to provide a mechanism for the Company to fund cooperative studies related to the assessment of natural resource damages. This MOU was amended and funding of cooperative studies was extended until March 2014. On April 7, 2008, the natural resource damage trustees released their "Natural Resource Damage Assessment Plan for the Tittabawassee River System Assessment Area."

At June 30, 2014, the accrual for these off-site matters was $56 million (included in the total accrued obligation of $741 million at June 30, 2014). At December 31, 2013, the Company had an accrual for these off-site matters of $47 million (included in the total accrued obligation of $722 million at December 31, 2013).

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

DBCP Matters

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

Asbestos-Related Matters of Union Carbide Corporation

Introduction

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

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

Estimating the Liability

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

In October 2012, Union Carbide requested ARPC to review its historical asbestos claim and resolution activity and determine the appropriateness of updating its then most recent study completed in December 2010. In response to that request, ARPC reviewed and analyzed data through September 30, 2012. In December 2012, based upon ARPC's December 2012 study and Union Carbide's own review of the asbestos claim and resolution activity for 2012, it was determined that no adjustment to the accrual was required at December 31, 2012. Union Carbide's asbestos-related liability for pending and future claims was $602 million at December 31, 2012.

In October 2013, Union Carbide requested ARPC to review its historical asbestos claim and resolution activity and determine the appropriateness of updating its December 2012 study. In response to that request, ARPC reviewed and analyzed data through September 30, 2013. In December 2013, ARPC stated that an update of its study would not provide a more likely estimate of future events than the estimate reflected in its December 2012 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 ARPC's response, Union Carbide determined that no change to the accrual was required. At December 31, 2013, the asbestos-related liability for pending and future claims was $501 million and approximately 19 percent of the recorded liability related to pending claims and approximately 81 percent related to future claims.

Based on Union Carbide's review of 2014 activity, Union Carbide determined that no adjustment to the accrual was required at