DOW CHEMICAL CO /DE/
Form 10-Q
July 30, 2007

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF

THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended **JUNE 30, 2007**

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)

989-636-1000

(Registrant s telephone number, including area code)

Not applicable

(Former name, former address and former fiscal year, if changed since last report)

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. x Yes o No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of accelerated filer and large accelerated filer in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer x   Accelerated filer o   Non-accelerated filer o

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

Class		**Outstanding at June 30, 2007**
Common Stock, par value $2.50 per share	-	950,058,875 shares

The Dow Chemical Company

QUARTERLY REPORT ON FORM 10-Q

For the quarterly period ended June 30, 2007

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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 June 30, 2007	Three Months Ended June 30, 2006	Six Months Ended June 30, 2007	Six Months Ended June 30, 2006
Net Sales	$ 13,265	$ 12,509	$ 25,697	$ 24,529
Cost of sales	11,398	10,624	22,003	20,427
Research and development expenses	320	287	622	565
Selling, general and administrative expenses	477	402	895	790
Amortization of intangibles	18	12	29	24
Restructuring credit	4		4	
Equity in earnings of nonconsolidated affiliates	258	232	532	400
Sundry income net	123	53	192	83
Interest income	33	38	73	80
Interest expense and amortization of debt discount	129	151	275	307
Income before Income Taxes and Minority Interests	1,341	1,356	2,674	2,979
Provision for income taxes	277	310	612	694
Minority interests share in income	25	23	50	48
Net Income Available for Common Stockholders	$ 1,039	$ 1,023	$ 2,012	$ 2,237
Share Data				
Earnings per common share basic	$ 1.09	$ 1.06	$ 2.10	$ 2.32
Earnings per common share diluted	$ 1.07	$ 1.05	$ 2.07	$ 2.29
Common stock dividends declared per share of common stock	$ 0.42	$ 0.375	$ 0.795	$ 0.75
Weighted-average common shares outstanding basic	954.8	963.5	959.0	965.7
Weighted-average common shares outstanding diluted	968.0	975.6	971.7	978.2
Depreciation	$ 474	$ 471	$ 940	$ 926
Capital Expenditures	$ 462	$ 407	$ 792	$ 698

See Notes to the Consolidated Financial Statements.

The Dow Chemical Company and Subsidiaries

Consolidated Balance Sheets

In millions (Unaudited)	**June 30, 2007**	**Dec. 31, 2006**
Assets		
Current Assets		
Cash and cash equivalents	$ 1,976	$ 2,757
Marketable securities and interest-bearing deposits	79	153
Accounts and notes receivable:		
Trade (net of allowance for doubtful receivables 2007: $114; 2006: $122)	6,028	4,988
Other	3,276	3,060
Inventories	6,497	6,058
Deferred income tax assets current	173	193
Total current assets	18,029	17,209
Investments		
Investment in nonconsolidated affiliates	2,849	2,735
Other investments	2,288	2,143
Noncurrent receivables	266	288
Total investments	5,403	5,166
Property		
Property	45,328	44,381
Less accumulated depreciation	31,433	30,659
Net property	13,895	13,722
Other Assets		
Goodwill	3,686	3,242
Other intangible assets (net of accumulated amortization 2007: $659; 2006: $620)	511	457
Deferred income tax assets noncurrent	3,564	4,006
Asbestos-related insurance receivables noncurrent	693	725
Deferred charges and other assets	1,134	1,054
Total other assets	9,588	9,484
Total Assets	$ 46,915	$ 45,581
Liabilities and Stockholders Equity		
Current Liabilities		
Notes payable	$ 285	$ 219
Long-term debt due within one year	1,393	1,291
Accounts payable:		
Trade	4,185	3,825
Other	1,871	1,849
Income taxes payable	771	569
Deferred income tax liabilities current	246	251
Dividends payable	422	382
Accrued and other current liabilities	2,124	2,215
Total current liabilities	11,297	10,601
Long-Term Debt	7,966	8,036
Other Noncurrent Liabilities		
Deferred income tax liabilities noncurrent	805	999
Pension and other postretirement benefits noncurrent	3,250	3,094
Asbestos-related liabilities noncurrent	1,071	1,079
Other noncurrent obligations	3,307	3,342
Total other noncurrent liabilities	8,433	8,514
Minority Interest in Subsidiaries	389	365
Preferred Securities of Subsidiaries	1,000	1,000
Stockholders Equity		
Common stock	2,453	2,453
Additional paid-in capital	803	830
Retained earnings (includes cumulative effect of adopting FIN No. 48 of $(290))	17,940	16,987
Accumulated other comprehensive loss	(1,986)	(2,235)

Treasury stock at cost	(1,380)	(970)
Net stockholders equity	17,830	17,065
Total Liabilities and Stockholders Equity	$ 46,915	$ 45,581

See Notes to the Consolidated Financial Statements.

The Dow Chemical Company and Subsidiaries

Consolidated Statements of Cash Flows

In millions (Unaudited)	**Six Months Ended June 30, 2007**	**Six Months Ended June 30, 2006**
Operating Activities		
Net Income Available for Common Stockholders	$ 2,012	$ 2,237
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	1,041	1,006
Provision for deferred income tax	154	92
Earnings of nonconsolidated affiliates less than (in excess of) dividends received	(56)	44
Minority interests share in income	50	48
Pension contributions	(75)	(232)
Net gain on sales of investments	(70)	(3)
Net gain on sales of property and businesses	(43)	(47)
Other net gain	(87)	(7)
Restructuring credit	(4)	
Excess tax benefits from share-based payment arrangements	(13)	(3)
Changes in assets and liabilities:		
Accounts and notes receivable	(991)	(67)
Inventories	(348)	(531)
Accounts payable	338	(460)
Other assets and liabilities	54	(142)
Cash provided by operating activities	1,962	1,935
Investing Activities		
Capital expenditures	(792)	(698)
Proceeds from sales of property and businesses	69	55
Purchase of previously leased assets	(12)	(100)
Investments in consolidated companies net of cash acquired	(742)	
Investments in nonconsolidated affiliates	(15)	(29)
Distributions from nonconsolidated affiliates	5	4
Proceeds from sale of nonconsolidated affiliate	30	
Purchases of investments	(839)	(448)
Proceeds from sales and maturities of investments	851	364
Cash used in investing activities	(1,445)	(852)
Financing Activities		
Changes in short-term notes payable	25	(5)
Payments on long-term debt	(2)	(590)
Proceeds from issuance of long-term debt	13	
Purchases of treasury stock	(855)	(506)
Proceeds from sales of common stock	245	78
Excess tax benefits from share-based payment arrangements	13	3
Distributions to minority interests	(25)	(32)
Dividends paid to stockholders	(717)	(684)
Cash used in financing activities	(1,303)	(1,736)
Effect of Exchange Rate Changes on Cash	5	9
Summary		
Decrease in cash and cash equivalents	(781)	(644)
Cash and cash equivalents at beginning of year	2,757	3,806
Cash and cash equivalents at end of period	$ 1,976	$ 3,162

See Notes to the Consolidated Financial Statements.

The Dow Chemical Company and Subsidiaries

Consolidated Statements of Comprehensive Income

In millions (Unaudited)	Three Months Ended June 30, 2007	Three Months Ended June 30, 2006	Six Months Ended June 30, 2007	Six Months Ended June 30, 2006
Net Income Available for Common Stockholders	$ 1,039	$ 1,023	$ 2,012	$ 2,237
Other Comprehensive Income (Loss), Net of Tax				
Net unrealized gains (losses) on investments	16	(21)	9	(25)
Translation adjustments	60	257	134	364
Minimum pension liability adjustments				(2)
Adjustments to pension and other postretirement benefit plans	38		76	
Net gains (losses) on cash flow hedging derivative instruments	(12)	(7)	30	(40)
Total other comprehensive income	102	229	249	297
Comprehensive Income	$ 1,141	$ 1,252	$ 2,261	$ 2,534

See Notes to the Consolidated Financial Statements.

Notes to the Consolidated Financial Statements
(Unaudited)

NOTE A 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 (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, 2006.

Certain reclassifications of prior year amounts have been made to conform to current year presentation.

NOTE B RECENT ACCOUNTING PRONOUNCEMENTS

In June 2006, the Financial Accounting Standards Board (FASB) issued FASB Interpretation (FIN) No. 48, Accounting for Uncertainty in Income Taxes, which clarifies the accounting for uncertainty in income taxes recognized in an enterprise s financial statements in accordance with Statement of Financial Accounting Standards (SFAS) No. 109, Accounting for Income Taxes. This interpretation prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. This interpretation also provides guidance on derecognition, classification, interest and penalties, accounting in interim periods, disclosure, and transition. FIN No. 48 was effective for fiscal years beginning after December 15, 2006.

On January 1, 2007, the Company adopted the provisions of FIN No. 48. The cumulative effect of adoption was a $290 million reduction of retained earnings. At January 1, 2007, the total amount of unrecognized tax benefits was $865 million, of which $704 million would impact the effective tax rate, if recognized.

Interest and penalties associated with uncertain tax positions are recognized as components of the Provision for income taxes. The Company s accrual for interest and penalties was $123 million upon adoption of FIN No. 48.

The tax years 1998-2003 are currently under audit by the U.S. Internal Revenue Service, and the review of these years is expected to be completed during 2007. It is reasonably possible that a reduction in the unrecognized tax benefits may occur; however, quantification of an estimated range cannot be made at this time.

The tax years that remain subject to examination for the Company s major tax jurisdictions are shown below:

Tax Years Subject to Examination for Major Tax Jurisdictions at January 1, 2007

1998 2006	United States federal income tax
2001 2006	Argentina
	Brazil
2002 2006	Germany
	Italy
	United States state and local income tax
2003 2006	Spain
2004 2006	Canada
	France
	Switzerland
2005 2006	United Kingdom
2006	The Netherlands

In September 2006, the FASB issued SFAS No. 158, Employers Accounting for Defined Benefit Pension and Other Postretirement Plans - an amendment of FASB Statements No. 87, 88, 106, and 132(R). This Statement, which was effective December 31, 2006 for the Company, required employers to recognize the funded status of defined benefit postretirement plans as an asset or liability on the balance sheet and to recognize changes in that funded status through comprehensive income. See Note G for the Company s disclosures related to pension and other postretirement benefits.

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SAB No. 74 Disclosures for Accounting Standards Issued But Not Yet Adopted

In September 2006, the FASB issued SFAS No. 157, Fair Value Measurements, which defines fair value, establishes a framework for measuring fair value in GAAP, and expands disclosures about fair value measurements. This Statement applies under other accounting pronouncements that require or permit fair value measurements and is effective for fiscal years beginning after November 15, 2007. The Company is currently evaluating the impact of adopting this Statement.

In February 2007, the FASB issued SFAS No. 159, The Fair Value Option for Financial Assets and Financial Liabilities - Including an amendment of FASB Statement No. 115, which permits entities to choose to measure many financial instruments and certain other items at fair value. SFAS No. 159 is effective as of the beginning of an entity s first fiscal year that begins after November 15, 2007. The Company is currently evaluating if it will elect the fair value option for any of its eligible financial instruments and other items.

In April 2007, the FASB issued FASB Staff Position (FSP) No. FIN 39-1, Amendment of FASB Interpretation No. 39. This FSP replaces certain terms in FIN No. 39 with derivative instruments (as defined in SFAS No. 133) and permits the offsetting of fair value amounts recognized for the right to reclaim cash collateral or the obligation to return cash collateral against fair value amounts recognized for derivative instruments executed with the same counterparty under the same master netting arrangement. The FSP is effective for fiscal years beginning after November 15, 2007. The Company is currently evaluating the impact of applying the guidance in this FSP.

NOTE C INVENTORIES

The following table provides a breakdown of inventories:

Inventories

In millions	**June 30, 2007**	**Dec. 31, 2006**
Finished goods	$ 3,739	$ 3,498
Work in process	1,481	1,319
Raw materials	674	672
Supplies	603	569
Total inventories	$ 6,497	$ 6,058

The reserves reducing inventories from the first-in, first-out (FIFO) basis to the last-in, first-out (LIFO) basis amounted to $1,221 million at June 30, 2007 and $1,092 million at December 31, 2006.

NOTE D ACQUISITION OF WOLFF WALSRODE

Consistent with the Company s strategy to invest in its Performance businesses, the Company announced on December 18, 2006, that it had reached an agreement with the Bayer Group to acquire Wolff Walsrode AG and certain related affiliates and assets (Wolff Walsrode), subject to regulatory approval. Wolff Walsrode, headquartered in Bomlitz, Germany, specializes in cellulose derivatives, food casings and site services. Following approval from the European Commission on June 20, 2007, Dow acquired Wolff Walsrode on June 30, 2007 for a cash purchase price of approximately $603 million.

On July 2, 2007, the Company announced the creation of a new specialty business unit, Dow Wolff Cellulosics, which combines the newly acquired Wolff Walsrode with Dow s Water Soluble Polymers business. Dow Wolff Cellulosics will encompass cellulosics and related chemistries, providing application formulation expertise and other technical services to a broad range of strategic industry sectors, including construction, paint, personal care, pharmaceuticals, food and a number of specialty industrial applications.

The following table summarizes the values of the assets acquired and liabilities assumed at the date of the acquisition. These amounts were included in the Company s consolidated balance sheet at June 30, 2007. Allocation of the purchase price is subject to third-party valuation and has not been completed for this acquisition. Final determination of the values to be assigned may result in adjustments to the preliminary values recorded at the date of the acquisition.

Assets Acquired and Liabilities Assumed at June 30, 2007

In millions		
Current assets	$	188
Property	233	
Goodwill (See Note E)	364	
Other assets	19	
Total assets acquired	$	804
Accounts payable	$	27
Long-term debt	10	
Accrued and other liabilities	47	
Pension benefits	117	
Total liabilities assumed	$	201
Net assets acquired	$	603

Since the acquisition was completed on June 30, 2007, the results of Wolff Walsrode s operations were not reflected in the Company s consolidated income statement for the second quarter of 2007.

The Company evaluated the materiality of assets acquired and liabilities assumed, individually and in the aggregate, and concluded that such assets and liabilities were not material to the consolidated financial statements at June 30, 2007.

NOTE E GOODWILL AND OTHER INTANGIBLE ASSETS

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

Goodwill In millions	**Performance Plastics**	**Performance Chemicals**	**Agricultural Sciences**	**Basic Plastics**	**Hydrocarbons and Energy**	**Total**
Balance at December 31, 2006	$ 915	$ 850	$ 1,320	$ 94	$ 63	$ 3,242
Purchase price allocation adjustment - Zhejiang Omex Environmental Engineering Co. LTD		(52)				(52)
Increase related to acquisition of:						
Additional 50% interest in Styron Asia Limited				6		6
Wolff Walsrode		364				364
Hyperlast Limited	126					126
Balance at June 30, 2007	$ 1,041	$ 1,162	$ 1,320	$ 100	$ 63	$ 3,686

On May 1, 2007, Dow Chemical Company Limited, a wholly owned subsidiary of the Company, acquired Hyperlast Limited, British Vita s polyurethane systems business, for $151 million. The initial recording of the acquisition resulted in goodwill of $126 million, none of which is expected to be deductible for tax purposes. Final determination of the values to be assigned to the assets acquired and liabilities assumed may result in adjustments to the preliminary values assigned at the date of acquisition.

On June 30, 2007, the Company completed the acquisition of Wolff Walsrode. The initial recording of the acquisition resulted in goodwill of $364 million, approximately $22 million of which is expected to be deductible for tax purposes. Final determination of the values to be assigned to the assets acquired and liabilities assumed may result in adjustments to the preliminary values assigned at the date of acquisition. See Note D for additional information regarding this acquisition.

In the second quarter of 2007, the Company completed the purchase price allocation related to the acquisition of Zhejiang Omex Environmental Engineering Co. LTD (Omex), resulting in the recording of $51 million of intangible assets as follows:

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Omex Intangible Assets **In millions**	**Gross Carrying Amount**	**Weighted-average Amortization Period**
Intangible assets with finite lives:		
Trademarks	$ 23	10 years
Patents	19	17 years
Other	9	2-5 years
Total	$ 51	11 years

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

Other Intangible Assets	**At June 30, 2007**			**At December 31, 2006**		
In millions	**Gross Carrying Amount**	**Accumulated Amortization**	**Net**	**Gross Carrying Amount**	**Accumulated Amortization**	**Net**
Intangible assets with finite lives:						
Licenses and intellectual property	$ 241	$ (154)	$ 87	$ 234	$ (142)	$ 92
Patents	152	(108)	44	148	(117)	31
Software	497	(290)	207	452	(269)	183
Trademarks	156	(46)	110	133	(40)	93
Other	124	(61)	63	110	(52)	58
Total	$ 1,170	$ (659)	$ 511	$ 1,077	$ (620)	$ 457

The following table provides information regarding amortization expense:

Amortization Expense	**Three Months Ended**		**Six Months Ended**	
In millions	**June 30, 2007**	**June 30, 2006**	**June 30, 2007**	**June 30, 2006**
Other intangible assets, excluding software	$ 18	$ 12	$ 29	$ 24
Software, included in Cost of sales	$ 11	$ 11	$ 21	$ 21

Total estimated amortization expense for 2007 and the five succeeding fiscal years is as follows:

Estimated Amortization Expense **In millions**	
2007	$ 97
2008	$ 88
2009	$ 78
2010	$ 75
2011	$ 64
2012	$ 35

NOTE F   COMMITMENTS AND CONTINGENT LIABILITIES

Litigation

Breast Implant Matters

On May 15, 1995, Dow Corning Corporation (Dow Corning), in which the Company is a 50 percent shareholder, voluntarily filed for protection under Chapter 11 of the Bankruptcy Code to resolve litigation related to Dow Corning s breast implant and other silicone medical products. On June 1, 2004, Dow Corning s Joint Plan of Reorganization (the Joint Plan) became effective and Dow Corning emerged from bankruptcy. The Joint Plan contains release and injunction provisions resolving all tort claims brought against various entities, including the Company, involving Dow Corning s breast implant and other silicone medical products.

To the extent not previously resolved in state court actions, cases involving Dow Corning s breast implant and other silicone medical products filed against the Company were transferred to the U.S. District Court for the Eastern District of Michigan (the District Court) for resolution in the context of the Joint Plan. On October 6, 2005, all such cases then pending in the District Court against the Company were dismissed. Should cases involving Dow Corning s breast implant and other silicone medical products be filed against the Company in the future, they will be accorded similar treatment. It is the opinion of the Company s management that the possibility is remote that a resolution of all future cases will have a material adverse impact on the Company s consolidated financial statements.

As part of the Joint Plan, Dow and Corning Incorporated have agreed to provide a credit facility to Dow Corning in an aggregate amount of $300 million. The Company s share of the credit facility is $150 million and is subject to the terms and conditions stated in the Joint Plan. At June 30, 2007, no draws had been taken against the credit facility.

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 adverse impact on the Company s consolidated financial statements.

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, 2007, the Company had accrued obligations of $340 million for environmental remediation and restoration costs, including $31 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 the ultimate cost with respect to these particular matters could range up to twice that amount. Inherent uncertainties exist in these estimates primarily due to unknown conditions, changing governmental regulations and legal standards regarding liability, and evolving technologies for handling site remediation and restoration. At December 31, 2006, the Company had accrued obligations of $347 million for environmental remediation and restoration costs, including $31 million for the remediation of Superfund sites.

Midland 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 Midland area soils; Tittabawassee and Saginaw River sediment and floodplain soils; and Saginaw Bay. The License required the Company, by August 11, 2003, to propose a detailed Scope of Work for the off-site investigation for the City of Midland and the Tittabawassee River and floodplain for review and approval by the MDEQ. Revised Scopes of Work were approved by the MDEQ on October 18, 2005. The Company was required to submit a Scope of Work for the investigation of the Saginaw River and Saginaw Bay by August 11, 2007. The Company submitted the Scope of Work for the Saginaw River and Saginaw Bay on July 13, 2007.

Discussions between the Company and the MDEQ that occurred in 2004 and early 2005 regarding how to proceed with off-site corrective action under the License resulted in the execution of the Framework for an Agreement Between the State of Michigan and The Dow Chemical Company (the Framework) on January 20, 2005. The Framework committed the Company to propose a remedial investigation work plan by the end of 2005, conduct certain studies, and take certain immediate interim remedial actions in the City of Midland and along the Tittabawassee River.

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Remedial Investigation Work Plans

The Company submitted Remedial Investigation Work Plans for the City of Midland and for the Tittabawassee River on December 29, 2005. By letters dated March 2, 2006 and April 13, 2006, the MDEQ provided two Notices of Deficiency (Notices) to the Company regarding the Remedial Investigation Work Plans. The Company responded, as required, to some of the items in the Notices on May 1, 2006, and as required responded to the balance of the items and submitted revised Remedial Investigation Work Plans on December 1, 2006.

Studies Conducted

On July 12, 2006, the MDEQ approved the sampling for the first six miles of the Tittabawassee River. On December 1, 2006, the MDEQ approved the Sampling and Analysis Plan in Support of Bioavailability Study for Midland (the Plan). The results of the Plan were provided to the MDEQ on March 22, 2007. On May 3, 2007, the MDEQ approved the GeoMorph® Pilot Site Characterization Report for the first six miles and approved this approach for the balance of the Tittabawassee River with some qualifications. On July 12, 2007, the MDEQ approved, with qualifications, the sampling for the next 11 miles of the Tittabawassee River.

Interim Remedial Actions

The interim remedial actions required by the Framework are currently underway. The Company has been working with the MDEQ to implement Interim Response Activities and Pilot Corrective Action Plans in specific areas in and along the Tittabawassee River, where elevated levels of dioxins and furans were found during the investigation of the first six miles of the river.

- *Removal Actions*

On June 27, 2007, the U.S. Environmental Protection Agency (EPA) sent a letter to the Company demanding that the Company enter into consent orders under Section 106 of the Comprehensive Environmental Response, Compensation, and Liability Act (CERCLA) for three areas identified during investigation of the first six miles as areas for interim remedial actions under MDEQ oversight. The EPA sought a commitment that the Company immediately engage in remedial actions to remove soils and sediments. The three removal orders were negotiated and were signed on July 12, 2007, and the work has commenced under EPA oversight.

The Framework also contemplates that the Company, the State of Michigan and other federal and tribal governmental entities will negotiate the terms of an agreement or agreements to resolve potential governmental claims against the Company related to historical off-site contamination associated with the Midland site. The Company and the governmental parties began to meet in the fall of 2005 and entered into a Confidentiality Agreement in December 2005. The Company continues to conduct negotiations with the governmental parties under the Federal Alternative Dispute Resolution Act.

At the end of 2006, the Company had an accrual for off-site corrective action of $7 million (included in the total accrued obligation of $347 million at December 31, 2006) based on the range of activities that the Company proposed and discussed implementing with the MDEQ and which is set forth in the Framework. At June 30, 2007, the accrual for off-site corrective action was $18 million (included in the total accrued obligation of $340 million at June 30, 2007).

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 adverse impact on the Company s consolidated financial statements.

Asbestos-Related Matters of Union Carbide Corporation

Union Carbide Corporation (Union Carbide), a wholly owned subsidiary of the Company, is and has been involved in a large number of asbestos-related suits filed primarily in state courts during the past 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.

Influenced by the bankruptcy filings of numerous defendants in asbestos-related litigation and the prospects of various forms of state and national legislative reform, the rate at which plaintiffs filed asbestos-related suits against various companies, including Union Carbide and Amchem, increased in 2001, 2002 and the first half of 2003. Since then, the rate of filing has significantly abated. 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 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 November 2004, Union Carbide requested ARPC to review Union Carbide s historical asbestos claim and resolution activity and determine the appropriateness of updating its January 2003 study. In January 2005, ARPC provided Union Carbide with a report summarizing the results of its study. At December 31, 2004, Union Carbide s recorded asbestos-related liability for pending and future claims was $1.6 billion. Based on the low end of the range in the January 2005 study, Union Carbide s recorded asbestos-related liability for pending and future claims at December 31, 2004 would be sufficient to resolve asbestos-related claims against Union Carbide and Amchem into 2019. As in its January 2003 study, ARPC did provide estimates for a longer period of time in its January 2005 study, but also reaffirmed its prior advice that forecasts for shorter periods of time are more accurate than those for longer periods of time.

In November 2005, Union Carbide requested ARPC to review Union Carbide s 2005 asbestos claim and resolution activity and determine the appropriateness of updating its January 2005 study. In response to that request, ARPC reviewed and analyzed data through October 31, 2005. In January 2006, ARPC stated that an update of its study would not provide a more likely estimate of future events than the estimate reflected in its study of the previous year 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, 2005, Union Carbide s asbestos-related liability for pending and future claims was $1.5 billion.

In November 2006, Union Carbide requested ARPC to review Union Carbide s historical asbestos claim and resolution activity and determine the appropriateness of updating its January 2005 study. In response to that request, ARPC reviewed and analyzed data through October 31, 2006 and concluded that the experience from 2004 through 2006 was sufficient for the purpose of forecasting future filings and values of asbestos claims filed against Union Carbide and Amchem, and could be used in place of previous assumptions to update its January 2005 study. The resulting study, completed by ARPC in December 2006, stated that the undiscounted cost of resolving pending and future asbestos-related claims against Union Carbide and Amchem, excluding future defense and processing costs, through 2021 was estimated to be between approximately $1.2 billion and $1.5 billion. As in its January 2005 study, ARPC provided estimates for a longer period of time in its December 2006 study, but also reaffirmed its prior advice that forecasts for shorter periods of time are more accurate than those for longer periods of time.

Based on ARPC s December 2006 study and Union Carbide s own review of the asbestos claim and resolution activity, Union Carbide decreased its asbestos-related liability for pending and future claims to $1.2 billion at December 31, 2006 which covers the 15-year period ending in 2021 (excluding future defense and processing costs). The reduction was $177 million and was shown as Asbestos-related credit in the consolidated statements of income for 2006. At December 31, 2006, approximately 25 percent of the recorded liability related to pending claims and approximately 75 percent related to future claims.

Based on Union Carbide s review of 2007 activity, Union Carbide determined that no adjustment to the accrual was required at June 30, 2007. Union Carbide s asbestos-related liability for pending and future claims was $1.2 billion at June 30, 2007. Approximately 29 percent of the recorded liability related to pending claims and approximately 71 percent related to future claims.

At December 31, 2002, Union Carbide increased the receivable for insurance recoveries related to its asbestos liability to $1.35 billion, substantially exhausting its asbestos product liability coverage. The insurance receivable related to the asbestos liability was determined by Union Carbide after a thorough review of applicable insurance policies and the 1985 Wellington Agreement, to which Union Carbide and many of its liability insurers are signatory parties, as well as other insurance settlements, with due consideration given to applicable deductibles, retentions and policy limits, and taking into account the solvency and historical payment experience of various insurance carriers. The Wellington Agreement and other agreements with insurers are designed to facilitate an orderly resolution and collection of Union Carbide s insurance policies and to resolve issues that the insurance carriers may raise.

In September 2003, Union Carbide filed a comprehensive insurance coverage case, now proceeding in the Supreme Court of the State of New York, County of New York, seeking to confirm its rights to insurance for various asbestos claims and to facilitate an orderly and timely collection of insurance proceeds. This lawsuit was filed against insurers that are not signatories to the Wellington Agreement and/or do not otherwise have agreements in place with Union Carbide regarding their asbestos-related insurance coverage, in order to facilitate an orderly resolution and collection of such insurance policies and to resolve issues that the insurance carriers may raise. Although the lawsuit is continuing, through the end of the second quarter of 2007, Union Carbide had reached settlements with several of the carriers involved in this litigation.

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Union Carbide s receivable for insurance recoveries related to its asbestos liability was $478 million at June 30, 2007 and $495 million at December 31, 2006. At June 30, 2007 and December 31, 2006, all of the receivable for insurance recoveries was related to insurers that are not signatories to the Wellington Agreement and/or do not otherwise have agreements in place regarding their asbestos-related insurance coverage.

In addition to the receivable for insurance recoveries related to its asbestos liability, Union Carbide had receivables for defense and resolution costs submitted to insurance carriers for reimbursement as follows:

Receivables for Costs Submitted to Insurance Carriers In millions	**June 30, 2007**	**Dec. 31, 2006**
Receivables for defense costs	$ 37	$ 34
Receivables for resolution costs	257	266
Total	$ 294	$ 300

Union Carbide expenses defense costs as incurred. The pretax impact for defense and resolution costs, net of insurance, was $25 million in the second quarter of 2007 ($14 million in the second quarter of 2006) and $42 million in the first six months of 2007 ($28 million in the first six months of 2006), and was reflected in Cost of sales.

After a review of its insurance policies, with due consideration given to applicable deductibles, retentions and policy limits, after taking into account the solvency and historical payment experience of various insurance carriers; existing insurance settlements; and the advice of outside counsel with respect to the applicable insurance coverage law relating to the terms and conditions of its insurance policies, Union Carbide continues to believe that its recorded receivable for insurance recoveries from all insurance carriers is probable of collection.

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 adverse 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 adverse impact on the Company s results of operations and cash flows for a particular period and on the consolidated financial position of the Company.

Synthetic Rubber Industry Matters

In 2003, the U.S., Canadian and European competition authorities initiated separate investigations into alleged anticompetitive behavior by certain participants in the synthetic rubber industry. Certain subsidiaries of the Company (but as to the investigation in Europe only) have responded to requests for documents and are otherwise cooperating in the investigations.

On June 10, 2005, the Company received a Statement of Objections from the European Commission (the EC) stating that it believed that the Company and certain subsidiaries of the Company (the Dow Entities), together with other participants in the synthetic rubber industry, engaged in conduct in violation of European competition laws with respect to the butadiene rubber and emulsion styrene butadiene rubber businesses. In connection therewith, on November 29, 2006, the EC issued its decision alleging infringement of Article 81 of the Treaty of Rome and imposed a fine of Euro 64.575 million (approximately $85 million) on the Dow Entities. Several other companies were also named and fined. Subsequently, the Company has been named in various related U.S. civil actions. In the fourth quarter of 2006, the Company recognized a loss contingency of $85 million related to the fine. The Company has appealed the EC s decision.

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Additionally, on March 10, 2007, the Company received a Statement of Objections from the EC stating that it believed that DuPont Dow Elastomers L.L.C. (DDE), a former 50:50 joint venture with E.I. du Pont de Nemours and Company (DuPont), together with other participants in the synthetic rubber industry, engaged in conduct in violation of European competition laws with respect to the polychloroprene business. This Statement of Objections specifically names the Company, but only in its capacity as a former joint venture owner of DDE. The Company transferred its joint venture ownership interest in DDE to DuPont in 2005, and DDE then changed its name to DuPont Performance Elastomers L.L.C. (DPE). Based on agreements reached between the Company and DuPont in 2004, DuPont will manage DPE s response to this Statement of Objections. Further, based on the Company s allocation agreement with DuPont, it is the opinion of the Company s management that the possibility is remote that its financial responsibility with respect to any potential DDE liabilities will have a material adverse impact on the Company s consolidated financial statements.

Polyurethane Subpoena Matter

On February 16, 2006, the Company, among others, received a subpoena from the U.S. Department of Justice as part of an antitrust investigation of polyurethane chemicals, including methylene diphenyl diisocyanate, toluene diisocyanate and polyols. The Company is fully cooperating with the investigation.

Other Litigation Matters

In addition to breast implant, DBCP, environmental, synthetic rubber industry, and polyurethane subpoena matters, the Company is party to a number of other claims and lawsuits arising out of the normal course of business with respect to commercial matters, including product liability, governmental regulation 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 provide coverage that will be utilized to minimize the impact, if any, of the contingencies described above.

Summary

Except for the possible effect of Union Carbide s asbestos-related liability described above, it is the opinion of the Company s management that the possibility is remote that the aggregate of all claims and lawsuits will have a material adverse impact on the Company s consolidated financial statements.

Purchase Commitments

The Company has numerous agreements for the purchase of ethylene-related products globally. The purchase prices are determined on a cost-of-service basis, which, in addition to covering all operating expenses and debt service costs, provides the owners of the manufacturing plants with a specified return on capital. Total purchases under these agreements were $1,356 million in 2006, $1,175 million in 2005 and $1,063 million in 2004. The Company s commitments at December 31, 2006 associated with these agreements are included in the table below.

The Company also has various commitments for take or pay and throughput agreements. Such commitments are at prices not in excess of current market prices. The terms of all but one of these agreements extend from one to 25 years. One agreement has terms extending to 80 years. The determinable future commitment for this agreement is included for 10 years in the following table which presents the fixed and determinable portion of obligations under the Company s purchase commitments at December 31, 2006:

Fixed and Determinable Portion of Take or Pay and
Throughput Obligations at December 31, 2006

In millions		
2007	$	2,107
2008	1,802	
2009	1,579	
2010	1,339	
2011	889	
2012 and beyond	5,281	
Total	$	12,997

In addition to the take or pay obligations at December 31, 2006, the Company had outstanding commitments which ranged from one to six years for steam, electrical power, materials, property and other items used in the normal course of business of approximately $459 million. Such commitments were at prices not in excess of current market prices.

Guarantees

The Company provides a variety of guarantees, as described more fully in the following sections.

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 eight years, and trade financing transactions in Latin America and Asia Pacific, which typically expire within one year of their inception.

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.

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 June 30, 2007 **In millions**	**Final Expiration**	**Maximum Future Payments**	**Recorded Liability**
Guarantees	2014	$ 292	$ 14
Residual value guarantees	2015	1,044	6
Total guarantees		$ 1,336	$ 20

Guarantees at December 31, 2006 **In millions**	**Final Expiration**	**Maximum Future Payments**	**Recorded Liability**
Guarantees	2014	$ 340	$ 20
Residual value guarantees	2015	1,044	6
Total guarantees		$ 1,384	$ 26

Asset Retirement Obligations

In accordance with SFAS No. 143, as interpreted by FIN No. 47, the Company has recognized asset retirement obligations for the following activities: demolition and remediation activities at manufacturing sites in the United States and Europe; capping activities at landfill sites in the United States, Canada, Italy and Brazil; and asbestos encapsulation as a result of planned demolition and remediation activities at manufacturing and administrative sites in the United States, Canada and Europe.

The aggregate carrying amount of asset retirement obligations recognized by the Company was $106 million at June 30, 2007 and December 31, 2006. The discount rate used to calculate the Company s asset retirement obligation was 4.6 percent. These obligations are included in the consolidated balance sheets as 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 adverse impact on the Company s consolidated financial statements based on current costs.

NOTE G PENSION PLANS AND OTHER POSTRETIREMENT BENEFITS

Net Periodic Benefit Cost for All Significant Plans	**Three Months Ended**		**Six Months Ended**	
In millions	**June 30, 2007**	**June 30, 2006**	**June 30, 2007**	**June 30, 2006**
Defined Benefit Pension Plans:				
Service cost	$ 72	$ 71	$ 143	$ 141
Interest cost	217	207	434	411
Expected return on plan assets	(292)	(275)	(583)	(548)
Amortization of prior service cost	6	5	12	10
Amortization of net loss	50	56	99	110
Termination benefits/curtailment costs			1	
Net periodic benefit cost	$ 53	$ 64	$ 106	$ 124
Other Postretirement Benefits:				
Service cost	$ 5	$ 6	$ 10	$ 12
Interest cost	29	29	57	58
Expected return on plan assets	(9)	(7)	(18)	(14)
Amortization of prior service credit	(1)	(2)	(2)	(4)
Amortization of net loss	1	2	2	4
Net periodic benefit cost	$ 25	$ 28	$ 49	$ 56

NOTE H STOCK-BASED COMPENSATION

The Company grants stock-based compensation to employees under the Employees Stock Purchase Plans (ESPP) and the 1988 Award and Option Plan (the 1988 Plan), and to non-employee directors under the 2003 Non-Employee Directors Stock Incentive Plan. Most of the Company s stock-based compensation awards are granted in the first quarter of each year. Details for awards granted in the first quarter of 2007 are included below.

During the first quarter of 2007, employees subscribed to the right to purchase 5.3 million shares with a weighted-average exercise price of $30.81 per share and a weighted-average fair value of $10.62 per share under the ESPP.

During the first quarter of 2007, the Company granted the following stock-based compensation awards to employees under the 1988 Plan:

- 7.6 million stock options with a weighted-average exercise price of $43.59 per share and a weighted-average fair value of $9.81 per share.

- 1.8 million shares of deferred stock with a weighted-average fair value of $43.58 per share.

- 1.0 million shares of performance deferred stock with a weighted-average fair value of $43.59 per share.

During the first quarter of 2007, the Company granted the following stock-based compensation awards to non-employee directors under the 2003 Non-Employee Directors Stock Incentive Plan:

- 48,400 stock options with a weighted-average fair value of $9.83 per share.

- 9,200 shares of restricted stock with a weighted-average fair value of $41.97 per share.

Total unrecognized compensation cost at March 31, 2007, including unrecognized cost related to first quarter 2007 activity, is provided in the following table:

Total Unrecognized Compensation Cost at March 31, 2007

In millions	Unrecognized Compensation Cost	Weighted-average Recognition Period
ESPP purchase rights	$ 45	4.6 months
Unvested stock options	$ 106	1.00 year
Deferred stock awards	$ 163	1.94 years
Performance deferred stock awards	$ 75	1.02 years

There was minimal grant activity in the second quarter of 2007.

NOTE I 2006 RESTRUCTURING

On August 29, 2006, the Company s Board of Directors approved a plan to shut down a number of assets around the world as the Company continues its drive to improve the competitiveness of its global operations. As a consequence of these shutdowns, which are scheduled to be completed by the end of 2008, and other optimization activities, the Company recorded pretax restructuring charges totaling $591 million in the third and fourth quarters of 2006. The charges consisted of asset write-downs and write-offs of $346 million, costs associated with exit or disposal activities of $172 million and severance costs of $73 million. The impact of the charges was shown as Restructuring charges in the 2006 consolidated statements of income.

The following table summarizes 2007 activities related to the Company s restructuring reserve:

Activities Related to 2006 Restructuring

In millions	Costs associated with Exit or Disposal Activities	Severance Costs	Total
Reserve balance at December 31, 2006	$ 171	$ 69	$ 240
Cash payments	(1)	(8)	(9)
Reserve balance at March 31, 2007	$ 170	$ 61	$ 231
Adjustments to reserve	(4)		(4)
Cash payments	(40)	(9)	(49)
Reserve balance at June 30, 2007	$ 126	$ 52	$ 178

As a result of the Company s plans to shutdown assets around the world, and conduct other optimization activities principally in Europe, the restructuring charges recorded in 2006 included severance of $73 million for the separation of approximately 810 employees under the terms of Dow s ongoing benefit arrangements, primarily over the next two years. As of June 30, 2007, severance of $21 million had been paid to 268 employees, and a liability of $52 million remained for approximately 540 employees.

In the second quarter of 2007, the Company reached agreements with certain suppliers regarding the early cancellation of supply agreements related to the shutdown of manufacturing assets, resulting in a $4 million reduction of the restructuring reserve for contract termination fees. The adjustment was credited against the Performance Plastics segment.

Dow expects to incur future costs related to its restructuring activities, as the Company continually looks for ways to enhance the efficiency and cost effectiveness of its operations, to ensure competitiveness across its businesses and across geographic areas. Future costs are expected to include demolition costs related to the closed facilities, which 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, and pension plan settlement costs. These costs cannot be reasonably estimated at this time.

NOTE J EARNINGS PER SHARE CALCULATIONS

Earnings Per Share Calculations

In millions, except per share amounts	Three Months Ended June 30, 2007 Basic	Three Months Ended June 30, 2007 Diluted	Three Months Ended June 30, 2006 Basic	Three Months Ended June 30, 2006 Diluted
Net income available for common stockholders	$ 1,039	$ 1,039	$ 1,023	$ 1,023
Weighted-average common shares outstanding	954.8	954.8	963.5	963.5
Add dilutive effect of stock options and awards		13.2		12.1
Weighted-average common shares for EPS calculations	954.8	968.0	963.5	975.6
Earnings per common share	$ 1.09	$ 1.07	$ 1.06	$ 1.05
Stock options and deferred stock awards excluded from EPS calculations (1)		13.3		18.7

Earnings Per Share Calculations

In millions, except per share amounts	Six Months Ended June 30, 2007 Basic	Diluted	Six Months Ended June 30, 2006 Basic	Diluted
Net income available for common stockholders	$ 2,012	$ 2,012	$ 2,237	$ 2,237
Weighted-average common shares outstanding	959.0	959.0	965.7	965.7
Add dilutive effect of stock options and awards		12.7		12.5
Weighted-average common shares for EPS calculations	959.0	971.7	965.7	978.2
Earnings per common share	$ 2.10	$ 2.07	$ 2.32	$ 2.29
Stock options and deferred stock awards excluded from EPS calculations (1)		17.7		16.9

(1) Outstanding options to purchase shares of common stock and deferred stock awards that were not included in the calculation of diluted earnings per share because the effect of including them would have been anti-dilutive.

NOTE K SUBSEQUENT EVENT

A change in German tax law, which includes a reduction in the German income tax rate, is expected to be enacted during the third quarter of 2007. As a result, the Company expects to record a charge of $350-$400 million against the provision for income taxes in the third quarter of 2007 related to the adjustment of its net deferred tax assets in Germany due to the rate reduction.

NOTE L OPERATING SEGMENTS AND GEOGRAPHIC AREAS

Corporate Profile

Dow is a diversified chemical company that offers a broad range of innovative chemical, plastic and agricultural products and services to customers in more than 175 countries, helping them to provide everything from fresh water, food and pharmaceuticals to paints, packaging and personal care. In 2006, Dow had annual sales of $49 billion and employed approximately 42,600 people worldwide. The Company has 150 manufacturing sites in 37 countries and produces more than 3,100 products. The following descriptions of the Company s operating segments include a representative listing of products for each business.

PERFORMANCE PLASTICS

Applications: automotive interiors, exteriors, under-the-hood and body engineered systems building and construction, thermal and acoustic insulation, roofing communications technology, telecommunication cables, electrical and electronic connectors footwear home and office furnishings: kitchen appliances, power tools, floor care products, mattresses, carpeting, flooring, furniture padding, office furniture information technology equipment and consumer electronics packaging, food and beverage containers, protective packaging sports and recreation equipment wire and cable insulation and jacketing materials for power utility and telecommunications

Dow Automotive serves the global automotive market and is a leading supplier of plastics, adhesives, sealants and other plastics-enhanced products for interior, exterior, under-the-hood, vehicle body structure and acoustical management technology solutions. With offices and application development centers around the world, Dow Automotive provides materials science expertise and comprehensive technical capabilities to its customers worldwide.

- **Products**: AFFINITY polyolefin plastomers; AMPLIFY functional polymers; BETABRACE reinforcing composites; BETADAMP acoustical damping systems; BETAFOAM NVH and structural foams; BETAGUARD sealants; BETAMATE structural adhesives; BETASEAL glass bonding systems; CALIBRE polycarbonate resins; DOW polyethylene resins; DOW polypropylene resins and automotive components made with DOW polypropylene; IMPAXX energy management foam; INSPIRE performance polymers; INTEGRAL adhesive film; ISONATE pure and modified methylene diphenyl diisocyanate (MDI) products; ISOPLAST engineering thermoplastic polyurethane resins; MAGNUM ABS resins; PAPI polymeric MDI; PELLETHANE thermoplastic polyurethane elastomers;

Premium brake fluids and lubricants; PULSE engineering resins; SPECFLEX semi-flexible polyurethane foam systems; SPECTRIM reaction moldable polymers; STRANDFOAM polypropylene foam; VERSIFY plastomers and elastomers; VORANATE specialty isocyanates; VORANOL polyether polyols

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Dow Building Solutions manufactures and markets an extensive line of insulation, weather barrier, and oriented composite building solutions, as well as a line of cushion packaging foam solutions. The business is the recognized leader in extruded polystyrene (XPS) insulation, known industry-wide by its distinctive Blue color and the Dow STYROFOAM brand for more than 50 years. The business also manufactures foam solutions for a wide range of applications including cushion packaging, electronics protection and material handling.

- **Products**: EQUIFOAM comfort products; ETHAFOAM polyethylene foam; FROTH-PAK polyurethane spray foam; GREAT STUFF polyurethane foam sealant; IMMOTUS acoustic panels; INSTA-STIK roof insulation adhesive; QUASH sound management foam; SARAN vapor retarder film and tape; STYROFOAM brand insulation products (including XPS and polyisocyanurate rigid foam sheathing products); SYMMATRIX oriented composites; SYNERGY soft touch foam; TILE BOND roof tile adhesive; TRYMER polyisocyanurate foam pipe insulation; WEATHERMATE weather barrier solutions (housewraps, sill pans, flashings and tapes)

Dow Epoxy is a leading global producer of epoxy resins, intermediates and specialty resins for a wide range of industries and applications such as coatings, electrical laminates, civil engineering, adhesives and composites. With plants strategically located across four continents, the business is focused on providing customers around the world with differentiated solution-based epoxy products and innovative technologies and services.

- **Products**: D.E.H. epoxy curing agents or hardeners; D.E.N. epoxy novolac resins; D.E.R. epoxy resins (liquids, solids and solutions); Epoxy intermediates (Acetone, Allyl chloride, Bisphenol-A, Epichlorohydrin, OPTIM synthetic glycerine and Phenol); Peroxymeric chemicals (CYRACURE cycloaliphatic epoxides, FLEXOL plasticizers; and TONE monomers, polyols and polymers); Specialty acrylic monomers (Glycidyl methacrylate, Hydroxyethyl acrylate and Hydroxypropyl acrylate); UCAR solution vinyl resins

The **Polyurethanes and Polyurethane Systems** business is a leading global producer of polyurethane raw materials and polyurethane systems. Differentiated by its ability to globally supply a high-quality, consistent and complete product range, this business emphasizes both existing and new business developments while facilitating customer success with a global market and technology network.

- **Products**: ENFORCER Technology and ENHANCER Technology for polyurethane carpet and turf backing; ISONATE MDI; PAPI polymeric MDI; Propylene glycol; Propylene oxide; SPECFLEX copolymer polyols; SYNTEGRA waterborne polyurethane dispersions; VORACOR , VORALAST , VORALUX and VORASTAR polyurethane systems; VORANATE isocyanate; VORANOL and VORANOL VORACTIV polyether and copolymer polyols

Specialty Plastics and Elastomers is a business portfolio of specialty products including a broad range of engineering plastics and compounds, performance elastomers and plastomers, specialty copolymers, synthetic rubber, polyvinylidene chloride resins and films (PVDC), and specialty film substrates. The business serves such industries as automotive, civil construction, wire and cable, building and construction, consumer electronics and appliances, food and specialty packaging, and footwear.

- **Products**: AFFINITY polyolefin plastomers (POPs); AMPLIFY functional polymers; CALIBRE polycarbonate resins; DOW XLA elastic fiber; EMERGE advanced resins; ENGAGE polyolefin elastomers; FLEXOMER very low density polyethylene (VLDPE) resins; INTEGRAL adhesive films; ISOPLAST engineering thermoplastic polyurethane resins; MAGNUM ABS resins; NORDEL hydrocarbon rubber; PELLETHANE thermoplastic polyurethane elastomers; PRIMACOR copolymers; PROCITE window envelope films; PULSE engineering resins; REDI-LINK polyethylene-based wire & cable insulation compounds; SARAN PVDC resin and SARAN PVDC film ; SARANEX barrier films; SI-LINK polyethylene-based low voltage insulation compounds;

TRENCHCOAT protective films; TYRIL SAN resins; TYRIN chlorinated polyethylene; UNIGARD HP high-performance flame-retardant compounds; UNIGARD RE reduced emissions flame-retardant compounds; UNIPURGE purging compound; VERSIFY plastomers and elastomers; ZETABON coated metal cable armor

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The **Technology Licensing and Catalyst** business includes licensing and supply of related catalysts, process control software and services for the UNIPOL polypropylene process, the METEOR process for ethylene oxide (EO) and ethylene glycol (EG), the LP OXO process for oxo alcohols, the QBIS bisphenol A process, and Dow s proprietary technology for production of purified terephthalic acid (PTA). Licensing of the UNIPOL polyethylene process and sale of related catalysts, including metallocene catalysts, are handled through Univation Technologies, LLC, a 50:50 joint venture of Union Carbide.

- **Products**: LP OXO process technology and NORMAX catalysts; METEOR EO/EG process technology and catalysts; PTA process technology; QBIS bisphenol A process technology and DOWEX QCAT catalyst; UNIPOL PP process technology and SHAC catalyst systems

The Performance Plastics segment also includes a portion of the results of the Siam Group, a group of Thailand-based joint ventures.

PERFORMANCE CHEMICALS

Applications: agricultural and pharmaceutical products and processing building materials chemical processing and intermediates electronics food processing and ingredients gas treating solvents household products metal degreasing and dry cleaning oil and gas treatment paints, coatings, inks, adhesives, lubricants personal care products pulp and paper manufacturing, coated paper and paperboard textiles and carpet water purification

Designed Polymers is a business portfolio of products and systems characterized by unique chemistry, deep expertise in regulated markets and specialty product qualities and features. Within Designed Polymers, Dow Water Solutions offers world-class brands and enabling component technologies designed to advance the science of desalination, water purification, trace contaminant removal and water recycling. Other businesses in Designed Polymers, such as Water Soluble Polymers, develop and market a range of products that enhance the physical and sensory properties of end-use products in a wide range of applications including food, pharmaceuticals, oil and gas, paints and coatings, personal care, and building and construction.

- **Products and Services**: Acrolein derivatives; Basic nitroparaffins and nitroparaffin-based specialty chemicals of ANGUS Chemical Company, a wholly owned subsidiary of Dow; CELLOSIZE hydroxyethyl cellulose; Chiral compounds and biocatalysts; CYCLOTENE advanced electronics resins; DOW latex powders; DOWEX ion exchange resins; ETHOCEL ethylcellulose resins; FILMTEC membranes; FORTEFIBER soluble dietary fiber; Hydrocarbon resins; Industrial biocides; METHOCEL cellulose ethers; OMEXELL ultrafiltration; OMEXELL electrodeionization; Pfēnex Expression Technology ; POLYOX water-soluble resins; Quaternaries; SILK semiconductor dielectric resins

The **Dow Latex** business is a major global supplier of latexes, for a wide range of industries and applications. It provides the broadest line of styrene/butadiene (S/B) products supporting customers in paper and paperboard (for magazines, catalogues and food packaging) applications, and the carpet and floor covering industry. UCAR Emulsion Systems (UES) manufactures and sells acrylic, vinyl acrylic, vinyl acetate ethylene (VAE), and S/B and styrene acrylic latexes and NEOCAR branched vinyl ester latexes for use in the architectural and industrial coatings, adhesives, construction products such as caulks and sealants, textile, and traffic paint. It also offers the broadest product range in the dispersion area and produces and markets UCAR POLYPHOBE rheology modifiers.

- **Products**: Acrylic latex; EVOCAR specialty latex; FOUNDATIONS latex; NEOCAR branched vinyl ester latexes; Styrene-acrylate latex; Styrene-butadiene latex; Styrene-butadiene vinyl acetate ethylene (VAE); UCAR all-acrylic, styrene-acrylic and vinyl-acrylic latexes; UCAR POLYPHOBE rheology modifiers; UCARHIDE opacifier

The **Specialty Chemicals** business provides products and services used as functional ingredients or processing aids in the manufacture of a diverse range of products. Applications include agricultural and pharmaceutical products and processing, building and construction, chemical processing and intermediates, electronics, food processing and ingredients, gas treating solvents, fuels and lubricants, oil and gas, household and institutional cleaners, coatings and paints, pulp and paper manufacturing, metal degreasing and dry cleaning, and transportation. Dow

Haltermann Custom Processing provides contract and custom manufacturing services to other specialty chemical, agricultural chemical and biodiesel producers.

• **Products**: Acrylic acid/Acrylic esters; AMBITROL and NORKOOL industrial coolants; Butyl CARBITOL and Butyl CELLOSOLVE ethylene oxide; CARBOWAX and CARBOWAX SENTRY polyethylene glycols and methoxypolyethylene glycols; Diphenyloxide; DOW polypropylene glycols; DOWCAL , DOWFROST , DOWTHERM , SYLTHERM and UCARTHERM heat transfer fluids; DOWFAX , TERGITOL and TRITON surfactants; Ethanolamines; Ethyleneamines; Isopropanolamines; MAXIBOOST cleaning boosters; MAXICHECK solvent analysis test kits; MAXISTAB stabilizers; Propylene oxide-based glycol ethers; SAFE-TAINER closed-loop delivery system; SYNALOX lubricants; UCAR deicing fluids; UCARKLEAN amine management; UCARSOL formulated solvents; UCON fluids; VERSENE chelating agents; Fine and specialty chemicals from the Dow Haltermann Custom Processing business; Test and reference fuels, printing ink distillates, pure hydrocarbons and esters, and derivatives from Haltermann Products, a wholly owned subsidiary of Dow

The Performance Chemicals segment also includes the results of Dow Corning Corporation, and a portion of the results of the OPTIMAL Group and the Siam Group, all joint ventures of the Company.

AGRICULTURAL SCIENCES

Applications: control of weeds, insects and plant diseases for agriculture and pest management agricultural seeds and traits (genes)

Dow AgroSciences is a global leader in providing pest management, agricultural and crop biotechnology products and solutions. The business develops, manufactures and markets products for crop production; weed, insect and plant disease management; and industrial and commercial pest management. Dow AgroSciences is building a leading plant genetics and biotechnology business in agricultural seeds, traits, healthy oils, and animal health.

• **Products**: CLINCHER herbicide; DITHANE fungicide; FORTRESS fungicide; GARLON herbicide; GLYPHOMAX herbicide; GRANITE herbicide, HERCULEX I insect protection; HERCULEX RW insect protection; HERCULEX XTRA insect protection; KEYSTONE herbicides; LAREDO fungicide; LONTREL herbicide; LORSBAN insecticides; MILESTONE herbicide; MUSTANG herbicide; MYCOGEN seeds; NEXERA canola and sunflower seeds; PHYTOGEN brand cottonseeds; PROFUME gas fumigant; SENTRICON termite colony elimination system; STARANE herbicide;STINGER herbicide; SURPASS herbicide; TELONE soil fumigant; TORDON herbicide; TRACER NATURALYTE insect control; VIKANE structural fumigant; WIDESTRIKE insect protection

BASIC PLASTICS

Applications: adhesives appliances and appliance housings agricultural films automotive parts and trim beverage bottles bins, crates, pails and pallets building and construction coatings consumer and durable goods consumer electronics disposable diaper liners fibers and nonwovens films, bags and packaging for food and consumer products hoses and tubing household and industrial bottles housewares hygiene and medical films industrial and consumer films and foams information technology oil tanks and road equipment plastic pipe textiles toys, playground equipment and recreational products wire and cable compounds

The **Polyethylene** business is the world s leading supplier of polyethylene-based solutions through sustainable product differentiation. Through the use of multiple catalyst and process technologies, the business offers customers one of the industry s broadest ranges of polyethylene resins via a strong global network of local experts focused on partnering for long-term success.

• **Products**: ASPUN fiber grade resins; ATTANE ultra low density polyethylene (ULDPE) resins; CONTINUUM bimodal polyethylene resins; DOW high density polyethylene (HDPE) resins; DOW low density polyethylene (LDPE) resins; DOWLEX polyethylene resins; ELITE enhanced polyethylene (EPE) resins; TUFLIN linear low density polyethylene (LLDPE) resins; UNIVAL HDPE resins

The **Polypropylene** business, a major global polypropylene supplier, provides a broad range of products and solutions tailored to customer needs by leveraging Dow s leading manufacturing and application technology, research and product development expertise, extensive market knowledge and strong customer relationships.

- **Products**: DOW homopolymer polypropylene resins; DOW impact copolymer polypropylene resins; DOW random copolymer polypropylene resins; INSPIRE performance polymers

The **Polystyrene** business, the global leader in the production of polystyrene resins, is uniquely positioned with geographic breadth and participation in a diversified portfolio of applications. Through market and technical leadership and low cost capability, the business continues to improve product performance and meet customer needs.

- **Products**: STYRON A-TECH and C-TECH advanced technology polystyrene resins and a full line of STYRON general purpose polystyrene resins; STYRON high-impact polystyrene resins

The Basic Plastics segment also includes the results of Equipolymers and a portion of the results of EQUATE Petrochemical Company K.S.C. and the Siam Group, all joint ventures of the Company.

BASIC CHEMICALS

Applications: agricultural products alumina automotive antifreeze and coolant systems carpet and textiles chemical processing dry cleaning dust control household cleaners and plastic products inks metal cleaning packaging, food and beverage containers, protective packaging paints, coatings and adhesives personal care products petroleum refining pharmaceuticals plastic pipe pulp and paper manufacturing snow and ice control soaps and detergents water treatment

The **Core Chemicals** business is a leading global producer of each of its basic chemical products, which are sold to many industries worldwide, and also serve as key raw materials in the production of a variety of Dow s performance and plastics products.

- **Products**: Acids; Alcohols; Aldehydes; Caustic soda; Chlorine; Chloroform; COMBOTHERM blended deicer; DOWFLAKE calcium chloride; DOWPER dry cleaning solvent; Esters; Ethylene dichloride (EDC); LIQUIDOW liquid calcium chloride; MAXICHECK procedure for testing the strength of reagents; MAXISTAB stabilizers for chlorinated solvents; Methyl chloride; Methylene chloride; Monochloroacetic acid (MCAA); Oxo products; PELADOW calcium chloride pellets; Perchloroethylene; Trichloroethylene; Vinyl acetate monomer (VAM); Vinyl chloride monomer (VCM); Vinylidene chloride (VDC)

The **Ethylene Oxide/Ethylene Glycol** business is a key supplier of ethylene glycol to MEGlobal, a 50:50 joint venture and a world leader in the manufacture and marketing of merchant monoethylene glycol and diethylene glycol. Dow also supplies ethylene oxide to internal derivatives businesses. Ethylene glycol is used in polyester fiber, polyethylene terephthalate (PET) for food and beverage container applications, polyester film and antifreeze.

- **Products**: Ethylene glycol (EG); Ethylene oxide (EO)

The Basic Chemicals segment also includes the results of MEGlobal and a portion of the results of EQUATE Petrochemical Company K.S.C. and the OPTIMAL Group, all joint ventures of the Company.

HYDROCARBONS AND ENERGY

Applications: polymer and chemical production power

The **Hydrocarbons and Energy** business encompasses the procurement of fuels, natural gas liquids and crude oil-based raw materials, as well as the supply of monomers, power and steam principally for use in Dow s global operations. The business regularly sells its byproducts; the business also buys and sells products in order to balance regional production capabilities and derivative requirements. The business also sells products to certain Dow joint ventures. Dow is the world leader in the production of olefins and aromatics.

- **Products**: Benzene; Butadiene; Butylene; Cumene; Ethylene; Propylene; Styrene; Power, steam and other utilities

The Hydrocarbons and Energy segment also includes the results of Compañía Mega S.A. and a portion of the results of the Siam Group, both joint ventures of the Company.

Unallocated and Other includes the results of New Ventures (which includes new business incubation platforms focused on identifying and pursuing new commercial opportunities); Venture Capital; the Company s insurance operations and environmental operations; and overhead and other cost recovery variances not allocated to the operating segments.

Transfers of products between operating segments are generally valued at cost. However, transfers of products to Agricultural Sciences from other segments are generally valued at market-based prices; the revenues generated by these transfers in the first six months of 2007 and 2006 were immaterial and eliminated in consolidation.

Operating Segments

In millions	Three Months Ended June 30, 2007	Three Months Ended June 30, 2006	Six Months Ended June 30, 2007	Six Months Ended June 30, 2006
Sales by operating segment				
Performance Plastics	$ 3,742	$ 3,442	$ 7,271	$ 6,935
Performance Chemicals	2,071	1,968	4,073	3,854
Agricultural Sciences	1,091	962	2,127	1,923
Basic Plastics	3,180	2,986	6,074	5,783
Basic Chemicals	1,455	1,416	2,726	2,784
Hydrocarbons and Energy	1,623	1,654	3,235	3,074
Unallocated and Other	103	81	191	176
Total	$ 13,265	$ 12,509	$ 25,697	$ 24,529
EBIT(1) by operating segment				
Performance Plastics	$ 382	$ 412	$ 823	$ 1,138
Performance Chemicals	294	362	606	663
Agricultural Sciences	208	161	490	377
Basic Plastics	529	493	1,056	969
Basic Chemicals	165	219	299	373
Hydrocarbons and Energy	(1)	2	(1)	
Unallocated and Other	(140)	(180)	(397)	(314)
Total	$ 1,437	$ 1,469	$ 2,876	$ 3,206
Equity in earnings (losses) of nonconsolidated affiliates by operating segment (included in EBIT)				
Performance Plastics	$ 14	$ 26	$ 40	$ 47
Performance Chemicals	104	115	209	184
Agricultural Sciences				
Basic Plastics	48	36	102	62
Basic Chemicals	80	35	155	63
Hydrocarbons and Energy	12	20	27	42
Unallocated and Other			(1)	2
Total	$ 258	$ 232	$ 532	$ 400

(1) The Company uses EBIT (which Dow defines as earnings (loss) before interest, income taxes and minority interests) as its measure of profit/loss for segment reporting purposes. EBIT by operating segment includes all operating items relating to the businesses; items that principally apply to the Company as a whole are assigned to Unallocated and Other. A reconciliation of EBIT to Net Income Available for Common Stockholders is provided below:

In millions	Three Months Ended June 30, 2007	Three Months Ended June 30, 2006	Six Months Ended June 30, 2007	Six Months Ended June 30, 2006
EBIT	$ 1,437	$ 1,469	$ 2,876	$ 3,206
+ Interest income	33	38	73	80
Interest expense and amortization of debt discount	129	151	275	307
Provision for income taxes	277	310	612	694
Minority interests share in income	25	23	50	48
Net Income Available for Common Stockholders	$ 1,039	$ 1,023	$ 2,012	$ 2,237

Geographic Areas

In millions	Three Months Ended June 30, 2007	Three Months Ended June 30, 2006	Six Months Ended June 30, 2007	Six Months Ended June 30, 2006
Sales by geographic area				
United States	$ 4,804	$ 4,654	$ 8,913	$ 9,389
Europe(1)	4,674	4,328	9,475	8,325
Rest of World(1)	3,787	3,527	7,309	6,815
Total	$ 13,265	$ 12,509	$ 25,697	$ 24,529

(1) Sales to customers in the Middle East and Africa, previously reported with Europe, are now aligned with Rest of World; prior period sales have been adjusted to reflect this realignment.

ITEM 2. MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS.

DISCLOSURE REGARDING FORWARD-LOOKING INFORMATION

The Private Securities Litigation Reform Act of 1995 provides a safe harbor for forward-looking statements made by or on behalf of The Dow Chemical Company and its subsidiaries (Dow or the Company). This section covers the current performance and outlook of the Company and each of its operating segments. The forward-looking statements contained in this section and in other parts of this document involve risks and uncertainties that may affect the Company s operations, markets, products, services, prices and other factors as more fully discussed elsewhere and in filings with the U.S. Securities and Exchange Commission (SEC). These risks and uncertainties include, but are not limited to, economic, competitive, legal, governmental and technological factors. Accordingly, there is no assurance that the Company s expectations will be realized. The Company assumes no obligation to provide revisions to any forward-looking statements should circumstances change, except as otherwise required by securities and other applicable laws.

OVERVIEW

- The Company delivered solid results in the second quarter of 2007 with record quarterly sales of $13.3 billion 6 percent higher than Dow s previous quarterly record of $12.5 billion in the second quarter of 2006.

- The results for the second quarter of 2007 demonstrated the value of the Company s balanced portfolio, with strength in the rest of the world supporting softness in North America, and as improvement in the results of some of the Company s operating segments mitigated declines in others.

- Dow s plants ran well during the quarter, delivering an operating rate of 86 percent of capacity.

- Feedstock and energy costs rose steeply in the quarter, up approximately $550 million (11 percent) from the second quarter of 2006, reversing the trend of the previous two quarters of year-over-year reductions in these costs (the first reductions since the second quarter of 2002).

- Operating expenses rose during the second quarter of 2007, but remained low as a percent of total sales as Dow continued the disciplined implementation of its growth strategy.

- Continuing the trend of recent years, Dow s nonconsolidated affiliates contributed significantly to the overall results of the Company.

- In line with the Company s strategy to invest in the Performance businesses, the Company completed the acquisition of Hyperlast Limited, a polyurethane systems business on May 1, 2007. In addition, the Company completed the acquisition of Wolff Walsrode AG and certain related affiliates and assets (Wolff Walsrode) on June 30, 2007, and announced the creation of Dow Wolff Cellulosics, a new business unit combining Wolff Walsrode with Dow s Water Soluble Polymers business.

- Capital spending was on target; debt as a percent of total capitalization declined almost 1 percent from year-end 2006; and the Company continued to purchase shares under its share repurchase programs.

Selected Financial Data	**Three Months Ended**		**Six Months Ended**	
In millions, except per share amounts	**June 30, 2007**	**June 30, 2006**	**June 30, 2007**	**June 30, 2006**
Net sales	$ 13,265	$ 12,509	$ 25,697	$ 24,529
Cost of sales	$ 11,398	$ 10,624	$ 22,003	$ 20,427

Percent of net sales	85.9 %	84.9 %	85.6 %	83.3 %
Research and development, and selling, general and administrative expenses	$ 797	$ 689	$ 1,517	$ 1,355
Percent of net sales	6.0 %	5.5 %	5.9 %	5.5 %
Effective tax rate	20.7 %	22.9 %	22.9 %	23.3 %
Net income available for common stockholders	$ 1,039	$ 1,023	$ 2,012	$ 2,237
Earnings per common share basic	$ 1.09	$ 1.06	$ 2.10	$ 2.32
Earnings per common share diluted	$ 1.07	$ 1.05	$ 2.07	$ 2.29
Operating rate percentage	86 %	84 %	87 %	84 %

RESULTS OF OPERATIONS

Net sales for the second quarter of 2007 were $13.3 billion, up 6 percent from $12.5 billion in the second quarter of last year. Compared with last year, prices were up 6 percent (with currency accounting for approximately 2 percent of the increase) and volume was flat. Prices improved in all operating segments, led by a 9 percent increase in Hydrocarbons and Energy, driven by a significant year-over-year increase in feedstock and energy costs, and a 7 percent increase in Performance Plastics and Basic Plastics. Performance Chemicals and Basic Chemicals each reported a 3 percent improvement in prices, while Agricultural Sciences prices were up 2 percent. From a geographic standpoint, prices were up significantly in Europe, Asia Pacific and Latin America. Compared with the second quarter of last year, volume was mixed, with strong growth in Agricultural Sciences (up 11 percent) and modest improvements in Performance Plastics and Performance Chemicals offset by an 11 percent decline in Hydrocarbons and Energy (due to lower sales of refinery products related to a planned maintenance turnaround) and a slight decline in Basic Plastics. Volume was flat for Basic Chemicals. Excluding the decline in volume in Hydrocarbons and Energy, volume for the Company was up 2 percent from the second quarter of last year.

Net sales for the first six months of 2007 were $25.7 billion, up 5 percent from $24.5 billion in the same period last year. Compared with the first half of 2006, prices were up 5 percent, with approximately half of the increase related to currency, and volume was flat. Prices were up across all operating segments except Basic Chemicals, where prices were unchanged versus the first half of last year. Despite strong growth in Agricultural Sciences (up 10 percent) and modest growth in Performance Chemicals and Basic Plastics, volume was flat versus the first half of last year due to declines in the other operating segments. For additional details regarding the change in net sales, see the Sales Volume and Price table at the end of the section entitled Segment Results.

Gross margin was $1,867 million for the second quarter of 2007, down slightly from $1,885 billion in the second quarter of last year. Despite higher sales, gross margin declined versus the second quarter of last year due to significantly higher hydrocarbon and energy (H&E) costs (up approximately $550 million), higher non-H&E raw material costs, the unfavorable impact of currency on cost, and increased freight costs. Year to date, gross margin was $3.7 billion, compared with $4.1 billion in the first six months of 2006.

The Company s global plant operating rate (for its chemicals and plastics businesses) was 86 percent in the second quarter of 2007, up from 84 percent in the second quarter of 2006. For the first half of 2007, Dow s global plant operating rate was 87 percent, up from 84 percent in the same period of 2006. The Company s 2006 operating rates reflected a higher level of planned maintenance turnarounds at Dow s manufacturing facilities.

Personnel count was 45,073 at June 30, 2007, up from 42,578 at December 31, 2006 and 42,372 at June 30, 2006. The increase in headcount was due to the addition of research and development employees in India and China in support of the Company s growth initiatives; the addition of temporary summer and seasonal employees; the addition of approximately 150 employees with the second quarter acquisition of Hyperlast Limited; and the addition of approximately 1,450 employees with the quarter-end acquisition of Wolff Walsrode. The acquisition of Zhejiang Omex Environmental Engineering Co. LTD (Omex) in the third quarter of 2006 added approximately 550 employees to headcount.

Operating expenses (research and development, and selling, general and administrative expenses) totaled $797 million in the second quarter of 2007, up $108 million or 16 percent, from $689 million in the second quarter of last year. Compared with last year, research and development (R&D) expenses increased $33 million; and selling, general and administrative expenses increased $75 million. For the first half of 2007, operating expenses totaled $1,517 million, up $162 million (12 percent) from $1,355 million in the first half of 2006. Approximately half of the increase in operating expenses was related to planned spending for growth initiatives and product development in the Performance businesses, consistent with the Company s strategy; and approximately 30 percent of the increase was related to the global expansion of the Company s corporate branding campaign and other promotion and advertising expenses. Despite these increases, operating expenses remained low as a percentage of net sales.

Amortization of intangibles was $18 million in the second quarter of 2007, compared with $12 million in the second quarter of last year. For the first half of 2007, amortization of intangibles was $29 million, compared with $24 million for the same period last year. See Note E to the Consolidated Financial Statements for additional information on intangible assets.

Dow s share of the earnings of nonconsolidated affiliates was $258 million in the second quarter of 2007, up from $232 million in the second quarter of last year. Compared with last year, earnings improved at EQUATE Petrochemical Company K.S.C. (EQUATE), MEGlobal and the OPTIMAL Group (OPTIMAL), and more than offset lower earnings from Dow Corning Corporation (Dow Corning) (due to a favorable tax settlement which increased results in the second quarter of last year) and Total Raffinaderij Nederland NV (due to a planned maintenance turnaround in the second quarter of this year). For the first six months of 2007, equity earnings were $532 million, up from $400 million for the same period last year. Compared with last year, earnings improved significantly at EQUATE, OPTIMAL, MEGlobal and Siam Polyethylene Company Limited (Siam Polyethylene). Results from EQUATE and OPTIMAL were lower last year due to planned maintenance turnarounds at those joint ventures.

Sundry income net includes a variety of income and expense items such as the gain or loss on foreign currency exchange, dividends from investments, and gains and losses on sales of investments and assets. Net sundry income for the second quarter of 2007 was $123 million, up from $53 million in the same quarter of 2006, reflecting the impact of favorable foreign exchange hedging results and gains on the sale of assets. Year to date, net sundry income was $192 million, compared with $83 million in the first half of 2006.

Net interest expense (interest expense less capitalized interest and interest income) was $96 million in the second quarter of 2007, compared with $113 million in the second quarter of last year. Year to date, net interest expense was $202 million, down from $227 million in the first six months of 2006. Compared with last year, net interest expense was down principally due to a reduction in total debt.

The effective tax rate for the second quarter of 2007 was 20.7 percent, versus 22.9 percent for the second quarter of 2006. The effective tax rate for the first six months of 2007 was 22.9 percent, compared with 23.3 percent for the same period last year. The Company s effective tax rate fluctuates based on, among other factors, where income is earned and the level of income relative to tax credits available. The effective tax rate for the second quarter of 2007 was favorably impacted by U.S. state income tax law changes enacted during the quarter. In 2006, the effective tax rate was favorably impacted by the closure of tax audit issues in the United States in the first quarter and an enacted reduction in the Canadian tax rate in the second quarter. See the section entitled Subsequent Event on page 32 for information regarding an income tax rate reduction that is expected to be enacted in the third quarter of 2007.

Net income available for common stockholders was $1,039 million or $1.07 per share for the second quarter of 2007, compared with $1,023 million or $1.05 per share for the second quarter of 2006. Net income for the first six months of 2007 was $2,012 million or $2.07 per share, compared with $2,237 million or $2.29 per share for the same period of 2006.

SEGMENT RESULTS

The Company uses EBIT (which Dow defines as earnings before interest, income taxes and minority interests) as its measure of profit/loss for segment reporting purposes. EBIT by operating segment includes all operating items relating to the businesses; items that principally apply to the Company as a whole are assigned to Unallocated. See Note L to the Consolidated Financial Statements for a reconciliation of EBIT to Net Income Available for Common Stockholders.

PERFORMANCE PLASTICS

Performance Plastics sales were $3,742 million for the second quarter of 2007, up 9 percent from $3,442 in the second quarter of 2006. Prices increased 7 percent, including a 3 percent favorable currency impact, and volume improved 2 percent. EBIT for the segment totaled $382 million in the second quarter, down from $412 million in the same period last year. The decline in EBIT was driven by increased raw material costs, higher spending on new product development and growth initiatives, as well as costs related to planned maintenance turnarounds.

Dow Automotive sales for the second quarter of 2007 were up 11 percent from a year ago, establishing a new record for the business. Volume improved 7 percent as the business benefited from a diversified geographic sales mix, with weakness in North America mitigated by double-digit volume gains in all other geographic areas. Prices increased 4 percent. EBIT declined versus the second quarter of last year due to costs associated with the consolidation of manufacturing operations in North America and Europe, and higher spending on new product development.

Dow Building Solutions sales in the second quarter of 2007 improved 5 percent versus the same quarter last year with price up 7 percent and volume down 2 percent. Weakness in U.S. residential construction, which was partially offset by solid growth in Europe and continued strength in U.S. commercial construction, drove the decline in volume. EBIT declined due to higher raw material costs and increased spending on new product development and growth initiatives.

Dow Epoxy sales were up 3 percent from the second quarter of 2006 as a 13 percent improvement in price more than offset a 10 percent decline in volume. Significant price improvement was recorded in all geographic areas. Volume declined in North America and Europe, principally for electrical laminates, as demand in this segment of the industry continued to shift to Asia Pacific. Additional industry capacity also came on stream in Asia Pacific during the second quarter of 2007, negatively impacting sales volume as the business chose to forego sales at unacceptably low prices in a highly competitive environment. Despite higher selling prices, EBIT for the second quarter of 2007 was down from a year ago due to lost margin on lower volume, higher raw material costs and increased costs related to a planned maintenance turnaround.

Polyurethanes and Polyurethane Systems sales in the second quarter of 2007 were up 9 percent from the second quarter of 2006. Volume increased 4 percent while price improved 5 percent. Demand remained strong for Polyurethane Systems and propylene oxide/propylene glycol, offsetting a slight decline in sales of methylene diphenyl diisocyanate (MDI) due to increased internal consumption of MDI in Polyurethane Systems. Price improvement was primarily driven by tight industry supply/demand conditions for toluene diisocyanate. EBIT improved significantly versus the second quarter of 2006 as the margin on increased volume and higher prices outpaced higher raw material costs and higher operating expenses.

Specialty Plastics and Elastomers sales for the second quarter of 2007 were up 12 percent from the second quarter of 2006, establishing a new quarterly sales record, with a 6 percent increase in volume and a 6 percent improvement in price. Weakness in the North American housing and automotive industries was more than offset by solid volume growth across other geographic areas and industries. Despite higher sales, EBIT was down from the second quarter of 2006 due to higher raw material costs, increased spending on growth initiatives and increased costs for planned maintenance turnarounds.

Technology Licensing and Catalyst sales vary from period to period due to the nature of the business. Technology Licensing and Catalyst sales for the second quarter were down 7 percent from the same period last year as increased sales in Europe were more than offset by lower sales in North America and India. The decline in revenue and lower equity earnings from Univation Technologies, LLC resulted in a decline in EBIT for the business.

For the first half of 2007, Performance Plastics sales were $7,271 million, up 5 percent from $6,935 million in the first half of 2006. Price was up 6 percent, including a 3 percent favorable currency impact, while volume declined 1 percent. The decline in volume was due to significant lump sum licensing revenue in the first half of 2006 that did not recur in the first half of 2007. Performance Plastics EBIT for the first six months of 2007 was $823 million, down from $1,138 million in the same period last year. The decline in EBIT was driven by lower technology licensing revenue, higher raw material costs, increased spending on growth initiatives and new product development, and costs related to planned maintenance turnarounds.

PERFORMANCE CHEMICALS

Performance Chemicals sales were $2,071 million in the second quarter of 2007, up 5 percent from $1,968 million in the second quarter of 2006. Compared with last year, volume increased 2 percent, and prices increased 3 percent (largely due to the favorable impact of currency in Europe). EBIT for the second quarter was $294 million, down from $362 million in the second quarter of 2006. Compared with the same quarter last year, EBIT declined as the benefit of higher sales was more than offset by increased raw material costs, higher spending on new product development and growth initiatives, and lower equity earnings from Dow Corning (which benefited from a favorable tax settlement reached in the second quarter of 2006).

Designed Polymers sales for the quarter were up 11 percent from the second quarter of 2006, reflecting a 9 percent increase in volume and a 2 percent increase in prices. Improvements in volume were broad-based with strong sales for biocides, methyl cellulosics, CELLOSIZE hydroxyethyl cellulose, and POLYOX water-soluble resins. Volume was strong in most geographic areas, led by Asia Pacific due in part to the acquisition of Omex in the third quarter of 2006. Compared with the second quarter of last year, EBIT declined due to higher operating expenses including expenses related to acquisitions and new product development. The Company completed the acquisition of Wolff Walsrode on June 30, 2007, and announced the creation of Dow Wolff Cellulosics, a new business unit combining Wolff Walsrode with Dow s Water Soluble Polymers business.

Dow Latex sales for the quarter were up 1 percent compared with the second quarter of 2006, as a 5 percent decline in volume was offset by a 6 percent increase in prices. Specialty latex prices were up solidly in all geographic areas, although volume declined due to sluggish demand for architectural coatings in North America and the impact of plant closures in Asia Pacific. Compared with last year, paper and carpet latex volume was down in most geographic areas, principally due to challenging conditions in the coated paper industry. Despite higher sales, EBIT for the second quarter of 2007 declined significantly from the same quarter last year principally due to a significant increase in feedstock costs, lower volume and lower operating rates.

Specialty Chemicals sales were up 5 percent compared with the second quarter of 2006, due to a 3 percent increase in volume and a 2 percent increase in prices. Volume improvement was broad-based with increased sales across most product lines and geographic areas. Amines volume was particularly strong, up across a number of end-use applications including herbicides, gas treating solvents and cement. Despite increased sales and higher equity earnings from OPTIMAL, EBIT decreased slightly due to higher raw material costs in the second quarter of this year.

Performance Chemicals sales were $4,073 million for the first six months of 2007, up 6 percent from $3,854 million in the same period last year, reflecting a 3 percent increase in volume and a 3 percent increase in prices (including the favorable impact of currency in Europe). EBIT for the first six months of 2007 was $606 million, compared with $663 million in 2006. Despite volume growth and improved equity earnings from OPTIMAL, EBIT declined in 2007 due to increased raw material costs and higher operating expenses, as the business invested in new product development and growth initiatives.

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AGRICULTURAL SCIENCES

Sales for Agricultural Sciences were $1,091 million in the second quarter of 2007, up 13 percent from $962 million a year ago and a new quarterly record. Compared with last year, volume improved 11 percent and prices increased 2 percent (reflecting the favorable impact of currency in Europe). Volume was up in North America, driven by increased sales in cereal herbicides and strong insecticide and corn seed sales. Brazil reported volume improvement across most product lines, with especially strong gains for herbicide products. Sales of new products penoxsulam rice herbicide and aminopyralid herbicide for range and pasture further supported the increase in volume. EBIT for the second quarter of 2007 was $208 million, up from $161 million in the second quarter of last year, principally due to the increase in sales.

For the first six months of 2007, sales for Agricultural Sciences were $2,127 million, up 11 percent from $1,923 million in 2006, as volume increased 10 percent and prices rose 1 percent. Compared with the first half of 2006, volume gains were primarily driven by strong herbicide sales across most geographic areas and sales of new products. For the first six months of 2007, EBIT for the segment was $490 million, an increase from $377 million a year ago, primarily driven by the increase in sales, favorable product mix and lower operating expenses.

BASIC PLASTICS

Basic Plastics sales for the second quarter of 2007 were $3,180 million, up 6 percent from $2,986 million in the second quarter of last year, as prices rose 7 percent (including a 2 percent favorable impact of currency) and volume decreased 1 percent. Double-digit price increases were reported in all geographic areas, except North America, reflecting the impact of significantly higher feedstock and energy costs. Prices declined in North America as continued softness in industry demand resulted in a highly competitive environment. EBIT for the second quarter was $529 million, up from $493 million in the second quarter of 2006. Despite significantly higher raw material costs, EBIT improved versus the second quarter of last year due to the increase in sales, higher equity earnings from EQUATE and Siam Polyethylene, and a gain on the sale of a low density polyethylene plant in Cubatao, Brazil.

Polyethylene sales were up from the second quarter of 2006 due to a 4 percent increase in prices. Volume was unchanged from last year, despite a plant closure and plant divestitures. Driven by significantly higher feedstock and energy costs, selling prices were up in all geographic areas, except North America, where low demand in the key industries did not allow for price increases. Overall, volume was flat as growth in Europe and Asia Pacific was offset by lower volume in North America, due to the permanent shutdown of one of the Company s polyethylene plants in Canada and the sale of a polyethylene plant in South Africa, both in late 2006. Despite significantly higher feedstock and energy costs, EBIT for the business improved from the second quarter of 2006 due to higher selling prices, improved equity earnings from EQUATE and Siam Polyethylene, lower operating expenses and a gain on the sale of a low density polyethylene plant in Cubatao, Brazil.

Polypropylene sales were up 2 percent from the second quarter of 2006 as a 7 percent increase in prices was offset by a 5 percent decline in volume. Price improvement was reported in all geographic areas, as the business increased prices in response to rising feedstock and energy costs. Despite tight propylene supply and the sale of the Company s Safripol business in South Africa in the fourth quarter of 2006, demand remained strong and volume improved in Europe, North America and Asia Pacific. Despite higher prices, EBIT was down from the second quarter of 2006 due to the increase in feedstock and energy costs.

Polystyrene sales for the second quarter of 2007 were up 19 percent due to higher prices. Compared with the same period last year, volume was flat. Prices were up significantly in all geographic areas, driven by higher feedstock and energy costs and continued strong demand. Volume in the second quarter of 2007 was significantly higher in Asia Pacific due to the consolidation of the SAL Petrochemical (Zhangjiagang) Company Limited, after the Company acquired the remaining 50 percent interest in this joint venture in the first quarter of 2007. Volume in Europe was negatively impacted by scheduled maintenance turnarounds at the Company s plants in Schkopau, Germany, and Bilbao, Spain. In North America, volume was down from the same period last year, reflecting the closure of the Company s polystyrene manufacturing facility at Sarnia, Ontario, Canada in the fourth quarter of 2006. Compared with last year, EBIT for the second quarter of 2007 was up slightly as higher feedstock, energy costs and higher operating expenses were more than offset by the increase in selling prices.

Basic Plastics sales for the first six months of 2007 were $6,074 million, up 5 percent from $5,783 million in the first half of 2006. Compared with 2006, prices were up 4 percent, mostly due to the favorable impact of currency, and volume improved 1 percent. EBIT for the first half of 2007 was $1,056 million, up from $969 million in the first half of 2006. Despite a significant increase in feedstock and energy costs, EBIT improved due to higher sales, improved equity earnings from EQUATE, and a gain on the sale of the low density polyethylene plant in Cubatao, Brazil.

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BASIC CHEMICALS

Sales for the Basic Chemicals segment were $1,455 million in the second quarter of 2007, up 3 percent from $1,416 million in the same period last year. Volume was flat versus the second quarter of 2006, while prices, including the favorable impact of currency, increased 3 percent. Prices were up for ethylene glycol (EG) due to higher raw material costs and strong industry demand, particularly from the Asian polyester industry. Overall, EG volume declined slightly due to the restructuring of certain supply agreements. Caustic soda prices declined from a year ago, as improvements in Europe were more than offset by declines in the North America and Latin America. Demand for caustic soda held steady, while demand for vinyl chloride monomer (VCM) declined, principally in North America where demand for residential construction has declined sharply. VCM prices declined due to soft industry conditions. Solvents and Intermediates continued to report significant improvement in both price and volume outside North America, indicating solid demand for coatings applications. Despite higher equity earnings from MEGlobal, EQUATE and OPTIMAL, EBIT of $165 million in the second quarter of 2007 was down from $219 million in the second quarter of 2006, primarily due to higher feedstock and energy costs.

For the first half of 2007, sales for Basic Chemicals were $2,726 million, down 2 percent from $2,784 million last year, as volume declined 2 percent. Compared with the first half of 2006, prices were unchanged. Despite higher equity earnings, EBIT for the first six months of 2007 was $299 million, down from $373 million in the same period last year, as higher feedstock and energy costs reduced profitability in VCM.

HYDROCARBONS AND ENERGY

Hydrocarbons and Energy sales for the second quarter of 2007 were $1,623 million, down 2 percent from $1,654 million in the second quarter of last year. Compared with last year, prices rose 9 percent, driven by significantly higher feedstock costs, while volume declined 11 percent. Sales of refinery products declined due to a planned maintenance turnaround during the second quarter. For the first half of 2007, sales were $3,235 million for the segment, up 5 percent from $3,074 million in the same period of 2006, as an 8 percent increase in prices was partially offset by a 3 percent decline in volume.

Overall, purchased feedstock and energy costs rose sharply (up 11 percent) during the quarter, adding approximately $550 million of additional costs compared with the same period of 2006, reversing the trend of the previous two quarters of year-over-year reductions in these costs - the first reductions since the second quarter of 2002.

The Hydrocarbons and Energy business transfers materials to Dow s derivatives businesses at cost. As a result, EBIT for this operating segment was at or near breakeven for the three months and six months ended June 30, 2007 and 2006.

UNALLOCATED AND OTHER

Sales for Unallocated and Other, which primarily relate to the Company s insurance operations, were $103 million in the second quarter of 2007, up from $81 million in the same period of 2006. Sales for the first six months of 2007 were $191 million, up from $176 million in the same period of 2006.

Included in the results for Unallocated and Other are:

- results of insurance company operations,
- gains and losses on sales of financial assets,
- stock-based compensation expense,
- changes in the allowance for doubtful receivables,
- expenses related to New Ventures,
- asbestos-related defense and resolution costs,

- foreign exchange hedging results, and
- overhead and other cost recovery variances not allocated to the operating segments.

EBIT for the second quarter of 2007 was a loss of $140 million, compared with a loss of $180 million in the second quarter of 2006. Compared with the same quarter of last year, EBIT for the second quarter of 2007 reflected improved results from insurance company operations and a favorable swing in foreign exchange hedging results.

EBIT for the first six months of 2007 was a loss of $397 million, compared with a loss of $314 million in the same period last year. Year to date, EBIT declined despite improved results from insurance company operations and a favorable swing in foreign exchange hedging results, due to higher performance-based compensation expense (including stock-based compensation) of approximately $90 million and the impact of approximately $40 million in tax contingencies related to franchise taxes.

Sales Volume and Price by Operating Segment and Geographic Area

Percentage change from prior year	Three Months Ended June 30, 2007 Volume	Price	Total	Six Months Ended June 30, 2007 Volume	Price	Total
Operating segments						
Performance Plastics	2 %	7 %	9 %	(1)%	6 %	5 %
Performance Chemicals	2	3	5	3	3	6
Agricultural Sciences	11	2	13	10	1	11
Basic Plastics	(1)	7	6	1	4	5
Basic Chemicals		3	3	(2)		(2)
Hydrocarbons and Energy	(11)	9	(2)	(3)	8	5
Total		6 %	6 %		5 %	5 %
Geographic areas						
United States	2 %	1 %	3 %	(3)%	(2)%	(5)%
Europe	(2)	10	8			