DOW CHEMICAL CO /DE/
Form 10-K405
March 20, 2002

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SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

Annual Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

FOR THE YEAR ENDED DECEMBER 31, 2001

Commission file number 1-3433

THE DOW CHEMICAL COMPANY

(Exact name of registrant as specified in its charter)

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

2030 DOW CENTER, MIDLAND, MICHIGAN 48674
(Address of principal executive offices) (Zip Code)

Registrant's telephone number, including area code: **989-636-1000**

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Name of each exchange on which registered
Common Stock, par value $2.50 per share	Common Stock registered on the New York, Chicago and Pacific Stock Exchanges
Debentures, 6.85%, final maturity 2013	Debentures registered on the New York Stock Exchange

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of the registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. /X/

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports) and (2) has been subject to such filing requirements for the past 90 days. Yes /X/ No / /.

The aggregate market value of voting stock held by nonaffiliates as of March 1, 2002 (based upon the closing price of $32.20 per common share as quoted on the New York Stock Exchange), is approximately $2.890 billion. For purposes of this computation, it is assumed that the shares of voting stock held by Directors, Officers and the Dow Employees' Pension Plan Trust would be deemed to be stock held by affiliates. Nonaffiliated common stock outstanding at March 1, 2002 numbered 897,777,409 shares. Total common stock outstanding at March 1, 2002 numbered 906,855,766.

Documents Incorporated by Reference

Part III: Proxy Statement for the Annual Meeting of Stockholders to be held on May 9, 2002.

The Dow Chemical Company

ANNUAL REPORT ON FORM 10-K
For the Year Ended December 31, 2001

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PART I

ITEM 1. BUSINESS

THE COMPANY

The Dow Chemical Company was incorporated in 1947 under Delaware law and is the successor to a Michigan corporation, of the same name, organized in 1897. The Company is engaged in the manufacture and sale of chemicals, plastic materials, agricultural and other specialized products and services. Its principal executive offices are located at 2030 Dow Center, Midland, Michigan 48674, telephone 989-636-1000. Except as otherwise indicated by the context, the terms "Company" or "Dow" as used herein mean The Dow Chemical Company and its consolidated subsidiaries.

BUSINESS AND PRODUCTS

Corporate Profile

Dow is a leading science and technology company that provides innovative chemical, plastic and agricultural products and services to many essential consumer markets. In 2001, Dow had annual sales of $28 billion and employed more than 50,000 people. The Company serves customers in more than 170 countries and a wide range of markets that are vital to human progress, including food, transportation, health and medicine, personal and home care, and building and construction, among others. The Company has 208 manufacturing sites in 38 countries and supplies more than 3,200 products grouped within the operating segments listed on the following pages. The Corporate Profile is an integral part of Note R to the Consolidated Financial Statements.

PERFORMANCE PLASTICS

Applications: automotive interiors, exteriors, chassis/powertrain and body engineered systems building and construction, thermal and acoustic insulation, roofing communications technology, telecommunication cables, electrical and electronic connectors computer housings and accessories footwear home and office furnishings: appliance insulation, mattresses, carpeting, flooring, furniture padding, office furniture packaging, food and beverage containers, protective packaging sports and recreation equipment wire and cable, including power utility and telecommunications

Dow Automotive delivers innovative solutions for automotive interior, exterior, chassis/powertrain and body engineered systems applications. As a leading global supplier of resins, engineering plastic materials, fluids, adhesives, sealants, structural enhancements and thermal and acoustical management solutions, Dow Automotive has been recognized for its automotive components and systems. It also provides research and development, design expertise and advanced engineering.

Products: BETABRACE reinforcing composites, BETADAMP acoustical damping systems, BETAFOAM NVH and structural foams, BETAGUARD sealants, BETAMATE structural adhesives, BETASEAL glass bonding systems, CALIBRE polycarbonate resins, Injection-molded dashmats and underhood barriers, INTEGRAL adhesive film, MAGNUM ABS resins, Polypropylene resins, PULSE engineering resins, QUESTRA crystalline polymers, RETAIN recycle content resins, SPECTRIM reaction moldable polymers, STRANDFOAM polypropylene foam, VYDYNE® nylon resins

Engineering Plastics business offers one of the broadest ranges of engineering polymers and compounds of any global plastics supplier. Dow's Engineering Plastics business complements its product portfolio with technical and commercial capabilities to develop solutions that deliver improved economics and performance to its customers.

Products: AMPLIFY thermoplastic alloys, CALIBRE polycarbonate resins, EMERGE advanced resins, FULCRUM thermoplastic composite technology, INSPIRE performance polymers, ISOPLAST engineering thermoplastic polyurethane resins, MAGNUM ABS resins, PELLETHANE thermoplastic polyurethane elastomers, PREVAIL engineering thermoplastic resins, PULSE engineering resins, QUESTRA crystalline polymers, TYRIL SAN resins, VYDYNE nylon resins

Epoxy Products and Intermediates business manufactures a variety of basic epoxy products, as well as intermediates used by other major epoxy producers. Dow is a leading global producer of basic epoxy products, supported by high-quality raw materials, technical service and production capabilities.

Products: Acetone, Acrylic monomers, Allyl chloride, Bisphenol A, BLOX thermoplastic resins, D.E.H. epoxy catalyst resins, D.E.N. epoxy novolac resins, D.E.R. epoxy resins (liquids, solids and solutions), DERAKANE and

DERAKANE MOMENTUM epoxy vinyl ester resins, Epichlorohydrin, OPTIM glycerine, Phenol

Fabricated Products business manufactures and markets an extensive line of plastic film and foam products. Fabricated Products sets the competitive standard by creating high-performance solutions in industries ranging from packaging and construction to telecommunications, automotive and medical.

Products: COVELLE HF weldable polyolefin film, DOW backing layer film, ENVISION custom foam laminates, ETHAFOAM polyethylene foam, IMMOTUS acoustic panels, INSTILL vacuum insulation core, INTEGRAL adhesive film, LAMDEX polyolefin foam, OPTICITE label film, Polypropylene foam, PROCITE window envelope film, QUASH sound management foam, SARANEX barrier medical film, STYROFOAM brand products, SYNERGY soft touch foam, TANKLITE protective insulation, TRENCHCOAT protective film, TRYCITE polystyrene film, TRYMER polyisocyanurate foam, ZETABON coated metal cable armor

Polyurethanes and Polyurethane Systems businesses are leading global producers of polyurethane raw materials, polyurethanes and systems. Differentiated by their ability to globally supply a high-quality, consistent and complete product range, these businesses emphasize both existing and new business developments while facilitating customer success with a global market and technology network.

Products: THE ENHANCER and LIFESPAN carpet backings; GREAT STUFF polyurethane foam sealant; INSTA-STIK roofing adhesive; INTACTA performance polymers; ISONATE pure and modified methylene diphenyl diisocyanate (MDI); PAPI polymeric MDI; Propylene glycol; Propylene oxide; SYNTEGRA polyurethane dispersions; VORACOR, VORALAST and VORALUX polyurethane systems; VORANATE toluene diisocyanate; VORANOL and VORANOL VORACTIV polyether and copolymer polyols; WOODSTALK agrifiber composite panels

Technology Licensing and Catalysts business includes licensing of UNIPOL polypropylene process, as well as licensing and development of new polyethylene technologies, which are handled through Univation Technologies, LLC, a 50:50 joint venture. It also includes UOP LLC, a 50:50 joint venture. UOP is a worldwide supplier of process technology, catalysts, molecular sieves and adsorbents to the petrochemical and gas processing industries. Additionally, this business licenses the world's leading technologies for the production of ethylene oxide, ethylene glycol and oxo alcohols, and supplies related catalysts.

Products: LP OXO process, METEOR process, SHAC catalysts, UCAT catalysts, UNIPOL process

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Wire & Cable Compounds business is the leading global producer of a variety of performance polyolefin products that are marketed worldwide for wire and cable applications. Chief among these are polyolefin-based compounds for high-performance insulation, semiconductives and jacketing systems for power distribution, telecommunications and flame-retardant wire and cable.

Products: REDI-LINK polyethylene, SI-LINK crosslinkable polyethylene, UNIGARD HP high-performance flame-retardant compounds, UNIGARD RE reduced emissions flame-retardant compounds, UNIPURGE purging compounds, Wire and cable insulation and jacketing compounds

PERFORMANCE CHEMICALS

Applications: agricultural and pharmaceutical products and processing building materials chemical processing and intermediates food processing and ingredients household products paints, coatings, inks, adhesives, lubricants personal care products pulp and paper manufacturing, coated paper and paperboard textiles and carpet water purification

Custom and Fine Chemicals business provides products and services to other specialty chemical, pharmaceutical, biopharmaceutical and agricultural chemical producers, and also produces fine chemicals for household paints and various other applications.

Products: Basic nitroparaffins and nitroparaffin-based specialty chemicals of ANGUS Chemical Company; fine and specialty chemicals from Chirotech Technology Limited, Mitchell Cotts, and Haltermann Products; Contract manufacturing services

Emulsion Polymers business is the world's largest supplier of synthetic latex and the most globally diverse of the styrene-butadiene latex suppliers. Dow is the largest supplier of latex for coating paper and paperboard used in magazines, catalogues, and food packaging. Dow is also the world's largest supplier of latexes used in carpet production.

Products: Acrylic latex, Butadiene-vinylidene latex, Polystyrene latex, Styrene-acrylate latex, Styrene-butadiene latex

Industrial Chemicals business provides products used as functional ingredients or processing aids in the manufacture of a diverse range of products. Dow's surfactants and biocides businesses provide value-added ingredients for household and personal care products.

Products: Biocides; CARBOWAX polyethylene glycols and methoxypolyethylene glycols; Diphenyloxide; DOW polypropylene glycols; DOWFAX, HAMPOSYL, TERGITOL and TRITON surfactants; DOWTHERM, SYLTHERM and UCARTHERM heat transfer fluids; UCAR deicing fluids; UCON fluids; VERSENE chelating agents

Oxide Derivatives business is the world's largest supplier of glycol ethers and amines to a diverse set of market applications including coatings, household products, gas treating and agricultural products.

Products: Alkyl alkanolamines, Ethanolamines, Ethylene oxide- and propylene oxide-based glycol ethers, Ethyleneamines, Isopropanolamines

Specialty Polymers business is a diverse portfolio serving numerous markets. The largest unit, Liquid Separations, uses several technologies to separate dissolved minerals and organics from water, making purer water for human and industrial uses.

Products: Acrolein derivatives; Acrylic acid/Acrylic esters; CYRACURE cycloaliphatic epoxides; DAXAD dispersants; DOWEX ion exchange resins; DRYTECH superabsorbent polymers; Epoxidized vegetable oils; FILMTEC membranes; Glycine; Peroxymerics;

Polyvinyl acetate resins; Quaternaries; Redispersible polymer powders; Solution vinyl resins; Specialty monomers; Sulfur derivative compounds; Surface sizing polymers; TONE polyols, polymers and monomers

UCAR Emulsion Systems is a leading global supplier of water-based emulsions used as key components in decorative and industrial paints, adhesives, textile products, and construction products such as caulks and sealants. These products allow customers to formulate more environmentally friendly products that contain less or no solvent.

Products: NEOCAR branched vinyl ester latexes; POLYPHOBE rheology modifiers; UCAR all-acrylic, styrene-acrylic, and vinyl acrylic latexes

Water Soluble Polymers business provides a portfolio of high-value, multi-functional ingredients used to enhance the physical and sensory properties of end products in a wide range of applications including food, pharmaceuticals, oilfield, paints and coatings, personal care, building and construction, and many other specialty applications.

Products: AMERCHOL mixtures, CELLOSIZE hydroxyethyl cellulose, ETHOCEL ethylcellulose resins, METHOCEL cellulose ethers, POLYOX water-soluble resins

AGRICULTURAL PRODUCTS

Applications: control of weeds, insects and diseases in plants seeds traits (genes) for crops and agriculture urban pest management

Dow AgroSciences LLC is a global leader in providing pest management and agricultural and crop biotechnology products. 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 crop seeds and traits for seeds through strategic acquisitions, alliances and research agreements, as well as internal research.

Products: Acetochlor herbicide products, CLINCHER herbicide, DITHANE fungicide, DURSBAN and LORSBAN insecticides, FIRSTRATE herbicide, FORTRESS fungicide, GARLON herbicide, GLYPHOMAX herbicide, GRANDSTAND herbicide, LONTREL herbicide, MUSTANG herbicide, MYCOGEN Seeds, PHYTOGEN cottonseeds, SENTRICON Termite Colony Elimination System, SPIDER herbicide, STARANE herbicide, STINGER herbicide, STRONGARM herbicide, TELONE soil fumigant, TORDON herbicide, TRACER NATURALYTE insect control, TREFLAN herbicide, VIKANE structural fumigant

PLASTICS

Applications: appliances and appliance housings agricultural films automotive parts and trim beverage bottles building and construction consumer electronics consumer goods disposable diaper liners fibers films, bags and packaging for food and consumer products flexible and rigid packaging health and hygiene films and nonwovens housewares industrial films and foams information technology oil tanks and road equipment toys, playground equipment and recreational products wire and cable

Polyethylene business supplies polyethylene-based solutions through sustainable product differentiation. Dow is the world's leading producer of polyethylene resins, one of the most versatile plastic materials. DuPont Dow Elastomers LLC is a 50:50 joint venture that leverages INSITE Technology, Dow's proprietary catalyst and process technology, into elastomeric products.

Products: AFFINITY polyolefin plastomers; ASPUN fiber grade resins; ATTANE ultra low density polyethylene resins; DOWLEX polyethylene resins; ELITE enhanced polyethylene resins; FLEXOMER very low density polyethylene resins; High density polyethylene resins (HDPE), including UNIVAL HDPE; Low density polyethylene resins (LDPE); PRIMACOR copolymers; SARAN barrier resins and films; TUFLIN linear low density polyethylene (LLDPE) resins

Polystyrene business, the global leader in the production of polystyrene resins, is uniquely positioned with geographic breadth and broad industry experience to meet a diverse range of customer needs. By implementing breakthrough proprietary technology, Dow continues to improve efficiencies and product performance.

Products: STYRON A-TECH advanced polystyrene resins, STYRON general purpose polystyrene resins, STYRON high-impact polystyrene resins, STYRON ignition-resistant polystyrene resins

Polypropylene business is leveraging Dow's innovative manufacturing technology, research and product development expertise to become a major global polypropylene supplier.

Products: Homopolymer polypropylene resins, Impact copolymer polypropylene resins, INSPIRE performance polymers, Random copolymer polypropylene resins

The Plastics segment also includes polybutadiene rubber, polyethylene terephthalate (PET), purified terephthalic acid (PTA), styrene-butadiene rubber and several specialty resins, as well as a new family of thermoplastic polymers with unique properties, ethylene styrene interpolymers, which were developed from INSITE Technology.

CHEMICALS

Applications: alumina automotive antifreeze, 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, agricultural products plastic pipe pulp and paper manufacturing snow and ice control soaps and detergents water treatment

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, Carbon tetrachloride, Caustic soda, Chlorine, Chloroform, DOWFLAKE calcium chloride, DOWPER dry cleaning solvent, Esters, Ethylene dichloride (EDC), LIQUIDOW liquid calcium chloride, Magnesium hydroxide, MAXICHECK procedure for testing the strength of reagents, MAXISTAB stabilizers for chlorinated solvents, Methyl chloride, Methylene chloride, PELADOW calcium chloride pellets, Perchloroethylene, SAFE-TAINER closed-loop delivery system, Trichloroethylene, Vinyl acetate monomer (VAM), Vinyl chloride monomer (VCM)

Ethylene Oxide/Ethylene Glycol business is the world's leading producer of ethylene oxide, used primarily for internal consumption, and ethylene glycol, which is sold for use in polyester fiber, PET for food and beverage applications, polyester film and antifreeze.

Products: Ethylene glycol (EG), Ethylene oxide (EO)

HYDROCARBONS AND ENERGY

Applications: polymer and chemical production power

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 for use in Dow's global operations. Dow is the world leader in the production of olefins and styrene.

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

Growth Platforms business includes advanced electronic materials, industrial biotechnology and new developments with a focus on identifying and pursuing emerging commercial and technology opportunities. The results for Growth Platforms, as well as Cargill Dow LLC and Dow Corning Corporation, both of which are 50:50 joint ventures, and venture capital are included in Unallocated and Other.

Industry Segments and Geographic Area Results

See Note R to the Consolidated Financial Statements for disclosure of information by operating segment and geographic area.

Number of Products

Dow manufactures and supplies more than 3,200 products and services, and no single one accounted for more than 5 percent of the Company's consolidated sales in 2001.

Competition

The Company experiences substantial competition in each of its industry segments. During 2001, the Company was the world's largest producer of chemicals and plastics, in terms of sales. The chemical industry has been historically competitive and this condition is expected to continue. The chemical divisions of the major international oil companies also provide substantial competition both in the United States and abroad. The Company competes worldwide on the basis of quality, price and customer service.

Raw Materials

The Company operates in an integrated manufacturing environment. Basic raw materials are processed through many stages to produce a number of products that are sold as finished goods at various points in those processes.

The two major raw material streams that feed the integrated production of the Company's finished goods are chlorine-based and hydrocarbon-based raw materials.

Salt, limestone and natural brine are the base raw materials used in the production of chlor-alkali products and derivatives. The Company owns salt deposits in Louisiana, Michigan and Texas; Alberta, Canada; Brazil; and Germany. The Company also owns natural brine deposits in Michigan and limestone deposits in Texas.

Hydrocarbon raw materials include liquefied petroleum gases (LPG), crude oil, naphtha, natural gas and condensate. These raw materials are used in the production of both saleable products and energy. The Company also purchases electric power, benzene, ethylene and styrene to supplement internal production. Expenditures for hydrocarbons and energy accounted for 31% of the Company's operating costs and expenses for the year ended December 31, 2001. The Company purchases these raw materials on both short-term and long-term contracts.

Other significant raw materials include acrylic acid, acrylonitrile, aniline, cellulose, octene, toluene diamine, and methanol. The Company purchases these raw materials on both short-term and long-term contracts.

The Company has, and expects to continue to have, adequate supplies of raw materials during 2002 and subsequent years.

Method of Distribution

All products and services are marketed primarily through the Company's sales force, although in some instances more emphasis is placed on sales through distributors. No significant portion of the business of any operating segment is dependent upon a single customer.

Research and Development

The Company is engaged in a continuous program of basic and applied research to develop new products and processes, to improve and refine existing products and processes and to develop new applications for existing products. Research and Development expenses were $1,072 million in 2001 compared with $1,119 million in 2000 and $1,075 million in 1999. The Company employs approximately 7,057 people in various research and development activities.

Patents, Licenses and Trademarks

The Company continually applies for and obtains United States and foreign patents. At December 31, 2001, the Company owned 3,154 active United States patents and 10,932 active foreign patents as follows:

	U.S.	Foreign
Performance Plastics	1,080	3,376
Performance Chemicals	264	666
Agricultural Products	427	1,744
Chemicals	52	144
Plastics	403	1,724
Hydrocarbons and Energy	27	139
Union Carbide patents	714	2,258
Other	187	881
Total	3,154	10,932

Dow's primary purpose in obtaining patents is to protect the results of its research for use in operations and licensing. Dow is also party to a substantial number of patent licenses and other technology agreements. The Company had revenue related to patent and technology royalties totaling $185 million in 2001, $278 million in 2000 and $226 million in 1999, and incurred royalties to others of $26 million in 2001, $24 million in 2000 and $31 million in 1999. Dow also has a substantial number of trademarks and trademark registrations in the United States and in other countries, including the "Dow in Diamond" trademark. Although the Company considers that, in the aggregate, its patents, licenses and trademarks constitute a valuable asset, it does not regard its business as being materially dependent upon any single patent, license or trademark.

Principal Partly Owned Companies

Dow's principal nonconsolidated affiliates at December 31, 2001 and the Company's ownership interest for each are listed below:

Compañía Mega S.A. 28 percent an Argentine company that owns a natural gas separation and fractionation plant, which provides feedstocks to the Company's petrochemical plant, Petroquímica Bahía Blanca, located in Bahia Blanca, Argentina.

Dow Corning Corporation 50 percent manufacturer of silicone and silicone products. Dow Corning has voluntarily filed for protection under Chapter 11 of the United States Bankruptcy Code (see Item 3. Legal Proceedings and Note P to the Consolidated Financial Statements).

DuPont Dow Elastomers L.L.C. 50 percent manufactures and markets thermoset and thermoplastic elastomer products.

EQUATE Petrochemical Company K.S.C. 45 percent a Kuwait-based company that manufactures ethylene, polyethylene and ethylene glycol.

Nippon Unicar Company Limited 50 percent a Japan-based manufacturer of polyethylene and specialty polyethylene compounds and specialty silicone products.

Petromont and Company, Limited Partnership 50 percent a Canada-based manufacturer of olefins and polyethylene resins in Montreal and Varennes, Quebec, Canada.

Total Raffinaderij Nederland N.V. 45 percent provides feedstocks for Dow's major petrochemical site at Terneuzen, The Netherlands, and also services the Benelux and nearby countries.

UOP LLC 50 percent a U.S. company that supplies process technology, catalysts, molecular sieves and adsorbents to the petrochemical and gas-processing industries worldwide.

Financial Information About Foreign and Domestic Operations and Export Sales

In 2001, the Company derived 58 percent of its sales and had 41 percent of its property investment outside the United States. While the Company's international operations may be subject to a number of additional risks, such as changes in currency exchange rates, the Company does not regard its foreign operations, on the whole, as carrying any greater risk than its operations in the United States. Information on sales and long-lived assets by geographic area for each of the last three years appears in Note R to the Consolidated Financial Statements, and discussions of the Company's risk management program for foreign exchange and interest rate risk management appear in Item 7A. Quantitative and Qualitative Disclosures about Market Risk and Note J to the Consolidated Financial Statements.

Protection of the Environment

Matters pertaining to the environment are discussed in Item 3. Legal Proceedings, Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations, and Notes A and P to the Consolidated Financial Statements.

Employees

Personnel count was 52,689 at December 31, 2001; 53,289 at the end of 2000; and 51,012 at the end of 1999.

Other Activities

Dow engages in the property and casualty insurance and reinsurance business primarily through its Liana Limited subsidiaries.

ITEM 2. PROPERTIES

The Company operates 208 manufacturing sites in 38 countries. The Company considers that its properties are in good operating condition and that its machinery and equipment have been well maintained. The Company's chemicals and plastics production facilities and plants operated at approximately 76 percent of capacity during 2001. The following are the major production sites:

United States:	Plaquemine, Louisiana; Taft, Louisiana; Midland, Michigan; Freeport, Texas; Seadrift, Texas; Texas City, Texas; South Charleston, West Virginia.
Canada:	Fort Saskatchewan, Alberta; Prentiss, Alberta; Sarnia, Ontario.
Germany:	Boehlen; Leuna; Rheinmuenster; Schkopau; Stade.
France:	Drusenheim.
The Netherlands:	Terneuzen.
Spain:	Tarragona.
Argentina:	Bahia Blanca.
Brazil:	Aratu.

Including the major production sites, the Company has plants and holdings in the following geographic areas:

United States:	67 manufacturing locations in 22 states.
Canada:	9 manufacturing locations in 4 provinces.
Europe:	76 manufacturing locations in 19 countries.
Latin America:	30 manufacturing locations in 6 countries.
Pacific:	26 manufacturing locations in 11 countries.

All of Dow's plants are owned or leased, subject to certain easements of other persons which, in the opinion of management, do not substantially interfere with the continued use of such properties or materially affect their value.

A summary of properties, classified by type, is contained in Note G to the Consolidated Financial Statements.

ITEM 3. LEGAL PROCEEDINGS

Breast Implant Matters

The Company and Corning Incorporated (Corning) are each 50 percent stockholders in Dow Corning Corporation (Dow Corning). Dow Corning, the Company and/or Corning have been sued in a number of individual and class actions by plaintiffs seeking damages, punitive damages and injunctive relief in connection with injuries purportedly resulting from alleged defects in silicone breast implants. In addition, certain stockholders of the Company have filed separate consolidated class action complaints in the federal district court for the Southern District of New York alleging that the Company, Dow Corning or some of their respective Directors violated duties imposed by the federal securities laws regarding disclosure of alleged defects in silicone breast implants. All individual defendants in this case have been dismissed without prejudice.

On May 15, 1995, Dow Corning announced that it had voluntarily filed for protection under Chapter 11 of the United States Bankruptcy Code. Under Chapter 11, all claims against Dow Corning (although not against its co-defendants) are automatically stayed. As a consequence of that action and prior charges taken by Dow Corning, the Company fully reserved its investment in Dow Corning and reserved its 50 percent share of equity earnings through the third quarter of 2000.

It is impossible to predict the outcome of each of the above-described legal actions. However, it is the opinion of the Company's management that the possibility that these actions will have a material adverse impact on the Company's consolidated financial statements is remote, except as described below.

The Company's financial statement exposure for breast implant product liability claims against Dow Corning is limited to its investment in Dow Corning which, after fully reserving its investment in Dow Corning and reserving its share of equity earnings through the third quarter of 2000, is not material. As a result, any future charges by Dow Corning related to such claims or as a result of the Chapter 11 proceeding would not have a material adverse impact on the Company's consolidated financial statements.

The Company is separately named as a defendant in more than 14,000 breast implant product liability cases. In these situations, plaintiffs have alleged that the Company should be liable for Dow Corning's alleged torts based on the Company's 50 percent stock ownership in Dow Corning and that the Company should be liable by virtue of alleged "direct participation" by the Company or its agents in Dow Corning's breast implant business. These latter, direct participation claims include counts sounding in strict liability, fraud, aiding and abetting, conspiracy, concert of action and negligence.

Judge Sam C. Pointer of the U. S. District Court for the Northern District of Alabama was appointed by the Federal Judicial Panel on Multidistrict Litigation to oversee all of the product liability cases involving silicone breast implants filed in the U.S. federal courts. Initially, in a ruling issued on December 1, 1993, Judge Pointer granted the Company's motion for summary judgment, finding that there was no basis on which a jury could conclude that the Company was liable for any claimed defects in the breast implants manufactured by Dow Corning. In an interlocutory opinion issued on April 25, 1995, Judge Pointer affirmed his earlier ruling as to plaintiffs' corporate control claims but vacated that ruling as to plaintiffs' direct participation claims.

In his opinion, Judge Pointer reaffirmed the view he had expressed in his December 1993 ruling that the Company is a separate, independent entity from Dow Corning and therefore has no legal responsibility as a result of its ownership of Dow Corning stock for Dow Corning's breast implant business. However, Judge Pointer stated that, under the law of at least some states (although not necessarily all states), actions allegedly taken by the Company independent of its role as a stockholder in Dow Corning could give rise to liability under a negligence theory. Judge Pointer declined to address plaintiffs' other legal theories, including strict liability, fraud, aiding and abetting, conspiracy and concert of action. It is impossible to predict the outcome or to estimate the cost to the Company of resolving any of the federal product liability cases. The Company has filed claims with insurance carriers to recover in the event it is held liable in the federal (or any other) breast implant litigation.

After Judge Pointer's initial ruling in December 1993, summary judgment was granted to the Company in approximately 4,000 breast implant cases pending in state courts in California, Indiana, Michigan, New Jersey and New York, and over 100 actions in Pennsylvania were dismissed. Of these rulings, the California ruling was final and was appealed. On September 25, 1996, the California Court of Appeal for the 4th District affirmed the trial court's order granting summary judgment to the Company. On July 9, 1998, the California Supreme Court affirmed the decision of the Court of Appeal,

and the California summary judgment order in favor of the Company is now final. The Michigan ruling was made final on March 20, 1997. On September 14, 1999, the Michigan Court of Appeals affirmed summary judgment in *Maples v. The Dow Chemical Company*, a case determinative of all cases pending in Michigan state court. The time for filing a petition for leave to appeal to the Michigan Supreme Court has passed with no petition having been filed. Pursuant to a stipulated order, all cases that were pending on the state court docket will now be dismissed with prejudice. Since federal courts in diversity cases are bound to apply state court interpretations of state law questions, the *Maples* affirmance should also result in dismissal of all claims against the Company pending in federal court and governed by Michigan law. The New Jersey ruling has been reconsidered and all claims were again dismissed, except the negligence claim. Plaintiffs in New York filed a motion to reconsider based on Judge Pointer's April 25, 1995 ruling. On September 22, 1995, Judge Lobis, presiding over the consolidated New York breast implant litigation, dismissed all counts of all cases filed against the Company in New York on the ground that no reasonable jury could find against the Company. On May 28, 1996, the New York Supreme Court Appellate Division affirmed the lower court's dismissal of all claims against the Company. New York's highest court subsequently denied plaintiffs' petition for review, and the order dismissing all claims against the Company is now final. Other rulings that are not final decisions are also subject to reconsideration. On October 20, 1996, in a Louisiana state court breast implant case styled *Spitzfaden v. Dow Corning, et al*., the court entered an order maintaining certification of a class of Louisiana plaintiffs consisting of recipients of Dow Corning breast implants who, as of January 15, 1997, (i) are residents of Louisiana, (ii) are former residents of Louisiana who are represented by Louisiana counsel, or (iii) received their implants in Louisiana and are represented by Louisiana counsel, together with the spouses and children of such plaintiffs, and representatives of the estates of class members who are deceased. On August 18, 1997, at the conclusion of the first of four phases of this case, the jury found in part that the Company had been negligent in the testing and/or research of silicone, had misrepresented and concealed unspecified hazards associated with using silicone in the human body and had conspired with Dow Corning to misrepresent or conceal such hazards. The Company has appealed the jury's verdict. On December 1, 1997, the trial court decertified the class. The parties have since entered into a confidential settlement, the terms of which are dependent on the outcome of the appeal and are reflected, in part, in the Joint Plan (defined below). Any settlement amounts paid by the Company will be reimbursed by Dow Corning in accordance with the terms of the Joint Plan if the Joint Plan becomes effective. Further action in the *Spitzfaden* case itself will commence, if at all, only after the resolution of the pending appeal. The Company remains a defendant in other breast implant product liability cases originally brought in state courts and continues to be named as a defendant as cases are filed in various courts which are then transferred to the United States District Court, Eastern District of Michigan. It is impossible to predict the outcome or to estimate the cost to the Company of resolving any of the product liability cases described above.

On November 3, 1994, Judge Michael Schneider, presiding in the consolidated breast implant cases in Harris County, Texas, granted in part and denied in part the Company's motion for summary judgment. Judge Schneider granted the Company's motion as to (i) all claims based on the Company's stockholder status in Dow Corning, (ii) the claim that the Company was liable in negligence for failing to supervise Dow Corning, and (iii) plaintiffs' licensor-licensee claim. Judge Schneider denied the Company's motion with regard to plaintiffs' claims sounding in fraud, aiding and abetting, conspiracy, certain negligence claims and a claim brought under the Texas Deceptive Trade Practices Act. As a result, the Company remains a defendant as to such claims in the Harris County product liability cases. In those cases (and in cases brought in certain other jurisdictions including those before Judge Pointer), the Company has filed cross-claims against Dow Corning on the ground that if the Company and Dow Corning are found jointly and severally liable, Dow Corning should bear appropriate responsibility for the injuries judged to be caused by its product. In certain jurisdictions, the Company has also filed cross-claims and/or third party claims against Corning. It is impossible to predict the outcome or to estimate the cost to the Company of resolving any of the Harris County product liability cases.

In an order dated December 1, 1994, Judge Frank Andrews, presiding in the consolidated breast implant cases in Dallas County, Texas, granted the Company's motion for summary judgment "in all respects except as to theories of conspiracy and strict liability as a component supplier." As a result, the Company remains a defendant as to such claims in the Dallas County product liability cases. It is impossible to predict the outcome or to estimate the cost to the Company of resolving any of these actions.

In addition to the jury findings in the first phase of the Louisiana state case noted above, three breast implant product liability cases brought against the Company have now been tried to judgment. In February 1995, a Harris County jury exonerated the Company in one case and found the Company jointly and severally liable with Dow Corning for $5.23 million on a single count in a second case. After the verdict, however, the Court overturned the jury's verdict and entered judgment for the Company. On October 30, 1995, a state court jury in Reno, Nevada found the Company liable for $4.15 million in compensatory damages and $10 million in punitive damages. On December 31, 1998, the Nevada Supreme Court reversed and vacated the $10 million punitive damages award and affirmed the $4.15 million compensatory damages award. The Company filed a motion asking the Court to reconsider that portion of its opinion affirming the compensatory damages award. On February 12, 1999, that motion was denied. Subsequently, the parties negotiated a confidential settlement and the case has been dismissed with prejudice. The Company will be reimbursed by Dow Corning for all settlement amounts paid, in accordance with the terms of the Joint Plan if the Joint Plan becomes effective.

On May 13, 1997, United States District Court Judge Denise Page Hood ordered that all breast implant claims currently pending against the Company as to which judgment had not been entered, whether pending in state or federal courts, be transferred to the United States District Court, Eastern District of Michigan pursuant to a decision issued by the United States Court of Appeals for the Sixth Circuit on May 8, 1997. On August 1, 1997, Judge Hood issued her case management order with respect to the transferred claims, and ordered that all implant claims later filed in federal or state courts against the Company should likewise be transferred. On August 5, 1997, the Tort Committee in Dow Corning's bankruptcy case filed a petition for a writ of certiorari with the United States Supreme Court seeking review of the May 8, 1997 decision of the Sixth Circuit. On November 10, 1997, the Supreme Court denied the Tort Committee's petition.

On July 7, 1998, Dow Corning, the Company and Corning, on the one hand, and the Tort Claimants' Committee in Dow Corning's bankruptcy on the other, agreed on a binding Term Sheet to resolve all tort claims involving Dow Corning's silicone medical products, including the claims against Corning and the Company (collectively, the Shareholders). The agreement set forth in the Term Sheet was memorialized in a Joint Plan of Reorganization (the Joint Plan) filed by Dow Corning and the Tort Claimants' Committee (collectively, the Proponents) on November 9, 1998. On February 4, 1999, the Bankruptcy Court approved the disclosure statement describing the Joint Plan. Before the Joint Plan could become effective, however, it was subject to a vote by the claimants, a confirmation hearing and all relevant provisions of the Bankruptcy Code. Voting was completed on May 14, 1999, and the confirmation hearing concluded on July 30, 1999.

On November 30, 1999, the Bankruptcy Court issued an Order confirming the Joint Plan, but then issued an Opinion on December 21, 1999 that, in the view of the Proponents and the Shareholders, improperly interpreted or attempted to modify certain provisions of the Joint Plan affecting the resolution of tort claims involving Dow Corning's silicone medical products against various entities, including the Shareholders. Many of the parties in interest, including the Shareholders, filed various motions and appeals seeking, among other things, a clarification of the December 21, 1999 Opinion. These motions and appeals were heard by U.S. District Court Judge Denise Page Hood on April 12 and 13, 2000, and on November 13, 2000, Judge Hood affirmed the Bankruptcy Court's November 30, 1999 Order confirming the Joint Plan and reversed, in part, the Bankruptcy Court's December 21, 1999

Opinion, including that portion of the Opinion the Shareholders had appealed. In turn, various parties in interest appealed Judge Hood's decision to the United States Court of Appeals for the Sixth Circuit which heard oral arguments in the matter on October 23, 2001. On January 29, 2002, the Sixth Circuit issued its opinion which, among other things, affirmed Judge Hood's determination that claims against various entities, including the Shareholders, may be enjoined where "unusual circumstances" exist, and remanded the case to the District Court for certain factual determinations. The effectiveness of the Joint Plan remains subject to the District Court making such factual determinations and any subsequent appellate action. Accordingly, there can be no assurance at this time that the Joint Plan will become effective.

It is the opinion of the Company's management that the possibility is remote that plaintiffs will prevail on the theory that the Company should be liable in the breast implant litigation because of its shareholder relationship with Dow Corning. The Company's management believes that there is no merit to plaintiffs' claims that the Company is liable for alleged defects in Dow Corning's silicone products because of the Company's alleged direct participation in the development of those products, and the Company intends to contest those claims vigorously. Management believes that the possibility is remote that a resolution of plaintiffs' direct participation claims, including the vigorous defense against those claims, would have a material adverse impact on the Company's financial position or cash flows. Nevertheless, in light of Judge Pointer's April 25, 1995 ruling, it is possible that a resolution of plaintiffs' direct participation claims, including the vigorous defense against those claims, could have a material adverse impact on the Company's net income for a particular period, although it is impossible at this time to estimate the range or amount of any such impact.

Environmental Matters

On March 25, 1998, Dow AgroSciences LLC, a wholly owned subsidiary of the Company, made a written inquiry to the United States Environmental Protection Agency ("EPA") with regard to alleged violations of the Federal Insecticide, Fungicide and Rodenticide Act for which the EPA has verbally indicated that it is seeking a civil penalty in the amount of $792,000.

On November 13, 1998, the Michigan Department of Environmental Quality ("MDEQ") commenced an investigation of alleged unpermitted release and improper storage of material containing dioxin and furans at Radian International LLC's ("Radian") waste treatment facility which is located within the Company's Michigan Operations manufacturing site. The Company and MDEQ have negotiated a consent order to settle this and several unrelated matters. Any potential liabilities of Radian are outside the scope of this consent order. MDEQ's procedures require a period for public comment, so the consent order is not yet final. The consent order would require Dow to pay a settlement amount of $499,270; reimburse $10,377 in costs of surveillance and enforcement; and undertake Supplemental Environmental Projects worth $800,000. The Company may ultimately have indemnification rights against Radian.

On October 16, 2001, the Louisiana Department of Environmental Quality ("LDEQ") initiated an administrative enforcement action against the Company seeking a civil penalty of $1,617,998.38. The LDEQ has alleged that the Company failed to monitor valves at its Plaquemine, Louisiana benzene plant for fugitive emissions for two separate time periods. The Company has requested an adjudicatory hearing regarding the alleged violations and the proposed penalty. While the Company expects the penalty will ultimately be significantly reduced, it is likely the final penalty will be greater than $100,000.00.

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

No matter was submitted to a vote of security holders during the fourth quarter of 2001.

EXECUTIVE OFFICERS OF THE REGISTRANT

Set forth below is information related to the Company's executive officers as of March 1, 2002.

ARNOLD A. ALLEMANG, 59. DOW EXECUTIVE VICE PRESIDENT. DIRECTOR SINCE 1996. Employee of Dow since 1965. Director of Technology Centers, Dow U.S.A. 1989-92. Manufacturing General Manager, Dow Benelux N.V.* 1992-93. Regional Vice President, Manufacturing and Administration, Dow Benelux N.V.* 1993. Vice President, Manufacturing Operations, Dow Europe S.A.* 1993-95. Dow Vice President and Director of Manufacturing and Engineering 1996-97. Dow Vice President, Operations 1997-2000. Executive Vice President 2000 to date. Director of Dow Corning Corporation,* Liana Limited* and Dorinco Reinsurance Company.* Representative on the Members Committee of DuPont Dow Elastomers L.L.C* and Cargill Dow LLC.* Director of the National Association of Manufacturers. Member of the American Chemical Society; the Advisory Board, Center for Chemical Process Safety, American Institute of Chemical Engineers; College of Engineering Advisory Council, Kansas State University; the Corporate Executive Board's Operations Management Roundtable and the National Academy of Engineering's Action Forum on Diversity.

FRANK H. BROD, 47. DOW VICE PRESIDENT AND CONTROLLER. Employee of Dow since 1975. Controller, Essex Chemical Corporation* 1988-91. Financial Controller and Information Systems Director for Dow Chemical Company Limited* 1991-93. Financial & Statutory Controller 1993-95. Controller, Dow Europe S.A.* and Finance Director for Dow's Global Fabricated Products Business 1995-98. Global Accounting Director 1998-2000. Vice President and Controller, The Dow Chemical Company 2000 to date. Director of Dow Credit Corporation; * Dow Financial Holdings, Inc.;* Diamond Capital Management, Inc.;* Dow Hydrocarbons Resources, Inc.;* and Liana Limited.* Vice Chairman of the Committee on Corporate Reporting of Financial Executives International. Member of American Institute of Certified Public Accountants and Texas Society of CPAs. Member of Accounting Advisory Board, Michigan State University and Northwood University; Development Board, Central Michigan University. Director of Wolverine Bank, FSB. Member of Financial Accounting Standards Board's Emerging Issues Task Force.

RICHARD M. GROSS, 54. DOW CORPORATE VICE PRESIDENT OF RESEARCH AND DEVELOPMENT. Employee of Dow since 1974. Research and Development Director, North American Chemicals and Metals/Hydrocarbons 1992-95. Vice President and Director of Global Core Technologies Research and Development 1995-98. Vice President and Director of Continental Operations 1995-97. Vice President and Director of Michigan Operations 1997-98. Vice President and Director of Research and Development 1998-2001. Corporate Vice President of Research and Development 2001 to date. Recipient of 1996 Genesis Award for Excellence in People Development. Member of the American Chemical Society, the American Institute of Chemical Engineers, the Industrial Research Institute, the Council for Chemical Research where he serves on the Governing Board Executive Committee as Chair, the Chemical Engineering Advisory Board at Worcester Polytechnic Institute, the Advisory Board of the National Science Resources Center, the Advisory Board for the College of Chemistry at the University of California, Berkeley, the National Research Council's Board on Chemical Sciences & Technology and the Michigan Molecular Institute Board.

DAVID E. KEPLER, 49. DOW CORPORATE VICE PRESIDENT OF ELECTRONIC BUSINESS AND CHIEF INFORMATION OFFICER. Employee of Dow since 1975. Computer Services Manager of Dow U.S.A. Eastern Division 1984-88. Commercial Director of Dow Canada Performance Products 1989-91. Director of Pacific Area Information Systems 1991-93. Manager of Information Technology for Chemicals and Plastics 1993-94. Director of Global Information Systems Services 1994-95. Director of Global Information Application 1995-98. Vice President 1998-2000. Chief Information Officer 1998 to date. Corporate Vice President of Electronic Business 2000 to date. e-Michigan Advisory Council appointee of Michigan Governor Engler. Director of U.S. Chamber of

Commerce. Member of The Research Board Inc., the American Chemical Society, and the American Institute of Chemical Engineers.

RICHARD L. MANETTA, 57. DOW CORPORATE VICE PRESIDENT AND GENERAL COUNSEL. Employee of Dow since July 2001. Corporate Vice President and General Counsel July 2001 to date. Ford Motor Company Assistant General Counsel for Automotive Safety and Product Litigation 1989-94, Assistant General Counsel for Discovery 1994-99, Associate General Counsel for Litigation 1999-2000, Deputy General Counsel & Director of Regulatory Compliance 2000-July 2001. Member of the American Bar Association, Michigan State Bar, General Counsel Committee, The National Center for State Courts, Civil Justice Reform Group, and the Michigan General Counsel Association. Lifetime member of The Fellows of the Michigan State Bar Foundation.

MICHAEL D. PARKER, 55. DOW PRESIDENT AND CHIEF EXECUTIVE OFFICER. DIRECTOR SINCE 1995. Employee of Dow since 1968. Dow Europe S.A.* Product Marketing Manager for Epoxy Resins 1977-79. Director of Marketing for Inorganic Chemicals 1979-82. Director of Marketing for Organic Chemicals 1982-83. Commercial Director for the Functional Products Department 1983-84. Dow U.S.A. General Manager of the Specialty Chemicals Department 1984-87. Dow Chemical Pacific Limited* Commercial Vice President 1987-88, President 1988-93. Dow Group Vice President 1993-96. Group Vice President Chemicals and Hydrocarbons 1993-95. Business Vice President for Chemicals 1995-2000. President Dow North America 1995-2000. Executive Vice President 1996-2000. President and Chief Executive Officer 2000 to date. Members Committee, Dow AgroSciences LLC.* Director of Dow Corning Corporation* and Univation Technologies, LLC.* Director of the National Legal Center for the Public Interest. Director, Executive Committee member and Chair of the Finance Committee, the American Chemistry Council. Executive Committee of the Society of Chemical Industry American Section.

J. PEDRO REINHARD, 56. DOW EXECUTIVE VICE PRESIDENT AND CHIEF FINANCIAL OFFICER. DIRECTOR SINCE 1995. Employee of Dow since 1970. Dow Brazil Area Finance Director 1978-81. Dow Europe S.A.* Finance Director 1981-85. Dow Assistant Treasurer 1984-85. Dow Europe S.A.* Vice President 1985-88. Managing Director, Dow Italy 1985-88. Dow Treasurer 1988-96, Vice President 1990-95, Financial Vice President 1995-96, Chief Financial Officer 1995 to date, Executive Vice President 1996 to date. Chairman of the Board of Liana Limited* and Dorinco Reinsurance Company.* Chairman of the Members Committee, Dow AgroSciences LLC.* Director of Dow Corning Corporation,* Mycogen Corporation,* Royal Bank of Canada and Sigma-Aldrich Corporation. Member of the Financial Executives Institute, The Conference Board's Council of Financial Executives and The National Advisory Board of The Chase Manhattan Corporation.

FERNANDO RUIZ, 46. DOW VICE PRESIDENT AND TREASURER. Employee of Dow since 1980. Treasurer, Ecuador Region 1982-84. Treasurer, Mexico Region 1984-88. Financial Operations Manager, Corporate Treasury 1988-91. Assistant Treasurer, USA Area 1991-92. Senior Finance Manager, Corporate Treasury 1992-96. Assistant Treasurer, The Dow Chemical Company 1996-2001. Corporate Director of Insurance and Risk Management 2001. President and Chief Executive Officer, Liana Limited* and Dorinco Reinsurance Company* 2001 to date. Vice President and Treasurer, The Dow Chemical Company, August 2001 to date. President of Dow Credit Corporation* 2001 to date. Director of Dow Financial Services Inc.* and Union Carbide Corporation* 2001 to date. Member of Financial Executives International and the Midland Economic Development Council.

TINA S. VAN DAM, 55. DOW CORPORATE SECRETARY. Employee of Dow since 1987. Assistant Secretary 1993-2001. Director of the Office of the Corporate Secretary 1996-2001. Managing Counsel, Corporate and Securities Law 2001 to date. Corporate Secretary June 2001 to date. Director of the American Society of Corporate Secretaries. Northwood University's Distinguished Woman Award 2001, and Mitten Bay Girl Scout Council Woman of Distinction 1996. Member of the Securities

and Exchange Commission Historical Society, Saginaw Valley State University Foundation, the American Bar Association, State Bar of Michigan and the Midland County Bar Association.

LAWRENCE J. WASHINGTON, JR., 56. DOW CORPORATE VICE PRESIDENT, ENVIRONMENT, HEALTH & SAFETY, HUMAN RESOURCES AND PUBLIC AFFAIRS. Employee of Dow since 1969. General Manager, Western Division 1987-90. Vice President, Dow North America, and General Manager of the Michigan Division 1990-94. Vice President, Human Resources 1994 to date. Vice President, Environment, Health & Safety and Public Affairs 1997 to date. Director of Chemical Bank and Trust Company and Liana Limited.* Member of the National Advisory Board for Michigan Technological University and the Advisory Council, College of Engineering and Science, University of Detroit Mercy.

* A number of Company entities are referenced to in the biographies and are defined as follows. (Some of these entities have had various names over the years. The names and relationships to the Company, unless otherwise indicated, are stated in this footnote as they existed as of March 1, 2002.) Cargill Dow LLC, Dow Corning Corporation, DuPont Dow Elastomers L.L.C. and Univation Technologies, LLC companies ultimately 50 percent owned by Dow. Diamond Capital Management, Inc.; Dorinco Reinsurance Company; Dow AgroSciences LLC; Dow Benelux N.V.; Dow Chemical Company Limited; Dow Chemical Pacific Limited; Dow Credit Corporation; Dow Europe S.A.; Dow Financial Holdings, Inc.; Dow Financial Services Inc.; Dow Hydrocarbons and Resources, Inc.; Essex Chemical Corporation; Liana Limited; Mycogen Corporation; and Union Carbide Corporation all ultimately wholly owned subsidiaries of Dow. Ownership by Dow described above may be either direct or indirect.

PART II

ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY AND RELATED STOCKHOLDER MATTERS

The principal market for the Company's common stock is the New York Stock Exchange. On February 14, 2002, the Board of Directors announced a quarterly dividend of $0.335 per share, payable April 30, 2002, to stockholders of record on March 28, 2002. Since 1912, the Company has paid a dividend every quarter and in each instance Dow has maintained or increased the quarterly dividend. The Company declared dividends of $1.295 per share in 2001 and $1.16 per share in 2000 and in 1999.

At March 1, 2002, there were 124,094 registered common stockholders. The Company estimates that there were an additional 365,000 stockholders whose shares were held in nominee names at December 31, 2001.

Quarterly market and dividend information can be found in Part II, Item 8 (Financial Statements & Supplementary Data) on page 83.

ITEM 6. SELECTED FINANCIAL DATA

The Dow Chemical Company and Subsidiaries
Five-Year Summary of Selected Financial Data

In millions, except as noted *(Unaudited)*

	2001	*2000*	*1999*	*1998*	*1997*
Summary of Operations					
Net sales (1)	$ 27,805	$ 29,534	$ 25,859	$ 25,101	$ 27,476
Cost of sales (1)	23,652	24,131	20,300	19,395	20,750
Research and development expenses	1,072	1,119	1,075	1,026	990
Selling, general and administrative expenses	1,765	1,825	1,776	1,964	2,168
Amortization of intangibles	178	139	160	106	80
Purchased in-process research and development charges	69	6	6	349	
Special charges and merger-related expenses and restructuring	1,487		94	458	
Insurance and finance company operations, pretax income	30	85	150	124	127
Other income	423	706	424	1,166	657
Earnings before interest, income taxes and minority interests	35	3,105	3,022	3,093	4,272
Interest expense net	648	519	432	458	355
Income (Loss) before income taxes and minority interests	(613)	2,586	2,590	2,635	3,917
Provision (Credit) for income taxes	(228)	839	874	902	1,320
Minority interests' share in income	32	72	74	20	113
Preferred stock dividends			5	6	13
Income (Loss) from continuing operations	(417)	1,675	1,637	1,707	2,471
Cumulative effect of change in accounting principle	32		(20)		(17)
Net income (loss) available for common stockholders	$ (385)	$ 1,675	$ 1,617	$ 1,707	$ 2,454
Per share of common stock (dollars): (2)					
Income (Loss) from continuing operations basic	$ (0.46)	$ 1.88	$ 1.87	$ 1.92	$ 2.72
Net income (loss) available for common stockholders basic	(0.43)	1.88	1.85	1.92	2.71

In millions, except as noted ***(Unaudited)***

Income (Loss) from continuing operations diluted	(0.46)	1.85	1.84	1.89	2.63
Net income (loss) available for common stockholders diluted	(0.43)	1.85	1.82	1.89	2.61
Cash dividends declared per share of Dow common stock	1.295	1.16	1.16	1.16	1.12
Cash dividends paid per share of Dow common stock	1.25	1.16	1.16	1.16	1.08
Book value (2)	$ 11.04	$ 13.22	$ 12.40	$ 11.34	$ 11.17
Weighted-average common shares outstanding basic (2)	901.8	893.2	874.9	888.1	898.4
Weighted-average common shares outstanding diluted (2)	901.8	904.5	893.5	904.8	936.2
Convertible preferred shares outstanding			1.3	1.4	1.4
Year-end Financial Position					
Total assets	$ 35,515	$ 35,991	$ 33,456	$ 31,121	$ 31,004
Working capital	2,183	1,150	2,848	1,570	1,925
Property gross	35,890	34,852	33,333	32,844	31,052
Property net	13,579	13,711	13,011	12,628	11,832
Long-term debt and redeemable preferred stock	9,266	6,613	6,941	5,890	5,703
Total debt	10,883	9,450	8,708	8,099	8,145
Net stockholders' equity	9,993	11,840	10,940	9,878	9,974
Financial Ratios					
Research and development expenses as percent of net sales (1)	3.9%	3.8%	4.2%	4.1%	3.6%
Income (Loss) before income taxes and minority interests as percent of net sales (1)	(2.2)%	8.8%	10.0%	10.5%	14.3%
Return on stockholders' equity (3)	(3.9)%	14.1%	14.7%	17.2%	24.5%
Debt as a percent of total capitalization	48.9%	42.5%	42.2%	43.6%	43.1%
General					
Capital expenditures	$ 1,587	$ 1,808	$ 2,176	$ 2,328	$ 1,953
Depreciation	1,595	1,554	1,516	1,559	1,529
Salaries and wages paid	3,215	3,395	3,536	3,579	3,640
Cost of employee benefits	540	486	653	798	839
Number of employees at year-end (thousands)	52.7	53.3	51.0	50.7	55.9
Number of Dow stockholders of record at year-end (thousands)(4)	125.1	87.9	87.7	93.0	97.2

(1) Adjusted for reclassification of freight on sales in 2000.

(2) Adjusted for 3-for-1 stock split in 2000.

(3) Included Temporary Equity in 1997-1999.

(4) Stockholders of record as reported by the transfer agent. The Company estimates that there were an additional 365,000 stockholders whose shares were held in nominee names at December 31, 2001.

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

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"), which now includes Union Carbide Corporation ("Union Carbide"). 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.

INTRODUCTORY NOTE TO READERS

The accompanying consolidated financial statements of The Dow Chemical Company and its subsidiaries give retroactive effect to the merger of The Dow Chemical Company and Union Carbide, which was completed on February 6, 2001, and accounted for as a pooling of interests. Accordingly, the consolidated financial statements include the combined accounts of the two companies for all periods presented. See Note C to the Consolidated Financial Statements for additional information.

RESULTS OF OPERATIONS

The year 2001 proved to be a remarkably challenging year for Dow. Like other companies in the chemical industry, Dow experienced the most difficult industry conditions that have existed in many years. The tragic events that began on September 11 further eroded consumer confidence and dampened the outlook for the global economy. The Company's results for the year reflect the significant negative impact of these macroeconomic and industry conditions. In the face of these conditions, however, Dow continued its strategic direction of the past few years substantially reducing costs, completing several acquisitions, accelerating the Six Sigma productivity program, and continuing to invest in research and development and value-growth initiatives. Foremost among the Company's actions in 2001 was the integration of Union Carbide following the completion of the merger on February 6, 2001. All of these actions are expected to significantly contribute to the Company's future earnings growth.

Dow's sales for 2001 were $27.8 billion, compared with $29.5 billion in 2000 and $25.9 billion in 1999. Sales declined in 2001 as selling prices fell 6 percent, or $1.6 billion, and volume remained relatively flat (see Sales Price and Volume table on page 28). Prices were lower in all operating segments, except Performance Chemicals, and across all geographic areas as the chemical industry experienced trough-level pricing of the business cycle. Although Dow completed several significant acquisitions in 2001, volume remained flat, reflecting the current economic environment. Volume improved substantially in Europe (due principally to the acquisitions of EniChem's polyurethanes business, Ascot Plc, the remaining 50 percent interest in Gurit-Essex AG, and Rohm and Haas Company's agricultural chemicals business) and slightly in Latin America and Asia Pacific, but was offset by declines in North America. Excluding acquisitions and divestitures, volume was down 3 percent.

Sales in the United States accounted for 42 percent of total sales in 2001, compared with 43 percent in 2000 and 44 percent in 1999. Sales and other information by operating segment and geographic area are provided in Note R to the Consolidated Financial Statements.

From all indications, 2002 will also be challenging. Industry and macroeconomic trends are expected to be similar to 2001, although improvement is expected during the course of the year, especially in the United States. Given the slow demand within the chemical industry, several quarters of volume growth are needed to absorb excess industry capacity before margins will improve. Therefore, the benefits of lower feedstock and energy costs are expected to be constrained by lower selling prices throughout much of 2002. Despite this, Dow expects improved results in 2002, through the Company's continued emphasis on cost control, management of working capital, and the realization of merger-related cost synergies.

PERFORMANCE PLASTICS

Performance Plastics sales decreased 5 percent to $7.3 billion in 2001, compared with $7.7 billion in 2000. Sales were $7.0 billion in 1999. Volume decreased 1 percent from 2000, while prices decreased 4 percent. Excluding acquisitions, volume was down 8 percent, reflecting weak industry demand. Sales in 2000 reflected an 8 percent volume gain while prices increased slightly versus 1999.

Earnings before Interest, Income Taxes and Minority Interests ("EBIT") were $643 million in 2001, compared with $1.0 billion in 2000 and $1.6 billion in 1999. EBIT decreased in 2001 due to softened demand across all geographic areas and intensified competitive price pressure. Profit margins were negatively impacted as lower prices more than offset lower feedstock costs. During 2000, EBIT decreased as higher feedstock costs and the negative impact of currency on sales in Europe more than offset volume growth, gains in local currency prices, and the favorable results of Six Sigma efforts. Results for 2000 included an unusual charge of $31 million from UOP LLC related primarily to losses associated with certain customer contracts coupled with restructuring charges. Results for this segment included favorable litigation settlements related to the licensing business of $50 million in 1999.

Dow Automotive sales were up 21 percent from 2000 on a 19 percent increase in volume driven primarily by the acquisition of the remaining 50 percent of Gurit-Essex AG in January 2001. Excluding the impact of this acquisition, sales volume declined 13 percent from 2000, reflecting a drop in production by Dow Automotive's OEM customer base. Higher operating costs contributed to lower EBIT in 2001. Dow Automotive's strategy to reduce costs through global manufacturing consolidation led to the closing of a production facility in Popular Bluff, Missouri, in the fourth quarter of 2001.

Engineering Plastics sales were down 7 percent compared with 2000. Industry demand softened in all geographic areas, resulting in a 4 percent volume decrease versus 2000. Sales of larger volume products including copolymers, polycarbonates and nylon were significantly reduced. Prices declined 3 percent, driven by excess industry capacity and lower raw material costs. During 2001, the successful start-up of a new polycarbonate manufacturing facility at the Yochon Petrochemical Industrial Complex in Yosu, Korea, was completed. This facility is owned and operated by LG Dow Polycarbonate Limited, a 50:50 joint venture between Dow and LG Chemical Ltd. EBIT for 2001 was down, reflecting lower demand and increased price competition.

Epoxy Products and Intermediates recorded a 14 percent decrease in sales compared with 2000. Volume decreased 12 percent, led by a sharp decline in demand in the electronics industry in Asia Pacific and North America. Competitive activity intensified as demand softened, resulting in a 2 percent price decline. Dow acquired a controlling interest in Pacific Epoxy Company Limited in the Republic of Korea during 2001 as part of its growth strategy. EBIT declined in 2001 due to lower volume.

Fabricated Products sales decreased 5 percent in 2001 as prices continued to be under pressure globally. Volume was flat versus 2000, despite recessionary conditions in the Japanese construction industry. The purchase of the assets of Celotex Corporation's rigid foam insulation business, which

included all Celotex brand polyisocyanurate insulation products, was completed in the third quarter of 2001, adding THERMAX insulating sheathing to Dow's existing line of residential insulation products. Production facility conversions to enable the use of alternative blowing agents in Europe were completed in 2001, meeting new environmental legislation requirements. EBIT decreased due to lower selling prices and the negative impact of currency in Europe.

Polyurethanes sales in 2001 were relatively flat versus the prior year. Volume increased 5 percent, driven primarily by Dow's acquisition of EniChem's polyurethanes business in April 2001. Excluding acquisitions, volume decreased 2 percent as global demand for durable goods softened. Prices decreased 5 percent, as capacity expansion within the industry resulted in a difficult pricing environment. During 2001, Dow expanded its manufacturing capacity for polyols and methylene diphenyl diisocyanate ("MDI"), and purchased manufacturing facilities and processing technology to produce engineered composite panels in Elie, Manitoba, Canada, from Isobord Enterprises, Inc. EBIT for 2001 was lower versus last year primarily due to lower selling prices and reduced profit margins.

Technology Licensing and Catalysts sales were down significantly from 2000 and as a result, EBIT was lower in 2001 compared with 2000. Licensees operated at lower rates in 2001 due to depressed market conditions. This resulted in reductions in lump sum license fees and running royalties from joint ventures and third parties, and lower catalysts sales.

Wire and Cable sales were down versus 2000. Volume decreased due to significant downturns in capital spending within the industry, primarily among fiber optic and underwater cable manufacturers. EBIT improved, however, as the business realized merger-related cost synergies.

Outlook for 2002

The Performance Plastics segment anticipates that conditions in some of its key markets will not improve before the second half of 2002. Competition is expected to remain aggressive for both volume and price until industry capacity utilization improves; therefore, sales are expected to be flat with 2001. While profitability is not expected to improve until economic conditions improve and demand increases, results for 2002 are expected to be higher compared with 2001.

Dow Automotive expects new products to deliver higher sales in 2002 and reduce the impact of the current weakness in the North American and European automotive industries. For Engineering Plastics, price competition is expected to intensify in 2002. New capacity for

MAGNUM ABS resins in Terneuzen, The Netherlands, is planned for 2002 to meet the growing demand for this technology.

Epoxy Products and Intermediates expects sales to remain weak until market conditions improve, particularly in the electronics industry. Fabricated Products anticipates continued price pressure in 2002. Capacity additions are planned in 2002 for Findlay, Ohio, and Estarreja, Portugal, to meet demand growth.

New industry capacity for propylene oxide and toluene diisocyanate ("TDI") is expected to result in continued competitive price pressure within Polyurethanes. Production of TDI in Dow will be shifted to our newer, state-of-the-art facilities to meet our requirements for efficiency and world-scale capability. Technology Licensing and Catalysts expects the competitive environment for catalysts to intensify in 2002, resulting in downward pressure on both price and volume, as new suppliers enter the market with competitive offerings using technologies based on recently expired patents.

Continued focus on asset and supply chain optimization, Six Sigma and synergy initiatives are expected to reduce operating expenses in 2002.

PERFORMANCE CHEMICALS

Performance Chemicals sales were $5.1 billion in 2001, compared with $5.3 billion in 2000 and $5.0 billion in 1999. Prices increased 1 percent versus last year, while volume declined 6 percent due to

weak economic conditions. Volume was lower due to the divestitures of businesses required for regulatory approval of the Union Carbide merger (discussed in further detail below) and softening demand in the automotive, steel, and pulp and paper industries. The decline in volume due to divestitures was partially offset by the acquisition of Ascot Plc in the second quarter of 2001 (see Note C to the Consolidated Financial Statements). Volume growth was achieved in Europe, offset by declines in North America, Latin America and Asia Pacific. Sales in 2000 improved from 1999 due to volume growth of 6 percent.

EBIT in 2001 was $611 million versus $536 million in 2000 and $805 million in 1999. The strong improvement in EBIT in 2001 reflects the combined impact of margin expansion due to price increases, the realization of cost synergies related to the Union Carbide merger and the acquisition of Ascot Plc, Six Sigma savings, continued productivity improvements, and lower feedstock and energy costs. EBIT in 2000 declined from 1999 as sharp increases in feedstock and energy costs were only partially offset by strong volume and continued productivity improvements.

Custom and Fine Chemicals sales increased significantly compared with 2000 due to the acquisitions of Ascot Plc in the second quarter of 2001 and the Collaborative Group's Biotechnology Services Division in the fourth quarter of 2000. In addition to these acquisitions, Dow's Custom and Fine Chemicals business includes the recent specialty and fine chemical acquisitions of Hampshire Fine Chemicals and ANGUS Chemical Company, and Dow's Contract Manufacturing Services business. In addition to scale and critical mass, Dow gained substantial new technical capabilities in chiral, nitroparaffins and distillation technologies through these acquisitions. This new business has unique capabilities to deliver solutions tailored to Dow's customers. EBIT declined in 2001 primarily due to implementation and integration costs associated with recent acquisition activity, as well as a decline in contracts in the Contract Manufacturing Services business.

Emulsion Polymers recorded a 2 percent increase in sales versus the prior year. Prices increased 7 percent despite a negative currency impact in Europe. Volume declined 5 percent due to weaker global demand for carpet and coated paper. EBIT improved significantly in 2001 as price increases restored margins that had been compressed by last year's increases in styrene monomer costs. In the fourth quarter of 2001, Dow and Reichhold, Inc. formed a new joint venture, Dow Reichhold Specialty Latex LLC, by combining the specialty latex businesses from both companies. The joint venture combines products, technologies and a global presence to better meet the unique needs of specialty latex customers around the world. As part of the transaction, Dow also purchased Reichhold's carpet and paper latex businesses.

Industrial Chemicals sales were down 5 percent in 2001 compared with 2000. Volume declined 6 percent while prices increased 1 percent. Volume declined primarily due to lower demand in the pulp and paper, automotive, and steel industries. EBIT in 2001 was relatively flat versus 2000.

Oxide Derivatives sales were down 23 percent compared with 2000. Volume declined 24 percent due primarily to the first quarter divestitures of Dow's ethyleneamines, ethanolamines and North American gas treating businesses, which were required for regulatory approval of the Union Carbide merger. Excluding the impact of the divestitures, volume was down 8 percent compared with 2000 due to softening demand in North America and Europe and a focus on higher-margin markets. While results were positively impacted by price increases of

1 percent and the realization of merger-related cost synergies, EBIT declined slightly in 2001 due to the impact of divestitures and the weaker global economic environment.

Specialty Polymers sales were down 4 percent versus last year as volumes declined and prices remained flat. The decrease in volume was primarily driven by softening demand in the automotive industry partially offset by strong demand for FILMTEC membranes. EBIT improved in 2001 due to lower feedstock and energy costs and the realization of merger-related cost synergies.

UCAR Emulsion Systems sales were up slightly versus last year, as a 2 percent increase in price was partially offset by a slight decline in volume. EBIT improved in 2001 due to the combined impact of higher prices, lower feedstock costs and the realization of merger-related cost synergies.

Water Soluble Polymers sales were down 2 percent versus 2000. Volume increased 1 percent due to steady demand in the construction industry driven by lower interest rates. Prices declined 3 percent primarily due to competitive pressures on CELLOSIZE hydroxyethyl cellulose. EBIT was down compared with 2000 due to reduced selling prices.

Outlook for 2002

Performance Chemicals expects sales growth in 2002 due to the recent acquisitions, capacity additions at a number of facilities and rebounding demand especially in customer-oriented markets. EBIT is also expected to improve in 2002 due to the realization of cost synergies from the various acquisitions completed in 2001, growth opportunities provided by these acquisitions, and continued focus on productivity improvements. Challenging industry conditions and the global economic environment, however, will continue to be a concern.

Capacity additions are planned for 2002 as follows: adding to its 2001 capacity expansion, FilmTec Corporation will add additional capacity for FILMTEC membranes at its Minneapolis, Minnesota, site to meet the strong demand for membranes; additional capacity for METHOCEL cellulose ethers will start up in Stade, Germany; and Emulsion Polymers will complete capacity expansions in Europe and Asia Pacific to meet the growing demand for styrene-butadiene latex in the coated paper, carpet and specialty latex industries.

AGRICULTURAL PRODUCTS

Sales of Agricultural Products for 2001 were $2.6 billion, up from $2.3 billion in both 2000 and 1999. Volume increased 15 percent versus 2000, but was partially offset by a decline in prices of 4 percent, which included the negative impact of currency in Europe and Asia Pacific. Volume increased due to acquisitions that occurred in 2001 and at the end of 2000. Excluding the impact of these acquisitions, volume improved 2 percent. Growth in traditional agricultural chemical applications was hampered in 2001 by eroding farm commodity prices and increasing acceptance of genetically modified crops. The amount of land reserved for corn crops remained flat, while soybean and cotton crops increased and most other crops declined. Dow AgroSciences participated in industry consolidations in 2001 with the acquisition of Rohm and Haas' agricultural chemicals business in June 2001 (see Note C to the Consolidated Financial Statements).

EBIT was $104 million in 2001 versus $212 million last year. EBIT for 2001 was reduced by a $69 million charge for purchased in-process research and development ("IPR&D") associated with the Rohm and Haas acquisition. Excluding this charge, EBIT for 2001 was $173 million. In 1999, EBIT of $125 million was reduced by a $94 million charge related to cost-reduction and business-restructuring programs (see Note B to the Consolidated Financial Statements).

The product lines acquired from the Rohm and Haas acquisition include DITHANE fungicide, GOAL herbicide, and the molt accelerating family of insecticides, including CONFIRM, MIMIC and INTREPID insecticides. These product lines complement and enhance Dow AgroSciences' portfolio by adding high-performance, brand name products for specialty crops, as well as turf and ornamental businesses around the world.

Outlook for 2002

While no significant improvement in selling prices is anticipated, the Rohm and Haas acquisition is expected to result in increased sales for Dow AgroSciences in 2002.

The negative factors that influenced the agricultural industry's performance in 2001 are expected to continue throughout 2002. Crop prices, however, are expected to stabilize and begin a modest recovery, which should support some volume growth for conventional chemical crop protection products. It is expected that the trend toward genetically modified crop plantings will continue, but at a slower rate than experienced during recent years.

PLASTICS

Plastics reported sales of $6.5 billion in 2001, down 9 percent from 2000 with a price decline of 10 percent and a volume increase of 1 percent. Prices declined each quarter throughout the year with the more significant reductions occurring during the last half of the year. Sales in 2000 were $7.1 billion, up from $5.8 billion in 1999, as volume increased 8 percent and prices improved 15 percent.

EBIT for the year was $125 million, down substantially from $945 million in 2000. While the segment benefited from lower feedstock and energy costs versus last year, weak supply/demand balances resulted in a substantially larger decline in selling prices. EBIT was also reduced by significantly lower equity earnings in 2001. Equity earnings declined due to the consolidation of BSL in 2000 and the divestiture of Union Carbide's interest in Polimeri Europa S.r.l. in April 2001, which was required for regulatory approval of the merger (see Note C to the Consolidated Financial Statements). Also contributing to the decline were lower earnings reported by EQUATE Petrochemical Company K.S.C. and DuPont Dow Elastomers L.L.C., due to poor industry conditions. EBIT in 2000 was up 68 percent from $564 million in 1999 due to higher selling prices and stronger equity earnings, despite abnormally high feedstock and energy costs and a downturn in volume and prices in the second half of 2000.

Polyethylene sales declined 11 percent in 2001, as prices fell and volume remained flat compared with last year. While prices fell in all geographic areas, volume increased in Europe and Latin America offset by declines in Asia Pacific and North America. Demand for AFFINITY polyolefin plastomers, PRIMACOR copolymers and SARAN resins allowed these products to maintain strong positions in both price and volume. The Union Carbide merger added significantly to Dow's polyethylene manufacturing infrastructure as well as enhanced the technology platform and product portfolio. Although the business benefited from lower, more stable feedstock and energy costs during the latter part of the year and the realization of merger-related cost synergies, EBIT declined significantly due to the sharp decline in selling prices.

Polystyrene sales were down 24 percent in 2001, with an 18 percent decrease in prices and a 6 percent decline in volume. Polystyrene prices dropped dramatically throughout 2001 as deteriorating worldwide economic conditions created an oversupply in both the styrene and polystyrene industries. The declining market price of benzene contributed to a significant drop in the cost of styrene, placing strong downward pressure on polystyrene prices. The entire industry was affected by oversupply and all geographic areas experienced highly competitive pricing conditions. Volume was down from 2000 due to declining industry demand and increased inventory destocking in the downstream polystyrene chain. Despite the challenging demand environment, sales of STYRON A-TECH polystyrene resins (introduced in 2000) continued to increase, experiencing an almost fourfold increase in sales. EBIT declined significantly from 2000 as prices fell faster than the decline in styrene monomer costs.

Polypropylene sales improved 15 percent in 2001, as a 28 percent improvement in volume more than offset a 13 percent decline in prices. Volumes improved primarily due to the December 2000 start-up of a new production facility in Freeport, Texas, the acquisition of a polypropylene plant from Basell in Cologne, Germany, and the completion of a debottlenecking project in South Africa at the Safripol facility. Demand for INSPIRE performance polymers (introduced in mid-2000) remained

strong during 2001. Prices fell due to low industry capacity utilization and weakening monomer prices. EBIT for the business declined in 2001 due to continuing weak industry fundamentals.

Outlook for 2002

With the anticipated gradual improvement in global economic conditions during 2002, volume increases are expected in all businesses within the Plastics segment. Polyethylene volumes should increase, as inventory levels appear to be low throughout the global supply chain and the industry expects end-user demand to continue to grow at a 5 percent annual rate. Margins are expected to improve slightly as feedstock costs become less volatile. The Polystyrene business also expects improvement as both increases in base demand and restocking occur. Competitiveness within the polystyrene industry is expected to increase as new capacity comes on line in North America and Latin America. Polypropylene expects strong competitive pressures to continue in North America and Europe. Volume increases are expected through improved capacity utilization and a full year of operation at the Cologne plant. New capacity within the industry, however, will provide challenges during the year.

CHEMICALS

Chemicals sales were $3.6 billion in 2001, compared with $4.1 billion in 2000 and $3.6 billion in 1999. Prices declined 5 percent versus 2000 primarily due to decreases in vinyl chloride monomer ("VCM") and ethylene glycol ("EG") prices, somewhat offset by higher caustic soda prices. Volume decreased 9 percent during the year as higher VCM volumes were more than offset by declining volumes for EG and oxo products. In 2000, prices improved 18 percent from 1999 while volume decreased 4 percent.

EBIT was $111 million in 2001, down significantly from $422 million in 2000 primarily due to declining prices and volumes. EBIT in 2000 was up from $292 million in 1999 as higher feedstock and energy costs were offset by higher VCM, ethylene oxide ("EO")/EG, ethylene dichloride ("EDC") and caustic soda prices.

Declining GDP growth in North America and Europe created an unfavorable supply/demand balance during the first half of 2001 for polyvinyl chloride ("PVC"), the major end-use for VCM. As a result, VCM prices declined throughout the year.

Weakening global demand in the second half of 2001 resulted in lower prices and volume for caustic soda. Prices finished the year on a downward trend.

EG prices and volume were down in 2001 compared with 2000. Weak demand and high fuel gas costs in North America led to the temporary shutdown of the Company's EG plant in Prentiss, Alberta, Canada, in January 2001. Production was restarted in June and the plant operated for the balance of the year.

Prices were up slightly and volume down in the organic intermediates, solvents and monomers business compared with 2000. Volume decreased in part due to a slowdown in the coating and adhesives industry. Ethanol began the year in a shortage situation driven by the diversion of industrial product into fuel applications. Sharply falling energy prices reversed this trend later in the year.

Outlook for 2002

At year-end 2001, trough-level pricing and depressed demand existed for most products in the Chemicals segment. In 2002, gradually improving GDP, especially in the United States, is expected to result in slowly improving demand compared with 2001.

The start-up of a manufacturing facility to produce EG, owned by the Company's OPTIMAL Glycols (Malaysia) Sdn Bhd joint venture, was delayed from late 2001 until the first quarter 2002.

Likewise, the start-up of butyl acetate and butanol facilities owned by the Company's OPTIMAL Chemicals (Malaysia) Sdn Bhd joint venture was also delayed from late 2001 until the first quarter of 2002. New VCM capacity in Freeport, Texas, is scheduled to start up in the first quarter 2002. Additionally, Dow plans to upgrade its global chlor-alkali production facilities with membrane cell technology at its Stade, Germany, facility increasing plant capacity by 15 percent commencing in 2002.

HYDROCARBONS AND ENERGY

Hydrocarbons and Energy sales were $2.5 billion in 2001, compared with $2.6 billion in 2000 and $1.7 billion in 1999. Prices decreased 14 percent while volume grew 10 percent versus last year. Prices fell in response to slowing global economies and a decline in hydrocarbon feedstock costs in the second half of the year. Volume was up mainly due to increased power and refinery sales. In 2000, this segment experienced a 46 percent increase in prices and a 6 percent increase in volume versus 1999. Price increases in 2000 were driven by sharp increases in the cost of crude oil and related hydrocarbon feedstocks in the first half of 2000. Prices declined at the end of 2000 as the supply/demand situation became more balanced.

The Hydrocarbons and Energy business transfers materials to Dow's derivative businesses at cost. EBIT was a loss of $22 million in 2001 versus income of $136 million in 2000 and $8 million in 1999. EBIT in 2000 included a gain of $98 million on the sale of the Cochin pipeline system (see Note C to the Consolidated Financial Statements).

Compared with 2000, the Company's cost of hydrocarbons and energy purchased materials in 2001 decreased approximately $750 million, or 8 percent, due to price. The overall price decrease for the year was due to substantial declines in liquid feedstock and natural gas costs in the second half of the year compared with the last six months of 2000. On average for 2001, crude oil prices were approximately $4 per barrel below 2000 levels. Oil-based feedstocks hit a low point in the fourth quarter of 2001 as crude oil prices averaged $19 per barrel compared with an average of $26 per barrel for the rest of the year. North American natural gas prices started the year at historically high levels and declined throughout the year. Prices hit a low point in the fourth quarter when U.S. Gulf Coast natural gas averaged approximately $2.45 per million Btu.

Ethylene cracker operating rates were down compared with the prior year because of lower derivative demand. A new ethane-based cracker in Bahia Blanca, Argentina, started operations in 2001.

Outlook for 2002

Crude oil and feedstock prices are expected to be slightly below 2001 average levels. Natural gas prices in North America are also expected to be below the 2001 average, driving down Dow's overall energy costs for 2002. Monomer prices are expected to decline in the first part of the year as weak demand continues. Prices may increase in the second half of the year, depending on the pace of the global economic recovery and the underlying feedstock costs.

In November, Dow announced plans to replace the olefins plants at Seadrift and Texas City, Texas, with a new olefin plant by 2005. In the first quarter of 2002, a major ethylene expansion at the Company's light-hydrocarbon plant in Terneuzen, The Netherlands, will start up.

UNALLOCATED AND OTHER

Sales were $276 million in 2001, $325 million in 2000 and $352 million in 1999. Sales in 2001 were down primarily due to the continued devaluation of the South African Rand and two small divestitures within the Sentrachem business. Sales in 2000 were down versus 1999 due to the reassignment of Safripol results to the Plastics segment after Dow obtained full ownership during 1999.

EBIT was a loss of $1.5 billion in 2001 compared with a loss of $175 million in 2000 and a loss of $350 million in 1999. Included in these results are developmental expenses related to Growth Platforms, overhead and other cost recovery variances not allocated to the operating segments, results of insurance and finance company operations, gains and losses on sales of financial assets, foreign exchange hedging results, Dow's share of the earnings/losses of Dow Corning Corporation ("Dow Corning") and Cargill Dow LLC, and the results of several small diversified businesses acquired in Dow's acquisition of Sentrachem Limited. EBIT for 2001 was negatively impacted by several unusual items: a special charge of $1.5 billion for costs related to the Union Carbide merger (see Note B to the Consolidated Financial Statements), Dow's $11 million share of a restructuring charge recorded by Dow Corning, which reduced equity earnings, and an $11 million reinsurance loss on the World Trade Center (reflected in "Insurance and finance company operations"), offset by a $266 million gain on the sale of stock in Schlumberger Ltd. EBIT in 2000 increased versus 1999 as lower stock-based compensation expenses, gains on sales of financial assets, and positive variances from budgets for overhead expenses were partially offset by the recognition of the anticipated loss on the disposition of certain businesses required for regulatory approval of the Union Carbide merger, merger-related expenses, and less favorable insurance and finance company results.

Sales Price and Volume

	2001			***2000***			***1999***		
Percent change from prior year	***Price***	***Volume***	***Total***	***Price***	***Volume***	***Total***	***Price***	***Volume***	***Total***
Operating Segments:									
Performance Plastics	(4)%	(1)%	(5)%	1%	8%	9%	(5)%	7%	2%
Performance Chemicals	1	(6)	(5)		6	6	(5)	7	2
Agricultural Products	(4)	15	11	(4)	5	1	(3)		(3)
Plastics	(10)	1	(9)	15	8	23	3	14	17
Chemicals	(5)	(9)	(14)	18	(4)	14	(6)	5	(1)
Hydrocarbons and Energy	(14)	10	(4)	46	6	52	10	5	15

	2001			*2000*			*1999*		
Total	(6)%		(6)%	9%	5%	14%	(3)%	6%	3%
Geographic Areas:									
United States	(3)%	(5)%	(8)%	9%	4%	13%	(3)%	5%	2%
Europe	(8)	10	2	8	6	14	(5)	7	2
Rest of World	(8)	(2)	(10)	11	7	18	(3)	9	6
Total	(6)%		(6)%	9%	5%	14%	(3)%	6%	3%

Price includes the impact of currency.

COMPANY SUMMARY

Earnings before Interest, Income Taxes and Minority Interests ("EBIT")

EBIT for the Company was $35 million in 2001, compared with $3.1 billion in 2000 and $3.0 billion in 1999. EBIT for 2001 declined as the favorable impact of lower feedstock and energy costs of approximately $750 million was more than offset by the negative impact of lower selling prices of $1.6 billion and lower equity earnings from joint ventures around the world. EBIT was further reduced in the year by the net impact of several significant unusual items: merger-related expenses and restructuring totaling $1.5 billion related to the Union Carbide merger (see Note B to the Consolidated Financial Statements); a charge for IPR&D of $69 million associated with the recent acquisition of Rohm and Haas' agricultural chemicals business (see Note C to the Consolidated Financial Statements); an $11 million reinsurance loss on the World Trade Center (reflected in "Insurance and finance company operations"); Dow's $11 million share of a restructuring charge recorded by Dow

Corning in the third quarter (reflected in "Equity in earnings of nonconsolidated affiliates"); and a $266 million gain on the sale of stock in Schlumberger Ltd. (reflected in "Sundry income net").

EBIT for 2000 improved versus 1999 as increased selling prices, strong volume gains, improved contributions from joint ventures around the world, and the favorable impact of currency on costs more than offset a greater than 50 percent increase in feedstock and energy costs. EBIT in 2000 was reduced $20 million by the net impact of several unusual items. These items included a gain of $98 million on the sale of the Cochin pipeline system, offset by IPR&D costs of $6 million related to the acquisition of Flexible Products, recognition of the anticipated $81 million loss on the disposition of certain businesses required for regulatory approval of the Union Carbide merger, and a nonrecurring charge of $31 million from UOP LLC related primarily to losses associated with certain customer contracts coupled with restructuring charges.

EBIT in 1999 was reduced by the net impact of three unusual items: IPR&D costs of $6 million associated with the acquisition of ANGUS Chemical and a special charge of $94 million for a cost reduction and business restructuring program at Dow AgroSciences, offset by favorable litigation settlements totaling $50 million related to the licensing business. See Note B to the Consolidated Financial Statements for a discussion of IPR&D costs and special charges.

Gross margin for 2001 decreased $1.3 billion compared with 2000. While feedstock and energy costs were down approximately $750 million versus last year, selling prices fell $1.6 billion, drastically compressing margins. Gross margin in 2001 was also negatively impacted by lower operating rates. Gross margin for 2000 decreased $156 million versus 1999, as higher feedstock and energy costs of $3.1 billion more than offset increased selling prices and volume growth.

Dow's global plant operating rate for its chemicals and plastics businesses was 76 percent of capacity in 2001, down from 86 percent in 2000 and 88 percent in 1999. The decline in operating rate reflects reduced run rates at several of the Company's plants in an effort to manage inventory levels during a year of lower demand. Depreciation expense was $1,595 million in 2001, compared with $1,554 million in 2000 and $1,516 million in 1999.

Operating expenses (research and development, and selling, general and administrative expenses) were $2,837 million in 2001, down $107 million from $2,944 million in 2000 due to cost control efforts and the realization of merger-related cost synergies. Excluding growth initiatives, acquisitions and divestitures, operating expenses were down 7 percent from last year. Operating expenses in 1999 were $2,851 million.

Research and development expenses were $1,072 million in 2001, down 4 percent from $1,119 million in 2000 and flat versus $1,075 million in 1999. Research and development expenses declined in 2001 as merger-related cost synergies were realized and spending on growth initiatives was intensely focused on those opportunities with the greatest potential for value creation.

Selling, general and administrative expenses were $1,765 million in 2001, compared with $1,825 million in 2000 and $1,776 million in 1999. Selling, general and administrative expenses represented 6 percent of sales in 2001 and 2000, and 7 percent in 1999.

Operating Costs and Expenses

Cost components as a percent of total	*2001*	*2000*	*1999*
Hydrocarbons and energy	31%	34%	26%
Salaries, wages and employee benefits	13	14	18
Maintenance	4	4	4
Depreciation	6	6	6
Merger-related expenses and restructuring and IPR&D	5		
Supplies, services and other raw materials	41	42	46
Total	100%	100%	100%

During 2001, the Company completed the appraisal of the technology acquired with the purchase of Rohm and Haas' agricultural chemicals business and recorded an IPR&D charge of $69 million in the Agricultural Products segment. See Notes B and C to the Consolidated Financial Statements for further details regarding the acquisition and IPR&D charge.

During 2001, a special charge of $1.5 billion was recorded for merger-related expenses and restructuring, which included transaction costs, employee severance, the write-down of duplicate assets and facilities, and other merger-related expenses. The Company expects its integration plans and synergy activities to result in annual cost savings of $1.1 billion by the end of the first quarter of 2003. By the end of 2001, the Company had taken actions that will result in annual cost savings of more than $650 million. The cost reductions will affect cost of sales, research and development expenses, and selling, general and administrative expenses. These actions are not expected to have an impact on future revenues. For further details, see Note B to the Consolidated Financial Statements.

Dow's share of the earnings of nonconsolidated affiliates in 2001 amounted to $29 million, down significantly from $354 million in 2000 and $95 million in 1999. Current year equity earnings were lower than last year primarily due to the consolidation of Gurit-Essex AG in the first quarter of 2001 and BSL in 2000, and the April 2001 divestiture of Union Carbide's interest in Polimeri Europa, which was required for regulatory approval of the Union Carbide merger (see Note C to the Consolidated Financial Statements). Lower results in several of the Company's basic plastics and chemicals joint ventures, which corresponded with the decline in the results of Dow's basics businesses, also contributed to the decline. The increase in equity earnings in 2000 reflected improved earnings in several of the Company's joint ventures around the world, including strong performance by several plastics joint ventures in Asia Pacific and Latin America, improved results from several hydrocarbons joint ventures in North America, final resolution of BSL matters related to the reconstruction period, and significantly better performance by Union Carbide joint ventures in Kuwait and Europe.

Through May 2000, equity earnings included the Company's share of the financial results of BSL during the reconstruction period. On June 1, 2000, BSL became a wholly owned subsidiary of the Company, after which the financial results of BSL were fully consolidated (see Note C to the Consolidated Financial Statements). From the first quarter of 1995 through the third quarter of 2000, the Company recorded and reserved its share of equity earnings in Dow Corning due to Dow Corning's filing for bankruptcy protection under Chapter 11 and the uncertainty of the recovery of that asset. Beginning in the fourth quarter of 2000, the Company is no longer reserving its share of Dow Corning's earnings. See Note P to the Consolidated Financial Statements for further discussion of Dow Corning's breast implant litigation.

Sundry income 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. Sundry income for 2001 was $394 million, compared with $352 million in 2000 and $329 million in 1999.

Personnel count was 52,689 at December 31, 2001; 53,289 at the end of 2000; and 51,012 at the end of 1999. While the Company added approximately 3,500 employees during 2001 with the acquisitions of Ascot Plc, Rohm and Haas' agricultural chemicals business, EniChem's polyurethanes business, and Gurit-Essex AG, headcount decreased as synergies were realized through the integration of Union Carbide, as well as the integration of these acquisitions. The increase in 2000 over 1999 resulted from the addition of new employees acquired through several acquisitions, most notably the consolidation of BSL in June 2000, which added approximately 2,400 employees.

Net Income

Net income available for common stockholders in 2001 was a loss of $385 million or a loss of $0.43 per share, compared with net income of $1.7 billion or $1.85 per share in 2000 and $1.6 billion or $1.82 per share in 1999. Results for 2001 were negatively impacted by lower selling prices of $1.6 billion, which far exceeded the favorable impact of lower feedstock and energy costs of approximately $750 million, and several unusual items. In addition to the unusual items discussed above for 2001, 2000 and 1999, net income (loss) for 2001 and 1999 was impacted by changes in accounting principles. In 2001, an after-tax transition adjustment gain of $32 million was recognized related to the adoption of Statement of Financial Accounting Standards ("SFAS") No. 133, "Accounting for Derivative Instruments and Hedging Activities." In 1999, an after-tax charge of $20 million was recorded related to the adoption of Statement of Position 98-5, "Reporting on the Costs of Start-Up Activities," the majority of which represented formation costs associated with Union Carbide's joint ventures. See Note A to the Consolidated Financial Statements for additional information regarding changes in accounting principles.

The following table summarizes the impact of unusual items on diluted earnings (loss) per common share:

In dollars	*2001*	*2000*	*1999*
Unusual items:			
IPR&D	$ (0.05)	$ (0.01)	$ (0.01)
Dow AgroSciences' restructuring			(0.07)
Merger-related expenses and restructuring	(1.10)		
Reinsurance company loss on the World Trade Center	(0.01)		
Dow Corning restructuring	(0.01)		
UOP restructuring		(0.02)	
Gain on sale of Schlumberger stock	0.18		
Gain on sale of Cochin pipeline		0.07	
Recognition of anticipated loss on disposition of merger-related businesses		(0.06)	
Litigation settlements			0.05
Cumulative effect of change in accounting principle	0.04		(0.02)
Total unusual items	$ (0.95)	$ (0.02)	$ (0.05)
Earnings (Loss) per common share as reported	$ (0.43)	$ 1.85	$ 1.82
Earnings per common share excluding unusual items	$ 0.52	$ 1.87	$ 1.87

Interest income in 2001 was $85 million, compared with $146 million in 2000 and $132 million in 1999. The decline in interest income reflects a decrease in short-term investments, resulting from the Company's use of cash for acquisitions. Significant acquisitions are discussed in Note C to the Consolidated Financial Statements.

Interest expense (net of capitalized interest) and amortization of debt discount totaled $733 million in 2001, compared with $665 million in 2000 and $564 million in 1999. Interest expense was up versus last year due to an increase in total debt partially offset by lower interest rates. Interest expense was

lower in 1999 due principally to lower average levels of short-term borrowings resulting from the use of proceeds from the issuance of preferred securities of a subsidiary to reduce commercial paper (see Note S to the Consolidated Financial Statements).

The credit for income taxes was $228 million in 2001 versus provisions of $839 million in 2000 and $874 million in 1999. Dow's overall effective tax rate for 2001 was 37.2 percent in 2001, compared with 32.4 percent for 2000 and 33.7 percent for 1999. U.S. and other tax law and rate changes during 2001 did not have a material impact on Dow. The underlying factors affecting Dow's overall effective tax rates are summarized in Note D to the Consolidated Financial Statements.

Minority interests' share of net income in 2001 was $32 million, down from $72 million in 2000 and $74 million in 1999. The decline in minority interest largely resulted from decreased earnings for PBBPolisur S.A., which corresponded with the lower results of Dow's basics businesses.

Liquidity and Capital Resources

The Company's cash flows from operating, investing and financing activities, as reflected in the Consolidated Statements of Cash Flows, are summarized in the following table:

In millions	*2001*	*2000*	*1999*
Cash provided by (used in):			
Operating activities	$ 1,789	$ 1,691	$ 3,562
Investing activities	(2,674)	(1,094)	(3,531)
Financing activities	831	(857)	353
Effect of exchange rate changes on cash	(4)	(9)	(9)
Net change in cash and cash equivalents	$ (58)	$ (269)	$ 375

Cash provided by operating activities in 2001 increased versus 2000 as the impact of lower receivables and inventories offset the impact of lower earnings for the year. Accounts receivable balances decreased in 2001 due to lower sales and increased sales of U.S. trade receivables. Inventory balances at December 31, 2001 (excluding the impact of acquisitions and divestitures) decreased due to lower feedstock costs compared with year-end 2000. Results for the year were negatively impacted by lower selling prices, reduced operating rates and a special charge for merger-related expenses and restructuring. Cash provided by operating activities declined in 2000 versus 1999 due to three primary factors: increases in accounts receivable balances, increases in inventory balances and the consolidation of BSL. Accounts receivable balances increased in 2000 due to higher sales. The year-over-year increase in accounts receivable was also affected by higher sales of U.S. trade receivables at year-end 1999. Inventory balances at December 31, 2000, increased due to higher feedstock costs and a slowdown in sales volume late in the fourth quarter. 1999 year-end inventory balances were lower due to increased customer demand late in the year. The consolidation of BSL and other acquisitions in 2000 resulted in a large impact on the change in other assets and liabilities affecting cash.

Cash used in investing activities increased in 2001 compared with 2000, principally due to $2.3 billion invested in acquisitions, including Rohm and Haas' agricultural chemicals business, Ascot Plc, Gurit-Essex AG, and EniChem's polyurethanes business, offset by lower capital expenditures and investments in nonconsolidated affiliates. The reduction in cash used in investing activities for 2000 compared with 1999 reflected a $2.4 billion increase in cash generated by sales of available-for-sale securities in excess of purchases of similar securities, partially offset by the net impact of lower capital expenditures and an increase in acquisitions, including Flexible Products, General Latex, the remaining 20 percent of BSL, and certain assets of Zeneca Limited and Cargill Hybrid Seeds.

Cash provided by financing activities increased in 2001 compared with 2000 and was attributable to $3.2 billion of new long-term debt offset by reductions of $1.8 billion in other short- and long-term

debt. Additional cash of $500 million was generated from the issuance of preferred securities by a new subsidiary. Cash used in financing activities for 2000 principally relates to the payment of dividends. Cash provided by financing activities in 1999 was generated from the issuance of $500 million of preferred securities and $1.6 billion of new long-term debt offset by reductions of $945 million in other short- and long-term debt.

Working Capital at December 31

In millions	*2001*	*2000*

Current assets	$ 10,308	$ 11,323
Current liabilities	8,125	10,173
Working capital	$ 2,183	$ 1,150
Current ratio	1.27:1	1.11:1

Cash, cash equivalents, marketable securities and interest-bearing deposits decreased $177 million in 2001. At December 31, 2001, total inventories were $4.4 billion, up from $4.2 billion at year-end 2000, primarily due to the addition of inventories related to acquisitions. Days-sales-in-inventory for 2001 were 77 days versus 76 days in 2000. At December 31, 2001, trade receivables were $2.9 billion, down from $3.7 billion last year. Days-sales-outstanding-
in-receivables (excluding the impact of sales of receivables) were 50 days in 2001 and 45 days in 2000.

Short-term borrowings of $1.2 billion at December 31, 2001, were down from $2.5 billion at year-end 2000, primarily due to the issuance of long-term debt. Long-term debt due within one year was $408 million compared with $318 million at year-end 2000. Long-term debt at year-end was $9.3 billion, up from $6.6 billion at year-end 2000 due to the refinancing of short-term borrowings and new long-term debt that was used to fund acquisitions and operations. During the year, $3.2 billion of new long-term debt was incurred and $259 million of long-term debt was retired. See Note I to the Consolidated Financial Statements for information regarding Dow's annual installments on long-term debt for the next five years.

Total debt was $10.9 billion at year-end compared with $9.5 billion at December 31, 2000. Net debt, which equals total debt less cash, cash equivalents, marketable securities and interest-bearing deposits, was $10.6 billion at December 31, 2001, up from $9 billion last year due to the use of funds for acquisitions and operations. Debt as a percent of total capitalization was 48.9 percent at the end of 2001, compared with 42.5 percent at year-end 2000.

At December 31, 2001, the Company had unused and available credit facilities with various U.S. and foreign banks totaling $3.1 billion in support of its working capital requirements and commercial paper borrowings. Additional unused credit facilities totaling $1.0 billion were available for use by foreign subsidiaries. At December 31, 2001, there was a total of $1.7 billion available in SEC registered securities, as well as Japanese yen 70 billion (approximately $533 million) available in yen-denominated securities through the Japanese Ministry of Finance and Euro 1.4 billion (approximately $1.2 billion) available under the Company's Euro Medium-Term Note Program.

The Company uses a number of special purpose entities ("SPEs"), none of which involve Dow equity instruments. Some of the SPEs are used to finance non-operating assets, such as railcars and office buildings. Others are used to provide advantageous financing for manufacturing facilities. Those transactions that meet the requirements for operating lease treatment are recorded as such and are disclosed in Note H to the Consolidated Financial Statements, including information regarding future minimum lease commitments. Dow also uses SPEs for structured financing arrangements and to sell certain qualifying trade accounts receivables. See Notes K, Q and S to the Consolidated Financial Statements for additional information regarding these SPEs. There was no impact to earnings when the

SPEs were established, nor have there been unconsolidated residual earnings or losses in any of the SPEs.

See Note P to the Consolidated Financial Statements for information regarding the Company's outstanding purchase commitments.

In anticipation of the Union Carbide merger, the Company's authorizations to repurchase Dow stock were terminated by the Board of Directors on August 3, 1999. Prior to the terminations and under Board of Directors authorizations, the Company repurchased 12.8 million shares of its outstanding common stock in 1999. In December 1999, the Company sold 10.5 million shares of common stock held in treasury in the open market to facilitate the accounting treatment of the merger as a pooling of interests, which was a condition to the completion of the merger (see Note L to the Consolidated Financial Statements).

Capital Expenditures

Capital spending for the year was $1.6 billion, down 12 percent from $1.8 billion in 2000 and 27 percent from $2.2 billion in 1999. The lower capital spending in 2001 and 2000 reflected the completion of a new ethylene facility built jointly with Nova Chemicals Corporation and a polyethylene project, both of which started up in the second half of 2000, in Alberta, Canada. In 2001, approximately 40 percent of the

Company's capital expenditures was directed toward additional capacity for new and existing products, compared with 50 percent in 2000. Approximately 18 percent was committed to projects related to environmental protection, safety, loss prevention and industrial hygiene in 2001, compared with 13 percent in 2000. The remaining capital was utilized to maintain the Company's existing asset base, including projects related to productivity improvements, energy conservation and facilities support.

Major projects underway during 2001 included expansions of production facilities for VCM and EDC in Freeport, Texas, and chlorine and caustic soda in Stade, Germany. Because the Company designs and builds most of its capital projects in-house, it had no material capital commitments other than for the purchase of materials from fabricators.

Dividends

On February 14, 2002, the Board of Directors announced a quarterly dividend of $0.335 per share, payable April 30, 2002, to stockholders of record on March 28, 2002. Since 1912, the Company has paid a dividend every quarter and in each instance Dow has maintained or increased the quarterly dividend. The Company declared dividends of $1.295 per share in 2001 and $1.16 per share in 2000 and in 1999.

OTHER MATTERS

Accounting Changes

See Note A to the Consolidated Financial Statements for a discussion of accounting changes.

Environmental Matters

Environmental Policies

Dow is committed to world-class environmental, health and safety ("EH&S") performance, as demonstrated by a long-standing commitment to RESPONSIBLE CARE and progress made toward the Company's EH&S Goals for 2005. In 1996, Dow publicly announced its voluntary global EH&S 2005 Goals ambitious performance targets to measure progress toward sustainable development, including targets to reduce chemical emissions, waste and wastewater by 50 percent. Equally aggressive

are Dow's EH&S 2005 Goals to reduce leaks, spills, fires, explosions, work-related injuries and transportation incidents by 90 percent. Dow continues to work aggressively toward attainment of these goals and our "Vision of Zero." More information on Dow's performance regarding environmental matters can be found in Dow's 2000 Public Report.

To meet the Company's public commitments, as well as the stringent laws and government regulations related to environmental protection and remediation to which its global operations are subject, Dow has well-defined policies, requirements and management systems. Dow's EH&S Management System ("EMS") defines for the businesses the "who, what, when and how" needed to achieve the Company's policies, requirements, performance objectives, leadership expectations and public commitments. EMS is also designed to minimize the long-term cost of environmental protection and to comply with these laws and regulations. Furthermore, EMS is integrated into a company-wide Management System for EH&S, Operations, Quality and Human Resources, including implementation of the global EH&S Work Process to improve EH&S performance and to ensure ongoing compliance worldwide. It is Dow's stated EH&S policy that all global operations and products meet Dow's requirements or their country's laws and regulations, whichever are more stringent.

It is also Dow's policy to adhere to a waste management hierarchy that minimizes the impact of wastes and emissions on the environment. First, Dow works to eliminate or minimize the generation of waste and emissions at the source through research, process design, plant operations and maintenance. Second, Dow finds ways to reuse and recycle materials. Finally, unusable or non-recyclable hazardous waste is treated before disposal to eliminate or reduce the hazardous nature and volume of the waste. Treatment may include destruction by chemical, physical, biological or thermal means. Disposal of waste materials in landfills is considered only after all other options have been thoroughly evaluated. Dow has specific requirements for wastes that are transferred to non-Dow facilities.

Dow believes third-party verification is a cornerstone of world-class EH&S performance and building public trust. Dow sites in Europe, Latin America, Australia and North America have received third-party verification of Dow's compliance with RESPONSIBLE CARE and with outside specifications such as ISO-14001. To date, nine sites globally have been ISO-14001 certified. In 1999, three U.S. manufacturing sites and the global headquarters in Midland voluntarily participated in a third-party RESPONSIBLE CARE Management Systems Verification

("MSV") to ensure that Dow has the processes and systems in place to reach the highest standards of EH&S excellence worldwide. In 2000, Canadian sites successfully completed their second third-party RESPONSIBLE CARE systems and performance assessment in the past five years. In 2001, Dow received the American Chemistry Council's highest award, the RESPONSIBLE CARE Leadership Award, for outstanding and sustained EH&S performance and for the second year in a row attained the number one ranking among chemical companies in the Dow Jones Sustainability Group Index.

On February 6, 2001, the Union Carbide merger was completed and Union Carbide became a wholly owned subsidiary of the Company. Prior to the merger, Dow and Union Carbide both were RESPONSIBLE CARE companies, committed to the Guiding Principles of RESPONSIBLE CARE, to EH&S performance improvement and to public accountability. Looking forward, this commitment will become only stronger as the full integration of the companies is achieved. In addition, Dow's EMS and EH&S Goals will be implemented at all Union Carbide sites, as well as all other acquisitions, in order to minimize environmental risks and impacts, both past and future. The following paragraphs outline some of these potential risks and how they are managed to minimize environmental impact and overall costs.

Environmental Remediation

Dow accrues the costs of remediation of its facilities and formerly owned facilities based on current law and existing technologies. The nature of such remediation includes, for example, the

management of soil and groundwater contamination and the closure of contaminated landfills and other waste management facilities. In the case of landfills and other active waste management facilities, Dow recognizes the costs over the useful life of the facility. The policies adopted to properly reflect the monetary impacts of environmental matters are discussed in Note A to the Consolidated Financial Statements. To assess the impact on the financial statements, environmental experts review currently available facts to evaluate the probability and scope of potential liabilities. Inherent uncertainties exist in such evaluations primarily due to unknown conditions, changing governmental regulations and legal standards regarding liability, and evolving technologies. These liabilities are adjusted periodically as remediation efforts progress or as additional technical or legal information becomes available. Dow had an accrued liability of $397 million at December 31, 2001, related to the remediation of current or former Dow-owned sites. The Company has not recorded as a receivable any third-party recovery related to these sites. In addition, Dow continues the lawsuit it filed in November 1999 against several of its insurers, seeking recovery of remediation costs at certain current or former Dow-owned sites.

In addition to current and former Dow-owned sites, under the Federal Comprehensive Environmental Response, Compensation and Liability Act and equivalent state laws (hereafter referred to collectively as "Superfund Law"), Dow is liable for remediation of other hazardous waste sites where Dow allegedly disposed of, or arranged for the treatment or disposal of, hazardous substances. Dow readily cooperates in the remediation of these sites where the Company's liability is clear, thereby minimizing legal and administrative costs. Because Superfund Law imposes joint and several liability upon each party at a site, Dow has evaluated its potential liability in light of the number of other companies that also have been named potentially responsible parties ("PRPs") at each site, the estimated apportionment of costs among all PRPs, and the financial ability and commitment of each to pay its expected share. Management's estimate of the Company's remaining liability for the remediation of Superfund sites at December 31, 2001, was $47 million, which has been accrued, although the ultimate cost with respect to these sites could exceed that amount. In addition, receivables of $7 million for probable recoveries from other PRPs have been recorded related to Superfund sites.

In total, the Company's accrued liability for probable environmental remediation and restoration costs was $444 million at December 31, 2001, compared with $508 million at the end of 2000. 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. It is the opinion of the Company's management that the possibility is remote that costs in excess of those accrued or disclosed will have a material adverse impact on the Company's consolidated financial statements.

The amounts charged to income on a pretax basis related to environmental remediation totaled $47 million in 2001, $53 million in 2000 and $85 million in 1999. Capital expenditures for environmental protection were $179 million in 2001, $166 million in 2000 and $147 million in 1999.

Asbestos-Related Matters of Union Carbide Corporation

Union Carbide Corporation, a wholly owned subsidiary of the Company, has filed its annual report on Form 10-K for the year ended December 31, 2001, and has provided the disclosure below concerning asbestos. Note P to Dow's Consolidated Financial Statements provides some additional information related to Union Carbide's asbestos-related liability. In view of the exposure of Union Carbide to asbestos-related liability noted below, the related insurance coverage available to Union Carbide, and its stated intention to aggressively defend or reasonably resolve, as appropriate, the pending asbestos cases and any additional asbestos cases as may be filed in the future, the Company does not consider Union Carbide's asbestos-related liability to be material to Dow's consolidated financial statements. The disclosures contained in Union Carbide's Form 10-K are provided in this filing to more broadly disclose information concerning Union Carbide's asbestos-related liability. References below to the "Corporation" or to "UCC" refer to Union Carbide Corporation.

"The Corporation and its subsidiaries are involved in a number of legal proceedings and claims with both private and governmental parties. These cover a wide range of matters, including, but not limited to: product liability; trade regulation; governmental regulatory proceedings; health, safety and environmental matters; employment; patents; contracts; taxes; and commercial disputes. In some of these legal proceedings and claims, the cost of remedies that may be sought or damages claimed is substantial.

"Separately, the Corporation is involved in a large number of asbestos-related suits filed, for the most part, in various state courts at various times over the past three decades. These suits principally allege personal injury resulting from exposure to asbestos-containing products and frequently seek both general and punitive damages, often in very large amounts. The alleged claims primarily relate to products that UCC sold in the past; alleged exposure to asbestos-containing products located on UCC's premises; and UCC's responsibility for asbestos suits filed against a divested subsidiary Amchem Products, Inc. ("Amchem").

"Typically, the Corporation is only one of many named defendants, many of which, including UCC and Amchem, were members of the Center for Claims Resolution ("CCR") which sought to resolve asbestos cases on behalf of its members. As members of the CCR, the Corporation's and Amchem's strategy was to settle claims as two relatively small (percentage wise) members of the CCR group. The CCR has ceased operating in this manner although it still administers certain settlements. The Corporation now utilizes Peterson Asbestos Claims Enterprise for claims processing and insurance invoicing.

"During the third quarter of 2001, plaintiffs filed asbestos-related suits against the Corporation and Amchem at a rate greater than the historical average, but filings returned to a lower rate during the fourth quarter. This third quarter increase in claims against UCC and Amchem was influenced by the bankruptcy filings of several former CCR members. More recently filed cases against the Corporation and Amchem contain a greater percentage of claims that do not allege a particular injury ("Non-Specific Claims").

"Dow now owns 100 percent of the Corporation and has been retained to provide its experience in mass tort litigation to manage the Corporation's response to asbestos-related liability. The Corporation has hired new outside counsel to serve as national trial counsel to aggressively defend or reasonably resolve, as appropriate, both pending and future cases. The Corporation expects more asbestos-related suits to be filed against it and Amchem in the future. The Corporation cannot estimate the range of liability that will result from these future cases. As a consequence of all of the above-stated facts, the Corporation lacks any remotely comparable loss history from which to assess either the number of or the value of future claims. To date, substantially all of the amounts paid by the Corporation to resolve asbestos-related suits have been covered by third-party insurance.

"For pending cases, the Corporation had asbestos-related litigation accruals of $233 million and $118 million at December 31, 2001 and 2000, respectively, and related insurance recovery receivables of $223 million and $108 million at December 31, 2001 and 2000, respectively. The litigation accrual at December 31, 2001, was determined by considering the number of pending claims filed against the Corporation and Amchem, taking into account claims administration records indicating the severity of the alleged injury. Because many of the pending claims are Non-Specific Claims, the Corporation has calculated several probable liability outcomes based on estimates and historic distributions of personal injury claim types and settlement and resolution amounts. The liability estimates ranged from a low of $158 million to a high of $277 million. Upon review by management, it was determined that the most reasonable estimate was $233 million, which is well within the estimable range. The Corporation's asbestos litigation accrual at

December 31, 2001, increased compared with the end of 2000 principally as a result of the higher level of claims that were filed during the third quarter of 2001.

"The insurance receivable for asbestos-related liability at December 31, 2001, was determined after a thorough review of applicable insurance policies and the 1985 Wellington Agreement, to which the Corporation 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 insurance receivable associated with the most reasonable probable liability outcome for pending claims is $223 million and has been recorded. This resulted in a net income statement impact to the Corporation of $2 million for asbestos-related expense in 2001. In all of the probable outcomes for pending claims, sufficient insurance coverage exists to provide a similar percentage of coverage for the accrued liability. If the maximum probable outcome were in fact to materialize, the impact would be an additional charge of $2 million to income, which is not material to the financial statements. In addition, insurance is available for future claims.

"The amounts recorded for the litigation accrual and related insurance receivable are based upon currently known facts. If the number of claims and the cost to resolve such claims differ from the current assumptions used by management in arriving at its estimates for the recorded amounts, this may impact management's future assessments of the ultimate outcome of asbestos-related legal proceedings.

"While it is not possible at this time to determine with certainty the ultimate outcome of any of the legal proceedings and claims referred to in this filing, management believes that adequate provisions have been made for probable losses with respect to pending claims and proceedings, and that the ultimate outcome of all known and future claims, after provisions for insurance, will not have a material adverse effect on the consolidated financial position of the Corporation, but could have a material effect on consolidated results of operations in a given quarter or year. Should any losses be sustained in connection with any of such legal proceedings and claims in excess of provisions provided and available insurance, they will be charged to income when determinable."*

There are inherent uncertainties associated with asbestos litigation. Dow recognizes that future facts, events and legislation may alter estimates of probable outcomes. Dow assessed the known facts and circumstances of Union Carbide's asbestos-related litigation and believes that adequate provisions have been made for probable losses with respect to pending claims and proceedings.

*

Union Carbide Corporation, Annual Report on Form 10-K for the Year Ended December 31, 2001, Management's Discussion and Analysis of Financial Condition and Results of Operations, Asbestos-Related Matters.

Euro Conversion

On January 1, 1999, the Euro was adopted as the national currency of 11 European Union member nations. During a three-year transition period, the Euro was used as a non-cash transactional currency. The Company began conducting business in the Euro on January 1, 1999. Effective January 1, 2001, the Company had completed its change of functional currencies for its subsidiaries operating in the participating member nations from the national currency to the Euro. The conversion to the Euro did not have an operational impact on the Company or an impact on the results of operations, financial position, or liquidity of its European businesses.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Dow's business operations give rise to market risk exposure due to changes in foreign exchange rates, interest rates, commodity prices and other market factors such as equity prices. To manage such risks effectively, the Company enters into hedging transactions, pursuant to established guidelines and policies, which enable it to mitigate the adverse effects of financial market risk. A secondary objective is to add value by creating additional exposure within established limits and policies; derivatives used for this purpose are not designated as hedges per SFAS No. 133. The potential impact of creating such additional exposures is not material to the Company's results.

The global nature of Dow's business requires active participation in the foreign exchange markets. As a result of investments, production facilities and other operations on a global basis, the Company has assets, liabilities and cash flows in currencies other than the U.S. dollar. The primary objective of the Company's foreign exchange risk management is to optimize the U.S. dollar value of net assets and cash flows, keeping the adverse impact of currency movements to a minimum. To achieve this objective, the Company hedges on a net exposure basis using foreign currency forward contracts, over-the-counter option contracts, and nonderivative instruments in foreign currencies. Main exposures are related to assets and liabilities denominated in the currencies of Europe, Asia Pacific and Canada; bonds denominated in foreign currencies mainly the Euro and Japanese yen; and economic exposure derived from the risk that currency fluctuations could affect the U.S. dollar value of future cash flows.

The majority of the foreign exchange exposure is related to European currencies and the Japanese yen.

The main objective of interest rate risk management is to reduce the total funding cost to the Company and to alter the interest rate exposure to the desired risk profile. Dow uses interest rate swaps, "swaptions," and exchange traded instruments to accomplish this objective. The Company's primary exposure is to the U.S. dollar yield curve.

Inherent in Dow's business is exposure to price changes for several commodities. Some exposures can be hedged effectively through liquid tradable financial instruments. Cracker feedstocks and natural gas constitute the main commodity exposures. Over-the-counter and exchange traded instruments are used to hedge these risks when feasible.

Dow has a portfolio of equity securities derived from its acquisition and divestiture activity. This exposure is managed in a manner consistent with the Company's market risk policies and procedures.

Dow uses value at risk ("VAR"), stress testing and scenario analysis for risk measurement and control purposes. VAR estimates the potential gain or loss in fair market values, given a certain move in prices over a certain period of time, using specified confidence levels. On an ongoing basis, the Company estimates the maximum gain or loss that could arise in one day, given a two-standard-deviation move in the respective price levels. These amounts are relatively insignificant in comparison to the size of the equity of the Company. The VAR methodology used by Dow is based primarily on the variance/covariance statistical model. The following table is given as an example:

Average Daily VAR at December 31*

In millions	***2001***	***2000***
Foreign exchange	$ 13	$ 7
Interest rate	70	45
Equity exposures, net of hedges	9	26
Commodities	5	28

* Using a 95 percent confidence level

See Note J to the Consolidated Financial Statements for further disclosure regarding market risk.

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ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

Management Statement of Responsibility

The management of The Dow Chemical Company and its subsidiaries prepared the accompanying consolidated financial statements and has responsibility for their integrity, objectivity and freedom from material misstatement or error. These statements were prepared in accordance with accounting principles generally accepted in the United States of America. The financial statements include amounts that are based on management's best estimates and judgments. Management also prepared the other information in this annual report and is responsible for its accuracy and consistency with the financial statements. The Board of Directors, through its Audit Committee, assumes an oversight role with respect to the preparation of the financial statements.

Management recognizes its responsibility for fostering a strong ethical climate so that the Company's affairs are conducted according to the highest standards of personal and corporate conduct. Management has established and maintains internal controls that provide reasonable assurance as to the integrity and reliability of the financial statements, the protection of assets from unauthorized use or disposition, and the prevention and detection of fraudulent financial reporting.

Internal controls provide for appropriate division of responsibility and are documented by written policies and procedures that are communicated to employees with significant roles in the financial reporting process and updated as necessary. Management continually monitors internal controls for compliance. The Company maintains a strong internal auditing program that independently assesses the effectiveness of the internal controls and recommends possible improvements.

Deloitte & Touche LLP, independent auditors, with direct access to the Board of Directors through its Audit Committee, have audited the consolidated financial statements prepared by the Company, and their report follows.

Management has considered recommendations from the internal auditors and Deloitte & Touche LLP concerning internal controls and has taken actions that are cost-effective in the circumstances to respond appropriately to these recommendations. Management further believes the controls are adequate to accomplish the objectives discussed herein.

/s/ M. D. PARKER	/s/ J. P. REINHARD
M. D. Parker President and Chief Executive Officer	J. P. Reinhard Executive Vice President and Chief Financial Officer

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Independent Auditors' Report

To the Stockholders and Board of Directors of The Dow Chemical Company:

We have audited the accompanying consolidated balance sheets of The Dow Chemical Company and its subsidiaries as of December 31, 2001 and 2000, and the related consolidated statements of income, stockholders' equity, comprehensive income and cash flows for each of the three years in the period ended December 31, 2001. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on the financial statements based on our audits. The consolidated financial statements give retroactive effect to the merger of The Dow Chemical Company and Union Carbide Corporation, which has been accounted for as a pooling of interests as described in Note C to the consolidated financial statements. We did not audit the consolidated balance sheet of Union Carbide Corporation as of December 31, 2000, or the related statements of income, stockholders' equity and cash flows of Union Carbide Corporation for the two years in the period ended December 31, 2000, which consolidated statements reflect total assets of $8,346 million as of December 31, 2000, and total revenues of $6,526 million and $5,870 million for the years ended December 31, 2000 and 1999, respectively. Those consolidated statements were audited by other auditors whose report has been furnished to us, and our opinion, insofar as it relates to the amounts included for Union Carbide Corporation for 2000 and 1999, is based solely on the report of such other auditors.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits and the report of the other auditors provide a reasonable basis for our opinion.

In our opinion, based on our audits and the report of the other auditors, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of The Dow Chemical Company and its subsidiaries at December 31, 2001 and 2000, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2001, in conformity with accounting principles generally accepted in the United States of America.

As discussed in Notes A and J to the consolidated financial statements, effective January 1, 2001, The Dow Chemical Company changed its method of accounting for derivative instruments and hedging activities to conform to Statement of Financial Accounting Standards No. 133.

/s/ DELOITTE & TOUCHE LLP

Deloitte & Touche LLP
Midland, Michigan
February 13, 2002

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Independent Auditors' Report

To the Stockholders and Board of Directors of Union Carbide Corporation:

We have audited the consolidated balance sheet of Union Carbide Corporation and subsidiaries as of December 31, 2000, and the related consolidated statements of income, stockholders' equity, and cash flows for each of the years in the two-year period ended December 31, 2000 (not presented separately herein). These consolidated financial statements are the responsibility of the company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above (not presented separately herein) present fairly, in all material respects, the financial position of Union Carbide Corporation and subsidiaries at December 31, 2000, and the results of their operations and their cash flows for each of the years in the two-year period ended December 31, 2000, in conformity with accounting principles generally accepted in the United States of America.

/s/ KPMG LLP

KPMG LLP
Stamford, Connecticut
January 22, 2001, except as to Note 17, which is as of February 6, 2001

The Dow Chemical Company and Subsidiaries
Consolidated Statements of Income

(In millions, except per share amounts) For the years ended December 31	***2001***	***2000***	***1999***
Net Sales	$ 27,805	$ 29,534	$ 25,859
Cost of sales	23,652	24,131	20,300
Research and development expenses	1,072	1,119	1,075
Selling, general and administrative expenses	1,765	1,825	1,776
Amortization of intangibles	178	139	160
Purchased in-process research and development charges	69	6	6
Special charges			94
Merger-related expenses and restructuring	1,487		
Insurance and finance company operations, pretax income	30	85	150
Equity in earnings of nonconsolidated affiliates	29	354	95
Sundry income net	394	352	329
Earnings before Interest, Income Taxes and Minority Interests	35	3,105	3,022
Interest income	85	146	132
Interest expense and amortization of debt discount	733	665	564
Income (Loss) before Income Taxes and Minority Interests	(613)	2,586	2,590
Provision (Credit) for income taxes	(228)	839	874
Minority interests' share in income	32	72	74
Preferred stock dividends			5

(In millions, except per share amounts) For the years ended December 31	2001	2000	1999
Income (Loss) before Cumulative Effect of Change in Accounting Principle	(417)	1,675	1,637
Cumulative effect of change in accounting principle	32		(20)
Net Income (Loss) Available for Common Stockholders	$ (385)	$ 1,675	$ 1,617
Share Data			
Earnings (Loss) before cumulative effect of change in accounting principle per common share basic	$ (0.46)	$ 1.88	$ 1.87
Earnings (Loss) per common share basic	$ (0.43)	$ 1.88	$ 1.85
Earnings (Loss) before cumulative effect of change in accounting principle per common share diluted	$ (0.46)	$ 1.85	$ 1.84
Earnings (Loss) per common share diluted	$ (0.43)	$ 1.85	$ 1.82
Common stock dividends declared per share of Dow common stock	$ 1.295	$ 1.16	$ 1.16
Weighted-average common shares outstanding basic	901.8	893.2	874.9
Weighted-average common shares outstanding diluted	901.8	904.5	893.5

See Notes to the Consolidated Financial Statements.

The Dow Chemical Company and Subsidiaries
Consolidated Balance Sheets

(In millions) At December 31	2001	2000
Assets		
Current Assets		
Cash and cash equivalents	$ 220	$ 278
Marketable securities and interest-bearing deposits	44	163
Accounts and notes receivable:		
Trade (net of allowance for doubtful receivables 2001: $123; 2000: $103)	2,868	3,655
Other	2,230	2,764
Inventories:		
Finished and work in process	3,569	3,396
Materials and supplies	871	817
Deferred income tax assets current	506	250
Total current assets	10,308	11,323
Investments		
Investment in nonconsolidated affiliates	1,581	2,096
Other investments	1,663	2,528
Noncurrent receivables	802	674
Total investments	4,046	5,298
Property		

(In millions) At December 31	***2001***	***2000***
Property	35,890	34,852
Less accumulated depreciation	22,311	21,141
Net property	13,579	13,711
Other Assets		
Goodwill (net of accumulated amortization 2001: $569; 2000: $459)	3,130	1,928
Deferred income tax assets noncurrent	2,248	1,968
Deferred charges and other assets	2,204	1,763
Total other assets	7,582	5,659
Total Assets	$ 35,515	$ 35,991

See Notes to the Consolidated Financial Statements.

The Dow Chemical Company and Subsidiaries
Consolidated Balance Sheets

(In millions, except share amounts) At December 31	***2001***	***2000***
Liabilities and Stockholders' Equity		
Current Liabilities		
Notes payable	$ 1,209	$ 2,519
Long-term debt due within one year	408	318
Accounts payable:		
Trade	2,713	2,975
Other	926	1,594
Income taxes payable	190	258
Deferred income tax liabilities current	236	35
Dividends payable	323	217
Accrued and other current liabilities	2,120	2,257
Total current liabilities	8,125	10,173
Long-Term Debt	9,266	6,613
Other Noncurrent Liabilities		
Deferred income tax liabilities noncurrent	760	1,165
Pension and other postretirement benefits noncurrent	2,475	2,238
Other noncurrent obligations	3,539	3,012
Total other noncurrent liabilities	6,774	6,415
Minority Interest in Subsidiaries	357	450

(In millions, except share amounts) At December 31	2001	2000
Preferred Securities of Subsidiaries	1,000	500
Stockholders' Equity		
Common stock (authorized 1,500,000,000 shares of $2.50 par value each; issued 981,377,562)	2,453	2,453
Additional paid-in capital		
Unearned ESOP shares	(90)	(103)
Retained earnings	11,112	12,675
Accumulated other comprehensive loss	(1,070)	(560)
Treasury stock at cost (shares 2001: 76,540,276; 2000: 84,280,041)	(2,412)	(2,625)
Net stockholders' equity	9,993	11,840
Total Liabilities and Stockholders' Equity	$ 35,515	$ 35,991

See Notes to the Consolidated Financial Statements.

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The Dow Chemical Company and Subsidiaries
Consolidated Statements of Cash Flows

(In millions) For the years ended December 31	2001	2000	1999
Operating Activities			
Income (Loss) before cumulative effect of change in accounting principle	$ (417)	$ 1,675	$ 1,637
Adjustments to reconcile net income (loss) to net cash provided by operating activities:			
Depreciation and amortization	1,815	1,738	1,709
Purchased in-process research and development charges	69	6	6
Provision (Credit) for deferred income tax	(391)	143	260
Undistributed (earnings) losses of nonconsolidated affiliates	25	(222)	37
Minority interests' share in income	32	72	74
Net gain on sales of consolidated companies			(26)
Net (gain) loss on sales of nonconsolidated affiliates	2	(13)	
Net gain on sales of property and businesses	(49)	(102)	(55)
Other net gain	(245)	(340)	(63)
Merger-related expenses and restructuring	906		
Tax benefit nonqualified stock option exercises	39	37	70
Changes in assets and liabilities that provided (used) cash:			
Accounts and notes receivable	1,340	(335)	(133)
Inventories	34	(559)	65
Accounts payable	(586)	429	193
Other assets and liabilities	(785)	(838)	(212)
Cash provided by operating activities	1,789	1,691	3,562
Investing Activities			

(In millions) For the years ended December 31	2001	2000	1999
Capital expenditures	(1,587)	(1,808)	(2,176)
Proceeds from sales of property and businesses	153	166	128
Acquisitions of businesses, net of cash received	(2,301)	(678)	(441)
Proceeds from sales of consolidated companies			38
Investments in nonconsolidated affiliates	(92)	(186)	(208)
Advances to nonconsolidated affilitates, net of cash received	203	(179)	(24)
Proceeds from sales of nonconsolidated affiliates	181	47	
Purchases of investments	(2,561)	(3,074)	(4,186)
Proceeds from sales of investments	3,330	4,618	3,338
Cash used in investing activities	(2,674)	(1,094)	(3,531)
Financing Activities			
Changes in short-term notes payable	(1,573)	136	(352)
Payments on long-term debt	(259)	(562)	(593)
Proceeds from issuance of long-term debt	3,165	401	1,640
Purchases of treasury stock	(5)	(4)	(480)
Proceeds from sales of common stock	146	150	667
Purchase of subsidiary preferred stock			(102)
Proceeds from issuance of preferred securities of subsidiaries	500		500
Distributions to minority interests	(80)	(74)	(36)
Dividends paid to stockholders	(1,063)	(904)	(891)
Cash provided by (used in) financing activities	831	(857)	353
Effect of Exchange Rate Changes on Cash	(4)	(9)	(9)
Summary			
Increase (Decrease) in cash and cash equivalents	(58)	(269)	375
Cash and cash equivalents at beginning of year	278	547	172
Cash and cash equivalents at end of year	$ 220	$ 278	$ 547

See Notes to the Consolidated Financial Statements.

The Dow Chemical Company and Subsidiaries
Consolidated Statements of Stockholders' Equity

(In millions) For the years ended December 31	2001	2000	1999
Common Stock			
Balance at beginning of year	$ 2,453	$ 818	$ 818
3-for-1 stock split		1,635	
Balance at end of year	2,453	2,453	818

(In millions) For the years ended December 31	2001	2000	1999
Additional Paid-in Capital			
Balance at beginning of year		165	
3-for-1 stock split		(184)	
Issuance of treasury stock at more than cost			165
Other		19	
Balance at end of year			165
Unearned ESOP Shares			
Balance at beginning of year	(103)	(57)	(69)
Transfer from temporary equity		(64)	
Shares allocated to ESOP participants	13	18	12
Balance at end of year	(90)	(103)	(57)
Retained Earnings			
Balance at beginning of year	12,675	13,357	12,680
Net income (loss) before preferred stock dividends	(385)	1,675	1,622
3-for-1 stock split		(1,451)	
Preferred stock dividends declared			(5)
Common stock dividends declared	(1,162)	(906)	(888)
Other	(16)		(52)
Balance at end of year	11,112	12,675	13,357
Accumulated Other Comprehensive Income (Loss)			
Unrealized Gains on Investments at beginning of year	325	298	137
Unrealized gains (losses)	(319)	27	161
Balance at end of year	6	325	298
Cumulative Translation Adjustments at beginning of year	(834)	(646)	(525)
Translation adjustments	(148)	(188)	(121)
Balance at end of year	(982)	(834)	(646)
Minimum Pension Liability at beginning of year	(51)	(63)	(63)
Adjustments	(21)	12	
Balance at end of year	(72)	(51)	(63)
Accumulated Derivative Gain (Loss) at beginning of year			
Cumulative transition adjustment	65		
Net hedging results	(45)		
Reclassification to earnings	(42)		

(In millions) For the years ended December 31	2001	2000	1999
Balance at end of year	(22)		
Total accumulated other comprehensive loss	(1,070)	(560)	(411)
Treasury Stock			
Balance at beginning of year	(2,625)	(2,932)	(3,100)
Purchases	(5)	(4)	(477)
Sales of treasury shares in open market			284
Issuance to employees and employee plans	218	311	361
Balance at end of year	(2,412)	(2,625)	(2,932)
Net Stockholders' Equity	$ 9,993	$ 11,840	$ 10,940

See Notes to the Consolidated Financial Statements.

The Dow Chemical Company and Subsidiaries
Consolidated Statements of Comprehensive Income

(In millions) For the years ended December 31	2001	2000	1999
Net Income (Loss) Available for Common Stockholders	$ (385)	$ 1,675	$ 1,617
Other Comprehensive Income (Loss), Net of Tax (tax amounts shown below for 2001, 2000, 1999)			
Unrealized gains (losses) on investments:			
Unrealized holding gains (losses) during the period (less tax of $(34), $20, $127)	(60)	35	213
Less: Reclassification adjustments for net amounts included in net income (loss) (less tax of $(152), $(4), $(31))	(259)	(8)	(52)
Cumulative translation adjustments (less tax of $(21), $(33), $(47))	(148)	(188)	(121)
Minimum pension liability adjustments (less tax of $(8), $5, $0)	(21)	12	
Net loss on cash flow hedging derivative instruments (less tax of $(13) for 2001)	(22)		
Total other comprehensive income (loss)	(510)	(149)	40
Comprehensive Income (Loss)	$ (895)	$ 1,526	$ 1,657

See Notes to the Consolidated Financial Statements.

The Dow Chemical Company and Subsidiaries
Notes to the Consolidated Financial Statements
Dollars in millions, except as noted

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A Summary of Significant Accounting Policies and Accounting Changes

Principles of Consolidation and Basis of Presentation

The accompanying consolidated financial statements of The Dow Chemical Company and its subsidiaries ("Dow" or the "Company") include the assets, liabilities, revenues and expenses of all majority-owned subsidiaries over which the Company exercises control and for which control is other than temporary. Intercompany transactions and balances are eliminated in consolidation. Investments in nonconsolidated affiliates (20-50 percent owned companies, joint ventures and partnerships, and majority-owned subsidiaries over which the Company does not exercise control) are accounted for on the equity basis.

The consolidated financial statements give retroactive effect to the merger of the Company and Union Carbide Corporation ("Union Carbide"), which was completed on February 6, 2001, and accounted for as a pooling of interests (see Note C for additional information).

Certain reclassifications of prior years' amounts have been made to conform to the presentation adopted for 2001.

Use of Estimates in Financial Statement Preparation

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires the use of estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period.

The Company's consolidated financial statements include amounts that are based on management's best estimates and judgments. Actual results could differ from those estimates.

Foreign Currency Translation

The local currency has been primarily used as the functional currency throughout the world. Translation gains and losses of those operations that use local currency as the functional currency are included in the consolidated balance sheets as "Accumulated other comprehensive income (loss)" ("AOCI"). Where the U.S. dollar is used as the functional currency, foreign currency gains and losses are reflected in income.

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. These accruals are adjusted periodically as assessment and remediation efforts progress or as additional technical or legal information becomes available. Accruals for environmental liabilities are included in the consolidated balance sheets as "Other noncurrent obligations" at undiscounted amounts. Accruals for related insurance or other third-party recoveries for environmental liabilities are recorded when it is probable that a recovery will be realized and are included in the consolidated balance sheets as "Noncurrent receivables."

Environmental costs are capitalized if the costs extend the life of the property, increase its capacity, and/or mitigate or prevent contamination from future operations. Costs related to environmental contamination treatment and cleanup are charged to expense. Estimated future incremental operations, maintenance and management costs directly related to remediation are accrued when such costs are probable and estimable.

Cash and Cash Equivalents

Cash and cash equivalents include time deposits and readily marketable securities with original maturities of three months or less.

Financial Instruments

The Company calculates the fair value of financial instruments using quoted market prices whenever available. When quoted market prices are not available for various types of financial instruments (such as forwards, options and swaps), the Company uses standard pricing models, which take into account the present value of estimated future cash flows.

The Company utilizes derivative instruments to manage exposures to currency exchange rates, commodity prices and interest rate risk. The fair values of all derivative instruments are recognized as assets or liabilities at the balance sheet date. Changes in the fair value of these instruments are reported in income or AOCI, depending on the use of the derivative and whether it qualifies for hedge accounting treatment.

Gains and losses on derivative instruments qualifying as cash flow hedges are recorded in AOCI, to the extent the hedges are effective, until the underlying transactions are recognized in income. To the extent effective, gains and losses on derivative and non-derivative instruments used as hedges of the Company's net investment in foreign operations are recorded in AOCI as part of the cumulative translation adjustment. The ineffective portions of cash flow hedges and hedges of net investment in foreign operations, if any, are recognized in income immediately.

Gains and losses on derivative instruments designated and qualifying as fair value hedging instruments as well as the offsetting losses and gains on the hedged items are reported in income in the

same accounting period. Derivative instruments not designated as hedges are marked-to-market at the end of each accounting period with the results included in income.

Inventories

Inventories are stated at the lower of cost or market. The method of determining cost is used consistently from year to year at each subsidiary and varies among last-in, first-out ("LIFO"); first-in, first-out ("FIFO"); and average cost.

Property

Land, buildings and equipment, including property under capital lease agreements, are carried at cost less accumulated depreciation. Depreciation is based on the estimated service lives of depreciable assets and is generally provided using the straight-line method. For most assets capitalized through 1996, the declining balance method was used. Fully depreciated assets are retained in property and depreciation accounts until they are removed from service. In the case of disposals, assets and related depreciation are removed from the accounts, and the net amounts, less proceeds from disposal, are included in income.

The Company evaluates long-lived assets and certain identifiable intangibles for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. When it is probable that undiscounted future cash flows will not be sufficient to recover an asset's carrying amount, the asset is written down to its fair value. Long-lived assets to be disposed of are reported at the lower of carrying amount or fair value less cost to sell.

Investments

Investments in debt and marketable equity securities, including warrants, are classified as either trading, available-for-sale, or held-to-maturity. Investments classified as trading are reported at fair value with unrealized gains and losses included in income. Those classified as available-for-sale are reported at fair value with unrealized gains and losses recorded in AOCI. Those classified as held-to-maturity are recorded at amortized cost. The cost of investments sold is determined by specific identification.

The excess of the cost of investments in subsidiaries over the values assigned to assets and liabilities acquired through June 30, 2001, is shown as goodwill and is amortized on a straight-line basis over its estimated useful life (maximum 40 years) through December 31, 2001. There were no investments made after June 30, 2001, that resulted in the recording of goodwill. Effective January 1, 2002, goodwill will no longer be amortized, but will be subject to the impairment provisions of Statement of Financial Accounting Standards ("SFAS") No. 142, "Goodwill and Other Intangible Assets." See Accounting Changes below for further discussion.

Revenue

Sales are recognized when the revenue is realized or realizable, and has been earned. In general, revenue is recognized as risk and title to the product transfers to the customer, which usually occurs at the time shipment is made; as services are rendered; or in relation to licensee production levels.

Income Taxes

The Company accounts for income taxes using the asset and liability method. Under this method deferred tax assets and liabilities are recognized for the future tax consequences of temporary differences between the carrying amounts and tax bases of assets and liabilities using enacted rates.

Annual tax provisions include amounts considered sufficient to pay assessments that may result from examinations of prior year tax returns; however, the amount ultimately paid upon resolution of issues raised may differ from the amounts accrued. Provision is made for taxes on undistributed earnings of foreign subsidiaries and related companies to the extent that such earnings are not deemed to be permanently invested.

Earnings per Common Share

The calculation of earnings per common share is based on the weighted-average number of the Company's common shares outstanding during the applicable period. Periods prior to 2001 have been adjusted to reflect the effects of the issuance of common shares of the Company in exchange for the common shares of Union Carbide. The calculation for diluted earnings per common share reflects the effect of all dilutive potential common shares that were outstanding during the respective periods.

Accounting Changes

In 1998, the American Institute of Certified Public Accountants ("AICPA") issued Statement of Position ("SOP") 98-1, "Accounting for the Costs of Computer Software Developed or Obtained for Internal Use," which requires capitalization of certain internal-use computer software costs. SOP 98-1 was adopted by the Company on January 1, 1999. The Company's previous accounting policy was to expense such costs as incurred; therefore, adoption of this statement resulted in a favorable, though immaterial, initial impact on earnings.

In 1998, the AICPA issued SOP 98-5, "Reporting on the Costs of Start-Up Activities," which provides guidance on the financial reporting of start-up costs and organization costs, requiring those costs to be expensed as incurred. The Company's previous policy regarding the treatment of these costs was substantially consistent with SOP 98-5, with the exception of certain nonconsolidated affiliates of Union Carbide, which capitalized the cost of start-up activities. Therefore, adoption of this standard on January 1, 1999, resulted in a charge of $27 ($20 after tax) as a cumulative effect of change in accounting principle.

In December 1999, the U.S. Securities and Exchange Commission ("SEC") issued Staff Accounting Bulletin ("SAB") 101, "Revenue Recognition in Financial Statements," which summarizes the SEC's views in applying generally accepted accounting principles to revenue recognition. The Company has determined that SAB 101's revenue recognition guidelines are consistent with the Company's existing revenue recognition policies; therefore, SAB 101 did not have a material impact on the Company's consolidated financial statements.

In May 2000, the Emerging Issues Task Force ("EITF") of the Financial Accounting Standards Board ("FASB") reached a consensus with respect to EITF Issue 00-10, "Accounting for Shipping and Handling Fees and Costs." EITF 00-10 recognized the inconsistencies in practice with regard to the recording of shipping and handling costs incurred by most companies that sell goods. The Company, with the exception of Union Carbide, historically recorded freight and any directly related associated cost of transporting finished product to customers as a reduction of net sales. At the end of 2000, following the guidance of EITF 00-10, the Company reclassified these costs to cost of sales for all periods presented. As a result, reported net sales increased approximately 4 percent, with a corresponding increase in cost of sales.

The FASB issued SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities," in June 1998. SFAS No. 133 requires an entity to recognize all derivatives as either assets or liabilities in the statement of financial position and measure those instruments at fair value. In June 1999, the FASB issued SFAS No. 137, "Accounting for Derivative Instruments and Hedging Activities Deferral of the Effective Date of FASB Statement No. 133." In June 2000, the FASB issued SFAS No. 138, "Accounting for Certain Derivative Instruments and Certain Hedging Activities," an amendment of

SFAS No. 133. Based on the revised effective date, the Company adopted SFAS No. 133, as amended by SFAS No. 138, on January 1, 2001. See Note J regarding the impact of adoption.

In September 2000, the FASB issued SFAS No. 140, "Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities." This statement, which replaces SFAS No. 125, revises the standards for accounting for securitizations and other transfers of financial assets and collateral, and requires certain disclosures, but it carries over most of the provisions of SFAS No. 125 without reconsideration. SFAS No. 140 was effective for transfers and servicing of financial assets and extinguishments of liabilities occurring after March 31, 2001. It was effective for recognition and reclassifications of collateral and for disclosures relating to securitization transactions and collateral for fiscal years ending after December 15, 2000. The adoption of SFAS No. 140 did not have a material impact on the Company's consolidated financial statements. See Note Q regarding sales of certain qualifying accounts receivables.

In July 2001, the FASB issued SFAS No. 141, "Business Combinations," and SFAS No. 142, "Goodwill and Other Intangible Assets." These statements replace Accounting Principles Board ("APB") Opinion No. 16, "Business Combinations," and APB Opinion No. 17, "Intangible Assets," respectively. Under SFAS No. 141 all business combinations initiated after June 30, 2001, are accounted for using only the purchase method. SFAS No. 142 is effective for fiscal years beginning after December 15, 2001. Under this statement, goodwill will not be amortized, but will be subject to impairment testing, with the exception of goodwill arising from investments in nonconsolidated affiliates, which will continue to be subject to the impairment provisions of APB No. 18, "The Equity Method of Accounting for Investments in Common Stock." Amortization of existing goodwill ($130 in 2001, $108 in 2000 and $130 in 1999) will cease upon adoption of SFAS No. 142 on January 1, 2002. Net negative goodwill of $89 associated with the acquisition of BSL (see Note C) will be written off and included in the cumulative effect of change in accounting principle in the first quarter of 2002. The impact of the Company's goodwill impairment test will result in a charge of approximately $21, which will also be included in the cumulative effect of change in accounting principle in the first quarter of 2002.

In August 2001, the FASB issued SFAS No. 143, "Accounting for Asset Retirement Obligations," which requires an entity to record the fair value of a liability for an asset retirement obligation in the period in which it is incurred and a corresponding increase in the related long-lived asset. The liability is adjusted to its present value each period and the asset is depreciated over its useful life. A gain or loss may be incurred upon settlement of the liability. SFAS No. 143 is effective for fiscal years beginning after June 15, 2002. The Company is currently assessing the impact of adopting this statement.

In October 2001, the FASB issued SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets." This statement replaces SFAS No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to be Disposed of," and provisions of APB Opinion No. 30, "Reporting the Results of Operations Reporting the Effects of Disposal of a Segment of a Business, and Extraordinary, Unusual and Infrequently Occurring Events and Transactions" for the disposal of segments of a business. The statement creates one accounting model, based on the framework established in SFAS No. 121, to be applied to all long-lived assets including discontinued operations. SFAS No. 144 is effective for fiscal years beginning after December 15, 2001. The Company determined that its current accounting policy for the impairment of long-lived assets is consistent with SFAS No. 144.

B Purchased In-Process Research and Development, Special Charges, and Merger-Related Expenses and Restructuring

Purchased In-Process Research and Development

Purchased in-process research and development ("IPR&D") represents the value assigned in a purchase business combination to research and development projects of the acquired business that had commenced but had not yet been completed at the date of acquisition and which have no alternative future use. In accordance with SFAS No. 2, "Accounting for Research and Development Costs," as clarified by FASB Interpretation No. 4, amounts assigned to IPR&D meeting the above-stated criteria must be charged to expense as part of the allocation of the purchase price of the business combination.

The method used to determine the purchase price allocations for IPR&D for the acquisitions listed below was an income or cash flow method. The calculations were based on estimates of operating earnings, capital charges (representing the effect of capital expenditures), trade name royalties, charges for core technology, and working capital requirements to support the cash flows attributed to the technologies. The after-tax cash flows were bifurcated to reflect the stage of development of each technology. Discount rates reflecting the stage of development and the risk associated with each technology were used to value IPR&D. The Company has substantial experience in research and development projects for new products, which enables it to establish realistic time frames for the completion of such projects; therefore, the Company believes there is limited risk that the projects described below will not be concluded within reasonable proximity to the expected completion dates.

Dow completed its acquisition of Mycogen in 1998. In allocating the purchase price for Mycogen and its related acquisitions of several small seed companies, the Company recorded a pretax IPR&D charge of $79 against the Agricultural Products segment in 1998. Projects associated with the technology acquired included Bt technology, an input trait used to protect crops from insect pests, various biotechnology projects to enhance crop quality or output traits, and germplasm development. 2000 activity included the abandonment of three projects and revisions to planned future spending on active projects. Expenditures related to these projects were $16 in 2001, $8 in 2000 and $4 in 1999. At year-end 2001, the remaining projects ranged from 11 percent to 67 percent complete, with expected completion in years 2002 through 2008 at an estimated additional cost of $56.

In 1998, the Company completed the appraisal of the technology acquired with the purchase of Eli Lilly and Company's 40 percent interest in DowElanco and recorded a pretax IPR&D charge of $220 in the Agricultural Products segment. Projects associated with the technology included naturally derived insecticides, herbicides and fungicides, and various biotechnology projects to enhance crops and to protect them from disease and pests. 2000 activity included the abandonment of two projects and revisions to planned future spending on active projects. Expenditures related to these projects were $5 in 2001 and 2000, and $4 in 1999. At year-end 2001, the remaining projects ranged from 22 percent to 74 percent complete, with expected completion in years 2006 through 2009 at an estimated additional cost of $82.

In 1999, the Company completed the appraisal of the technology acquired with the purchase of ANGUS Chemical (see Note C) and recorded a pretax IPR&D charge of $6 as part of the Performance Chemicals segment. Projects associated with technology acquired are expected to improve profitability and create new growth opportunities in the nitroparaffin-based business. Projects range from 3 percent to 100 percent complete.

In 2000, the Company completed the appraisal of the technology acquired with the purchase of Flexible Products (see Note C) and recorded a pretax IPR&D charge of $6 in the Performance Plastics segment. Projects associated with technology acquired are expected to improve profitability and create new growth opportunities in the Polyurethanes formulations-based business. Projects range from 50 percent to 100 percent complete.

In 2001, the Company completed the appraisal of the technology acquired with the purchase of Rohm and Haas Company's agricultural chemicals business (see Note C) and recorded a pretax IPR&D charge of $69 in the Agricultural Products segment. Projects associated with technology acquired are expected to create new growth opportunities for fungicides. When acquired, projects were approximately 5 percent complete, with expected completion in 2007 at an estimated additional cost of $39.

Special Charges

In 1999, a special charge of $94 was recorded for a cost reduction and business restructuring program in the Agricultural Products segment. The program, which was announced in November 1999, impacted operations in the United States, Europe, Middle East/Africa and Latin

America. The charge included severance of $51 for approximately 700 employees, inventory write-offs of $17 and asset write-offs of $26. During 2000, $45 of the severance reserve was used to reduce headcount by 690 individuals, leaving a balance of $6. Additionally, seeds inventory was written off, fully utilizing the inventory reserve. The remaining balance at December 31, 2000, for additional asset write-offs and accrued demolition costs related to the plan was $20. At December 31, 2001, the program was substantially complete.

Merger-Related Expenses and Restructuring

On March 29, 2001, Dow's management made certain decisions relative to employment levels, duplicate assets and facilities and excess capacity resulting from the Union Carbide merger**.** These decisions were based on management's assessment of the actions necessary to achieve synergies as a result of the merger. The economic effects of these decisions, combined with merger-related transaction costs and certain asset impairments, resulted in a pretax special charge in the first quarter of 2001 of $1,384, which was included in Unallocated and Other for segment reporting purposes.

The special charge included $643 for employee-related costs, which consisted predominantly of provisions for employee severance, change of control obligations, medical and retirement benefits, and outplacement services. The Company's integration plans included a workforce reduction of approximately 4,500 people, primarily from Union Carbide's administrative, marketing, purchasing, research and development, and manufacturing workforce. The charge for severance was based upon the severance plan provisions communicated to employees. The Company expects that approximately 66 percent of the employee-related costs will be expended in cash within the first two years following the merger, though the timing of severance payments is dependent upon employee elections. Expenditures with respect to employee-related costs associated with pension and postretirement benefit plans will occur over a much more extended period that is not currently determinable. During the fourth quarter of 2001, a review of the Company's integration plans resulted in a revision to the estimated workforce reduction, as actual reductions had exceeded the original plans. Consequently, the severance provision was increased $56 for an additional workforce reduction of approximately 600 people. As of December 31, 2001, severance of $333 had been paid to approximately 3,100 former employees.

The special charge included $122 for transaction costs, which consisted primarily of investment banking, legal and accounting fees. All of these costs had been paid at March 31, 2001.

The special charge included $619 for the write-down of duplicate assets and facilities directly related to the merger, the loss on divestitures required to obtain regulatory approval for the merger, asset impairments and lease abandonment reserves. Duplicate assets consisted principally of capitalized software costs, information technology equipment, and research and development facilities and equipment, all of which were written off during the first quarter. The fair values of the impaired assets, which include production facilities and transportation equipment, were determined based on discounted

cash flows and an appraisal, respectively. These components of the special charge will require limited future cash outlays, and will result in a decrease in annual depreciation of approximately $62. In November 2001, the decision to close a research and development facility in Bound Brook, New Jersey, was reversed, in light of difficult economic conditions; the facility will now remain open until at least 2005. Consequently, $55 of the special charge was reversed during the fourth quarter. At December 31, 2001, $77 of the reserve remained for the abandonment of leased facilities and demolition costs.

In addition to the special charge, one-time merger and integration costs totaled $115 in 2001.

The following table summarizes the activity in the special charge reserve for 2001:

	1st Quarter 2001 Special Charge	*Adjustments to Reserve*	*Charges Against Reserve*	*Balance at Year-end*
Labor-related costs	$ 643	$ 43	$ (333)	$ 353
Transaction costs	122		(122)	
Write-down of duplicate assets and facilities	619	(55)	(487)	77
One-time merger and integration costs		115	(115)	
Total	$ 1,384	$ 103	$ (1,057)	$ 430

C Acquisitions and Divestitures

Union Carbide Corporation Merger

In August 1999, The Dow Chemical Company and Union Carbide announced a definitive merger agreement for a tax-free, stock-for-stock transaction. Under the agreement, Union Carbide stockholders received 1.611 shares of Dow stock (on a post-split basis) for each share of Union Carbide stock they owned, for a total of approximately 219 million shares. Based upon Dow's closing price of $124 $^{11}/_{16}$ (pre-split) on August 3, 1999, the transaction was valued at $66.96 per Union Carbide share, or $11.6 billion in aggregate including the assumption of $2.3 billion of net debt. According to the agreement, the merger was subject to certain conditions, including approval by Union Carbide stockholders and review by antitrust regulatory authorities in the United States, Europe and Canada. Union Carbide stockholders approved the merger on December 1, 1999. On May 3, 2000, the European Commission approved the merger subject to certain conditions. On February 6, 2001, after receiving clearance from the U.S. Federal Trade Commission, the Canadian Competition Bureau and other jurisdictions around the world, Union Carbide merged with a subsidiary of The Dow Chemical Company, and Union Carbide became a wholly owned subsidiary of Dow. As part of the regulatory approval process, the Company agreed to:

- Divest certain European polyethylene assets. *(The sale of Union Carbide's 50 percent ownership in Polimeri Europa S.r.l. to EniChem was completed in April 2001.)*

- Divest and license certain polyethylene gas-phase technology globally. *(Completed in the first quarter of 2001.)*

- Contribute the UNIPOL polyethylene process technology licensing and polyethylene conventional catalyst businesses of Union Carbide to Univation Technologies LLC. *(Occurred simultaneously with the merger.)*

- Divest Dow's worldwide ethyleneamines business (with the exception of Dow's facility in Terneuzen, The Netherlands). *(Business was sold to Huntsman International, LLC in the first quarter of 2001.)*

- Divest Dow's worldwide ethanolamines business. *(Business was sold to INEOS plc in the first quarter of 2001.)*

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- Divest the North American GAS/SPEC gas treating business. *(Business was sold to INEOS plc in the first quarter of 2001.)*

The Union Carbide merger was accounted for as a pooling of interests. Accordingly, the consolidated financial statements give retroactive effect to the merger and include the combined accounts of Dow and Union Carbide for all periods presented. See Note B regarding a special charge for merger-related expenses and restructuring recorded during 2001.

The following table shows the historical results of Dow and Union Carbide for the periods prior to the consummation of the merger:

	2000	*1999*
Net Sales:		
Dow	$ 23,008	$ 19,989
Union Carbide	6,526	5,870
Total	$ 29,534	$ 25,859
Net Income:		
Dow	$ 1,513	$ 1,326
Union Carbide	162	291
Total	$ 1,675	$ 1,617

	2000	1999

Other Significant Acquisitions and Divestitures

In April 1995, the Company signed an agreement with Bundesanstalt für vereinigungsbedingte Sonderaufgaben ("BvS") for the privatization of three state-owned chemical companies in eastern Germany, Buna Sow Leuna Olefinverbund ("BSL"). Economic transfer of business operations to the Company, through the privatization agreement and various service agreements, occurred in June 1995, and the Company began a reconstruction program of the sites. In September 1997, the Company acquired 80 percent ownership in BSL for an investment of $174; BvS maintained 20 percent ownership. The Company had a call option and BvS a put option for the remaining 20 percent of BSL after the reconstruction period. In May 2000, the Company announced the completion of the reconstruction program and, for an additional investment of $156, acquired the remaining 20 percent of BSL. On June 1, 2000, BSL became a wholly owned subsidiary of the Company and, beginning on that date, the financial results of BSL are fully consolidated.

BvS provided certain incentives during the reconstruction period to cover portions of the reconstruction program and retained environmental cleanup obligations for existing facilities. Incentives related to property construction reduced the cost basis of such property. Incentives related to expenses during the reconstruction period were recognized as such expenses were incurred. During the reconstruction period, the Company included the financial results of BSL as a nonconsolidated affiliate.

In October 1999, the Company acquired CanStates Holdings, Inc. and its subsidiary, ANGUS Chemical Company, from TransCanada PipeLines Limited for approximately $350. ANGUS Chemical is a global leader in the manufacture and marketing of specialty nitroparaffins and their derivatives, which are sold into over 40 industries.

In February 2000, the Company acquired Flexible Products Company of Marietta, Georgia, for approximately $160. Flexible Products Company was one of the largest polyurethane systems suppliers in North America and a leader in custom polyurethane foam formulations and dispensing technology.

In December 2000, the Company sold its 32.5 percent ownership interest in the Cochin pipeline system to NOVA Chemicals Corp. for $119, resulting in a pretax gain of $98. The Company initially announced its agreement to sell its interest in the pipeline to a unit of Williams' energy services

business in August 2000. In October 2000, NOVA Chemicals Corp., one of the owners of Cochin, exercised its right of first refusal as provided in the contractual agreements among the Cochin owners.

In January 2001, the Company acquired the 50 percent interest in Gurit-Essex AG that it did not previously own from Gurit-Heberlein AG for approximately $390. Gurit-Essex AG is the largest European supplier of automotive adhesives, sealants and body engineered systems for the automotive OEM and aftermarket. The acquisition has globalized Dow Automotive's product availability and doubled the Company's adhesives, sealants and body engineered systems business.

On February 9, 2001, Dow announced it had reached an agreement with EniChem to acquire its polyurethanes business, which had annual sales of approximately $500. The acquisition, which strengthens Dow's polyurethanes portfolio by enhancing its European presence, was completed in April 2001 for a net cash cost of approximately $80. Under the terms of the agreement, Dow divested Union Carbide's 50 percent interest in Polimeri Europa S.r.l. to EniChem in order to satisfy the European Commission's conditions for approval of the merger. Allocation of the purchase price to the assets acquired and liabilities assumed has not been completed for this acquisition. Final determination of the fair values to be assigned may result in adjustments to the preliminary values assigned at the date of acquisition.

On March 8, 2001, Dow announced it had reached an agreement to acquire Rohm and Haas Company's agricultural chemicals business, including working capital, for approximately $1 billion. After receiving regulatory approval, the Company announced completion of the acquisition on June 1, 2001. During the third quarter of 2001, the Company recorded a pretax charge of $69 for IPR&D costs as part of the allocation of the purchase price (see Note B). Allocation of the purchase price to the assets acquired and liabilities assumed has not been completed for this acquisition. Final determination of the fair values to be assigned may result in adjustments to the preliminary values assigned at the date of acquisition, and could principally impact goodwill and property.

On March 29, 2001, Dow announced it was making a tender offer to acquire 100 percent of the outstanding shares of Ascot Plc, a publicly traded U.K. company with annual chemical sales of approximately $335. The European Commission granted regulatory approval of the acquisition on May 11, 2001, and the Company declared its offer to acquire Ascot wholly unconditional on June 1, 2001. The acquisition is valued at approximately $450. Dow has integrated the Fine Chemicals and Specialty Chemicals businesses of Ascot into Dow's Performance Chemicals' business group. Allocation of the purchase price to the assets acquired and liabilities assumed has not been completed for this acquisition. Final determination of the fair values to be assigned may result in adjustments to the preliminary values assigned at the date of acquisition.

See Note B regarding certain charges recorded related to acquisitions and divestitures.

D Income Taxes

Operating loss carryforwards at December 31, 2001, amounted to $4,765 compared with $3,541 at the end of 2000. Of the operating loss carryforwards, $276 is subject to expiration in the years 2002 through 2006. The remaining balances expire in years beyond 2006 or have an indefinite carryforward period. Tax credit carryforwards at December 31, 2001, amounted to $508, of which $387 is subject to expiration in the years 2002 through 2006. The remaining tax credit carryforwards expire in years beyond 2006.

Undistributed earnings of foreign subsidiaries and related companies which are deemed to be permanently invested amounted to $5,202 at December 31, 2001, $4,297 at December 31, 2000, and $3,897 at December 31, 1999. It is not practicable to calculate the unrecognized deferred tax liability on those earnings.

The Company's valuation allowance of $264 at December 31, 2000, related to BSL (see Note C). Upon consolidation of BSL on June 1, 2000, the valuation allowance was $495. During 2000, this allowance was reduced $231. The valuation allowance reduces BSL's deferred tax asset in recognition of the uncertainty regarding full realization of the tax benefit. BSL's deferred tax asset is a result of tax net operating losses during the five-year reconstruction period and the excess of the tax basis over the financial reporting basis of its fixed assets. The Company's valuation allowance was $295 at December 31, 2001, up $31 from year-end 2000 primarily due to the addition of new valuation allowances for operations in Argentina, Brazil and South Africa.

In 2000, Germany enacted a lower corporate income tax rate effective January 1, 2001. This change reduced the value of the deferred tax asset of BSL by $201 and resulted in a $9 decrease in the provision for deferred income tax for the other Dow subsidiaries in Germany.

Domestic and Foreign Components of Income (Loss) before Income Taxes and Minority Interests

	2001	*2000*	*1999*
Domestic	$ (1,214)	$ 861	$ 1,248
Foreign	601	1,725	1,342
Total	$ (613)	$ 2,586	$ 2,590

Reconciliation to U.S. Statutory Rate

	2001	*2000*	*1999*
Taxes at U.S. statutory rate	$ (215)	$ 905	$ 906
Amortization of nondeductible intangibles	37	30	35
Foreign rates other than 35%(1)	32	(33)	(1)
U.S. tax effect of foreign earnings and dividends	2	(13)	(31)
U.S. business and R&D credits	(45)	(21)	(23)
Other net	(39)	(29)	(12)

	2001	2000	1999
Total tax provision (credit)	$ (228)	$ 839	$ 874
Effective tax rate	37.2%	32.4%	33.7%

(1)
2000 includes the effects of changes in German tax rates on deferred tax balances and a reduction in the BSL valuation allowance.

Provision (Credit) for Income Taxes

	2001			2000			1999		
	Current	Deferred	Total	Current	Deferred	Total	Current	Deferred	Total
Federal	$ (111)	$ (431)	$ (542)	$ 179	$ 161	$ 340	$ 234	$ 143	$ 377
State and local	31	(24)	7	23					