DOW CHEMICAL CO /DE/ Form 10-Q October 31, 2006

UNITED STATES SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

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

For the quarterly period ended SEPTEMBER 30, 2006

Commission File Number: 1-3433

THE DOW CHEMICAL COMPANY

(Exact name of registrant as specified in its charter)

Delaware

38-1285128

(State or other jurisdiction of incorporation or organization)

(I.R.S. Employer Identification No.)

2030 DOW CENTER, MIDLAND, MICHIGAN 48674

(Address of principal executive offices) (Zip Code)

989-636-1000

(Registrant s telephone number, including area code)

Not applicable

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

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required

to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

x Yes

o No

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

Large accelerated filer X

Accelerated filer o

Non-accelerated filer o

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

Class
Common Stock, par value \$2.50 per share

Outstanding at September 30, 2006 955,192,111 shares

The Dow Chemical Company

QUARTERLY REPORT ON FORM 10-QFor the quarterly period ended September 30, 2006

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PART I FINANCIAL INFORMATION

Item 1. Financial Statements.

The Dow Chemical Company and Subsidiaries

Consolidated Statements of Income

	Three Months End	ded	Nine Months Ended		
To the second of the second of the second	Sept. 30,	Sept. 30,	Sept. 30,	Sept. 30,	
In millions, except per share amounts (Unaudited)	2006	2005	2006	2005	
Net Sales	\$ 12,359	\$ 11,261	\$ 36,888	\$ 34,390	
Cost of sales	10,600	9,610	31,027	28,247	
Research and development expenses	291	264	856	790	
Selling, general and administrative expenses	420	379	1,210	1,153	
Amortization of intangibles	13	13	37	40	
Restructuring charges	579		579		
Equity in earnings of nonconsolidated affiliates	317	240	717	739	
Sundry income net	4	39	87	178	
Interest income	48	42	128	98	
Interest expense and amortization of debt discount	155	168	462	543	
Income before Income Taxes and Minority Interests	670	1,148	3,649	4,632	
Provision for income taxes	137	328	831	1,153	
Minority interests share in income	21	19	69	60	
Net Income Available for Common Stockholders	\$ 512	\$ 801	\$ 2,749	\$ 3,419	
Share Data					
Earnings per common share basic	\$ 0.53	\$ 0.83	\$ 2.85	\$ 3.55	
Earnings per common share diluted	\$ 0.53	\$ 0.82	\$ 2.82	\$ 3.51	
Common stock dividends declared per share of common stock	\$ 0.375	\$ 0.335	\$ 1.125	\$ 1.005	
Weighted-average common shares outstanding basic	959.1	965.2	963.5	962.1	
Weighted-average common shares outstanding diluted	969.9	978.4	975.5	974.2	
Depreciation	\$ 492	\$ 454	\$ 1,418	\$ 1,378	
Capital Expenditures	\$ 420	\$ 400	\$ 1,118	\$ 1,050	

See Notes to the Consolidated Financial Statements.

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The Dow Chemical Company and Subsidiaries

Consolidated Balance Sheets

Assets	In millions (Unaudited)	Sept. 30, 2006	Dec. 31, 2005	
Current Assets		2000	2005	
Cash and cash equivalents \$ 3,134 \$ 3,806 Marketables secrities and interset-bearing deposits 35 32 Accounts and notes receivable: \$2,78 \$1,24 Tracle (not of allowance for doubtful receivables 2006; \$132; 2005; \$169) \$2,78 \$1,24 Inventories \$1,18 \$3,19 Deferred income tax assets current 269 321 Total current assets urent 269 321 Investments 2,623 2,785 Other investments 2,096 2,156 Noncurrent receivables 2,72 2,74 Noncurrent receivables 2,72 2,74 Total investments 4,93 4,154 Property 43,374 41,94 Less accumulated depreciation 30,016 28,397 Not property 43,374 41,94 Less accumulated depreciation 30,016 28,397 Not property 43,348 3,68 Other Assets 3,48 3,68 Abestorse lacid insurance receivables on ocurrent <t< td=""><td></td><td></td><td></td></t<>				
Markeable securities and interest-bearing deposits 35 32 Accounts and notes receivables 2006: \$132; 2005; \$169) 5,278 5,124 Other 3,046 2,802 Inventories 6,118 5,319 Deferred income tax assets current 269 321 Total current assets 17,880 17,404 Investments 2,623 2,285 Other investments 2,096 2,156 Other investments 2,096 2,156 Noncurrent receivables 2,096 2,156 Property 4,991 4,715 Property 3,337 41,934 Less accumulated depreciation 30,016 28,397 Other Assets 3,230 3,140 Other intangible assets (net of accumulated amortization 2006; \$612; 2005; \$552) 441 443 Deferred charges and other assets 10,348 3,658 Abestos-related insurance receivables noncurrent 750 818 Deferred charges and other assets 10,348 10,278 Total other assets		\$ 2.134	\$ 3,806	
Accounts and notes receivable:	•			
Trade (net of allowance for doubtful receivables 2006: \$132; 2005: \$169) 5,278 5,124 Other 3,046 2,802 Inventories 6,118 5,319 Deferred income tax assets current 269 321 Investments 17,040 Investments 2,623 2,285 Other investments 2,096 2,156 Noncurrent receivables 2,096 2,156 Total investments 4,991 4,715 Property 4,991 4,715 Property 43,374 41,944 Less accumulated depreciation 30,016 28,397 Other robustes 30,016 28,397 Other intagible assets (net of accumulated amortization 2006: \$612; 2005: \$552) 441 443 Deferred come tax assets noncurrent 750 818 Abestoss-related insurance receivables noncurrent 750 818 Deferred charges and other assets 10,348 10,278 Total other assets 10,348 10,278 Total other assets 3,580 3,931	- ·	33	32	
Other 3,046 2,802 Inventories 6,118 5,319 Deferred income tax assets current 269 321 Total current assets 17,800 17,404 Investments 2,623 2,285 Investments 2,096 2,156 Noncurrent receivables 272 274 Total investments 4,991 4,715 Property 43,374 41,934 Less accumulated depreciation 30,016 28,397 Net property 43,374 41,934 Less accumulated depreciation 30,016 28,397 Net property 3,385 13,537 Other Assets 3,386 3,587 Goodwill 3,230 3,140 Other intagible assets (net of accumulated amortization 2006: \$612; 2005: \$552) 441 443 Deferred cincome tax assets noncurrent 750 818 Deferred cincome tax assets noncurrent 750 818 Deferred charges and other assets 2,41 2,19 Total Asset		5 279	5 124	
Inventories				
Defered income tax assets eurent 269 321 Total current assets 17,800 17,404 Investments 17,800 17,404 Investment in nonconsolidated affiliates 2,623 2,285 Other investments 2,096 2,156 Noncurrent receivables 272 274 Noncurrent receivables 4,991 4,155 Property 43,374 41,934 Less accumulated depreciation 30,016 28,397 Net property 13,358 13,537 Other Assets 3,230 3,140 Other Assets 3,230 3,140 Other Intangible assets (net of accumulated amortization 2006: \$612; 2005: \$552) 441 443 Deferred cinome tax assets on oncurrent 750 818 Assets or clated insurance receivables noncurrent 750 818 Deferred charges and other assets 10,348 10,278 Total other assets 10,348 10,278 Total other assets 2,41 2,19 Total other assets 3,80 3,23<				
Total current assets Investments 17,880 17,404 Investments 2,623 2,285 Other investments 2,096 2,156 Noncurrent receivables 2,72 274 Total investments 4,991 4,715 Property 43,374 41,934 Less accumulated depreciation 30,016 28,397 Net property 13,358 13,537 Other Assets 3,230 3,140 Goodwill 3,230 3,140 Other intangible assets (net of accumulated amortization 2006: \$612; 2005: \$552) 441 443 Deferred income tax assets noncurrent 750 818 Deferred charges and other assets 2,441 2,219 Total other assets 10,348 10,278 Total Other assets 10,348 10,278 Total Assets 8 1,279 Total Other assets 1,320 3,580 Total Other assets 1,272 1,829 Total Other assets 1,272 1,829 Total Other assets				
Investments				
Investment in nonconsolidated affiliates		17,880	17,404	
Oher investments 2,96 2,156 Noncurrent receivables 272 274 Total investments 4,991 4,715 Property 43,374 41,934 Les accumulated depreciation 30,016 28,397 Net property 13,358 13,537 Other Assets 750 13,358 13,537 Other Assets 3,230 3,140 3,436 3,658 Obter intangible assets (net of accumulated amortization 2006; \$612; 2005; \$552) 441 43 43 Deferred dincome tax assets noncurrent 750 818 3,658 4,588 4,589 4,594		2 (22		
Noncurrent receivables 272 274 Total investments 4,991 4,715 Property 43,374 41,934 Less accumulated depreciation 30,016 28,397 Net property 13,358 13,537 Other Assets 3,230 3,140 Goodwill 3,230 3,140 Other intangible assets (net of accumulated amortization 2006; \$612; 2005; \$552) 441 443 Deferred income tax assets noncurrent 3,486 3,658 Asbestos-related insurance receivables noncurrent 750 818 Deferred charges and other assets 2,441 2,219 Total other assets 10,348 10,278 Total other assets 46,577 \$ 45,934 Liabilities and Stockholders Equity Equity Current Liabilities \$ 181 \$ 241 Long-term debt due within one year \$ 282 1,279 Accounts payable \$ 181 \$ 241 Long-term debt due within one year \$ 2,36 3,381 Other 1,772				
Total investments				
Property 43,374 41,934 Less accumulated depreciation 30,016 28,397 Net property 13,358 13,537 Other Assets 7 13,358 13,537 Other Intangible assets (net of accumulated amortization 2006: \$612; 2005: \$552) 441 443 Other intangible assets (net of accumulated amortization 2006: \$612; 2005: \$552) 441 443 Deferred income tax assets anoncurrent 750 818 18 18 Absetos-related insurance receivables noncurrent 750 818 10,248 10,278 Total Other assets 750 10,348 10,278 10,348 10,278 Total Other assets 750 44,577 24,503 <td< td=""><td></td><td></td><td></td></td<>				
Property	Total investments	4,991	4,715	
Less accumulated depreciation 30,016 28,397 Net property 13,358 13,537 Other Assets 13,230 3,140 Other Intangible assets (net of accumulated amortization 2006: \$612; 2005: \$552) 441 443 Deferred income tax assets noncurrent 3,486 3,658 Asbestos-related insurance receivables noncurrent 750 818 Deferred charges and other assets 10,348 10,278 Total other assets 10,348 10,278 Total Assets \$ 46,577 \$ 45,934 Liabilities and Stockholders Equity Current Liabilities \$ 181 \$ 241 Notes payable \$ 181 \$ 241 Long-term debt due within one year \$ 28 1,279 Accounts payable: \$ 1,772 1,829 Income taxes payable 642 493 Income taxes payable 642 493 Incerned income tax liabilities current 2,506 2,342 Total current liabilities 10,088 10,663 Long-Term Debt 9,199 9,	Property			
Net property 13,358 13,537 Other Assets 3,230 3,140 Other intangible assets (net of accumulated amortization 2006; \$612; 2005; \$552) 441 443 Deferred income tax assets noncurrent 750 818 Deferred charges and other assets 2,441 2,219 Total other assets 10,348 10,278 Total other assets 10,348 10,278 Total Assets \$46,577 \$45,934 Liabilities and Stockholders Equity Current Liabilities Notes payable \$181 \$241 Long-term debt due within one year 828 1,279 Accounts payable \$1,772 1,829 Income taxe payable \$1,772 1,829 Other 1,772 1,829 Income taxes payable \$62 493 Deferred income tax liabilities current 217 201 Dividends payable \$62 347 Accrued and other current liabilities \$1,008 1,068 Long-Term Debt 9,199	Property			
Other Assets	Less accumulated depreciation	30,016	28,397	
Goodwill 3,230 3,140 Other intangible assets (net of accumulated amortization 2006; \$612; 2005; \$552) 441 443 Deferred income tax assets noncurrent 3,486 3,658 Asbestos-related insurance receivables noncurrent 750 818 Deferred charges and other assets 2,441 2,219 Total other assets 10,348 10,278 Total Assets *46,577 *45,934 Liabilities and Stockholders Equity Current Liabilities Notes payable \$181 \$241 Long-term debt due within one year 828 1,279 Accounts payable: **1772 1,829 Trade 3,580 3,931 Other 1,772 1,829 Deferred income tax liabilities current 217 201 Dividends payable 362 347 Accrued and other current liabilities 2,506 2,342 Total current liabilities 10,088 10,663 Long-Term Debt 9,199 9,186 Other Noncurrent Liabilities	Net property	13,358	13,537	
Other intangible assets (net of accumulated amortization 2006: \$612; 2005: \$552) 441 443 Deferred income tax assets noncurrent 3,486 3,658 Asbestos-related insurance receivables noncurrent 750 818 Deferred charges and other assets 2,441 2,219 Total other assets 10,348 10,278 Total Assets \$ 46,577 \$ 45,934 Liabilities and Stockholders Equity Current Liabilities Notes payable \$ 181 \$ 241 Long-term debt due within one year 828 1,279 Accounts payable: \$ 1,772 1,829 Income taxes payable 642 493 Deferred income tax liabilities current 217 201 Dividends payable 362 347 Accured and other current liabilities 2,506 2,342 Total current liabilities 10,088 10,663 Long-Term Debt 9,199 9,186 Other Noncurrent benefits noncurrent 1,084 1,395 Pension and other postretirement benefits noncurrent	Other Assets			
Deferred income tax assets noncurrent 3,486 3,658 Asbestos-related insurance receivables noncurrent 750 818 Deferred charges and other assets 2,441 2,219 Total other assets 10,348 10,278 Total Assets \$ 46,577 \$ 45,934 Liabilities and Stockholders Equity Urrent Liabilities Notes payable \$ 181 \$ 241 Long-term debt due within one year 828 1,279 Accounts payable: 3,580 3,931 Other 1,772 1,829 Income taxes payable 642 493 Deferred income tax liabilities current 217 201 Dividends payable 362 347 Accrued and other current liabilities 2,506 2,342 Total current liabilities 10,088 10,663 Long-Term Debt 9,199 9,186 Other Noncurrent Liabilities 1,084 1,395 Pension and other postretirement benefits noncurrent 3,400 3,308 Asbestos-related li	Goodwill	3,230	3,140	
Deferred income tax assets noncurrent 3,486 3,658 Asbestos-related insurance receivables noncurrent 750 818 Deferred charges and other assets 2,441 2,219 Total other assets 10,348 10,278 Total Assets \$ 46,577 \$ 45,934 Liabilities and Stockholders Equity Urrent Liabilities Notes payable \$ 181 \$ 241 Long-term debt due within one year 828 1,279 Accounts payable: 3,580 3,931 Other 1,772 1,829 Income taxes payable 642 493 Deferred income tax liabilities current 217 201 Dividends payable 362 347 Accrued and other current liabilities 2,506 2,342 Total current liabilities 10,088 10,663 Long-Term Debt 9,199 9,186 Other Noncurrent Liabilities 1,084 1,395 Pension and other postretirement benefits noncurrent 3,400 3,308 Asbestos-related li	Other intangible assets (net of accumulated amortization 2006: \$612; 2005: \$552)	441	443	
Asbestos-related insurance receivables 750 818 Deferred charges and other assets 2,441 2,219 Total other assets 10,348 10,278 Total Assets \$46,577 \$45,934 Liabilities and Stockholders Equity Current Liabilities Notes payable \$181 \$241 Long-term debt due within one year 828 1,279 Accounts payable \$28 1,279 Accounts payable \$1,772 1,829 Income taxes payable 642 493 Deferred income tax liabilities current 217 201 Dividends payable 362 347 Accrued and other current liabilities 2,506 2,342 Total current liabilities 10,088 10,663 Long-Term Debt 9,199 9,186 Other Noncurrent Liabilities 1,084 1,395 Pension and other postretirement benefits noncurrent 3,387 3,38 Pension and other postretirement benefits noncurrent 3,387 3,38 Other noncu	Deferred income tax assets noncurrent	3,486	3,658	
Total other assets 10,348 10,278 Total Assets \$ 46,577 \$ 45,934 Liabilities and Stockholders Equity Current Liabilities Notes payable \$ 181 \$ 241 Long-term debt due within one year 828 1,279 Accounts payable: Trade 3,580 3,931 Other 1,772 1,829 Income taxes payable 642 493 Deferred income tax liabilities current 217 201 Dividends payable 362 347 Accrued and other current liabilities 2,506 2,342 Total current liabilities 10,088 10,663 Long-Term Debt 9,199 9,186 Other Noncurrent Liabilities 10,088 10,663 Pension and other postretirement benefits noncurrent 1,084 1,395 Pension and other postretirement benefits noncurrent 3,400 3,308 Asbestos-related liabilities noncurrent 1,273 1,384 Other noncurrent obligations 3,387 3,338 <td>Asbestos-related insurance receivables noncurrent</td> <td></td> <td></td>	Asbestos-related insurance receivables noncurrent			
Total other assets 10,348 10,278 Total Assets \$ 46,577 \$ 45,934 Liabilities and Stockholders Equity Current Liabilities Notes payable \$ 181 \$ 241 Long-term debt due within one year 828 1,279 Accounts payable: Trade 3,580 3,931 Other 1,772 1,829 Income taxes payable 642 493 Deferred income tax liabilities current 217 201 Dividends payable 362 347 Accrued and other current liabilities 2,506 2,342 Total current liabilities 10,088 10,663 Long-Term Debt 9,199 9,186 Other Noncurrent Liabilities 10,088 10,663 Pension and other postretirement benefits noncurrent 1,084 1,395 Pension and other postretirement benefits noncurrent 3,400 3,308 Asbestos-related liabilities noncurrent 1,273 1,384 Other noncurrent obligations 3,387 3,338 <td>Deferred charges and other assets</td> <td>2,441</td> <td>2,219</td>	Deferred charges and other assets	2,441	2,219	
Total Assets 46,577 45,934 Liabilities and Stockholders Equity Current Liabilities Notes payable 828 1,279 Accounts payable: Trade 3,580 3,931 Other 1,772 1,829 Income taxes payable 642 493 Deferred income tax liabilities current 217 201 Dividends payable 362 347 Accrued and other current liabilities 2,506 2,342 Total current liabilities 1,0683 1,063 Long-Term Debt 9,199 9,186 Other Noncurrent Liabilities 1,084 1,395 Pension and other postretirement benefits noncurrent 1,084 1,384 Other noncurrent obligations 3,387 3,338 Total other noncurrent liabilities <th c<="" td=""><td>Total other assets</td><td>10,348</td><td></td></th>	<td>Total other assets</td> <td>10,348</td> <td></td>	Total other assets	10,348	
Current Liabilities \$ 181 \$ 241 Long-term debt due within one year 828 1,279 Accounts payable:	Total Assets			
Notes payable \$ 181 \$ 241 Long-term debt due within one year 828 1,279 Accounts payable:	Liabilities and Stockholders Equity			
Long-term debt due within one year 828 1,279 Accounts payable:	Current Liabilities			
Accounts payable: Trade 3,580 3,931 Other 1,772 1,829 Income taxes payable 642 493 Deferred income tax liabilities current 217 201 Dividends payable 362 347 Accrued and other current liabilities 2,506 2,342 Total current liabilities 10,088 10,663 Long-Term Debt 9,199 9,186 Other Noncurrent Liabilities 5 2,342 Pension and other postretirement benefits noncurrent 1,084 1,395 Pension and other postretirement benefits noncurrent 3,400 3,308 Asbestos-related liabilities noncurrent 1,273 1,384 Other noncurrent obligations 3,387 3,338 Total other noncurrent liabilities 9,144 9,425 Minority Interest in Subsidiaries 354 336 Preferred Securities of Subsidiaries 1,000 1,000 Stockholders Equity	Notes payable	\$ 181	\$ 241	
Accounts payable: Trade 3,580 3,931 Other 1,772 1,829 Income taxes payable 642 493 Deferred income tax liabilities current 217 201 Dividends payable 362 347 Accrued and other current liabilities 2,506 2,342 Total current liabilities 10,088 10,663 Long-Term Debt 9,199 9,186 Other Noncurrent Liabilities 1,084 1,395 Pension and other postretirement benefits noncurrent 3,400 3,308 Asbestos-related liabilities noncurrent 1,273 1,384 Other noncurrent obligations 3,387 3,338 Total other noncurrent liabilities 9,144 9,425 Minority Interest in Subsidiaries 354 336 Preferred Securities of Subsidiaries 1,000 1,000 Stockholders Equity	Long-term debt due within one year	828	1,279	
Trade 3,580 3,931 Other 1,772 1,829 Income taxes payable 642 493 Deferred income tax liabilities current 217 201 Dividends payable 362 347 Accrued and other current liabilities 2,506 2,342 Total current liabilities 10,088 10,663 Long-Term Debt 9,199 9,186 Other Noncurrent Liabilities 1,084 1,395 Pension and other postretirement benefits noncurrent 3,400 3,308 Asbestos-related liabilities noncurrent 3,400 3,308 Asbestos-related liabilities noncurrent obligations 3,387 3,338 Total other noncurrent obligations 3,387 3,338 Total other noncurrent liabilities 9,144 9,425 Minority Interest in Subsidiaries 354 336 Preferred Securities of Subsidiaries 1,000 1,000 Stockholders Equity				
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Income taxes payable 642 493 Deferred income tax liabilities current 217 201 Dividends payable 362 347 Accrued and other current liabilities 2,506 2,342 Total current liabilities 10,088 10,663 Long-Term Debt 9,199 9,186 Other Noncurrent Liabilities 9 9,199 9,186 Pension and other postretirement benefits noncurrent 1,084 1,395 1,395 Pension and other postretirement benefits noncurrent 3,400 3,308 Asbestos-related liabilities noncurrent 1,273 1,384 Other noncurrent obligations 3,387 3,338 Total other noncurrent liabilities 9,144 9,425 Minority Interest in Subsidiaries 354 336 Preferred Securities of Subsidiaries 1,000 1,000 Stockholders Equity	Other			
Deferred income tax liabilities current 217 201 Dividends payable 362 347 Accrued and other current liabilities 2,506 2,342 Total current liabilities 10,088 10,663 Long-Term Debt 9,199 9,186 Other Noncurrent Liabilities 5 1,084 1,395 Pension and other postretirement benefits noncurrent 3,400 3,308 Asbestos-related liabilities noncurrent 1,273 1,384 Other noncurrent obligations 3,387 3,338 Total other noncurrent liabilities 9,144 9,425 Minority Interest in Subsidiaries 354 336 Preferred Securities of Subsidiaries 1,000 1,000 Stockholders Equity	Income taxes payable			
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Total current liabilities 10,088 10,663 Long-Term Debt 9,199 9,186 Other Noncurrent Liabilities	• •			
Long-Term Debt 9,199 9,186 Other Noncurrent Liabilities Deferred income tax liabilities noncurrent 1,084 1,395 Pension and other postretirement benefits noncurrent 3,400 3,308 Asbestos-related liabilities noncurrent 1,273 1,384 Other noncurrent obligations 3,387 3,338 Total other noncurrent liabilities 9,144 9,425 Minority Interest in Subsidiaries 354 336 Preferred Securities of Subsidiaries 1,000 1,000 Stockholders Equity				
Other Noncurrent LiabilitiesDeferred income tax liabilities noncurrent1,0841,395Pension and other postretirement benefits noncurrent3,4003,308Asbestos-related liabilities noncurrent1,2731,384Other noncurrent obligations3,3873,338Total other noncurrent liabilities9,1449,425Minority Interest in Subsidiaries354336Preferred Securities of Subsidiaries1,0001,000Stockholders Equity				
Deferred income tax liabilities noncurrent1,0841,395Pension and other postretirement benefits noncurrent3,4003,308Asbestos-related liabilities noncurrent1,2731,384Other noncurrent obligations3,3873,338Total other noncurrent liabilities9,1449,425Minority Interest in Subsidiaries354336Preferred Securities of Subsidiaries1,0001,000Stockholders Equity),1))),100	
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Asbestos-related liabilities noncurrent Other noncurrent obligations Total other noncurrent liabilities 9,144 9,425 Minority Interest in Subsidiaries 354 336 Preferred Securities of Subsidiaries 1,000 Stockholders Equity				
Other noncurrent obligations3,3873,338Total other noncurrent liabilities9,1449,425Minority Interest in Subsidiaries354336Preferred Securities of Subsidiaries1,0001,000Stockholders Equity	•			
Total other noncurrent liabilities9,1449,425Minority Interest in Subsidiaries354336Preferred Securities of Subsidiaries1,0001,000Stockholders Equity				
Minority Interest in Subsidiaries354336Preferred Securities of Subsidiaries1,0001,000Stockholders Equity				
Preferred Securities of Subsidiaries 1,000 1,000 Stockholders Equity				
Stockholders Equity				
		1,000	1,000	
Common stock 2,453 2,453		0.470	0.450	
	Common stock	2,453	2,453	

Additional paid-in capital	777	661	
Unearned ESOP shares		(1)
Retained earnings	16,371	14,719	
Accumulated other comprehensive loss	(1,738) (1,949)
Treasury stock at cost	(1,071) (559)
Net stockholders equity	16,792	15,324	
Total Liabilities and Stockholders Equity	\$ 46,577	\$ 45,934	4

See Notes to the Consolidated Financial Statements.

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The Dow Chemical Company and Subsidiaries

Consolidated Statements of Cash Flows

Part Part		Nine Months En	
Operating Activities \$ 2,749 \$ 3,419 Net Income Available for Common Stockholders \$ 2,749 \$ 3,419 Adjustments to reconcile net income to net cash provided by operating activities 1,544 4.00 Provision for deferred income tax 246 440 Earnings of nonconsolidated affiliates in excess of dividends received 29 0 (294 0 Pension contributions 305 0 (634 0 Pension contributions 305 0 (634 0 Net gain on sales of property and businesses 48 0.4 0 Net gain on sales of property and businesses 79 1 Restructing charges 57 1 1 6 Restructing charges 57 1 6 6 1 6 6 Restructing charges 57 1 7 8 1 6 6 6 6 1 6 6 6 7 7 8 1 6 6 1 6 1 6 1 1	In millions (Unaudited)	. /	
Net Income Available for Common Stockholders \$ 3,419 Adjustments to reconcile net income to net cash provided by operating activities: 1,544 1,507 Provision for deferred income tax 246 40 Earnings of nonconsolidated affiliates in excess of dividends received 629 0 0 Minority interests share in income 69 0 0 Pension contributions (395) (634) Net gain on sales of investments 2 (15) Net gain on sales of property and businesses 579 Very Carment of Section One Section of Section One Section of Section One Section of Section One Section One Section Section One Section Section One Secti		2000	2003
Adjustments to reconcile net income to net cash provided by operating activities: Perpeciation and amortization 1,544		\$ 2,749	\$ 3,419
Depreciation and amortization 1,544 1,507 Provision for deferred income tax 246 440 Earnings of nonconsolidated affiliates in excess of dividends received (239 (294 0 Minority interests share in income 69 0 0 Pension contributions (395 (634) Net gain on sales of investments 2 (15) Net gain on sales of property and businesses (48 (54) Other net loss 57 37 Restructuring charges 57 37 Ret gain on sale of ownership interest in nonconsolidated affiliate 6 C Tax benefit nonqualified stock option exercises 5 6 C Tax benefit nonqualified stock option exercises (811 (371 (30		– ,, ,	Ų 0,.12
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		,	
	Cash and cash equivalents at end of period	\$ 3,134	\$ 3,179

See Notes to the Consolidated Financial Statements.

The Dow Chemical Company and Subsidiaries

Consolidated Statements of Comprehensive Income

	Three Mont Sept. 30,	ths Ended Sept. 30,	Nine Months En	nded Sept. 30,
In millions (Unaudited)	2006	2005	2006	2005
Net Income Available for Common Stockholders	\$ 512	\$ 801	\$ 2,749	\$ 3,419
Other Comprehensive Income (Loss), Net of Tax				
Net unrealized gains (losses) on investments	42	(1) 17	(15)
Translation adjustments	(39) (51) 325	(860)
Minimum pension liability adjustments			(2)	11
Net gains (losses) on cash flow hedging derivative instruments	(89) 120	(129)	152
Total other comprehensive income (loss)	(86) 68	211	(712)
Comprehensive Income	\$ 426	\$ 869	\$ 2,960	\$ 2,707

See Notes to the Consolidated Financial Statements.

6

(Unaudited)

Notes to the Consolidated Financial Statements

NOTE A CONSOLIDATED FINANCIAL STATEMENTS

The unaudited interim consolidated financial statements of The Dow Chemical Company and its subsidiaries (Dow or the Company) were prepared in accordance with accounting principles generally accepted in the United States of America (GAAP) and reflect all adjustments (including normal recurring accruals) which, in the opinion of management, are considered necessary for the fair presentation of the results for the periods presented. These statements should be read in conjunction with the audited consolidated financial statements and notes thereto included in the Company s Annual Report on Form 10-K for the year ended December 31, 2005, and the Current Report on Form 8-K filed on July 11, 2006, reflecting a change in the composition of the Company s reported segments.

NOTE B ACCOUNTING CHANGES

Accounting for Stock-Based Compensation

On January 1, 2006, the Company adopted revised Statement of Financial Accounting Standards (SFAS) No. 123 (SFAS No. 123R), Share-Based Payment. Because the fair value recognition provisions of SFAS No. 123, Accounting for Stock-Based Compensation, and SFAS No. 123R were materially consistent under the Company s equity plans, the adoption of this standard had an immaterial impact on the Company s consolidated financial statements.

In November 2005, the Financial Accounting Standards Board (FASB) issued FASB Staff Position (FSP) No. 123R-3, Transition Election Related to Accounting for the Tax Effects of Share-Based Payment Awards. The FSP, which became effective in November 2005, requires an entity to follow either the transition guidance for the additional-paid-in-capital pool as prescribed in SFAS No. 123R or the alternative transition method described in the FSP. An entity that adopts SFAS No. 123R using the modified prospective application may make a one-time election to adopt the transition method described in the FSP, and may take up to one year from the latter of its initial adoption of SFAS No. 123R or the effective date of the FSP to evaluate the available transition alternatives and make its one-time election. The Company has adopted the alternative transition method provided in the FSP for calculating the tax effects of stock-based compensation under SFAS No. 123R.

See Note H for disclosures related to stock-based compensation.

Accounting for Conditional Asset Retirement Obligations

In March 2005, the FASB issued FASB Interpretation (FIN) No. 47, Accounting for Conditional Asset Retirement Obligations, which clarifies the term *conditional asset retirement obligation* as used in SFAS No. 143, Accounting for Asset Retirement Obligations, as a legal obligation to perform an asset retirement activity in which the timing and/or method of settlement are conditional on a future event that may or may not be within the control of the Company. FIN No. 47 was effective no later than the end of fiscal years ending after December 15, 2005.

Dow has 156 manufacturing sites in 37 countries. Most of these sites contain numerous individual manufacturing operations, particularly at the Company's larger sites. Asset retirement obligations are recorded in the period in which they are incurred and reasonably estimable, including those obligations for which the timing and/or method of settlement are conditional on a future event that may or may not be within the control of the Company. Retirement of assets may involve such efforts as remediation and treatment of asbestos, contractually required demolition, and other related activities, depending on the nature and location of the assets, and are typically realized only upon demolition of those facilities. In identifying asset retirement obligations, the Company considers identification of legally enforceable obligations, changes in existing law, estimates of potential settlement dates and the calculation of an appropriate discount rate to be used in calculating the fair value of the obligations. Dow has a well-established global process to identify, approve and track the demolition of retired or to-be-retired facilities; no assets are retired from service until this process has been followed. Dow typically forecasts demolition projects based on the usefulness of the assets; environmental, health and safety concerns; and other similar considerations. Under this process, as demolition projects are identified and approved, reasonable estimates may then be determined for the time frames during which any related asset retirement obligations are expected to be settled. For those assets where a range of potential settlement dates may be reasonably estimated, obligations are recorded.

Assets that have not been submitted/reviewed for potential demolition activities are considered to have continued usefulness and are generally still operating normally. Therefore, without a plan to demolish the assets or the expectation of a plan, such as shortening the useful life of assets for depreciation purposes under the requirements of SFAS No. 144, Accounting for the Impairment or Disposal of Long-Lived Assets, Dow is unable to reasonably forecast a time frame to use for present value calculations. As such, Dow has not recognized obligations for individual plants/buildings at its 156 manufacturing sites where estimates of potential settlement dates cannot be reasonably made. In addition, the Company

has not recognized conditional asset retirement obligations for the capping of its approximately 50 underground storage wells at Dow-owned sites when there are no plans or expectations of plans to exit the sites. Dow routinely reviews all changes to the list of items under consideration for demolition to determine if an adjustment to the value of the asset retirement obligation is required.

Adoption of FIN No. 47 on December 31, 2005 resulted in the recognition of an asset retirement obligation of \$34 million and a charge of \$20 million (net of tax of \$12 million), which was included in Cumulative effect of changes in accounting principles in the fourth quarter of 2005. The discount rate used to calculate the Company s asset retirement obligations was 4.6 percent.

In accordance with FIN No. 47, the Company has recognized conditional asset retirement obligations related to asbestos encapsulation as a result of planned demolition and remediation activities at manufacturing and administrative sites in the United States, Canada and Europe. At December 31, 2005, the aggregate carrying amount of conditional asset retirement obligations recognized by the Company was \$34 million. These obligations are included in the consolidated balance sheets as Other noncurrent obligations.

If the conditional asset retirement obligation measurement and recognition provisions of FIN No. 47 had been in effect on January 1, 2005, the aggregate carrying amount of those obligations on that date would have been \$32 million. If the amortization of asset retirement cost and accretion of asset retirement obligation provisions of FIN No. 47 had been in effect during 2005, the impact on Income before Cumulative Effect on Changes in Accounting Principles and Net Income Available for Common Stockholders would have been immaterial. Further, the impact on earnings per common share (both basic and diluted) would have been less than \$0.01.

See Note E for the Company s disclosures related to asset retirement obligations.

Other Accounting Changes

In November 2004, the FASB issued SFAS No. 151, Inventory Costs an amendment of ARB No. 43, Chapter 4, which clarifies the accounting for abnormal amounts of idle facility expense, freight, handling costs, and wasted material (spoilage) and also requires that the allocation of fixed production overhead be based on the normal capacity of the production facilities. SFAS No. 151 was effective for inventory costs incurred during fiscal years beginning after June 15, 2005. Because the Company previously used nameplate capacity to calculate product costs, the adoption of SFAS No. 151 on January 1, 2006 had an immaterial favorable impact on the Company s consolidated financial statements in the first quarter of 2006.

In September 2005, the FASB ratified the consensus reached by the Emerging Issues Task Force (EITF) with respect to EITF Issue No. 04-13, Accounting for Purchases and Sales of Inventory with the Same Counterparty. EITF Issue No. 04-13 is effective for new arrangements entered into, and modifications or renewals of existing arrangements, in the first interim or annual period beginning after March 15, 2006. The Company has determined that its current accounting treatment for purchases and sales of inventory with the same counterparty is consistent with the guidance in EITF Issue No. 04-13; therefore, the issue had no impact on the Company s consolidated financial statements.

In November 2005, the FASB issued FSP Nos. FAS 115-1 and 124-1, The Meaning of Other-Than-Temporary Impairment and Its Application to Certain Investments, which addresses the determination as to when an investment is considered impaired, whether that impairment is other than temporary, and the measurement of an impairment. The FSP also includes accounting considerations subsequent to the recognition of an other-than-temporary impairment and requires certain disclosures about unrealized losses that have not been recognized as other-than-temporary impairments. The guidance in the FSP amends SFAS No. 115, Accounting for Certain Investments in Debt and Equity Securities, SFAS No. 124, Accounting for Certain Investments Held by Not-for-Profit Organizations, and Accounting Principles Board (APB) Opinion No. 18, The Equity Method of Accounting for Investments in Common Stock. The Company has reviewed the guidance of FSP Nos. FAS 115-1 and 124-1 and has determined that its practices are consistent with the FSP; therefore, the adoption of the FSP on January 1, 2006 had no impact on the Company s consolidated financial statements.

In April 2006, the FASB issued FSP No. FIN 46(R)-6, Determining the Variability to Be Considered in Applying FASB Interpretation No. 46(R). The guidance in this FSP was applicable prospectively to all entities (including newly created entities) and when a reconsideration event has occurred pursuant to paragraph 7 of FIN No. 46(R), beginning the first day of the first reporting period beginning after June 15, 2006. Beginning July 1, 2006, the Company will apply the guidance of this FSP as it applies FIN No. 46(R).

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

In September 2006, the U.S. Securities and Exchange Commission (the SEC) issued Staff Accounting Bulletin (SAB) No. 108, which expresses the views of the SEC staff regarding the process of quantifying financial statement misstatements. SAB No. 108 provides guidance on the consideration of the effects of prior year misstatements in quantifying current year misstatements for the purpose of a materiality assessment. The guidance of this SAB is effective for annual financial statements covering the first fiscal year ending after November 15, 2006, which is December 31, 2006 for the Company. SAB No. 108 is not expected to have an impact on the Company s consolidated financial statements.

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

In September 2006, the FASB issued SFAS No. 158, Employers Accounting for Defined Benefit Pension and Other Postretirement Plans - an amendment of FASB Statements No. 87, 88, 106, and 132(R). This Statement, which is effective December 31, 2006 for the Company, requires employers to recognize the funded status of defined benefit postretirement plans as an asset or liability on the balance sheet and to recognize changes in that funded status through comprehensive income. SFAS No. 158 also establishes the measurement date of plan assets and obligations as the date of the employer's fiscal year end, and provides for additional annual disclosures. Dow currently uses a December 31 measurement date for all of its plans, consistent with its fiscal year end. The Company is currently evaluating the impact of adopting this Statement.

NOTE C INVENTORIES

The following table provides a breakdown of inventories:

Inventories	Sept. 30,	Dec. 31,
In millions	2006	2005
Finished goods	\$ 3,367	\$ 2,941
Work in process	1,447	1,247
Raw materials	734	645
Supplies	570	486
Total inventories	\$ 6,118	\$ 5,319

The reserves reducing inventories from the first-in, first-out (FIFO) basis to the last-in, first-out (LIFO) basis amounted to \$1,270 million at September 30, 2006 and \$1,149 million at December 31, 2005.

NOTE D GOODWILL AND OTHER INTANGIBLE ASSETS

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

Goodwill	Per	formance	Perf	formance	Agr	icultural	Bas	ic	Hve	drocarbon	s	
In millions		stics		micals		ences	Plas			Energy	Tota	ıl
Balance at December 31, 2005	\$	913	\$	750	\$	1,320	\$	94	\$	63	\$	3,140
Goodwill related to acquisition of Zhejiang Omex												
Environmental Engineering Co.												
LTD			90								90	
Balance at September 30, 2006	\$	913	\$	840	\$	1,320	\$	94	\$	63	\$	3,230

On July 11, 2006, FilmTec Corporation, a wholly owned subsidiary of the Company, completed the acquisition of Zhejiang Omex Environmental Engineering Co. LTD. The initial recording of the acquisition resulted in goodwill of \$90 million. Final determination of the fair values to be assigned may result in adjustments to the preliminary values assigned at the date of acquisition.

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

Other Intangible Assets At September 30, 2006 At December 31, 2005

Gross Gross

Carrying Accumulated Carrying Accumulated In millions Amount Amortization Net Amount Amortizatio