

REPORT

FOR THE SEVEN MONTHS
JUNE 1 TO DECEMBER 31

1962



THE DOW CHEMICAL COMPANY

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The annual meeting of stockholders will be held on Wednesday, May 8, 1963, at two o'clock in the afternoon, EST, in the auditorium of the Central Intermediate School, Rodd and Reardon Streets, Midland, Michigan. A formal notice of the meeting, with a proxy statement and form of proxy, will be mailed to each holder of Common Stock separately from this report.

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Carl A. Gerstacker, *Chairman*
 Donald K. Ballman Herbert D. Doan
 Earl W. Bennett Leland I. Doan
 Robert B. Bennett Alden B. Dow
 A. P. Beutel Herbert H. Dow
 R. H. Boundy N. D. Griswold
 C. B. Branch C. J. Strosacker
 Calvin A. Campbell Macauley Whiting

Leland I. Doan, *Chairman*
 Donald K. Ballman Calvin A. Campbell
 R. H. Boundy Herbert D. Doan
 C. B. Branch Carl A. Gerstacker

Carl A. Gerstacker, *Chairman*
 Earl W. Bennett Calvin A. Campbell
 Robert B. Bennett Leland I. Doan
 Fred H. Brown

Herbert D. Doan, *President*
 Carl A. Gerstacker, *Chairman of the Board*
 Leland I. Doan, *Chairman of the Executive Committee*
 C. B. Branch, *Executive Vice President*
 Donald K. Ballman, *Vice President for Marketing, Purchasing
 and Distribution*
 Earl W. Bennett, *Vice President, Honorary Chairman of the Board*
 A. P. Beutel, *Vice President in Charge of Gulf Coast Operations*
 R. H. Boundy, *Vice President, Director of Research*
 Calvin A. Campbell, *Vice President, Secretary, General Counsel*
 C. J. Strosacker, *Vice President*
 Robert B. Bennett, *Treasurer*
 H. H. Lyon, *Controller, Assistant Secretary*
 David C. Baird, *Assistant Secretary, Assistant Treasurer,
 Director of Purchases*
 Earle B. Barnes, *Assistant Secretary, General Manager Texas Division*
 Leland A. Doan, *Assistant Secretary, General Manager Western Division*
 W. A. Groening, Jr., *Assistant Secretary, Assistant General Counsel*
 A. P. Hanmer, *Assistant Secretary, Assistant Controller*
 John Van Stirum, *Assistant Treasurer*
 Lowell E. Tompkins, *Assistant Treasurer*
 C. F. Weaver, *Auditor*

TRANSFER AGENTS

The Cleveland Trust Company
 Morgan Guaranty Trust Company of New York

REGISTRARS

The National City Bank of Cleveland
 Chemical Bank New York Trust Company

CERTIFIED PUBLIC ACCOUNTANTS

Haskins & Sells

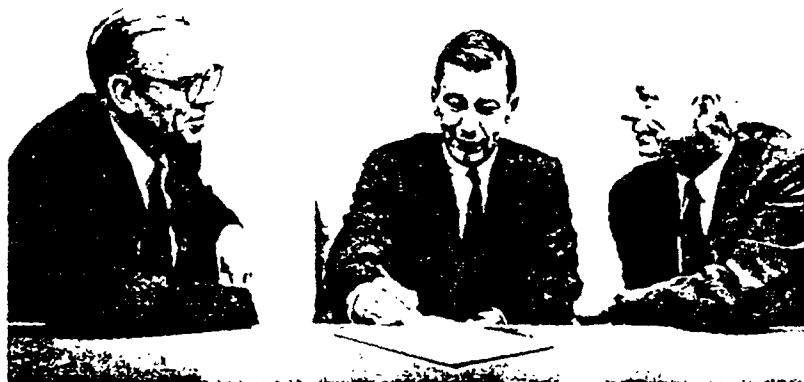
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SIXTY-SIXTH FINANCIAL REPORT

(in Millions)	Seven Months Ended December 31	Calendar Year* (Unaudited)	
Net Sales	\$ 542.7	\$ 926.2	\$ 841.7
Total Income	556.1	946.4	860.8
Depreciation, Amortization, and Depletion	57.0	99.6	99.4
United States and Foreign Taxes on Income	39.8	58.5	41.1
Earnings for the Period	47.9	72.9	60.2
Earnings per Share	1.65	2.51	2.07
Earnings per Share after Special Items	1.52		
Cash Dividends Declared	23.3	46.6	43.5
Common Stockholders' Interest	698.8	698.8	674.3
Shares of Common Stock Outstanding	29,060,983		29,094,252
Common Stockholders	100,300		98,300

* These figures have been adjusted to give retroactive effect to special items described in Note D on page 26.

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C. B. BRANCH

HERBERT D. DOAN

CARL A. GERSTACKER

Herbert D. Doan, elected President in September of 1962, started his career with Dow in 1949. He most recently served as Executive Vice President and, prior to that, as Manager of the Chemicals Department.

Carl A. Gerstacker, Chairman of the Board since 1960, joined Dow in 1938. Chairman of the Finance Committee, he is the Company's chief financial officer. Prior to 1959 he was Treasurer.

C. B. Branch was elected Executive Vice President in September of 1962. Before that he had been Director of Overseas Operations. His service with Dow dates from 1937.

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ROBERT B. BENNETT

DONALD K. BALLMAN

LELAND I. DOAN

R. H. BOUNDY

Robert B. Bennett, elected Treasurer in 1959, had previously served as the Company's Credit Manager. He was employed in 1942.

Donald K. Ballman was Director of Sales until 1959, when he was elected Vice President for Marketing, Purchasing and Distribution. He has served Dow since 1935.

Leland I. Doan was elected Chairman of the Executive Committee in 1962 after more than thirteen years as Dow's President. He joined Dow in 1917.

R. H. Boundy has been Director of Research since 1952. He was elected a Vice President in 1953. His almost thirty-seven years of service date from 1926.

Directors

Alden B. Dow, son of the Company founder, is an architect in private practice. He has served as a Director since 1941.

C. J. Strosacker, Vice President, has fifty-five years of continuous service, having joined Dow in 1908.

Calvin A. Campbell, Vice President, is the Company's General Counsel and Secretary. His service with Dow dates from 1935.

Macauley Whiting, appointed to Manager of Overseas Operations in 1962, formerly managed the Midland Division. He joined Dow in 1948.



ALDEN B. DOW

C. J. STROSACKER

CALVIN A. CAMPBELL

MACAULEY WHITING

N. D. Griswold, Engineering Consultant, previously headed the Engineering and Construction Services Division. He joined Dow in 1927.

Earl W. Bennett serves as Honorary Chairman of the Board after having held the Chairmanship from 1949 to 1960. His sixty-three years of continuous employment began in 1900.

Herbert H. Dow, Manager of Fabricated Products in the Plastics Department, joined the Company in 1952.

A. P. Beutel, Vice President in Charge of Gulf Coast Operations, was General Manager of the Texas Division from 1940 to 1961. He has been a Dow employee forty-seven years.



N. D. GRISWOLD

EARL W. BENNETT

HERBERT H. DOW

A. P. BEUTEL

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To the Stockholders:

THIS REPORT MARKS Dow's transition to a fiscal year corresponding to the calendar year. Why did we change? Because it makes internal communications and reporting easier, more effective and less costly. This revised procedure is relatively a small thing, but it is symbolic of the hundreds of changes Dow is undergoing to keep our Company growing profitably under significantly changing conditions.

These are exciting, though sometimes exasperating, days for all of us in Dow. The chemical industry, historically competitive, has become a most strenuous testing ground. New competitors—diversifying from other fields, or starting from scratch with package plants, or coming from overseas—almost outnumber our long-time competitors. Whenever we look up, it seems, one more brand-new competitor comes charging at us. In this testing we have seen markets shifted, prices beaten down, profit margins pressured. And it still goes on.

Dow has an effective answer. As a beginning, we know we design, build and operate plants equal to the best—and that we are running those plants more efficiently each year. To support our production we have an excellent position in research, skill in its application, plus marketing talents and administrative grasp. All these abilities we can apply broadly, in each of the many and diverse businesses—from chemicals to containers and from pharmaceuticals to fibers—that make up The Dow Chemical Company.

In short: we have a depth of knowledge, patiently home-grown, that reaches from research to market for each of our businesses. Drawing on this knowledge and developing it further, we will find continuing profitable growth and fresh opportunities. New competitors, on the other hand, will discover that such knowledge in depth cannot be bought or quickly acquired.

My confidence for profitable growth rests in our employees, the many individuals whose personal capabilities add up to our strength. This is a great wealth of talent in which we repeatedly find the right men for the right jobs. Beyond this, we are shaping our organization to assure that we provide our key people with both the information and the opportunity to act for Dow with optimum effectiveness.

This is the first report published by Dow since the recent changes in management. I have implied the willingness and ability of our people to change with the changing times, and to do so profitably. These changes do not result from abrupt decisions recently made. Nor have our basic objectives changed.

The course we will follow this year, and in the next few years, arises naturally from plans laid and preparations made in the past. Effective change takes time; the gains reflected in this report indicate that our success in meeting today's conditions stems from sound managerial direction initiated some time ago.

Still, you can expect further changes. Dow's history is one of constant adaptation, and this must continue. So we look forward to a constantly evolving organization geared to releasing the best capabilities of all Dow employees—and this leads us to look forward with confidence and enthusiasm.

You will recognize that the company I describe owes much of its development, stature, potential and—most of all—guiding philosophy to the personality and leadership of Dr. Leland I. Doan. In April of 1949 Dr. Doan became President of a firm with 14,000 employees, 19,000 stockholders and annual sales of \$200 million. A reading of this report for 1962 will provide some measure of his influence in the years between. We are fortunate that, while he has chosen to retire as President, Dr. Doan continues to serve Dow as Chairman of the Executive Committee.

Sincerely,

President

March 14, 1963

Finance and Earnings

THIS IS OUR FIRST financial report issued on a calendar year basis. However, the report covers an audited period of only seven months, from the end of the last fiscal year, May 31, 1962 through December 31, 1962. To permit full-year comparisons, which have more significance than those for lesser periods, we have included unaudited figures for past calendar years.

Earnings after taxes for the seven-month period increased 33 per cent over the comparable period of calendar 1961. Earnings after taxes for the calendar year 1962 amounted to \$72.9 million, up 21 per cent from calendar 1961, after including the effect of applicable extra depreciation and investment credit. Earnings per share on the same basis amounted to \$2.51 versus \$2.07 in calendar 1961.

The increased 1962 earnings were due partially to the lack of expense of Hurricane Carla experienced in late 1961; to the sale of assets of a subsidiary company; and to increased plant efficiencies and cost reductions. We have concentrated over the past several years on improving plant efficiencies and are continuing this effort.

As you will note from the accompanying chart, the index of prices has dropped more severely in the last two years than previously. Our best indications are that prices will continue their decline in 1963.

Following the publication of liberalized depreciation rules in July, 1962 we reviewed our depreciation practices. As a result of this study, we have provided additional depreciation during the seven-month period ended December 31, 1962 totaling \$12.8 million. Of this total, \$3.6 million applies to the current seven-month period whereas \$9.2 million actually applies to the twelve months ended May 31, 1962 and is set forth as a "Special Item" in the Statement of Earnings on page 24. Calendar 1961 and 1962 figures presented in this report have been adjusted to include their ap-

plicable share of the added depreciation in each year. The added depreciation affected calendar 1961 and 1962 reported earnings adversely by about nine cents and twelve cents per share, respectively.

Under provisions of the Revenue Act of 1962 we have claimed a credit related to investment in new facilities amounting to \$1.5 million for the five months ended May 31, 1962 and an additional \$1.35 million in the current seven-month period. The effect of both amounts has been recorded in the current fiscal period with the amount relating to the year ended last May being reflected as a "Special Item" in the Statement of Earnings on page 24.

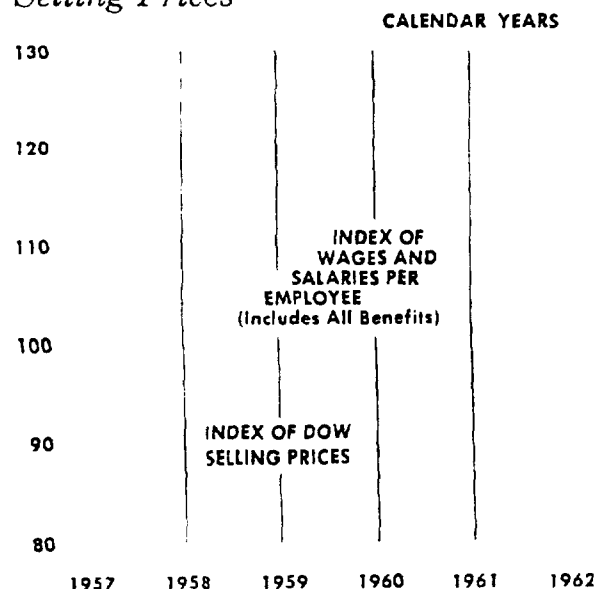
We have elected to follow an accounting method wherein 48 per cent of the total investment credit is reflected currently as a reduction in Federal income taxes. The effect of this action has been to improve the earnings of the current seven-month period by two cents per share.

Capital expenditures dropped to \$69 million in calendar 1962 from \$115 million in 1961 and during the seven months debt was reduced \$58 million.

In February a stock dividend of two per cent was declared payable on May 8, 1963 to holders of Common Stock of record as of March 20th.

TREND

Dow Wages and Selling Prices



QUARTER ENDED	Sales in Millions	Earnings Per Share*	Sales in Millions	Earnings Per Share*
August 31	231.4	.82	210.1	.57
November 30	241.1	.74	229.5	.45
March 31	221.9	.42	191.7	.46
June 30	239.8	.83	214.4	.68
September 30	231.9	.68	214.6	.47
December 31	232.6	.58	221.0	.46

All figures have been adjusted to give retroactive effect to special items described in Note D on page 26.

*Based on shares outstanding at December 31.

Sales

IN THE 1962 CALENDAR year Dow had a record \$926.2 million in sales of goods and services, ten per cent above our sales total for calendar 1961. Sales in home markets were more than this ten per cent higher. These gains started early in the year and increased steadily.

Overseas sales were a somewhat different story. After several years of fast growth, international markets matured into the familiar domestic situation of overcapacity and falling prices. But by the end of the year these trends had leveled out and some upward signs were showing.

Each of Dow's major product categories showed higher sales in 1962. Later sections of this report cover trends and outlook for these categories; here we want only to note the share of total sales income each major product group accounted for, as follows:

Chemicals . . .	48%	Bioproducts . . .	9%
Plastics	36%	Metals	7%

Perhaps the sizable across-the-board sales gains make it seem that Dow management has

been crying "wolf" too often about competition and prices. Far from it! Rather, these sales increases began with our accepting competition as a factor to be lived with. Then came the planning and organizing of a marketing approach—of course with complete supporting effort all the way from research through production and every other aspect of Dow operations. The 1962 results are part of the pay-off on several years of planned effort.

For instance, a good share of Dow's established plant and long-time sales base is in materials we term commodities—products we make and sell in large tonnages. These are precisely where prices dropped the most. Still, we sold more of these commodities and—because we could run our plants at higher capacities—with more total profit in 1962. The sales gains resulted from close and constant marketing attention to the needs of our customers, plus sharper service to fill those needs, plus a continuing drive to make and market every product more efficiently every year.

The best comment we've heard on this part of our approach to today's competition came from one of our marketing managers. He told his staff: "If Dow is going to make a billion dollars in sales, the first step is satisfactorily serving the nine-hundred-million-dollar market Dow already has."

Where we see major markets developing in the U. S. economy—markets where Dow has strength—separate sales groups are set up to lead our effort. The packaging market makes a good example.

One packaging sales group sells household wraps in the consumer market. They put Saran Wrap and Handi-Wrap on your grocery shelves—and soon will be placing others. Another group, Rigid Packaging, was set up in 1961 to sell rigid plastics containers to food processors, the household products industry, and others. The housewife sees the results in such things as cottage cheese containers, plastic trays for precut meats, and non-breaking plastic bottles for bleaches and detergents. Again, more are coming.

The third of these groups, Flexible Packaging, was organized in 1962 with the sales department of Dobeckmun as its nucleus. The group markets all established Dobeckmun products, plus other Dow materials suitable for flexible wrapping needs. Major outlets are

in the food processing and distribution industries—for items now seen in hardware stores, dry goods stores, and so on.

While each group specializes, the organization adapts to market situations. For instance, Dow sells to the industrial packaging market—where goods must be packaged for movement from one industry to another before reaching the ultimate consumer. This market is served by both the Rigid Packaging and the Flexible Packaging groups.

Sales development of new products and markets where Dow holds a unique and profitable position is our favorite method for increasing our share of markets. Given a unique answer to a definite need, the market challenge is that of successfully launching the product.

Our 1962 experience in Bioproducts gives good examples. In recent years Dow's Research and Development groups evolved numerous new products that could improve the livestock grower's profit picture. Two of these—Korlan and Ruelene—are insecticides; they destroy cattle parasites that cost the beef cattle industry millions in losses each year. Korlan and Ruelene, successfully moving into this market in 1962, are already showing significant benefits to the cattle raisers, and—for Dow—good acceptance as the effective answer to an old problem.

Supporting all our field efforts is a broad program aimed at improving the general, fundamental effectiveness of Dow's marketing and distribution. This program runs all the way from testing and trying new developments in management science, to putting computers to use on order and inventory data, to fitting advances like "piggyback" trailer-on-train transport into our distribution net, and much more. The goal is increased sales productivity; the 1962 result was a new high in the dollar value of goods moved to market for each salesman in the Dow marketing organization.

In summary, 1962 was the best sales year Dow has ever had—so far. In 1963 we expect to hold the gains and build on them.

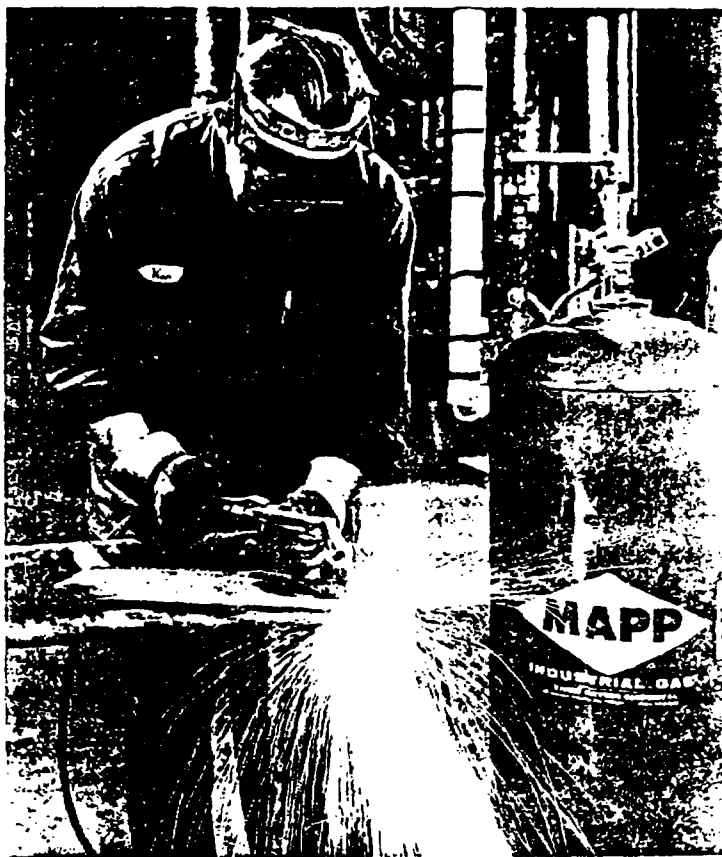
Chemicals

IN OUR CHEMICALS AREA, Dow's basic industrial chemicals caught the brunt of 1962's price drops brought on by domestic and imported competition. But in spite of price pres-

sure, sales were increased for both industrial and special chemicals. In our domestic markets, 1962 chemicals sales were more than twelve per cent better than 1961.

Late in the year, some long study of this new era of competition led to organizational changes that bolster the marketing power of the Chemicals Department. In effect, we're setting up specialized, market-oriented sales teams for Dow products for which the key to sales lies in knowledge of end uses and application techniques—again, so we can be best in meeting a customer's needs.

New products Dow introduced during the year included MAPP, an industrial gas to compete with acetylene and propane; jet fuel additives that involve our glycerine and glycol ethers; a brand-new group of chemicals derived from diphenyl oxide, one of which is already established as the raw material for a



Introduced to market during 1962, MAPP industrial gas offers its users advantages over acetylene and propane.

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The wide variety of needs presented by new developments in packaging leads to wide use for Dow's broad range of plastics.

commercial resin; and tetrabromo Bisphenol A, which produces a resin with excellent fire-retardant properties.

Dow held its rank as a leader in the field of solvents and cleaning agents, adding to its line. Two of these additions were Dowclene 10, an industrial bottle-washing compound, and Dowclene EC, a cleaning solvent tailored to needs of the electrical equipment industry.

Dowcarb 65, a very pure calcium carbonate material, was introduced to the paper industry. It is used in obtaining quality finishes on papers.

Testing and market evaluation continued on a metallized explosives system developed by Dow. The potential for the mining and quarrying industry looks good, but more evaluation is indicated.

Plastics

A NEW HIGH IN SALES, intense price and quality competition in heavy-volume lines, and gains in markets where Dow moves from strength were experienced by the Plastics Department through 1962. The growth leaders were tailored Dow products for rigid packaging, film and sheeting, and polymers for coatings. Individual products reaching record sales volumes included latexes, polyethylene and polyethylene film, epoxies, Roofmate FR, blow-molded wares, and Handi-Wrap.

Most of these sales records can be traced to a fundamental Dow strength. Dow's unexcelled know-how on coatings, for example, led to sales of new latexes for maintenance finishes and other new latexes for paper coatings. And still other promising developments are ready for early introduction. We also capitalized on strong research and marketing positions in epoxies. Successful newcomers here included flame-retardant, flexible epoxy formulations and high-temperature novolac epoxies.

Our marketing set-up for the packaging field has already been discussed. Practically every form of Dow plastics—resins, films, sheets, foams, coatings materials—has applications in this market. Of special interest is the exceptional growth of sales for our Dowpac line of blow-molded rigid containers. Early in 1963 we acquired three plants—at Baltimore, Chicago, and Tampa—formerly operated by Hoover Containers, Incorporated, as a custom converter for Dow.

Dow foam and polymer technology reflects in our advances in construction materials markets. Roofmate FR, a tough-skinned polystyrene foam insulation board, contends strongly in the growing market for foam roof insulation. Styrocel large-cell foam interests architects for window and panel use since it transmits light while it also insulates. And in advanced field test is a new mortar based on Sarabond liquid, promising stronger brick walls—either half as thick or twice as high as conventional mortar permits.

The year's heaviest competition for the Plastics Department was in major molding materials, such as polystyrene and polyethylene. Our response was with specialized materials—including high-heat and improved impact Sty-

For polypropylene markets, new grades were introduced during 1962. In an application of its own, Dow entered commercial production of pipe and fittings lined with polypropylene. This complements our established output of corrosion-resistant piping products, Saran-lined and Penton-lined.

IN ESTABLISHING the Bioproducts Department, early in 1962, Dow combined as one integrated unit its major programs involving biologically active materials. The goal is to use more efficiently, and more profitably, the talents and abilities previously divided among several departments and divisions.

Over the year, sales by Agricultural and Industrial Bioproducts showed a healthy overall growth. The rate of increase, however, slowed down from the 1960 and 1961 rate. Good profit potential is seen and development work is in progress on new uses, new formulations and new products.

In still another direction, Dow now operates a poultry research facility at Fayetteville, Arkansas. This is a commercial-size operation—a valuable tool for continuing experience and practical technical support for our growing



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Extensive laboratory study and experimentation supports Dow's work in the field of agricultural and industrial bioproducts.

market in products used by the animal and poultry feed industry.

New products introduced in 1962 included Ruelene and N-Serve. Ruelene use for cattle grub control in the U. S. has been discussed previously. Overseas, in Australia, Ruelene has found wide use for control of parasites in sheep. N-Serve embodies a fresh concept for control of soil fertility. It acts to hold nitrogen from commercial fertilizers in the soil, so that the farmer gets benefit from his fertilizer application over a longer period of time.

Dow Crab Grass Killer sales moved up significantly as we expanded our marketing area. In 1962, the Dow product came to be recognized as the leader in performance among all such products available.

Pitman-Moore operations improved substantially in sales and profitability during 1962. As expected, we are benefiting as we learn to link the complementing capabilities of Pitman-Moore groups—such as research and development—with similar functions in other Dow technical groups.

One example was in the introductory sales of Ectoral, a tablet given orally to rid cats and dogs of ticks and fleas. Dow research on insecticides originated this compound; Pitman-Moore research adapted it to small animal uses for sale to the specialized veterinary market.

Similarly, Pitman-Moore is investigating another product of Dow research—methoxyflurane. Dow developed it as a superior anesthetic; Pitman-Moore is adapting it to animal use. It

is now being evaluated clinically by veterinarians.

Probably the most exciting of the human health products in Dow's picture is a measles vaccine. Many pharmaceutical firms are in this race. As far as we know, the Pitman-Moore vaccine offers advantages over all others. Clinical investigations are progressing and final clearance of the vaccine with Federal agencies is expected sometime in 1963.

Metals

THE 1962 YEAR WAS ONE of balance for Dow's production and sales of magnesium. With half of our primary magnesium plant at Plant B of the Texas Division returned to service early in the year, our total output almost exactly equaled demands. We closed the year with inventory at a comfortable, low level.

Shipments to the aluminum industry, which uses magnesium in many alloys, gained substantially in 1962. Magnesium die casting also increased but didn't make the volume gains we had hoped for in automobile industry uses. Aluminum at depressed prices undersells magnesium in this market.

Cesium, a material for which we have a unique production process, is a space-age metal with potential in fields just now being explored—thermionic power generation and ionic propulsion for space vehicles. If cesium becomes

commercial, we are assured a strong supplier position.

The Metals Department program includes study on profit possibilities through applying Dow technology to other metals. Nuclear fuels are of particular interest.

Fibers

OUR SALES OF TEXTILE FIBERS again increased during 1962, with Zefran showing the greatest gain. Zefkrome, introduced in 1961 as a fiber particularly suited to use in double knit fabrics, was well received in the fall retail selling season. The prospects for Zefkrome sales are good, and we will be ready for increased demands with expanded facilities due for completion early in 1963.

Rovana in ready-made household draperies is being featured in the 1963 spring catalog of Montgomery Ward.

Divisional Operations

Brazos Oil and Gas

THE NORTHERNMOST oil find in California was made in 1962 when the Brentwood Field was discovered—with Brazos Oil and Gas as a one-third partner. More important for Dow, this new field lies close to the Western Division's plants at Pittsburg. The field, as this report is written, includes five successful gas wells and two oil wells. Brazos is making studies on how Dow may best benefit from this gas source, and is actively exploring for more gas in the area.

Brazos continued its active drilling and exploration program in Louisiana, Texas and California. This involved thirty-seven wells—fourteen by Brazos alone, twenty-three as joint operations. Net results were four oil wells, eighteen gas wells, and fifteen dry holes.

In Texas, contracts with several gas producers were completed and a new eleven-mile pipeline laid to link these sources with the fuel gas supply system of the Texas Division. A major fuel gas cost saving for the Texas Division

resulted from a supply contract with a distributing company.

Dowell

THE DOWELL DIVISION, providing services to the petroleum production industry, faced strong competition—and severe price cutting in some areas—in 1962. In spite of this Dowell sales were ten per cent above 1961 results, although the petroleum industry as a whole gained only four per cent.

Most of the sales gain came from Dowell's fast-growing cementing service—with 1962 income almost double that of 1961. Forecasts for 1963 look to cementing revenues about fifty per cent higher than this year's.

To serve the cementing market, Dowell put ten cementing stations in operation during the year. Other facility additions included a field laboratory in Wyoming, a new district office in New Mexico, and a truck maintenance building in Kansas. Two new sales offices were opened.

A service first offered in 1962 was Dowell Nitrogen and Carbon Dioxide Service, welcomed by oil producers as offering a faster, more complete cleanup of wells after treat-

	SHARES OUTSTANDING	NUMBER OF STOCKHOLDERS
May 31, 1962	29,120,120	100,600
December 31, 1962	29,060,983	100,300
Decrease	59,137	300
Decrease in shares resulted from:		
Acquisition of treasury stock		84,500
Less:		
Sales to employees	2,869	
Conversion of 3% debentures	22,494	25,367
		59,137

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ment. In most cases, wells treated this way also showed decided increases in production. Dowell is rapidly adding to its equipment fleet handling this service.

The division also broadened its line of products and materials for marketing to petroleum producers. Some of these, like "Permeator Casing," a new well-completion tool, were developed by other firms and Dowell is an exclusive sales agent. Another, "Red Thread" plastic pipe, is produced by Dow's associated company—DowSmith Inc.—and Dowell acts as a distributor to the oil industry. Still others originated in Dow research and were adapted to Dowell markets by Dowell research, which

has also brought out a good share of the division's specialized products and equipment.

Petroleum industry forecasts for 1963 are for business to remain at 1962 levels, and for reduced new investment in the U.S. Dowell will go after higher sales with new services and products—as well as competing in established operations.

Dowell Schlumberger Corporation, the overseas partnership of Dowell and Schlumberger Limited, had a twenty-five per cent sales increase in 1962. Operations were expanded in Europe, the Caribbean, Africa and South America—with entry in new areas of Africa and the Far East pending. Dowell is supporting this growth with service equipment and technical assistance.

Dow Industrial Service

MORE AND MORE AMERICAN industries are discovering the time and money savings in chemical cleaning of process equipment. As a result, Dow Industrial Service had its biggest 1962 sales gains through this line of its services.

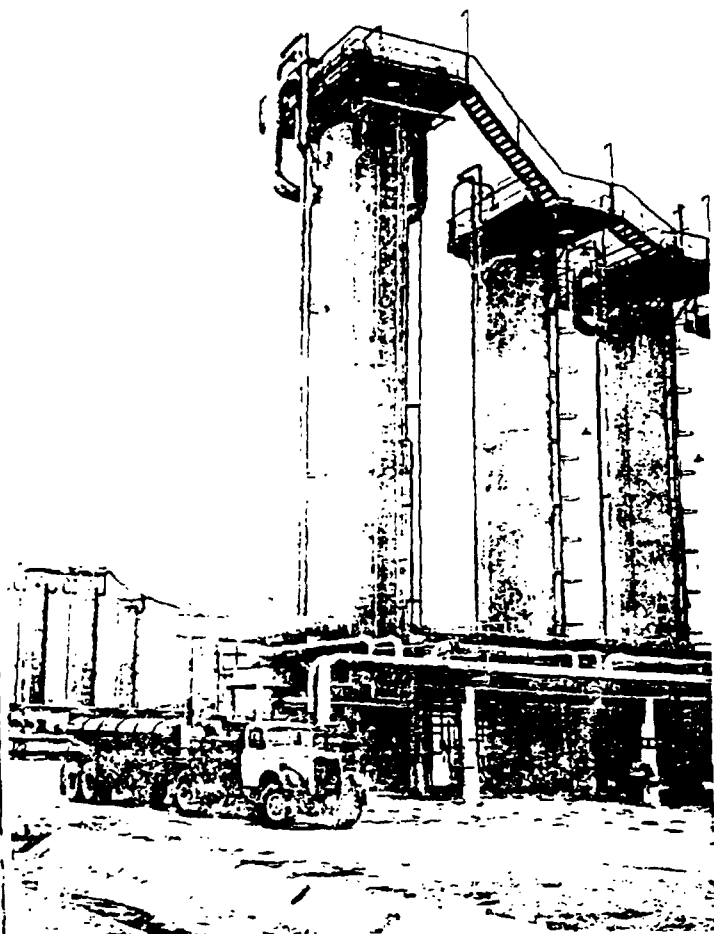
Total sales for the year were fourteen per cent above 1961. Even better, the division's profit improvement for the year increased at even a greater rate than sales.

While industrial work increased, work on missile cleaning services fell off, particularly in the late months of 1962. This decline followed some extensive changes in government requirements for missile base services.

A stronger research and development program was set up for the division this year, with emphasis on our work in water and waste treatment. From past research, a new line of flocculants was introduced to water and waste treatment markets. Potential in these markets is large, and Dow Industrial Service is moving our products and services to them through integrated marketing programs.

Dow Metal Products

SALES VOLUME OF The Dow Metal Products Company Division climbed nearly twenty per cent during 1962—in highly competitive



14

Moving in for a job of chemical cleaning of process equipment, a Dow Industrial Service truck arrives in the Texas Division styrene plant.

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markets for both aluminum and magnesium, and in spite of continuing price pressures. At the same time, the division showed improved productivity by lowering production and sales costs.

Aluminum sales scored the bulk of the gains. The plant at Madison—where we expanded aluminum facilities in 1961—produced extrusions at near-capacity rates, and moved into production of plate stock. Sheet stock output at Jackson continued at good capacity, about as anticipated.

Military markets for aluminum, particularly in ballistic plate and extrusions, had good growth. At the same time, our commercial markets—for applications in lawn furniture, television antennas, building products, railroad cars, and packaging—showed increases.

Magnesium sales tended to level off during the year. The big factor here is the gradual phase out in some major military applications of magnesium. Commercial uses, however, are showing increases—particularly in luggage, in tooling plate for industrial use, and in tread plate for materials handling equipment.

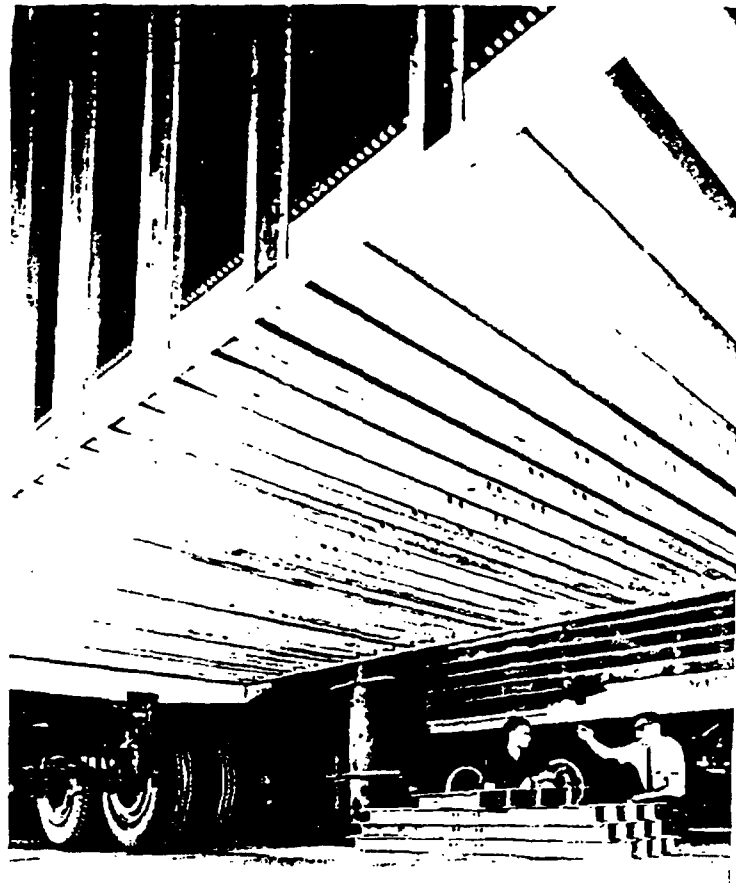
Magnesium use in the graphic arts is expected to expand through recent development of new Dowetch chemicals. These permit a one-step engraving process with magnesium photoengraving plate.

For the future, The Dow Metal Products Company expects continued growth but at a slightly lower rate. Aluminum sales, with such potentially large markets as household siding, should keep pace with further production increases at Madison.

Dobeckmun

WITH THE SETTING up of Dow's Flexible Packaging Sales group, the Dobeckmun Division becomes almost exclusively a manufacturing division. Its only sales activity, highly specialized, is in Ben-Mont's gift wrap field.

The division operates at ten locations, including three plants added early in 1963. Through Dobeckmun, Dow manufactures plastic films; it converts paper, foil and plastic films into flexible packaging materials; it produces rigid packages—blow bottles and formed containers.



Aluminum extrusions produced by The Dow Metal Products Company are finding increased use in the transportation industry.

Shipments of these products reached a record level in calendar 1962, with a slight rise from 1961. Several promising new uses for Dobeckmun-produced materials appeared: Trycite film for field-wrapping of fresh produce gained rapidly; major coffee packers are interested in a packaging system that uses Dura-film; "chub" food packages—ranging from one that uses double-wound Saran to pack ground beef to a Polyfilm formulation for packaging ice cream—provide a growing market.

Expansion in 1962 included added capacity for making Trycite polystyrene film at the Brookside plant in Cleveland. Work began early in 1963 on a general expansion of the Fresno, California, plant.

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General Operations

DOW'S SALES AND PROFIT gains in 1962 have a direct relation to our production capabilities. We were able to fill larger orders by running our plants at higher output rates. And with higher output, our unit costs of production tend to become lower—which helps in meeting price competition.

An important part of these capacity increases resulted from improved operating techniques devised in one or another of Dow's manufacturing divisions. In short, our people continued to find ways to get more pounds of product from present equipment.

No specifics are given here on these improvements; they represent valuable competitive know-how. But we cite them as typical results of our Company-wide effort for better productivity. Employees at all locations have been, and are, contributing to this goal with ideas that reduce costs, suggestions that eliminate waste, proposals that smooth out procedures, and plain old-fashioned hard work in their individual assignments. The total impact on Dow's over-all cost trends has been a very real factor in improving our ability to compete.

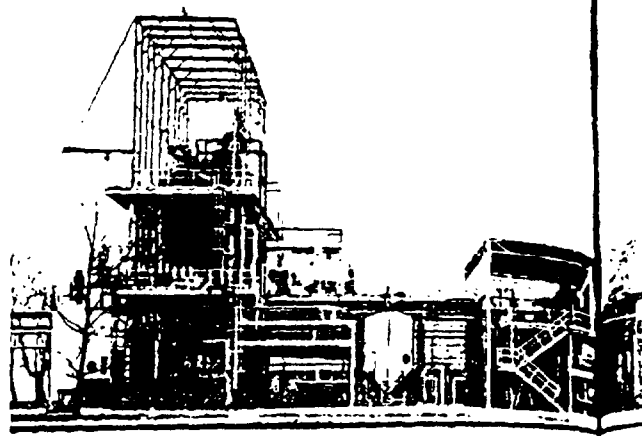
Dow's expansions and additions to plant and other facilities represented investment of \$69 million in calendar 1962. For the 1961 year, such investment was \$115 million. During 1963, we expect to put about \$60 million into new facilities—mostly to begin production of new or unique products.

The following paragraphs present some 1962 highlights in the operations of various Dow divisions.

The Midland Division's sales increase for the year was accompanied by continuing productivity gains. Commercial shipments of a new high-purity bromine had good customer acceptance; this latest development in the Company's first product has also meant cost and efficiency gains in our own process uses.

A new plant at Midland is producing iodine from Michigan brines by a process which is a major technical achievement. One of Dow's new products coming from the division is carbon tetrabromide, introduced to industrial markets this year as a chemical intermediate.

The Bay City plant began operation of a new hydrodealkylation unit in early 1962. This



Adding to Dow's broad capabilities in plastic Division. Placed in service in 1962, it for polyethylenes of e

unit processes a purchased raw material mixture to produce benzene for Midland Division production uses. A first during the year was the loading of a ship with 5,100 tons of bulk calcium chloride—a full cargo that moved from Bay City to Labrador. Similar loadings are expected for both Bay City and Ludington in the future.

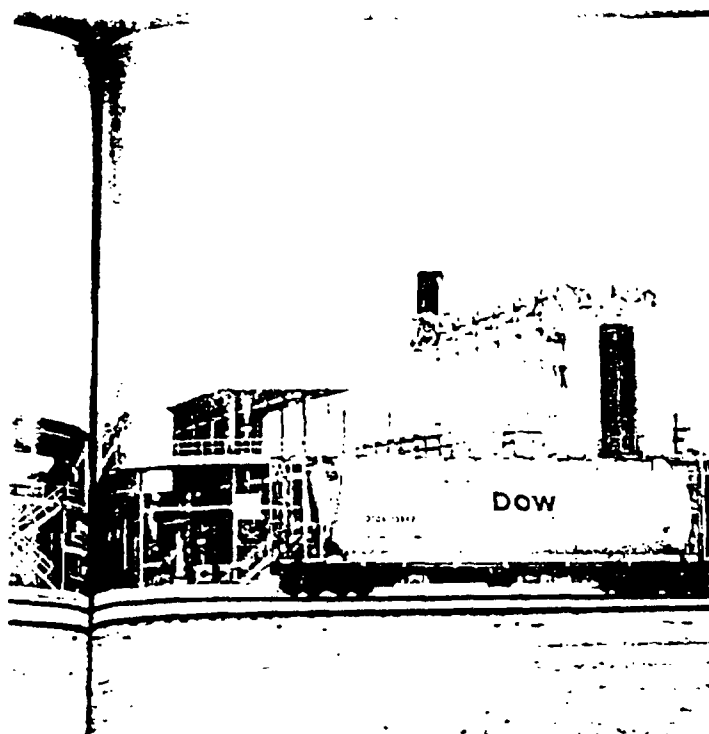
The Ludington plant reached a record high level of output late in 1962. This plant is Dow's source for another new product introduced this year, Dowcarb. The product is a high-purity calcium carbonate used in coating papers.

At the Hanging Rock plant, facilities for output of Ethafoam polyethylene foam were completed and put into service. Market demand for Ethafoam is growing rapidly and this unit gives us ample capacity to handle the growth.

In the Texas Division, capacity increases were completed for chlorine, epoxy resins and ethylene diamine. New facilities placed on stream during 1962 added anhydrous liquid hydrogen chloride and powdered polyethylene to the division's product list.

Major renovations included those made in resuming output in four of eight magnesium cell buildings, last previously operated in 1958. And, for greater production efficiency, evapo-

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ies in puction is this new plant in the Louisiana 1962, it for versatility—to produce high-density ethylenes of ethylene.

rators in one of the caustic soda plants were replaced.

In development activity, the Texas Division completed a new pilot plant for studies on a unique method of making "sandwich" foam panels.

The Western Division began operating a new phenol plant at Kalama, Washington, late in the year. This plant utilizes a new Dow-developed process. At Torrance, capacity for high-impact Styron was increased to allow the division to completely serve West Coast markets. N-Serve, an outgrowth of Western Division research, is being produced in developmental volume at Pittsburg.

The Louisiana Division reached a record high in product shipments during 1962. Productivity gains—through operational efficiencies and, most particularly, improved manpower utilization—also continued.

Two new units, an ammonia plant and a high-density polyethylene plant, were completed and began operation. Work is in progress on other production facilities: a mercury cell plant for chlorine and caustic soda, scheduled for completion in late 1963; and just beginning, a major expansion of capacity for ethylene output.

The Rocky Flats Division, through which

Dow operates a production facility as a contractor for the Atomic Energy Commission, expanded its facilities and the scope of its work during 1962. In various phases of planning or construction are shop, processing and laboratory facilities—the latter to increase capability for longer-range research projects in metallurgy, physics, chemistry and analytical support of AEC work. By a new contract signed in August, 1962 Dow's management of the Rocky Flats installation has been continued into 1967.

The 1962 work load of the Engineering and Construction Services Division came from sixteen different Dow divisions and affiliated operations. Two projects engineered for associated companies were a caprolactam plant expansion for Dow Badische Chemical Company at Freeport, and a manufacturing facility which Dow-Smith Inc. plans to locate at Little Rock, Arkansas. The future goal for the Engineering and Construction Services Division, set this year, calls for its development as the principal engineering arm of Dow—handling most major projects for capital additions, and supporting divisional and plant engineering staffs.

Subsidiaries

CLIFFS DOW CHEMICAL COMPANY had steady operations through 1962. Output of hardwood charcoal briquets was at capacity, and a marketing agreement was completed whereby Dow's Consumer Product Sales will handle this output nationally. Markets for Maltol, a flavoring compound from wood distillation chemicals, increased to require added recovery equipment. Cliffs Dow has also become the key supplier of natural denaturing compounds for ethyl alcohol producers.

DOW CHEMICAL OF CANADA, LIMITED, had an active year in 1962—highlighted by bringing into full production two major new chemical plants. These are at Ladner in British Columbia and Fort Saskatchewan in Alberta, extending the Company's chemical production from Sarnia into Western Canada.

The Ladner plant produces benzoic acid and phenol. The Fort Saskatchewan plant produces glycols, amines, Dowicide products and herbicides—and has a sodium pentachlorophenol plant under construction. These

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units have ideal locations for service to customers in the growing economic area of Western Canada.

Early in 1962 all Dow activities in Canada became part of Dow Chemical of Canada. The Company now operates through five departments: Chemicals, Plastics, Dowell (including Dow Industrial Service), Bioproducts (including agricultural chemicals and the Pitman-Moore pharmaceuticals and veterinary products), and Converted Products (including Bradshaw's). This pattern points to major operational economies, should foster diversified growth in Canada, and permits maximum benefit from the supporting research, technical and staff services we have developed at Sarnia.

- Sales for all groups were well above 1961 levels last year. Partly, this resulted from Canada's general economic growth; but an intensified sales effort was also reflected significantly in the over-all twelve per cent gain achieved.

In August of 1962 Dow Canada acquired Davenport Containers Limited, a manufacturer of rigid plastic containers for the food industry. This operation is now part of the Converted Products department—providing an outlet for Dow resins and a source of technical data valuable in serving the entire rigid container industry.

New facilities in construction include plants for Styrofoam and Roofmate FR at Toronto and a propylene products plant at Sarnia. These, and the new unit at Fort Saskatchewan, are scheduled for completion by mid-1963.

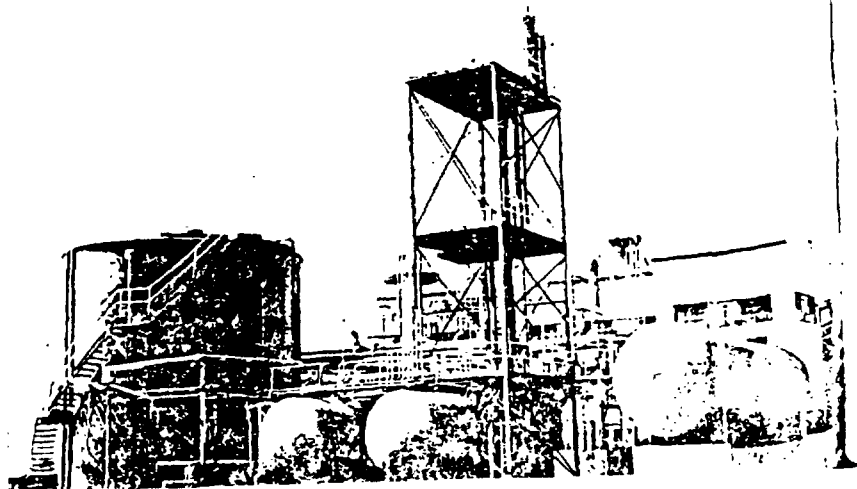
Serving the growing economy of Western Canada, this Dow-side unit is part of the Fort Saskatchewan plant which Dow Chemical of Canada, Limited put into production during 1962.

Associated Companies

DOW CORNING CORPORATION, owned jointly with Corning Glass Works, has completed twenty years as the world's first and largest producer of organosilicon chemicals and silicone products. In September of 1962 Dr. Shailer L. Bass was elected President, succeeding Dr. W. R. Collings who became Honorary Chairman. John L. Hanigan, formerly a Vice President of Corning Glass Works, was named a Dow Corning director and was elected Executive Vice President.

A divisional pattern of activity was adopted by Dow Corning during the year. This aims at better service to customers in the fields of engineering materials, chemical specialties, consumer products, medical specialties and electronic materials. The firm's Hemlock, Michigan, plant for hyper-pure silicon made significant advances in quality and size of polycrystal and single crystal silicon—the work-horse material for making semiconductor devices. Dow Corning is firmly established as a competitive supplier of silicon of superior quality and performance.

Growth at Dow Corning has come from intensive research and development in the chemistry of silicon, and the foundation for this is being enlarged. Increased emphasis is shortening the time between laboratory and market place, to complement the firm's program of identifying, developing and marketing new products with high potentials for growth and profitability.



ETHYL-DOW CHEMICAL COMPANY, owned jointly with the Ethyl Corporation, operated at rates significantly below capacity in 1962. Repair of plant damage from 1961's Hurricane Carla was completed early in 1962, with small effect on profits. The major factor in Ethyl-Dow's market outlook continues to be decreased demand for the gasoline anti-knock fluid for which the firm produces an additive.

DOW BADISCHE CHEMICAL COMPANY is jointly owned with BASF Overzee N. V. The firm began operating new caprolactam facilities at Freeport in May, 1962 and is already expanding to meet market needs for this major raw material for Nylon 6. The plant addition is scheduled for completion in early 1964.

Other Dow Badische units at Freeport produce synthetic butanols and acrylates. Raw materials for these are delivered by pipeline from the Texas Division.

DOWSMITH INC., owned jointly with the A. O. Smith Corporation of Milwaukee, made significant progress over the year. DowSmith now stands as an established producer and marketer of glass-reinforced epoxy pipe and fittings for the petroleum and gas industries, and custom components for the electrical and machine tool industries. Development, field-testing and marketing of new products is moving well.

Major product of DowSmith at present is Red Thread pipe. This trademarked product is a unique composition of continuously wound glass filaments in a thermoset epoxy resin. The pipe is an optimum blend of strength, light weight, corrosion resistance and general service effectiveness under extreme operating conditions—especially in the petroleum production, gas distribution, and chemical industries.

DowSmith, after long study of raw material source locations and major potential markets for its output, selected Little Rock, Arkansas, as the site of new production facilities. Plans call for construction to begin in early 1963 and occupancy in 1964.

International

REFERENCES TO INTERNATIONAL operations in this report cover all of Dow's activities outside the United States and Canada. In twenty-nine overseas nations and territories Dow, either directly or in association with local partners, conducts manufacturing, sales and service operations.

Dow's 1962 sales in overseas markets were held to 1961 levels after several years of rapid growth. This resulted from factors we have known for some time in our home markets: intensified competition based on overcapacity and leading, for several major products, to severe price drops.

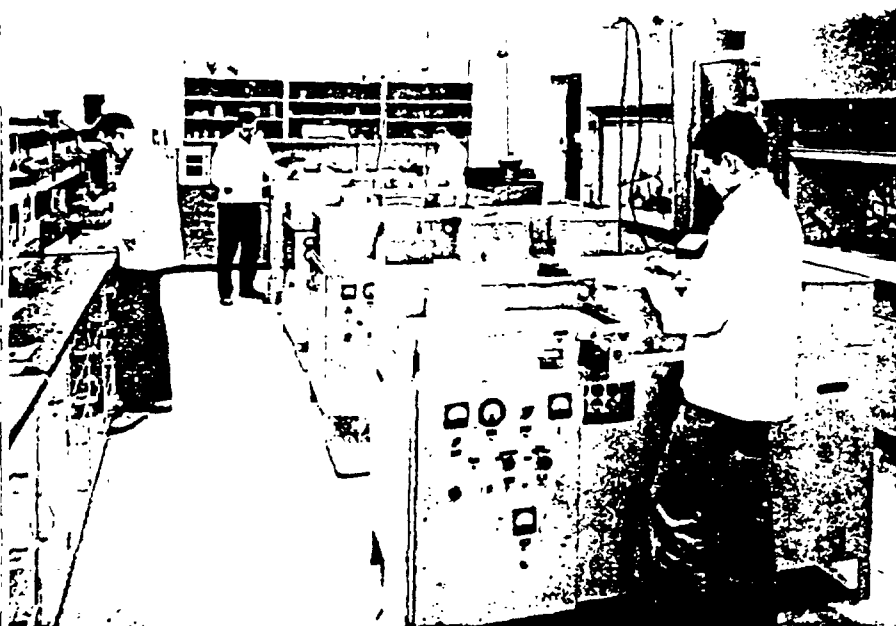
Our marketing of plastics in Europe ran into another complication when a forty per cent duty was placed on polystyrene and polyethylene made in the U. S. This was the answer of the European Economic Community—the EEC or Common Market nations—to an increased U. S. tariff on glass and carpets from Europe.

In 1963 we expect to see our sales growth resumed in overseas markets.

Continental Europe and the United Kingdom make up the most important single area in our international business. Over the past year we completed steps to consolidate our activities in these markets as a single organization to operate as a full-line business. The organization thus handles manufacturing, distribution, technical service and accounting functions as well as marketing—with all its work and staff oriented to European and United Kingdom requirements and opportunities.

The growth of Dow's production activity in Europe obviously has been largely due to the rise of the Common Market. Our developments here were planned long before Britain moved to seek membership in the EEC, so our plants are located on the basis of the six original members—Belgium, France, Italy, Luxembourg, The Netherlands and West Germany. For some time we have been organized to do business separately in Britain through a wholly owned subsidiary in the United Kingdom.

Thus the recent failure of Britain's bid for Common Market membership does not affect our short-range investment plans. Should Bri-



Facilities in the new Chemical Physics Research Laboratory at Midland include this battery of Dow-designed instruments for infrared spectroscopic analysis work.

tain continue outside the Common Market our long-range plans would be adjusted by the EEC's smaller ultimate size and the need to make separate arrangements for Britain.

Good progress was made during 1962 toward expanding overseas manufacturing facilities:

—At Terneuzen in The Netherlands work on a petrochemical complex is moving on schedule. Plans have been broadened to include plants for Styrofoam and Roofmate production, plus a polystyrene facility to feed those plants as well as to supply customers in Belgium, Luxembourg and The Netherlands.

—In Spain our jointly owned company, Dow-Unquinesa, is expanding facilities for titanium pigments and will bring a polystyrene plant on stream in 1963. Through a new joint venture, Envases y Recubrimientos S. A., we will utilize Dow know-how in the manufacture and marketing of flexible packaging materials.

—At Livorno in Italy polystyrene output is expected to begin in April, 1963. This plant's capacity was expanded during construction, causing some delay in original plans. At Lavrion, Greece, a new polystyrene plant began production in 1962.

—In Japan our oldest overseas joint venture, Asahi-Dow Limited, expanded its polystyrene plant and began operating a plant for Styrofoam. During 1963 Asahi-Dow expects to complete and bring on stream expanded plants for styrene and Saran Wrap industrial film, plus new units for polyethylene and styrene-butadiene latex.

Among promising growth areas for international business, bioproducts sales deserve special mention. Dow bioproducts, now sold in eighty-eight countries outside the U. S., have had a doubling in sales volume in four years. This growth has been supported by a doubling of our distributor network and the staffing of key overseas sales and development positions through Dow employment of highly qualified nationals of the countries involved.

Although developed for temperate climates, Dow bioproducts are also well suited to needs in tropical and semitropical agriculture. Dowpon finds extensive use for weed control in rubber, banana and sugar cane plantations; Ruelene controls tropical cattle grubs; Dow soil fumigants improve pineapple, tobacco and vegetable crops in many parts of the world.

Research

AGGRESSIVE CREATIVE activity in research serves as Dow's wellspring. After flowing progressive, productive and profitable ideas for more than sixty-five years, our research stream grows and broadens in output.

During 1962 a total of 401 patents was granted to Dow inventors, and 757 new patent applications were filed. At the end of the year Dow held 2,996 U. S. patents and 4,303 patents granted by other countries.

Market results of past research had several forms. These included new products which attained sales volume of \$50,000 or more this

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year—among them a hog cholera vaccine in the animal health field; an industrial solvent, carbon tetrabromide; and a heavy-gauge plastic film for use in packaging. Significant contributions in product improvement ranged from new high-impact plastics and better flocculants to plastic foam developments for packaging. Still another area was research to tailor the properties of products for specific end uses of customers.

New laboratories completed and put into service during the year included the Chemical Physics and Radiochemistry Laboratories at Midland. In the Western Division, scientists moved into new quarters at Walnut Creek. New laboratories also were completed in the Texas Division. A major computer installation has been scheduled for Midland.

During calendar 1962 the research organization moved to further strengthen Dow's overall research efforts and to improve productivity. A research advisory board was established to assist in evaluation of research activities.

In Dow's research effort, improvements in facilities, equipment and organization serve as tools for the creative process. The goal is that each new idea find the opportunity to develop, to nurture on the stream of Dow experience, and to contribute to the future.

Industrial Relations

THE PRINCIPAL EFFORT in Dow's 1962 Industrial Relations activity turned on long-range personnel planning. This seeks a double goal: for Dow as a whole, to bring to bear in our operations the full potential of our key resource of skilled and talented employees; for the individual employee, to structure each job assignment and the total organization so that he may develop and apply his capabilities, and advance by his performance. One part of this effort emerges as a broadened program of intra-Company personnel transfer. As we move into new and diverse competitive fields, our technical and managerial needs expand—and we meet those needs almost exclusively by transfer of employees who have gained background and experience elsewhere in Dow.

At year's end, Dow employed approximately 30,600 persons. When employees of domestic

and foreign associated companies are included, this employment total is about 38,750. These figures reflect our sale of Campana Corporation to Purex Corporation, Limited, sale of our Bay City fabrication plant to Magnesium Aerospace Products, Inc. and Dow Chemical of Canada's purchase of Davenport Containers Limited.

Employee relations activity during the year included negotiation of sixteen new contracts with labor organizations. These contracts have an average duration of two years. There were two work stoppages—at Rocky Flats and at Ben-Mont Papers—in connection with negotiations. No stoppages involving existing contracts were experienced.

Membership in the Dow Pension and Profit-Sharing Plans increased to 15,473, a new record. During 1962, there were 136 retirements under terms of the Plans. Assets of the Plans now exceed \$125 million.

Dow sets its Company-wide safety requirement in these words: "The objective of safe efficient operation is the only acceptable standard." Our on-the-job safety record is good—but constant attention goes into programs to try for perfection. In 1962, four Dow locations extended their records for operating without any disabling injuries to employees: Allyn's Point to twelve years; Rocky Flats, seven; Eastern Research Laboratory, six; and Hanging Rock, five years.

Texas Division employees further improved their safety performance. In 1962 they held disabling injuries to a record low of 1.96 per million hours worked. Noteworthy improvements were made by Dowell and Dow Industrial Service employees. At the Midland location, a 1961 uptrend in injuries was reversed in 1962. The best relative improvement in safety was made in the Dobeckmun Division, which earned the Dow President's Safety Award for the year.

Dow made grants of funds and materials totaling more than one million dollars as aid to education during 1962. This included supporting scholarships, fellowships and grants for more than 200 students attending 65 colleges and universities.

Funds given through our Matching Grant Program were at a record level. In this program Dow matched the gifts of 1,454 employees who gave \$54,449.61 for higher education.

THE DOW CHEMICAL COMPANY

1962

Current Assets:

Cash	\$ 25,538,560	\$ 25,657,427
Marketable securities—at cost	17,739,035	12,991,104
Accounts and notes receivable:		
Trade, less allowance for doubtful accounts	128,263,257	140,951,451
Miscellaneous	19,470,819	17,759,820
Inventories—at lower of cost or market	165,417,014	162,607,308
	\$ 356,428,685	\$ 359,967,110

Investments and Non-Current Receivables:

Capital stock of subsidiary companies not consolidated (at cost, less reserve) (Notes A and B)	\$ 4,739,192	\$ 5,729,602
Notes receivable and capital stock (at cost) of associated companies (Note B)	39,037,248	36,573,496
Non-current notes and accounts receivable and sundry investments	32,275,835	23,783,232
	\$ 76,052,275	\$ 66,086,330

Property—At cost:

Plants and other properties	\$1.254,951,690	\$1.239,299,793
Less—Accumulated depreciation, amortization, and depletion	677,041,320	624,320,000
	\$ 577,910,370	\$ 614,979,793

Patents—At cost or nominal value, less

accumulated amortization	\$ 2,327,996	\$ 2,355,592
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Prepaid Expenses and Deferred Charges

	\$ 8,774,481	\$ 11,948,048
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TOTAL **\$1,021,493,807** **\$1,055,336,873**

COMPANY AND SUBSIDIARY COMPANIES

LIABILITIES

1962

Current Liabilities:

Notes payable	\$ 54,975,147	\$ 93,911,252
Long-term debt due within one year (Note E)	4,500,000	3,000,000
Accounts payable	41,946,781	41,651,091
United States and foreign taxes on income	39,594,469	31,339,060
Accrued and other current liabilities	54,798,652	57,223,061
	\$ 195,815,049	\$ 227,124,464

Long-Term Debt (Note E):

Promissory notes, 2.7%	\$ 7,000,000	\$ 8,500,000
Promissory notes, 3.25%	34,500,000	37,500,000
Debentures, subordinate 3% convertible	10,276,000	11,234,000
Bonds, 4.25% (Swiss subsidiary)	13,872,832	13,872,832
Notes payable—banks	60,000,000	75,000,000
	\$ 125,648,832	\$ 146,106,832

Minority Interests in Subsidiary Companies	\$ 1,242,519	\$ 1,275,401
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Stockholders' Interest (Note F):

Common Capital Stock (December 31, 1962— issued, 29,145,483 shares)	\$ 145,727,414	\$ 145,600,601
Capital surplus	439,422,026	438,428,248
Earned surplus	117,709,515	96,801,327
	\$ 702,858,955	\$ 680,830,176
Less—Treasury stock, at cost (84,500 shares)	4,071,548	
	\$ 698,787,407	\$ 680,830,176

TOTAL **\$1,021,493,807** **\$1,055,336,873**

See notes to financial statements on page 26.

THE DOW CHEMICAL COMPANY AND SUBSIDIARY COMPANIES

FOR THE SEVEN MONTHS ENDED

Sales and Other Revenue:

Net sales	\$ 542,714,058	
Dividends received from associated companies	4,061,985	
Interest income	1,373,433	
Fees from operation of Government-owned plants	672,917	
Other income	7,313,631	\$ 556,136,024

Costs and Other Charges:

Cost of sales*	\$ 334,689,658	
Provision for depreciation, amortization, and depletion (Note D)	57,046,315	
Provision for pension and profit-sharing plans	7,308,909	
Selling and administrative expenses*	60,525,933	
Interest expense	5,077,287	
Other income charges	3,853,791	
Minority interests in income of subsidiary companies ..	26,467	
Provision for United States and foreign taxes on income (Note C)	39,750,000	508,278,360

Earnings for the Period \$ 47,857,664

Special Items (Note D):

Depreciation applicable to prior fiscal year, less income tax benefit therefrom, \$4,762,950	\$ 4,396,570	
Reduced income tax provision for prior fiscal year arising from investment tax credit	(716,271)	3,680,299

Earnings for the Period less Special Items \$ 44,177,365

* Exclusive of items shown separately.

See notes to financial statements on page 26.

THE DOW CHEMICAL COMPANY AND SUBSIDIARY COMPANIES

FOR THE SEVEN MONTHS ENDED

Capital Surplus:

Balance, June 1, 1962		\$ 438,428,248
Additions:		
Excess of selling price over par value of Common Stock issued to employees	\$ 148,246	
Excess of face value of debentures over par value of Common Stock issued on conversion	845,532	993,778
Balance, December 31, 1962		\$ 439,422,026

Earned Surplus:

Balance, June 1, 1962	\$ 96,801,327
Earnings for the period and special items	44,177,365
Total	\$ 140,978,692
Cash dividends	23,269,177
Balance, December 31, 1962	\$ 117,709,515

See notes to financial statements on page 26.

A Principles of Consolidation

The consolidated financial statements for the seven months ended December 31, 1962 include the accounts of the Company and all of its domestic and foreign subsidiaries except for those located in Mexico.

The accounts of foreign subsidiaries have been converted generally at official or other appropriate exchange rates.

B Subsidiary Companies Not Consolidated and Associated Companies

At December 31, 1962 the Company's investment at cost, less reserve, exceeded its equity in the combined net assets of subsidiary companies not consolidated, as shown by their financial statements, by approximately \$300,000. The Company's equity in the combined net loss of these companies was approximately \$200,000 for the seven months ended December 31, 1962.

The Company's equity in the combined net assets of associated companies (50% owned), as shown by their unaudited financial statements, exceeded the Company's investment at cost by approximately \$16,200,000 at December 31, 1962. The Company's equity in the combined net income of these companies was approximately \$3,600,000 for the seven months ended December 31, 1962.

C Investment Tax Credit

The Revenue Act of 1962 provides for a credit against income taxes payable equal to varying percentages of the cost of qualified property leased or acquired and placed in service after January 1, 1962, with corresponding reductions in future tax deductions for rents and depreciation. In accounting for the investment credit, 48% thereof, representing the estimated permanent reduction in income taxes payable, has been credited to the current provision for income taxes, and 52% has been deferred to be amortized over the life of the assets. The investment credit for the seven months ended December 31, 1962 amounted to \$1,350,282, of which \$648,135 has been treated as a reduction of tax expense.

D Special Items

Subsequent to closing the accounts for the Company's fiscal year ended May 31, 1962, the United States Treasury Department liberalized its rules pertaining to allowable depreciation for Federal income tax purposes. As a result of this action, the estimated lives of depreciable assets were reviewed and where it was deemed reasonable to do so revisions were made in the lives of certain assets for both tax and accounting purposes, effective as of June 1, 1961. Such revisions resulted in a net charge of \$4,396,570, representing an increase in the provision for depreciation for the fiscal year ended May 31, 1962 of \$9,159,520, less the computed reduction in income tax arising therefrom of \$4,762,950.

The investment credit (described in Note C) for the period from January 1 to May 31, 1962, which was recorded during the seven months ended December 31, 1962, amounted to \$1,492,230, of which 48%, or \$716,271, was a reduction of Federal income tax expense for the fiscal year ended May 31, 1962.

Both of the foregoing adjustments for the preceding fiscal year have been treated as "special items" in the Statement of Earnings and have been excluded in determining the results of operations for the seven months ended December 31, 1962.

The above-described revisions in the lives of depreciable assets resulted in an increase of approximately \$3,600,000 in depreciation for the current seven months ended December 31, 1962.

E Long-Term Debt

The promissory notes, which are payable to insurance companies, bear interest at 2.7% and 3.25% per annum, and are due January 1, 1972 and July 1, 1977, respectively, with prepayments due annually.

The 3% convertible subordinate debentures are convertible into Common Stock and are due July 1, 1982.

The 4.25% bonds which were issued in the amount of 60,000,000 Swiss francs by a Swiss subsidiary

are due November 30, 1971, but are redeemable at the option of the issuer prior thereto under certain conditions at specified rates of premium. The bonds are guaranteed as to principal and interest by The Dow Chemical Company.

Notes payable to banks at December 31, 1962 consisted of indebtedness under a credit agreement which provides for a maximum credit of \$100,000,000 with interest governed by the prime rate for ninety-day maturities. Borrowings thereunder are evidenced by ninety-day notes which are renewable at the option of the borrower with final maturity as of October 1, 1964.

F Stockholders' Interest

As of December 31, 1962 the authorized Common Stock consisted of 50,000,000 shares of \$5 par value each. There were 29,060,983 shares outstanding, after deducting 84,500 shares of treasury stock. As of that date 219,807 shares were reserved for conversion of convertible debentures, and 117,487 shares were reserved for issuance under stock option plans.

At the beginning of the current period 147,104 shares were covered by outstanding options under the option plans. During the period 2,869 shares

were purchased by employees and options on 26,748 shares expired. The shares covered by options at December 31, 1962 consisted of 99,206 shares under the Key Employees Stock Option Plan at prices ranging from \$55.38 to \$90.63 a share, which represented the highest prices of the stock on the New York Stock Exchange on the dates the options were granted, and 18,281 shares under the Substitute Stock Option Agreement for former Allied Laboratories, Inc. employees at prices ranging from \$33.31 to \$67.17 a share.

On February 5, 1963 the Board of Directors declared a dividend on the Common Stock of one share of Common Stock for each fifty shares held, payable on May 8, 1963 to stockholders of record as of the close of business March 20, 1963.

G Commitments and Contingent Liabilities

Contingent liabilities at December 31, 1962 included guarantees of loans of approximately \$12,600,000 for employees' housing, construction of facilities, and other purposes; agreements to make future loans in the amount of \$3,900,000 and for retirement payments to certain officers in a maximum amount of \$1,500,000; and guarantees of rental income from housing projects.

HASKINS & SELLS

CERTIFIED PUBLIC ACCOUNTANTS

RESIDENT PARTNERS
HAROLD W. SCOTT, C. P. A.
E. ROBERT BILLINGS, C. P. A.
CHAUNCEY A. NORTON, C. P. A.
ROLAND E. KING, C. P. A.

FIRST NATIONAL BUILDING
DETROIT 26

THE DOW CHEMICAL COMPANY:

We have examined the consolidated balance sheet of The Dow Chemical Company and its subsidiary companies as of December 31, 1962 and the related statements of consolidated earnings and surplus for the seven months then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the accompanying consolidated balance sheet and statements of consolidated earnings and surplus present fairly the financial position of the companies at December 31, 1962 and the results of their operations for the seven months then ended, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

March 1, 1963

HASKINS & SELLS

Condensed Comparative Statements of Financial Condition

THE DOW CHEMICAL COMPANY AND SUBSIDIARY COMPANIES

28

Amounts are expressed in millions of dollars.

AS OF DECEMBER 31

AS OF MAY 31

CURRENT ASSETS:

	1962	1961	1960
Cash and marketable securities	\$ 43.3	\$ 48.5	\$ 50.8
Receivables (less reserves)	147.7	135.6	114.9
Inventories	165.4	164.6	162.9
Total current assets	\$ 356.4	\$ 348.7	\$ 328.6

CURRENT LIABILITIES:

Notes payable	\$ 59.5	\$ 101.2	\$ 96.4
Accounts payable and accruals	96.7	86.2	74.5
Taxes on income	39.6	25.8	28.2
Total current liabilities	\$ 195.8	\$ 213.2	\$ 199.1

WORKING CAPITAL (A)

\$ 160.6 \$ 135.5 \$ 129.5

PROPERTY (at cost)

\$1,254.9 \$1,307.8 \$1,228.1

Depreciation, amortization, and depletion

677.0 696.0 633.8

Net property (B)

\$ 577.9 \$ 611.8 \$ 594.3

OTHER ASSETS (C)

\$ 87.1 \$ 81.0 \$ 52.6

INVESTMENT (A) PLUS (B) PLUS (C)

\$ 825.6 \$ 828.3 \$ 776.4

Long-term Indebtedness

\$ 125.6 \$ 152.7 \$ 140.9

Minority Interests

1.2 1.3 1.6

Total

\$ 126.8 \$ 154.0 \$ 142.5

COMMON STOCKHOLDERS' INTEREST

\$ 698.8 \$ 674.3 \$ 633.9

	1962	1961	1960	1959	1958
	\$ 38.6	\$ 39.9	\$ 36.6	\$ 46.4	\$ 44.8
	158.7	140.1	122.9	106.8	85.9
	162.6	172.2	156.5	146.1	159.7
	\$ 359.9	\$ 352.2	\$ 316.0	\$ 299.3	\$ 290.4

	\$ 96.9	\$ 114.5	\$ 26.4	\$ 58.0	\$ 36.3
	98.9	101.7	91.6	72.5	71.8
	31.3	26.3	41.8	38.0	26.7
	\$ 227.1	\$ 242.5	\$ 159.8	\$ 168.5	\$ 134.8

	\$ 132.8	\$ 109.7	\$ 156.2	\$ 130.8	\$ 155.6
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	\$1,239.3	\$1,256.5	\$1,140.4	\$1,065.8	\$1,038.4
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	624.3	636.8	581.9	528.7	474.4
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	\$ 615.0	\$ 619.7	\$ 558.5	\$ 537.1	\$ 564.0
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	\$ 80.4	\$ 67.8	\$ 26.7	\$ 22.6	\$ 20.6
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	\$ 828.2	\$ 797.2	\$ 741.4	\$ 690.5	\$ 740.2
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	\$ 146.1	\$ 144.7	\$ 154.0	\$ 172.3	\$ 274.6
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	1.3	1.4	1.7	1.4	2.2
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	\$ 147.4	\$ 146.1	\$ 155.7	\$ 173.7	\$ 276.8
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	\$ 680.8	\$ 651.1	\$ 585.7	\$ 516.8	\$ 463.4
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NOTES: Calendar year 1961 figures have been adjusted to give retroactive effect to special items described in Note D on page 26. The statements as of December 31, 1960 and 1961 have been prepared from the records without audit.

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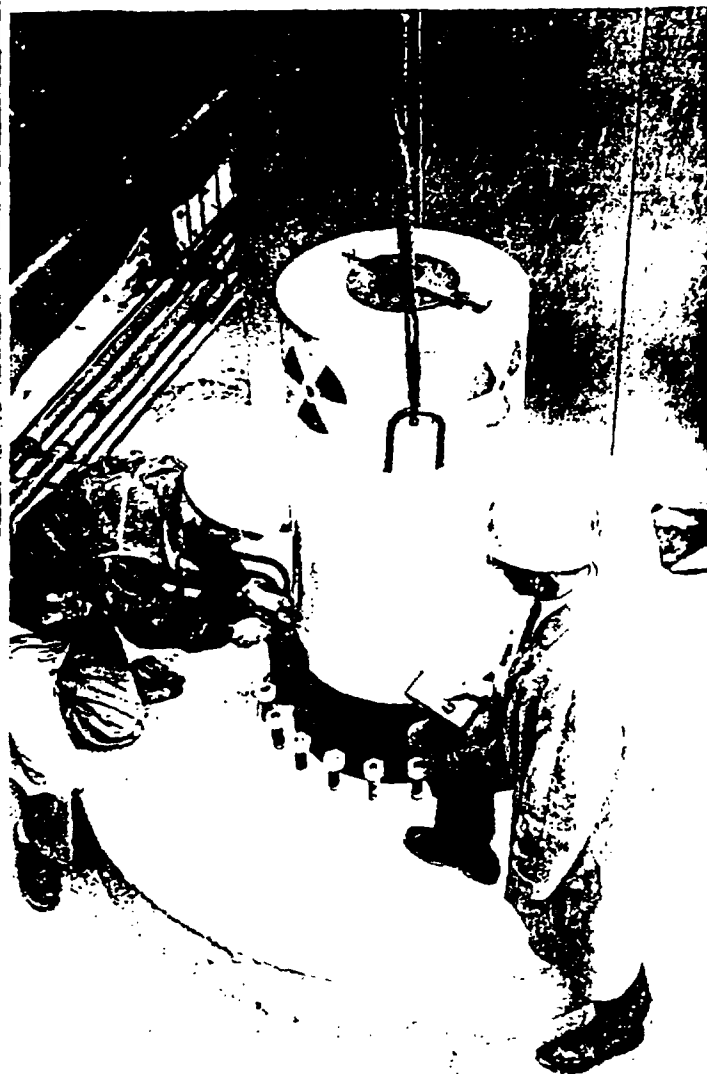
Condensed Comparative Statements of Earnings

THE DOW CHEMICAL COMPANY AND SUBSIDIARY COMPANIES

Amounts are expressed in millions of dollars.

	YEARS ENDED				YEARS ENDED			
	DECEMBER 31				MAY 31			
SALES AND OTHER REVENUE:								
Net sales	1962	1961	1960		1962	1961	1960	1958
	\$926.2	\$841.7	\$819.8		\$890.6	\$817.5	\$781.4	\$636.2
Other revenue	20.2	19.1	16.3		17.9	17.6	12.6	9.0
Total	\$946.4	\$860.8	\$836.1		\$908.5	\$835.1	\$794.0	\$645.2
COSTS AND OTHER CHARGES:								
Cost of sales	\$583.9	\$533.3	\$509.2		\$572.5	\$512.6	\$463.2	\$386.8
Depreciation, amortization, and depletion	99.6	99.4	81.9		94.1	89.8	78.4	82.4
Selling and administrative expenses	105.7	103.7	103.8		104.8	104.4	81.3	66.7
Pension and profit-sharing plans	11.9	10.5	10.0		11.1	9.7	10.4	8.9
Interest expense	9.1	9.5	7.6		9.6	8.6	7.4	10.9
Other income charges	4.8	3.1	2.0		4.6	1.9	2.6	1.0
Taxes on income	58.5	41.1	50.8		48.8	43.7	68.3	42.4
Total	\$873.5	\$800.6	\$765.3		\$845.5	\$770.7	\$711.6	\$599.1
EARNINGS FOR THE YEAR	\$ 72.9	\$ 60.2	\$ 70.8		\$ 63.0	\$ 64.4	\$ 82.4	\$ 46.1
OTHER STATISTICS:								
Earnings per share on Common Stock (in dollars) ..	\$ 2.51	\$ 2.07	\$ 2.48		\$ 2.16	\$ 2.23	\$ 3.01	\$ 1.78
Cash dividends per share paid	1.60	1.45	1.40		1.55	1.40	1.30	1.20
on Common Stock (in dollars)	46.6	43.5	39.6		46.6	40.2	36.6	30.8
Cash dividends on Common Stock			44.0			44.0	45.7	27.3
Stock dividend at approximate market value	84.1	70.4	75.7		73.2	66.7	88.1	59.8
Taxes (major)	231.7	224.3	209.8		227.9	219.4	196.3	174.9
Wages paid	23.7	23.0	22.1		23.7	22.2	21.8	18.4
Cost of employee benefits	30.6	30.6	30.5		31.3	30.2	29.1	26.6
Number of employees at year end (thousands)	69.0	115.0	129.0		92.0	148.0	102.0	59.0
Additions to property								185.0

NOTES: The earnings for the years ended May 31, 1961 and 1962 and all calendar years include those of Allied Laboratories and its subsidiaries, merged into The Dow Chemical Company as of December 31, 1960. The statements of earnings for the years ended December 31 have been prepared from the records without audit. Adjustments to depreciation and income tax provision have been made for calendar years 1961 and 1962 to properly reflect the retroactive depreciation adjustment explained in Note D on page 26.



Shielded within a transfer device, a charge of radioactive cobalt-60 is placed in the new ethyl bromide unit in Dow's Midland Division. Energy given off by the cobalt-60 initiates the chemical change in the process—the first such use of radiation energy in a commercial-size plant in the United States.

Radiation Drives Dow Process

THE ATOMIC AGE HAS ENTERED a new commercial phase as a result of successful research by Dow scientists. From that research has come the nation's first commercial-size plant using the energy provided by radioactivity as a process medium in a production application. Development work was completed in 1962 and, early in 1963, the process was put on stream to produce ethyl bromide at Midland.

Previous uses of radiation in chemical processes have been limited to such purposes as modifying the structure of plastics. The Dow application, termed by the Atomic Energy Commission a major and long-sought breakthrough, uses radiation from a cobalt-60 source to initiate and sustain chemical change.

Raw materials given controlled exposure to the radiation go through a chemical change and, in this particular process, yield ethyl bromide. The product is completely free of induced radioactivity; no radiation is present in it. The cobalt-60 acts as does a catalyst—causing the chemical change to occur, rather than becoming any part of the product.

Dow has made and sold ethyl bromide for many years. The compound has numerous uses as an intermediate in organic synthesis. These markets will now be supplied entirely by the output of the new process.

In sales, ethyl bromide ranks as an important Dow product but not a major volume item. Thus the immediate commercial impact of this productive process use of radioactive energy is not large; but for the future of industrial chemistry, the significance of this Dow research feat can hardly be measured.

ST0004313

Offices and Operations

DOMESTIC

California, Berkeley, Fresno, Pittsburg, Seal Beach, Torrance
Colorado, Rocky Flats
Connecticut, Allyn's Point
Florida, Tampa
Hawaii, Honolulu
Illinois, Chicago, Madison
Indiana, Indianapolis, Zionsville
Louisiana, Plaquemine
Maryland, Baltimore
Michigan, Bay City, Jackson, Ludington, Marquette, Midland
Missouri, Riverside
Ohio, Cleveland, Findlay, Hanging Rock
Oklahoma, Tulsa
South Dakota, Sioux Falls
Texas, Freeport
Vermont, Bennington, Wells River
Virginia, Williamsburg
Washington, Kalama

Bay Refining, Bay City, Michigan
Brazos Oil & Gas Company, Houston, Texas
Dobeckmun, Cleveland, Ohio
Dowell, Tulsa, Oklahoma
Dow Industrial Service, Cleveland, Ohio
The Dow Metal Products Company, Midland, Michigan
Pitman-Moore Company, Indianapolis, Indiana

Dow Badische Chemical Company, Freeport, Texas
Dow Corning Corporation, Midland, Michigan
DowSmith Inc., Milwaukee, Wisconsin
Ethyl-Dow Chemical Company, Freeport, Texas

FOREIGN

Algeria	France	Japan	Switzerland
Argentina	Gabon	Kuwait	Trinidad
Australia	Germany	Libya	Tunisia
Bolivia	Greece	Mexico	United Kingdom
Brazil	India	The Netherlands	Venezuela
Canada	Iran	Spain	
Colombia	Italy	Spanish Sahara	

ST0004314

Sales Offices

EXECUTIVE AND GENERAL SALES OFFICES MIDLAND, MICHIGAN

THE DOW CHEMICAL COMPANY

Atlanta 3, Georgia, *618 Fulton National Bank Building*
Boston 16, Massachusetts, *520 Boylston Street*
Buffalo 2, New York, *70 Niagara Street*
Camden 2, New Jersey, *400 Market Street*
Charlotte 2, North Carolina, *200 South Tryon Street*
Chicago 48, Illinois, *6000 West Touhy Avenue*
Cincinnati 6, Ohio, *2330 Victory Parkway*
Cleveland 13, Ohio, *55 Public Square*
Dallas 1, Texas, *1505 Elm Street*
Detroit 2, Michigan, *450 Fisher Building*
Houston 25, Texas, *6910 Fannin Street*
Los Angeles 54, California, *2600 Wilshire Boulevard*
Minneapolis 3, Minnesota, *1750 Hennepin Avenue*
New Orleans 12, Louisiana, *1100 Commerce Building*
New York 20, New York, *45 Rockefeller Plaza*
New York 1, New York, *912 Empire State Building*
Pittsburgh 22, Pennsylvania, *Four Gateway Center*
St. Louis 5, Missouri, *10 South Brentwood Boulevard*
San Francisco 6, California, *350 Sansome Street*
Seattle 1, Washington, *307 Broad Street*

DOW CHEMICAL OF CANADA, LIMITED

Calgary, Alberta, *433 Fourth Avenue SW*
Montreal 3, Quebec, *2055 Peel Street*
Saint John, New Brunswick, *189 Prince William Street*
Toronto 2, Ontario, *600 University Avenue*
Vancouver 9, British Columbia, *1489 West Broadway Avenue*
Winnipeg 1, Manitoba, *232 Portage Avenue West*

Bogota, Colombia	Osaka, Japan
Brussels, Belgium	Paris, France
Buenos Aires, Argentina	Rio de Janeiro, Brazil
Frankfurt, Germany	San Juan, Puerto Rico
Hong Kong, British Crown Colony	Sao Paulo, Brazil
Johannesburg, Republic of South Africa	Stockholm, Sweden
London, England	Sydney, Australia
Mexico City, Mexico	Tokyo, Japan
Milan, Italy	Zurich, Switzerland

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