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PLAINTIFF'S EXHIBIT

DOW-1521

Dow manufactures and supplies more than 2,500 product families, including chemicals and performance products, plastics, hydrocarbons and energy, and consumer specialties–which include agricultural products, pharmaceuticals and consumer products. The company operates 130 manufacturing sites in 30 countries, and employs about 53,700 people around the world.

A canoeist enjoys the spectacular scenery of Yosemite National Park in California. For the past five years, Dow, in partnership with the U.S. National Park Service, has sponsored recycling programs at Yosemite and six other parks. A five-year progress report on Dow and the environment begins on page four.

Dow latex was used in the production of this recyclable paper.

Financial Highlights of 1994

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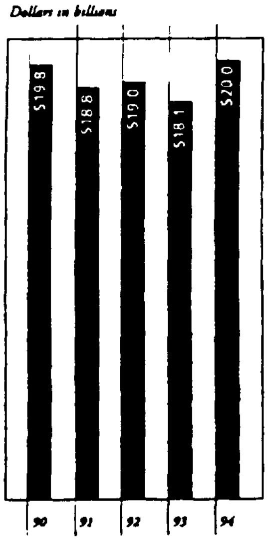
In millions, except as noted	*1994*	*1993*	*Percent Change*
Net Sales	**$20,015**	$18,060	+11
Operating Income	**2,345**	1,440[1]	+63
Net Income Available for Common Stockholders	**931**	637	+46
Research and Development Expenses	**1,261**	1,256	-
Capital Expenditures	**1,183**	1,397	−15
Depreciation	**1,321**	1,343	−2
Wages, Salaries and Benefits	**4,071**	4,219	−4
Employees *(in thousands)*	**53.7**	55.4	−3
Net Stockholders' Equity *(at year-end)*	**8,212**	8,034	+2
Return on Average Stockholders' Equity	**11.4%**	7.9%	+3.5 points
Average Common Shares Outstanding	**276.1**	273.6	+1
Earnings per Share *(in dollars)*	**3.37**	2.33	+45
Dividends Paid per Share *(in dollars)*	**2.60**	2.60	-

[1] *Includes special charge of $180 in 1993. See Note B to the Financial Statements.*

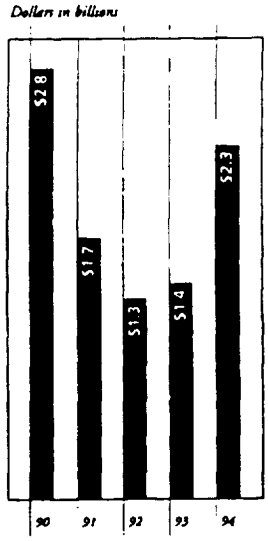
Sales

Dollars in billions



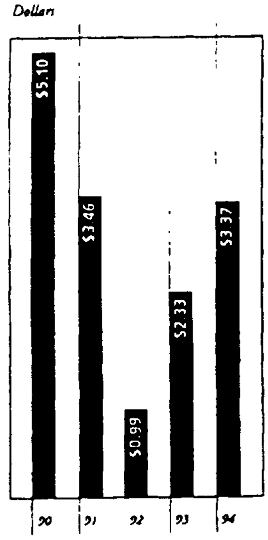
Operating Income

Dollars in billions



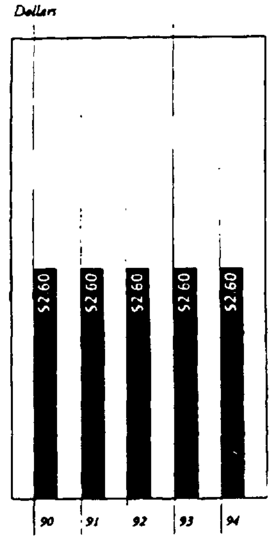
Earnings per Share
(Before cumulative effect of accounting change)

Dollars



Dividends Paid per Share

Dollars



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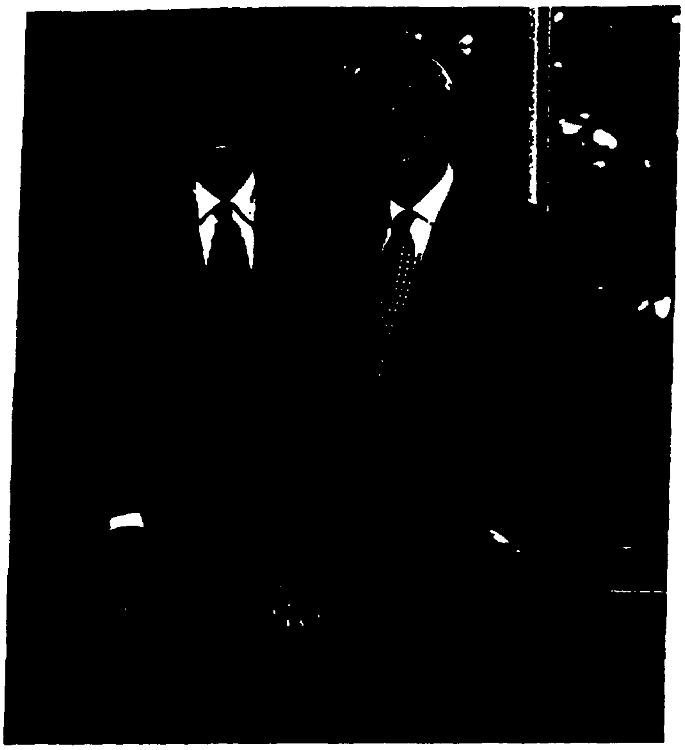
Continuing the Progress | To Our Stockholders:



Bill Stavropoulos, President and Chief Operating Officer (left) and Frank Popoff, Chairman and Chief Executive Officer

When the economy softened in the early part of this decade, we pledged to emerge from those challenging times a stronger company—even more capable of combining profitability and growth. In 1994, we kept that commitment. Our success demonstrates that our reengineering of the company and investments for growth are paying off. And thanks to the outstanding performance of Dow's people, our strong international presence and strengthening prices, we expect our earnings growth to continue.

We're pleased to report a record $20.0 billion in sales for 1994, an 11 percent increase over the $18.1 billion achieved in 1993. This gain reflected an 8 percent improvement in volume and a 2 percent gain in prices. Operating income exceeded $2.3 billion in 1994, up 63 percent from $1.4 billion in 1993, which included the impact of a $180 million charge taken by Marion Merrell Dow related to productivity improvements.

Our 1994 earnings increased by 45 percent to $3.37 per share and would have been higher if they had not been affected by a number of charges. These included Dow Corning Corporation taking a charge related to breast implant litigation and Dow recording a write-down resulting from the pending sale of the DowBrands Personal Care business. Earnings of $2.33 per share in 1993 reflected Marion Merrell Dow's charge, another Dow Corning charge and gains from the sale of assets. Excluding charges and net gains and losses on investments over the past two years, earnings were $3.91 per share in 1994 versus $2.02 per share in 1993, an increase of 94 percent.

Higher Sales For All Business Segments

All of our business segments achieved higher sales in 1994 compared to the previous year.

In Consumer Specialties, Agricultural Products set sales and profitability records while the performance of Pharmaceuticals and Consumer Products reflected the intense competitive pressures in those industries.

The most significant improvement over the previous year came from Plastics, which increased sales by 16 percent and achieved an almost 200 percent gain in operating income. Higher volume and price recovery in Thermoplastics led to the improved performance.

Demand for caustic soda and chlorine derivatives improved in 1994, contributing to increases of 6 percent in sales and 69 percent in operating income for Chemicals and Performance Products. Strong demand for emulsion polymers led to record sales for Performance Products.

In Hydrocarbons and Energy, sales increased by 14 percent and operating income grew 72 percent over 1993 due to significant expansion of capacity coupled with improving demand.

Investing For Growth

To serve customers well—and to help them succeed—we must build today to meet their future needs. The investments we made during the recession, including new production facilities for ethylene, polyethylene and vinyl chloride monomer, are now coming on line in time to meet rising demands. The additional capacity will serve us well as demand continues to grow.

Remaining a leading global supplier to our customers required other tough steps in 1993 and 1994, which included reengineering the company to become competitively stronger. We also continued to build on our core competencies of technology and global reach and developed new strategies to keep us ahead in today's changing competitive environment.

For our chemicals and plastics businesses, we created a strategic blueprint that recognizes change as a necessity and focuses on "creating our future" instead of becoming a casualty of change. The blueprint has challenged our core businesses to excel in their management so that we can enjoy positive cash flow and economic profit through all phases of the business cycle. A key step for chemicals and plastics was to achieve a cost reduction goal of $600 million within three years through work process improvements and elimination of unneeded activities. Achieving our original goal in two years prompted us to extend this target, calling for a reduction of more than $700 million in structural costs by the end of 1995 versus a 1992 base.

In Consumer Specialties, each business has adopted its own strategy to improve productivity and to provide greater value to consumers. For example, DowBrands is starting up a new production facility in Urbana, Ohio, that will result in cost efficiencies through the use of advanced manufacturing and packaging technologies.

Upholding Our Values

We will continue to grow and evolve, but we will not change our basic beliefs. Our commitment to protecting the environment illustrates this pledge.

We have improved our environmental, health and safety performance, benefiting our employees, customers and stockholders, and the communities we serve globally. This annual report is dedicated to reviewing the progress we've made in this area (see pages 4-9).

We still have more to accomplish, but our resources are greater than ever. One example is the Corporate Environmental Advisory Council, which we established in 1991. Members include experienced professionals in education, environmental protection and scientific research from around the world who advise us on strategic environmental issues. The council and our Community Advisory Panels have broadened our dialogue with opinion leaders, bringing an improved understanding of priorities and how to work together to achieve them.

We're also putting our environmental expertise to work in solving problems for customers, while creating a major new business for Dow. In 1994, Dow Environmental was formed to give us a stronger presence in the $250 billion per year environmental services industry. Forming Dow Environmental is part of an overall strategy to evolve from a traditional focus on internal compliance to a market-based and customer-focused approach to environmental management.

Looking Ahead

In 1995, we will stay focused on our strategy of creating value growth and improving productivity, which is essential to fulfilling our vision to be the best at applying chemistry to benefit our customers, employees, stockholders and society. As a result, we expect to surpass the $20 billion sales mark attained in 1994 and to achieve higher profit margins.

The technology we generate and the new products it yields are key strengths. For example, Insite technology, introduced in 1993, is one of the most significant breakthroughs we have ever experienced in plastics. The resulting new products already have 25 commercial applications, and we anticipate our customer base will continue to grow dramatically in 1995. We're confident that Insite will make a contribution to our operating income similar to what we enjoy from Styron polystyrene and Dowlex polyethylene.

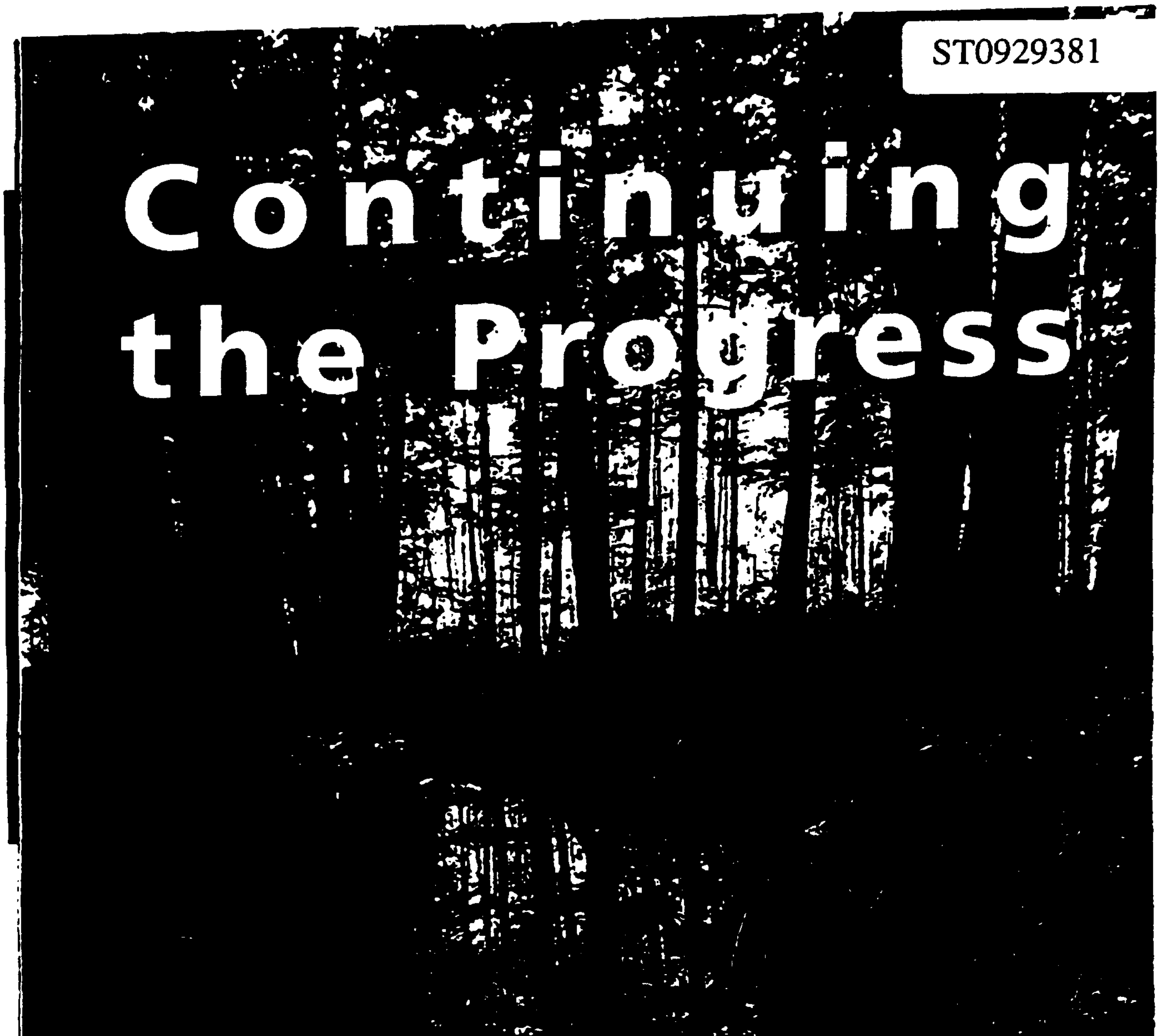
Recognizing that our success depends on our people, we continue to place a premium on employee development. It is a primary responsibility for supervisors at every level. We're taking steps that include changes in compensation management to recognize individuals who consistently excel at developing people.

In 1994, we reaped the benefits of the hard work, creativity and determination that the people of this organization have exhibited over the past few challenging years. We're very pleased with the company's many accomplishments in 1994 and optimistic about continuing to achieve earnings growth in 1995.

Frank Popoff
Chairman and Chief Executive Officer

Bill Stavropoulos
President and Chief Operating Officer
February 8, 1995

Continuing the Progress



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"One issue, more than any other, will affect Dow's prospects in the '90s and beyond. That issue is the environment."

Five years after that statement first appeared in the 1989 annual report, our success in protecting and improving the environment continues to be essential for Dow's global growth. And around the world, we have continued to improve our environmental, health and safety performance.

As the examples on the following pages show, we have made real progress. We have set concrete goals for our operations and have developed the systems to measure our gains. Through good economic times and bad, we have invested hundreds of millions of dollars to reduce our impact on the environment. Building on a strong record, we have integrated environmental considerations with business decisions at every level. We have learned the benefits of open communication—and active, equal partnerships—with others. We have found new markets for our environmental resources and expertise. We have created value for our customers, our stockholders and the communities we serve.

Much more remains to be accomplished. But at the middle of the decade, our commitment remains as strong as ever. And just as it was five years ago, the most important message is that our progress continues.

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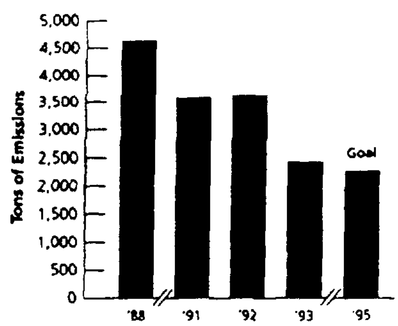
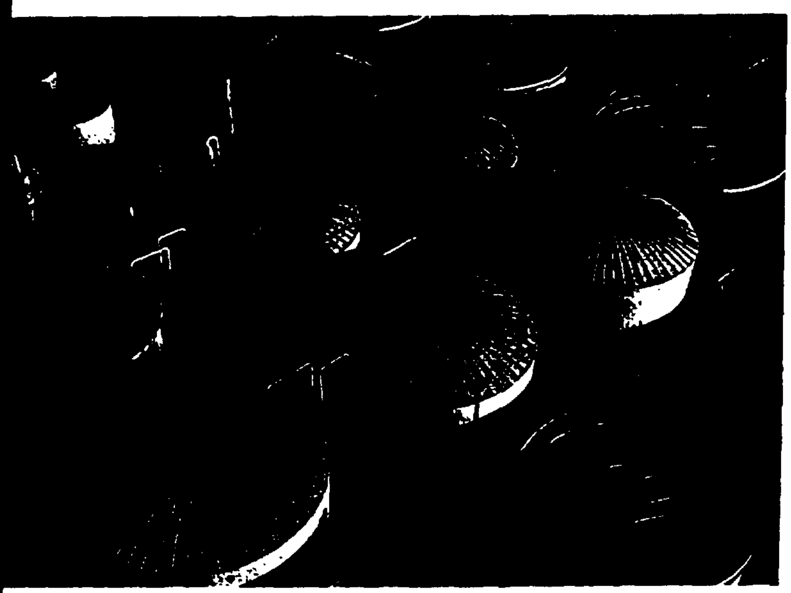
A RECORD OF IMPROVEMENT

On the Right Track
Increasingly, Dow's environmental performance provides a competitive advantage. In Sweden, thermal insulation is placed under railroad tracks to prevent shifting caused by temperature changes. The Swedish railway system selected our insulation because we are producing part of the Styrofoam brand product mix in Europe using CO_2 as a blowing agent, which does not deplete the Earth's ozone layer or add to the greenhouse effect.

Concrete Goals
In 1991, the U.S. Environmental Protection Agency announced the 33/50 program, which challenged companies to reduce emissions of 17 priority compounds by 33 percent by 1992 and by 50 percent by 1995. Nearly 1,200 U.S. companies made this voluntary agreement. We adopted that goal as a global objective because we employ the same environmental standards at all our manufacturing facilities throughout the world. By the end of 1993, Dow had achieved a 47 percent global reduction. Reductions continue and 1994 data will be available by mid-year.

Global Emissions of 17 Priority Compounds





Smart Investments
Since the start of 1990, Dow has invested close to $1 billion in capital improvements aimed at protecting the environment. Major investments, including new waste treatment facilities in Terneuzen, the Netherlands and Freeport, Texas (above), have dramatically reduced emissions. With such advanced facilities in place, we can meet tomorrow's standards today, which frees capital for other purposes even as we continue to improve our environmental performance.

A Global Commitment
Responsible Care® is the chemical industry's worldwide initiative to improve its environmental, health and safety performance and broaden its dialogue with the public. Responsible Care® principles emphasize continuous improvement in pollution prevention, employee health and safety, distribution, process safety, product stewardship, and community awareness and emergency response. Dow practices these principles in all 30 of the countries where we manufacture our products. In November 1994, Dow Canada successfully completed a review of its Responsible Care® commitment, verifying that it fully meets Responsible Care® requirements.

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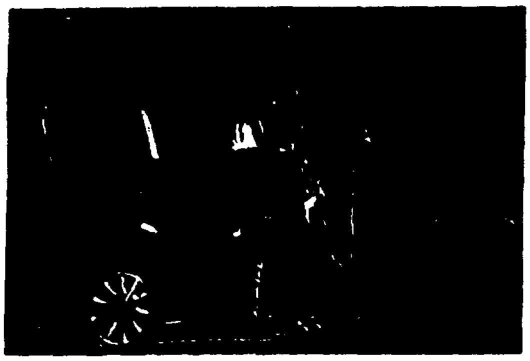
WORKING FOR THE ENVIRONMENT



Driving to Meet New Needs
We are working with many of our customers to include recycled material in their products. In 1991, our researchers developed a process for the recycling of reaction injected molded (RIM) scrap, incorporating it into the same application with virtually no loss of performance or appearance. Today, Dodge Caravan and Plymouth Voyager minivans are the first to use bumpers containing 10 percent in-plant RIM recycled material. We also help customers from other industries tackle the same challenge. For example, our chelating agents help the pulp and paper industry meet the growing demand for recycled paper

Better Answers
This year, DowElanco is launching the Sentricon termite colony elimination system, featuring Recruit bait. In contrast with conventional treatments that use several hundred gallons of product to keep termites away from structures, the Sentricon system eliminates entire termite colonies with only 100 grams placed in small stations around the home. The bait has extremely low toxicity to mammals and is used only where termites are actively feeding. Sentricon protects structures with minimal disruption during installation and greater convenience to the homeowner.

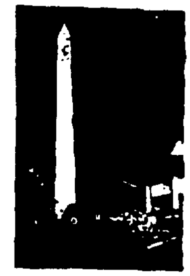
Good Products–Good Packages
To help reduce solid waste, most of the packaging for DowBrands products now contains a minimum of 25 percent post-consumer recycled paperboard or plastic. Environmental impact is always a key consideration in the packaging development process, along with ease of use for the consumer. In fact, new packaging for Home Care products contains up to 12 percent less plastic per bottle. In addition, each product shipping case contains 25 percent less corrugated material per box compared to the previous containers.

Creating Value
The creation of the Dow Environmental business in 1994 gives Dow a stronger position in the $250 billion per year global environmental services market. Dow Environmental, which includes Advanced Cleaning Systems and AWD Technologies, Inc., markets environmental resources and expertise to a broad range of industrial sectors Customers have turned to Dow Environmental for assistance in removing and treating contaminated groundwater. One innovative facility that Dow Environmental designed and built (left) removes pollutants from groundwater at flow rates up to 9,000 gallons per minute (gpm), with future expansion to 12,000 gpm

HELPING OTHERS

Building a Better World
One home at a time, Habitat for Humanity has built 30,000 homes with the help of the hard-working, low-income families who buy the homes. Across North America, Dow and its employees have supported Habitat activities at local levels for more than five years. In 1994, we became the exclusive supplier of rigid foam insulation for the organization, which now ranks as the 17th largest home builder in the United States. We are contributing Styrofoam brand insulation to meet Habitat's North American building needs in 1994 and 1995, and employees are volunteering their time and hard work to help make the dream of owning a home a reality.

A Partnership for National Parks
Working in partnership with Huntsman Chemical and the U.S. National Park Service, Dow has brought recycling to seven national parks since 1990. Almost 2 million pounds of aluminum, glass and plastics were collected during the past year, reducing the solid waste sent to landfills and promoting recycling among park visitors. Dow and Huntsman have invested more than $5 million in the program, which is expected to become self-sustaining in 1995.



Protecting a Precious Treasure
Wetlands provide a habitat for waterfowl, improve water quality, recharge farm wells and reduce flooding. Since 1990, as a member of the Partnership for Wetlands Preservation, Dow has financed the preservation and enhancement of more than 700,000 acres of wetlands in the United States and Canada. We also have worked to save and restore more than 60,000 acres of endangered wetlands on or near our own property.

Educating the Next Generation
Dow is committed to supporting innovative science and environmental education programs in schools across North America. Building on the success of our award-winning production *Recycle This!*, our new *ChemTV* program uses live performers, video, music and comedy to motivate high school students to learn more about chemistry and its impact on everyday life. At the elementary school level, Dow is partnering with 40 school districts at 18 plant sites to improve the way science education is being taught to almost 400,000 children. These programs and others underscore Dow's commitment to improving primary and secondary education.

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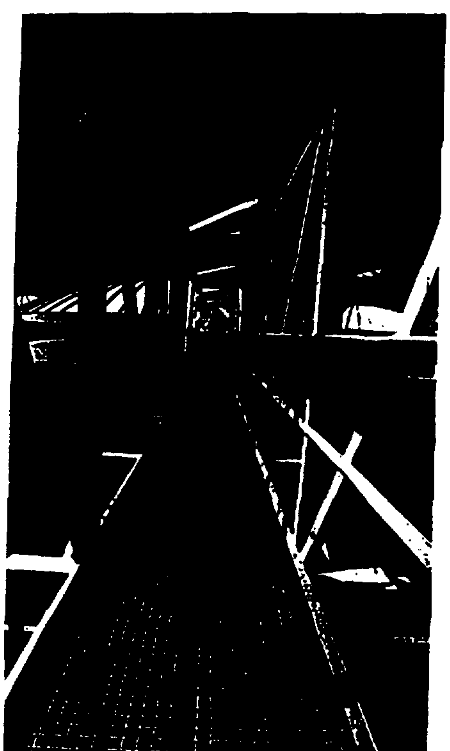
TOMORROW'S GOALS

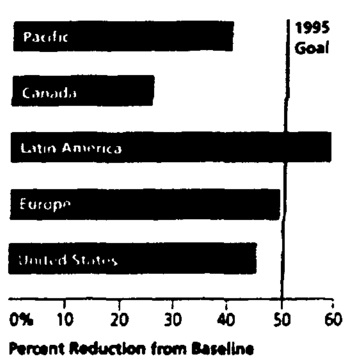
Part of the Solution
From steel production to printing and electronics, solvents play a critical role in many industries. Yet many widely used solvents face regulations aimed at reducing the release of volatile organic compounds (VOCs) and limiting the depletion of the Earth's ozone layer. Our new line of solvents, which contain no ozone-depleting chemicals and up to 50 percent water in place of emissive solvents, uses microemulsion technology to provide excellent cleaning power with half the VOC levels of conventional solvents.

Setting the Standard
The U.S. Occupational Safety and Health Administration (OSHA) and teams of Dow people are working together to improve safety and health management programs and to introduce them to other companies. Five Dow sites have been recognized with OSHA's Voluntary Protection Program's highest rating of STAR worksite, based on a comprehensive audit of all safety, industrial hygiene and medical programs, plans and procedures. As measured by the frequency of accidents or injuries that cause days away from work, Dow is one of the safest companies in any industry. Our low days-away-from-work accident rate translates into an annual estimated $10 million cost advantage over the chemical industry average.



Measurable Progress
While committing to reduce the EPA's 17 priority compounds by 50 percent by the end of 1995, Dow's geographic areas are reducing additional compounds specific to their needs, priorities and regulations. Each area has set a goal to reduce emissions of these additional compounds by 50 percent by the end of 1995. Progress through 1993 has resulted in the elimination of 44,200 tons of global emissions annually. Data for 1994 will be available by mid-year.

Progress Toward Geographic Area 50% Emissions Reduction Goals



Balancing Complex Concerns
As one of the most versatile of all chemicals, chlorine is vital to the production of 85 percent of all pharmaceuticals and a vast array of other products. But today, chlorine's impact on health and the environment is at the center of a spirited public debate. We fully support the phase-out of any substance that has risks outweighing the benefits it offers society. Yet an increasing number of scientific studies verify that the vast majority of chlorinated compounds have not been found to have adverse effects on human health or the environment, and they provide important benefits. Working in cooperation with government, other industries and the environmental community, we are committed to finding sustainable solutions to the questions under study.

Corporate Profile

Dow is a diversified, worldwide manufacturer and supplier of more than 2,500 product families, which include chemicals and performance products, plastics, hydrocarbons and energy, and consumer specialties.

Chemicals and Performance Products

Dow's wide range of products are used primarily as raw materials in the manufacture of customer products, or they aid in the processing of customer products and services. Industries served include adhesives, aerosols, aerospace, automotive, chemical processing, metalworking, oil and gas, pulp and paper, personal care, pharmaceuticals, processed foods, utilities and water treatment.

Chemicals and Metals:
Acetone, alkanolamines, caustic soda, chlorinated solvents, chlorine, ethyleneamines, ethylene dichloride, ethylene glycols, glycerine, hydrochloric acid, hydrogen chloride, magnesium metal, methyl chloride, phenol, propylene glycols, propylene oxide and vinyl chloride monomer.

Performance Products:
Acetylsalicylic acid (aspirin), acrylamide monomer, air separation and gas treating products and services, antimicrobials, aqueous and semi-aqueous cleaners, brake fluids, compressor lubricants, Dowanol glycol ethers, Dowex ion exchange resins, Dowfax surfactants; Dowfrost, Dowtherm and Syltherm heat transfer fluids; Drytech superabsorbents, FilmTec membranes, Invert solvents, latex coatings and binders, magnesium hydroxide, Methocel and Ethocel cellulosic products, Peladow, Liquidow and Dowflake calcium chloride; plastic lined piping products, polyglycols, specialty monomers (DVB, VBC) and Versene chelating agents

Plastic Products

Dow ranks among the world leaders in the production of plastics, offering the broadest range of thermoplastic and thermoset materials of any manufacturer. Dow plastics and plastic fabricated products are used in a wide variety of industries, such as appliances, automotive, building and construction, electronics, flooring, furniture, health care, housewares, packaging and recreation.

Thermoplastics:
Affinity polyolefin plastomers, Aim advanced styrenic resins, Aspun fiber-grade resins, Attane ultra low density polyethylene copolymers, Calibre polycarbonate resins, Dowlex linear low density polyethylene, Engage polyolefin elastomers, Insite technology polymers, Isoplast polyurethane engineering thermoplastic resins, low and high density polyethylene, Magnum ABS resins, Pellethane TPU elastoplastic polymers, Prevail thermoplastic resins, Primacor adhesive copolymers, Pulse engineering resins, Sabre engineering resins, Saran PVDC, Styron polystyrene, Tyril SAN resins and Tyrin CPE elastomers and resins

Thermosets:
Cyclotene advanced electronics resins, D.E.H. curing agents, D.E.N. epoxy novolacs, D.E.R. liquid and solid epoxy resins, Derakane epoxy vinyl ester resins, Isonate pure and modified MDI (methylene diphenyl diisocyanate), Papi polymeric MDI, Specflex systems, Spectrim reaction moldable products, Tactix performance polymers, The Enhancer carpet backing, Voranate T-80 TDI (toluene diisocyanate) and Voranol polyether polyols and copolymer polyols.

Fabricated Products:
DAF adhesive films, DWF window films, Ethafoam plastic foams, Opticite label films, Saranex plastic films, Styrofoam brand plastic foams, Trycite plastic films, Trymer rigid foam billets and Zetabon plastic clad metals.

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Hydrocarbons and Energy

Dow is the world leader in the production of olefins, styrene and aromatics. This segment encompasses procurement of fuels and petroleum-based raw materials as well as the production of olefins, aromatics, styrene and cogenerated power and steam for use in the company's operations.

Hydrocarbons:
Benzene, ethylene, propylene and styrene.

Energy:
Power and steam production plus fuels procurement and natural gas pipelines. Includes independent power producer Destec Energy, Inc., a Dow subsidiary, which develops independent power projects and sells electrical and thermal energy

Consumer Specialties

This segment is comprised of three businesses primarily operated by Dow affiliates: Agricultural Products, Pharmaceuticals and Consumer Products. Agricultural Products (DowElanco) are used in crop protection and production, and for industrial pest control. The Pharmaceuticals business (Marion Merrell Dow) includes prescription drugs and over-the-counter health care products. The Consumer Products business (DowBrands) includes household and personal care products.

Agricultural Products:
Broadstrike, Garlon, Lontrel, Sonalan, Starane, Tordon, Treflan and phenoxy herbicides, Dursban and Lorsban insecticides, Beam, Rubigan and Trimidal fungicides; N-Serve nitrogen stabilizer, Telone soil fumigant, Vikane gas fumigant, Sentricon termite colony elimination system, and hybrid seeds

Pharmaceuticals:
Prescription Products: Carafate antiulcer, Cardizem antianginal, Cardizem SR antihypertensive, Cardizem CD antianginal/antihypertensive, Cardizem Injectable for atrial fibrillation or atrial flutter, Nicorette (outside the U.S.) and Nicoderm smoking cessation aids, Sabril anticonvulsant, Seldane antihistamine, Seldane-D antihistamine-decongestant combination and Targocid antibiotic

Over-the-Counter Products: *(now marketed in the U S by SmithKline Beecham Consumer Healthcare, a partnership between Marion Merrell Dow and SmithKline Beecham)* Cepastat sore throat lozenges, Citrucel bulk-fiber laxative, Debrox ear care product, Gaviscon antacid, Gly-Oxide oral antiseptic, Nicorette (in the U S), Novahistine cough/cold/allergy products and OsCal calcium supplements

Consumer Products:
Household Products: Dow bathroom cleaner with Scrubbing Bubbles, Fantastik all purpose cleaner, Glass Plus multi-surface cleaner, Handi-Wrap plastic film, Saran Wrap plastic film, Smart Scrub soft scouring cleanser, Spray'N Wash tough laundry stain remover, ultra Vivid color safe bleach, ultra Yes laundry detergent and Ziploc plastic bags

Personal Care: Apple Pectin, Nucleic A, PermaSoft, Salon Style, and Style hair care products

Unallocated

This segment encompasses Dow's businesses that are not reported elsewhere, including the consolidated insurance and finance companies, and Ventures businesses such as Dow Environmental and advanced electronics materials. This segment includes activities and overhead cost variances not allocated to other segments.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

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Results of Operations

Sales were $20.0, $18.1 and $19.0 billion for 1994, 1993 and 1992, respectively. Operating income for the same periods was $2.3, $1.4 and $1.3 billion, which included pretax special charges of $180 million in 1993 and $433 million in 1992 as discussed in Note B to the Financial Statements. The 1993 charge was taken by Marion Merrell Dow Inc., Dow's pharmaceutical subsidiary (71 percent owned), to cover expenses related to realignment of the company and other cost-management efforts to position the business for long-term success. Dow took a special charge in 1992 that reflected write-offs and write-downs, plant shutdowns, divestitures and the consolidation of a variety of business activities globally.

Volume gains, price recovery and improved productivity contributed to higher operating income in 1994 compared to 1993 and 1992. Volume improved 8 percent in 1994 versus the previous year, and prices increased 2 percent after having declined since 1990. Through work process improvements, cost of sales adjusted for volume was down more than 2 percent despite an increase of almost 1 percent in the hydrocarbons and energy purchase price index.

CHEMICALS AND PERFORMANCE PRODUCTS

Chemicals and Performance Products had a 6 percent gain in sales in 1994 compared to the previous year, reporting $4.5 billion in sales versus $4.3 billion. In 1992, sales were $4.5 billion.

Operating income continued to increase, rising to $592 million in 1994 from $350 million in 1993 and $269 million in 1992. The segment's operating income was affected by a special charge of $115 million in 1992.

Chemicals and Metals

Sales for Chemicals and Metals were up 5 percent in 1994 compared to the previous year and down 2 percent versus 1992. Sales were $2.8, $2.6 and $2.8 billion for 1994, 1993 and 1992, respectively.

The sales gain in 1994 resulted from 4 percent increases in both prices and volume compared to the previous year. Besides price recovery, lower costs and expenses resulted in improved margins.

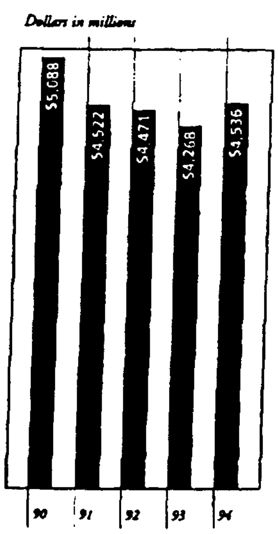
Price increases and higher volume for vinyl chloride monomer made the greatest contribution to the sales gain in this business and helped offset lower prices for caustic soda. An upturn in construction activity led to the stronger demand. Ethylene glycol was also a significant contributor to the improved results, with higher prices and volume.

Propylene oxide demand improved in 1994, resulting in very tight supply. Because demand is expected to continue growing, Dow is authorizing incremental expansions of propylene oxide capacity in the U.S., Germany and Brazil. Dow has identified more than 500 million pounds of incremental capacity that can be added beginning in late 1995 or early 1996 with little added capital. Capacity was also increased for Dow with the start-up of its Zhejiang Pacific Chemical Company joint venture propylene oxide plant in Ningbo, People's Republic of China.

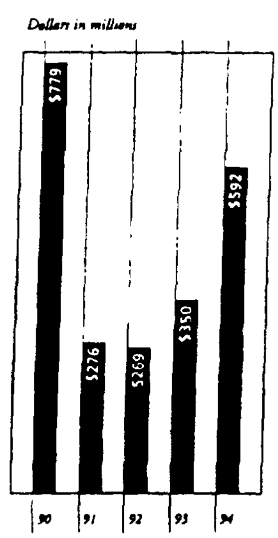
Following a dramatic volume decline for magnesium, Dow adjusted its capacity in 1994 by permanently closing a production facility in Freeport, Texas. The facility had previously been idled when product exported from Russia and China saturated world markets. As supply and demand balances have become more favorable, price recovery is underway.

Prices for chlorinated organics remained steady while volume continued to decline. The phaseout is underway for methyl chloroform and other applications of chlorinated organics which are of environmental concern. This phaseout will not have a material impact on Chemicals and Performance Products.

Chemicals and Performance Products
Sales



Chemicals and Performance Products
Operating Income



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Performance Products

In 1994, Performance Products had record sales of $1.8 billion, up 8 percent from the previous year. Sales were $1.6 and $1.7 billion in 1993 and 1992, respectively. Volume grew 8 percent in 1994 compared to 1993 while prices remained flat. In 1993, prices declined 6 percent compared to 1992, resulting in the sales decline that year.

Improving economic conditions created greater demand for latex coated paper around the world, resulting in higher sales and profits for emulsion polymers. Demand and prices also improved for carpet and specialty applications. Dow responded to the increased demand for styrene butadiene latex by achieving an incremental increase in capacity from its existing facilities globally.

Dow achieved higher sales for Methocel methyl cellulose as demand and prices strengthened. In anticipation of greater demand, Dow plans to add capacity in 1995 through debottlenecking.

Sales declined for separation systems in 1994 due to the loss of patent protection for FilmTec membranes. The resulting increase in competition had little impact on volume, but prices were down significantly versus 1993. The loss of patent protection did not materially impact the results of Chemicals and Performance Products. Competitive pressures also resulted in a sales decline for ion exchange resins, but prices appear to have stabilized and volume is improving.

Drytech superabsorbents experienced price attrition in 1994 in the face of new competition. However, volume remained strong. Sales of oxygenated solvents, chelants, antimicrobials, polyglycols, heat transfer fluids and other specialty chemicals continued to grow with gains in prices and volume.

Outlook for Chemicals and Performance Products

Prices of caustic soda began to recover in the second half of 1994. This recovery is expected to accelerate in 1995 as contract renewals bring higher prices. The improvement for caustic, coupled with strong demand and higher prices for most products in Chemicals and Metals, should result in further growth in sales and operating income in 1995.

Performance Products is likely to better the record sales it attained in 1994, as volume and prices are expected to rise. Leading the return to more attractive margins will be the emulsion polymers business, where price recovery is expected to continue as global economic conditions improve.

PLASTIC PRODUCTS

Plastics reported record sales in 1994 of $7.5 billion, an increase of 16 percent versus the previous year. Sales were $6.5 billion in 1993 and $6.7 billion in 1992. The higher sales resulted from volume and price gains of 11 percent and 3 percent, respectively.

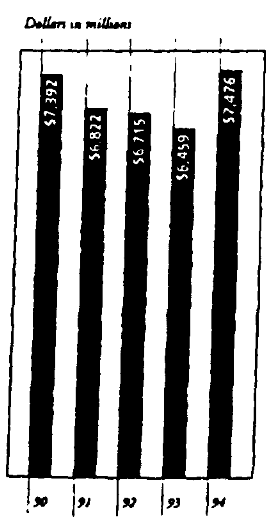
Operating income continued to improve in 1994 on the strength of price recovery and cost and expense reductions. Operating income in 1994 was $1.1 billion, up from $380 million in 1993 and $94 million in 1992. Operating income in 1992 included a special charge of $184 million.

Thermoplastics

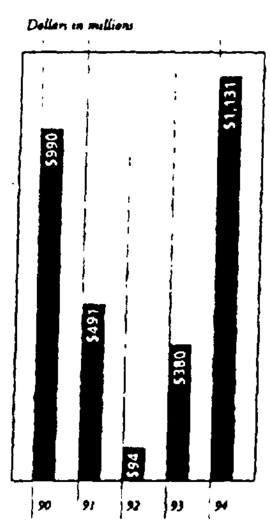
Sales increased 21 percent to $3.9 billion in 1994 compared to $3.2 billion in 1993. Sales were $3.3 billion in 1992.

Polyolefins and elastomers had significantly improved sales and margins due to the strong global pricing environment, higher volume in all geographic areas and continued cost reductions. As overall economic conditions improved, Dow's volume increased 11 percent, in line with industry growth rates. In meeting this strong demand, the business set production records for polyethylene and chlorinated polyethylene. Start-up of a new plant for Dowlex polyethylene at Fort Saskatchewan, Alberta, was completed in a safe manner, within budget and ahead of schedule in September 1994.

Plastic Products
Sales



Plastic Products
Operating Income



The global commercialization of Insite technology has accelerated as more than 25 commercial applications of Affinity plastomers and Engage elastomers have been developed. A second production unit was converted in late 1994 to satisfy growing demand for Insite technology polymers.

In January 1995, Dow and DuPont signed a letter of intent to form an enterprise that would include a broad portfolio of general purpose and specialty elastomer products. Combined global elastomer sales for the two companies currently are about $1 billion. The new enterprise has the potential to grow at more than twice the industry rate, leading to total revenues of $2 billion within five years.

Specialty polyolefins posted record profitability in 1994, resulting primarily from strong volume growth and lower costs.

Price was the single largest contributor to sales and profit improvement for Styron polystyrene, with significant increases in all geographic areas. Coupled with double-digit reductions in cost, the sales gain brought a dramatic improvement in margins. Dow responded to high levels of demand by increasing the capacity of existing plants in the U.S. and Canada.

In November 1994, Styron Asia Ltd., a Dow joint venture with Asahi Chemical Industry Co., was formed. Based in Hong Kong, Styron Asia Ltd. will engage in the marketing, sales and service for polystyrene to the consumer and business electronics industries outside of Japan.

Engineering thermoplastics had significantly improved performance in 1994 due to cost reductions and volume gains. While prices were down 3 percent, volume increased, resulting in higher sales. Volume improved in the Pacific area as the result of general industrial growth and in North America due to increased demand from the automotive and construction industries. Magnum ABS, Calibre polycarbonate and Pulse polycarbonate blends had the strongest improvement.

Start-up of the Sumitomo-Dow Ltd. joint venture polycarbonate compounding operation was completed in September 1994, with the polymerization step scheduled to start up in February 1995. Demand for polycarbonate accelerated worldwide in 1994 and was exceptionally strong in the Pacific.

Dow, in cooperation with Idemitsu Petrochemical Ltd., has moved into the development phase of new, semi-crystalline engineering resins.

Thermosets

Thermosets had record sales of $2.7 billion in 1994, up from $2.4 billion the previous year and $2.5 billion in 1992. The sales increase in 1994 versus 1993 resulted from a 9 percent gain in volume, which offset a 1 percent decline in prices.

Polyurethanes enjoyed record sales in 1994 based on strong demand. The global polyurethanes industry had exceptional growth rates in 1994, including a 12 percent increase in the U.S. Much of Dow's growth came from the Pacific, where the company has expanded its polyurethanes manufacturing presence in recent years.

In 1994, Dow started up its joint venture polyol facility in Ningbo, People's Republic of China, and completed a 300 million pound capacity expansion for polyols at its facility in Freeport, Texas. In February 1995, Dow announced plans to construct a new world-scale toluene diisocyanate (TDI) plant in Freeport. Dow's capacity expansions for TDI, polyols and propylene oxide (discussed under Chemicals and Metals) will provide the feedstocks needed to continue meeting the growing demand for polyurethanes globally.

Productivity improvements are helping the polyurethanes business retain its low-cost-to-serve position, which is of primary importance for this industry. In 1994, costs were reduced and production records set.

For epoxy products, supply tightened globally, supporting an upward trend in prices. Volume improved in 1994 and cost reductions contributed to better margins than in 1993. Operating rates also improved and were at high levels.

In 1994, Dow started up a 120 million pound per year incremental expansion of epichlorohydrin, one of the basic products in the epoxy products chain. The expansion came in response to growing global demand that has outpaced supply. Bisphenol, another raw material for epoxy products, moved from a balanced to a tight supply situation in 1994.

Fabricated Products

Fabricated Products had record sales of $910 million in 1994, up from $842 million in 1993 and $898 million in 1992. The business also achieved record profits in 1994 as a result of strong volume growth, price increases and cost reductions.

Volume for Styrofoam brand products improved as economic conditions provided an increase in construction activity. In line with the company's plans to expand geographically, Dow will start up a new plant in Turkey for Styrofoam brand products in late 1995.

Films and engineered laminates had higher sales due to the improvement in overall economic conditions and penetration of new applications. Price increases initiated across all of films during the last four months of 1994 will have their full effect in 1995 and demand is expected to remain strong.

Outlook for Plastic Products

Thermoplastics will benefit from strong demand and tight supply for ethylene- and styrene-based products. Dow's capacity expansions are well timed to capture this growth.

The epoxy and polyurethanes businesses should continue to grow, although at a lesser rate than during the past few years. Dow believes that its Thermosets business will grow faster than the overall economy.

The Fabricated Products business is expected to benefit from growing demand in the construction, electronics and telecommunications sectors, which are driven by expansion outside the U.S.

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HYDROCARBONS AND ENERGY

Hydrocarbons and Energy had sales of $2.0 billion, up 14 percent from $1.8 billion in 1993 and 18 percent compared to $1.7 billion in 1992.

Operating income increased 72 percent to $74 million in 1994 from $43 million in 1993. Hydrocarbons and Energy had an operating loss of $183 million in 1992, which included the unfavorable impact of a special charge of $113 million. Although operating income was not affected, Dow's 1994 earnings included a gain on its investment in Magma Power Company, primarily as a result of the merger agreement between Magma and California Energy Company, Inc. In 1993, earnings included gains from the sale of portions of the company's equity interests in Magma and Crestar Energy Inc. (see Note C to the Financial Statements).

Ethylene production for Dow continued at high operating rates that were above the industry average. Ethylene market values rose substantially worldwide, driven by strong demand. This growth is expected to continue and capacity was expanded through the start-up of crackers in Fort Saskatchewan, Alberta, in the second half of 1994 and Freeport, Texas, in early 1995. Demand strengthened for styrene in the second half of 1994, leading to tight supply conditions and significant price increases.

Feedstock costs for Hydrocarbons and Energy were up 1 percent in 1994 compared to the previous year.

Destec Energy, Inc.

Independent power producer Destec Energy, Inc., a publicly traded Dow subsidiary (76 percent owned), reported revenues for 1994 of $727 million, up from $674 million in 1993 and $508 million in 1992. The percentage of Destec's revenues sourced from Dow was 19 percent in 1994 and 1993, and 23 percent in 1992.

Destec's results were favorably affected by an increase in equity earnings from the company's power facility partnerships, financing of the 123 megawatt Michigan Power CoGen project in Ludington, Michigan, and settlements concerning the development of two other projects. In 1994, Destec added 936 megawatts of new capacity and improved the operations and ownership structures at several existing facilities. The company presently has seven projects in construction or advanced development, representing additional equivalent capacity of more than 1,200 megawatts.

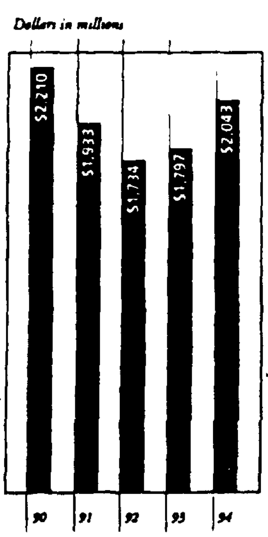
Outlook for Hydrocarbons and Energy

Ethylene and styrene will begin the year in a favorable supply and demand situation for Dow, but new ethylene capacity being added around the world could lead to a weaker market in the second half of 1995. Styrene demand is expected to remain strong throughout the year.

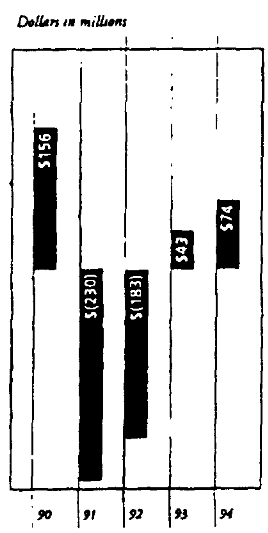
Destec implemented a major corporate restructuring in 1994 aimed at realigning its development strategy, streamlining its organizational profile and reducing costs. In 1995, Destec plans to focus on its restructured business strategies.

Two of Destec's Texas power marketing contracts expired during 1994 and the remaining contract expires in April 1995. As these contracts expire, Destec is selling its excess capacity at prevailing tariff prices and attempting to negotiate new contracts, but these expirations could substantially reduce Destec's revenues and gross margin in 1995 and beyond. In 1994, these contracts and operations from the related facilities accounted for 30 percent of Destec's total revenues and 78 percent of its gross margin.

Hydrocarbons and Energy
Sales



Hydrocarbons and Energy
Operating Income



CONSUMER SPECIALTIES

Consumer Specialties had sales of $5.9 billion in 1994, up 7 percent compared to 1993, but down 2 percent versus 1992. Operating income in 1994 was $762 million, a 1 percent decrease from $772 million in 1993 when excluding a Marion Merrell Dow Inc. special charge of $180 million that year. Including the impact of the charge, operating income in 1993 was $592 million.

Operating income was $1.1 billion in 1992, which included the impact of an $11 million special charge. The declines in operating income, when excluding the charges, primarily reflect the shift to lower margin generic products for Pharmaceuticals.

Agricultural Products

Dow had a record $1.7 billion in sales of Agricultural Products through DowElanco, which is a global joint venture between Dow and Eli Lilly and Company, with Dow holding a 60 percent share. Sales for Agricultural Products were $1.6 billion in both 1993 and 1992.

U.S. sales remained strong in specialty products, with notable increases in termite control, vegetation management and technical products. Lorsban 15G, the leading U.S. corn soil insecticide, yielded steady performance. Sales of other previously registered crop protection products were augmented by Broadstrike weed control systems in their first year of introduction.

On a global basis, European sales stabilized despite government-sponsored farm acreage reduction programs and lack of financing for sales to the former Soviet Union. In Latin America and the Pacific, sales increased significantly, due to strong performance across product lines and added revenue from the introduction of flumetsulam, the active ingredient of Broadstrike.

DowElanco also formed joint ventures with IPiCi to serve the global dinitroanaline market and with Nocil for the manufacture and sale of chlorpyrifos in India. Additionally, European operations were streamlined with new formulation and packaging operations.

In 1995, DowElanco is commercializing the newly registered Sentricon system featuring Recruit termite bait. In 1997, pending EPA approvals, DowElanco plans to launch a new line of Naturalyte insecticides based on fermentation technology, initially targeted at the cotton and vegetable markets.

Pharmaceuticals

Sales for Pharmaceuticals were $3.3 billion in 1994, up from $3.0 billion in 1993 but down from $3.5 billion in 1992. This business includes Marion Merrell Dow Inc., a Dow subsidiary (71 percent owned), and Dow's wholly owned pharmaceutical subsidiaries in Latin America.

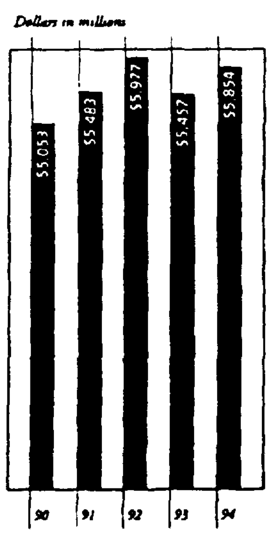
Marion Merrell Dow Inc. reported higher sales in 1994. Sales were $3.1 billion in 1994, an increase of 9 percent from 1993 sales of $2.8 billion. The growth in sales resulted primarily from acquisitions in the U.S. and Japan, along with strong North American sales of Cardizem CD once-a-day treatment for hypertension and angina.

Sales of the Cardizem (diltiazem HCl) family of cardiovascular medications were $933 million in 1994, an increase of 2 percent over 1993. Sales were aided by the strength of Cardizem CD, which posted record sales of $708 million in 1994, up 30 percent.

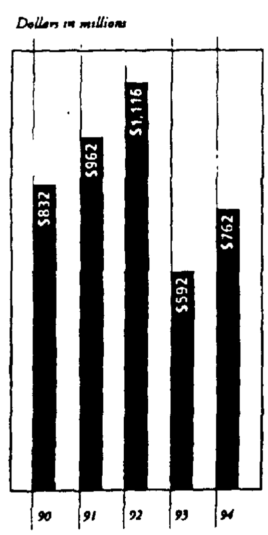
The Seldane (terfenadine) family of anti-allergy products recorded 1994 sales of $698 million, down 7 percent. Sales in North America and Europe were lower due to competitive pressures, while the Pacific region continued to show solid growth. Included in global sales for the brand in 1994 were $563 million for Seldane tablets, down 7 percent, and $135 million for Seldane-D (terfenadine and pseudoephedrine HCl), down 5 percent.

Carafate (sucralfate), a unique anti-ulcer medication, faced continued pressure in 1994, with sales of $147 million, down 17 percent.

Consumer Specialties
Sales



Consumer Specialties
Operating Income



Consumer Products

Dow's Consumer Products affiliate, DowBrands, had sales of $845, $846 and $919 million in 1994, 1993 and 1992, respectively.

In North America Household Products, a gain in sales for food protection products was offset by declines in the hard surface cleaner and laundry product businesses caused by aggressive competitive activity. Ziploc brand bags had a significant market share gain in 1994. Contributing to this gain were the recent new product introductions of Ziploc vegetable bags and Ziploc snack bags.

The new manufacturing and distribution center in Urbana, Ohio, began shipping product in the fourth quarter. Brands such as Dow bathroom cleaner, Fantastik all purpose cleaner, Glass Plus multi-surface cleaner and Spray'N Wash tough laundry stain remover were reintroduced to the marketplace with new ergonomically designed bottles, more effective formulations and improved trigger sprayers that are intended to build consumer preference for the products.

DowBrands also introduced Smart Scrub soft scouring cleaner with 100 percent water-soluble baking soda, which eliminates lengthy rinsing and gritty residue. Smart Scrub achieved a strong market share during its introduction, and will be followed by Smart Scrub with bleach in the first half of 1995.

Outlook for Consumer Specialties

DowElanco expects accelerating momentum from new product sales combined with steady earnings from older products to continue in the coming year.

While two of Marion Merrell Dow's key products, Seldane and Seldane-D, face vigorous competition from other brands, the products have yet to experience generic competition in the U.S. Following the April 1994 expiration of one U.S. patent relating to Seldane, Marion Merrell Dow is defending the company's intellectual property rights related to certain other patents but cannot predict when, or if, U.S. generic competition might begin. In addition, the Cardizem brand faces increasing competition from generic and brand name products.

DowBrands is likely to have improved profitability in 1995 as a result of the pending sale of its Personal Care business. This will allow the company to focus resources on the global expansion of its Home Food Management products, introduce new products and restore growth in cleaning and laundry products.

UNALLOCATED

The operating results of the consolidated insurance and finance subsidiaries, and Ventures businesses such as Dow Environmental and advanced electronics materials, are grouped in this segment together with activities and overhead cost variances not allocated to other business segments. This segment had an operating loss of $214 million in 1994 versus income of $75 million in 1993 and a loss of $6 million in 1992. The primary components of the 1994 operating loss were severance costs of $124 million, research and other expenses related to new developmental activities in the Ventures businesses of $91 million, and asset write-offs and provisions for environmental remediation not assigned to Dow's other industry segments of $38 million. These costs were partially offset by pretax income from the insurance and finance company operations of $40 million. This segment's 1993 operating income was comprised primarily of pretax income from the insurance and finance company operations of $98 million and favorable variances resulting from resource use reduction of $60 million which were partially offset by expenses related to new developmental activities in the Ventures businesses of $70 million.

In 1992, casualty losses from Hurricane Andrew, a fire in Terneuzen, the Netherlands, and a decrease in investment income, all contributed to the lower operating results of the insurance and finance companies.

COMPANY SUMMARY

Net sales for 1994 of $20.0 billion were up 11 percent from $18.1 billion in 1993 and 6 percent from $19.0 billion in 1992. This result reflected improved economic conditions globally which led to higher selling prices and stronger volumes as illustrated in the Sales Price and Volume table below. All geographic areas and all

Sales Price and Volume

	1994			1993			1992		
Percentage changes from prior year[1]	*Price*	*Volume*	*Total*	*Price*	*Volume*	*Total*	*Price*	*Volume*	*Total*
Geographic Areas:									
United States	1%	6%	7%	-	(3)%	(3)%	(1)%	6%	5%
Europe	3	7	10	(13)%	(1)	(14)	(6)	1	(5)
Rest of World	3	18	21	(1)	4	3	(3)	3	-
Total	2%	8%	11%	(4)%	(1)%	(5)%	(3)%	4%	1%
Industry Segments:									
Chemicals and Performance Products	1%	5%	6%	(4)%	(1)%	(5)%	(3)%	2%	(1)%
Plastic Products	4	12	16	(6)	2	(4)	(6)	4	(2)
Hydrocarbons and Energy	6	8	14	(5)	9	4	(7)	(3)	(10)
Consumer Specialties	(1)	8	7	-	(9)	(9)	3	6	9
Total	2%	8%	11%	(4)%	(1)%	(5)%	(3)%	4%	1%

[1] *Not intended to add*

industry segments had higher sales versus 1993 with Rest of World sales up 21 percent. Plastic Products led Dow's industry segments with sales increasing 16 percent compared to a year ago. Volume was up 8 percent versus 1993 and up across all geographic areas. Volume was up 6 percent in the United States, 7 percent in Europe and 18 percent in Rest of World. Selling prices were up 2 percent globally with Europe and Rest of World recording increases of 3 percent and the United States an increase of 1 percent versus 1993. Sales in the United States accounted for 50 percent of the total sales in 1994, 51 percent in 1993 and 50 percent in 1992. Sales details by industry segment and geographic area are provided in Note S to the Financial Statements and in the Product Segment Sales Analysis on page 45.

Operating Income

Operating income was $2.3 billion in 1994, up 63 percent from $1.4 billion in 1993 and 82 percent from $1.3 billion in 1992. As discussed in Note B to the Financial Statements, 1993 and 1992 included special charges against income of $180 million and $433 million, respectively. Gross margin improved $931 million versus 1993, primarily as a result of higher selling prices and increased sales volumes. Research and development, promotion and advertising, and selling and administrative expenses increased by a total of $158 million or 4 percent compared to 1993, primarily as a result of increased selling expenses and new product launch costs in the Consumer Specialties segment, and variable compensation expenses linked to improved company earnings. Management's continued focus on resource use reduction resulted in structural costs being reduced $174 million or 4 percent versus 1993 levels.

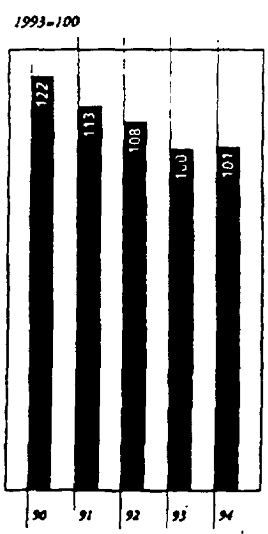
The ratio of operating income to sales was 12 percent in 1994, versus 8 percent in 1993 and 7 percent in 1992. Price and volume increases in the Chemicals and Performance Products, Plastic Products, and Hydrocarbons and Energy segments coupled with the favorable impact of reduced structural costs led to the improved 1994 results. Operating income for Plastic Products nearly tripled to $1.1 billion compared to 1993, on the strength of both price and volume increases. Prices for the company began to show noticeable improvement in the latter half of 1994, contributing to the improved operating results. Higher prices are expected in 1995 versus 1994 with caustic prices improving significantly as contracts are renewed. Sales volumes are expected to be higher in 1995 as well. The United States contributed 55 percent of the total operating income in 1994 compared to 72 percent in 1993 and 90 percent in 1992. The United States portion of the total declined as a result of operating income improvements in Europe and Rest of World. Operating income in Europe was $273 million in 1994 versus a $1 million loss in 1993 and a $90 million loss in 1992. Operating income from Dow's other geographic areas continued to show improvement, increasing to $779 million in 1994 from $405 million in 1993 and $221 million in 1992.

Operating Costs and Expenses

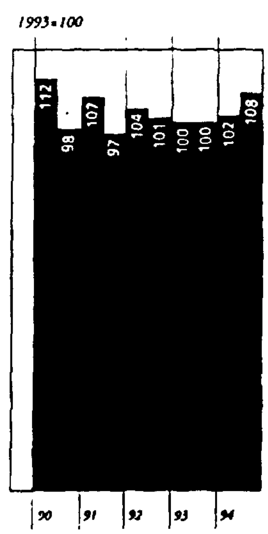
Cost Components as a Percent of Total	*1994*	*1993*	*1992*
Hydrocarbons and energy	22%	21%	21%
Wages, salaries and employee benefits	23	25	24
Maintenance	6	6	7
Depreciation	7	8	7
Supplies, services and other raw materials	42	40	41
Total	100%	100%	100%

Dow's global plant operating rate for its chemicals and plastics businesses was 92 percent of capacity in 1994 compared to 85 percent in 1993 and 84 percent in 1992. The higher operating rate is attributed to sales volume growth which increased 8 percent over 1993. Overall manufacturing costs for chemicals and plastics,

Hydrocarbons and Energy Purchase Price Index



Selling Price and Volume/Mix Indices



after adjusting for volume and special charges, were down 4 percent from 1993. This reduction was primarily the result of a continued focus on cost and resource use reduction in manufacturing, including lower maintenance spending. Depreciation expense was $1.3 billion in 1994, 1993 and 1992.

Research and Development expenses were $1.3 billion, flat with 1993 and down 2 percent from 1992.

Promotion and Advertising expenses are of a discretionary nature and are most directly related to sales in Consumer Specialties. In 1994, Promotion and Advertising expenses were $658 million, down 3 percent from $678 million in 1993 and 17 percent from $795 million in 1992. These 1994 expenses were reduced primarily in Pharmaceuticals as a result of a product mix more heavily weighted by generics.

Selling and Administrative expenses for 1994 were $2.4 billion, up 8 percent from $2.2 billion in 1993 and 3 percent from $2.3 billion in 1992. The increase in 1994 was primarily the result of variable compensation accruals based on improved company earnings and increased spending in Pharmaceuticals due to the inclusion of the full-year results of The Rugby Group, Inc. and Kodama Ltd. Rugby and Kodama, two Marion Merrell Dow Inc. pharmaceutical acquisitions, were consolidated for the first time in the fourth quarter of 1993 and first quarter of 1994, respectively. Selling and Administrative expenses represented 12 percent of sales in each of 1994, 1993 and 1992.

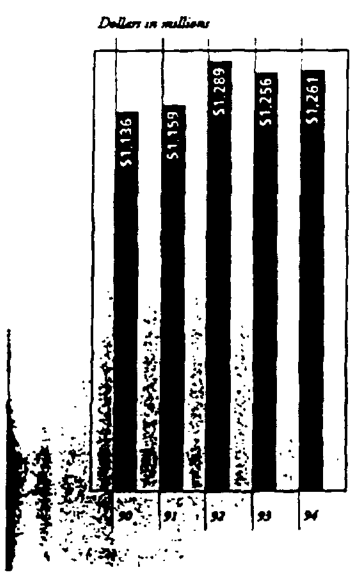
The personnel count at December 31, 1994 was 53,730 versus 55,436 at the end of 1993 and 61,353 at the end of 1992. The 12 percent reduction in personnel from the end of 1992 to the end of 1994 reflected rationalization and work process improvements throughout the company. Excluding the acquisitions of Kodama in 1994 and Rugby in 1993, the personnel counts would have been 52,314 and 54,626 at the end of 1994 and 1993, respectively, a 15 percent reduction from year-end 1992 to year-end 1994.

Net Income

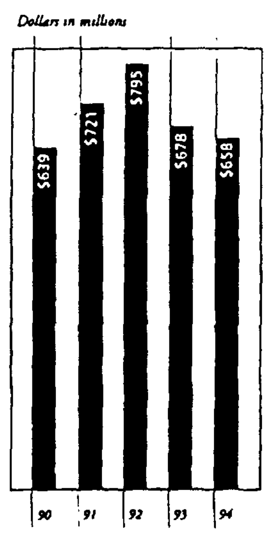
Net income available for common stockholders in 1994 of $931 million or $3.37 per share increased 46 percent compared to net income of $637 million or $2.33 per share in 1993. The increase is primarily attributable to stronger operating results in the company's chemicals and plastics businesses. A net loss of $496 million or $1.83 per share was recorded in 1992. Effective January 1, 1992, Dow adopted Statement of Financial Accounting Standards (SFAS) No. 106 (Employers' Accounting for Postretirement Benefits Other Than Pensions) and SFAS No. 109 (Accounting for Income Taxes). The transition impact of the adoption of these two required accounting standards was a net cumulative charge against 1992 income of $765 million. Income before cumulative effect of accounting change was $276 million in 1992 or 99 cents per share.

Dow's share of the earnings of 20%-50% owned companies amounted to $63 million in 1994 compared to a net loss of $111 million in 1993 and net earnings of $71 million in 1992. Dow Corning Corporation, in which the company is a 50 percent shareholder, reported net losses of $7 million in 1994, $287 million in 1993 and $72 million in 1992. Dow Corning's 1994 and 1993 losses reflected after tax charges against income related to breast implant litigation of $152 million and $415 million, respectively. The negative impact of the charges on Dow's net income was $70 million or 25 cents per share in 1994 and $192 million or 70 cents per share in 1993. See Note Q to the Financial Statements for further discussion of breast implant litigation. Dow Corning's 1992 net loss was largely due to the net cumulative effect charge of $100 million for implementation of SFAS Nos. 106 and 109 and to pretax special charges of $109 million related to restructuring costs, litigation and other costs for its discontinued breast implant business.

Research and Development Expenses



Promotion and Advertising Expenses



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In 1993, Dow's share of the earnings of 20%-50% owned companies was further reduced as a result of the sale of the company's 50 percent ownership in the Dowell Schlumberger group of companies in January 1993 (see Note C to the Financial Statements). In 1992, Dow's share of Dowell Schlumberger's net income was $36 million.

Net interest expense, which is comprised of interest income, capitalized interest, interest expense and amortization of debt discount, was $406 million in 1994, down 6 percent from $433 million in 1993 and down 31 percent from $586 million in 1992. The decrease in 1994 was primarily due to lower average borrowings and lower interest rates versus 1993 and 1992. Foreign currency transaction gains for Dow and its consolidated subsidiaries amounted to $7 million in 1994 versus losses of $10 million in 1993 and gains of $11 million in 1992. For a discussion of the company's risk management program for both foreign currency and interest rate risk, see Note J to the Financial Statements.

Dow recorded a net loss on investments of $60 million in 1994. The net loss was primarily due to a $132 million pretax charge in the fourth quarter of 1994 related to the pending sale of the Personal Care business of DowBrands. Partially offsetting this charge was a pretax gain of $90 million recorded by the company on its common shares of Magma Power Company, primarily as a result of the merger agreement between Magma and California Energy Company, Inc. In 1993, Dow recorded a net gain on investments of $592 million, primarily due to the sale of its interest in Dowell Schlumberger and portions of its interests in Magma and Crestar Energy Inc. (see Note C to the Financial Statements).

The provision for taxes on income was $779 million in 1994 versus $606 million in 1993 and $274 million in 1992. Dow's overall effective tax rate for 1994 was 38.0 percent versus 39.7 percent for 1993 and 31.4 percent for 1992. The underlying factors affecting Dow's overall effective tax rates are discussed in Note D to the Financial Statements. U.S. and other tax law and rate changes during the year did not have a material impact on Dow.

Minority interests' share of net income in 1994 was $335 million compared to $275 million in 1993 and $322 million in 1992. The current year increase reflected the improved profitability of Agricultural Products and Pharmaceuticals as well as the full-year impact of certain limited partnerships (see Note K to the Financial Statements). Profitability for Pharmaceuticals declined in 1993 as a result of the special charge recorded by Marion Merrell Dow Inc. (see Note B to the Financial Statements).

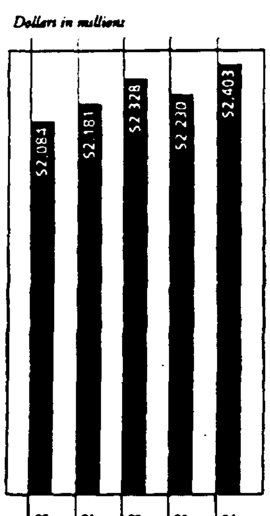
The following table summarizes the impact of special items on earnings per common share.

	1994	*1993*	*1992*
Special charges against operating income	–	$ (.30)	$(1.02)
Impact of Dow Corning Corporation breast implant charges	$ (.25)	(.70)	–
Net gain (loss) on investments	(.29)	1.31	–
Accounting change: Transition to SFAS No. 106	–	–	(3.66)
Transition to SFAS No. 109	–	–	.84
Other earnings	3.91	2.02	2.01
Net earnings (loss) per common share	$3.37	$2.33	$(1.83)

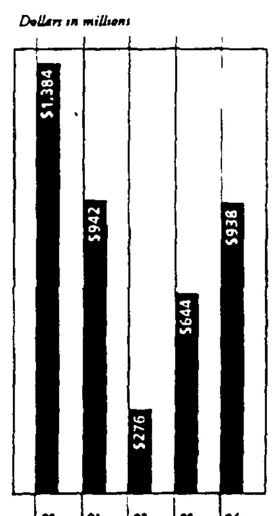
Dividends

The Board of Directors has announced a quarterly dividend of 65 cents per share, payable April 28, 1995, to stockholders of record March 31, 1995. This will be the 333rd consecutive quarterly dividend since 1912. Dow has maintained or increased the dividend throughout that time.

Selling and Administrative Expenses



Income
(Before cumulative effect of accounting change)



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Environment

Dow's operations around the world are subject to increasingly stringent laws and government regulations related to environmental protection and remediation. Dow's environmental responsibilities and potential liabilities receive direct and ongoing scrutiny by management to ensure compliance with these laws and regulations.

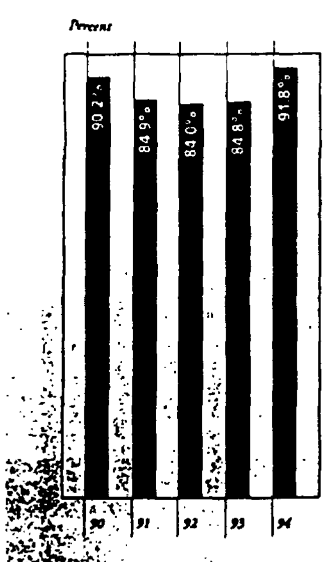
It has been Dow's policy to adhere to a waste management hierarchy that minimizes the impact of wastes on the environment. First, Dow works to eliminate or minimize the generation of waste at the source through research, process design, plant operations and maintenance. Second, Dow finds ways to reuse and recycle materials. Finally, unusable or nonrecyclable hazardous waste is treated before disposal to eliminate or reduce the hazardous nature and volume of the waste. Treatment may include destruction by chemical, physical, biological or thermal (incineration) means. Disposal of waste materials in landfills is considered only after all other options have been thoroughly evaluated and determined infeasible. Dow has specific requirements for wastes that are transferred to non-Dow facilities. Wastes that are recycled, treated or recovered for energy off-site represent less than 1 percent of the total amount of wastes reported as part of the Pollution Prevention Act. Dow's policy of treating its wastes on-site has resulted in only 12 percent of its total environmental liability being directed at remediation under federal or state "Superfund" statutes. As Dow develops advanced technology to improve its environmental performance, it disseminates that technology to operations around the world to be incorporated into new and existing plants. Environmental audits are used by management to continually measure and report Dow's progress against environmental expectations.

The costs of site remediation are accrued as a part of the shutdown of a facility or, in the case of a landfill, over its useful life. The nature of such remediation includes the cleanup of soil contamination and the closure of landfills and waste treatment ponds. These practices have minimized the company's exposure to environmental liabilities. The policies adopted to properly reflect the monetary impacts of environmental matters are discussed in Note A to the Financial Statements. To assess the impact on the financial statements, environmental experts review currently available facts to evaluate the probability and scope of potential liabilities. Inherent uncertainties exist in such evaluations primarily due to unknown conditions, changing governmental regulations and legal standards regarding liability, and evolving technologies for handling site remediation and restoration. These liabilities are adjusted periodically as remediation efforts progress or as additional technical or legal information becomes available.

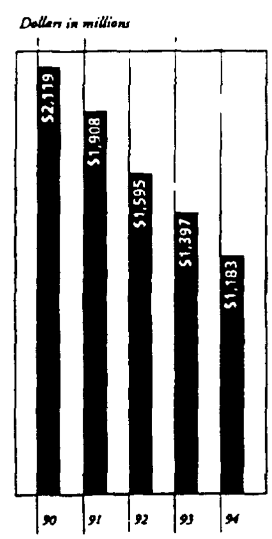
Dow has been identified as a potentially responsible party (PRP) under federal or state "Superfund" statutes at approximately 90 sites. Dow readily cooperates in remediation at sites where its liability is clear, thereby minimizing legal and administrative costs. However, at several of these Superfund sites, Dow has had no known involvement and is contesting all liability; at many others, Dow disputes major liability, believing its responsibility to be *de minimis.* Because current law imposes joint and several liability upon each party at a Superfund site, Dow has evaluated its potential liability in light of the number of other companies which have also been named PRPs at each site, the estimated apportionment of costs among all PRPs and the financial ability and commitment of each to pay its expected share.

Management has estimated that the company's probable liability for the remediation of Superfund sites at December 31, 1994 was $29 million, which has been accrued. In addition, receivables of $15 million for probable third-party recoveries have been recorded related to these sites. Other recoveries are possible since Dow has numerous insurance policies secured from many carriers at various times that may provide coverage at different levels for environmental liabilities. The company is currently involved in

Operating Rate



Capital Expenditures



litigation to determine the scope and extent of such coverage. Dow has not recorded any receivables for these possible recoveries.

In addition to the Superfund related liability referenced above, Dow had an accrued liability of $205 million at December 31, 1994 representing the total probable costs that the company could incur related to the remediation of current or former Dow-owned sites. The company had not recorded as a receivable any third-party recovery related to these sites.

In total, Dow's accrued liability for probable environmental remediation and restoration costs was $234 million at December 31, 1994, as compared to $226 million at the end of 1993. This is management's best estimate of these liabilities, although possible costs for environmental remediation and restoration could range up to 50 percent higher.

The amounts charged to income on a pretax basis related to environmental remediation totaled $64 million in 1994, $69 million in 1993 and $47 million in 1992. Capital expenditures for environmental protection were $106 million in 1994, $157 million in 1993 and $200 million in 1992. Capital expenditures for environmental protection in future years are currently projected at $100 million in 1995 and $100 million in 1996.

It is the opinion of the company's management that the possibility is remote that costs in excess of those accrued or disclosed will have a material adverse impact on the company's consolidated financial statements.

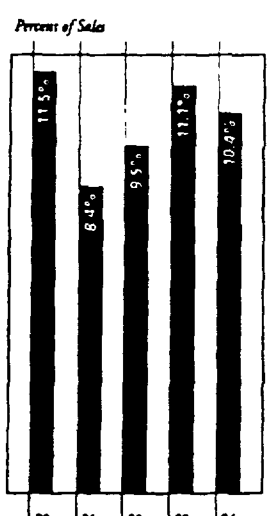
Capital Expenditures

Capital spending for the year was $1.2 billion, down 15 percent from $1.4 billion in 1993 and 26 percent from $1.6 billion in 1992. The decrease primarily reflected the completion of a number of major projects during 1994 and management's continued effort to reduce capital resource requirements. Approximately 43 percent of the company's capital expenditures was directed toward additional capacity for new and existing products, while about 12 percent was committed to projects related to environmental protection, safety and loss prevention, and industrial hygiene. The remaining capital was utilized to maintain the company's existing asset base including projects related to cost reduction, energy conservation and facilities support. Major projects underway during 1994 included a light hydrocarbons plant at Freeport, Texas, a linear low density polyethylene plant at Fort Saskatchewan, Alberta and a DowBrands household cleaners plant in Urbana, Ohio. Start-up on each of these plants has been completed and they are now operational. Because the company designs and builds most of its capital projects in-house, it does not have major capital commitments, other than for the purchase of materials from fabricators.

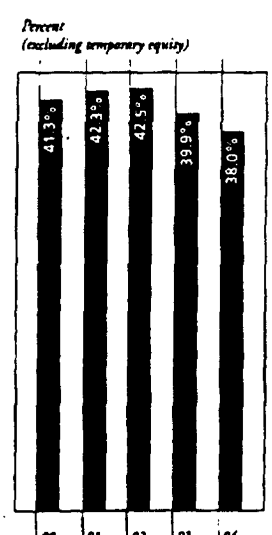
Liquidity and Capital Resources

Operating activities provided $2.6 billion in cash in 1994, as compared to $2.1 billion in 1993 and $2.0 billion in 1992 (see the Consolidated Statements of Cash Flows). The items affecting operating activities are discussed in the sales, operating income and net income analysis. Cash used in investing activities was $1.2 billion in 1994 versus $622 million in 1993 and $1.3 billion in 1992. The 1993 reduction was largely the result of the sale of the company's interest in Dowell Schlumberger which generated cash proceeds of $675 million (see Note C to the Financial Statements) and outside investors' participation in limited partnerships which generated cash proceeds of $380 million (see Note K to the Financial Statements). These proceeds were used for general corporate purposes and redemption of debt. During 1994, Marion Merrell Dow Inc. (MMDI) increased its ownership in Kodama Ltd. to 99.8 percent, requiring net cash outlays of $101 million (see Note C to the Financial Statements). Net cash of $271 million in 1993 and $14 million in 1994 was used by MMDI to acquire

Working Capital



Debt as a Percentage of Total Capitalization



The Rugby Group, Inc., the generic drug business of Rugby-Darby Group Companies, Inc. (see Note C to the Financial Statements). In 1992, the company received cash proceeds of $855 million from outside investors' participation in DowBrands L.P. (see Note K to the Financial Statements).

Total working capital at year-end was $2.1 billion versus $2.0 billion at the end of 1993. Cash, cash equivalents, marketable securities and interest-bearing deposits increased by $297 million. Inventories and trade receivables together increased $958 million in 1994 as a result of increased sales activity after consecutive declines in 1993 and 1992 of $238 million and $316 million, respectively. Days-sales-in-inventory was 80 days, 82 days and 91 days at the end of 1994, 1993 and 1992, respectively. Days-sales-outstanding-in-receivables was 52 days at the end of 1994, 1993 and 1992.

Short-term borrowings at December 31, 1994 were $741 million, a decrease of $136 million from year-end 1993. Long-term debt due within one year increased $369 million to $534 million at the end of 1994 compared to $165 million at the end of 1993. Long-term debt due in 1995 will be funded by operating cash flows. Accounts payable increased by $318 million to $2.6 billion and income taxes payable increased $419 million during the year.

Long-term debt was $5.3 billion, a decrease of $599 million from year-end 1993. During the year, $108 million of new long-term debt was incurred while $526 million of long-term debt was retired and $534 million was transferred to long-term debt due within one year.

Total debt was $6.6, $6.9 and $7.5 billion at December 31, 1994, 1993 and 1992, respectively. Net debt, which equals total debt less cash, cash equivalents, marketable securities and interest-bearing deposits, was $5.4, $6.1 and $6.9 billion at December 31, 1994, 1993 and 1992, respectively. The debt to total capitalization ratio decreased to 38.0 percent at year-end 1994 from 39.9 percent at the end of 1993.

The company has unused and available credit facilities with various U.S. and foreign banks totaling $2.0 billion in support of its working capital requirements and commercial paper borrowings. Additional unused credit facilities totaling $2.3 billion are available for use by foreign subsidiaries. Refer to Note I to the Financial Statements for further discussion on credit facilities.

In February 1993, Dow effected a shelf registration for debt securities of 50.0 billion Japanese yen with Japan's Ministry of Finance. A total of 20.0 billion yen of this has been used. At December 31, 1994, there was a total of $1.4 billion in available SEC registered debt securities between Dow and Dow Capital B.V., a wholly owned subsidiary.

Minority interest in subsidiary companies increased during the year from $2.4 to $2.5 billion at the end of 1994, largely as a result of outside investors' increased ownership in MMDI.

Eli Lilly and Company (Lilly) is a 40 percent partner with the company in DowElanco, a global agricultural products joint venture. Lilly holds a put option requiring the company to purchase Lilly's interest in DowElanco at fair market value. Lilly notified the company in September 1994 that it did not plan to exercise the put option at that time. No subsequent notification has been received.

During the third quarter of 1994, Dow Deutschland Inc., a subsidiary of the company, signed a letter of intent with the Treuhandanstalt in which Dow Deutschland Inc. agreed to study and evaluate the restructuring potential of several state-owned chemical assets in eastern Germany with the intention of acquiring a majority position. Facilities involved in the evaluation include a steam cracker at Saechsische Olefinwerke GmbH in Boehlen, electrochemical units and derivative operations at Buna GmbH in Schkopau, and polyolefin and intermediate chemical operations at Leuna-Werke GmbH in Merseburg and at Buna GmbH. The Treuhandanstalt is the German government agency charged with privatizing state-owned assets in the former East Germany.

In August 1994, Dow announced that it had retained an investment banking firm for advice regarding possible strategic transactions involving Marion Merrell Dow Inc. At the same time, Marion Merrell Dow announced that it had also retained an investment banking firm for advice regarding its own strategic alternatives.

Subsequent Event

On February 28, 1995, The Hoechst Group, Marion Merrell Dow and The Dow Chemical Company announced that they are engaged in discussions concerning the possible negotiated acquisition of all of the outstanding shares of Marion Merrell Dow by the Hoechst Group at a price of $25.75 per share in cash. Dow presently owns approximately 197 million shares, or approximately 71 percent, of Marion Merrell Dow's outstanding common stock.

Dow and the Hoechst Group are also discussing the possible acquisition of Dow's Latin American pharmaceuticals business for approximately $200 million.

The companies stated that while discussions are ongoing, the boards of directors and supervisory boards of the respective companies have not yet met to consider the possible transactions, no agreements have been reached and there can be no assurance that any agreements will be reached or that any transactions will be consummated.

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Management Statement of Responsibility

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

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

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

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

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

Independent Auditors' Report

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

We have audited the accompanying consolidated balance sheets of The Dow Chemical Company and its subsidiaries as of December 31, 1994 and 1993, and the related consolidated statements of income, stockholders' equity and cash flows for each of the three years in the period ended December 31, 1994. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, such consolidated financial statements present fairly, in all material respects, the financial position of The Dow Chemical Company and its subsidiaries at December 31, 1994 and 1993, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 1994 in conformity with generally accepted accounting principles.

As discussed in Note B to the financial statements, effective January 1, 1992, the Company changed its methods of accounting for other postretirement benefits and income taxes.

Deloitte & Touche LLP

DELOITTE & TOUCHE LLP
Midland, Michigan
February 8, 1995

ST0929402

CONSOLIDATED STATEMENTS OF INCOME

In millions, except for share amounts		*1994*	*1993*	*1992*
Net Sales		**$20,015**	$18,060	$18,971
Operating Costs and Expenses	Cost of sales	**13,219**	12,195	12,704
	Insurance and finance company operations, pretax income	**(40)**	(98)	(15)
	Research and development expenses	**1,261**	1,256	1,289
	Promotion and advertising expenses	**658**	678	795
	Selling and administrative expenses	**2,403**	2,230	2,328
	Amortization of intangibles	**169**	179	147
	Special charge (Note B)	**–**	180	433
	Total operating costs and expenses	**17,670**	16,620	17,681
Operating Income		**2,345**	1,440	1,290
Other Income (Expense)	Equity in earnings (losses) of 20%-50% owned companies (Note Q)	**63**	(111)	71
	Interest income	**131**	167	109
	Capitalized interest	**66**	66	78
	Interest expense and amortization of debt discount	**(603)**	(666)	(773)
	Net gain (loss) on foreign currency transactions	**7**	(10)	11
	Net gain (loss) on investments (Note C)	**(60)**	592	–
	Sundry income–net	**103**	47	86
	Total other income (expense)	**(293)**	85	(418)
Income before Provision for Taxes on Income and Minority Interests		**2,052**	1,525	872
Provision for Taxes on Income		**779**	606	274
Minority Interests' Share in Income (Note K)		**335**	275	322
Income before Cumulative Effect of Accounting Change		**938**	644	276
Cumulative Effect of Accounting Change, Net of Taxes on Income (Note B)		**–**	–	(765)
Net Income (Loss)		**938**	644	(489)
Preferred Stock Dividends		**7**	7	7
Net Income (Loss) Available for Common Stockholders		**$ 931**	$ 637	$ (496)
Average Common Shares Outstanding		**276.1**	273.6	271.6
Earnings (Loss) per Common Share:	Before cumulative effect of accounting change	**$ 3.37**	$ 2.33	$ 0.99
	Cumulative effect of accounting change (Note B)	**–**	–	(2.82)
	Net earnings (loss) per common share	**$ 3.37**	$ 2.33	$ (1.83)
Common Stock Dividends Declared per Share		**$ 2.60**	$ 2.60	$ 2.60

See Notes to Financial Statements.

CONSOLIDATED BALANCE SHEETS

In millions		December 31 1994	1993
	Assets		
Current Assets	Cash and cash equivalents	$ 569	$ 407
	Marketable securities and interest-bearing deposits	565	430
	Accounts and notes receivable:		
	Trade (less allowance for doubtful receivables – 1994, $104; 1993, $93)	3,359	2,587
	Other	1,099	1,245
	Inventories:		
	Finished and work in process	2,079	1,984
	Materials and supplies	633	542
	Deferred income taxes receivable–current	389	457
	Total current assets	8,693	7,652
Investments	Capital stock at cost plus equity in accumulated earnings of 20%-50% owned companies	931	1,019
	Other investments	1,529	1,726
	Noncurrent receivables	330	369
	Total investments	2,790	3,114
Plant Properties	Plant properties	23,210	21,608
	Less accumulated depreciation	14,484	13,028
	Net plant properties	8,726	8,580
Other Assets	Goodwill (net of accumulated amortization – 1994, $676; 1993, $563)	4,365	4,434
	Deferred income taxes receivable – noncurrent	1,132	933
	Deferred charges and other assets	839	792
	Total other assets	6,336	6,159
Total Assets		$26,545	$25,505

See Notes to Financial Statements.

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In millions, except for share amounts		*December 31* 1994	1993
	Liabilities and Stockholders' Equity		
Current Liabilities	Notes payable	**$ 741**	$ 877
	Long-term debt due within one year	**534**	165
	Accounts payable:		
	Trade	**1,928**	1,479
	Other	**634**	765
	Income taxes payable	**664**	245
	Deferred income taxes payable–current	**56**	199
	Dividends payable	**202**	200
	Accrued and other current liabilities	**1,859**	1,721
	Total current liabilities	**6,618**	5,651
Long-Term Debt		**5,303**	5,902
Deferred Taxes and Other Liabilities	Deferred income taxes payable–noncurrent	**644**	372
	Pension and other postretirement benefits–noncurrent	**1,987**	1,918
	Other noncurrent obligations	**1,253**	1,173
	Total deferred taxes and other liabilities	**3,884**	3,463
Minority Interest in Subsidiary Companies		**2,506**	2,439
Temporary Equity	Preferred stock (authorized 250,000,000 shares of $1.00 par value each; issued Series A–1994: 1,549,014; 1993: 1,566,677) at redemption value	**133**	135
	Less guaranteed ESOP obligation	**111**	119
	Total temporary equity	**22**	16
Stockholders' Equity	Common stock (authorized 500,000,000 shares of $2.50 par value each; issued 1994: 327,125,854; 1993: 327,125,854)	**818**	818
	Additional paid-in capital	**326**	366
	Retained earnings	**8,857**	8,645
	Unrealized gains (losses) on investments	**(21)**	105
	Cumulative translation adjustments	**(330)**	(304)
	Treasury stock, at cost (shares 1994: 50,002,967; 1993: 52,640,015)	**(1,438)**	(1,596)
	Net stockholders' equity	**8,212**	8,034
Total Liabilities and Stockholders' Equity		**$26,545**	$25,505

See Notes to Financial Statements.

ST0929404

CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY

ST0929405

In millions		*1994*	*1993*	*1992*
Common Stock	Balance at beginning and end of year	$ 818	$ 818	$ 818
Additional Paid-in Capital	Balance at beginning of year	366	350	346
	Tax benefit of contingent value rights	–	34	45
	Issuance of treasury stock at less than cost	(40)	(18)	(41)
	Balance at end of year	326	366	350
Retained Earnings	Balance at beginning of year	8,645	8,720	9,920
	Net income (loss)	938	644	(489)
	Unfunded pension obligations	–	–	3
	Preferred stock dividends declared	(7)	(7)	(7)
	Common stock dividends declared	(719)	(712)	(707)
	Balance at end of year	8,857	8,645	8,720
Unrealized Gains (Losses) on Investments	Balance at beginning of year	105	(2)	(2)
	Unrealized gains (losses)	(126)	107	–
	Balance at end of year	(21)	105	(2)
Cumulative Translation Adjustments	Balance at beginning of year	(304)	(107)	194
	Translation adjustments	(26)	(197)	(301)
	Balance at end of year	(330)	(304)	(107)
Treasury Stock	Balance at beginning of year	(1,596)	(1,715)	(1,835)
	Purchases	(38)	(17)	(10)
	Issuance to employees and employee plans	196	136	130
	Balance at end of year	(1,438)	(1,596)	(1,715)
Net Stockholders' Equity		$ 8,212	$ 8,034	$ 8,064

See Notes to Financial Statements.

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CONSOLIDATED STATEMENTS OF CASH FLOWS

In millions		1994	1993	1992
Operating Activities	Income before cumulative effect of accounting change	$ 938	$ 644	$ 276
	Adjustments to reconcile net income to net cash provided by operating activities:			
	Depreciation and amortization	1,525	1,552	1,487
	Provision (credit) for deferred income tax	34	24	(295)
	Undistributed (earnings) losses of 20%-50% owned companies	(48)	147	(27)
	Minority interests' share in income	335	275	322
	Net (gain) loss on investments (Note C)	60	(592)	–
	Net gain on sales of plant properties	(73)	(58)	(22)
	Net (gain) loss on foreign currency transactions	(7)	10	(11)
	Special charge (Note B)	–	180	433
	Other	6	13	10
	Changes in assets and liabilities that provided (used) cash:			
	Accounts receivable	(513)	(8)	(17)
	Inventories	(171)	207	195
	Accounts payable	238	139	(275)
	Other assets and liabilities[1]	311	(440)	(45)
	Cash provided by operating activities	2,635	2,093	2,031
Investing Activities	Purchases of plant properties	(1,183)	(1,414)	(1,608)
	Investments in unconsolidated affiliates	(43)	(103)	(90)
	Purchases of consolidated companies (net of cash acquired) (Note C)	(88)	(307)	(397)
	Proceeds from sales of plant properties	111	100	62
	Proceeds from outside investors in limited partnerships (Note K)	–	380	855
	Purchases of investments	(1,171)	(237)	(127)
	Proceeds from sales of investments (Note C)	1,179	959	–
	Cash used in investing activities	(1,195)	(622)	(1,305)
Financing Activities	Changes in short-term notes payable	(62)	121	(248)
	Proceeds from issuance of long-term debt	108	969	1,231
	Payments on long-term debt	(391)	(1,675)	(791)
	Purchases of treasury stock	(38)	(17)	(10)
	Proceeds from sales of common stock	110	82	82
	Distributions to minority interests	(281)	(198)	(143)
	Dividends paid to stockholders	(723)	(719)	(710)
	Cash used in financing activities	(1,277)	(1,437)	(589)
Effect of Exchange Rate Changes on Cash		(1)	(2)	2
Summary	Increase in cash and cash equivalents	162	32	139
	Cash and cash equivalents at beginning of year	407	375	236
	Cash and cash equivalents at end of year	$ 569	$ 407	$ 375

See Notes to Financial Statements.

[1] *Excludes cumulative effect of accounting change.*

In millions, except for share amounts

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A Summary of Significant Accounting Policies

Principles of Consolidation The accompanying consolidated financial statements of The Dow Chemical Company and its subsidiaries (the Company) include the assets, liabilities, revenues and expenses of all majority-owned subsidiaries. Intercompany transactions and balances are eliminated in consolidation. Investments in companies 20%-50% owned (related companies) are accounted for on the equity basis.

Reclassifications Certain reclassifications of prior years' amounts have been made to conform to the presentation adopted for 1994.

Foreign Currency Translation The local currency has primarily been used as the functional currency throughout the world. Translation gains and losses of those operations that use local currency as the functional currency, and the effects of exchange rate changes on transactions designated as hedges of net foreign investments, are included as a separate component of stockholders' equity. Where the U.S. dollar is used as the functional currency, foreign currency gains and losses are reflected in income currently.

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

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

Plant Properties, Investments and Other Assets Land, buildings and equipment, including property under capital lease agreements, are carried at cost less accumulated depreciation. Depreciation is based on the estimated service lives of depreciable assets and is generally provided using the declining balance method. Fully depreciated assets are retained in property and depreciation accounts until they are removed from service. In the case of disposals, assets and related depreciation are removed from the accounts and the net amount, less proceeds from disposal, is charged or credited to income.

The excess of the cost of investments in subsidiaries over the carrying value of assets acquired is shown as goodwill, which is amortized on a straight-line basis over its estimated useful life with a maximum of 40 years.

The Company evaluates long-lived assets for impairment based on the recoverability of the asset's carrying amount. When it is probable that undiscounted future cash flows will not be sufficient to recover the asset's carrying amount, the asset is written down to its fair value.

Gain Recognition on Sale of Subsidiaries' Stock Company policy is to record gains from the sale or other issuance of previously unissued stock by its subsidiaries.

Financial Instruments Interest differentials on swaps and forward rate agreements designated as hedges of exposures to interest rate risk are recorded as adjustments to interest expense over the contract period. Premiums for early termination of derivatives designated as hedges are amortized as adjustments to interest expense over the original contract period. Interest derivatives not designated as hedges are marked-to-market at the end of each accounting period.

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

Investments in debt and equity securities are classified as either Trading, Available-for-Sale or Held-to-Maturity. Investments classified as Trading are reported at fair value with unrealized gains and losses included in income. Investments classified as Available-for-Sale are reported at fair value with unrealized gains and losses recorded in a separate component of stockholders' equity. Investments classified as Held-to-Maturity are recorded at amortized cost.

The cost of investments sold is determined by specific identification.

A Summary of Significant Accounting Policies *(continued)*

Environment Accruals for environmental matters are recorded when it is probable that a liability has been incurred and the amount of the liability can be reasonably estimated, based on current law and existing technologies. These accruals are adjusted periodically as assessment and remediation efforts progress or as additional technical or legal information becomes available. Accruals for environmental liabilities are generally included in the balance sheet as "Other noncurrent obligations" at undiscounted amounts and exclude claims for recoveries from insurance or other third parties. Accruals for insurance or other third party recoveries for environmental liabilities are recorded when it is probable that a claim will be realized. Accruals for recoveries are included in the balance sheet as "Noncurrent receivables."

Environmental costs are capitalized if the costs extend the life of the property, increase its capacity, and/or mitigate or prevent contamination from future operations. Costs related to environmental contamination treatment and cleanup are charged to expense.

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

Provision is made for taxes on undistributed earnings of foreign subsidiaries and related companies to the extent that such earnings are not deemed to be permanently invested.

Certain countries provide tax incentives which are granted to encourage new investment. Generally, such grants are credited to income as earned.

Earnings per Common Share The calculation of earnings per share is based on the weighted average number of common shares outstanding during the applicable period.

B Special Charge and Accounting Change

The second quarter of 1993 included a special pretax charge of $180 by Marion Merrell Dow Inc. (MMDI). The special charge reflected the impact of a number of steps intended to reduce costs and position MMDI for the future, including work force reduction and U.S. business reorganization. The special charge has had total cash expenditures of $107 ($65 in 1994, $42 in 1993), all of which have been funded from operations. Asset write-downs have been $4. At December 31, 1994, the special charge liability was $69. Work force reduction efforts are expected to result in estimated payroll and benefit cost savings in 1995 of $127. The actions intended by the restructuring are expected to be substantially complete by December 1995. The Company owns 71 percent of MMDI.

During the fourth quarter of 1992, opportunities were identified to streamline the Company and a special pretax charge of $433 was taken. This charge reflected asset write-offs and write-downs, plant shutdowns, divestitures and the consolidation of a variety of business activities globally. Included were costs related to work force reductions associated with these activities. The actions contemplated by the special charge were substantially complete at December 31, 1993, with no significant adjustments required to the estimates.

Effective January 1, 1994, the Company adopted Statement of Financial Accounting Standards (SFAS) No. 112 (Employers' Accounting for Postemployment Benefits). The impact on net income for the year was not material.

Effective January 1, 1992, the Company adopted SFAS No. 106 (Employers' Accounting for Postretirement Benefits Other Than Pensions) and SFAS No. 109 (Accounting for Income Taxes). SFAS No. 106 requires employers to recognize the cost of certain health care and life insurance benefits provided to retirees and their dependents as a liability during the employees' active years of service. In making the transition to adopt this required accounting standard, a charge of $994 or $3.66 per share was made against 1992 net income. SFAS No. 109 requires an asset and liability approach for financial accounting and reporting for income taxes. The favorable cumulative effect of its implementation was $229 or 84 cents per share in 1992. The net impact of adopting SFAS Nos. 106 and 109 was a cumulative charge of $765 against 1992 net income.

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In millions, except for share amounts

C Acquisitions and Divestitures

In 1994, the Company recognized a pretax gain of $90 on its common shares in Magma Power Company (Magma), primarily as a result of the merger agreement between Magma and California Energy Company, Inc.

In the fourth quarter of 1994, the Company recorded a pretax charge of $132 related to the pending sale of the Personal Care business of DowBrands.

During the third quarter of 1994, Dow Deutschland Inc., a subsidiary of the Company, signed a letter of intent to study and evaluate the restructuring potential of several state-owned chemical assets in eastern Germany with the intention of acquiring a majority position.

During January and February of 1994, Marion Merrell Dow Inc. (MMDI) increased its ownership of Kodama Ltd. (Kodama), a Japanese pharmaceutical corporation, to 91 percent. By December 31, 1994, MMDI had further increased its ownership of Kodama to 99.8 percent. The net cash cost for 1994 was $101.

In November 1993, Dow Chemical Canada Inc. (DCCI) sold shares of Crestar Energy Inc. (Crestar). The net proceeds to the Company were $172 and generated a pretax gain of $101. As a result of the sale, DCCI's common share holding in Crestar was reduced from 50 percent to 17.5 percent.

In October 1993, MMDI acquired The Rugby Group, Inc., the U.S.'s largest generic drug company, from the privately held Rugby-Darby Group Companies, Inc. for $285.

In June 1993, the Company sold 3.6 million shares of common stock in Magma for which it received gross proceeds of $116. The sale generated a pretax gain of $62 in 1993. In October 1993, the Company sold its option to purchase 2 million shares of Magma common stock to Magma and received consideration of 857,143 shares of Magma's common stock.

In January 1993, the Company sold its 50 percent ownership in the Dowell Schlumberger group of companies to Schlumberger Limited. The selling price was $675 in cash and a warrant to purchase 7.5 million shares of Schlumberger stock with an exercise price of $59.95 per share. The warrant is fully vested and nontransferable, and expires in the year 2000. The sale generated a pretax gain of $450.

The Company acquired an additional 2.1 million shares of MMDI common stock during 1993 and 1.4 million shares during 1992 at costs of $36 and $43, respectively. The increased interests were accounted for as purchases with increases to goodwill of $21 and $29, respectively.

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In millions, except for share amounts

D Taxes on Income

Operating loss carryforwards at December 31, 1994 amounted to $870 of which $108 is subject to expiration in 1995, $176 in 1996, $87 in 1997, $39 in 1998 and $5 in 1999. The remaining balances expire in years beyond 1999 or have an indefinite carryforward period.

Tax credit carryforwards at December 31, 1994 amounted to $100 of which $3 is subject to expiration in 1995, $3 in 1996, $4 in 1997, $1 in 1998 and $2 in 1999. The remaining balances expire in years beyond 1999 or have an indefinite carryforward period.

Undistributed earnings of subsidiaries and related companies which are deemed to be permanently invested amounted to $2,053, $1,782 and $1,989 at December 31, 1994, 1993 and 1992, respectively. It is not practicable to calculate the unrecognized deferred tax liability on those earnings.

The movement in the valuation allowance during 1994 was a net reduction of $37 due primarily to business improvement and an extension in the loss carryforward period in Spain.

Domestic and Foreign Components of Income before Taxes on Income and Minority Interests

	1994	*1993*	*1992*
Domestic	**$1,161**	$1,099	$632
Foreign	**891**	426	240
Total	**$2,052**	$1,525	$872

Reconciliation to U.S. Statutory Rate

	1994	*1993*	*1992*
Taxes at U.S. statutory rate	**$718**	$534	$296
Amortization of nondeductible intangibles	**83**	45	43
Taxes on foreign operations at rates different from U.S. statutory rate (including FSC)	**(4)**	29	37
Other – net	**(18)**	(2)	(102)
Total tax provision	**$779**	$606	$274
Effective tax rate	**38.0%**	39.7%	31.4%

Provision (Credit) for Taxes on Income

	1994			*1993*			*1992*		
	Current	*Deferred*	*Total*	*Current*	*Deferred*	*Total*	*Current*	*Deferred*	*Total*
Federal	**$457**	**$13**	**$470**	$404	$(8)	$396	$381	$(158)	$223
State and local	**23**	**2**	**25**	63	–	63	39	–	39
Foreign	**265**	**19**	**284**	115	32	147	149	(137)	12
Total	**$745**	**$34**	**$779**	$582	$24	$606	$569	$(295)	$274

Deferred Tax Balances at December 31

	1994		*1993*	
	Deferred Tax Assets	*Deferred Tax Liabilities*	*Deferred Tax Assets*	*Deferred Tax Liabilities*
Property	**$ 83**	**$ (799)**	$ 94	$ (732)
Inventory	**104**	**(102)**	103	(95)
Accounts receivable	**58**	**(55)**	47	(29)
Pension and other compensation accruals	**107**	**(49)**	127	(47)
Tax loss and credit carryforwards	**330**	**–**	355	–
Long-term debt	**131**	**(19)**	66	(16)
Alternative minimum tax	**80**	**–**	102	–
Accrual for postretirement benefit obligations	**624**	**(9)**	625	–
Investments	**30**	**(93)**	76	(96)
Amortization of intangibles	**28**	**(1)**	15	(37)
Other accruals and reserves	**379**	**(9)**	305	(10)
Other–net	**201**	**(175)**	141	(115)
Subtotal	**$2,155**	**$(1,311)**	$2,056	$(1,177)
Less: Valuation allowance	**23**	**–**	60	–
Total	**$2,132**	**$(1,311)**	$1,996	$(1,177)

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In millions, except for share amounts

E Inventories

A reduction of certain inventories resulted in the liquidation of some quantities of LIFO inventory, which increased pretax income by $16 in 1994 and decreased pretax income by $18 in 1993 and $6 in 1992.

The amount of reserve required to reduce inventories from the first-in, first-out basis to the last-in, first-out basis at December 31, 1994 and 1993, was $119 and $106, respectively. The inventories that were valued on a LIFO basis represented 35 and 41 percent of the total inventories at December 31, 1994 and 1993, respectively.

F Related Company Transactions

The Company's investments in related companies accounted for by the equity method at December 31, 1994 and 1993 were $931 and $1,019, respectively, which approximated the Company's equity in the net assets of these companies.

Dividends received from related companies were $15 in 1994, $36 in 1993 and $45 in 1992. All other transactions with related companies, and balances due to or from related companies, were not material in amount.

G Plant Properties

Plant Properties at December 31

	1994	*1993*
Land	**$ 414**	$ 359
Land and waterway improvements	**660**	607
Buildings	**2,337**	2,177
Transportation and construction equipment	**211**	199
Machinery and equipment	**15,332**	14,191
Utility and supply lines	**1,315**	1,244
Office furniture and equipment	**836**	757
Wells and mineral reserves	**355**	240
Other	**184**	229
Construction in progress	**1,566**	1,605
Total	**$23,210**	$21,608

Depreciation expense was $1,321 in 1994, $1,343 in 1993 and $1,342 in 1992. Maintenance and repair costs were $974 in 1994, $1,004 in 1993 and $1,152 in 1992.

H Leased Properties

The Company routinely leases premises for use as sales and administrative offices, warehouses and tanks for product storage, motor vehicles, railcars, computers, office machines and equipment under operating leases. In addition, the Company leases a vinyl chloride plant and a Canadian subsidiary leases an ethylene plant. The Company has the option to purchase these plants and certain other leased equipment and buildings at the termination of the leases.

Rental expenses under operating leases were $459, $482 and $554 for 1994, 1993 and 1992, respectively. The minimum future lease commitments for all operating leases are included at right.

Minimum Operating Lease Commitments

1995	$ 297
1996	272
1997	250
1998	402
1999	360
2000 and thereafter	1,358
Total minimum lease commitments	$2,939

In millions, except for share amounts

I Notes Payable, Long-Term Debt and Available Credit Facilities

Notes payable at December 31, 1994 and 1993 consisted of obligations due banks with a variety of interest rates and maturities. The notes payable outstanding at December 31, 1994 and 1993 were $741 and $877, respectively, on which the year-end weighted average interest rates were 4.80 percent and 4.20 percent, respectively, excluding the effects of short-term borrowings in highly inflationary countries. Included in notes payable at December 31, 1994 and 1993 was commercial paper of $191 and $225, respectively.

The average interest rate on long-term debt was 6.64 percent in 1994 compared to 7.43 percent in 1993. Annual installments on long-term debt for the next five years are as follows: 1995, $534; 1996, $387; 1997, $649; 1998, $330; 1999, $230. During 1994, $526 of long-term debt was retired. Included in this amount was $135 of 5.75% subordinated exchangeable notes due in 2001 that were exchanged for shares of Magma Power Company.

The Company had unused and available credit facilities at December 31, 1994, with various U.S. and foreign banks totaling $2,043, which required the payment of commitment fees. Additional unused credit facilities totaling $2,276 at December 31, 1994 were available for use by foreign subsidiaries. These facilities are available in support of commercial paper borrowings and working capital requirements.

Promissory Notes and Debentures at December 31

	1994	1993
4.63%, final maturity 1995	$ 150	$ 150
8.25%, final maturity 1996	150	150
5.75%, final maturity 1997	200	200
5.75%, final maturity 2001	15	150
7.38%, final maturity 2002	150	150
9.35%, final maturity 2002	200	200
7.13%, final maturity 2003	150	150
8.63%, final maturity 2006	200	200
8.55%, final maturity 2009	150	150
9.00%, final maturity 2010	150	150
9.20%, final maturity 2010	200	200
6.85%, final maturity 2013	150	150
7.13%, final maturity 2015	24	150
9.00%, final maturity 2021	300	300
8.85%, final maturity 2021	200	200
8.70%, final maturity 2022	138	150
7.38%, final maturity 2023	150	150
Subtotal	$2,677	$2,950

Guaranteed ESOP Obligations at December 31

	1994	1993
9.42%, final maturity 2004, Dow ESOP	$ 111	$ 119
9.11%, final maturity 2005, MMDI ESOP	90	95
Subtotal	$ 201	$ 214

Foreign Bonds at December 31

	1994	1993
6.75%, final maturity 1995, German mark	$ 194	$ 173
5.63%, final maturity 1996, German mark	194	173
10.87%, final maturity 1997, British pound sterling	374	354
4.00%, final maturity 1998, Japanese yen	201	179
4.75%, final maturity 1999, Swiss franc	152	135
4.63%, final maturity 2000, Swiss franc	114	101
6.38%, final maturity 2001, Japanese yen	251	224
Subtotal	$1,480	$1,339

Other Facilities – Various Rates and Maturities at December 31

	1994	1993
Foreign currency loans	$ 255	$ 339
U.S. dollar loans	4	50
Medium-term notes, final maturity 2022	585	607
Pollution control/industrial revenue bonds, final maturity 2024	707	684
Unexpended construction funds	(20)	(50)
Capital lease obligations	32	40
Subtotal	$1,563	$1,670

Long-Term Debt at December 31

	1994	1993
Promissory notes and debentures	$2,677	$2,950
Guaranteed ESOP obligations	201	214
Foreign bonds	1,480	1,339
Other facilities	1,563	1,670
Less unamortized debt discount	(84)	(106)
Less long-term debt due within one year	(534)	(165)
Long-term debt	$5,303	$5,902

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In millions, except for share amounts

J Financial Instruments

Fair Value of Financial Instruments at December 31

	1994				1993			
	Cost	*Gain*	*Loss*	*Fair Value*	*Cost*	*Gain*	*Loss*	*Fair Value*
Nonderivatives:								
Interest-bearing deposits	$ 92	–	–	$ 92	$ 105	–	–	$ 105
Marketable equity and debt securities:								
Trading	414	$20	–	434	433	$ 7	–	440
Available-for-Sale								
Debt securities	824	3	$(22)	805	732	38	$ (3)	767
Equity securities	454	64	(45)	473	489	205	(22)	672
Held-to-Maturity	408	1	(1)	408	177	3	(3)	177
Other	337	–	(7)	330	357	–	(4)	353
Total investments	$ 2,529	$88	$(75)	$ 2,542	$ 2,293	$253	$ (32)	$ 2,514
Long-term debt	$(5,303)	$33	–	$(5,270)	$(5,902)	–	$(391)	$(6,293)
Derivatives relating to:								
Foreign currency	–	$52	$(70)	$ (18)	–	$ 9	–	$ 9
Interest	–	37	(45)	(8)	–	176	$(130)	46
Cross-currency swaps	–	15	(93)	(78)	–	–	–	–

The cost approximates the fair value for all other financial instruments.

Investments Total investments at December 31, 1994 and 1993 included cash equivalents of $455 and $362, marketable securities and interest-bearing deposits of $565 and $430, and other investments of $1,529 and $1,726, respectively.

The proceeds from sales of Available-for-Sale securities were $981 for 1994. These sales resulted in gross realized gains of $55 and losses of $26.

Maturities for most debt securities ranged from one to ten years for the Available-for-Sale classification and one to five years for the Held-to-Maturity classification at December 31, 1994.

Foreign Currency Risk Management The Company's global operations require active participation in the foreign exchange markets. The Company enters into foreign exchange forward contracts and options to hedge various currency exposures or create desired exposures. Exposures primarily relate to (a) assets and liabilities denominated in foreign currency in Europe, Asia and Canada; (b) bonds denominated in foreign currency; and (c) economic exposure derived from the risk that currency fluctuations could affect the dollar value of future cash flows at the operating margin level. The primary business objective of the activity is to optimize the U.S. dollar value of the Company's assets, liabilities and future cash flows with respect to exchange rate fluctuations. Hedging is done on a net exposure basis. Namely, assets and liabilities denominated in the same currency are netted and only the balance is hedged.

At December 31, 1994 and 1993, the Company had forward contracts outstanding with various expiration dates (primarily in January of the next year) to buy, sell or exchange foreign currencies with a U.S. dollar equivalent of $6,573 and $3,664, respectively. The unrealized gains or losses on these contracts, based on the foreign exchange rates at December 31, 1994 and 1993, were a loss of $18 and a gain of $9, respectively, and were included in income in "Net gain (loss) on foreign currency transactions."

Interest Rate Risk Management The Company enters into various interest rate contracts with the objective of lowering funding costs, diversifying sources of funding or altering interest rate exposure. In these contracts, the Company agrees with other parties to exchange, at specified intervals, the difference between fixed and floating interest amounts calculated on an agreed upon notional principal amount.

The notional principal on all types of interest derivative contracts at December 31, 1994 and 1993 totaled $4,264 and $9,302, with a weighted average remaining life of 3.3 and 3.8 years, respectively. The $37 in gains and $45 in losses in 1994 related to interest derivatives were not recognized in income as they represented hedges of debt-related exposures. The $15 in gains and $93 in losses in 1994 related to cross-currency swaps were primarily recognized in income in "Net gain (loss) on foreign currency transactions" and offset the gains and losses from the assets and liabilities being hedged. In 1993, there were $176 in gains and $130 in losses related to cross-currency swaps and interest derivatives. Of these amounts, $142 in gains and $103 in losses had not been recognized in income as they represented hedges of debt-related exposures.

Interest Derivatives at December 31, 1994

	Notional Amount	*Maturities*	*Weighted Average Rate*	
			Receive	*Pay*
Cross-currency swaps	$1,427	1995–1999	–	–
Receive Fixed Hedge	1,630	1995–2005	6.1%	5.5%
Receive Floating Hedge	1,024	1996–2005	5.5%	6.8%
Other	183	1995–1998	–	–

The Company's risk management program for both foreign currency and interest rate risk is based on fundamental, mathematical and technical models that take into account the implicit cost of hedging. Risks created by derivative instruments and the mark-to-market valuations of positions are strictly monitored at all times.

J Financial Instruments *(continued)*

The Company uses portfolio sensitivities and stress tests to monitor risk. Because the counterparties to these contracts are major international financial institutions, credit risk arising from these contracts is not significant and the Company does not anticipate any such losses. The net cash requirements arising from risk management activities are not expected to be material. The Company's overall financial strategies and impacts from using derivatives in its risk management program are reviewed periodically with the Finance Committee of the Company's Board of Directors and revised as market conditions dictate.

The Company's global orientation in diverse businesses with a large number of diverse customers and suppliers minimizes concentrations of credit risk. No concentration of credit risk existed at December 31, 1994.

K Limited Partnerships

In April 1993, three wholly owned subsidiaries of the Company contributed assets with an aggregate fair value of $977 to Chemtech Royalty Associates L.P. (Chemtech), a newly formed Delaware limited partnership. In August and October 1993, outside investors acquired limited partner interests in Chemtech totaling 20 percent in exchange for $200.

In April 1993, two wholly owned subsidiaries of Marion Merrell Dow Inc. (MMDI) contributed assets with an aggregate fair value of approximately $1 billion to Carderm Capital L.P. (Carderm), a newly formed Delaware limited partnership. Outside investors made contributions of $180 in October 1993 in exchange for limited partner interests in Carderm totaling 15 percent.

In December 1991, three wholly owned subsidiaries of the Company contributed assets with an aggregate market value of $2 billion to DowBrands L.P., a newly formed Delaware limited partnership. Outside investors made cash contributions of $45 in December 1991 and $855 in June 1992 in exchange for an aggregate 31 percent limited partner interest in DowBrands L.P.

The three partnerships (Chemtech, Carderm and DowBrands L.P.) are separate and distinct legal entities from the Company and its affiliates and have separate assets, liabilities, businesses and operations. Each partnership has as a general partner a wholly owned subsidiary of either the Company or MMDI which directs the business activities of the partnership and has fiduciary responsibilities to the partnership and its other partners.

The outside investors in each partnership will receive a cumulative annual priority return on their investments in the partnership and participate in residual earnings. The annual priority return is $14, $11 and $67 for Chemtech, Carderm and DowBrands L.P., respectively.

The partnerships will not terminate unless a termination or liquidation event occurs. One such event, which is within the control of outside investors, occurs in the year 2000 for Chemtech and Carderm and 1996 for DowBrands L.P. In addition, the partnership agreements provide for various windup provisions wherein subsidiaries of the Company or MMDI may purchase at any time the limited partnership interests of the outside investors. Upon windup, liquidation or termination, the partners' capital accounts will be redeemed at current fair values.

For financial reporting purposes, the assets (other than intercompany loans, which are eliminated), liabilities, results of operations and cash flows of the partnerships and subsidiaries are included in the Company's consolidated financial statements and outside investors' limited partnership interests are reflected as minority interests.

Supplemental contractual disclosures required by the partnership agreements are contained within Note R of the December 31, 1993 Form 10-K of The Dow Chemical Company.

L Stockholders' Equity

The authorized capital stock consists of 250 million preferred shares with a par value of $1.00 per share, and 500 million shares of common stock with a par value of $2.50 per share. The only preferred shares issued are the convertible preferred shares discussed in Note N. The number of common shares issued has remained at 327,125,854 for the last three years.

There are no significant restrictions limiting the Company's ability to pay dividends.

Undistributed earnings of 20%-50% owned companies included in retained earnings were $269 and $290 at December 31, 1994 and 1993, respectively.

In computing earnings per common share, no adjustment was made for common shares issuable under award, option and stock purchase plans, or conversion of preferred shares issued, because there would be no material dilutive effect.

The Board of Directors has authorized, subject to certain business and market conditions, the purchase of up to 18,000,000 shares of the Company's common stock. At December 31, 1994, the number of shares purchased under this authorization was approximately 3,700,000.

The number of treasury shares purchased was 591,000 in 1994, 300,000 in 1993 and 169,000 in 1992. The number of treasury shares issued to employees was 2,836,000 in 1994, 1,946,000 in 1993 and 2,051,000 in 1992. The number of treasury shares contributed to the pension plan for funding future retiree health care benefits through a 401(h) account was 391,000 in 1994 and 251,000 in 1993.

Reserved Treasury Stock at December 31

In thousands of shares	*1994*	*1993*	*1992*
Stock option plans	**16,517**	15,807	14,171
Employees' stock purchase plan	**894**	1,040	1,120
Total shares reserved	**17,411**	16,847	15,291

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M Stock Option Plans

The Company has various stock option plans. Options under all plans are granted at the market price of the shares on the date of the grants.

Option Plans

In thousands of shares	*1994*	*1993*	*1992*
Outstanding at January 1	**14,059**	11,657	9,986
Granted	**2,634**	3,431	2,688
Exercised	**(1,862)**	(567)	(801)
Expired	**(96)**	(462)	(216)
Outstanding at December 31	**14,735**	14,059	11,657
Price Range	**$23.54–$74.63**	$18.46–$60.88	$18.46–$60 88
Exercisable at December 31	**12,189**	10,776	8,869
Available for future grant	**559**	407	1,177

Stock options were exercised at prices ranging from $18.46 to $65.06 in 1994, $18.46 to $59.75 in 1993 and $18.46 to $60.88 in 1992.

The Company made offerings of common stock to its employees, excluding directors, in 1994, 1993 and 1992 at $54.50, $45.00 and $48.00 per share, respectively, payable generally through payroll deductions. Unfilled subscriptions, cancelable at the option of the employee, were 894,000, 1,040,000 and 1,120,000 shares at December 31, 1994, 1993 and 1992, respectively. Partial payments received on these subscriptions aggregating $32, $28 and $33 at December 31, 1994, 1993 and 1992, respectively, were included in current liabilities.

N Redeemable Preferred Stock

The Company has an employee stock ownership plan (the ESOP), which is an integral part of the Salaried Employees Savings Plan.

The ESOP borrowed funds at a 9.42 percent interest rate with a final maturity in 2004, and used the proceeds to purchase convertible preferred stock from the Company. The preferred stock is convertible into approximately 1.5 million shares of the Company's common stock at $86.125 per common share. The dividend yield on the preferred stock is 7.75 percent of the $86.125 redemption value.

In the event the Company consummates certain merger or consolidation transactions involving the Company's common stock, the preferred stock must be redeemed by the Company for cash at a redemption price equal to 105 percent of the $86.125 per share redemption value, plus accrued and unpaid dividends.

The convertible preferred stock issued to the ESOP is reported as temporary equity in the Company's balance sheet. Since the Company has guaranteed the ESOP's borrowings, the principal amount of the ESOP loan has been reported as long-term debt and a reduction of temporary equity in the Company's balance sheet.

O Pension Plans

The Company has defined benefit pension plans which cover employees in the U.S. and a number of foreign countries. The Company's funding policy is to contribute annually, at a rate that is intended to approximate a level percentage of compensation for the covered employees, to those plans where pension laws and economics either require or encourage funding.

The U.S. funded plan is the largest plan. Its benefits are based on length of service and the employee's three-highest consecutive years of compensation. The weighted average discount rate and rate of increase in future compensation levels used in determining the actuarial present value of the projected benefit obligations were 7.75 and 5.5 percent, respectively, for 1994 and 7.25 and 5.5 percent, respectively, for 1993. The assumed long-term rate of return on assets was 9 percent for 1994 and 1993.

All other pension plans used assumptions in determining the actuarial present value of the projected benefit obligations that are consistent with (but not identical to) those of the U.S. plan.

Defined contribution plans cover employees in some subsidiaries in the U.S. and in other countries, including Australia, France, Spain, and the United Kingdom. In addition, employees in the U.S. are eligible to participate in defined contribution plans (Employee Savings Plans) by contributing a portion of their compensation. The Company matches compensation deferrals, depending on Company profit levels. Contributions charged to income for defined contribution plans were $71 in 1994, $76 in 1993 and $83 in 1992.

The net periodic pension cost for all significant defined benefit plans was as follows:

Net Periodic Pension Cost

	1994	*1993*	*1992*
Service cost – benefits earned during the period	**$ 170**	$ 152	$ 122
Interest cost on projected benefit obligation	**347**	333	306
Actual (return) on assets	**(93)**	(494)	(341)
Amortization and deferred amounts	**(266)**	153	47
Employee contributions to the plans	**(8)**	(8)	(9)
Net periodic pension cost	**$ 150**	$ 136	$ 125

In millions, except for share amounts

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O Pension Plans *(continued)*

The funded status of significant defined benefit plans for the Company was as follows:

Defined Benefit Plans at December 31	*Fully Funded*		*Partially Funded*	
	1994	*1993*	*1994*	*1993*
Actuarial present value of benefit obligation:				
Vested	**$(3,287)**	$(3,173)	**$(467)**	$(361)
Nonvested	**(292)**	(324)	**(40)**	(50)
Accumulated benefit obligation	**(3,579)**	(3,497)	**(507)**	(411)
Effect of projected compensation increases	**(826)**	(838)	**(125)**	(164)
Projected benefit obligation for services rendered to date	**(4,405)**	(4,335)	**(632)**	(575)
Plan assets at market value, primarily publicly traded stocks and bonds	**4,439**	4,534	**221**	208
Plan assets in excess of (less than) projected benefit obligation	**34**	199	**(411)**	(367)
Unrecognized transition obligation	**28**	29	**45**	35
Unrecognized net (gains) losses	**57**	(84)	**(1)**	51
Unrecognized prior service cost	**9**	(4)	**39**	48
Additional minimum liability	**-**	-	**(49)**	(8)
Accrued pension asset (liability)	**$ 128**	$ 140	**$(377)**	$(241)

P Other Postretirement Benefits

The Company provides certain health care and life insurance benefits to retired employees. The Company funds most of the cost of these health care and life insurance benefits as incurred.

The U.S. plan covering the parent company is the largest plan. The plan provides health care benefits, including hospital, physicians' services, drug and major medical expense coverage, and life insurance benefits. The plan provides benefits supplemental to Medicare after retirees are eligible for these benefits, except for employees hired after December 31, 1992. The cost of these benefits is shared by the Company and the retiree, with the Company portion increasing as the retiree has increased years of credited service. The Company has the ability to change these benefits at any time.

Effective October 1993, the Company amended its health care benefits plan in the U.S. to cap the cost absorbed by the Company at approximately twice the 1993 cost per person for employees who retire after December 31, 1993. Effective April 1994, the Company extended this amendment to cover all other retired employees. The effect of the October 1993 amendment was to reduce the net periodic postretirement cost by $21 for 1993 and the accumulated postretirement benefit obligation by $327 at December 31, 1993. The effect of the April 1994 amendment was to reduce the net periodic postretirement cost by $71 for 1994 and the accumulated postretirement benefit obligation by $101 at December 31, 1994.

For 1994, a discount rate of 7.75 percent and weighted average medical cost trend rates starting at 9.47 percent and declining to 5.53 percent in 2004 were assumed. For 1993, the discount rate assumption was 7.25 percent and the medical cost trend rate assumption was 10.65 percent declining to 5.03 percent in 2004. The assumed long-term rate of return on assets was 9 percent for 1994 and 1993. Increasing the assumed medical cost trend rate by 1 percentage point in each year would increase the accumulated postretirement benefit obligation at December 31, 1994 by $33 and the net periodic postretirement benefit cost for the year by $3.

All other postretirement health care and other benefit plans used assumptions in determining the actuarial present value of accumulated postretirement benefit obligations that are consistent with (but not identical to) those of the U.S. parent company plan.

The net periodic benefit cost of all significant plans was as follows:

Net Periodic Postretirement Cost	*1994*	*1993*	*1992*
Service costs – benefits earned during the period	**$ 26**	$ 35	$ 38
Interest cost on accumulated postretirement benefit obligation	**89**	122	127
Amortization and deferred amounts	**(43)**	(9)	-
Net periodic postretirement cost	**$ 72**	$148	$165

The postretirement benefit obligations of all significant plans were as follows:

Partially Funded Postretirement Plans at December 31	*1994*	*1993*
Accumulated postretirement benefit obligation:		
Retirees	**$ (676)**	$ (792)
Fully eligible active plan participants	**(290)**	(279)
Other active plan participants	**(210)**	(234)
Total accumulated postretirement benefit obligation	**(1,176)**	(1,305)
Plan assets at market value, primarily publicly traded stocks and bonds	**52**	20
Unfunded accumulated postretirement benefit obligation	**(1,124)**	(1,285)
Unrecognized gain from experience favorable to assumptions	**(166)**	(81)
Negative prior service costs	**(373)**	(319)
Accrued postretirement benefit liability	**$(1,663)**	$(1,685)

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In millions, except for share amounts

Q Commitments and Contingent Liabilities

In January 1994, Dow Corning Corporation (Dow Corning), in which Dow is a 50 percent shareholder, announced a pretax charge of $640 ($415 after tax) for the fourth quarter of 1993. In January 1995, Dow Corning announced a pretax charge of $241 ($152 after tax) for the fourth quarter of 1994. These charges included Dow Corning's best estimate of its potential liability for breast implant litigation based on the settlement approved by Judge Sam C. Pointer, Jr. of the U.S. District Court for the Northern District of Alabama (the Court); litigation and claims outside of this breast implant settlement; and provisions for legal, administrative and research costs related to breast implants. The charges for 1993 and 1994 included pretax amounts of $1,240 and $441, respectively, less expected insurance recoveries of $600 and $200, respectively. The 1993 amounts reported by Dow Corning were determined on a present value basis. On an undiscounted basis, the estimated liability above for 1993 was $2,300 less expected insurance recoveries of $1,200.

As a result of the Dow Corning actions, the Company recorded its 50 percent share of the charges, net of tax benefits available to Dow. The impact on the Company's net income was a charge of $192 for 1993 and a charge of $70 for 1994.

In March 1994, Dow Corning signed a Breast Implant Litigation Settlement Agreement (the Settlement Agreement) which was preliminarily approved by the Court in April 1994. The Settlement Agreement received final approval by the Court on September 1, 1994. The Company is not a signatory to the Settlement Agreement and is not required to contribute to the settlement. In certain circumstances, if any defendant who is a signatory to the Settlement Agreement considers the number of plaintiffs who have opted out and maintained lawsuits against such defendant to be excessive, such defendant may withdraw from participation in the Settlement Agreement.

Various preliminary estimates of the aggregate number of plaintiffs who have indicated an intent to opt out of the settlement (the Opt Out Plaintiffs) have been made public. Dow Corning has reported that, since July 1, 1994, many former Opt Out Plaintiffs have rejoined the settlement. The Court is continuing to collect information relating to the number of Opt Out Plaintiffs. Dow Corning has stated that, as information is received from the Court, Dow Corning will continue to evaluate the nature and scope of the current or potential future claims of these Opt Out Plaintiffs. Opt Out Plaintiffs may continue to rejoin the settlement until the March 1, 1995 date established by the Court.

The date by which Dow Corning was required to decide whether to remain as a participant in or to exercise the first of its options to withdraw from the Settlement Agreement was extended to September 9, 1994. On September 8, 1994, Dow Corning's Board of Directors approved Dow Corning's continued participation in the Settlement Agreement. Initial claims were required to be filed with the Court by September 16, 1994. After these claims and the supporting medical records have been evaluated by the Court for validity, eligibility, accuracy, and consistency, the Court will determine whether contributions to the settlement are sufficient to pay validated claims. The date by which this process will be completed is uncertain. If contributions are not sufficient, claimants with validated claims may have the ability to become Opt Out Plaintiffs during another specified period. In that event, if any defendant who is a signatory to the Settlement Agreement considers the number of new Opt Out Plaintiffs to be excessive, such defendant may decide to exercise a second option to withdraw from participation in the Settlement Agreement. There can be no assurance that Dow Corning will not withdraw from participation in the Settlement Agreement.

Dow Corning has reported that, as additional facts and circumstances develop, the estimate of its potential liability may be revised, or provisions may be necessary to reflect any additional costs of resolving breast implant litigation and claims not covered by the settlement. Any future charge by Dow Corning resulting from a revision or provision, if required, could have a material adverse impact on the Company's net income for the period in which it is recorded by Dow Corning, but would not have a material adverse impact on the Company's consolidated cash flows or financial position. The Company's maximum exposure for breast implant product liability claims against Dow Corning is limited to its investment in Dow Corning which, at December 31, 1994, was $337.

The Company is separately named as a defendant in many of the breast implant claims and lawsuits. It is the opinion of the Company's management that the possibility is remote that the litigation of these claims will have a material adverse impact on the Company's consolidated financial statements.

Numerous lawsuits have been brought against the Company and other chemical companies alleging that the manufacture, distribution or use of pesticides containing dibromochloropropane (DBCP) has caused, among other things, property damage, including contamination of groundwater. To date, there have been no verdicts or judgments against the Company in connection with these allegations. It is the opinion of the Company's management that the possibility is remote that the resolution of such lawsuits will have a material adverse impact on the Company's consolidated financial statements.

In millions, except for share amounts

Q Commitments and Contingent Liabilities *(continued)*

The Company has accrued $234 at December 31, 1994, for probable environmental remediation and restoration liabilities, including $29 for the remediation of Superfund sites. This is management's best estimate of these liabilities, although possible costs for environmental remediation and restoration could range up to 50 percent higher. It is the opinion of the Company's management that the possibility is remote that costs in excess of those accrued or disclosed will have a material adverse impact on the Company's consolidated financial statements.

In addition to the breast implant, DBCP and environmental remediation matters, the Company and its subsidiaries are parties to a number of other claims and lawsuits arising out of the normal course of business with respect to commercial matters, including product liabilities, governmental regulation and other actions. Certain of these actions purport to be class actions and seek damages in very large amounts. All such claims are being contested.

Except for the possible effect on the Company's net income for charges which may be taken by Dow Corning for breast implant litigation, it is the opinion of the Company's management that the possibility is remote that the aggregate of all claims and lawsuits will have a material adverse impact on the Company's consolidated financial statements.

On behalf of Destec Energy, Inc. (Destec), a 76 percent owned subsidiary, the Company has guaranteed the lease payments of a Destec subsidiary which leases the Lyondell cogeneration facility near Houston, Texas. Minimum lease payments total $145 for the noncancelable portion of the lease which runs through March 31, 1995. The guarantee is cancelable upon proper notice on any anniversary date of the guarantee.

Destec entered into an agreement with the U.S. Department of Energy, PSI Energy Inc. (PSI), and a third party owner to design, construct, and operate a 262 megawatt syngas facility which will repower an existing PSI turbine. Destec will provide coal gasification services under a 25-year contract. Associated with the above agreement, Destec assumed a construction performance obligation of $161 with project completion scheduled for third quarter 1995, at which time Destec will lease the plant. The lease commitments are included in Note H.

Destec contracted to design, engineer, build and operate a cogeneration facility in central Florida for a partnership in which Destec owns approximately 50 percent. Commercial operations commenced in January 1995 as planned. Destec has guaranteed $33 to fund its equity contribution.

Destec contracted to design, engineer and build a 424 megawatt cogeneration facility in Freeport, Texas and is a 50 percent partner in Oyster Creek Limited which owns the facility. The Company has agreed to purchase steam and power from the facility and estimates that its minimum annual obligation to outside parties is $20, increasing 3 percent annually through 2014.

Eli Lilly and Company (Lilly) is a 40 percent partner with the Company in DowElanco, a global agricultural products joint venture. Lilly holds a put option requiring the Company to purchase Lilly's interest in DowElanco at fair market value. Lilly notified the Company in September 1994 that it did not plan to exercise the put option at that time. No subsequent notification has been received.

A Canadian subsidiary has entered into two 20-year agreements to purchase 89 percent of the output of an ethylene plant (Plant No. 1) and 40 percent of the output of a second ethylene plant (Plant No. 2). The purchase price of the output is determined on a cost-of-service basis which, in addition to covering all operating expenses and debt service costs, provides the owner of the plants with a specified return on capital. Total purchases under the agreements were $252, $237 and $236 in 1994, 1993 and 1992, respectively. The contracts related to Plants No. 1 and No. 2 expire in 1998 and 2004, respectively.

DCS Capital Corporation (the Corporation) is 100 percent owned by DCS Capital Partnership. The Corporation was organized to assist DCS Capital Partnership in raising funds to finance construction of an ethylene plant. DCS Capital Partnership is owned by Shell Canada, Union Carbide and Dow through its 100 percent owned subsidiary, Dofinco, Inc. As part of the ownership agreement, Dofinco indirectly guarantees approximately 52 percent of the debt of the Corporation. Dofinco's indirect guarantee amounted to $68 at December 31, 1994.

At December 31, 1994, the Company had various outstanding commitments for take or pay and throughput agreements, including the Canadian subsidiary's take or pay ethylene contract, for terms extending from one to 20 years. In general, such commitments were at prices not in excess of current market prices. The table below shows the fixed and determinable portion of the take or pay and throughput obligations:

Fixed and Determinable Portion of Obligations

1995	$200
1996	168
1997	155
1998	142
1999	73
2000 through expiration of contracts	197
Total	$935

In addition to the take or pay and throughput obligations, the Company had other outstanding commitments at December 31, 1994, including ship charters, purchase commitments for materials and property, and other purchases used in the normal course of business. Total purchase obligations under the agreements were $244. In general, such commitments were at prices not in excess of current market prices.

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In millions, except for share amounts

R Supplementary Information

Accrued and Other Current Liabilities at December 31

	1994	1993
Accrued vacations	$ 200	$ 196
Employees' retirement plans	163	135
Interest payable	124	126
Accrued payroll	316	154
Accrued miscellaneous taxes	146	142
Insurance companies' reserves	168	155
Sundry	742	813
Total	$1,859	$1,721

Sundry Income – Net

	1994	1993	1992
Royalty income	$ 25	$ 26	$ 21
Gain (loss) on securities	(34)	(55)	24
Gain on sale of assets	73	57	22
Dividend income	36	93	14
Other–net	3	(74)	5
Total	$103	$ 47	$ 86

Other Supplementary Information

	1994	1993	1992
Cash payments for interest	$576	$611	$690
Cash payments for taxes on income	257	454	439
Provision for doubtful receivables	11	18	9

S Industry Segments and Geographic Areas

The Company conducts its worldwide operations through separate geographic area organizations which represent major markets or combinations of related markets.

Aggregation of products is generally made on the basis of process technology, end-use markets and channels of distribution.

Chemicals and Performance Products contains a wide range of products that are used primarily as raw materials in the manufacture of customer products, or which aid in the processing of customer products and services.

Plastic Products consists of a broad range of thermoplastics, thermosets and plastic fabricated products used in a wide variety of applications in markets which include packaging, automotive, electronics, and construction among many others.

Hydrocarbons and Energy encompasses procurement of fuels and petroleum-based raw materials as well as the production of olefins, aromatics, styrene and cogenerated power and steam for use in the Company's manufacturing operations. Income from the construction of power plants by Destec Energy, Inc. is also recorded in this segment.

Consumer Specialties includes agricultural chemicals, pharmaceuticals, and food care, home care, and personal care products.

The Unallocated segment encompasses the Company's businesses that are not reported elsewhere, including the consolidated insurance and finance companies, and Ventures businesses such as Dow Environmental and advanced electronics materials. This segment also includes activities and overhead cost variances not allocated to other segments.

Transfers between areas and industry segments are generally valued at cost except for movements between Consumer Specialties and the other industry segments. These movements are generally valued at market-based prices.

In millions, except for share amounts

5 Industry Segments and Geographic Areas *(continued)*

Industry Segment Results

	Chemicals & Performance Products	Plastic Products	Hydrocarbons & Energy	Consumer Specialties	Unallocated	Corporate and Eliminations	Consolidated
1994							
Sales to unaffiliated customers	$4,536	$7,476	$2,043	$5,854	$ 106		$20,015
Intersegment transfers	797	88	2,345	1	8	$(3,239)	–
Operating income (loss)[1]	592	1,131	74	762	(214)		2,345
Identifiable assets	4,051	5,782	3,455	7,582	1,015	4,660	26,545
Depreciation	402	456	259	204	–		1,321
Capital expenditures	281	219	408	275	–		1,183
1993							
Sales to unaffiliated customers	$4,268	$6,459	$1,797	$5,457	$ 79		$18,060
Intersegment transfers	746	108	2,237	–	6	$(3,097)	–
Special charge	–	–	–	180	–		180
Operating income[1]	350	380	43	592	75		1,440
Identifiable assets	4,267	5,053	3,210	7,282	1,127	4,566	25,505
Depreciation	400	447	298	178	20		1,343
Capital expenditures	342	297	436	322	–		1,397
1992							
Sales to unaffiliated customers	$4,471	$6,715	$1,734	$5,977	$ 74		$18,971
Intersegment transfers	683	108	2,316	–	4	$(3,111)	–
Special charge	115	184	113	11	10		433
Operating income (loss)[1]	269	94	(183)	1,116	(6)		1,290
Identifiable assets	4,280	5,380	3,040	7,258	947	4,455	25,360
Depreciation	439	424	279	183	17		1,342
Capital expenditures	479	409	415	292	–		1,595

Geographic Area Results

	United States	Europe	Rest of World	Eliminations	Consolidated
1994					
Sales to unaffiliated customers	$ 9,942	$5,320	$4,753		$20,015
Transfers between areas	1,575	466	341	$(2,382)	–
Operating income[1]	1,293	273	779		2,345
Identifiable assets	14,800	6,402	5,343		26,545
Gross plant properties	12,554	7,103	3,553		23,210
Capital expenditures	758	266	159		1,183
1993					
Sales to unaffiliated customers	$ 9,285	$4,836	$3,939		$18,060
Transfers between areas	1,047	325	311	$(1,683)	–
Special charge	110	44	26		180
Operating income (loss)[1]	1,036	(1)	405		1,440
Identifiable assets	14,903	5,818	4,784		25,505
Gross plant properties	12,004	6,235	3,369		21,608
Capital expenditures	893	301	203		1,397
1992					
Sales to unaffiliated customers	$ 9,538	$5,595	$3,838		$18,971
Transfers between areas	1,219	432	396	$(2,047)	–
Special charge	167	152	114		433
Operating income (loss)[1]	1,159	(90)	221		1,290
Identifiable assets	14,551	6,464	4,345		25,360
Gross plant properties	11,581	6,568	3,295		21,444
Capital expenditures	912	464	219		1,595

[1] *The reconciliation between "Operating Income" and "Income before Provision for Taxes on Income and Minority Interests" consists of "Other Income (Expense)" items and can be found in the Consolidated Statements of Income on Page 25.*

QUARTERLY STATISTICS

ST0929421

In millions, except for share amounts (*Unaudited*)

1994	*1st*	*2nd*	*3rd*	*4th*	*Year*
Net sales	$4,541	$4,934	$5,046	$5,494	$20,015
Operating income	527	602	579	637	2,345
Income before taxes on income and minority interests (Notes C and Q)	414	570	575	493	2,052
Net income available for common stockholders	171	250	288	222	931
Earnings per common share	0.62	0.91	1.04	0.80	3.37
Cash dividends paid per common share	0.65	0.65	0.65	0.65	2.60
Market price range of common stock:					
High	66.50	70.13	79.25	78.13	79.25
Low	56.50	58.75	64.88	60.75	56.50

1993	*1st*	*2nd*	*3rd*	*4th*	*Year*
Net sales	$4,363	$4,822	$4,370	$4,505	$18,060
Special charge (Note B)	–	180	–	–	180
Operating income	388	388	346	318	1,440
Income before taxes on income and minority interests (Notes C and Q)	751	364	300	110	1,525
Net income (loss) available for common stockholders	400	148	137	(48)	637
Earnings (loss) per common share	1.47	0.54	0.50	(0.18)	2.33
Cash dividends paid per common share	0.65	0.65	0.65	0.65	2.60
Market price range of common stock:					
High	59.38	58.63	62.00	60.63	62.00
Low	49.63	49.00	55.25	53.50	49.00

See Notes to Financial Statements.

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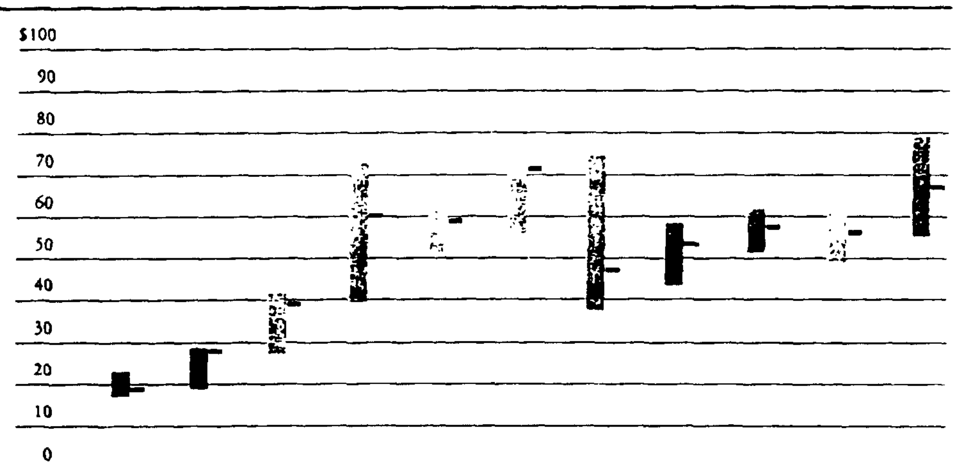
PRODUCT SEGMENT SALES ANALYSIS

In millions	*(Unaudited)*	*1994*	*1993*	*1992*
	Sales of Principal Products and Services			
Chemicals and Performance Products	Chemicals and Metals	**$ 2,762**	$ 2,625	$ 2,807
	Performance Products	**1,774**	1,643	1,664
	Total Chemicals and Performance Products	**4,536**	4,268	4,471
Plastic Products	Thermoplastics	**3,887**	3,203	3,332
	Thermosets	**2,679**	2,414	2,485
	Fabricated Products	**910**	842	898
	Total Plastic Products	**7,476**	6,459	6,715
Hydrocarbons and Energy	Hydrocarbons and Energy	**2,043**	1,797	1,734
Consumer Specialties	Agricultural Products	**1,735**	1,604	1,580
	Pharmaceuticals	**3,274**	3,007	3,478
	Consumer Products	**845**	846	919
	Total Consumer Specialties	**5,854**	5,457	5,977
Unallocated	Miscellaneous	**106**	79	74
Net Sales		**$20,015**	$18,060	$18,971

ELEVEN-YEAR REVIEW OF MARKET PRICE PER SHARE OF COMMON STOCK[1]

[1] *Adjusted for stock split in 1989.*



In dollars	*1984*	*1985*	*1986*	*1987*	*1988*	*1989*	*1990*	*1991*	*1992*	*1993*	*1994*
High	$23.00	$27.92	$41.17	$73.08	$62.67	$72.25	$75.75	$58.00	$62.88	$62.00	$79.25
Close on December 31	18.33	27.33	39.00	60.00	58.50	71.38	47.50	53.75	57.25	56.75	67.25
Low	17.17	18.00	26.59	39.17	51.17	55.50	37.00	44.13	51.25	49.00	56.50

ELEVEN-YEAR SUMMARY OF SELECTED FINANCIAL DATA

ST0929423

In millions, except as noted	*(Unaudited)*	*1994*
Summary of Operations	Net sales	$ 20,015
	Cost of sales	13,219
	Insurance and finance company operations, pretax (income) expense	(40)
	Research and development expenses	1,261
	Promotion and advertising expenses	658
	Selling and administrative expenses	2,403
	Amortization of intangibles	169
	Special charge	–
	Operating income	2,345
	Investment and sundry income	113
	Interest expense – net	(406)
	Income before provision for taxes on income and minority interests	2,052
	Provision (credit) for taxes on income	779
	Minority interests' share in income	335
	Income before cumulative effect of accounting change	938
	Cumulative effect of accounting change	–
	Preferred stock dividends	7
	Net income (loss) available for common stockholders	931
	Per share of common stock (dollars)[1]:	
	Income before cumulative effect of accounting change	3.37
	Cash dividends declared	2.60
	Cash dividends paid	2.60
	Average common shares outstanding (thousands)[1]	276,094
	Convertible preferred shares outstanding (thousands)	1,549
Year-end Financial Position	Total assets	$ 26,545
	Working capital	2,075
	Plant properties – gross	23,210
	Plant properties – net	8,726
	Long-term obligations and redeemable preferred stock	5,325
	Total debt	6,578
	Net stockholders' equity	8,212
Financial Ratios	Research and development expenses as percent of net sales	6.3%
	Income before provision for taxes and minority interests as percent of net sales	10.3%
	Return on average stockholders' equity	11.4%
	Book value per share of common stock (dollars)[1]	$ 29.63
	Debt as percent of total capitalization excluding temporary equity	38.0%
General	Capital expenditures	$ 1,183
	Depreciation	1,321
	Wages and salaries paid	3,239
	Cost of employee benefits	832
	Number of employees at year-end (thousands)	53.7
	Number of stockholders of record at year-end (thousands)	98.0[3]

[1]Adjusted for 3 for 2 stock split in 1989.
[2]Before cumulative effect of accounting change

[3]Stockholders of record as reported by the transfer agent. The Company estimates that there are an additional 151,200 stockholders whose shares are held in nominee names, or in dividend reinvestment accounts without underlying registered shares.

1993	1992	1991	1990	1989	1988	1987	1986	1985	1984
$ 18,060	$ 18,971	$ 18,807	$ 19,773	$ 17,600	$ 16,682	$ 13,377	$ 11,113	$ 10,500	$ 10,679
12,195	12,704	12,661	13,035	10,478	9,806	8,660	7,727	8,031	8,282
(98)	(15)	(95)	(65)	(59)	(28)	20	(57)	(55)	(28)
1,256	1,289	1,159	1,136	873	772	670	605	547	507
678	795	721	639	494	415	329	309	318	195
2,230	2,328	2,181	2,084	1,758	1,625	1,406	1,190	969	860
179	147	129	126	46	43	27	27	17	5
180	433	370	–	–	–	–	–	592	157
1,440	1,290	1,681	2,818	4,010	4,049	2,265	1,312	81	701
518	168	488	278	259	90	141	179	263	310
(433)	(586)	(481)	(533)	(334)	(284)	(279)	(269)	(306)	(343)
1,525	872	1,688	2,563	3,935	3,855	2,127	1,222	38	668
606	274	510	978	1,436	1,450	882	489	(23)	107
275	322	236	201	12	7	5	1	3	1
644	276	942	1,384	2,487	2,398	1,240	732	58	560
–	(765)	–	–	–	–	–	–	–	–
7	7	7	6	1	–	–	–	–	–
637	(496)	935	1,378	2,486	2,398	1,240	732	58	560
2.33	0.99	3.46	5.10	9.20	8.51	4.31	2.55	0.20	1.93
2.60	2.60	2.60	2.60	2.37	1.73	1.43	1.27	1.20	1.20
2.60	2.60	2.60	2.60	2.18	1.63	1.40	1.23	1.20	1.20
273,620	271,647	270,477	269,899	270,243	281,891	287,504	287,088	285,579	290,693
1,567	1,586	1,592	1,602	1,602	–	–	–	–	–
$ 25,505	$ 25,360	$ 24,727	$ 23,953	$ 22,008	$ 16,073	$ 14,230	$ 12,553	$ 14,405	$ 13,194
2,001	1,802	1,584	2,265	909	2,218	2,307	1,749	1,281	1,193
21,608	21,444	20,663	19,149	16,700	14,698	13,502	12,715	11,875	11,256
8,580	8,801	8,775	8,249	7,080	5,938	5,551	5,347	5,127	5,173
5,918	6,201	6,083	5,209	3,855	3,338	3,779	3,404	3,198	2,670
6,944	7,469	7,652	6,642	6,141	3,770	3,958	3,683	3,661	3,154
8,034	8,064	9,441	8,728	7,957	7,255	5,769	5,178	4,806	5,040
7.0%	6.8%	6.2%	5.7%	5.0%	4.6%	5.0%	5.4%	5.2%	4.7%
8.4%	4.6%	9.0%	13.0%	22.4%	23.1%	15.9%	11.0%	0.4%	6.3%
7.9%	3.1%[2]	10.3%	16.5%	32.7%	36.8%	22.7%	14.7%	1.2%	11.1%
$ 29.36	$ 29.69	$ 34.90	$ 32.33	$ 29.55	$ 26.35	$ 20.31	$ 18.05	$ 16.85	$ 17.67
39.9%	42.5%	42.3%	41.3%	41.8%	34.0%	40.5%	41.4%	43.1%	38.4%
$ 1,397	$ 1,595	$ 1,908	$ 2,119	$ 1,756	$ 1,264	$ 995	$ 890	$ 806	$ 781
1,343	1,342	1,306	1,170	990	933	814	744	977	908
3,332	3,263	3,101	3,104	2,482	2,314	2,045	1,800	1,663	1,548
887	938	711	690	554	518	474	464	387	382
55.4	61.4	62.2	62.1	62.1	55.5	53.1	51.3	53.2	49.8
102.5	105.9	108.4	109.4	105.4	105.8	99.0	106.3	122.6	133.7

BOARD OF DIRECTORS

ST0929425

(As of March 1, 1995)

Jacqueline K. Barton, 42
Professor of Chemistry,
California Institute of Technology
Director since 1993

Andrew J. Butler, 60
Senior Consultant
Director since 1984

David T. Buzzelli, 53
Vice President and Corporate
Director of Environment, Health
& Safety, Public Affairs and
Information Systems
Director since 1993

Fred P. Corson, 53
Vice President and Corporate
Director of Research & Development
Director since 1994

Willie D. Davis, 60
President and Chief Executive Officer,
All Pro Broadcasting, Inc.
Director since 1988

Michael L. Dow, 60
Chairman,
Michael L. Dow, Associates
Director since 1988

Joseph L. Downey, 58
Senior Consultant;
Chairman, DowBrands Inc. and
DowElanco
Director since 1989

Enrique C. Falla, 55
Executive Vice President and
Chief Financial Officer
Director since 1985

Barbara H. Franklin, 54
Former U.S. Secretary of Commerce
Director since 1993. Previously
Director from 1980 to 1992

Fred W. Lyons, Jr., 59
Chairman and
Chief Executive Officer,
Marion Merrell Dow Inc.
Director since 1991

William J. Neely, 63
Senior Consultant
Director since 1988

Frank P. Popoff, 59
Chairman of the Board and
Chief Executive Officer
Director since 1982

Harold T. Shapiro, 59
President,
Princeton University
Director since 1985

Enrique J. Sosa, 54
Senior Vice President;
President, Dow North America
Director since 1990

William S. Stavropoulos, 55
President and Chief Operating Officer
Director since 1990

Paul G. Stern, 56
Special Partner,
Forstmann Little & Co.
Director since 1992

Committees of the Board of Directors

Audit Committee
B. H. Franklin, Chairman
H. T. Shapiro
P. G. Stern

Committee on Directors
W. D. Davis, Chairman
F. P. Popoff
H. T. Shapiro
W. S. Stavropoulos
P. G. Stern

Compensation Committee
H. T. Shapiro, Chairman
W. D. Davis
B. H. Franklin
P. G. Stern

Environment, Health and Safety Committee
W. J. Neely, Chairman
J. K. Barton
A. J. Butler
D. T. Buzzelli
F. P. Corson
M. L. Dow
E. J. Sosa
P. D. Brink, ex-officio
G. S. Dickson, ex-officio
J. B. Martin, ex-officio
J. Scriven, ex-officio

Executive Committee
F. P. Popoff, Chairman
E. C. Falla
E. J. Sosa
W. S. Stavropoulos

Finance Committee
E. C. Falla, Chairman
A. J. Butler
J. L. Downey
F. W. Lyons, Jr.
F. P. Popoff
E. J. Sosa
W. S. Stavropoulos
C. J. Hahn, ex-officio
R. L. Kesseler, ex-officio
J. C. Lillich, ex-officio
J. P. Reinhard, ex-officio
J. Scriven, ex-officio

Investment Policy Committee
M. L. Dow, Chairman
A. J. Butler
F. P. Corson
J. L. Downey
E. C. Falla
P. G. Stern
W. J. Burroughs, ex-officio
N. L. Camp, ex-officio
J. P. Reinhard, ex-officio

Public Interest Committee
D. T. Buzzelli, Chairman
J. K. Barton
F. P. Corson
W. D. Davis
M. L. Dow
J. L. Downey
B. H. Franklin
F. W. Lyons, Jr.
W. J. Neely
H. T. Shapiro
W. S. Stavropoulos
J. W. Tysse, ex-officio
B. Woodhouse, ex-officio

CORPORATE ORGANIZATION

(As of March 1, 1995)

Officers and Assistant Officers

Chairman of the Board and Chief Executive Officer
Frank P. Popoff

President and Chief Operating Officer
William S. Stavropoulos

Executive Vice President and Chief Financial Officer
Enrique C. Falla

Senior Vice President
Enrique J. Sosa

Vice President and Corporate Director of Environment, Health & Safety, Public Affairs and Information Systems
David T. Buzzelli

Group Vice President
Anthony J. Carbone

Vice President and Corporate Director of Research & Development
Fred P. Corson

Vice President and Controller
Roger L. Kesseler

Group Vice President
Michael D. Parker

Financial Vice President and Treasurer
J. Pedro Reinhard

Vice President and General Counsel
John Scriven

Vice President and Director of Manufacturing and Engineering
Larry F. Wright

Secretary
Donna J. Roberts

Assistant Controller
Carol J. Ashley

Assistant Controller
William C. Schmidt

Assistant Secretary
Charles J. Hahn

Assistant Secretary
Tina S. Van Dam

Assistant Treasurer
Henry Kahn

Auditor
James F. Hicks

ST0929426

Stockholder Inquiries

Inquiries about stock, changes in name or address and other stock-related questions may be directed to:

KeyCorp Shareholder Services, Inc.*
P.O. Box 6477
Cleveland, OH, U.S.A. 44101-1477
Telephone: 800-542-7792 (in the U.S.) or 216-813-5745
Formerly Society National Bank

Inquiries about Dow's business performance may be directed to:

Investor Relations
The Dow Chemical Company
2030 Dow Center
Midland, MI, U.S.A. 48674
Telephone: 800-258-9002 (in the U.S.) or 517-636-1463

Annual Meeting

The 1995 Annual Meeting of Stockholders will be conducted at 2 p.m. (EDT) Thursday, May 11, at the Midland Center for the Arts, Midland, MI.

Stockholder Financial Reports

Dow's annual report, quarterly earnings newsletter to stockholders and annual report on Form 10-K filed with the Securities and Exchange Commission will be provided without charge to those requesting them in writing or by telephone. Please contact:

The Dow Chemical Company
Customer Information Group
P.O. Box 1206
Midland, MI, U.S.A. 48641-1206
Telephone: 800-258-2436 (in the U.S.) or 517-832-1556

Cassette Tapes Available

Audio cassette tapes of the 1994 Annual Report can be obtained for the blind by writing or calling:

Investor Relations
The Dow Chemical Company
2030 Dow Center
Midland, MI, U.S.A. 48674
Telephone: 800-258-9002 (in the U.S.) or 517-636-1463

Environment, Health & Safety Report

The Environment, Health & Safety Report of The Dow Chemical Company will be mailed without charge to those requesting it in writing or by telephone. Please contact:

The Dow Chemical Company
Customer Information Group
P.O. Box 1206
Midland, MI, U.S.A. 48641-1206
Telephone: 800-258-2436 (in the U.S.) or 517-832-1556

Transfer Agents

KeyCorp Shareholder Services, Inc.
P.O. Box 6477
Cleveland, OH, U.S.A. 44101-1477
Telephone: 800-542-7792 (in the U.S.) or 216-813-5745

The R-M Trust Company
P.O. Box 7010
Adelaide Street Postal Station
Toronto, Ontario, Canada M5C 2W9
Telephone: 800-387-0825 (in North America) or 416-813-4600

Registrars

KeyCorp Shareholder Services, Inc.
P.O. Box 6477
Cleveland, OH, U.S.A. 44101-1477

Montreal Trust Company
151 Front Street West, 8th floor
Toronto, Ontario, Canada M5J 2N1

Stock Exchange Listings and Trading Privileges

NYSE Symbol: DOW
New York, Chicago, Pacific, Amsterdam, Antwerp, Basel, Bern, Brussels, Dusseldorf, Frankfurt, Geneva, Hamburg, Lausanne, London, Paris, Tokyo, Toronto and Zurich.

Dividend Reinvestment Plan and Direct Deposit of Dividends

Automatic reinvestment and direct deposit of dividends are available to all Dow stockholders. Information can be obtained by writing to:

Society National Bank
c/o KeyCorp Shareholder Services, Inc.
P.O. Box 6477
Cleveland, OH, U.S.A. 44101-1477

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The following trademarks of DowBrands or an international affiliate appear in this report: Apple Pectin, Fantastik, Glass Plus, Handi-Wrap, Nucleic A, PermaSoft, Scrubbing Bubbles, Smart Scrub, Spray 'N Wash, Style, Vivid, Yes and Ziploc.

The following trademark of Dow Corning Corporation appears in this report Syltherm

The following trademarks of DowElanco or its affiliates appear in this report. Beam, Broadstrike, Dursban, Garlon, Lontrel, Lorsban, Naturalyte, N-Serve, Recruit, Rubigan, Sentricon, Sonalan, Starane, Telone, Tordon, Treflan, Trimidal and Vikane.

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Responsible Care is a registered service mark.

DOW The Dow Chemical Company Midland, Michigan 48674

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