1995 ANNUAL REPORT Dow

R&S 041444

SHARED PRIORITIES FOR SUCCESS

Shared Priorities for Success

High-value products and services. Rewarding work in a changing world. Financial success. A safe environment. Dow shares the goals of customers, employees, shareholders, and society.

Customers

Customers look to Dow for the best combination of value, performance, service and price. In all of our global markets, we're committed to helping them succeed.

Employees

In a rapidly changing world, Dow people seek the opportunities to make valuable contributions and be recognized for their efforts. Employees are responsibly putting chemistry to work to help our customers and the company grow together.

Shareholders

Shareholders seek higher returns and lower risks, and so do we. We are dedicated to creating value throughout the economic cycle, rewarding all of our shareholders, including many teachers whose pension funds are invested in Dow stock.

Society

From the food we eat to the homes we live in and cars we drive, chemistry touches every aspect of modern life. Our goal, shared by people everywhere, is to apply chemistry to make life safer, more productive and more satisfying.

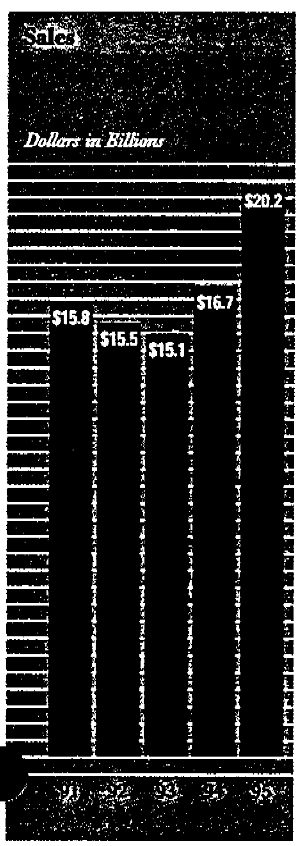
The Dow Chemical Company is the fifth largest chemical company in the world, with annual sales of more than $20 billion. The company provides chemicals, plastics, energy, agricultural products, consumer goods and environmental services to customers in almost all countries around the world. Dow operates 94 manufacturing sites in 30 countries and employs about 39,500 people who are dedicated to applying chemistry to benefit customers, employees, shareholders and society.

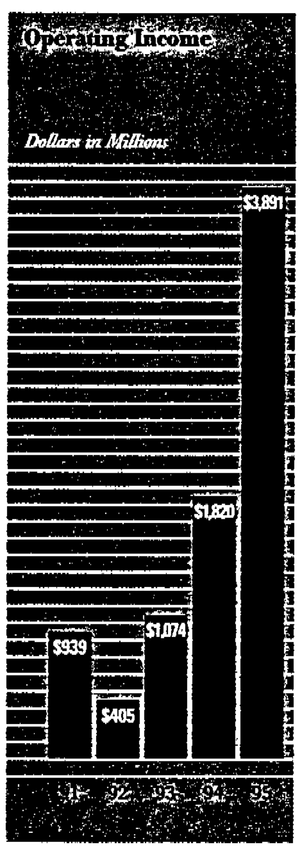
Contents

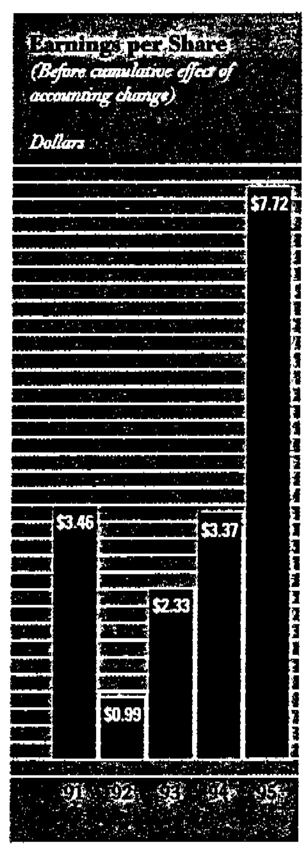
*Financial Highlights of 1995**

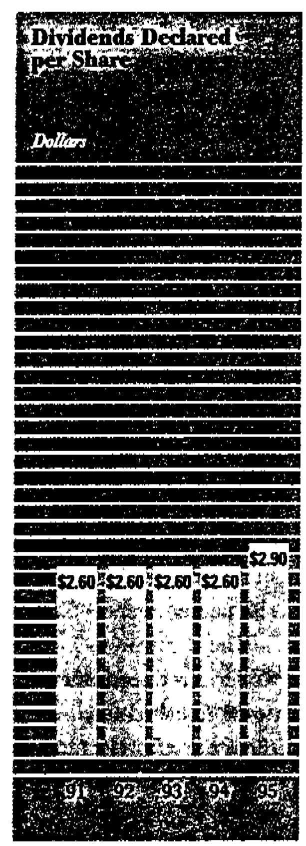
In millions, except where noted

	1995	1994	Percent Change
Net Sales	$20,200	$16,742	+21
Operating Income	3,891	1,820	+114
Net Income Available for Common Stockholders	2,071	931	+122
Research and Development Expenses	808	783	+3
Capital Expenditures	1,417	1,183	+20
Return on Equity	26.9%	11.3%	+15.6 points
Earnings per Share *(in dollars)*	7.72	3.37	+129
Dividends Declared per Share *(in dollars)*	2.90	2.60	+12









* *Results for previous years have been restated to show Dow's pharmaceutical businesses as discontinued operations due to their sale in the second quarter of 1995.*

Shared Priorities For Success

To Our Stockholders

This has been a year of significant achievement and change for The Dow Chemical Company. From our overall business mix to our fundamental work processes, we continue to build a stronger Dow–a Dow that has the focus, resources and organizational capabilities to achieve our mission to be the most productive, best value-growth chemical company in the world.

This is my first opportunity as Dow's new CEO to write to you about the exciting strategy we have put in place to achieve a new level of performance focused on value growth. On the strength of new innovations and expanding world markets, the global chemical industry will experience substantial growth in the coming years. We at Dow intend to be part of that growth by capturing the best opportunities for value creation. We are making good progress toward this end.

We could not, however, be as well positioned as we are today without the leadership of my predecessor, Frank Popoff. His commitment to Dow's long-term success has helped create our current level of performance. As Chairman of the Board, he will continue to provide insight and guidance.

The company has also benefited from the direction provided by Board members Andrew J. Butler, Fred W. Lyons, Jr., and Enrique J. Sosa, all who retired during 1995. I would like to extend my appreciation to them for their service to the company. I would also like to extend a special thank-you to Enrique C. Falla who has stepped down from his post as Dow's Chief Financial Officer after many years of outstanding service. He will continue to provide leadership on our Board of Directors.

Our new Board members, Anthony J. Carbone, Allan D. Gilmour, Michael D. Parker and J. Pedro Reinhard, bring with them a wealth of experience and have already begun to make outstanding contributions. They have been joined by John C. Danforth, who was elected to the Board in February 1996.

1995 Financial Highlights

I am pleased to report that 1995 was an excellent year for Dow. Our sales of $20.2 billion set a new record, and our earnings per share were the third highest in the company's history. All of our business segments reported higher sales in 1995 compared to 1994. Our Performance Chemicals and Performance Plastics segments had a particularly strong year. Operating income from these businesses increased 53 percent over last year.

Our earnings were $7.72 per share in 1995 versus $3.37 per share in 1994. Excluding earnings from discontinued operations and other special items, earnings were $8.27 per share, up 152 percent versus $3.28 in 1994.

The company is in excellent financial condition. Since 1992, we have reduced our net debt by $4.9 billion. This gives us additional financial flexibility to pursue opportunities to create value.

In our efforts to improve shareholder value, we increased our quarterly dividend by 15 percent. We also repurchased 29 million shares, slightly over 10 percent of our outstanding shares. We believe Dow stock is an excellent value and its repurchase a wise use of our cash.

Creating a New Level of Performance

As we create a new level of performance for the company, we have established a series of financial objectives. By implementing our strategy for long-term success, we will strive to attain:

- The creation of value over the life of the business cycle. Economic profit, which we define as return in excess of the cost of capital, now drives our business decisions. We will strive to generate economic profit every year. The objective for us, however, is to create value over the life of the business cycle.
- A targeted return on capital that exceeds the cost of capital by 3 percent over the life of the business cycle.
- A return on equity of about 20 percent, averaged over the life of the cycle.

Strategy for Long-Term Success

To meet our objectives, we have outlined a four-part strategy. The key elements of this strategy are: maximizing shareholder value from a growing portfolio of chemistry-related businesses; setting the competitive standard business by business; gaining competitive advantage and increased productivity by leveraging site and product-line integration, technology, customer relationships and shared business services; and acting globally with investments and resources deployed in local markets. These elements are embodied in the company's Strategic Blueprint, which Dow people are using to guide their efforts.

In 1995, we made significant progress on each of these fronts.

Growing Portfolio of Chemistry-Related Businesses

- **We made strategic shifts in our business portfolio.** Through a series of purposefully executed divestitures and acquisitions, we shifted our business portfolio to focus our resources on our core competencies. The most significant of the divestitures was the sale of our pharmaceutical interests. The sale of Marion Merrell Dow and our Latin American pharmaceutical businesses marked a key turning point in the company's long-term growth strategy. With this sale, we made the strategic decision to focus our resources in Dow's core chemistry-related businesses, rather than to make the large-scale investments necessary to stay competitive in the pharmaceutical industry.

Some other businesses we divested include our aspirin business, Generon Systems Inc., the Personal Care Business of DowBrands, and Advanced Cleaning Systems.

Collectively, this year's divestitures have generated nearly $5.3 billion of cash to pursue new value-growth opportunities.

- **We expanded current businesses to add value.** During the last two years, we placed in service more than $3 billion of additional capacity to meet our customers' increased demand. For example, during 1995 we added to our position in the Asia-Pacific geography by bringing on stream plants in Thailand and Indonesia to meet the needs of the emerging southeast Asia market.
- **We are developing new products and services with a clear focus on chemistry-related businesses.** We are rapidly pursuing commercial opportunities based on our Insite technology and our environmental expertise. DuPont Dow Elastomers L.L.C. and Radian

International LLC are two examples of how, through partnerships with other companies, we are accelerating commercialization of these capabilities.

Through the acquisition of Enichem's INCA International SpA in Italy, we have entered into the purified terephthalic acid (PTA) and polyethylene terephthalate (PET) businesses. We also plan to enter into the polypropylene business. Polypropylene and PET are two of the fastest growing polymers in the world and provide us with tremendous value-growth potential. They complement our current strength in plastics, allowing us to leverage our technology along with our existing market and raw material positions. They also allow us to respond to our customers' growing needs in the packaging and durables markets.

Setting the Competitive Standard Business by Business

• **We restructured our operations around our 15 global businesses.** Our new structure better enables our businesses to seize opportunities for value growth. By organizing around our businesses, we are now able to leverage our functional and geographic expertise globally and are better able to understand our marketplaces and serve our customers. Each of our 15 businesses can create its own future within the context of Dow's strategy. We are combining the speed, flexibility, knowledge and focus of a small company with the technology, global reach and financial resources of a large company.

Gaining Competitive Advantage by Leveraging Our Strengths

• **We significantly improved productivity.** We have reduced our annual controllable costs by $700 million, on a comparable basis, over the last three years, surpassing our goal of $600 million.

The productivity gains we have made are the result of employee innovation. Employees began by simply looking for ways to cut costs but, in doing so, unearthed a world of opportunity to do things faster, smarter and more efficiently. Each of our work processes is being reengineered, with the ultimate goal of leveraging our strengths globally and across all businesses to eliminate duplication and ensure world-class practices. Here are a few of the many examples of employee efforts:

- Over the past three years, our polystyrene employees achieved a 30 percent reduction in conversion costs, which translated into a $41 million earnings improvement in 1995.
- Since 1992, employees at our polyol plant in Texas increased the production capacity of their unit by 59 percent, reducing conversion costs by 45 percent, with a capital investment of just over $1 million. The result was a $30 million improvement in earnings.
- By reengineering and integrating our supply chain with 75 companies in North America, employees saved $8 million for Dow and $4 million for our customers.

Productivity improvements such as these will continue.

Investing Globally, Implementing Locally

• **We expanded geographically.** The changing global marketplace offers great growth opportunities. We continue to invest and expand in emerging markets around the world. As we expand, our business strategies will be set globally, but implemented locally. This will ensure that local differences and customer preferences will be respected.

We have received European Union approval to acquire three formerly state-owned production sites in eastern Germany, giving us the opportunity to expand our business in central and eastern Europe. Putting together a transaction as large and complex as this one required a great deal of energy and dedication from both Dow and government people. Their work will result in long-term growth for Dow and in renewed economic prosperity for the German plant communities.

Our recent acquisitions in Argentina give us a strong ethylene and polyethylene position in the important Mercosur trading bloc formed by Argentina, Brazil, Paraguay and Uruguay. Our investment in the Asia-Pacific geography provides us with access to that important marketplace.

Combined, our current value-growth initiatives should enable us to add $3-4 billion in annual sales by the end of the decade.

Creating the Right Culture

It is our people who bring our strategy to life. Therefore, we are actively renewing our corporate culture to create a workplace where geographic, functional and business barriers are eliminated, allowing Dow people to leverage their expertise across the entire company.

A key to our new culture is increased individual accountability. We are delayering the organization so that there will be no more than 4 to 6 layers versus the traditional organization that has 8 to 10 layers. By doing so, we will increase the speed of decision-making, enhance our organization's flexibility to meet customer needs, and make people's careers more fulfilling. Personal contribution will be measured not by position on the organizational chart, but by job knowledge and performance.

To ensure we recognize our employees' contributions appropriately in our new culture, we are revising our employee compensation program. We are adding a business link to our existing variable pay progam which ties a portion of most Dow employees' compensation directly to the company's economic profit performance. We will begin a pilot with senior managers to tie their variable pay directly to the economic profit performance of their business. This will allow us to reward employees for their contributions to the success of their business.

Pursuing Excellence in Environmental, Health and Safety Performance

I have dedicated the majority of this letter to discussing our financial objectives and our strategy for long-term success. Equally important is our ability to manage the environmental, health and safety issues that affect our businesses. Achieving environmental excellence is a business issue, and our goal is to make the environment part of every business decision we make. It is a tough goal, but we're building on our experience and expertise, and we will continue to improve.

I am particularly proud that we not only met, but surpassed, our goal to reduce emissions of 17 priority compounds by 50 percent. Our commitment was to achieve these reductions by 1995, using 1988 as a baseline. However, we accomplished the goal one year early. In 1994, Dow achieved a 67 percent reduction for our U.S. operations and a 65 percent reduction globally.

I am also pleased that safety has remained a top priority during this time of rapid change. In 1995, Dow had a record safety performance, reducing total recordable incidents for Dow employees and contractors by 12 percent compared to 1994.

Certainly one issue that has garnered a number of headlines this year involves silicone gel breast implants. Although The Dow Chemical Company never developed, tested, manufactured or sold silicone breast implants, we have found ourselves facing lawsuits related to implants. Because of the American tort system, which is in need of reform, we are being unjustly asked to defend a product developed, produced and sold by another company, Dow Corning Corporation. Dow Corning is owned equally by Dow and Corning Inc.

We feel compassion for women who are ill, regardless of the cause. In our view, the results of the first phase of the Brigham and Women's Hospital Study, along with the 22 previous studies from the Mayo Clinic, John Hopkins, Harvard Medical School and others that show no link between breast implants and disease, should be reassuring news for women with breast implants.

We are confident this issue will be resolved based on the strength of the legal fundamentals and the mounting medical evidence. I want to assure you Dow Chemical will take the necessary measures—toda and in the future—to refute these unjustified challenges.

Looking Ahead

We have made significant accomplishments in 1995, and we are well positioned to seize opportunities to create additional value growth. I would like to thank our employees, customers and shareholders for their support during this year of rapid change. Change is necessary, but it is not always easy. I am especially proud of the way employees are meeting the challenges before them with creativity and innovation.

Throughout 1996, we will stay focused on our strategy. I am confident we will experience another good year.

Achieving the objectives we have set for ourselves will bring about success for all of our stakeholders. That is why we have chosen "Shared Priorities" as the theme for this year's Annual Report. I hope as you read through the following pages you will see that our value creation efforts are moving us full force toward our vision of being the best at applying chemistry for the benefit of our customers, employees, shareholders and society.

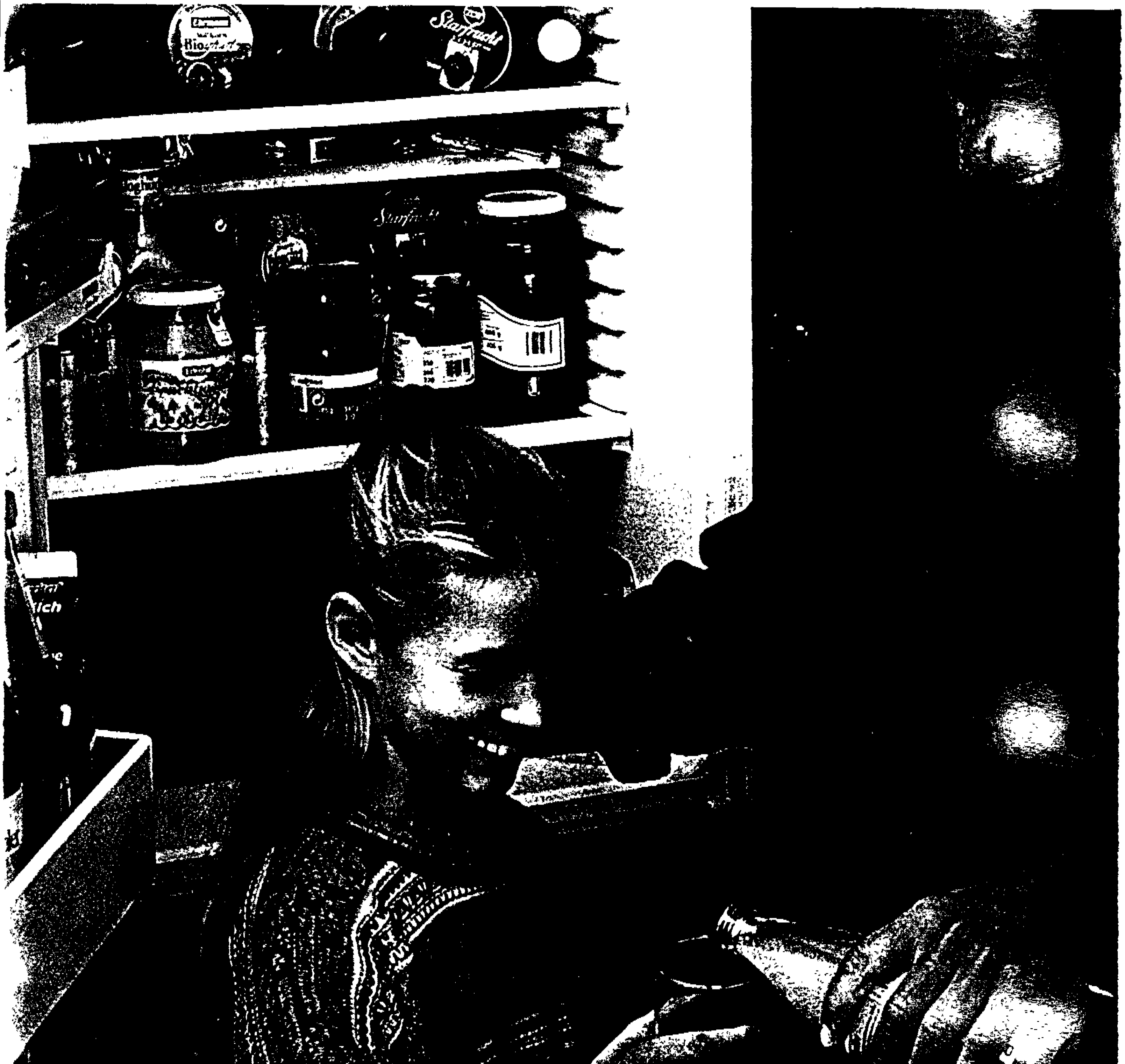
William S. Stavropoulos
President and Chief Executive Officer

February 28, 1996

Shared Priorities: A Common Focus

At Dow, we want the same things you want. We want to produce high-value products and services for our customers, provide opportunities for our employees to grow and recognize their contributions, create value for investors and produce products that improve the quality of life.

Value is the key. We need to be the best value-creating chemical company in the world. From helping surgeons heal their patients to improving the taste of ice cream, value is what we deliver. Around the world, we are working to be the best at applying chemistry for the benefit of everyone who has a stake in Dow. Because when our customers, employees, shareholders and society succeed, so do we. Everyone wins. Together.



A Shared Appetite for Growth

"Our suppliers should have a global presence and a large product range, in addition to controlling their raw material supplies and taking part in joint-development projects," says Anders Bergström, a purchasing executive at appliance manufacturer AB Electrolux.

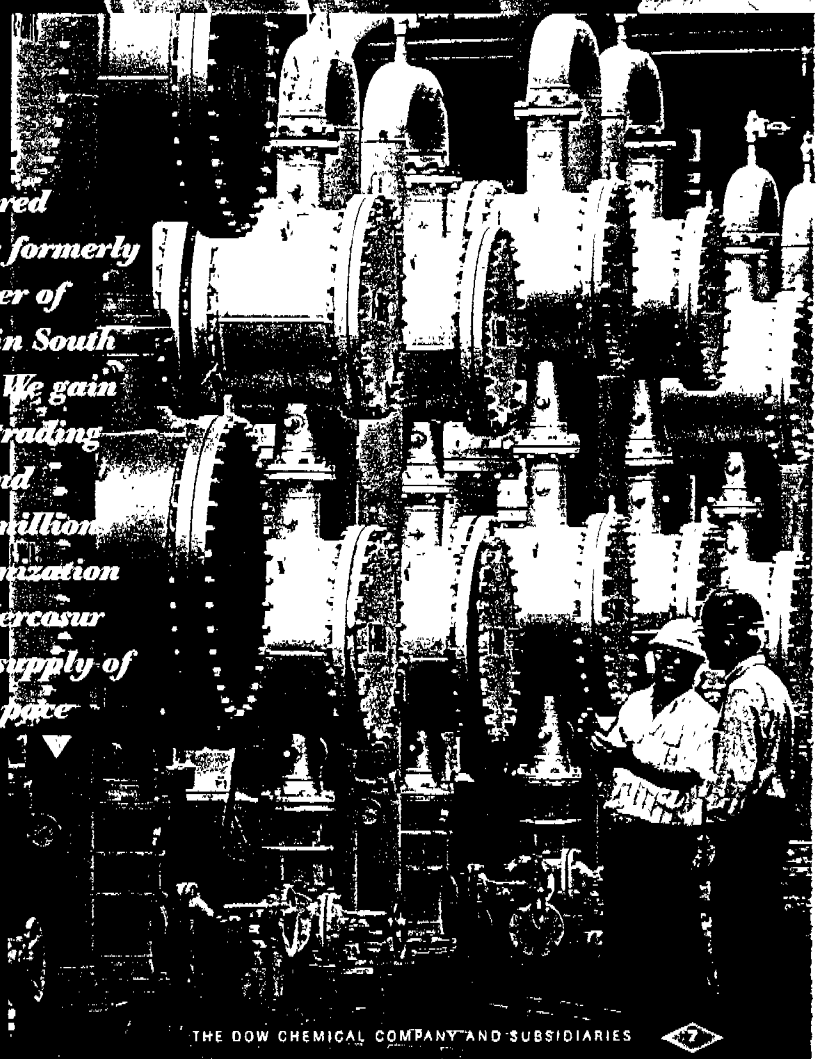
Dow has what it takes. In 1995, Dow became AB Electrolux's first global supplier. Dow supplies polyurethanes, thermoplastics and other materials to more than 25 production facilities in 15 countries. In addition, AB Electrolux gains Dow's technical expertise. For both AB Electrolux and Dow, this "win-win" relationship delivers supply accountability and lower operating cost. The g[illegible] relationship also helps us expand our presence in one of the largest end-use markets for plastics. Around the world, consumers find appliances tailored to meet their needs with improved performance.

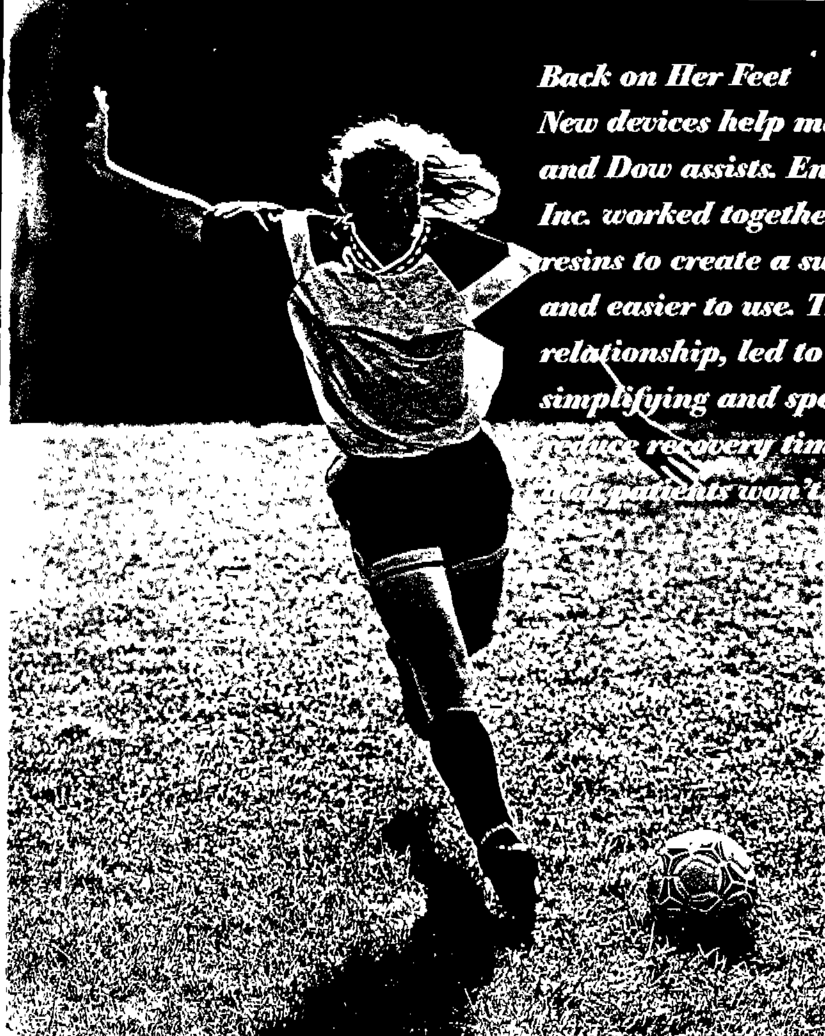
An Engine for Development

More than one-quarter of the world's people are striving to build their nations' economies — and Dow is there. Dow's activity in the Asia-Pacific geography is growing steadily. Dedicated business development groups are exploring opportunities for further growth and investment in this rapidly expanding market. Local manufacturers gain the materials they need to grow. We establish a strong presence in — and a better understanding of — a large and rapidly growing market.

A New Leader

In Argentina, a Dow-led consortium has acquired Petroquimica Bahia Blanca (PBB), which was formerly owned by the state. PBB is the leading producer of ethylene in Argentina and the only producer in South America to use low-cost natural gas feedstock. We gain a strong position in the four-nation Mercosur trading bloc formed by Brazil, Argentina, Paraguay and Uruguay that is populated by more than 200 million people. Argentina will benefit from the modernization and planned expansion of the PBB facility. Mercosur consumers will benefit from a stable, low-cost supply of ethylene — and polyethylene — that will keep pace with the market's increasing needs.





Back on Her Feet

New devices help make surgery easier for doctor and patient – and Dow assists. Engineers from Dow and Ethicon Endo-Surgery Inc. worked together to replace metal with Isoplast thermoplastic resins to create a surgical stapler that is lighter, less expensive and easier to use. The teamwork, part of a long-term supply relationship, led to a joint research paper on the project. By simplifying and speeding some procedures, the new stapler helps reduce recovery time, controls health care costs and makes sure that patients won't be sidelined for long by surgery.

New Recipes for Success

After more than 50 years on the market, Methocel cellulose ethers, which combine cellulose and Dow's polymer chemistry, are used more widely than ever. Part of the credit goes to a new team of specialists, who focus exclusively on serving customers in the food industry. Packaged food companies and restaurants gain an ingredient that improves the taste and texture of their foods. Consumers savor the benefits of better burritos, fresher-tasting donuts and lower-calorie sauces. Higher sales of Methocel and other specialty chemicals improve earnings as they create value throughout the business cycle.

Reaping the Benefits of Innovation

[illegible] DowElanco's intensive and focused research and [illegible] program produces a product that improves our lives. [illegible] DowElanco is awaiting registration from the Environmental Protection Agency for an entirely new class of crop protection products. Tracer naturalyte insect control, the first product in this new class of products, will offer excellent control of pests in cotton and other crops. Upon registration, growers will gain new pest management products that are even safer and more effective than those on the market today. The world will gain products it needs with less risk to human health and the environment.

The Fast Track to Higher Sales

With Dow's help, Hardcore DuPont Composites and Trinity Industries started the world's first commercial plastic box car on the right track. Constructed using a new fabrication technology, the car is built from Derakane epoxy vinyl ester resins and insulated with Trymer insulation. Built for Burlington Northern, the new car is one-third lighter than the steel car it replaces, can carry 20 percent more volume, requires less maintenance and provides improved insulation — significant cost-saving benefits for shippers. Dow gains a new high-volume application for our high-value products.

Corporate Profile

Dow is a diversified, worldwide manufacturer and supplier of chemicals, plastics, energy, agricultural products, consumer goods and environmental services.

Chemicals & Metals This segment includes a wide range of products that are used primarily as raw materials in the manufacture of customers' products. Dow is the largest manufacturer of chlorine and caustic soda in the world, with about twice as much capacity as the next largest producer. Some uses of chlorine include pharmaceuticals, water purification and the manufacture of plastics. Caustic soda is used in detergents, pulp and paper, petroleum refining and the manufacture of aluminum. Other important products include ethylene dichloride, ethylene glycol, ethylene oxide, magnesium, propylene glycol, propylene oxide and vinyl chloride monomer.

Performance Chemicals The products within these businesses include ingredients in many formulated products and processing aids, as well as end-use products. Specialty Chemicals includes products like Drytech superabsorbent polymers, used to produce thinner, more absorbent disposable diapers; Methocel multifunctional food gums, used in formulations when there is a need to replace fat, retain moisture and contribute pleasing texture; and Dowtherm fluids, used to control process temperature. The Emulsion Polymers business includes latex coatings and binders, which are used in the building and construction and the pulp and paper industries. Dow is the largest and most globally diverse of the styrene-butadiene latex suppliers and is the largest supplier of latex to the paper industry. DowElanco produces agricultural products like Broadstrike herbicides and Dursban and Lorsban insecticides, which are used in crop protection and production and for industrial pest control.

Plastics Dow ranks among the world leaders in plastics production, with uses in such industries as electronics, food service, health care, packaging and recreation. Dow is the leading producer of polyethylene, such as low-density polyethylene and Dowlex linear low-density polyethylene, and polystyrene, such as Styron polystyrene and Aim advanced styrenic resins. The PET (polyethylene terephthalate polyester) and polypropylene businesses will be included in this segment.

Performance Plastics Dow offers the broadest range of engineering thermoplastic and thermoset materials of any manufacturer. This segment consists of the following businesses: Polyurethanes; Epoxy Products & Intermediates; Engineering Plastics; Adhesives, Sealants & Coatings; Insite technology licensing; and Fabricated Products.

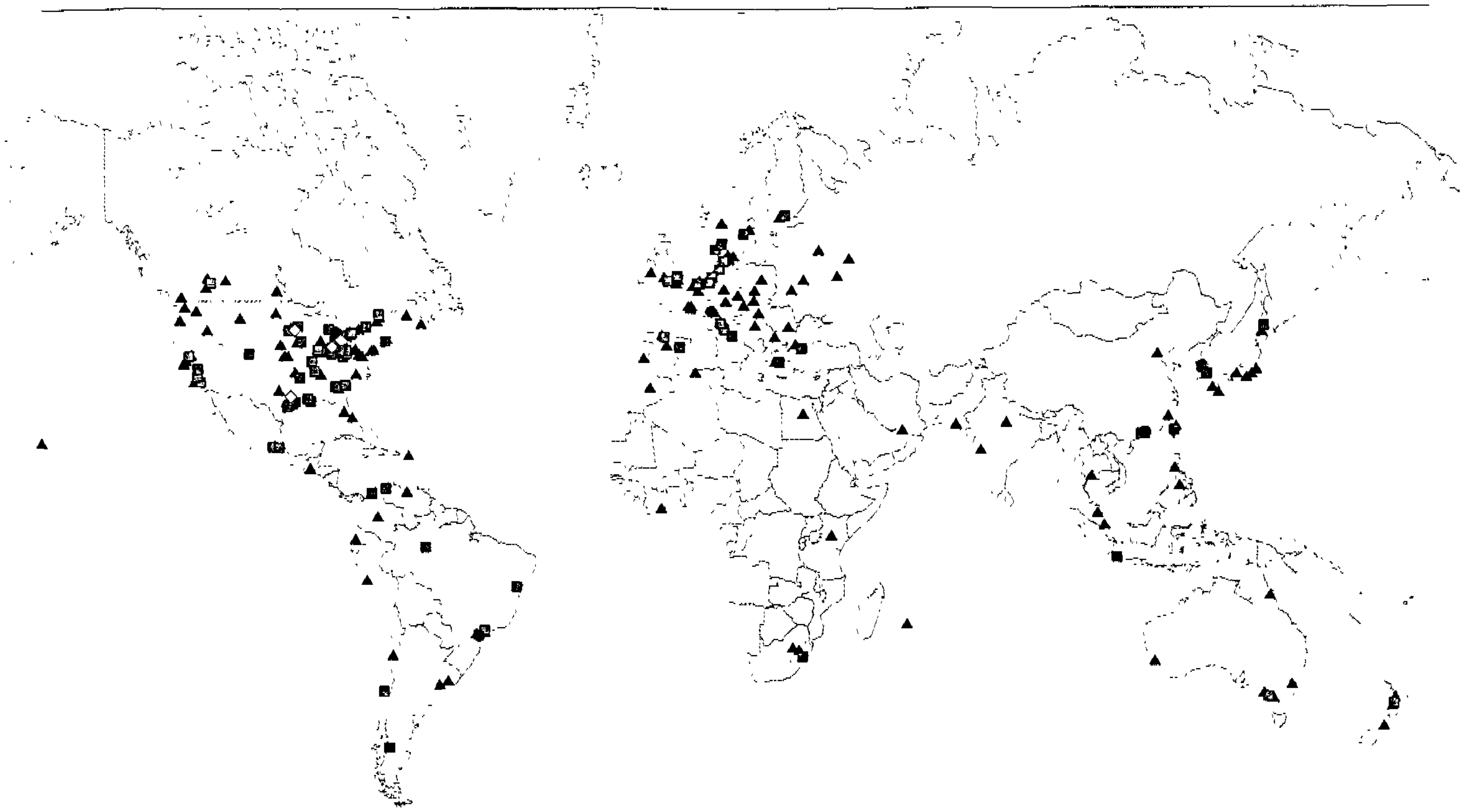
Polyurethane products, like Voranol polyether polyols and isocyanates, are used by such industries as automotive, furniture, and building and construction. Dow is the leading producer of allyl chloride and epichlorohydrin globally, which are basic products for the epoxy product chain. Dow's epoxy products and intermediates are used in a variety of applications, including the protective coatings, electronics and personal care industries. Engineering Plastics, like Calibre polycarbonate resins, Magnum ABS resins and Pulse engineering resins, serve such industries as appliances, automotive and electronics. The Adhesives, Sealants & Coatings business manufactures products like Betaseal window adhesives. Insite technology enables Dow and Dow's customers to produce a range of plastics that perform better and are easier to process. Styrofoam brand plastic foam, used in the building and construction industry, is the key product for the Fabricated Products business.

Hydrocarbons & Energy Dow is the world leader in olefins and styrene production. This segment encompasses procurement of fuels and crude oil-based raw materials as well as the production of olefins, aromatics, styrene and cogenerated power and steam for use in the company's operations. Destec Energy, Inc., a Dow subsidiary, is one of the larger independent power producers in the world. It develops independent power projects and sells electrical and thermal energy.

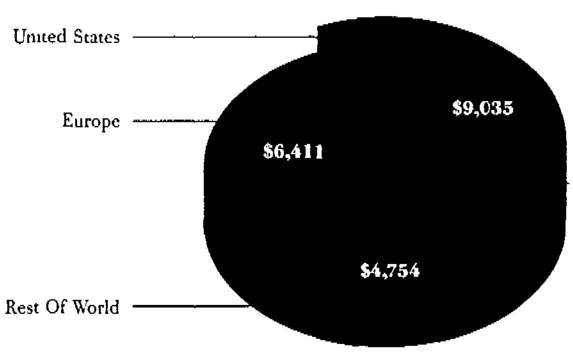
Diversified Businesses & Unallocated Diversified Businesses includes DowBrands, Radian International LLC, New Businesses, and Insurance & Finance. DowBrands produces household products such as Dow bathroom cleaner with Scrubbing Bubbles, Fantastik all-purpose cleaner, Glass Plus multi-surface cleaner, Saran Wrap plastic film and Ziploc plastic bags. Radian International LLC is a joint venture formed in January 1996 between Dow Environmental Inc. and Radian Corporation that will provide environmental, information technology and strategic chemical management services to industry and government. New Businesses consists of advanced electronic materials like Cyclotene advanced electronic resins, used for dielectric coatings, and aluminum nitride ceramic powder, used for thermal management of electronic device packaging; advanced structural materials such as tungsten carbide-based powders; technology licensing; catalysts and new developments. Insurance & Finance includes Dorinco Reinsurance Company, a wholly owned subsidiary of Dow, and all other Dow financial companies and holdings. Unallocated includes activities and overhead cost variances not allocated to other segments.

The Dow Chemical Company

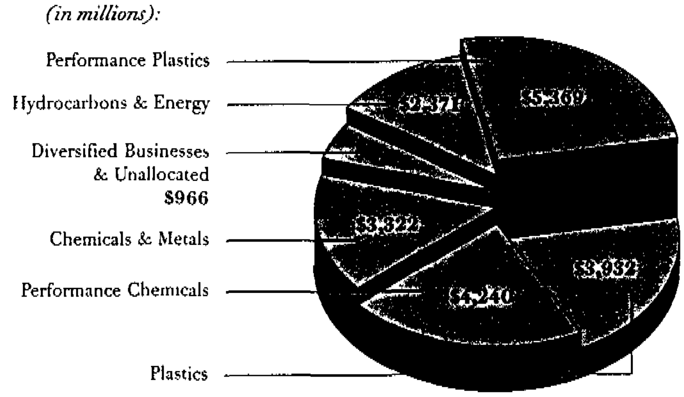
- Manufacturing Sites (94)
- Sales Offices/Service Centers (188)
- Principal Subsidiaries or Affiliates
- Area Headquarters



1995 Sales By Geographic Areas
(in millions):



1995 Sales By Industry Segments
(in millions):



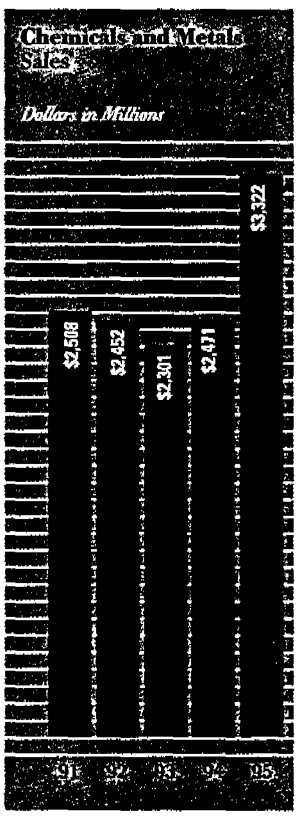
Management's Discussion and Analysis of Financial Condition and Results of Operations

- The company's consolidated statements of income and cash flows for 1994 and 1993 have been restated to present Dow's pharmaceutical businesses as discontinued operations due to their sale in the second quarter of 1995.
- To improve stockholders' ability to evaluate Dow's performance, external industry segments have been revised to reflect the company's reorganization around 15 global businesses. All segment information for 1994 and 1993 has been restated to align with the new reporting segments.
- The discussions in this annual report contain both historical information and forward-looking statements. The forward-looking statements involve risks and uncertainties that affect the company's operations, markets, products, services, prices and other factors as discussed in the company's filings with the Securities and Exchange Commission. These risks and uncertainties include, but are not limited to, economic, competitive, governmental and technological factors.

Results of Operations

Net sales for 1995 of $20.2 billion increased 21 percent from $16.7 billion in 1994 and 34 percent from $15.1 billion in 1993. Improved economic conditions globally led to higher selling prices and an increase in volume, as illustrated in the Sales Price and Volume table on Page 18. All geographic areas and all industry segments had higher sales versus 1994 with Europe showing particularly strong growth of 33 percent. Selling prices increased 17 percent versus 1994 and were up across all geographic areas and segments. Volume increased 4 percent versus 1994 with the gains occurring outside the United States. Sales in the United States accounted for 45 percent of the total sales in 1995, 48 percent in 1994 and 50 percent in 1993. Sales and other data by industry segment and geographic area are provided in Note S to the Financial Statements.

Operating income more than doubled from $1.8 billion in 1994 to $3.9 billion in 1995 due to the stronger selling prices and a moderate volume increase. Operating income for 1993 was $1.1 billion.



CHEMICALS AND METALS

Chemicals and Metals had a 34 percent gain in sales in 1995 compared to 1994, reporting $3.3 billion in sales versus $2.5 billion. The sales gain in 1995 represented a 1 percent increase in volume and a 33 percent increase in price versus 1994. In 1993, sales were $2.3 billion.

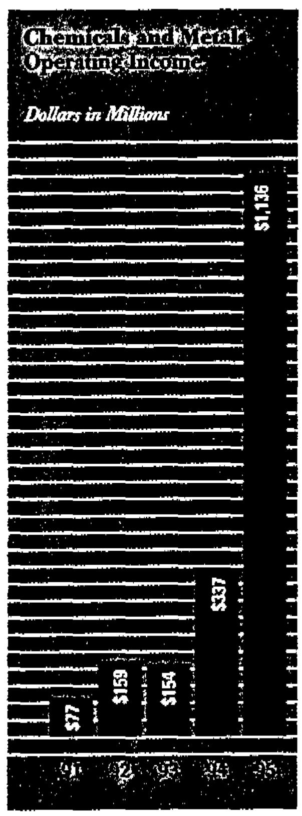
Operating income rose 237 percent to $1.1 billion from $337 million in 1994. Operating income in 1993 was $154 million.

During 1995, caustic soda prices recovered, more than doubling from 1994 levels, as sales contracts were renewed at higher prices. Vinyl chloride monomer (VCM) saw significant price gains in the first half of the year. After mid-year, however, VCM prices weakened due to the impact of inventory correction, particularly in the U.S. and western Europe.

During the year, Dow announced a number of capacity expansions in its Chemicals and Metals business. In order to supply growing internal derivative demands, the company plans to add 750 million pounds of chlor-alkali capacity over the next two years with expansions at its Freeport, Texas, and Stade, Germany, manufacturing sites.

To keep pace with the long-term growth in the global polyvinyl chloride market, Dow intends to bring an additional 350 million pounds of VCM capacity on line at its Fort Saskatchewan, Alberta, manufacturing site by 1997. The company also plans to expand capacity further on the U.S. Gulf Coast.

As a result of continued growth in the propylene oxide and derivatives market, especially polyurethanes, Dow plans to add 500 million pounds of capacity by the end of 1998, with capacity coming on line as driven by demand. This capacity increase is in addition to the 500 million pounds of propylene oxide capacity Dow previously announced it would add at its manufacturing sites in Texas, Louisiana, Germany and Brazil by the end of 1996.



In the spring of 1996, Dow will start up new technology at its Texas facility to manage by-products of the propylene oxide manufacturing process. The technology will recover raw materials in the waste stream, which will result in lower waste management costs.

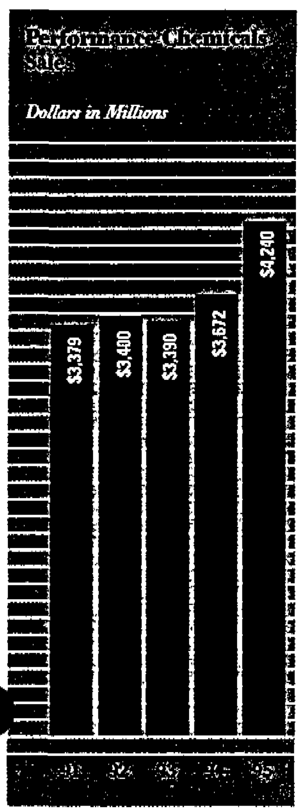
Chlorinated organics started up a new plant in Stade, Germany, to convert perchloroethylene to trichlorethylene in order to meet the growing demand for that product. At year-end, Dow exited the methyl chloroform business, following guidelines established by the Montreal Protocol. This exit did not have a material impact on the Chemicals and Metals segment.

A new cogeneration facility, constructed and partially owned by Destec Energy, Inc., is now supplying the steam and power requirements for Dow's cal/mag business in Ludington, Michigan. The facility will be a key factor in the future competitiveness of the business as it lowers manufacturing costs.

Outlook for Chemicals and Metals

In 1996, it is expected that prices for ethylene dichloride and VCM will rise from the low base of the fourth quarter of 1995. This, coupled with anticipated stable pricing for caustic soda, magnesium, propylene oxide and many of the chlorinated organics, should result in a favorable pricing environment for Chemicals and Metals in 1996.

In the first two quarters of 1996, Chemicals and Metals volume is expected to remain flat with the second half of 1995, consistent with the global market cycle for these products. Volume is expected to rise in the last half of the year.



PERFORMANCE CHEMICALS

Sales for Performance Chemicals were up 15 percent in 1995 compared to the previous year and up 25 percent versus 1993. Sales were $4.2 billion, $3.7 billion, and $3.4 billion for 1995, 1994 and 1993, respectively. Volume gains of 9 percent and price increases of 6 percent contributed to higher sales in 1995 versus 1994.

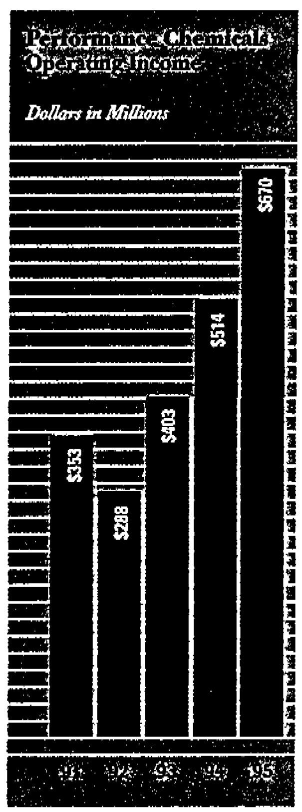
Operating income was $670 million, up 30 percent from $514 million in 1994. In 1993, operating income was $403 million.

During the year, emulsion polymers experienced higher sales and profits as a result of favorable styrene pricing and growing demand in the U.S. and Europe. Toward the end of the year, a weakening in demand in the pulp and paper industry led to some price softening, which is expected to continue into 1996.

To meet growing demand in the emerging markets of southeast Asia and the Middle East, Dow brought on line about 50 million pounds of latex capacity in Indonesia and Saudi Arabia. The company divested its latex interests in Sumitomo Dow Limited as part of a restructuring of that joint venture.

Dow's Specialty Chemicals business had a very strong year with many products setting new global records for sales and volume. GAS/SPEC solvents and services set its third consecutive record for sales and profitability as the result of solid price and demand. Polyglycols, Ethocel ethylcellulose resins, Versene chelants, Methocel cellulose ethers, oxygenated solvents, Dowfax surfactants, and diphenyl oxide (DPO) all achieved record profits.

Dow added polyglycol capacity in Europe and butylene oxide capacity in North America to meet growing global demand for these products. New DPO production technology is being installed in Texas, allowing phenol to be integrated as a raw material. This technology will be brought on line in the first half of 1996 and will replace an older unit in Michigan, which will be shut down.



Volume growth for liquid separations was strong during the year, but prices softened. As part of a global restructuring of its liquid membranes business, the company is closing a manufacturing unit in Nakskov, Denmark.

Drytech superabsorbents saw substantial price weakening in 1995 as a result of new capacity added to the industry.

In 1995, Dow sold its aspirin business and Generon Systems as the company made strategic shifts in its business portfolio to focus its resources on core businesses. None of the divestitures undertaken during the year will have a material impact on the Performance Chemicals segment.

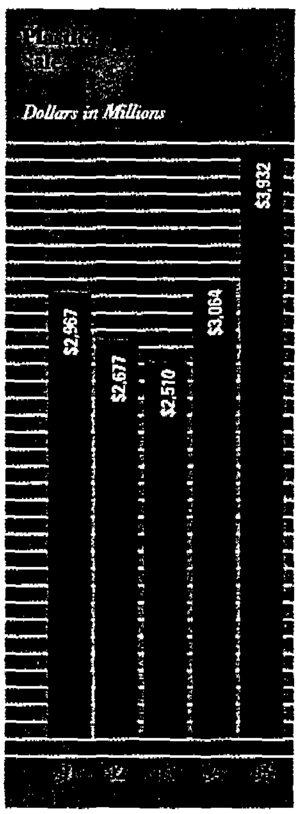
Dow had record sales of agricultural products through DowElanco, which is a global joint venture between Dow and Eli Lilly, with Dow holding a 60 percent share. The record sales and profits were due to price increases of 4 percent and volume gains of 9 percent. Strong growth in demand in the Pacific and higher sales in Europe, driven by improved conditions in the cereal grain market, contributed to the record performance.

In 1995, DowElanco introduced the Sentricon termite colony elimination system. Sentricon uses new technology to eliminate entire colonies of termites. DowElanco expects U.S. registration in late 1996 for a new line of Naturalyte insecticides based on fermentation technology, initially targeted at the cotton and vegetable markets.

DowElanco announced in January 1996 that it would form a strategic alliance with Mycogen Corporation, a diversified agricultural biotechnology company. This new alliance will increase the company's participation in this exciting new technology.

Outlook for Performance Chemicals

The Performance Chemicals segment is expected to experience another good year in 1996 based on the strength of demand and pricing for many of the specialty chemicals. Prices for emulsion polymers are expected to soften in 1996. DowElanco sees opportunities for continued growth in 1996, especially in Europe and the Pacific.



PLASTICS

Plastics reported sales of $3.9 billion in 1995, an increase of 28 percent versus the previous year. Sales were $3.1 billion in 1994 and $2.5 billion in 1993. Prices rose 29 percent, compared to 1994, while volume declined 1 percent.

Operating income rose 178 percent to $1.5 billion, versus $531 million in 1994. Operating income in 1993 was $89 million.

Plastics had a record 1995, with solid price and volume increases in the first half of the year resulting in record sales in the first and second quarters. In the third quarter, demand weakened as the result of inventory correction in the U.S. and Europe and actions taken by China to cut off imports of plastics.

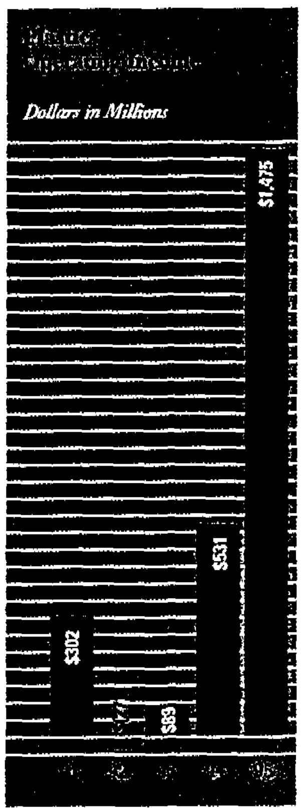
Polyethylene experienced record sales and profits in 1995 on the strength of increased prices, notably in the first half of the year.

Polystyrene had another outstanding year. Results were driven by significant price increases supported by increased industry pricing for styrene monomer. Dow was also able to retain the significant volume increases achieved in 1994.

Dow's polystyrene business added the equivalent of two world scale plants in 1995: a joint venture with Siam Cement resulted in a new 200 million pound grassroots plant in Map Ta Phut, Thailand, and proprietary manufacturing technology yielded an additional 165 million pounds around the world.

During the year, a number of significant acquisitions were undertaken in the pursuit of value-growth opportunities.

The company received European Union approval for the acquisition of three formerly state-owned chemical companies in eastern Germany (BSL). As part of this acquisition, Dow plans to build a linear low density polyethylene plant, as well as upgrade an existing low density polyethylene plant.



During 1995, the company announced its intention to enter the polypropylene and purified terephthalic acid (PTA)/polyethylene terephthalate (PET) markets. Dow plans to construct a polypropylene unit at BSL to come on line in 1998. In January 1996, Dow acquired EniChem's INCA International SpA, providing the company with PTA/PET production capability.

The company also led a consortium that acquired Petroquimica Bahia Blanca (PBB) in Argentina, giving the company a strong polyolefins position in the important four-nation Mercosur trading bloc of Argentina, Brazil, Paraguay and Uruguay.

Outlook for Plastics

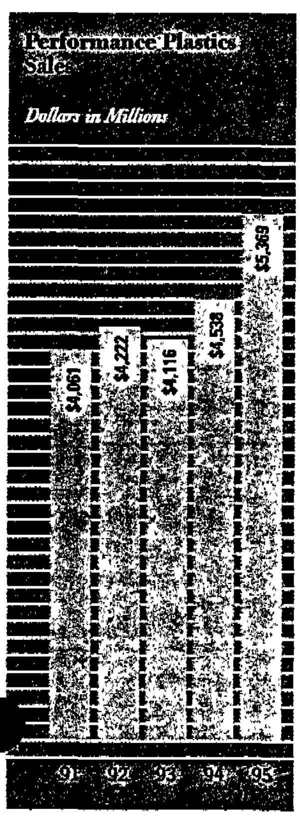
During the first half of 1996, the Plastics segment is expected to see greater pricing stability and a modest increase in demand. During the second half of the year, pricing is expected to trend upward as demand again approximates supply in large volume plastics markets.

PERFORMANCE PLASTICS

Sales for Performance Plastics were $5.4 billion in 1995, an increase of 18 percent versus $4.5 billion in 1994. In 1993, sales were $4.1 billion. Increases of 13 percent in price and 5 percent in volume contributed to the sales gains in 1995 versus 1994.

Operating income rose 73 percent to a record $1.1 billion in 1995. Operating income was $611 million and $304 million for 1994 and 1993, respectively.

In 1995, polyurethanes and epoxies had record sales and profitability. Prices for these products increased steadily during the year, showing less quarter-to-quarter volatility than the Plastics segment. Engineering thermoplastics (ETPs) sales increased versus a year ago as higher prices offset lower demand from the auto industry.



Dow divested its ABS interests in Sumitomo Dow, leaving the joint venture to focus on polycarbonate applications. In the first half of the year, Sumitomo Dow added 50 million pounds of additional polycarbonate capacity to meet the demands of the small appliance, computer and automotive markets. The ABS divestiture will not have a material impact on the Performance Plastics segment.

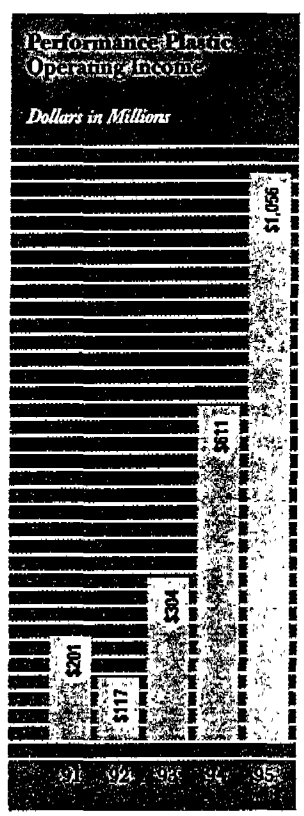
Lower manufacturing costs and reduced expenses contributed to record profitability for Fabricated Products. Prices were up slightly and volume held steady with growth in Europe offsetting a modest volume decline in the U.S. A new production facility for Styrofoam brand products was brought on line mid-year in Turkey to supply the European market.

The global commercialization of Insite technology continues. Sales of polymers produced via Insite technology are exceeding expectations. These product families are gaining rapid acceptance by customers globally because of their unique functionality and cost performance. To meet growing demand, Dow has converted two production units in Texas to produce polymers based on Insite technology and has announced that another conversion will take place at its operations in Spain, with an expected start-up date of April 1996.

Outlook for Performance Plastics

Demand is expected to continue to grow for Performance Plastics, although at a slightly lower rate than in 1995. Prices are expected to increase modestly.

DuPont Dow Elastomers L.L.C., a planned 50-50 joint venture between Dow and DuPont which will produce a broad portfolio of general purpose and specialty elastomers, announced the formation of a leadership team for the new company in September 1995. The official start-up of the enterprise is planned in the first quarter of 1996. 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. This growth will be led by application development programs for Insite technology.



HYDROCARBONS AND ENERGY

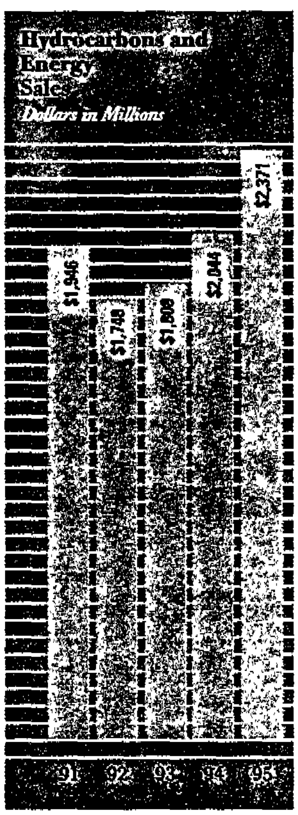
Hydrocarbons and Energy reported sales of $2.4 billion in 1995, up 16 percent from $2 billion in 1994 and 31 percent compared to $1.8 billion in 1993. This segment saw price gains of 9 percent and volume gains of 7 percent compared to the previous year.

Hydrocarbons and Energy reported an operating loss of $83 million, compared to operating income of $74 million in 1994 and $46 million in 1993.

Operating rates in the industry were high during the first half of the year due to strong derivatives demand, coupled with the need to rebuild ethylene inventories that were critically low at the end of 1994. As a result, incremental capacity expansions were brought on line within the industry. In the second half of the year, there was a slowdown in ethylene demand as derivatives were in a destocking mode. This led to lower operating rates and price decreases that bottomed at the end of the year.

Ethylene and styrene production for Dow continued at high operating rates that were above the industry average.

Overall, yearly average unit feedstock costs for Hydrocarbons and Energy were up 8 percent in 1995 compared to the previous year, in line with crude oil increases for liquid feedstocks, although energy and light feedstocks were down about 3 percent. In December 1994, an ethylene plant in Texas, with an annual capacity of 1.5 billion pounds, was brought on line, and the associated aromatics integration was successfully completed. Preliminary engineering work was undertaken for a staged expansion of the ethylene cracker in Alberta, Canada. The initial phase of the expansion is expected to be completed by mid-1998, and will increase plant capability to between 1.8 and 2 billion pounds. Future expansion will occur as ethylene is required to meet demand. Capacity is planned ultimately to be increased to 2.3 billion pounds per year.



The acquisition of Petroquimica Bahia Blanca (PBB) gives Dow access to ethane-based ethylene in Argentina. PBB currently has a production capacity of 539 million pounds of ethylene per year. It is the only regional producer using ethane as its principal raw material, providing a cost advantage to the company.

A cogeneration project for the Terneuzen site was approved and is due to start up in 1997. The new cogeneration plant, which will replace less efficient facilities, will be built by Destec Energy Inc., under a joint venture with local utility companies.

Independent power producer Destec Energy, Inc., a publicly traded Dow subsidiary (77 percent owned), reported revenues for 1995 of $641 million, compared with $727 million in 1994 and $674 million in 1993.

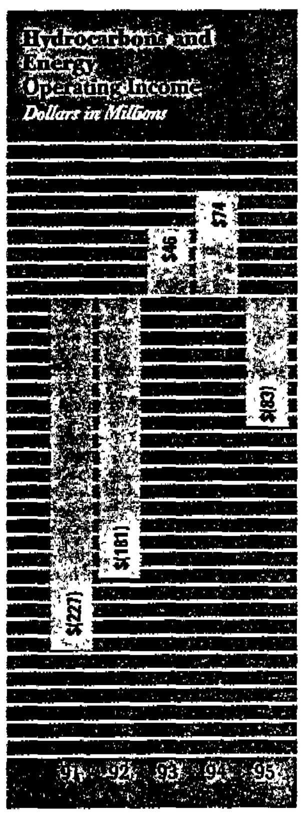
Operating results were down substantially, reflecting the losses experienced by its Texas cogeneration facilities following the expiration of major utility power sales contracts in 1995 and 1994. In 1995, Destec placed some of its available Texas capacity and will place additional amounts in 1996.

Destec has increased activity in international markets with the announcement of power project developments in England and Taiwan, which were added to an international portfolio of developing projects that includes Canada and the Netherlands. Destec acquired interests in a fifth international project in the Dominican Republic, and the Crockett cogeneration project near San Francisco. Destec also successfully completed and started up the Wabash River Coal Gasification Repowering Project in Terre Haute, Indiana.

In 1995, Destec put the equivalent of 768 megawatts of new generating capacity into operation. At year-end, Destec had seven projects in construction or advanced development, representing additional capacity of more than 1,700 megawatts.

Outlook for Hydrocarbons and Energy

As derivative demand trends upward in 1996, ethylene operati rates are expected to increase, leading to a stronger market in the second half of the year. No major expansions are being added in 1996.



Dow's joint venture styrene plant with Siam Cement in Thailand is expected to be brought on line at the end of the year to capture growth in southeast Asia countries.

In 1996, Destec plans to pursue aggressively additional opportunities to place its available Texas power. With regard to international markets, Destec plans to continue to proceed toward finalization of its power purchase agreement for the Taiwan project, finance the project in the Netherlands, and finance and begin operations of the projects in the United Kingdom and the Dominican Republic. Destec also plans to begin operations of its project in Ontario, Canada, in late 1996.

DIVERSIFIED BUSINESSES AND UNALLOCATED

The operating results of DowBrands, New Businesses, including Dow Environmental Inc., and consolidated insurance and finance subsidiaries are grouped in this segment together with activities and overhead cost variances not allocated to other segments.

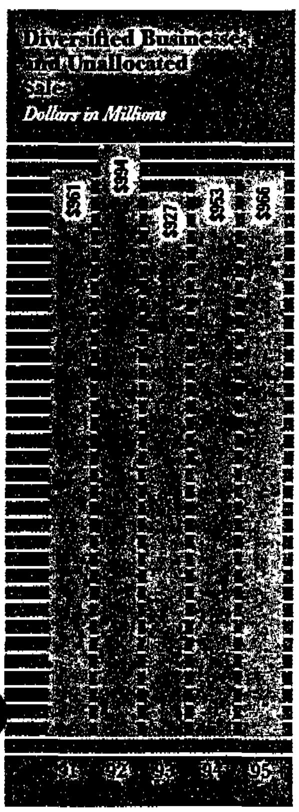
Sales for this segment were $966 million, $953 million and $927 million, in 1995, 1994 and 1993, respectively.

This segment reported an operating loss of $363 million in 1995, versus an operating loss of $247 million in 1994. In 1993, this segment had an operating income of $78 million.

DowBrands, Dow's consumer products affiliate, had sales of $866 million, up from $845 million in 1994 and $846 in 1993.

DowBrands restructured its organization in the third quarter, reducing the U.S. workforce by 4 percent and lowering administrative costs. The sale of the Personal Care Business was completed in November.

The Home Food Management value center had a strong year with sales in North America up 11 percent versus the prior year. Ziploc brand bags had record sales despite new competition introduced in the U.S. early in 1995. Sales in the rest of the world were down 2 percent. In early 1996, a letter of intent was signed between DowBrands Europe and The Melitta Group of Germany to form a joint venture that combines both food care businesses in the European area.

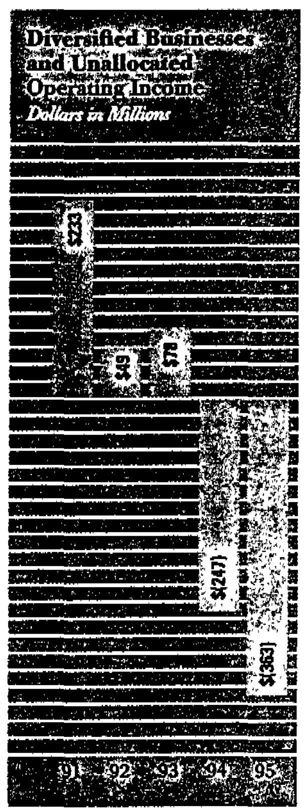


Sales for the Home Care value center remained flat. Volume growth for Dow bathroom cleaner with Scrubbing Bubbles, Spray'N Wash tough stain remover and Smart Cleanser soft scouring cleanser, which earned a 21 percent market share after its first full year on the market, was offset by declines in laundry products.

The New Businesses unit performs research aimed at developing new high-value products. New product development has been targeted on two key market segments: advanced structural materials and advanced electronic materials. These businesses represent significant value-growth opportunities that would allow Dow to leverage its existing strength in polymer chemistry. Dow's goal is to have all these research and development projects cash neutral in the fifth year of development. To achieve this goal, the company has set strict project milestones.

In 1995, Dow ended its collaboration with Ballard Power Systems Inc. to develop fuel cell technology, sold its Advanced Cleaning Systems business, and announced it would sell Boride Products Inc., as the company worked to focus its resources on high-value businesses. These divestitures will not have a material impact on the company.

The primary components of the 1995 operating loss in this segment were severance costs of $181 million, research and other expenses of $109 million related to new developmental activities in New Businesses, and overhead cost variances not allocated to other segments of $119 million. These costs were partially offset by pretax income from the insurance and finance company operations of $61 million. The 1994 operating loss was related to severance costs of $124 million, activities in New Businesses of $91 million, and asset write-offs and provisions for environmental remediation of $38 million not assigned to Dow's other industry segments. These costs were partially offset by pretax income from the insurance and finance company operations of $40 million. The 1993 operating income of this segment 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 New Businesses of $70 million.



Outlook for Diversified Businesses

In January 1996, Dow Environmental Inc. formed a joint venture with the Radian subsidiary of The Hartford Steam Boiler Inspection and Insurance Company to provide environmental, information technology, and strategic chemical management services. The joint venture, named Radian International LLC, is expected to have sales of nearly $400 million in 1996.

Overall performance for DowBrands is expected to improve, in part through the introduction of several product improvements and line extensions. Manufacturing costs are expected to decrease with the improved productivity at the Urbana, Ohio, facility and the closing of the Mauldin, South Carolina, plant.

COMPANY SUMMARY

Operating Income

Operating income was $3.9 billion in 1995, up 114 percent from $1.8 billion in 1994 and 263 percent from $1.1 billion in 1993. Gross margin improved by $2.3 billion versus 1994, primarily as a result of higher selling prices.

The ratio of operating income to sales was 19 percent in 1995, versus 11 percent in 1994 and 7 percent in 1993. Sales price increases across all segments and volume increases in Performance Chemicals and Performance Plastics led to the improved 1995 results. Operating income substantially improved in most segments. Prices began to show noticeable improvement in the latter half of 1994 and this continued until late 1995. The United States contributed 41 percent of the total operating income in 1995 compared to 56 percent in 1994 and 74 percent in 1993. The United States portion of the total decreased as a result of operating income improvements in Europe and the rest of the world. Operating income in Europe was $1.1 billion in 1995 versus $237 million in 1994 and a $23 million loss in 1993. Operating income from Rest of World showed continued improvement, increasing to $1.2 billion in 1995 from $559 million in 1994 and $302 million in 1993.

Operating Costs and Expenses

Cost Components as a Percent of Total	*1995*	*1994 Restated*	*1993 Resta[illegible]*
Hydrocarbons and energy	25%	26%	25%
Wages, salaries and employee benefits	21	22	25
Maintenance	5	6	7
Depreciation	8	8	9
Supplies, services and other raw materials	41	38	34
Total	100%	100%	100%

Dow's global plant operating rates for its chemicals and plastics businesses were 92 percent of capacity in 1995 and 1994 and 85 percent in 1993. The 1995 sales volume growth of 4 percent over 1994 was primarily achieved by new capacity while the 1994 growth of 8 percent over 1993 was primarily achieved by higher plant operating rates. Depreciation expense was $1.4 billion in 1995, $1.2 billion in 1994 and $1.3 billion in 1993.

Research and development, promotion and advertising, and selling and administrative expenses increased by $207 million or 7 percent compared to 1994.

Research and development expenses were $808 million for 1995, up 3 percent compared to 1994 while 1994 was flat compared to 1993.

Promotion and advertising expenses of $416 million were flat against $411 million in 1994; 1993 costs were $367 million.

Selling and administrative expenses for 1995 were $1.8 billion, up 11 percent from $1.6 billion in 1994 which was up 7 percent from $1.5 billion in 1993. The increase in 1995 was primarily the result of variable compensation accruals based on improved company earnings and the negative impact of exchange rate changes on expenses incurred outside the U.S. Selling and administrative expenses represented 9 percent of sales in 1995 and 10 percent in 1994 and 1993.

Sales Price and Volume

	1995			*1994*			*1993*		
Percentage changes from prior year	*Price*	*Volume*	*Total*	*Price*	*Volume*	*Total*	*Price*	*Volume*	*Total*
Geographic Areas:									
United States	12%	–	12%	1%	7%	8%	–	3%	3%
Europe	25	8%	33	4	8	12	(12)%	(2)	(14)
Rest of World	16	8	24	3	15	18	(3)	4	1
All Areas	17	4	21	3	8	11	(5)	2	(3)
Industry Segments:									
Chemicals and Metals	33%	1%	34%	4%	3%	7%	(6)%	–	(6)%
Performance Chemicals	6	9	15	(1)	9	8	(2)	2%	–
Plastics	29	(1)	28	12	10	22	(8)	2	(6)
Performance Plastics	13	5	18	(1)	11	10	(4)	2	(2)
Hydrocarbons and Energy	9	7	16	6	7	13	(6)	9	
Diversified Businesses and Unallocated	–	1	1	(2)	5	3	2	(9)	
All Segments	17	4	21	3	8	11	(5)	2	(3)

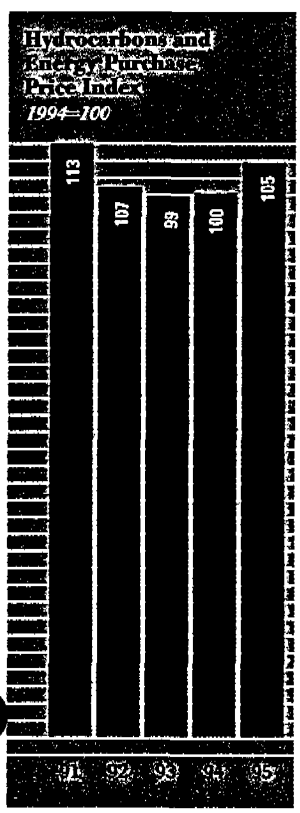
The personnel count at December 31, 1995 was 39,537 versus 53,730 at the end of 1994, 55,436 at the end of 1993 and 61,353 at the end of 1992. Excluding the discontinued pharmaceutical businesses, the personnel count has been reduced by 21 percent over the last three years. This reduction in personnel reflects continuing rationalization and work process improvements throughout the company.

Net Income

Net income available for common stockholders in 1995 was $2.1 billion or $7.72 per share, an increase of 122 percent compared to net income of $931 million or $3.37 per share in 1994. The increase is primarily attributable to increased sales prices. The increase of 46 percent in 1994, compared to 1993 net income of $637 million or $2.33 per share, was primarily due to stronger operating results.

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

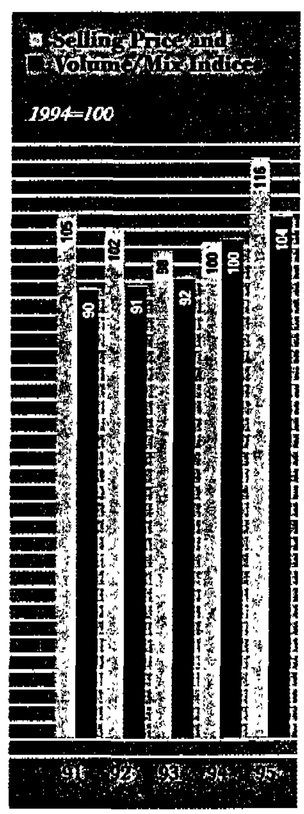
	1995	*1994 Restated*	*1993 Restated*
Impact of Dow Corning Corporation breast implant charges	–	$ (.25)	$ (.70)
Net gain (loss) on investments	$(1.24)	(.26)	1.31
Discontinued operations	.69	.60	.26
Other earnings	8.27	3.28	1.46
Net earnings per common share	$ 7.72	$3.37	$2.33



Dow's share of the earnings of 20%-50% owned companies amounted to $70 million compared to $29 million in 1994 and a loss of $127 million in 1993. The major impact on this was from Dow Corning Corporation in which the company is a 50 percent shareholder. Excluding Dow Corning, Dow's shares of 20%-50% company earnings were $44 million, $26 million and $16 million for 1995, 1994 and 1993, respectively. Dow Corning reported net losses of $7 million in 1994 and $287 million in 1993. In 1995 the company did not record its share of equity earnings in Dow Corning after the first quarter due to Dow Corning's filing for protection under Chapter 11 and the company's write-down of its investment as discussed below. 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 these 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.

Interest expense (including capitalized interest) and amortization of debt discount increased $72 million to $434 million in 1995, up 20 percent from $362 million in 1994 and up 5 percent from $413 million in 1993. The apparent increase in 1995 was primarily due to the apportionment of interest to discontinued operations in the restatement of 1994 results (see Note C to the Financial Statements).

Interest income and foreign exchange-net improved $191 million to $289 million in 1995 versus $98 million in 1994. The gain was primarily attributable to the investment of the cash received from the sale of the pharmaceutical businesses. 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.

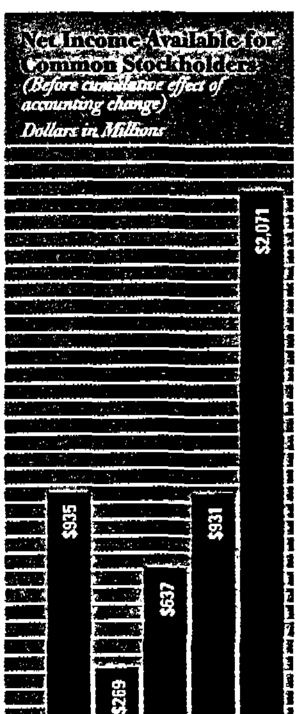


The loss on investments of $330 million in 1995 was due to the company's write-down of its investment in Dow Corning as a result of Dow Corning's decision to file for Chapter 11 (see Note Q to the Financial Statements). In 1994, Dow recorded a loss on investments of $42 million. The loss was due to a $132 million pretax charge 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 the sale of 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. Acquisitions and divestitures are discussed in Note C to the Financial Statements.

The provision for taxes on income was $1.4 billion in 1995 versus $654 million in 1994 and $514 million in 1993. Dow's overall effective tax rate for 1995 was 40.9 percent versus 40.2 percent for 1994 and 40.9 percent for 1993. 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 1995 was $196 million compared to $200 million in 1994 and $171 million in 1993. The 1994 increase reflected the improved profitability of DowElanco, which is 60 percent owned, as well as the full-year impact of certain limited partnerships (see Note K to the Financial Statements).

Discontinued operations accounted for an after tax gain of $187 million in 1995, $169 million of which resulted from the sale of Dow's shares of Marion Merrell Dow to Hoechst A.G. for $5.1 billion and the sale of the company's Latin American pharmaceutical businesses to Roussel Uclaf S.A. for $133 million in the second quarter 1995. A further $18 million income after tax was earned from the operations of the pharmaceutical businesses in the first quarter 1995. Provision for taxes was $418 million, $382 million on the sale and $36 million from operations. The income, net of taxes, from operations in 1994 and 1993 was $166 million and $71 million with provision for taxes of $125 million and $92 million, respectively (see Note C to the Financial Statements).



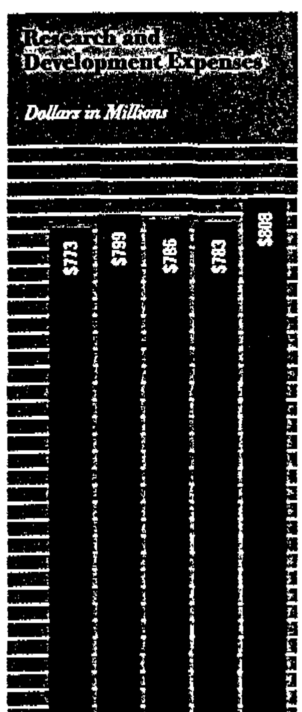
Dividends

The Board of Directors has announced a quarterly dividend of 75 cents per share, payable April 30, 1996, to stockholders of record on March 29, 1996. This will be the 337th consecutive quarterly dividend since 1912. Dow has maintained or increased the dividend throughout that time. In 1995, the company increased declared dividends to $2.90 per common share from $2.60 in 1994 and 1993.

Environment

Dow's global operations 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. Dow's Environmental Management Standard clearly defines the overall environmental management system, performance objectives and design requirements needed to minimize the long term cost of environmental protection as well as to comply with these laws and regulations. This standard was reviewed, revised and re-communicated throughout the organization in 1995. It is Dow's stated policy that all global operations and products meet Dow's Environmental Management Standard or their country's laws and regulations, whichever is more stringent. Assessments are used by management to measure continually and report Dow's progress against this standard and its performance objectives.

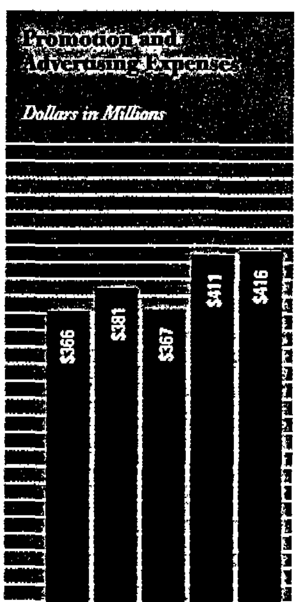
It has been Dow's policy to adhere to a waste management hierarchy that minimizes the impact of wastes and emissions on the environment. First, Dow works to eliminate or minimize



the generation of waste and emissions at the source through research, process design, plant operations and maintenance. Second, Dow finds ways to reuse and recycle materials. Finally, unusable or non-recyclable hazardous waste is treated before disposal to eliminate or reduce the hazardous nature and volume of the waste. Treatment may include destruction by chemical, physical, biological or thermal (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.

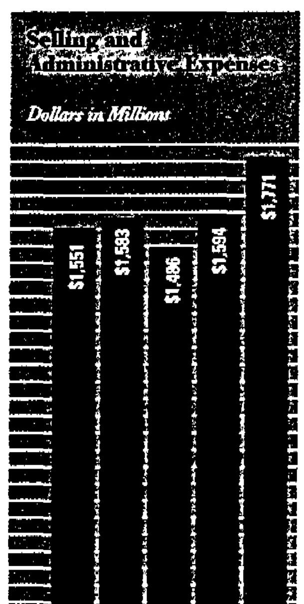
Dow's policy of treating its wastes on-site has resulted in less than 10 percent of its total environmental liability being directed at remediation under federal or state "Superfund" statutes. Dow's focused approach to waste and emission reduction resulted in achieving its public commitment to reduce global emissions of 17 priority compounds (as defined by the U.S. Environmental Protection Agency's 33/50 program) and emissions of an expanded list of compounds (defined by each geographic area) by 50 percent by 1995 (1988 base year). Global reductions of 65 percent and 53 percent, respectively, were achieved one year ahead of schedule in 1994. Dow is in the process of developing new environmental, health and safety performance improvement goals for the year 2005. These goals, as well as other performance data, will be made available in May 1996 with the publication of Dow's EH&S Progress Report.

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 other waste management facilities. The policies adopted to reflect properly 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 named as a potentially responsible party (PRP) under federal or state Superfund statutes at approximately 85 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, 1995 was $17 million, which has been accrued. In addition, receivables of $14 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 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 $258 million at December 31, 1995 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 $275 million at December 31, 1995, as compared to $234 million at the end of 1994. 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 $89 million in 1995, $64 million in 1994 and $69 million in 1993. Capital expenditures for environmental protection were $80 million in 1995, $103 million in 1994 and $149 million in 1993. Capital expenditures for environmental protection are currently projected at $76 million in 1996 and $82 million in 1997.

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

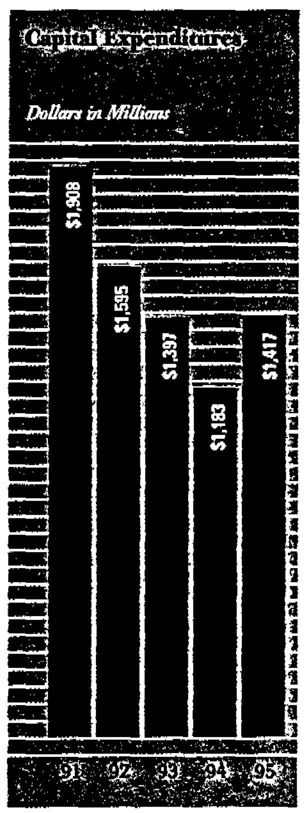
Capital spending for the year was $1.4 billion, up 21 percent from $1.2 billion in 1994 and flat with $1.4 billion in 1993. Capital spending in 1994 and 1993 includes spending in pharmaceuticals of $109 million and $193 million, respectively. The increase of $245 million in 1995 was the direct result of the company's investment of $318 million to purchase assets formerly leased. Approximately 40 percent of the company's capital expenditures was directed toward additional capacity for new and existing products, while about 10 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 1995 included an s/b latex plant at Menak, Indonesia; an expansion of waste treatment facilities in Terneuzen, the Netherlands; an upgrade of the MDI facilities in La Porte, Texas; and a new parabis and bisphenol-A plant and an allyl chloride/epichlorohydrin rehabilitation in Stade, Germany. 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 had no major capital commitments, other than for the purchase of materials from fabricators.

Liquidity and Capital Resources

The sale of Marion Merrell Dow Inc. (MMDI) to Hoechst A.G. for $5.1 billion had a very positive effect on the liquidity and capital resources of the company. The impact can be seen in the improvement in working capital, decreased short-term borrowings, decreased long-term debt and increased purchase of treasury shares.

Operating activities provided $3.3 billion in cash in 1995, as compared to $2.7 billion in 1994 and $2.1 billion in 1993 (see the Consolidated Statements of Cash Flows). The items affecting operating activities are discussed in the operating income and net income analyses. Cash provided by investing activities was $2.9 billion in 1995, due to the MMDI sale, versus cash used in investment activities of $1.3 billion in 1994 and $615 million in 1993.

Total working capital at year-end was $5.0 billion versus $2.1 billion at the end of 1994. Cash, cash equivalents, marketable securities and interest-bearing deposits increased by



$2.3 billion. Inventories and trade receivables together decreased $680 million in 1995, primarily as a result of the sale of the pharmaceutical businesses. Days-sales-in-inventory were 90 days, 80 days and 82 days at the end of 1995, 1994 and 1993, respectively. Days-sales-outstanding-in-receivables were 56 days at the end of 1995 and 52 days for 1994 and 1993.

Short-term borrowings at December 31, 1995 were $323 million, a decrease of $418 million from year-end 1994. Long-term debt due within one year decreased $159 million to $375 million at the end of 1995 compared to $534 million at the end of 1994. Long-term debt due in 1996 will be funded by operating cash flows. Accounts payable decreased by $316 million to $2.2 billion and income taxes payable increased $127 million during the year.

Long-term debt was $4.7 billion, a decrease of $598 million from year-end 1994. During the year, $247 million of new long-term debt was incurred while $951 million of long-term debt was retired and $375 million was transferred to long-term debt due within one year.

Total debt was $5.4, $6.6 and $6.9 billion at December 31, 1995, 1994 and 1993, respectively. Net debt, which equals total debt less cash, cash equivalents, marketable securities and interest-bearing deposits, was $2.0, $5.4 and $6.1 billion at December 31, 1995, 1994 and 1993, respectively. The debt to total capitalization ratio decreased to 36 percent at year-end 1995 from 38 percent at the end of 1994.

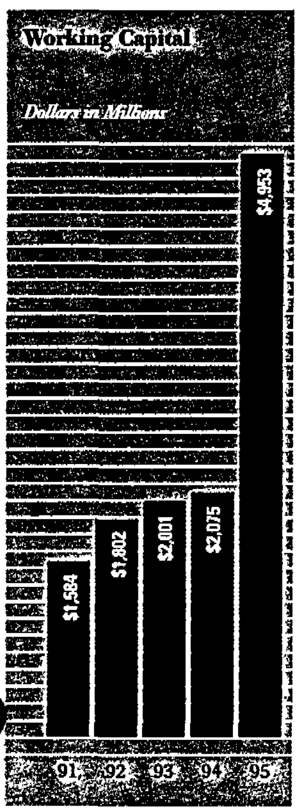
In 1989 and 1995, the Board of Directors authorized, subject to certain business and market conditions, the purchase of the company's common stock. Due to the favorable cash flow created by the sale of the pharmaceutical businesses, $2.1 billion worth of common stock was purchased in 1995 versus $38 million in 1994 and $17 million in 1993 (see Note L to the Financial Statements).

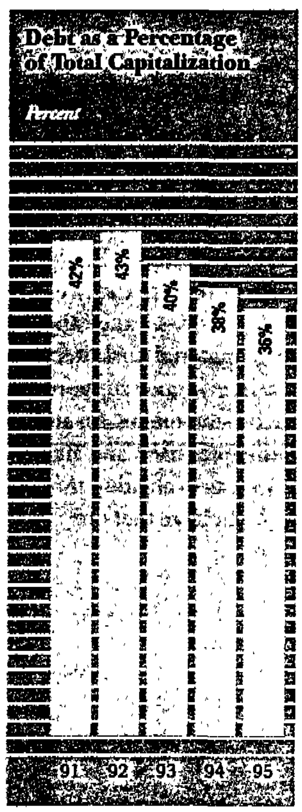
The company has unused and available credit facilities with various U.S. and foreign banks totaling $1.9 billion in support of its working capital requirements and commercial paper borrowings. Additional unused credit facilities totaling $1.3 billion are available for use by foreign subsidiaries.

At December 31, 1995, there was a total of $1.4 billion in available SEC registered debt securities between Dow and Dow Capital plc., a wholly owned subsidiary, and 30 billion in available Japanese yen (approximately $291 million) registered with Japan's Ministry of Finance.

Minority interest in subsidiary companies decreased during the year from $2.5 to $1.8 billion at the end of 1995, as a result of the sale of MMDI.

The company's strong position of $2.8 billion in cash and cash equivalents will support its involvement in new acquisitions and joint ventures as discussed in Note C to the Financial Statements. There are two other possibilities for substantial cash requirements. Eli Lilly and Company (Lilly) holds a put option which could require the company to purchase Lilly's 40 percent interest in DowElanco at fair market value (see Note Q to the Financial Statements). And, in 1996, the outside investors in DowBrands L.P. could liquidate or terminate the limited partnership which would cause the partners' capital accounts to be redeemed at current fair value (see Note K to the Financial Statements).





Responsibility for Financial Statements and Independent Auditors' Report

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 an internal control structure 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 internal control structure 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 internal controls for compliance. The Company maintains a strong internal auditing program that independently assesses the effectiveness of the internal controls and recommends possible improvements.

Deloitte & Touche LLP, independent auditors, with direct access to the Board of Directors through its Audit Committee, 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 internal control structure 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, 1995 and 1994, and the related consolidated statements of income, stockholders' equity and cash flows for each of the three years in the period ended December 31, 1995. 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, 1995 and 1994, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 1995 in conformity with generally accepted accounting principles.

Deloitte & Touche LLP

DELOITTE & TOUCHE LLP
Midland, Michigan
February 7, 1996

Consolidated Statements of Income

In millions, except for per share amounts		*1995*	*1994 Restated*	*1993 Restated*
Net Sales		$20,200	$16,742	$15,052
Operating Costs and Expenses	Cost of sales	13,337	12,131	11,370
	Insurance and finance company operations, pretax income	(61)	(40)	(98)
	Research and development expenses	808	783	786
	Promotion and advertising expenses	416	411	367
	Selling and administrative expenses	1,771	1,594	1,485
	Amortization of intangibles	38	43	68
	Total operating costs and expenses	16,309	14,922	13,978
Operating Income		3,891	1,820	1,074
Other Income (Expense)	Equity in earnings (losses) of 20%-50% owned companies	70	29	(127)
	Interest expense and amortization of debt discount	(434)	(362)	(413)
	Interest income and foreign exchange–net	289	98	140
	Net gain (loss) on investments	(330)	(42)	592
	Sundry income (expense)–net	43	83	(8)
	Total other income (expense)	(362)	(194)	184
Income before Provision for Taxes on Income and Minority Interests		3,529	1,626	1,258
Provision for Taxes on Income		1,442	654	514
Minority Interests' Share in Income		196	200	171
Preferred Stock Dividends		7	7	7
Income from Continuing Operations		1,884	765	566
Discontinued Operations	Income from pharmaceutical businesses, net of taxes on income	18	166	71
	Gain on sale of pharmaceutical businesses, net of taxes on income	169	–	–
Net Income Available for Common Stockholders		$ 2,071	$ 931	$ 637
Average Common Shares Outstanding		268.2	276.1	273.6
Earnings per Common Share from Continuing Operations		$ 7.03	$ 2.77	$ 2.07
Earnings per Common Share		$ 7.72	$ 3.37	$ 2.33
Common Stock Dividends Declared per Share		$ 2.90	$ 2.60	$ 2.60

See Notes to Financial Statements.

Consolidated Balance Sheets

In millions		December 31 1995	1994
	Assets		
Current Assets	Cash and cash equivalents	$ 2,839	$ 569
	Marketable securities and interest-bearing deposits	611	565
	Accounts and notes receivable:		
	Trade (less allowance for doubtful receivables– 1995, $53; 1994, $104)	2,729	3,359
	Other	1,380	1,099
	Inventories:		
	Finished and work in process	2,197	2,079
	Materials and supplies	551	633
	Deferred income tax assets–current	247	389
	Total current assets	10,554	8,693
Investments	Capital stock at cost plus equity in accumulated earnings of 20%-50% owned companies	848	931
	Other investments	1,558	1,529
	Noncurrent receivables	314	330
	Total investments	2,720	2,790
Plant Properties	Plant properties	23,218	23,210
	Less accumulated depreciation	15,105	14,484
	Net plant properties	8,113	8,726
Other Assets	Goodwill (net of accumulated amortization– 1995, $177; 1994, $676)	658	4,365
	Deferred income tax assets–noncurrent	779	1,132
	Deferred charges and other assets	758	839
	Total other assets	2,195	6,336
Total Assets		$23,582	$26,545

See Notes to Financial Statements.

In millions, except for share amounts		December 31 1995	1994
	Liabilities and Stockholders' Equity		
Current Liabilities	Notes payable	$ 323	$ 741
	Long-term debt due within one year	375	534
	Accounts payable:		
	Trade	1,529	1,928
	Other	717	634
	Income taxes payable	791	664
	Deferred income tax liabilities–current	55	56
	Dividends payable	192	202
	Accrued and other current liabilities	1,619	1,859
	Total current liabilities	5,601	6,618
Long-Term Debt		4,705	5,303
Other Noncurrent Liabilities	Deferred income tax liabilities–noncurrent	659	644
	Pension and other postretirement benefits–noncurrent	1,880	1,987
	Other noncurrent obligations	1,260	1,253
	Total other liabilities	3,799	3,884
Minority Interest in Subsidiary Companies		1,775	2,506
Temporary Equity	Temporary equity–other	313	–
	Preferred stock (authorized 250,000,000 shares of $1.00 par value each; issued Series A–1995: 1,521,175; 1994: 1,549,014) at redemption value	131	133
	Guaranteed ESOP obligation	(103)	(111)
	Total temporary equity	341	22
Stockholders' Equity	Common stock (authorized 500,000,000 shares of $2.50 par value each; issued 1995 and 1994: 327,125,854)	818	818
	Additional paid-in capital	315	326
	Retained earnings	10,159	8,857
	Unrealized gains (losses) on investments	62	(21)
	Cumulative translation adjustments	(349)	(330)
	Treasury stock, at cost (shares 1995: 76,168,614; 1994: 50,002,967)	(3,644)	(1,438)
	Net stockholders' equity	7,361	8,212
Total Liabilities and Stockholders' Equity		$23,582	$26,545

See Notes to Financial Statements.

Consolidated Statements of Stockholders' Equity

In millions		*1995*	*1994*	*1993*
Common Stock	Balance at beginning and end of year	$ 818	$ 818	$ 818
Additional Paid-in Capital	Balance at beginning of year	326	366	350
	Tax benefit of contingent value rights	–	–	34
	Issuance of treasury stock at less than cost	(11)	(40)	(18)
	Balance at end of year	315	326	366
Retained Earnings	Balance at beginning of year	8,857	8,645	8,720
	Net income	2,078	938	644
	Preferred stock dividends declared	(7)	(7)	(7)
	Common stock dividends declared	(769)	(719)	(712)
	Balance at end of year	10,159	8,857	8,645
Unrealized Gains (Losses) on Investments	Balance at beginning of year	(21)	105	(2)
	Unrealized gains (losses)	83	(126)	107
	Balance at end of year	62	(21)	105
Cumulative Translation Adjustments	Balance at beginning of year	(330)	(304)	(107)
	Translation adjustments	(19)	(26)	(197)
	Balance at end of year	(349)	(330)	(304)
Treasury Stock	Balance at beginning of year	(1,438)	(1,596)	(1,715)
	Purchases	(2,115)	(38)	(17)
	Reclassification to Temporary Equity	(313)	–	
	Issuance to employees and employee plans	222	196	13[illegible]
	Balance at end of year	(3,644)	(1,438)	(1,596)
Net Stockholders' Equity		$ 7,361	$ 8,212	$ 8,034

See Notes to Financial Statements.

Consolidated Statements of Cash Flows

In millions		1995	1994 Restated	1993 Restated
Operating Activities	Income from continuing operations	$1,884	$ 765	$ 566
	Adjustments to reconcile net income to net cash provided by operating activities:			
	Depreciation and amortization	1,442	1,302	1,352
	Provision for deferred income taxes	268	41	47
	Undistributed (earnings) losses of 20%-50% owned companies	(35)	(17)	162
	Minority interests' share in income	196	200	171
	Net (gain) loss on investments	330	42	(592)
	Net gain on sale of plant properties	(24)	(73)	(48)
	Other net	(99)	(69)	52
	Changes in assets and liabilities that provided (used) cash:			
	Accounts receivable	(311)	(612)	(78)
	Inventories	(369)	(245)	176
	Accounts payable	15	456	78
	Other assets and liabilities	(40)	689	(354)
	Operating activities related to discontinued operations	84	250	554
	Cash provided by operating activities	3,341	2,729	2,086
Investing Activities	Purchases of plant properties	(1,417)	(1,074)	(1,204)
	Investments in unconsolidated affiliates	(325)	(43)	(27)
	Purchases of consolidated companies (net of cash acquired)	(10)	–	–
	Proceeds from sales of plant properties	107	108	77
	Proceeds from outside investors in limited partnerships	–	–	200
	Proceeds from sale of pharmaceutical businesses (net of cash divested)	5,060	–	–
	Purchases of investments	(2,260)	(1,419)	(237)
	Proceeds from sales of investments	1,751	1,358	952
	Investing activities related to discontinued operations	(28)	(219)	(376)
	Cash provided by (used in) investing activities	2,878	(1,289)	(615)
Financing Activities	Changes in short-term notes payable	(390)	(29)	121
	Proceeds from issuance of long-term debt	247	100	1,056
	Payments on long-term debt	(951)	(340)	(1,598)
	Purchases of treasury stock	(2,115)	(38)	(17)
	Proceeds from sales of common stock	158	110	82
	Distributions to minority interests	(155)	(187)	(111)
	Dividends paid to stockholders	(766)	(723)	(719)
	Financing activities related to discontinued operations	16	(170)	(251)
	Cash used in financing activities	(3,956)	(1,277)	(1,437)
Effect of Exchange Rate Changes on Cash		7	(1)	(2)
Summary	Increase in cash and cash equivalents	2,270	162	32
	Cash and cash equivalents at beginning of year	569	407	375
	Cash and cash equivalents at end of year	$2,839	$ 569	$ 407

See Notes to Financial Statements

Notes to Financial Statements

In millions, except for share amounts

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A *Summary of Significant Accounting Policies*

Principles of Consolidation and Basis of Presentation
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.

The Company's consolidated statements of income and cash flows have been restated to reflect the pharmaceutical businesses as discontinued operations (see Note C). Certain reclassifications of prior years' amounts have been made to conform to the presentation adopted for 1995.

Use of Estimates in Financial Statement Preparation
The preparation of financial statements in conformity with generally accepted accounting principles requires estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. The Company's financial statements include amounts that are based on management's best estimates and judgments. Actual results could differ from those estimates.

Foreign Currency Translation The local currency has 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.

A *Summary of Significant Accounting Policies (continued)*

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 marketable 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.

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 *Accounting Change*

The Financial Accounting Standards Board issued Statement of Financial Accounting Standards (SFAS) No. 123 (Accounting for Stock-Based Compensation) in October 1995. Under SFAS No. 123, companies are permitted to either adopt this new standard and record expense for stock options and other stock-based employee compensation plans based on their fair value at date of grant, or continue to apply Accounting Principles Board (APB) Opinion No. 25 and increase its footnote disclosure. The Company has decided to continue to apply APB Opinion No. 25 and, in 1996, to increase footnote disclosures to include the pro forma impact on net income and earnings per share of the application of the fair value based method of accounting.

SFAS No. 121 (Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of) requires that long-lived assets and certain identifiable intangibles be reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. The Company will adopt SFAS No. 121 in 1996 and has not yet determined what impact, if any, adoption of the new standard will have on the Company's financial statements.

C *Acquisitions and Divestitures*

In April 1995, the Company signed an agreement with Bundesanstalt fuer vereinigungsbedingte Sonderaufgaben (BvS) for the privatization of three state-owned chemical companies in eastern Germany (referred to herein as BSL). Economic transfer of business operations to the Company, through management consulting and service agreements, occurred in June 1995 with legal closing anticipated in mid-1996. The Company will consolidate BSL effective with the legal closing date.

On closing, the Company will take an 80 percent stake in BSL for an investment of approximately $200. BvS will maintain a 20 percent stake in the operations during a restructuring period of five years. After the restructuring period, the Company will have a call option and BvS a put option for the remaining 20 percent of BSL for an additional investment of approximately $167. BvS is providing certain incentives to BSL during the restructuring period to cover portions of the reconstruction program and has retained all environmental cleanup obligations for operations through the legal closing date.

The Company intends to build several new facilities at the BSL sites including a Dowlex linear low density polyethylene plant and polypropylene, aniline and acrylic acid plants, and to upgrade the chlorine plant and steam cracker. A 16-inch multi-feedstock liquid pipeline will be constructed from the port of Rostock to the Boehlen site, as well as harbor facilities, terminals and pump stations. As part of the restructuring of the acquired sites, several facilities will be closed and demolished.

In December 1995, a Company-controlled consortium acquired the shares of Petroquimica Bahia Blanca (PBB) and Indupa owned by the Argentine Government for $358. The investment by the Company was $289. This privatization resulted in the consortium owning a controlling interest in and operating PBB, the leading ethylene producer in Argentina, and Indupa. The consortium subsequently agreed, in 1996, to sell Indupa and purchase Polisur, a polyethylene manufacturer. The additional net investment by the Company is expected to be $85.

In January 1995, the Company and E.I. duPont de Nemours and Company announced their intention to form a 50:50 joint venture to be named DuPont Dow Elastomers L.L.C. The new company will focus on the discovery, development, production and sale of thermoset and thermoplastic elastomer products. The joint venture will be formed by both partners transferring net assets. The estimated book value of assets transferred by the Company will be approximately $500. The combined annual sales of the existing businesses exceed $1 billion. Closing of this transaction is expected in the first quarter of 1996.

In January 1996, the Company and The Hartford Steam Boiler Inspection and Insurance Company formed a 60:40 joint venture named Radian International LLC. The new company will provide environmental, information technology and strategic chemical management services to industries and governments worldwide. The joint venture was formed by both partners transferring net assets. The value of assets transferred by the Company was approximately $32. Radian International LLC is expected to have annual revenues of nearly $400.

In January 1996, the Company acquired an 80 percent share in EniChem's INCA International SpA subsidiary, a producer of polyethylene terephthalate (PET) resin and its major precursor, purified terephthalic acid (PTA). The investment by the Company was $161.

In January 1996, DowElanco, a 60 percent joint venture, announced agreements with Mycogen Corporation and the Lubrizol Corporation for transactions through which DowElanco, for a cash investment of $152, will take approximately a 46 percent equity stake in Mycogen and Mycogen will acquire DowElanco's United Agriseeds subsidiary.

In June 1995, the Company completed the sale of its 197 million shares of Marion Merrell Dow to Hoechst A.G. for $5.1 billion or $25.75 per share. In addition, subsidiaries of the Company completed the sale of the Company's Latin American pharmaceutical businesses based in Argentina, Brazil and Mexico to Roussel Uclaf S.A. for $133. These two transactions, net of taxes on income of $382, increased the Company's second quarter of 1995 earnings by $169 or 62 cents per share. Net sales of the pharmaceutical businesses were $757 for the period January 1, 1995 through March 31, 1995 and $3.3 billion and $3.0 billion for the years 1994 and 1993, respectively. Provisions for taxes on income were $36, $125 and $92 for the same periods. Discontinu[illegible] operations included interest expense of $77, $159 and $150 for the periods 1995, 1994 and 1993, respectively, allocated based on net assets employed in the businesses.

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. The sale was completed in November 1995 to Electronic Hair Styling Inc. for $22.

In separate transactions in 1994 and 1993, the Company sold its ownership in Magma Power Company and recognized pretax gains of $90 and $62, respectively.

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 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 non-transferable, and expires in the year 2000. The sale generated a pretax gain of $450.

In millions, except for share amounts

D *Taxes on Income*

Operating loss carryforwards at December 31, 1995 amounted to $609 of which $240 is subject to expiration in the years 1996 through 2000. The remaining balances expire in years beyond 2000 or have an indefinite carryforward period.

Tax credit carryforwards at December 31, 1995 amounted to $18 of which $12 is subject to expiration in the years 1996 through 2000. The remaining balances expire in years beyond 2000 or have an indefinite carryforward period.

Undistributed earnings of foreign subsidiaries and related companies which are deemed to be permanently invested amounted to $3,026, $2,053, and $1,782 at December 31, 1995, 1994 and 1993, respectively. It is not practicable to calculate the unrecognized deferred tax liability on those earnings.

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

	1995	*1994*	*1993*
Domestic	$1,513	$ 773	$ 761
Foreign	2,016	853	497
Total	$3,529	$1,626	$1,258

Reconciliation to U.S. Statutory Rate

	1995	*1994*	*1993*
Taxes at U.S. statutory rate	$1,235	$569	$440
Write-down of investment	124	–	–
Amortization of nondeductible intangibles	2	52	17
Foreign rates other than 35%	15	28	48
Other–net	66	5	9
Total tax provision	$1,442	$654	$514
Effective tax rate	40.9%	40.2%	40.9%

Provision for Taxes on Income

	1995			*1994*			*1993*		
	Current	*Deferred*	*Total*	*Current*	*Deferred*	*Total*	*Current*	*Deferred*	*Total*
Federal	$ 535	$112	$ 647	$329	$23	$352	$279	$10	$289
State and local	132	–	132	13	3	16	48	2	50
Foreign	507	156	663	271	15	286	140	35	175
Total	$1,174	$268	$1,442	$613	$41	$654	$467	$47	$514

Deferred Tax Balances at December 31

	1995	*1994*
Property	$(801)	$(716)
Tax loss and credit carryforwards	204	330
Long-term debt	177	112
Postretirement benefit obligations	596	673
Other accruals and reserves	75	370
Other–net	77	75
Subtotal	$ 328	$ 844
Less: Valuation allowance	16	23
Total	$ 312	$ 821

Notes to Financial Statements

In millions, except for share amounts

E *Inventories*

The amounts of reserve required to reduce inventories from the first-in, first-out (FIFO) basis to the last-in, first-out (LIFO) basis at December 31, 1995 and 1994, were $66 and $119, respectively. The inventories that were valued on a LIFO basis represented 34 and 35 percent of the total inventories at December 31, 1995 and 1994, respectively.

A reduction of certain inventories resulted in the liquidation of some quantities of LIFO inventory, which increased pretax income by $8 in 1995 and $16 in 1994, and decreased pretax income by $18 in 1993.

F *Related Company Transactions*

In May 1995, Dow Corning Corporation (Dow Corning), in which the Company is a 50 percent shareholder, filed for protection under Chapter 11 of the United States Bankruptcy Code. As a result the Company fully reserved its investment in Dow Corning and will not recognize its 50 percent share of future equity earnings while Dow Corning remains in Chapter 11 (see Note Q).

The Company's investments in other related companies, accounted for by the equity method, approximate the Company's equity in the net assets of these companies.

Dividends received from related companies were $33 in 1995, $15 in 1994 and $36 in 1993. 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

	1995	*1994*
Land	$ 371	$ 414
Land and waterway improvements	678	660
Buildings	2,043	2,337
Transportation and construction equipment	236	211
Machinery and equipment	16,452	15,332
Utility and supply lines	1,340	1,315
Office furniture and equipment	749	836
Wells and mineral reserves	383	355
Other	74	184
Construction in progress	892	1,566
Total	$23,218	$23,210

Depreciation expenses were $1,369 in 1995, $1,224 in 1994 and $1,252 in 1993. Maintenance and repair costs were $895 in 1995, $941 in 1994 and $964 in 1993. Capitalized interest was $28 in 1995, $66 in 1994 and $65 in 1993.

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, a 77% owned U.S. subsidiary leases a 262 megawatt syngas facility and a Canadian subsidiary leases an ethylene plant. The Company has the option to purchase the ethylene plant and certain other leased equipment and buildings at the termination of the leases. During 1995, the company purchased approximately $318 of leased assets.

Rental expenses under operating leases were $433, $371 and $427 for 1995, 1994 and 1993, respectively. The minimum future lease commitments for all operating leases are included at right.

Minimum Operating Lease Commitments

1996	$ 262
1997	253
1998	404
1999	196
2000	148
2001 and thereafter	1,050
Total minimum lease commitments	$2,313

In millions, except for share amounts

Notes Payable, Long-Term Debt and Available Credit Facilities

Notes payable consists of obligations due to banks with a variety of interest rates and maturities. The notes payable outstanding at December 31, 1995 and 1994 were $323 and $741, respectively, on which the year-end weighted average interest rates were 4.29 percent and 4.80 percent, respectively, excluding the effects of short-term borrowings in highly inflationary countries. Included in notes payable at December 31, 1995 and 1994 were commercial paper amounts of $4 and $191, respectively.

The average interest rate on long-term debt was 6.73 percent in 1995 compared to 6.64 percent in 1994. Annual installments on long-term debt for the next five years are as follows: 1996, $375; 1997, $610; 1998, $308; 1999, $201; 2000, $175.

The Company had unused and available credit facilities at December 31, 1995, with various U.S. and foreign banks totaling $1.9 billion, which required the payment of commitment fees. Additional unused credit facilities totaling $1.3 billion at December 31, 1995 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

	1995	1994
4.63%, final maturity 1995	$ –	$ 150
8.25%, final maturity 1996	150	150
5.75%, final maturity 1997	197	200
5.75%, final maturity 2001	–	15
7.38%, final maturity 2002	145	150
9.35%, final maturity 2002	194	200
7.13%, final maturity 2003	148	150
8.63%, final maturity 2006	187	200
8.55%, final maturity 2009	140	150
9.00%, final maturity 2010	125	150
9.20%, final maturity 2010	193	200
6.85%, final maturity 2013	138	150
7.13%, final maturity 2015	–	24
9.00%, final maturity 2021	219	300
8.85%, final maturity 2021	188	200
8.70%, final maturity 2022	96	138
7.38%, final maturity 2023	150	150
Subtotal	$2,270	$2,677

Foreign Bonds at December 31

	1995	1994
6.75%, final maturity 1995, German mark	$ –	$ 194
5.63%, final maturity 1996, German mark	209	194
10.87%, final maturity 1997, British pound sterling	345	374
4.00%, final maturity 1998, Japanese yen	194	201
4.75%, final maturity 1999, Swiss franc	173	152
4.63%, final maturity 2000, Swiss franc	130	114
6.38%, final maturity 2001, Japanese yen	242	251
Subtotal	$1,293	$1,480

Other Facilities–Various Rates and Maturities at December 31

	1995	1994
U.S. dollar loans	$ 126	$ 4
Foreign currency loans	168	255
9.42%, final maturity 2004, Dow ESOP	103	111
9.11%, final maturity 2005, MMDI ESOP	–	90
Medium-term notes, final maturity 2022	380	585
Pollution control/industrial revenue bonds, final maturity 2024	781	707
Unexpended construction funds	(4)	(20)
Capital lease obligations	11	32
Subtotal	$1,565	$1,764

Long-Term Debt at December 31

	1995	1994
Promissory notes and debentures	$2,270	$2,677
Foreign bonds	1,293	1,480
Other facilities	1,565	1,764
Less unamortized debt discount	(48)	(84)
Less long-term debt due within one year	(375)	(534)
Long-term debt	$4,705	$5,303

In millions, except for share amounts

J *Financial Instruments*

Fair Value of Financial Instruments at December 31

	1995				1994			
	Cost	*Gain*	*Loss*	*Fair Value*	*Cost*	*Gain*	*Loss*	*Fair Value*
Nonderivatives:								
Interest-bearing deposits	$ 571	–	–	$ 571	$ 92	–	–	$ 92
Marketable equity and debt securities:								
Trading	2,293	–	–	2,293	414	$20	–	434
Available-for-Sale								
Debt securities	1,256	$ 38	$ (1)	1,293	824	3	$(22)	805
Equity securities	367	100	(33)	434	454	64	(45)	473
Held-to-Maturity	54	–	–	54	408	1	(1)	408
Other	262	26	–	288	337	–	(7)	330
Total investments	$ 4,803	$164	$ (34)	$ 4,933	$ 2,529	$88	$(75)	$ 2,542
Long-term debt	$(4,705)	–	$(442)	$(5,147)	$(5,303)	$33	–	$(5,270)
Derivatives relating to:								
Foreign currency	–	$ 48	$ (46)	$ 2	–	$52	$(70)	$ (18)
Interest	–	23	(53)	(30)	–	37	(45)	(8)
Cross-currency swaps	–	1	(161)	(160)	–	15	(93)	(78)

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

Investments Total investments at December 31, 1995 and 1994 included cash equivalents of $2,738 and $455, marketable securities and interest-bearing deposits of $611 and $565, and other investments of $1,558 and $1,529, respectively.

The proceeds from sales of Available-for-Sale securities were $1,292 and $981 and the sales resulted in gross realized gains of $61 and $55 and losses of $20 and $26 in 1995 and 1994, respectively.

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, 1995 and 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 exposures derived from the risk that currency fluctuations could affect the dollar value of future cash flows at the operating income 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, 1995 and 1994, 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 $5,805 and $6,573, respectively. The unrealized gains or losses on these contracts, based on the foreign exchange rates at December 31, 1995 and 1994, were a gain of $2 and a loss of $18, respectively, and were included in income in "Interest income and foreign exchange–net."

At December 31, 1995 and 1994, the Company had cross-currency swaps outstanding with a notional principal amount of $2,247 and $1,427, respectively. The $1 in gains and $161 in losses in 1995 and the $15 in gains and $93 in losses in 1994 related to cross-currency swaps were primarily recognized in income in "Interest income and foreign exchange–net" and offset the gains and losses from the assets and liabilities being hedged.

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, 1995 and 1994 totaled $3,455 and $2,837, with a weighted average remaining life of 2.7 and 3.3 years, respectively. The $23 in gains and $53 in losses in 1995 and 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.

In millions, except for share amounts

J *Financial Instruments (continued)*

Interest Derivatives at December 31, 1995

	Notional Amount	Maturities	Weighted Average Rate Receive	Weighted Average Rate Pay
Receive fixed hedge	$1,282	1996–2003	6.5%	5.9%
Receive floating hedge	1,507	1996–2004	5.9%	7.0%
Other	666	1996–2005	–	–

Interest Derivatives at December 31, 1994

	Notional Amount	Maturities	Weighted Average Rate Receive	Weighted Average Rate Pay
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. The Company uses value at risk 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, 1995.

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 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 two partnerships (Chemtech 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 the Company 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 receive a cumulative annual priority return on their investments in the partnership and participate in residual earnings. The annual priority return is $14 and $67 for Chemtech 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 1996 for DowBrands L.P. In addition, the partnership agreements provide for various windup provisions wherein subsidiaries of the Company 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 to the Financial Statements of the December 31, 1993 Form 10-K of The Dow Chemical Company.

L *Stockholders' Equity*

In 1989, the Board of Directors authorized, subject to certain business and market conditions, the purchase of up to 18,000,000 shares of the Company's common stock. In August 1995, the purchases under this authorization were completed.

In 1995, the Board of Directors authorized, subject to certain business and market conditions, the purchase of up to 25,000,000 shares of the Company's common stock. At December 31, 1995, the number of shares purchased under this authorization was 14,888,000. The Company is utilizing options as part of its stock repurchase program. The Company's potential repurchase obligation related to these options has been reclassified from stockholders' equity to temporary equity and amounted to $313 at December 31, 1995.

The number of treasury shares purchased was 29,188,000 in 1995, 591,000 in 1994, and 300,000 in 1993. The number of treasury shares issued to employees under option and purchase programs was 3,022,000 in 1995, 2,836,000 in 1994, and 1,946,000 in 1993. The number of treasury shares contributed to the U.S. pension plan for funding future retiree health care benefits through a 401(h) account was 391,000 in 1994 and 251,000 in 1993.

Notes to Financial Statements

In millions, except for share amounts

L ***Stockholders' Equity (continued)***

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

Gross undistributed earnings of 20%-50% owned companies included in retained earnings were $95 and $428 at December 31, 1995 and 1994, 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 dilution.

Reserved Treasury Stock at December 31

In thousands of shares	*1995*	*1994*	*19[illegible]*
Stock option plans	16,735	16,517	15,80[illegible]
Employees' stock purchase plan	1,080	894	1,040
Total shares reserved	17,815	17,411	16,847

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. The Company follows APB Opinion No. 25 in accounting for these plans.

Stock options were exercised at prices ranging from $23.54 to $67.75 in 1995, $18.46 to $65.06 in 1994 and $18.46 to $59.75 in 1993.

The Company made offerings of common stock to its employees, excluding directors, in 1995, 1994 and 1993 at $55.00, $54.50 and $45.00 per share, respectively, payable generally through payroll deductions. Unfilled subscriptions, cancelable at the option of the employee, were 1,080,000, 894,000 and 1,040,000 shares at December 31, 1995, 1994 and 1993, respectively. Partial payments received on these subscriptions aggregating $39, $32 and $28 at December 31, 1995, 1994 and 1993, respectively, were included in current liabilities.

Option Plans

In thousands of shares	*1995*	*1994*	*1993*
Outstanding at January 1	14,735	14,059	11,657
Granted	2,682	2,634	3,431
Exercised	(2,355)	(1,862)	(5[illegible]
Expired	(42)	(96)	([illegible]
Outstanding at December 31	15,020	14,735	14,059
Price Range	$36.04–$74.63	$23.54–$74.63	$18.46–$60.88
Exercisable at December 31	12,373	12,189	10,776
Available for future grant	523	559	407

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 is 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 7.25 and 5.5 percent, respectively, for 1995 and 7.75 and 5.5 percent, respectively, for 1994. The assumed long-term rate of return on assets was 9 percent for 1995 and 1994.

In millions, except for share amounts

O *Pension Plans (continued)*

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 which is then matched by the Company. Contributions charged to income for defined contribution plans were $75 in 1995, $49 in 1994, and $50 in 1993.

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

Net Periodic Pension Cost

	1995	*1994*	*1993*
Service cost–benefits earned during the period	$ 146	$ 150	$ 133
Interest cost on projected benefit obligation	374	334	322
Actual (return) on assets	(1,062)	(94)	(485)
Amortization and deferred amounts	686	(256)	151
Employee contributions to the plans	(8)	(8)	(8)
Net periodic pension cost	$ 136	$ 126	$ 113

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

Defined Benefit Plans at December 31

	Fully Funded		*Partially Funded*	
	1995	*1994*	*1995*	*1994*
Actuarial present value of benefit obligation:				
Vested	$ (4,098)	$(3,287)	$(372)	$(467)
Nonvested	(310)	(292)	(39)	(40)
Accumulated benefit obligation	(4,408)	(3,579)	(411)	(507)
Effect of projected compensation increases	(787)	(826)	(101)	(125)
Projected benefit obligation for services rendered to date	(5,195)	(4,405)	(512)	(632)
Plan assets at market value, primarily publicly traded stocks and bonds	5,321	4,439	56	221
Plan assets in excess of (less than) projected benefit obligation	126	34	(456)	(411)
Unrecognized transition obligation	34	28	27	45
Unrecognized net (gains) losses	(154)	57	19	(1)
Unrecognized prior service cost	193	9	35	39
Additional minimum liability	–	–	(65)	(49)
Accrued pension asset (liability)	$ 199	$ 128	$(440)	$(377)

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 for employees hired before January 1, 1993. 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 1995, a discount rate of 7.25 percent and weighted average medical cost trend rates starting at 7.52 percent and declining to 4.60 percent in 2004 were assumed. For 1994, the discount rate assumption was 7.75 percent and the medical cost trend rate assumption was 9.47 percent declining to 5.53 percent in 2004. The assumed long-term rate of return on assets was 9 percent for 1995 and 1994. Increasing the assumed medical cost trend rate by 1 percentage point in each year would increase the accumulated postretirement benefit obligation at December 31, 1995 by $48 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.

Notes to Financial Statements

In millions, except for share amounts

P *Other Postretirement Benefits (continued)*

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

Net Periodic Postretirement Cost

	1995	*1994*	*1993*
Service costs–benefits earned during the period	$ 21	$ 24	$ 34
Interest cost on accumulated postretirement benefit obligation	86	88	122
Actual (return) on assets	(16)	–	–
Amortization and deferred amounts	(36)	(42)	(9)
Net periodic postretirement cost	$ 55	$ 70	$147

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

Partially Funded Postretirement Plans at December 31

	1995	*1994*
Accumulated postretirement benefit obligation:		
Retirees	$ (697)	$ (676)
Fully eligible active plan participants	(199)	(290)
Other active plan participants	(214)	(210)
Total accumulated postretirement benefit obligation	(1,110)	(1,176)
Plan assets at market value, primarily publicly traded stocks and bonds	103	52
Unfunded accumulated postretirement benefit obligation	(1,007)	(1,124)
Unrecognized gain from experience favorable to assumptions	(224)	(166)
Negative prior service costs	(312)	(373)
Accrued postretirement benefit liability	$(1,543)	$(1,663)

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 a global Breast Implant Litigation Settlement Agreement (the Settlement Agreement); litigation and claims outside of the Settlement Agreement; 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.

Dow Corning reported an after tax net loss of $167 for the second quarter of 1995, of which the Company's share amounted to $83. Dow Corning's second quarter loss was a result of a $221 after tax charge taken to reflect a change in accounting method from the present value basis noted above to an undiscounted basis resulting from the uncertainties associated with its voluntary filing for protection under Chapter 11 of the United States Bankruptcy Code on May 15, 1995. As a result of Dow Corning's 1995 second quarter loss and Chapter 11 filing, the Company recognized a pretax charge against income of $330 for the second quarter of 1995, fully reserved its investment in Dow Corning and will not recognize its 50 percent share of future equity earnings while Dow Corning remains in Chapter 11.

On September 1, 1994, Judge Sam C. Pointer, Jr. of the United States District Court for the Northern District of Alabama approved the Settlement Agreement, pursuant to which plaintiffs choosing to participate in the Settlement Agreement released the Company from liability. The Company was not a participant in the Settlement Agreement nor was it required to contribute to the settlement. On October 9, 1995, Judge Pointer issued an order which concluded that the Settlement Agreement was not workable in its then-current form because the funds committed to it by industry participants were inadequate. The order provided that plaintiffs who had previously agreed to participate in the Settlement Agreement could opt out after November 30, 1995.

The Company's maximum exposure for breast implant product liability claims against Dow Corning is limited to its investment in Dow Corning which, after the second quarter charge noted above, is zero. As a result, any future charges by Dow Corning related to such claims or as a result of the Chapter 11 proceeding would not have an adverse impact on the Company's consolidated financial statements.

The Company is separately named as a defendant in over 13,000 breast implant product liability cases. In these situations, plaintiffs have alleged that the Company should be liable for Dow Corning's alleged torts based on the Company's 50 percent stock ownership in Dow Corning and that the Company should be liable by virtue of alleged "direct participation" by the Company or its agents in Dow Corning's breast implant business. These latter, direct participation claims include counts sounding in strict liability, fraud, aiding and abetting, conspiracy, concert of action and negligence.

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

In millions, except for share amounts

Q *Commitments and Contingent Liabilities (continued)*

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

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.

The Company has accrued $275 at December 31, 1995, for probable environmental remediation and restoration liabilities, including $17 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.

Dow has an active risk management program consisting of numerous insurance policies secured from many carriers at various times. These policies provide coverage which will be utilized to minimize the impact, if any, of the contingencies described above.

Except for the possible effect on the Company's net income for breast implant litigation described above, it is the opinion of the Company's management that the possibility is remote that the aggregate of all claims and lawsuits will have a material adverse impact on the Company's consolidated financial statements.

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, which expire in 1998 and 2004, to purchase ethylene. The purchase price 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 manufacturing plants with a specified return on capital. Total purchases under the agreements were $204, $252 and $237 in 1995, 1994 and 1993, respectively.

At December 31, 1995, the Company had various outstanding commitments for take or pay and throughput agreements, including the Canadian subsidiary's ethylene contracts, 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

1996	$248
1997	204
1998	185
1999	102
2000	73
2001 through expiration of contracts	174
Total	$986

In addition to the take or pay obligations at December 31, 1995, the Company had outstanding purchase commitments which range from one to eighteen years for steam, electrical power, materials, property, and other items used in the normal course of business of approximately $588. In general, such commitments were at prices not in excess of current market prices. In addition, the Company had other outstanding direct and indirect commitments for construction performance and lease payment guarantees and other obligations of approximately $423.

Notes to Financial Statements

In millions, except for share amounts

R *Supplementary Information*

Accrued and Other Current Liabilities at December 31

	1995	1994
Accrued vacations	$ 178	$ 200
Employees' retirement plans	152	163
Interest payable	125	124
Accrued payroll	288	316
Accrued miscellaneous taxes	123	146
Insurance companies' reserves	192	168
Sundry	561	742
Total	$1,619	$1,859

Sundry Income (Expense) –Net

	1995	1994	1[illegible]
Royalty income	$ 23	$ 21	$ 14
Gain (loss) on securities	79	(15)	(55)
Gain on sale of assets	24	73	48
Dividend income	8	32	86
Other–net	(91)	(28)	(101)
Total	$ 43	$ 83	$ (8)

Other Supplementary Information

	1995	1994	1993
Cash payments for interest	$ 501	$568	$603
Cash payments for taxes on income	1,203	334	494
Provision for doubtful receivables	18	7	18

S *Industry Segments and Geographic Areas*

The Company is a diversified, worldwide manufacturer and supplier of more than 2,500 product families, which are grouped into the following industry segments: Chemicals and Metals, Performance Chemicals, Plastics, Performance Plastics, Hydrocarbons and Energy, and Diversified Businesses and Unallocated. The Company's wide range of products are used primarily as raw materials in the manufacture of customer products and services. Industries served by the Company include aerospace, appliances, automotive, agriculture, building and construction, chemical processing, consumer products, electronics, environmental services, furniture, housewares, insurance and finance, metalworking, oil and gas, packaging, processed foods, pulp and paper, utilities and water treatment.

The Company operates 94 manufacturing sites in 30 countries. The Company conducts its worldwide operations through 15 global businesses which represent the aggregation of products on the basis of process technology, end-use markets and channels of distribution. To improve stockholders' ability to evaluate the Company's performance, external industry segments have been revised to better reflect market conditions and the Company's business strategies. Results have been restated to align with the new reporting segments.

Chemicals and Metals 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.

Performance Chemicals includes ingredients in many formulated products and processing aids, as well as end-use products. This segment covers the Company's specialty chemicals, emulsion polymers and agricultural chemicals.

Plastics encompasses the product ranges of polyethylene, polystyrene, polypropylene and polyethylene terephthalate polyester (PET). These are used in a wide variety of applications in markets which include electronics, food service, health care, packaging and recreation.

Performance Plastics consists of a broad range of engineering thermoplastic and thermoset materials. The product ranges are polyurethanes; epoxy products and intermediates; engineering plastics; adhesives, sealants and coatings; Insite technology lic[illegible]ing; and fabricated products.

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. Destec Energy, Inc. is also recorded in this segment.

Diversified Businesses and Unallocated includes household consumer products; a joint venture providing environmental, information technology and strategic chemical management services to industry and government; New Businesses such as advanced electronics materials, advanced structural materials, technology licensing, and catalysts; and the consolidated insurance and finance companies. Unallocated includes activities and overhead cost variances not allocated to other segments.

Transfers between area and industry segments are generally valued at cost. The exception is that movements between the agricultural chemicals and consumer products businesses and the other businesses are generally valued at market-based prices.

In millions, except for share amounts

S Industry Segments and Geographic Areas (continued)

Industry Segment Results

	Chemicals & Metals	Performance Chemicals	Plastics	Performance Plastics	Hydrocarbons & Energy	Diversified Bus. and Unallocated	Corporate, Elim. & Disc. Oper.	Consolidated
1995								
Sales to unaffiliated customers	$3,322	$4,240	$3,932	$5,369	$2,371	$ 966	–	$20,200
Intersegment transfers	710	26	106	19	2,247	–	$(3,108)	–
Operating income (loss)[1]	1,136	670	1,475	1,056	(83)	(363)	–	3,891
Identifiable assets	2,660	4,066	3,422	3,962	2,743	717	6,012	23,582
Depreciation	280	320	327	294	104	44	–	1,369
Capital expenditures	516	274	81	175	342	29	–	1,417
1994								
Sales to unaffiliated customers	$2,471	$3,672	$3,064	$4,538	$2,044	$ 953	–	$16,742
Intersegment transfers	680	28	104	18	2,365	–	$(3,195)	–
Operating income (loss)[1]	337	514	531	611	74	(247)	–	1,820
Identifiable assets	2,705	3,842	3,785	3,834	2,108	699	9,572	26,545
Depreciation	241	273	311	263	92	44	–	1,224
Capital expenditures	152	253	83	134	388	64	109	1,183
1993								
Sales to unaffiliated customers	$2,301	$3,390	$2,510	$4,116	$1,808	$ 927	–	$15,052
Intersegment transfers	683	42	85	17	2,338	–	$(3,165)	–
Operating income[1]	154	403	89	304	46	78	–	1,074
Identifiable assets	2,519	3,631	3,525	3,570	1,933	692	9,635	25,505
Depreciation	246	279	318	269	94	46	–	1,252
Capital expenditures	215	204	126	173	426	60	193	1,397

Geographic Area Results

	United States	Europe	Rest of World	Discontinued Operations & Eliminations	Consolidated
1995					
Sales to unaffiliated customers	$9,035	$6,411	$4,754	–	$20,200
Intersegment transfers	1,728	515	454	$(2,697)	–
Operating income[1]	1,603	1,112	1,176	–	3,891
Identifiable assets	10,127	6,914	6,541	–	23,582
Gross plant properties	12,416	7,466	3,336	–	23,218
Capital expenditures	1,008	295	114	–	1,417
1994					
Sales to unaffiliated customers	$8,093	$4,809	$3,840	–	$16,742
Intersegment transfers	1,424	447	341	$(2,212)	–
Operating income[1]	1,024	237	559	–	1,820
Identifiable assets	9,399	5,516	4,867	6,763	26,545
Gross plant properties	11,729	6,725	3,337	1,419	23,210
Capital expenditures	692	234	148	109	1,183
1993					
Sales to unaffiliated customers	$7,486	$4,299	$3,267	–	$15,052
Intersegment transfers	1,042	325	304	$(1,671)	–
Operating income (loss)[1]	795	(23)	302	–	1,074
Identifiable assets	9,475	5,010	4,034	6,986	25,505
Gross plant properties	11,326	5,901	3,165	1,216	21,608
Capital expenditures	762	266	176	193	1,397

[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

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

1995	*1st Restated*	*2nd*	*3rd*	*4th*	*Year*
Net sales	$5,205	$5,517	$4,884	$4,594	$20,200
Operating income	1,075	1,207	946	663	3,891
Income before taxes on income and minority interests	1,048	832	955	694	3,529
Income from continuing operations	564	334	571	415	1,884
Net income available for common stockholders	582	503	571	415	2,071
Earnings per common share from continuing operations	2.03	1.22	2.15	1.63	7.03
Earnings per common share	2.10	1.84	2.15	1.63	7.72
Common stock dividends declared per share	0.65	0.75	0.75	0.75	2.90
Market price range of common stock:					
High	74.63	75.00	78.00	74.38	78.00
Low	61.38	68.00	71.63	65.50	61.38

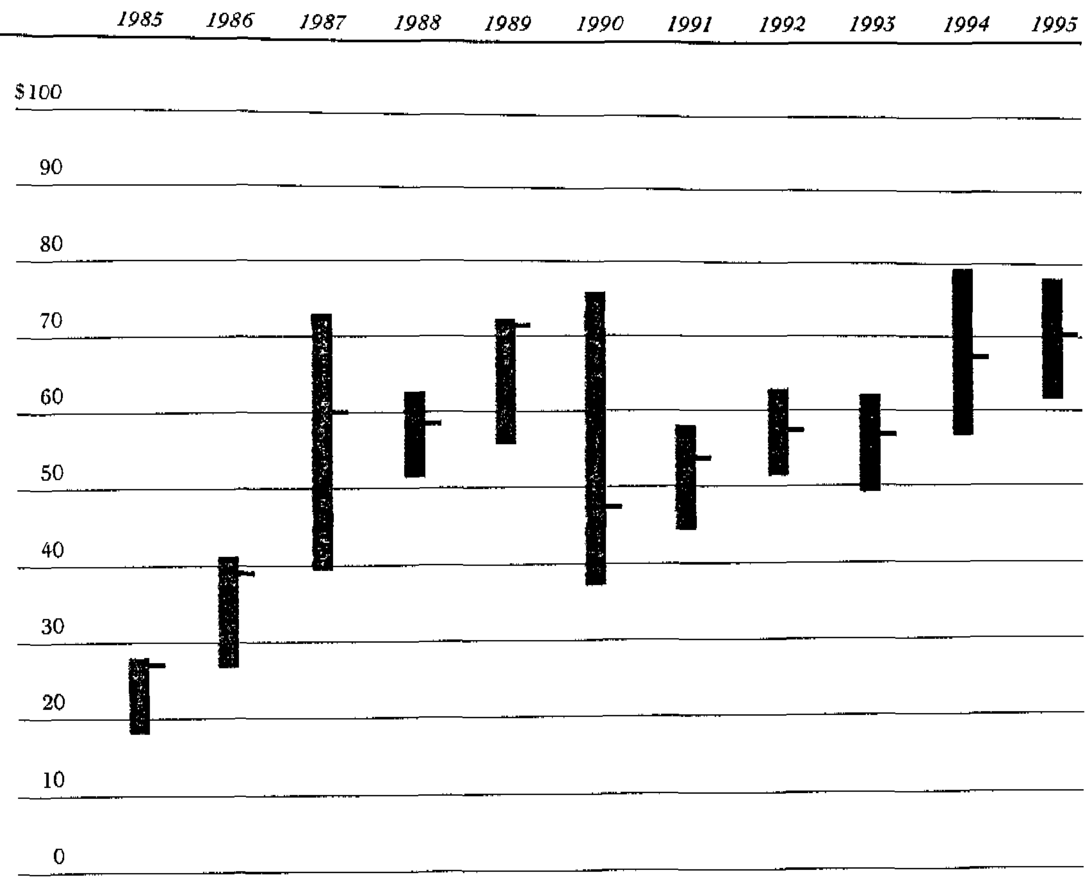
1994 (Restated)	*1st*	*2nd*	*3rd*	*4th*	*Year*
Net sales	$3,788	$4,126	$4,216	$4,612	$16,742
Operating income	411	458	433	518	1,820
Income before taxes on income and minority interests	335	457	454	380	1,626
Income from continuing operations	141	206	237	181	765
Net income available for common stockholders	171	250	288	222	931
Earnings per common share from continuing operations	0.51	0.75	0.86	0.65	2.77
Earnings per common share	0.62	0.91	1.04	0.80	3.37
Common stock dividends declared per share	0.65	0.65	0.65	0.65	2.[illegible]
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

See Notes to Financial Statements.

Eleven-Year Review of Market Price per Share of Common Stock[1]

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

In dollars



	1985	1986	1987	1988	1989	1990	1991	1992	1993	1994	1995
High	$27.92	$41.17	$73.08	$62.67	$72.25	$75.75	$58.00	$62.88	$62.00	$79.25	$78.00
Close on December 31	27.33	39.00	60.00	58.50	71.38	47.50	53.75	57.25	56.75	67.25	70.38
Low	18.00	26.59	39.17	51.17	55.50	37.00	44.13	51.25	49.00	56.50	61.38

Eleven-year Summary of Selected Financial Data

In millions, except as noted	*(Unaudited)*	*1995*
Summary of Operations (Restated)	Net sales	$20,20[illegible]
	Cost of sales	13[illegible]
	Insurance and finance company operations, pretax (income) expense	([illegible]1)
	Research and development expenses	808
	Promotion and advertising expenses	416
	Selling and administrative expenses	1,771
	Amortization of intangibles	38
	Special charge	–
	Operating income	3,891
	Investment and sundry income (expense)	(182)
	Interest expense–net	(18[illegible])
	Income (loss) before provision for taxes on income and minority interests	3,529
	Provision (credit) for taxes on income	1,442
	Minority interests' share in income	196
	Preferred stock dividends	7
	Income (loss) from continuing operations	1,884
	Cumulative effect of accounting change	–
	Discontinued operations net of taxes on income	187
	Net income (loss) available for common stockholders	2,071
	Per share of common stock (dollars)[1]:	
	Income (loss) from continuing operations	[illegible]3
	Net income (loss) available for common stockholders[2]	[illegible]2
	Cash dividends declared	2.90
	Cash dividends paid	2.80
	Average common shares outstanding (thousands)[1]	268,243
	Convertible preferred shares outstanding (thousands)	1,521
Year-end Financial Position	Total assets	$23,582
	Working capital	4,953
	Plant properties–gross	23,218
	Plant properties–net	8,113
	Long-term obligations and redeemable preferred stock	4,733
	Total debt	5,4[illegible]3
	Net stockholders' equity	7,361
Financial Ratios	Research and development expenses as percent of net sales (restated)	4.0%
	Income before provision for taxes and minority interests as percent of net sales (restated)	17.5%
	Return on average stockholders' equity[2]	26.9%
	Book value per share of common stock (dollars)[1]	$ 30.69
	Debt as a percent of total capitalization	36.3%
General	Capital expenditures	$ 1,417
	Depreciation expenses (restated)	1,369
	Wages and salaries paid	2,[illegible]34
	Cost of employee benefits	[illegible]6
	Number of employees at year-end (thousands)	39.5
	Number of stockholders of record at year-end (thousands)[3]	111.1

[1] *Adjusted for 3 for 2 stock split in 1989.*

[2] *Before cumulative effect of accounting change in 1992.*

1994	*1993*	*1992*	*1991*	*1990*	*1989*	*1988*	*1987*	*1986*	*1985*
$16,742	$15,052	$15,493	$15,822	$17,151	$16,182	$15,409	$12,263	$10,179	$ 9,794
12,131	11,370	11,862	11,874	12,309	10,040	9,448	8,304	7,424	7,769
(40)	(98)	(15)	(95)	(65)	(59)	(28)	20	(57)	(55)
783	786	799	773	757	665	610	523	477	440
411	367	381	366	374	360	291	222	217	248
1,594	1,485	1,583	1,551	1,528	1,396	1,305	1,123	945	782
43	68	45	44	56	43	40	25	25	16
–	–	433	370	–	–	–	–	–	592
1,820	1,074	405	939	2,192	3,737	3,743	2,046	1,148	2
77	462	145	450	259	249	92	119	101	268
(271)	(278)	(443)	(368)	(425)	(285)	(274)	(267)	(253)	(286)
1,626	1,258	107	1,021	2,026	3,701	3,561	1,898	996	(16)
654	514	67	269	773	1,350	1,340	787	398	(48)
200	171	120	56	44	11	6	5	1	3
7	7	7	7	6	1	–	–	–	–
765	566	(87)	689	1,203	2,339	2,215	1,106	597	29
–	–	(765)	–	–	–	–	–	–	–
166	71	356	246	175	147	183	134	135	29
931	637	(496)	935	1,378	2,486	2,398	1,240	732	58
2.77	2.07	(0.32)	2.55	4.46	8.66	7.86	3.85	2.08	0.10
3.37	2.33	0.99	3.46	5.10	9.20	8.51	4.31	2.55	0.20
2.60	2.60	2.60	2.60	2.60	2.37	1.73	1.43	1.27	1.20
2.60	2.60	2.60	2.60	2.60	2.18	1.63	1.40	1.23	1.20
276,094	273,620	271,647	270,477	269,899	270,243	281,891	287,504	287,088	285,579
1,549	1,567	1,586	1,592	1,602	1,602	–	–	–	–
$26,545	$25,505	$25,360	$24,727	$23,953	$22,008	$16,073	$14,230	$12,553	$14,405
2,075	2,001	1,802	1,584	2,265	909	2,218	2,307	1,749	1,281
23,210	21,608	21,444	20,663	19,149	16,700	14,698	13,502	12,715	11,875
8,726	8,580	8,801	8,775	8,249	7,080	5,938	5,551	5,347	5,127
5,325	5,918	6,201	6,083	5,209	3,855	3,338	3,779	3,404	3,198
6,578	6,944	7,469	7,652	6,642	6,141	3,770	3,958	3,683	3,661
8,212	8,034	8,064	9,441	8,728	7,957	7,255	5,769	5,178	4,806
4.7%	5.2%	5.2%	4.9%	4.4%	4.1%	4.0%	4.3%	4.7%	4.5%
9.7%	8.4%	0.7%	6.5%	11.8%	22.9%	23.1%	15.5%	9.8%	(0.2)%
11.3%	7.9%	3.3%	9.9%	15.8%	31.2%	33.1%	21.5%	14.1%	1.2%
$ 29.63	$ 29.36	$ 29.69	$ 34.90	$ 32.33	$ 29.55	$ 26.35	$ 20.31	$ 18.05	$ 16.85
38.0%	39.9%	42.5%	42.3%	41.3%	41.8%	34.0%	40.5%	41.4%	43.1%
$ 1,183	$ 1,397	$ 1,595	$ 1,908	$ 2,119	$ 1,756	$ 1,264	$ 995	$ 890	$ 806
1,224	1,252	1,260	1,228	1,096	954	899	784	717	952
3,239	3,332	3,263	3,101	3,104	2,482	2,314	2,045	1,800	1,663
832	887	938	711	690	554	518	474	464	387
53.7	55.4	61.4	62.2	62.1	62.1	55.5	53.1	51.3	53.2
114.5	102.5	105.9	108.4	109.4	105.4	105.8	99.0	106.3	122.6

[3] Stockholders of record as reported by the transfer agent. The Company estimates that there are an additional 132,000 stockholders whose shares are held in nominee names, or in dividend reinvestment accounts without underlying registered shares.

Board of Directors

(As of January 1, 1996)

Jacqueline K. Barton, 43
Professor of Chemistry, California Institute of Technology
Director since 1993

David T. Buzzelli, 54
Vice President and Corporate Director of Environment, Health & Safety, Public Affairs and Information Systems
Director since 1993

Anthony J. Carbone, 54
Group Vice President
Director since 1995

Fred P. Corson, 54
Vice President and Director of Research & Development
Director since 1994

Willie D. Davis, 61
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, 59
Senior Consultant; Chairman, DowElanco
Director since 1989

Enrique C. Falla, 56
Executive Vice President
Director since 1985

Barbara H. Franklin, 55
President and Chief Executive Officer, Barbara Franklin Enterprises; Former U.S. Secretary of Commerce
Director since 1993. Previously Director from 1980 to 1992

Allan D. Gilmour, 61
Retired Vice Chairman, Ford Motor Company
Director since 1995

William J. Neely, 64
Senior Consultant
Director since 1988

Michael D. Parker, 49
Group Vice President
Director since 1995

Frank P. Popoff, 59
Chairman of the Board
Director since 1982

J. Pedro Reinhard, 50
Financial Vice President, Treasurer and Chief Financial Officer
Director since 1995

Harold T. Shapiro, 60
President, Princeton University
Director since 1985

William S. Stavropoulos, 56
President and Chief Executive Officer
Director since 1990

Paul G. Stern, 57
Partner, Thayer Capital Partners
Director since 1992

Committees of the Board of Directors

Audit Committee
B. H. Franklin, Chairman
A. D. Gilmour
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
A. D. Gilmour
P. G. Stern

Environment, Health and Safety Committee
W. J. Neely, Chairman
J. K. Barton
D. T. Buzzelli
F. P. Corson
M. L. Dow
M. D. Parker
P. D. Brink, ex-officio
J. B. Martin, ex-officio
R. J. Pingel, ex-officio
J. Scriven, ex-officio

Executive Committee
W. S. Stavropoulos, Chairman
A. J. Carbone
M. D. Parker
F. P. Popoff
J. P. Reinhard

Finance Committee
J. P. Reinhard, Chairman
A. J. Carbone
J. L. Downey
E. C. Falla
M. D. Parker
F. P. Popoff
W. S. Stavropoulos
C. J. Hahn, ex-officio
R. L. Kesseler, ex-officio
T. S. LeBeau, ex-officio
J. Scriven, ex-officio

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

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

Corporate Organization

(As of January 1, 1996)

Officers and Assistant Officers

Chairman of the Board
Frank P. Popoff

President and Chief Executive Officer
William S. Stavropoulos

Financial Vice President, Treasurer and Chief Financial Officer
J. Pedro Reinhard

Executive Vice President
Enrique C. Falla

Group Vice President
Anthony J. Carbone

Group Vice President
Michael D. Parker

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

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

Vice President of Human Resources
Lawrence J. Washington, Jr.

Vice President and General Counsel
John Scriven

Vice President and Controller
Roger L. Kesseler

Secretary
Donna J. Roberts

Assistant Controller
William C. Schmidt

Assistant Secretary
Charles J. Hahn

Assistant Secretary
Tina S. Van Dam

Assistant Treasurer
Henry Kahn

Auditor
James F. Hicks

Stockholder Reference Information

Stockholder Inquiries

Inquiries about stock, changes in name or address and other stock-related questions may be directed to Dow's transfer agent:

Boston EquiServe Limited Partnership
P.O. Box 9155
Boston, MA 02205-9155
Telephone: 800-DOW-5606 (800-369-5606) in the U.S. or 617-575-3899. For the hearing impaired: 800-368-0328 (available only on TDD phones)

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: 517-636-1463 or 800-422-8193 in the U.S.

Annual Meeting

The 1996 Annual Meeting of Stockholders will be conducted at 2 p.m. (EDT) Thursday, May 9, 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:

Boston EquiServe Limited Partnership
P.O. Box 9155
Boston, MA 02205-9155
Telephone: 800-DOW-5606 (800-369-5606) in the U.S. or 617-575-3899. For the hearing impaired: 800-368-0328 (available only on TDD phones)

Cassette Tapes Available

Audio cassette tapes of the 1995 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: 517-636-1463 or 800-422-8193 in the U.S.

Transfer Agents

Boston EquiServe Limited Partnership
P.O. Box 9155
Boston, MA 02205-9155
Telephone: 800-DOW-5606 (800-369-5606) in the U.S. or 617-575-3899. For the hearing impaired: 800-368-0328 (available only on TDD phones)

The R-M Trust Company
393 University Avenue, Fifth Floor
Toronto, Ontario, Canada M5G 2M7
Telephone: 800-387-0825 (in North America) or 416-813-4600

Registrar

Boston EquiServe Limited Partnership
P.O. Box 9155
Boston, MA 02205-9155

Stock Exchange Listings and Trading Privileges

NYSE Symbol: DOW
Amsterdam, Antwerp, Basel, Berlin, Brussels, Dusseldorf, Frankfurt, Geneva, Hamburg, Hannover, London, Midwest, New York, Pacific, 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. For more information, call or write to:

Boston EquiServe Limited Partnership
P.O. Box 9155
Boston, MA 02205-9155
Telephone: 800-DOW-5606 (800-369-5606) in the U.S. or 617-575-3899. For the hearing impaired: 800-368-0328 (available only on TDD phones)

Internet Address

Additional information about Dow can be found on the World Wide Web at: www.dow.com.

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