Dow Inc.
Form 10-Q
May 03, 2019
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 10-Q

þ QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended MARCH 31, 2019
or
¨ TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from __________to__________

Commission File Number	Exact Name of Registrant as Specified in its Charter, Principal Office Address and Telephone Number	State of Incorporation or Organization	I.R.S. Employer Identification No.
001-38646	Dow Inc. 2211 H.H. Dow Way, Midland, MI 48674 (989) 636-1000	Delaware	30-1128146
001-03433	The Dow Chemical Company 2211 H.H. Dow Way, Midland, MI 48674 (989) 636-1000	Delaware	38-1285128

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Dow Inc. þ Yes ¨ No
The Dow Chemical Company þ Yes ¨ No

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

Dow Inc. þ Yes ¨ No
The Dow Chemical Company þ Yes ¨ No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company, or an emerging growth company. See the definitions of “large accelerated filer,” “accelerated filer,” “smaller reporting company,” and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Dow Inc.	Large accelerated filer ¨	Accelerated filer ¨	Non-accelerated filer þ	Smaller reporting company ¨	Emerging growth company ¨
The Dow Chemical Company	Large accelerated filer ¨	Accelerated filer ¨	Non-accelerated filer þ	Smaller reporting company ¨	Emerging growth company ¨

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

Dow Inc. ¨
The Dow Chemical Company ¨

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Dow Inc. ¨ Yes þ No
The Dow Chemical Company ¨ Yes þ No

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

Registrant	Title of each class	Trading Symbol(s)	Name of each exchange on which registered
Dow Inc.	Common Stock, par value $0.01 per share	DOW	New York Stock Exchange

At April 30, 2019, Dow Inc. had 748,824,164 shares of common stock outstanding. At April 30, 2019, The Dow Chemical Company had 100 shares of common stock outstanding, all of which were held by the registrant's parent, Dow Inc.

This filing is a reduced disclosure format for The Dow Chemical Company as it meets the conditions set forth in General Instruction H(l)(a) and (b) for Form 10-Q.

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Dow Inc.
The Dow Chemical Company and Subsidiaries
QUARTERLY REPORT ON FORM 10-Q
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Dow Inc.
The Dow Chemical Company and Subsidiaries

This Quarterly Report on Form 10-Q for the quarter ended March 31, 2019, is a combined report being filed separately by Dow Inc. and The Dow Chemical Company and its consolidated subsidiaries (“TDCC” and together with Dow Inc., "Dow"). Each of Dow Inc. and TDCC is filing information included in this report on its own behalf and neither company makes any representation as to information relating to the other company.

Background
Effective August 31, 2017, pursuant to the merger of equals transaction contemplated by the Agreement and Plan of Merger, dated as of December 11, 2015, as amended on March 31, 2017, TDCC and E. I. du Pont de Nemours and Company and its consolidated subsidiaries (“DuPont”) each merged with subsidiaries of DowDuPont Inc. (“DowDuPont”) and, as a result, TDCC and DuPont became subsidiaries of DowDuPont (the “Merger”). Subsequent to the Merger, TDCC and DuPont engaged in a series of internal reorganization and realignment steps to realign their businesses into three subgroups: agriculture, materials science and specialty products. Dow Inc. was formed as a wholly owned subsidiary of DowDuPont to serve as the holding company for the materials science business.

As a result of Dow Inc.'s Registration Statement on Form 10 becoming effective on March 12, 2019 with the U.S. Securities and Exchange Commission ("SEC"), Dow Inc. is now required to file a Quarterly Report on Form 10-Q. At March 31, 2019, Dow Inc. and TDCC were separate, wholly owned subsidiaries of DowDuPont. At March 31, 2019, Dow Inc. was a holding company that did not have subsidiaries or operations. As a result, financial statements of Dow Inc. have not been included in this Quarterly Report on Form 10-Q and, unless otherwise indicated, the unaudited interim consolidated financial statements and notes thereto relate to TDCC.

On April 1, 2019, DowDuPont completed the separation of its materials science business and Dow Inc. became the direct parent company of TDCC, owning all of the outstanding common shares of TDCC. For filings relating to the period commencing April 1, 2019 and thereafter, TDCC will be deemed the predecessor to Dow Inc. and the historical results of TDCC will be deemed the historical results of Dow Inc. for periods prior to and including March 31, 2019. As a result of the future relationship between Dow Inc. and TDCC, the companies are filing a combined report for this Quarterly Report on Form 10-Q.

FORWARD-LOOKING STATEMENTS
This presentation contains “forward-looking statements” within the meaning of the federal securities laws, including Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. In this context, forward-looking statements often address expected future business and financial performance, financial condition, and other matters, and often contain words such as “anticipate,” “believe,” “estimate,” “expect,” “intend,” “may,” “opportunity,” “outlook,” “plan,” “project,” “seek,” “should,” “strategy,” "target," “will,” “will be,” “will likely result,” “would” and similar expressions, and variations or negatives of these words. Forward-looking statements are based on current expectations and assumptions that are subject to risks and uncertainties which may cause actual results to differ materially from the forward-looking statements.

Forward-looking statements include, but are not limited to, expectations as to future sales of Dow’s products; the ability to protect Dow’s intellectual property in the United States and abroad; estimates regarding Dow’s capital requirements and need for and availability of financing; estimates of Dow’s expenses, future revenues and profitability; estimates of the size of the markets for Dow’s products and services and Dow’s ability to compete in such markets; expectations related to the rate and degree of market acceptance of Dow’s products; the outcome of certain Dow contingencies, such as litigation and environmental matters; estimates of the success of competing technologies that may become available and expectations regarding the benefits and costs associated with each of the foregoing.

Forward-looking statements by their nature address matters that are, to different degrees, uncertain. Forward-looking statements are based on certain assumptions and expectations of future events which may not be realized and speak only as of the date the statements were made. In addition, forward-looking statements also involve risks, uncertainties and other factors that are beyond Dow's control that could cause Dow's actual results to differ materially from those projected, anticipated or implied in the forward-looking statements. These factors include, but are not limited to: fluctuations in energy and raw material prices; failure to develop and market new products and optimally manage product life cycles; significant litigation and environmental matters; failure to appropriately manage process safety and product stewardship issues; changes in laws and regulations or political conditions; global economic and capital markets conditions, such as inflation, market uncertainty, interest and currency exchange rates, and equity and commodity prices; business or supply disruptions; security threats, such as acts of sabotage, terrorism or war, weather events and natural disasters; ability to protect, defend and enforce Dow's intellectual property rights; increased competition; changes in

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relationships with Dow’s significant customers and suppliers; unanticipated expenses such as litigation or legal settlement expenses; unanticipated business disruptions; Dow’s ability to predict, identify and interpret changes in consumer preferences and demand; Dow’s ability to complete proposed divestitures or acquisitions; Dow’s ability to realize the expected benefits of acquisitions if they are completed; the availability of financing to Dow in the future and the terms and conditions of such financing; and disruptions in Dow’s information technology networks and systems. Additionally, there may be other risks and uncertainties that Dow is unable to identify at this time or that Dow does not currently expect to have a material impact on its business.

Risks related to achieving the anticipated benefits of Dow's separation from DowDuPont include, but are not limited to, a number of conditions outside the control of Dow including risks related to (i) our inability to achieve some or all of the benefits that we expect to receive from the separation, (ii) certain tax risks associated with the separation, (iii) our inability to make necessary changes to operate as a stand-alone company, (iv) the failure of our pro forma financial information to be a reliable indicator of our future results, (v) our inability to enjoy the same benefits of diversity, leverage and market reputation that we enjoyed as a combined company, (vi) restrictions under the intellectual property cross-license agreements, (vii) our inability to receive third-party consents required under the separation agreement, (viii) our customers, suppliers and others' perception of our financial stability on a stand alone basis, (ix) non-compete restrictions under the separation agreement, (x) receipt of less favorable terms in the commercial agreements we will enter into with DuPont and Corteva, Inc. ("Corteva") than we would have received from an unaffiliated third party and (xi) our indemnification of DuPont and/or Corteva for certain liabilities.

Where, in any forward-looking statement, an expectation or belief as to future results or events is expressed, such expectation or belief is based on the current plans and expectations of management and expressed in good faith and believed to have a reasonable basis, but there can be no assurance that the expectation or belief will result or be achieved or accomplished. For a more detailed discussion of Dow’s risks and uncertainties, see the “Risk Factors” contained in the Information Statement filed as Exhibit 99.1 to Amendment No. 4 to the Registration Statement of Dow Inc. on Form 10, filed with the SEC on March 8, 2019, and Part I, Item 1A of TDCC's Annual Report on Form 10-K for the year ended December 31, 2018, filed with the SEC on February 11, 2019. Dow undertakes no obligation to update or revise publicly any forward-looking statements whether because of new information, future events, or otherwise, except as required by securities and other applicable laws.

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PART I – FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

The Dow Chemical Company and Subsidiaries
Consolidated Statements of Income

In millions (Unaudited)	Three Months Ended Mar 31, 2019	Mar 31, 2018
Net sales	$13,582	$14,899
Cost of sales	10,707	11,552
Research and development expenses	361	386
Selling, general and administrative expenses	701	751
Amortization of intangibles	154	159
Restructuring and asset related charges - net	232	165
Integration and separation costs	408	202
Equity in earnings of nonconsolidated affiliates	13	243
Sundry income (expense) - net	73	83
Interest expense and amortization of debt discount	247	270
Income before income taxes	858	1,740
Provision for income taxes	272	363
Net income	586	1,377
Net income attributable to noncontrolling interests	45	35
Net income available for The Dow Chemical Company common stockholder	$541	$1,342
Depreciation	$598	$621
Capital expenditures	$514	$423

See Notes to the Consolidated Financial Statements.

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The Dow Chemical Company and Subsidiaries
Consolidated Statements of Comprehensive Income

In millions (Unaudited)	Three Months Ended Mar 31, 2019	Three Months Ended Mar 31, 2018
Net income	$586	$1,377
Other comprehensive income (loss), net of tax		
Unrealized gains (losses) on investments	67	(25)
Cumulative translation adjustments	(31)	376
Pension and other postretirement benefit plans	141	126
Derivative instruments	(75)	6
Total other comprehensive income	102	483
Comprehensive income	688	1,860
Comprehensive income attributable to noncontrolling interests, net of tax	51	28
Comprehensive income attributable to The Dow Chemical Company	$637	$1,832

See Notes to the Consolidated Financial Statements.

The Dow Chemical Company and Subsidiaries
Consolidated Balance Sheets

In millions, except share amounts (Unaudited)	Mar 31, 2019	Dec 31, 2018
Assets		
Current Assets		
Cash and cash equivalents (variable interest entities restricted - 2019: $109; 2018: $82)	$2,969	$2,669
Marketable securities	101	100
Accounts and notes receivable:		
Trade (net of allowance for doubtful receivables - 2019: $109; 2018: $106)	8,428	8,246
Other	3,947	4,136
Inventories	9,508	9,260
Other current assets	708	852
Total current assets	25,661	25,263
Investments		
Investment in nonconsolidated affiliates	3,321	3,823
Other investments (investments carried at fair value - 2019: $1,796; 2018: $1,699)	2,737	2,648
Noncurrent receivables	345	394
Total investments	6,403	6,865
Property		
Property	61,764	61,437
Less accumulated depreciation	38,272	37,775
Net property (variable interest entities restricted - 2019: $718; 2018: $734)	23,492	23,662
Other Assets		
Goodwill	13,812	13,848
Other intangible assets (net of accumulated amortization - 2019: $5,912; 2018: $5,762)	4,743	4,913
Operating lease right-of-use assets	2,584	—
Deferred income tax assets	2,183	2,031
Deferred charges and other assets	859	796
Total other assets	24,181	21,588
Total Assets	$79,737	$77,378
Liabilities and Equity		
Current Liabilities		
Notes payable	$317	$305
Long-term debt due within one year	2,369	340
Accounts payable:		
Trade	5,103	5,378
Other	3,176	3,330
Operating lease liabilities - current	477	—
Income taxes payable	699	791
Accrued and other current liabilities	3,232	3,611
Total current liabilities	15,373	13,755
Long-Term Debt (variable interest entities nonrecourse - 2019: $43; 2018: $75)	17,160	19,254
Other Noncurrent Liabilities		
Deferred income tax liabilities	721	664
Pension and other postretirement benefits - noncurrent	9,103	9,226
Asbestos-related liabilities - noncurrent	1,133	1,142
Operating lease liabilities - noncurrent	2,126	—
Other noncurrent obligations	5,975	5,368

Total other noncurrent liabilities	19,058	16,400
Stockholders’ Equity		
Common stock (authorized and issued 100 shares of $0.01 par value each)	—	—
Additional paid-in capital	7,153	7,042
Retained earnings	29,701	29,808
Accumulated other comprehensive loss	(9,783)	(9,885)
Unearned ESOP shares	(105)	(134)
The Dow Chemical Company’s stockholders’ equity	26,966	26,831
Noncontrolling interests	1,180	1,138
Total equity	28,146	27,969
Total Liabilities and Equity	$79,737	$77,378

See Notes to the Consolidated Financial Statements.

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The Dow Chemical Company and Subsidiaries
Consolidated Statements of Cash Flows

In millions (Unaudited)	Three Months Ended Mar 31, 2019	Three Months Ended Mar 31, 2018
Operating Activities		
Net income	$586	$1,377
Adjustments to reconcile net income to net cash provided by (used for) operating activities:		
Depreciation and amortization	840	837
Credit for deferred income tax	(89)	(67)
Earnings of nonconsolidated affiliates less than dividends received	750	287
Net periodic pension benefit cost	62	110
Pension contributions	(103)	(308)
Net (gain) loss on sales of assets, businesses and investments	12	(33)
Restructuring and asset related charges - net	232	165
Other net loss	39	98
Changes in assets and liabilities, net of effects of acquired and divested companies:		
Accounts and notes receivable	(58)	(1,524)
Inventories	(266)	(1,239)
Accounts payable	(468)	823
Other assets and liabilities, net	(111)	(684)
Cash provided by (used for) operating activities	1,426	(158)
Investing Activities		
Capital expenditures	(514)	(423)
Investment in gas field developments	(25)	(28)
Proceeds from sales of property and businesses, net of cash divested	25	17
Proceeds from sale of ownership interests in nonconsolidated affiliates	21	—
Purchases of investments	(173)	(557)
Proceeds from sales and maturities of investments	180	454
Proceeds from interests in trade accounts receivable conduits	—	445
Cash used for investing activities	(486)	(92)
Financing Activities		
Changes in short-term notes payable	(17)	293
Payments on long-term debt	(80)	(54)
Proceeds from issuance of parent company stock	28	63
Employee taxes paid for share-based payment arrangements	(54)	(77)
Distributions to noncontrolling interests	(9)	(24)
Dividends paid to parent	(535)	(1,057)
Other financing activities, net	—	3
Cash used for financing activities	(667)	(853)
Effect of exchange rate changes on cash, cash equivalents and restricted cash	30	100
Summary		
Increase (Decrease) in cash, cash equivalents and restricted cash	303	(1,003)
Cash, cash equivalents and restricted cash at beginning of period	2,709	6,207
Cash, cash equivalents and restricted cash at end of period	$3,012	$5,204
Less: Restricted cash and cash equivalents, included in "Other current assets"	43	18
Cash and cash equivalents at end of period	$2,969	$5,186

See Notes to the Consolidated Financial Statements.

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The Dow Chemical Company and Subsidiaries
Consolidated Statements of Equity

In millions (Unaudited)	Three Months Ended Mar 31, 2019	Mar 31, 2018
Common Stock		
Balance at beginning and end of period	$—	$—
Additional Paid-in Capital		
Balance at beginning of period	7,042	6,553
Issuance of parent company stock	28	63
Stock-based compensation and allocation of ESOP shares	83	142
Balance at end of period	7,153	6,758
Retained Earnings		
Balance at beginning of period	29,808	28,050
Net income available for The Dow Chemical Company common stockholder	541	1,342
Dividends to parent	(535)	(1,057)
Adoption of accounting standards (Notes 1, 2 and 6)	(111)	(68)
Other	(2)	(6)
Balance at end of period	29,701	28,261
Accumulated Other Comprehensive Loss		
Balance at beginning of period	(9,885)	(8,591)
Other comprehensive income	102	483
Adoption of accounting standards (Note 1)	—	20
Balance at end of period	(9,783)	(8,088)
Unearned ESOP Shares		
Balance at beginning of period	(134)	(189)
Allocation of ESOP shares	29	39
Balance at end of period	(105)	(150)
The Dow Chemical Company's stockholders' equity	26,966	26,781
Noncontrolling Interests	1,180	1,190
Total Equity	$28,146	$27,971

See Notes to the Consolidated Financial Statements.

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Dow Inc.
The Dow Chemical Company and Subsidiaries
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
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NOTE 1 – CONSOLIDATED FINANCIAL STATEMENTS

Merger and Separation

Effective August 31, 2017, pursuant to the merger of equals transaction contemplated by the Agreement and Plan of Merger (the "Merger Agreement"), dated as of December 11, 2015, as amended on March 31, 2017, The Dow Chemical Company and its consolidated subsidiaries (“TDCC”) and E. I. du Pont de Nemours and Company and its consolidated subsidiaries (“DuPont”) each merged with subsidiaries of DowDuPont Inc. (“DowDuPont”) and, as a result, TDCC and DuPont became subsidiaries of DowDuPont (the “Merger”). Subsequent to the Merger, TDCC and DuPont engaged in a series of internal reorganization and realignment steps to realign their businesses into three subgroups: agriculture, materials science and specialty products. Dow Inc. (together with TDCC, “Dow”) was formed as a wholly owned subsidiary of DowDuPont to serve as the holding company for the materials science business. On April 1, 2019, DowDuPont completed the separation of its materials science business and Dow Inc. became the direct parent company of TDCC. See Note 19 for additional information.

Basis of Presentation

As a result of Dow Inc.'s Registration Statement on Form 10 becoming effective on March 12, 2019 with the U.S. Securities and Exchange Commission ("SEC"), Dow Inc. is now required to file a Quarterly Report on Form 10-Q. At March 31, 2019, Dow Inc. and TDCC were separate, wholly owned subsidiaries of DowDuPont. At March 31, 2019, Dow Inc. was a holding company that did not have subsidiaries or operations. As a result, financial statements of Dow Inc. have not been included in this Quarterly Report on Form 10-Q and, unless otherwise indicated, the unaudited interim consolidated financial statements and notes thereto relate to TDCC.

Effective April 1, 2019, Dow Inc. owns all of the outstanding common shares of TDCC. TDCC is deemed the predecessor to Dow Inc. and the historical results of TDCC are deemed the historical results of Dow Inc. for periods prior to and including March 31, 2019. As a result of the future relationship between Dow Inc. and TDCC, the companies are filing a combined report for this Quarterly Report on Form 10-Q.

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The unaudited interim consolidated financial statements of TDCC were prepared in accordance with accounting principles generally accepted in the United States of America (“U.S. GAAP”) and reflect all adjustments (including normal recurring accruals) which, in the opinion of management, are considered necessary for the fair presentation of the results for the periods presented. These statements should be read in conjunction with the audited consolidated financial statements and notes thereto included in TDCC's Annual Report on Form 10-K for the year ended December 31, 2018.

For the periods presented in the unaudited interim consolidated financial statements, TDCC's common shares were owned solely by DowDuPont. In accordance with the accounting guidance for earnings per share, the presentation of earnings per share is not required in financial statements of wholly owned subsidiaries.

From the Merger date through March 31, 2019, transactions between DowDuPont, TDCC and DuPont and their affiliates were treated as related party transactions. Transactions between TDCC and DuPont primarily consisted of the sale and procurement of certain feedstocks, energy and raw materials that were consumed in each company's manufacturing process. In addition, TDCC and DuPont have tolling arrangements and recognize product sales for agriculture products. See Note 18 for additional information.

From the Merger date and through March 31, 2019, TDCC’s business activities were components of DowDuPont’s business operations. TDCC’s business activities, including the assessment of performance and allocation of resources, were reviewed and managed by DowDuPont. Information used by the chief operating decision maker of TDCC related to TDCC in its entirety. Accordingly, there were no separate reportable business segments for TDCC under Accounting Standards Codification ("ASC") Topic 280 “Segment Reporting” and TDCC's business results have been reported in this Quarterly Report on Form 10-Q as a single operating segment.

Except as otherwise indicated by the context, the term "Union Carbide" means Union Carbide Corporation, and "Dow Silicones" means Dow Silicones Corporation, both wholly owned subsidiaries of TDCC.

Adoption of Accounting Standards

2019

In the first quarter of 2019, TDCC adopted Accounting Standards Update ("ASU") 2016-02, "Leases (Topic 842)," and associated ASUs related to Topic 842. See Notes 2 and 11 for additional information. TDCC added a significant accounting policy for leases as a result of the adoption of Topic 842:

Leases

TDCC determines whether a contract contains a lease at contract inception. A contract contains a lease if there is an identified asset and TDCC has the right to control the asset.

Operating lease right-of-use (“ROU”) assets represent TDCC’s right to use an underlying asset for the lease term, and lease liabilities represent TDCC’s obligation to make lease payments arising from the lease. Operating lease ROU assets and lease liabilities are recognized at commencement date based on the present value of lease payments over the lease term. TDCC uses the incremental borrowing rate (“IBR”) in determining the present value of lease payments, unless the implicit rate is readily determinable. If lease terms include options to extend or terminate the lease, the ROU asset and lease liability are measured based on the reasonably certain decision. Leases with a term of 12 months or less at the commencement date are not recognized on the balance sheet and are expensed as incurred.

TDCC has lease agreements with lease and non-lease components, which are accounted for as a single lease component for all classes of leased assets for which TDCC is the lessee. Additionally, for certain equipment leases, the portfolio approach is applied to account for the operating lease ROU assets and lease liabilities. In the consolidated statements of income, lease expense for operating lease payments is recognized on a straight-line basis over the lease term. For finance leases, interest expense is recognized on the lease liability and the ROU asset is amortized over the lease term.

Some leasing arrangements require variable payments that are dependent upon usage or output, or may vary for other reasons, such as insurance or tax payments. Variable lease payments are recognized as incurred and are not presented as part of the ROU asset or lease liability.

Additionally, TDCC's consolidated balance sheet reflects the impact of the adoption of ASU 2014-09, "Revenue from Contracts with Customers (Topic 606)" and the associated ASUs (collectively, "Topic 606") at January 1, 2019, by certain nonconsolidated affiliates of TDCC. See Note 6 for additional information.

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2018
In the first quarter of 2018, TDCC adopted Topic 606, ASU 2016-01, "Financial Instruments - Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities" and ASU 2016-16, "Income Taxes (Topic 740): Intra-Entity Transfers of Assets Other Than Inventory." The adoption of these ASU's resulted in a net decrease of $68 million to retained earnings and a decrease of $20 million to accumulated other comprehensive loss ("AOCL") in the consolidated statements of equity at January 1, 2018.

Dividends
Effective with the Merger, TDCC no longer has publicly traded common stock. TDCC's common shares are owned solely by DowDuPont. As a result, following the Merger, TDCC’s Board of Directors ("Board") determined dividend distributions to DowDuPont. See Note 18 for additional information.

NOTE 2 – RECENT ACCOUNTING GUIDANCE
Recently Adopted Accounting Guidance
In the first quarter of 2019, TDCC adopted ASU 2016-02, "Leases (Topic 842)," and associated ASUs related to Topic 842, which requires organizations that lease assets to recognize on the balance sheet the assets and liabilities for the rights and obligations created by those leases. The new guidance requires that a lessee recognize assets and liabilities for leases, and recognition, presentation and measurement in the financial statements will depend on its classification as a finance or operating lease. In addition, the new guidance requires disclosures to help investors and other financial statement users better understand the amount, timing and uncertainty of cash flows arising from leases. Lessor accounting remains largely unchanged from legacy U.S. GAAP but does contain some targeted improvements to align with the new revenue recognition guidance in Topic 606, issued in 2014. The new standard was effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2018, and early adoption was permitted.

TDCC adopted Topic 842 using the modified retrospective transition approach, applying the new standard to leases existing at the date of initial adoption. TDCC elected to apply the transition requirements at the effective date rather than at the beginning of the earliest comparative period presented with a cumulative effect adjustment to the opening balance of retained earnings in the period of adoption, and prior periods were not restated. In addition, TDCC elected to apply the package of practical expedients permitted under the transition guidance which does not require reassessment of prior conclusions, lease classification and initial direct lease costs. TDCC did not elect to use the hindsight practical expedient in determining the lease term or assessing impairment of ROU assets. Adoption of the new standard resulted in the recording of lease assets and liabilities of $2.7 billion at January 1, 2019. The net impact to retained earnings was an increase of $72 million and was primarily a result of the recognition of a deferred gain associated with a prior sale-leaseback transaction. The adoption of the new guidance did not have a material impact on TDCC's consolidated statements of income and had no impact on cash flows. See Note 11 for additional information.

Accounting Guidance Issued But Not Adopted at March 31, 2019
In August 2018, the Financial Accounting Standards Board ("FASB") issued ASU 2018-13, "Fair Value Measurement (Topic 820): Disclosure Framework - Changes to the Disclosure Requirements for Fair Value Measurement," which is part of the FASB disclosure framework project to improve the effectiveness of disclosures in the notes to the financial statements. The amendments in the new guidance remove, modify and add certain disclosure requirements related to fair value measurements covered in Topic 820, "Fair Value Measurement." The new standard is effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2019. Early adoption is permitted for either the entire standard or only the requirements that modify or eliminate the disclosure requirements, with certain requirements applied prospectively, and all other requirements applied retrospectively to all periods presented. TDCC is currently evaluating the impact of adopting this guidance.

In August 2018, the FASB issued ASU 2018-15, "Intangibles - Goodwill and Other - Internal-Use Software (Subtopic 350-40): Customer's Accounting for Implementation Costs Incurred in a Cloud Computing Arrangement That is a Service Contract," which requires a customer in a cloud computing arrangement that is a service contract to follow the internal-use software guidance in Topic 350, "Intangibles - Goodwill and Other" to determine which implementation costs to capitalize as assets or expense as incurred. The new standard is effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2019. Early adoption is permitted and an entity can elect to apply the new guidance on a prospective or retrospective basis. TDCC is currently evaluating the impact of adopting this guidance.

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NOTE 3 – REVENUE
Revenue Recognition
The majority of TDCC's revenue is derived from product sales. In the three months ended March 31, 2019 and 2018, 98 percent of TDCC's revenue related to product sales with the remaining balance primarily related to TDCC's insurance operations and licensing of patents and technologies. Product sales consist of sales of TDCC's products to manufacturers and distributors and considers order confirmations or purchase orders, which in some cases are governed by master supply agreements, to be contracts with a customer. TDCC enters into licensing arrangements in which it licenses certain rights of its patents and technology to customers. Revenue from TDCC's licenses for patents and technology is derived from sales-based royalties and licensing arrangements based on billing schedules established in each contract.

Remaining Performance Obligations
Remaining performance obligations represent the transaction price allocated to unsatisfied or partially unsatisfied performance obligations. At March 31, 2019, TDCC had remaining performance obligations related to material rights granted to customers for contract renewal options of $100 million ($102 million at December 31, 2018) and unfulfilled performance obligations for the licensing of technology of $519 million ($407 million at December 31, 2018). TDCC expects revenue to be recognized for the remaining performance obligations over the next one to six years.

The remaining performance obligations are for product sales that have expected durations of one year or less, product sales of materials delivered through a pipeline for which TDCC has elected the right to invoice practical expedient, or variable consideration attributable to royalties for licenses of patents and technology. TDCC has received advance payments from customers related to long-term supply agreements that are deferred and recognized over the life of the contract, with remaining contract terms that range up to 22 years. TDCC will have rights to future consideration for revenue recognized when product is delivered to the customer. These payments are included in "Accrued and other current liabilities" and "Other noncurrent obligations" in TDCC's consolidated balance sheets.

Disaggregation of Revenue
TDCC disaggregates its revenue from contracts with customers by principal product group and geographic region, as TDCC believes it best depicts the nature, amount, timing and uncertainty of its revenue and cash flows.

Net Trade Sales by Principal Product Group	Three Months Ended	
In millions	Mar 31, 2019	Mar 31, 2018
Coatings & Performance Monomers	$904	$954
Consumer Solutions	1,365	1,363
Crop Protection	1,124	1,122
Electronics & Imaging	625	627
Hydrocarbons & Energy	1,380	1,779
Industrial Biosciences	119	135
Industrial Solutions [1]	1,104	1,156
Nutrition & Health	152	156
Packaging and Specialty Plastics	3,410	3,854
Polyurethanes & CAV [1]	2,297	2,557
Safety & Construction	424	444
Seed	323	371
Transportation & Advanced Polymers	284	304
Corporate	69	73

Other	2	4
Total	$13,582	$14,899

1. Beginning in the third quarter of 2018, the Construction Chemicals principal product group was combined with the Polyurethanes & CAV principal product group. Also, certain product lines associated with the oil and gas industry were realigned from the Industrial Solutions principal product group to Polyurethanes & CAV principal product group. These changes have been retrospectively reflected in the results presented.

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Net Trade Sales by Geographic Region	Three Months Ended	
In millions	Mar 31, 2019	Mar 31, 2018
U.S. & Canada	$4,884	$5,468
EMEA [1]	4,211	4,765
Asia Pacific	3,202	3,256
Latin America	1,285	1,410
Total	$13,582	$14,899

1. Europe, Middle East and Africa.

Contract Balances

TDCC receives payments from customers based upon contractual billing schedules. Accounts receivable are recorded when the right to consideration becomes unconditional. Contract assets include amounts related to TDCC's contractual right to consideration for completed performance obligations not yet invoiced. Contract liabilities include payments received in advance of performance under the contract and are realized when the associated revenue is recognized under the contract. "Contract liabilities - current" primarily reflects deferred revenue from prepayments from customers for product to be delivered in 12 months or less. "Contract liabilities - noncurrent" includes advance payments that TDCC has received from customers related to long-term supply agreements and royalty payments that are deferred and recognized over the life of the contract.

The increase in contract liabilities from December 31, 2018 to March 31, 2019 was due to advanced payments from a customer related to long-term product supply agreements. Revenue recognized in the first three months of 2019 from amounts included in contract liabilities at the beginning of the period was approximately $65 million (approximately $75 million in the first three months of 2018). In the first three months of 2019, the amount of contract assets reclassified to receivables as a result of the right to the transaction consideration becoming unconditional was $14 million (insignificant in the first three months of 2018).

The following table summarizes the contract balances at March 31, 2019 and December 31, 2018:

Contract Balances In millions	Mar 31, 2019	Dec 31, 2018
Accounts and notes receivable - Trade	$8,428	$8,246
Contract assets - current [1]	$26	$37
Contract assets - noncurrent [2]	$47	$47
Contract liabilities - current [3]	$233	$165
Contract liabilities - noncurrent [4]	$1,739	$1,390

1. Included in "Other current assets" in the consolidated balance sheets.
2. Included in "Deferred charges and other assets" in the consolidated balance sheets.
3. Included in "Accrued and other current liabilities" in the consolidated balance sheets.
4. Included in "Other noncurrent obligations" in the consolidated balance sheets.

NOTE 4 – RESTRUCTURING AND ASSET RELATED CHARGES - NET

Charges for restructuring programs and other asset related charges, which includes other asset impairments, were $232 million for the three months ended March 31, 2019 ($165 million for the three months ended March 31, 2018). These charges were recorded in "Restructuring and asset related charges - net" in the consolidated statements of income and consist primarily of the following:

Restructuring Plans

DowDuPont Agriculture Division Restructuring Program

During the fourth quarter of 2018 and in connection with the ongoing integration activities, DowDuPont approved restructuring actions to simplify and optimize certain organizational structures within the Agriculture division in preparation for its intended separation as a standalone company ("Agriculture Division Program"). For the three months ended March 31, 2019, TDCC recorded a favorable adjustment of $4 million to the severance and related benefit costs reserve. The impact of this adjustment is shown as "Restructuring and asset related charges - net" in the consolidated statements of income. TDCC expects actions related to the Agriculture Division Program to be substantially complete by mid 2019.

TDCC recorded pretax restructuring charges of $21 million inception-to-date under the Agriculture Division Program, consisting of severance and related benefit costs of $20 million and asset write-downs and write-offs of $1 million.

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The following table summarizes the activities related to the Agriculture Division Program. At March 31, 2019, $11 million ($23 million at December 31, 2018) was included in "Accrued and other current liabilities" in TDCC's consolidated balance sheets.

DowDuPont Agriculture Division Program In millions	Severance and Related Benefit Costs	Asset Write-downs and Write-offs	Total
2018 restructuring charges	$ 24	$ 1	$ 25
Charges against the reserve	—	(1)	(1)
Cash payments	(1)	—	(1)
Reserve balance at Dec 31, 2018	$ 23	$ —	$ 23
Adjustments to the reserve	(4)	—	(4)
Cash payments	(8)	—	(8)
Reserve balance at Mar 31, 2019	$ 11	$ —	$ 11

DowDuPont Cost Synergy Program

In September and November 2017, DowDuPont approved post-merger restructuring actions under the DowDuPont Cost Synergy Program (the "Synergy Program") which was designed to integrate and optimize the organization following the Merger and in preparation for the business separations. For the three months ended March 31, 2019, TDCC recorded pretax restructuring charges of $224 million, consisting of severance and related benefit costs of $72 million, asset write-downs and write-offs of $100 million and costs associated with exit and disposal activities of $52 million. For the three months ended March 31, 2018, TDCC recorded pretax restructuring charges of $163 million, consisting of severance and related benefit costs of $104 million, asset write-downs and write-offs of $48 million and costs associated with exit and disposal activities of $11 million. The impact of these charges is shown as "Restructuring and asset related charges - net" in the consolidated statements of income. TDCC expects actions related to the Synergy Program to be substantially complete by the end of 2019.

TDCC recorded pretax restructuring charges of $1,462 million inception-to-date under the Synergy Program, consisting of severance and related benefit costs of $633 million, asset write-downs and write-offs of $613 million and costs associated with exit and disposal activities of $216 million.

The following table summarizes the activities related to the Synergy Program. At March 31, 2019, $250 million was included in "Accrued and other current liabilities" ($272 million at December 31, 2018) and $75 million was included in "Other noncurrent obligations" ($55 million at December 31, 2018) in TDCC's consolidated balance sheets.

DowDuPont Synergy Program In millions	Severance and Related Benefit Costs	Asset Write-downs and Write-offs	Costs Associated with Exit and Disposal Activities	Total
Reserve balance at Dec 31, 2018	$ 262	$ —	$ 65	$ 327
2019 restructuring charges	72	100	52	224
Charges against the reserve	—	(100)	—	(100)
Cash payments	(97)	—	(29)	(126)
Reserve balance at Mar 31, 2019	$ 237	$ —	$ 88	$ 325

For the three months ended March 31, 2019, restructuring charges related to the write-down and write-off of assets totaled $100 million and primarily related to the impairment of leased, non-manufacturing facilities and the write-down of inventory aligned with the seed and crop protection principal product groups. The restructuring charges related to the write-down and write-off of assets for the three months ended March 31, 2018, totaled $48 million and related primarily to assets aligned with seed activities.

TDCC expects to incur additional costs in the future related to its restructuring activities. Future costs are expected to include demolition costs related to closed facilities and restructuring plan implementation costs; these costs will be recognized as incurred. TDCC also expects to incur additional employee-related costs, including involuntary termination benefits, related to its other optimization activities. These costs cannot be reasonably estimated at this time.

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NOTE 5 – INVENTORIES

The following table provides a breakdown of inventories:

Inventories In millions	Mar 31, 2019	Dec 31, 2018
Finished goods	$5,703	$5,640
Work in process	2,239	2,214
Raw materials	940	941
Supplies	891	880
Total	$9,773	$9,675
Adjustment of inventories to a LIFO basis	(265)	(415)
Total inventories	$9,508	$9,260

NOTE 6 – NONCONSOLIDATED AFFILIATES

TDCC's investments in companies accounted for using the equity method ("nonconsolidated affiliates"), by classification in the consolidated balance sheets, are shown in the following table:

Investments in Nonconsolidated Affiliates In millions	Mar 31, 2019	Dec 31, 2018
Investment in nonconsolidated affiliates	$3,321	$3,823
Other noncurrent obligations	(870)	(495)
Net investment in nonconsolidated affiliates	$2,451	$3,328

HSC Group

The carrying value of TDCC's investments in the HSC Group, which includes Hemlock Semiconductor L.L.C. and DC HSC Holdings LLC, was adjusted as a result of the HSC Group's adoption of Topic 606. The resulting impact to TDCC's investments in the HSC Group was a reduction to "Investment in nonconsolidated affiliates" of $71 million and an increase to "Other noncurrent obligations" of $168 million, as well as an increase to "Deferred income tax assets" of $56 million and a reduction to "Retained earnings" of $183 million in the consolidated balance sheet at January 1, 2019. The following table reflects the carrying value of the HSC Group investments at March 31, 2019 and December 31, 2018:

Investment in the HSC Group		Investment	
In millions	Balance Sheet Classification	Mar 31, 2019	Dec 31, 2018
Hemlock Semiconductor L.L.C.	Other noncurrent obligations	$(658)	$(495)
DC HSC Holdings LLC	Investment in nonconsolidated affiliates	$485	$535

EQUATE

In the first quarter of 2019, EQUATE Petrochemical Company K.S.C.C. ("EQUATE") paid a dividend of $440 million, reflected in "Earnings of nonconsolidated affiliates less than dividends received" in the consolidated statements of cash flows. As a result, TDCC had a negative investment balance in EQUATE of $212 million at March 31, 2019, classified as "Other noncurrent obligations" in the consolidated balance sheets. At December 31, 2018, TDCC had an investment balance in EQUATE of $131 million, classified as "Investment in nonconsolidated affiliates" in the consolidated balance sheets.

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NOTE 7 – GOODWILL AND OTHER INTANGIBLE ASSETS
The following table shows the carrying amount of goodwill:

Goodwill	
In millions	
Net goodwill at Dec 31, 2018	$13,848
Foreign currency impact	(36)
Net goodwill at Mar 31, 2019	$13,812

The following table provides information regarding TDCC's other intangible assets:

Other Intangible Assets	Mar 31, 2019			Dec 31, 2018		
In millions	Gross Carrying Amount	Accum Amort	Net	Gross Carrying Amount	Accum Amort	Net
Intangible assets with finite lives:						
Developed technology	$3,253	$(1,996)	$1,257	$3,255	$(1,934)	$1,321
Software	1,539	(900)	639	1,529	(876)	653
Trademarks/tradenames	680	(638)	42	688	(631)	57
Customer-related	4,898	(2,211)	2,687	4,911	(2,151)	2,760
Other	236	(167)	69	243	(170)	73
Total other intangible assets, finite lives	$10,606	$(5,912)	$4,694	$10,626	$(5,762)	$4,864
In-process research and development	49	—	49	49	—	49
Total other intangible assets	$10,655	$(5,912)	$4,743	$10,675	$(5,762)	$4,913

The following table provides information regarding amortization expense related to other intangible assets:

Amortization Expense	Three Months Ended	
In millions	Mar 31, 2019	Mar 31, 2018
Other intangible assets, excluding software	$154	$ 159
Software, included in "Cost of sales"	$25	$ 23

Total estimated amortization expense for 2019 and the five succeeding fiscal years is as follows:

Estimated Amortization Expense
In millions
2019