PLAINTIFF'S EXHIBIT
UC-4808

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PUBLIC DOCUMENT COUNT:          1
CONFORMED PERIOD OF REPORT:     20010930
FILED AS OF DATE:               20011106

FILER:

        COMPANY DATA:
                COMPANY CONFORMED NAME:                 UNION CARBIDE CORP /NEW/
                CENTRAL INDEX KEY:                      0000100790
                STANDARD INDUSTRIAL CLASSIFICATION:     INDUSTRIAL ORGANIC CHEMICAL
                IRS NUMBER:                             131421730
                STATE OF INCORPORATION:                 NY
                FISCAL YEAR END:                        1231

        FILING VALUES:
                FORM TYPE:              10-Q
                SEC ACT:                1934 Act
                SEC FILE NUMBER:        001-01463
                FILM NUMBER:            1775976

        BUSINESS ADDRESS:
                STREET 1:               39 OLD RIDGEBURY RD
                CITY:                   DANBURY
                STATE:                  CT
                ZIP:                    06817-0001
                BUSINESS PHONE:         2037942000

        MAIL ADDRESS:
                STREET 1:               39 OLD RIDGEBURY RD
                CITY:                   DANBURY
                STATE:                  CT
                ZIP:                    06817-0001

        FORMER COMPANY:
                FORMER CONFORMED NAME:  UNION CARBIDE & CARBON CORP
                DATE OF NAME CHANGE:    19710317

        FORMER COMPANY:
                FORMER CONFORMED NAME:  UNION CARBIDE CHEMICALS & PLASTICS CO INC
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<DESCRIPTION>10-Q
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UNITED STATES SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D C 20549

FORM 10-Q

(X) QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the Quarterly Period Ended September 30, 2001

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 1-1463

UNION CARBIDE CORPORATION
A SUBSIDIARY OF THE DOW CHEMICAL COMPANY
(Exact name of registrant as specified in its charter)

New York (State or other jurisdiction of incorporation or organization)	13-1421730 (I.R.S. Employer Identification No.)
39 Old Ridgebury Road, Danbury, CT (Address of principal executive offices)	06817-0001 (Zip Code)

203-794-2000
Registrant's telephone number, including area code

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

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

At October 31, 2001, 1,000 shares of common stock were outstanding, all of which were held by the registrant's parent, The Dow Chemical Company.

THE REGISTRANT MEETS THE CONDITIONS SET FORTH IN GENERAL INSTRUCTIONS H(1)(A) AND (B) FOR FORM 10-Q AND IS THEREFORE FILING THIS FORM WITH A REDUCED DISCLOSURE FORMAT.

Total number of sequentially numbered pages in this filing, including exhibits thereto: 21

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UNION CARBIDE CORPORATION
(A SUBSIDIARY OF THE DOW CHEMICAL COMPANY)

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PART I. FINANCIAL INFORMATION

ITEM 1: FINANCIAL STATEMENTS:

UNION CARBIDE CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF INCOME

<Table>
<Caption>

In Millions (Unaudited)	Three Months Ended Sept. 30, 2001	Three Months Ended Sept. 30, 2000	Nine Sept. 200

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<S>	<C>	<C>	<C>
Net trade sales	$ 827	$ 1,637	$ 3,5
Net sales to related companies	350	-	8
Total Net Sales	$ 1,177	$ 1,637	$ 4,4
Cost of sales	1,114	1,494	4,1
Research and development expenses	32	51	1
Selling, general and administrative expenses	31	57	1
Amortization of intangibles	1	4	
Merger-related expenses and restructuring	-	-	1,2
Insurance and finance company operations, pretax income (loss)	(2)	10	
Equity in earnings of nonconsolidated affiliates	19	27	
Sundry income (expense) - net	7	(4)	
Earnings (Loss) Before Interest, Income Taxes, and Minority Interests	23	64	(1,1
Interest income	3	3	
Interest expense and amortization of debt discount	45	35	1
Income (Loss) Before Income Taxes and Minority Interests	(19)	32	(1,3
Provision (benefit) for income taxes	(8)	-	(4
Minority interests' share in income	1	3	
Net Income (Loss)	$ (12)	$ 29	$ (8
Depreciation	$ 91	$ 96	$ 3
Capital Expenditures	$ 16	$ 75	$

</Table>

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See Notes to Consolidated Financial Statements.

<Page>

UNION CARBIDE CORPORATION AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS

<Table>
<Caption>

In Millions (Unaudited)	Sept. 30, 2001	Dec. 31, 2000
<S>	<C>	<C>
ASSETS		

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Current Assets		
Cash and cash equivalents	$ 30	$ 63
Marketable securities	--	74
Accounts and notes receivable:		
Trade (net of allowance for doubtful receivables - 2001: $13; 2000: $11)	317	897
Related companies	824	--
Other	614	137
Inventories:		
Finished and work in process	284	557
Materials and supplies	152	193
Deferred income tax assets - current	348	142
Other current assets	--	113
Total current assets	2,569	2,176
Investments		
Investment in nonconsolidated affiliates	595	1,008
Other investments	298	97
Noncurrent receivables	527	154
Total investments	1,420	1,259
Property		
Property	8,736	9,361
Less accumulated depreciation	5,110	4,840
Net property	3,626	4,521
Other Assets		
Goodwill (net of accumulated amortization - 2001: $49; 2000: $54)	28	41
Deferred charges and other assets	371	349
Total other assets	399	390
Total assets	$8,014	$8,346

</Table>

- ---

See Notes to Consolidated Financial Statements.

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UNION CARBIDE CORPORATION AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS

<Table>
<Caption>

	Sept. 30,	Dec. 31,

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asbestosclaims.law/library/19324/5

In Millions (Unaudited)	2001	2000
LIABILITIES AND STOCKHOLDERS' EQUITY		
<S>	<C>	<C>
Current Liabilities		
Notes payable:		
Related companies	$ 1,214	$ --
Other	21	1,171
Long-term debt due within one year	2	7
Accounts payable:		
Trade	327	703
Related companies	537	--
Other	46	67
Income taxes payable	63	--
Deferred income tax liabilities - current	5	--
Accrued and other current liabilities	249	352
Total current liabilities	2,464	2,300
Long-Term Debt	1,744	1,748
Other Noncurrent Liabilities		
Deferred income tax liabilities - noncurrent	261	278
Pension and other postretirement benefits - noncurrent	693	492
Other noncurrent obligations	1,063	834
Total other noncurrent liabilities	2,017	1,604
Minority Interest in Subsidiaries	9	40
Stockholders' Equity		
Common stock - issued - 1,000 shares (158,994,683 shares in 2000)	--	159
Additional paid-in capital	--	217
Unearned ESOP shares	(50)	(50)
Retained earnings	2,067	3,572
Accumulated other comprehensive loss	(237)	(224)
Treasury stock, at cost - no shares (23,431,939 shares in 2000)	--	(1,020)
Total stockholders' equity	1,780	2,654
Total Liabilities and Stockholders' Equity	$ 8,014	$ 8,346

</Table>

See Notes to Consolidated Financial Statements.

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Cash and cash equivalents, beginning-of-period	63	
CASH AND CASH EQUIVALENTS, END-OF-PERIOD	$ 30	$

</Table>

See Notes to Consolidated Financial Statements.

<Page>

UNION CARBIDE CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

<Table>
<Caption>

In Millions (Unaudited)	Three Months Ended Sept. 30, 2001	Three Months Ended Sept. 30, 2000	Nine Sept. 200
<S>	<C>	<C>	<C>
Net income (loss)	$ (12)	$ 29	$ (
Other comprehensive income (loss), net of tax:			
Unrealized gains and losses on investments	(4)	(3)	
Cumulative translation adjustments	32	(23)	
Comprehensive income (loss)	$ 16	$ 3	$ (

</Table>

See Notes to Consolidated Financial Statements.

<Page>

UNION CARBIDE CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE A - CONSOLIDATED FINANCIAL STATEMENTS

The unaudited interim financial statements reflect all adjustments (consisting of normal recurring accruals) which, in the opinion of management, are considered necessary for a fair presentation of the results for the periods covered. Certain reclassifications of prior period amounts have been made to conform to the current period's presentation. These

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statements should be read in conjunction with the audited Notes to Financial Statements of Union Carbide Corporation and Subsidiaries (the "corporation" or "UCC") in the 2000 Annual Report on Form 10-K.

CONDENSED SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

BUSINESS AND GEOGRAPHIC SEGMENT INFORMATION - Effective with the merger of the corporation into a wholly owned subsidiary of The Dow Chemical Company ("Dow", and with regard to the merger, the "Dow Merger"), the corporation's business activities were fully integrated with those of Dow and are no longer operated as separate business units. Dow conducts its worldwide operations through global businesses which extend beyond the boundaries of both geography and legal entities. This results in the corporation's business activities comprising fully integrated components of Dow's global businesses rather than stand-alone operations. Because there are no separable reportable business segments for the corporation under Statement of Financial Accounting Standards ("Statement") No. 131, "Disclosures about Segments of an Enterprise and Related Information," and the information used by the chief operating decision maker regarding the corporation's operations relates to the corporation in its entirety, the corporation's results are reported as a single operating segment. Prior to the Dow Merger, the corporation was managed as two separate business segments, Specialties and Intermediates and Basic Chemicals and Polymers, as well as a nonoperating segment ("Other"). Prior periods have been restated to conform to the current period's presentation.

RESEARCH AND DEVELOPMENT - Research and development costs are charged to expense as incurred. Depreciation expense applicable to research and development facilities and equipment is included in "Research and development expenses" in the Consolidated Statements of Income.

RELATED COMPANIES - Significant transactions with the corporation's parent company, Dow, or other Dow subsidiaries have been characterized as related company transactions in the consolidated financial statements.

EARNINGS PER SHARE - In accordance with Statement No. 128, "Earnings Per Share," the presentation of earnings per share is not required in financial statements of wholly owned subsidiaries.

NOTE B - ACCOUNTING CHANGES

In 1998, the Financial Accounting Standards Board ("FASB") issued Statement No. 133, "Accounting for Derivative Instruments and Hedging Activities." It requires that an entity recognize all derivative instruments as either assets or liabilities in the statement of financial position and measure those instruments at fair value. Changes in the fair value of those derivatives will be reported in earnings or accumulated other comprehensive loss, depending on the uses of the derivatives and whether they qualify for hedge accounting. This Statement, as amended by Statement No. 137, "Accounting for Derivative Instruments and Hedging Activities - Deferral of the Effective Date of FASB Statement No. 133," and Statement No. 138, "Accounting for Certain Derivative Instruments and Certain Hedging Activities - an amendment of FASB Statement No. 133," is effective for all fiscal quarters of fiscal years beginning after June 15, 2000. The corporation adopted the provisions of Statement No. 133, as amended, on January 1, 2001. Due to the corporation's limited use of financial instruments to manage its exposure to market risks, primarily related only to changes in foreign currency exchange rates, the adoption of Statement

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No. 133 on January 1, 2001 did not have a material effect on the corporation's financial position or results of operations.

In 1999, the Securities and Exchange Commission issued Staff Accounting Bulletin ("SAB") 101, "Revenue Recognition in Financial Statements," which summarizes the staff's views regarding the application of generally accepted accounting principles to selected revenue recognition issues. The corporation adopted the provisions of SAB 101 on October 1, 2000, the effect of which was not material to the corporation's financial position or results of operations.

In July 2001, the FASB issued Statement No. 141, "Business Combinations," and Statement No. 142, "Goodwill and Other Intangible Assets." These Statements replace Accounting Principles Board ("APB") Opinion No. 16, "Business Combinations," and APB Opinion No. 17, "Intangible Assets," respectively. Under Statement No. 141 all business combinations initiated after June 30, 2001 are accounted for using only the purchase method. Statement No. 142 is effective for fiscal years beginning after December 15, 2001. Under this Statement, goodwill will not be amortized, but will be subject to impairment testing. The corporation is currently assessing the impact of adopting these Statements.

In August 2001, the FASB issued Statement No. 143, "Accounting for Asset Retirement Obligations," which requires an entity to record the fair value of a liability for an asset retirement obligation in the period in which it is incurred and a corresponding increase in the related long-lived asset. The liability is adjusted to its present value each period and the asset is depreciated over its useful life. A gain or loss may be incurred upon settlement of the liability. Statement No. 143 is effective for fiscal years beginning after June 15, 2002. The corporation is currently assessing the impact of adopting this Statement.

In October 2001, the FASB issued Statement No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets," which replaces Statement No. 121 and provisions of APB Opinion No.30 for the disposal of segments of a business. The statement creates one accounting model, based on the framework established in Statement No. 121, to be applied to all long-lived assets including discontinued operations. Statement No. 144 is effective for fiscal years beginning after December 15, 2001. The corporation is currently assessing the impact of adopting this Statement.

NOTE C - THE DOW MERGER AND MERGER-RELATED EXPENSES AND RESTRUCTURING

On February 6, 2001, the corporation merged with a wholly owned subsidiary of Dow. As a result of the merger, each share of Union Carbide common stock outstanding immediately prior to the merger was exchanged for 1.611 shares of Dow common stock, and Union Carbide became a wholly owned subsidiary of Dow.

Contemporaneous with the merger, certain rights vested and stock units equivalent of Union Carbide common stock were converted into stock units equivalent of Dow common stock under various employee benefit and incentive plans, such as the ESOP Plan, the 1997 Union Carbide Long-Term Incentive Plan and the deferred compensation plan.

On February 23, 2001, the corporation cancelled its unused $1 billion major bank credit agreement.

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In order to satisfy the European Commission's condition for approval of the merger, the corporation divested its 50-percent interest in Polimeri Europa S.r.l. ("Polimeri Europa") to EniChem S.p.A. in April 2001.

On March 29, 2001, Dow's management made certain decisions relative to employment levels, duplicate assets and facilities and excess capacity resulting from the Dow Merger. These decisions were based on Dow management's assessment of the actions necessary to achieve synergies as the result of the merger. The economic effects of these decisions, combined with merger-related transaction costs and certain asset impairments, resulted in a pretax special charge in the first quarter of $1,275 million which was reduced by $13 million in the second quarter. The following table shows the major components of the special charge:

<Table>
<Caption>

In millions	
<S>	<C>
Transaction costs	$ 41
Labor-related costs	616
Write-down of assets and facilities	605
Total	$1,262

</Table>

Transaction costs of $41 million consisted primarily of investment banking, legal and accounting fees, all of which had been paid at March 31, 2001.

<Page>

Employee-related costs consisted predominantly of provisions for employee severance, change of control obligations, medical and retirement benefits, and outplacement services. Dow's integration plans include a workforce reduction of approximately 4,500 people, primarily from the corporation's administrative, marketing, purchasing, research and development, and manufacturing workforce. The charge for severance was based upon the severance plan provisions communicated to employees. Headcount reductions began in the second quarter of 2001. As planned, more than one-half of the reductions were completed by the end of September; approximately 80 percent will be completed by the end of the first 12 months following the merger. The corporation expects that approximately 66 percent of the employee-related costs will be expended in cash within the next two years, though the timing of severance payments is dependent upon employee elections. Expenditures with respect to employee-related costs associated with pension and postretirement benefit plans will occur over a much more extended period that is not currently determinable.

The special charge included $605 million for the write-down of duplicate assets and facilities directly related to the merger, the loss on divestitures required to obtain regulatory approval for the merger, asset impairments and lease abandonment reserves. Duplicate assets consist principally of capitalized software costs, information technology equipment and research and development facilities and equipment, all of which were written off during the first quarter. The fair values of the impaired assets, which include production facilities and transportation equipment, were determined based on discounted cash flows and an appraisal, respectively. At September 30, 2001, $101 million of the reserve remained for the abandonment of leased facilities. These components of the special charge will require limited future cash outlays, and will result in a

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decrease in annual depreciation of approximately $65 million.

As of September 30, 2001, severance of approximately $282 million had been paid to approximately 2,400 former employees.

The following table summarizes the activity in the special charge reserve for the year by quarter:

<Table>
<Caption>
In millions

Quarter	Opening Balance	Additions To Reserve	Charges Against Reserve
<S>	<C>	<C>	<C>
1Q01	$ -	$1,275	$ 646
2Q01	629	(13)	158
3Q01	458	-	23

</Table>

<Page>

NOTE D - COMMITMENTS AND CONTINGENCIES

The corporation has two major agreements for the purchase of ethylene-related products and two other purchase agreements in the U.S. and Canada. The net present value of the fixed and determinable portion of obligations under these purchase commitments at September 30, 2001 totaled $162 million including one contract for the purchase of ethylene from Dow representing $127 million of this obligation.

The corporation is subject to loss contingencies resulting from environmental laws and regulations, which include obligations to remove or remediate the effects on the environment of the disposal or release of certain wastes and substances at various sites. The corporation has established accruals in current dollars for those hazardous waste sites where it is probable that a loss has been incurred and the amount of the loss can be reasonably estimated. The reliability and precision of the loss estimates are affected by numerous factors, such as different stages of site evaluation, the allocation of responsibility among potentially responsible parties and the assertion of additional claims. The corporation adjusts its accruals as new remediation requirements are defined, as information becomes available permitting reasonable estimates to be made, and to reflect new and changing facts.

At September 30, 2001, the corporation had established environmental remediation accruals in the amount of $157 million. These accruals have two components, estimated future expenditures for site investigation and cleanup and estimated future expenditures for closure and postclosure activities. In addition, the corporation had environmental loss contingencies of $59 million.

The corporation has sole responsibility for the remediation of approximately 40 percent of its environmental sites for which accruals have been established. These sites are well advanced in the investigation and cleanup stage. The corporation's environmental accruals at September 30, 2001 included $132 million for these sites, of which $30 million was for estimated future expenditures for site investigation and cleanup and $102 million was for estimated future expenditures for closure and postclosure

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activities. In addition, $44 million of the corporation's environmental loss contingencies related to these sites. The three sites with the largest total potential cost to the corporation are nonoperating sites. Of the above accruals, these sites accounted for $39 million, of which $8 million was for estimated future expenditures for site investigation and cleanup and $31 million was for estimated future expenditures for closure and postclosure activities. In addition, $30 million of the above environmental loss contingencies related to these sites.

The corporation does not have sole responsibility at the remainder of its environmental sites for which accruals have been established. All of these sites are in the investigation and cleanup stage. The corporation's environmental accruals at September 30, 2001 included $25 million for estimated future expenditures for site investigation and cleanup at these sites. In addition, $15 million of the corporation's environmental loss contingencies related to these sites. The largest two of these sites are also nonoperating sites. Of the above accruals, these sites accounted for $10 million for estimated future expenditures for site investigation and cleanup. In addition, $2 million of the above environmental loss contingencies related to these sites.

In 2000, worldwide expenses related to environmental protection for compliance with federal, state and local laws regulating solid and hazardous wastes and discharge of materials to air and water, as well as for waste site remedial activities, totaled $104 million. Expenses in 1999 and 1998 were $118 million and $91 million, respectively.

The corporation severally guaranteed up to approximately $54 million at September 30, 2001 of EQUATE Petrochemical Company K.S.C.'s ("EQUATE") debt and working capital financing needs. The corporation has also severally guaranteed certain sales volume targets until EQUATE's sales capabilities are proved. In addition, the corporation has pledged its shares in EQUATE as security for EQUATE's debt. The corporation has political risk insurance coverage for its equity investment and a majority of its guarantee of EQUATE's debt.

The corporation had additional contingent obligations at September 30, 2001 totaling $68 million, of which $25 million related to guarantees of debt.

The corporation and its consolidated subsidiaries are involved in a number of legal proceedings and claims with both private and governmental parties. These cover a wide range of matters, including, but not limited to: product liability; trade regulation; governmental regulatory proceedings; health, safety and environmental matters; employment; patents; contracts; taxes; and commercial disputes. In some of these legal proceedings and claims, the cost of remedies that may be sought or damages claimed is substantial.

The corporation has recorded nonenvironmental litigation accruals of $175 million and related insurance recovery receivables of $146 million. At September 30, 2001, the corporation had nonenvironmental litigation loss contingencies of $58 million.

While it is not possible at this time to determine with certainty the ultimate outcome of any of the legal proceedings and claims referred to in this note, management believes that adequate provisions have been made for probable losses with respect thereto and that such ultimate outcome, after provisions therefor, will not have a material adverse effect on the consolidated financial position of the corporation, but could have a material effect on consolidated results of operations in a given quarter or year. Should any losses be sustained in connection with any of such legal

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proceedings and claims in excess of provisions therefor, they will be charged to income when determinable.

NOTE E - EXCHANGE OF ASSETS WITH RELATED COMPANIES

Effective June 30, 2001, the corporation contributed all of its ownership interests in several wholly owned entities in Europe and Latin America to wholly owned subsidiaries of Dow. In return for the contribution of interests, the corporation received stock in the acquiring company equal to the book value of the net assets that the corporation contributed. The corporation's percentage ownership in these entities ranges from 10 to 15 percent. These investments have been accounted for using the cost method of accounting and have been included in "Other investments" on the balance sheet. The following chart reflects the combined book value of these entities on the effective date of transfer and the amounts included in the corporation's consolidated results for the six months ended June 30, 2001:

<Table>
<Caption>

In millions	
<S>	<C>
BALANCE SHEET DATA	
Current assets	$496
Non-current assets	123
Total assets	$619
Current liabilities	$454
Non-current liabilities	5
Total liabilities	$459
Net assets	$160
INCOME STATEMENT DATA	
Sales	$455
EBIT	$147
Net Income	$138

</Table>

Effective on September 30, 2001, the corporation contributed all of its ownership interests in several wholly owned entities in Latin America to a Brazilian subsidiary of Modeland International Holdings Inc. ("Modeland"), a wholly owned subsidiary of Dow. In return for the contribution of interests, the corporation received stock in Modeland equal to the book value of the net assets that the corporation contributed, which represents 41 percent of Modeland's stock outstanding. This investment has been accounted for using the cost method of accounting and has been included in "Other investments" on the balance sheet. The following chart reflects the combined book value of these entities on September 30, 2001 and the amounts included in the corporation's consolidated results for the nine months

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ended September 30, 2001:

<Page>

<Table>
<Caption>

In millions

<S>	<C>
BALANCE SHEET DATA	
Current assets	$ 71
Non-current assets	56
Total assets	$127
Current liabilities	$ 36
Non-current liabilities	(33)
Total liabilities	$ 3
Net assets	$124
—	
INCOME STATEMENT DATA	
Sales	$139
EBIT	$ 3
Net Income	$ 6

</Table>

The corporation will continue to integrate into the Dow organization over the next several months in order to realize synergies of the merger.

NOTE F - LOAN RECEIVABLE

During the third quarter of 2001, the corporation, Petroliam Nasional Berhad (Petronas) and Polifin International Investments (PTY) Ltd. entered into agreements with the OPTIMAL Group (consisting of OPTIMAL Chemicals (Malaysia) Sdn Bhd, OPTIMAL Olefins (Malaysia) Sdn Bhd and OPTIMAL Glycols (Malaysia) Sdn Bhn), to provide loans and drawing facilities to the OPTIMAL Group with the terms expiring between September 2007 and September 2009. The loans and drawing facilities bear floating rates based on the six month LIBOR, and are payable by the respective OPTIMAL Group members. At September 30, 2001, $313 million of previously funded amounts by the corporation to the OPTIMAL Group were converted into loans. Previously funded amounts were recorded as part of the corporation's investment in the OPTIMAL Group and presented in "Investments in nonconsolidated affiliates" on the balance sheet. Subsequent to this conversion, this amount has been recorded and presented in "Noncurrent receivables".

NOTE G - SALE OF RECEIVABLES

During the second quarter of 2001, the corporation entered into an agreement under which certain qualifying trade accounts receivables are sold to a third party. For those sales, Dow will provide servicing responsibilities. The third party has no recourse against the corporation for receivables that are in default. The average quarterly amount sold and

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the average quarterly discount on sales during the quarter ended September 30, 2001 were approximately $400 million and $1.2 million, respectively.

NOTE H - LIQUIDATION OF LIFO INVENTORY

During the quarter ended June 30, 2001, certain inventory quantities were reduced which resulted in a liquidation of certain LIFO inventory layers carried at lower costs that prevailed in prior years. The effect of the liquidation was to decrease cost of goods sold by $51 million and increase after-tax earnings by $33 million.

ITEM 2: MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Pursuant to General Instruction H of Form 10-Q, this section includes only management's narrative analysis of the results of operations for the three and nine month periods ended September 30, 2001, the most recent periods, and the three and nine month periods ended September 30, 2000, the same periods in the year immediately preceding it.

FORWARD-LOOKING INFORMATION

The Private Securities Litigation Reform Act of 1995 provides a "safe harbor" for forward-looking statements made by or on behalf of Union Carbide Corporation (Union Carbide or the corporation). This section covers the current performance of the corporation. The forward-looking statements contained in this section and in other parts of this document involve risks and uncertainties that may affect the corporation's operations, markets, products, services, prices and other factors as more fully discussed elsewhere and in filings with the U.S. Securities and Exchange Commission (SEC). These risks and uncertainties include, but are not limited to, economic, competitive, legal, governmental and technological factors. Accordingly, there is no assurance that the corporation's expectations will be realized. The corporation has no obligation to provide revisions to any forward-looking statements should circumstances change.

INTRODUCTORY NOTES TO READERS

On February 6, 2001, the corporation merged with a wholly owned subsidiary of Dow. As a result of the merger, each share of Union Carbide common stock outstanding immediately prior to the merger was exchanged for 1.611 shares of Dow common stock and Union Carbide became a wholly owned subsidiary of Dow. The merger received clearance from the U.S. Federal Trade Commission, the European Commission and the Canadian Competition Bureau, subject to the divestiture of certain assets and the contribution of UNIPOL (trademark symbol) polyethylene technology licensing and polyethylene conventional catalyst businesses of the corporation to its joint venture Univation Technologies, LLC. The transaction is intended to qualify as a tax-free reorganization for U.S. federal income tax purposes and has been accounted for under the pooling-of-interests method of accounting.

In order to realize synergies of the merger, the corporation entered into several agreements with Dow to combine legal entities. On June 30, 2001, the corporation contributed all of its ownership interests in several wholly owned entities in Europe and Latin America to wholly owned subsidiaries of Dow. In return for the contribution of interests, the corporation received stock in each acquiring company equal to the book value of the net assets that the corporation contributed. The corporation's percentage ownership in these entities ranges

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from 10 to 15 percent. Additionally, on September 30, 2001, the corporation contributed all of its ownership interests in several other wholly owned entities in Latin America to a Brazilian subsidiary of Modeland International Holdings Inc. ("Modeland"), a wholly owned subsidiary of Dow. In return for the contribution of interests, the corporation received stock in Modeland equal to the book value of the net assets that the corporation contributed, which represents 41 percent of Modeland's stock outstanding. For further details, see Note E to the corporation's consolidated financial statements included in this Quarterly Report on Form 10-Q. Further integration of the corporation with and into the Dow organization is expected to occur over the next several months.

RESULTS OF OPERATIONS

The corporation reported net loss of $12 million for the third quarter of 2001, compared with net income of $29 million for the same quarter of 2000. Net loss for the first nine months of 2001 was $844 million, compared with net income of $256 million for the same nine months of 2000. In the first half of 2001, results of operations were impacted by a special charge of $1,262 million ($829 million after tax) related to the merger of the corporation into a subsidiary of Dow (see Note C to the corporation's consolidated financial statements included in this Quarterly Report on Form 10-Q).

Like other companies in the chemical industry, throughout 2001 the corporation has experienced the most difficult industry conditions in years. While hydrocarbon and energy costs declined during the quarter from unusually high levels, selling prices fell more sharply, compressing margins. The tragic events that began on September 11 have further eroded consumer confidence and dampened the outlook for the global economy. This year's macroeconomic and industry conditions have resulted in a significant negative impact on the corporation.

Total net sales for the third quarter of 2001 decreased 28 percent to $1,177 million from $1,637 million in the same quarter of 2000. Net trade sales for the third quarter of 2001 declined 49 percent to $827 million from $1,637 million in the third quarter of 2000. Total net sales for the first nine months of 2001, compared with the same period of 2000, declined 11 percent from $4,928 million to $4,409 million. Net trade sales for the first nine months of 2001 declined 28 percent to $3,529 million from $4,928 million in the same nine months of 2000. In the second quarter of 2001, the corporation commenced selling product to its parent company, Dow. The effect of the related company sales accounted for a portion of the decline in trade sales for both the quarterly and year-to-date periods. Further declines in net trade sales represented a significant decline in average selling prices coupled with smaller decline in volume. Declines in average selling prices occurred in almost all products for both the three and nine month periods ended September 30, 2001, as compared with the same periods in 2000, although greater declines occurred in the third quarter of 2001. Eroding average selling prices reflect the market's response to declines in raw materials and energy costs and coupled with declines due to competitive market pressures. Volume declines were most significant in oxide derivatives, core chemicals, polyethylene and ethylene oxide/glycol. While most of these declines related to market demand, especially in ethylene oxide/glycol, polyethylene, and organic intermediates, solvents and monomers ("OISM"), other declines reflected the corporation's decision to forego lower margin sales. This was apparent by the shutdown of the corporation's Prentiss, Alberta, Canada plant for the first half of 2001. Although the plant restarted in mid-July, operating rates for ethylene glycol on the U.S. Gulf Coast were reduced.

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Cost of sales declined $380 million (25 percent) and $193 million (4 percent) for the three and nine month periods ended September 30, 2001, respectively, as compared with the same periods in 2000. The cost of oil and natural gas-related raw materials and energy continued to drop from the high levels experienced in 2000 and the beginning of 2001. However, these declines did not occur as quickly as declines in average selling prices thereby causing a decrease in the corporation's gross margins in 2001. Additional declines in gross margins occurred as sales to Dow in 2001 were made at cost-to-produce thereby realizing no profit. For the nine month period, competitive pressures in the beginning of 2001, for most products, prevented the corporation from raising average selling prices enough to totally offset the increase in raw material costs that the corporation experienced throughout 2000 and the beginning of 2001. These declines were offset by some margin improvement, in 2001, which was obtained by producing a greater volume of polyethylene at the corporation's new Canadian plant, where raw material cost is advantaged.

Research and development, and selling, general and administrative expenses declined $19 million and $26 million, respectively, for the third quarter of 2001 compared with the same quarter of 2000. For the nine month period ended September 30, 2001, compared with the same period of 2000, research and development, and selling, general and administrative expenses declined $55 million and $42 million, respectively. These declines are primarily the result of synergies associated with the integration of the corporation into Dow.

In the first half of 2001, pretax costs of $1,262 million were recorded for merger-related expenses and restructuring. These costs, the majority of which were recorded in the first quarter, included transaction costs, employee severance, and the write-down of duplicate assets and facilities. For further details, see Note C to the corporation's consolidated financial statements included in this Quarterly Report on Form 10-Q.

Insurance and finance company operations, pretax income (loss) declined from pretax income of $10 million in the third quarter of 2000 to a pretax loss of $2 million for the same quarter of 2001. Operations for the nine months ended September 30, declined from pretax income of $15 million in 2000 to a pretax loss of $3 million in 2001. Decline for the three and nine month periods represent a reduction in investment income related to poor economic conditions coupled with a decline in policy income as the corporation's insurance company novates its policies to an insurance company of Dow.

Equity in earnings of nonconsolidated affiliates decreased from $27 million in the third quarter of 2000 to $19 million in the same quarter of 2001 while earnings for the first nine months of 2001 declined from $121 million in 2000 to $42 million in 2001. These declines principally reflect the absence of earnings from Polimeri Europa, which was required to be divested as part of the merger clearance from the European Union. Additional declines in the nine month period reflected a decrease in earnings at UOP LLC ("UOP") and EQUATE which were partly offset by lower losses related to Aspell Polymeres SNC. UOP's earnings continue to be negatively impacted by the slowdown of projects in the oil and gas industry which the venture services. EQUATE's earnings reflect weaker market conditions, primarily declines in selling prices, for ethylene derivatives as compared with the same periods last year.

Sundry income (expense) for the quarter and nine-month period ended September 30, 2001 included a gain of $8 million from the sale of certain available-for-sale securities. The nine month period ended September 30, 2000 included an $18 million ($11 million after tax) gain on shares received and sold in connection with the demutualization of Metropolitan Life Insurance Company a provider of certain employee benefit programs for the corporation.

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Interest income for the third quarter of 2001 remained flat with third quarter of 2000. However, interest income for the nine months ended September 30, 2001 declined to $7 million from the $22 million reported for the same nine months of 2000. The decline in the nine-month amount is primarily the result of $15 million in interest income associated with a tax refund that was received in the first quarter of 2000.

Interest expense and amortization of debt discount for the three month and nine month periods ended September 30, 2001 increased $10 million and $26 million, respectively, compared with the same periods of 2000. The majority of these increases are related to a decline in capitalized interest from the prior year's comparable periods. Capitalized interest for the first nine months of 2000 related primarily to the corporation's olefins and polyethylene projects in Canada, both of which were completed in the second half of 2000.

ENVIRONMENTAL

Estimates of future expenses related to environmental protection for compliance with federal, state and local laws regulating solid and hazardous wastes and discharge of materials to air and water, as well as for waste site remedial activities, have not changed materially since December 31, 2000. The reliability and precision of the loss estimates are affected by numerous factors, such as different stages of site evaluation, the allocation of responsibility among potentially responsible parties and the assertion of additional claims. The corporation's environmental exposures are discussed in more detail in Note D to the consolidated financial statements included in this Quarterly Report on Form 10-Q.

ACCOUNTING CHANGES

See Note B to the consolidated financial statements included in this Quarterly Report on Form 10-Q.

ITEM 3: QUALITATIVE AND QUANTITATIVE DISCLOSURES ABOUT MARKET RISK

Omitted pursuant to General Instruction H of Form 10-Q.

PART II. OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

See Note D to the corporation's consolidated financial statements included in this Quarterly Report on Form 10-Q.

ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K

(a) Exhibits.

None

(b) Reports on Form 8-K.

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No Current Reports on Form 8-K were filed during this period.

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SIGNATURE

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

Union Carbide Corporation
(Registrant)

Date: November 6, 2001

By: /s/ Frank H. Brod
Frank H. Brod
Vice President & Controller
The Dow Chemical Company
Authorized Representative of
Union Carbide Corporation

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-----END PRIVACY-ENHANCED MESSAGE-----

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