SECURITIES AND EXCHANGE COMMISSION

FORM 10-Q

Quarterly report pursuant to sections 13 or 15(d)

Filing Date: **2005-05-02** | Period of Report: **2005-03-31**
SEC Accession No. 0001047469-05-012770

(HTML Version on secdatabase.com)

FILER

UNION CARBIDE CORP /NEW/

CIK:**100790**| IRS No.: **131421730** | State of Incorp.:**NY** | Fiscal Year End: **1231**
Type: **10-Q** | Act: **34** | File No.: **001-01463** | Film No.: **05790872**
SIC: **2860** Industrial organic chemicals

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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

**Quarterly Report Pursuant to Section 13 or 15(d)
of the Securities Exchange Act of 1934**

FOR THE QUARTER ENDED March 31, 2005

Commission file number **1-1463**

UNION CARBIDE CORPORATION

(Exact name of registrant as specified in its charter)

New York	**13-1421730**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

400 West Sam Houston Parkway South, Houston, Texas 77042
(Address of principal executive offices) (Zip Code)

(Registrant's telephone number, including area code:) **713-798-2016**

Not applicable
(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 ☒ No ☐.

Indicate by check mark whether the registrant is an accelerated filer (as defined in Rule 12b-2 of the Act). Yes ☐ No ☒.

At March 31, 2005, 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.

Union Carbide Corporation
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PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

Union Carbide Corporation and Subsidiaries
Consolidated Statements of Income

In millions (Unaudited)	Three Months Ended March 31, 2005	Three Months Ended March 31, 2004
Net trade sales	$ 72	$ 79
Net sales to related companies	1,612	1,232
Total Net Sales	1,684	1,311
Cost of sales	1,441	1,164
Research and development expenses	21	24
Selling, general and administrative expenses	5	6
Amortization of intangibles	−	1
Equity in earnings of nonconsolidated affiliates	153	85
Sundry income (expense) − net	52	(38)
Interest income	4	1
Interest expense and amortization of debt discount	23	23
Income before Income Taxes	403	141
Provision for income taxes	123	50
Net Income Available for Common Stockholder	$ 280	$ 91
Depreciation	$ 67	$ 78
Capital Expenditures	$ 43	$ 26

See Notes to the Consolidated Financial Statements.

Union Carbide Corporation and Subsidiaries
Consolidated Balance Sheets

In millions (Unaudited)	March 31, 2005	Dec. 31, 2004
Assets		
Current Assets		
Cash and cash equivalents	$ 23	$ 22
Accounts receivable:		
Trade (net of allowance for doubtful receivables − 2005: $4; 2004: $4)	61	58
Related companies	338	504
Other	181	191
Notes receivable from related companies	526	53
Inventories	194	186
Deferred income tax assets − current	65	71
Asbestos-related insurance receivables − current	164	175
Total current assets	1,552	1,260
Investments		
Investments in related companies	462	462
Investments in nonconsolidated affiliates	868	1,041
Other investments	23	23
Noncurrent receivables	10	13
Noncurrent receivable from related company	223	222
Total investments	1,586	1,761
Property		
Property	7,343	7,304
Less accumulated depreciation	5,290	5,227
Net property	2,053	2,077
Other Assets		
Goodwill	26	26
Other intangible assets (net of accumulated amortization − 2005: $125; 2004: $124)	20	20
Deferred income tax assets − noncurrent	322	452
Asbestos-related insurance receivables − noncurrent	972	1,028
Prepaid pension expense	682	655
Deferred charges and other assets	64	52
Total other assets	2,086	2,233
Total Assets	$ 7,277	$ 7,331

See Notes to the Consolidated Financial Statements.

Union Carbide Corporation and Subsidiaries
Consolidated Balance Sheets

In millions (Unaudited)	March 31, 2005	Dec. 31, 2004
Liabilities and Stockholder's Equity		
Current Liabilities		
Notes payable:		
Related companies	$ 7	$ 139
Other	4	4
Long-term debt due within one year	266	266
Accounts payable:		
Trade	250	260
Related companies	266	270
Other	48	40
Income taxes payable	123	116
Asbestos-related liabilities − current	109	92
Accrued and other current liabilities	233	360
Total current liabilities	1,306	1,547
Long-Term Debt	1,006	1,006
Other Noncurrent Liabilities		
Pension and other postretirement benefits − noncurrent	468	470
Asbestos-related liabilities − noncurrent	1,467	1,549
Other noncurrent obligations	419	433
Total other noncurrent liabilities	2,354	2,452
Minority Interest in Subsidiaries	4	4
Stockholder's Equity		
Common stock (1,000 shares authorized and issued)	−	−
Additional paid-in capital	−	−
Retained earnings	2,713	2,433
Accumulated other comprehensive loss	(106)	(111)
Net stockholder's equity	2,607	2,322
Total Liabilities and Stockholder's Equity	$ 7,277	$ 7,331

See Notes to the Consolidated Financial Statements.

Union Carbide Corporation and Subsidiaries
Consolidated Statements of Cash Flows

In millions (Unaudited)	Three Months Ended March 31, 2005	Three Months Ended March 31, 2004
Operating Activities		
Net Income Available for Common Stockholder	$ 280	$ 91
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	73	83
Provision for deferred income tax	122	39
Earnings/losses of nonconsolidated affiliates less than dividends received	104	34
Gain on sales of property, net	–	(1)
Other gain, net	–	(1)
Gain on sale of ownership interest in nonconsolidated affiliate	(70)	–
Changes in assets and liabilities that provided (used) cash:		
Accounts and notes receivable	6	46
Related company receivables	(307)	(129)
Inventories	(8)	(28)
Accounts payable	17	11
Related company payables	(136)	28
Other assets and liabilities	(77)	(152)
Cash provided by operating activities	4	21
Investing Activities		
Capital expenditures	(43)	(26)
Proceeds from sales of property	–	2
Investments in nonconsolidated affiliates	–	(1)
Distributions from nonconsolidated affiliates	41	–
Increase in noncurrent receivable from related company	(1)	–
Proceeds from sales of investments	–	3
Cash used in investing activities	(3)	(22)
Financing Activities		
Changes in short-term notes payable	–	2
Cash provided by financing activities	–	2
Summary		
Increase in cash and cash equivalents	1	1
Cash and cash equivalents at beginning of year	22	21
Cash and cash equivalents at end of period	$ 23	$ 22

See Notes to the Consolidated Financial Statements.

Union Carbide Corporation and Subsidiaries
Consolidated Statements of Comprehensive Income

In millions (Unaudited)	Three Months Ended March 31, 2005	Three Months Ended March 31, 2004
Net Income Available for Common Stockholder	$ 280	$ 91
Other Comprehensive Income (Loss), Net of Tax		
Translation adjustments	(4)	3
Minimum pension liability adjustment	7	–
Net gain on cash flow hedging derivative instruments	2	–
Total other comprehensive income	5	3
Comprehensive Income	$ 285	$ 94

See Notes to the Consolidated Financial Statements.

(Unaudited)

NOTE A CONSOLIDATED FINANCIAL STATEMENTS

The unaudited interim consolidated financial statements of Union Carbide Corporation and its subsidiaries (the "Corporation" or "UCC") were prepared in accordance with accounting principles generally accepted in the United States of America ("GAAP") and reflect all adjustments (consisting of normal recurring accruals) which, in the opinion of management, are considered necessary for the fair presentation of the results for the periods presented.

The Corporation is a wholly owned subsidiary of The Dow Chemical Company ("Dow"). In accordance with Statement of Financial Accounting Standards ("SFAS") No. 128, "Earnings Per Share," the presentation of earnings per share is not required in financial statements of wholly owned subsidiaries.

The Corporation's business activities comprise components of Dow's global operations rather than stand-alone operations. Dow conducts its worldwide operations through global businesses. Because there are no separable reportable business segments for UCC under SFAS No. 131, "Disclosures about Segments of an Enterprise and Related Information," and no detailed business information is provided to a chief operating decision maker regarding the Corporation's stand-alone operations, the Corporation's results are reported as a single operating segment.

Intercompany transactions and balances are eliminated in consolidation. Transactions with the Corporation's parent company, Dow, or other Dow subsidiaries have been reflected as related company transactions in the consolidated financial statements. See Note H for further discussion.

Certain reclassifications of prior year's amounts have been made to conform to the presentation adopted for 2005. These statements should be read in conjunction with the audited consolidated financial statements and notes thereto included in the Corporation's Annual Report on Form 10-K for the year ended December 31, 2004.

NOTE B ACCOUNTING CHANGES

In November 2004, the Financial Accounting Standards Board ("FASB") issued SFAS No. 151, "Inventory Costs−an amendment of ARB No. 43, Chapter 4," which clarifies the accounting for abnormal amounts of idle facility expense, freight, handling costs, and wasted material (spoilage) and also requires that the allocation of fixed production overhead be based on the normal capacity of the production facilities. SFAS No. 151 is effective for inventory costs incurred during fiscal years beginning after June 15, 2005. The Corporation is currently evaluating the impact of adopting this statement.

In December 2004, the FASB issued revised SFAS No. 123 ("SFAS No. 123R"), "Share-Based Payment" which replaces SFAS No. 123, "Accounting for Stock-Based Compensation" and supersedes Accounting Principles Board ("APB") Opinion No. 25, "Accounting for Stock Issued to Employees." This statement, which requires the cost of all share-based payment transactions be recognized in the financial statements, establishes fair value as the measurement objective and requires entities to apply a fair-value-based measurement method in accounting for share-based payment transactions. As issued, the statement applies to all awards granted, modified, repurchased or cancelled after July 1, 2005. In March 2005, the U.S. Securities and Exchange Commission (the "SEC") issued Staff Accounting Bulletin ("SAB") No. 107, which expresses views of the SEC staff regarding the interaction between SFAS No. 123R and certain SEC rules and regulations, and provides the staff's views regarding the valuation of share-based payment arrangements for public companies. Dow will consider the guidance of this SAB as it adopts SFAS No. 123R. On April 14, 2005, the SEC announced the adoption of a new rule that amends the compliance date for SFAS No. 123R, allowing companies to implement the statement at the beginning of their next fiscal year that begins after June 15, 2005, which is January 1, 2006 for Dow. The Corporation will continue to be allocated the portion of expense relating to its employees who receive stock-based compensation.

In December 2004, the FASB issued SFAS No. 153, "Exchanges of Nonmonetary Assets−an amendment of APB Opinion No. 29." The statement addresses the measurement of exchanges of nonmonetary assets and eliminates the exception from fair value measurement for nonmonetary exchanges of similar productive assets and replaces it with an exception for exchanges that do not have commercial substance. SFAS No. 153 is effective for nonmonetary asset exchanges occurring in fiscal periods beginning after June 15, 2005. The Corporation is currently evaluating the impact of adopting this statement.

In December 2004, the FASB issued FASB Staff Position ("FSP") No. FAS 109-1, "Application of FASB Statement No. 109, Accounting for Income Taxes, to the Tax Deduction on Qualified Production Activities Provided by the American Jobs Creation Act of 2004," indicating that this deduction should be accounted for as a special deduction in accordance with the provisions of SFAS No. 109. Beginning in 2005, the Corporation recognizes the allowable deductions as qualifying activity occurs.

In December 2004, the FASB issued FSP No. FAS 109-2, "Accounting and Disclosure Guidance for the Foreign Earnings Repatriation Provision within the American Jobs Creation Act of 2004," which provides a practical exception to the SFAS No. 109 requirement to reflect the effect of a new tax law in the period of enactment by allowing additional time beyond the financial reporting period to evaluate the effects on plans for reinvestment or repatriation of unremitted foreign earnings. The American Jobs Creation Act of 2004 (the "Act") introduced a special one-time dividends received deduction on the repatriation of certain foreign earnings to a U.S. taxpayer, provided certain criteria are met. Although the Act was signed into law in October 2004, the practical application of a number of the provisions of the repatriation provision remain unclear. Tax authorities are expected to provide clarifying language on key elements of the repatriation provision. The clarifying language is expected to affect the Corporation's evaluation of the economic value of implementing any individual opportunity and its ability to meet the overall qualifying criteria. As a result, the Corporation will be unable to complete a final determination of the Act's effect on its plan for reinvestment or repatriation of foreign earnings until the clarifying language is released. Based on preliminary identification of potential repatriation and reinvestment opportunities, the Corporation expects that adoption of the repatriation provision of the Act will have an immaterial effect on the consolidated financial statements.

In March 2005, the FASB issued FASB Interpretation ("FIN") No. 47, "Accounting for Conditional Asset Retirement Obligations," which clarifies the term *conditional asset retirement obligation* as used in SFAS No. 143, "Accounting for Asset Retirement Obligations," as a legal obligation to perform an asset retirement activity in which the timing and/or method of settlement are conditional on a future event that may or may not be within the control of the Corporation. FIN No. 47 is effective no later than the end of fiscal years ending after December 15, 2005. The Corporation is currently evaluating the impact of adopting this interpretation.

NOTE C RESTRUCTURING

2004 Restructuring

In the second quarter of 2004, the Corporation recorded restructuring charges totaling $48 million resulting from decisions made by management in the second quarter relative to employment levels as Dow restructured its business organization and as the Corporation finalized plans for additional plant shutdowns and divestitures. The charges included severance of $21 million for a workforce reduction of approximately 360 people, most of whom ended their employment with UCC by the end of the third quarter of 2004, and curtailment costs of $9 million associated with UCC's defined benefit plans.

As of March 31, 2005, the Corporation's workforce had been reduced by 330 people due to this restructuring and severance of $18 million has been paid. At March 31, 2005, an accrual of $3 million remained for approximately 35 employees who will end their employment with UCC in 2005.

NOTE D INVENTORIES

The following table provides a breakdown of inventories at March 31, 2005 and December 31, 2004:

Inventories In millions	March 31, 2005	Dec. 31, 2004
Finished goods	$ 53	$ 60
Work in process	29	25
Raw materials	34	32
Supplies	78	69
Total inventories	$ 194	$ 186

The reserves reducing inventories from the first-in, first-out ("FIFO") basis to the last-in, first-out ("LIFO") basis amounted to $156 million at March 31, 2005 and $139 million at December 31, 2004.

NOTE E GOODWILL AND OTHER INTANGIBLE ASSETS

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

Other Intangible Assets

In millions	At March 31, 2005 Gross Carrying Amount	At March 31, 2005 Accumulated Amortization	At March 31, 2005 Net	At December 31, 2004 Gross Carrying Amount	At December 31, 2004 Accumulated Amortization	At December 31, 2004 Net
Intangible assets with finite lives:						
Licenses and intellectual property	$ 36	$ (35)	$ 1	$ 36	$ (35)	$ 1
Patents	4	(2)	2	4	(2)	2
Software	104	(87)	17	103	(86)	17
Other	1	(1)	–	1	(1)	–
Total	$ 145	$ (125)	$ 20	$ 144	$ (124)	$ 20

Total estimated amortization expense for 2005 and the next five fiscal years is as follows:

Estimated Amortization Expense for Next Five Years

In millions	
2005	$ 4
2006	4
2007	4
2008	3
2009	3
2010	2

NOTE F COMMITMENTS AND CONTINGENT LIABILITIES

Environmental Matters

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. The Corporation had accrued obligations of $104 million at December 31, 2004 for environmental remediation and restoration costs, including $39 million for the remediation of Superfund sites. At March 31, 2005, the Corporation had accrued obligations of $105 million for environmental remediation and restoration costs, including $38 million for the remediation of Superfund sites. This is management's best estimate of the costs for remediation and restoration with respect to environmental matters for which the Corporation has accrued liabilities, although the ultimate cost with respect to these particular matters could range up to twice that amount. Inherent uncertainties exist in these estimates primarily due to unknown conditions, changing governmental regulations and legal standards regarding liability, and evolving technologies for handling site remediation and restoration. It is the opinion of the Corporation's management that the possibility is remote that costs in excess of those accrued or disclosed will have a material adverse impact on the Corporation's consolidated financial statements.

Litigation

The Corporation and its 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.

Separately, the Corporation is and has been involved in a large number of asbestos-related suits filed primarily in state courts during the past three decades. These suits principally allege personal injury resulting from exposure to asbestos-containing products and frequently seek both actual and punitive damages. The alleged claims primarily relate to products that UCC sold in the past, alleged exposure to asbestos-containing products located on UCC's premises, and UCC's responsibility for asbestos suits filed against a former subsidiary, Amchem Products, Inc. ("Amchem"). In many cases, plaintiffs are unable to demonstrate that they have suffered any compensable loss as a result of such exposure, or that injuries incurred in fact resulted from exposure to the Corporation's products.

Influenced by the bankruptcy filings of numerous defendants in asbestos-related litigation and the prospects of various forms of state and national legislative reform, the rate at which plaintiffs filed asbestos-related suits against various companies, including the Corporation and Amchem, increased in 2001, 2002 and the first half of 2003. Since then, the rate of filing has significantly abated. The Corporation expects more asbestos-related suits to be filed against it and Amchem in the future, and will aggressively defend or reasonably resolve, as appropriate, both pending and future claims.

Through the third quarter of 2002, the Corporation had concluded it was not possible to estimate its cost of disposing of asbestos-related claims that might be filed against it and Amchem in the future due to a number of reasons. During the third and fourth quarters of 2002, the Corporation worked with Analysis, Research & Planning Corporation ("ARPC"), a consulting firm with broad experience in estimating resolution costs associated with mass tort litigation, including asbestos, to explore whether it would be possible to estimate the cost of disposing of pending and future asbestos-related claims that have been, and could reasonably be expected to be, filed against the Corporation and Amchem. ARPC concluded that it was not possible to estimate the full range of the cost of resolving future asbestos-related claims against UCC and Amchem because of various uncertainties associated with the litigation of those claims. Despite its inability to estimate the full range of the cost of resolving future asbestos-related claims, ARPC advised the Corporation that it would be possible to determine an estimate of a reasonable forecast of the cost of resolving pending and future asbestos-related claims likely to face UCC and Amchem if certain assumptions were made. As a result, the following assumptions were made and then used by ARPC:

In the near term, the number of future claims to be filed against UCC and Amchem will be at a level consistent with levels experienced immediately prior to 2001.

The number of future claims to be filed against UCC and Amchem will decline at a fairly constant rate each year from 2003.

The average resolution value for pending and future claims will be equivalent to those experienced during 2001 and 2002.

Based on the resulting study completed by ARPC in January 2003, the Corporation increased its December 31, 2002 asbestos-related liability for pending and future claims for the 15-year period ending in 2017 to $2.2 billion, excluding future defense and processing costs. Approximately 28 percent of the recorded liability related to pending claims and approximately 72 percent related to future claims.

In November 2003, the Corporation requested ARPC to review the Corporation's asbestos claim and resolution activity during 2003 and determine the appropriateness of updating the study. In response to that request, ARPC reviewed and analyzed data through November 25, 2003 to determine the number of asbestos-related filings and costs associated with 2003 activity. In January 2004, ARPC stated that an update at that time would not provide a more likely estimate of future events than that reflected in its study of the previous year and, therefore, the estimate in that study remained applicable. Based on the Corporation's own review of the asbestos claim and resolution activity and ARPC's response, the Corporation determined that no change to the accrual was required at December 31, 2003.

In November 2004, the Corporation again requested ARPC to review the Corporation's historical asbestos claim and resolution activity and determine the appropriateness of updating the January 2003 study. In response to this request, ARPC reviewed and analyzed data through November 14, 2004, and again concluded that it was not possible to estimate the full range of the cost of resolving future asbestos-related claims against UCC and Amchem because of various uncertainties associated with the litigation of those claims. ARPC did advise, however, that it was reasonable and feasible to construct a new estimate of the cost of resolving current and future asbestos-related claims using the same two widely used forecasting methodologies used by ARPC in its January 2003 study, if certain assumptions were made. As a result, the following assumptions were made and then used by ARPC:

The number of future claims to be filed annually against UCC and Amchem is unlikely to exceed the level of claims experienced during 2004.

The number of claims filed against UCC and Amchem annually from 2001 to 2003 is considered anomalous for the purpose of estimating future filings.

The number of future claims to be filed against UCC and Amchem will decline at a fairly constant rate each year from 2005.

The average resolution value for pending and future claims will be equivalent to those experienced during 2003 and 2004 (excluding settlements from closed claims filed in Madison County, Illinois with respect to future claims, as those settlements are not considered to be relevant for predicting the cost of resolving future claims).

The resulting study completed by ARPC in January 2005 stated that the undiscounted cost of resolving pending and future asbestos-related claims against UCC and Amchem, excluding future defense and processing costs, through 2017 was estimated to be between approximately $1.5 billion and $2.0 billion, depending on which of two accepted methodologies was used. At December 31, 2004, the recorded asbestos-related liability for pending and future claims was $1.6 billion. Based on the low end of the range in the January 2005 study, the recorded asbestos-related liability for pending and future claims at December 31, 2004 would be sufficient to resolve asbestos-related claims against UCC and Amchem into 2019. As in its January 2003 study, ARPC did provide estimates for a longer period of time in its January 2005 study, but also reaffirmed its prior advice that forecasts for shorter periods of time are more accurate than those for longer periods of time.

Based on ARPC's January 2003 and January 2005 studies, the Corporation's recent asbestos litigation experience, and the uncertainties surrounding asbestos litigation and legislative reform efforts, the Corporation determined that no change to the accrual was required at December 31, 2004.

At each balance sheet date, the Corporation compares current asbestos claim and resolution activity to the assumptions in the most recent ARPC study to determine whether the accrual continues to be appropriate. Based on the Corporation's review of 2005 activity, the Corporation determined that no change to the accrual was required at March 31, 2005.

The asbestos-related liability for pending and future claims was $1.6 billion at March 31, 2005 and December 31, 2004. At March 31, 2005, approximately 38 percent of the recorded liability related to pending claims and approximately 62 percent related to future claims. At December 31, 2004, approximately 37 percent of the recorded liability related to pending claims and approximately 63 percent related to future claims.

At December 31, 2002, the Corporation increased the receivable for insurance recoveries related to its asbestos liability to $1.35 billion, substantially exhausting its asbestos product liability coverage. Combined with the previously mentioned increase in the asbestos-related liability at December 31, 2002, this resulted in a net charge of $828 million, $522 million on an after-tax basis, in the fourth quarter of 2002.

The insurance receivable related to the asbestos liability was determined after a thorough review of applicable insurance policies and the 1985 Wellington Agreement, to which the Corporation and many of its liability insurers are signatory parties, as well as other insurance settlements, with due consideration given to applicable deductibles, retentions and policy limits, and taking into account the solvency and historical payment experience of various insurance carriers.

The Corporation's receivable for insurance recoveries related to its asbestos liability was $636 million at March 31, 2005 and $712 million at December 31, 2004. At March 31, 2005, $463 million ($464 million at December 31, 2004) of the receivable for insurance recoveries was related to insurers that are not signatories to the Wellington Agreement and/or do not otherwise have agreements in place regarding their asbestos-related insurance coverage.

In addition, the Corporation had receivables for defense and resolution costs submitted to insurance carriers for reimbursement as follows:

Receivables for Costs Submitted to Insurance Carriers **In millions**	**March 31, 2005**	**December 31, 2004**
Receivables for defense costs	$ 90	$ 85
Receivables for resolution costs	410	406
Total	$ 500	$ 491

The Corporation's insurance policies generally provide coverage for asbestos liability costs, including coverage for both resolution and defense costs. As previously noted, the Corporation increased its receivable for insurance recoveries related to its asbestos liability at December 31, 2002, thereby recording the full favorable income statement impact of its insurance coverage in 2002. Accordingly, defense and resolution costs recovered from insurers reduce the insurance receivable. Prior to increasing the insurance receivable related to the asbestos liability at December 31, 2002, the impact on results of operations for defense costs was the amount of those costs not covered by insurance. Since the Corporation expenses defense costs as incurred, defense costs for asbestos-related litigation (net of insurance) have impacted, and will continue to impact, results of operations. The pretax impact for defense and resolution costs, net of insurance, was $18 million in the first quarter of 2005 and $25 million in the first quarter of 2004, and was reflected in "Cost of sales."

In September 2003, the Corporation filed a comprehensive insurance coverage case in the Circuit Court for Kanawha County in Charleston, West Virginia, seeking to confirm its rights to insurance for various asbestos claims (the "West Virginia action"). Although the Corporation already has settlements in place concerning coverage for asbestos claims with many of its insurers, including those covered by the 1985 Wellington Agreement, this lawsuit was filed against insurers that are not signatories to the Wellington Agreement and/or do not otherwise have agreements in place with the Corporation regarding their asbestos-related insurance coverage. The Corporation continues to believe that its recorded receivable for insurance recoveries from all insurance carriers is collectible. The Corporation reached this conclusion after a further review of its insurance policies, with due consideration given to applicable deductibles, retentions and policy limits, after taking into account the solvency and historical payment experience of various insurance carriers; existing insurance settlements; and the advice of outside counsel with respect to the applicable insurance coverage law relating to the terms and conditions of its insurance policies. In early 2004, several of the defendant insurers in the West Virginia action filed a competing action in the Supreme Court of the State of New York, County of New York. As a result of motion practice, the West Virginia action was dismissed in August 2004 on the basis of *forum non conveniens* (i.e., West Virginia is an inconvenient location for the parties). The comprehensive insurance coverage litigation is now proceeding in the New York courts.

The amounts recorded for the asbestos-related liability and related insurance receivable described above were based upon current, known facts. However, projecting future events, such as the number of new claims to be filed and/or received each year, the average cost of disposing of each such claim, coverage issues among insurers, and the continuing solvency of various insurance companies, as well as the numerous uncertainties surrounding asbestos litigation in the United States, could cause the actual costs and insurance recoveries to be higher or lower than those projected or those recorded.

Because of the uncertainties described above, management cannot estimate the full range of the cost of resolving pending and future asbestos-related claims facing the Corporation and Amchem. Management believes that it is reasonably possible that the cost of disposing of the Corporation's asbestos-related claims, including future defense costs, could have a material adverse impact on the results of operations and cash flows for a particular period and on the consolidated financial position of the Corporation.

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 filing, management believes that adequate provisions have been made for probable losses with respect to pending claims and proceedings, and that, except for the asbestos-related matters described above, the ultimate outcome of all known and future claims, after provisions for insurance, will not have a material adverse impact on the results of operations, cash flows and consolidated financial position of the Corporation. Should any losses be sustained in connection with any of such legal proceedings and claims in excess of provisions provided and available insurance, they will be charged to income when determinable.

Purchase Commitments

At December 31, 2004, the Corporation had various outstanding commitments for take or pay agreements, with terms extending from one to six years. Such commitments were not in excess of current market prices. The fixed and determinable portion of obligations under purchase commitments at December 31, 2004 is presented in the following table:

Fixed and Determinable Portion of Take or Pay Obligations
at December 31, 2004

In millions	
2005	$ 10
2006	10
2007	10
2008	8
2009	5
2010 through expiration of contracts	5
Total	$ 48

Guarantees

The Corporation has undertaken obligations to guarantee the performance of certain nonconsolidated affiliates (including the OPTIMAL Group and Nippon Unicar Company Limited) and a former subsidiary of the Corporation (via delivery of cash or other assets) if specified triggering events occur. Non-performance under a contract for commercial and/or financial obligations by the guaranteed party would trigger the obligation of the Corporation to make payments to the beneficiary of the guarantees. Financial obligations include debt and lease arrangements.

The following tables provide a summary of the final expiration, maximum future payments, and recorded liability reflected in the consolidated balance sheet for these guarantees.

Guarantees at March 31, 2005 In millions	Final Expiration	Maximum Future Payments	Recorded Liability
Guarantees	2014	$ 109	$ 2

Guarantees at December 31, 2004 In millions	Final Expiration	Maximum Future Payments	Recorded Liability
Guarantees	2014	$ 114	$ 2

NOTE G PENSION AND OTHER POSTRETIREMENT BENEFITS

Net Periodic Benefit Cost (Credit) for All Significant Plans

	Defined Benefit Pension Plans		Other Postretirement Benefits	
	Three Months Ended		Three Months Ended	
In millions	March 31, 2005	March 31, 2004	March 31, 2005	March 31, 2004
Service cost	$ 7	$ 7	$ 1	$ 1
Interest cost	54	56	9	10
Expected return on plan assets	(85)	(88)	−	−
Amortization of prior service cost (credit)	−	1	(1)	(2)
Amortization of net loss	1	−	1	1
Net periodic benefit cost (credit)	$ (23)	$ (24)	$ 10	$ 10

Employer Contributions

Pension Plans

The Corporation has a defined benefit pension plan that covers substantially all employees in the United States. Benefits are based on length of service and the employee's three highest consecutive years of compensation.

The Corporation's funding policy is to contribute to the plan when pension laws and economics either require or encourage funding. As previously disclosed in the Corporation's Annual Report on Form 10-K for the year ended December 31, 2004, UCC does not expect to contribute assets to its qualified pension plan trust in 2005. No contributions were made in the first quarter of 2005. The Corporation also has a non-qualified supplemental pension plan. Benefit payments to retirees under this plan are expected to be $6 million in 2005. In the first quarter of 2005, benefit payments of $1 million were made.

Other Postretirement Benefits

The Corporation provides certain health care and life insurance benefits to retired U.S. employees. The plan provides health care benefits, including hospital, physicians' services, drug and major medical expense coverage, and life insurance benefits. The Corporation and the retiree share the cost of these benefits, with the Corporation portion increasing as the retiree has increased years of credited service. There is a cap on the Corporation portion. These benefits are subject to change at any time.

The Corporation funds most of the cost of these health care and life insurance benefits as incurred. As previously disclosed in the Corporation's Annual Report on Form 10-K for the year ended December 31, 2004, UCC does not expect to contribute assets to its other postretirement benefit plans in 2005. Consistent with that expectation, no contributions were made in the first quarter of 2005. Benefit payments to retirees under these plans are expected to be $63 million in 2005. In the first quarter of 2005, benefit payments of $11 million were made.

NOTE H RELATED PARTY TRANSACTIONS

The Corporation sells products to Dow to simplify the customer interface process. Products are sold to and purchased from Dow in accordance with the terms of Dow's long-standing intercompany pricing policies. The application of these policies results in products being sold to and purchased from Dow at market-based prices. The Corporation also procures certain commodities and raw materials through a Dow subsidiary and pays a commission to that Dow subsidiary based on the volume and type of commodities and raw materials purchased. The commission expense is included in "Sundry income (expense)−net" in the consolidated statements of income. Purchases from that Dow subsidiary were approximately $603 million in the first quarter of 2005 and $442 million in the first quarter of 2004.

The Corporation has a master services agreement with Dow whereby Dow provides services, including, but not limited to, accounting, legal, treasury (investments, cash management, risk management, insurance), procurement, human resources, environmental, health and safety, and business management for UCC. Under the master services agreement with Dow, for general administrative and overhead type services that Dow routinely allocates to various businesses, UCC is charged the cost of those services based on the Corporation's and Dow's relative manufacturing conversion costs. This arrangement results in a quarterly charge of approximately $4 million (included in "Sundry income (expense)−net").

For services that Dow routinely charges based on effort, UCC is charged the cost of such services on a fully absorbed basis, which includes direct and indirect costs. Additionally, certain Dow employees are contracted to UCC and Dow is reimbursed for all direct employment costs of such employees. Management believes the method used for determining expenses charged by Dow is reasonable. Dow provides these services by leveraging its centralized functional service centers to provide services at a cost that management believes provides an advantage to the Corporation.

The monitoring and execution of risk management policies related to interest rate and foreign currency risks, which are based on Dow's risk management philosophy, are provided as a service to UCC.

As part of Dow's cash management process, UCC is a party to revolving loans with Dow that have LIBOR-based interest rates with varying maturities. At March 31, 2005, the Corporation had a note receivable of $463 million from Dow under a revolving loan agreement. A separate revolving credit agreement with Dow that allows the Corporation to borrow or obtain credit enhancements up to an aggregate of $1 billion was amended and restated on May 28, 2004 to include cash collateral provisions and to extend the maturity date to May 28, 2005; however, Dow may demand repayment with a 30-day written notice to the Corporation. The related collateral agreement was also amended and restated on May 28, 2004 to provide for the replacement of certain existing pledged assets, primarily equity interests in various subsidiaries and joint ventures, with cash collateral. A subsequent amendment to the revolving credit agreement, effective as of December 30, 2004, further extended the maturity date to December 30, 2005 and modified the repayment terms. At March 31, 2005, $795 million was available under the revolving credit agreement. The cash collateral was reported as "Noncurrent receivable from related company" in the consolidated balance sheets.

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

Pursuant to General Instruction H of Form 10-Q "Omission of Information by Certain Wholly-Owned Subsidiaries," this section includes only management's narrative analysis of the results of operations for the three-month period ended March 31, 2005, the most recent period, compared with the three-month period ended March 31, 2004, the corresponding period in the preceding fiscal year.

References below to "Dow" refer to The Dow Chemical Company and its consolidated subsidiaries, except as the context otherwise requires.

DISCLOSURE REGARDING 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 (the "Corporation" or "UCC"). This section covers the current performance and outlook 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 assumes no obligation to provide revisions to any forward-looking statements should circumstances change, except as otherwise required by securities and other applicable laws.

RESULTS OF OPERATIONS

The Corporation reported net income of $280 million for the first quarter of 2005 compared with $91 million for the first quarter of 2004. The substantial improvement was due to higher selling prices, a significant increase in earnings from the Corporation's joint ventures compared with last year, and a gain on the sale of a portion of the Corporation's ownership interest in EQUATE Petrochemical Company K.S.C ("EQUATE").

Total net sales for the first quarter of 2005 were $1,684 million compared with $1,311 million for the first quarter of 2004, an increase of 28 percent. Selling prices to Dow are based on market prices for the related products. Average selling prices were substantially higher in the first quarter of 2005 compared with the first quarter of 2004 due to improved industry fundamentals and the continuing increase in feedstock and energy costs. Volume gains in polyethylene were offset by lower ethanol sales volume (due to the Corporation's exit of the industrial ethanol business in the second quarter of 2004), and a decline in ethylene glycol volume (due to scheduled plant turnarounds), resulting in a decrease in overall volume compared with last year.

Cost of sales increased 24 percent in the first quarter of 2005 compared with the first quarter of 2004 principally due to higher raw material costs. However, gross margin as a percent of sales for the first quarter of 2005 was 14.4 percent compared with 11.2 percent for the first quarter of last year, as higher selling prices more than offset the impact of higher feedstock and energy costs.

Equity in earnings of nonconsolidated affiliates increased to $153 million in the first quarter of 2005 from $85 million in the first quarter of 2004. The increase of $68 million in first quarter equity earnings was due to strong results reported by EQUATE and UOP LLC.

Sundry income (expense)−net includes a variety of income and expense items such as the gain or loss on foreign currency exchange, dividends from investments, commissions, charges for management services provided by Dow, and gains and losses on sales of investments and assets. Sundry income (expense) for the first quarter of 2005 was net income of $52 million compared with net expense of $38 million for the first quarter last year. Net sundry income for the first quarter this year included a $70 million pretax gain on the sale of a portion of the Corporation's interest in EQUATE. In November 2004, the Corporation sold a 2.5 percent interest in EQUATE to National Bank of Kuwait for $104 million. In March 2005, these shares were sold to private Kuwaiti investors thereby completing the restricted transfer, which resulted in the first quarter gain and reduced the Corporation's ownership interest from 45 percent to 42.5 percent. Sundry expense for the first quarter of 2004 included the unfavorable impact of a litigation settlement related to one of the Corporation's joint ventures.

The effective tax rate for the first quarter of 2005 was 30.5 percent compared with 35.5 percent for the same quarter last year. The effective tax rate fluctuates based on, among other factors, where income is earned, the level of after-tax income from joint ventures, and the level of income relative to tax credits available.

OTHER MATTERS

Accounting Changes

See Note B to the Consolidated Financial Statements for a discussion of accounting changes and recently issued accounting pronouncements.

Critical Accounting Policies

The preparation of financial statements and related disclosures in conformity with GAAP requires management to make judgments, assumptions and estimates that affect the amounts reported in the Consolidated Financial Statements and accompanying notes. Note A to the Consolidated Financial Statements in the Corporation's Annual Report on Form 10-K for the year ended December 31, 2004, describes the significant accounting policies and methods used in the preparation of the Consolidated Financial Statements. Following are the Corporation's critical accounting policies impacted by judgments, assumptions and estimates:

Litigation

The Corporation is subject to legal proceedings and claims arising out of the normal course of business. The Corporation routinely assesses the likelihood of any adverse judgments or outcomes to these matters, as well as ranges of probable losses. A determination of the amount of the reserves required, if any, for these contingencies is made after thoughtful analysis of each known issue and an actuarial analysis of historical claims experience for incurred but not reported matters. The Corporation has an active risk management program consisting of numerous insurance policies secured from many carriers. These policies provide coverage that is utilized to minimize the impact, if any, of the legal proceedings. The required reserves may change in the future due to new developments in each matter. For further discussion, see Note F to the Consolidated Financial Statements.

Asbestos-Related Matters

The Corporation, and a former subsidiary, Amchem Products, Inc. ("Amchem"), are and have been involved in a large number of asbestos-related suits filed primarily in state courts during the past three decades. Based on a study completed by Analysis, Research & Planning Corporation ("ARPC") in January 2003, the Corporation increased its December 31, 2002 asbestos-related liability for pending and future claims for the 15-year period ending in 2017 to $2.2 billion, excluding future defense and processing costs. The Corporation also increased the receivable for insurance recoveries related to its asbestos liability to $1.35 billion at December 31, 2002.

In November 2004, the Corporation requested ARPC to review the Corporation's historical asbestos claim and resolution activity and determine the appropriateness of updating its January 2003 study. In January 2005, ARPC provided the Corporation with a report summarizing the results of its study.

Based on ARPC's January 2003 and January 2005 studies, the Corporation's recent asbestos litigation experience, and the uncertainties surrounding asbestos litigation and legislative reform efforts, management determined that no change to the accrual was required at December 31, 2004. Furthermore, based on the low end of the range in the January 2005 study, the recorded asbestos-related liability for pending and future claims at December 31, 2004 would be sufficient to resolve asbestos-related claims against UCC and Amchem into 2019.

At each balance sheet date, the Corporation compares current asbestos claim and resolution activity to the assumptions in the most recent ARPC study to determine whether the accrual continues to be appropriate. Based on the Corporation's review of 2005 activity, the Corporation determined that no change to the accrual was required at March 31, 2005.

The Corporation's asbestos-related liability for pending and future claims was $1.6 billion at March 31, 2005 and December 31, 2004. The Corporation's receivable for insurance recoveries related to its asbestos liability was $636 million at March 31, 2005 and $712 million at December 31, 2004. In addition, the Corporation had receivables of $500 million at March 31, 2005 and $491 million at December 31, 2004 for insurance recoveries for defense and resolution costs.

The amounts recorded by the Corporation for the asbestos-related liability and related insurance receivable were based upon current, known facts. However, projecting future events, such as the number of new claims to be filed and/or received each year, the average cost of disposing of each such claim, coverage issues among insurers, and the continuing solvency of various insurance companies, as well as the numerous uncertainties surrounding asbestos litigation in the United States, could cause the actual costs and insurance recoveries for the Corporation to be higher or lower than those projected or those recorded.

For additional information, see Asbestos-Related Matters in Management's Discussion and Analysis of Financial Condition and Results of Operations and Note F to the Consolidated Financial Statements.

Environmental Matters

The Corporation determines the costs of environmental remediation of its facilities and formerly owned facilities based on evaluations of current law and existing technologies. Inherent uncertainties exist in such evaluations primarily due to unknown conditions, changing governmental regulations and legal standards regarding liability, and evolving technologies. The recorded liabilities are adjusted periodically as remediation efforts progress or as additional technical or legal information becomes available. The Corporation had accrued obligations of $104 million at December 31, 2004, for environmental remediation and restoration costs, including $39 million for the remediation of Superfund sites. At March 31, 2005, the Corporation had accrued obligations of $105 million for environmental remediation and restoration costs, including $38 million for the remediation of Superfund sites. This is management's best estimate of the costs for remediation and restoration with respect to environmental matters for which the Corporation has accrued liabilities, although the ultimate cost with respect to these particular matters could range up to twice that amount. For further discussion, see Note F to the Consolidated Financial Statements in this filing and Environmental Matters in Management's Discussion and Analysis of Financial Condition and Results of Operations in the Corporation's Annual Report on Form 10-K for the year ended December 31, 2004.

Pension and Other Postretirement Benefits

The amounts recognized in the consolidated financial statements related to pension and other postretirement benefits are determined from actuarial valuations. Inherent in these valuations are assumptions including expected return on plan assets, discount rates at which the liabilities could be settled at December 31, 2004, rate of increase in future compensation levels, mortality rates and health care cost trend rates. These assumptions are updated annually and are disclosed in Note L to the Consolidated Financial Statements in the Corporation's Annual Report on Form 10-K for the year ended December 31, 2004. In accordance with GAAP, actual results that differ from the assumptions are accumulated and amortized over future periods and, therefore, affect expense recognized and obligations recorded in future periods.

The Corporation determined the expected long-term rate of return on assets by performing a bottom-up analysis of historical and expected returns based on the strategic asset allocation and the underlying return fundamentals of each asset class. The Corporation's historical experience with the pension fund asset performance and comparisons to expected returns of peer companies with similar fund assets are also considered. The long-term rate of return assumption used for determining net periodic pension expense for 2004 was 9 percent. This assumption was reduced to 8.75 percent for determining 2005 net periodic pension expense. The actual rate of return in 2004 was 12 percent. Future actual pension income will depend on future investment performance, changes in future discount rates and various other factors related to the population of participants in the Corporation's pension plans. A 25 basis point adjustment in the long-term return on assets assumption changes total pension expense for 2005 by approximately $10 million.

The Corporation bases the determination of pension expense or income on a market-related valuation of plan assets, which reduces year-to-year volatility. This market-related valuation recognizes investment gains or losses over a five-year period from the year in which they occur. Investment gains or losses for this purpose represent the difference between the expected return calculated using the market-related value of plan assets and the actual return based on the market value of plan assets. Since the market-related value of plan assets recognizes gains or losses over a five-year period, the future value of plan assets will be impacted when previously deferred gains or losses are recorded. Over the life of the plan, both gains and losses have been recognized and amortized. For the year ended December 31, 2004, $196 million of net losses remain to be recognized in the calculation of the market-related value of plan assets. These net losses will result in increases in future pension expense as they are recognized in the market-related value of assets. The increase or decrease in the market-related value of assets due to the recognition of prior gains and losses is presented in the following table:

Increase (Decrease) in Market-Related Asset Value due to Recognition of Prior Asset Gains and Losses

In millions	
2005	$(200)
2006	(67)

2007	60
2008	11
Total	$(196)

The discount rate utilized for determining future pension obligations is based on a broad-based index of high quality bonds receiving an AA- or better rating by a recognized rating agency and matched to the future expected cash flows by half-year periods by plan. The resulting discount rate decreased from 6.25 percent at December 31, 2003, to

5.875 percent at December 31, 2004. A 25 basis point adjustment in the discount rate assumption changes total pension expense for 2005 by approximately $3 million, with an immaterial change on the other postretirement benefit expense due to defined dollar limits (caps).

For 2005, the Corporation maintained its assumption for the long-term rate of increase in compensation levels of 4.5 percent. Since 2002, the Corporation has used a generation mortality table to determine the duration of its pension and other postretirement obligation.

Based on the revised pension assumptions and changes in the market-related value of assets due to the recognition of prior asset gains and losses, the Corporation expects to record $3 million less in income for pension and other postretirement benefits in 2005 than it did in 2004.

The value of the qualified plan assets increased from $3.7 billion at December 31, 2003, to $3.9 billion at December 31, 2004. The investment performance increased the funded status of the qualified plans, net of benefit obligations, by $92 million from December 31, 2003 to December 31, 2004. This increase was somewhat offset by a decline in the assumed discount rate. For 2005, the Corporation does not expect to make cash contributions to its pension and other postretirement benefit plans.

Income Taxes

Deferred tax assets and liabilities are determined based on temporary differences between the financial reporting and tax bases of assets and liabilities, applying enacted tax rates expected to be in effect for the year in which the differences are expected to reverse. Based on the evaluation of available evidence, both positive and negative, the Corporation recognizes future tax benefits, such as net operating loss carryforwards and tax credit carryforwards, to the extent that realizing these benefits is considered more likely than not.

At March 31, 2005, the Corporation had a net deferred tax asset balance of $387 million ($523 million at December 31, 2004) and no valuation allowance at either date. In evaluating the ability to realize its deferred tax assets, the Corporation relied principally on forecasted taxable income using historical and projected future operating results, the reversal of existing temporary differences and the availability of tax planning strategies.

At December 31, 2004, the Corporation had deferred tax assets for tax loss and tax credit carryforwards of $547 million, $1 million of which is subject to expiration in the years 2005-2009. In order to realize these deferred tax assets for tax loss and tax credit carryforwards, the Corporation needs taxable income of approximately $1.5 billion across multiple jurisdictions. The taxable income needed to realize the deferred tax assets for tax loss and tax credit carryforwards that are subject to expiration between 2005-2009 is approximately $5 million.

The Corporation accrues for tax contingencies when it is probable that a liability to a taxing authority has been incurred and the amount of the contingency can be reasonably estimated, based on past experience. The tax contingency reserve is adjusted for changes in circumstances and additional uncertainties, such as significant amendments to existing tax law. At March 31, 2005, the Corporation had a tax contingency reserve for both domestic and foreign issues of $198 million ($221 million at December 31, 2004). For additional information, see Note Q to the Consolidated Financial Statements in the Corporation's Annual Report on Form 10-K for the year ended December 31, 2004.

Asbestos-Related Matters

Introduction

The Corporation is and has been involved in a large number of asbestos-related suits filed primarily in state courts during the past three decades. These suits principally allege personal injury resulting from exposure to asbestos-containing products and frequently seek both actual and punitive damages. The alleged claims primarily relate to products that UCC sold in the past, alleged exposure to asbestos-containing products located on UCC's premises, and UCC's responsibility for asbestos suits filed against a former subsidiary, Amchem Products, Inc.

("Amchem"). In many cases, plaintiffs are unable to demonstrate that they have suffered any compensable loss as a result of such exposure, or that injuries incurred in fact resulted from exposure to the Corporation's products.

Influenced by the bankruptcy filings of numerous defendants in asbestos-related litigation and the prospects of various forms of state and national legislative reform, the rate at which plaintiffs filed asbestos-related suits against various companies, including the Corporation and Amchem, increased in 2001, 2002 and the first half of 2003. Since then, the rate of filing has significantly abated. The Corporation expects more asbestos-related suits to be filed against it and Amchem in the future, and will aggressively defend or reasonably resolve, as appropriate, both pending and future claims.

The table below provides information regarding asbestos-related claims filed against the Corporation and Amchem for the three months ended March 31, 2005 and 2004:

	2005	2004
Claims unresolved at January 1	203,416	193,891
Claims filed	10,084	12,034
Claims settled, dismissed or otherwise resolved	(14,818)	(7,688)
Claims unresolved at March 31	198,682	198,237
Claimants with claims against both UCC and Amchem	68,278	68,198
Individual claimants at March 31	130,404	130,039

A review of a representative sample of cases outstanding at December 31, 2004 showed that in more than 98 percent of the cases filed against the Corporation and Amchem, no specific amount of damages is alleged or, if an amount is alleged, it merely represents jurisdictional amounts or amounts to be proven at trial. This percentage increased with the more recently filed cases included in the review. Even in those situations where specific damages are alleged, the claims frequently seek the same amount of damages, irrespective of the disease or injury. Plaintiffs' lawyers often sue dozens or even hundreds of defendants in individual lawsuits on behalf of hundreds or even thousands of claimants. As a result, even when specific damages are alleged with respect to a specific disease or injury, those damages are not expressly identified as to UCC, Amchem or any other particular defendant. In fact, there are no personal injury cases in which only the Corporation and/or Amchem are the sole named defendants. For these reasons and based upon the Corporation's litigation and settlement experience, the Corporation does not consider the damages alleged against it and Amchem to be a meaningful factor in its determination of any potential asbestos liability.

Estimating the Liability

Through the third quarter of 2002, the Corporation had concluded it was not possible to estimate its cost of disposing of asbestos-related claims that might be filed against it and Amchem in the future due to a number of reasons. During the third and fourth quarters of 2002, the Corporation worked with Analysis, Research & Planning Corporation ("ARPC"), a consulting firm with broad experience in estimating resolution costs associated with mass tort litigation, including asbestos, to explore whether it would be possible to estimate the cost of disposing of pending and future asbestos-related claims that have been, and could reasonably be expected to be, filed against the Corporation and Amchem. ARPC concluded that it was not possible to estimate the full range of the cost of resolving future asbestos-related claims against UCC and Amchem because of various uncertainties associated with the litigation of those claims. Despite its inability to estimate the full range of the cost of resolving future asbestos-related claims, ARPC advised the Corporation that it would be possible to determine an estimate of a reasonable forecast of the cost of resolving pending and future asbestos-related claims likely to face UCC and Amchem if certain assumptions were made. As a result, the following assumptions were made and then used by ARPC:

In the near term, the number of future claims to be filed against UCC and Amchem will be at a level consistent with levels experienced immediately prior to 2001.

The number of future claims to be filed against UCC and Amchem will decline at a fairly constant rate each year from 2003.

The average resolution value for pending and future claims will be equivalent to those experienced during 2001 and 2002.

Based on the resulting study completed by ARPC in January 2003, the Corporation increased its December 31, 2002 asbestos-related liability for pending and future claims for the 15-year period ending in 2017 to $2.2 billion, excluding future defense and processing costs. Approximately 28 percent of the recorded liability related to pending claims and approximately 72 percent related to future claims.

In November 2003, the Corporation requested ARPC to review the Corporation's asbestos claim and resolution activity during 2003 and determine the appropriateness of updating the study. In response to that request, ARPC reviewed and analyzed data through November 25, 2003 to determine the number of asbestos-related filings and costs associated with 2003 activity. In January 2004, ARPC stated that an update at that time would not provide a more likely estimate of future events than that reflected in its study of the previous year and, therefore, the estimate in that study remained applicable. Based on the Corporation's own review of the asbestos claim and resolution activity and ARPC's response, the Corporation determined that no change to the accrual was required at December 31, 2003.

In November 2004, the Corporation again requested ARPC to review the Corporation's historical asbestos claim and resolution activity and determine the appropriateness of updating the January 2003 study. In response to this request, ARPC reviewed and analyzed data through November 14, 2004, and again concluded that it was not possible to estimate the full range of the cost of resolving future asbestos-related claims against UCC and Amchem because of various uncertainties associated with the litigation of those claims. ARPC did advise, however, that it was reasonable and feasible to construct a new estimate of the cost of resolving current and future asbestos-related claims using the same two widely used forecasting methodologies used by ARPC in its January 2003 study, if certain assumptions were made. As a result, the following assumptions were made and then used by ARPC:

The number of future claims to be filed annually against UCC and Amchem is unlikely to exceed the level of claims experienced during 2004.

The number of claims filed against UCC and Amchem annually from 2001 to 2003 is considered anomalous for the purpose of estimating future filings.

The number of future claims to be filed against UCC and Amchem will decline at a fairly constant rate each year from 2005.

The average resolution value for pending and future claims will be equivalent to those experienced during 2003 and 2004 (excluding settlements from closed claims filed in Madison County, Illinois with respect to future claims, as those settlements are not considered to be relevant for predicting the cost of resolving future claims).

The resulting study completed by ARPC in January 2005 stated that the undiscounted cost of resolving pending and future asbestos-related claims against UCC and Amchem, excluding future defense and processing costs, through 2017 was estimated to be between approximately $1.5 billion and $2.0 billion, depending on which of two accepted methodologies was used. At December 31, 2004, the recorded asbestos-related liability for pending and future claims was $1.6 billion. Based on the low end of the range in the January 2005 study, the recorded asbestos-related liability for pending and future claims at December 31, 2004 would be sufficient to resolve asbestos-related claims against UCC and Amchem into 2019. As in its January 2003 study, ARPC did provide estimates for a longer period of time in its January 2005 study, but also reaffirmed its prior advice that forecasts for shorter periods of time are more accurate than those for longer periods of time.

Based on ARPC's January 2003 and January 2005 studies, the Corporation's recent asbestos litigation experience, and the uncertainties surrounding asbestos litigation and legislative reform efforts, the Corporation determined that no change to the accrual was required at December 31, 2004.

At each balance sheet date, the Corporation compares current asbestos claim and resolution activity to the assumptions in the most recent ARPC study to determine whether the accrual continues to be appropriate. Based on the Corporation's review of 2005 activity, the Corporation determined that no change to the accrual was required at March 31, 2005.

The asbestos-related liability for pending and future claims was $1.6 billion at March 31, 2005 and December 31, 2004. At March 31, 2005, approximately 38 percent of the recorded liability related to pending claims and approximately 62 percent related to future claims. At December 31, 2004, approximately 37 percent of the recorded liability related to pending claims and approximately 63 percent related to future claims.

Defense and Resolution Costs

The following table provides information regarding defense and resolution costs related to asbestos-related claims filed against the Corporation and Amchem:

Defense and Resolution Costs at March 31

In millions	2005	2004
Defense costs for the period	$ 18	$ 24
Aggregate defense costs to date	362	282
Resolution costs for the period	67	59
Aggregate resolution costs to date	993	685

The average resolution payment per asbestos claimant and the rate of new claim filings has fluctuated both up and down since the beginning of 2001. Union Carbide's management expects such fluctuations to continue in the future based upon the number and type of claims settled in a particular period, the jurisdictions in which such claims arose, and the extent to which any proposed legislative reform related to asbestos litigation is being considered.

Insurance Receivables

At December 31, 2002, the Corporation increased the receivable for insurance recoveries related to its asbestos liability to $1.35 billion, substantially exhausting its asbestos product liability coverage. Combined with the previously mentioned increase in the asbestos-related liability at December 31, 2002, this resulted in a net charge of $828 million, $522 million on an after-tax basis, in the fourth quarter of 2002.

The insurance receivable related to the asbestos liability was determined after a thorough review of applicable insurance policies and the 1985 Wellington Agreement, to which the Corporation and many of its liability insurers are signatory parties, as well as other insurance settlements, with due consideration given to applicable deductibles, retentions and policy limits, and taking into account the solvency and historical payment experience of various insurance carriers.

The Corporation's receivable for insurance recoveries related to its asbestos liability was $636 million at March 31, 2005 and $712 million at December 31, 2004. At March 31, 2005, $463 million ($464 million at December 31, 2004) of the receivable for insurance recoveries was related to insurers that are not signatories to the Wellington Agreement and/or do not otherwise have agreements in place regarding their asbestos-related insurance coverage.

In addition, the Corporation had receivables for defense and resolution costs submitted to insurance carriers for reimbursement as follows:

Receivables for Costs Submitted to Insurance Carriers **In millions**	**March 31, 2005**	**December 31, 2004**
Receivables for defense costs	$ 90	$ 85
Receivables for resolution costs	410	406
Total	$ 500	$ 491

The Corporation's insurance policies generally provide coverage for asbestos liability costs, including coverage for both resolution and defense costs. As previously noted, the Corporation increased its receivable for insurance recoveries related to its asbestos liability at December 31, 2002, thereby recording the full favorable income statement impact of its insurance coverage in 2002. Accordingly, defense and resolution costs recovered from insurers reduce the insurance receivable. Prior to increasing the insurance receivable related to the asbestos liability at December 31, 2002, the impact on results of operations for defense costs was the amount of those costs not covered by insurance. Since the Corporation expenses defense costs as incurred, defense costs for asbestos-related litigation (net of insurance) have impacted, and will continue to impact, results of operations. The pretax impact for defense and resolution costs, net of insurance, was $18 million in the first quarter of 2005 and $25 million in the first quarter of 2004, and was reflected in "Cost of sales."

In September 2003, the Corporation filed a comprehensive insurance coverage case in the Circuit Court for Kanawha County in Charleston, West Virginia, seeking to confirm its rights to insurance for various asbestos claims (the "West Virginia action"). Although the Corporation already has settlements in place concerning coverage for asbestos claims with many of its insurers, including those covered by the 1985 Wellington Agreement, this lawsuit was filed against insurers that are not signatories to the Wellington Agreement and/or do not otherwise have agreements in place with the Corporation regarding their asbestos-related insurance coverage. The Corporation continues to believe that its recorded receivable for insurance recoveries from all insurance carriers is collectible. The Corporation reached this conclusion after a further review of its insurance policies, with due consideration given to applicable deductibles, retentions and policy limits, after taking into account the solvency and historical payment experience of various insurance carriers; existing insurance settlements; and the advice of outside counsel with respect to the applicable insurance coverage law relating to the terms and conditions of its insurance policies. In early 2004, several of the defendant insurers in the West Virginia action filed a competing action in the Supreme Court of the State of New York, County of New York. As a result of motion practice, the West Virginia action was dismissed in August 2004 on the basis of *forum non conveniens* (i.e., West Virginia is an inconvenient location for the parties). The comprehensive insurance coverage litigation is now proceeding in the New York courts.

Summary

The amounts recorded for the asbestos-related liability and related insurance receivable described above were based upon current, known facts. However, projecting future events, such as the number of new claims to be filed and/or received each year, the average cost of disposing of each such claim, coverage issues among insurers, and the continuing solvency of various insurance companies, as well as the numerous uncertainties surrounding asbestos litigation in the United States, could cause the actual costs and insurance recoveries to be higher or lower than those projected or those recorded.

Because of the uncertainties described above, management cannot estimate the full range of the cost of resolving pending and future asbestos-related claims facing the Corporation and Amchem. Management believes that it is reasonably possible that the cost of disposing of the Corporation's asbestos-related claims, including future defense costs, could have a material adverse impact on the results of operations and cash flows for a particular period and on the consolidated financial position of the Corporation.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK.

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

ITEM 4. CONTROLS AND PROCEDURES.

As of the end of the period covered by this Quarterly Report on Form 10-Q, the Corporation carried out an evaluation, under the supervision and with the participation of the Corporation's Disclosure Committee and the Corporation's management, including the Chief Executive Officer and the Chief Financial Officer, of the effectiveness of the design and operation of the Corporation's disclosure controls and procedures pursuant to Exchange Act Rule 15d-15(b); and whether any change has occurred in the Corporation's internal control over financial reporting pursuant to Exchange Act Rule 15d-15(d). Based upon that evaluation, the Chief Executive Officer and the Chief Financial Officer concluded that the Corporation's disclosure controls and procedures are effective and that no change in the Corporation's internal control over financial reporting occurred during the Corporation's most recent fiscal quarter that materially affected, or is reasonably likely to materially affect, the Corporation's internal control over financial reporting.

PART II–OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS.

No material developments in any legal proceedings, including asbestos-related matters, occurred during the first quarter of 2005. For a summary of the history and current status of legal proceedings, including asbestos-related matters, see Management's Discussion and Analysis of Financial Condition and Results of Operations, Asbestos-Related Matters; and Note F to the Consolidated Financial Statements.

ITEM 6. EXHIBITS.

(a) Exhibits.

Exhibit No.	Exhibit Description
23	Analysis, Research & Planning Corporation's Consent.
31.1	Certification Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2	Certification Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1	Certification Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
32.2	Certification Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

Union Carbide Corporation and Subsidiaries
Signatures

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: May 2, 2005

By: /s/ FRANK H. BROD

Frank H. Brod
Corporate Vice President and Controller
The Dow Chemical Company
Authorized Representative of
Union Carbide Corporation

By: /s/ EDWARD W. RICH

Edward W. Rich
Vice President, Treasurer and
Chief Financial Officer

(Unaudited)

EXHIBIT NO.	DESCRIPTION
23	Analysis, Research & Planning Corporation's Consent.
31.1	Certification Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2	Certification Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1	Certification Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
32.2	Certification Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

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EXHIBIT 23

Analysis, Research & Planning Corporation's Consent

Union Carbide Corporation:

Analysis, Research & Planning Corporation ("ARPC") hereby consents to the use of ARPC's name and the reference to ARPC's reports dated January 9, 2003, January 26, 2004 and January 26, 2005 appearing in this Quarterly Report on Form 10-Q of Union Carbide Corporation for the quarter ended March 31, 2005.

/s/ B. THOMAS FLORENCE

B. Thomas Florence
President
Analysis, Research & Planning Corporation
April 29, 2005

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EXHIBIT 23

EXHIBIT 31.1

Union Carbide Corporation and Subsidiaries

Certification Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002

I, John R. Dearborn, President and Chief Executive Officer of Union Carbide Corporation, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Union Carbide Corporation;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and have:

a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

b) evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

c) disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent function):

a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: May 2, 2005

/s/ JOHN R. DEARBORN

John R. Dearborn
President and Chief Executive Officer

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EXHIBIT 31.1

EXHIBIT 31.2

Union Carbide Corporation and Subsidiaries

Certification Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002

I, Edward W. Rich, Vice President, Treasurer and Chief Financial Officer of Union Carbide Corporation, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Union Carbide Corporation;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and have:

a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

b) evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

c) disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent function):

a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: May 2, 2005

/s/ EDWARD W. RICH

Edward W. Rich
Vice President, Treasurer and
Chief Financial Officer

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EXHIBIT 31.2

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EXHIBIT 32.1

Union Carbide Corporation and Subsidiaries

Certification Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

I, John R. Dearborn, President and Chief Executive Officer of Union Carbide Corporation (the "Corporation"), certify that:

1. the Quarterly Report on Form 10-Q of the Corporation for the quarter ended March 31, 2005 as filed with the Securities and Exchange Commission (the "Report") fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

2. the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Corporation.

/s/ JOHN R. DEARBORN

John R. Dearborn
President and Chief Executive Officer
May 2, 2005

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EXHIBIT 32.1

EXHIBIT 32.2

Union Carbide Corporation and Subsidiaries

Certification Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

I, Edward W. Rich, Vice President, Treasurer and Chief Financial Officer of Union Carbide Corporation (the "Corporation"), certify that:

1. the Quarterly Report on Form 10-Q of the Corporation for the quarter ended March 31, 2005 as filed with the Securities and Exchange Commission (the "Report") fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

2. the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Corporation.

/s/ EDWARD W. RICH

Edward W. Rich
Vice President, Treasurer and
Chief Financial Officer
May 2, 2005

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[EXHIBIT 32.2]