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PRESENTATION

Operator

Good day, and welcome to Dow's 2Q 2021 Earnings Call. (Operator Instructions) Also, today's call is being recorded. I would now like to turn the call over to Pankaj Gupta. Please go ahead, sir.

Pankaj Gupta ***Dow Inc. - Investor Relations Vice President***

Good morning. Thank you for joining Dow's second quarter earnings call. This call is available via webcast, and we have prepared slides to supplement our comments today. They are posted on the Investor Relations section of Dow's website and through the link to our webcast.

I am Pankaj Gupta, Dow Investor Relations Vice President. And joining me on the call today are Jim Fitterling, Dow's Chairman and Chief Executive Officer; and Howard Ungerleider, President and Chief Financial Officer.

Please read the forward-looking statement disclaimer contained in the earnings news release and slides. During our call, we will make forward-looking statements regarding our expectations or predictions about the future. Because these statements are based on current assumptions and factors that involve risks and uncertainties, our actual performance and results may differ materially from our forward-looking statements. Dow's Forms 10-Q and 10-K include detailed discussions of principal risks and uncertainties which may cause such differences.

Unless otherwise specified, all financials, where applicable, exclude significant items. We will also refer to non-GAAP measures. A reconciliation of the most directly comparable GAAP financial measure and other associated disclosures is contained in the Dow earnings release, in the slides that supplement our comments today and on the Dow website.

On Slide 2, you will see our agenda for the call. Jim will begin by reviewing our second quarter highlights and operating segment performance. Howard will share modeling guidance and outlook going forward, and then Jim will close with an update on our earnings drivers. Following that, we will take your questions.

Now let me turn the call to Jim.

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James R. Fitterling ***Dow Inc. - Chairman & CEO***

Thank you, Pankaj, and thanks to everyone for joining us today. Starting on Slide 3. Dow continued to capture strong demand across our value chains during the second quarter. Team Dow's focus on execution, cost discipline and balanced capital allocation enabled us to deliver our strongest quarterly earnings performance in the company's history, both pre and post spin, with substantial growth in net sales and earnings year-over-year and sequentially.

We achieved double-digit sales gains in all operating segments and businesses. A 66% increase in sales relative to the year ago period was led by local price improvement of 53% combined with a 9% volume increase. Robust demand and the recovery of the global economy continues from the onset of the COVID-19 pandemic. Sales increased 17% sequentially, underpinned by tight supply and demand fundamentals across all of our value chains.

We delivered higher operating EBIT of $2.8 billion year-over-year and $1.3 billion sequentially, with improvements in all segments and businesses. These gains were fueled by strong top line growth and margin expansion.

We also benefited from increased equity earnings, up more than $370 million year-over-year, led by higher margins at Sadara and the Kuwait joint ventures. Sequentially, equity earnings were up $54 million, primarily from the Thai joint ventures.

Cash flow from operations was $2 billion and free cash flow was $1.7 billion, up significantly both year-over-year and sequentially. This enabled a balanced execution of our capital allocation priorities.

We continued our proactive liability management actions by reducing gross debt by more than $1 billion in the quarter and reducing our annual interest expense by $35 million. Today, Dow has no substantial long-term debt maturities due until the end of 2025.

We also returned more than $700 million to shareholders in the quarter through our industry-leading dividend, and we resumed our share buyback program to cover dilution.

Finally, we continued to advance Dow's ESG priorities by releasing our consolidated ESG report, INtersections, which provides enhanced transparency on our environmental, social and governance priorities. The interactive digital report can be found at the top of our corporate website.

In summary, Team Dow maintained a relentless focus on meeting increasing customer demand despite lingering supply impacts across many value chains and marking a strong rebound from Winter Storm Uri. We continued to execute on our operational and financial playbook, delivering another strong quarter and a solid first half performance.

Turning to our segment performance on Slide 4. In the Packaging & Specialty Plastics segment, operating EBIT was $2 billion, up nearly $1.7 billion year-over-year and more than $780 million sequentially. Price gains in both businesses and in all regions led to integrated margin improvement and increased equity earnings. On a sequential basis, the segment expanded operating EBIT margins by 810 basis points on continued local price gains in olefins and in packaging applications.

The Packaging and Specialty Plastics business reported sales gains year-over-year driven by improvement in packaging applications for industrial & consumer packaging and flexible food & beverage packaging end markets. Volumes declined year-over-year and sequentially due to lower polyethylene supply from the lingering effects of Winter Storm Uri and our own planned maintenance turnarounds. Compared to the prior quarter, the business delivered local price gains in all regions.

Moving to the Industrial Intermediates & Infrastructure segment. Operating EBIT was nearly $650 million, up more than $860 million year-over-year, primarily due to the pandemic recovery, combined with tight supply and strong demand in both businesses. Sequentially, operating EBIT was up $320 million and operating EBIT margins expanded by 640 basis points, driven by margin improvement and offset somewhat by continued supply constraints from Winter Storm Uri.

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The Polyurethanes & Construction Chemicals business increased net sales compared to the year ago period on strong local price in all value chains, demand recovery in durable goods & appliances and construction end markets and currency tailwinds.

Despite industry supply chain challenges across a number of end markets, including mobility, the business delivered sequential sales growth on increased local price and volumes.

The Industrial Solutions business delivered a net sales improvement compared to the year ago period as a result of local price gains in offerings for coatings, industrial and electronics end markets across all regions. Improved demand for materials used in industrial manufacturing, coatings and infrastructure were more than offset by planned maintenance turnarounds and some third-party supply limitations. Net sales also increased sequentially on local price gains in all regions.

And finally, the Performance Materials & Coatings segment reported operating EBIT of $225 million, up nearly $200 million from the year ago period. Operating EBIT margins increased 760 basis points on price gains and strong consumer and industrial demand recovery. Sequentially, operating EBIT was up more than $160 million due to price momentum and lower planned maintenance costs.

The Consumer Solutions business achieved higher net sales year-over-year as demand recovery for silicones products led to local price and volume gains in all regions. Sequentially, the business achieved broad-based volume growth due to lower planned maintenance activity and strong demand in silicones applications, including personal care, as certain geographies began to experience an increase in travel and a return to workplace and social activities, with notable improvements in China.

The Coatings & Performance Monomers business delivered higher net sales year-over-year driven by price gains in all regions. Increased demand for coatings applications was offset by lingering raw material and logistical constraints from Winter Storm Uri. Sequentially, the business achieved local price gains on tight supply and strong demand fundamentals and increased raw material costs as well as increased volume from strong seasonal demand for industrial and architectural coatings.

Now I'll turn it over to Howard to review our outlook.

Howard I. Ungerleider *Dow Inc. - President & CFO*

Thank you, Jim, and good morning, everyone. Moving to our third quarter modeling guidance on Slide 5.

Strong consumer demand trends continue in retail, housing and the manufacturing sectors and inventory levels remain low across most of our value chains. We expect these dynamics to continue to support price strength in the third quarter as the industry continues to work to fulfill pent-up demand.

In our Packaging & Specialty Plastics segment, downstream converter and brand-owner inventories remain at all-time lows with balances very tight. Recent small increases in producer inventories are due to a heavy turnaround season for the industry, and yet industry days demand and inventory actually declined nearly 8% month-over-month on tight supply, coupled with increased domestic and export demand. This data includes Dow, where we expect an approximately $150 million increase in the third quarter turnaround spending sequentially for planned maintenance at our crackers in Canada and in Spain as well as $100 million lower earnings from nonrecurring licensing activity which occurred in the second quarter. ACC data indicates domestic demand for packaging applications reached its strongest level in history in June, and we expect a continuation of these positive demand trends as customers are reporting 45- to 60-day backlogs.

Moving to Industrial Intermediates & Infrastructure. Strong consumer demand for durable goods continues, underpinned by order strength throughout the value chain. Housing and construction markets, particularly in the U.S., continue to support robust demand for polyurethane applications. Industrial- and oil-related end markets are expected to continue to see gradual recovery sequentially, providing additional support for solvents and other industrial solutions. We also expect $30 million of additional planned maintenance turnaround spending at our joint ventures in the quarter.

And in Performance Materials & Coatings, we expect a continuation of strong demand for electronics, mobility and infrastructure

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silicones solutions. We expect to benefit as social activity increases on easing pandemic-related restrictions, including sequential improvement for personal care applications. These trends are supporting price momentum across the silicones value chain, and we anticipate increased turnaround spending of approximately $30 million in our Consumer Solutions business in the quarter, including a turnaround at our siloxane pillar plant in Barry. Demand for do-it-yourself architectural coatings remains robust, and we expect to see an increase in contractor-related demand as new home builds increase and consumer in-home social engagements begin to resume.

Altogether with robust demand expected to continue, our advantaged portfolio is positioned to capture significant value moving forward. We've updated a few full year items which can be found in the appendix of this slide presentation. Notably, we are expecting higher equity earnings, and with the improved earnings profile at Sadara, we now anticipate approximately $50 million of cash inflow to Dow in 2021.

Turning to Slide 6. Around the world, increasingly positive trends indicate we remain in the early stages of economic recovery with an extended runway for growth. While industrial production is up nearly 20% over the year-ago low, it still has not reached pre-pandemic levels. Retail inventory to sales is at its lowest levels in more than 3 decades, and strong demand continues to counter near-term potential restocking efforts. U.S. housing starts increased again in May and are projected to continue rising, supported by limited supply of single-family homes due to a decade of underbuilding. And the proposed U.S. infrastructure bill has the potential to further elevate the already strong GDP estimates projected around the world.

As vaccination rates increase around the world and economies continue to reopen, pent-up consumer demand and increased personal savings built over the past year should also provide an additional boost to the global economy. Consumer confidence continues to climb on conviction that economic conditions will continue to improve, supporting continued purchases of homes, automobiles and other durable goods. Business travel sentiment continued to improve in May with more than half of U.S. companies planning to resume domestic business travel within the next 3 months.

The personal care market, which has been one of the slowest to recover, began to see a rebound in the second quarter, with increases in U.S. cosmetics and beauty product sales on rising consumer demand. And as borders reopen, recreational activities and international travel should also boost economic activity, while we're mindful that there will absolutely be some regional variations in the timing and the pace of the recovery.

Along with these trends, we anticipate the strong demand we experienced in the second quarter across our polyethylene, polyurethane, acrylic and silicone chains to extend through the second half of 2021. Polyethylene demand growth, for example, is projected to outpace supply additions in the near term, with pricing strength and resilient margins on a sustained and favorable oil-to-gas ratio, with the majority of industry capacity adds coming in the higher end of the cost curve.

Altogether, we expect these strong market dynamics, tight supply/demand fundamentals and ongoing economic expansion across our key chains to continue to drive earnings and cash flow growth.

With that, I'll turn it back to Jim.

James R. Fitterling ***Dow Inc. - Chairman & CEO***

Thank you, Howard. Turning to Slide 7. Dow's consumer-driven portfolio is uniquely positioned to benefit from the demand trends that Howard outlined a moment ago, which continued to translate into an attractive $650 billion addressable market with approximately 1.3 to 1.5x GDP growth across our packaging, infrastructure, mobility and consumer care end markets. These demand trends in our fast-growing markets are underpinned by an accelerated transition toward more sustainable materials, providing ample opportunities for Dow to continue to innovate with our customers and brand owners to enhance the sustainability of our products and value chains while advancing our net-zero carbon and circular economy targets.

For example, as the mobility sector continues its transition to more sustainable solutions, electric and autonomous vehicles offer upside of approximately 50% more revenue across multiple Dow chemistries versus traditional internal combustion engine vehicles, including high-value polyurethanes, silicones and silicone hybrid-based adhesives and engineering sealants widely used in battery assembly, noise

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and vibration reduction, drivetrain, comfort and heat management applications.

Our new DOWSIL silicone technologies for electric and hybrid vehicle applications help OEMs to meet the evolving needs of automotive electrification while advancing vehicle performance, reliability and sustainability.

And we recently introduced SPECFLEX C, a new polyurethane solution sourced from recycled raw materials to help automotive OEMs meet demand for more circular products and their sustainability goals.

We also continue to align our growth CapEx to address this growing market demand for sustainable materials. This quarter, we outlined our road map to reduce CO2 emissions by more than 40% by 2030 from our manufacturing operations in Terneuzen, The Netherlands.

And Dow and Shell demonstrated progress on our joint technology to electrically heat steam cracker furnaces, receiving partial funding from the Dutch government. And together, we are evaluating construction of a multi-megawatt pilot plant with start-up in 2025. We plan to share more detail on our strategic and financial priorities to continue creating long-term value for all our stakeholders at our upcoming 2021 Investor Day on October 6, which will be hosted both virtually and in person in New York City. Stay tuned for more details. We look forward to engaging with you.

On Slide 8, as we shared last quarter, we continue to see demand across our ethylene, polyethylene, polyurethanes, acrylics and silicones value chains outpacing supply through 2021 and staying balanced in the near term. These market dynamics will be further supported through 2022 and beyond by the GDP-fueled market growth trends we just discussed.

Some industry views call for softening conditions, largely based on their view of announced capacity additions. However, they do not account for industry delays and cancellations, and when coupled with elevated demand growth from continued reopening of the global economy, will likely lead to tighter-than-forecasted market conditions, all of which will result in continued earnings, margin and cash flow growth for Dow in the near term.

And while we capture these improved earnings in our core businesses, our current slate of lower-capital, faster-payback and higher-return capacity expansions will generate an additional $1 billion of accretive earnings over the next several years, with many projects delivering earnings already this year, such as our ethylene derivatives at the Thai joint ventures; polyethylene for high-performance packaging applications at our Alberta operations; and surfactants for leading brand-owners laundry and home care end markets.

And notably, in the second quarter, we progressed our polyethylene glycol incremental expansion, completing customer qualification ahead of schedule and beginning shipments of our industry-leading CARBOWAX SENTRY polyethylene glycol active pharmaceutical ingredients.

Combined with favorable supply and demand fundamentals, these projects further enable Dow to continue to deliver significant value for our owners over this foreseeable future.

We'll close on Slide 9. Our steadfast execution of the operational and financial playbook that we outlined at spin, combined with our agile response to market conditions over the past year, have enabled us to deliver strong performance and enhanced value to our shareholders. We are uniquely positioned to continue building on that strong foundation today.

Our value proposition starts with our differentiated portfolio and an asset base that is characterized by, first, our feedstock flexibility and position, which supports our low-cost position and enables us to drive higher asset utilization and maximize cash margins as we quickly balance our feedstock and product mix to supply and demand dynamics. And second, our leading scale, global footprint and differentiated portfolio provide us with access to high-growth end markets in all major regions.

We have achieved strong performance in this early part of the economic recovery and remain advantaged through our participation in higher-margin functional polymers, silicones and formulated systems. We continue to develop innovative solutions to address our

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customers' needs and capture the opportunities arising from critical market trends. Our high-value adhesives and innovative packaging solutions support the rapidly growing e-commerce sector.

Through our MobilityScience platform, we are targeting low-carbon-enabling mobility, electric and autonomous vehicle opportunities.

More broadly, across our portfolio, we are enhancing the sustainability of our solutions and the value chains they serve. For example, deploying lower carbon energy solutions in gas treating, carbon capture and concentrated solar power at our operations.

And through value chain collaboration, we are increasing post-consumer recycled content in our products and enabling the design of fully recyclable packaging. Today, more than 80% of Dow products for packaging applications are reusable or recyclable, and our research and technical teams are working actively on the remainder to achieve that same goal.

Beyond the strength of our portfolio and our innovation investments, our deliberate focus on operating discipline and balanced capital allocation approach are critical elements of our value-creation playbook. We have achieved top-quartile cost structure and cash conversion and our restructuring efforts will yield an additional $300 million in earnings, all while maintaining a best-owner mindset.

We also delivered a return on invested capital of greater than 14% on a trailing 12-month basis. At the same time, we have prioritized investments in our downstream, higher-margin, faster-payback opportunities and upstream investments that expand our leading ESG profile while increasing our capital expenditures by $350 million this year.

We reduced net debt by approximately $5 billion since the end of 2018. Dow's strong operational and financial performance this year resulted in a credit rating upgrade by S&P and an upgraded outlook by Fitch, supporting our strong investment-grade balance sheet. And we continue to return significant cash to shareholders through our industry-leading dividend.

In closing, Dow is uniquely advantaged to continue delivering value through our best-in-class consumer-led portfolio, our leadership in innovation and sustainability and our strong operating and financial discipline. With that, I'll turn it back to Pankaj to open the Q&A.

Pankaj Gupta ***Dow Inc. - Investor Relations Vice President***

Thank you, Jim. Now let's move on to your questions. I would like to remind you that our forward-looking statements apply to both our prepared remarks and the following Q&A. Operator, please provide the Q&A instructions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Our first question comes from P.J. Juvekar with Citi.

Prashant N. Juvekar ***Citigroup Inc., Research Division - Global Head of Chemicals & Agriculture Research and MD***

Yes. Jim, the arbitrages between U.S. prices for polyethylene and other commodities versus Asia are growing. And this was evident in your pricing, where U.S. pricing was 2x that of -- that in Asia. So how much of this is driven by the shipping tightness? And is the shipping tightness or logistical challenges impacting your business?

James R. Fitterling ***Dow Inc. - Chairman & CEO***

Thanks for the question. Obviously, days sales and inventory in North America went down. And I think what you saw was ourselves and most producers actually exported less into China. That was part of it. Also, you've had a big rise in the cash flow part of the cost curve. So even though the arbitrages are where they are, most of the producers in China are running at cash flow breakeven. So our outlook is that demand here and around the world continues to be strong. I don't think you'll see a chance for us to build any inventory through the third quarter, there's still a fair number of planned turnarounds. And our view is with these GDP growth rates, over 6% for this year and currently forecasted at 4.5%, maybe 5% for next year, there's going to be quite a demand for polyethylene.

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Operator

We'll take our next question from David Begleiter with Deutsche Bank.

David L. Begleiter ***Deutsche Bank AG, Research Division - MD and Senior Research Analyst***

Jim, consultants are calling July to be the peak for integrated ethylene, polyethylene margins and then erosion through the rest of the year. What's your view on these margins and the cadence of declines in the back half of the year?

James R. Fitterling ***Dow Inc. - Chairman & CEO***

Thanks, David. Right now, the July order book is stronger than we saw through the second quarter. I expect it will continue to stay that way through the quarter. In some views, we probably had our highest raw material prices in the second quarter because the ethane frac spreads went up fairly dramatically. I do expect we'll see some of that soften as we move forward. I think long term, we expect natural gas prices to be between $2.75 and $3, 1 million BTU. So that's positive. And with these oil-to-gas ratios, I think we're going to see that continue.

One of the things that happened with oil, obviously, is everybody looked at the oil supply coming on, but I think they failed to look at demand for oil. And as the economy reopens, there's going to be another step-up in demand. So I think some of that supply is just necessary to get ready for the increase in demand that's coming.

Operator

We'll take our next question from Frank Mitsch with Fermium Research.

Frank Joseph Mitsch ***Fermium Research, LLC - President***

Congrats. Jim and Howard, you guys have previously spoken that peak EBITDA at Dow would be $12 billion or greater. And as I look at the first half of the year, we're essentially at that run rate. So the question is, are we at peak? And if so, how sustainable is it? Or would you like to take this opportunity and offer an upgrade there?

James R. Fitterling ***Dow Inc. - Chairman & CEO***

Frank, thanks. Look, we're at a pretty good run rate right now. Our expectation for third quarter is fairly similar. We really only have a couple of items that are negative on third quarter, just a couple of more turnarounds and some onetime catalyst sales that don't repeat. But given that, that looks good.

In addition, I talked a little bit about incremental growth projects. Those projects, some of which are already starting up this year, give us the ability to add another $1 billion of EBITDA to those numbers.

So I think we're showing, with the work that we've done on the balance sheet, with the work that we've done on reliability and the incremental expansions that we're making and these other geographies come out of the pandemic like India, Brazil and Southeast Asia, and we see personal care plus the industrial and service markets come back, I think there's a potential for more.

Howard I. Ungerleider ***Dow Inc. - President & CFO***

Frank, this is Howard. I would just add to that, that there's also self-help. So we've got the restructuring from last year. That's going to continue to be a tailwind for us this year and into next year, that's a $300 million tailwind in total over the 2-year period. And then the investments we're making in digital we expect will be at least another $300 million. So if you add that to Jim's numbers, you're talking about more than $1.6 billion of organic and/or self-help regardless of the macros.

But the macros, as Jim talked about earlier, are very, very strong, and we don't see that abating in the near term.

Operator

We'll take our next question from Vincent Andrews with Morgan Stanley.

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Vincent Stephen Andrews ***Morgan Stanley, Research Division - MD***

Just looking at Slide 8 on the PE, MDI and siloxane. S&D and utilization rates, the 3 utilization rate ranges that you have, I just looked at siloxane and I see it's very narrow, the range of outcomes on S&D in '22 and it gets wider as you get out to '26, whereas it looks like it's the opposite for PE and MDI. So what is it about siloxane that creates more of an uncertain medium-term outlook from an S&D and capacity utilization perspective?

James R. Fitterling ***Dow Inc. - Chairman & CEO***

Yes. Thank you, Vince. The siloxanes business hasn't seen a lot of recent capacity adds. Obviously, we've been working on reliability and doing some turnaround work in our own assets. I think a lot of it is really end market-driven. And the positive side on the demand for downstream silicones is that you've got a tremendous draw as you move into things like electric vehicles. We're still seeing strong growth in housing and also in large building projects around the world. So I think that's going to continue.

My other thought is that our sustainable portfolio from our standpoint, when you look at the sourcing of our silicone metals, is going to allow us to be able to meet some of our brand owners' sustainability demands, and that's going to be positive for Dow.

You've got some older assets out there. You've got to keep an eye on that. About 4% to 5% of the industry capacity is older, high cost and has a pretty high CO2 footprint. And so we're keeping an eye on that.

Operator

We'll take our next question with Jeff Zekauskas with JPMorgan.

Jeffrey John Zekauskas ***JPMorgan Chase & Co, Research Division - Senior Analyst***

Also on Slide 8, you talked about a Canada cracker expansion. In the old days, you used to talk about expanding PE by 600,000 tons a year, which was supposed to happen in the second half of 2022. Is that what that is? Or is that something different? And when you did previously talk about a 600,000-ton expansion, is that still going through?

And then secondly, on Slide 14, you said your turnarounds this year were $500 million higher than last year. Is that a normal number? What's your normal turnaround costs in a year?

James R. Fitterling ***Dow Inc. - Chairman & CEO***

Thanks, Jeff. Two good questions. In Canada, that expansion is an addition of another furnace and some work on the debottlenecking of the back end of the cracker up there. And we have the available capacity in Canada to convert that to polyethylene. So that add is probably [a fraction] (corrected by company after the call) of that 600 kt that you're talking about in terms of available pounds.

There was a project that we had slated to build in the U.S. Gulf Coast of 600 kt. Now when COVID hit, we pushed out and we're dusting that off right now, and we're going to make a decision on that some time this year. So we are continuing to look at expanding in the plastics portfolio downstream. And with the work we've done on reliability, we've got the ethylene within our portfolio to be able to fuel that and make that happen.

On turnarounds, again, with cash flow being tight last year, we pushed some into this year. Maybe, Howard, you can comment on what is a more normal number going forward.

Howard I. Ungerleider ***Dow Inc. - President & CFO***

Yes. I mean look, Jeff, last year, as Jim says, we pushed a lot of turnaround. So 2020 versus 2019 was down about $200 million. We expect this year, as you said, to be up about $500 million. It really does depend. I mean we've got cracker assets around the world, as you know. And I would say in a typical year, we do between 1 and 3. And so if you want to say on average it's 2 a year, that would tell you that the average turnaround is probably in the range of $1 billion, plus or minus. And this year, it's going to be a little bit above trend line because of pushout from last year.

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Operator

Our next question comes from Duffy Fischer with Barclays.

Patrick Duffy Fischer ***Barclays Bank PLC, Research Division - Director & Senior Chemical Analyst***

Just wanted to triangulate if I could. Pricing for polyethylene is up about 6% as we exited the quarter versus the average for Q2. But when you gave your guidance for the sales growth from Q2 to Q3 for that segment, it's flat to up 2%. So if you just flatline price and you kept the volume the same, you should be up roughly 6%. Can you just triangulate back that 4% that's missing? Is that a lack of volume? Or do you see the price rolling over in the back part of the quarter that would get us to equal there?

James R. Fitterling ***Dow Inc. - Chairman & CEO***

Yes. Thanks, Duffy. Inventories are real tight right now. And as I mentioned, we haven't been able to really build anything. So with turnarounds in front of us in this quarter, we've been a bit conservative on the volume that's in that third quarter outlook. Obviously, we're going to try to be able to beat that.

And I would say on pricing, we're still seeing some positive upward price movement on certain grades of product. High density, for example, right now is pretty tight. And so I think you're going to continue to see some price movement upward there.

But overall, as we get through the turnarounds in the third quarter, I think you're going to see that we're going to have plenty of available volume to move, and that will start to add toward the end of the quarter and into the fourth quarter.

Operator

We'll take our next question from Hassan Ahmed with Alembic Global.

Hassan Ijaz Ahmed ***Alembic Global Advisors - Partner & Head of Research***

As I heard your commentary, it seems, obviously, the fundamentals are looking very strong, near to medium term at least. Obviously, that's reflected in your strong cash flow. And then again, you made a comment about no sort of significant debt payments due until 2025. So my question is, how are you guys thinking about share buybacks? I mean you guys did around $200 million of buybacks in Q2, enough to offset dilution. But with the way the balance sheet is right now, the way the fundamentals seem to be, are you guys thinking about a more significant buyback program?

James R. Fitterling ***Dow Inc. - Chairman & CEO***

Hassan, let me take a shot at that, and I'll ask Howard to chime in as well. As of the end of second quarter, we've paid out about 88% of net income in dividends and share buybacks since the spin. So that's well above our 65% through-the-cycle guideline. And we just brought back buybacks in the quarter to start to cover dilution. And what we bought was about $200 million worth of shares during the quarter. So that's our priority.

I would also say that, remember, we have organic growth in front of us, and so we're going to need some money to go into incremental growth CapEx. This year, we'll be at $1.6 billion. We need a couple more years to get up to depreciation levels, which is about $2.2 billion, and we have the projects and they're good projects lined up to do that. Howard, any other comments?

Howard I. Ungerleider ***Dow Inc. - President & CFO***

Yes. The only other thing I would say, Hassan, you saw we reinitiated in the second quarter, as you said, with the $200 million. I would say that for modeling purposes, that's a good quarterly run rate for the back half of the year. And then as we get to the end of the year, at Investor Day, we'll talk more about 2022.

Operator

We'll take our next question from John McNulty with BMO Capital Markets.

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John Patrick McNulty ***BMO Capital Markets Equity Research - Analyst***

Just a quick one. With regard to the impact in PSP and II&I around the Uri volumes, can you give us a little clarity on how much that nicked you in 2Q? Because I assume that's all in the rearview mirror and we should be kind of (inaudible) we look to 3Q? And is that right?

James R. Fitterling ***Dow Inc. - Chairman & CEO***

I think your assumption is right. They were impacted pretty hard in 2Q, and we should see that come back. And the assets are running very hard right now.

The only caveat to that, I would say, is that there are still a couple of lines where some raw material supply limitations, small raw materials are important in making those products, sometimes cause us a little bit of a backlog. I think most of that capacity was out during the month of April. And so as you think about it and go forward in Q3, I would say you'll have 3 solid months of production, where last quarter we had 2, and we pulled hard out of inventory.

And so I don't think that we're going to have a chance to rebuild inventories until maybe the end of the year. And that would all depend on if the economy slows down. As Howard mentioned, we have customers and most of them in those chains that have 45- to 60-day backlog. So our view is we're going to be running hard through the end of the year and right into 2022.

Operator

Our next question comes from John Roberts with UBS.

John Ezekiel E. Roberts ***UBS Investment Bank, Research Division - Executive Director and Equity Research Analyst, Chemicals***

A little bit related there, Jim and Howard. But Dow and the industry had a much harder time recovering from Winter Storm Uri. If we had a similar situation again, would the impact likely be the same? Or has there been some learnings or changes that would mitigate the effect if we had a repeat of this?

James R. Fitterling ***Dow Inc. - Chairman & CEO***

Yes. That's a good question, John. We had -- we do like we do after a hurricane, we -- after every hurricane or weather event, we get the team together and we take a look at what worked well and what didn't work so well. Uri was a little bit different in that it was so widespread. And it was not just us, but it was everything upstream and downstream above gas production, electricity, water. The biggest damage, obviously, was [freeze-ups]. And so you can't winterize everything to prepare for that, but you can winterize some things. And if you have some advanced notice, you can actually take some things down and protect them. And so the team has gone through that. And we've got an updated game plan on what we would do in the face of a situation like that again.

I think the whole industry is going through it. I know ERCOT is going through that on the power side. Winterization is a big part of what they're doing and what they're requesting us to do as well because we are a supplier into ERCOT.

So I do think there's some positive developments since Winter Storm Uri. And the widespread nature of it is what caught everybody and has taken so long to work through.

Operator

Our next question comes from Michael Sison with Wells Fargo.

Michael Joseph Sison ***Wells Fargo Securities, LLC, Research Division - MD & Senior Equity Analyst***

Nice quarter. I think PE prices are at all-time highs and obviously, demand is strong and supply is super low. Just curious though, do you think there's a fundamental change in demand for polyethylene on a structural basis, maybe post the pandemic? Is it possible that we're really going to be above that 1.3 to 1.5 GDP going forward? And then just curious what you think would need to happen for prices to fall.

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James R. Fitterling ***Dow Inc. - Chairman & CEO***

Yes. Michael, thanks for the question. We have seen a change in buying behavior from customers. And so there are some areas that really drive a lot of packaging like e-commerce activity, which I don't think it is going to go backward. I also think that the fact that plastic packaging is so lightweight and so strong and it is the lowest carbon footprint package out there, you're going to continue to see a drive toward that.

For most companies, the shipping costs and the CO2 footprint and the shipping cost will drive that.

And so I just use a paper versus plastic scenario in a grocery store. One truckload of plastic shopping bags would take 4 to 5 truckloads of paper bags to replace it. So I think you're going to see as carbon comes into the equation that it advantages plastics greatly. I don't think there's something that's going to see it long term move above 1.5. For many, many decades, it's been in that 1.5 type of GDP growth rate. I think that will stay.

There are some functional polymers that are made out of ethylene and polyethylene derivatives that are continuing to grow, materials for construction that are positive. You're going to see growth in some other applications like products that go into alternative energy, both solar panels for encapsulation, wind blades and other types of applications. So I think we can sustain that over a long period of time, which is positive.

Operator

We'll take our next question from Bob Koort with Goldman Sachs.

Robert Andrew Koort ***Goldman Sachs Group, Inc., Research Division - MD***

Jim, I wanted to ask you, maybe it dovetails on Mike's question, but in terms of PE demand growth in that multiplier, the Dow and the industry is also embracing the circular economy. Just curious what effect you think the recycling initiatives and circular initiatives out there, what that might do to virgin demand growth rates relative to that sort of 1.5x GDP multiplier?

James R. Fitterling ***Dow Inc. - Chairman & CEO***

Yes. Good question, Bob. We're seeing a real demand pull from consumers and brand owners that want more post-consumer recycled material in there or they want more material that's made from either a biosource to ethylene or something that is made from advanced recycling to get back to feedstock and back to a product.

I think the drivers that are going to help on the virgin side of things are obviously redesign of packaging types. On flexible packaging, many packages are complicated and hard to recycle. I think one of the positives of our portfolio right now is the greater than 80% of our portfolio is fully recyclable or reusable today, and the research team and the tech service team are working hard to get the rest of that to 100%.

All the brand owners are working on redesigns right now of different packages to move away from complex structures into simpler structures. We used that Bear Naked Granola example with Kellogg's, where that package has been redesigned. This is going on across the value chain. We're seeing the investments in mechanical recycling and advanced recycling pick up. We're seeing the number of states that are approving advanced recycling projects pick up. And I think our next big impact is going to be on infrastructure at the state and local level to allow more collection of curbside recycling of more products. And that will be the next drive north. We still have a long way to go even to catch up with Europe. In the United States, we have a long way to go to get to that 35% of recycling.

We set a target by 2030 to collect or reuse or recycle 1 million metric tons of plastic through our own actions and partnerships. And I can tell you, I'm pushing the team to always pull that number forward and get that done faster. And I think we're seeing real demand in taking recycled packaging products into some things that are more durable and longer life building materials, using recycled plastics in aggregate for roadways, architectural decking, all kinds of things that are upgrading the use of end-of-life plastics. So I think over time, it's going to be a real positive.

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Operator

Next question comes from Laurence Alexander with Jefferies.

Laurence Alexander ***Jefferies LLC, Research Division - VP & Equity Research Analyst***

What price of carbon do you currently use for evaluating growth projects? And is it high enough that you're actually seeing it skew the types of projects that you're considering from what you would have considered otherwise?

James R. Fitterling ***Dow Inc. - Chairman & CEO***

Yes, that's a good question. I would say today the price is around EUR 50 to EUR 55 a ton. I mean that's what we see today in the EU on the market and translate that back into dollars as well. I would say that is not a high enough price of carbon to drive the change that needs to be made because the lower carbon technologies are much more expensive than that. But it is enough to put pressure on us to make sure that all of our projects have lower carbon approaches to them.

And one of the things we'll talk about at Investor Day is the work we did to kind of outline the next 20, 30 years of how we would get there.

I think carbon capture, as we talk about, as we get beyond this infrastructure bill that's in front of Congress right now and we get to the next step, you've got to look at advanced technologies. And carbon capture and blue hydrogen are 2 that we have to keep an eye on. Those are the lowest cost next step for us to get our industry to low CO2. But they're a lot more than EUR 55 a ton to deliver that. And so without the right tax incentive or support from government in terms of investment in those technologies, you would need a market price on carbon that is much higher than that. We're right on top of that and we're very attuned with that. And that's one of the things that we're piloting in Terneuzen. That's the 40% reduction that I talked about by 2030, is we're looking at blue hydrogen and carbon capture to try to make an improvement at that site.

Operator

We'll take our next question from Arun Viswanathan with RBC Capital Markets.

Arun Shankar Viswanathan ***RBC Capital Markets, Research Division - Senior Equity Analyst***

Congrats on the strong results here. You had mentioned some comments on supply additions being at the high end of the cost curve. Could you just maybe remind us what your assumptions are on how much polyethylene capacity is being added in the rest of '21 and where that is coming, whether it be in, again, China or other regions? And also for '22, what do you expect on that side? And have you seen any changes as far as projects being accelerated that were potentially pushed out during COVID or returning back to the table? And then longer term, do you expect new projects to be announced? It sounds like the market -- it sounds like you're indicating the market is going to be very tight for a little while and you don't see any letup in demand. So looks like we would potentially need some more capacity and North America looks like an interesting place for that addition. So is that kind of within your thinking as well?

James R. Fitterling ***Dow Inc. - Chairman & CEO***

Thanks, Arun. Good question. I'll try to remember all of that so that I can get it all out.

About 50% of the global polyethylene adds through 2025 are higher-cost naphtha or coal to olefins or methanol to olefins. About 35% are naphtha, about 15% are coal to olefins, methanol to olefins.

60% of the capacity adds through 2025 are in Northeast Asia. And when you think about the Chinese projects that are in construction or in start-up phase, about 50% of those will come to market around the announced dates. And so that's -- in 2021 to 2023, that's about 12 million metric tons out of 24 million total.

Capacity increases are going to obviously reduce some imports into China. And so that will be domestic. And we don't see China as being an exporter at those levels.

I would also say that you've got some existing crackers that are considered unreliable due to some trade risk, but it's only in the

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neighborhood of 2 million to 3 million metric tons.

Long term, right now, there are supply demand -- there are supply additions that are about 31 million metric tons on the books. In our view, on delays or cancellations, are in the 6 million to 15 million metric tons on delays or cancellation. Demand growth is going to be 25 million metric tons. So we're going to be balanced to short by about 9 million metric tons during that time frame. And in the near term, with these GDP growth rates, things are going to be tight.

So we're looking at growth. I mentioned to Jeff's question earlier a 600 kt expansion on polyethylene, that's in the cards. Incremental expansions on ethylene, those are in the cards. We're doing work on our own FCDh technology and our EDH technology in the Gulf to try to have low carbon moves forward.

I think one of the things that has to be resolved before you see a next wave of announcements is what are the policies going to be in the United States around carbon, carbon border adjustment mechanisms, carbon tax, perhaps a voluntary emissions trading scheme. And we have to know what those are. We have to know how China is going to play on the global footprint. And we have to see how Europe is moving forward. All of those have to be resolved before we can see what the right place is to make that next bet. But we're working on projects, and we're looking for the right opportunity.

Operator

Our next question comes from Alex Yefremov with KeyBanc Capital Markets.

Aleksey V. Yefremov ***KeyBanc Capital Markets Inc., Research Division - Research Analyst***

Jim, just to continue on the subject, you mentioned that the price of carbon in Europe is currently not high enough to really provide incentive to implement these technologies. As this price rises and Europe implements the tax to help domestic industry sort of absorb these higher carbon prices, do you think that ultimately nets to something neutral for Dow Chemical? Because having capacity in Europe, you will directly or indirectly benefit from these import taxes.

James R. Fitterling ***Dow Inc. - Chairman & CEO***

Thanks, Aleksey. I think it can be done. And I've said before and I'll continue to say it, we need to have a real constructive and open dialogue about how much it costs to do this. I think idealistically, everybody is in agreement that we want to make improvements and we want to reduce carbon emissions and we want to get to net zero. But nobody's yet, at a government level or any level, having the educated discussion that we need to have about the cost of doing this.

What will happen in Europe is Europe has -- the way the emissions trading game works in Europe is they have price for carbon, but they also have allowances for energy -- for emissions emitters. And if you're under your allowances, you can trade those carbon credits. What they will do over time is they will ratchet back the allowances and they'll start to put everybody over their allowances and that will start to drive the prices up and that will drive the incentives to make the conversion.

So Europe is less concerned right now with what the cost is to everybody and more concerned with trying to drive that number up and drive the conversion. And we're in the middle there trying to talk to them realistically about what the price is to do this, what the technologies are today and scale up the ones that we think are the most cost effective going forward, blue hydrogen, carbon capture to be able to do that.

So I think as we work through that over the next 2 or 3 years, we'll start to make some progress to that. And I would say all heavy industry and the power and utility sector are taking a look at this, but with eyes wide open that it's not free.

And the other thing to remember on hydrogen, is as you move to a hydrogen economy, the most effective way to make most of that hydrogen is through steam methane reforming which uses natural gas, which means you're going to need a lot more natural gas production to make that hydrogen. And that's one of the other discussions that is difficult to get on the table right now.

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Operator

Our next question comes from Steve Byrne with Bank of America.

Steve Byrne ***BofA Securities, Research Division - Director of Equity Research***

Yes. So Jim, you're really leading this initiative on net zero. I mean you're the -- you're clearly one of the few that have a net-zero greenhouse gas emission target for 2050. I'm curious to hear your view as to what's driving that. I mean clearly, the -- there's not U.S. government policy driving that. You're describing a carbon tax in Europe that's insufficient to incentivize that. Is there any -- any opportunity that you see that downstream revenue could be enhanced from it? I'm not sure how, but there's clearly ways for you [to generate] premium price for a recycled product or renewable product. But a low-carbon footprint product, is there a revenue potential that could help drive a return on that CapEx? Or is this all really self-motivated?

James R. Fitterling ***Dow Inc. - Chairman & CEO***

Good question, Steve. We are starting to see consumer preference drive the brand owners for lower carbon and more recyclable products. And clearly, both the brand owners and ourselves are in the space, that we want to make investments in that area, but we want those investments to be value-accretive. So as you say, the policies are not there right now. And what we're trying to work through are the right set of policies that we need to make value-creating investments going forward.

I would say the consumer drive and the consumer preference on this is going to be the thing that makes it happen.

The other reality is, I believe that the market premiums are starting to show up in some of the plastics today. When it comes to post-consumer recycled materials into packaging, we're seeing a strong pull from the brand owners and we're starting to see premiums. If you go back a decade, we had not seen that. And so you've got brand owners who are announcing that they're allocating premiums for recycled materials to address circularity. I think that's a sign that their customers want it. And when you get it down to a per package basis, it's very small. The problem comes through the value chain and the cost to manufacture the materials. But if you take it down to a per package basis on the shelf at a supermarket, it might add $0.01 to the cost of a product that you buy. It isn't significant at the consumer level. It's significant through the value chain.

Operator

And we'll take our next question from Kevin McCarthy with Vertical Research Partners.

Kevin William McCarthy ***Vertical Research Partners, LLC - Partner***

Jim, I wanted to ask you about Industrial Intermediates where your operating income more or less doubled sequentially. Two parts. Can you talk about the upside relative to your expectations 3 months ago? How much might have been polyurethanes versus other industrial chemicals? And then given that momentum and your sales forecast of flat to up 3%, do you have a strong view today as to whether third quarter could be flat, up or down profit-wise sequentially?

James R. Fitterling ***Dow Inc. - Chairman & CEO***

That's a good question. In Industrial Intermediates & Infrastructure on the polyurethane side, we saw strong demand for both polyols and isocyanates in the polyurethane side and in construction chemicals for chemicals that are made from those raw materials going into not only single-family homes, but also larger construction like commercial construction. I think those demands are going to continue to stay strong and the supply/demand will continue to be tight. You saw strong pricing in both PO as well as isocyanates. There's not a lot of new capacity coming on in that space.

And then additionally, in ethylene oxide and ethylene oxide derivatives in the Industrial Solutions business, those end markets are continuing to grow. And on top of that, we have several new capacity adds that are coming for things like pharmaceutical incipients, a product called polyethylene glycol that we just made an expansion on, we've got some other materials coming through there. And we have a host of low VOC solvents in that portfolio that go into the coatings sector. So around the world, as coatings move away from traditional organic solvents into waterborne or lower VOC solvents, that benefits our portfolio. That same trend, by the way, helps us in cleaning chemicals or cleaning products that you might use in your home, and we see that both from a brand owner and an industrial side as well. So I think those will continue. Our expectation on third quarter in those businesses are very similar to second quarter.

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Pankaj Gupta ***Dow Inc. - Investor Relations Vice President***

Very good. Thank you. That concludes our call today. We appreciate your interest in Dow. For your reference, a copy of our transcript will be posted on Dow's website within 24 hours. Thank you.

Operator

And that does conclude today's conference. We thank you for your participation. You may now disconnect.

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