

# The Dow Chemical Company 4Q & Full-Year 2008 Earnings Conference Call

February 3, 2009



4Q08 Earnings Conference Call



# SEC Disclosure Rules

Some of our comments today may include statements about our expectations for the future. Those expectations involve risks and uncertainties. Dow cannot guarantee the accuracy of any forecasts or estimates, and we do not plan to update any forward-looking statements if our expectations change. If you would like more information on the risks involved in forward-looking statements, please see our annual report and our SEC filings.

In addition, some of our comments may reference non-GAAP financial measures. Where available, a reconciliation to the most directly comparable GAAP financial measures and other associated disclosures are provided on the internet at [www.dow.com](http://www.dow.com) in the Financial Reports page of the Investor Relations section.



# Agenda

- 4Q08 Financial Performance
  
- Review of 2008
  - Financial performance
  - Management interventions
  
- Looking Forward
  - 2009 Outlook
  - Strategy update
  - Action plans



# 4Q08 Financial Highlights

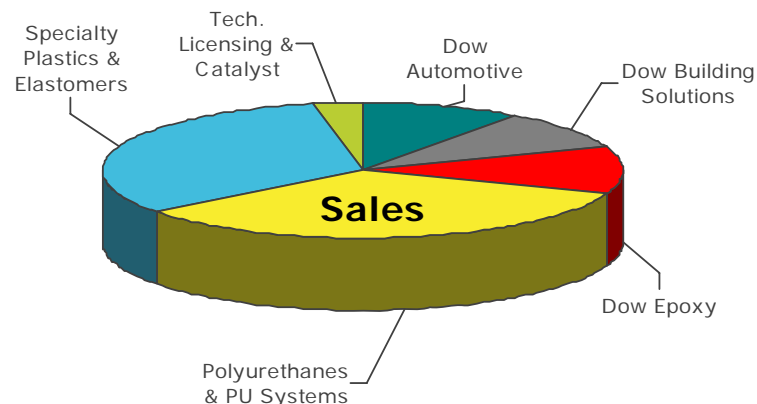
- 4Q08 sales were \$10.9 billion, down 23% vs. 4Q07
  - Demand destruction impacting all geographies and operating segments
  - Volume declined 17% vs. 4Q07
  - Price down 6% vs. 4Q07
- Pricing in all Performance segments increased; double-digit decline in combined Basics pricing
- Drop in feedstock and energy costs
  - \$1.2 billion (23%) lower than 4Q07
- Management interventions contributed to strong cash flow provided by operating activities



# Performance Plastics

Dollars in millions	4Q08	4Q07
Sales	\$3,160	\$3,968
<i>Price up 1%; Volume down 21%</i>		
EBIT	\$(479)	\$158
Certain items* included in EBIT	\$(333)	\$(184)
Equity earnings (losses) included in EBIT	\$(1)	\$13

\* See Appendix for Supplemental Information regarding certain items.



	4Q08 Trends		
	Sales	Price	Volume
Dow Automotive	↓	↑	↓
Dow Building Solutions	↓	↓	↑
Dow Epoxy	↓	↓	↓
Polyurethanes & PU Systems	↓	↑	↓
Specialty Plastics & Elastomers	↓	↑	↓
Technology Licensing & Catalyst	↑	-	↑

- Pricing held despite drop in feedstock and energy costs
- Volumes impacted by further deterioration of automotive and construction sectors
- Several plants idled and operating rates reduced in response to value chain de-stocking

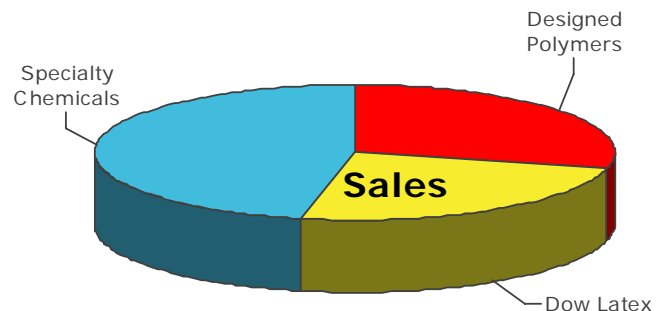


# Performance Chemicals

<i>Dollars in millions</i>	4Q08	4Q07
Sales	\$1,968	\$2,126
<i>Price up 9%; Volume down 16%</i>		
EBIT	\$174	\$124
Certain items* included in EBIT	\$(25)	\$(83)
Equity earnings included in EBIT	\$86	\$83

\* See Appendix for Supplemental Information regarding certain items.

	4Q08 Trends		
	Sales	Price	Volume
Designed Polymers	↓	↑	↓
Dow Latex	↓	↑	↓
Specialty Chemicals	↓	↑	↓



- Double-digit price increases in nearly all geographies
- Dow Water Solutions reported its best quarter ever, driven by infrastructure demand
- Volumes impacted by slumping global demand
- Resilient demand seen in consumer staples

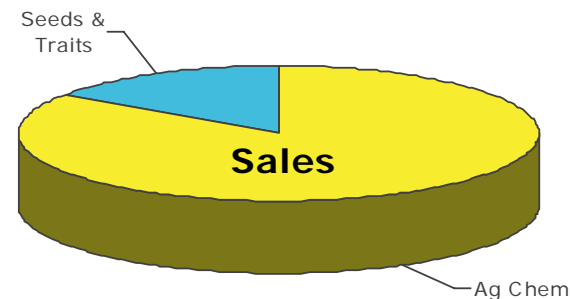


# Agricultural Sciences

<i>Dollars in millions</i>	4Q08	4Q07
Sales	\$885	\$864
<i>Price up 6%; Volume down 4%</i>		
EBIT	\$34	\$(38)
Certain items* included in EBIT	\$(20)	\$(77)
Equity earnings included in EBIT	-	\$3

\* See Appendix for Supplemental Information regarding certain items.

	4Q08 Trends		
	Sales	Price	Volume
Agricultural Chemicals	↓	↑	↓
Seeds and Traits	↑	↑	↑



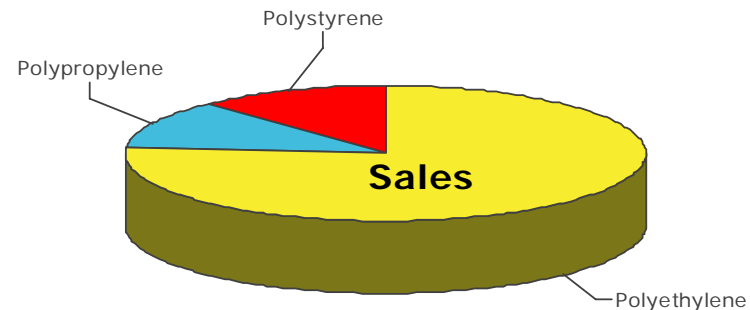
- Record 4Q sales, driven by strong performance in Seeds & Traits
- Ag Chem volume declines mostly offset by higher prices
- Continued sales growth for new products
- Two more acquisitions in Seeds announced in 4Q08



# Basic Plastics

<i>Dollars in millions</i>	4Q08	4Q07
Sales	\$2,167	\$3,488
<i>Price down 15%; Volume down 23%</i>		
EBIT	\$(315)	\$394
Certain items* included in EBIT	\$(181)	\$(88)
Equity earnings (losses) included in EBIT	\$(54)	\$35

\* See Appendix for Supplemental Information regarding certain items.



	4Q08 Trends		
	Sales	Price	Volume
Polyethylene	↓	↓	↓
Polypropylene	↓	↓	↓
Polystyrene	↓	↓	↓

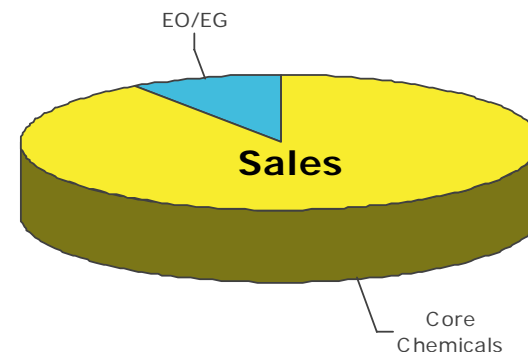
- Double-digit volume declines in all geographies due to value chain de-stocking
- Low polyethylene chain inventories
- Construction, automotive, appliances sectors weak; consumer staples held up well



# Basic Chemicals

<i>Dollars in millions</i>	4Q08	4Q07
Sales	\$992	\$1,630
<i>Price down 6%; Volume down 33%</i>		
EBIT	\$(237)	\$309
Certain items* included in EBIT	\$(118)	\$(7)
Equity earnings (losses) included in EBIT	\$(20)	\$135

\* See Appendix for Supplemental Information regarding certain items.



	4Q08 Trends		
	Sales	Price	Volume
Core Chemicals	↓	↑	↓
Ethylene Oxide/Ethylene Glycol	↓	↓	↓

- Chlor-alkali operating rates reached historic lows for this time of year
- Weak PVC demand for building and construction, partly offset by strong caustic soda prices
- EO/EG impacted by weak industry fundamentals



# 4Q08 Financial Performance

<i>Dollars in millions (except per share amounts)</i>	<u>4Q08</u>	<u>4Q07</u>	<u>Change</u>
Sales	\$10,899	\$14,227	(23)%
<i>Price</i>			(6)%
<i>Volume</i>			(17)%
Purchased feedstock & energy costs			(23)%
Equity earnings (losses)	\$(4)	\$294	(101)%
Earnings (Loss) per share	\$(1.68)	\$0.49	(443)%
Earnings (Loss) per share excluding certain items <sup>1,2</sup>	\$(0.62)	\$0.84	(174)%

<sup>1</sup> See Appendix for Supplemental Information regarding certain items.

<sup>2</sup> In addition, the interruption of operations caused by the hurricanes resulted in an estimated pretax \$15 million in the fourth quarter of 2008 in lost margin on lost sales, the equivalent of \$0.01 per share, which is not included in the amounts presented in the table.



# 4Q08 Loss Per Share Reconciliation

Reported loss per share	\$(1.68)
Goodwill impairment losses	0.25
Restructuring charges	0.68
Impact of Hurricanes Gustav and Ike	0.03
K-Dow related expenses	0.05
Purchased in-process R&D related to acquisitions	0.02
ROH acquisition-related expenses	0.03
Loss per share excluding certain items	<hr/> \$(0.62)

See Appendix for Supplemental Information regarding these items.



# Agenda

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- Looking Forward
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# Key Takeaways

- Financial results very disappointing
- Management interventions generated strong cash flow in a difficult environment
- Action plans are in place to address a challenging 2009
- Strategy set-back temporary
- Committed to maintaining an investment grade rating



# 2008 Full-Year Financial Performance

<i>Dollars in millions (except per share amounts)</i>	<b><u>2008</u></b>	<b><u>2007</u></b>	<b><u>Change</u></b>
Sales	\$57,514	\$53,513	7%
<i>Price</i>			12%
<i>Volume</i>			(5)%
Purchased feedstock & energy costs			28%
Equity earnings	\$787	\$1,122	(30)%
Earnings per share	\$0.62	\$2.99	(79)%
Earnings per share excluding certain items <sup>1</sup>	\$1.82	\$3.76	(52)%

<sup>1</sup> See Appendix for Supplemental Information regarding certain items.



# Management Interventions

- Mid-Year: Two company-wide price increases to combat rising feedstock and energy costs
- October: Commitments to preserve cash and control costs in 4Q08
- December: Aggressive actions in response to deteriorating economic environment
  - Announced 11% workforce reduction
  - Shutdown 20 high-cost facilities
  - Idled 180 manufacturing plants



# 4Q08 Financial Impact of Interventions

- Exceeded Oct 2008 commitments to preserve cash
  - Cut discretionary spending by more than \$225 million
  - Reduced volume of inventory by almost \$900 million
- 4Q08 free cash flow\* of \$1.2 billion
- Ended the year in a position of financial strength
  - \$2.8 billion of cash on hand
  - < 40% net debt to total capital

\* Free cash flow is defined as "Cash provided by operating activities" less "Capital expenditures" less "Dividends paid to stockholders." For the fourth quarter 2008, cash provided by operating activities was \$2,249 million, capital expenditures were \$692 million, and dividends paid to stockholders were \$389 million.



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# 2009 Outlook

- Expect late-2008 demand levels to continue
  - Value chains will remain in run-for-cash mode
  
- Expect a few bright spots in the market
  - Agriculture fundamentals remain solid
  - Rising global demand for clean water
  - Higher energy efficiency standards
  - Infrastructure projects play to Dow's strengths
  - Polyethylene primed for recovery (timing unknown)
  
- Government stimulus efforts hold great potential
  - Dow poised to benefit via market and geographic reach
  - Job growth and consumer spending is key
  
- Summary: Assume 2009 as a year of global recession



# Dow Response to Economic Realities

- Focus on financial discipline and cash preservation
- Protect the balance sheet
- Retain financial flexibility
- Maintain strategic direction



# K-Dow Update

- Disappointed by PIC's breach of the Joint Venture Formation Agreement (JVFA)
- Actively pursuing legal options to enforce our rights and remedies
  - Pursuing arbitration per the JVFA
  - Lawsuit filed in early January
- Temporary strategic setback



# Rohm and Haas Update

- ROH transaction remains consistent with strategy
- Economic and chemical industry realities have changed dramatically
- Closing now creates unacceptable uncertainties for the combined entity
- Dow's response to ROH lawsuit filed this morning
- Continue to search for business solutions to enable transaction



# Differences Between PIC and Dow Responses

K-Dow Transaction	ROH Transaction
<ul style="list-style-type: none"><li>▪ Political pressure improperly influenced a commercial decision</li><li>▪ Commercial conditions were changed to reflect economic realities</li></ul>	<ul style="list-style-type: none"><li>▪ Combining enterprises at this time would not be prudent</li><li>▪ Dow has asked for more time given economic climate</li></ul>
<ul style="list-style-type: none"><li>▪ PIC has no intention to close</li></ul>	<ul style="list-style-type: none"><li>▪ Open to further discussions with ROH</li></ul>
<ul style="list-style-type: none"><li>▪ Kuwaitis failed to accept responsibility for actions</li></ul>	<ul style="list-style-type: none"><li>▪ Dow acknowledges its accountability</li></ul>

# Summary: Elements of Success Are in Place

- Dow remains a strong company
- Aggressive action plans in place
  - Significant reduction in 2009 capital spending to \$1.1 billion from \$2.3 billion
  - Accelerating restructuring announced in Dec 2008

<i>Dollars in millions</i>	New Targets	
	Run-Rate	EBIT Impact
2009	\$500	\$265
2010	\$750	\$490

Dec 2008 Announcement	
Run-Rate	EBIT Impact
\$350	\$180
\$700	\$370

- Innovation will drive new business opportunities
- Strategic direction remains on track
- **Committed to protecting investment grade rating**



# Appendix



4Q08 Earnings Conference Call



# Reconciliation of Non-GAAP Financial Measure

*Dollars in millions*

Three Months Ended  
12/31/08    12/31/07

EBIT	\$(1,422)	\$602
+ Interest income	14	29
- Interest expense and amortization of debt discount	192	161
- Credit for income taxes	(60)	(27)
- Minority interests' share in income	12	25
Net Income (Loss) Available for Common Stockholders	\$(1,552)	\$472



# Reconciliation of Non-GAAP Financial Measure

*Dollars in millions*

Full-Year Ended

12/31/08    12/31/07

EBIT	\$1,883	\$4,683
+ Interest income	86	130
- Interest expense and amortization of debt discount	648	584
- Provision for income taxes	667	1,244
- Minority interests' share in income	75	98
Net Income Available for Common Stockholders	\$579	\$2,887



# Supplemental Information

## Certain items affecting results - Fourth Quarters of 2008 and 2007

Results for the fourth quarter of 2008 were negatively impacted by the following items:

- Pretax costs totaling \$54 million related to Hurricanes Gustav and Ike, which hit the U.S. Gulf Coast in the third quarter. These costs, which primarily included the repair of property damage and unabsorbed fixed costs, are included in "Cost of sales" in the consolidated statements of income and reflected in the operating segments as follows: \$13 million in Performance Plastics, \$1 million in Performance Chemicals, \$3 million in Basic Plastics, \$15 million in Basic Chemicals, \$16 million in Hydrocarbons and Energy, and \$6 million in Unallocated and Other.
- Pretax legal expenses and other costs of \$69 million related to the K-Dow transaction that were expensed upon Petrochemical Industries Company's refusal to close the K-Dow transaction on January 2, 2009. These costs are shown as "Cost of sales" in the consolidated statements of income and reflected in Unallocated and Other.
- Goodwill impairment losses of \$239 million related to the Dow Automotive (\$209 million against Performance Plastics) and Polypropylene (\$30 million against Basic Plastics) reporting units. The losses are shown as "Goodwill impairment losses" in the consolidated statements of income.
- Net pretax restructuring charges of \$839 million. In December 2008, the Company's Board of Directors approved a restructuring plan as part of a series of actions to advance the Company's strategy and respond to the recent, severe economic downturn. The restructuring plan includes the shut down of a number of facilities and a global workforce reduction. As a result, the Company recorded restructuring charges totaling \$785 million, including asset write-downs and write-offs of \$336 million, severance costs of \$321 million and costs associated with exit or disposal activities (such as pension curtailment costs and environmental remediation) of \$128 million. In addition, the Company recorded a \$60 million unfavorable adjustment to restructuring charges recorded in the fourth quarter of 2007 and a \$6 million favorable adjustment to restructuring charges recorded in the third quarter of 2006. The net impact of the fourth quarter charges and adjustments, which is shown as "Restructuring charges" in the consolidated statements of income, impacted all operating segments.
- Pretax charge of \$17 million for purchased in-process research and development ("IPR&D") related to the recent acquisition of assets of Süwestsaat GbR. The charge is shown as "Purchased in-process research and development charges (credit)" in the consolidated statements of income and reflected in Agricultural Sciences.
- Pretax charges totaling \$31 million for legal expenses and other transaction costs related to the pending acquisition of Rohm and Haas Company. These charges are shown as "Acquisition-related expenses" in the consolidated statements of income and reflected in Unallocated and Other.

Results for the fourth quarter of 2007 were impacted by the following items:

- Net pretax restructuring charges of \$582 million. In December 2007, the Company's Board of Directors approved a restructuring plan that included the shut down of a number of assets and organizational changes within targeted support functions to enhance the efficiency and cost effectiveness of the Company's global operations. As a result, the Company recorded restructuring charges totaling \$590 million in the fourth quarter of 2007. The charges included asset write-downs and write-offs of \$422 million, costs associated with exit or disposal activities of \$82 million and severance costs of \$86 million. In addition, in the fourth quarter of 2007 the Company recorded an \$8 million favorable adjustment to restructuring charges originally recorded in the third quarter of 2006. The net impact of the charges is shown as "Restructuring charges" in the consolidated statements of income.
- A favorable adjustment of \$2 million to IPR&D, reducing the amount originally recorded in the third quarter of 2007 related to the acquisition of Wolff Walsrode.
- A reduction of \$113 million in the provision for income taxes related to a change in the legal ownership structure of the Company's 42.5 percent interest in EQUATE Petrochemical Company K.S.C.



# Supplemental Information

## Certain items affecting results - Years Ending December 31, 2008 and 2007

In addition to the items described on the previous page for the fourth quarter of 2008, earnings for 2008 were unfavorably impacted by the following third quarter items:

- Pretax costs totaling \$127 million related to Hurricanes Gustav and Ike. These costs, which included the repair of property damage, clean-up costs, unabsorbed fixed costs and inventory write-offs, are included in "Cost of sales" and reflected in the operating segments as follows: \$35 million in Performance Plastics, \$14 million in Performance Chemicals, \$2 million in Agricultural Sciences, \$11 million in Basic Plastics, \$26 million in Basic Chemicals, \$36 million in Hydrocarbons and Energy, and \$3 million in Unallocated and Other.
- Pretax charges totaling \$27 million for IPR&D related to the recent acquisitions of assets of Texas Triumph Seed Co., Inc.; Dairyland Seed Co., Inc.; and Bio-Plant Research Ltd; these charges are reflected in Agricultural Sciences.
- Pretax charges totaling \$18 million for legal expenses and other transaction costs related to the pending acquisition of Rohm and Haas Company; these charges are reflected in Unallocated and Other.

In addition to the items described on the previous page for the fourth quarter of 2007, earnings for 2007 were unfavorably impacted by the following items:

- Pretax charges totaling \$59 million in the third quarter for IPR&D related to the 2007 acquisitions of assets of Agromen, Exelixis, Duo Maize and Maize Technologies International and the 2007 acquisition of Wolff Walsrode.
- A \$362 million charge against the provision for income taxes related to a change in German tax law enacted in August 2007, which reduced the German income tax rate, resulting in a reduction in the value of the Company's net deferred tax assets in Germany.



# Supplemental Information

## ***Certain items affecting results***

*Dollars in millions (except per share amounts)*

	<b>Pretax Impact (1)</b>		<b>Impact on Net Income (2)</b>		<b>Impact on EPS (3)</b>	
	Three Months Ended		Three Months Ended		Three Months Ended	
	12/31/08	12/31/07	12/31/08	12/31/07	12/31/08	12/31/07
Goodwill impairment losses	\$(239)	-	\$(230)	-	\$(0.25)	-
Restructuring charges	(839)	\$(582)	(628)	\$(436)	(0.68)	\$(0.46)
Impact of Hurricanes Gustav and Ike (4)	(54)	-	(34)	-	(0.03)	-
K-Dow related expenses	(69)	-	(44)	-	(0.05)	-
Purchased in-process research and development (charges) credit	(17)	2	(17)	(11)	(0.02)	(0.01)
Acquisition-related expenses	(31)	-	(25)	-	(0.03)	-
Change in EQUATE legal ownership structure	-	-	-	113	-	0.12
<b>Total</b>	<b>\$(1,249)</b>	<b>\$(580)</b>	<b>\$(978)</b>	<b>\$(334)</b>	<b>\$(1.06)</b>	<b>\$(0.35)</b>

(1) Impact on "Income (Loss) before Income Taxes and Minority Interests"

(2) Impact on "Net Income (Loss) Available for Common Stockholders"

(3) Impact on "Earnings (Loss) per common share – diluted"

(4) In addition, the interruption of operations caused by the hurricanes resulted in an estimated pretax \$15 million in lost margin on lost sales, the equivalent of \$0.01 per share, which is not included in the amounts presented in the table.



# Supplemental Information

## ***Certain items affecting results***

*Dollars in millions (except per share amounts)*

	<b>Pretax Impact (1)</b>		<b>Impact on Net Income (2)</b>		<b>Impact on EPS (3)</b>	
	Full-Year Ended		Full-Year Ended		Full-Year Ended	
	12/31/08	12/31/07	12/31/08	12/31/07	12/31/08	12/31/07
Goodwill impairment losses	\$(239)	-	\$(230)	-	\$(0.25)	-
Restructuring charges	(839)	\$(578)	(628)	\$(436)	(0.68)	\$(0.46)
Impact of Hurricanes Gustav and Ike (4)	(181)	-	(115)	-	(0.12)	-
K-Dow related expenses	(69)	-	(44)	-	(0.05)	-
Purchased in-process research and development charges	(44)	(57)	(44)	(50)	(0.05)	(0.05)
Acquisition-related expenses	(49)	-	(43)	-	(0.05)	-
German tax law change	-	-	-	(362)	-	(0.38)
Change in EQUATE legal ownership structure	-	-	-	113	-	0.12
<b>Total</b>	<b>\$(1,421)</b>	<b>\$(635)</b>	<b>\$(1,104)</b>	<b>\$(735)</b>	<b>\$(1.20)</b>	<b>\$(0.77)</b>

(1) Impact on "Income before Income Taxes and Minority Interests"

(2) Impact on "Net Income Available for Common Stockholders"

(3) Impact on "Earnings per common share – diluted"

(4) In addition, the interruption of operations caused by the hurricanes resulted in an estimated pretax \$15 million in the fourth quarter of 2008 and \$50 million in the third quarter of 2008 in lost margin on lost sales, the equivalent of \$0.01 per share in the fourth quarter and \$0.03 per share in the third quarter, which are not included in the amounts presented in the table.



# Certain Items Affecting Results

## *Certain items reducing EBIT by Operating Segment*

*Dollars in millions*

	Three Months Ended		Full-Year Ended	
	12/31/08	12/31/07	12/31/08	12/31/07
Performance Plastics	\$(333)	\$(184)	\$(368)	\$(180)
Performance Chemicals	(25)	(83)	(39)	(92)
Agricultural Sciences	(20)	(77)	(49)	(127)
Basic Plastics	(181)	(88)	(192)	(88)
Basic Chemicals	(118)	(7)	(144)	(7)
Hydrocarbons and Energy	(34)	(44)	(70)	(44)
Unallocated and Other	(538)	(97)	(559)	(97)
<b>Total</b>	<b>\$(1,249)</b>	<b>\$(580)</b>	<b>\$(1,421)</b>	<b>\$(635)</b>



# 4Q08 and Full-Year 2008 EPS Reconciliation

	4Q08	2008
Reported earnings (loss) per share	\$(1.68)	\$0.62
Goodwill impairment losses	0.25	0.25
Restructuring charges	0.68	0.68
Impact of Hurricanes Gustav and Ike	0.03	0.12
K-Dow related expenses	0.05	0.05
Purchased in-process R&D related to acquisitions	0.02	0.05
Acquisition-related expenses	0.03	0.05
Earnings (loss) per share excluding certain items	\$(0.62)	\$1.82



# Principal Joint Ventures

Although Dow participates in many joint ventures, the most significant joint ventures from a financial perspective are:

Americas Styrenics LLC\*  
Compañía MEGA S.A.  
Dow Corning Corporation  
EQUATE Petrochemical Company K.S.C.  
Equipolymers  
MEGlobal  
The OPTIMAL Group of Companies  
The SCG-DOW Group  
Univation Technologies, LLC

\* Formed May 2008.

For more information on Dow's joint venture activities, please see our Joint Venture White Paper on Dow's website at [http://www.dow.com/about/pdf/djv\\_0408.pdf](http://www.dow.com/about/pdf/djv_0408.pdf).



# Preliminary Results for Principal Joint Ventures

## Principal Joint Ventures - Total

Dollars in millions (unaudited)

4Q08      4Q07

Sales	\$2,894	\$3,805
Adjusted Sales*	\$2,360	\$3,011
EBIT**	\$276	\$932
Depreciation & Amortization	\$133	\$141

## Dow Proportionate Share

Dollars in millions (unaudited)

4Q08      4Q07

Sales	\$1,383	\$1,790
Adjusted Sales*	\$1,150	\$1,438
EBIT**	\$129	\$401
Depreciation & Amortization	\$61	\$65
Equity Earnings	\$20	\$289

\* Adjusted Sales defined as Sales for these joint ventures less sales to Dow and/or to other Dow joint ventures.

\*\* EBIT defined as earnings before interest, income taxes and minority interests.



# Preliminary Results for Principal Joint Ventures

## Principal Joint Ventures - Total

*Dollars in millions (unaudited)*

	YTD08	YTD07
Sales	\$15,488	\$13,884
Adjusted Sales*	\$12,098	\$10,837
EBIT**	\$2,942	\$3,386
Depreciation & Amortization	\$539	\$552

## Dow Proportionate Share

*Dollars in millions (unaudited)*

	YTD08	YTD07
Sales	\$7,304	\$6,532
Adjusted Sales*	\$5,831	\$5,197
EBIT**	\$1,263	\$1,460
Depreciation & Amortization	\$248	\$254
Equity Earnings	\$824	\$1,072

\* Adjusted Sales defined as Sales for these joint ventures less sales to Dow and/or to other Dow joint ventures.

\*\* EBIT defined as earnings before interest, income taxes and minority interests.

