

# Next Steps in Dow's Transformation

March 9, 2009



# 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

- Today's Announcement
- Strategic Rationale and Business Structure
- Synergies
- Financial Summary
- 2009 Priorities – A Clear Path Forward



# Today's Announcement

- We have reached an agreement with Rohm and Haas to close on April 1, 2009 with substantially improved terms – this resolves the pending litigation in Delaware Chancery Court
- We have substantially reduced the cash purchase price
- Pragmatic outcome given current circumstances and economic environment
- Transaction remains on strategy
- Revised terms of the deal
- A clear and actionable path forward



# What Has Been Implemented Since January 26?

## January 26

- \$13B 1-year bridge
- \$4B convertible preferred

## March 9

- \$12.5B 1-year bridge
- \$4B convertible preferred
- **\$8B bridge extension for 2<sup>nd</sup> year**
- **\$2.5B perpetual preferred equity**
- **\$0.5B option for common equity**

- Significant reduction in net draw on bridge loan facility
- Restructured transaction: essentially the equivalent of \$63 in cash and \$15 in face value of preferred equity securities
- Revised terms of the deal significantly improves Dow's debt-to-capital ratio
- Terms of the bridge financing contain additional flexibility including the:
  - \$8B extension
  - Dual credit rating triggers
  - Increased debt-to-EBITDA (5.75 going down progressively to 4.25)



# What Has Been Implemented Since January 26?

- Changed the capital structure of the combined entity
- Constructed a more robust synergy plan
- Engaged with the ratings agencies in an effort to preserve our long term investment grade status
- Commenced an asset divestment program
- Replaced expected cash proceeds from K-Dow
- Accelerated Dow restructuring implementation
- Dividend cut to preserve cash
- More tracking and visibility on business conditions



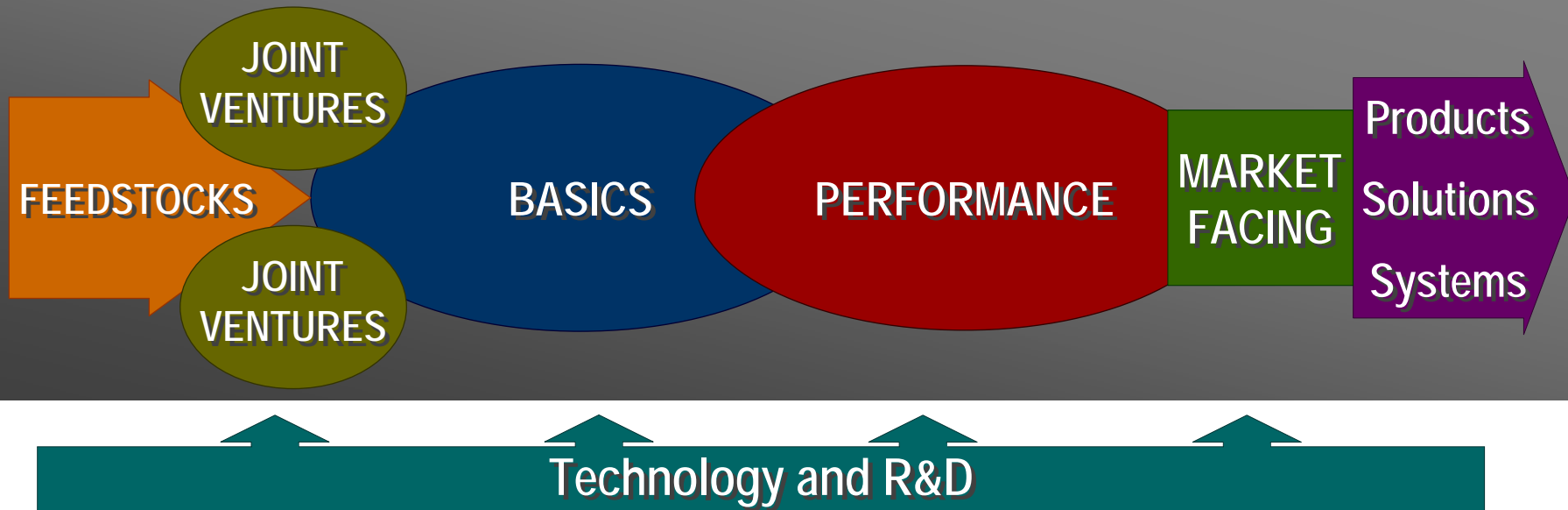
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# The Right Strategy

## 2/3 Specialties



- Grow Performance and Specialties
- Strengthen competitiveness of Basics



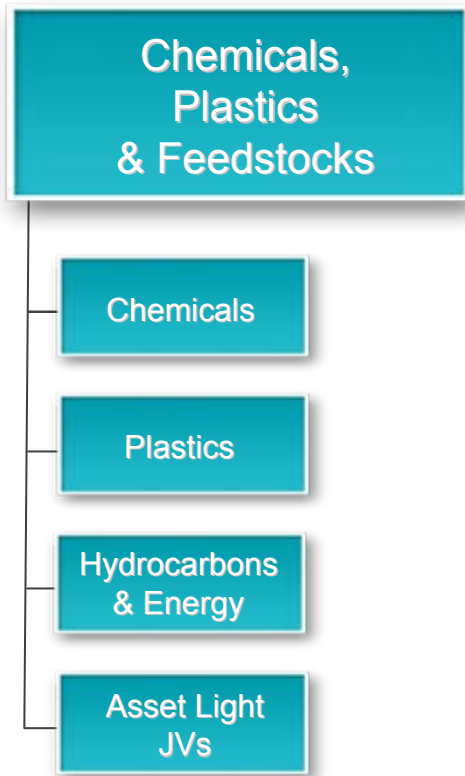
# ROH Acquisition Positioned for Success

- Strong operational and strategic fit
- Substantial cost synergy opportunities
- Potential for significant value creation
  - Broader product portfolio
  - Deeper geographic reach
  - More channels to market
  - Complementary technologies
- Fuels innovation engine
- Enhanced leadership positions in key segments

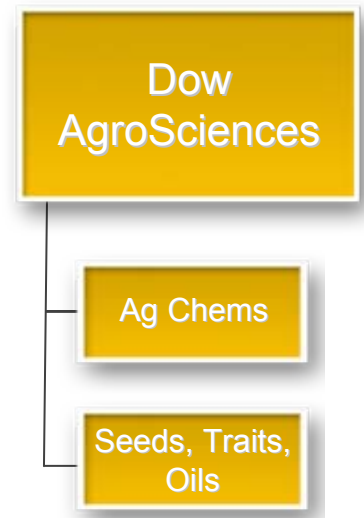
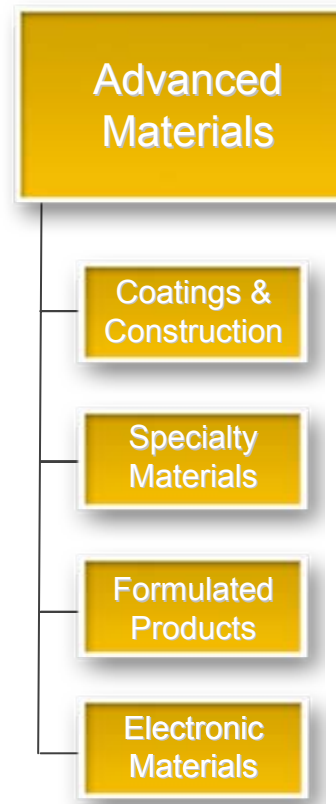
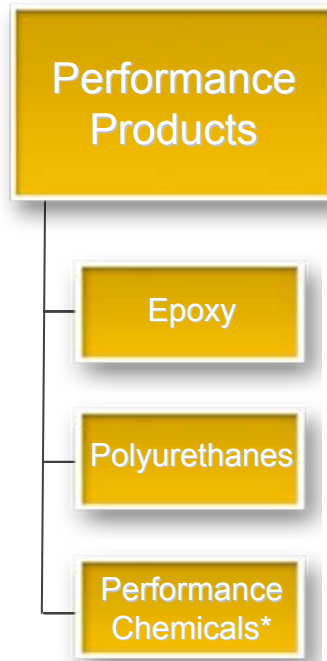


# Business Structure

## Feedstock-Driven Businesses



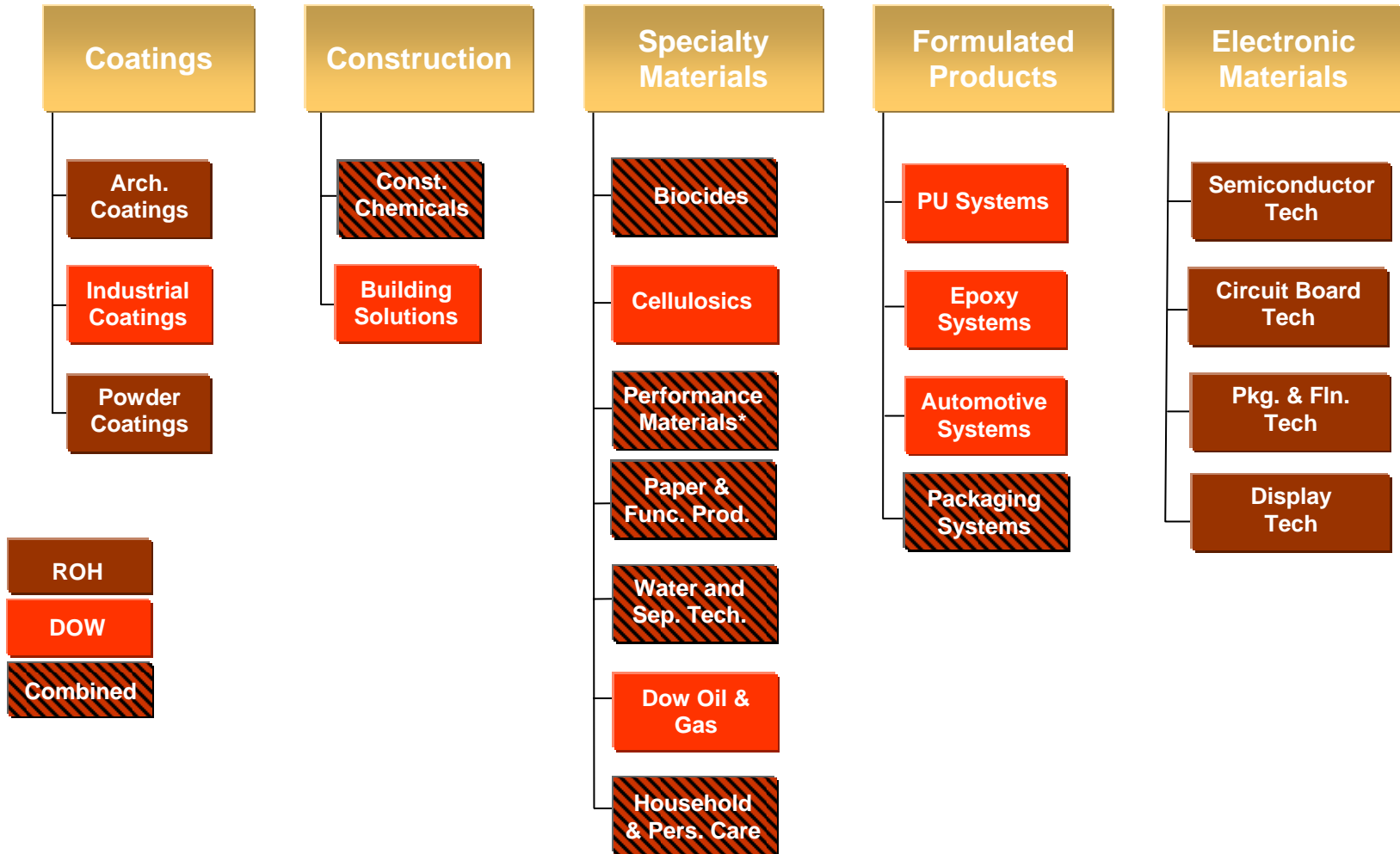
## Market-Driven Businesses



\*Specialty Chemicals, Solvents and Performance Monomers



# Advanced Materials Portfolio

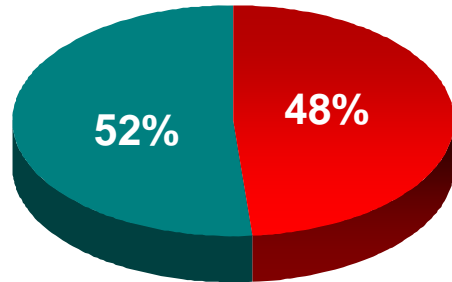


\*Angus, Spec. Polymers, Perf. Fluids, Process Chem

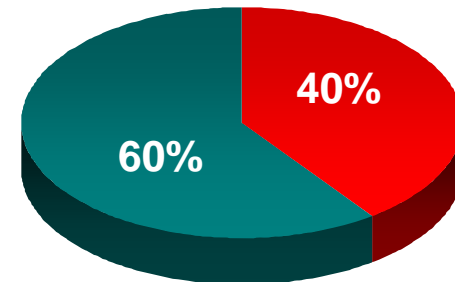


# Portfolio Transformation

## 2008 Revenues

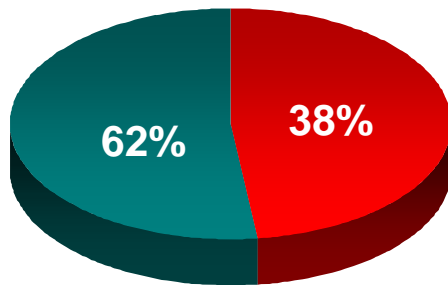


Dow As Is

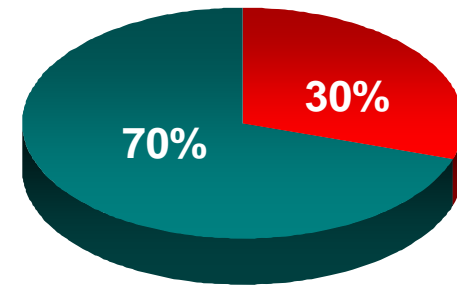


Pro Forma

## 2008 EBITDA\*



Dow As Is



Pro Forma

 Performance  Basics

All data excludes Unallocated. Pro forma includes Dow plus Rohm and Haas and assumes sale of TRN, Southeast Asia JV, and Morton Salt.

\*Non U.S. GAAP financial measure; excludes Certain Items.



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# Cost Synergies by Category

| Category                                       | Announced Synergies (MM\$) |             | Estimated Synergies (MM\$) |             |
|--|----------------------------|-------------|----------------------------|-------------|
|  |                            | %           |                            | %           |
| Purchasing Synergies including Raw Materials   | 280                        | 31%         | 390                        | 30%         |
| Shared Services and Governance                 | 280                        | 31%         | 380                        | 29%         |
| Mnfg. / Supply Chain Work Process Improvements | 160                        | 17%         | 280                        | 22%         |
| Corporate Business Development Overlap         | 80                         | 9%          | 50                         | 4%          |
| ROH Announced Restructurings                   | 110                        | 12%         | 200                        | 15%         |
| <b>Total</b>                                   | <b>910</b>                 | <b>100%</b> | <b>1,300</b>               | <b>100%</b> |

**43% increase in cost synergies from \$910 million to \$1.3 billion**



# ROH Cost Synergy Actions

- 3,500 additional headcount reductions exclusive of divestitures, in addition to:
  - Dow's December '08 restructuring - 5,000
  - ROH's previously announced reductions - 1,500
- Centralization of Business Services
- 24 office consolidations
- 10-15 plant closures
- 6 R&D/lab consolidations
- 30% of Purchasing synergy is comprised of raw material purchases that can be procured between the two companies
- Consolidated geographic structure



# Dow Synergy Track Record

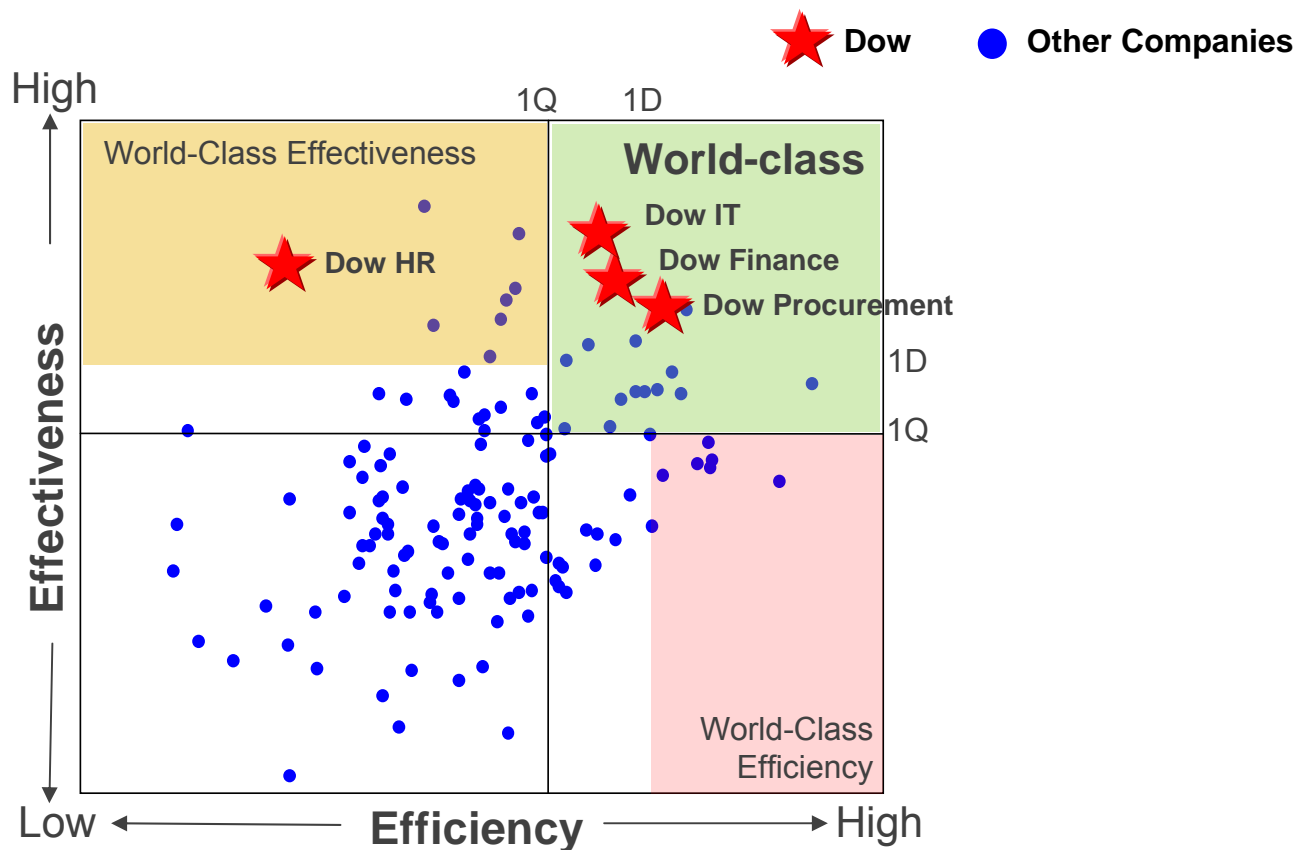
## Cost synergies as a percent of target revenue

|                       |                   |                    |
|-----------------------|-------------------|--------------------|
| Union Carbide         | 18%               | ✓ <i>delivered</i> |
| Rohm and Haas Ag      | 16%               | ✓ <i>delivered</i> |
| Angus Chemicals       | 15%               | ✓ <i>delivered</i> |
| EniChem Polyurethanes | 14%               | ✓ <i>delivered</i> |
| Gurit-Essex           | 16%               | ✓ <i>delivered</i> |
| Rohm and Haas         | <b>14% target</b> |                    |



# Hackett Ranks Dow World-Class

## Hackett Value Grid™



Note: The ranking of the drivers are only a representation of gaps to World Class and are not a direct indicator of where to focus/launch any initiative. Specific action plans should not be developed until after the benchmark results are assessed within the context of the functional and business strategies.



# Additional Management Interventions

- 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       |

- Dividend reduced by 64%, saving \$1 billion annualized
- Additional savings of \$500 million working capital in 2009
- Salary freeze for 2009 - \$200 million
- Discretionary spending cuts continue - \$300 million



# Combined Businesses Positioned for Growth

## Total Advanced Materials Portfolio

Revenue  
**\$18B**

Anchored by businesses with ...

- Strong competitive position participating in more resilient markets
  - Industrial Coatings \$1.2B
  - Specialty Packaging \$1.1B
  - Water \$1.0B
  - Household & Personal Care \$0.7B
  
- Plus, businesses with strong competitive position poised for growth in economic recovery
  - Architectural Coatings \$2.3B
  - Electronic Materials \$2.0B
  - Construction \$2.1B
  - Formulated Products (Systems) \$2.3B
  - Other Specialty Materials \$5.0B



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# Bridge Reduction Schedule

## Bridge Repayment Sources

|                         | <u>Amount</u>            |
|-------------------------|--------------------------|
| Bridge Commitment       | \$12.5B                  |
| Perpetual Preferred     | (2.5)                    |
| Equity Issuance         | <u>(0.5)</u>             |
| Draw on Bridge          | <u>\$9.5-\$10.0</u>      |
| Dividend Reduction      | (0.9)                    |
| Equity Issuance to ESOP | (0.6)                    |
| <b>Debt Issuance</b>    | <b>(4.3)</b>             |
| Asset Sales             | (3.8)                    |
| <b>Total</b>            | <b><u><u>\$0</u></u></b> |

## Expected Outstanding Balance

|         |              |
|---------|--------------|
| Day 1   | \$9.5-\$10.0 |
| Day 90  | 4.2          |
| Day 180 | 1.9          |
| Day 270 | 1.4          |
| Day 360 | -            |

**Total Debt Issuance \$4.3B**

# This plan will deliver ...

- Debt-to-capital ratio less than 50% by end of 2009
- Gross debt-to-EBITDA well within covenant
- Bridge loan retired by end of 2009
- Positive operating free cash flow



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# 2009 Outlook

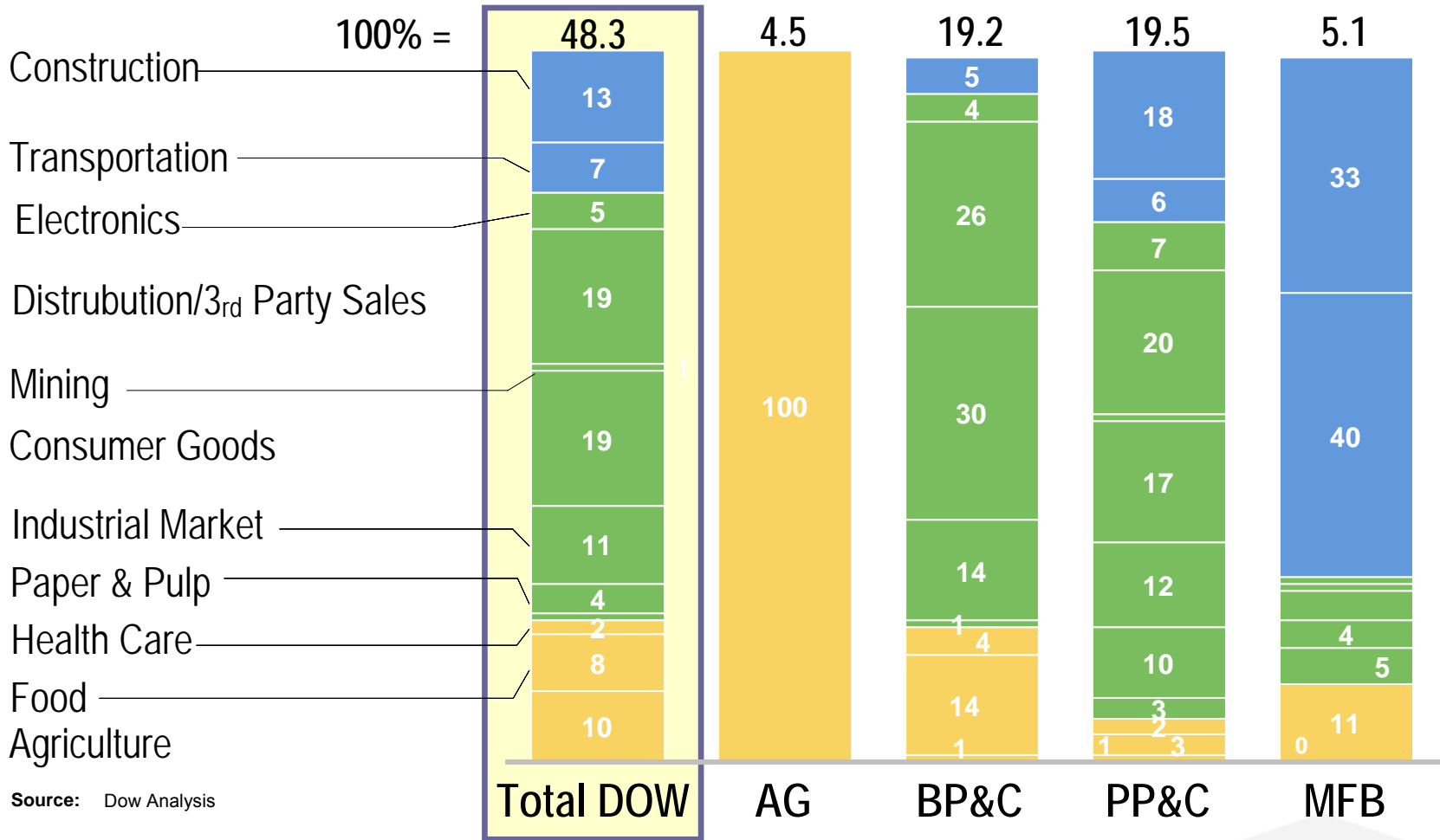
- Assume 2009 as a year of global recession
- Government stimulus efforts hold great potential
  - Dow poised to benefit via market and geographic reach
  - Job growth and consumer spending is key
- Expect a few bright spots in the market
  - Agriculture fundamentals remain solid
  - Rising global demand for clean water
  - Higher energy efficiency standards
  - Infrastructure projects play to Dow's strengths
  - Polyethylene primed for recovery



# Dow Global Demand Impact Across Industries

% of total sales in billions \$, 2008  
Net of Hydrocarbons

■ High  
■ Medium  
■ Low
 } Sensitivity to downturn

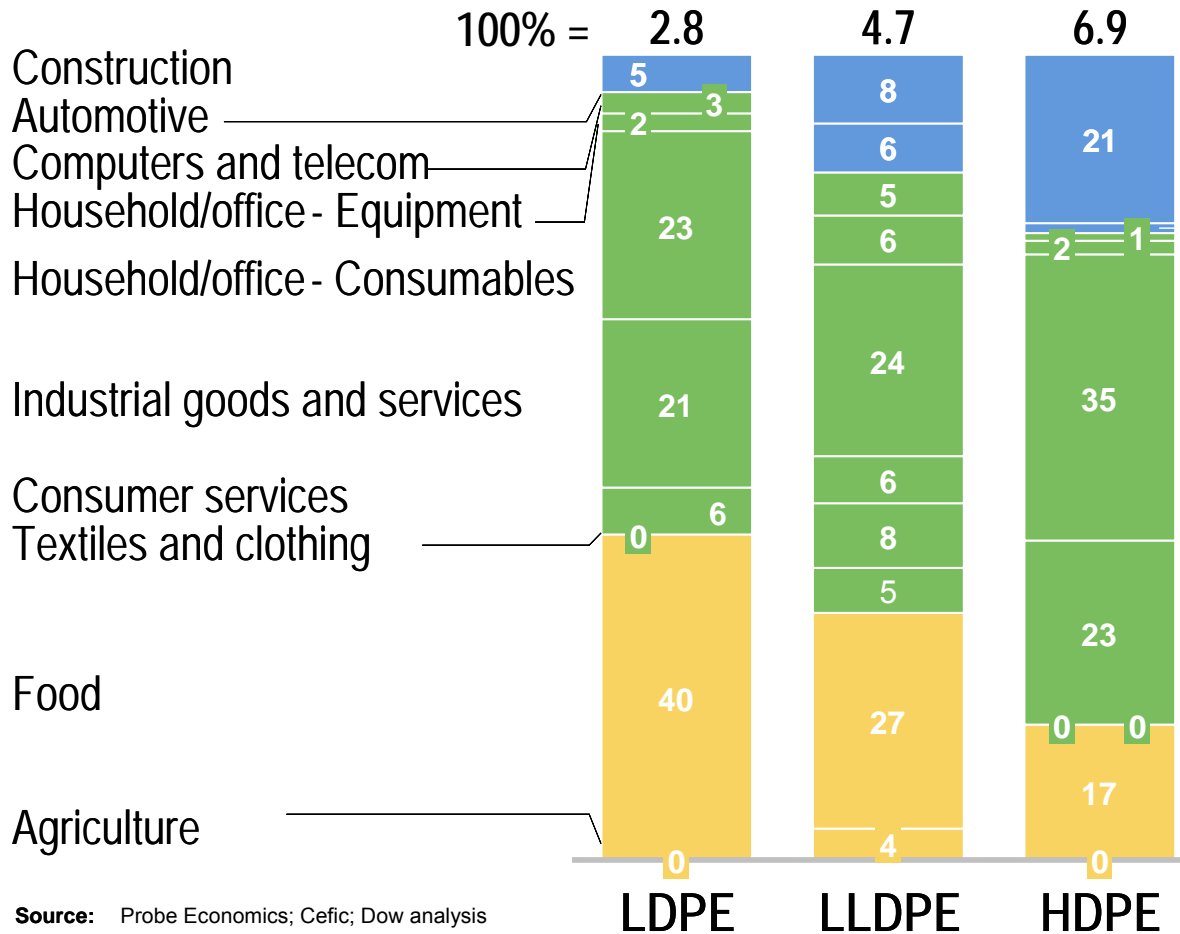


Source: Dow Analysis



# Lower Sensitivity to Economic Downturn

% of total sales volumes, million tonnes, 2007



| Type | Ind. | Dow | '08-'13 |
|------|------|-----|---------|
| LD   | 27%  | 20% | +2.9%   |
| LLD  | 28%  | 56% | +5.9%   |
| HD   | 45%  | 24% | +5.7%   |

Sensitivity to downturn

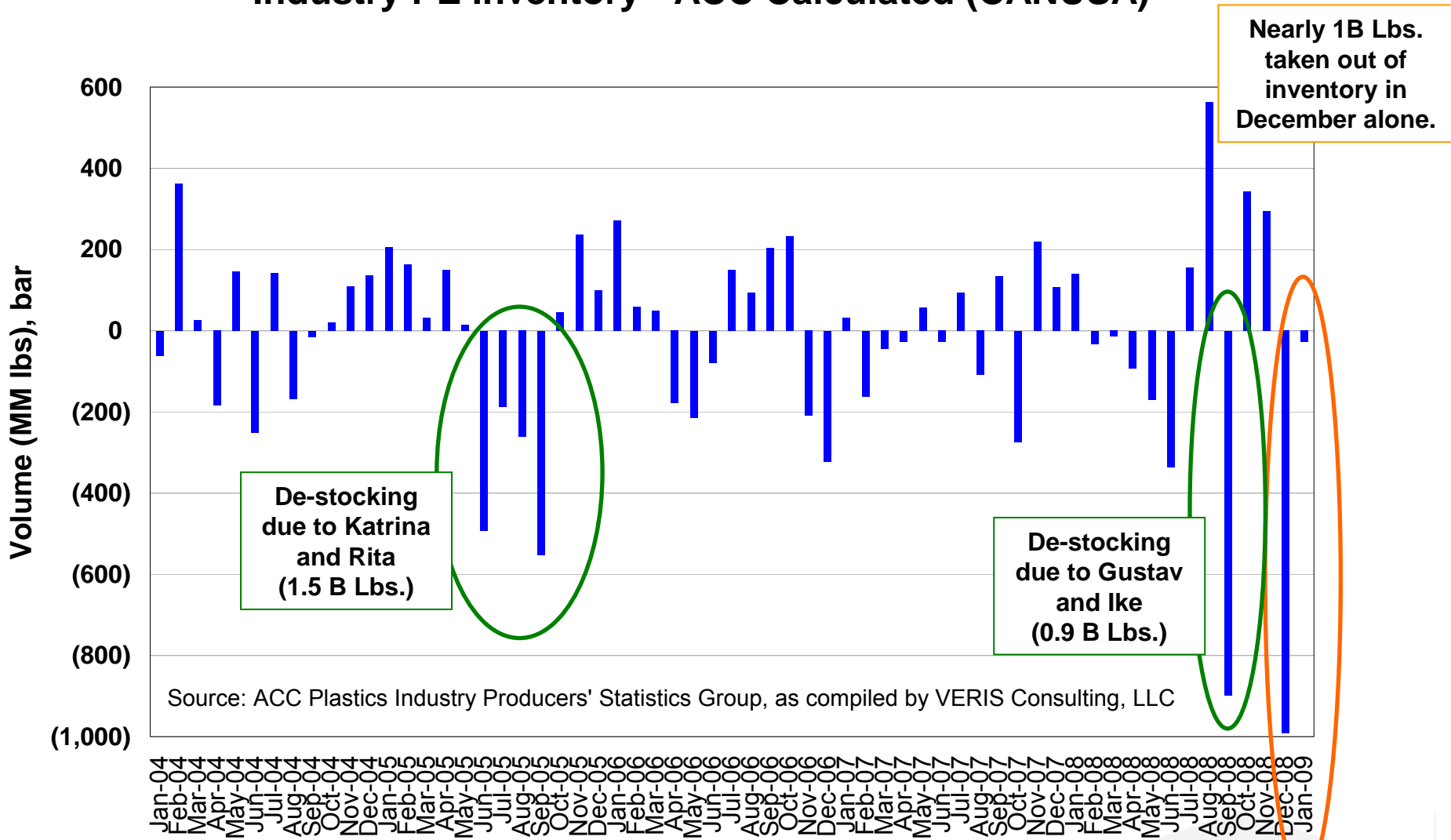
- High
- Medium
- Low

Source: Probe Economics; Cefic; Dow analysis



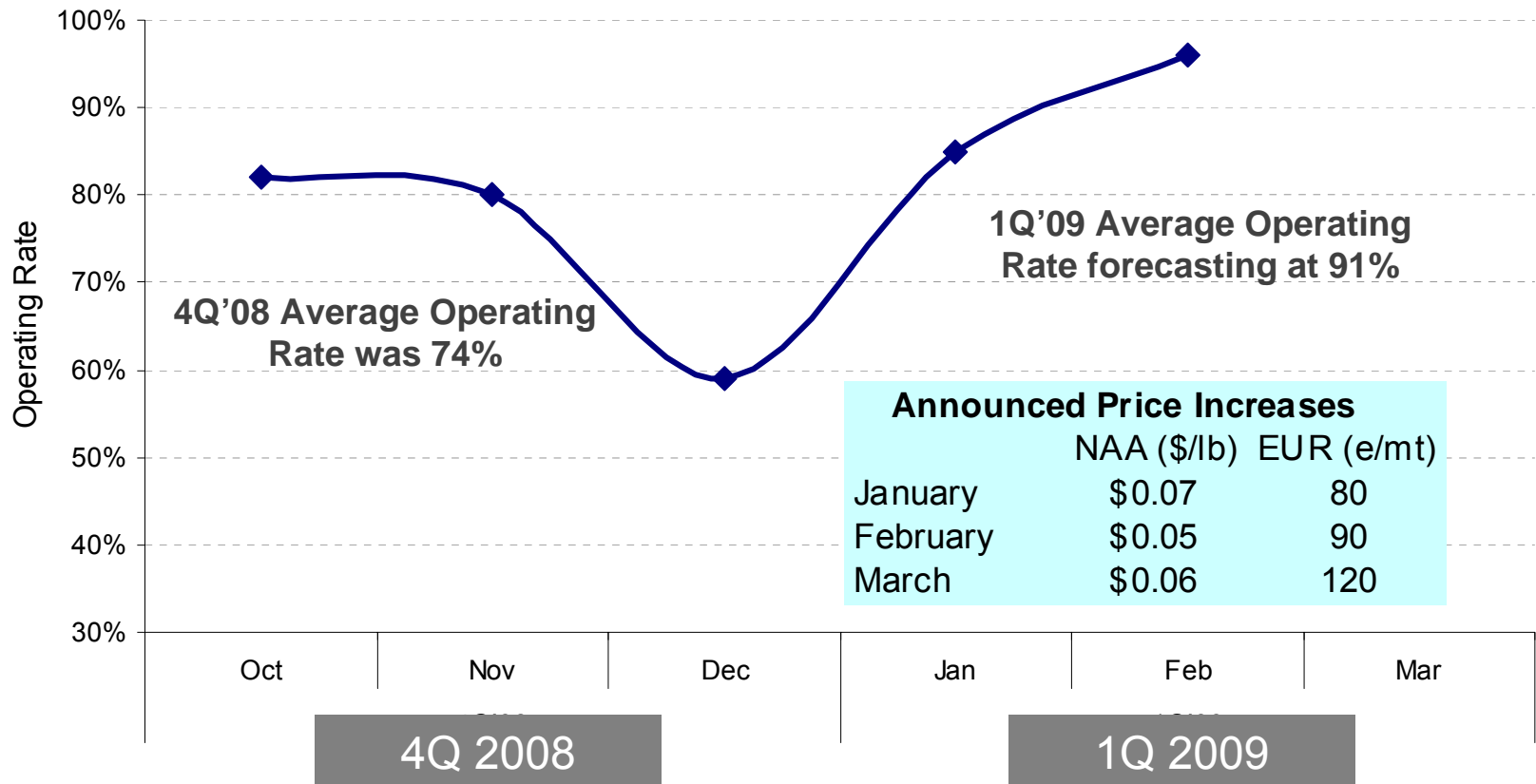
# Major Correction 4Q'08: De-stocking

## Industry PE Inventory - ACC Calculated (CANUSA)



# Operating Rate Polyethylene

## PE Inflection Point



# 2009 Priorities - A Clear Path Forward

- Rigorously focus on our commitment to cash flow and earnings
- Realize combined operating synergies quickly
- Pursue all options to successfully resolve PIC's failure to close K-Dow
- Execute on divestment plan
- Pay down bridge loan
- Execute operating plan



