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Fourth Quarter and Full-Year 2008 Results
The Dow Chemical Company

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Quarterly Earnings Conference Call / Webcast
With Investors, Financial Analysts and the Media

Remarks by:
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The following is a summary of prepared remarks made during Dow's conference call/Webcast concerning its quarterly earnings on February 3, 2009. The news release and financial statements are also available on www.dow.com.

H. Ungerleider:

Good morning everyone and welcome. As usual, we're making this call available to investors and the media via Web cast. This call is the property of The Dow Chemical Company. Any redistribution, retransmission, or rebroadcast of this call in any form without Dow's express written consent is strictly prohibited.

On the call with me today are Andrew Liveris, Dow's Chairman and CEO; Geoffery Merszei, Dow's Executive Vice President and Chief Financial Officer; and Jeff Tate, Director in Investor Relations.

Around 6:30 this morning, February 3, our earnings release went out on PR Newswire and was posted on the Internet on Dow's website, dow.com. Also, earlier this morning we filed our answer to the law suit filed by Rohm and Haas. This answer is also posted on our web site. We have prepared some slides to supplement our comments on this conference call. The slides are posted on our website, available on the Presentations page of the Investor Relations section or through the link to our web cast.

As you know, some of our comments today may include statements about our expectations for the future. Those expectations involve risks and uncertainties. We can't guarantee the accuracy of any forecasts or estimates, and we don't plan to update any forward-looking statements during the quarter.

If you'd like more information on the risks involved in forward-looking statements, please see our SEC filings. In addition, some of our comments may reference non-GAAP financial measures. A reconciliation to the most directly comparable GAAP financial measure and other associated disclosures are contained in our earnings release or on our website. Our earnings release, as well as recent 10-Qs, 10-Ks, 8Ks and annual reports are available on the Internet at dow.com in the Financial Reports page of the Investor Relations section.

I would like to run through the agenda for today's call. As is our year-end practice, Andrew will lead us through a 2008 "year in review" and provide an update on several specific actions we have taken to address the current global financial and economic crisis. He will then discuss outlook for the first quarter of 2009 and beyond as well as the next steps related to our Basic Plastics joint venture and the Rohm and Haas transaction.

Before he does, I'd like to very briefly cover the fourth quarter and key drivers of our performance in the period.

Sales for the quarter were $10.9B, down 23% from the same quarter last year. Declines were reported in all geographic areas and in all operating segments, except Agricultural Sciences, which posted record fourth quarter sales of $885 million.

Volume declined 17%, with declines in all operating segments except Agricultural Sciences and Hydrocarbons and Energy, and in all geographic areas.

Price declined 6% as price increases in Performance Plastics, Performance Chemicals, and Agricultural Sciences were more than offset by declines in the Basics businesses. Purchased feedstock and energy costs fell by 23%, or $1.2 billion versus the same quarter last year.

Now let's walk quickly through each of our reporting segments.

In **Performance Plastics**, prices held in the quarter, despite the drop in feedstock and energy costs. Further deterioration of the automotive, and construction sectors unfavorably impacted volumes in the quarter. And, in response to the decline in demand we experienced, we reduced operating rates to historically low levels, which resulted in an increase in unabsorbed fixed costs.

In **Performance Chemicals**, double-digit price increases were reported in nearly all geographies, as strength in Dow Water Solutions as well as food and pharmaceutical applications served by Dow Wolff Cellulosics continued. However, this good news was more than offset by declines in volume, a result of demand destruction which negatively impacted profitability.

Agricultural Sciences set another fourth quarter sales record, driven by growth in Seeds and Traits. Dow AgroSciences continued to deploy its growth agenda with two more acquisitions in the quarter, bringing the total number of acquisitions to 9 since May 2007. New products such as aminopyralid, penoxsulam, pyroxsulam and spinetoram also continued to ramp up successfully.

Results in **Basic Plastics** were impacted by volume declines and inventory destocking brought about by the global economic crisis as well as declines in price due in large part to the drop in feedstock and energy costs.

In **Basic Chemicals**, the story was similar. Strong caustic soda prices were more than offset by lower demand in vinyl chloride monomer used in PVC production for housing and construction applications. Further declines in EO/EG demand for polyester fiber production in Asia also hurt overall operating results.

All of this led to a reported loss of $1.68 per share. Excluding certain items, the loss was $0.62 per share.

Slide 11 shows an itemized list of these certain items, and their EPS impact.

In addition, earnings for the quarter were reduced by a much higher effective tax rate than we have seen in prior quarters, which included an unfavorable impact of $295 million, or the equivalent of $0.32 per share.

That concludes my portion. Now, I would like to turn the call over to Andrew for his comments.

A. Liveris:

Thank you, Howard, and good day everyone. Thanks for joining us as I review 2008 and give you a glimpse at what 2009 looks like.

I promise you I will cover every topic that's on the minds of everyone who follows our company. We have never shied way from truth – neither in good times or bad – and we are not going to start now.

So, there are five things I would like you to take away from my comments today.

- First, the financial results are very disappointing and a reflection of the demand deterioration we saw in global markets and the turmoil in the financial world.
- Second, we have a very good cash flow story to tell you today as the interventions and quick actions we committed to take as the crisis unfolded helped us create cash in a very difficult economy. The fact that we quickly and proactively started this work in the early fall helped us meet our cash goals.
- Third, we have taken – and will continue to take – action to prepare the Company for both the current economic downturn and the continued implementation of our long-term strategy.

- Fourth, considering today's economy, we remain a strong company with many options moving forward. Although we had a very significant setback in December to our long-term strategy, it was a temporary setback. I say again today: we are committed to our strategy and we will address the setback as creating a temporary pause in our implementation.
- And, fifth, we are committed – above all else – to maintaining an investment grade rating and are prepared to take all necessary steps to do so.

With that framework, let's begin by looking back at 2008.

As everyone on this call knows, 2008 proved to be a very tough year for everyone in our sector, or in any industry for that matter. What started out as a fear of inflation at the beginning to the middle of the year quickly morphed to a banking and credit crisis that ultimately caused the U.S. economy to totally disintegrate in the latter part of the year, which then affected the entire global economy in a heartbeat. The meltdown was swift and unprecedented in modern times.

So, in many ways, it was a tale of two years.

In the first half we weathered a huge run-up in feedstock and energy costs which net-net resulted in us recording the sixth consecutive year of double-digit percentage increases in feedstock and energy costs.

Just when raw material costs seemed to moderate and thoughts of margin expansion began to reappear, however, we were hit with two major hurricanes on the US Gulf Coast which disrupted over 80 percent of our North American capacity.

Also in the second half of the year financial markets unraveled and took with them consumer confidence. The rapid demand destruction and unprecedented destocking throughout almost every value chain is something none of us have ever experienced. The impact of this global economic correction in the fourth quarter was inescapable and that is reflected in the financial results we recorded in 2008, with the fourth quarter being one of the worst quarters we have seen in more than two decades.

For the year, we once again posted record sales, a reflection of our ability earlier in the year to push through two unprecedented, company-wide price increases. The price increases helped offset the $5.9 billion year-over-year increase in purchased feedstock and energy costs but did little for margins.

Overall volume, however, was negatively impacted by the world's economic problems. What began as lackluster demand in the U.S. spread to every geography, leading us to an overall volume drop of five percent year-over-year. The vast majority of that occurred in the fourth quarter.

Equity earnings, which were robust for the first three quarters of 2008, fell for the year to $787 million. The combination of demand destruction, particularly in the EO/EG/polyester chain, lower oil prices, and naptha disconnecting from oil in the quarter, caused our basics joint ventures, which are typically advantaged, to also suffer. The reality is that demand destruction, which of course drives oil prices lower, will hurt even these cost-advantaged joint ventures.

Excluding certain items, 2008 earnings per share were $1.82 versus $3.76 in 2007.

Given the speed of the deteriorating economy in the fourth quarter, we responded with two proactive interventions: one in October and one in December.

The larger of the two interventions was December's where we announced a workforce reduction of 11%, the divestiture of non-strategic businesses, the shut down of 20 facilities and the idling 180 more. We also exceeded our proactive cash preservation interventions by reducing DSI by 4 days, reducing discretionary spending by more than $225 million, and reducing our volume of inventory by almost $900 million.

We also took aggressive steps to match our production to demand, leading to a fourth quarter operating rate of 64 percent. In fact, Dow's operating rate in December was a dismal 44%, levels we have not seen in over two decades.

Nevertheless, the actions we implemented helped us maintain good cash generation throughout the year. In the fourth quarter, management interventions substantially contributed to cash provided by operating activities of $2.2 billion and free cash flow of $1.2 billion in the quarter.

Cash provided by operating activities was $4.7 billion in 2008, an improvement of more than $200 million versus 2007. I'd like to point out that those results came in the face of deteriorating economic conditions at the back end of the year.

We ended the year in a good position with $2.8 billion of cash on hand and a net debt-to-capital below 40%.

As for our outlook, I wish there was more positive news to share. As each day brings more and more negative news on the economy and job losses, we are assuming that late 2008 demand levels will continue for several quarters and possibly beyond. There are a few bright spots in the markets which suggest there may be some recovery in the second half of the year.

In Agricultural Sciences, for example, farmers are coming out of 2008 in a relatively strong position and we expect growth in seeds and traits and a continued ramp-up in new product sales. The long-term fundamentals in this segment have not changed.

In Europe, we're seeing that the trends for higher energy efficiency standards are driving insulation sales and offsetting the declines in construction activity. In fact, insulation sales worldwide should increase as this trend continues to develop, perhaps aided by government stimuli and regulations.

Increased government spending on infrastructure rehabilitation could also help stabilize demand in specific segments. If this in fact occurs, Dow would be in a strong position because of our unique and proven solutions for roads, highways, bridges and other infrastructure projects.

The fundamentals for the water industry remain strong as well. That's good news for Dow Water Solutions. 4Q 2008 was ***the best quarter in the history of the business*** with sales up 33% year-over-year, driven by timing of some very large projects. For the full year, revenue was up 22%.

There is a good possibility for an up tick with polyethylene as well. A significant chunk of our PE is sold into packaged goods and the underlying volume in that segment is resilient. There was a huge inventory draw-down in the latter part of the year which negatively impacted 2008 results. We believe the possibility exists for restocking going forward.

Let me point out that PE – going back many decades – has had steady annualized growth and we've never seen two back-to-back down years on volume. With the underlying fundamentals of the segment and possible restocking, we see the potential of an upswing for PE and potentially an early exit from this vicious demand-led trough, although the timing is unknown at this juncture.

So there are a few bright spots. Notice that many of those appear to be driven by government stimulus packages aimed directly at consumer spending and improving energy efficiency. Some of the stimulus packages targets are in infrastructure, housing and energy efficiency. So they hit sweet spots for Dow and, in that regard, we would like to be cautiously optimistic.

But many of the stimulus packages being rolled out are skewed toward the back end of 2009 and beyond, especially on infrastructure projects. Our view is that until these various stimulus packages translate into real jobs, consumers will most likely favor saving over spending and the economy will continue to drag.

We do expect to see slight increases in demand month-to-month, as inventory levels throughout the value chain are replenished. Whether that can be sustained – and for how long – is unknown at this point.

The bottom line is that we are preparing for the recession to persist through 2009 and are running our business accordingly. We are assuming that the late 2008 demand levels will continue for several quarters and possibly beyond.

Since we can't control the economy or the markets, however, we are left to manage those things within our control. So expect us to retain an intense focus on generating cash and pushing productivity throughout 2009, just as we did in 2008. Protecting the balance sheet and maintaining financial flexibility will be key drivers for Dow in 2009.

The fallout from the historic economic meltdown we're currently experiencing would have been difficult enough for any company to manage, of course. We are seeing many companies in our sector and beyond simply succumb.

By itself, however, it would not have been enough to impact our strategy. After all, this company is 112 years old. We have survived two world wars, the Great Depression, numerous recessions and industrial cycles. We have an experienced management team steeped in financial discipline and an execution mindset.

So we were confident that the interventions I mentioned earlier were the right steps that would allow us to manage this downturn.

But as you all are aware, we were in for a more stunning and ill-timed surprise. On December 28 Dow was verbally informed that the Kuwait Supreme Petroleum Council – without justification – buckled under political pressure and reversed its prior commercial decision approval of the commercial binding and definitive agreement between Dow and the Petrochemical Industries Corporation on the formation of K-Dow. PIC then formally informed us in writing on Dec. 31 that they were not going to go forward with the scheduled January 2 closing.

Of course, we were not just surprised; we were extremely disappointed by PIC's breach of the November 28 Joint Venture Formation Agreement. We had a signed, binding, and definitive agreement and had dedicated significant resources for over a year to complete this transaction. Furthermore we had, at the request of the Supreme Petroleum Council, renegotiated the deal in November with PIC and agreed to a lower price to reflect the marketplace realities.

As we have said publicly, we are pursuing legal options to enforce our rights and remedies as a result of PIC's failure to close the transaction and the improper actions of others in Kuwait, including the Supreme Petroleum Council. PIC has breached the K-Dow formation agreement and we are taking every action necessary to protect our interests.

I am not in a position to discuss all of these actions today but I can say this involves more than just arbitration with PIC. In addition to initiating the London-based arbitration process against PIC shortly after PIC failed to close the transaction, in early January we filed a lawsuit against other Kuwaiti parties that I am not at liberty to discuss right now. In the meantime, we are working to find an appropriate resolution.

Make no mistake, between the arbitration and litigation, Dow will be seeking damages in excess of $2.5 billion.

This behavior of the Supreme Petroleum Council has clearly had a significant – but in our view **temporary** – impact on the implementation of our strategy to change the portfolio mix of our Company and establish Dow as a reliable and consistent earnings growth company.

Note that I used the word "temporary." Let me stress that this management team remains committed to our strategy as does our Board of Directors. It is the right strategy. We remain a strong company. And we will not let a temporary setback deter us from advancing toward that strategy in a very deliberate but prudent way.

However, we are also realists. We know that this is a major setback. And we know we have to get our house in order before we resume implementation of our strategy.

A key part of our strategy was to go downstream through organic growth and acquisitions, and as you know, last July we announced the acquisition of Rohm and Haas. We were firmly down the path that we would close that acquisition on time when the Kuwaiti deal fell apart. We saw and still see the Rohm and Haas transaction as being consistent with our long-term strategy: good markets, good assets and good people.

But, it is the collective job of this management team – and the job of the Board of our Company – to protect the interests of the shareholders and protect this enterprise called Dow. Recent material developments have created unacceptable uncertainties on both the funding and the economics of the proposed combined Dow/Rohm and Haas enterprise.

Proceeding with the deal **at this time** – under these conditions – would do irreparable harm to our mutual stakeholders and would jeopardize the future of both companies.

It's important to remember that the world has shifted greatly since this deal originated. We're in the midst of a unique economic meltdown now full of economic uncertainties. This is the most difficult financial market in 75 years, dramatically reducing the availability and certainty of borrowing. We must consider this fact and realize that it is in the best interest of both Dow and Rohm and Haas to delay closing until the economic uncertainties are resolved.

Rohm and Haas has filed suit in the Court of Chancery of Delaware seeking specific performance, which would essentially be an order forcing us to close the transaction now, regardless of all of the pending uncertainties. We are highly respectful of the litigation process and it came as no surprise under the circumstances.

At the end of the day, the Chancery Court must render an equity-based order based on all the facts and circumstances. We filed our response to that suit this morning and this response sets out – in detail – our position that when all the facts and circumstances are balanced, it would do more harm than good to force this transaction to close now.

As this matter is in litigation – and in deference to the process and the Delaware Court – we will not have much more to say right now. And I will not answer questions about this topic in today's Q&A session.

Now let me stress this: we have the highest respect for Rohm and Haas, its management and its employees. We are ready to sit down with Rohm and Haas immediately to discuss any options that could allow this transaction to close in such a way that the combined organizations would be successful going forward.

Now, one obvious question we get is this: How are our actions regarding the Rohm and Haas transaction different than PIC's actions concerning the K-Dow transaction? Let me address that now because there are some important differences.

Let me be clear. Dow is not closing the Rohm and Haas acquisition **at this time** due to the impact of the combination of four distinct items:

1. PIC's wrongful failure to close the K-Dow transaction on January 2, 2009;
2. The unprecedented uncertainty stemming from the rapidly deteriorating world economy;
3. The resulting negative impact on chemical industry demand; and
4. The historic meltdown in the financial and credit markets.

Taken together, these factors create too much uncertainty around the prospects of the proposed combined Dow and Rohm and Haas enterprise.

PIC, on the other hand, failed to close on its binding K-Dow commitment after the Kuwait Supreme Petroleum Council's commercial decision was improperly influenced by political pressure. This commercial decision was not based on the deteriorating economy as the deal had just been renegotiated to reflect the new economic realities and the new economic uncertainties.

Let me repeat that Dow renegotiated our deal with PIC in November to reflect the changed market realities. Dow agreed to reduce the price by almost 20 percent from the value agreed to in principle a year ago and then the deal was breached in December. By contrast, we negotiated with Rohm and Haas in July – when oil prices were high and before the unprecedented economic collapse around the world.

The stunning failure by the Kuwaitis to adhere to the rule of law was unprecedented and, importantly, the Kuwaitis have failed to accept any responsibility for their actions. As we have said, Dow will fully pursue its rights and remedies as a result of the K-Dow transaction failing to close.

By comparison, Dow understands that it will need to be accountable for its decision not to close the Rohm and Haas acquisition at this time. But we believe there are important mitigating factors which need to be considered which, on balance, should result in a decision not to force an untimely closing. Dow understands that if the litigation goes all the way to conclusion that this may result in a damages award against the Company. For further details and explanation, I encourage you to read our formal answer which we filed in the Court of Chancery today and which is posted on our web site.

The bottom line is this: We must do what is right for **all** the stakeholders and we don't see an appropriate path to closing on Rohm and Haas at this point in time. Dow stands ready to continue discussions with Rohm and Haas to see if – together – we can find a workable solution outside the litigation arena.

So what does all this mean going forward?

It means, first, that from a strategic standpoint, we are actually today where we were a couple of years ago, albeit with a dramatically different world economy.

We have every element of success in place though our tactics going forward must change.

We remain a strong, vibrant company with a laser-like focus on financial discipline and execution and I expect us to continue delivering strong operating cash flow in 2009. We are taking the appropriate actions in response to the global economic crisis.

- We are accelerating our previously announced restructuring effort, and now expect to realize a run-rate savings of $500 million by the end of 2009 and $750 million by the end of 2010.
- And we are significantly reducing capital spending, to an estimated $1.1 billion in 2009 with a commitment to maintaining safe and environmentally compliant operations.

We have a fantastic global footprint and expect to capture opportunities in emerging markets. And, most of all, we have the right strategy to continue our transformation into an earnings growth company.

Likewise, we are not abandoning our strong history of innovation. Moving our company into new and more profitable markets depends heavily on our ability to innovate and use our strengths as a science and research company.

When the economy turns, the commercial world will be clamoring for sustainable solutions and that's what we will provide. We see not only new business opportunities ahead, but new revenue streams as well.

Additionally, we remain on the path to transformation. Despite the events of December and the turmoil we're experiencing in the marketplace, we are as committed as ever to realizing this goal. We've already made great progress and nothing – not the economy or even this recent setback – can diminish the hard and substantial work this company has accomplished over the past five years in actively managing our portfolio toward this vision.

We are actively pursuing partners for our franchise Basics assets. These are great assets that include the number one global producer of polyethylene, which is the largest volume thermoplastic in the world. In fact, we have had significant interest concerning these businesses from more than a dozen companies. We're in the process now of narrowing that list and are currently in face-to-face negotiations with some of them. If we don't find the right partner during this down cycle, we are certain we will in the next up cycle.

And, as I have said earlier, the Rohm and Haas acquisition is consistent with our strategy and we remain interested in discussing possible solutions with Rohm and Haas to complete this proposed transaction.

But we all have to realize that the world has shifted quite dramatically and we have to find a reasonable way to respond to those changes if we're to have a combined enterprise that can thrive moving forward.

Finally, at the end of the day we must take the appropriate steps to ensure we retain our options, our financial flexibility and, above all, **protect our investment grade rating**. The board is committed to that. I am committed to that. And our entire team at Dow is committed to that.

We are asking for your patience to allow us the time to do what we have always done best – take our challenges head-on, provide answers that work, and implement them. We commit to you that we **can** do this over the next several months and get back on track. Judge us by our actions.

Thank you, and now let me give the call back to Howard.

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