

Investing for Health: A Powerful Prescription for Competitive Advantage

Thank you, Mr. Palilla (John), and to all of you today, for such a warm welcome.

But really, that applause should be for you ... for the people and institutions dedicated to fighting the thousands of diseases and threats to human health that our world faces every day ... and for providing hope and compassion to millions of people.

That hope burns brighter with every new innovation you bring to society ... such as novel therapies in biologics that provide critical immunity to major health threats ... or advances in genomics that offer insights on how to prevent disease ... or radiopharmaceutical agents that target a specific organ, tissue or tumor. As an engineer and scientist by training, I can't help but be fascinated with each unique advance.

Yours is indeed a noble cause ... one that we at Dow fully support with high-performance products and technologies that enable industries like yours to improve the quality of life ... and one that touches the very core of our company. By this, I mean the 43,000 Dow people who drive our success every single day ... and the thousands more retirees, spouses, and children who enrich our family.

Our people represent the human element – our most important asset ... and while they don't appear on a balance sheet, they do have the most significant impact on our bottom line. This is why we need our people to stay in top form every day ... to be alert, safe, smart, creative, energized, happy and productive.

Put simply, we need them to stay healthy and fit – and over the course of our 100-year history, we've done a pretty good job. We owe part of that success to our founder, Herbert H. Dow, who not only had a goal to build a great

chemical company, but also one with a conscience that truly cares for its employees and communities.

Today, those values endure ... and are partly responsible for creating a chemical company that is a leader in one of the safest industries in the world. You are, in fact, more likely to get injured by getting run over by a shopping cart at a retail store, than you are working for Dow.

At Dow, we take pride in our ability to offer employees a highly competitive benefits package, including top tier health care choices and chemical industry wages that are at least one-third higher than other manufacturing sectors.

But the cost of health care continues to spiral out of control ... cutting into the bottom lines of all employers to the point where Corporate America might not be able to absorb these increases if left unchecked. Everyone is under pressure – you, us, consumers, and even government programs such as Medicare that are not only fighting soaring costs, but also system abuses.

This is leading to a broad package of tougher Medicare rules that target, for example, double-digit increases in medical imaging and the issue of self-referrals.

It has also raised the question as to whether expensive diagnostic equipment like MRIs is really needed in every facility or hospital ... and to whether patients are getting the best treatment at the best price, rather than the best treatment at any price.

Meanwhile, medical costs continue to inflate. And even though the overall rate of increase for health care costs will be slightly lower next year, and I emphasize “slightly,” it is still double the consumer price index. And make no mistake, it is still cause for alarm.

The problem is due, in part, to a system focused on disease treatment rather than prevention ... on expensive life-saving technologies rather than cost-saving technologies – where both are equally important ... and on isolated decisions about treatment rather than informed decisions based on evidence and outcomes using standardized quality controls.

Clearly, we can no longer afford to support such a system ... one where America spends up to twice as much per capita on health care when compared to other developed countries, but without better outcomes ... where medical errors are the eighth leading cause of death ... and where health care costs could consume one-fifth (20 percent) of our GDP in the next decade.

These issues are a number one concern for businesses, large and small. We have not only seen astronomical increases in direct costs (a 78% increase over the past five years alone), but we are also facing the very large and most recently recognized specter of indirect costs, as well.

Indirect costs include conditions such as diabetes and obesity, which can be two to three times that of direct costs ... and issues such as absenteeism and presenteeism, where workers are compromised due to their health and can't perform optimally. Such costs are causing massive losses in U.S. productivity.

To stay profitable, many companies are increasing the price of their goods and services, which unfortunately makes it more difficult to compete on the global stage. More and more companies are also taking steps to aggressively manage health-related economic impacts – and I'll speak more on that in a few moments. And virtually all companies are requiring their employees to share more of the health care burden.

Health care costs, in fact, are growing three times faster than salaries ... which means less disposable income, less investment and more debt. In other words, pay raises are supporting the health care system, not our economy. In a recent Hewitt report, salaried employees next year can expect a pay increase of 3.7%, but a person earning \$40,000 who receives such a wage increase – about \$1,480 to be precise, will use 16% of that hard-earned money to pay for higher health care costs.

To stay competitive, an extraordinary step change in health care is paramount ... one that shifts our focus more to prevention, quality and effectiveness ... enabling us all to get more value from our health care dollars... and a much better quality of life overall.

With 46 million people – many of them children – without health care insurance and unable to afford decent care, it is our moral obligation to look

for solutions ... to not just talk about it, but to actually do something about it.

And with U.S. businesses already challenged by global competition, higher energy prices, higher tax rates, over-regulation, expensive litigation, and much more ... there is no time to waste. We must stay low cost, and we must be able to grow in order to compete on the world stage.

Massive efforts to reduce costs and increase productivity have kept us in the game – through, for example, Six Sigma methodologies and energy conservation. But now – unless there is significant change on every front – including health care – we will continue to see most new investments occur outside of the country. In fact, the tables may turn, where investors actually consider America to be the high risk investment due to excessive costs ... further eroding our economy.

We believe that investing up front in good health and quality care is a powerful prescription for ensuring long-term competitive advantage for everyone ... and there is no better time to start filling that prescription than right now.

Dow is filling it in three key ways ... by making good health a strategic priority ... by transforming our thinking ... and by implementing a global health strategy.

I'd like to share a few thoughts about each of those with you, starting with how “good health” is a priority for Dow, and how it connects to each of our company's strategic themes ... shown here.

First, as an employer, the health of Dow people is vital to our performance, enabling us to deliver results while also attracting and retaining a top-tier workforce. Good health is one of the highest held human values ... and a good reputation for this can attract the best and the brightest. In this day and age, where people have become one of the last true sources of competitive advantage, that is indeed a critical quality to have. This supports our strategic theme to Build a People Centric Performance Culture.

Second, as an insurer, we pay for the lion's share of health insurance for our employees, retirees and their dependents ... which number more than 116,000 people in the U.S. alone ... and we genuinely care for their well-

being. To this end, we are focused on practices that keep our people healthier, and that drive down costs. This supports our strategic theme to drive Low Cost and Financial Discipline.

Third, as a community citizen ... we are committed to the economic, environmental and social health of the communities in which we operate ... and this supports our theme to Set the Standard for Sustainability.

And fourth, as a company, our focus on health will help fulfill our mission to constantly improve what is essential to human progress by mastering science and technology ... introducing products that are fundamental to human health ... such as trans-fat-free oils for healthier eating ... and purification products for cleaner drinking water. This, in turn, supports our theme to Invest for Strategic Growth.

Saying and doing are two different things, though ... so we stepped out of the box to take action and effect dramatic change. One decade ago, for example, we defined an aggressive set of 2005 environment, health and safety goals and were able to meet and exceed many of them.

We have since aimed even higher with a set of 2015 sustainability goals that reach beyond the walls of Dow to engage us in some of the most pressing problems facing the world ...and we are committed to developing at least three breakthroughs that solve the challenges of food, water, housing, energy, and yes ... personal health.

This leads into the second way we are filling our prescription for good health, and that is transformational thinking and a focus on long-term solutions. First, we had to clarify our health care costs and opportunities for improvement, and change our mindset from one focused on the cost of poor health ... to the value of good health and sustainable outcomes.

After several years of gathering data, we were able to create a strong business case for a global health strategy ... centered on these key findings:

- First, we were astounded to find that the total economic impact of employee and retiree health exceeded \$750 million per year for Dow ... \$300 million of this was in the U.S. alone, with presenteeism accounting for nearly half of all costs.

- Then, we calculated that by keeping our U.S. health care benefit costs at the lower end of the inflation trend, we could save Dow as much as \$0.07 / share in 2008. As a CEO committed to increasing shareholder value, you can imagine how this figure grabbed my attention.
- In addition, we noted what industry experts were saying ... that 1/3 of benefits expenses were possibly due to unnecessary or inefficient care. This represents an enormous opportunity to decrease costs while improving health outcomes ... one we could not ignore.
- Experts also agree that 30-50% of illnesses can be helped by preventive measures ... another significant opportunity for Dow to make a difference.
- Furthermore, we recognized the need to stay engaged in health-related improvements on the legislative and regulatory front.

That brings me to the third key way we are filling our prescription for good health ... the 2004 launch of a simple yet dynamic Dow Health Strategy that takes our business case to the next level.

This strategy is sharply focused on improving Dow's financial position through better health, and features tough goals and clear metrics to ensure forward progress.

It also features five pillars of success. Our top two global priorities are Prevention ... and Quality and Effectiveness ... and I'll talk more on those in a few minutes. Our other pillars include:

- Health Care System Management – which involves sophisticated purchasing and benchmarking to maximize value for Dow and our people ...
- Aligned Economic Incentives – to promote health and quality behaviors ... and
- Advocacy – to support prevention and quality in our health care system.

Together, these pillars emphasize quality and safety ... health improvement ... better use of information and data ... and more appropriate use of services to reduce waste ... all of which differentiate “best performing” companies from the others. According to the National Business Group on Health, such companies consistently have low rates of health care inflation costs ... 3-4% versus the national average of 8%.

Right now, Dow is in the mid-range of performers, keeping costs below the national average – but it’s not enough. We are shooting to be among the “best.”

And we hope to get there primarily through our first pillar, Prevention, which offers the largest opportunity for long-term impact.

I’m reminded of a comment made by Sean Sullivan, a noted health economist. He said: “We don’t wait until the machines in our factories break down before we fix them; we do constant maintenance to assure that they are working at their peak. Why should we treat our human capital any differently?”

We agree 100 percent ... which is why we are investing in prevention programs in the more than 150 communities worldwide in which we operate. These range from on-site health centers, sports programs and exercise classes ... to healthy food options, resources and tools ... to strong preventive medicine coverage in our benefits plans to drive quality and safety in our local hospitals.

Our goal is to reduce the health risk of Dow people by at least 10 percent over next 10 years, and to keep low-risk people at low risk ... and here is where it gets interesting. In the U.S., for every 1% reduction in risk, we can save at least \$62 million in direct dollars over 10 years – and this is conservative! It does not consider the savings from indirect costs – which could double that number, and it does not consider family members or retirees.

And those savings are just for Dow. Our people, who are growing tired of higher medical bills like everyone else, are also saving as they reduce their health risk. To this end, we are collaborating with the National Institute of Health to fight obesity in our people through a comprehensive “LightenUP” research program that includes, among other things, free annual health reviews. Best of all, the results of this study can help pave the way for others.

We are also about to introduce a Site Health Index connected to our Sustainability Goals where sites worldwide are responsible for increasing their health index scores by the year 2015. And speaking of sustainability,

we continue to support a number of health-related activities in our communities as well that get people off the couch and on the move – such as city-wide walking trails, a brand new Dow Diamond baseball stadium, local community centers, and much more.

Equally important, our leaders – myself included – are fully engaged in supporting a healthy culture. The importance of health, in fact, has been rolled into our leadership courses, and we are expected to take the time to exercise and set a good example.

Personally, I still use the employee gym ... and I play on the local basketball league. I also get out there in the community to show that you CAN establish a work / family balance that involves doing normal things ... such as shopping and exercising. My wife, Paula, and I take a four-mile walk every day I'm at home, except in the cold winters of Michigan ... which is probably the one thing they didn't prepare me for “down under” ... in the Australian sun!

The good news is that prevention is working. Our 2004-2005 data already show a 10% reduction in high risk, and a 2% increase in low risk – which is exactly the trend we want to see.

Quality & Effectiveness, our second pillar, is also delivering good results. Our goal here is to improve both the efficiency and effectiveness of care in order to reduce mistakes – which happen far too often ... to the point where many people are actually afraid to go to the hospital.

I was watching a program on ABC the other week, and the reporter compared hospitals to airplanes. He said – and I quote: “air travel is remarkably safe because every pilot, mechanic and controller follows a specific checklist before takeoff. But while pilots rely on rules, protocol and universal wisdom, doctors do not ... because they diagnose and treat according to individual experience” ... which he said created inconsistencies and mistakes.

But the problem isn't really with the doctors, it's with the system. The reporter went on to show how a huge database at the Intermountain Health Care system in Utah enabled doctors to combine their knowledge to develop consistent protocols for conditions like jaundice, heart attacks and induced labor. The approach worked, saving lives and millions of dollars.

So why not bring more Information Technology – IT – solutions to the forefront? If we can have a highly sophisticated ATM system for money that allows us to withdraw money from our accounts anywhere in the world, and instantly register on a database back at our home bank ... then why can't we do the same for health that allows the average person and their doctor – or any emergency room doctor for that matter – to access their health history from anywhere in the world?

If we can have tiny computer chips to run iPods and Treos, then why can't we have portable memory chips that carry our health information wherever we go?

The good news – as shown in Utah – is that progress IS being made with the right tools and technologies, proving that as quality goes up, costs can ALSO go down ... and that change can make a big difference ... which is exactly what we at Dow are trying to encourage.

We are, for example, creating a plan to increase consumerism ... connecting patients with providers and other stakeholders to provide transparency ... and to help them make informed decisions.

We are also working with hospitals in our various communities to ensure that they adapt “best quality” standards and safety practices, and have so far connected with 80 percent of our top 10 in-network hospitals.

In addition, we are working with key stakeholders to establish and follow high quality standards. One example is a Medquery quality system that we initiated with Aetna to improve both preventive testing ... and medication compliance.

Such efforts are paying off ... a 50% reduction last year in Medquery care concerns ... and a 15% improvement in employee satisfaction scores related to health ... both show that we are going in the right direction.

It also shows that aggressive action and communication deliver results.

Those are just a few ways that Dow – and many other companies – are fighting the battle of rising health care costs ... and we're not doing it alone either.

We are collaborating with each other – and with many of you – to develop pragmatic solutions to the problem ... to shift our focus on prevention, quality and effectiveness ... enabling us all to get more value from our health care dollars.

One example is the role that many CEOs – myself included – are playing in Leading by Example ... a CEO to CEO initiative of the Partnership for Prevention. Through prevention, we believe that everyone is better off.

Corporate America is better off, because good health will improve our performance and competitive advantage.

Our people are better off, because they will be healthier, happier and more productive.

The public will be better off, because they will have a better quality of life, and – hopefully – be able to spend their wage increases on something other than health care.

The economy will be better off because it will be more competitive in the global marketplace, more attractive to investments, and ideally, better able to provide access to affordable health care to all of its citizens.

And you, the health care industry, will be better off, because you will have developed a reputation not only as healers, but also as progressive and proactive health care providers who took action to fix a pervasive problem in our society.

We all play an important role in this quest, but as members of the health care industry, you are the health care experts and as such, you have the greatest magnitude of impact.

You have a unique opportunity to be the agent of change and be on the solution side of the equation... much as Dow is doing with our 2015 sustainability goals and leadership in health and safety ... and much as the manufacturing industry has already done, and continues to do, with significant advances in quality and productivity.

We are looking to you to do the same with health ... to lead sweeping change ... promote healthy behaviors ... encourage transparency ... identify

protocols ... develop incentives for doctors and patients ... and create IT solutions ... to do all of the things that will turn an outdated system into a state-of-the-art network positioned for the 21st century and beyond.

I remind you that health care is a huge cost burden to the manufacturing sector in the U.S.A. – a sector whose output is \$1.5 trillion, about the size of the entire economy of China ... and a sector that employs 14 million people. Health care, in fact, is one of several internal threats that I mentioned earlier – such as energy, taxes, over-regulation, and litigation – that are eroding the competitive advantage – the very fabric – of this great country. And every day, it erodes even further.

But we can reverse that trend by reducing the cost of health care. Other countries already have ... and we can learn and leverage from them. Countries such as Switzerland and Denmark, for example, already have national health databases and IT services in place to improve efficiency and quality. Granted, these countries are vastly smaller than the U.S. – both could fit into the state of Arizona alone with room to spare – but it's a solid start.

If they can do it, so can we. To us, it all comes down to prevention ... to investing up front in good health ... and in safe, quality care. We believe that is the most powerful prescription for competitive advantage.

The foundation for success is right here in this room, where there is an abundance of leadership, creativity and knowledge.

Let's put it to work in order to gain momentum and accelerate results. By joining forces – and drawing upon our collective capabilities – I am confident that we can develop sustainable solutions for future generations.

Thank you. Questions?

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