

You'll remember that at the turn of the century, the competitive world of chemicals and plastics was tossed upside down. The rules we had played by for so long had shifted dramatically – and not to our favor. Once-strong businesses were being commoditized and new overseas competitors with strong cost positions came into play.

The world of energy saw rapidly increasing prices on the very feedstocks we use every day. Misguided energy policy here in the U.S. was making natural gas – one of our key raw materials – even more expensive by the month. At the same time, we witnessed the rising power of the U.S. retailer. Big box stores like Home Depot and Wal-Mart set new, low prices for high-quality goods. With their size and buying power, they began dictating pricing levels to their suppliers who passed those dictates on to their suppliers – companies like us. Caught between these two powerful forces, we lost \$9 billion in pricing power between 1995 and 2002. That's \$9 billion with a "B."

You know what our first response was ... it would be the first response of any credible management team: stop the bleeding. So in 2003, under the leadership of Bill Stavropoulos, we began a very serious effort to reduce the costs we could control, an effort focused on survival.

That initial step on cost reductions, however, became the first part of a multi-phase plan to remake Dow into an earnings-growth company with a laser-like focus on strong financial discipline and portfolio management. In fact, many of the cost-control measures implemented as part of our survival in 2003 and 2004 are now institutionalized in our company. Financial discipline is a key strength at Dow and will remain so far into the future.

Over the last five years, for example, we have significantly reduced our total debt-to-capital ratio.

We've also taken action on non-strategic, non-competitive and unproductive assets ... taking action to increase our competitiveness. Since 2003, we have announced 92 plant shutdowns, 42 site exits and 38 business divestitures. That is easy to say, but very difficult to do.

And we did not stop there. We knew that if we were going to escape the cycles of the past and become a growth company with predictable earnings – we had to find a way to change the rules of the game back in our favor. That was the second phase of our three-phase plan. By changing the rules – I mean that we could return to what we do best: harness the power of science and innovation to serve new markets ... solve new and urgent problems ... and secure our place as a market leader.

Technology. Science. Markets. Solutions.

Increasing our margins and improving our earnings predictability and growth.

As a result, over the past several years we have worked hard to recalibrate our company. We lightened our footstep on the energy-intensive Basics businesses in our portfolio. And we've also been investing in and growing our Performance businesses. At the same time, we have pursued joint ventures around the globe ... particularly in Basics businesses ... allowing them greater access to more affordable feedstocks and energy, solving one half of the problem that had crippled the Company five years ago.

Forming these "asset-light" joint ventures, as they have become known, reached its crescendo in December when we announced an industry-defining petrochemicals joint venture with Petrochemical Industries Company of Kuwait. This exciting joint venture – which we expect to close later this year – gives new life to those businesses that are most susceptible to the ethylene cycle. Plus, it gives them a new platform – with advantaged feedstocks, unparalleled technology and geographic reach – necessary for growth.

Along with these joint ventures, we have made more than 20 strategic acquisitions to enhance our portfolio since 2003. Last year alone we completed the Wolff Walsrode acquisition ... completed four acquisitions for Dow AgroSciences ... completed three acquisitions in Epoxy Systems and three more in Polyurethanes. And, finally, we have launched 10 market-facing businesses.

On top of these portfolio changes, we also made a conscious effort to strengthen our presence in the fastest-growing regions of the world. While the rest of Dow has grown at a healthy 11% from 2001, the emerging geographies of Brazil, Russia, India and China – as a group – has grown at a robust 19%. Because of all of our actions through Phase I and II, Dow is stronger, more diverse and more competitive in key markets around the globe.

The proof for that is in our strong financial results. Dow's sales last year reached an all-time high and we posted the third-highest earnings in our history. And, for the first time, equity earnings from our joint ventures topped \$1 billion.

What is particularly impressive is that we achieved these results even as hydrocarbon and feedstock costs were soaring through the roof. In 2007, those costs were an incredible \$24.6 billion. To put that into perspective, just a few years ago – in 2002 – we spent \$8 billion on purchased feedstock and energy. Energy costs continued to accelerate into the first quarter of 2008, jumping 42% year-over-year to \$7 billion. That was nearly the same amount we paid in all of 2002.

Despite those large cost increases, the hard efforts of Dow people allowed us to post an exceptionally good first quarter. Sales were up ... volumes were strong, especially in emerging economies ... and equity earnings, again, showed strength in our joint ventures. Given the on-going weakness in the U.S. economy and the unprecedented run-up in energy costs, your Company performed very, very well in the first quarter.

Now, before I talk about Phase III of our strategy, let me stress two more key financial achievements.

First, despite the ups and downs of our business, I want to point out that since 1912, we have either maintained or increased our dividend every year. That's 385 consecutive quarters in which our dividend has never been cut. I'm not aware of any other American company with that kind of record. The fact remains that Dow is solid as a rock when it comes to paying dividends. And to that point, we've actually raised the dividend by a further 25% since January 2006.

The second item I want to highlight is that in 2006 and 2007, we repurchased some 50 million shares, representing 5% of our shares outstanding – a level not seen at Dow for more than a decade.

Our strong cash position will get even stronger when we close our joint venture with the Petrochemical Industries Company of Kuwait. Dow expects to receive about \$9.5 billion in pre-tax cash. Combine that with our already strong balance sheet and you can see the enormous financial flexibility we now have. The question any more isn't: "Can Dow transform itself?" The results are in on that question – we've proven we can.

The question now before us is: "how is this third phase going to unfold and what will we do to implement it as seamlessly and as well as we did the first two phases?" So let me articulate how Phase III will develop.

It is about taking full advantage of the options now available to us. How? Through organic growth – leveraging our immense R&D pipeline ... through strategic mergers and acquisitions ... and through the disciplined use of cash.

On organic growth, we are reaching back to our past to tap into the latent strengths that made Dow such a revered name in American business over such a long period of the last century. That means moving forward on the basis of our strengths in innovation, our long-standing commitment to sustainability and, ultimately, on the strength of our people to take advantage of new and untapped markets emerging throughout the world today.

What markets? When we look at the world of tomorrow, we see four broad business trends shaping future markets. Those megatrends are: Health & Nutrition ... Energy ... Consumerism ... and Infrastructure & Transportation. These megatrends – along with our continuing commitment to our 2015 Sustainability Goals – will serve as a roadmap for our organic growth and M&A program. Let me share with you a few business and R&D projects that excite us about the Dow of Tomorrow and our ability to grow in these markets.

In Health and Nutrition, we're helping farmers increase crop yields by developing new advanced herbicides and insecticides. We announced with Monsanto the industry's first-ever eight-gene stacked combination in corn, giving farmers an all-in-one answer to demands for comprehensive yield protection from weed and insect threats. Plus, we're working with the pharmaceutical industry on ways to improve overall drug efficacy with new cellulotics.

In the area of energy, we're developing new epoxies that make wind blades stronger, lighter ... breakthroughs in home insulation which dramatically increased R values ... and new alternative feedstocks, like our sugarcane-to-polyethylene facility in Brazil, which will be, by the way, the largest bio-derived plastics facility in the world.

In the broad area of consumerism, we recently launched RENUVA, a line of natural-oil based polyols generated from feedstocks such as soy beans. RENUVA gives our customers the ability to engineer consumer products that are not only greener, but better performing, too. Our epoxies are helping meet demanding customer needs in fast growing electronics markets ... and our Fabric & Surface Care products are designed for increasing consumer demands for safe, convenient products with minimal environmental impact.

Finally, in transportation and infrastructure, we have new plastics and bonding solutions to make cars both tougher and lighter, increasing efficiency and safety. Newly designed solar cells that will be integrated directly into building materials .... and, as you saw in the video earlier, we are deeply invested in finding sustainable solutions for the global water crisis. For example, we have new filtration systems that are providing access to clean water for immense numbers of people around the planet.

These business opportunities build on Dow's new R&D efforts which are generating more than 350 large projects ... proof that your Company is returning to an innovation agenda ... a true market-driven science company. Organic growth is just one pathway to the future, however. Acquisitions are another pathway.

In Phase III, we will build on the acquisitions we made in Phase II and be guided by the megatrends roadmap and we will only proceed if the deals fit a disciplined set of criteria. What are those criteria? First, any acquisition must create greater long-term value for our stockholders than buying back shares. Second, it must fit our strategy. And, third, it must be accretive to earnings by the end of the second year of performance. In the absence of an acquisition or acquisitions that meet those criteria, a share buyback is a very real option. And let me emphasize that, the closer we get to closing our deal with PIC without having identified a suitable acquisition or acquisitions – the more likely we will initiate a significant buyback.

The bottom line is that – through organic growth ... through strategic M&A ... and through the disciplined use of cash, we now have the ability to break the cycle and change the game. We not only have the ability to grow, but to also generate large amounts of cash.

Through 2015, our operating cash flow generation, plus the net proceeds from our asset light strategy and our additional borrowing capacity, will enable us to deploy up to \$57 billion in cash to support our strategy. We will deploy it to significantly change our earnings profile.

And what will the profile look like? The last chemical industry trough was in 2002 and our earnings at that time were 34 cents a share. When we look to the next expected industry trough sometime around 2010, we will exceed the cost of capital and - based on our innovation programs - we expect that number to be close to \$3.50 per share, a ten-fold increase! Also, as the year goes by and our deal with PIC closes, we will be in a strong position to either initiate a share buyback and/or execute acquisitions – either of which pushes our earnings northward of \$3.50 per share.

Looking at a peak-to-peak comparison – 2005 to 2015 – the story is even better. Based on all of the programs you have heard about today, we expect 10% EPS growth over this time frame, giving us an EPS number greater than \$10 share at the next industry peak. This is a very different company than the one we started with at the turn of the century when we were cutting costs just to survive.

This is now an investment story. A story, by the way, that would not be possible without the most critical element of all – Dow People.

The heart and soul of our company for 111 years has been ... and will continue to be ... talented, dedicated Dow individuals like this chemical engineer, Sadeka (Sah dee' kah) Onam, who was recently featured in FORTUNE magazine. Sadeka and the other 46,000 people of Dow are working hard to make this a company with strong and predictable earnings.

A company that is growing ... that is innovative ... that is dynamic ... and, most importantly, that is rewarding its shareholders. A company that is once again making its shareholders proud to be associated with the Dow diamond.

Now that's a company worth investing in.

Thank you.

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