

## Ethics & Compliance: The Key To Respect

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Thank you .... and to all of you for that warm welcome ... and for the invitation to share my perspectives on ethics and compliance.

First, let say that on November of 2004, I thought I was being named Chief Executive Officer of Dow. What I soon discovered however, was that I was also becoming the Chief People Officer, the Chief Risk Officer and also the Chief Ethical Officer. Now my job is to instill in all Dow people that they have the same set of responsibilities. Today I'll address the CEO title ... as in "Ethics"

Our vision at Dow is to become the largest, most profitable and most respected chemical company in the world, and – in my book – it all begins with Ethics and Compliance. Because if you don't have that, you won't be able to sustain profits and growth over the long term.

Like most CEOs, I want profits. And I demand results. (That should come as no surprise to any of you here.) But while I'm tough on this, I don't want results to compromise the integrity of Dow in any way. In fact, integrity is one of the results I want. The price of losing it is simply too high.

Our people must be able to make the right moral decisions in any job, in any situation, and in any corner of the world. They need to behave ethically, consistently, and in full compliance with all the laws.

Now that sounds simple, and it is. But it is very hard to do, especially when you consider that Dow is undertaking a tectonic shift in its strategy and its culture. Let me give just a few examples:

- Our production is shifting to the Middle East, an area of considerable geopolitical risk.
- Our markets are growing in places that are not Western ... like China and India.
- Our recruitment of people is increasingly centered on Asia and the Middle East, so the nature of our workforce is becoming much more diverse, much different, for example, than in the past, when we saw most of our growth in Europe and Latin America, which are decidedly Western in culture and values.

So we are engaged in massive effort of change management at Dow ... and that is a huge challenge ... but equally challenging is that it does not ... does not ... cause a change in our standards of ethics and compliance, although they certainly make the job much more difficult. And I will talk about how we are approaching the issue a bit later in my remarks.

I don't have to remind this group of the high cost of questionable ethics. Look at Enron. Tyco. Arthur Anderson. And WorldCom., to name just a few. One ethical breach kept multiplying, and left unchecked, the situation spiraled out of control. Employees, stockholders, and entire communities were devastated. And the result was the Sarbanes-Oxley Act – to keep companies in compliance with basic laws ... and doing so at great expense.

I am absolutely convinced that setting high ethical standards starts at the top of the organization, but I am equally convinced that high standards must permeate the entire organization right down to the shop floor. Only by establishing a reputation for honesty and integrity will you be able to get the best people to work for you, the best customers to do business with you, and investors to have confidence in you.

These are the attributes that will help set a company apart, and that will enable it to grow in new directions. And in fact, they already have for Dow.

A case in point is China – Dow has been able to grow there, in part, because of our ethical approaches to:

- Environment, health and safety (EH&S) – where we apply the same high standards in every place we operate,
- Diversity and equality – where we respect individual differences and perspectives, and provide equal access to opportunities across cultures, and
- Business growth – where we choose customers and partners who are equally ethical and committed to staying within the boundaries of the law.

In a sense, our reputation preceded us – the good kind. China likes Dow and our safety record. They understand the long-term need to protect intellectual property and honor contractual obligations. And they know that long-term prosperity is directly correlated to honest business practices that are enforceable under the law.

Put simply, they respect our principles and see long-term value in doing business with us. And this has enabled Dow to become the first foreign invested enterprise in China to earn full domestic distribution rights of our products.

I'm convinced that our growth there and elsewhere in the world would not have happened – and won't continue to happen – without a dynamic Ethics & Compliance program. One in which we are lawful, principled and socially responsible in all of our business practices.

For Dow, this policy forms the foundation of our Global Code of Business Conduct. A few key features stand out:

- It is simple and clear;
- It is values based;
- It is how we do our work;
- And it is dynamic.

*First, the simple and clear part ...*

Our Code has come a long way since the first official version was created in 1965, and rightly so.

Back then – when I was just a kid, by the way – Dow was one of the first companies to write a set of corporate objectives that embraced the ideals of balancing economic progress with social responsibility.

But as we expanded globally, and crossed into other cultures, we faced some difficult questions. For example:

- Would we exploit less than ethical opportunities for profit?
- How would we meet governmental laws?
- How would we treat our foreign hires?
- How would we cope with the mix of cultures, customers and laws?
- What about protecting our technologies?
- And how would we apply EH&S standards?

Our employees needed to know what to do. To provide clarity and direction, and to address the changing needs of markets and governmental requirements, we continued to shape and evolve our Code into what it is today.

To keep it simple, we've honed in on two underlying Values: Integrity and Respect for People. And within that framework, we've identified a set of guiding principles, which includes behaviors like:

- Diversity and Equal Opportunity
- Environment, Health and Safety – or EH&S
- Financial Integrity
- Intellectual Property
- Social Responsibility, and
- Reporting

#### *These Behaviors Reflect a Values-Based Culture*

One thing that we've always had going for us is a culture steeped in more than 100 years of small town Midwestern values. Dow was founded in 1897 in Midland, Michigan, by Herbert H. Dow – an avid chemist and horticulturalist. He saw Midland not only as a great place for his company – there was brine under the ground that could be converted to bleach – but also as his home. In fact, some of the apple trees he himself planted are still scattered here and there around our community.

His goal was to build not only a strong company, but one with a conscience. And he wasted no time – often doing things that no other company had. For example:

- From Day One, he required workers to use headgear for protection against bleach.
- In 1910, he opened the Company's first complete medical facility.
- In the 1930s, the Company established toxicology and environmental sciences departments to test and evaluate product safety – long before government regulation required them.
- And as early as 1936, we opened our first Pollution Control Department.

On the civic side, Dow also funded community centers, libraries, public gardens, parks, hospitals and more. His spirit inspired our employees to volunteer across the community – and we still do.

In fact, our company made nearly \$18 million in charitable contributions just last year. Plus an additional \$8 million or so allocated to help the victims – including some of our own employees – of the Asian tsunami, the hurricanes in the Gulf of Mexico, and the earthquake in Pakistan.

What's unique about Dow is that nearly all of our global locations today are in small towns versus big cities. This gives us the natural advantage of being held accountable. In a small town where you live and work, there is no such thing as anonymity ... people know one another, and they hold one other accountable.

Because we live in these communities, we have a vested interest in their safety and success. Everyone pretty much knows every one else. And because we are more visible, we are naturally more accountable for our actions – and this dynamic holds true today wherever we do business

We believe that if you live the company's ethics and values, it's easier to follow the rules and laws – like those of Sarbanes-Oxley. Because the values pave the way.

That's what I mean by a values-based culture, versus rules-based. And while Sarbanes-Oxley has certainly added new procedures from a compliance standpoint, our basic approach to doing business honestly and directly is grounded in ethics.

*To Us, Ethical Behavior is "How" We Do Our Work*

For some companies, "ethics" is the latest corporate fashion. They talk the talk, but they don't really walk the runway so to speak. To succeed in this competitive world, it's critical to walk the talk, to implement the Code, and to reinforce the behaviors.

So at Dow, our employees take the required training to make sure they know how it affects their work.

They are clear on our expectations, and on what they can do if they have problems.

And they know that ethical behavior is something we are serious about – and that on occasion, it has cost people their jobs. In the 1990s, for example, we had an email issue that involved indecent attachments and web sites. Our policy clearly outlaws this type of behavior.

We ended up disciplining several hundred people.

It was not an easy process. We followed up with Respect and Responsibility training – and this, of course, spawned other modules to reinforce other behaviors.

One positive outcome was that people learned that they could trust the process, and that their complaints were investigated seriously ... and also that management takes the policy seriously too.

*And in This Sense, It's a Dynamic Process.*

In 1998, we created the Office of Global Ethics & Compliance – led by Tom McCormick (who spoke at this conference yesterday) – to reinforce ethical behaviors and to oversee issues, actions and progress.

Tom and his team have done a great job standardizing our investigation process to ensure fairness. The goal is to consistently uphold our standards on a global basis and to recognize the individual differences and needs of different cultures.

According to Tom, the process ensures that the accused person's reputation is protected, but the matter is nevertheless fully investigated, and action taken, where appropriate. .

To provide equal access in lodging complaints, Tom's office offers several avenues of contact. From a third-party Dow EthicsLine, to direct calls, letters, faxes or emails. And they are currently adding options to overcome some language barriers.

To ensure Best Practices, his team also calls upon 14 regional ethics and compliance committees – to meet the individual cultural differences of each Dow region. These committees – whose members are appointed by me – include the top regional executives of all our functions and businesses so as to demonstrate what we call “Tone at the Top” to engender local support and implementation.

While all of this represents a lot of time and effort, to us, it is worth our investment in the future ... because ethics and compliance are absolutely crucial to our success.

At Dow, we don't just think this; we know it – from personal experience. And the only reason we are here today (not many companies have survived 100 years), is because we've stuck to our ethics, and have made some tough decisions along the way.

Believe me, we have had our share of ethical challenges, most of them very public ... starting with the manufacture of Napalm during the Vietnam War ...when suddenly we went from being a company that made Saran Wrap to keep food fresh to a kind of war machine ... at least, according the characterizations of the time.

Then in the 1970s came the environmental movement and we – meaning our entire industry -- came under fire, from both environmentalists and the newly formed EPA.

In the 80s, came the tragedy of Bhopal, a staggering wake-up a call for our industry ... which led to what we call the Responsible Care movement ... the safe manufacture, handling and transportation of chemicals ... and largely as a result, the chemical industry today is one of the safest of all industries ... safer, for example than retailing. And I am pleased to say that Dow led the way in this movement.

In fact we just completed our 1996 to 2005 environmental, health and safety program, during which time we reduced our injury and illness rate by 90%, our incidence of leaks, breaks, and spills by 90% and our energy intensity by 20%.

So when we look back upon the last 50 years, we divide it into what we call the five Ds.

First was the Discovery period in the 1960s ... when we learned during Vietnam that our reputation was at stake even when it involved a minute part of our business.

The 70s was the time of Defense ... when we tried to defend ourselves against any and all criticism ... and even though we might have been right from a scientific point of view, we often lost the battle for the hearts and minds of the public ... and the government.

The 80s was the third D, the time of Debate ... when we began to engage our critics and talk to them about the issues.

And then came the Discussion period, when we actually began to incorporate many of the ideas of our critics into how we operate, and invited them into our plants and labs ... in fact one of the major results of this period is our environmental advisory council, a group of outside experts that advises our company on its environmental and safety practices.

And the final period, was the Doing period ... recognizing that we had to do more to gain the confidence of both government and the public and setting specific goals and metrics and opening them to public examination ... it was then that we established our first set of environmental, health and safety goals, which we made available to the public, and by which we measured results with detailed metrics.

And here I should mention that just last week, we announced in Washington a new set of 10-year goals that are much broader and deeper, including our responsibilities not only within the fence line of our plants, but as a global corporate citizen ... including the development of three breakthrough technologies that will significantly improve the standard of living – and the quality of life – for people across the globe ... and an address to the issue of global warming and doing our part to cure to the world's addiction to fossil fuels.

As I mentioned earlier, when I became CEO, I was not aware of all of the complexities of Ethics & Compliance, and was surprised by the many gray areas and difficult decisions, including the not only conflicts of interest, but perceptions of conflicts of interest.

It's not an easy task.

But the good news, is that we continue to make progress. We know this not just by our actions, but by industry reaction too. For example:

- For the fourth consecutive year, Dow received the highest rating possible for corporate governance by Governance Metrics International;
- Institutional Investor magazine this year recognized Dow as one of the most “shareholder friendly” companies in the world -- #1 in the chemicals/commodities sector;
- And Dow rose sharply on Fortune Magazines “Most Admired Companies” list for 2005 – ranking us second out of 10 companies in our industry –up 7 places from the year before.

In addition, our Board commissioned an independent third party assessment of ethics and compliance program, including cultural perceptions, last year. Although we generally received very high marks, we also learned of areas where we need to improve. In that sense, ethics is like every other aspect of business competition: there is always room for improvement and we still have work to do.

Let share with you how we intend to improve.

And here our goal is nothing less than to make ethics and compliance an intrinsic part of our culture ... just as we have with environmental, health and safety. All employees know what EH&S is and that it is their responsibility. If they see a fellow worker doing something dangerous, they go to that person immediately. There are no inhibitions. Safety is everyone's business.

Our challenge ... my challenge ... is to instill that same consciousness in every Dow employee ... as well as our own Board of Directors ... in the area of Ethics and Compliance.

And to do that, requires two things:

First, that people know what our strategy is – to make all of the many sea changes that I talked about earlier ... a much more diverse workforce, doing business in cultures that are vastly different than what we are used to ... and the risks of investing in some very volatile regions of the world; and

Number two, that no matter where we do business, ethics and compliance has to be a mindset ... a mindset that is everyone's responsibility ... not a program that is the bailiwick of a small group of people in the Ethics and Compliance department.

That is one of the reasons why our regional boards are so important ... they, in a way our disciples who are spreading the faith of ethics and compliance in all of the regions and cultures where we do business. They know the local people and they know the culture, and they are best able to instill that mindset throughout our company.

When will we know we have succeeded?

That's simple. When everyone in our company ... from the board of directors ... to senior leadership ... to the person on the shop floor ... understands the responsibilities of ethics and compliance in the same way as those of you here today ... and acts upon them automatically.

Someone once said that the only really useful knowledge is that which is subliminal ... that's the kind of knowledge we are determined to instill throughout Dow ... people know what's right and what's wrong, speak up about it, and feel absolutely free to act upon it.

I know that sounds very ambitious – and maybe a bit idealistic – but I am convinced it is one of the key prerequisites of success to organizations of all kinds.

One final thought. We know we are on the right track, but we also know that we are only at the beginning ... we are really seeing just the tip of the iceberg. There remains a great deal of work to do. And just as I am counting on the key ethics and compliance people of my company to see this through, I am sure that your leadership is equally depending on you.

I can think of no more important work than yours.

Thank you.

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