DOW CHEMICAL CO /DE/
Form 10-Q
October 28, 2008
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# UNITED STATES

# SECURITIES AND EXCHANGE COMMISSION

**Washington, D.C. 20549**

# FORM 10-Q

**QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF**

**THE SECURITIES EXCHANGE ACT OF 1934**

**For the quarterly period ended SEPTEMBER 30, 2008**

**Commission File Number: 1-3433**

# THE DOW CHEMICAL COMPANY

(Exact name of registrant as specified in its charter)

| | |
|---|---|
| **Delaware** | **38-1285128** |
| (State or other jurisdiction of incorporation or organization) | (I.R.S. Employer Identification No.) |

**2030 DOW CENTER, MIDLAND, MICHIGAN 48674**

(Address of principal executive offices) (Zip Code)

**989-636-1000**

(Registrant s telephone number, including area code)

**Not applicable**

(Former name, former address and former fiscal year, if changed since last report)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. x Yes o No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act.

| | |
|---|---|
| Large accelerated filer x | Accelerated filer o |
| Non-accelerated filer o<br>(Do not check if a smaller reporting company) | Smaller reporting company o |

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

o Yes x No

| **Class** | **Outstanding at September 30, 2008** |
|---|---|
| Common Stock, par value $2.50 per share | 923,779,819 shares |

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**The Dow Chemical Company**

**QUARTERLY REPORT ON FORM 10-Q**

**For the quarterly period ended September 30, 2008**

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**PART I - FINANCIAL INFORMATION**

**Item 1. Financial Statements.**

**The Dow Chemical Company and Subsidiaries**

**Consolidated Statements of Income**

| In millions, except per share amounts (Unaudited) | Three Months Ended Sept. 30, 2008 | Three Months Ended Sept. 30, 2007 | Nine Months Ended Sept. 30, 2008 | Nine Months Ended Sept. 30, 2007 |
|---|---|---|---|---|
| Net Sales | $ 15,411 | $ 13,589 | $ 46,615 | $ 39,286 |
| Cost of sales | 13,975 | 11,864 | 41,526 | 33,867 |
| Research and development expenses | 334 | 329 | 1,000 | 951 |
| Selling, general and administrative expenses | 498 | 476 | 1,511 | 1,371 |
| Amortization of intangibles | 21 | 22 | 68 | 51 |
| Restructuring credit | | | | (4) |
| Purchased in-process research and development charges | 27 | 59 | 27 | 59 |
| Acquisition-related expenses | 18 | | 18 | |
| Equity in earnings of nonconsolidated affiliates | 266 | 296 | 791 | 828 |
| Sundry income (expense) - net | (34) | 70 | 49 | 262 |
| Interest income | 23 | 28 | 72 | 101 |
| Interest expense and amortization of debt discount | 160 | 148 | 456 | 423 |
| Income before Income Taxes and Minority Interests | 633 | 1,085 | 2,921 | 3,759 |
| Provision for income taxes | 185 | 659 | 727 | 1,271 |
| Minority interests share in income | 20 | 23 | 63 | 73 |
| Net Income Available for Common Stockholders | $ 428 | $ 403 | $ 2,131 | $ 2,415 |
| Share Data | | | | |
| Earnings per common share - basic | $ 0.46 | $ 0.42 | $ 2.29 | $ 2.53 |
| Earnings per common share - diluted | $ 0.46 | $ 0.42 | $ 2.26 | $ 2.49 |
| Common stock dividends declared per share of common stock | $ 0.42 | $ 0.42 | $ 1.26 | $ 1.215 |
| Weighted-average common shares outstanding - basic | 925.2 | 948.9 | 932.4 | 955.6 |
| Weighted-average common shares outstanding - diluted | 934.0 | 961.5 | 941.7 | 968.3 |
| Depreciation | $ 505 | $ 499 | $ 1,497 | $ 1,439 |
| Capital Expenditures | $ 628 | $ 519 | $ 1,584 | $ 1,311 |

*See Notes to the Consolidated Financial Statements.*

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**The Dow Chemical Company and Subsidiaries**

**Consolidated Balance Sheets**

| In millions (Unaudited) | Sept. 30, 2008 | Dec. 31, 2007 |
|---|---|---|
| **Assets** | | |
| Current Assets | | |
| Cash and cash equivalents | $ 2,261 | $ 1,736 |
| Marketable securities and interest-bearing deposits | 11 | 1 |
| Accounts and notes receivable: | | |
| Trade (net of allowance for doubtful receivables - 2008: $122; 2007: $118) | 5,480 | 5,944 |
| Other | 4,121 | 3,740 |
| Inventories | 7,542 | 6,885 |
| Deferred income tax assets - current | 261 | 348 |
| Total current assets | 19,676 | 18,654 |
| Investments | | |
| Investment in nonconsolidated affiliates | 3,358 | 3,089 |
| Other investments | 2,305 | 2,489 |
| Noncurrent receivables | 300 | 385 |
| Total investments | 5,963 | 5,963 |
| Property | | |
| Property | 48,230 | 47,708 |
| Less accumulated depreciation | 33,932 | 33,320 |
| Net property | 14,298 | 14,388 |
| Other Assets | | |
| Goodwill | 3,637 | 3,572 |
| Other intangible assets (net of accumulated amortization - 2008: $786; 2007: $721) | 808 | 781 |
| Deferred income tax assets - noncurrent | 2,274 | 2,126 |
| Asbestos-related insurance receivables - noncurrent | 662 | 696 |
| Deferred charges and other assets | 2,847 | 2,621 |
| Total other assets | 10,228 | 9,796 |
| Total Assets | $ 50,165 | $ 48,801 |
| | | |
| **Liabilities and Stockholders Equity** | | |
| Current Liabilities | | |
| Notes payable | $ 2,407 | $ 1,548 |
| Long-term debt due within one year | 1,743 | 586 |
| Accounts payable: | | |
| Trade | 4,227 | 4,555 |
| Other | 2,218 | 1,981 |
| Income taxes payable | 580 | 728 |
| Deferred income tax liabilities - current | 112 | 117 |
| Dividends payable | 392 | 418 |
| Accrued and other current liabilities | 2,470 | 2,512 |
| Total current liabilities | 14,149 | 12,445 |
| Long-Term Debt | 8,257 | 7,581 |
| Other Noncurrent Liabilities | | |
| Deferred income tax liabilities - noncurrent | 912 | 854 |
| Pension and other postretirement benefits - noncurrent | 3,006 | 3,014 |
| Asbestos-related liabilities - noncurrent | 904 | 1,001 |
| Other noncurrent obligations | 3,239 | 3,103 |
| Total other noncurrent liabilities | 8,061 | 7,972 |
| Minority Interest in Subsidiaries | 70 | 414 |

| | | | | |
|---|---|---|---|---|
| Preferred Securities of Subsidiaries | | 500 | | 1,000 |
| Stockholders Equity | | | | |
| Common stock | | 2,453 | | 2,453 |
| Additional paid-in capital | | 865 | | 902 |
| Retained earnings | | 18,954 | | 18,004 |
| Accumulated other comprehensive loss | | (687) | | (170) |
| Treasury stock at cost | | (2,457) | | (1,800) |
| Net stockholders equity | | 19,128 | | 19,389 |
| Total Liabilities and Stockholders Equity | $ | 50,165 | $ | 48,801 |

*See Notes to the Consolidated Financial Statements.*

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**The Dow Chemical Company and Subsidiaries**

**Consolidated Statements of Cash Flows**

| **In millions (Unaudited)** | **Nine Months Ended Sept. 30, 2008** | **Nine Months Ended Sept. 30, 2007** |
|---|---|---|
| Operating Activities | | |
| Net Income Available for Common Stockholders | $ 2,131 | $ 2,415 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | |
| Depreciation and amortization | 1,681 | 1,601 |
| Purchased in-process research and development charges | 27 | 59 |
| Provision for deferred income tax | 74 | 712 |
| Earnings of nonconsolidated affiliates in excess of dividends received | (115) | (310) |
| Minority interests share in income | 63 | 73 |
| Pension contributions | (122) | (137) |
| Net gain on sales of investments | (24) | (120) |
| Net gain on sales of property, businesses and consolidated companies | (45) | (71) |
| Other net loss (gain) | 5 | (88) |
| Restructuring credit | | (4) |
| Excess tax benefits from share-based payment arrangements | (8) | (14) |
| Changes in assets and liabilities: | | |
| Accounts and notes receivable | 123 | (857) |
| Inventories | (698) | (614) |
| Accounts payable | (177) | 469 |
| Other assets and liabilities | (453) | 140 |
| Cash provided by operating activities | 2,462 | 3,254 |
| Investing Activities | | |
| Capital expenditures | (1,584) | (1,311) |
| Proceeds from sales of property, businesses and consolidated companies | 209 | 110 |
| Acquisitions of businesses | | (143) |
| Purchase of previously leased assets | (63) | (12) |
| Investments in consolidated companies | (316) | (742) |
| Investments in nonconsolidated affiliates | (128) | (60) |
| Distributions from nonconsolidated affiliates | 6 | 5 |
| Proceeds from sale of ownership interests in nonconsolidated affiliates | | 30 |
| Purchases of investments | (725) | (1,367) |
| Proceeds from sales and maturities of investments | 664 | 1,404 |
| Cash used in investing activities | (1,937) | (2,086) |
| Financing Activities | | |
| Changes in short-term notes payable | 880 | 38 |
| Payments on long-term debt | (84) | (71) |
| Proceeds from issuance of long-term debt | 1,265 | 13 |
| Purchases of treasury stock | (898) | (1,144) |
| Proceeds from sales of common stock | 59 | 291 |
| Payment of deferred financing costs | (66) | |
| Excess tax benefits from share-based payment arrangements | 8 | 14 |
| Distributions to minority interests | (44) | (48) |
| Dividends paid to stockholders | (1,174) | (1,115) |
| Cash used in financing activities | (54) | (2,022) |
| Effect of Exchange Rate Changes on Cash | 54 | 42 |
| Summary | | |
| Increase (decrease) in cash and cash equivalents | 525 | (812) |
| Cash and cash equivalents at beginning of year | 1,736 | 2,757 |

| | | |
|---|---|---|
| Cash and cash equivalents at end of period | $ 2,261 | $ 1,945 |

*See Notes to the Consolidated Financial Statements.*

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**The Dow Chemical Company and Subsidiaries**

**Consolidated Statements of Comprehensive Income**

| In millions (Unaudited) | Three Months Ended Sept. 30, 2008 | Three Months Ended Sept. 30, 2007 | Nine Months Ended Sept. 30, 2008 | Nine Months Ended Sept. 30, 2007 |
|---|---|---|---|---|
| Net Income Available for Common Stockholders | $ 428 | $ 403 | $ 2,131 | $ 2,415 |
| Other Comprehensive Income (Loss), Net of Tax | | | | |
| Net unrealized gains (losses) on investments | (89) | 15 | (173) | 24 |
| Translation adjustments | (748) | 353 | (208) | 487 |
| Adjustments to pension and other postretirement benefit plans | 13 | 32 | 30 | 108 |
| Net gains (losses) on cash flow hedging derivative instruments | (237) | 26 | (166) | 56 |
| Total other comprehensive income (loss) | (1,061) | 426 | (517) | 675 |
| Comprehensive Income (Loss) | $ (633) | $ 829 | $ 1,614 | $ 3,090 |

*See Notes to the Consolidated Financial Statements.*

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**The Dow Chemical Company and Subsidiaries**

**PART I FINANCIAL INFORMATION, Item 1. Financial Statements.**

**Notes to the Consolidated Financial Statements**

(Unaudited)

## NOTE A CONSOLIDATED FINANCIAL STATEMENTS

The unaudited interim consolidated financial statements of The Dow Chemical Company and its subsidiaries ( Dow or the Company ) were prepared in accordance with accounting principles generally accepted in the United States of America ( GAAP ) and reflect all adjustments (including normal recurring accruals) which, in the opinion of management, are considered necessary for the fair presentation of the results for the periods presented. These statements should be read in conjunction with the audited consolidated financial statements and notes thereto included in the Company s Annual Report on Form 10-K for the year ended December 31, 2007.

## NOTE B RECENT ACCOUNTING PRONOUNCEMENTS

In September 2006, the Financial Accounting Standards Board ( FASB ) issued Statement of Financial Accounting Standards ( SFAS ) No. 157, Fair Value Measurements, which defines fair value, establishes a framework for measuring fair value, and expands disclosures about fair value measurements. The Statement applies under other accounting pronouncements that require or permit fair value measurements and was effective for fiscal years beginning after November 15, 2007. In February 2008, the FASB issued FASB Staff Position ( FSP ) FAS No. 157-2, which delayed the effective date of SFAS No. 157 for nonfinancial assets and nonfinancial liabilities, except for items that are recognized or disclosed at fair value in the financial statement on a recurring basis, to fiscal years beginning after November 15, 2008. On January 1, 2008, the Company adopted the portion of SFAS No. 157 that was not delayed, and since the Company s existing fair value measurements are consistent with the guidance of the Statement, the partial adoption of the Statement did not have a material impact on the Company s consolidated financial statements. The Company uses a December 31 measurement date for its pension and other postretirement plans; therefore, the Company is still evaluating the impact of adopting the Statement for its plan assets. The adoption of the deferred portion of the Statement on January 1, 2009 is not expected to have a material impact on the Company s consolidated financial statements. See Note G for expanded disclosures about fair value measurements.

In October 2008, the FASB issued FSP FAS No. 157-3, Determining the Fair Value of a Financial Asset When the Market for That Asset Is Not Active. The FSP clarifies the application of SFAS No. 157, Fair Value Measurements, when the market for a financial asset is not active. The FSP was effective upon issuance, including reporting for prior periods for which financial statements have not been issued. The adoption of the FSP for reporting as of September 30, 2008 did not have a material impact on the Company s consolidated financial statements. See Note G for further information on fair value measurements.

### SAB No. 74 Disclosures for Accounting Standards Issued But Not Yet Adopted

In December 2007, the FASB revised SFAS No. 141, Business Combinations, to establish revised principles and requirements for how entities will recognize and measure assets and liabilities acquired in a business combination. The Statement is effective for business combinations completed on or after the beginning of the first annual reporting period beginning on or after December 15, 2008. The Company will apply the guidance of the Statement to business combinations completed on or after January 1, 2009.

In December 2007, the FASB issued SFAS No. 160, Noncontrolling Interests in Consolidated Financial Statements, an amendment of ARB No. 51. The Statement establishes accounting and reporting standards for the noncontrolling interest in a subsidiary and for the deconsolidation of a subsidiary. The Statement is effective on or after the beginning of the first annual reporting period beginning on or after December 15, 2008. The Company is currently evaluating the impact of adopting the Statement on January 1, 2009.

In March 2008, the FASB issued SFAS No. 161, Disclosures about Derivative Instruments and Hedging Activities, an amendment of SFAS No. 133. The Statement requires enhanced disclosures about an entity s derivative and hedging activities. The Statement is effective for fiscal years and interim periods beginning after November 15, 2008, which is January 1, 2009 for the Company. The Company will provide the required disclosures in its Quarterly Report on Form 10-Q for the quarter ended March 31, 2009.

In April 2008, the FASB issued FSP FAS No. 142-3, Determination of the Useful Life of Intangible Assets. The FSP amends the factors an entity should consider in developing renewal or extension assumptions used in determining the useful life of recognized intangible assets under SFAS No. 142, Goodwill and Other Intangible Assets. The FSP must be applied prospectively to intangible assets acquired after the effective date. The Company will apply the guidance of the FSP to intangible assets acquired after January 1, 2009.

In May 2008, the FASB issued FSP Accounting Principles Board ( APB ) Opinion No. 14-1, Accounting for Convertible Debt Instruments That May Be Settled in Cash upon Conversion (Including Partial Cash Settlement). The FSP applies to convertible debt securities that, upon conversion, may be settled by the issuer fully or partially in cash. The FSP, which is effective January 1, 2009 for the Company, is to be applied retrospectively to all past periods presented. The

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Company has not issued convertible debt securities; therefore, the FSP is not anticipated to have an impact on the Company s consolidated financial statements.

In June 2008, the FASB issued FSP Emerging Issues Task Force ( EITF ) Issue No. 03-6-1, Determining Whether Instruments Granted in Share-Based Payment Transactions Are Participating Securities. The FSP addresses whether instruments granted in share-based payment transactions are participating securities prior to vesting and, therefore, need to be included in the earnings allocation in computing earnings per share under the two-class method. The FSP affects entities that accrue dividends on share-based payment awards during the awards service period when the dividends do not need to be returned if the employees forfeit the award. This FSP is effective for fiscal years beginning after December 15, 2008. The Company does not have share-based payment awards that contain rights to nonforfeitable dividends, thus this FSP is not anticipated to have an impact on the Company s consolidated financial statements.

In September 2008, the FASB issued FSP FAS No. 133-1 and FIN 45-4, Disclosures About Credit Derivatives and Certain Guarantees: An Amendment of FASB Statement No. 133 and FASB Interpretation No. 45; and Clarification of the Effective Date of FASB Statement No. 161. The FSP amends and enhances the disclosure requirements for sellers of credit derivatives (including hybrid instruments that have embedded credit derivatives) and financial guarantees. This FSP is effective for reporting periods ending after November 15, 2008. The Company currently does not hold any of these derivatives, thus this FSP is not anticipated to have an impact on the disclosures in the Company s consolidated financial statements.

In September 2008, the FASB ratified the consensus reached by the EITF with respect to EITF Issue No. 08-5, Issuer s Accounting for Liabilities Measured at Fair Value With a Third-Party Credit Enhancement. The Issue which is effective in the first reporting period beginning on or after December 15, 2008, instructs issuers of a liability with a third-party credit enhancement that is inseparable from the liability to treat the liability and the credit enhancement as two units of accounting, and provide related disclosures. The Company does not carry any liabilities with inseparable third-party credit enhancements, thus the Issue is not anticipated to have an impact on the Company s consolidated financial statements.

**NOTE C RESTRUCTURING**

**2007 Restructuring**

On December 3, 2007, the Company s Board of Directors approved a restructuring plan that includes the shutdown of a number of assets and organizational changes within targeted support functions to improve the efficiency and cost effectiveness of the Company s global operations. As a result of these shutdowns and organizational changes, which are scheduled to be completed by the end of 2009, the Company recorded pretax restructuring charges totaling $590 million in the fourth quarter of 2007. The charges consisted of asset write-downs and write-offs of $422 million, costs associated with exit or disposal activities of $82 million and severance costs of $86 million. The impact of the charges was shown as Restructuring charges in the 2007 consolidated statements of income.

The severance component of the 2007 restructuring charges of $86 million was for the separation of approximately 978 employees under the terms of Dow s ongoing benefit arrangements, primarily over two years. At September 30, 2008, severance of $36 million had been paid to 348 employees and a liability of $49 million remained for approximately 630 employees.

The following table summarizes 2008 activities related to the Company s 2007 restructuring reserve:

**2008 Activities Related to 2007 Restructuring**

| In millions | Costs associated with Exit or Disposal Activities | Severance Costs | Total |
|---|---|---|---|
| Reserve balance at December 31, 2007 | $ 79 | $ 85 | $ 164 |
| Cash payments | (2) | (7) | (9) |
| Foreign currency impact | 3 | 2 | 5 |
| Reserve balance at March 31, 2008 | $ 80 | $ 80 | $ 160 |
| Cash payments | (1) | (13) | (14) |
| Reserve balance at June 30, 2008 | $ 79 | $ 67 | $ 146 |
| Cash payments | | (15) | (15) |
| Foreign currency impact | (5) | (3) | (8) |
| Reserve balance at September 30, 2008 | $ 74 | $ 49 | $ 123 |

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**2006 Restructuring**

On August 29, 2006, the Company s Board of Directors approved a plan to shut down a number of assets around the world as the Company continues its drive to improve the competitiveness of its global operations. As a consequence of these shutdowns, which are scheduled to be completed by the first quarter of 2009, and other optimization activities, the Company recorded pretax restructuring charges totaling $591 million in 2006. The charges consisted of asset write-downs and write-offs of $346 million, costs associated with exit or disposal activities of $172 million and severance costs of $73 million. The impact of the charges was shown as Restructuring charges in the 2006 consolidated statements of income.

The severance component of the 2006 restructuring charges of $73 million was for the separation of approximately 810 employees under the terms of Dow s ongoing benefit arrangements, primarily over two years. At December 31, 2007, a liability of $39 million remained for approximately 410 employees. As of September 30, 2008, severance of $13 million had been paid to 162 employees in 2008, and a liability of $22 million remained for approximately 250 employees.

The following table summarizes 2008 activities related to the Company s 2006 restructuring reserve:

**2008 Activities Related to 2006 Restructuring**

| In millions | Costs associated with Exit or Disposal Activities | Severance Costs | Total |
|---|---|---|---|
| Reserve balance at December 31, 2007 | $ 135 | $ 39 | $ 174 |
| Adjustment to reserve | (5) | | (5) |
| Cash payments | (1) | (8) | (9) |
| Foreign currency impact | 1 | | 1 |
| Reserve balance at March 31, 2008 | $ 130 | $ 31 | $ 161 |
| Cash payments | (5) | (3) | (8) |
| Foreign currency impact | 2 | (1) | 1 |
| Reserve balance at June 30, 2008 | $ 127 | $ 27 | $ 154 |
| Cash payments | (3) | (2) | (5) |
| Foreign currency impact | (4) | (3) | (7) |
| Reserve balance at September 30, 2008 | $ 120 | $ 22 | $ 142 |

**NOTE D ACQUISITIONS**

**Purchased In-Process Research and Development**

Purchased in-process research and development ( IPR&D ) represents the value assigned in a business combination to acquired research and development projects that, as of the date of the acquisition, had not established technological feasibility and had no alternative future use. In accordance with GAAP, amounts assigned to IPR&D meeting these criteria must be charged to expense as part of the allocation of the purchase price of the business combination.

The Company recorded pretax charges totaling $27 million in the third quarter of 2008 and $59 million in the third quarter of 2007 for IPR&D projects associated with recent acquisitions. The estimated values assigned to the IPR&D projects were determined based on a discounted cash flow model and are shown below:

**In-Process Research and Development Projects Acquired**

| In millions | Date of Acquisition | | Estimated Value Assigned to IPR&D |
|---|---|---|---|
| **2008 IPR&D:** | | | |
| Germplasm from Texas Triumph Seed Co., Inc. | February 29, 2008 | $ | 4 |
| Germplasm from Dairyland Seed Co., Inc. and Bio-Plant Research Ltd. | August 29, 2008 | | 23 |
| **Total 2008 IPR&D** | | $ | 27 |
| **2007 IPR&D:** | | | |
| Germplasm from Maize Technologies International | May 1, 2007 | $ | 2 |
| Manufacturing process R&D from Wolff Walsrode | June 30, 2007 | | 9 |
| Germplasm from Agromen Tecnologia Ltda. | August 1, 2007 | | 26 |
| Germplasm from Duo Maize | August 30, 2007 | | 3 |
| Intellectual property for crop trait discovery from Exelixis Plant Sciences | September 4, 2007 | | 19 |
| **Total 2007 IPR&D** | | $ | 59 |

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IPR&D charges are shown as Purchased in-process research and development charges in the consolidated statements of income. The third quarter 2008 charges were related to projects within the Agricultural Sciences segment. The third quarter 2007 charges of $50 million related to projects within the Agricultural Sciences segment; $9 million related to IPR&D acquired from Wolff Walsrode and impacted the results for the Performance Chemicals segment.

**Acquisition-Related Expenses**

During the third quarter of 2008, pretax charges totaling $18 million were recorded for legal expenses and other transaction costs related to the pending acquisition of Rohm and Haas Company; these charges are reflected in Unallocated and Other. These charges were expensed in anticipation of a 2009 closing of the acquisition and the application of revised SFAS No. 141, Business Combinations.

**NOTE E INVENTORIES**

The following table provides a breakdown of inventories:

**Inventories**

| In millions | Sept. 30, 2008 | Dec. 31, 2007 |
|---|---|---|
| Finished goods | $ 4,223 | $ 4,085 |
| Work in process | 1,617 | 1,595 |
| Raw materials | 1,022 | 566 |
| Supplies | 680 | 639 |
| Total inventories | $ 7,542 | $ 6,885 |

The reserves reducing inventories from the first-in, first-out ( FIFO ) basis to the last-in, first-out ( LIFO ) basis amounted to $1,909 million at September 30, 2008 and $1,511 million at December 31, 2007.

**NOTE F GOODWILL AND OTHER INTANGIBLE ASSETS**

The following table shows the carrying amount of goodwill by operating segment:

**Goodwill**

| In millions | Performance Plastics | Performance Chemicals | Agricultural Sciences | Basic Plastics | Hydrocarbons and Energy | Total |
|---|---|---|---|---|---|---|
| Balance at December 31, 2007 | $ 1,034 | $ 995 | $ 1,380 | $ 100 | $ 63 | $ 3,572 |
| Goodwill related to 2008 acquisitions of: | | | | | | |
| Additional 51% interest in Pacific Plastics Thailand Limited | 7 | | | | | 7 |
| Texas Triumph Seed Co., Inc. | | | 3 | | | 3 |
| Dairyland Seed Co., Inc. | | | 5 | | | 5 |
| STEVENS ROOFING SYSTEMS | 34 | | | | | 34 |
| Adjustment to goodwill related to the formation of Americas Styrenics LCC | | | | (5) | | (5) |
| Adjustments to goodwill related to 2007 acquisitions of: | | | | | | |
| Wolff Walsrode | | 6 | | | | 6 |
| Hyperlast Limited | 11 | | | | | 11 |
| GNS Technologies, LLC | 3 | | | | | 3 |
| Poly-Carb Inc. | (4) | | | | | (4) |
| UPPC AG | 11 | | | | | 11 |
| Edulan A/S | (6) | | | | | (6) |
| Balance at September 30, 2008 | $ 1,090 | $ 1,001 | $ 1,388 | $ 95 | $ 63 | $ 3,637 |

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The following table provides information regarding the Company s other intangible assets:

**Other Intangible Assets**

| In millions | At September 30, 2008 Gross Carrying Amount | At September 30, 2008 Accumulated Amortization | At September 30, 2008 Net | At December 31, 2007 Gross Carrying Amount | At December 31, 2007 Accumulated Amortization | At December 31, 2007 Net |
|---|---|---|---|---|---|---|
| Intangible assets with finite lives: | | | | | | |
| Licenses and intellectual property | $ 321 | $ (179) | $ 142 | $ 302 | $ (165) | $ 137 |
| Patents | 140 | (99) | 41 | 145 | (104) | 41 |
| Software | 661 | (351) | 310 | 575 | (318) | 257 |
| Trademarks | 176 | (58) | 118 | 173 | (51) | 122 |
| Other | 296 | (99) | 197 | 307 | (83) | 224 |
| Total | $ 1,594 | $ (786) | $ 808 | $ 1,502 | $ (721) | $ 781 |

The following table provides information regarding amortization expense:

**Amortization Expense**

| In millions | Three Months Ended Sept. 30, 2008 | Three Months Ended Sept. 30, 2007 | Nine Months Ended Sept. 30, 2008 | Nine Months Ended Sept. 30, 2007 |
|---|---|---|---|---|
| Other intangible assets, excluding software | $ 21 | $ 22 | $ 68 | $ 51 |
| Software, included in Cost of sales | $ 13 | $ 11 | $ 35 | $ 32 |

Total estimated amortization expense for 2008 and the five succeeding fiscal years is as follows:

**Estimated Amortization Expense**

| In millions | |
|---|---|
| 2008 | $ 137 |
| 2009 | $ 132 |
| 2010 | $ 128 |
| 2011 | $ 118 |
| 2012 | $ 113 |
| 2013 | $ 78 |

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**NOTE G FAIR VALUE MEASUREMENTS**

The following table summarizes the bases used to measure certain assets and liabilities at fair value on a recurring basis in the consolidated balance sheets:

**Basis of Fair Value Measurements**

| **In millions** | **At Sept. 30, 2008** | **Quoted Prices in Active Markets for Identical Items (Level 1)** | **Significant Other Observable Inputs (Level 2)** |
|---|---|---|---|
| Assets at fair value: | | | |
| Equity securities (1) | $ 445 | $ 416 | $ 29 |
| Debt securities (1) | 1,443 | | 1,443 |
| Derivatives relating to: | | | |
| Foreign currency | 86 | | 86 |
| Interest Rates | 2 | | 2 |
| Commodities | 55 | | 55 |
| Total assets at fair value | $ 2,031 | $ 416 | $ 1,615 |
| Liabilities at fair value: | | | |
| Derivatives relating to: | | | |
| Foreign currency | $ (30) | | $ (30) |
| Interest Rates | (2) | | (2) |
| Commodities | (220) | | (220) |
| Total liabilities at fair value | $ (252) | | $ (252) |

(1) The Company s investments in equity and debt securities are classified as available-for-sale, and are included in Other investments in the consolidated balance sheets.

For assets that are measured using quoted prices in active markets, the total fair value is the published market price per unit multiplied by the number of units held without consideration of transaction costs. Assets and liabilities that are measured using significant other observable inputs are primarily valued by reference to quoted prices of similar assets or liabilities in active markets, adjusted for any terms specific to that asset or liability. For all other assets and liabilities for which observable inputs are used, fair value is derived through the use of fair value models, such as a discounted cash flow model or other standard pricing models.

**NOTE H COMMITMENTS AND CONTINGENT LIABILITIES**

**Litigation**

***Breast Implant Matters***

On May 15, 1995, Dow Corning Corporation ( Dow Corning ), in which the Company is a 50 percent shareholder, voluntarily filed for protection under Chapter 11 of the Bankruptcy Code to resolve litigation related to Dow Corning s breast implant and other silicone medical products. On June 1, 2004, Dow Corning s Joint Plan of Reorganization (the Joint Plan ) became effective and Dow Corning emerged from bankruptcy. The Joint Plan contains release and injunction provisions resolving all tort claims brought against various entities, including the Company, involving Dow Corning s breast implant and other silicone medical products.

To the extent not previously resolved in state court actions, cases involving Dow Corning s breast implant and other silicone medical products filed against the Company were transferred to the U.S. District Court for the Eastern District of Michigan (the District Court ) for resolution in the context of the Joint Plan. On October 6, 2005, all such cases then pending in the District Court against the Company were dismissed. Should cases involving Dow Corning s breast implant and other silicone medical products be filed against the Company in the future, they will be accorded similar treatment. It is the opinion of the Company s management that the possibility is remote that a resolution of all future cases will have a material adverse impact on the Company s consolidated financial statements.

As part of the Joint Plan, Dow and Corning Incorporated have agreed to provide a credit facility to Dow Corning in an aggregate amount of $300 million. The Company s share of the credit facility is $150 million and is subject to the terms and conditions stated in the Joint Plan. At September 30, 2008, no draws had been taken against the credit facility.

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***DBCP Matters***

Numerous lawsuits have been brought against the Company and other chemical companies, both inside and outside of the United States, alleging that the manufacture, distribution or use of pesticides containing dibromochloropropane ( DBCP ) has caused personal injury and property damage, including contamination of groundwater. It is the opinion of the Company s management that the possibility is remote that the resolution of such lawsuits will have a material adverse impact on the Company s consolidated financial statements.

***Environmental Matters***

Accruals for environmental matters are recorded when it is probable that a liability has been incurred and the amount of the liability can be reasonably estimated, based on current law and existing technologies. At September 30, 2008, the Company had accrued obligations of $306 million for environmental remediation and restoration costs, including $23 million for the remediation of Superfund sites. This is management s best estimate of the costs for remediation and restoration with respect to environmental matters for which the Company has accrued liabilities, although the ultimate cost with respect to these particular matters could range up to twice that amount. Inherent uncertainties exist in these estimates primarily due to unknown conditions, changing governmental regulations and legal standards regarding liability, and evolving technologies for handling site remediation and restoration. At December 31, 2007, the Company had accrued obligations of $322 million for environmental remediation and restoration costs, including $28 million for the remediation of Superfund sites.

*Midland Site Environmental Matters*

On June 12, 2003, the Michigan Department of Environmental Quality ( MDEQ ) issued a Hazardous Waste Operating License (the License ) to the Company s Midland, Michigan manufacturing site (the Midland site ), which included provisions requiring the Company to conduct an investigation to determine the nature and extent of off-site contamination in Midland area soils; Tittabawassee and Saginaw River sediment and floodplain soils; and Saginaw Bay. The License required the Company, by August 11, 2003, to propose a detailed Scope of Work for the off-site investigation for the City of Midland and the Tittabawassee River and floodplain for review and approval by the MDEQ. Revised Scopes of Work were approved by the MDEQ on October 18, 2005. The Company was required to submit a Scope of Work for the investigation of the Saginaw River and Saginaw Bay by August 11, 2007. The Company submitted the Scope of Work for the Saginaw River and Saginaw Bay on July 13, 2007. The Company received a Notice of Deficiency dated August 29, 2007, from the MDEQ with respect to the Scope of Work for the Saginaw River and Saginaw Bay. The Company submitted a revised Scope of Work for the Saginaw River and Saginaw Bay to the MDEQ on October 15, 2007. On February 1, 2008, the Company received an approval with modification for the Saginaw River and Saginaw Bay Scope of Work. The Company appealed the MDEQ s approval with modification action in Midland Circuit Court on February 21, 2008 and then by filing a Contest Case Petition with the Michigan Office of Administrative Hearings and Rules on March 28, 2008. Following subsequent discussions between the Company and the MDEQ, a Remedial Investigation Work Plan along with a revised Scope of Work for the Saginaw River was submitted to the MDEQ on June 10, 2008.

Discussions between the Company and the MDEQ that occurred in 2004 and early 2005 regarding how to proceed with off-site corrective action under the License resulted in the execution of the Framework for an Agreement Between the State of Michigan and The Dow Chemical Company (the Framework ) on January 20, 2005. The Framework committed the Company to propose a remedial investigation work plan by the end of 2005, conduct certain studies, and take certain immediate interim remedial actions in the City of Midland and along the Tittabawassee River.

*Remedial Investigation Work Plans*

The Company submitted Remedial Investigation Work Plans for the City of Midland and for the Tittabawassee River on December 29, 2005. By letters dated March 2, 2006 and April 13, 2006, the MDEQ provided two Notices of Deficiency ( Notices ) to the Company regarding the Remedial Investigation Work Plans. The Company responded, as required, to some of the items in the Notices on May 1, 2006, and as required responded to the balance of the items and submitted revised Remedial Investigation Work Plans on December 1, 2006. In response to subsequent discussions with the MDEQ, the Company submitted further revised Remedial Investigation Work Plans on September 17, 2007, for the Tittabawassee River and on October 15, 2007, for the City of Midland. On June 10, 2008, the Company submitted revised Human Health Risk Assessment and Ecological Risk Assessment Work Plans for the Tittabawassee River in addition to a Work Plan for the collection of fish for analysis in support of the Human Health Risk Assessment Work Plan. Also on June 10, 2008, the Company submitted the Remedial Investigation Work Plan for the Saginaw River and the Saginaw Bay.

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*Studies Conducted*

On July 12, 2006, the MDEQ approved the sampling for the first six miles of the Tittabawassee River. On December 1, 2006, the MDEQ approved the Sampling and Analysis Plan in Support of Bioavailability Study for Midland (the Plan ). The results of the Plan were provided to the MDEQ on March 22, 2007. On May 3, 2007, the MDEQ approved the GeoMorph® Pilot Site Characterization Report for the first six miles and approved this approach for the balance of the Tittabawassee River with some qualifications. On July 12, 2007, the MDEQ approved, with qualifications, the sampling for the next 11 miles of the Tittabawassee River. On March 3, 2008 the Company submitted to the MDEQ the Tittabawassee River Site Characterization Report that incorporated the data obtained from the 2006 and 2007 field investigations. On June 30, 2008, the Company submitted the Lower Tittabawassee River Sampling and Analysis Plan to the MDEQ. The Sampling and Analysis Plan was approved by the MDEQ by letters dated July 10, 2008 and August 15, 2008.

*Interim Remedial Actions*

The Company has been working with the MDEQ to implement Interim Response Activities and Pilot Corrective Action Plans in specific areas in and along the Tittabawassee River, where elevated levels of dioxins and furans were found during the investigation of the first six miles of the river. In September 2008, the Company and the MDEQ reached agreement to implement pilot projects to evaluate their applicability to future actions.

*Removal Actions*

On June 27, 2007, the U.S. Environmental Protection Agency ( EPA ) sent a letter to the Company demanding that the Company enter into consent orders under Section 106 of the Comprehensive Environmental Response, Compensation, and Liability Act ( CERCLA ) for three areas identified during investigation of the first six miles of the Tittabawassee River as areas for interim remedial actions under MDEQ oversight. The EPA sought a commitment that the Company immediately engage in remedial actions to remove soils and sediments. Three removal orders were negotiated and were signed on July 12, 2007, and the soil and sediment removal work required by these orders has been completed. On November 15, 2007, the Company and the EPA entered into a CERCLA removal order requiring the Company to remove sediment in the Saginaw River where elevated concentrations were identified during investigative work conducted on the Saginaw River. The sediment removal work was completed in December 2007. On July 11, 2008, the Company and the EPA entered into a removal order under which the Company is required to remove soil, pave a road and driveways, and clean homes along a strip of land approximately 150 feet by 1,000 feet along the lower part of the Tittabawassee River.

The Framework also contemplates that the Company, the State of Michigan and other federal and tribal governmental entities will negotiate the terms of an agreement or agreements to resolve potential governmental claims against the Company related to historical off-site contamination associated with the Midland site. The Company and the governmental parties began to meet in the fall of 2005 and entered into a Confidentiality Agreement in December 2005. The Company continues to conduct negotiations with the governmental parties under the Federal Alternative Dispute Resolution Act.

On September 12, 2007, the EPA issued a press release reporting that they were withdrawing from the alternative dispute resolution process. On September 28, 2007, the Company entered into a Funding and Participation Agreement with the natural resource damage trustees that addressed the Company s payment of past costs incurred by the trustees, payment of the costs of a trustee coordinator and a process to review additional cooperative studies that the Company might agree to fund or conduct with the natural resource damage trustees.

On October 10, 2007, the EPA presented a Special Notice Letter to the Company offering to enter into negotiations for an administrative order on consent for the Company to conduct or fund a remedial investigation, a feasibility study, interim remedial actions and a remedial design for the Tittabawassee River, Saginaw River, and Saginaw Bay. The Company agreed to enter into negotiations and submitted its Good Faith Offer to the EPA on December 10, 2007. On January 4, 2008, the EPA terminated negotiations under the Special Notice Letter.

On March 18, 2008, the Company and the natural resource damage trustees entered into a Memorandum of Understanding to provide a mechanism for the Company to fund cooperative studies related to the assessment of natural resource damages. On April 7, 2008 the natural resource damage trustees released for public review and comment their Natural Resource Damage Assessment Plan for the Tittabawassee River System Assessment Area.

At the end of 2007, the Company had an accrual for off-site corrective action of $5 million (included in the total accrued obligation of $322 million at December 31, 2007) based on the range of activities that the Company proposed and discussed implementing with the MDEQ and which is set forth in the Framework. At September 30, 2008, the accrual for off-site corrective action was $18 million (included in the total accrued obligation of $306 million at September 30, 2008).

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*Environmental Matters Summary*

It is the opinion of the Company s management that the possibility is remote that costs in excess of those disclosed will have a material adverse impact on the Company s consolidated financial statements.

***Asbestos-Related Matters of Union Carbide Corporation***

Union Carbide Corporation ( Union Carbide ), a wholly owned subsidiary of the Company, is and has been involved in a large number of asbestos-related suits filed primarily in state courts during the past three decades. These suits principally allege personal injury resulting from exposure to asbestos-containing products and frequently seek both actual and punitive damages. The alleged claims primarily relate to products that Union Carbide sold in the past, alleged exposure to asbestos-containing products located on Union Carbide s premises, and Union Carbide s responsibility for asbestos suits filed against a former Union Carbide subsidiary, Amchem Products, Inc. ( Amchem ). In many cases, plaintiffs are unable to demonstrate that they have suffered any compensable loss as a result of such exposure, or that injuries incurred in fact resulted from exposure to Union Carbide s products.

Influenced by the bankruptcy filings of numerous defendants in asbestos-related litigation and the prospects of various forms of state and national legislative reform, the rate at which plaintiffs filed asbestos-related suits against various companies, including Union Carbide and Amchem, increased in 2001, 2002 and the first half of 2003. Since then, the rate of filing has significantly abated. Union Carbide expects more asbestos-related suits to be filed against Union Carbide and Amchem in the future, and will aggressively defend or reasonably resolve, as appropriate, both pending and future claims.

Based on a study completed by Analysis, Research & Planning Corporation ( ARPC ) in January 2003, Union Carbide increased its December 31, 2002 asbestos-related liability for pending and future claims for the 15-year period ending in 2017 to $2.2 billion, excluding future defense and processing costs. Since then, Union Carbide has compared current asbestos claim and resolution activity to the results of the most recent ARPC study at each balance sheet date to determine whether the accrual continues to be appropriate. In addition, Union Carbide has requested ARPC to review Union Carbide s historical asbestos claim and resolution activity each November since 2004 to determine the appropriateness of updating the most recent ARPC study.

In November 2006, Union Carbide requested ARPC to review Union Carbide s historical asbestos claim and resolution activity and determine the appropriateness of updating its most recent study from January 2005. In response to that request, ARPC reviewed and analyzed data through October 31, 2006 and concluded that the experience from 2004 through 2006 was sufficient for the purpose of forecasting future filings and values of asbestos claims filed against Union Carbide and Amchem, and could be used in place of previous assumptions to update its January 2005 study. The resulting study, completed by ARPC in December 2006, stated that the undiscounted cost of resolving pending and future asbestos-related claims against Union Carbide and Amchem, excluding future defense and processing costs, through 2021 was estimated to be between approximately $1.2 billion and $1.5 billion. As in its January 2003 and January 2005 studies, ARPC provided estimates for a longer period of time in its December 2006 study, but also reaffirmed its prior advice that forecasts for shorter periods of time are more accurate than those for longer periods of time.

Based on ARPC s December 2006 study and Union Carbide s own review of the asbestos claim and resolution activity, Union Carbide decreased its asbestos-related liability for pending and future claims to $1.2 billion at December 31, 2006 which covered the 15-year period ending in 2021 excluding future defense and processing costs. The reduction was $177 million and was shown as Asbestos-related credit in the consolidated statements of income for 2006.

In November 2007, Union Carbide requested ARPC to review Union Carbide s 2007 asbestos claim and resolution activity and determine the appropriateness of updating its December 2006 study. In response to that request, ARPC reviewed and analyzed data through October 31, 2007. In December 2007, ARPC stated that an update of its study would not provide a more likely estimate of future events than the estimate reflected in its study of the previous year and, therefore, the estimate in that study remained applicable. Based on Union Carbide s own review of the asbestos claim and resolution activity and ARPC s response, Union Carbide determined that no change to the accrual was required. At December 31, 2007, Union Carbide s asbestos-related liability for pending and future claims was $1.1 billion. At December 31, 2007, approximately 31 percent of the recorded liability related to pending claims and approximately 69 percent related to future claims.

Based on Union Carbide s review of 2008 activity, Union Carbide determined that no adjustment to the accrual was required at September 30, 2008. Union Carbide s asbestos-related liability for pending and future claims was $1.0 billion at September 30, 2008. Approximately 27 percent of the recorded liability related to pending claims and approximately 73 percent related to future claims.

At December 31, 2002, Union Carbide increased the receivable for insurance recoveries related to its asbestos liability to $1.35 billion, substantially exhausting its asbestos product liability coverage. The insurance receivable related to the asbestos liability was determined by Union Carbide after a thorough review of applicable insurance policies and the 1985 Wellington Agreement, to which Union Carbide and many of its liability insurers are signatory parties, as well as other insurance settlements, with due consideration given to applicable deductibles, retentions and policy limits, and taking into account the solvency and historical payment experience of various insurance carriers. The Wellington Agreement and other agreements

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with insurers are designed to facilitate an orderly resolution and collection of Union Carbide s insurance policies and to resolve issues that the insurance carriers may raise.

In September 2003, Union Carbide filed a comprehensive insurance coverage case, now proceeding in the Supreme Court of the State of New York, County of New York, seeking to confirm its rights to insurance for various asbestos claims and to facilitate an orderly and timely collection of insurance proceeds. This lawsuit was filed against insurers that are not signatories to the Wellington Agreement and/or do not otherwise have agreements in place with Union Carbide regarding their asbestos-related insurance coverage, in order to facilitate an orderly resolution and collection of such insurance policies and to resolve issues that the insurance carriers may raise. Although the lawsuit is continuing, through the end of the third quarter of 2008, Union Carbide had reached settlements with several of the carriers involved in this litigation.

Union Carbide s receivable for insurance recoveries related to its asbestos liability was $415 million at September 30, 2008 and $467 million at December 31, 2007. At September 30, 2008 and December 31, 2007, all of the receivable for insurance recoveries was related to insurers that are not signatories to the Wellington Agreement and/or do not otherwise have agreements in place regarding their asbestos-related insurance coverage.

In addition to the receivable for insurance recoveries related to its asbestos liability, Union Carbide had receivables for defense and resolution costs submitted to insurance carriers for reimbursement as follows:

**Receivables for Costs Submitted to Insurance Carriers**

| **In millions** | | **Sept. 30, 2008** | | **Dec. 31, 2007** |
|---|---|---|---|---|
| Receivables for defense costs | $ | 35 | $ | 18 |
| Receivables for resolution costs | | 245 | | 253 |
| Total | $ | 280 | $ | 271 |

Union Carbide expenses defense costs as incurred. The pretax impact for defense and resolution costs, net of insurance, was $14 million in the third quarter of 2008 ($16 million in the third quarter of 2007) and $30 million in the first nine months of 2008 ($58 million in the first nine months of 2007), and was reflected in Cost of sales.

After a review of its insurance policies, with due consideration given to applicable deductibles, retentions and policy limits, after taking into account the solvency and historical payment experience of various insurance carriers; existing insurance settlements; and the advice of outside counsel with respect to the applicable insurance coverage law relating to the terms and conditions of its insurance policies, Union Carbide continues to believe that its recorded receivable for insurance recoveries from all insurance carriers is probable of collection.

The amounts recorded by Union Carbide for the asbestos-related liability and related insurance receivable described above were based upon current, known facts. However, future events, such as the number of new claims to be filed and/or received each year, the average cost of disposing of each such claim, coverage issues among insurers, and the continuing solvency of various insurance companies, as well as the numerous uncertainties surrounding asbestos litigation in the United States, could cause the actual costs and insurance recoveries for Union Carbide to be higher or lower than those projected or those recorded.

Because of the uncertainties described above, Union Carbide s management cannot estimate the full range of the cost of resolving pending and future asbestos-related claims facing Union Carbide and Amchem. Union Carbide s management believes that it is reasonably possible that the cost of disposing of Union Carbide s asbestos-related claims, including future defense costs, could have a material adverse impact on Union Carbide s results of operations and cash flows for a particular period and on the consolidated financial position of Union Carbide.

It is the opinion of Dow s management that it is reasonably possible that the cost of Union Carbide disposing of its asbestos-related claims, including future defense costs, could have a material adverse impact on the Company s results of operations and cash flows for a particular period and on the consolidated financial position of the Company.

***Synthetic Rubber Industry Matters***

In 2003, the U.S., Canadian and European competition authorities initiated separate investigations into alleged anticompetitive behavior by certain participants in the synthetic rubber industry. Certain subsidiaries of the Company (but as to the investigation in Europe only) have responded to requests for documents and are otherwise cooperating in the investigations.

On June 10, 2005, the Company received a Statement of Objections from the European Commission (the EC ) stating that it believed that the Company and certain subsidiaries of the Company (the Dow Entities ), together with other participants in the synthetic rubber industry, engaged in conduct in violation of European competition laws with respect to the butadiene rubber and emulsion styrene butadiene rubber businesses. In connection therewith, on November 29, 2006, the

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EC issued its decision alleging infringement of Article 81 of the Treaty of Rome and imposed a fine of Euro 64.575 million (approximately $85 million) on the Dow Entities. Several other companies were also named and fined. In the fourth quarter of 2006, the Company recognized a loss contingency of $85 million related to the fine. The Company has appealed the EC s decision. Subsequent to the imposition of the fine, the Company and/or certain subsidiaries of the Company became named parties in various related U.S., United Kingdom and Italian civil actions.

Additionally, on March 10, 2007, the Company received a Statement of Objections from the EC stating that it believed that DuPont Dow Elastomers L.L.C. ( DDE ), a former 50:50 joint venture with E.I. du Pont de Nemours and Company ( DuPont ), together with other participants in the synthetic rubber industry, engaged in conduct in violation of European competition laws with respect to the polychloroprene business. This Statement of Objections specifically names the Company, in its capacity as a former joint venture owner of DDE. On December 5, 2007, the EC announced its decision to impose a fine on the Company, among others, in the amount of Euro 48.675 million (approximately $70 million). The Company previously transferred its joint venture ownership interest in DDE to DuPont in 2005, and DDE then changed its name to DuPont Performance Elastomers L.L.C. ( DPE ). In February 2008, DuPont, DPE and the Company each filed an appeal of the December 5, 2007 decision of the EC. Based on the Company s allocation agreement with DuPont, the Company s share of this fine, regardless the outcome of the appeals, will not have a material adverse impact on the Company s consolidated financial statements.

***Other Litigation Matters***

In addition to breast implant, DBCP, environmental and synthetic rubber industry matters, the Company is party to a number of other claims and lawsuits arising out of the normal course of business with respect to commercial matters, including product liability, governmental regulation and other actions. Certain of these actions purport to be class actions and seek damages in very large amounts. All such claims are being contested. Dow has an active risk management program consisting of numerous insurance policies secured from many carriers at various times. These policies provide coverage that will be utilized to minimize the impact, if any, of the contingencies described above.

***Summary***

Except for the possible effect of Union Carbide s asbestos-related liability described above, it is the opinion of the Company s management that the possibility is remote that the aggregate of all claims and lawsuits will have a material adverse impact on the Company s consolidated financial statements.

**Purchase Commitments**

The Company has numerous agreements for the purchase of ethylene-related products globally. The purchase prices are determined primarily on a cost-plus basis. Total purchases under these agreements were $1,624 million in 2007, $1,356 million in 2006 and $1,175 million in 2005. The Company s take-or-pay commitments associated with these agreements at December 31, 2007 are included in the table below.

The Company also has various commitments for take-or-pay and throughput agreements. Such commitments are at prices not in excess of current market prices. The terms of all but one of these agreements extend from one to 25 years. One agreement has terms extending to 80 years.

The determinable future commitment for this agreement is included for 10 years in the following table which presents the fixed and determinable portion of obligations under the Company s purchase commitments at December 31, 2007:

**Fixed and Determinable Portion of Take-or-Pay and**

**Throughput Obligations at December 31, 2007**

| **In millions** | | |
|---|---|---|
| 2008 | $ | 2,136 |
| 2009 | | 1,845 |
| 2010 | | 1,578 |
| 2011 | | 1,117 |
| 2012 | | 941 |
| 2013 and beyond | | 5,212 |
| Total | $ | 12,829 |

In addition, in January 2008, the Company entered into a new 11-year contract for the purchase of ethylene-related products beginning in 2010. At September 30, 2008, the fixed and determinable portion of the take-or-pay commitment associated with this new contract was $59 million in 2010, $118 million in 2011, $118 million in 2012 and $944 million in 2013 and beyond. In June 2008, the Company entered into a new 20-year contract for the purchase of power and steam beginning in 2011. At September 30, 2008, the fixed and determinable portion of the take-or-pay commitment associated with this new contract was $23 million in 2011, $69 million in 2012 and $1,460 million in 2013 and beyond.

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In addition to the take-or-pay obligations at December 31, 2007, the Company had outstanding commitments which ranged from one to six years for steam, electrical power, materials, property and other items used in the normal course of business of approximately $234 million. Such commitments were at prices not in excess of current market prices.

**Guarantees**

The Company provides a variety of guarantees as described more fully in the following sections.

*Guarantees*

Guarantees arise during the ordinary course of business from relationships with customers and nonconsolidated affiliates when the Company undertakes an obligation to guarantee the performance of others (via delivery of cash or other assets) if specified triggering events occur. With guarantees, such as commercial or financial contracts, non-performance by the guaranteed party triggers the obligation of the Company to make payments to the beneficiary of the guarantee. The majority of the Company s guarantees relate to debt of nonconsolidated affiliates, which have expiration dates ranging from less than one year to eight years, and trade financing transactions in Latin America and Asia Pacific, which typically expire within one year of their inception.

*Residual Value Guarantees*

The Company provides guarantees related to leased assets specifying the residual value that will be available to the lessor at lease termination through sale of the assets to the lessee or third parties.

The following tables provide a summary of the final expiration, maximum future payments and recorded liability reflected in the consolidated balance sheets for each type of guarantee:

**Guarantees at September 30, 2008**

| **In millions** | **Final Expiration** | **Maximum Future Payments** | **Recorded Liability** |
|---|---|---|---|
| Guarantees | 2014 | $ 348 | $ 19 |
| Residual value guarantees | 2015 | 984 | 4 |
| Total guarantees | | $ 1,332 | $ 23 |

**Guarantees at December 31, 2007**

| In millions | Final Expiration | Maximum Future Payments | Recorded Liability |
|---|---|---|---|
| Guarantees | 2014 | $ 354 | $ 22 |
| Residual value guarantees | 2015 | 1,035 | 5 |
| Total guarantees | | $ 1,389 | $ 27 |

**Asset Retirement Obligations**

The Company has recognized asset retirement obligations for the following activities: demolition and remediation activities at manufacturing sites in the United States, Canada and Europe; capping activities at landfill sites in the United States, Canada, Italy and Brazil; and asbestos encapsulation as a result of planned demolition and remediation activities at manufacturing and administrative sites in the United States, Canada and Europe.

The aggregate carrying amount of asset retirement obligations recognized by the Company was $108 million at September 30, 2008 and $116 million at December 31, 2007. The discount rate used to calculate the Company s asset retirement obligation was 5.08 percent. These obligations are included in the consolidated balance sheets as Other noncurrent obligations.

The Company has not recognized conditional asset retirement obligations for which a fair value cannot be reasonably estimated in its consolidated financial statements. It is the opinion of the Company s management that the possibility is remote that such conditional asset retirement obligations, when estimable, will have a material adverse impact on the Company s consolidated financial statements based on current costs.

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**NOTE I    LONG-TERM DEBT**

On September 29, 2008, Calvin Capital LLC (   Calvin   ), a newly formed wholly owned subsidiary of the Company, issued a three-year $674 million note payable (   Note   ) with a floating rate based on London Interbank Offered Rate (   LIBOR   ). The Note was issued in exchange for the redemption of the other partner   s ownership in Hobbes Capital S.A and was a non-cash transaction (see Note K for further information on this transaction). The Note is recorded in    Long-term debt due within one year    in the consolidated balance sheets since the Note holder has the annual option to require the Company to prepay the outstanding principal.

The Note was issued under a note purchase agreement which contains, among other provisions, covenants with which Calvin must comply while the Note is outstanding. Such covenants include compliance with Calvin   s Limited Liability Company Agreement, the obligation to not merge or consolidate with any other corporation or sell or convey all or substantially all of Calvin   s assets, and limitations on making distributions and incurring other debt. Failure of Calvin to comply with any of these covenants could result in a default under the agreement which would allow the Note holder to accelerate the due date of the outstanding principal and accrued interest on the Note. Although a consolidated subsidiary, Calvin is a separate and distinct legal entity with separate assets of $1,342 million consisting of a $1,317 million note receivable from the Company with a three-year term and optional prepayment at the end of each fiscal quarter, and cash and cash equivalents of $25 million; separate liabilities consisting of the $674 million Note; and separate business and operations.

On May 1, 2008, the Company issued $800 million in unsecured notes with a coupon rate of 5.70 percent, semi-annual interest payments due every May and November, and the principal amount due at maturity on May 15, 2018. In the second quarter of 2008, the Company also issued $116 million in medium-term notes with varying maturities in 2013 and 2015 and at various interest rates averaging 5.07 percent. In the third quarter of 2008, the Company issued $298 million in medium-term notes with varying maturities in 2013, 2015 and 2018 and at various interest rates averaging 5.81 percent.

The Company   s public debt has been issued under indentures which contain, among other provisions, covenants with which the Company must comply while the underlying notes are outstanding. Such covenants include obligations to not allow liens on principal U.S. manufacturing facilities, enter into sale and lease-back transactions with respect to principal U.S. manufacturing facilities, or merge or consolidate with any other corporation or sell or convey all or substantially all of the Company   s assets. Failure of the Company to comply with any of the covenants could result in a default under the applicable indenture which would allow the note holders to accelerate the due date of the outstanding principal and accrued interest on the subject notes. At September 30, 2008, the Company was in compliance with all of its covenants and default provisions.

**Annual Installments on Long-Term Debt**

**for Next Five Years at September 30, 2008**

| **In millions** | | |
|---|---|---|
| 2008 | $ | 500 |
| 2009 | $ | 1,452 |
| 2010 | $ | 1,049 |
| 2011 | $ | 1,526 |
| 2012 | $ | 1,004 |

| | | |
|---|---|---|
| 2013 | $ | 498 |

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**NOTE J PENSION PLANS AND OTHER POSTRETIREMENT BENEFITS**

**Net Periodic Benefit Cost for All Significant Plans**

| In millions | Three Months Ended Sept. 30, 2008 | Three Months Ended Sept. 30, 2007 | Nine Months Ended Sept. 30, 2008 | Nine Months Ended Sept. 30, 2007 |
|---|---|---|---|---|
| *Defined Benefit Pension Plans:* | | | | |
| Service cost | $ 67 | $ 72 | $ 202 | $ 215 |
| Interest cost | 242 | 218 | 726 | 652 |
| Expected return on plan assets | (310) | (294) | (931) | (877) |
| Amortization of prior service cost | 8 | 6 | 24 | 18 |
| Amortization of net loss | 11 | 48 | 34 | 147 |
| Termination benefits/curtailment costs | | | | 1 |
| Net periodic benefit cost | $ 18 | $ 50 | $ 55 | $ 156 |
| | | | | |
| *Other Postretirement Benefits:* | | | | |
| Service cost | $ 4 | $ 5 | $ 13 | $ 15 |
| Interest cost | 29 | 29 | 88 | 86 |
| Expected return on plan assets | (7) | (9) | (21) | (27) |
| Amortization of prior service credit | (1) | (1) | (3) | (3) |
| Amortization of net loss | | 1 | | 3 |
| Net periodic benefit cost | $ 25 | $ 25 | $ 77 | $ 74 |

**NOTE K VARIABLE INTEREST ENTITIES AND PREFERRED SECURITIES OF SUBSIDIARIES**

During the third quarter of 2008, the other partner of Hobbes Capital S.A. ( Hobbes ), which is a consolidated foreign subsidiary of the Company, redeemed its $674 million ownership in Hobbes. Prior to redemption, the other partner s $500 million of preferred securities were classified as Preferred Securities of Subsidiaries in the consolidated balance sheets; the other partner s $174 million of reinvested preferred returns were included in Minority Interest in Subsidiaries in the consolidated balance sheets; and the preferred return was included in Minority interests share in income in the consolidated statements of income. See Note I for further information on this transaction.

**NOTE L STOCK-BASED COMPENSATION**

The Company grants stock-based compensation to employees under the Employees Stock Purchase Plans ( ESPP ) and the 1988 Award and Option Plan (the 1988 Plan ) and to non-employee directors under the 2003 Non-Employee Directors Stock Incentive Plan. Most of the Company s stock-based compensation awards are granted in the first quarter of each year. Details for awards granted in the first quarter of 2008 are included in the following paragraphs. There was minimal grant activity in the second and third quarters of 2008. During the second quarter of 2008, the Company settled 0.9 million shares of performance deferred stock for $35 million in cash.

During the first quarter of 2008, employees subscribed to the right to purchase 4.6 million shares with a weighted-average exercise price of $35.57 per share and a weighted-average fair value of $4.33 per share under the ESPP.

During the first quarter of 2008, the Company granted the following stock-based compensation awards to employees under the 1988 Plan:

- 9.2 million stock options with a weighted-average exercise price of $38.62 per share and a weighted-average fair value of $8.88 per share.
- 1.9 million shares of deferred stock with a weighted-average fair value of $38.59 per share.
- 1.1 million shares of performance deferred stock with a weighted-average fair value of $38.62 per share.

During the first quarter of 2008, the Company granted the following stock-based compensation awards to non-employee directors under the 2003 Non-Employee Directors Stock Incentive Plan:

- 28,200 shares of restricted stock with a weighted-average fair value of $37.71 per share.

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Total unrecognized compensation cost at March 31, 2008, including unrecognized cost related to the first quarter of 2008 activity, is provided in the following table:

**Total Unrecognized Compensation Cost at March 31, 2008**

| In millions | | Unrecognized Compensation Cost | Weighted-average Recognition Period |
|---|---|---|---|
| ESPP purchase rights | $ | 16 | 4.5 months |
| Unvested stock options | $ | 101 | 0.81 year |
| Deferred stock awards | $ | 156 | 1.19 years |
| Performance deferred stock awards | $ | 74 | 0.78 year |

**NOTE M EARNINGS PER SHARE CALCULATIONS**

**Earnings Per Share Calculations**

| In millions, except per share amounts | Three Months Ended Sept. 30, 2008 | | | | Three Months Ended Sept. 30, 2007 | | | |
|---|---|---|---|---|---|---|---|---|
| | | Basic | | Diluted | | Basic | | Diluted |
| Net income available for common stockholders | $ | 428 | $ | 428 | $ | 403 | $ | 403 |
| Weighted-average common shares outstanding | | 925.2 | | 925.2 | | 948.9 | | 948.9 |
| Add dilutive effect of stock options and awards | | | | 8.8 | | | | 12.6 |
| Weighted-average common shares for EPS calculations | | 925.2 | | 934.0 | | 948.9 | | 961.5 |
| Earnings per common share | $ | 0.46 | $ | 0.46 | $ | 0.42 | $ | 0.42 |
| Stock options and deferred stock awards excluded from EPS calculations (1) | | | | 46.6 | | | | 25.7 |

**Earnings Per Share Calculations**

| In millions, except per share amounts | Nine Months Ended Sept. 30, 2008 | | | | Nine Months Ended Sept. 30, 2007 | | | |
|---|---|---|---|---|---|---|---|---|
| | | Basic | | Diluted | | Basic | | Diluted |
| Net income available for common stockholders | $ | 2,131 | $ | 2,131 | $ | 2,415 | $ | 2,415 |
| Weighted-average common shares outstanding | | 932.4 | | 932.4 | | 955.6 | | 955.6 |
| Add dilutive effect of stock options and awards | | | | 9.3 | | | | 12.7 |
| Weighted-average common shares for EPS calculations | | 932.4 | | 941.7 | | 955.6 | | 968.3 |
| Earnings per common share | $ | 2.29 | $ | 2.26 | $ | 2.53 | $ | 2.49 |
| Stock options and deferred stock awards excluded from EPS calculations (1) | | | | 38.3 | | | | 20.4 |

(1) Outstanding options to purchase shares of common stock and deferred stock awards that were not included in the calculation of diluted earnings per share because the effect of including them would have been anti-dilutive.

**NOTE N LIMITED PARTNERSHIP**

During the second quarter of 2008, the minority outside investor in Chemtech II, a limited partnership, presented the Company with a liquidation notice, resulting in Dow s election to purchase the outside investor s share in the partnership for $200 million. The purchase transaction was completed in the second quarter of 2008. Prior to the liquidation, the outside investor s limited partner interest was included in Minority Interest in Subsidiaries in the consolidated balance sheets.

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**NOTE O OPERATING SEGMENTS AND GEOGRAPHIC AREAS**

**Corporate Profile**

Dow is a diversified chemical company that combines the power of science and technology with the Human Element to constantly improve what is essential to human progress. The Company delivers a broad range of products and services to customers in approximately 160 countries, connecting chemistry and innovation with the principles of sustainability to help provide everything from fresh water, food and pharmaceuticals to paints, packaging and personal care products. In 2007, Dow had annual sales of $53.5 billion and employed approximately 45,900 people worldwide. The Company has 150 manufacturing sites in 35 countries and produces approximately 3,100 products. The following descriptions of the Company s operating segments include a representative listing of products for each business.

**PERFORMANCE PLASTICS**

**Applications**: automotive interiors, exteriors, under-the-hood and body engineered systems • building and construction, thermal and acoustic insulation, roofing • communications technology, telecommunication cables, electrical and electronic connectors • footwear • home and office furnishings: kitchen appliances, power tools, floor care products, mattresses, carpeting, flooring, furniture padding, office furniture • information technology equipment and consumer electronics • packaging, food and beverage containers, protective packaging • sports and recreation equipment • wire and cable insulation and jacketing materials for power utility and telecommunications

**Dow Automotive** serves the global automotive market and is a leading supplier of plastics, adhesives, sealants and other plastics-enhanced products for interior, exterior, under-the-hood, vehicle body structure and acoustical management technology solutions. With offices and application development centers around the world, Dow Automotive provides materials science expertise and comprehensive technical capabilities to its customers worldwide.

- **Products**: AFFINITY polyolefin plastomers; AMPLIFY functional polymers; BETABRACE reinforcing composites; BETADAMP acoustical damping systems; BETAFOAM NVH and structural foams; BETAGUARD sealants; BETAMATE structural adhesives; BETASEAL glass bonding systems; CALIBRE polycarbonate resins; DOW polyethylene resins; DOW polypropylene resins and automotive components made with DOW polypropylene; IMPAXX energy management foam; INSPIRE performance polymers; INTEGRAL adhesive film; ISONATE pure and modified methylene diphenyl diisocyanate (MDI) products; ISOPLAST engineering thermoplastic polyurethane resins; MAGNUM ABS resins; PAPI polymeric MDI; PELLETHANE thermoplastic polyurethane elastomers; Premium brake fluids and lubricants; PULSE engineering resins; SPECFLEX semi-flexible polyurethane foam systems; SPECTRIM reaction moldable polymers; VERSIFY plastomers and elastomers; VORANATE specialty isocyanates; VORANOL polyether polyols

**Dow Building Solutions** manufactures and markets an extensive line of insulation, weather barrier, and oriented composite building solutions and adhesives. The business is the recognized leader in extruded polystyrene (XPS) insulation, known industry-wide by its distinctive Blue color and the Dow STYROFOAM brand for more than 60 years.

- **Products**: FROTH-PAK polyurethane spray foam; GREAT STUFF polyurethane foam sealant; INSTA-STIK roof insulation adhesive; SARAN vapor retarder film and tape; STYROFOAM brand insulation products (including XPS and polyisocyanurate rigid foam sheathing products); THERMAX brand insulation; TILE BOND roof tile adhesive; WEATHERMATE weather barrier solutions (housewraps, sill pans, flashings and tapes)

**Dow Epoxy** is a leading global producer of epoxy resins, intermediates and specialty resins and epoxy systems for a wide range of industries and applications such as coatings, electrical laminates, civil engineering, wind energy, adhesives and composites. With plants strategically located across four continents, the business is focused on providing customers around the world with differentiated solution-based epoxy products and innovative technologies and services.

- **Products**: AIRSTONE Systems for Wind Energy; D.E.H. epoxy curing agents or hardeners; D.E.N. epoxy novolac resins; D.E.R. epoxy resins (liquids, solids and solutions); Epoxy intermediates (Acetone, Allyl chloride, Bisphenol A, Epichlorohydrin, OPTIM synthetic glycerine and Phenol); Specialty acrylic monomers (Glycidyl methacrylate); UCAR solution vinyl resins

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The **Polyurethanes and Polyurethane Systems** business is a leading global producer of polyurethane raw materials and polyurethane systems. Differentiated by its ability to globally supply a high-quality, consistent and complete product range, this business emphasizes both existing and new business developments while facilitating customer success with a global market and technology network.

- **Products**: BYKFIL ; CILBOND ; CILCAST ; DUOTHANE polyurethane elastomer systems; ECHELON polyurethane prepolymer; ENFORCER Technology and ENHANCER Technology for polyurethane carpet and turf backing; HYPOL prepolymers; ISOFIL ; ISONATE MDI; MONOTHANE single component polyurethane elastomers; PAPI polymeric MDI; POR-A-MOLD ; Propylene glycol; Propylene oxide; RENUVA Renewable Resource Technology for natural oil-based polyols; SOLIDAIR tyre filling elastomers; SPECFLEX copolymer polyols; SYNTACTIC ; TRAFFIDECK waterproofing and anti-slip surfacing systems; TRAFIGRIP anti-slip systems; TYRBOND ; VERDISEAL waterproofing system; VORACOR , VORALAST soling systems and VORALAST R renewable content system; VORALUX and VORAMER MR series; VORANATE isocyanate; VORANOL and VORANOL VORACTIV polyether and copolymer polyols; VORASTAR polyurethane systems; XITRACK polyurethane rail ballast stabilization

**Specialty Plastics and Elastomers** includes a broad range of engineering plastics and compounds, performance elastomers and plastomers, monomers, specialty copolymers, synthetic rubber, polyvinylidene chloride resins and films (PVDC), and specialty film substrates. Key applications include automotive, adhesives, civil construction, wire and cable, building and construction, consumer electronics and appliances, food and specialty packaging, textiles, and footwear.

- **Products**: AFFINITY polyolefin plastomers (POPs); AMPLIFY functional polymers; CALIBRE polycarbonate resins; DOW XLA elastic fiber; EMERGE advanced resins; ENGAGE polyolefin elastomers; FLEXOMER very low density polyethylene (VLDPE) resins; INTEGRAL adhesive films; ISOPLAST engineering thermoplastic polyurethane resins; MAGNUM ABS resins; NORDEL hydrocarbon rubber; PELLETHANE thermoplastic polyurethane elastomers; PRIMACOR copolymers; PROCITE window envelope films; PULSE engineering resins; REDI-LINK polyethylene-based wire & cable insulation compounds; SARAN PVDC resin and SARAN PVDC film ; SARANEX barrier films; SI-LINK polyethylene-based low voltage insulation compounds; TRENCHCOAT protective films; TYRIL SAN resins; TYRIN chlorinated polyethylene; UNIGARD HP high-performance flame-retardant compounds; UNIGARD RE reduced emissions flame-retardant compounds; UNIPURGE purging compound; VERSIFY plastomers and elastomers

The **Technology Licensing and Catalyst** business includes licensing and supply of related catalysts, process control software and services for the UNIPOL polypropylene process, the METEOR process for ethylene oxide (EO) and ethylene glycol (EG), the LP OXO process for oxo alcohols, the QBIS bisphenol A process, and Dow s proprietary technology for production of purified terephthalic acid (PTA). Licensing of the UNIPOL polyethylene process and sale of related catalysts, including metallocene catalysts, are handled through Univation Technologies, LLC, a 50:50 joint venture of Union Carbide.

- **Products**: LP OXO process technology and NORMAX catalysts; METEOR EO/EG process technology and catalysts; PTA process technology; QBIS bisphenol A process technology and DOWEX QCAT catalyst; UNIPOL PP process technology and SHAC catalyst systems

**PERFORMANCE CHEMICALS**

**Applications**: agricultural and pharmaceutical products and processing • building materials • chemical processing and intermediates • electronics • food processing and ingredients • gas treating solvents • household products • metal degreasing and dry cleaning • oil and gas treatment • paints, coatings, inks, adhesives, lubricants • personal care products • pulp and paper manufacturing, coated paper and paperboard • textiles and carpet • water purification

**Designed Polymers** is a business portfolio of products and systems characterized by unique chemistry, specialty functionalities, and people with deep expertise in regulated industries. Within Designed Polymers, Dow Water Solutions offers world-class brands and enabling component technologies designed to advance the science of desalination, water purification, trace contaminant removal and water recycling. Also in Designed Polymers, businesses such as Dow Wolff Cellulosics, Dow Biocides and ANGUS Chemical Company (a wholly owned subsidiary of Dow), develop and market a range of products that enhance or enable key physical and sensory properties of end-use products in applications such as food, pharmaceuticals, oil and gas, paints and coatings, personal care, and building and construction.

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- **Products and Services**: Acrolein derivatives; Basic nitroparaffins and nitroparaffin-based specialty chemicals; CANGUARD BIT preservatives; CELLOSIZE hydroxyethyl cellulose; Chiral compounds and biocatalysts; CLEAR+STABLE carboxymethyl cellulose; CYCLOTENE advanced electronics resins; DOW electrodeionization; DOW latex powders; DOW ultrafiltration; DOWEX ion exchange resins; DOWICIDE antimicrobial bactericides and fungicides; ETHOCEL ethylcellulose resins; FILMTEC elements; FORTEFIBER soluble dietary fiber; Hydrocarbon resins; Industrial biocides; METHOCEL cellulose ethers; OPTIM synthetic glycerine; Pfēnex Expression Technology ; POLYOX water-soluble resins; Quaternaries; SATINFX delivery system; SILK semiconductor dielectric resins; UCARE polymers; WALOCEL cellulose polymers

**Dow Emulsion Polymers and UCAR Emulsion Systems** are major global suppliers of latexes, for a wide range of industries and applications. Dow Emulsion Polymers provides the broadest line of styrene-butadiene (S/B) products supporting customers in paper and paperboard (for magazines, catalogues and food packaging) applications, and the carpet and floor covering industry. UCAR Emulsion Systems (UES) manufactures and sells UCAR acrylic, vinyl-acrylic and styrene acrylic latexes, EVOCAR vinyl acetate ethylene (VAE) latexes and NEOCAR branched vinyl ester latexes for use in the architectural and industrial coatings, adhesives, construction products such as caulks and sealants, textile, and traffic paint. It also offers the broadest product range in the dispersion area and produces and markets UCAR POLYPHOBE rheology modifiers.

- **Products**: Acrylic latex; EVOCAR vinyl acetate ethylene; FOUNDATIONS latex; NEOCAR branched vinyl ester latexes; Styrene-acrylic latex; Styrene-butadiene latex; UCAR all-acrylic, styrene-acrylic and vinyl-acrylic latexes; UCAR POLYPHOBE rheology modifiers; UCARHIDE opacifier

The **Specialty Chemicals** business provides products and services used as functional ingredients or processing aids in the manufacture of a diverse range of products. Applications include agricultural and pharmaceutical products and processing, building and construction, chemical processing and intermediates, electronics, food processing and ingredients, gas treating solvents, fuels and lubricants, oil and gas, household and institutional cleaners, coatings and paints, pulp and paper manufacturing, metal degreasing and dry cleaning, and transportation. Dow Haltermann Custom Processing provides contract and custom manufacturing services to other specialty chemical, agricultural chemical and biodiesel producers.

- **Products**: Acrylic acid/Acrylic esters; AMBITROL and NORKOOL industrial coolants; Butyl CARBITOL and Butyl CELLOSOLVE ethylene oxide; CARBOWAX and CARBOWAX SENTRY polyethylene glycols and methoxypolyethylene glycols; Diphenyloxide; DOW polypropylene glycols; DOWCAL , DOWFROST , DOWTHERM , SYLTHERM and UCARTHERM heat transfer fluids; DOWFAX , TERGITOL and TRITON surfactants; Ethanolamines; Ethyleneamines; Isopropanolamines; MAXIBOOST cleaning boosters; MAXICHECK solvent analysis test kits; MAXISTAB stabilizers; Propylene oxide-based glycol ethers; SAFE-TAINER closed-loop delivery system; SYNALOX lubricants; UCAR deicing fluids; UCARKLEAN amine management; UCARSOL formulated solvents; UCON fluids; VERSENE chelating agents; Fine and specialty chemicals from the Dow Haltermann Custom Processing business; Test and reference fuels, printing ink distillates, pure hydrocarbons and esters, and derivatives from Haltermann Products, a wholly owned subsidiary of Dow

The Performance Chemicals segment also includes the results of Dow Corning Corporation, and a portion of the results of the OPTIMAL Group of Companies and the SCG-Dow Group, all joint ventures of the Company.

**AGRICULTURAL SCIENCES**

**Applications**: control of weeds, insects and plant diseases for agriculture and pest management • agricultural seeds and traits (genes)

**Dow AgroSciences** is a global leader in providing pest management, agricultural and crop biotechnology products and solutions. The business develops, manufactures and markets products for crop production; weed, insect and plant disease management; and industrial and commercial pest management. Dow AgroSciences is building a leading biotechnology business in agricultural seeds, traits, healthy oils, and animal health.

• **Products**: AGROMEN seeds; CLINCHER herbicide; DAIRYLAND seed; DELEGATE insecticide; DITHANE fungicide; FORTRESS fungicide; GARLON herbicide; GLYPHOMAX herbicide;

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GRANITE herbicide; HERCULEX I, HERCULEX RW and HERCULEX XTRA insect protection; KEYSTONE herbicides; LAREDO fungicide; LONTREL herbicide; LORSBAN insecticides; MILESTONE herbicide; MUSTANG herbicide; MYCOGEN seeds; NEXERA canola and sunflower seeds; PHYTOGEN brand cottonseeds; PROFUME gas fumigant; SENTRICON termite colony elimination system; SIMPLICITY herbicide; STARANE herbicide; TELONE soil fumigant; TORDON herbicide; TRACER NATURALYTE insect control; TRIUMPH seed; VIKANE structural fumigant; WIDESTRIKE insect protection

**BASIC PLASTICS**

**Applications**: adhesives • appliances and appliance housings • agricultural films • automotive parts and trim • beverage bottles • bins, crates, pails and pallets • building and construction • coatings • consumer and durable goods • consumer electronics • disposable diaper liners • fibers and nonwovens • films, bags and packaging for food and consumer products • hoses and tubing • household and industrial bottles • housewares • hygiene and medical films • industrial and consumer films and foams • information technology • oil tanks and road equipment • plastic pipe • textiles • toys, playground equipment and recreational products • wire and cable compounds

The **Polyethylene** business is the world s leading supplier of polyethylene-based solutions through sustainable product differentiation. Through the use of multiple catalyst and process technologies, the business offers customers one of the industry s broadest ranges of polyethylene resins via a strong global network of local experts focused on partnering for long-term success.

- **Products**: ASPUN fiber grade resins; ATTANE ultra low density polyethylene (ULDPE) resins; CONTINUUM bimodal polyethylene resins; DOW high density polyethylene (HDPE) resins; DOW low density polyethylene (LDPE) resins; DOWLEX polyethylene resins; ELITE enhanced polyethylene (EPE) resins; TUFLIN linear low density polyethylene (LLDPE) resins; UNIVAL HDPE resins

The **Polypropylene** business, a major global polypropylene supplier, provides a broad range of products and solutions tailored to customer needs by leveraging Dow s leading manufacturing and application technology, research and product development expertise, extensive market knowledge and strong customer relationships.

- **Products**: DOW homopolymer polypropylene resins; DOW impact copolymer polypropylene resins; DOW random copolymer polypropylene resins; INSPIRE performance polymers

The **Polystyrene** business, the global leader in the production of polystyrene resins, is uniquely positioned with geographic breadth and participation in a diversified portfolio of applications. Through market and technical leadership and low cost capability, the business continues to improve product performance and meet customer needs.

- **Products**: STYRON A-TECH and C-TECH advanced technology polystyrene resins and a full line of STYRON general purpose polystyrene resins; STYRON high-impact polystyrene resins

The Basic Plastics segment also includes the results of Equipolymers and a portion of the results of EQUATE Petrochemical Company K.S.C. and the SCG-Dow Group, all joint ventures of the Company.

**BASIC CHEMICALS**

**Applications**: agricultural products • alumina • automotive antifreeze and coolant systems • carpet and textiles • chemical processing • dry cleaning • dust control • household cleaners and plastic products • inks • metal cleaning • packaging, food and beverage containers, protective packaging • paints, coatings and adhesives • personal care products • petroleum refining • pharmaceuticals • plastic pipe • pulp and paper manufacturing • snow and ice control • soaps and detergents • water treatment

The **Core Chemicals** business is a leading global producer of each of its basic chemical products, which are sold to many industries worldwide, and also serve as key raw materials in the production of a variety of Dow s performance and plastics products.

- **Products**: Acids; Alcohols; Aldehydes; Caustic soda; Chlorine; Chloroform; COMBOTHERM blended deicer; DOWFLAKE calcium chloride; DOWPER dry cleaning solvent; Esters; Ethylene dichloride (EDC); LIQUIDOW liquid calcium chloride; MAXICHECK procedure for testing the strength of reagents; MAXISTAB stabilizers for chlorinated solvents; Methyl chloride; Methylene chloride; Monochloroacetic acid (MCAA); Oxo products; PELADOW calcium chloride pellets; Perchloroethylene; Trichloroethylene; Vinyl acetate monomer (VAM); Vinyl chloride monomer (VCM); Vinylidene chloride (VDC)

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The **Ethylene Oxide/Ethylene Glycol** business is a key supplier of ethylene glycol to MEGlobal, a 50:50 joint venture and a world leader in the manufacture and marketing of merchant monoethylene glycol and diethylene glycol. Dow also supplies ethylene oxide to internal derivatives businesses. Ethylene glycol is used in polyester fiber, polyethylene terephthalate (PET) for food and beverage container applications, polyester film and antifreeze.

- **Products**: Ethylene glycol (EG); Ethylene oxide (EO)

The Basic Chemicals segment also includes the results of MEGlobal and a portion of the results of EQUATE Petrochemical Company K.S.C. and the OPTIMAL Group of Companies, all joint ventures of the Company.

**HYDROCARBONS AND ENERGY**

**Applications**: polymer and chemical production • power

The **Hydrocarbons and Energy** business encompasses the procurement of fuels, natural gas liquids and crude oil-based raw materials, as well as the supply of monomers, power and steam principally for use in Dow s global operations. The business regularly sells its byproducts; the business also buys and sells products in order to balance regional production capabilities and derivative requirements. The business also sells products to certain Dow joint ventures. Dow is the world leader in the production of olefins and aromatics.

- **Products**: Benzene; Butadiene; Butylene; Cumene; Ethylene; Propylene; Styrene; Power, steam and other utilities

The Hydrocarbons and Energy segment also includes the results of Compañía Mega S.A. and a portion of the results of the SCG-Dow Group, both joint ventures of the Company.

**Unallocated and Other** includes the results of New Ventures (which includes new business incubation platforms focused on identifying and pursuing new commercial opportunities); Venture Capital; the Company s insurance operations and environmental operations; and certain overhead and other cost recovery variances not allocated to the operating segments.

Transfers of products between operating segments are generally valued at cost. However, transfers of products to Agricultural Sciences from other segments are generally valued at market-based prices; the revenues generated by these transfers in the first nine months of 2008 and 2007 were immaterial and eliminated in consolidation.

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**Operating Segments**

| In millions | Three Months Ended Sept. 30, 2008 | Three Months Ended Sept. 30, 2007 | Nine Months Ended Sept. 30, 2008 | Nine Months Ended Sept. 30, 2007 |
|---|---|---|---|---|
| Sales by operating segment | | | | |
| Performance Plastics | $ 4,252 | $ 3,877 | $ 12,633 | $ 11,148 |
| Performance Chemicals | 2,462 | 2,152 | 7,261 | 6,225 |
| Agricultural Sciences | 976 | 788 | 3,650 | 2,915 |
| Basic Plastics | 3,535 | 3,316 | 10,807 | 9,390 |
| Basic Chemicals | 1,500 | 1,507 | 4,701 | 4,233 |
| Hydrocarbons and Energy | 2,611 | 1,828 | 7,394 | 5,063 |
| Unallocated and Other | 75 | 121 | 169 | 312 |
| Total | $ 15,411 | $ 13,589 | $ 46,615 | $ 39,286 |
| EBIT(1) by operating segment | | | | |
| Performance Plastics | $ 146 | $ 409 | $ 743 | $ 1,232 |
| Performance Chemicals | 275 | 219 | 836 | 825 |
| Agricultural Sciences | 61 | 15 | 727 | 505 |
| Basic Plastics | 481 | 556 | 1,296 | 1,612 |
| Basic Chemicals | 64 | 205 | 252 | 504 |
| Hydrocarbons and Energy | (1) | | (1) | (1) |
| Unallocated and Other | (256) | (199) | (548) | (596) |
| Total | $ 770 | $ 1,205 | $ 3,305 | $ 4,081 |
| Equity in earnings (losses) of nonconsolidated affiliates by operating segment (included in EBIT) | | | | |
| Performance Plastics | $ (1) | $ 15 | $ 29 | $ 55 |
| Performance Chemicals | 137 | 90 | 351 | 299 |
| Agricultural Sciences | 2 | 1 | 4 | 1 |
| Basic Plastics | 55 | 39 | 130 | 141 |
| Basic Chemicals | 61 | 115 | 229 | 270 |
| Hydrocarbons and Energy | 11 | 35 | 49 | 62 |
| Unallocated and Other | 1 | 1 | (1) | |
| Total | $ 266 | $ 296 | $ 791 | $ 828 |

(1) The Company uses EBIT (which Dow defines as earnings (loss) before interest, income taxes and minority interests) as its measure of profit/loss for segment reporting purposes. EBIT by operating segment includes all operating items relating to the businesses; items that principally apply to the Company as a whole are assigned to Unallocated and Other. A reconciliation of EBIT to Net Income Available for Common Stockholders is provided below:

| In millions | Three Months Ended Sept. 30, 2008 | Three Months Ended Sept. 30, 2007 | Nine Months Ended Sept. 30, 2008 | Nine Months Ended Sept. 30, 2007 |
|---|---|---|---|---|
| EBIT | $ 770 | $ 1,205 | $ 3,305 | $ 4,081 |
| + Interest income | 23 | 28 | 72 | 101 |
| - Interest expense and amortization of debt discount | 160 | 148 | 456 | 423 |
| - Provision for income taxes | 185 | 659 | 727 | 1,271 |
| - Minority interests share in income | 20 | 23 | 63 | 73 |
| Net Income Available for Common Stockholders | $ 428 | $ 403 | $ 2,131 | $ 2,415 |

**Geographic Areas**

| In millions | Three Months Ended Sept. 30, 2008 | Three Months Ended Sept. 30, 2007 | Nine Months Ended Sept. 30, 2008 | Nine Months Ended Sept. 30, 2007 |
|---|---|---|---|---|
| Sales by geographic area | | | | |
| United States | $ 4,925 | $ 4,700 | $ 14,815 | $ 13,613 |
| Europe | 5,786 | 4,872 | 17,991 | 14,347 |
| Rest of World | 4,700 | 4,017 | 13,809 | 11,326 |
| Total | $ 15,411 | $ 13,589 | $ 46,615 | $ 39,286 |

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**DISCLOSURE REGARDING FORWARD-LOOKING INFORMATION**

The Private Securities Litigation Reform Act of 1995 provides a safe harbor for forward-looking statements made by or on behalf of The Dow Chemical Company and its subsidiaries ( Dow or the Company ). This section covers the current performance and outlook of the Company and each of its operating segments. The forward-looking statements contained in this section and in other parts of this document involve risks and uncertainties that may affect the Company s operations, markets, products, services, prices and other factors as more fully discussed elsewhere and in filings with the U.S. Securities and Exchange Commission ( SEC ). These risks and uncertainties include, but are not limited to, economic, competitive, legal, governmental and technological factors. Accordingly, there is no assurance that the Company s expectations will be realized. The Company assumes no obligation to provide revisions to any forward-looking statements should circumstances change, except as otherwise required by securities and other applicable laws.

**OVERVIEW**

- The Company reported sales in the third quarter of 2008 of $15.4 billion, up 13 percent from $13.6 billion in the third quarter of 2007. Prices increased 22 percent while volume decreased 9 percent principally due to declining demand.

- Purchased feedstock and energy costs, which account for approximately half of Dow s total costs, increased 48 percent or $2.6 billion compared with the third quarter of 2007, the largest year-over-year increase in quarterly costs in the Company s history, and more than the increase for all of 2007.

- The results of the quarter were unfavorably impacted by $127 million of pretax costs as a result of Hurricanes Gustav and Ike, which hit the U.S. Gulf Coast in the third quarter of 2008 resulting in temporary plant outages.

- Operating expenses rose during the third quarter of 2008 compared with the third quarter of 2007, reflecting the impact of recent acquisitions, as well as increased investment in research and development and increased selling expenses in the Performance businesses, as Dow continued the disciplined implementation of its growth strategy. Operating expenses were down in the third quarter of 2008 compared with the prior quarter.

- Equity earnings were $266 million in the third quarter of 2008, the seventh consecutive quarter in which equity earnings have exceeded $250 million.

- Capital spending was $628 million in the third quarter of 2008, on track with the revised full-year target of $2.1 billion; debt as a percent of total capitalization was 38.6 percent, up approximately 7 percentage points from year-end 2007; and the Company completed the current share repurchase program.

**Selected Financial Data**

| In millions, except per share amounts | Three Months Ended Sept. 30, 2008 | Three Months Ended Sept. 30, 2007 | Nine Months Ended Sept. 30, 2008 | Nine Months Ended Sept. 30, 2007 |
|---|---|---|---|---|
| Net sales | $ 15,411 | $ 13,589 | $ 46,615 | $ 39,286 |
| Cost of sales | $ 13,975 | $ 11,864 | $ 41,526 | $ 33,867 |
| Percent of net sales | 90.7% | 87.3% | 89.1% | 86.2% |
| Research and development, and selling, general and administrative expenses | $ 832 | $ 805 | $ 2,511 | $ 2,322 |
| Percent of net sales | 5.4% | 5.9% | 5.4% | 5.9% |
| Effective tax rate (1) | 29.2% | 60.7% | 24.9% | 33.8% |
| Net income available for common stockholders | $ 428 | $ 403 | $ 2,131 | $ 2,415 |
| Earnings per common share basic | $ 0.46 | $ 0.42 | $ 2.29 | $ 2.53 |
| Earnings per common share diluted | $ 0.46 | $ 0.42 | $ 2.26 | $ 2.49 |
| Operating rate percentage | 76% | 90% | 82% | 87% |

(1) The effective tax rates for 2007 reflect a charge of $362 million related to a change in German tax law enacted in the third quarter of 2007.

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**RESULTS OF OPERATIONS**

Net sales for the third quarter of 2008 were $15.4 billion, up 13 percent from $13.6 billion in the third quarter of last year. Compared with the same quarter of 2007, prices rose 22 percent, driven by continuing increases in feedstock and energy costs, and volume decreased 9 percent. Double-digit price increases were reported in all operating segments as the Company focused on restoring margins through price increases, led by increases in the Basic segments, with a 40 percent increase in Hydrocarbons and Energy, a 25 percent increase in Basic Plastics and a 20 percent increase in Basic Chemicals. Prices were also up in the Performance segments with a 21 percent increase in Performance Chemicals, a 16 percent increase in Agricultural Sciences and a 14 percent increase in Performance Plastics. From a geographic standpoint, double-digit price increases were reported in all geographic areas. Prices were up 25 percent in Europe (where currency accounted for approximately one third of the increase), 23 percent in Latin America, 20 percent in North America, 17 percent in Asia Pacific and 17 percent in India, Middle East and Africa ( IMEA ). Compared with the third quarter of last year, the change in volume by operating segment was mixed, with increases in Agricultural Sciences of 8 percent and Hydrocarbons and Energy of 3 percent. Performance Plastics decreased 4 percent and Performance Chemicals was down 7 percent. The Basic segments also declined with Basic Plastics down 18 percent and Basic Chemicals down 20 percent. By geographic area, volume declined in all areas with the exception of IMEA. The most significant decline was in North America due to further weakening of demand, the impact of Hurricanes Gustav and Ike which hit the U.S. Gulf Coast in the third quarter of 2008 and the joint venture formation of Americas Styrenics LLC in the second quarter of 2008.

Net sales for the first nine months of 2008 were $46.6 billion, up 19 percent from $39.3 billion in the same period last year. Compared with the first nine months of 2007, prices were up 20 percent while volume decreased 1 percent. Double-digit price increases were reported across all operating segments with the largest increases in the Basic segments. Strong volume growth in Agricultural Sciences (up 11 percent) and Hydrocarbons and Energy (up 7 percent) as well as a 1 percent volume increase in Performance Chemicals and Performance Plastics were offset by volume declines in Basic Plastics (down 8 percent) and Basic Chemicals (down 11 percent). For additional details regarding the change in net sales, see the Sales Volume and Price table at the end of the section entitled Segment Results.

Gross margin was $1,436 million for the third quarter of 2008, down from $1,725 million in the third quarter of last year. Gross margin declined as higher selling prices did not fully offset significantly higher hydrocarbon and energy ( H&E ) costs, the unfavorable impact of currency on costs and higher costs for other raw materials. H&E costs were up approximately $2.6 billion or 48 percent compared with the third quarter of 2007 and up $7.2 billion or 45 percent year to date. Gross margin was also impacted by Hurricanes Gustav and Ike which hit the U.S. Gulf Coast resulting in temporary outages for several of the Company s Gulf Coast production facilities and resulting in $127 million in additional manufacturing expenses including the repair of property damage, clean-up costs, unabsorbed fixed costs and inventory write-offs. Year to date, gross margin was $5,089 million, compared with $5,419 million in the first nine months of 2007.

The Company s global plant operating rate (for its chemicals and plastics businesses) was 76 percent in the third quarter of 2008, down from 90 percent in the third quarter of 2007. For the first nine months of 2008, Dow s global plant operating rate was 82 percent, down from 87 percent in the same period of 2007. The Company s operating rate for the third quarter of 2008 was significantly impacted by actions taken by management in response to lower demand as well as by the U.S. hurricanes.

Personnel count was 46,051 at September 30, 2008, up from 45,856 at December 31, 2007 and 45,315 at September 30, 2007. Headcount increased from year-end 2007 due to recent acquisitions. The addition of research and development employees in India and China in support of the Company s growth initiatives increased headcount in the fourth quarter of 2007.

Operating expenses (research and development, and selling, general and administrative expenses) totaled $832 million in the third quarter of 2008, up $27 million (3 percent) from $805 million in the third quarter of last year. Compared with last year, research and development ( R&D ) expenses increased $5 million, and selling, general and administrative ( SG&A ) expenses increased $22 million. For the first nine months of 2008, operating expenses totaled $2,511 million, up $189 million (8 percent) from $2,322 million in the first nine months of 2007. The increase in operating expenses was primarily related to planned spending for growth initiatives in the Performance businesses and operating expenses for new acquisitions.

Amortization of intangibles was $21 million in the third quarter of 2008, down slightly from $22 million in the third quarter of last year. For the first nine months of 2008, amortization of intangibles was $68 million, up from $51 million for the same period last year due to 2007 acquisitions. See Note F to the Consolidated Financial Statements for additional information on intangible assets.

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During the third quarter of 2008, pretax charges totaling $27 million were recorded for purchased in-process research and development ( IPR&D ) associated with recent acquisitions within the Agricultural Sciences segment. During the third quarter of 2007, pretax charges totaling $59 million were recorded for IPR&D. See Note D to the Consolidated Financial Statements for information regarding these charges. Future costs required to bring the purchased IPR&D projects to technological feasibility are expected to be immaterial.

During the third quarter of 2008, pretax charges totaling $18 million were recorded for legal expenses and other transaction costs related to the pending acquisition of Rohm and Haas Company; these charges are reflected in Unallocated and Other. These charges were expensed in anticipation of a 2009 closing of the acquisition and the application of revised SFAS No. 141, Business Combinations.

Dow s share of the earnings of nonconsolidated affiliates was $266 million in the third quarter of 2008, down from $296 million in the third quarter of last year. Compared with the same quarter of last year, earnings were lower from MEGlobal, Total Raffinaderij Nederland BV and EQUATE Petrochemical Company K.S.C. ( EQUATE ). Earnings improved at Dow Corning Corporation ( Dow Corning ) and the OPTIMAL Group of Companies ( OPTIMAL ). For the first nine months of 2008, Dow s share of the earnings of nonconsolidated affiliates was $791 million, down from $828 million for the same period last year. Compared with last year, earnings were lower at Equipolymers B.V., Siam Polyethylene Company Limited and MEGlobal. Compared with last year, earnings improved at OPTIMAL, EQUATE and Dow Corning. Results for the second and third quarters of 2008 included Dow s share of the earnings of Americas Styrenics LLC, a polystyrene joint venture between Dow and Chevron Phillips Chemical with assets in North America and Latin America; the new joint venture began operations in the second quarter of 2008.

On December 13, 2007, the Company and Petrochemical Industries Company ( PIC ) of Kuwait, a wholly owned subsidiary of Kuwait Petroleum Corporation, announced plans to form a 50:50 joint venture that will be a market-leading, global petrochemicals company. The proposed joint venture, K-Dow Petrochemicals, to be headquartered in southeast Michigan in the United States, will manufacture and market polyethylene, ethyleneamines, ethanolamines, polypropylene, and polycarbonate and related licensing and catalyst technologies. The joint venture is expected to have revenues of more than $11 billion and employ more than 5,000 people worldwide. The transaction is subject to the completion of definitive agreements, customary conditions and regulatory approvals, and is anticipated to close in late 2008.

Sundry income (expense) net includes a variety of income and expense items such as the gain or loss on foreign currency exchange, dividends from investments, and gains and losses on sales of investments and assets. Sundry income (expense) net for the third quarter of 2008 was net expense of $34 million, compared with net income of $70 million in the same quarter of 2007, and reflected a decrease in gains/losses on the sales of assets and a decrease in foreign currency exchange results. Year to date, sundry income (expense) net was income of $49 million, compared with income of $262 million in the first nine months of 2007, reflecting a decrease in gains/losses on the sales of assets and a decrease in foreign currency exchange results.

Net interest expense (interest expense less capitalized interest and interest income) was $137 million in the third quarter of 2008, compared with $120 million in the third quarter of last year. Year to date, net interest expense was $384 million, versus $322 million in the first nine months of 2007. Compared with last year, year-to-date interest income was down $29 million principally due to lower interest rates on investments, while year-to-date interest expense increased $33 million primarily due to increased debt.

The effective tax rate for the third quarter of 2008 was 29.2 percent, versus 60.7 percent for the third quarter of 2007. The tax rate for the third quarter of 2007 was negatively impacted by a change in German tax law that was enacted in August 2007 and included a reduction in the German income tax rate. As a result of the change, the Company adjusted the value of its net deferred tax assets in Germany (using the lower tax rate) and recorded a charge of $362 million against the provision for income taxes in the third quarter of 2007. The effective tax rate for the first nine months of 2008 was 24.9 percent, compared with 33.8 percent for the same period last year. The Company s effective tax rate fluctuates based on, among other factors, where income is earned and the level of income relative to tax credits available. In October 2008, the U.S. Congress renewed the expired research and development tax credit retroactive to January 1, 2008. In the fourth quarter of 2008, the Company will record a favorable tax adjustment of approximately $30 million against the provision for income taxes to reflect the 2008 impact of this tax credit.

Net income available for common stockholders was $428 million or $0.46 per share for the third quarter of 2008, compared with $403 million or $0.42 per share for the third quarter of 2007. Net income for the first nine months of 2008 was $2,131 million or $2.26 per share, compared with $2,415 million or $2.49 per share for the same period of 2007.

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The following table summarizes the impact of certain items recorded in the three-month periods ended September 30, 2008 and 2007, and previously described in this section:

| In millions, except per share amounts | Pretax Impact (1) Three Months Ended Sept. 30, 2008 | Pretax Impact (1) Three Months Ended Sept. 30, 2007 | Impact on Net Income (2) Three Months Ended Sept. 30, 2008 | Impact on Net Income (2) Three Months Ended Sept. 30, 2007 | Impact on EPS (3) Three Months Ended Sept. 30, 2008 | Impact on EPS (3) Three Months Ended Sept. 30, 2007 |
|---|---|---|---|---|---|---|
| Impact of Hurricanes Gustav and Ike (4) | $ (127) | | $ (81) | | $ (0.09) | |
| Purchased in-process research and development charges | (27) | $ (59) | (27) | $ (39) | (0.03) | $ (0.04) |
| Acquisition-related expenses | (18) | | (18) | | (0.02) | |
| German tax law change | | | | (362) | | (0.38) |
| Total | $ (172) | $ (59) | $ (126) | $ (401) | $ (0.14) | $ (0.42) |

(1) Impact on Income before Income Taxes and Minority Interests
(2) Impact on Net Income Available for Common Stockholders
(3) Impact on Earnings per common share diluted
(4) In addition, the interruption of operations caused by the hurricanes resulted in an estimated pretax $50 million in unrealized margin on lost sales, the equivalent of $0.03 per share, which is not included in the amounts presented in the table.

On July 10, 2008, the Company and Rohm and Haas Company ( Rohm and Haas ) announced a definitive agreement, under which the Company will acquire all outstanding shares of Rohm and Haas common stock for $78 per share in cash. The acquisition of Rohm and Haas will make the Company the world s leading specialty chemicals and advanced materials company, combining the two organizations best-in-class technologies, broad geographic reach and strong industry channels to create a business portfolio with significant growth opportunities.

Financing for the transaction will include equity investments by Berkshire Hathaway Inc. and the Kuwait Investment Authority in the form of convertible preferred stock for $3 billion and $1 billion, respectively. In addition, debt financing of $13 billion has been committed through a Term Loan Agreement with the lenders party thereto a syndicate of 19 financial institutions and Citibank, N.A., as administrative agent for the lenders. These financing commitments are conditional upon the closing of the transaction and subject to other customary conditions.

The Company expects the transaction to be accretive to earnings in the second year following completion, with pretax annual cost synergies expected to be at least $800 million per year. Key areas of cost savings include increased purchasing power for raw materials; manufacturing and supply chain work process improvements; and the elimination of redundant corporate overhead for shared services and governance. The Company also anticipates that the transaction will produce significant revenue synergies, through the application of each company s innovative technologies and as a consequence of the combined businesses broader product portfolio in key industry segments with strong global growth rates.

The transaction, which has been unanimously approved by the Boards of Directors of both companies, remains subject to approval by Rohm and Haas shareholders, customary conditions and receipt of regulatory approvals. The companies are targeting completion of the transaction in early 2009.

SEGMENT RESULTS

The Company uses EBIT (which Dow defines as earnings before interest, income taxes and minority interests) as its measure of profit/loss for segment reporting purposes. EBIT by operating segment includes all operating items relating to the businesses; items that principally apply to the Company as a whole are assigned to Unallocated. See Note O to the Consolidated Financial Statements for a reconciliation of EBIT to Net Income Available for Common Stockholders.

PERFORMANCE PLASTICS

Performance Plastics sales were $4,252 million in the third quarter of 2008, up 10 percent from $3,877 million in the third quarter of 2007. Compared with the third quarter of 2007, prices increased 14 percent, while volume declined 4 percent. EBIT of $146 million in the third quarter included costs of $35 million due to the impact of two hurricanes which resulted in a temporary outage of the Company s U.S. Gulf Coast manufacturing facilities. EBIT was down significantly from $409 million in the same period last year, driven by several factors including higher raw material costs, lower sales volume and operating rates due to softening demand, lower equity earnings, the unfavorable impact of currency on costs, and increased spending on business growth initiatives.

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Dow Automotive sales for the third quarter of 2008 were up 5 percent from the third quarter of 2007. Prices improved 13 percent, with approximately one third from currency, while volume declined 8 percent. Efforts to increase prices in response to higher raw material costs, coupled with weak demand in North America and increased tightening of consumer credit markets, resulted in lower sales volume for the quarter. Despite higher prices, EBIT for the business declined versus the third quarter of last year due to higher raw material costs, spending associated with asset consolidation activities, the unfavorable impact of currency on costs, and lower sales volume.

Dow Building Solutions sales in the third quarter of 2008 were up 6 percent versus the same quarter last year as an 8 percent increase in prices (largely due to currency) offset a 2 percent decline in volume. Weakness in U.S. residential and commercial construction continued to plague the industry with additional softening in certain regions of Europe, particularly in Spain. Tight credit markets contributed to the increased softness across the industry. Despite a gain recorded in the third quarter from the sale of the TRYMER polyisocyanurate foam insulation business, EBIT declined as the impact of higher prices was offset by the impact of higher raw material costs and lower sales volume.

Dow Epoxy sales were up slightly from the third quarter of 2007 with a 9 percent increase in prices offset by an 8 percent decline in volume. The decline in volume was primarily seen in Asia Pacific as demand for electrical laminate applications softened, customers took action to reduce inventory levels, and the business aggressively pursued price increases to offset the impact of higher raw material costs. EBIT for the third quarter of 2008 was down from a year ago due to significantly higher raw material costs, the impact of the hurricanes, and lower sales volume.

Polyurethanes and Polyurethane Systems sales in the third quarter of 2008 were up 9 percent from the third quarter of 2007 as prices improved 16 percent and volume declined 7 percent. The improvement in prices was widespread with solid gains across the entire portfolio and all geographic areas as the business took action to mitigate the impact of increasing raw material costs. Volume declined versus the same period last year due to softening demand for appliance and furniture/bedding applications, aggressive efforts to raise prices and maintain margins, and the impact of the hurricanes which limited supply from the Company s U.S. Gulf Coast manufacturing facilities. EBIT for the quarter declined versus the third quarter of 2007 as the improvement in prices did not offset the impact of higher raw material costs, the unfavorable impact of currency on costs, lower volume and equity earnings, and the impact of the hurricanes.

Specialty Plastics and Elastomers sales for the third quarter of 2008 were up 19 percent from the third quarter last year driven by an 18 percent increase in prices and a 1 percent gain in volume. Double-digit gains in pricing were realized in all geographic areas as the business responded to rapidly escalating feedstock and raw material costs. Volume improved significantly in Asia Pacific due to a new marketing agreement with Nippon Unicar Company Limited ( NUC ) (a nonconsolidated affiliate), which became effective in the first quarter of 2008. Excluding the impact of the NUC agreement, volume declined as the impact of weak automotive and construction industries in the United States coupled with supply disruptions caused by the hurricanes resulted in a substantial drop in North American sales volume. EBIT declined significantly from the third quarter of 2007 due to the impact of the hurricanes, increasing raw material costs, higher freight costs, lower equity earnings, and lower volume and operating rates.

Technology Licensing and Catalyst sales for the third quarter were up significantly from the same period last year driven by improvement in IMEA. EBIT was also up substantially as a result of the increased revenue.

For the first nine months of 2008, Performance Plastics sales were $12,633 million, up 13 percent from $11,148 million in the first nine months of 2007. Prices were up 12 percent, with currency accounting for half of the increase, while volume improved 1 percent. Volume improved primarily due to the new marketing agreement with NUC. Performance Plastics EBIT in the first nine months of 2008 was $743 million, down from $1,232 million in the first nine months of last year. The decline in EBIT was driven by impacts from the hurricanes, higher raw material, freight and operating costs, the unfavorable impact of currency on costs, reduced operating rates and sales volume, and lower equity earnings.

PERFORMANCE CHEMICALS

Performance Chemicals sales were $2,462 million in the third quarter of 2008, up 14 percent from $2,152 million in the third quarter of 2007. Compared with the third quarter of 2007, prices rose 21 percent and volume decreased 7 percent. The increase in prices was broad-based, with increases reported in all geographic areas and across all major product groups. The decrease in volume was due to the hurricanes which caused temporary outages at several of the Company s U.S. Gulf Coast manufacturing facilities, and softening demand. EBIT for the third quarter of 2008 was $275 million, up from $219 million in the third quarter of 2007. Compared with the same quarter last year, EBIT increased as the improvement in selling prices and higher equity earnings from Dow Corning offset an increase in raw material costs and costs of $14 million related to the hurricanes. EBIT in the third quarter of last year was reduced by a $9 million charge for purchased in-process research and development related to the acquisition of Wolff Walsrode.

Designed Polymers sales for the quarter were up 9 percent from the third quarter of 2007, as prices increased 10 percent, including the favorable impact of currency, and volume decreased 1 percent. Prices were higher for biocides,

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methyl cellulosics, acrolein derivatives, and ANGUS Chemical products. Volume was down slightly due to plant outages resulting from the hurricanes. Compared with the third quarter of last year, EBIT increased due to higher prices, despite costs associated with plant outages. EBIT for the third quarter of 2008 was reduced by $2 million for hurricane related costs. EBIT for the third quarter of 2007 includes a $9 million charge for purchased in-process research and development related to the Wolff Walsrode acquisition.

Dow Emulsion Polymers and UCAR Emulsion Systems sales for the quarter were up 17 percent from the third quarter of 2007, as a 31 percent increase in prices more than offset a 14 percent decline in volume. Compared with last year, paper and carpet latex prices were up in all geographic areas. Volume was down due to the downturn in the housing industry as well as difficult conditions in the paper industry, especially in North America. While Specialty latex prices increased, volume declined due to sluggish demand for architectural coatings in North America and Asia Pacific. EBIT for the third quarter of 2008 was up from the same quarter last year due to higher prices which exceeded an increase in raw material costs.

Specialty Chemicals sales were up 17 percent compared with the third quarter of 2007, as a 22 percent increase in prices was partially offset by a 5 percent decrease in volume. Prices were higher versus the same quarter of last year in all geographic areas and were driven by higher raw material costs. Volume declined from the third quarter of last year largely due to temporary plant outages related to the hurricanes. EBIT for the third quarter was higher compared with the third quarter of 2007 due to higher prices and higher equity earnings from OPTIMAL, despite higher raw material costs. EBIT for the third quarter of 2008 was reduced by $12 million for hurricane related costs.

Performance Chemicals sales were $7,261 million for the first nine months of 2008, up 17 percent from $6,225 million in the same period last year, reflecting a 16 percent increase in prices, including the favorable impact of currency, and a 1 percent increase in volume. EBIT for the first nine months of 2008 was $836 million, compared with $825 million in 2007. EBIT increased in 2008 as higher sales and higher equity earnings from OPTIMAL and Dow Corning were partially offset by higher raw material costs, the unfavorable impact of currency on costs, higher freight costs and increased spending on product development and business growth initiatives. EBIT for the first nine months of 2008 included $14 million for hurricane related costs. Results for 2007 were negatively impacted by a $9 million charge for purchased in-process research and development.

AGRICULTURAL SCIENCES

Agricultural Sciences sales were $976 million in the third quarter of 2008, up 24 percent from $788 million in the third quarter of 2007 and a new third quarter sales record for the segment. Compared with the third quarter of 2007, prices rose 16 percent and volume improved 8 percent as growers were motivated to spend more on crop protection in response to farm commodity prices. All geographic areas experienced double-digit increases in sales compared with the same period last year, a result of Dow AgroSciences strong product portfolio and robust global agricultural economics. Sales of new herbicide products penoxsulam, pyroxsulam, aminopyralid and spinetoram tripled compared with the third quarter of 2007, and the range and pasture, and sunflower oil businesses posted solid growth. EBIT for the third quarter of 2008 of $61 million, also a new third quarter record for the segment, included in-process research and development charges totaling $27 million related to recent acquisitions and $2 million of costs related to the U.S. hurricanes. EBIT increased from $15 million in the third quarter of 2007 as the improvement in sales exceeded an increase in operating expenses related to growth initiatives and escalating raw material costs. Third quarter 2007 EBIT included in-process research and development costs related to 2007 acquisitions of $50 million.

For the first nine months of 2008, sales for Agricultural Sciences were $3,650 million, up 25 percent from $2,915 million in 2007, as volume increased 11 percent and prices rose 14 percent, with currency accounting for slightly less than one half of the price increase. Strong farm economics, demand for ethanol and biofuel, low global inventory levels and high commodity prices were all key factors which drove sector growth. For the first nine months of 2008, EBIT for the segment was $727 million, up from $505 million in the same period last year, primarily driven by price increases and strong sales volume growth. Year-to-date EBIT for 2008 and 2007 was reduced by in-process research and development charges.

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BASIC PLASTICS

Basic Plastics sales for the third quarter of 2008 were $3,535 million, up 7 percent from $3,316 million in the third quarter of last year. Compared with last year, prices increased 25 percent and volume decreased 18 percent. Double-digit price increases were reported in all geographic areas, reflecting the impact of significantly higher feedstock and energy costs. Volume declined in almost all geographic areas as growing concerns about the global economic crisis and rapidly declining oil and gas prices resulted in customers reducing inventories in anticipation of potential price reductions. A significant volume decline was seen in North America due to the May 2008 joint venture formation of Americas Styrenics LLC; the December 2007 closure of the polypropylene manufacturing facility at St. Charles Operations in Hahnville, Louisiana; as well as the impact of the two U.S. Gulf Coast hurricanes. Volume also diminished in Asia Pacific as customer demand was slow to return following the Olympic Games in China. EBIT for the third quarter was $481 million, down from $556 million in the third quarter of 2007. While the business aggressively raised prices, the increases were not sufficient to offset the significantly higher feedstock and energy and other raw materials costs, and the increased spending for scheduled maintenance turnarounds. EBIT also included costs of $11 million related to the U.S. hurricanes.

Polyethylene sales were up 21 percent from the third quarter of 2007 as prices increased 29 percent and volume decreased 8 percent. Double-digit price increases were seen in all geographic areas in response to feedstock and energy costs which were significantly higher than those in the same period last year. Volume declined in nearly all geographic areas as concerns about the growing global economic crisis and rapidly declining oil and natural gas prices resulted in customers significantly reducing their level of purchases in anticipation of potential price reductions. Volume was lower in China as customers were slow to return to the market following the Olympic Games. Despite the improvement in sales, EBIT for the third quarter of 2008 declined compared with the same period last year, due to higher raw material costs, the unfavorable impact of currency on costs, higher spending for scheduled maintenance turnarounds, and the impact of the hurricanes.

Polypropylene sales were down 4 percent from the third quarter of 2007 as price increases of 21 percent were more than offset by a decrease in volume of 25 percent. Prices increased in nearly all geographic areas in response to rising feedstock and energy costs. Volume in North America was significantly lower as the result of the December 2007 closure of the Company s polypropylene manufacturing facility at St. Charles Operations in Hahnville, Louisiana. Volume declined in Europe as the result of lower demand and a weaker export market. EBIT was significantly lower than the third quarter of 2007 as the increase in prices was more than offset by higher feedstock and energy costs, and the impact of the hurricanes.

Polystyrene sales for the third quarter of 2008 were down 37 percent compared with the third quarter of 2007. Prices increased 9 percent while volume was down 46 percent, with the decline most pronounced in North America and Latin America due to the formation of Americas Styrenics LLC in May 2008. Volume also declined in Asia Pacific and Europe as higher prices resulted in lower demand. Volumes were also lower in China as customers were slow to return to the market following the Olympic Games. Prices were higher in all geographic areas as the result of higher feedstock and energy costs. EBIT was down significantly from the third quarter of 2007 as higher feedstock and energy costs and higher other raw material costs more than offset the improvement in prices.

Basic Plastics sales for the first nine months of 2008 were $10,807 million, up 15 percent from $9,390 million in the same period in 2007. Compared with 2007, prices were up 23 percent, while volume declined 8 percent. EBIT for the first nine months of 2008 was $1,296 million, down from $1,612 million in the same period in 2007. While the business increased prices significantly, the increases were not sufficient to offset the higher feedstock and energy costs, higher other raw material costs, the unfavorable impact of currency on costs, lower equity earnings, and the impact of the hurricanes. In the first nine months of 2007, EBIT was favorably impacted by a gain on the sale of a low density polyethylene plant at Cubatão, Brazil.

BASIC CHEMICALS

Basic Chemical sales were $1,500 million for the third quarter of 2008, flat compared to $1,507 million in the third quarter of 2007. Prices increased 20 percent, while volume declined 20 percent. Prices for ethylene glycol ( EG ) decreased during the quarter due to deteriorating global economic conditions and weakening demand. EG volume declined in Europe due to a planned turnaround at the Terneuzen, The Netherlands production facility and in the United States due to the temporary outage of the Company s U.S. Gulf Coast manufacturing facilities as a result of the two hurricanes. EG volume declined as customers reduced inventories and increased industry capacity came on stream. Caustic soda reported significant improvements in prices as a result of tight demand in all geographic areas. Volume for caustic soda declined significantly due to the temporary outages of the Company s U.S. Gulf Coast manufacturing facilities due to the two hurricanes, which resulted in the declaration of a force majeure in North America; the sale of the

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Company s caustic soda distribution business in Western Canada in the fourth quarter of 2007; and slowing demand for chlorine derivatives. Prices increased for vinyl chloride monomer ( VCM ) driven by higher feedstock and energy costs. Volume for VCM decreased compared with last year due to the two hurricanes which forced the temporary outages at the Company s U.S. Gulf Coast manufacturing facilities, customers decreasing inventory in anticipation of potential price reductions due to declining feedstock prices and weak demand for polyvinyl chloride in North America. Solvents and intermediates also reported strong price increases, particularly in North America, driven by higher feedstock and energy costs. Volume decreased due to weak economic conditions. Despite higher selling prices and higher equity earnings from OPTIMAL, EBIT for the third quarter of 2008 fell to $64 million, from $205 million in the third quarter of last year due to significantly higher feedstock and energy costs, deteriorating economic conditions that resulted in lower volumes and lower equity earnings from MEGlobal and EQUATE. EBIT was negatively impacted by $26 million in costs related to the temporary outages resulting from the hurricanes.

For the first nine months of 2008, sales for Basic Chemicals were $4,701 million, up 11 percent from $4,233 million for the same period last year, as prices increased 22 percent and volume decreased 11 percent. EBIT for the first nine months of 2008 was $252 million, down from $504 million in the same period of last year as increased prices and higher equity earnings from OPTIMAL did not offset the increase in feedstock and energy costs, lower volume and decreased equity earnings from MEGlobal and EQUATE.

HYDROCARBONS AND ENERGY

Hydrocarbons and Energy sales for the third quarter of 2008 were $2,611 million, up 43 percent from $1,828 million in the third quarter of 2007. Prices increased 40 percent, while volume increased 3 percent. The increase in selling prices in the third quarter of 2008 was driven by significantly higher overall feedstock, monomer and energy prices. Sales of monomers increased compared with the same quarter of last year due to a styrene supply contract with Americas Styrenics LLC. For the first nine months of 2008, sales were $7,394 million for the segment, up 46 percent from $5,063 million in the same period of 2007, with a 39 percent increase in prices and a 7 percent increase in volume. Net costs for the third quarter of 2008 included $36 million of costs related to the U.S. hurricanes.

The Hydrocarbons and Energy business transfers materials to Dow s derivatives businesses at net cost. As a result, EBIT for this operating segment was at or near breakeven for the three months and nine months ended September 30, 2008 and 2007.

UNALLOCATED AND OTHER

Included in the results for Unallocated and Other are:

- results of insurance company operations,
- gains and losses on sales of financial assets,

- stock-based compensation expense,
- changes in the allowance for doubtful receivables,
- expenses related to New Ventures,
- asbestos-related defense and resolution costs,
- foreign exchange hedging results, and
- certain overhead and other cost recovery variances not allocated to the operating segments.

EBIT for the third quarter of 2008 was a loss of $256 million, compared with a loss of $199 million in the third quarter of 2007. Compared with the same quarter of last year, EBIT for the third quarter of 2008 reflected lower foreign exchange hedging results, decreased earnings from insurance company operations and increased spending related to acquisitions, including $18 million for legal expenses and other transaction costs related to the pending acquisition of Rohm and Haas Company, partially offset by decreased performance-based compensation expense (including stock-based compensation). EBIT for the third quarter of 2008 also included $3 million in costs related to the hurricanes.

EBIT for the first nine months of 2008 was a loss of $548 million, compared with a loss of $596 million in the same period last year. Year to date, EBIT reflected a reduction in performance-based compensation expense compared with 2007 and the absence of tax contingencies of approximately $40 million related to franchise taxes recorded in the first quarter of 2007, partially offset by a lower foreign exchange hedging results and increased spending related to acquisitions.

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**Sales Volume and Price by Operating Segment and Geographic Area**

| | Three Months Ended Sept. 30, 2008 | | | Nine Months Ended Sept. 30, 2008 | | |
|---|---|---|---|---|---|---|
| **Percentage change from prior year** | **Volume** | **Price** | **Total** | **Volume** | **Price** | **Total** |
| Operating segments | | | | | | |
| Performance Plastics | (4)% | 14% | 10% | 1% | 12% | 13% |
| Performance Chemicals | (7) | 21 | 14 | 1 | 16 | 17 |
| Agricultural Sciences | 8 | 16 | 24 | 11 | 14 | 25 |
| Basic Plastics | (18) | 25 | 7 | (8) | 23 | 15 |
| Basic Chemicals | (20) | 20 | | (11) | 22 | 11 |
| Hydrocarbons and Energy | 3 | 40 | 43 | 7 | 39 | 46 |
| Total | (9)% | 22% | 13% | (1)% | 20% | 19% |
| Geographic areas | | | | | | |
| United States | (15)% | 20% | 5% | (8)% | 17% | 9% |
| Europe | (6) | 25 | 19 | 1 | 24 | 25 |
| Rest of World | (3) | 20 | 17 | 5 | 17 | 22 |
| Total | (9)% | 22% | 13% | (1)% | 20% | 19% |

OUTLOOK

Economic issues and declining consumer confidence within the United States is now being seen in the global economy. Turmoil in the financial markets is straining the availability of credit. Inflation concerns have generally been replaced by recession and credit concerns. Demand is softening around the world; and it appears that a global recession throughout 2009 is likely.

Slowing demand has continued in the building and construction, automotive and furniture industries. The decline in sales that has been evident within the U.S. automotive and building and construction industries is now also being seen in Europe. Reduced U.S. consumer spending on durable goods is expected to continue; however, the impact on home consumables is expected to be less prevalent. The Company expects demand for clean water to continue to drive growth in water-related products. Growth remains strong in food, pharmaceuticals, personal care and oil and gas industries.

Purchased feedstock and energy costs are expected to remain volatile in the fourth quarter of 2008, and could be down significantly from third quarter 2008 levels. The supply/demand balance in the ethylene chain is expected to continue to weaken in the fourth quarter of 2008 and beyond due to the start up of additional industry capacity.

The Company remains cautious about the future due to slowing of global demand and the heightened financial market turmoil. The Company will remain focused on financial discipline with the continued implementation of its transformational strategy.

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**CHANGES IN FINANCIAL CONDITION**

The Company s cash flows from operating, investing and financing activities, as reflected in the Consolidated Statements of Cash Flows, are summarized in the following table:

**Cash Flow Summary**

| | Nine Months Ended | |
|---|---|---|
| **In millions** | **Sept. 30, 2008** | **Sept. 30, 2007** |
| Cash provided by (used in): | | |
| Operating activities | $ 2,462 | $ 3,254 |
| Investing activities | (1,937) | (2,086) |
| Financing activities | (54) | (2,022) |
| Effect of exchange rate changes on cash | 54 | 42 |
| Net change in cash and cash equivalents | $ 525 | $ (812) |

In the first nine months of 2008, cash provided by operating activities decreased compared with the same period last year primarily due to lower earnings and a change in the provision for deferred income taxes, partially offset by lower working capital requirements.

Cash used in investing activities in the first nine months of 2008 was down compared with the same period last year as a decrease in investments in consolidated affiliates (2007 included the acquisitions of Wolff Walsrode and Hyperlast Limited) was partially offset by higher capital expenditures and increased investments in nonconsolidated affiliates, including the formation of Americas Styrenics LLC in the second quarter of 2008. In addition, cash used in investing activities was reduced in 2008 by proceeds from sales of consolidated companies, principally related to the sale of Haltermann companies.

Cash used by financing activities in the first nine months of 2008 decreased significantly compared with the same period last year primarily due to the issuance of commercial paper and long-term debt, partially offset by a reduction in proceeds from sales of common stock (related to the exercise of stock options and the Employees Stock Purchase Plan).

Despite the current difficult economic market environment, the Company is expected to have sufficient liquidity and financial flexibility to meet all of its business obligations. Issuance of commercial paper as well as the regular issuance of medium term notes has continued.

On August 29, 2006, the Board of Directors approved a plan (the 2006 Plan ) to shut down a number of the Company s manufacturing facilities. These shutdowns are scheduled to be completed by the end of the first quarter of 2009. On December 3, 2007, the Board of Directors approved a restructuring plan (the 2007 Plan ) that includes the shutdown of a number of assets and organizational changes within targeted functions. These restructuring activities are expected to be completed by the end of 2009. The restructuring activities related to both the 2006 Plan and the 2007 Plan are expected to result in additional cash expenditures of approximately $265 million over the next few years related to severance costs, contract termination fees, asbestos abatement and environmental remediation (see Note C to the Consolidated Financial Statements). The Company expects to incur future costs related to its restructuring activities, as the Company continually looks for ways to enhance the efficiency and cost effectiveness of its operations, to ensure competitiveness across its businesses and across geographic areas. Future costs are expected to include demolition costs related to the closed facilities, which will be recognized as incurred. The Company also expects to incur additional employee-related costs, including involuntary termination benefits, related to its other optimization activities, and pension plan settlement costs. These costs cannot be reasonably estimated at this time.

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The following tables present working capital, total debt and certain balance sheet ratios:

**Working Capital**

| In millions | Sept. 30, 2008 | Dec. 31, 2007 |
|---|---|---|
| Current assets | $ 19,676 | $ 18,654 |
| Current liabilities | 14,149 | 12,445 |
| Working capital | $ 5,527 | $ 6,209 |
| Current ratio | 1.39:1 | 1.50:1 |
| Days-sales-outstanding-in-receivables | 38 | 38 |
| Days-sales-in-inventory | 62 | 61 |

**Total Debt**

| In millions | Sept. 30, 2008 | Dec. 31, 2007 |
|---|---|---|
| Notes payable | $ 2,407 | $ 1,548 |
| Long-term debt due within one year | 1,743 | 586 |
| Long-term debt | 8,257 | 7,581 |
| Total debt | $ 12,407 | $ 9,715 |
| Debt as a percent of total capitalization | 38.6% | 31.8% |

As part of its ongoing financing activities, Dow has the ability to issue promissory notes under its U.S. and Euromarket commercial paper programs. At September 30, 2008, there was $2.0 billion of commercial paper outstanding. In the event Dow has short-term liquidity needs and is unable to access these short-term markets for any reason, Dow has the ability to access liquidity through its committed and available $3 billion five-year revolving credit facility with various U.S. and foreign banks. This credit facility matures in April 2011.

At September 30, 2008, the Company had $40 million of SEC-registered securities available for issuance under a U.S. shelf registration, Euro 5 billion (approximately $7.2 billion) available for issuance under the Company s Euro Medium Term Note Program, as well as Japanese yen 50 billion (approximately $477 million) of securities available for issuance under a shelf registration filed with the Tokyo Stock Exchange on July 31, 2006, and renewed on July 31, 2008. In addition, as a well-known seasoned issuer, the Company filed an automatic shelf registration for an unspecified amount of mixed securities with the SEC on February 23, 2007. Under this shelf registration, the Company may offer common stock, preferred stock, depositary shares, debt securities, warrants, stock purchase contracts and stock purchase units.

During the third quarter of 2008, the other partner of Hobbes Capital S.A. ( Hobbes ), which is a consolidated foreign subsidiary of the Company, redeemed its $674 million ownership in Hobbes. Also during the third quarter of 2008, Calvin Capital LLC ( Calvin ), a wholly owned subsidiary of the Company, issued a three-year $674 million note payable with a floating rate based on London Interbank Offered Rate ( LIBOR ). These transactions were cash neutral to the Company. For further information on these transactions see Notes I and K to the Consolidated Financial Statements.

On May 1, 2008, the Company issued $800 million in unsecured notes with a coupon rate of 5.70 percent, semi-annual interest payments due every May and November, and the principal amount due at maturity on May 15, 2018. In the second quarter of 2008, the Company also issued $116 million in medium-term notes with varying maturities in 2013 and 2015 and at various interest rates averaging 5.07 percent. In the third quarter of 2008, the Company issued $298 million in medium-term notes with varying maturities in 2013, 2015 and 2018 and at various interest rates averaging 5.81 percent. Net proceeds from the notes will be used for general corporate purposes, which may include funding of capital expenditures, pursuing growth initiatives, whether through acquisitions, joint ventures or otherwise, repaying or refinancing indebtedness or other obligations, and financing working capital.

Dow s public debt instruments and documents for its private funding transactions contain, among other provisions, certain covenants and default provisions. At September 30, 2008, the Company was in compliance with all of these covenants and default provisions.

On October 26, 2006, the Company announced that its Board of Directors had approved a share buy-back program, authorizing up to $2 billion to be spent on the repurchase of the Company s common stock (the 2006 Program ). Purchases under the 2006 Program began in March 2007. In 2007, the Company purchased 26,225,207 shares of the Company s common stock under the 2006 Program. In the third quarter of 2008, the Company purchased 1,479,521 shares of the Company s common stock under the 2006 Program, bringing the number of shares purchased in 2008 to 21,867,831 shares and the total number of shares purchased under this program to 48,093,038 shares, and bringing the

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program to a close. See PART II, Item 2. Unregistered Sales of Equity Securities and Use of Proceeds for additional information.

On July 10, 2008 the Company and Rohm and Haas Company ( Rohm and Haas ) announced a definitive agreement, under which the Company will acquire all outstanding shares of Rohm and Haas common stock for $78 per share in cash. Financing for the transaction will include equity investments by Berkshire Hathaway Inc. and the Kuwait Investment Authority in the form of convertible preferred stock for $3 billion and $1 billion, respectively. In addition, debt financing of $13 billion has been committed through a Term Loan Agreement with the lenders party thereto a syndicate of 19 financial institutions and Citibank, N.A., as administrative agent for the lenders. These financing commitments are conditional upon the closing of the transaction and subject to other customary conditions.

**Fair Value Measurements**

Assets and liabilities measured at fair value are classified in the fair value hierarchy based on the inputs used for valuation. Assets that are traded on an exchange with a quoted price are classified as Level 1. Assets and liabilities that are valued based on a bid or bid evaluation are classified as Level 2. The custodian of the Company s debt and equity securities uses multiple industry-recognized vendors for pricing information and established processes for validation and verification to assist the Company in its process for determining and validating fair values for these assets. The Company currently has no assets or liabilities that are valued using unobservable inputs and therefore no assets or liabilities that are classified as Level 3. The sensitivity of fair value estimates is immaterial relative to the assets and liabilities measured at fair value, as well as to the total equity of the Company. See Note G to the Consolidated Financial Statements for the Company s disclosures about fair value measurements.

Portfolio managers and external investment managers regularly review all of the Company s holdings to determine if any investments are other-than-temporarily impaired. The analysis includes reviewing the amount of the temporary impairment, as well as the length of time it has been impaired. In addition, specific guidelines for each instrument type are followed to determine if an other-than-temporary impairment has occurred. For debt securities, the credit rating of the issuer, current credit rating trends and the trends of the issuer s overall sector are considered in determining impairment. For equity securities, the Company s investment guidelines require investment in Standard & Poor s ( S&P ) 500 companies and allow investment in up to 25 companies outside of the S&P 500. In the third quarter of 2008, other-than-temporary impairment write downs were immaterial to the Company.

**Contractual Obligations**

Information related to the Company s contractual obligations and commercial commitments at December 31, 2007 can be found in Notes J, K, L, M and R to the Consolidated Financial Statements in the Company s Annual Report on Form 10-K for the year ended December 31, 2007. With the exception of the items noted below, there have been no material changes in the Company s contractual obligations or commercial commitments since December 31, 2007.

In January 2008, the Company entered into a new 11-year contract for the purchase of ethylene-related products beginning in 2010. At September 30, 2008, the fixed and determinable portion of the take-or-pay commitment associated with this new contract was $59 million in 2010, $118 million in 2011, $118 million in 2012 and $944 million in 2013 and beyond. In June 2008, the Company entered into a new 20-year contract for the purchase of power and steam beginning in 2011. At September 30, 2008, the fixed and determinable portion of the take-or-pay commitment associated with this new contract was $23 million in 2011, $69 million in 2012 and $1,460 million in 2013 and beyond.

See Note H to the Consolidated Financial Statements for further information on purchase commitments.

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The following table represents long-term debt obligations and expected cash requirements for interest at September 30, 2008, reflecting the additional debt issued in the second and third quarters of 2008, as outlined previously.

**Contractual Obligations at September 30, 2008**

| | Payments Due by Year | | | | | | |
|---|---|---|---|---|---|---|---|
| **In millions** | **2008** | **2009** | **2010** | **2011** | **2012** | **2013 and beyond** | **Total** |
| Long-term debt current and noncurrent (1) | $ 500 | $ 1,452 | $ 1,049 | $ 1,526 | $ 1,004 | $ 4,469 | $ 10,000 |
| Expected cash requirements for interest (1) | $ 586 | $ 581 | $ 531 | $ 460 | $ 354 | $ 4,442 | $ 6,954 |

(1) Updated to reflect additional debt issued in the second and third quarters of 2008 (see Note I to the Consolidated Financial Statements).

**Contractual Obligations at December 31, 2007**

| | Payments Due by Year | | | | | | |
|---|---|---|---|---|---|---|---|
| **In millions** | **2008** | **2009** | **2010** | **2011** | **2012** | **2013 and beyond** | **Total** |
| Long-term debt current and noncurrent | $ 586 | $ 777 | $ 1,065 | $ 1,548 | $ 1,006 | $ 3,185 | $ 8,167 |
| Expected cash requirements for interest | $ 504 | $ 472 | $ 421 | $ 359 | $ 276 | $ 4,223 | $ 6,255 |

The Company had outstanding guarantees at September 30, 2008. Additional information related to these guarantees can be found in the Guarantees table provided in Note H to the Consolidated Financial Statements.

**Dividends**

On September 11, 2008, the Company declared a quarterly dividend of $0.42 per share, payable on October 30, 2008, to stockholders of record on September 30, 2008. Since 1912, the Company has paid a cash dividend every quarter and, in each instance, Dow has maintained or increased the amount of the dividend, adjusted for stock splits. During that 96-year period, Dow has increased the amount of the quarterly dividend 47 times (approximately 12 percent of the time) and maintained the amount of the quarterly dividend approximately 88 percent of the time.

**OTHER MATTERS**

**Recent Accounting Pronouncements**

See Note B to the Consolidated Financial Statements for a summary of recent accounting pronouncements.

**Critical Accounting Policies**

The preparation of financial statements and related disclosures in conformity with accounting principles generally accepted in the United States of America ( GAAP ) requires management to make judgments, assumptions and estimates that affect the amounts reported in the consolidated financial statements and accompanying notes. Note A to the Consolidated Financial Statements in the Company s Annual Report on Form 10-K for the year ended December 31, 2007 ( 2007 10-K ) describes the significant accounting policies and methods used in the preparation of the consolidated financial statements. Dow s critical accounting policies that are impacted by judgments, assumptions and estimates are described in Management s Discussion and Analysis of Financial Condition and Results of Operations in the Company s 2007 10-K. Since December 31, 2007, there have been no material changes in the Company s critical accounting policies.

**Asbestos-Related Matters of Union Carbide Corporation**

*Introduction*

Union Carbide Corporation ( Union Carbide ), a wholly owned subsidiary of the Company, is and has been involved in a large number of asbestos-related suits filed primarily in state courts during the past three decades. These suits principally allege personal injury resulting from exposure to asbestos-containing products and frequently seek both actual and punitive damages. The alleged claims primarily relate to products that Union Carbide sold in the past, alleged exposure to asbestos-containing products located on Union Carbide s premises, and Union Carbide s responsibility for

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asbestos suits filed against a former Union Carbide subsidiary, Amchem Products, Inc. ( Amchem ). In many cases, plaintiffs are unable to demonstrate that they have suffered any compensable loss as a result of such exposure, or that injuries incurred in fact resulted from exposure to Union Carbide s products.

Influenced by the bankruptcy filings of numerous defendants in asbestos-related litigation and the prospects of various forms of state and national legislative reform, the rate at which plaintiffs filed asbestos-related suits against various companies, including Union Carbide and Amchem, increased in 2001, 2002 and the first half of 2003. Since then, the rate of filing has significantly abated. Union Carbide expects more asbestos-related suits to be filed against Union Carbide and Amchem in the future, and will aggressively defend or reasonably resolve, as appropriate, both pending and future claims.

The table below provides information regarding asbestos-related claims filed against Union Carbide and Amchem:

| | **2008** | **2007** |
|---|---|---|
| Claims unresolved at January 1 | 90,322 | 111,887 |
| Claims filed | 8,357 | 7,696 |
| Claims settled, dismissed or otherwise resolved | (15,856) | (15,681) |
| Claims unresolved at September 30 | 82,823 | 103,902 |
| Claimants with claims against both UCC and Amchem | 26,184 | 35,114 |
| Individual claimants at September 30 | 56,639 | 68,788 |

Plaintiffs lawyers often sue dozens or even hundreds of defendants in individual lawsuits on behalf of hundreds or even thousands of claimants. As a result, the damages alleged are not expressly identified as to Union Carbide, Amchem or any other particular defendant, even when specific damages are alleged with respect to a specific disease or injury. In fact, there are no personal injury cases in which only Union Carbide and/or Amchem are the sole named defendants. For these reasons and based upon Union Carbide s litigation and settlement experience, Union Carbide does not consider the damages alleged against Union Carbide and Amchem to be a meaningful factor in its determination of any potential asbestos liability.

*Estimating the Liability*

Based on a study completed by Analysis, Research & Planning Corporation ( ARPC ) in January 2003, Union Carbide increased its December 31, 2002 asbestos-related liability for pending and future claims for the 15-year period ending in 2017 to $2.2 billion, excluding future defense and processing costs. Since then, Union Carbide has compared current asbestos claim and resolution activity to the results of the most recent ARPC study at each balance sheet date to determine whether the accrual continues to be appropriate. In addition, Union Carbide has requested ARPC to review Union Carbide s historical asbestos claim and resolution activity each November since 2004 to determine the appropriateness of updating the most recent ARPC study.

In November 2006, Union Carbide requested ARPC to review Union Carbide s historical asbestos claim and resolution activity and determine the appropriateness of updating its most recent study from January 2005. In response to that request, ARPC reviewed and analyzed data through October 31, 2006 and concluded that the experience from 2004 through 2006 was sufficient for the purpose of forecasting future filings and values of asbestos claims filed against Union Carbide and Amchem, and could be used in place of previous assumptions to update the January 2005 study. The resulting study, completed by ARPC in December 2006, stated that the undiscounted cost of resolving pending and future asbestos-related claims against Union Carbide and Amchem, excluding future defense and processing costs, through 2021 was estimated to be between approximately $1.2 billion and $1.5 billion. As in its January 2003 and January 2005 studies, ARPC provided estimates for a longer period of time in its December 2006 study, but also reaffirmed its prior advice that forecasts for shorter periods of time are more accurate than those for longer periods of time.

Based on ARPC s December 2006 study and Union Carbide s own review of the asbestos claim and resolution activity, Union Carbide decreased its asbestos-related liability for pending and future claims to $1.2 billion at December 31, 2006 which covered the 15-year period ending in 2021 (excluding future defense and processing costs). The reduction was $177 million and was shown as Asbestos-related credit in the consolidated statements of income.

In November 2007, Union Carbide requested ARPC to review Union Carbide s 2007 asbestos claim and resolution activity and determine the appropriateness of updating its 2006 study. In response to that request, ARPC reviewed and analyzed data through October 31, 2007. In December 2007, ARPC stated that an update of its study would not provide a more likely estimate of future events than the estimate reflected in its study of the previous year and, therefore, the estimate in that study remained applicable. Based on Union Carbide s own review of the asbestos claim and resolution

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activity and ARPC s response, Union Carbide determined that no change to the accrual was required. At December 31, 2007, Union Carbide s asbestos-related liability for pending and future claims was $1.1 billion. At December 31, 2007, approximately 31 percent of the recorded liability related to pending claims and approximately 69 percent related to future claims.

Based on Union Carbide s review of 2008 activity, Union Carbide determined that no adjustment to the accrual was required at September 30, 2008. Union Carbide s asbestos-related liability for pending and future claims was $1.0 billion at September 30, 2008. Approximately 27 percent of the recorded liability related to pending claims and approximately 73 percent related to future claims.

*Defense and Resolution Costs*

The following table provides information regarding defense and resolution costs related to asbestos-related claims filed against Union Carbide and Amchem:

**Defense and Resolution Costs**

| In millions | Nine Months Ended Sept. 30, 2008 | Nine Months Ended Sept. 30, 2007 | Aggregate Costs to Date as of Sept. 30, 2008 |
|---|---|---|---|
| Defense costs | $ 37 | $ 58 | $ 602 |
| Resolution costs | $ 90 | $ 48 | $ 1,360 |

The average resolution payment per asbestos claimant and the rate of new claim filings has fluctuated both up and down since the beginning of 2001. Union Carbide s management expects such fluctuations to continue in the future based upon a number of factors, including the number and type of claims settled in a particular period, the jurisdictions in which such claims arose, and the extent to which any proposed legislative reform related to asbestos litigation is being considered.

Union Carbide expenses defense costs as incurred. The pretax impact for defense and resolution costs, net of insurance, was $14 million in the third quarter of 2008 ($16 million in the third quarter of 2007) and $30 million in the first nine months of 2008 ($58 million in the first nine months of 2007), and was reflected in Cost of sales.

*Insurance Receivables*

At December 31, 2002, Union Carbide increased the receivable for insurance recoveries related to its asbestos liability to $1.35 billion, substantially exhausting its asbestos product liability coverage. The insurance receivable related to the asbestos liability was determined by Union Carbide after a thorough review of applicable insurance policies and the 1985 Wellington Agreement, to which Union Carbide and many of its liability insurers are signatory parties, as well as other insurance settlements, with due consideration given to applicable deductibles, retentions and policy limits, and taking into account the solvency and historical payment experience of various insurance carriers. The Wellington Agreement and other agreements with insurers are designed to facilitate an orderly resolution and collection of Union Carbide s insurance policies and to resolve issues that the insurance carriers may raise.

In September 2003, Union Carbide filed a comprehensive insurance coverage case, now proceeding in the Supreme Court of the State of New York, County of New York, seeking to confirm its rights to insurance for various asbestos claims and to facilitate an orderly and timely collection of insurance proceeds. This lawsuit was filed against insurers that are not signatories to the Wellington Agreement and/or do not otherwise have agreements in place with Union Carbide regarding their asbestos-related insurance coverage, in order to facilitate an orderly resolution and collection of such insurance policies and to resolve issues that the insurance carriers may raise. Although the lawsuit is continuing, through the end of the third quarter of 2008, Union Carbide has reached settlements with several of the carriers involved in this litigation.

Union Carbide s receivable for insurance recoveries related to its asbestos liability was $415 million at September 30, 2008 and $467 million at December 31, 2007. At September 30, 2008 and December 31, 2007, all of the receivable for insurance recoveries was related to insurers that are not signatories to the Wellington Agreement and/or do not otherwise have agreements in place regarding their asbestos-related insurance coverage.

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In addition to the receivable for insurance recoveries related to its asbestos liability, Union Carbide had receivables for defense and resolution costs submitted to insurance carriers for reimbursement as follows:

**Receivables for Costs Submitted to Insurance Carriers**

| In millions | Sept. 30, 2008 | Dec. 31, 2007 |
|---|---|---|
| Receivables for defense costs | $ 35 | $ 18 |
| Receivables for resolution costs | 245 | 253 |
| Total | $ 280 | $ 271 |

After a review of its insurance policies, with due consideration given to applicable deductibles, retentions and policy limits, after taking into account the solvency and historical payment experience of various insurance carriers; existing insurance settlements; and the advice of outside counsel with respect to the applicable insurance coverage law relating to the terms and conditions of its insurance policies, Union Carbide continues to believe that its recorded receivable for insurance recoveries from all insurance carriers is probable of collection.

*Summary*

The amounts recorded by Union Carbide for the asbestos-related liability and related insurance receivable described above were based upon current, known facts. However, future events, such as the number of new claims to be filed and/or received each year, the average cost of disposing of each such claim, coverage issues among insurers, and the continuing solvency of various insurance companies, as well as the numerous uncertainties surrounding asbestos litigation in the United States, could cause the actual costs and insurance recoveries for Union Carbide to be higher or lower than those projected or those recorded.

Because of the uncertainties described above, Union Carbide s management cannot estimate the full range of the cost of resolving pending and future asbestos-related claims facing Union Carbide and Amchem. Union Carbide s management believes that it is reasonably possible that the cost of disposing of Union Carbide s asbestos-related claims, including future defense costs, could have a material adverse impact on Union Carbide s results of operations and cash flows for a particular period and on the consolidated financial position of Union Carbide.

It is the opinion of Dow s management that it is reasonably possible that the cost of Union Carbide disposing of its asbestos-related claims, including future defense costs, could have a material adverse impact on the Company s results of operations and cash flows for a particular period and on the consolidated financial position of the Company.

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**The Dow Chemical Company and Subsidiaries**

**PART I FINANCIAL INFORMATION**

## ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK.

Dow s business operations give rise to market risk exposure due to changes in foreign exchange rates, interest rates, commodity prices and other market factors such as equity prices. To manage such risks effectively, the Company enters into hedging transactions, pursuant to established guidelines and policies, which enable it to mitigate the adverse effects of financial market risk. Derivatives used for this purpose are designated as hedges per SFAS No. 133, Accounting for Derivative Instruments and Hedging Activities, where appropriate. A secondary objective is to add value by creating additional non-specific exposure within established limits and policies; derivatives used for this purpose are not designated as hedges per SFAS No. 133. The potential impact of creating such additional exposures is not material to the Company s results.

The global nature of Dow s business requires active participation in the foreign exchange markets. As a result of investments, production facilities and other operations on a global basis, the Company has assets, liabilities and cash flows in currencies other than the U.S. dollar. The primary objective of the Company s foreign exchange risk management is to optimize the U.S. dollar value of net assets and cash flows, keeping the adverse impact of currency movements to a minimum. To achieve this objective, the Company hedges on a net exposure basis using foreign currency forward contracts, over-the-counter option contracts, cross-currency swaps, and nonderivative instruments in foreign currencies. Main exposures are related to assets and liabilities denominated in the currencies of Europe, Asia Pacific and Canada; bonds denominated in foreign currencies mainly the Euro; and economic exposure derived from the risk that currency fluctuations could affect the U.S. dollar value of future cash flows. The majority of the foreign exchange exposure is related to European currencies and the Japanese yen.

The main objective of interest rate risk management is to reduce the total funding cost to the Company and to alter the interest rate exposure to the desired risk profile. Dow uses interest rate swaps, swaptions, and exchange-traded instruments to accomplish this objective. The Company s primary exposure is to the U.S. dollar yield curve.

Dow has a portfolio of equity securities derived from its acquisition and divestiture activity. This exposure is managed in a manner consistent with the Company s market risk policies and procedures.

Inherent in Dow s business is exposure to price changes for several commodities. Some exposures can be hedged effectively through liquid tradable financial instruments. Feedstocks for ethylene production and natural gas constitute the main commodity exposures. Over-the-counter and exchange traded instruments are used to hedge these risks when feasible.

Dow uses value at risk ( VAR ), stress testing and scenario analysis for risk measurement and control purposes. VAR estimates the potential gain or loss in fair market values that could arise in one day, given a certain move in prices over a certain period of time, using specified confidence levels. Through the end of 2007, the VAR methodology used by the Company was based primarily on a variance/covariance statistical model. The year-end VAR and average daily VAR for the aggregate of non-trading and trading positions using this model for 2007 and 2006 are shown below. These amounts are immaterial relative to the total equity of the Company.

**Total Daily VAR at December 31***

| | 2007 | | 2006 | |
|---|---|---|---|---|
| **In millions** | **Year-end** | **Average** | **Year-end** | **Average** |
| Foreign exchange | $ 7 | $ 5 | $ 3 | $ 4 |
| Interest rate | $ 57 | $ 44 | $ 34 | $ 43 |
| Equities | $ 15 | $ 16 | $ 9 | $ 3 |
| Commodities | $ 17 | $ 11 | $ 14 | $ 19 |

*Using a 95 percent confidence level

The Company s daily VAR for the aggregate of trading and non-trading positions using the variance/covariance statistical model increased from a total VAR of $96 million at December 31, 2007 to a total of $140 million at September 30, 2008. The increase related primarily to an increase in the interest rate VAR from $57 million to $89 million, principally due to an increase in interest rate volatility, and an increase in the commodities VAR from $17 million to $31 million primarily due to an increase in commodity price volatility.

In the first quarter of 2008, the Company changed its primary VAR methodology from a variance/covariance statistical model to a historical simulation model to more effectively capture co-movements in market rates across different market risk exposure categories. In the new historical simulation model, a 97.5 percent confidence level is used and the historical scenario period includes at least six months of historical data. The new historical simulation model resulted in a composite daily VAR of $80 million at September 30, 2008; the VAR calculated for the individual exposure categories was $2 million for foreign exchange exposure, $84 million for interest rate exposure, $15 million for equities exposure and $24 million for commodities exposure.

Since December 31, 2007, there have been no material changes in the Company s risk management policies.

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## ITEM 4. CONTROLS AND PROCEDURES.

### Evaluation of Disclosure Controls and Procedures

As of the end of the period covered by this Quarterly Report on Form 10-Q, the Company carried out an evaluation, under the supervision and with the participation of the Company s Disclosure Committee and the Company s management, including the Chief Executive Officer and the Chief Financial Officer, of the effectiveness of the design and operation of the Company s disclosure controls and procedures pursuant to paragraph (b) of Exchange Act Rules 13a-15 or 15d-15. Based upon that evaluation, the Chief Executive Officer and the Chief Financial Officer concluded that the Company s disclosure controls and procedures were effective.

### Changes in Internal Control Over Financial Reporting

There were no changes in the Company s internal control over financial reporting identified in connection with the evaluation required by paragraph (d) of Exchange Act Rules 13a-15 or 15d-15 that was conducted during the last fiscal quarter that have materially affected, or are reasonably likely to materially affect, the Company s internal control over financial reporting.

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**The Dow Chemical Company and Subsidiaries**

**PART II OTHER INFORMATION**

## ITEM 1. LEGAL PROCEEDINGS.

### Asbestos-Related Matters of Union Carbide Corporation

No material developments regarding this matter occurred during the third quarter of 2008. For a summary of the history and current status of this matter, see Note H to the Consolidated Financial Statements; and Management s Discussion and Analysis of Financial Condition and Results of Operations, Asbestos-Related Matters of Union Carbide Corporation.

### Environmental Matters

The Company and the Texas Commission on Environmental Quality (the TCEQ ) combined 12 Notices of Enforcement ( NOEs ) issued by the TCEQ in relation to the Company s Freeport, Texas site into a single enforcement matter for resolution. Nine of the 12 initial penalty assessments associated with the NOEs were received by the Company in the second quarter of 2006. The 12 NOEs primarily relate to alleged fugitive air emissions, air emission events and environmental recordkeeping violations; and seek a combined civil penalty of $858,738. On October 8, 2008, the TCEQ and the Company agreed to settle these and several additional, similar matters for a combined civil penalty of $648,904, half of which will be paid to the TCEQ, with the balance to be used to purchase low emission school buses for use near the Company s Freeport, Texas site.

The Company received an Administrative Complaint dated September 26, 2008 from the United States Environmental Protection Agency ( EPA ) - Region 1 office notifying the Company of the EPA s intent to assess civil penalties in the proposed amount of $330,112 for seven alleged violations of the Company s Allyn s Point, Connecticut manufacturing facilities Title V Clean Air Act Operating Permit and Title V regulations. The seven alleged violations relate primarily to environmental recordkeeping infractions, failure to follow required work practices and one alleged violation of volatile organic compound ( VOC ) emission requirements. The Company has requested an informal settlement conference and intends to request a formal administrative hearing to contest the allegations and the proposed penalty, if necessary. While the Company expects that the penalty will be reduced, resolution may result in a civil penalty in excess of $100,000.

## ITEM 1A. RISK FACTORS.

The factors described below represent the Company s principal risks. Except as otherwise indicated, these factors may or may not occur and the Company is not in a position to express a view on the likelihood of any such factor occurring. Other factors may exist that the Company does not consider significant based on information that is currently available or that the Company is not currently able to anticipate.

**Volatility in purchased feedstock and energy costs impact Dow s operating costs and add variability to earnings.**

During 2007, purchased feedstock and energy costs continued to rise, adding an additional $2.5 billion of costs compared with 2006 and accounting for 49 percent of the Company s total production costs and operating expenses in 2007, unchanged from 2006 and up from 47 percent in 2005. Purchased feedstock and energy costs are expected to remain high and volatile throughout 2008. As of the end of the third quarter of 2008, these costs were up $7.2 billion, an increase of 45 percent, over the same period of 2007. The Company uses its feedstock flexibility and financial and physical hedging programs to lower overall feedstock costs. However, when these costs increase, the Company is not always able to immediately raise selling prices and, ultimately, its ability to pass on underlying cost increases is greatly dependent on market conditions. As a result, increases in these costs could negatively impact the Company s results of operations.

**Volatility and disruption of financial markets could affect access to credit.**

The current difficult economic market environment is causing contraction in the availability of credit in the marketplace. This could potentially reduce the sources of liquidity for the Company.

**The earnings generated by the Company s basic chemical and basic plastic products will vary from period to period based in part on the balance of supply relative to demand within the industry.**

The balance of supply relative to demand within the industry may be significantly impacted by the addition of new capacity. For basic commodities, capacity is generally added in large increments as world-scale facilities are built. This may disrupt industry balances and result in downward pressure on prices due to the increase in supply, which could negatively impact the Company s results of operations.

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**Adverse conditions in the global economy and disruption of financial markets could negatively impact Dow s customers and therefore Dow s results of operations.**

An economic downturn in the businesses or geographic areas in which Dow sells its products could reduce demand for these products and result in a decrease in sales volume that could have a negative impact on Dow s results of operations. Volatility and disruption of financial markets could limit customers ability to obtain adequate financing to maintain operations and result in a decrease in sales volume that could have a negative impact on Dow s results of operations.

**If key suppliers are unable to provide the raw materials required for production, Dow may not be able to obtain the raw materials from other sources on as favorable terms.**

The Company purchases hydrocarbon raw materials including liquefied petroleum gases, crude oil, naphtha, natural gas and condensate. The Company also purchases electric power, benzene, ethylene, propylene and styrene to supplement internal production, and other raw materials. If the Company s key suppliers are unable to provide the raw materials required for production, it could have a negative impact on Dow s results of operations. For example, during 2005 and again in the third quarter of 2008, the Company experienced temporary supply disruptions related to major hurricanes that hit the U.S. Gulf Coast. In addition, volatility and disruption of financial markets could limit suppliers ability to obtain adequate financing to maintain operations that could have a negative impact on Dow s results of operations.

**The Company experiences substantial competition in each of the operating segments and geographic areas in which it operates.**

Historically, the chemical industry has operated in a competitive environment, and that environment is expected to continue. In addition to other chemical companies, the chemical divisions of major international oil companies provide substantial competition. Dow competes worldwide on the basis of quality, price and customer service. Increased levels of competition could result in lower prices or lower sales volume, which would have a negative impact on the Company s results of operations.

**Actual or alleged violations of environmental laws or permit requirements could result in restrictions or prohibitions on plant operations, substantial civil or criminal sanctions, as well as the assessment of strict liability and/or joint and several liability.**

The Company is subject to extensive federal, state, local and foreign laws, regulations, rules and ordinances relating to pollution, protection of the environment and the generation, storage, handling, transportation, treatment, disposal and remediation of hazardous substances and waste materials. At September 30, 2008, the Company had accrued obligations of $306 million ($322 million at December 31, 2007) for environmental remediation and restoration costs, including $23 million ($28 million at December 31, 2007) for the remediation of Superfund sites. This is management s best estimate of the costs for remediation and restoration with respect to environmental matters for which the Company has accrued liabilities, although the ultimate cost with respect to these particular matters could range up to twice that amount. Costs and capital expenditures relating to environmental, health or safety matters are subject to evolving regulatory requirements and will depend on the timing of the promulgation and enforcement of specific standards which impose the requirements. Moreover, changes in environmental regulations could inhibit or interrupt the Company s operations, or require modifications to its facilities. Accordingly, environmental, health or safety regulatory matters may result in significant unanticipated costs or liabilities.

**The Company is party to a number of claims and lawsuits arising out of the normal course of business with respect to commercial matters, including product liability, governmental regulation and other actions**.

Certain of the claims and lawsuits facing the Company purport to be class actions and seek damages in very large amounts. All such claims are being contested. With the exception of the possible effect of the asbestos-related liability of Union Carbide Corporation ( Union Carbide ), described below, it is the opinion of the Company s management that the possibility is remote that the aggregate of all such claims and lawsuits will have a material adverse impact on the Company s consolidated financial statements.

Union Carbide is and has been involved in a large number of asbestos-related suits filed primarily in state courts during the past three decades. At September 30, 2008, Union Carbide s asbestos-related liability for pending and future claims was $1.0 billion ($1.1 billion at December 31, 2007) and its receivable for insurance recoveries related to its asbestos liability was $415 million ($467 million at December 31, 2007). At September 30, 2008, Union Carbide also had receivables of $280 million ($271 million December 31, 2007) for insurance recoveries for defense and resolution costs. It is the opinion of the Company s management that it is reasonably possible that the cost of Union Carbide disposing of its asbestos-related claims, including future defense costs, could have a material adverse impact on the

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Company s results of operations and cash flows for a particular period and on the consolidated financial position of the Company.

**Local, state and federal governments have begun a regulatory process that could lead to new regulations impacting the security of chemical plant locations and the transportation of hazardous chemicals.**

Growing public and political attention has been placed on protecting critical infrastructure, including the chemical industry, from security threats. Terrorist attacks and natural disasters have increased concern regarding the security of chemical production and distribution. In addition, local, state and federal governments have begun a regulatory process that could lead to new regulations impacting the security of chemical plant locations and the transportation of hazardous chemicals, which could result in higher operating costs and interruptions in normal business operations.

**Failure to develop new products could make the Company less competitive.**

The Company is engaged in a continuous program of basic and applied research to develop new products and processes, to improve and refine existing products and processes, and to develop new applications for existing products. Failure to develop new products could make the Company less competitive.

**Failure to protect the Company s intellectual property could negatively affect its future performance and growth.**

The Company continually applies for and obtains U.S. and foreign patents to protect the results of its research for use in operations and licensing. Dow is also party to a substantial number of patent licenses and other technology agreements. The Company relies on patents, confidentiality agreements and internal security measures to protect its intellectual property. Failure to protect this intellectual property could negatively affect the Company s future performance and growth.

**Weather-related matters could impact the Company s results of operations.**

In 2005 and again in the third quarter of 2008, major hurricanes caused significant disruption in Dow s operations on the U.S. Gulf Coast, logistics across the region and the supply of certain raw materials, which had an adverse impact on volume and cost for some of Dow s products. If similar weather-related matters occur in the future, it could negatively affect Dow s results of operations, due to the Company s substantial presence on the U.S. Gulf Coast.

**The Company s global business operations give rise to market risk exposure.**

The Company s global business operations give rise to market risk exposure related to changes in foreign exchange rates, interest rates, commodity prices and other market factors such as equity prices. To manage such risks, Dow enters into hedging transactions, pursuant to established guidelines and policies. If Dow fails to effectively manage such risks, it could have a negative impact on the Company s consolidated financial statements.

**The value of investments are influenced by economic and market conditions.**

The current economic environment could negatively impact the fair value of pension assets, which could increase future funding requirements of the pension trusts.

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**ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS.**

The following table provides information regarding purchases of the Company s common stock by the Company during the three months ended September 30, 2008:

**Issuer Purchases of Equity Securities**

| Period | Total number of shares purchased (1) | Average price paid per share | Total number of shares purchased as part of the Company s publicly announced share repurchase program (2) | Approximate dollar value of shares that may yet be purchased under the Company s publicly announced share repurchase program (2) |
|---|---|---|---|---|
| July 2008 | 1,940 | $ 31.67 | | $ 50,007,925 |
| August 2008 | 76,413 | $ 34.58 | 75,921 | $ 47,382,372 |
| September 2008 | 1,454,296 | $ 33.81 | 1,403,600 | |
| Third quarter 2008 | 1,532,649 | $ 33.85 | 1,479,521 | |

(1) Includes 53,128 shares received from employees and non-employee directors to pay taxes owed to the Company as a result of the exercise of stock options or the delivery of deferred stock.

(2) On October 26, 2006, the Company announced that the Board of Directors had approved a share buy-back program, authorizing up to $2 billion to be spent on the repurchase of the Company s common stock. Purchases under this program began in March 2007 and were completed in the third quarter of 2008.

**ITEM 6. EXHIBITS.**

See the Exhibit Index on page 52 of this Quarterly Report on Form 10-Q for exhibits filed with this report.

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**The Dow Chemical Company and Subsidiaries**

**Trademark Listing**

The following trademarks or service marks of The Dow Chemical Company and certain affiliated companies of Dow appear in this report: AFFINITY, AIRSTONE, AMBITROL, AMPLIFY, ASPUN, ATTANE, BETABRACE, BETADAMP, BETAFOAM, BETAGUARD, BETAMATE, BETASEAL, BYKFIL, CALIBRE, CANGUARD, CARBITOL, CARBOWAX, CELLOSIZE, CELLOSOLVE, CILBOND, CILCAST, CLEAR+STABLE, COMBOTHERM, CONTINUUM, CYCLOTENE, D.E.H., D.E.N., D.E.R., DOW, DOW XLA, DOWCAL, DOWEX, DOWEX QCAT, DOWFAX, DOWFLAKE, DOWFROST, DOWICIDE, DOWLEX, DOWPER, DOWTHERM, DUOTHANE, ECHELON, ELITE, EMERGE, ENFORCER, ENGAGE, ENHANCER, ETHOCEL, EVOCAR, FILMTEC, FLEXOMER, FORTEFIBER, FOUNDATIONS, FROTH-PAK, GREAT STUFF, HYPOL, IMPAXX, INSPIRE, INSTA-STIK, INTEGRAL, ISOFIL, ISONATE, ISOPLAST, LIQUIDOW, LP OXO, MAGNUM, MAXIBOOST, MAXICHECK, MAXISTAB, METEOR, METHOCEL, MONOTHANE, NEOCAR, NORDEL, NORKOOL, NORMAX, OPTIM, PAPI, PELADOW, PELLETHANE, PFĒNEX EXPRESSION TECHNOLOGY, POLYOX, POLYPHOBE, POR-A-MOLD, PRIMACOR, PROCITE, PULSE, QBIS, REDI-LINK, RENUVA, SAFE-TAINER, SARAN, SARANEX, SATINFX, SENTRY, SHAC, SI-LINK, SILK, SOLIDAIR, SPECFLEX, SPECTRIM, STEVENS ROOFING SYSTEMS, STYROFOAM, STYRON, STYRON A-TECH, STYRON C-TECH, SYNALOX, SYNTACTIC, TERGITOL,THERMAX, TILE BOND, TRAFFIDECK, TRAFIGRIP, TRENCHCOAT, TRITON, TUFLIN, TYRBOND, TYRIL, TYRIN, UCAR, UCARE, UCARHIDE, UCARKLEAN, UCARSOL, UCARTHERM, UCON, UNIGARD, UNIPOL, UNIPURGE, UNIVAL, VERDISEAL, VERSENE, VERSIFY, VORACOR, VORACTIV, VORALAST, VORALUX, VORAMER, VORANATE, VORANOL, VORASTAR, WALOCEL, WEATHERMATE, XITRACK

The following trademarks or service marks of Dow AgroSciences LLC and certain affiliated companies of Dow AgroSciences LLC appear in this report: AGROMEN, CLINCHER, DAIRYLAND, DELEGATE, DITHANE, FORTRESS, GARLON, GLYPHOMAX, GRANITE, HERCULEX, KEYSTONE, LAREDO, LONTREL, LORSBAN, MILESTONE, MUSTANG, MYCOGEN, NEXERA, PHYTOGEN, PROFUME, SENTRICON, SIMPLICITY, STARANE, TELONE, TORDON, TRACER NATURALYTE, TRIUMPH, VIKANE, WIDESTRIKE

The following trademark of Dow Corning Corporation appears in this report: SYLTHERM

Dow is a distributor of SYLTHERM products manufactured by Dow Corning Corporation

The following trademark of Ann Arbor Technical Services, Inc. appears in this report: GeoMorph

The following trademark of Illinois Tool Works appears in this report: TRYMER

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**The Dow Chemical Company and Subsidiaries**

**Signature**

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

THE DOW CHEMICAL COMPANY

Registrant

Date: October 28, 2008

/s/ WILLIAM H. WEIDEMAN
William H. Weideman
Vice President and Controller

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**The Dow Chemical Company and Subsidiaries**

**Exhibit Index**

| EXHIBIT NO. | DESCRIPTION |
|---|---|
| 3(ii) | The Bylaws of The Dow Chemical Company, as amended and re-adopted in full on October 8, 2008, effective October 9, 2008, incorporated by reference to Exhibit 99.1 to The Dow Chemical Company Current Report on Form 8-K filed on October 14, 2008. |
| 10(cc) | A copy of The Dow Chemical Company Non-Employee Director Voluntary Elective Deferral Plan, amended and restated on October 8, 2008, effective as of January 1, 2005. |
| 10(mm) | Term Loan Agreement, dated as of September 8, 2008, among The Dow Chemical Company, as borrower, the lenders party thereto and Citibank, N.A, as administrative agent for the lenders, incorporated by reference to Exhibit 99.1 to The Dow Chemical Company Current Report on Form 8-K filed on September 9, 2008. |
| 10(nn) | Investment Agreement, dated as of October 27, 2008, between The Dow Chemical Company and Berkshire Hathaway Inc., incorporated by reference to Exhibit 10.1 to The Dow Chemical Company Current Report on Form 8-K filed on October 27, 2008. |
| 10(oo) | Investment Agreement, dated as of October 27, 2008, between The Dow Chemical Company and The Kuwait Investment Authority, incorporated by reference to Exhibit 10.2 to The Dow Chemical Company Current Report on Form 8-K filed on October 27, 2008. |
| 23 | Analysis, Research & Planning Corporation s Consent. |
| 31(a) | Certification Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002. |
| 31(b) | Certification Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002. |
| 32(a) | Certification Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002. |
| 32(b) | Certification Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002. |