DOW CHEMICAL CO /DE/
Form 10-K
February 19, 2008

QuickLinks -- Click here to rapidly navigate through this document

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-K

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE
SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended **DECEMBER 31, 2007**

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)

Registrant's telephone number, including area code: **989-636-1000**

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Name of each exchange on which registered
Common Stock, par value $2.50 per shares	Common Stock registered on the New York and Chicago Stock Exchanges
Debentures, 6.85%, final maturity 2013	Debentures registered on the New York Stock Exchange

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.

ý Yes o No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act.

o Yes ý No

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.

ý Yes o No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of the registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this

Form 10-K or any amendment to this Form 10-K.

ý

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 ý Accelerated filer o Non-accelerated filer o Smaller reporting company o

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

o Yes ý No

The aggregate market value of voting stock held by non-affiliates as of June 30, 2007 (based upon the closing price of $44.22 per common share as quoted on the New York Stock Exchange), was approximately $42.0 billion. For purposes of this computation, it is assumed that the shares of voting stock held by Directors, Officers and the Dow Employees' Pension Plan Trust would be deemed to be stock held by affiliates. Non-affiliated common stock outstanding at June 30, 2007 was 949,152,650 shares.

Total common stock outstanding at January 31, 2008 was 939,605,806 shares.

DOCUMENTS INCORPORATED BY REFERENCE

Part III: Proxy Statement for the Annual Meeting of Stockholders to be held on May 15, 2008.

The Dow Chemical Company

ANNUAL REPORT ON FORM 10-K
For the fiscal year ended December 31, 2007

TABLE OF CONTENTS

The Dow Chemical Company and Subsidiaries

PART I, Item 1. Business.

THE COMPANY

The Dow Chemical Company was incorporated in 1947 under Delaware law and is the successor to a Michigan corporation, of the same name, organized in 1897. Except as otherwise indicated by the context, the terms "Company" or "Dow" as used herein mean The Dow Chemical Company and its consolidated subsidiaries. On February 6, 2001, the merger of Union Carbide Corporation ("Union Carbide") with a subsidiary of The Dow Chemical Company was completed, and Union Carbide became a wholly owned subsidiary of Dow.

The Company is engaged in the manufacture and sale of chemicals, plastic materials, agricultural and other specialized products and services.

The Company's principal executive offices are located at 2030 Dow Center, Midland, Michigan 48674, telephone 989-636-1000. Its Internet website address is *www.dow.com*. All of the Company's filings with the U.S. Securities and Exchange Commission are available free of charge through the Investor Relations page on this website, immediately upon filing.

BUSINESS AND PRODUCTS

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; STRANDFOAM polypropylene foam; 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, as well as a line of cushion packaging foam solutions. 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 50 years. The business also manufactures foam solutions for a wide range of applications including cushion packaging, electronics protection and material handling.

Products: EQUIFOAM comfort products; FROTH-PAK polyurethane spray foam; GREAT STUFF polyurethane foam sealant; IMMOTUS acoustic panels; INSTA-STIK roof insulation adhesive; QUASH sound management foam; SARAN vapor retarder film and tape; STYROFOAM brand insulation products (including XPS and polyisocyanurate rigid foam sheathing products); SYMMATRIX oriented composites; SYNERGY soft touch foam; TILE BOND roof tile adhesive; TRYMER polyisocyanurate foam pipe insulation; WEATHERMATE weather barrier solutions (housewraps, sill pans, flashings and tapes)

Dow Epoxy is a leading global producer of epoxy resins, intermediates and specialty resins for a wide range of industries and applications such as coatings, electrical laminates, civil engineering, 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: 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, Hydroxyethyl acrylate and Hydroxypropyl acrylate); UCAR solution vinyl resins

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: ENFORCER Technology and ENHANCER Technology for polyurethane carpet and turf backing; ISONATE MDI; PAPI polymeric MDI; Propylene glycol; Propylene oxide; SPECFLEX copolymer polyols; SYNTEGRA waterborne polyurethane dispersions; VORACOR , VORALAST , VORALUX and VORASTAR polyurethane systems; VORANATE isocyanate; VORANOL and VORANOL VORACTIV polyether and copolymer polyols

Specialty Plastics and Elastomers is a business portfolio of specialty products including a broad range of engineering plastics and compounds, performance elastomers and plastomers, specialty copolymers, synthetic rubber, polyvinylidene chloride resins and films (PVDC), and specialty film substrates. The business serves such industries as automotive, civil construction, wire and cable, building and construction, consumer electronics and appliances, food and specialty packaging, 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

The Performance Plastics segment also includes a portion of the results of the SCG-Dow Group, a group of Thailand-based joint ventures.

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.

Products and Services: Acrolein derivatives; Basic nitroparaffins and nitroparaffin-based specialty chemicals; CANGUARD BIT preservatives; CELLOSIZE hydroxyethyl cellulose; Chiral compounds and biocatalysts; CYCLOTENE advanced electronics resins; DOW latex powders; DOWEX ion exchange resins; DOWICIDE antimicrobial bactericides and fungicides; ETHOCEL ethylcellulose resins; FILMTEC membranes; FORTEFIBER soluble dietary fiber; Hydrocarbon resins; Industrial biocides; METHOCEL cellulose ethers; OMEXELL ultrafiltration; OMEXELL electrodeionization; Pfenex Expression Technology ; POLYOX water-soluble resins; Quaternaries; SILK semiconductor dielectric resins; WALOCEL cellulose polymers

The **Dow Latex** business is a major global supplier of latexes, for a wide range of industries and applications. It 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 acrylic, vinyl acrylic, vinyl acetate ethylene (VAE), and S/B and styrene acrylic 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 specialty latex; FOUNDATIONS latex; NEOCAR branched vinyl ester latexes; Styrene-acrylate latex; Styrene-butadiene latex; Styrene-butadiene vinyl acetate ethylene (VAE); 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 plant genetics and biotechnology business in agricultural seeds, traits, healthy oils, and animal health.

Products: CLINCHER herbicide; DITHANE fungicide; FORTRESS fungicide; GARLON herbicide; GLYPHOMAX herbicide; 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; STARANE herbicide; TELONE soil fumigant; TORDON herbicide; TRACER NATURALYTE insect control; 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)

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.

Industry Segments and Geographic Area Results

See Note S to the Consolidated Financial Statements for disclosure of information by operating segment and geographic area.

Number of Products

Dow manufactures and supplies approximately 3,100 products and services. No single product accounted for more than 5 percent of the Company's consolidated net sales in 2007.

Competition

Historically, the chemical industry has operated in a competitive environment, and that environment is expected to continue. The Company experiences substantial competition in each of its operating segments and in each of the geographic areas in which it operates. In addition to other chemical companies, the chemical divisions of major international oil companies provide substantial competition in the United States and abroad. Dow competes worldwide on the basis of quality, price and customer service, and for 2007, continued to be the largest U.S. producer of chemicals and plastics, in terms of sales.

Raw Materials

The Company operates in an integrated manufacturing environment. Basic raw materials are processed through many stages to produce a number of products that are sold as finished goods at various points in those processes.

The two major raw material streams that feed the integrated production of the Company's finished goods are chlorine-based and hydrocarbon-based raw materials.

Salt, limestone and natural brine are the base raw materials used in the production of chlor-alkali products and derivatives. The Company owns salt deposits in Louisiana, Michigan and Texas; Alberta, Canada; Brazil; and Germany. The Company also owns natural brine deposits in Michigan and limestone deposits in Texas.

The Company purchases hydrocarbon raw materials including liquefied petroleum gases, crude oil, naphtha, natural gas and condensate. These raw materials are used in the production of both saleable products and energy. The Company also purchases electric power, benzene, ethylene, propylene and styrene to supplement internal production. Expenditures for hydrocarbon feedstocks and energy accounted for 49 percent of the Company's production costs and operating expenses for the year ended December 31, 2007. The Company purchases these raw materials on both short- and long-term contracts.

Other significant raw materials include acrylonitrile, aniline, bisphenol, co-monomers (for linear low density polyethylene), methanol, rubber, carbon black, ammonia, formaldehyde and toluene diamine. The Company purchases these raw materials on both short- and long-term contracts.

The Company had adequate supplies of raw materials during 2007, and expects to continue to have adequate supplies of raw materials in 2008.

Method of Distribution

All products and services are marketed primarily through the Company's sales force, although in some instances more emphasis is placed on sales through distributors.

Twenty-one percent of the sales of the Basic Chemicals segment in 2007 were to one customer. The Company has a supply contract with this customer on an ongoing basis. In addition, sales to MEGlobal, a 50:50 joint venture with Petrochemical Industries Company of the State of Kuwait, represented approximately 16 percent of the sales in the Basic Chemicals segment. Excess ethylene glycol produced in Dow's plants in the United States and Europe is sold to MEGlobal. Other than the sales to these customers, no significant portion of the business of any operating segment is dependent upon a single customer.

Research and Development

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. Research and development expenses were $1,305 million in 2007, $1,164 million in 2006 and $1,073 million in 2005. At December 31, 2007, the Company employed approximately 6,100 people in various research and development activities.

Patents, Licenses and Trademarks

The Company continually applies for and obtains U.S. and foreign patents. At December 31, 2007, the Company owned 2,424 active U.S. patents and 9,502 active foreign patents as follows:

Patents Owned at December 31, 2007

	U.S.	*Foreign*
Performance Plastics	1,203	5,094
Performance Chemicals	362	1,329
Agricultural Sciences	537	1,715
Basic Plastics	149	817
Basic Chemicals	64	163
Hydrocarbons and Energy	30	229
Other	79	155
Total	2,424	9,502

Dow's primary purpose in obtaining patents is 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 had revenue related to patent and technology royalties totaling $247 million in 2007, $512 million in 2006 and $195 million in 2005. Revenue related to licensing was higher in 2006 due to lump sum licensing revenue that was earned in the first quarter of 2006. The Company incurred royalties to others of $57 million in 2007, $64 million in 2006 and $62 million in 2005. Dow also has a substantial number of trademarks and trademark registrations in the United States and in other countries, including the "Dow in Diamond" trademark. Although the Company considers that its patents, licenses and trademarks in the aggregate constitute a valuable asset, it does not regard its business as being materially dependent upon any single patent, license or trademark.

Principal Partly Owned Companies

Dow's principal nonconsolidated affiliates at December 31, 2007, including direct or indirect ownership interest for each, are listed below:

Compañía Mega S.A. 28 percent an Argentine company that owns a natural gas separation and fractionation plant, which provides feedstocks to the Company's petrochemical plant located in Bahia Blanca, Argentina.

Dow Corning Corporation 50 percent a U.S. company that manufactures silicone and silicone products. See Note J to the Consolidated Financial Statements.

EQUATE Petrochemical Company K.S.C. 42.5 percent a Kuwait-based company that manufactures ethylene, polyethylene and ethylene glycol.

Equipolymers 50 percent a company, headquartered in Horgen, Switzerland, that manufactures purified terephthalic acid, and manufactures and markets polyethylene terephthalate resins.

MEGlobal 50 percent a company, headquartered in Dubai, United Arab Emirates, that manufactures and markets monoethylene glycol and diethylene glycol.

The OPTIMAL Group of Companies [consisting of OPTIMAL Olefins (Malaysia) Sdn Bhd 23.75 percent; OPTIMAL Glycols (Malaysia) Sdn Bhd 50 percent; OPTIMAL Chemicals (Malaysia) Sdn Bhd 50 percent] Malaysian companies that operate an ethane/propane cracker, an ethylene glycol facility and a production facility for ethylene and propylene derivatives within a world-scale, integrated chemical complex located in Kerteh, Terengganu, Malaysia.

The SCG-Dow Group 49 percent [consisting of Pacific Plastics (Thailand) Limited; Siam Polyethylene Company Limited; Siam Polystyrene Company Limited; Siam Styrene Monomer Co., Ltd.; Siam Synthetic Latex Company Limited] Thailand-based companies that manufacture polyurethanes, polyethylene, polystyrene, styrene and latex.

Univation Technologies, LLC 50 percent a U.S. company that develops, markets and licenses polyethylene process technology and related catalysts.

See Note F to the Consolidated Financial Statements for additional information.

Financial Information About Foreign and Domestic Operations and Export Sales

In 2007, the Company derived 66 percent of its sales and had 47 percent of its property investment outside the United States. While the Company's international operations may be subject to a number of additional risks, such as changes in currency exchange rates, the Company does not regard its foreign operations, on the whole, as carrying any greater risk than its operations in the United States. Information on sales and long-lived assets by geographic area for each of the last three years appears in Note S to the Consolidated Financial Statements, and discussions of the Company's risk management program for foreign exchange and interest rate risk management appear in Item 1A. Risk Factors, Item 7A. Quantitative and Qualitative Disclosures About Market Risk, and Note H to the Consolidated Financial Statements.

Protection of the Environment

Matters pertaining to the environment are discussed in Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operation, and Notes A and J to the Consolidated Financial Statements.

Employees

Personnel count was 45,856 at December 31, 2007; 42,578 at December 31, 2006; and 42,413 at December 31, 2005. During 2007, headcount was impacted by the addition of research and development employees in India and China in support of the Company's growth initiatives; the addition of approximately 110 employees with the second quarter acquisition of Hyperlast Limited; and the addition of approximately 1,700 employees with the second quarter acquisition of Wolff Walsrode AG. During 2006, headcount was impacted by the addition of approximately 550 employees associated with the acquisition of Zhejiang Omex Environmental Engineering Co. LTD by FilmTec Corporation, a wholly owned subsidiary of the Company, and a reduction of approximately 260 employees due to the sale of the plastics division of Sentrachem Limited.

Other Activities

Dow engages in the property and casualty insurance and reinsurance business primarily through its Liana Limited subsidiaries.

The Dow Chemical Company and Subsidiaries

PART I, 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 to be 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. 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.

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.

The businesses of many of Dow's customers are cyclical in nature and sensitive to changes in general economic conditions.

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.

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, the Company experienced temporary supply disruptions related to two major hurricanes on the U.S. Gulf Coast.

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 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. 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 December 31, 2007, Union Carbide's asbestos-related liability for pending and future claims was $1.1 billion and its receivable for insurance recoveries related to its asbestos liability was $467 million. At December 31, 2007, Union Carbide also had receivables of $271 million 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 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, two 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.

UNRESOLVED STAFF COMMENTS

None.

The Dow Chemical Company and Subsidiaries
PART I, Item 2. Properties.

PROPERTIES

The Company operates 150 manufacturing sites in 35 countries. Properties of Dow include facilities which, in the opinion of management, are suitable and adequate for the manufacture and distribution of Dow's products. During 2007, the Company's chemicals and plastics production facilities and plants operated at approximately 87 percent of capacity. The Company's major production sites are as follows:

United States:	Plaquemine, Louisiana; Hahnville, Louisiana; Midland, Michigan; Freeport, Texas; Seadrift, Texas; Texas City, Texas; South Charleston, West Virginia.
Canada:	Fort Saskatchewan, Alberta; Prentiss, Alberta.
Germany:	Boehlen; Leuna; Rheinmuenster; Schkopau; Stade.
France:	Drusenheim.
The Netherlands:	Terneuzen.
Spain:	Tarragona.
Argentina:	Bahia Blanca.
Brazil:	Aratu.

Including the major production sites, the Company has plants and holdings in the following geographic areas:

United States:	42 manufacturing locations in 16 states.
Canada:	6 manufacturing locations in 3 provinces.
Europe:	49 manufacturing locations in 16 countries.
Latin America:	26 manufacturing locations in 5 countries.
Asia Pacific:	22 manufacturing locations in 8 countries.
India, Middle East and Africa:	5 manufacturing locations in 4 countries.

All of Dow's plants are owned or leased, subject to certain easements of other persons which, in the opinion of management, do not substantially interfere with the continued use of such properties or materially affect their value. Dow leases ethylene plants in Fort Saskatchewan, Alberta, Canada, and Terneuzen, The Netherlands.

A summary of properties, classified by type, is provided in Note E to the Consolidated Financial Statements. Additional information regarding leased properties can be found in Note M to the Consolidated Financial Statements.

The Dow Chemical Company and Subsidiaries

PART I, Item 3. Legal Proceedings.

LEGAL PROCEEDINGS

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 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:

	2007	*2006*	*2005*
Claims unresolved at January 1	111,887	146,325	203,416
Claims filed	10,157	16,386	34,394
Claims settled, dismissed or otherwise resolved	(31,722)	(50,824)	(91,485)
Claims unresolved at December 31	90,322	111,887	146,325
Claimants with claims against both UCC and Amchem	28,937	38,529	48,647
Individual claimants at December 31	61,385	73,358	97,678

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 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 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. At December 31, 2006, approximately 25 percent of the recorded liability related to pending claims and approximately 75 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	*2007*	*2006*	*2005*	*Aggregate Costs to Date as of Dec. 31, 2007*
Defense costs	$84	$62	$75	$565
Resolution costs	$88	$117	$139	$1,270

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 $84 million in 2007, $45 million in 2006 and $75 million in 2005, 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 2007, 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 $467 million at December 31, 2007 and $495 million at December 31, 2006. At December 31, 2007 and December 31, 2006, 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 at December 31 In millions	*2007*	*2006*
Receivables for defense costs	$ 18	$ 34
Receivables for resolution costs	253	266
Total	$ 271	$ 300

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.

Environmental Matters

The Company and the Texas Commission on Environmental Quality (the "TCEQ") are in the process of combining 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. The TCEQ Staff and the Company have tentatively 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. This settlement remains subject to final approval by the TCEQ Commissioners.

On October 1, 2007, the Company received a separate NOE from the TCEQ related to alleged air emission events at the Company's Freeport, Texas site. The NOE seeks a total civil penalty of $354,000. While the Company expects that the penalty will ultimately be reduced, resolution of the NOE may result in a civil penalty in excess of $100,000.

The Dow Chemical Company and Subsidiaries

PART I, Item 4. Submission of Matters to a Vote of Security Holders.

SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

No matter was submitted to a vote of security holders during the fourth quarter of 2007.

EXECUTIVE OFFICERS OF THE REGISTRANT

Set forth below is information related to the Company's executive officers as of January 31, 2008.

WILLIAM F. BANHOLZER, 51. DOW CORPORATE VICE PRESIDENT AND CHIEF TECHNOLOGY OFFICER. Employee of Dow since 2005. General Electric Company, Chemical Engineer 1983-1989. Laboratory Manager and Leader R&D Center 1989-1992. Engineering Manager of Superabrasives Business 1992-1997. Vice President of Global Engineering, GE Lighting 1997-1999. Vice President of Global Technology, GE Advanced Materials 1999-2005. Dow Corporate Vice President and Chief Technology Officer 2005 to date. Director of Dow Corning Corporation* and Mycogen Corporation*. Member of Dow Corning Corporation Corporate Responsibility Committee. Elected to the U.S. National Academy of Engineering in 2002. Elected NAE Councilor 2005. Member of American Chemical Society and American Institute of Chemical Engineers. Advisory Board member for chemistry and chemical engineering at University of Illinois and University of California, Berkeley.

JULIE FASONE HOLDER, 55. DOW CORPORATE VICE PRESIDENT, CHIEF MARKETING & SALES AND REPUTATION OFFICER. Employee of Dow since 1975. Marketing Manager, Polyurethanes Business 1981-1984. District Sales Manager, Dow Latex 1984-1989. Group Marketing Manager for Formulation Products 1989-1994. Group Marketing Manager & Global Business Director, Performance Chemicals 1994-1997. Director of Sales and Marketing, Performance Chemicals 1997-2000. Business Vice President of Industrial Chemicals 2000-2004. Business Vice President, Specialty Plastics and Elastomers 2004-2005. Corporate Vice President, Human Resources, Diversity & Inclusion and Public Affairs 2005-2007. Dow Corporate Vice President, Chief Marketing & Sales and Reputation Officer January 2008 to date. Recipient of Dow Genesis Award in 1999 and *The National Association for Female Executives* Woman of Achievement Award in 2007. Director of Wolverine Bank and The Dow Chemical Company Foundation.

GREGORY M. FREIWALD, 54. DOW CORPORATE VICE PRESIDENT, HUMAN RESOURCES, CORPORATE AFFAIRS AND AVIATION. Employee of Dow since 1979. Human Resources Manager, Chemical & Performance Business-U.S. Region 1992-1993. Human Resources Director for Executive, Finance, Law and Corporate 1993-1994. Latin America Human Resources and Quality Performance Director 1994-1996. Latin America Human Resources Leader and PBBPolisur Human Resources Integration Leader 1996-1997. Global Human Resources, Resources Center Director 1997-2001. Senior Human Resources Director for Global Human Resources, Resource Center and Human Resources Director for Geographic Council 2001-2004. Human Resources Vice President, Operations 2004-2005. Human Resources Vice President 2005-2006. Vice President, Corporate Affairs, Aviation and Executive Compensation 2006-2007. Corporate Vice President, Human Resources, Corporate Affairs and Aviation January 2008 to date.

MICHAEL R. GAMBRELL, 54. DOW EXECUTIVE VICE PRESIDENT, BASIC PLASTICS AND CHEMICALS, AND MANUFACTURING AND ENGINEERING. Employee of Dow since 1976. Business Director for the North America Chlor- Alkali Assets Business 1989-1992. General Manager for the Plastic Lined Pipe Business 1992-1994. Vice President of Operations for Latin America 1994-1996. Corporate Director, Technology Centers and Global Process Engineering 1996-1998. Global Business Director of the Chlor-Alkali Assets Business 1998-2000. Business Vice President for EDC/VCM & ECU Management 2000-2003. Business Vice President for the Chlor-Vinyl Business 2003. Senior Vice President, Chemicals and Intermediates 2003-2005. Executive Vice President, Basic Plastics and Chemicals Portfolio 2005-2007. Executive Vice President, Basic Plastics and Chemicals, and Manufacturing and Engineering March 2007 to date. Board member of Oman Petrochemical Industries Company LLC*. Director of the National Association of Manufacturers. Board member and past chairman of World Chlorine Council. Member of U.S.-India Business Council. Recipient of the President's Distinguished Alumnus Award from Rose-Hulman Institute of Technology 1996.

HEINZ HALLER, 52. DOW EXECUTIVE VICE PRESIDENT, PERFORMANCE PLASTICS AND CHEMICALS. Employee of Dow 1980-1994 and since 2006. Dow sales representative, Emulsion Polymers, Specialty Chemicals and Chlorinated Solvents 1980-1994. Managing Director, Plüss-Staufer Ag 1994-1999. Chief Executive Officer, Red Bull Sauber AG and Sauber Petronas Engineering AG 2000-2002. Managing Director, Allianz Capital Partners GmbH 2002-2006. Dow Corporate Vice President, Strategic Development and New Ventures 2006-2007. Dow Executive Vice President May 2007 to date. Director of Mycogen Corporation* and Dow Corning Corporation*. Member of the Dow AgroSciences LLC* Members Committee. Director of the Michigan Molecular Institute.

CHARLES J. KALIL, 56. DOW SENIOR VICE PRESIDENT, GENERAL COUNSEL AND CORPORATE SECRETARY. Employee of Dow since 1980. U.S. Department of Justice Assistant U.S. Attorney, Eastern District of Michigan 1977-1980. General Counsel of Petrokemya (a former 50:50 joint venture of the Company) 1982-1983. Regional Counsel to Middle East/Africa 1983-1986. Senior Environmental Attorney 1986-1987. Litigation Staff Counsel and Group Leader 1987-1990. Senior Financial Law Counsel, Mergers and Acquisitions 1990-1992. General Counsel and Area Director of Government and Public Affairs for Dow Latin America 1992-1997. Special Counsel and Manager of INSITE legal issues 1997-2000. Assistant General Counsel for Corporate and Financial Law 2000-2003. Associate General Counsel for Corporate Legal Affairs 2003-2004. Dow Corporate Vice President and General Counsel November 2004-2007. Dow Senior Vice President and General Counsel March 2007 to date. Corporate Secretary 2005 to date. Board member of Dow Corning Corporation*, Dorinco Reinsurance Company*, Liana Limited* and Oman Petrochemical Industries Company LLC*. Member of the Conference Board's Council of Chief Legal Officers. Member of the American Bar Association, District of Columbia Bar and the State Bar of Michigan.

DAVID E. KEPLER, 55. DOW SENIOR VICE PRESIDENT, CHIEF SUSTAINABILITY OFFICER, CHIEF INFORMATION OFFICER AND CORPORATE DIRECTOR OF SHARED SERVICES. Employee of Dow since 1975. Computer Services Manager of Dow U.S.A. Eastern Division 1984-1988. Commercial Director of Dow Canada Performance Products 1989-1991. Director of Pacific Area Information Systems 1991-1993. Manager of Information Technology for Chemicals and Plastics 1993-1994. Director of Global Information Systems Services 1994-1995. Director of Global Information Application 1995-1998. Vice President 1998-2000. Chief Information Officer 1998 to date. Corporate Vice President with responsibility for eBusiness 2000 to date. Responsibility for Advanced Electronic Materials 2002-2003. Responsibility for Shared Services Customer Service, Information Systems, Purchasing, Six Sigma, Supply Chain, and Work Process Improvement 2004 to date. Senior Vice President with responsibility for EH&S 2006 to date. Responsibility as Chief Sustainability Officer May 2007 to date. Director of Dorinco Reinsurance Company* and Liana Limited*. Director of Teradata Corporation. Member of U.S. Chamber of Commerce Board of Directors and Vice Chairman of the Great Lakes Region. Member of the American Chemical Society and the American Institute of Chemical Engineers. Chairman of the Chemical IT Council and Cyber Security Program.

ANDREW N. LIVERIS, 53. DOW PRESIDENT, CHIEF EXECUTIVE OFFICER AND CHAIRMAN. DIRECTOR SINCE 2004. Employee of Dow since 1976. General manager of Dow's Thailand operations 1989-1992. Group business director for Emulsion Polymers and New Ventures 1992-1993. General manager of Dow's start-up businesses in Environmental Services 1993-1994. Vice President of Dow's start-up businesses in Environmental Services 1994-1995. President of Dow Chemical Pacific Limited* 1995-1998. Vice President of Specialty Chemicals 1998-2000. Business Group President for Performance Chemicals 2000-2003. President and Chief Operating Officer 2003-2004. President and Chief Executive Officer 2004 to date and Chairman 2006 to date. Director of Citigroup, Inc. and the United States Climate Action Partnership. Chairman Emeritus of the Board of the American Chemistry Council. Chairman of the Board of the International Council of Chemical Associations. Member of the American Australian Association, The Business Council, the Business Roundtable, the Detroit Economic Club, the New York Economic Club, the International Business Council, the National Petroleum Council, the Société de Chimie Industrielle, the U.S.-China Business Council and the World Business Council for Sustainable Development. Member of the Board of Trustees of Tufts University and the Herbert H. and Grace A. Dow Foundation.

GEOFFERY E. MERSZEI, 56. DOW EXECUTIVE VICE PRESIDENT AND CHIEF FINANCIAL OFFICER. DIRECTOR SINCE 2005. Employee of Dow 1977-2001 and since 2005. Dow Middle East/Africa Credit Manager 1977-1980. Dow Asia Pacific Credit Manager 1980-1982. Dow Asia Pacific Finance and Credit Manager 1982-1983. Dow Germany and Eastern Europe Treasurer 1983-1986. Dow Foreign Exchange Manager 1986-1988. Director of Finance for Dow Asia Pacific 1988-1991. Director of Finance/Treasurer for Dow Europe 1991-1996. Dow Vice President and Treasurer 1996-2001. Alcan, Inc., Executive Vice President and Chief Financial Officer 2001-2005. Dow Executive Vice President and Chief Financial Officer 2005 to date. Board member of Dow Corning Corporation*, Dow Credit Corporation*, Dow Financial Services Inc.*, Mycogen Corporation*, and Oman Petrochemical Industries Company LLC*. Chairman of Dorinco Reinsurance Company*, Dow International Holdings, S.A.* and Liana Limited*. Board member of Chemical Financial Corporation. Chairman of the Conference Board's Council of Financial Executives. Trustee and Executive Committee Member of the United States Council for International Business.

FERNANDO RUIZ, 52. DOW CORPORATE VICE PRESIDENT AND TREASURER. Employee of Dow since 1980. Treasurer, Ecuador Region 1982-1984. Treasurer, Mexico Region 1984-1988. Financial Operations Manager, Corporate Treasury 1988-1991. Assistant Treasurer, USA Area 1991-1992. Senior Finance Manager, Corporate Treasury 1992-1996. Assistant Treasurer 1996-2001. Corporate Director of Insurance and Risk Management 2001. Corporate Vice President and Treasurer 2001 to date. President and Chief Executive Officer, Liana Limited* and Dorinco Reinsurance Company* 2001 to date. President of Dow Credit Corporation* 2001 to date. Director of Dow Financial Services Inc.* Member of Financial Executives International and Michigan State University (Eli Broad College of Business) Advisory Board. Member of DeVry, Inc. Board of Directors.

WILLIAM H. WEIDEMAN, 53. DOW VICE PRESIDENT AND CONTROLLER. Employee of Dow since 1976. Controller of Texas Operations 1994-1996. Global Business Controller for Specialty Chemicals 1996-1998. Global Finance Director for Specialty Chemicals 1998-2000. Global Finance Director for Performance Chemicals 2000-2004. Finance Vice President, Chemicals and Intermediates and Dow Ventures 2004-2006. Group Finance Vice President for Basic Chemicals and Plastics Portfolio 2006. Vice President and Controller 2006 to date. Director of Diamond Capital Management, Inc.*, Dorinco Reinsurance Company* and Liana Limited*. Director of the Dow Chemical Employees' Credit Union and Family and Children's Services of Midland. Board and finance committee member of Mid Michigan Medical Center. Member of Financial Executives International Committee on Corporate Reporting, Member of Central Michigan University Accounting Advisory Committee and Central Michigan University Development Board.

* A number of Company entities are referenced in the biographies and are defined as follows. Some of these entities have had various names over the years. The names and relationships to the Company, unless otherwise indicated, are stated in this footnote as they existed as of January 31, 2008. Dow Corning Corporation and Oman Petrochemical Industries Company LLC companies ultimately 50 percent owned by Dow. Diamond Capital Management, Inc.; Dorinco Reinsurance Company; Dow AgroSciences LLC; Dow Chemical Pacific Limited; Dow Credit Corporation; Dow Financial Services Inc.; Dow International Holdings, S.A.; Liana Limited; and Mycogen Corporation all ultimately wholly owned subsidiaries of Dow. Ownership by Dow described above may be either direct or indirect.

MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

The principal market for the Company's common stock is the New York Stock Exchange.

Quarterly market and dividend information can be found in Quarterly Statistics at the end of Part II, Item 8. Financial Statements and Supplementary Data, following the Notes to the Consolidated Financial Statements.

At December 31, 2007, there were 98,699 registered common stockholders. The Company estimates that there were an additional 615,000 stockholders whose shares were held in nominee names at December 31, 2007. At January 31, 2008, there were 99,096 registered common stockholders.

On February 14, 2008, the Board of Directors announced a quarterly dividend of $0.42 per share, payable April 30, 2008, to stockholders of record on March 31, 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 95-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. The Company declared dividends of $1.635 per share in 2007, $1.50 per share in 2006 and $1.34 per share in 2005.

See Part III, Item 11. Executive Compensation for information relating to the Company's equity compensation plans.

The following table provides information regarding purchases of the Company's common stock by the Company during the three months ended December 31, 2007:

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)
October 2007	510,505	$44.86	449,500	$1,132,017,073
November 2007	4,295,600	$41.79	4,295,600	952,483,295
December 2007	2,425,752	$41.20	2,425,600	852,540,131
Fourth quarter 2007	7,231,857	$41.81	7,170,700	$852,540,131

(1) Includes 61,157 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. For information regarding the Company's stock option plans, see Note N to the Consolidated Financial Statements.

(2) On October 26, 2006, the Company announced that the Board of Directors had approved a new 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, following the completion of the Company's previous repurchase program.

The Dow Chemical Company and Subsidiaries

PART II, Item 6. Selected Financial Data

In millions, except as noted *(Unaudited)*	*2007*	*2006*	*2005*	*2004*	*2003*
Summary of Operations					
Net sales (1)	$ 53,513	$ 49,124	$ 46,307	$ 40,161	$ 32,632
Cost of sales (1)	46,400	41,526	38,276	34,244	28,177
Research and development expenses	1,305	1,164	1,073	1,022	981
Selling, general and administrative expenses	1,864	1,663	1,545	1,436	1,392
Amortization of intangibles	72	50	55	81	63
Purchased in-process research and development charges	57				
Special charges, merger-related expenses, and restructuring	578	591	114	543	
Asbestos-related charge (credit)		(177)			
Other income	1,446	1,096	1,719	1,622	468
Interest expense net	454	431	564	661	736
Income (Loss) before income taxes and minority interests	4,229	4,972	6,399	3,796	1,751
Provision (Credit) for income taxes	1,244	1,155	1,782	877	(82)
Minority interests' share in income	98	93	82	122	94
Preferred stock dividends					
Income (Loss) before cumulative effect of changes in accounting principles	2,887	3,724	4,535	2,797	1,739
Cumulative effect of changes in accounting principles			(20)		(9)
Net income (loss) available for common stockholders	$ 2,887	$ 3,724	$ 4,515	$ 2,797	$ 1,730
Per share of common stock (in dollars): (2)					
Earnings (Loss) before cumulative effect of changes in accounting principles per common share basic	$ 3.03	$ 3.87	$ 4.71	$ 2.98	$ 1.89
Earnings (Loss) per common share basic	3.03	3.87	4.69	2.98	1.88
Earnings (Loss) before cumulative effect of changes in accounting principles per common share diluted	2.99	3.82	4.64	2.93	1.88
Earnings (Loss) per common share diluted	2.99	3.82	4.62	2.93	1.87
Cash dividends declared per share of common stock	1.635	1.50	1.34	1.34	1.34
Cash dividends paid per share of common stock	1.59	1.46	1.34	1.34	1.34
Book value per share of common stock	20.62	17.81	15.84	12.88	9.89
Weighted-average common shares outstanding basic (2)	953.1	962.3	963.2	940.1	918.8
Weighted-average common shares outstanding diluted (2)	965.6	974.4	976.8	953.8	926.1
Convertible preferred shares outstanding					
Year-end Financial Position					
Total assets	$ 48,801	$ 45,581	$ 45,934	$ 45,885	$ 41,891
Working capital	6,209	6,608	6,741	5,384	3,578
Property gross	47,708	44,381	41,934	41,898	40,812
Property net	14,388	13,722	13,537	13,828	14,217
Long-term debt and redeemable preferred stock	7,581	8,036	9,186	11,629	11,763
Total debt	9,715	9,546	10,706	12,594	13,109
Net stockholders' equity	19,389	17,065	15,324	12,270	9,175
Financial Ratios					
Research and development expenses as percent of net sales (1)	2.4%	2.4%	2.3%	2.5%	3.0%
Income (Loss) before income taxes and minority interests as percent of net sales (1)	7.9%	10.1%	13.8%	9.5%	5.4%
Return on stockholders' equity (3)	14.9%	21.8%	29.5%	22.8%	18.9%
Debt as a percent of total capitalization	31.8%	34.1%	39.1%	47.9%	55.4%
General					
Capital expenditures	$ 2,075	$ 1,775	$ 1,597	$ 1,333	$ 1,100
Depreciation	1,959	1,904	1,904	1,904	1,753

Salaries and wages paid	4,404	3,935	4,309	3,993	3,608
Cost of employee benefits	1,130	1,125	988	885	783
Number of employees at year-end (thousands)	45.9	42.6	42.4	43.2	46.4
Number of Dow stockholders of record at year-end (thousands) (4)	98.7	103.1	105.6	108.3	113.1

(1) Adjusted for reclassification of freight on sales in 2000 and reclassification of insurance operations in 2002.
(2) Adjusted for 3-for-1 stock split in 2000.
(3) Included Temporary Equity in 1997-1999.
(4) Stockholders of record as reported by the transfer agent. The Company estimates that there were an additional 615,000 stockholders whose shares were held in nominee names at December 31, 2007.

In millions, except as noted *(Unaudited)*	*2002*	*2001*	*2000*	*1999*	*1998*	*1997*
Summary of Operations						
Net sales (1)	$ 27,609	$ 28,075	$ 29,798	$ 26,131	$ 25,396	$ 27,814
Cost of sales (1)	23,780	23,892	24,310	20,422	19,566	20,961
Research and development expenses	1,066	1,072	1,119	1,075	1,026	990
Selling, general and administrative expenses	1,598	1,765	1,825	1,776	1,964	2,168
Amortization of intangibles	65	178	139	160	106	80
Purchased in-process research and development charges		69	6	6	349	
Special charges, merger-related expenses, and restructuring	280	1,487		94	458	
Asbestos-related charge (credit)	828					
Other income	94	423	706	424	1,166	657
Interest expense net	708	648	519	432	458	355
Income (Loss) before income taxes and minority interests	(622)	(613)	2,586	2,590	2,635	3,917
Provision (Credit) for income taxes	(280)	(228)	839	874	902	1,320
Minority interests' share in income	63	32	72	74	20	113
Preferred stock dividends				5	6	13
Income (Loss) before cumulative effect of changes in accounting principles	(405)	(417)	1,675	1,637	1,707	2,471
Cumulative effect of changes in accounting principles	67	32		(20)		(17)
Net income (loss) available for common stockholders	$ (338)	$ (385)	$ 1,675	$ 1,617	$ 1,707	$ 2,454
Per share of common stock (in dollars): (2)						
Earnings (Loss) before cumulative effect of changes in accounting principles per common share basic	$ (0.44)	$ (0.46)	$ 1.88	$ 1.87	$ 1.92	$ 2.72
Earnings (Loss) per common share basic	(0.37)	(0.43)	1.88	1.85	1.92	2.71
Earnings (Loss) before cumulative effect of changes in accounting principles per common share diluted	(0.44)	(0.46)	1.85	1.84	1.89	2.63
Earnings (Loss) per common share diluted	(0.37)	(0.43)	1.85	1.82	1.89	2.61
Cash dividends declared per share of common stock	1.34	1.295	1.16	1.16	1.16	1.12
Cash dividends paid per share of common stock	1.34	1.25	1.16	1.16	1.16	1.08
Book value per share of common stock	8.36	11.04	13.22	12.40	11.34	11.17
Weighted-average common shares outstanding basic (2)	910.5	901.8	893.2	874.9	888.1	898.4
Weighted-average common shares outstanding diluted (2)	910.5	901.8	904.5	893.5	904.8	936.2
Convertible preferred shares outstanding				1.3	1.4	1.4
Year-end Financial Position						
Total assets	$ 39,562	$ 35,515	$ 35,991	$ 33,456	$ 31,121	$ 31,004
Working capital	2,519	2,183	1,150	2,848	1,570	1,925
Property gross	37,934	35,890	34,852	33,333	32,844	31,052
Property net	13,797	13,579	13,711	13,011	12,628	11,832
Long-term debt and redeemable preferred stock	11,659	9,266	6,613	6,941	5,890	5,703
Total debt	13,036	10,883	9,450	8,708	8,099	8,145
Net stockholders' equity	7,626	9,993	11,840	10,940	9,878	9,974
Financial Ratios						
Research and development expenses as percent of net sales (1)	3.9 %	3.8 %	3.8%	4.1%	4.0%	3.6%
Income (Loss) before income taxes and minority interests as percent of net sales (1)	(2.3)%	(2.2)%	8.7%	9.9%	10.4%	14.1%
Return on stockholders' equity (3)	(4.4)%	(3.9)%	14.1%	14.7%	17.2%	24.5%
Debt as a percent of total capitalization	59.2 %	48.9 %	42.5%	42.2%	43.6%	43.1%
General						
Capital expenditures	$ 1,623	$ 1,587	$ 1,808	$ 2,176	$ 2,328	$ 1,953
Depreciation	1,680	1,595	1,554	1,516	1,559	1,529
Salaries and wages paid	3,202	3,215	3,395	3,536	3,579	3,640
Cost of employee benefits	611	540	486	653	798	839
Number of employees at year-end (thousands)	50.0	52.7	53.3	51.0	50.7	55.9
	122.5	125.1	87.9	87.7	93.0	97.2

Number of Dow stockholders of record at year-end (thousands) (4)	

(1) Adjusted for reclassification of freight on sales in 2000 and reclassification of insurance operations in 2002.
(2) Adjusted for 3-for-1 stock split in 2000.
(3) Included Temporary Equity in 1997-1999.
(4) Stockholders of record as reported by the transfer agent. The Company estimates that there were an additional 615,000 stockholders whose shares were held in nominee names at December 31, 2007.

The Dow Chemical Company and Subsidiaries

PART II, Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operation.

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.

ABOUT DOW

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 offers a broad range of products and services, 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. Dow is the largest U.S. producer of chemicals and plastics, in terms of sales, with total sales of $53.5 billion in 2007. The Company conducts its worldwide operations through global businesses, which are reported in six operating segments: Performance Plastics, Performance Chemicals, Agricultural Sciences, Basic Plastics, Basic Chemicals, and Hydrocarbons and Energy.

In 2007, the Company sold its approximately 3,100 products and its services to customers in approximately 160 countries throughout the world. Thirty-eight percent of the Company's sales were to customers in North America; 37 percent were in Europe; while the remaining 25 percent were to customers in Asia Pacific and Latin America. The Company employs approximately 45,900 people and has a broad, global reach with 150 manufacturing sites in 35 countries.

2007 OVERVIEW

The Company reported solid financial performance in 2007, including record sales and earnings per share that were among the Company's highest. Dow's results demonstrated the value of its balanced business and geographic portfolio with a solid 3 percent volume growth in the combined Performance businesses (Performance Plastics, Performance Chemicals and Agricultural Sciences) outpacing a more modest gain of 1 percent in the combined Basics businesses (Basic Plastics, Basic Chemicals, and Hydrocarbons and Energy). A healthy increase in demand in Europe, Asia Pacific and Latin America compensated for a 2 percent decline in volume in North America. Despite the fifth consecutive year of double-digit percentage increases in feedstock and energy costs, the Company's focus on price and volume management, control of discretionary spending and capital expenditures, and active portfolio management delivered solid results.

With continued global economic growth, industry conditions remained sound with supply and demand roughly balanced for most of the Company's products. Sales increased 9 percent from 2006 to $53.5 billion, establishing a new sales record for the Company. Continued volatility in feedstock and energy costs presented a challenge, impacting both costs and the ability of the Company to raise prices in a timely fashion. Despite these challenges, gains in price and volume helped to offset an increase of $2.5 billion in purchased feedstock and energy costs. The Company continued to exercise spending discipline, partially offsetting increased spending in targeted growth areas, such as the Performance businesses and emerging geographies, with decreases in other businesses or regions. The benefits of Dow's strategic decision to invest for growth through joint ventures were again apparent in this year's results, with Dow's share of the earnings from nonconsolidated affiliates exceeding $1 billion for the first time in the Company's history.

The Company balanced its investment in new facilities with decisions to shut down a number of less efficient assets around the world in its drive to improve the competitiveness of its global operations. Capital expenditures were held below $2.1 billion, slightly above the level of depreciation, without sacrificing the efficiency, safety and environmental performance of Dow's manufacturing facilities. In addition, the Company's performance against key environmental and safety metrics continued to improve in 2007.

With solid earnings and cash flow, the Company maintained its strong financial position in 2007, lowering its debt-to-capital ratio to 32 percent from 34 percent at the end of 2006 and 39 percent at the end of 2005. In April 2007, Dow's Board of Directors increased the quarterly dividend by 12 percent, to an annual rate of $1.68 per share. Since January 2006, the Company has raised its dividend by 25 percent. In the first quarter of 2007, Dow completed the share repurchase program authorized in July 2005, and commenced purchases under a new $2 billion share buyback program announced in October 2006. For the year, the Company invested over $1.4 billion to repurchase 32 million shares, an increase of more than 75 percent over the 18 million shares repurchased in 2006.

During 2007, the Company continued to implement its strategy, which is designed to reduce earnings cyclicality and improve earnings growth by increasing investment in the Performance businesses, maintaining integration with the Basics businesses, and growing the Basics businesses through cost-advantaged joint ventures. Some of the actions taken during 2007 include:

- Dow started up its first-ever production facility in Russia, located in Kryukovo, outside Moscow. The plant produces STYROFOAM extruded polystyrene insulation boards for the Dow Building Solutions business.

- Dow introduced Propylene Glycol Renewable, a propylene glycol made from the glycerin that is generated during the manufacture of biodiesel, a diesel-fuel alternative produced from vegetable oil.

- Saudi Aramco and Dow signed a Memorandum of Understanding to move forward with their multibillion-dollar joint venture chemicals and plastics production complex near Ras Tanura, Saudi Arabia.

- Dow and Chevron Phillips Chemical Company LP announced plans for a 50:50 polystyrene and styrene monomer joint venture in the Americas.

- Beijing-based Shenhua Group and Dow agreed to a detailed feasibility study for a coal-to-chemicals joint venture in the Shaanxi Province, China.

- Dow completed the acquisition of Wolff Walsrode AG and certain related affiliates and assets ("Wolff Walsrode") and formed Dow Wolff Cellulosics, a $1 billion specialty business focused on cellulosics and related chemistries and serving a broad spectrum of industry sectors.

Dow AgroSciences and Monsanto signed a corn cross-licensing agreement, which breaks new ground in the commercialization of gene stacking technology.

The Company signed a Memorandum of Understanding with Brazilian ethanol producer, Crystalsev, to form a joint venture to manufacture polyethylene from sugar cane.

Dow AgroSciences acquired Agromen Tecnologia, substantially expanding its Brazilian corn seed business. This transaction followed two other related acquisitions in 2007 The Netherlands-based Duo Maize and Austrian company Maize Technologies International strengthening the Company's global corn seed platform.

Dow's Polyurethanes Systems business acquired Danish company Edulan A/S, an independent polyurethane systems house specializing in rigid foam and elastomer technologies.

Dow acquired three leading epoxy systems formulators: UPPC AG in Germany, and POLY-CARB Inc. and GNS Technologies in the United States.

Dow and Petrochemical Industries Company ("PIC") of the State of Kuwait, a wholly owned subsidiary of Kuwait Petroleum Corporation, announced plans to form a 50:50 joint venture petrochemical company with anticipated revenues of more than $11 billion and 5,000 employees worldwide.

Dow announced plans to shut down a number of assets and make organizational changes within targeted support functions, in order to improve the competitiveness of its global operations. As a consequence, the Company recorded a charge of $590 million in the fourth quarter of 2007.

For 2008, there is some uncertainty in the economic outlook for the United States. With approximately two-thirds of Dow's sales outside the United States, the Company's global footprint is expected to allow it to continue to capture growth in key regions of the world, such as Brazil, Eastern Europe/Russia, India and China. In addition, as the Company continues to implement its strategy, its focus will be on financial discipline and price/volume management which, coupled with the strong performance of the Company's joint ventures, is expected to produce another solid year of earnings for Dow.

Dow's results of operations and financial condition for the year ended December 31, 2007 are described in further detail in the following discussion and analysis.

RESULTS OF OPERATION

Dow reported record sales of $53.5 billion in 2007, up 9 percent from $49.1 billion in 2006 and up 16 percent from $46.3 billion in 2005. Compared with last year, prices rose 7 percent (with currency accounting for approximately 3 percent of the increase), with increases in all operating segments and in all geographic areas. In 2007, the most significant price increases were reported in Basic Plastics and Hydrocarbons and Energy, driven by continuing increases in feedstock and energy costs. In 2007, volume improved 2 percent from last year, with growth in all segments with the exception of a slight decline in Basic Chemicals. From a geographic standpoint, 2007 volume in the United States was down slightly, due in part to weakness in the housing and automotive industries, while Europe and the rest of the world reported significant volume growth. Growth was strong in Asia Pacific, up 8 percent from 2006, and Latin America, up 7 percent.

In 2006, sales rose 6 percent from 2005, as prices rose 5 percent, with increases in all operating segments except Agricultural Sciences, which was down 2 percent, and in all geographic areas. Volume increased 1 percent. Prices continued to be driven primarily by escalating feedstock and energy costs.

Sales in the United States accounted for 34 percent of total sales in 2007, compared with 37 percent in 2006 and 38 percent in 2005.

See the Sales Price and Volume table at the end of the section entitled "Segment Results" for details regarding the change in sales by operating segment and geographic area. In addition, sales and other information by operating segment and geographic area are provided in Note S to the Consolidated Financial Statements.

Gross margin for 2007 was $7.1 billion, compared with $7.6 billion in 2006 and $8.0 billion in 2005. Despite higher selling prices of nearly $3.3 billion, gross margin declined in 2007 compared with 2006, principally due to an increase of $2.5 billion in feedstock and energy costs, higher costs of other raw materials, the unfavorable impact of currency on costs, and increased freight costs. Gross margin for 2006 declined $433 million from 2005, principally due to an increase of $2.0 billion in feedstock and energy costs and increases of more than $400 million in the cost of other raw materials.

Dow's global plant operating rate (for its chemicals and plastics businesses) was 87 percent of capacity in 2007, up from 85 percent of capacity in 2006 and 84 percent of capacity in 2005. Operating rates improved in 2007 for most of the Company's businesses, reflecting a higher level of demand and the closure of some of the Company's manufacturing facilities. In 2006, Dow's operating rates improved for many of the Company's Basics businesses. Overall, Dow's operating rate for 2006 reflected the impact of planned maintenance turnarounds at several of Dow's manufacturing facilities. Depreciation expense was $1,959 in 2007 and $1,904 million in 2006 and 2005.

Personnel count was 45,856 at December 31, 2007; 42,578 at December 31, 2006; and 42,413 at December 31, 2005. During 2007, headcount was impacted by the addition of research and development employees in India and China in support of the Company's growth initiatives; the addition of approximately 110 employees with the second quarter acquisition of Hyperlast Limited; and the addition of approximately 1,700 employees with the second quarter acquisition of Wolff Walsrode. During 2006, headcount was impacted by the addition of approximately 550 employees associated with the acquisition of Zhejiang Omex Environmental Engineering Co. LTD by FilmTec Corporation, a wholly owned subsidiary of the Company, and a reduction of approximately 260 employees due to the sale of the plastics division of Sentrachem Limited.

Operating expenses (research and development, and selling, general and administrative expenses) totaled $3,169 million in 2007, up 12 percent from $2,827 million in 2006. Operating expenses were $2,618 million in 2005. Research and development ("R&D") expenses were $1,305 million in 2007, compared with $1,164 million in 2006 and $1,073 million in 2005. Selling, general and administrative expenses were $1,864 million in 2007, compared with $1,663 million in 2006 and $1,545 million in 2005. Consistent with the Company's strategy, approximately 75 percent of the increase in operating expenses in 2007 was related to spending for growth initiatives and product development in the Performance businesses, including expenses related to the 2007 acquisition of Wolff Walsrode and Hyperlast Limited, and for early stage research into new growth opportunities. The balance of the increase was related to the global expansion of the Company's corporate branding campaign and other corporate expenses. Approximately 60 percent of the increase in operating expenses in 2006 was related to spending for growth initiatives in the Performance businesses, consistent with the Company's strategy. The balance of the increase was principally due to the allocation of a portion of stock-based compensation expense to operating expenses in accordance with Statement of Financial Accounting Standards ("SFAS") No. 123R. Prior to the adoption of SFAS No. 123R on January 1, 2006, all stock-based compensation expense was reflected in "Cost of sales." (See Notes A and N to the Consolidated Financial Statements for additional information on this accounting standard.) Operating expenses were 5.9 percent of sales in 2007, 5.8 percent of sales in 2006 and 5.7 percent of sales in 2005.

The following table illustrates the relative size of the primary components of total production costs and operating expenses of Dow. More information about each of these components can be found in other sections of Management's Discussion and Analysis of Financial Condition and Results of Operation, Notes to the Consolidated Financial Statements, and Part II, Item 6. Selected Financial Data.

Production Costs and Operating Expenses Cost components as a percent of total	*2007*	*2006*	*2005*
Hydrocarbon feedstocks and energy	49%	49%	47%
Salaries, wages and employee benefits	11	11	13
Maintenance	3	3	3
Depreciation	4	4	5
Restructuring charges	1	1	
Supplies, services and other raw materials	32	32	32
Total	100%	100%	100%

Amortization of intangibles was $72 million in 2007, $50 million in 2006 and $55 million in 2005. Amortization of intangibles was up in 2007 due to acquisitions. During 2007, the Company performed impairment tests for goodwill in conjunction with its annual long-term financial planning process. As a result of this review, it was determined that no goodwill impairments existed. See Note G to the Consolidated Financial Statements for additional information regarding goodwill and other intangible assets.

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 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 is shown as "Restructuring charges" in the consolidated statements of income and was reflected in the Company's segment results as follows: Performance Plastics $184 million, Performance Chemicals $85 million, Agricultural Sciences $77 million, Basic Plastics $88 million, Basic Chemicals $7 million, Hydrocarbons and Energy $44 million, and Unallocated and Other $105 million. When the restructuring plans have been fully implemented, the Company expects to realize ongoing annual savings of approximately $180 million. See Note B to the Consolidated Financial Statements for details on the restructuring charges.

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 continued its drive to improve the competitiveness of its global operations. As a consequence of these shutdowns, which are scheduled to be completed in the first quarter of 2009, and other optimization activities, the Company recorded pretax restructuring charges totaling $591 million in 2006. The charges included 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 charges are shown as "Restructuring charges" in the consolidated statements of income and are reflected in the Company's segment results as follows: Performance Plastics $242 million, Performance Chemicals $12 million, Basic Plastics $16 million, Basic Chemicals $184 million, and Unallocated and Other $137 million. In 2007, the Company recorded a $12 million reduction of the 2006 restructuring charges, which included an $8 million reduction of the estimated severance costs and a $4 million reduction of the reserve for contract termination fees. These reductions impacted the Performance Plastics segment by $4 million and the Unallocated and Other segment by $8 million. When the restructuring plans have been fully implemented, the Company expects to realize ongoing annual savings of approximately $160 million. See Note B to the Consolidated Financial Statements for details on the restructuring charges.

In the fourth quarter of 2005, the Company recorded pretax charges totaling $114 million related to restructuring activities, as the Company continued to focus on financial discipline and made additional decisions regarding noncompetitive and underperforming assets, as well as decisions regarding the consolidation of manufacturing capabilities. The charges included costs of $67 million related to the closure of approximately 20 small plants around the world, losses of $12 million on asset sales, the write-off of an intangible asset of $10 million and employee-related expenses of $25 million (which was paid to 197 employees in the fourth quarter of 2005). The total of these charges is shown as "Restructuring charges" in the consolidated statements of income. The charges were recorded against the Company's operating segments as follows: $28 million against Performance Plastics, $14 million against Performance Chemicals, $9 million against Agricultural Sciences, $12 million against Basic Plastics and $3 million against Basic Chemicals. Charges to Unallocated and Other amounted to $48 million. For additional information, see Note B to the Consolidated Financial Statements.

During 2007, pretax charges totaling $57 million were recorded for purchased in-process research and development ("IPR&D"). See Note C 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.

Following the December 2006 completion of a study to review Union Carbide's asbestos claim and resolution activity, Union Carbide decreased its asbestos-related liability for pending and future claims (excluding future defense and processing costs) by $177 million. The reduction was shown as "Asbestos-related credit" in the 2006 consolidated statements of income and reflected in the results of Unallocated and Other. See Note J to the Consolidated Financial Statements for additional information regarding asbestos-related matters of Union Carbide.

Dow's share of the earnings of nonconsolidated affiliates in 2007 was $1,122 million, compared with $959 million in 2006 and $964 million in 2005. Equity earnings in 2007 exceeded $1 billion for the first time in the Company's history, reflecting increased earnings from EQUATE Petrochemical Company K.S.C. ("EQUATE"), MEGlobal and the OPTIMAL Group of Companies ("OPTIMAL"). Equity earnings in 2006 declined slightly from 2005 despite improved results from Dow Corning Corporation ("Dow Corning"), which was due in part to a favorable tax settlement reached in the second quarter of 2006; MEGlobal; Compañía Mega S.A.; and Univation Technologies, LLC. These improvements were offset by lower results from Equipolymers and Siam Polyethylene Company Limited ("Siam Polyethylene" which is part of the SCG-Dow Group), and the absence of equity earnings from UOP LLC ("UOP") and DuPont Dow Elastomers L.L.C., both of which the Company exited in 2005. See Note F to the Consolidated Financial Statements for additional information on nonconsolidated affiliates.

On December 13, 2007, the Company and PIC announced plans to form a 50:50 joint venture that will be a market-leading, global petrochemicals company. The joint venture, to be headquartered in the United States, will manufacture and market polyethylene, ethyleneamines, ethanolamines, polypropylene, and polycarbonate. To form the new joint venture, Dow will sell a 50 percent interest in the business assets included in the transaction to PIC. In turn, PIC and Dow will each contribute their assets into the joint venture. The resulting 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 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 for 2007 was $324 million, up from $137 million in 2006 and down from $755 million in 2005. In 2007, the increase in net sundry income reflected the impact of favorable foreign exchange hedging results and gains on the sale of miscellaneous assets. In 2006, sundry income was reduced by the recognition of a loss contingency of $85 million (reflected in the Performance Plastics segment) related to a fine imposed by the European Commission ("EC") associated with synthetic rubber industry matters (see Note J to the Consolidated Financial Statements for additional information). Sundry income for 2005 included a gain of $637 million on the sale of Union Carbide's indirect 50 percent interest in UOP (reflected in the Performance Plastics segment) and a $70 million gain ($41 million reflected in the Basic Chemicals segment; $29 million reflected in the Basic Plastics segment) on the sale of a portion of Union Carbide's interest in EQUATE in the first quarter of 2005. In November 2004, Union Carbide sold a 2.5 percent interest in EQUATE to National Bank of Kuwait for $104 million. In March 2005, these shares were sold to private Kuwaiti investors thereby completing the restricted transfer, which resulted in the first quarter gain and reduced Union Carbide's ownership interest from 45 percent to 42.5 percent. Sundry income for 2005 was reduced by a cash donation of $100 million to The Dow Chemical Company Foundation for aid to education and community development and a loss of $31 million associated with the early extinguishment of $845 million of debt (both reflected in Unallocated and Other).

Net interest expense (interest expense less capitalized interest and interest income) was $454 million in 2007, up slightly from $431 million in 2006 and down significantly from $564 million in 2005. Interest income was $130 million in 2007, down from $185 million in 2006 principally due to lower levels of cash and cash equivalents. Interest income was $138 million in 2005. Interest expense (net of capitalized interest) and amortization of debt discount totaled $584 million in 2007, $616 million in 2006 and $702 million in 2005. Interest expense declined in 2007 due to a lower level of debt throughout the year versus 2006.

The provision for income taxes was $1,244 million in 2007, compared with $1,155 million in 2006 and $1,782 million in 2005. 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. For example, as the percentage of foreign sourced income increases, the Company's effective tax rate declines. The Company's tax rate is also influenced by equity earnings, since most of the earnings from the Company's equity companies are taxed at the joint venture level. In 2007, the effective tax rate was 29.4 percent, compared with 23.2 percent in 2006 and 27.8 percent in 2005. The tax rate for 2007 was negatively impacted by a change in German tax law that was enacted in August 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 reduction in the German income tax rate, which was effective January 1, 2008, is expected to have a small incremental benefit to the Company's effective tax rate in the future. Also in 2007, the Company changed the legal ownership structure of its investment in EQUATE, resulting in a favorable impact to the "Provision for income taxes" of $113 million in the fourth quarter of 2007. Excluding these items, the effective tax rate was 23.5 percent in 2007.

Based on tax strategies developed in Brazil during 2006, as well as projections of future earnings, it was determined that it was more likely than not that tax loss carryforwards would be utilized, resulting in a reversal of existing valuation allowances of $63 million. This impact, combined with strong financial results in jurisdictions with lower tax rates than the United States, enacted reductions in the tax rates in Canada and The Netherlands, and improved earnings from a number of the Company's joint ventures, resulted in an effective tax rate for 2006 that was lower than the U.S. statutory rate. In the second quarter of 2005, the Company finalized its plan for the repatriation of foreign earnings subject to the requirements of the American Jobs Creation Act of 2004 ("AJCA"), resulting in a credit to the provision for income taxes of $113 million (see Notes A and R to the Consolidated Financial Statements). On January 23, 2006, the Company received an unfavorable tax ruling from the United States Court of Appeals for the Sixth Circuit reversing a prior decision by the United States District Court relative to corporate owned life insurance, resulting in a charge to the provision for income taxes of $137 million in the fourth quarter of 2005. Excluding these items, the effective tax rate was 24.5 percent in 2006 and 27.5 percent in 2005. The underlying factors affecting Dow's overall effective tax rates are summarized in Note R to the Consolidated Financial Statements.

Minority interests' share in income was $98 million in 2007, $93 million in 2006 and $82 million in 2005.

Cumulative effect of change in accounting principle reflected an after-tax charge of $20 million in 2005 related to the adoption of FASB Interpretation ("FIN") No. 47, "Accounting for Conditional Asset Retirement Obligations," on December 31, 2005. See Note A to the Consolidated Financial Statements for additional information regarding this change in accounting principle.

Net income available for common stockholders was $2,887 million in 2007 ($2.99 per share) compared with $3,724 million in 2006 ($3.82 per share) and $4,515 million in 2005 ($4.62 per share).

The following table summarizes the impact of certain items recorded in 2007, 2006 and 2005:

	Pretax Impact (1)			*Impact on Net Income* (2)			*Impact on EPS* (3)		
In millions, except per share amounts	*2007*	*2006*	*2005*	*2007*	*2006*	*2005*	*2007*	*2006*	*2005*
Restructuring charges	$(578)	$(591)	$(114)	$(436)	$(445)	$(77)	$(0.46)	$(0.46)	$(0.08)
Purchased in-process research and development charges	(57)			(50)			(0.05)		
Asbestos-related credit		177			112			0.12	
Sundry income net:									
Loss contingency related to EC fine		(85)			(84)			(0.09)	
Gain on sale of EQUATE shares			70			46			0.05
Gain on sale of interest in UOP			637			402			0.41
Loss on early extinguishment of debt			(31)			(20)			(0.02)
Cash donation for aid to education and community development			(100)			(65)			(0.07)
Provision for income taxes:									
AJCA repatriation of foreign earnings						113			0.12
Unfavorable tax ruling						(137)			(0.14)
German tax law change				(362)			(0.38)		
Change in EQUATE legal ownership structure				113			0.12		
Cumulative effect of change in accounting principle						(20)			(0.02)
Total	$(635)	$(499)	$462	$(735)	$(417)	$242	$(0.77)	$(0.43)	$0.25

(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"

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 includes all operating items relating to the businesses and excludes items that principally apply to the Company as a whole. Additional information regarding the Company's operating segments and a reconciliation of EBIT to "Net Income Available for Common Stockholders" can be found in Note S to the Consolidated Financial Statements.

PERFORMANCE PLASTICS

Performance Plastics sales were $15,116 million in 2007, up from $13,944 million in 2006 and $12,405 million in 2005. Compared with 2006, sales increased 8 percent, as prices, including the favorable impact of currency (which accounted for about half of the increase in prices), rose 6 percent and volume improved 2 percent. Prices improved in all geographic areas with particular strength in Europe and Latin America as improved industry supply/demand fundamentals in certain businesses and increasing raw material costs drove prices higher. The overall improvement in volume was limited by weakness in North America and the impact of significant lump sum technology licensing revenue that was realized in the first quarter of 2006 and did not recur in 2007. Outside North America, volume increased 8 percent, with solid gains across most businesses in Europe, Latin America and Asia Pacific. In 2006, volume improved 7 percent and prices increased 5 percent over 2005. Volume in 2006 benefited from the full-year impact of the addition of ENGAGE , NORDEL and TYRIN elastomers, acquired by the Company when it divested its interest in DuPont Dow Elastomers L.L.C. ("DDE") in 2005 (see Note F to the Consolidated Financial Statements) and from significant lump sum licensing revenue earned in the first quarter of 2006.

EBIT for 2007 was $1,390 million, compared with $1,629 million in 2006 and $2,507 million in 2005. Results for 2007 were negatively impacted by net restructuring charges of $180 million, which included $184 million related to the fourth quarter announced closure or impairment of a number of manufacturing facilities, offset by a $4 million reduction of the 2006 restructuring reserve for contract termination fees (see Note B to the Consolidated Financial Statements). The restructuring charges included the write-down of manufacturing assets, the write-off of obsolete capital spending and the accrual of contract termination fees associated with plant shutdown decisions. The most significant charges included impairment charges related to a rubber plant in Berre, France, and associated contract cancellation fees totaling $61 million; the write-down of the automotive sealants business in North America, Latin America and Asia Pacific which totaled $58 million; and the $29 million write-down of assets related to a fiber solution manufacturing plant in Tarragona, Spain. Results for 2006 were reduced by the recognition of a loss contingency of $85 million related to a fine imposed by the EC associated with synthetic rubber industry matters (see Note J to the Consolidated Financial Statements) and $242 million in asset restructuring costs as part of the plan announced by the Company in the third quarter of 2006, which included the permanent shutdown of the Company's toluene diisocyanate ("TDI") plant in Porto Marghera, Italy. Excluding the impact of these items, EBIT declined in 2007 primarily due to the lump sum technology licensing revenue that was earned in 2006 and that did not recur in 2007, and an increase in operating expenses related to the Company's efforts to expand geographic markets and develop new technologies and product applications within the Performance Plastics segment. EBIT for 2005 included a gain of $637 million related to the sale of Union Carbide's indirect 50 percent interest in UOP to a wholly owned subsidiary of Honeywell International, Inc. and charges totaling $28 million associated with the closure of six small manufacturing sites as part of the restructuring activities completed in the fourth quarter of 2005. Excluding the impact of these items, EBIT in 2006 improved over 2005 as higher selling prices and improved volumes more than offset the impact of increased raw material costs and lower equity earnings.

Dow Automotive sales for 2007 were up 11 percent from 2006 driven by a 7 percent increase in volume and a 4 percent increase in price, principally due to the favorable impact of currency. The business benefited from its broad geographic reach in 2007 as strong volume gains in Asia Pacific, Latin America and Europe more than compensated for weakness in the North American automotive industry. The ability to raise prices was limited by the weakness in North America and customer efforts to establish dual sourcing positions. EBIT for 2007 was reduced by $64 million of restructuring charges primarily associated with the Company's decision in the fourth quarter of 2007 to exit the automotive sealants business in North America, Latin America and Asia Pacific. Excluding these charges, EBIT for the business declined in 2007 due to higher raw material costs, increased spending on product development and business growth initiatives, and higher costs associated with the consolidation of manufacturing operations in North America and Europe. When completed in 2009, this consolidation is expected to result in lower costs for the business.

Dow Building Solutions sales in 2007 established a new record for the business, up 6 percent from the previous sales record set in 2006, despite a 15-year low in new housing starts in North America. The improvement was driven by higher prices of 7 percent, including the favorable impact of currency, which more than offset a 1 percent decline in volume. Price improvement was widespread with increases noted in all geographic areas. The decline in volume, which was driven by weakness in U.S. residential construction, was mitigated in large part by solid demand in Europe and efforts by the business to shift focus in the United States to commercial construction. EBIT in 2007 was negatively impacted by restructuring charges of $21 million related to the closure of five small manufacturing plants. Excluding the impact of the restructuring charges, EBIT in 2007 was down from 2006 as higher raw material costs and increased spending on market expansion activities in emerging geographies and development work on new products and technology exceeded the benefit of higher selling prices.

Dow Epoxy sales in 2007 increased 7 percent compared with last year, reflecting a 10 percent increase in price and a 3 percent decline in volume. Prices improved in all geographic areas and across most businesses. Volume declined due to lower sales of intermediate products and the Company's 2006 exit of the peroxymeric chemicals business, more than offsetting volume gains in the rest of the world. Results for 2007 included a restructuring charge of $2 million related to the Company's fourth quarter of 2007 decision to exit the hydroxyalkyl acrylate business. Results for 2006 included a restructuring charge of $9 million related to the Company's third quarter of 2006 decision to exit the peroxymeric chemicals business in North America, Europe and Asia Pacific. EBIT in 2007 declined versus 2006 as the favorable impact of higher selling prices was more than offset by lost margin on lower sales volume, higher operating expenses and margin compression from higher raw material costs.

Polyurethanes and Polyurethane Systems sales for 2007 increased 11 percent versus the prior year with price, including the favorable impact of currency, up 6 percent and volume up 5 percent. The increase in price was driven by tight industry supply/demand fundamentals for TDI. Volume improved significantly in 2007 for Polyurethane Systems due to the formation of the majority owned Dow Izolan joint venture in Russia and the acquisitions of Hyperlast Limited and Edulan A/S. EBIT for 2006 included significant restructuring charges associated with the Company's decision to shut down the TDI facility in Porto

Marghera, Italy. Excluding this impact, EBIT in 2007 increased from 2006 as higher selling prices and increased margin on volume gains more than offset the impact of higher raw material costs and operating expenses.

Specialty Plastics and Elastomers established a new sales record in 2007, up 13 percent versus 2006, due to a 7 percent increase in volume and a 6 percent improvement in price. The increases in both volume and price were broad-based with improvement in all geographic areas and most businesses. EBIT for 2007 included restructuring charges of $97 million, including impairment charges related to a rubber plant in Berre, France, and a fiber solution plant in Tarragona, Spain. EBIT for 2006 included a restructuring charge of $11 million related to the shutdown of the polyethylene wax plant in Sarnia, Ontario, Canada, and a loss contingency of $85 million related to the EC fine. Excluding these items, EBIT declined for the business as higher raw material costs, coupled with increased spending on plant maintenance and operations, more than offset the benefit of higher selling prices and increased sales volume.

Technology Licensing and Catalyst sales and EBIT were down significantly in 2007 due to lump sum licensing revenue earned in 2006 that did not recur in 2007.

Performance Plastics Outlook for 2008

Performance Plastics sales are expected to increase in 2008 as the Company continues to invest in Performance businesses and pursue growth opportunities in developing geographic areas. Additional industry capacity for some products may result in downward pressure on pricing. Raw material costs are expected to remain challenging as higher feedstock and energy costs continue to drive prices higher.

Dow Automotive expects sales growth in line with automotive industry trends. Conditions in the North American automotive industry are expected to deteriorate further. To mitigate the impact of declining demand in North America, the business will focus on growth opportunities in Latin America and Eastern Europe, as well as expanding its position in Asia Pacific. Prices are expected to improve slightly in 2008 as producers attempt to recover some of the margin lost in 2007. New plants in Midland, Michigan and Schkopau, Germany are expected to start up in 2008. These facilities will replace older, less efficient plants, which are expected to close when the new facilities become fully operational.

Dow Building Solutions expects moderate volume improvement in 2008, led by continued growth in Europe and solid commercial construction demand in the United States. The business expects the U.S. residential construction industry to continue to struggle in 2008, potentially reaching the bottom in the second half of the year. Conditions in the U.S. credit market will be a key factor in how U.S. residential construction develops in 2008. Pricing is expected to rise slightly on a global basis in line with the outlook for feedstock and other raw material costs. Continued low pricing on oriented strand board is expected to keep pressure on polyisocyanurate rigid foam and extruded polystyrene sheathing in North America. Pricing pressure is also expected in Europe where additional industry capacity will come on line in 2008. The Company will continue to invest in the Dow Building Solutions business during 2008 as new foaming agent formulations, compliant with the Montreal Protocol, are implemented in North American manufacturing sites for the production of STYROFOAM XPS insulation.

Dow Epoxy volume is expected to increase in 2008 with three recent acquisitions UPPC AG, POLY-CARB Inc. and GNS Technologies driving growth in new systems applications; and continued strength in the key existing applications for electrical laminates, coatings and civil engineering. Margins are expected to come under some pressure from rising feedstock and energy costs as the addition of new industry capacity starting up in Asia Pacific in 2008 is expected to limit the ability of the business to raise prices.

Polyurethanes and Polyurethane Systems expect volume to grow in 2008, benefiting from the full-year integration of recent acquisitions (including Hyperlast Limited), as well as continued growth in insulation and other applications. Industry fundamentals are expected to be less tight in 2008 as industry production volume increases for key products. Prices are expected to increase in response to increasing feedstock and other raw material costs, although price increases may not fully offset these higher costs.

Specialty Plastics and Elastomers expect continued sales growth in 2008 driven primarily by higher volumes. Continued weakness in North America is expected to be offset by strength in Latin America, Europe and Asia Pacific. The infrastructure building industry remains strong, which should benefit the Wire & Cable business, and demand for packaging is expected to continue growing with food related applications, providing an opportunity for additional growth. While polycarbonate industry fundamentals remain challenging, demand is expected to continue to grow and should improve the industry supply/demand balance going forward.

Technology Licensing and Catalyst revenue is expected to remain solid in 2008 with volume remaining firm.

PERFORMANCE CHEMICALS

Performance Chemicals sales increased 6 percent to $8,351 million in 2007, compared with $7,867 million in 2006; sales were $7,521 million in 2005. Compared with 2006, volume increased 2 percent, while prices rose 4 percent, largely due to the favorable impact of currency. The volume increase in 2007 was due in large part to the second quarter acquisition of Wolff Walsrode. In 2006, volume rose 4 percent from 2005 across most businesses in Europe, Latin America and Asia Pacific, while prices rose 1 percent.

EBIT for 2007 was $949 million, compared with $1,242 million in 2006 and $1,435 million in 2005. Despite higher equity earnings from Dow Corning, EBIT declined in 2007 due to increases in raw material costs and higher operating expenses, as the businesses invested in new product development and growth initiatives, including integration costs associated with the acquisition of Wolff Walsrode. In addition, EBIT in 2007 was reduced by restructuring charges totaling $85 million and a $7 million charge for IPR&D related to the Wolff Walsrode acquisition. The restructuring charges included the write-down of manufacturing assets (due to plant closures in Aratu, Brazil; Freeport, Texas; and Midland, Michigan) totaling $43 million and the $42 million impairment write-down of the Company's indirect 50 percent interest in Dow Reichhold Specialty Latex LLC. In 2006, EBIT declined as higher raw material and energy costs more than offset higher selling prices. In addition, EBIT in 2006 was reduced by restructuring charges totaling $12 million. In 2005, EBIT was negatively impacted by charges of $14 million related to the closure of five small manufacturing facilities. See Notes B and C to the Consolidated Financial Statements for additional information regarding restructuring charges and IPR&D.

Designed Polymers sales increased 23 percent versus 2006, with volume growth of 20 percent and price increases of 3 percent. The improvement in volume was primarily due to the second quarter acquisition of Wolff Walsrode. Excluding these sales, volume for the business was up 7 percent, driven by higher sales in biocides, methyl cellulosics, and Dow Water Solutions. The improvement in volume was across all geographic areas, with double-digit growth in Europe, Latin America and Asia Pacific. Compared with 2006, EBIT declined significantly due to higher operating expenses, including expenses related to the acquisition of Wolff Walsrode, and higher raw material costs. In addition, EBIT for 2007 was reduced by restructuring charges totaling $27 million related to the permanent closure of the cellulosics plant in Aratu, Brazil, and the shutdown of a small pharmaceutical plant in Midland, Michigan, as well as a $7 million IPR&D charge.

Dow Latex sales for 2007 were flat with 2006, as a 5 percent increase in price was offset by a 5 percent decline in volume. Compared with 2006, paper and carpet latex prices were higher in all geographic areas. Volume was down, however, primarily due to challenging conditions in both the paper and carpet industries. Carpet latex was down due to the slow housing industry in North America, while paper latex continued to be impacted by changes in the advertising industry as spending moves toward alternative media versus print and coated paper. Prices were slightly higher for specialty latex, however, volume declined due to sluggish demand for architectural coatings in North America. Despite higher selling prices, EBIT declined significantly in 2007 due to lower volumes and higher feedstock and energy costs. In addition, EBIT in 2007 was reduced by a charge of $42 million related to the write-down of the Company's indirect 50 percent interest in Dow Reichhold Specialty Latex LLC.

Specialty Chemicals sales were up 2 percent versus 2006, with a 3 percent increase in price and a 1 percent decrease in volume. Compared with 2006, prices were up across all geographic areas except North America, principally driven by higher raw material costs. Volume declined slightly versus 2006 primarily due to planned and unplanned outages at OPTIMAL, which manufactures products that are sold by Dow in Asia Pacific. EBIT in 2007 declined as higher raw material and energy costs and lower operating rates more than offset improvements in price. In addition, EBIT in 2007 was reduced by restructuring charges totaling $16 million related to the write-down of two manufacturing facilities.

Performance Chemicals Outlook for 2008

Performance Chemicals sales for 2008 are expected to increase as the Company benefits from growth opportunities related to the acquisition of Wolff Walsrode. Prices are expected to be higher across most major product lines reflecting good industry fundamentals, although excess industry supply and volatility of feedstock and energy costs will continue to put pressure on margins in Dow Latex.

Designed Polymers sales are expected to increase significantly with higher prices for methyl cellulosics and CELLOSIZE hydroxyethyl cellulose used in food ingredients, pharmaceuticals and personal care products. Price and volume improvements are also expected in Specialty Polymers, Dow Water Solutions, biocides, and the specialty chemical products of ANGUS Chemical Company.

Dow Latex sales are expected to decrease due to the slowdown in residential housing construction in North America, which will impact demand for specialty latex. In addition, some customers may seek lower cost alternatives to styrene-butadiene latex products in coated paper applications.

Specialty Chemicals prices are expected to decrease slightly due to declining monoethylene glycol prices, which will put pricing pressure on ethylene oxide derivative products, including amines and glycol ethers.

AGRICULTURAL SCIENCES

Sales for Agricultural Sciences were $3,779 million in 2007, compared with $3,399 million in 2006 and $3,364 million in 2005. Volume increased 9 percent, compared with 2006, while prices increased 2 percent. The increase in price was primarily driven by the favorable impact of currency which offset local currency price decreases associated with generic competition. Volume was up significantly across several product lines in 2007. Strong volume growth continued for new products including penoxsulam rice herbicide and aminopyralid herbicide for range and pasture, which reported sales almost double the levels of 2006. Demand in cereals applications drove fluroxypyr mixtures and florasulam sales higher, while glyphosate and its mixtures grew in conjunction with the global increase in corn acreage. Spinosad and chlorpyrifos sales both benefited from a mild winter and early spring in Europe, while low termite pressure and the slow housing construction in the United States adversely impacted sales of SENTRICON Termite Colony Elimination System and sulfuryl fluoride. Demand creation efforts continued to progress as several additional large restaurant chains chose to use Omega-9 oils, heart-healthy canola and sunflower oils derived from NEXERA seed, in their establishments. In 2006, volume increased 3 percent from 2005, while prices declined 2 percent, primarily due to highly competitive industry conditions in Brazil and the unfavorable impact of currency in Europe and Asia Pacific. Volume increased as sales of insecticides rebounded from the competitive pressures of 2005. In 2006, commodity herbicides also benefited from the adoption of herbicide-tolerant soybeans in Brazil and herbicide-tolerant corn in the United States, while increased sales of cotton, sunflower and canola seed more than offset lower sales of corn seed in the United States.

EBIT in 2007 was $467 million versus $415 million in 2006 and $543 million in 2005. The increase in EBIT in 2007 was primarily the result of strong demand related to high farm commodity prices and increased acres planted, economic stability across Latin America, and marked improvement in seeds operations. EBIT in 2007 was negatively impacted by $77 million of restructuring charges primarily related to the impairment of the Company's manufacturing site in Lauterbourg, France, and by IPR&D charges totaling $50 million related to recent acquisitions. See Notes B and C to the Consolidated Financial Statements for additional information regarding restructuring charges and IPR&D. In 2006, EBIT declined from 2005 due to downward pricing pressure in highly competitive industry conditions, product mix and an increase in raw material costs.

Agricultural Sciences Outlook for 2008

Agricultural Sciences sales for 2008 are expected to grow above the levels achieved in 2007. Volume is expected to increase in key regions as farm commodity prices and grower confidence remain high. Price is anticipated to be relatively flat despite pricing pressure from generic competition in agricultural chemicals. Growth is anticipated in Brazil, but at a lesser rate than experienced with the economic rebound in 2007. The launch of pyroxsulam (cereal herbicide) and continued ramp-up of newer products, such as spinetoram, penoxsulam, aminopyralid, and WIDESTRIKE and HERCULEX insect protection, are expected to continue to increase sales. In addition, demand for Omega-9 oils should continue to build momentum in the healthy oils market segment. Consistent with the Company's strategy, the business expects to increase spending for the discovery and development of new products.

BASIC PLASTICS

Sales for the Basic Plastics segment were $12,878 million in 2007, up 9 percent from $11,833 million in 2006. Sales were $11,007 million in 2005. Prices, including the favorable impact of currency, increased 8 percent in 2007, while volume increased 1 percent. Price increases were reported in all geographic areas, reflecting significantly higher feedstock and energy costs. While volume was significantly higher in Asia Pacific and Europe, higher prices, a very competitive industry environment, and growing concerns about the strength of the U.S. economy resulted in lower volume in North America which was also impacted by the shutdown of two production facilities at the end of 2006. In 2006, prices increased 7 percent over 2005, while volume increased 1 percent. The increase in selling prices reflected significantly higher feedstock and energy costs in 2006. While volume was up significantly in Asia Pacific and Latin America, volume declined in North America as customers reduced inventories.

EBIT for 2007 was $2,006 million, down from $2,022 million in 2006 and $2,398 million in 2005. EBIT declined in 2007 as price increases were not sufficient to offset the significant increases in feedstock and other raw material costs. Compared with last year, equity earnings increased due to significantly higher earnings from EQUATE (due to planned maintenance turnarounds in 2006), partially offset by lower equity earnings from Siam Polyethylene and Equipolymers. EBIT in 2007 was reduced by restructuring charges totaling $88 million related to the announced shutdown of the polypropylene production facility at St. Charles Operations in Hahnville, Louisiana; the write-down of the Company's 50 percent interest in Pétromont and Company, Limited Partnership; and the write-off of abandoned engineering costs. In 2006, EBIT declined from 2005 as price increases were not sufficient to offset the significant increases in feedstock and other raw material costs. Equity earnings from EQUATE and Siam Polyethylene in 2006 were also lower due to planned maintenance turnarounds. In addition, EBIT in 2006 was negatively impacted by restructuring charges totaling $16 million related to the shutdown of the polystyrene and polyethylene production facilities in Sarnia, Ontario, Canada.

Polyethylene sales increased 8 percent in 2007 as prices increased 6 percent and volume increased 2 percent. Prices rose in all geographic areas, except North America, in response to significantly higher feedstock and energy costs. In North America, prices declined slightly as highly competitive industry conditions and soft demand made it difficult to implement price increases. Substantial volume growth in Asia Pacific and Europe, combined with modest increases in North America and Latin America, more than offset a notable decline in South Africa due to the sale of the Company's polyethylene manufacturing plant in that country in 2006. EBIT decreased slightly in 2007 as higher selling prices, lower operational costs, and higher equity earnings were more than offset by higher feedstock costs. EBIT in 2007 was reduced by a restructuring charge of $46 million related to the impairment write-down of the Company's 50 percent interest in Pétromont and Company, Limited Partnership and the write-down of abandoned engineering costs of $16 million. EBIT in 2007 was favorably impacted by a gain on the sale of the low density polyethylene plant in Cubatao, Brazil, in the second quarter of 2007.

Polypropylene sales increased 5 percent in 2007 as prices improved 10 percent and volume declined 5 percent. Polypropylene prices increased in 2007 in response to significantly higher propylene costs. Volume improved significantly in Europe where a tight supply/demand balance resulted in customers pre-buying product in anticipation of future price increases. Volume declined significantly in South Africa, resulting from the sale of the Company's polypropylene manufacturing plant in 2006. Despite higher prices, EBIT declined from 2006 due to higher propylene costs, higher operating costs and a restructuring charge of $26 million related to the announced shutdown of the Company's polypropylene manufacturing facility at St. Charles Operations in Hahnville, Louisiana.

Polystyrene sales increased 15 percent in 2007 as prices improved 13 percent and volume increased 2 percent. Prices improved in all geographic areas, driven by significantly higher feedstock and energy costs. Volume declined significantly in North America reflecting lower demand due to high polystyrene prices and the closure of the Company's polystyrene manufacturing facility at Sarnia, Ontario, Canada in the fourth quarter of 2006. Volume was significantly higher in Asia Pacific due to the consolidation of the SAL Petrochemical (Zhangjiagang) Company Limited, after the Company acquired the remaining 50 percent interest in the joint venture in the first quarter of 2007. EBIT improved significantly from 2006 as higher prices and lower operating costs more than offset the increase in feedstock and energy costs. EBIT for 2006 was negatively impacted by a restructuring charge related to the shutdown of the polystyrene plant in Sarnia, Ontario, Canada.

Basic Plastics Outlook for 2008

Feedstock and energy costs are expected to remain high during 2008, providing support for the maintenance of prices although some margin deterioration is expected. Demand for all products within the segment is expected to remain solid during the first half of the year; however, additional global production capacity scheduled for the second half of the year will likely result in increased industry competition.

While feedstock costs are expected to be higher in 2008, polyethylene margins are expected to remain near 2007 levels during the first half of the year. Industry supply/demand balances are expected to remain consistent with 2007, but may be impacted by new industry production capacity in late 2008. Equity earnings are expected to be lower in 2008, due to slightly higher raw material and operating costs at EQUATE and higher feedstock costs at Siam Polyethylene. In addition, equity losses are expected from a new joint venture announced in the third quarter of 2007 by Dow and Crystalsev, to design and build a world-scale facility to manufacture polyethylene from sugar cane, as that joint venture incurs costs associated with the initial feasibility study.

Polypropylene demand is expected to be comparable to 2007 and remain strong during the first half of the year. Margins should improve in North America as the shutdown of the production facility at St. Charles Operations results in a shift in product mix to higher margin products. North America volumes are expected to be negatively impacted by reduced export demand and planned maintenance shutdowns at the Company's Seadrift and Oyster Creek facilities in Texas. In Europe, margins are expected to decline as significant new industry production capacity comes on-line in Europe and the Middle East during the second half of the year.

Within the polystyrene industry, demand growth is expected to remain low due to high prices and the volatility of raw materials costs, resulting in continued pressure on margins. The industry is expected to be highly competitive and industry restructuring will continue in 2008. The Company and Chevron Phillips Chemical Company LP signed a non-binding Memorandum of Understanding in the second quarter of 2007 relating to the formation of a joint venture involving assets from their respective polystyrene and styrene monomer businesses in the Americas. The new joint venture, subject to completion of definitive agreements and corporate and other approvals, is expected to begin operations in 2008.

In addition, in the fourth quarter of 2007, Dow and PIC announced plans to form a 50:50 joint venture to create a market-leading petrochemicals company. The global joint venture will include the manufacturing and marketing of polyethylene and polypropylene, among other products. The transaction is subject to the completion of definitive agreements, customary conditions and regulatory approvals, and is anticipated to close in late 2008.

BASIC CHEMICALS

Sales for Basic Chemicals were $5,863 million in 2007, compared with $5,560 million in 2006 and $5,643 million in 2005. Overall, sales increased 5 percent as prices rose 6 percent, including the favorable impact of currency which accounted for about one-third of the price increase. The increase in price was primarily due to price improvements in ethylene oxide/ethylene glycol ("EO/EG") and solvents and intermediates, mainly driven by increases in feedstock and energy costs. Volume was down 1 percent in 2007 as volume growth in solvents and intermediates was more than offset by declines in EG and ethylene dichloride ("EDC"). Volume for EDC was down, principally in North America, due to the shutdown of the Company's EDC production facility in Fort Saskatchewan, Alberta, Canada in the fourth quarter of 2006. In 2006, volume was down 2 percent from 2005, due to plant closures in the chlor-vinyl business and the expiration of a customer contract for vinyl acetate monomer at the end of 2005; prices increased 1 percent versus 2005.

Caustic soda sales were slightly higher in 2007 mainly due to increased volume. Vinyl chloride monomer ("VCM") sales were essentially flat, as an increase in price was offset by a decrease in volume. The decline in volume was primarily due to maintenance outages.

EO/EG sales increased 6 percent in 2007, as a 16 percent increase in prices, principally due to higher feedstock and energy costs, more than offset a 10 percent decrease in volume. EG volume declined in 2007 due to lack of supply related to planned and unplanned outages on the U.S. Gulf Coast and the restructuring of certain supply agreements.

Solvents and intermediates sales were up 24 percent in 2007, with a 13 percent increase in volume and an 11 percent increase in price. The significant improvement in volume was related to solid demand for oxo products for coatings applications. Price improvement was driven by increases in feedstock and energy costs and other raw material cost increases.

EBIT for Basic Chemicals was $813 million in 2007, compared with $689 million in 2006 and $1,129 million in 2005. Results for the segment in 2007 included restructuring charges of $7 million related to the write-off of capital project spending. In 2006, results included restructuring charges totaling $184 million related to the closure of the chlor-alkali plant at Fort Saskatchewan, Alberta, Canada, as well as a number of other small manufacturing facilities. Excluding these items from both periods, EBIT in 2007 declined from 2006 as sharply higher feedstock and energy costs and increases in other raw material costs more than offset the improvement in sales and higher equity earnings from EQUATE and MEGlobal. EBIT in 2006 declined from 2005 as significantly higher feedstock and energy costs and lower volume exceeded the benefits of improved plant operations and an increase in selling prices. Results for 2005 included a gain of $41 million associated with the sale of EQUATE shares, as well as a restructuring charge of $3 million related to the closure of a small manufacturing facility.

Basic Chemicals Outlook for 2008

Caustic soda prices are expected to remain flat in 2008, while volume is expected to decline due to three significant maintenance turnarounds planned for 2008.

VCM sales are expected to increase in 2008 due to an anticipated increase in volume in Europe and Latin America, and expected increased prices driven by higher hydrocarbon and energy costs. Average industry operating rates for EG in 2008 are expected to be consistent with the average operating rate for 2007. However, 2008 supply/demand balance is expected to be tight early in the year, and then weaken slowly as a result of new industry capacity scheduled to come on-line late in the year, compressing margins. Equity earnings are expected to remain strong in 2008. The EG joint venture with PIC is expected to start production in the second half of 2008, adding to equity earnings.

Solvents and intermediates' diversity of applications and increased geographic growth beyond North America and Asia Pacific will enable sustained demand for 2008. Sales volume is expected to grow slightly and margins should remain favorable despite continued high feedstock and energy costs, as no new industry capacity is scheduled to come on-line in 2008 in Asia Pacific and supply/demand is expected to remain balanced.

HYDROCARBONS AND ENERGY

Hydrocarbons and Energy sales were $7,105 million in 2007, compared with $6,205 million in 2006 and $6,061 million in 2005. In 2007, prices were up 12 percent and volume increased 3 percent from 2006. Prices increased in 2007 due to the continued rise in crude oil and feedstock costs, and tight supply/demand balances for certain hydrocarbon products. Volume increased in 2007 primarily due to additional U.S. power sales resulting from the fourth quarter 2006 acquisition of the Plaquemine Cogeneration Facility in Louisiana. In 2006, prices increased 11 percent and volume decreased 9 percent from 2005. Compared with 2005, prices rose following the rise in crude oil and feedstock costs; volume declined due to outages, both scheduled and unscheduled, at a number of the Company's facilities.

The Hydrocarbons and Energy business transfers materials to Dow's derivative businesses at cost, which results in EBIT that is at or near breakeven. In 2007, EBIT was a loss of $45 million due to restructuring charges of $44 million recorded in the fourth quarter principally due to the shutdown of the Company's styrene monomer plant in Camaçari, Brazil, and the closure of storage wells in Fort Saskatchewan, Alberta, Canada (see Note B to the Consolidated Financial Statements). EBIT for the segment was at or near breakeven in 2006 and 2005.

The Company uses derivatives of crude oil and natural gas as feedstocks in its ethylene facilities, while natural gas is used as a fuel. The Company's cost of purchased feedstocks and energy rose approximately $2.5 billion (11 percent) in 2007 due to increased prices. Crude oil prices increased for much of the year, and on average, 2007 prices were $7 per barrel higher than 2006 levels. Conversely, on average, North American natural gas prices continued the downward trend, and were approximately $0.13 per million Btu lower than in 2006, a decrease of approximately 2 percent.

Hydrocarbons and Energy Outlook for 2008

Crude oil and natural gas prices are expected to remain volatile and sensitive to external factors such as weather, economic growth/sub-prime credit effects and geopolitical tensions. The Company expects crude oil prices, on average, to be higher than 2007. Ethylene margins are expected to be somewhat lower in 2008 due to global capacity growth, particularly in the Middle East, exceeding global demand growth. Ethylene margins could improve compared to these expectations, with stronger than anticipated demand and delayed startups of new capacity within the industry. The economic outlook is uncertain, and a faltering economy and/or major spike in crude oil prices may contribute to a decline in margins and volume.

UNALLOCATED AND OTHER

Sales for Unallocated and Other, which primarily relate to the Company's insurance operations, were $421 million in 2007, compared with $316 million in 2006 and $306 million in 2005. 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 was a loss of $897 million in 2007 compared with a loss of $594 million in 2006 and a loss of $1,048 million in 2005. EBIT for 2007 was reduced by 2007 restructuring charges totaling $105 million, including employee-related severance expenses of $86 million, pension curtailment costs and termination benefits of $15 million and asset write-offs of $4 million; franchise taxes of approximately $80 million; and higher performance-based compensation expenses (including stock-based compensation) of approximately $230 million. EBIT for 2007 was favorably impacted by improved results from insurance company operations, foreign exchange hedging results, and an $8 million favorable adjustment to the restructuring charge recorded in the third quarter of 2006 for employee-related severance.

EBIT for 2006 was negatively impacted by restructuring charges of $137 million (including employee-related severance expenses of $73 million, pension curtailment costs and termination benefits of $33 million, asset write-offs of $18 million related to the shutdown of several small facilities around the world, and asbestos abatement of $10 million and environmental remediation of $3 million related to the shutdown of all production facilities at the Company's site in Sarnia, Ontario, Canada); performance-based stock compensation expenses of $86 million; other severance costs of $52 million; asbestos-related defense and resolution costs (net of insurance) of $45 million; and expenses of $59 million related to the Company's corporate branding program. EBIT for 2006 was favorably impacted by a $177 million reduction in Union Carbide's asbestos-related liability for pending and future claims (excluding future defense and processing costs). EBIT for 2005 was negatively impacted by charges totaling $48 million for restructuring activities in the fourth quarter of 2005 (including employee-related expenses of $25 million, the write-off of an intangible asset of $10 million and costs of $13 million related to the closure of three small plants), severance costs of $68 million, a cash donation of $100 million to The Dow Chemical Company Foundation, performance-based stock compensation expenses of $276 million, asbestos-related defense and resolution costs (net of insurance) of $75 million, and a loss of $31 million associated with the early extinguishment of debt.

See Note B to the Consolidated Financial Statements for information regarding the restructuring charges.

Sales Price and Volume

	2007			*2006*			*2005*		
Percent change from prior year	*Volume*	*Price*	*Total*	*Volume*	*Price*	*Total*	*Volume*	*Price*	*Total*
Operating Segments:									
Performance Plastics	2%	6%	8%	7%	5%	12%	1%	18%	19%
Performance Chemicals	2	4	6	4	1	5	(2)	18	16
Agricultural Sciences	9	2	11	3	(2)	1	(3)	3	
Basic Plastics	1	8	9	1	7	8		19	19
Basic Chemicals	(1)	6	5	(2)	1	(1)	(13)	17	4
Hydrocarbons and Energy	3	12	15	(9)	11	2	2	22	24
Total	2%	7%	9%	1%	5%	6%	(2)%	17%	15%
Geographic Areas:									
United States	(1)%	2%	1%		4%	4%	(3)%	19%	16%
Europe	5	12	17	1%	6	7	1	15	16
Rest of World	5	5	10	5	3	8	(5)	17	12
Total	2%	7%	9%	1%	5%	6%	(2)%	17%	15%

Price includes the impact of currency. Volume includes the impact of acquisitions and divestitures.

LIQUIDITY AND CAPITAL RESOURCES

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 In millions	*2007*	*2006*	*2005*
Cash provided by (used in):			
Operating activities	$ 4,484	$ 4,154	$ 4,474
Investing activities	(2,858)	(1,907)	(1,096)

Financing activities		(2,728)		(3,302)		(2,508)
Effect of exchange rate changes on cash		81		6		(172)
Net increase (decrease) in cash and cash equivalents	$	(1,021)	$	(1,049)	$	698

Despite lower earnings, cash provided by operating activities in 2007 increased versus 2006 principally due to a reduction in cash contributed to the Company's pension plans. Cash provided by operating activities decreased in 2006 versus 2005 primarily due to lower earnings, partially offset by lower pension contributions.

Cash used in investing activities in 2007 increased significantly compared with 2006 due to investments in consolidated companies (including $603 million for Wolff Walsrode and $151 million for Hyperlast Limited; see Notes C and G to the Consolidated Financial Statements), a $300 million increase in capital expenditures, several acquisitions of agricultural businesses, partially offset by a lower usage of cash to purchase previously leased assets. Cash used in investing activities in 2006 increased significantly compared with 2005, as cash usage in 2005 was reduced by proceeds of $867 million from the sale of Union Carbide's 50 percent indirect interest in UOP.

Cash used in financing activities in 2007 decreased compared with 2006 as the issuance of promissory notes under the Company's U.S. commercial paper program and higher proceeds from the sales of common stock (related to the exercise of stock options and the Employees' Stock Purchase Plan), more than offset increases in purchases of treasury stock (related to the Company's share repurchase programs) and dividends paid to shareholders. In May 2007, the quarterly dividend was increased 12 percent. Cash used in financing activities in 2006 increased compared with 2005 principally due to purchases of treasury stock (related to a share repurchase program authorized in July 2005) and an increase in dividends paid to stockholders. In February 2006, the quarterly dividend was increased 12 percent.

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 $338 million over the next few years related to severance costs, contract termination fees, asbestos abatement and environmental remediation (see Note B to the Consolidated Financial Statements). Dow 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.

Working Capital at December 31 In millions	*2007*	*2006*
Current assets	$18,654	$17,209
Current liabilities	12,445	10,601
Working capital	$6,209	$6,608
Current ratio	1.50:1	1.62:1

At December 31, 2007, trade receivables were $5.9 billion, up from $5.0 billion at December 31, 2006, consistent with the significant increase in sales. Days-sales-outstanding-in-receivables (excluding the impact of sales of receivables) was 38 days at December 31, 2007 compared with 39 days at December 31, 2006. At December 31, 2007, total inventories were $6.9 billion, up from $6.1 billion at December 31, 2006, principally due to the increase in feedstock and energy costs and higher plant operating rates. Days-sales-in-inventory at December 31, 2007 was 61 days versus 63 days at December 31, 2006.

Total Debt at December 31 In millions	*2007*	*2006*
Notes payable	$1,548	$219
Long-term debt due within one year	586	1,291
Long-term debt	7,581	8,036
Total debt	$9,715	$9,546
Debt as a percent of total capitalization	31.8%	34.1%

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 December 31, 2007, there was $1.2 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 5-year revolving credit facility with various U.S. and foreign banks. This credit facility matures in April 2011.

At December 31, 2007, the Company had $500 million of SEC-registered securities available for issuance under U.S. shelf registrations, Euro 5.0 billion (approximately $7.4 billion) available for issuance under the Company's Euro Medium Term Note Program, as well as Japanese yen 50 billion (approximately $447 million) of securities available for issuance under a shelf registration filed with the Tokyo Stock Exchange on July 31, 2006. 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.

Dow's public debt instruments and documents for its private funding transactions contain, among other provisions, certain covenants and default provisions. At December 31, 2007, the Company was in compliance with all of these covenants and default provisions. For information on Dow's covenants and default provisions, see Note K to the Consolidated Financial Statements.

On July 14, 2005, the Board of Directors authorized the repurchase of up to 25 million shares of Dow common stock over the period ended on December 31, 2007 (the "2005 Program"). In 2005 and 2006, the Company purchased 18,798,407 shares of the Company's common stock under the 2005 Program. During the first quarter of 2007, the Company purchased the remaining 6,201,593 shares under the 2005 Program, bringing the program to a close.

On October 26, 2006, the Company announced that its Board of Directors had approved a new 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, following completion of the 2005 Program. In 2007, the Company purchased 26,225,207 shares of the Company's common stock under the 2006 Program. For additional information, see PART II, Item 5. Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities.

Capital Expenditures

Capital spending for the year was $2,075 million, up 17 percent from $1,775 million in 2006. Capital spending was $1,597 million in 2005. In 2007, approximately 31 percent of the Company's capital expenditures were directed toward additional capacity for new and existing products, compared with 33 percent in 2006. In 2007, approximately 23 percent was committed to projects related to environmental protection, safety, loss prevention and industrial hygiene compared with 24 percent in 2006. The remaining capital was utilized to maintain the Company's existing asset base, including projects related to productivity improvements, energy conservation and facilities support.

Major projects underway during 2007 included the construction of a regional headquarters facility in Shanghai, China; Dow Automotive production facilities in Midland, Michigan, and Schkopau, Germany, for glass bonding and primer products; a facility for the production of octene in Tarragona, Spain; a multi-product facility for the production of isopropanolamines in Plaquemine, Louisiana; a new train for the production of METHOCEL cellulose ethers in Midland, Michigan; a new polyols plant in Terneuzen, The Netherlands; and the expansion of ethyleneamines and ethanolamines production facilities in Hahnville, Louisiana. Additional major projects included upgrades to isopropanol production facilities in Texas City, Texas; and the replacement of furnaces used in the production of ethylene and several projects to upgrade chlor-alkali production facilities in Freeport, Texas. Because the Company designs and builds most of its capital projects in-house, it had no material capital commitments other than for the purchase of materials from fabricators and construction labor.

Contractual Obligations

The following tables summarize the Company's contractual obligations, commercial commitments and expected cash requirements for interest at December 31, 2007. Additional information related to these obligations can be found in Notes J, K, L, M and R 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
Deferred income tax liabilities noncurrent (1)						854	854
Pension and other postretirement benefits	279	236	240	240	242	1,777	3,014
Other noncurrent obligations (2)	294	250	172	110	60	2,988	3,874
FIN No. 48 obligations, including interest and penalties (3)	383					661	1,044
Other contractual obligations:							
Minimum operating lease commitments	231	200	171	117	93	441	1,253
Purchase commitments take or pay and throughput obligations	2,136	1,845	1,578	1,117	941	5,212	12,829
Purchase commitments other (4)	152	26	6	3	3	44	234
Expected cash requirements for interest	504	472	421	359	276	4,223	6,255
Total	$4,565	$3,806	$3,653	$3,494	$2,621	$19,385	$37,524

(1) Deferred tax liabilities may vary according to changes in tax laws, tax rates and the operating results of the Company. As a result, it is impractical to determine whether there will be a cash impact to an individual year. All noncurrent deferred income tax liabilities have been reflected in "2013 and beyond."

(2) Annual payments to resolve asbestos litigation will vary based on changes in defense strategies, changes in state and national law, and claims filing and resolution rates. As a result, it is impractical to determine the anticipated payments in any given year. Therefore, the majority of the noncurrent asbestos-related liability of $1,001 million has been reflected in "2013 and beyond."

(3) Due to uncertainties in the timing of the effective settlement of tax positions with the respective taxing authorities, the Company is unable to determine the timing of payments related to its FIN No. 48 noncurrent obligations, including interest and penalties. These amounts are therefore reflected in "2013 and beyond."

(4) Includes outstanding purchase orders and other commitments greater than $1 million, obtained through a survey of the Company.

Off-Balance Sheet Arrangements

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 if specific triggering events occur. Information regarding the Company's outstanding guarantees at December 31, 2007 is disclosed in Note J to the Consolidated Financial Statements.

The Company leases an ethylene facility in The Netherlands from an owner trust that is a variable interest entity ("VIE"). Dow is not the primary beneficiary of the owner trust and, therefore, is not required to consolidate the owner trust. Additional information regarding this VIE can be found in Note M to the Consolidated Financial Statements.

Dividends

On February 14, 2008 the Board of Directors announced a quarterly dividend of $0.42 per share, payable April 30, 2008, to stockholders of record on March 31, 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 95-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. The Company declared dividends of $1.635 per share in 2007, $1.50 per share in 2006 and $1.34 per share in 2005.

Outlook for 2008

In 2007, the Company continued to strengthen its financial position. Despite the fifth consecutive year of double-digit percentage increases in feedstock and energy costs, coupled with softening economic conditions in the United States, the diversity of Dow's business and geographic portfolio, as well as record financial performance by its joint ventures, resulted in solid net income for the Company. Working capital was reduced by $399 million, despite higher sales levels, as the Company reduced its working capital ratios. Capital expenditures were $2.1 billion, slightly higher than depreciation. These actions enabled the Company to further reduce its ratio of debt to total capitalization to 31.8 percent, down from 59.2 percent at the end of 2002. The Company does not intend to reduce this ratio further in 2008.

In 2008, the Company will continue to implement its strategy to improve long-term earnings growth and earnings consistency. While the economic outlook is unclear, primarily in the United States, the Company expects continued economic growth in the rest of the world, particularly in emerging geographies. Volatility in feedstock and energy costs is expected to continue, adding uncertainty to the outlook. The Company will maintain its financial discipline while increasing its investment in targeted growth opportunities, principally in its Performance businesses and in emerging geographies. Capital expenditures are expected to increase in 2008, but should remain close to the level of depreciation. These expenditures are planned at a level sufficient to maintain the safety and reliability of the Company's facilities while modestly increasing capacity in selected high-value businesses.

Approximately $1.7 billion in debt will become due in 2008, including approximately $1.2 billion of commercial paper. While the Company expects to have sufficient cash to meet its scheduled debt obligations in 2008, the Company intends to repay this debt with the issuance of new debt.

Dow and PIC announced plans in December 2007 to form a 50:50 petrochemicals joint venture. To form the new joint venture, Dow will sell to PIC a 50 percent interest in the business assets included in the transaction for approximately $9.5 billion (pretax). In turn, PIC and Dow will each contribute their assets into the joint venture. The transaction is subject to the completion of definitive agreements, customary conditions and regulatory approvals, and is anticipated to close in late 2008.

OTHER MATTERS

Recent Accounting Pronouncements

See Note A to the Consolidated Financial Statements for a summary of significant accounting policies and recent accounting pronouncements.

Critical Accounting Policies

The preparation of financial statements and related disclosures in accordance with accounting principles generally accepted in the United States of America ("U.S. 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 describes the significant accounting policies and methods used in the preparation of the Consolidated Financial Statements. Following are the Company's critical accounting policies impacted by judgments, assumptions and estimates:

Litigation

The Company is subject to legal proceedings and claims arising out of the normal course of business. The Company routinely assesses the likelihood of any adverse judgments or outcomes to these matters, as well as ranges of probable losses. A determination of the amount of the reserves required, if any, for these contingencies is made after thoughtful analysis of each known issue and an actuarial analysis of historical claims experience for incurred but not reported matters. Dow has an active risk management program consisting of numerous insurance policies secured from many carriers. These policies provide coverage that is utilized to minimize the impact, if any, of the legal proceedings. The required reserves may change in the future due to new developments in each matter. For further discussion, see Note J to the Consolidated Financial Statements.

Asbestos-Related Matters of Union Carbide Corporation

Union Carbide Corporation ("Union Carbide"), a wholly owned subsidiary of the Company, and a former Union Carbide subsidiary, Amchem Products, Inc. ("Amchem"), are and have been involved in a large number of asbestos-related suits filed primarily in state courts during the past three decades. 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. Union Carbide also increased the receivable for insurance recoveries related to its asbestos liability to $1.35 billion at December 31, 2002. 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 UCC 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 UCC 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 $177 million to $1.2 billion at December 31, 2006 which covered the 15-year period ending in 2021, excluding future defense and processing costs.

Following the completion of the review by ARPC in December 2007, as well as Union Carbide's own review of the asbestos claim and resolution activity, Union Carbide determined that no change to the related liability for pending and future claims was required. At December 31, 2007, Union Carbide's asbestos-related liability for pending and future claims was $1.1 billion.

Union Carbide's receivable for insurance recoveries related to its asbestos liability was $467 million at December 31, 2007 and $495 million at December 31, 2006. In addition, Union Carbide had receivables of $271 million at December 31, 2007 and $300 million at December 31, 2006 for insurance recoveries for defense and resolution costs.

The amounts recorded by Union Carbide for the asbestos-related liability and related insurance receivable 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.

For additional information, see Legal Proceedings, Asbestos-Related Matters of Union Carbide Corporation in Management's Discussion and Analysis of Financial Condition and Results of Operation, and Note J to the Consolidated Financial Statements.

Environmental Matters

The Company determines the costs of environmental remediation of its facilities and formerly owned facilities based on evaluations of current law and existing technologies. Inherent uncertainties exist in such evaluations primarily due to unknown conditions, changing governmental regulations and legal standards regarding liability, and evolving technologies. The recorded liabilities are adjusted periodically as remediation efforts progress, or as additional technical or legal information becomes available. In the case of landfills and other active waste management facilities, Dow recognizes the costs over the useful life of the facility. 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. 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. The Company had accrued obligations of $347 million at December 31, 2006, for environmental remediation and restoration costs, including $31 million for the remediation of Superfund sites. For further discussion, see Environmental Matters in Management's Discussion and Analysis of Financial Condition and Results of Operation and Notes A and J to the Consolidated Financial Statements.

Pension and Other Postretirement Benefits

The amounts recognized in the consolidated financial statements related to pension and other postretirement benefits are determined from actuarial valuations. Inherent in these valuations are assumptions including expected return on plan assets, discount rates at which the liabilities could be settled at December 31, 2007, rate of increase in future compensation levels, mortality rates and health care cost trend rates. These assumptions are updated annually and are disclosed in Note L to the Consolidated Financial Statements. In accordance with U.S. GAAP, actual results that differ from the assumptions are accumulated and amortized over future periods and, therefore, affect expense recognized and obligations recorded in future periods. The U.S. pension plans represent approximately 74 percent of the Company's pension plan assets and 68 percent of the pension obligations.

The following information relates to the U.S. plans only; a similar approach is used for the Company's non-U.S. plans.

The Company determined the expected long-term rate of return on assets by performing a detailed analysis of historical and expected returns based on the strategic asset allocation approved by the Board of Directors and the underlying return fundamentals of each asset class. The Company's historical experience with the pension fund asset performance was also considered. The long-term rate of return assumption used for determining net periodic pension expense for 2007 was 8.79 percent. This assumption was changed to 8.50 percent for determining 2008 net periodic pension expense. The Company's historical actual return averaged 7.94 percent for the ten-year period ending December 31, 2007. The actual rate of return in 2007 was 13.1 percent. Future actual pension expense will depend on future investment performance, changes in future discount rates and various other factors related to the population of participants in the Company's pension plans.

The discount rates utilized to measure the pension and other postretirement obligations of the U.S. qualified plans are based on the yield on high-quality fixed income investments at the measurement date. Future expected actuarially determined cash flows of Dow's major U.S. plans are matched against the Citigroup Pension Discount Curve (Above Median) to arrive at a single discount rate by plan. The resulting discount rate increased from 5.98 percent at December 31, 2006 to 6.75 percent at December 31, 2007.

The value of the U.S. qualified plan assets increased from $11.2 billion at December 31, 2006 to $11.9 billion at December 31, 2007. The Company made contributions of $15 million to the U.S. qualified plans in 2007. The favorable impact of asset returns combined with an increase in the assumed discount rate, resulted in an improvement in the funded status of $1.3 billion from December 31, 2006 to December 31, 2007. At December 31, 2007, the U.S. qualified plans were overfunded on a projected benefit obligation basis by $1.6 billion.

For 2008, the Company maintained its assumption of 4.5 percent for the long-term rate of increase in compensation levels for the principal U.S. qualified plans. Since 2002, the Company has used a generational mortality table to determine the duration of its pension and other postretirement obligations.

The following discussion relates to all of the Company's pension plans.

The Company bases the determination of pension expense or income on a market-related valuation of plan assets, which reduces year-to-year volatility. This market-related valuation recognizes investment gains or losses over a five-year period from the year in which they occur. Investment gains or losses for this purpose represent the difference between the expected return calculated using the market-related value of plan assets and the actual return based on the market value of plan assets. Since the market-related value of plan assets recognizes gains or losses over a five-year period, the future value of plan assets will be impacted when previously deferred gains or losses are recorded. Over the life of the plan, both gains and losses have been recognized and amortized. At December 31, 2007, net gains of $522 million remain to be recognized in the calculation of the market-related value of plan assets. These net gains will result in decreases in future pension expense as they are recognized in the market-related value of assets and are a component of the total net loss of $1,065 million shown under "Amounts recognized in AOCI pretax" in the table entitled "Change in Projected Benefit Obligations, Plan Assets and Funded Status of all Significant Plans" included in Note L to the Consolidated Financial Statements. The other $1,587 million of net losses represents cumulative changes in plan experience and actuarial assumptions. The net increase in the market-related value of assets due to the recognition of prior gains and losses is presented in the following table:

Net Increase in Market-Related Asset Value Due to Recognition of Prior Asset Gains and Losses In millions	
2008	$ 174
2009	154
2010	142
2011	52
Total	$ 522

Based on the revised pension assumptions and changes in the market-related value of assets due to the recognition of prior asset gains, the Company expects to reduce expense by approximately $167 million for all pension and other postretirement benefits in 2008 compared with 2007.

A 25 basis point increase or decrease in the long-term return on assets assumption would change the Company's total pension expense for 2008 by approximately $38 million. A 25 basis point increase in the discount rate assumption would lower the Company's total pension expense for 2008 by approximately $15 million. A 25 basis point decrease in the discount rate would increase pension expense by approximately $29 million. A 25 basis point change in the long-term return and discount rate assumptions would have an immaterial impact on the other postretirement benefit expense for 2008.

Income Taxes

Deferred tax assets and liabilities are determined based on temporary differences between the financial reporting and tax bases of assets and liabilities, applying enacted tax rates expected to be in effect for the year in which the differences are expected to reverse. Based on the evaluation of available evidence, both positive and negative, the Company recognizes future tax benefits, such as net operating loss carryforwards and tax credit carryforwards, to the extent that realizing these benefits is considered to be more likely than not.

At December 31, 2007, the Company had a net deferred tax asset balance of $1.5 billion, after valuation allowances of $323 million.

In evaluating the ability to realize the deferred tax assets, the Company relies principally on forecasted taxable income using historical and projected future operating results, the reversal of existing temporary differences and the availability of tax planning strategies.

At December 31, 2007, the Company had deferred tax assets for tax loss and tax credit carryforwards of $2.1 billion, $41 million of which is subject to expiration in the years 2008-2012. In order to realize these deferred tax assets for tax loss and tax credit carryforwards, the Company needs taxable income of approximately $8.1 billion across multiple jurisdictions. The taxable income needed to realize the deferred tax assets for tax loss and tax credit carryforwards that are subject to expiration between 2008-2012 is approximately $372 million.

The Company recognizes the financial statement effects of an uncertain income tax position when it is more likely than not, based on the technical merits, that the position will be sustained upon examination. At December 31, 2007, the Company had uncertain tax positions for both domestic and foreign issues of $892 million.

The Company accrues for other tax contingencies when it is probable that a liability to a taxing authority has been incurred and the amount of the contingency can be reasonably estimated. At December 31, 2007, the Company had a non-income tax contingency reserve for both domestic and foreign issues of $226 million.

For additional information, see Notes A and R to the Consolidated Financial Statements.

Environmental Matters

Environmental Policies

Dow is committed to world-class environmental, health and safety ("EH&S") performance, as demonstrated by a long-standing commitment to Responsible Care®, as well as a strong commitment to achieve the Company's 2015 Sustainability Goals goals that set the standard for sustainability in the chemical industry by focusing on improvements in Dow's local corporate citizenship and product stewardship, and by actively pursuing methods to reduce the Company's environmental impact.

To meet the Company's public commitments, as well as the stringent laws and government regulations related to environmental protection and remediation to which its global operations are subject, Dow has well-defined policies, requirements and management systems. Dow's EH&S Management System ("EMS") defines the "who, what, when and how" needed for the businesses to achieve the Company's policies, requirements, performance objectives, leadership expectations and public commitments. EMS is designed to minimize the long-term cost of environmental protection and to comply with these laws and regulations. To ensure effective utilization, the EMS is integrated into a company-wide management system for EH&S, Operations, Quality and Human Resources.

It is Dow's policy to adhere to a waste management hierarchy that minimizes the impact of wastes and emissions on the environment. First, Dow works to eliminate or minimize the generation of waste and emissions at the source through research, process design, plant operations and maintenance. Second, Dow finds ways to reuse and recycle materials. Finally, unusable or non-recyclable hazardous waste is treated before disposal to eliminate or reduce the hazardous nature and volume of the waste. Treatment may include destruction by chemical, physical, biological or thermal means. Disposal of waste materials in landfills is considered only after all other options have been thoroughly evaluated. Dow has specific requirements for waste that is transferred to non-Dow facilities, including the periodic auditing of these facilities. Dow believes third-party verification is a cornerstone of world-class EH&S performance and building public trust. As such, numerous Dow sites in Europe, Latin America, Australia and North America have received third-party verification of Dow's compliance with Responsible Care® and with outside specifications such as ISO-14001. During 2007, five U.S. sites were audited by Lloyd's Register Quality Assurance, and found to be in conformance with Responsible Care® Management System requirements.

Dow's EH&S policies helped the Company achieve excellent safety performance in 2007. Dow's personal injury and illness OSHA (Occupational Safety and Health Administration) rate and Injury and Illness Severity rate were both on target with the reductions necessary to achieve the 2015 goals, and the lowest in the Company's history. Tragically, one fatality occurred in 2007, when a Dow employee, traveling on behalf of the Company, was a passenger on a commercial airliner that crashed upon landing in Sao Paulo, Brazil.

Reductions in leaks, breaks and spills in 2007 also exceeded the improvements necessary to reach the 2015 goals, and were the lowest recorded in the Company's history. Improvement in environmental compliance remains a top management priority, with initiatives underway to further improve compliance in 2008.

Detailed information on Dow's performance regarding environmental matters and goals can be found online on Dow's Environment, Health and Safety webpage at *www.dow.com*.

Chemical Security

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 about the security of chemical production and distribution. In response to the increasing call by many, including Dow and the American Chemistry Council, for uniform performance-based national standards for securing the U.S. chemical industry, U.S. Chemical Plant Security legislation was passed in 2006, and the Department of Homeland Security ("DHS") is now implementing the regulations known as the Chemical Facility Anti-Terrorism Standards. Further, the U.S. Transportation Security Administration ("TSA") and the U.S. Department of Transportation are expected to finalize regulations covering the rail transportation of chemicals in the early part of 2008 as required by the 9/11 Commission Act of 2007.

The focus on security is not new to Dow. A comprehensive, multi-level security plan for the Company has been maintained since 1988. This plan was activated in response to the events of 9/11. Dow continues to improve its security plans, placing emphasis on the safety of Dow communities and people by being prepared to meet risks at any level and to address both internal and external identifiable risks. Dow's security plans also are developed to avert interruptions of normal business

48

work operations which could materially and adversely affect the Company's results of operations, liquidity and financial condition.

Dow played a key role in the development and implementation of the American Chemistry Council's Responsible Care® Security Code that requires all aspects of security including facility, transportation, and cyberspace be assessed and gaps addressed. Through the Company's global implementation of the Security Code, Dow has permanently heightened the level of security not just in the United States, but worldwide. Dow employs approximately 500 employees and contractors in its Emergency Services and Security department worldwide. Dow committed over $100 million in capital over a ten-year period for plant security, supply chain and cyberspace security enhancements, regulatory compliance and response capabilities as well as other components of Dow's security program. These costs are not considered material to the Company's consolidated financial statements.

Through the implementation of the Responsible Care® Security Code, including voluntary security enhancements and upgrades made since 2002, Dow is well positioned to comply with the new U.S. chemical facility regulations and other regulatory frameworks. In addition, Dow was the first chemical company to receive SAFETY Act coverage in 2007 from the DHS for the Company's Coast Guard covered sites (under the Maritime Transportation Security Act of 2002). This unprecedented certification helps validate Dow's efforts and provides additional liability coverage in the event of a terrorist attack.

Dow continues to work collaboratively across the supply chain on Responsible Care®, Supply Chain Design, Emergency Preparedness, Shipment Visibility and Hazmat Routing. Dow is a leader in the implementation of advanced track and trace technologies. The breakthrough Next Generation Rail Tank Car project with Union Pacific Railroad and Union Tank Car Company continues to make progress with cooperation agreements signed with Transport Canada, The Federal Railroad Administration, and the TSA. Further, Dow's Distribution Risk Review process that has been in place for decades was expanded to address potential threats in all modes of transportation across the Company's supply chain. To reduce vulnerabilities, Dow maintains security measures that meet or exceed regulatory and industry security standards in all areas in which the Company operates.

Dow continually works to strengthen partnerships with local responders, law enforcement, and security agencies, and to enhance confidence in the integrity of the Company's security and risk management program, as well as strengthen its preparedness and response capabilities. Dow also works closely with its supply chain partners and strives to educate lawmakers, regulators and communities about the Company's resolve and actions to date which are mitigating security and crisis threats.

Climate Change

There is a growing political and scientific consensus that emissions of greenhouse gases ("GHG") due to human activities continue to alter the composition of the global atmosphere in ways that are affecting the climate. Political debates continue about how to implement fair and effective GHG mitigation efforts. Dow takes global climate change very seriously and is not waiting for the resolution of the debate. Dow is committed to reducing its GHG intensity (pounds of GHG per pound of product), developing climate-friendly products and processes and, over the longer term, implementing technology solutions to achieve even greater climate change improvements. Since 1990, Dow has reduced its absolute GHG emissions by more than 20 percent, a more rapid reduction than required by Kyoto Protocol targets, and has achieved a 22 percent improvement in energy intensity (the amount of energy required to produce one pound of product). In doing so, it has avoided consuming more than 900 trillion Btus, a savings that when converted to electricity would be more than sufficient to supply the electricity consumed by residential users in the State of California for one year. This trend could reverse, however, depending on business growth, capacity utilization and the pace of new technology development.

Dow also contributes to the climate change solution by producing products that help others reduce GHG emissions, such as lightweight plastics for automobiles and insulation for energy efficient homes and appliances. Dow has demonstrated its commitment to technological innovation and conservation though its exploration of renewable energy sources. For example, in 2007, Dow and Crystalsev, one of Brazil's largest ethanol companies, signed a Memorandum of Understanding which calls for plans to design and build a world-scale facility to manufacture polyethylene from sugar cane. In the United States, Dow Building Solutions announced plans to build a 505 kilowatt solar farm at Dow's Pittsburg, California site. This project will be the largest solar installation in Dow and the first commercial pilot for the Company, providing the energy equivalent to power 400 homes.

Gains made toward Dow's Energy Efficiency goal will directly impact progress in meeting its 2015 Climate Change goal, which is to reduce GHG intensity by 2.5 percent a year per pound of product, from a 2005 baseline. Dow is studying the lifecycle impact of its products on climate change and additional global projects that could offset the Company's overall GHG emissions through carbon dioxide reduction.

A new Energy & Climate Change Policy and Issue Management Team was formed in 2007 to help establish Dow as a leader in providing energy and climate change solutions. The team is also tasked with developing and implementing a comprehensive climate change strategy and to advocate for an international framework that establishes clear pathways to help slow, stop and reverse the rate of GHG emissions.

Environmental Remediation

Dow accrues the costs of remediation of its facilities and formerly owned facilities based on current law and existing technologies. The nature of such remediation includes, for example, the management of soil and groundwater contamination and the closure of contaminated landfills and other waste management facilities. In the case of landfills and other active waste management facilities, Dow recognizes the costs over the useful life of the facility. The accounting policies adopted to properly reflect the monetary impacts of environmental matters are discussed in Note A to the Consolidated Financial Statements. To assess the impact on the financial statements, environmental experts review currently available facts to evaluate the probability and scope of potential liabilities. Inherent uncertainties exist in such evaluations primarily due to unknown conditions, changing governmental regulations and legal standards regarding liability, and evolving technologies. These liabilities are adjusted periodically as remediation efforts progress or as additional technical or legal information become available. Dow had an accrued liability of $294 million at December 31, 2007, related to the remediation of current or former Dow-owned sites. The liability related to remediation at December 31, 2006 was $316 million.

In addition to current and former Dow-owned sites, under the Federal Comprehensive Environmental Response, Compensation and Liability Act and equivalent state laws (hereafter referred to collectively as "Superfund Law"), Dow is liable for remediation of other hazardous waste sites where Dow allegedly disposed of, or arranged for the treatment or disposal of, hazardous substances. Dow readily cooperates in the remediation of these sites where the Company's liability is clear, thereby minimizing legal and administrative costs. Because Superfund Law imposes joint and several liability upon each party at a site, Dow has evaluated its potential liability in light of the number of other companies that also have been named potentially responsible parties ("PRPs") at each site, the estimated apportionment of costs among all PRPs, and the financial ability and commitment of each to pay its expected share. The Company's remaining liability for the remediation of Superfund sites at December 31, 2007 was $28 million ($31 million at December 31, 2006). The Company has not recorded any third-party recovery related to these sites as a receivable.

Information regarding environmental sites is provided below:

Environmental Sites	*Dow-owned Sites* (1)		*Superfund Sites* (2)	
	2007	*2006*	*2007*	*2006*
Number of sites at January 1	251	245	64	72
Sites added during year	3	8	31	8
Sites closed during year	(3)	(2)	(1)	(16)
Number of sites at December 31	251	251	94	64

(1) Dow-owned sites are sites currently or formerly owned by Dow, where remediation obligations are imposed (in the United States) by the Resource Conservation Recovery Act or analogous state law. 153 of these sites were formerly owned by Dowell Schlumberger, Inc., a group of companies in which the Company previously owned a 50 percent interest. Dow sold its interest in Dowell Schlumberger in 1992.

(2) Superfund sites are sites, including sites not owned by Dow, where remediation obligations are imposed by Superfund Law.

The Company's manufacturing sites in Freeport, Texas, and Midland, Michigan, are the sites for which the Company has the largest environmental remediation accruals. From the start of operations at the Freeport site in the 1940s until the mid-1970s, manufacturing wastes were typically placed in on-site pits and landfills. The resulting soil and groundwater contamination is being assessed and remediated under the provisions of the Resource Conservation Recovery Act ("RCRA"), in concert with the state of Texas. At December 31, 2007, the Company had an accrual of $37 million ($47 million at December 31, 2006) related to environmental remediation at the Freeport manufacturing site. In 2007, $6 million ($8 million in 2006) was spent on environmental remediation at the Freeport site.

Similar to the Freeport site, in the early days of operations at the Midland site, manufacturing wastes were usually disposed of on-site, resulting in soil and groundwater contamination, which has been contained and managed on-site under a series of RCRA permits and regulatory agreements. The most recent Hazardous Waste Operating License for the Midland site, issued in 2003, also included provisions for the Company to conduct an investigation to determine the nature and extent of off-site contamination from historic Midland site operations. The scope of the investigation includes Midland area soils;

Tittabawassee and Saginaw River sediment and floodplain soils; and Saginaw Bay, and requires the Company to conduct interim response actions. See Note J to the Consolidated Financial Statements for additional information. At December 31, 2007, the Company had an accrual of $36 million ($41 million at December 31, 2006) for environmental remediation and investigation associated with the Midland site. In 2007, the Company spent $52 million ($20 million in 2006) on environmental remediation at the Midland site.

In total, the Company's accrued liability for probable environmental remediation and restoration costs was $322 million at December 31, 2007, compared with $347 million at the end of 2006. 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. 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.

The amounts charged to income on a pretax basis related to environmental remediation totaled $92 million in 2007, $125 million in 2006 and $79 million in 2005. Capital expenditures for environmental protection were $189 million in 2007, $193 million in 2006 and $150 million in 2005.

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 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:

	2007	*2006*	*2005*
Claims unresolved at January 1	111,887	146,325	203,416
Claims filed	10,157	16,386	34,394
Claims settled, dismissed or otherwise resolved	(31,722)	(50,824)	(91,485)
Claims unresolved at December 31	90,322	111,887	146,325
Claimants with claims against both UCC and Amchem	28,937	38,529	48,647
Individual claimants at December 31	61,385	73,358	97,678

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 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. At December 31, 2006, approximately 25 percent of the recorded liability related to pending claims and approximately 75 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	*2007*	*2006*	*2005*	*Aggregate Costs to Date as of Dec. 31, 2007*
Defense costs	$84	$62	$75	$565
Resolution costs	$88	$117	$139	$1,270

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 $84 million in 2007, $45 million in 2006 and $75 million in 2005, 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 2007, 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 $467 million at December 31, 2007 and $495 million at December 31, 2006. At December 31, 2007 and December 31, 2006, 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 at December 31 In millions	*2007*	*2006*
Receivables for defense costs	$18	$34
Receivables for resolution costs	253	266
Total	$271	$300

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.

The Dow Chemical Company and Subsidiaries

PART II, Item 7A. 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, given a certain move in prices over a certain period of time, using specified confidence levels. On an ongoing basis, the Company estimates the maximum gain or loss that could arise in one day, given a two-standard-deviation movement in the respective price levels. These amounts are immaterial in comparison to the size of the equity of the Company. The VAR methodology used by Dow is 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 for 2007 and 2006 are shown below:

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
Equity exposures, net of hedges	$15	$16	$9	$3
Commodities	$17	$11	$14	$19

* Using a 95 percent confidence level

See Note H to the Consolidated Financial Statements for further disclosure regarding market risk.

The Dow Chemical Company and Subsidiaries

PART II, Item 8. Financial Statements and Supplementary Data.

Management's Report on Internal Control Over Financial Reporting

Management is responsible for establishing and maintaining adequate internal control over financial reporting. The Company's internal control framework and processes are designed to provide reasonable assurance to management and the Board of Directors regarding the reliability of financial reporting and the preparation of the Company's consolidated financial statements in accordance with accounting principles generally accepted in the United States of America.

The Company's internal control over financial reporting includes those policies and procedures that:

- pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the Company;
- provide reasonable assurance that transactions are recorded properly to allow for the preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the Company are being made only in accordance with authorizations of management and Directors of the Company;
- provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the Company's assets that could have a material effect on the consolidated financial statements; and
- provide reasonable assurance as to the detection of fraud.

Because of its inherent limitations, any system of internal control over financial reporting can provide only reasonable assurance and may not prevent or detect misstatements.

Management assessed the effectiveness of the Company's internal control over financial reporting and concluded that, as of December 31, 2007, such internal control is effective. In making this assessment, management used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission ("COSO") in *Internal Control Integrated Framework.*

The Company's independent auditors, Deloitte & Touche LLP, with direct access to the Company's Board of Directors through its Audit Committee, have audited the consolidated financial statements prepared by the Company. Their report on the consolidated financial statements is included herein. Deloitte & Touche LLP's report on the Company's internal control over financial reporting is included in Part II, Item 9A. Controls and Procedures.

/s/ ANDREW N. LIVERIS

Andrew N. Liveris
President, Chief Executive Officer and
Chairman of the Board

/s/ GEOFFERY E. MERSZEI

Geoffery E. Merszei
Executive Vice President and Chief Financial Officer

/s/ WILLIAM H. WEIDEMAN

William H. Weideman
Vice President and Controller
February 13, 2008

Report of Independent Registered Public Accounting Firm

To the Board of Directors and Stockholders of
The Dow Chemical Company:

We have audited the accompanying consolidated balance sheets of The Dow Chemical Company and subsidiaries (the "Company") as of December 31, 2007 and 2006, and the related consolidated statements of income, stockholders' equity, comprehensive income and cash flows for each of the three years in the period ended December 31, 2007. Our audits also included the financial statement schedule listed in the Index at Item 15 (a) 2. These financial statements and financial statement schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on the financial statements and financial statement schedule based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, such consolidated financial statements present fairly, in all material respects, the financial position of The Dow Chemical Company and subsidiaries at December 31, 2007 and 2006, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2007, in conformity with accounting principles generally accepted in the United States of America. Also, in our opinion, such financial statement schedule, when considered in relation to the basic consolidated financial statements taken as a whole, presents fairly, in all material respects, the information set forth therein.

As discussed in Notes A and L to the consolidated financial statements, effective December 31, 2006, the Company changed its method of accounting for defined benefit pension and other postretirement plans to conform to Statement of Financial Accounting Standards No. 158.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the Company's internal control over financial reporting as of December 31, 2007, based on the criteria established in *Internal Control Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated February 14, 2008 expressed an unqualified opinion on the Company's internal control over financial reporting.

/s/ DELOITTE & TOUCHE LLP

Deloitte & Touche LLP
Midland, Michigan
February 14, 2008

The Dow Chemical Company and Subsidiaries

Consolidated Statements of Income

(In millions, except per share amounts) For the years ended December 31	2007	2006	2005
Net Sales	$ 53,513	$ 49,124	$ 46,307
Cost of sales	46,400	41,526	38,276
Research and development expenses	1,305	1,164	1,073
Selling, general and administrative expenses	1,864	1,663	1,545
Amortization of intangibles	72	50	55
Restructuring charges	578	591	114
Purchased in-process research and development charges	57		
Asbestos-related credit		177	
Equity in earnings of nonconsolidated affiliates	1,122	959	964
Sundry income net	324	137	755
Interest income	130	185	138
Interest expense and amortization of debt discount	584	616	702
Income before Income Taxes and Minority Interests	4,229	4,972	6,399
Provision for income taxes	1,244	1,155	1,782
Minority interests' share in income	98	93	82
Income before Cumulative Effect of Change in Accounting Principle	2,887	3,724	4,535
Cumulative effect of change in accounting principle			(20)
Net Income Available for Common Stockholders	$ 2,887	$ 3,724	$ 4,515
Share Data			
Earnings before cumulative effect of change in accounting principle per common share basic	$ 3.03	$ 3.87	$ 4.71
Earnings per common share basic	$ 3.03	$ 3.87	$ 4.69
Earnings before cumulative effect of change in accounting principle per common share diluted	$ 2.99	$ 3.82	$ 4.64
Earnings per common share diluted	$ 2.99	$ 3.82	$ 4.62
Common stock dividends declared per share of common stock	$ 1.635	$ 1.50	$ 1.34
Weighted-average common shares outstanding basic	953.1	962.3	963.2
Weighted-average common shares outstanding diluted	965.6	974.4	976.8

See Notes to the Consolidated Financial Statements.

The Dow Chemical Company and Subsidiaries

Consolidated Balance Sheets

(In millions, except share amounts) At December 31	*2007*	*2006*
Assets		
Current Assets		
Cash and cash equivalents	$ 1,736	$ 2,757
Marketable securities and interest-bearing deposits	1	153
Accounts and notes receivable:		
Trade (net of allowance for doubtful receivables 2007: $118; 2006: $122)	5,944	4,988
Other	3,740	3,060
Inventories	6,885	6,058
Deferred income tax assets current	348	193
Total current assets	18,654	17,209
Investments		
Investment in nonconsolidated affiliates	3,089	2,735
Other investments	2,489	2,143
Noncurrent receivables	385	288
Total investments	5,963	5,166
Property		
Property	47,708	44,381
Less accumulated depreciation	33,320	30,659
Net property	14,388	13,722
Other Assets		
Goodwill	3,572	3,242
Other intangible assets (net of accumulated amortization 2007: $721; 2006: $620)	781	457
Deferred income tax assets noncurrent	2,126	4,006
Asbestos-related insurance receivables noncurrent	696	725
Deferred charges and other assets	2,621	1,054
Total other assets	9,796	9,484
Total Assets	$ 48,801	$ 45,581
Liabilities and Stockholders' Equity		
Current Liabilities		
Notes payable	$ 1,548	$ 219
Long-term debt due within one year	586	1,291
Accounts payable:		
Trade	4,555	3,825
Other	1,981	1,849
Income taxes payable	728	569
Deferred income tax liabilities current	117	251
Dividends payable	418	382
Accrued and other current liabilities	2,512	2,215
Total current liabilities	12,445	10,601

Long-Term Debt	7,581	8,036
Other Noncurrent Liabilities		
Deferred income tax liabilities noncurrent	854	999
Pension and other postretirement benefits noncurrent	3,014	3,094
Asbestos-related liabilities noncurrent	1,001	1,079
Other noncurrent obligations	3,103	3,342
Total other noncurrent liabilities	7,972	8,514
Minority Interest in Subsidiaries	414	365
Preferred Securities of Subsidiaries	1,000	1,000
Stockholders' Equity		
Common stock (authorized 1,500,000,000 shares of $2.50 par value each; issued 981,377,562 shares)	2,453	2,453
Additional paid-in capital	902	830
Retained earnings (includes cummulative effect of adopting FIN No. 48 of $(290))	18,004	16,987
Accumulated other comprehensive loss	(170)	(2,235)
Treasury stock at cost (2007: 41,011,018 shares; 2006: 23,326,570 shares)	(1,800)	(970)
Net stockholders' equity	19,389	17,065
Total Liabilities and Stockholders' Equity	$ 48,801	$ 45,581

See Notes to the Consolidated Financial Statements.

The Dow Chemical Company and Subsidiaries

Consolidated Statements of Cash Flows

(In millions) For the years ended December 31	*2007*	*2006*	*2005*
Operating Activities			
Net Income Available for Common Stockholders	$ 2,887	$ 3,724	$ 4,515
Adjustments to reconcile net income to net cash provided by operating activities:			
Cumulative effect of change in accounting principle			20
Depreciation and amortization	2,190	2,074	2,079
Purchased in-process research and development charges	57		
Provision for deferred income tax	494	104	740
Earnings of nonconsolidated affiliates in excess of dividends received	(348)	(343)	(469)
Minority interests' share in income	98	93	82
Pension contributions	(183)	(575)	(1,031)
Net gain on sales of ownership interests in nonconsolidated affiliates			(732)
Net gain on sales of investments	(143)	(19)	(33)
Net gain on sales of property, businesses and consolidated companies	(108)	(130)	(56)
Other net gain	(75)	(12)	(29)
Restructuring charges	577	586	41
Asbestos-related credit		(177)	
Tax benefit nonqualified stock option exercises			85
Excess tax benefits from share-based payment arrangements	(31)	(11)	
Changes in assets and liabilities:			
Accounts and notes receivable	(1,002)	242	(469)
Inventories	(712)	(758)	(240)
Accounts payable	799	(129)	106
Other assets and liabilities	(16)	(515)	(135)
Cash provided by operating activities	4,484	4,154	4,474
Investing Activities			
Capital expenditures	(2,075)	(1,775)	(1,597)
Proceeds from sales of property, businesses and consolidated companies	211	296	105
Acquisitions of businesses	(143)		
Purchase of previously leased assets	(30)	(208)	(263)
Investments in consolidated companies	(867)	(111)	(109)
Investments in nonconsolidated affiliates	(78)	(103)	(208)
Distributions from nonconsolidated affiliates	63	6	41
Proceeds from sales of ownership interests in nonconsolidated affiliates	30	10	956
Purchases of investments	(1,952)	(1,405)	(1,400)
Proceeds from sales and maturities of investments	1,983	1,383	1,379
Cash used in investing activities	(2,858)	(1,907)	(1,096)
Financing Activities			
Changes in short-term notes payable	1,220	23	74
Payments on long-term debt	(1,354)	(1,359)	(1,559)
Proceeds from issuance of long-term debt	21		4
Purchases of treasury stock	(1,462)	(739)	(68)
Proceeds from sales of common stock	379	223	398
Excess tax benefits from share-based payment arrangements	31	11	
Distributions to minority interests	(51)	(57)	(70)
Dividends paid to stockholders	(1,512)	(1,404)	(1,287)
Cash used in financing activities	(2,728)	(3,302)	(2,508)
Effect of Exchange Rate Changes on Cash	81	6	(172)

Summary			
Increase (Decrease) in cash and cash equivalents	(1,021)	(1,049)	698
Cash and cash equivalents at beginning of year	2,757	3,806	3,108
Cash and cash equivalents at end of year	$ 1,736	$ 2,757	$ 3,806

See Notes to the Consolidated Financial Statements.

The Dow Chemical Company and Subsidiaries

Consolidated Statements of Stockholders' Equity

(In millions) For the years ended December 31	*2007*	*2006*	*2005*
Common Stock			
Balance at beginning and end of year	$ 2,453	$ 2,453	$ 2,453
Additional Paid-in Capital			
Balance at beginning of year	830	661	274
Stock-based compensation	72	169	387
Balance at end of year	902	830	661
Unearned ESOP Shares			
Balance at beginning of year		(1)	(12)
Shares allocated to ESOP participants		1	11
Balance at end of year			(1)
Retained Earnings			
Balance at beginning of year	16,987	14,719	11,527
Net income	2,887	3,724	4,515
Dividends declared on common stock	(1,548)	(1,438)	(1,292)
Other	(32)	(18)	(31)
Impact of the adoption of FIN No. 48	(290)		
Balance at end of year	18,004	16,987	14,719
Accumulated Other Comprehensive Loss			
Unrealized Gains on Investments at beginning of year	42	11	41
Unrealized gains (losses)	29	31	(30)
Balance at end of year	71	42	11
Cumulative Translation Adjustments at beginning of year	(12)	(663)	301
Translation adjustments	735	651	(964)
Balance at end of year	723	(12)	(663)
Minimum Pension Liability at beginning of year		(1,312)	(1,357)
Adjustments		1,147	45
Balance at end of year, prior to Dec. 31, 2006 adoption of SFAS No. 158		(165)	(1,312)
Reversal of Minimum Pension Liability under SFAS No. 158		165	
Recognition of prior service cost and net loss under SFAS No. 158		(2,192)	
Pension and Other Postretirement Benefit Plans at beginning of year	(2,192)		
Net prior service cost	(74)		
Net gain			