FINAL TRANSCRIPT

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PRESENTATION

Operator

Good day, everyone, and welcome to The Dow Chemical Company's third-quarter 2010 earnings results conference call. Today's call is being recorded. At this time, I would like to turn the call over to Howard Ungerleider, Vice President of Investor Relations. Please go ahead, sir.

Howard Ungerleider - *The Dow Chemical Company - VP IR*

Thanks, Lisa. Good morning, everyone, and welcome.

As usual, we are making this call available to investors and the media via webcast. This call is the property of The Dow Chemical Company. Any redistribution, retransmission, or rebroadcast of this call in any form without Dow's expressed written consent is strictly prohibited.

On the call with me today are Andrew Liveris, Dow's Chairman and Chief Executive Officer; Bill Weideman, Executive Vice President and Chief Financial Officer; and David Johnson, Director in Investor Relations.

Around 630 this morning, October 28, our earnings release went out on Business Wire and was posted on the Internet on Dow's website, Dow.com. We have prepared some slides to supplement our comments on this conference call. The slides are posted on our website on the presentations page of the investor relations section, or through the link to our webcast.

As you know, some of our comments today may include statements about our expectations for the future. Those expectations involve risks and uncertainties, and we can't guarantee the accuracy of any forecasts or estimates and we don't plan to update any forward-looking statements during the quarter. If you'd like more information on the risks involved in forward-looking statements, please see our SEC filings.

In addition, some of our comments reference non-GAAP financial measures. A reconciliation of the most directly-comparable GAAP financial measure and other associated disclosures are contained in our earnings release or on our website.

And unless otherwise specified, all comparisons presented today will be on a year-over-year basis. Sales comparisons will exclude prior-period divestitures and earnings comparisons will exclude certain items and 2009 discontinued operations.

Our earnings release, as well as recent SEC filings, are available on the Internet at Dow.com. The agenda for today's call is on slide three.

And with that, I'll now hand the call over to Andrew.

Andrew Liveris - *The Dow Chemical Company - Chairman, CEO*

Thank you, Howard. Good morning, everyone. Thank you for joining us to discuss our third-quarter performance.

Our results announced this morning were outstanding by every measure. Our earnings were more than double those of a year ago. EBITDA reached a level not seen since before the economic crisis. Margins were up significantly. Volume increased double digits and was up across every single one of our segments and in every geography.

Our operating rate surged as we fully met the growth in demand. Equity earnings hit the $1 billion mark on a trailing 12-month basis. Our growth synergies accelerated, reaching nearly $1 billion. We are outperforming on the cost synergy front, having delivered a run rate of greater than $2.1 billion exiting the quarter.

And finally, we generated almost $1 billion in cash from operations.

But this is only the beginning of the Dow story. We are on the right trajectory to deliver even higher levels of earnings growth and we are going to have a lot more to say on how we'll achieve these goals at our Investor Day here in Midland next week.

So on slide four, let's walk through some of the key takeaways from the quarter. Earnings per share were $0.54, up impressively from $0.24 last year. This was driven by broad-based sales gains of 23% with double-digit increases in every operating segment and in every geography.

Volume was up a notable 14%. EBITDA increased more than $350 million to $1.9 billion, reaching an annualized run rate of $8 billion compared to $5.5 billion last year.

Basic Plastics was once again delivering strong results with EBITDA of nearly $730 million, up 24%. And Performance Products and Performance Systems together delivered an EBITDA increase of $150 million, or 30%.

Margins improved nearly 200 basis points overall for the Company, to pre-recession levels, even though volumes have not yet recovered for most of our businesses.

On a segment basis, Electronic and Specialty Materials has now achieved five straight quarters of 30%-plus margins. Performance Products delivered a 400 basis-point expansion. In fact, our combined Performance operating segments have now delivered margin gains for five out of the last six quarters.

And sequentially, margin growth was notable in Performance Products with a nearly 500 basis-point improvement and in Performance Systems with a more than 250 basis-point gain.

So now let's turn to our milestones on slide five. First, our tremendous earnings growth this quarter demonstrated the power of our portfolio. As I said, we delivered $1 billion in cash flow from operations.

Also, we are outperforming on both the cost and growth synergy front. And we achieved another stairstep reduction in our net debt to cap ratio achieving 44%, exceeding our goal for the year.

From an operational perspective, the increase in demand drove our operating rate to 86%, a level not seen since the first quarter of 2008 and once again showing why Dow is highly regarded for our signature operational capabilities.

Last quarter, as you know, I said that we were firing on seven of eight cylinders, due to the significant number of planned and unplanned outages that impacted our results. We said we were taking the time to make corrective actions and that those issues would be behind us.

I'm pleased to report this quarter that we are now back on track. All of our operating cylinders are firing, and we have not and will not compromise on safety, period. In fact, we were honored earlier this month with the prestigious Robert Campbell Award for our unwavering commitment to safety, the first chemical company ever to be so recognized.

Strategically, we achieved several more noteworthy milestones this quarter. Our proposed joint venture project with Saudi Aramco has now entered the final stages of the FEED study, with work expected to be completed in mid-2011.

We announced our chlor-alkali joint venture with Mitsui, enhancing the integration strength of our performance and market-driven businesses at a lower cost and with less capital outlays, and we are reaping the benefits of our elastomers technology breakthrough with increased capacity in both North America and Europe.

We further strengthened our channel access in Dow AgroSciences, with another bolt-on acquisition in seeds. And we did all of this while maintaining our investments with growth with another $400 million in R&D in the quarter to progress our innovation pipeline.

Finally, we announced a new divisional structure and leadership changes, putting in place a team that is the best in the industry. This team is accountable for taking our businesses to the next level and delivering on the full potential of each division. In fact, this quarter is a strong early indicator of what this team is capable of achieving moving forward.

On slide six, turning to growth synergies, here again we are demonstrating the power of our strategy. We have now achieved nearly $1 billion in growth synergies on a run rate basis, up well over 40% from last quarter and accelerating rapidly towards our 2012 target of $2 billion.

This momentum reflects that these synergies are becoming part of the fabric of our Company. This mindset has taken hold and is very positive, and will have a lasting impact well beyond what we deliver on our target.

Here are just a few examples of the literally hundreds of growth synergies achieved in the quarter. We are leveraging our strong market channel in Electronics to capture rapid growth for advanced packaging technologies. We are extending our leadership position in the fast-growing semiconductor space with the development of new polymers for leading-edge wafer manufacturing.

We won a number of multimillion-dollar cross-selling opportunities across a wide array of our businesses, including construction chemicals, water, home and personal care, and microbial control. And new formulation technology in the construction sector enabled the fast-track launch of an additive solution.

These are just a few of the abundant opportunities that contributed to the $300 million run rate increase we achieved in the quarter, and it shows the power of our game-changing Rohm & Haas acquisition. We said we would overdeliver on the cost synergies, and we did. We said we would reap growth synergies, and we are.

And most importantly, we said we would retain the best of Rohm & Haas's culture and its people, and we have. This acquisition has changed Dow irreversibly and for the better.

Now let me turn the call over to Bill, who will provide more details on our results.

Bill Weideman - *The Dow Chemical Company - EVP, CFO*

Thank you, Andrew. Before I get to the numbers, let me remind you that all sales, price, and volume comparisons are on a year-over-year basis, and exclude divestitures.

Now turning to slide seven, sales were up 23%, driven by volume growth of 14% and an increase in price of 9%. EBITDA, excluding certain items, was up $356 million to $1.9 billion.

Overall margins improved almost 200 basis points over the same quarter last year and 100 basis points from last quarter. And margins in our combined performance segments, excluding ag, were 19%, up more than 150 basis points over the year-ago period end up over 250 basis points sequentially.

Earnings, excluding certain items, were $0.54 per share, more than double the $0.24 per share in the same period last year. Certain items, which totaled $0.09, included a charge associated with a labor-related litigation in Latin America of $0.03, a loss on the early extinguishment of debt of $0.02, an adjustment of $0.02 on the divestiture of Styron, and $0.02 of Rohm & Haas integration costs.

Now let me turn to price and volume on slide eight. We experienced demand growth across all segments, led by double-digit gains in all of our performance segments, except for Coatings and Infrastructure.

We also experienced demand growth in all geographies. The strength in North America, in Europe, Middle East, and Africa was particularly notable. This marked the third consecutive quarter of growth in these geographic areas.

Now moving to price, we achieved a 9% increase in price with improvement in all geographies and across most operating segments. Price gains more than offset a $585 million increase in purchase feedstock energy costs. Here, I'd like to point out that we expect these costs to rise approximately $300 million in the fourth quarter.

The largest price increases were reported in the combined basic segments, which collectively reported a 17% increase. Performance Products and Coatings and Infrastructure also delivered double-digit price improvements. And from a geographic perspective, Latin America and North America grew double digits.

Now turning to our segment overview on slide 10, the strong performance in Electronic and Specialty Materials continued with revenue up 12% for the business segment. This was driven by continued strong results in Asia-Pacific, where volumes were up 25%. The performance in electronic materials continues to be driven by sustained end-market demand for consumer electronics and flat-panel displays, particularly in Asia. In fact, end-market demand for flat panels was so strong that it drove volumes for our display and growth technology businesses up by more than 50%.

Volumes in our specialty materials business rose in all geographies, driven by double-digit demand growth in our water, cellulosics, and microbial solutions businesses.

Turning to Coatings and Infrastructure, sales were up 11% with volume and price gains across all geographies. Our coatings business expanded margins, reflecting tight epoxy fundamentals. In agricultural coatings, we are seeing robust volume growth in Asia-Pacific due to new product introductions. In fact, 30% of our portfolio is less than three years old.

Our building construction business grew sales 7% over last year and delivered volume improvements across all geographies, except North America.

And finally, our adhesive and functional polymers business delivered double-digit sales growth across all of our geographies, driven primarily by growth in packaging applications.

Now, moving to Health and Ag Sciences. This segment experienced strong volume growth of 26%, with significant gains in our seeds, traits, and oils business, as well as continued growth in ag chemicals. Sales grew double digits in most regions, driven by a number of factors which offset continued pricing pressure in ag chemicals.

I would like to point out we are gaining share in cotton in North America and we are continuing to make inroads in corn as well.

Volume grew for cereal herbicides in Europe, Middle East, and Africa and higher-than-expected plantings of corn, especially in Brazil, benefited Latin America. In addition, we announced the acquisition of Grand Valley, adding to our seed marketing capabilities.

Finally, while harvest continues, we -- nearly half of our yield data from SmartStax is in, and it indicates positive performance. We continue to be pleased with the launch of this new technology.

In Performance Systems, we achieved double-digit volume growth in a 260 basis-point expansion in EBITDA margins during the quarter. We are benefiting from a rebound in automotive end markets, driven by a double-digit increase in global light vehicle production.

And in formulated systems, double-digit volume growth in energy efficiency and fast-growing wind energy applications drove results in the quarter.

Finally on this slide, you see the primary drivers behind improvements in our Performance Products segment. Volume was up 10% and price was up 15%. EBITDA margins expanded 400 basis points year over year and 500 points sequentially.

Demand growth was driven by significant improvements in epoxy, in oxygenated solvents, and continued growth in polyglycols, surfactants, and fluids as well. Price increases across a number of businesses, particularly in epoxy and polyurethanes, also contributed to margin improvement.

Now turning to Basic Plastics on slide 12. Volume growth and double-digit price gains drove performance. Strong industry demand for polyethylene continued, particularly in North America. Global demand growth, delays in startups, and operational issues for industry participants other than Dow continued to mitigate concerns around capacity coming online.

And finally, in Basic chemicals, we were over 30% -- sales were up over 30% as price and demand both rose double digits.

Now, turning to our joint ventures. Equity earnings were slightly over $250 million, up more than 10% from a year ago. This was driven by strong results from our joint ventures in Kuwait, MEGlobal, and Dow Corning.

I'd like to close my comments by highlighting -- make highlights on our tight control on working capital. DSO was 44 days, down two days from last quarter and down one day versus the same quarter last year. DSI was 68 days, down four days from the year-ago period.

Our CapEx spending was under $500 million after consolidating our Thailand joint ventures, and we are just under $1.2 billion year to date. Overall, we remain on track to achieve our $2 billion goal for 2010.

Cash flow from operations was $1 billion, up $376 million over the same period last year. Free cash flow was $233 million, up $143 million versus the same quarter last year. And our net debt to total cap declined 230 basis points to 44.2%, reflecting a greater than a $450 million decrease in net debt.

We are currently tracking ahead of our plan, and you should expect us to end the year close to our 45% target as we look at opportunities to make voluntary contributions to our pension plan in the range of $350 million in each of the next two quarters, and finally, our net debt to EBITDA multiple improved to 2.5 and we are on a run rate of 2.3 exiting quarter.

Now I'd like to turn it back over to Andrew.

Andrew Liveris - *The Dow Chemical Company - Chairman, CEO*

Thanks, Bill. Let's turn to our outlook now on slide 15, and you are very familiar with this chart, I know. It's our unique view into a wide array of geographical and sector trends, which we believe supports our outlook that growth is firming and firming to a more measured pace.

The broad-based demand growth you see here is across geographies and industry segments, and this gives us even greater confidence that a sustained global economic recovery is gradually building momentum.

Emerging economies will continue to lead this growth, in our view, over the longer term as domestic demand strengthens in a number of leading end markets in fast-growing regions such as Brazil, Asia, Middle East, and Eastern Europe. In China, concerns around fiscal policy tightening and asset bubbles are waning, and you can see growth trends remain robust across almost all industry segments in that country.

Our outlook in North America and Europe is also encouraging, as we see signs of increased momentum and more sustainable growth, particularly in the end markets where Dow holds a strong position, such as electronics, coatings, packaging, and automotive. And while ongoing headwinds from high unemployment and continued weakness in construction spending still restrain the rate of growth of these developed regions, it is growth nonetheless.

And we expect that growth to continue in the U.S., although at a slightly lower rate than experienced in the first half of the year, despite positive signs of increased corporate profits and investment.

In Europe, we expect growth to remain uneven, with southern Europe remaining restrained by sovereign debt concerns and tightening in government spending. However, economic activity in the rest of Europe, especially those countries centered around Germany, is showing signs of improvement.

On balance, we are seeing positive signs of more sustainable global growth, driven by strength in many sectors. This is good news in particular for Dow with our well-balanced portfolio of businesses and our key presence in emerging geographies, both of which position Dow well to deliver sustained earnings growth.

Turning to slide 16, let me wrap up briefly with an update on our 2010 priorities. For the remainder of this year, we will stay focused on executing our strategic, operational, and financial plan. As I said, we are firing on all cylinders, delivering at or beyond our goals.

We are well ahead of our revenue growth goal of 10%. On the growth synergy front, we've delivered 2010 results nearly double that of our year-end goal. Our performance businesses are performing. These combined segments have expanded margins now for five out of the last six quarters.

And we are overdelivering on the cost reductions we promised. Our leadership team is squarely focused on and accountable for delivering results. In this quarter, you saw early indicators of what this team is capable of accomplishing.

And on that note, let me provide a bit of a preview for our Investor Day in Midland next week. Our last Investor Day was about what we expected our transformed portfolio to deliver, and today we can clearly state we have achieved or are on track to deliver each of the commitments made back in November of last year, and that we are firmly on the earnings trajectory we outlined at that time.

This year's Investor Day will focus on how we are achieving the full potential of our higher-growth, higher-margin portfolio from this moment onward. You have asked for more transparency into how we will achieve our goals, and this meeting will be granular, providing a level of detail like we have never given before and directly from our business leadership.

Moreover, you will see firsthand that Dow has the right formula through our innovations, our growth platforms, our global presence, and the robust roadmaps we have in place to deliver.

I look forward to seeing many of you next week, and now I'll turn the call back over to Howard.

Howard Ungerleider - *The Dow Chemical Company - VP IR*

Thanks, Andrew. That wraps up our prepared remarks. For your reference, a copy of these comments will be posted on Dow's website later today.

Now we'll move onto your questions. Before we do, though, I'd like to remind you that my comments on forward-looking statements and non-GAAP financial measures apply to both our prepared remarks and to anything that may come up during the Q&A. Lisa, would you please explain the Q&A process?

QUESTIONS AND ANSWERS

Operator

(Operator Instructions). P.J. Juvekar, Citigroup.

P.J. Juvekar - *Citigroup - Analyst*

You know, in coatings, your EBITDA was up slightly, despite good volume growth. You obviously had higher propylene costs. I was wondering if you can discuss your propylene balance.

Andrew Liveris - *The Dow Chemical Company - Chairman, CEO*

Sure, P.J., the propylene balance -- well, firstly, some good news. We've taken the first propylene from PDH -- from PetroLogistics. That unit is up and running, and we had our first delivery this last week or so.

That will help us a lot, as we've talked about on prior calls, on sourcing propylene that's back-integrated, so to speak, to the NGL mix versus the tied to the refining pool. So over time, you can expect that that 500,000-ton unit that's starting up will take over half of it. And that will help our propylene balance to be less, what I call, naphtha-tied or market-oriented tied.

P.J. Juvekar - *Citigroup - Analyst*

And secondly, quickly, on commodity divestiture, I think you are rightfully expecting a higher price, and given the shale gas advantage in the U.S., is there more interest from the buyers? Thank you.

Andrew Liveris - *The Dow Chemical Company - Chairman, CEO*

Yes, clearly the Basic Plastics footprint, which is performing very, very well because of the shale gas dynamic, is something that has restated what we intend to achieve there over this next timeframe, but we are still working it.

We are seeing interest. Clearly, the launch of the new LyondellBasell is helpful in terms of setting market prices and what to expect.

But we also, as we've said quite a few times, we like the fact that our new technology breakthroughs in elastomers, our wiring cable business, our specialty packaging business fits more of our performance mix than ever before. Remember, we have divested over $5.5 billion of assets in the last 18 months at very good prices and have de-commoditized a lot of our commodity footprint already through divestment and shutdowns.

So, we are going to say a lot more about that next week, but yes, we have interest.

Operator

David Begleiter, Deutsche Bank.

David Begleiter - *Deutsche Bank - Analyst*

Andrew, in Performance Products, how sustainable is this 16% EBITDA margin in both Q4 and 2011?

Andrew Liveris - *The Dow Chemical Company - Chairman, CEO*

We believe the trajectory of our Performance Products and Systems envelope, now that it's under one leadership, has great opportunity to continue to have constant margin expansion, firstly for the reasons P.J. talked with the propylene back-integration that we can now speak to.

Secondarily, we are number one or number two in many of these businesses, and the building blocks that represent them -- the propylene oxides, the epichlorohydrin, the fact that we have built capacity, the fact that there is constrained capacity in PO and epichlorohydrin bodes well for price increases.

We're running them pretty high, at high rates, with the exception of TDI. We've got the start-up of new units that will feed the surging demand in Asia, notably the one in Thailand, the HPPO plant there, as well as the elastomers plant there.

So, frankly, we see that the performance envelope will continue to show margin expansion from here. As we showed you a year ago, their margins this quarter expanded quite dramatically and overcame the anomaly of last quarter where we had that propylene arbitrage go against us.

David Begleiter - *Deutsche Bank - Analyst*

And Andrew, just in Dow Corning, was the growth this quarter a little bit less than prior quarters? And if it was, why?

Andrew Liveris - *The Dow Chemical Company - Chairman, CEO*

They tend to have seasonality in the third quarter. So there was some softness in their August numbers, and that seasonality is now over with, and they're entering the fourth quarter quite strongly.

Operator

Don Carson, Susquehanna International.

Don Carson - *Susquehanna International - Analyst*

A follow-up on the ag side, and specifically your comments on SmartStax. Really two questions. One, Monsanto is emphasizing more some of the reduced refuge products that don't require the Herculex trait. Just wondering, A, what's the implication of that for your licensing revenue growth over the next few years, and B, can you be a little more specific on what yield differential you're seeing on genetics with the SmartStax trait in it versus those that don't have it?

Andrew Liveris - *The Dow Chemical Company - Chairman, CEO*

Yes, so Don, this is obviously very timely sorts of questions. We have over -- nearly 50% of our replicated trials comparing SmartStax with Herculex XTRA insect protection trait versions in the same basic genetic packages already in.

And this data, which compares to several base genetic packages, continues to show that Dow AgroSciences' SmartStax is performing well and yielding as expected.

Now, we're going to share our data at the right time to give a clear picture once the harvest is complete. So -- but at the end of the day, I will say this. Our data is showing the SmartStax technology is performing, that there is no yield drag, and our hybrids are actually performing quite well.

We do want to wait a bit to get all the yield data in in all the trials, but we don't actually see any of the issues and we're quite supportive of the stuff Monsanto's been saying lately.

Don Carson - *Susquehanna International - Analyst*

What about your -- the fact that they're switching to some technologies that don't involve the Herculex gene? What -- does that have any dramatic impact on your revenue growth there?

Andrew Liveris - *The Dow Chemical Company - Chairman, CEO*

No. Absolutely not. We've sold all we have.

I think you've got to get the scale proportionality here. Monsanto is pretty ubiquitous in everywhere, and they had much bigger robust goals than we did.

We are very targeted, very, very much into our channels, and we're showing, as Bill said on his statements, growth in cotton. We're at double-digit share already, and pretty good growth in corn. And with corn prices where they're going, I think you're going to see that we're going to drive our numbers up pretty fast based on our selective targeting.

Howard Ungerleider - *The Dow Chemical Company - VP IR*

Next question.

Operator

Paul Mann, Morgan Stanley.

Paul Mann - *Morgan Stanley - Analyst*

Just going back to the propylene question earlier. Can you just remind us of the exact arrangement between yourselves and PetroLogistics in terms of the pricing of propylene going forward?

Andrew Liveris - *The Dow Chemical Company - Chairman, CEO*

Yes, we have a -- thank you, Paul, for your question. We actually haven't made that public, but you know, it's clearly a market minus arrangement, but it does have a lot more connectivity to the world of NGLs than otherwise said -- and which is what we have said publicly. Let me say this, it will give us an advantage we didn't have before.

Paul Mann - *Morgan Stanley - Analyst*

And the second question, just can you give us the numbers of pension contributions full year in 2010 and what the pension contribution will look like in 2011, please?

Andrew Liveris - *The Dow Chemical Company - Chairman, CEO*

Yes, I'll let Bill answer that. Thank you, Paul.

Bill Weideman - *The Dow Chemical Company - EVP, CFO*

As I mentioned -- if you look at our year-to-date contributions, our year-to-date contribution's around $177 million.

As I mentioned in my prepared remarks, we're contemplating -- we remain firmly supportive of our pension plans, and given our strong cash flow, we're contemplating making a $350 million contribution to our pension plans over the next couple of quarters. So you could expect our full-year pension contributions to be around $600 million.

And then for 2011, you could expect that to be up slightly, but not significantly, and we do believe our cash from operations can support that.

Operator

Andy Cash, UBS.

Andy Cash - *UBS - Analyst*

Just a couple of questions before next week. With chemicals and plastics doing so well here, I was wondering if you could give us an update on your thinking on KDOW. And perhaps if you're planning on going forward with the sale, is there any change in price -- is the price profile changing here with the recent upturn in Basic Plastics and chemicals?

Andrew Liveris - *The Dow Chemical Company - Chairman, CEO*

Yes, the second part of the question first. There is definitely a very different value equation for North American-based petrochemical assets, and clearly our revised footprint, after we did all of our shutdowns, we took out a lot of our purchasers.

We fundamentally produce all the ethylene that we want now for our consumption downstream. By decommoditizing the downstream, by taking out EDC, by taking out EO, by taking out EB styrene, so that has strengthened our envelope, if you like, around NGLs, our flexi-crackers, our ability to use some of this newfound pricing structure that differentiates the oil and gas ratio in our favor means that there is a higher value of those assets, clearly. That's point number one.

Point number two, Andy, we'll say a lot more next Monday, Tuesday, but certainly, we are rethinking, as I said on an earlier question, we are rethinking how we will divide the plastics unit today post all the actions we've taken, such as the shutdowns, such as the divestment of Styron. We are a different plastics portfolio, a lot more focused, and it divides itself pretty nicely between high-end, high-value plastics, specialty plastics, if you like, that go into growth markets such as packaging and more commodity-like plastics.

So, we are looking at doing a different type of deal than KDOW in the future. I think that's fair to say. But we will do deals nevertheless, and so that's in our future. That will help us on our balanced portfolio, more and more to downstream businesses that have much more IP protection and margin expansion based on innovation, and that'll, of course, strengthen our balance sheet even further from where it is right now.

We anticipate that that will all be in the next 12 to 18 months. So, you'll see more action from us in the plastics portfolio, but at higher valuations, all on strategy to reduce our volatility.

Andy Cash - *UBS - Analyst*

Just a follow-on, as I look toward your dividend, I think you've said in the past year that you're looking forward to restoring that dividend. Perhaps you could talk a little bit about how the Board is looking at that? Are there any metrics the Board is looking to achieve, whether it's an earnings level? Is it debt to EBITDA? Just what you could say about that, please.

Bill Weideman - *The Dow Chemical Company - EVP, CFO*

This is Bill Weideman. Let me answer that. First of all, as you know that's a Board decision, so I can't speculate on what action the Board may take.

However, if you look at our past practice, our historical, we've had a dividend payout ratio, which is dividend divided by net income, of approximately 45%, and if you look at over the last five years, from 2005 to 2009, we've actually been 45.9%.

Now we recognize over the past year we've been a little bit below that, for good reasons, due to the recession and our leverage. But the -- and one of our top priorities continues to be to pay down debt. But as the economy continues to improve and as our earnings continue to improve, we will continue to reward shareholders consistent with our past practice.

Andy Cash - *UBS - Analyst*

Thank you very much. See you next week.

Operator

Bob Koort, Goldman Sachs.

Bob Koort - *Goldman Sachs - Analyst*

I read something from a weed scientist recently that was extolling the benefits of 2,4-D. Can you give us an update on when that product might get through the whole registration process and be commercial?

Andrew Liveris - *The Dow Chemical Company - Chairman, CEO*

Thank you for your question, Bob. Certainly there are more and more reports on difficult-to-control weeds and how 2,4-D -- and of course, therefore, the related launch of DHT, which is, of course, based on that in terms of tolerance.

We anticipate the launch around 2013 when it will be available. So it's on track right now. We've probably -- if you look at the types of crops, 2013 will be corn and 2014 will be soy, and then beyond that, 2015 will be cotton. So, that's not all that far away.

And of course, with your point, 2,4-D being the herbicide of choice, I think, is going to be very good for DHT. We're feeling more and more bullish on that launch.

Bob Koort - *Goldman Sachs - Analyst*

And then, Andrew, if I might follow up, in the U.S., obviously, there's been a massive ethane advantage (multiple speakers) maybe it's restricted production of byproducts from some of the heavier crackers. Can you tell me what you've been doing lately with your feedstock mix and how much room there might be to moderate that or modulate that going forward?

Andrew Liveris - *The Dow Chemical Company - Chairman, CEO*

Clearly, the cracker profile of Dow in North America, with its great flexibility to switch between heavies and lights as the ethane arbitrage of natural gas versus the naphtha arbitrage to oil widens even further, there's been some correction of late, but clearly it's still quite wide compared to historical levels.

We believe that's going to continue for the next several years, so it's -- the byproduct point, then, becomes very relevant, and that gets back to the propane/PDH/propylene sourcing point. You can expect us to be more and more active on alternative ways to get propane into the mix for shorter-produced propylene in the crackers or to do on-purpose propylene production so that we can take advantage of it on the propylene side of the house, as well as the ethylene side of the house.

More longer term, Bob, it's not for today, but certainly the sorts of things we're doing in China where you are decoupling and going all the way back to a [C-1] source. So MTP, methanol to propylene, and technologies like that, I think will become a little more prevalent here in the United States, if you believe all the shale gas numbers.

Right now, I think we're looking at natural gas to shale gas as being an oversupply for several years to come, and that would widen the arbitrage, which means that you have to make sure you can source propylene off of propane.

Operator

Jeff Zekauskas, JPMorgan Securities Inc..

Jeff Zekauskas - *JPMorgan Securities Inc. - Analyst*

Most companies have much faster growth in Asia than they do in Europe or in North America, and for Dow, it's the opposite in that I think your volumes in Asia were up 8% and your sales up 3.5%. Can you explain why Dow is unusual in this respect?

Andrew Liveris - *The Dow Chemical Company - Chairman, CEO*

Well, growth is an interesting word. If you put the word profitable growth in front of the word growth, you might get a different balance of mix, and I think that speaks a little bit to our strategy in Asia and has for some years been very true.

The way we position ourselves in places like China and Asia is downstream products and the value add, i.e., the margins of those products may not be high in volume, so we did not do a naphtha cracker in China, as a good example of my point. We deliberately did not do that because we couldn't see our way to profitable growth of the downstreams, either the first or second derivatives.

Now, of course, that then speaks to, well, how are you going to participate in the economic growth of those countries beyond the high-margin downstream specialties, remembering, using China as our benchmark, of all the products we sell in China, it's over 80% performance businesses, so it shows you our strategy has been very much in the downstream.

But how we're remedying the point you're making overall is to get, in fact, profitable back-integration into our building blocks so we can meet the emerging market demand from in-market production. The very first load of capacity in that regard is coming on as we speak, which is the Thai capacity, so you could expect us, then, to have profitable growth with volume in the more intermediates, first-line derivatives such as propylene oxide, polyolefins, and all the downstreams from polyethylenes, like specialty elastomers.

The second will be in the 2014, 2015, 2016 timeframe with the final approval of the Saudi project next year. Of course, that's a very big project, equity light, but also serves Southeast Asia, South Asia, and China from the Middle East, as well as the Middle East itself.

And then, the third project, which is the one in the back half of the decade, is the end-market project on coal chemicals in China.

So what you're seeing today is that a lot of the commodities and building blocks that we might supply Asia, we'd much rather supply them to higher-margin end-market areas like the U.S. and Europe. And so, we're making more money by keeping them home than by exporting them.

But in high value-add businesses, like electronic materials, our China business is up 28%. So it speaks to the strategic positioning on profitable growth.

Jeff Zekauskas - *JPMorgan Securities Inc. - Analyst*

That's very helpful. And then for my follow-up, if you guys didn't go over this before, why was it that Coatings and Infrastructure volume growth was only 1% excluding divestitures? Are there still manufacturing issues in the acrylics chain or is there some other factor there?

Andrew Liveris - *The Dow Chemical Company - Chairman, CEO*

The Coatings and Infrastructure piece is, of course, a hybrid between, let's say, the two epicenters of housing-related construction in the commercial and residential sectors, and then building and construction materials, so you've got to -- you've got to really almost bifurcate and start to look at the segments underneath that, Jeff.

And I'd say to you there are still supply constraints in industrial coatings, especially the epoxy chain. That is speaking to price power, so there's price increases going on in liquid epoxy resins and all the downstreams from epoxy.

In the end use side of that, that's -- actually, the demand growth has been pretty good, but it's supply constrained.

I think it's fair to say that, as all of our downstream customers have reported, that the United States and southern Europe and housing is still very weak and anemic, and it's the one sector, certainly from a construction of new residences, is still very much flat to weak. Therefore, as a result of that, most of the architectural coatings market that we would supply in the acrylic chain is really going into markets that are soft and only in painting your own house, whatever they -- the cycle painting are you seeing any sort of growth.

So, overall demand is not strong in the entire housing area. So we're running our assets very hard. They're running well. Inventories are low. And we are very focused on price. So, in other words, we're pretty much sold out and now are selling up.

Operator

Frank Mitsch, BB&T Capital Markets.

Frank Mitsch - *BB&T Capital Markets - Analyst*

You successfully offset, I think, $585 million of higher raw material costs in the third quarter with price increases. And you suggested that the fourth quarter, you'll probably see another $300 million of inflation. Can you talk about the price versus raw material balance throughout the third quarter and into the fourth quarter? What I'm trying to get at is, have you been able to widen that gap in terms of your price increases or have raws been catching up to that? So, how do we think about it on a trendline heading into the fourth quarter?

Andrew Liveris - *The Dow Chemical Company - Chairman, CEO*

Well, the margins expansion through the quarter, as you noted, was over 200 basis points, and so clearly, we had that widening occur in the more commodity-like products, and that's because those assets are running hard.

I mean, in essence, if you look at polyethylene, ethylene, if you look at chemicals, the chlor-alkali chain, you've got decent demand growth overall. You've got demand growth in the emerging world being strong, and so as a consequence of that, you're getting some inflation on the commodity inputs, and really the earlier question, Frank, if you play the arbitrage right in terms of oil and gas ratio, then you should be able to get the price increases where you make the product.

In our case, North America and Europe are big home markets, so we are working very hard to keep that margin expansion on the basics alive and that all comes down to new capacity.

Now in the next several quarters, there will be capacity coming on still in the Middle East and the Far East. So, it will be spotty quarter to quarter. I think, like we said on our -- and Bill said in his script, there's no question we will see ups and downs in the margin profiles of, in particular, the polyethylene chain, but you can expect, with capacity operations at the mid-80s to high 80s to low 90s, to see still continual pricing power over the next several quarters. Bill, did you want to add to that?

Bill Weideman - *The Dow Chemical Company - EVP, CFO*

Yes, I think it's another data point is, our view in the fourth quarter is that oil will probably stay in the 80s -- 80 to 85, and that naphtha will probably stay fairly high like it is today. I think it's like $740. But our view is gas in the fourth quarter will remain low, and also that propylene will remain balanced. So, as you know, that's a good scenario for us. And that bodes well for us.

Frank Mitsch - *BB&T Capital Markets - Analyst*

So, it's not a fait accompli that margins compress in the fourth quarter in those basic businesses?

Andrew Liveris - *The Dow Chemical Company - Chairman, CEO*

Yes, I think -- we don't give guidance, right, and obviously this is a big part of our chain here, Frank, so we're trying to be appropriate here, but look, soft landing, no collapse, some normal seasonality, but answering your question, as Bill said, with hydrocarbons staying in our favor and some price power out there based on operating rates, you can draw your own conclusions.

Operator

Kevin McCarthy, BofA Merrill Lynch.

Kevin McCarthy - *BofA Merrill Lynch - Analyst*

I wanted to follow up on performance products where you had the best margins since the first quarter of 2007. Andrew, can you comment on the composition of earnings there? We are hearing, for example, that some of the oxos are tight. Are you seeing that? Is that transitory or structural, in your view? And maybe you could give some color on epoxies and urethanes as well.

Andrew Liveris - *The Dow Chemical Company - Chairman, CEO*

I think you're right on with your question. I think what you're seeing is the building blocks that underpin Performance Products, and therefore downstream, are tight, and so all the performance monomers, like oxos, the solvents, the amines with the exception of ethanolamines, the acrylics, the epichlorohydrins, and PO are all running tight. And so, I would tell you the only performance product that isn't running tight is TDI.

And so, that to one side, with good demand fundamentals in the emerging world, Kevin, you're seeing fundamentally all -- everyone in the chain having price power, and so it's back to Frank Mitsch's question, how do you manage input such that you continue to have margin expansion? We believe we have those businesses in great shape. We've taken all the turnarounds we want to take. We've fixed the issues at Deer Park. We've put a lot of resources on that, and it's worked.

And frankly, with tightness in the chains, you will continue to see those businesses have margin expansion.

Kevin McCarthy - *BofA Merrill Lynch - Analyst*

Then a second question, if I may. You made a comment that you're making inroads in U.S. corn to complement the very meaningful share gains you've had in cotton. Can you quantify how much share you might've gained in U.S. corn, and whether or not you feel as though you're still on track to become number three in that business?

Andrew Liveris - *The Dow Chemical Company - Chairman, CEO*

Well, I believe we are on track to become number three with our SmartStax data telling us that we will have good competitive advantage there, and then on top of that, DHT, but it's still early. We're at about 5% total share right now. That's up two or three percentage points from where we started. We said we would get to double digit by 2015. We believe we're on track to do that.

Operator

Mark Connelly, Credit Agricole Securities.

Mark Connelly - *Credit Agricole Securities - Analyst*

Thank you. Andrew, two questions, both on coatings. When we look at coatings materials, we see prices up. We talked earlier in the call about the propylene pressure. Do you see your customers able to pass those higher prices -- your higher prices through or are they getting closer to being able to pass through? That's the first question.

And second, within the Coatings and Infrastructure segment generally, I'm just wondering is your investment in the POWERHOUSE Solar Shingle causing a drag on margins and should we expect more upside in margins as that product rolls out next year?

Andrew Liveris - *The Dow Chemical Company - Chairman, CEO*

Certainly the coatings value chain, I mentioned earlier, the architectural side, is definitely still suffering from the housing market being very delayed in terms of recovery. You might argue that it's well into 2011.

So, our customers are seeing a lot of pressures, and their margins are getting compressed, as many of them have reported. And clearly, acrylics is part of that. But the biggest part of that is titanium dioxide. And I think you're going to see if it's not price power at their part of the chain, which really you should look to them to comment on, but I think their raw materials are going to be a continual issue for them, and so -- because of tightness in the chains, and to that end, by the way, we at Dow have innovations that can help them, meaning that they can reformulate, and we actually have substitutes for titanium dioxide out there already that will be very beneficial to them to get away from what's going on in the titanium dioxide areas.

So, given that, I think what you're going to see is a lot of companies work very hard with their suppliers like us to do reformulates, to do different types of ingredient mixes, to accommodate what is a tightness in the upstream. I believe the tightness in acrylics will continue for some period of time.

Look, on POWERHOUSE, yes, it is a drag on earnings as we reposition ourselves ahead of the launch. The costs are going up ahead of launch. Launch is middle of next year. We'll have a lot to say on POWERHOUSE next Monday and Tuesday. So I won't steal their thunder until then.

Operator

Bill Young, ChemSpeak, LLC.

Bill Young - *ChemSpeak, LLC - Analyst*

Good morning, gentlemen. A couple of follow-ups, please. If you look at the coatings area, and you emphasized, Andrew, that architectural is still down. If you looked at the last peak, how far down are we? If last peak was 100, say, are we at 90 or 85 or 95? I'm really asking to get an idea of how much upside there is when the housing market eventually returns to a more normal level.

Andrew Liveris - *The Dow Chemical Company - Chairman, CEO*

The views we get on that, my view is by participating in many, many external associations. And if you really look at where the consumer is today versus the consumer was in, let's say, 2007, early 2008, it's probably still down about 20% in terms of upside based on value of demand that's no longer there.

So, the readjustment that many of us have done in the chain, certainly Dow, has been to take out capacity. I know downstream from us that's also happened. I've mentioned reformulation. Will it get back to there by some timeframe? Look, the best estimates out there, Bill, are 2012, but even those are looking a little bullish right now.

Bill Young - *ChemSpeak, LLC - Analyst*

Okay, great, and my second one -- you were stressing also your feedstock flexibility in North America, given the cost of gas and natural gas liquids. Today, what is the highest proportion of NGLs you can put through your North American ethylene plants compared to other periods where -- like early in the decade, where you wanted to maximize your naphtha throughput.

Andrew Liveris - *The Dow Chemical Company - Chairman, CEO*

Yes, how times change. Yes, that number is about 70%. We've increased it systemically over these last five years, in particular by allowing ourselves to be able to crack butane in particular, as well as the normal ethane propane. So that's been an on-purpose strategy to increase that number. It's about 70%.

If you throw into the mix the fact that the flexi-crackers that are mostly on the U.S. Gulf have that capability, of course we also have the pure NGL crackers in Canada and Argentina for the Americas.

Howard Ungerleider - *The Dow Chemical Company - VP IR*

We have time for one more question.

Operator

John Roberts, Buckingham Research Group.

John Roberts - *Buckingham Research Group - Analyst*

It used to be that the specialty businesses had some countercyclicality to the basic businesses in terms of margins, so that there'd be some overall diversity there. We've had several quarters now with both moving up. Should we think about the margin countercyclicality between basics and specialties being somehow structurally broken here?

Andrew Liveris - *The Dow Chemical Company - Chairman, CEO*

It's a great question, a good one to finish on and one that sets up next week very, very well.

I believe we are a different mix today, with different opportunities now to show a degree of different type of countercyclicality, and I think it will be market-driven more than it will be feedstock-driven, which, of course, is the whole strategy. So, if you look at what we've done here, John, is that I think we've got enough market diversity, a very big footprint in the emerging markets in downstream specialties like electronics, like coatings, for example, and infrastructure in general, a good ag sector that gives us a seasonality and a countercyclicality, but the less reliance we have on the ethylene cycle is what you're starting to see.

Now we are, of course, making a lot of money in the ethylene polyethylene chain, but I want to point out that is less the cycle and more our own interventions. I think we have upgraded our margins in that whole plastics area by, A, getting out of commodity businesses and, B, shutting down a lot of the footprint that was not competitive versus what it used to be five years ago and, Ca, we've repositioned the downstream to value- add, such as elastomers, wire and cable, and specialty packaging.

So, a different mix even in the basics has occurred, and I won't leave this conversation without also acknowledging that's happened in chemicals. With our MEGlobal joint venture now being a very competitive ethylene glycol supplier in a joint venture mode, and our chlor-alkali footprint serving our downstreams and doing innovative ways to get upstream integration through this deal with Mitsui, we've been able to lessen the cyclicality of petrochemicals and its effect on our earnings.

So, from here, I believe you're going to see margin expansion in both sides because of the interventions we've done.

Howard Ungerleider - *The Dow Chemical Company - VP IR*

Thanks very much. We're going to have to end the call at this point. We'd like to thank you for joining us this morning. Appreciate your interest in The Dow Chemical Company, and we absolutely look forward to seeing all of you in Midland next week. Thanks very much.

Operator

That concludes today's teleconference. Thank you for your participation.