The Dow Chemical Company
Midland, Michigan 48674

2030 DOW CENTER
April 15, 2002

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ANNUAL REPORT AND PROXY STATEMENT FOR THE DOW CHEMICAL COMPANY

Attached are The Dow Chemical Company's 2002 Annual Report for the year ended December 31, 2002, and its 2003 Notice of Annual Meeting and Proxy Statement.

These attachments were not previously included with Dow's Chief Financial Officer letter dated March 24, 2003, due to their unavailability at that time.

Michele R. Osmun

Michele R. Osmun
Senior Paralegal
The Dow Chemical Company
Phone: 989-636-5581

Attachments

NMSS01

The Dow Chemical Company
Midland, Michigan 48674

NOTICE OF THE ANNUAL MEETING OF STOCKHOLDERS TO BE HELD ON THURSDAY, MAY 8, 2003 AT 2:00 P.M. EDT

March 27, 2003

Dear Stockholder of The Dow Chemical Company:

We are pleased to invite you to the Annual Meeting of Stockholders of The Dow Chemical Company on Thursday, May 8, 2003, at 2 p.m. Eastern Daylight Time, at the Midland Center for the Arts, 1801 West St. Andrews, Midland, Michigan. A map is printed on your admittance ticket. At the Meeting, stockholders will vote upon the following matters either by proxy or in person:

- Election of five Directors.
- Ratification of the appointment of the independent auditors for 2003.
- Authorization of the 2003-2013 Employees' Stock Purchase Plan.
- Authorization of the 2003 Non-Employee Directors' Stock Incentive Plan.
- One proposal submitted by a stockholder.
- Transaction of any other business as may properly come before the Meeting.

Your vote is important. Whether or not you plan on attending the Meeting, please vote your shares as soon as possible on the Internet, by telephone or by mail. Your Board of Directors has set the close of business on March 10, 2003, as the record date for determining stockholders who are entitled to receive notice of the Annual Meeting and any adjournment, and entitled to vote. A list of stockholders entitled to vote shall be open to any stockholder for any purpose relevant to the Meeting for ten days before the Meeting, from 8:30 a.m. to 5 p.m., at the Office of the Corporate Secretary, 2030 Dow Center, Midland, Michigan.

Tickets of admission or proof of stock ownership are necessary for the Meeting. Tickets are included with your proxy material. Stockholders of record, in the Dividend Reinvestment Program and in employee savings plans should check the box on the voting form if attending in person. Other stockholders holding stock in nominee name or beneficially (in "street name") need only bring their ticket of admission. Street name holders without tickets will need proof of ownership for admission to the Annual Meeting, such as a March 2003 brokerage statement or letter from the bank or broker. Questions may be directed to 877-227-3294 (a toll-free number in the U.S. and Canada) or 989-636-1792.

Since seating is limited, the Board has established the rule that only stockholders may attend or up to three people holding proxies for any one stockholder or account (in addition to those named as Board proxies on the printed proxy forms). Proxy holders are asked to present their credentials in the lobby before the Annual Meeting begins. If you are unable to attend the Meeting, please listen to the live audio webcast at the time of the Meeting or the audio replay after the event, at *www.dow.com.*

Your Board of Directors continues to adhere to high standards of integrity and sound corporate governance. For example, Director Harold T. Shapiro was recently elected Presiding Director to, among other responsibilities, lead the regular executive sessions of the Board. Reports to Dow stockholders from the independent Audit and Compensation Committees are enclosed. A recently adopted stockholder rights (also known as poison pill) policy is included on page 29. And, you will find additional information on corporate governance practices and the Company on *www.dowgovernance.com.*

Thank you for your continued support of and interest in The Dow Chemical Company.

Tina S. Van Dam
Secretary of the Company

2003 ANNUAL MEETING OF STOCKHOLDERS
THE DOW CHEMICAL COMPANY

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This Proxy Statement is issued in connection with the 2003 Annual Meeting of Stockholders of The Dow Chemical Company to be held on May 8, 2003.

VOTING PROCEDURES

In the following pages of this Proxy Statement, you will find information that includes data on your Board of Directors, the candidates for election to the Board and the current Directors, and five matters to be voted upon at the Annual Meeting of Stockholders or any adjournment of that Meeting. The background information in this Proxy Statement has been supplied to you at the request of the Board of Directors to help you decide how to vote and to provide information on the Company's corporate governance practices.

Vote Your Shares in Advance

The enclosed voting form will help you cast your vote on the Internet, by telephone or by mail. **Your shares will be voted if the voting form is properly executed and received by the independent Inspector of Election prior to May 8, 2003, the date of the Annual Meeting. If no specific choices are made by you when you execute your voting form, as explained on the form, your shares will be voted as recommended by the Board of Directors.**

You may revoke your voting proxy at any time before its use at the Meeting by sending a written revocation, by submitting another proxy at a later date, or by attending the Meeting and voting in person. No matter which voting method you choose, however, you should not vote any single account more than once unless you wish to change your vote. Be sure to submit votes for each separate account in which you hold Dow shares.

Confidential Voting

The Company has a long-standing policy of vote confidentiality. Proxies and ballots of all stockholders are kept confidential from the Company's management and Board unless disclosure is required by law and in other limited circumstances. The policy further provides that employees may confidentially vote their shares of Company stock held by the Company's defined contribution plans, and requires the appointment of an independent tabulator and inspector of election for the Meeting.

Dividend Reinvestment Program Shares and Employees' Savings Plan Shares

If you are enrolled in the Dividend Reinvestment Program ("DRP"), the shares of common stock owned on the record date by you directly, plus all shares of common stock held for you in the DRP, will appear together on a single voting form. EquiServe Trust Company, N.A., the DRP administrator, will vote all shares of stock held in your DRP account as directed by you only if you return your proxy form. If no specific instruction is given on an executed proxy form, the DRP administrator will vote as recommended by the Board of Directors.

Participants in The Dow Chemical Company Employees' Savings Plan, The Dow Chemical Company Employee Stock Ownership Plan, the Dow AgroSciences Employee Savings Plan and the DH Compounding Savings and Retirement Plan (the "Plan" or "Plans"), will receive a separate confidential voting instruction and form, in addition to voting forms for any shares held in registered and street name. Your executed form will provide voting instructions to the respective Plan Trustee. If no instructions are provided, the Trustees will vote the respective Plan shares according to the provisions of the Plans.

Dow Shares Outstanding

At the close of business on the record date, March 10, 2003, there were 915,133,602 shares of Dow common stock outstanding and entitled to vote. Each share of common stock is entitled to one vote. There are no shares of preferred stock outstanding.

Proxies on Behalf of the Dow Board

The enclosed voting form is being solicited by your Board of Directors to provide an opportunity to all stockholders of record to vote on agenda items, whether or not the stockholders are able to attend the Annual Meeting. Proxies on behalf of the Board may be solicited in person, by mail, by telephone or by electronic communication by Dow officers and employees. They will not be specially compensated for their services in this regard.

Dow has retained Georgeson Shareholder Communications Inc. to aid in the solicitation of stockholders (primarily brokers, banks and other institutional investors) for an estimated fee of $17,000. Arrangements have been made with brokerage houses, nominees and other custodians and fiduciaries to send materials to their principals, and their reasonable expenses will be reimbursed on request. The cost of solicitation will be borne by the Company.

THE BOARD OF DIRECTORS

The ultimate authority to manage the business of The Dow Chemical Company rests with the Board of Directors. The role of the Board is to effectively govern the affairs of the Company for the benefit of its stockholders and, to the extent appropriate under Delaware corporation law, other constituencies including employees, customers, suppliers and communities in which it does business. Among other duties, the Board appoints the Company's officers, assigns to them responsibilities for management of the Company's operations, and reviews their performance.

The Company is required to report whether any Director attended fewer than 75 percent of the sum of the total number of Board meetings and the total number of Board committee meetings that each such respective Director was eligible to attend during the past year. There were nine Board meetings in 2002 and forty formal Board Committee meetings as described below. All of the Dow Directors exceeded the attendance threshold, seven had 100 percent attendance at all Board and Board committee meetings they were eligible to attend. All but three of the Directors attended every Board meeting and all of the Directors then serving attended the last Annual Meeting of Stockholders. In the past year, two Directors left the Board: Allan D. Gilmour, a Director since 1995, and Michael D. Parker, a Director since 1995. One former Director rejoined the Board, Keith R. McKennon.

Presiding Director

At its meeting in February 2003, the independent Directors on the Board, who comprise a majority of the members, unanimously elected Harold T. Shapiro to the newly-created position of independent Presiding Director. Among other responsibilities, the Presiding Director has been asked to lead executive sessions of the Board. He will also work with the Chairman to set the Board agenda and determine the appropriate materials to be provided to the Directors. Dr. Shapiro's address is 2030 Dow Center, Office 210, Midland, Michigan 48674, and his telephone number is 989-636-0809.

Board Committees

Board committees perform many important functions. The responsibilities of each committee are stated in the Bylaws and in their respective committee charters. The Board, upon the recommendation of the Committee on Directors and Governance, elects members to each committee and has the authority to change committee memberships and the responsibilities of any committee. A brief description of the current standing Board committees follows, with memberships listed as of March 10, 2003, the record date for the Annual Meeting.

Committee and Function	Chairman and Members	Meetings in 2002
Audit Committee Monitors the integrity of the financial statements of the Company and the qualifications, independence and performance of the independent auditors. Additionally, has oversight responsibility for the performance of the Company's internal audit function and compliance with legal and regulatory requirements.	B. H. Franklin, Chairman J. C. Danforth, H. T. Shapiro J. M. Ringler, P. G. Stern	6
Committee on Directors and Governance Responsible for the selection, qualification and compensation of Board members and candidates. Acts as a nominating committee for Director candidates and Board committee membership. Assists the Board with oversight of other corporate governance matters.	W. D. Davis, Chairman J. K. Barton, P. G. Stern H. T. Shapiro	4

(continued on next page)

THE BOARD OF DIRECTORS (continued)

Committee and Function	Chairman and Members	Meetings in 2002*
Compensation Committee Discharges the Board's responsibilities relating to total compensation of the Company's Chief Executive Officer and other Senior Executives in a manner consistent with and in support of the business objectives of the Company, competitive practice and all applicable rules and regulations.	H. T. Shapiro, Chairman J. K. Barton, B. H. Franklin J. M. Cook, P. G. Stern W. D. Davis	5
Environment, Health and Safety Committee Assesses the Company's environment, health and safety policies and performance.	A. J. Carbone, Chairman A. A. Allemang, P. G. Stern J. K. Barton	3
Executive Committee Exercises the powers of the Board in the management and direction of the business and affairs of the Company between meetings of the full Board of Directors.	W. S. Stavropoulos, Chairman A. A. Allemang, J. P. Reinhard	13
Finance Committee Oversees the Company's financial activities. Has authority and oversight responsibility to establish investment policy for the Dow employees' pension plans.	J. P. Reinhard, Chairman A. J. Carbone, W. S. Stavropoulos J. M. Cook	6
Public Interest Committee Oversees matters impacting corporate social responsibility and the Company's public reputation. The committee's focus includes philanthropic contributions, community programs, diversity and inclusion, public policy management, international codes of business conduct, and corporate reputation management.	J. C. Danforth, Chairman J. M. Cook, J. P. Reinhard W. D. Davis, J. M. Ringler B. H. Franklin, H. T. Shapiro K. R. McKennon, W. S. Stavropoulos	3

Board of Directors' Classes

The Dow Board of Directors is divided into three classes. Each class, described in the chart below, serves a term of three years. The terms of the Directors in each class expire at the Annual Meeting of Stockholders in the year on the chart.

Class I – 2003	Class II – 2004	Class III – 2005
J. Michael Cook	Arnold A. Allemang	Jacqueline K. Barton
Willie D. Davis	John C. Danforth	Anthony J. Carbone
Keith R. McKennon*	James M. Ringler	Barbara Hackman Franklin
J. Pedro Reinhard	William S. Stavropoulos	Harold T. Shapiro
Paul G. Stern		

* Elected by the Board on February 13, 2003, to serve until the next Annual Meeting of Stockholders.

Agenda Item 1

CANDIDATES FOR ELECTION AS DIRECTOR

In accordance with the recommendation of the Committee on Directors and Governance, the Board of Directors has nominated J. Michael Cook, Willie D. Davis, Keith R. McKennon, J. Pedro Reinhard and Paul G. Stern for election as Directors in Class I, to serve three-year terms to expire at the Annual Meeting in the year 2006, and until their successors are elected and qualified.

Each nominee is currently serving as a Director and each has consented to serve for the new term. All nominees except Mr. McKennon were elected Directors by the Company's stockholders in 2000 for a three-year term of office. Information in their biographies is current as of March 17, 2003.

The Board of Directors recommends a vote FOR the election of all of these nominees as Directors.

The election of Directors requires a plurality of the votes actually cast. As explained on the accompanying proxy, it is the intention of the persons named as proxies to vote in favor of the candidates nominated by the Board unless such authority is withheld. If something unanticipated should occur prior to the Annual Meeting, making it impossible for one or more of the candidates to serve as a Director, votes will be cast in the best judgment of the persons authorized as proxies.

J. Michael Cook, 60. Retired Chairman/CEO of Deloitte & Touche LLP. Director since 2000.

Chairman and CEO of Deloitte & Touche 1989-99 and Chairman and CEO of Deloitte, Haskins & Sells 1986-89. Director of Comcast Corporation, HCA, Rockwell Automation, International Flavors & Fragrances, and The Fidelity Group of Mutual Funds. 62nd member of the Accounting Hall of Fame 1999 and Distinguished Alumnus of University of Florida. Catalyst Award and United Way Spirit of America Award to Deloitte & Touche under Mr. Cook' leadership. Columbia Business School Botwinick Prize in Business Ethics, Yeshiva University's Distinguished Leadership Award, Monmouth College's Distinguished Business Leader, CEO Recognition Award from Women in Technology International, Working Mother Magazine's Family Champion of the Year Award, Director's Alert 2002 Outstanding Director in Corporate America, and the John J. McCloy Award of the Public Oversight Board for contributions to excellence in auditing. Columbia University, School of Business Board of Overseers. Chairman, Accountability Advisory Group to the Comptroller General of the United States.

Willie D. Davis, 68. President and Chief Executive Officer of All Pro Broadcasting, Inc. Director since 1988.

President and Chief Executive Officer of All Pro Broadcasting, Inc., a Los Angeles broadcasting company, 1976 to date. Director of Wisconsin Energy Inc.; Sara Lee Corporation; Alliance Bank; MGM/Mirage Inc.; MGM, Inc.; Kmart Corporation; Johnson Controls Inc.; Checker's Drive-In Restaurants Inc.; the Strong Funds; Bassett Furniture Industries Inc.; and Manpower, Inc. Trustee of the University of Chicago and Marquette University. Member of the Grambling College Foundation and the Ewing Marion Kauffman Center for Entrepreneurial Leadership Development Committee.

Keith R. McKennon, 69. Former Chairman and CEO of PacifiCorp. Director 1983-1992 and February 2003 to date.

PacifiCorp, Chairman 1996-98, Chairman and CEO 1998-99. Scottish Power PLC, Vice-Chairman 1999-2001. Tektronix, Inc., Director 1992-97. Dow Corning Corporation,* Chairman and CEO 1992-94. The Dow Chemical Company, Director 1983-92; Executive Vice President 1987-92; Vice President of Technology 1990-92; President, Dow USA 1987-90; Director of Research and Development 1985-87. Member of the President's Board of Advisors at Oregon State University, the OSU Foundation, and the College of Science Board of Visitors. Former Chair of the National Legal Center for the Public Interest. Chemical Industry Society's Gold Medal recipient 1994.

CANDIDATES FOR ELECTION AS DIRECTORS (continued)

J. Pedro Reinhard, 57. Dow Executive Vice President and Chief Financial Officer. Director since 1995.

Employee of Dow since 1970. Dow Brazil Area Finance Director 1978-81. Dow Europe S.A.* Finance Director 1981-85. Managing Director, Dow Italy 1985-88. Dow Treasurer 1988-96, Vice President 1990-95, Financial Vice President 1995-96, Chief Financial Officer 1995 to date, Executive Vice President 1996 to date. Chairman of the Board of Liana Limited* and Dorinco Reinsurance Company.* Chairman of the Members Committee, Dow AgroSciences LLC.* Director of Dow Corning Corporation,* Royal Bank of Canada and Sigma-Aldrich Corporation. Advisory Board member of America Swiss Re Holding Corporation. Member of the Financial Executives International and The Conference Board's Council of Financial Executives.

Paul G. Stern, 64. Founding Partner of Thayer Capital Partners and Arlington Capital Partners. Director since 1992.

Partner and Co-Founder of Thayer Capital Partners 1995 to date. Partner and Co-Founder of Arlington Capital Partners 1999 to date. Special Partner at Forstmann Little & Co. 1993-95. Northern Telecom Limited – Chairman of the Board 1990-93, Chief Executive Officer 1990-93, Vice Chairman and Chief Executive Officer 1989-90, Director 1988-93. President, Unisys Corporation (formerly Burroughs Corporation) 1982-87. Director of Whirlpool Corporation. Board member of the University of Pennsylvania's School of Engineering and Applied Science, the Wharton School, and Business Executives for National Security (BENS). Treasurer, John F. Kennedy Center for the Performing Arts. Board of Trustees, Library of Congress.

CONTINUING DIRECTORS

Arnold A. Allemang, 60. Dow Executive Vice President. Director since 1996.

Employee of Dow since 1965. Manufacturing General Manager, Dow Benelux N.V.* 1992-93. Regional Vice President, Manufacturing and Administration, Dow Benelux N.V.* 1993. Vice President, Manufacturing Operations, Dow Europe S.A.* 1993-95. Dow Vice President and Director of Manufacturing and Engineering 1996-97. Dow Vice President, Operations 1997-2000. Executive Vice President 2000 to date. Director of Dow Corning Corporation,* Liana Limited* and Dorinco Reinsurance Company.* Representative, Members Committee of DuPont Dow Elastomers L.L.C.* and Cargill Dow LLC.* Director of the National Association of Manufacturers. Member of the American Chemical Society; the Advisory Board, Center for Chemical Process Safety, American Institute of Chemical Engineers; College of Engineering Advisory Council, Kansas State University; the Corporate Executive Board's Operations Management Roundtable; and the National Academy of Engineering's Action Forum on Diversity.

* 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 March 1, 2003.) Cargill Dow LLC, Dow Corning Corporation and DuPont Dow Elastomers L.L.C. – companies ultimately 50 percent-owned by Dow. Dorinco Reinsurance Company, Dow AgroSciences LLC, Dow Benelux N.V., Dow Europe S.A., Liana Limited, and Union Carbide Corporation – all ultimately wholly owned subsidiaries of Dow. Ownership by Dow described above may be either direct or indirect.

CONTINUING DIRECTORS (continued)

Jacqueline K. Barton, 50. Arthur and Marian Hanisch Memorial Professor of Chemistry, California Institute of Technology. Director since 1993.

Assistant Professor of Chemistry and Biochemistry, Hunter College, City University of New York 1980-82. Columbia University: Assistant Professor 1983-85, Associate Professor 1985-86, Professor of Chemistry and Biological Sciences 1986-89. California Institute of Technology: Professor of Chemistry 1989 to date, Arthur and Marian Hanisch Memorial Professor of Chemistry 1997 to date. Named a MacArthur Foundation Fellow 1991, the American Academy of Arts and Sciences Fellow 1991, the American Philosophical Society Fellow 2000 and National Academy of Sciences member 2002. Recipient of the American Chemical Society ("ACS") Breslow Award 2003, ACS William H. Nichols Medal Award 1997, Columbia University Medal of Excellence 1992, ACS Garvan Medal 1992, Mayor of New York's Award in Science and Technology 1988, ACS Award in Pure Chemistry 1988 and the Alan T. Waterman Award of the National Science Foundation 1985. Director of GeneOhm Sciences, Inc. Member of the Gilead Sciences Scientific Advisory Board. Trustee of Barnard College.

Anthony J. Carbone, 62. Vice Chairman of the Dow Board of Directors and Senior Consultant. Director since 1995.

Employee of Dow since 1962. Dow Latin America Marketing Director for Plastics 1974-76. Dow Business Manager for STYROFOAM™ 1976-80, Director of Marketing for Functional Products and Systems 1980-83. Dow U.S.A. General Manager of the Coatings and Resins Department 1983-86, General Manager of Separation Systems 1986-87, Vice President Dow Plastics 1987-91. Dow North America Group Vice President for Plastics 1991-93. Group Vice President, Global Plastics 1993-95. Group Vice President – Global Plastics, Hydrocarbons and Energy 1995-96. Executive Vice President, 1996-2000. Vice Chairman of the Board of Directors February 2000 to date. Senior Consultant November 2000 to date. Director of Rockwell Collins Inc. and Chairman of Board Composition and Governance Committee. Director of Patron Holdings, Inc. Member of the American Chemical Society. Previous Board member and Chairman of the American Plastics Council and the Society of Plastics Industries. Served on the Advisory Council of the Heritage Foundation.

John C. Danforth, 66. Partner of Bryan Cave LLP and Former United States Senator. Director since 1996.

Partner with the law firm of Bryan Cave LLP 1995 to date. Attorney General of Missouri 1969-76. United States Senate 1976-95, serving on the Committee on Finance; Committee on Commerce, Science and Transportation; and the Select Committee on Intelligence. Director of Cerner Corporation and Metropolitan Life Insurance Company. Member of the Citigroup International Advisory Board. Recipient of the St. Louis Award, the Harry S Truman Good Neighbor Award, the St. Louis Man of the Year Award, the Right Arm of St. Louis Award, the University of Missouri-Kansas City Chancellor's Medal Award, the Presidential World Without Hunger Award, the Legislative Leadership Award of the National Commission Against Drunk Driving, the Distinguished Missourian and Brotherhood Awards of the National Conference of Christians and Jews, and Director's Alert 2002 Outstanding Director in Corporate America.

* 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 March 1, 2003.) Cargill Dow LLC, Dow Corning Corporation and DuPont Dow Elastomers L.L.C. – companies ultimately 50 percent-owned by Dow. Dorinco Reinsurance Company, Dow AgroSciences LLC, Dow Benelux N.V., Dow Europe S.A., Liana Limited, and Union Carbide Corporation – all ultimately wholly owned subsidiaries of Dow. Ownership by Dow described above may be either direct or indirect.

CONTINUING DIRECTORS (continued)

Barbara Hackman Franklin, 62. President and CEO of Barbara Franklin Enterprises and Former U.S. Secretary of Commerce. Director 1980-92 and 1993 to date.

President and CEO, Barbara Franklin Enterprises, private investment and consulting firm, 1995 to date. Business consultant 1993-95. U.S. Secretary of Commerce 1992-93. President and CEO, Franklin Associates 1984-92. Senior Fellow and Director of Government and Business Program, Wharton School, Univ. of Pennsylvania 1979-88. Commissioner, U.S. Consumer Product Safety Commission 1973-79. Staff Asst. to the President of the United States 1971-73. Asst. V.P., Citibank 1969-71. President's Advisory Council for Trade Policy and Negotiations 1982-84, 1989-92. Alternate, 44th United Nations General Assembly 1989-90. AICPA Board of Directors 1979-86. John J. McCloy Award for contributions to auditing excellence 1991. Director of the Year, National Assn. of Corporate Directors 2000. Board member: U.S.-China Business Council, Financial Accounting Foundation, The Atlantic Council, The Economic Club of New York, The Associates of the Harvard Business School, National Association of Corporate Directors, National Symphony Orchestra. Director of Aetna, Inc.; GenVec Inc.; MedImmune, Inc.; Milacron, Inc.

James M. Ringler, 57. Vice Chairman, Illinois Tool Works Inc. Director since 2001.

Tappan Company – President and Chief Operating Officer 1982-86; White Consolidated Industries' Major Appliance Group – President 1986-90 (both companies are subsidiaries of Electrolux AB). Premark International, Inc. – Director 1990-99; Executive Vice-President 1990-92; President and Chief Operating Officer 1992-96; Chief Executive Officer 1996-99; Chairman 1997-99. Illinois Tool Works Inc. (following its acquisition of Premark International, Inc.) – Vice Chairman 1999 to date. Director of Union Carbide Corporation* 1996-2001. Director of Autoliv Inc., Corn Products International Inc. and FMC Technologies Inc. Director of the National Association of Manufacturers. Trustee of the Manufacturers' Alliance for Productivity and Innovation. National Trustee of the Boys and Girls Clubs of North America, Midwest Region. Director of the Lyric Opera of Chicago.

Harold T. Shapiro, 67. President Emeritus and Professor of Economics and Public Affairs, Princeton University. Director since 1985. Presiding Director since February 2003.

President of The University of Michigan 1980-87. President of Princeton University 1988-2001. President Emeritus and Professor of Economics and Public Affairs, Princeton University 2001 to date. Chairman, National Bioethics Advisory Commission 1996-2001. Presidential Appointment to the Council of Advisors on Science and Technology 1990-92. Director of HCA – The Healthcare Company and DeVry, Inc. Member of the Institute of Medicine and the American Philosophical Society. Fellow of the American Academy of Arts and Sciences. Trustee and Chair of the Board of the Alfred P. Sloan Foundation. Trustee of the University of Pennsylvania Medical Center and The Universities Research Association. Member of the Board of Overseers for the Robert Wood Johnson Medical Center and board member of The Hastings Center.

William S. Stavropoulos, 63. Dow Chairman, President and CEO. Director since 1990.

Employee of Dow since 1967. President, Dow Latin America 1984-85. Dow U.S.A. Commercial Vice President, Basics and Hydrocarbons 1985-87. Group Vice President, Plastics and Hydrocarbons, 1987-90. President, Dow U.S.A. 1990-93. Dow Vice President 1990-91, Senior Vice President 1991-93, Chief Operating Officer 1993-95, President 1993-2000, Chief Executive Officer 1995-2000, Chairman 2000 to date, President and CEO December 2002 to date. Director of BellSouth Corporation, Chemical Financial Corporation, Maersk Inc. and NCR Corporation. Board member of American Enterprise Institute for Public Policy Research, Fordham University, J. P. Morgan International Council and a Trustee of the Fidelity Group of Funds. Member of the University of Notre Dame Advisory Council for the College of Science.

Agenda Item 2

RATIFICATION OF THE APPOINTMENT OF THE INDEPENDENT AUDITORS

RESOLVED, that the appointment of Deloitte & Touche LLP to audit the 2003 consolidated financial statements of The Dow Chemical Company and its subsidiaries, made by the Audit Committee with the concurrence of the Board of Directors, is hereby ratified.

The Bylaws provide that the selection of auditors must be presented for stockholder ratification or rejection at the Annual Meeting. The Audit Committee has appointed, and the Board has concurred subject to your ratification, Deloitte & Touche LLP to audit and report on the consolidated financial statements of Dow and its subsidiaries for 2003. Deloitte & Touche LLP has audited Dow's financial statements for more than ninety years and served as its independent auditors for 2002. Deloitte & Touche LLP has offices at or near most of the locations where Dow operates in the United States and other countries. Deloitte & Touche LLP regularly rotates its lead audit partner assigned to Dow after five years.

Before making its determination on appointment, the Audit Committee carefully considers the qualifications and competence of candidates for independent auditors. For Deloitte & Touche LLP, this has included a review of its performance in prior years, its independence and processes for maintaining independence, the results of the independent review of its quality control system, the key members of the audit engagement team, the firm's approach to resolving significant accounting and auditing matters including consultation with the firm's national office, as well as its reputation for integrity and competence in the fields of accounting and auditing. Additional information may be found in the Audit Committee Report and Audit Committee Charter on pages 12 and 30, respectively.

The Audit Committee has expressed its satisfaction with Deloitte & Touche LLP. In February 2003, Deloitte & Touche LLP advised the Audit Committee that it believes all litigation against Deloitte & Touche LLP can fairly be characterized as incidental to the practice of the accounting profession and that resolution of such cases will not affect its ability to serve as independent auditors for the Company. The Audit Committee has concluded that the ability of Deloitte & Touche LLP to perform services for the Company is not adversely affected by such litigation.

Representatives of Deloitte & Touche LLP will attend the Annual Meeting and may make a statement if they wish. They will be available to answer stockholder questions at the Meeting.

Approval of this proposal to ratify the appointment of Deloitte & Touche LLP requires a majority of votes actually cast on the matter. For purposes of determining the number of votes cast on the matter, only those cast "for" or "against" are included. Abstentions and broker non-votes are not included. If Agenda Item 2 does not pass, the selection of independent auditors will be reconsidered by the Audit Committee and the Board. Because it is difficult and not cost effective to make any change in independent auditors so far into the year, the appointment of Deloitte & Touche LLP would probably be continued for 2003, unless the Audit Committee or the Board finds additional good reasons for making an immediate change.

The Board of Directors unanimously recommends that stockholders vote for the proposal to ratify the selection of Deloitte & Touche LLP as Dow's independent auditors for 2003.

FEES PAID TO THE INDEPENDENT AUDITORS

For the years ended December 31, 2002 and 2001, professional services were performed by Deloitte & Touche LLP, the member firms of Deloitte Touche Tohmatsu, and their respective affiliates (collectively, "Deloitte & Touche," which includes Deloitte Consulting).

Audit and audit-related fees aggregated $12,636,000 and $11,720,000 for the years ended December 31, 2002 and 2001, respectively. Total fees paid to the Independent Auditors were:

Type of Fees	2002	2001
	$ in thousands	
Audit Fees (a)	$11,455	$11,011
Audit-Related Fees (b)	1,181	709
Tax Fees (c)	5,908	3,440
All Other Fees (d)	0	925
TOTAL	$18,544	$16,085

(a) The aggregate fees billed for the audit of the Company's annual financial statements, the reviews of the financial statements in Forms 10-Q, comfort letters, consents, statutory audits and other regulatory filings.

(b) Primarily for due diligence procedures for acquired businesses and agreed-upon procedures engagements.

(c) Primarily for preparation of expatriate employees' tax returns in the amounts of $5,481,000 in 2002 and $2,910,000 in 2001.

(d) Primarily for services billed by Deloitte Consulting related to the Union Carbide Corporation merger.

AUDIT COMMITTEE REPORT

The Audit Committee of the Board of Directors (the "Committee") is comprised entirely of independent Directors who meet the independence, experience and other qualification requirements of the New York Stock Exchange listing standards, Section 10A(m)(3) of the Securities Exchange Act of 1934 and the rules and regulations of the Securities and Exchange Commission (the "Commission"). Ms. Franklin and Messrs. Ringler, Shapiro and Stern are audit committee financial experts as defined by the Commission. The Committee operates pursuant to a charter that is included in this proxy statement as Appendix A and on the corporate governance section of the Company's website at *www.dowgovernance.com.*

In the discharge of its responsibilities and consistent with long-standing practices, the Committee had six meetings during 2002, five of which were in-person meetings that included separate executive sessions of the Committee with the independent auditors, the internal auditor, management and among the Committee members themselves. Additionally, the Committee conducted four conference calls related to the Company's earnings announcements and periodic filings, as well as numerous other informal meetings and communications among the Chairman, various Committee members, the independent auditors and/or members of the Company's management.

The Committee reviews the Company's financial reporting process on behalf of the Board of Directors. Management has the primary responsibility for the financial statements and the reporting process. The independent auditors are responsible for expressing an opinion on the conformity of the Company's audited financial statements with accounting principles generally accepted in the U.S.

In this context, the Committee has reviewed and discussed with management and the independent auditors the audited financial statements and the quarterly unaudited financial statements, including matters of special interest in the current environment and the processes that support certifications of financial statements by the Company's Chief Executive Officer and Chief Financial Officer.

The Committee has discussed with the independent auditors the matters required to be discussed by Statement on Auditing Standards No. 61 (Communication with Audit Committees), as amended by Statements on Auditing Standards Nos. 89 and 90. In addition, the Committee has received from the independent auditors the written disclosures required by Independence Standards Board Standard No. 1 (Independence Discussions with Audit Committees) and discussed with them their independence from the Company and its management. Further, the Committee has considered whether the independent auditors' provision of permitted and pre-approved non-audit services to the Company is compatible with the auditors' independence.

In reliance on the reviews and discussions referred to above, the Committee recommended to the Board of Directors, and the Board approved, that the audited financial statements be included in the Company's Annual Report on Form 10-K for the year ended December 31, 2002, for filing with the Securities and Exchange Commission. The Committee has also selected Deloitte & Touche LLP, as the Company's independent auditors for 2003. The Board of Directors has concurred in that selection and has presented the matter to the stockholders of the Company for ratification.

Barbara H. Franklin, Chairman
John C. Danforth
James M. Ringler
Harold T. Shapiro
Paul G. Stern

Agenda Item 3

AUTHORIZATION OF THE 2003-2013 EMPLOYEES' STOCK PURCHASE PLAN

At the request of your Board of Directors, the following resolution will be considered at the Meeting:

RESOLVED, the Board of Directors of The Dow Chemical Company is authorized to adopt and implement in its discretion The Dow Chemical Company 2003-2013 Employees' Stock Purchase Plan, and to conform such Plan in substance to the text set forth in Appendix B to this Proxy Statement for the 2003 Annual Meeting of Stockholders.

Purpose of the Plan

The 2003-2013 Employees' Stock Purchase Plan (the "Plan") is a broad-based plan that provides employees of the Company and majority-owned subsidiaries in all global locations with an opportunity to annually purchase shares of Dow common stock through accumulated payroll deductions or direct payments. By voting for adoption of this Plan, you will enable employees to more easily increase their equity ownership of the Company, and to thereby more closely align their economic interests with those of the other stockholders of the Company.

The Company has offered employees a series of annual stock purchase plans on terms very similar to this Plan for several decades. A stock purchase plan was first offered to Company employees in 1948. Stockholder approval will enable continuation of the program. The full text of the Plan is annexed to this Proxy Statement as Appendix B, and the following summary is qualified in its entirety by reference to Appendix B.

Eligible Employees

With certain limited exceptions described in Appendix B, eligible employees include on a global basis all full-time employees of the Company and of any legal entity in which the Company has, directly or indirectly, 50 percent or more of the voting power. Part-time, less-than-full-time and temporary employees are also eligible to participate if their work schedule is 50 percent or more of the standard hours for their Dow salary plan, and if they have been on the payroll during all or part of the previous year. If the Plan is approved, approximately 48,000 employees will be eligible for participation.

Stock Price Determination

The price at which employees may purchase stock during each annual stock offering shall be the lesser of (a) 85 percent of the average market price of the stock during a specified 15 trading day period before enrollment begins, or (b) the actual market price of the stock (average of the high and low prices as reported on the New York Stock Exchange composite tape) on the final payment date of each annual stock offering, for those employees with an outstanding subscription. For the 2003 stock offering, the Plan Administrator will select a 15 trading day period between June 1-September 1, 2003. For the subsequent annual stock offerings, the Plan Administrator will select a 15 trading day period between February 1st and April 30th of each Plan year.

No Repricing of Options

Other than the terms described above allowing an alternative price for those participants who have outstanding subscriptions at the end of an annual stock offering, there is no ability to change the price.

Available Shares and Award Limits

The maximum number of shares of the Company's common stock (par value $2.50) that can be issued over the ten-year duration of the Plan is 65,000,000 shares. This number is subject to appropriate adjustment in the event of a reorganization, stock split, stock dividend, combination of shares, merger, consolidation or other recapitalization of the Company.

For each offering, each eligible employee may purchase up to the number of shares of Dow common stock equal in value to ten percent of annual base salary, based upon the offering price of the stock during enrollment, with a minimum purchase of five shares.

Additional Plan Components

The Board of Directors shall have the power to amend or terminate the Plan, without further action of the stockholders, but no such amendment may make any "material revision" to the Plan, as that term may be defined in the Listing Standards of the New York Stock Exchange or in other applicable laws and regulations.

The Plan is administered by the Company's Vice President of Human Resources. There is no requirement that an offering must be made annually. The Board of Directors, upon the recommendation of the Compensation Committee and in its best judgment, may determine not to make one or more annual offerings during the term of the Plan. There are no change of control provisions.

Employees may pay for their stock by payroll deduction or by making a lump-sum payment. For each annual stock offering, they may cancel their entire participation, or reduce one time the number of shares to be purchased, at any time before making their final payment, but they must purchase at least five shares if they elect to make a purchase. They may not increase the number of shares to be purchased. Shares purchased must be paid for in cash.

Income Tax Status

The Plan is not qualified under any section of the U.S. Internal Revenue Code. Tax counsel has advised the Company that, for U.S. federal income tax purposes, employees who are citizens or residents of the United States will realize taxable income to the extent the market value of Dow common stock exceeds the annual purchase price at the time they exercise their option to purchase the stock, and such income will be treated as "supplemental wages" from which U.S. federal income taxes must be withheld.

New Plan Benefits

The number of shares (if any) that will be purchased during each annual stock offering of the Plan depends upon individual elections and the Dow stock price at the time. It cannot be determined in advance.

Vote Required

Approval of the Plan requires a majority of votes actually cast on the matter. For purposes of determining the number of votes cast on the matter, only those cast "for" or "against" are included, while abstentions and broker non-votes are not included.

The Board of Directors unanimously recommends that you vote FOR the proposal to adopt the Plan.

Agenda Item 4

AUTHORIZATION OF THE 2003 NON-EMPLOYEE DIRECTORS' STOCK INCENTIVE PLAN

At the request of your Board of Directors, the following resolution will be considered at the Meeting:

RESOLVED, that the Board of Directors of The Dow Chemical Company is authorized to adopt and implement the 2003 Non-Employee Directors' Stock Incentive Plan, to be effective as of January 1, 2003, and to conform such Plan in substance to the text set forth in Appendix C to this Proxy Statement for the 2003 Annual Meeting of Stockholders.

Background

The Committee on Directors and Governance (the "Committee") evaluated the results of a recent survey among companies comparable to Dow and determined that overall compensation of the Company's Directors should be improved in order to continue to attract, motivate and retain the most qualified non-employee Directors. The Committee proposed an increase in Directors' fees, in the form of Company stock rather than cash. The 2003 Non-Employee Directors' Stock Incentive Plan (the "2003 Plan" or the "Plan") will authorize new annual grants of restricted stock to each non-employee Director so that compensation for Dow Board service remains competitive and in line with peer companies.

Stockholder approval of this Plan will enable the non-employee Directors to increase their equity ownership of the Company consistent with Board guidelines for Director stock ownership and more closely align their economic interests with other stockholders. The full text of the Plan is annexed to this Proxy Statement as Appendix C, and the following summary is qualified it its entirety by reference to Appendix C.

Should the stockholders of the Company approve this Plan, no further additional grants will be made from the existing 1998 Non-Employee Directors' Stock Incentive Plan (the "1998 Plan"). Instead, option grants based upon the formula from the 1998 Plan will be made from the 2003 Plan. However, if the 2003 Plan is not approved, the 1998 Plan will continue under its current terms.

Components of the Plan

The Plan enables the Company to grant to non-employee Directors awards of deferred stock, restricted stock, stock options, or a combination thereof. It provides for annual grants of stock options and restricted stock pursuant to fixed formulas contained in the Plan, and for occasional additional individual grants in the discretion of the Board of Directors. As of the date of printing, there are nine non-employee Directors of the Company eligible to receive grants under the Plan. The Plan will be administered by the Committee on Director and Governance.

Available Shares and Award Limits

The duration of the Plan shall be ten years. The Plan shall be effective as of January 1, 2003. No additional awards will be made from the Plan after December 31, 2012. The maximum number of shares of the Company's common stock (par value $2.50) that can be issued over the ten-year duration of the Plan is 1,500,000 shares. This number is subject to appropriate adjustment in the event of a reorganization, stock split, stock dividend, combination of shares, merger, consolidation, or other recapitalization of the Company.

An annual aggregate award limitation of 25,000 shares (including options, restricted stock and deferred stock) under the Plan is set for each individual Director.

Types of Grants

Restricted stock is common stock of the Company restricted as to sale for such time, and/or under such conditions, as the Plan administrator shall determine. Prior to the lifting of restrictions, the awardee will be entitled to receive dividends from and to vote the shares of restricted stock. The Plan provides that lifting of restrictions will be accelerated in the event of a "Change of Control."

Awardees of stock options will receive the right to purchase a specified number of shares of the common stock of the Company at a price of not less than the market price of such stock on the date the option is granted. The term of each option shall be ten years from the date of grant. No option may be exercised for at least one year after the grant date. The Plan prohibits the re-pricing of "underwater" options. Shares purchased upon exercise of an option must be paid for in full at the time of exercise, either with cash or currently owned shares.

Deferred stock is common stock of the Company to be issued in one or more installments beginning at some time in the future. Prior to the issuance of deferred stock, the Company shall pay or accrue an amount equivalent to the dividends from the date of grant on such shares. The Plan provides that delivery of deferred stock will be accelerated in the event of a "Change of Control."

Amendment of the Plan

The Board of Directors shall have the power to amend or terminate the Plan, but no such amendment may

materially increase the number of shares available under the Plan (other than an increase solely to reflect a reorganization, recapitalization, stock split, stock dividend, combination of shares, merger, consolidation or any other change in corporate structure of the Company affecting the common stock, or a sale by the Company of all or a substantial part of its assets, or any distribution to stockholders other than a cash dividend); withdraw administration of the Plan from the Committee on Directors and Governance; change the types of awards available under the Plan; extend the term of the Plan; constitute a "material revision" to the Plan requiring stockholder approval pursuant to listing standards of the New York Stock Exchange; or delete or limit the scope of the Plan provision prohibiting the re-pricing of options that are "underwater."

Income Tax Status

The Company has been advised by its tax counsel that awards made under the Plan will give rise to the following tax events for U.S. citizens and residents under current U.S. federal income tax law:

Non-Qualified Options. The awardee will not be subject to tax upon the grant of the option, and the Company will not be entitled to a tax deduction by reason of such grant. If an awardee exercises a non-qualified option, the difference between the option price and the fair market value of the shares on the date of exercise will be treated as taxable compensation to the awardee. The Company will be entitled to a tax deduction in the amount of and for the taxable year in which such amount is treated as compensation to the awardee.

Awards of Restricted Stock. Unless the awardee makes an election under Section 83(b) of the Internal Revenue Code, restricted stock will not be taxable when issued, and the Company will not be entitled to a deduction at the time of issuance. Any dividends paid to the awardee prior to the lifting of restrictions are taxable compensation income to the awardee. When the restrictions are lifted, the awardee will be treated as receiving taxable compensation in the amount of the excess of the then fair market value over the amount, if any, paid by the awardee for the shares.

Awards of Deferred Stock. The award of a right to receive stock at a future date will not have any immediate tax consequence. Any dividends paid to the awardee prior to the issuance of shares are taxable compensation income to the awardee. At the time shares of common stock are issued under any such award, the awardee will be treated as having received taxable compensation in the amount of the fair market value of shares received. The Company will receive a federal income tax deduction for the same amount as is treated as taxable compensation to the awardee.

New Plan Benefits

Based upon current Director fee schedules, if the Plan is approved by stockholders, the grants for 2003 determined according to the Plan formulas are described below:

Non-employee Directors	Restricted Stock # of shares (a)
J.K. Barton	1,150
J.M. Cook (b)	1,150
J.C. Danforth	1,150
W.D. Davis (b)	1,150
B.H. Franklin	1,150
K.R. McKennon (b)	1,150
J.M. Ringler	1,150
H.T. Shapiro	1,150
P.G. Stern (b)	1,150
Non-employee Directors as a group	10,350
Executive officers as a group	Not within Plan

(a) Based on a 3/5/03 grant date.

(b) If re-elected as Directors at the 2003 Annual Meeting.

Vote Required

Approval of the Plan requires a majority of votes actually cast on the matter. For purposes of determining the number of votes cast on the matter, only those cast "for" or "against" are included, while abstentions and broker non-votes are not included.

The Board of Directors unanimously recommends that you for FOR the proposal to adopt the Plan.

Agenda Item 5

STOCKHOLDER PROPOSAL
Persistent Bioaccumulative Toxins

A stockholder owning 1,200 shares of Dow stock has stated that he intends to present the following proposal at the Annual Meeting. The Company will provide the name and address of the stockholder upon request directed to the Corporate Secretary. Dow is not responsible for the contents of the proposal. If properly presented at the Annual Meeting, **your Board unanimously recommends a vote against the following proposal.**

Policies on Dioxin and Persistent Toxics

Whereas: Some of Dow's operations and products result in the production and/or release of persistent bioaccumulative toxic (PBT) compounds during their life cycle, notably dioxin.

Dow's Midland, Michigan headquarters currently has regulatory permits to release dioxin to air, land and water. The surrounding city and watershed are contaminated with dioxin, with levels detected in the floodplain downriver, as high as 80 times the state's residential cleanup standard.

According to several scientific agencies, including the Agency for Toxic Substances and Disease Registry:

- Dioxin is harmful in miniscule amounts and has been linked, in animal studies, to endometriosis, immune system impairment, diabetes, neurotoxicity, birth defects, miscarriages, various harms to reproductive system functioning, and cancer.
- Dioxin can affect insulin, thyroid and steroid hormones.
- Developing babies are considered most susceptible to many of these dangers.

The Environmental Protection Agency's draft dioxin reassessment suggests that some people may be harmed at levels of dioxin currently found in human bodies, and identified potentially highly exposed groups including nursing infants, consumers of contaminated fish or livestock, and residents near dioxin sources.

US and Canadian governments have signed the Great Lakes Water Quality Agreement, establishing a goal to "virtually eliminate the input of persistent toxic substances [to the Great Lakes]" using the philosophy of "zero discharge."

More than 150 nations have signed the Stockholm Convention on Persistent Organic Pollutants (POP's) that, once ratified, would commit ratifying countries to eliminate certain intentionally produced POPs and ultimately eliminate certain POPs byproducts (including dioxin) where feasible.

Dow's Environmental, Health and Safety policy includes a commitment to "prevention of adverse environmental and health impacts," and Dow has recognized the importance of PBT reduction through its 2005 environmental goals.

RESOLVED: Shareholders request that the Board of Directors issue a report by October 2003, at reasonable cost and excluding confidential information, summarizing the company's plans to remediate existing dioxin contamination sites and to phase out products and processes leading to emissions of persistent organic pollutants and dioxins.

Proponent's Statement in Support:

Shareholders believe that such report should include:

- A list of current and future Dow Chemical products and waste treatment facilities creating or emitting dioxin or PBT's at any point in their life cycle.
- Timetables and benchmarks to meet phase-out goals of the treaties.
- Annual expenditures for each year from 1995-2002 summarizing funds spent on attorney's fees, expert fees, lobbying, and public relations/media expenses relating to the potential health and environmental consequences of dioxin releases or exposures at all Dow sites, as well as actual expenditures on remediation of dioxin contaminated sites.
- A list of the company's major reservoir sources of dioxin (concentrated deposits in the environment which may disperse into the ambient environment) at Dow-owned facilities in the US and globally.
- A description of any major controversies involving community and environmental stakeholders concerning the remediation of particular sites including Michigan, and reasonable projections of any material liabilities for cleanup or otherwise related to the contamination.

Company's Statement and Recommendation:

Your Board of Directors unanimously recommends a vote AGAINST this proposal.

This proposal requests that the Board issue a report by October 2003 containing specified information on the creation and emissions of dioxin and other persistent bioaccumulative toxic ("PBT") chemicals. The Company currently has an Internet web site specific to dioxin, first established in 1999 and substantially expanded in 2001. Your Board believes that the requested new report would duplicate much information that is already publicly available on Dow's web site or in other public reports, and would consume valuable Company resources, with little benefit to the Company's stockholders.

Dow is a company whose products have for decades improved the quality of life for people around the world by maintaining safe municipal drinking water supplies, providing life-saving medications, reducing energy consumption in buildings, and modernizing transportation. Trace amounts of substances such as dioxins and persistent bioaccumulative toxins are sometimes generated during the production of some of our products. The Company is proud of the real progress that we have made through the years to reduce the emissions of such substances. We continue to work towards the virtual elimination of emissions of these unintended by-products.

The web site (*www.dow.com/environmental/dioxin*) contains a substantial amount of current data on these subjects, including: a) the Dow manufacturing sites in North America with by-product dioxins; b) the amount of dioxin at each such site released and disposed of; c) the quantities of dioxin disposed of in Dow's existing secure and fully regulated land disposal sites in North America; and d) a discussion of major issues, in particular, regarding historical contamination from decades past at the Michigan Operations site.

The Stockholm Convention on Persistent Organic Pollutants ("POPs"), which is referenced in the proposal and which Dow supports, does not require any phase-out of current Dow products. Rather, as to such products, it addresses measures to reduce or eliminate releases from unintentional production.

Several years ago, Dow voluntarily committed to reduce by 90 percent these types of incidental dioxin releases to air and water worldwide by 2005, using 1995 as a base year. A reduction of about 75 percent has already been achieved. The Company's dioxin releases to air and water in 2002 totaled globally less than 9 grams (less than 0.0198 pounds) in toxic equivalents.

We believe our Company has a good track record of transparency and stakeholder dialogue. We continue to proactively and formally seek input from a broad range of environmental interests and experts from around the world, including scientists from medicine and public health, members of justice and ethics organizations, and environmental think tank professionals. In fact, a study completed late in 2002 is already helping the Company implement plans to improve the amount and kinds of information available on the web site.

For all these reasons, the Company believes that producing another report as proposed would duplicate work, expend resources unnecessarily, provide less timely and less easily accessible information than that already reported on our web site, and would not be in the best interests of Dow or its stockholders. **Accordingly, your Board recommends a vote AGAINST this proposal.**

Vote Required

Approval of the resolution requires a majority of votes actually cast on the matter. For purposes of determining the number of votes cast on the matter, only those cast "for" and "against" are included, while abstentions and broker non-votes are not included.

COMPENSATION OF DIRECTORS

Directors' Fees

Directors' fees as stated below are paid only to Directors who are not employees of the Company. This year, the Board of Directors increased fees related to Audit Committee service to reflect the expanded time commitments required to fulfill the Committee's responsibilities:

- Board Service $45,000 annually
- Audit Committee membership $12,000 annually
- All other Board Committees $ 8,000 annually
- Audit Committee Chairmanship $15,000 annually
- All other Committee Chairmanships $ 8,000 annually

Non-employee Directors receive a one-time grant of 4,500 shares of the Company's common stock, subject to certain transfer restrictions. Mr. McKennon received such a grant in February 2003.

Deferred Compensation Plan

Non-employee Directors may elect, prior to the start of any Board year (from election or from the Annual Meeting to the next Annual Meeting), to have all or part of their fees credited to a deferred compensation account. At the election of the Director, this may be a cash account or an account in units based on the value of Dow common stock. Amounts credited to the Director's account will accrue interest either equivalent to 125 percent of the 120-month rolling average of the ten-year U.S. Treasury Note determined on September 30 of the preceding year, or amounts equivalent to dividends paid on Dow common stock. Such deferred amounts will be paid in installments at the election of the Director, commencing on the July 15 following the Director's termination of Board membership, on the following July 15 or on July 15 of the calendar year following the Director's 70th birthday. If the Director remains on the Board beyond his or her 70th birthday, payments shall start on the July 15 following termination of Board membership.

1994 Stock Plan
(One Remaining Grant)

Under the 1994 Non-Employee Directors' Stock Plan, non-employee Directors may receive grants of ten-year nonqualified market-priced options for the purchase of Dow common stock. Such grants may be made once every five years, for the ten-year duration of the Option Plan. All options are subject to a three-year incremental vesting schedule. The size of the option grants is determined by a fixed formula based on the then current annual retainer and price of Dow common stock, and grants are contingent upon the Director owning increasingly larger amounts of Dow stock.

To be eligible to receive the third and final grant in 2004, Directors who received both prior grants under the Option Plan must hold 7,500 Dow shares; one prior grant, 6,000 Dow shares; and new grantees, 4,500 Dow shares, holding such shares for at least a year prior to the grant date.

1998 Stock Incentive Plan
(Discontinued if 2003 Plan Approved)

As a substitute for a non-employee Directors' pension plan discontinued at the end of 1997, the Company established the 1998 Non-Employee Directors' Stock Incentive Plan (the "1998 Plan"). It provides annual grants of ten-year non-qualified market-priced stock options, that vest after completion of five years of Board service. However, no options may be exercised earlier than one year from the date of grant. The number of options granted to each eligible non-employee Director is determined according to a fixed formula that calculates 45 percent of the prior year's average annual retainer and fees for non-employee Directors. This value is then divided by the product of the Black-Scholes valuation of a ten-year option and the market price of Dow stock on the date of grant. In 2002, each non-employee Director received an option grant for the purchase of 3,050 shares of Dow common stock. No additional grants will be made from the 1998 Plan if the Company's stockholders approve the 2003 Non-Employee Directors' Stock Incentive Plan.

2003 Stock Incentive Plan
(If Approved)

If the 2003 Non-Employee Directors' Stock Incentive Plan (the "2003 Plan") is approved by stockholders, the 1998 Stock Plan will be discontinued and the same sized grants with the same terms will be made instead from the 2003 Plan. The 2003 Plan is described in Agenda Item 4 and annexed to this Proxy Statement as Appendix C. The 2003 Plan provides for a new annual award of restricted stock to each non-employee Director, and also allows for occasional additional individual grants of stock options, restricted stock, deferred stock, or some combination of them, in the discretion of the Board of Directors. The number of shares of restricted stock granted to each eligible non-employee Director will be determined according to a fixed formula that divides two-thirds of the prior year's average annual retainer and fees by the fair market value of Dow common stock on the date of grant. If the 2003 Plan is approved by stockholders, the Company's nine non-employee Directors will each receive an award of 1,150 shares of restricted stock in 2003.

COMPENSATION TABLES

Summary Compensation Table

Name and Principal Position	Year	Annual Compensation			Long-Term Compensation			All Other Compensation ($)
					Awards		Payouts	
		Salary ($)	Performance Award Bonus ($)	Other Annual Compensation ($)	Deferred/ Restricted Stock Awards ($) (a)	Securities Underlying Options (# Shares)	Long-Term Incentive Payouts ($) (*)	
W. S. Stavropoulos	2002	1,839,996 (b)	0	52,396 (c)	0	0 (b)	1,103,290 (d)	80,590 (e)
Chairman of the Board,	2001	2,031,666 (b)	0	95,998 (c)	0	0 (b)	67,219 (f)	152,121
President and CEO	2000	1,278,330	1,600,000	0	0	450,000 shares	62,379 (f)	128,114
M. D. Parker	2002	1,014,200	0	0	0	150,000 shares (g)	529,485 (d)	6,335 (e)
Former President and Chief	2001	960,000	0	0	0	125,100 shares	12,938 (f)	117,501
Executive Officer	2000	703,715	930,000	0	0	210,000 shares	12,006 (f)	90,941
A. A. Allemang	2002	551,980	0	0	0	63,300 shares (g)	334,939 (d)	18,320 (e)
Executive Vice President	2001	514,550	0	0	99,135	53,400 shares	4,613 (f)	91,428
Operations	2000	461,575	360,000	0	0	150,000 shares	4,280 (f)	43,287
R. M. Gross	2002	435,010	0	0	0	38,400 shares (g)	145,880 (d)	20,352 (e)
Corporate Vice President	2001	415,948	0	0	0	38,400 shares	1,406 (f)	76,897
Research & Development	2000	381,652	294,393	0	0	120,000 shares	1,305 (f)	33,650
R. L. Manetta (j)	2002	462,240	0	0	0	26,700 shares (g)	13,400 (h)	85,106 (e)
Corporate Vice President General	2001	190,962	565,000 (i)	0	543,825	90,000 shares	3,350 (h)	447,362
Counsel	2000	–	–	–	–	–	–	–
J. P. Reinhard	2002	740,580	0	0	0	76,700 shares (g)	535,515 (d)	20,753 (e)
Executive Vice President	2001	721,970	0	0	0	70,000 shares	18,563 (f)	59,589
Chief Financial Officer	2000	649,960	650,000	0	0	210,000 shares	17,226 (f)	3,056,575
L. J. Washington, Jr.	2002	422,510	0	0	0	33,300 shares (g)	204,931 (d)	20,866 (e)
Corporate V.P. – EH&S, HR and	2001	405,750	0	0	0	31,700 shares	7,875 (f)	73,425
Public Affairs	2000	377,420	242,982	0	0	90,000 shares	6,003 (f)	32,246

(a) Values in the chart are calculated by multiplying the date-of-grant fair market value by the number of shares granted. Dividend equivalents are paid on shares of deferred stock.

(b) Compensation as non-executive Chairman of the Board determined by formula under the Company's deceleration policy, which includes neither an annual Performance Award (bonus) nor any new grants of long-term incentive awards.

(c) Primarily for executive tax preparation.

(d) Delivery of Performance Share deferred stock granted in 1998, with the value calculated from the market price on 2/27/02 of $30.555 per share, and payouts from Dividend Unit awards granted before 1999.

(e) All other compensation details for 2002 appear in a separate chart on the following page.

(f) Payouts from Dividend Unit awards granted in years prior to 1999.

(g) Shares are 120-month market-priced options.

(h) Payouts from a 2001 Dividend Unit Award.

(i) Employment agreement payments.

(j) Was not an executive officer of the Company at any time during 2000.

* This note reports holdings of shares of restricted and deferred stock granted in the previous 5 years, 98% of which are dependent upon achieving specific performance measures for vesting, if at all. Performance Shares are reported herein at the target payout levels. On 12/31/02, the aggregate number of deferred shares outstanding for each executive and the values of such holdings (calculated from the market price on 12/31/02) were: Messrs. Stavropoulos – 123,750 shares, $3,643,200; Parker – 331,575 shares, $9,761,568; Allemang – 157,500 shares, $4,636,800; Gross – 105,645 shares, $3,110,189; Manetta – 41,700 shares, $1,227,648; Reinhard – 203,175 shares, $5,981,472; Washington – 89,405 shares, $2,632,083.

Details of 2002 All Other Compensation from Summary Compensation Table

Name	Reportable Elective Deferral Interest ($)	Elective Deferral Company Match ($)	Life Insurance Economic Benefit ($)	Relocation Benefits ($)	Personal Excess Liability Insurance ($)	Defined Contribution Company Match ($)	Total Other Compensation ($)
W. S. Stavropoulos	51,240	9,900	10,935	0	1,015	7,500	80,590
M. D. Parker	0	0	5,320	0	1,015	0 (a)	6,335
A. A. Allemang	7,198	0	2,607	0	1,015	7,500	18,320
R. M. Gross	2,900	7,378	1,559	0	1,015	7,500	20,352
R. L. Manetta	5,291	0	10,214	66,586	1,015	2,000	85,106
J. P. Reinhard	225	9,900	2,113	0	1,015	7,500	20,753
L. J. Washington, Jr.	4,295	7,073	983	0	1,015	7,500	20,866

(a) The Company match contribution attributed to Mr. Parker varies from the others in this column due to his participation in the Dow Swiss Pension Foundation Defined Contribution Plan (the "Swiss DC Plan") rather than a U.S. 401(k) plan. In 2003, no funds were contributed to the Swiss DC Plan by either the employees or the Company, based upon the level of Performance Awards earned in 2002 and payable in 2003.

Long-Term Incentive Plan Awards in 2002

Name	Number of Shares, Units or Other Rights	Performance or Other Period until Maturation or Payout	Estimated Future Payouts under Non-Stock Price-Based Plans (a)		
			Threshold (# Shares or $)	Target (# Shares or $)	Maximum (# Shares or $)
W. S. Stavropoulos	0 (b)	—	—	—	—
M. D. Parker	150,000 (a) 37,500 (c)	2002-06 2002-06	0	150,000 shares	300,000 shares
A. A. Allemang	63,300 (a) 15,825 (c)	2002-06 2002-06	0	63,300 shares	126,600 shares
R. M. Gross	38,400 (a) 9,600 (c)	2002-06 2002-06	0	38,400 shares	76,800 shares
R. L. Manetta	26,700 (a) 6,675 (c)	2002-06 2002-06	0	26,700 shares	53,400 shares
J. P. Reinhard	76,700 (a) 19,175 (c)	2002-06 2002-06	0	76,700 shares	153,400 shares
L. J. Washington, Jr.	33,300 (a) 8,325 (c)	2002-06 2002-06	0	33,300 shares	66,600 shares

(a) Performance Shares that vest, if at all, by meeting or exceeding specific financial measures over a 5-year period related to economic spread and sales volume growth. No shares will be earned if minimum objectives are not achieved. Shares earned, and dividend equivalents for the shares earned from the date of grant, will be delivered in two equal installments on 4/16/07 and 4/16/08. Upon a change of control during the performance period, the target number of shares plus accrued dividends on the target shares vest. Upon a change of control after 2006, shares earned and accrued dividends on shares earned vest.

(b) Compensation as non-executive Chairman of the Board determined by formula under the Company's deceleration policy, which includes neither an annual Performance Award (bonus) nor any new grants of long-term incentive awards.

(c) Performance Shares that vest, if at all, upon Company's common stock reaching and maintaining a specified price for a specified period of time. No shares will be earned if minimum objectives are not achieved. Shares earned, and dividend equivalents for the shares earned from the date of grant will be delivered in two equal installments in 4/16/07 and 4/16/08. Grants and accrued dividends do not vest upon a change of control unless performance targets have been met.

Aggregated Option Exercises in 2002 and December 31, 2002, Option Values

Name	Number of Securities Underlying Options Exercised (#)	Value Realized ($)	Number of Securities Underlying Unexercised Options at 12/31/02 (#)		Value of Unexercised, In-the-Money Options at 12/31/02 ($)(a)	
			Exercisable	Unexercisable	Exercisable	Unexercisable
W. S. Stavropoulos	0		1,860,000	435,000	5,964,546	0
M. D. Parker	0	0	757,700	431,800	1,985,778	0
A. A. Allemang	75,000	580,125	335,300	234,400	293,391	0
R. M. Gross	0	0	205,300	150,500	252,871	0
R. L. Manetta	0	0	30,000	86,700	0	0
J. P. Reinhard	0	0	481,333	321,767	419,130	0
L. J. Washington, Jr.	0	0	378,666	135,734	1,392,729	0

(a) Based upon the market price on 12/31/02 of $29.44 per share.

Option Grants in 2002

Name	Individual Grants				Potential Realizable Value at Assumed Annual Rates of Stock Price Appreciation 10-Year Option Term (a)		
	Number of Securities Underlying Options Granted (#)	Percent of Total Options Granted to Employees in Fiscal Year	Exercise or Base Price ($/Share)	Expiration Date	0% ($)	5% ($)	10% ($)
All Shareholders	N/A	N/A	N/A	N/A	0 (b)	17,372,408,063 (b)	43,844,648,921 (b)
All Optionees	1,750		$34.1000	01/02/12	0	37,595	94,883
	8,124,600		30.4250	02/15/12	0	155,730,302	393,033,618
	16,000		31.6450	03/01/12	0	318,982	805,049
	3,500		32.2550	04/01/12	0	71,122	179,499
	4,500		32.8800	06/03/12	0	93,215	235,256
	1,750		34.4900	07/01/12	0	38,025	95,968
	3,500		28.7850	08/01/12	0	63,471	160,189
	16,750		29.6500	09/03/12	0	312,882	789,654
	1,750		28.6250	10/01/12	0	31,559	79,649
	3,500		26.0900	11/01/12	0	57,528	145,191
	8,750		31.2450	12/02/12	0	172,238	434,696
	8,186,350	100.0%			0 (c)	156,926,919 (c)	396,053,652 (c)
All Optionees' Gain as a % of all Shareholders' Gain	N/A	N/A	N/A	N/A	N/A	0.9%	0.9%
W. S. Stavropoulos	0 (d)						
M. D. Parker	150,000 (e)	1.8%	$30.4250	02/15/12	0	2,875,163	7,256,363
A. A. Allemang	63,300 (e)	0.8%	$30.4250	02/15/12	0	1,213,319	3,062,185
R. M. Gross	38,400 (e)	0.5%	$30.4250	02/15/12	0	736,042	1,857,629
R. L. Manetta	26,700 (e)	0.3%	$30.4250	02/15/12	0	511,779	1,291,633
J. P. Reinhard	76,700 (e)	0.9%	$30.4250	02/15/12	0	1,470,166	3,710,420
L. J. Washington, Jr.	33,300 (e)	0.4%	$30.4250	02/15/12	0	638,286	1,610,912

(a) The dollar amounts under these columns are the result of calculations at 0%, and at the 5% and 10% rates set by the Securities and Exchange Commission, and therefore, are not intended to forecast possible future appreciation, if any, of the Company's stock price.

(b) Gain for all shareholders was determined from the $30.425 exercise price applicable to the majority of options granted in 2002 based on the 906,335,280 shares outstanding on the 2/15/02 grant date.

(c) Since options are granted at the then-current market price, no gain to the optionees is possible without stock price appreciation, which will benefit all shareholders commensurately. A 0% gain in stock price will result in zero dollars for the optionee.

(d) Compensation as non-executive Chairman of the Board determined by formula under the Company's deceleration policy, which includes neither an annual Performance Award (bonus) nor any new grants of long-term incentive awards.

(e) This was a single grant made on 2/15/02. Options vest in three equal annual installments, beginning 2/15/03.

Equity Compensation Plan Information

As of December 31, 2002.

Plan Category	(a) Number of securities to be issued upon exercise of outstanding options, warrants and rights	(b) Weighted-average exercise price of outstanding options, warrants and rights	(c) Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a))
Equity compensation plans approved by security holders	70,440,159	$24.60 (1)	18,448,719 (2)
Equity compensation plans not approved by security holders	187,650	$32.63	5,760,005
Totals (3)	70,627,809	$28.61	24,208,724

(1) Does not include the value of performance shares or performance-linked deferred stock, which are subject to outstanding awards and do not have an exercise price.

(2) Under a formula set forth in the Company's 1988 Award and Option Plan, as amended, the number of shares available for grant under such plan in any calendar year equals 1.5% of the total shares of common stock outstanding on the first day of the year, plus 50% of the shares available for grant but not granted under the plan in each of the previous three years, plus up to 50% of the subsequent year's allocation. As a result of this formula, 50% of the shares first allocated but not granted in a year cease to be available for grant in the following year, and the remaining 50% cease to be available for grant after an additional two years.

(3) Does not include options to acquire 17,714,593 shares of the Company's common stock with a weighted average exercise price of $25.62 that were assumed in connection with the Union Carbide Corporation merger.

Equity Compensation Plans Not Previously Presented for Stockholders' Approval

The Company has for several decades adopted an annual Employees' Stock Purchase Plan under which employees may purchase Dow common stock at a discount to the prevailing market price either by accumulating contributions through payroll deductions or by making one payment for the stock. Eligible employees may purchase shares having a total purchase price of up to 10 percent of each employee's annual salary. Under the 2002-2003 Employees' Stock Purchase Plan, employees subscribed to purchase a total of 5,046,755 shares. The Plan is administered by the Vice President of Human Resources of the Company. These annual arrangements will cease and be replaced by the 2003-2013 Employees' Stock Purchase Plan, if stockholders approve the 2003-2013 Plan.

The 1998 Non-Employee Directors' Stock Incentive Plan is designed to compensate and encourage Dow stock ownership by non-employee Directors of the Company. It provides for the purchase of Dow common stock at an exercise price equal to the market price of the stock on the date the option is granted. The term of each option is ten years from the date of grant. Directors of the Company who, on each date of grant, are not employees of the Company or any subsidiary are eligible to receive grants under the plan. Grants are made once each year and vest after completion of five years of service as a Dow Director. The total number of shares available for future issuance under the Plan is 465,600. This Plan was first described in the definitive Proxy Statement for the 1998 Annual Meeting of Stockholders. No new grants will be made under this Plan if stockholders approve the 2003 Non-Employee Directors' Stock Incentive Plan.

The 1994 Non-Employee Directors' Stock Plan is designed to compensate and encourage Dow stock ownership by non-employee Directors of the Company. It provides for three grants of options for the purchase of Dow common stock, if specified stock ownership requirements are met that increase with seniority of service, at an exercise price equal to the market price of the stock on the date an option is granted. The term of each option is ten years from the date of grant. Options vest pursuant to a three-year incremental vesting schedule. No options may be exercised earlier than one year from the date of grant. Directors of the Company who, on each date of grant, are not employees of the Company or any subsidiary are eligible to receive grants under the Plan. Grants were made from this Plan in 1994 and 1999. One additional grant will be made in 2004. The Plan expires following the 2004 grant. The total number of shares available for future issuance under the Plan is 247,650. This Plan was included as Exhibit 10(o) to The Dow Chemical Company Annual Report on Form 10-K for the year ended December 31, 1994.

Non-employee Directors of the Company receive a one-time grant of 4,500 shares of the Company's common stock subject to certain transfer restrictions specified by the Compensation Committee.

PENSION PLANS

The Company provides the Dow Employees' Pension Plan (the "Plan") for employees on its U.S. payroll and for employees of some of its wholly owned U.S. subsidiaries. Because it is a defined benefit plan, the amount of a retiree's pension is calculated using pay and years of service as an employee, rather than by the market value of the Plan assets, as in a defined contribution plan.

Upon normal retirement at age 65, a participant receives, subject to a statutory limitation, an annual pension that is the greater of (1) or (2) below:

(1) 1.6 percent of the employee's highest average credited compensation for any three consecutive years, multiplied by the employee's years of credited service up to 35 years, and by one-half of the years of credited service in excess of 35 years (a). The Plan contains a provision for an offset of the employee's estimated primary Social Security benefit, calculated using the method specified in the Tax Reform Act of 1986. The provisions in this Section (1) are available only to those who first became Plan participants on or before January 1, 1996.

(2) A benefit that is the sum of the employee's yearly basic and supplemental accruals. Basic accruals equal the employee's highest average credited compensation for any three consecutive years multiplied by a percentage ranging from 4 to 18 percent dependent upon the employee's age in the years earned. Supplemental accruals are for compensation in excess of a rolling 36-month average of the Social Security wage base. Supplemental accruals range from 1 to 4 percent, based on the age of the employee in the years earned. The sum of the basic and supplemental accruals is divided by a conversion factor to calculate the immediate monthly benefit. If the employee terminates employment before age 65 and defers payment of the benefit, the account balance calculated under this Section (2) will be credited with interest, currently at 8 percent per year.

The following table illustrates the annual pension benefits, including those from the Executives' Supplemental Retirement Plan ("ESRP") or the Key Employee Insurance Program payable to executive officers, calculated under the Dow Employees' Pension Plan before the application of an offset of the employee's estimated primary Social Security benefit. The benefits shown are single-life annuities for participants who retire at age 65. While a single life annuity provides a higher retiree benefit, most participants elect pensions with survivorship provisions.

Annual Pension Benefits

Final Average Pay for Pension	Years of Credited Service						
	15	20	25	30	35	40	45
700,000	238,000	301,000	349,000	383,000	401,000	404,000	404,000
900,000	308,000	389,000	451,000	495,000	518,000	523,000	523,000
1,100,000	377,000	477,000	554,000	607,000	636,000	641,000	641,000
1,300,000	447,000	565,000	656,000	719,000	753,000	760,000	760,000
1,500,000	516,000	653,000	758,000	830,000	870,000	878,000	878,000
1,700,000	586,000	741,000	860,000	942,000	988,000	997,000	997,000
1,900,000	656,000	829,000	962,000	1,054,000	1,105,000	1,115,000	1,115,000
2,100,000	725,000	917,000	1,065,000	1,166,000	1,223,000	1,234,000	1,234,000
2,300,000	795,000	1,006,000	1,167,000	1,278,000	1,340,000	1,352,000	1,352,000

For the persons named in the Summary Compensation Table, the years of credited service and 2002 compensation covered by the pension plans as of 12/31/02, are: Messrs. Allemang – 37.6, $970,714; Gross – 28.2, $741,702; Manetta – 1.5, $787,522 (b); Reinhard – 32.2, $1,335,319; Stavropoulos – 35.6, $1,839,996 (a); Washington – 33.6, $719,912. Mr. Parker participated in the Dow Swiss Foundation Defined Benefits Plan that has different terms than the U.S. retirement plan, but provides a benefit comparable to the table above. His pensionable salary as of 12/31/02 was 1,403,177 Swiss francs (approximately $922,536). His total service was 34.3 years.

(a) At the request of the Board of Directors, Mr. Stavropoulos reassumed the position of CEO in December 2002. The Compensation Committee and the Board of Directors has amended the ESRP to allow for the pension of a returning CEO to properly reflect career earnings, given the unique circumstance of such an event. The effect of the amendment is that Mr. Stavropoulos' pensionable compensation will be calculated from the average of the three highest years of compensation as an employee of the Company. The amendment also provides that his pensionable compensation for 2003 and 2004 will not be proportionately reduced if he leaves the positions of President and CEO before December 31, 2004, unless he does so without the prior concurrence of the Board of Directors.

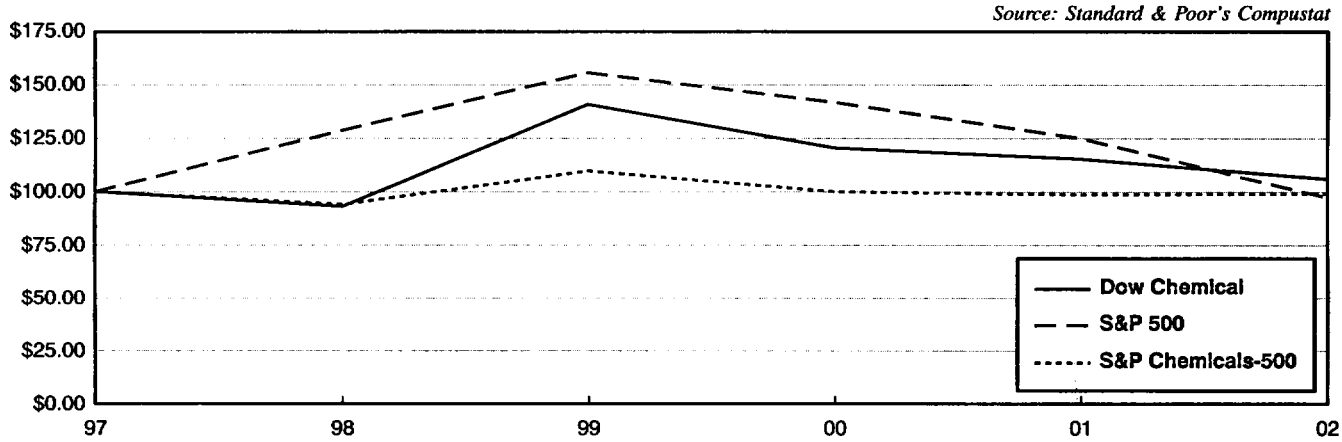
(b) Mr. Manetta, who joined the Company in 2001, is not yet vested in the pension plans.

STOCKHOLDER RETURN

The charts below illustrate cumulative total return to Dow stockholders for certain periods of time. They depict a hypothetical $100 investment in Dow common stock on December 31 of the first year of the charts, and show the increased value of that investment over time until December 31 of the final year, with all dividends reinvested in stock. Hypothetical investments of $100 in the Standard & Poor's 500 Stock Index and the Standard & Poor's Chemicals 500 Index are shown in comparison. In 2002, Standard & Poor's revised its Chemicals 500 Index to include a broader range of chemical companies, which is more reflective of the performance of the U.S. chemical industry as a whole. The revised index has been used for all periods in the charts below.

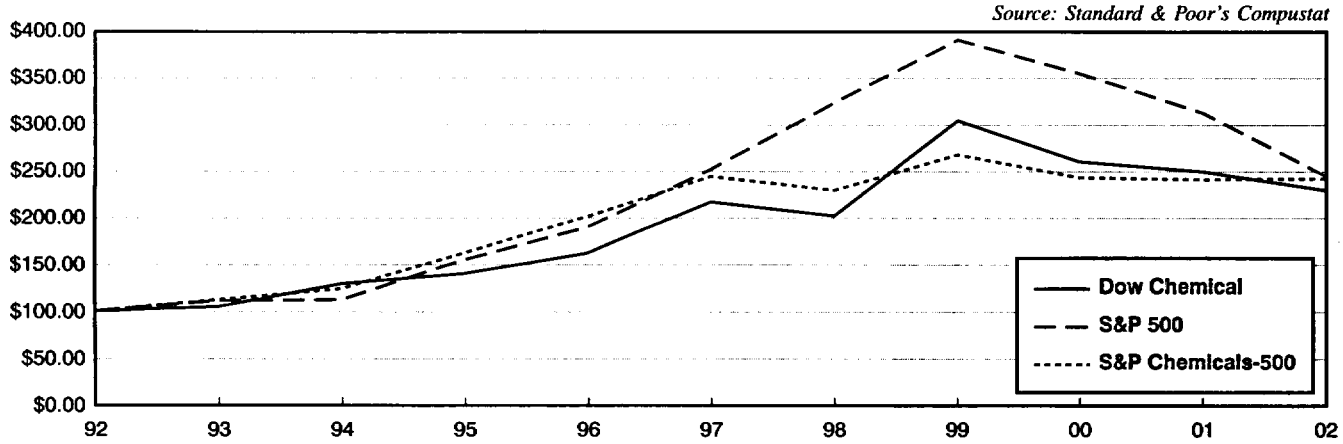
Five-Year Cumulative Total Return

Source: Standard & Poor's Compustat



Ten-Year Cumulative Total Return

Source: Standard & Poor's Compustat



The form of the charts above is in accordance with SEC requirements. Stockholders are cautioned against drawing any conclusions from the data contained therein, as past results are not necessarily indicative of future performance. These charts do not reflect the Company's forecast of future financial performance.

SECTION 16(a) BENEFICIAL OWNERSHIP REPORTING COMPLIANCE

Section 16(a) of the Securities Exchange Act of 1934 requires the Company's executive officers, Directors and greater than 10% shareholders to file reports of ownership and changes in ownership of Dow securities with the Securities and Exchange Commission (SEC). Based solely on its review of Section 16 reports prepared by or furnished to the Company, we believe that all filing requirements were met during fiscal year 2002, except that a Form 4 reporting the acquisition of phantom stock units filed on behalf of Director Ringler was accepted by the SEC's electronic filing system one business day later than the two-day deadline, as a result of an inadvertent change in his individual electronic filing code by another company on whose board he sits.

BENEFICIAL OWNERSHIP OF COMPANY STOCK

The table below states beneficial ownership, as defined in Rule 13d-3 of the Securities Exchange Act of 1934, of Dow common stock as of March 1, 2003, except as otherwise noted.

Name	Current Shares Beneficially Owned (a)	Rights to Acquire Beneficial Ownership of Shares (b)	Shares and Share Units Held Under Deferral Plans (c)	Total	Percent of Shares Beneficially Owned
A. A. Allemang	116,157.8	424,200.0	3,000.0	543,357.8	*
J. K. Barton	7,500.0	24,800.0	2,853.8	35,153.8	*
A. J. Carbone	128,967.5 (d)	759,000.0		887,967.5	*
J. M. Cook	7,722.0 (d)		6,267.7	13,989.7	*
J. C. Danforth	4,500.0	20,150.0	7,444.7	32,094.7	*
W. D. Davis	6,150.0	24,050.0	7,074.0	37,274.0	*
B. H. Franklin	10,933.0	24,800.0	5,898.0	41,631.0	*
R. M. Gross	49,300.2	272,525.0	7,188.8	329,014.0	*
R. L. Manetta	52.4	38,900.0	15,000.0	53,952.4	*
K. R. McKennon	18,752.0			18,752.0	*
J. P. Reinhard	179,659.2 (d)	600,232.0	124,971.2	904,862.4	*
J. M. Ringler	5,742.9	23,519.0	14,916.9	44,178.8	*
H. T. Shapiro	8,543.0	24,800.0	3,356.5	36,699.5	*
W. S. Stavropoulos	361,751.9 (d)	2,010,000.0		2,371,751.9	*
P. G. Stern	10,500.0	24,800.0	4,285.7	39,585.7	*
L. J. Washington, Jr.	61,453.4	392,909.0	1,125.0	455,487.4	*
Group Total	977,685.3 (d)	4,664,685.0	203,382.3	5,845,752.6	0.62%
All Directors and Executive Officers as a Group	1,018,372.5 (d)	5,015,020.0	205,382.3	6,238,774.8	0.66%
Certain Other Owners:					
Capital Research and Management Company	78,367,400 (e)				8.6%

(a) In addition to shares held in sole name, this column includes all shares held by the spouse and other members of the person's immediate family who share a household with the named person. This column also includes all shares held in trust for the benefit of the named party in The Dow Chemical Company Employees' Savings Plan. Beneficial ownership of some or all of the shares listed may be disclaimed.

(b) This column includes any shares that the party could acquire through 4/30/03, by (1) exercise of an option granted by Dow, (2) distribution of shares under a Deferred Stock Agreement or (3) payment of any balance due under a subscription in The Dow Chemical Company 2002-2003 Employees' Stock Purchase Plan. These shares have not been issued and cannot be voted.

(c) Represents shares of Dow stock and phantom stock units, receipt of which has been deferred pursuant to various deferral plans. Deferred stock with future vesting based on performance measures is not included. The phantom stock units are payable in cash but track the performance of the Company's common stock. Neither the shares nor the units may be voted or transferred.

(d) Directors Carbone, Cook, Reinhard and Stavropoulos are all members of the Board's Finance Committee, which shares investment and voting authority for stock held in the Dow Employees' Pension Plan Trust ("DEPP") and the Retirement Program for Employees of Union Carbide Corporation and its Participating Subsidiary Companies ("UCCRP"). At 12/31/02, the DEPP beneficially owned 5,130,255 shares of Dow common stock and the UCCRP beneficially owned 3,532,500 shares. The named individuals, and all other Directors and officers, disclaim beneficial ownership of stock owned by the DEPP and the UCCRP.

(e) As reported in Amendment No. 2 to Schedule 13G filed 2/10/03, Capital Research and Management Company (333 South Hope Street, Los Angeles, CA 90071), in its role as an investment advisor for various clients, had sole dispositive power of such shares, but had neither sole nor shared voting power over any such shares.

* Less than 0.5 percent of the total shares of Dow common stock issued and outstanding.

COMPENSATION COMMITTEE REPORT

The Committee

The Compensation Committee of the Board of Directors (the "Committee") is made up entirely of independent, non-employee Directors. The Committee is responsible for reviewing and approving all aspects of compensation (defined as base salaries, bonuses, long-term incentives, benefits and perquisites) for the Chief Executive Officer ("CEO") and other senior executives of the Company. In meeting this responsibility, the Committee's policy is to ensure that senior executive compensation complies with all applicable rules and regulations; is appropriately competitive in the attraction and retention of talented leaders; and is linked closely to individual performance, Company performance and increases in Dow stockholder value. In addition, the Committee considers the compensation of all levels of employees within the Company, in order to provide appropriate context for making compensation decisions at the senior executive levels. The charter followed by the Compensation Committee in discharging these responsibilities is available to any interested party at Dow's website (*www.dow.com*).

Each year, the Committee asks the Company to present a proposed compensation plan, along with supporting competitive market data, for each senior executive. The Committee has the authority to retain an independent compensation consultant to provide data, analysis and counsel as necessary. After discussion with the CEO about the individual performance of each senior executive, individual compensation plans are established. The Committee meets in executive session without any members of management present to review similar information on the CEO. The Committee monitors the performance of the CEO and other senior executives throughout the year, and has final responsibility for determining their compensation levels.

Dow's policy is to manage senior executive total compensation at the median level relative to companies with which we compete for talent. The Committee compares compensation levels with a selected cross-industry group of other multinational manufacturing companies of similar size. Note that this is a different group of companies than those in the graphs on page 24.

Annual compensation for senior executives is comprised of three components: base salary, performance award (bonus) and long-term incentives. Each is explained more fully below.

Base Salaries

Base salaries for all Dow employees – including the Company's senior executives – are based upon an evaluation of their responsibilities, an assessment of their performance, and market comparisons from regularly scheduled compensation surveys. Average salaries for each employee group are managed so that they are within the median range of the survey results, in order to ensure Dow's ability to attract and retain a talented workforce. Changes in base salary for the senior executives named in the Proxy Statement compensation tables, as well as for all Dow employees, depend upon projected changes in the external market as well as the individual's contributions to Dow's corporate performance.

In establishing 2002 base salary compensation, the Committee reviewed the 2001 goals established by then Chief Executive Officer Michael D. Parker and his performance towards achieving each of them. Specifically, the Committee considered the following factors: economic profit; earnings per share; return on stockholder's equity; the achievement of synergies from the post-merger integration of Union Carbide Corporation, as well as other recently acquired entities; and the delivery of bottom-line results from the implementation of Six Sigma improvement processes throughout the Company. Based on these criteria and salary position relative to the external competitive market, his base pay was increased in March, 2002.

For 2003, the Company has made a decision not to implement base salary increases for any employees, as part of a broader plan to reduce costs, improve cash flow and increase profitability. William S. Stavropoulos was appointed CEO in mid-December 2002. He will be paid a base salary in 2003 that equals his last base salary as CEO in 2000, increased by factors that would have applied had he been in the position during 2001 and 2002 and received normal increases in salary. Otherwise, the CEO and other senior executives of the Company will forego any increase in base salary for 2003, as is the case with nearly all of the Company's employees around the globe. Like other employees, promotions for significant increases in responsibility may still be granted within this group during 2003.

In general, the Committee has structured the Chief Executive Officer's pay so that, at target levels of total direct compensation, no more than 25 percent is delivered as base pay. The remainder – more than 75 percent – is variable or performance-dependent pay. For the past several years, that ratio has been approximately 20 percent base pay and 80 percent of compensation at risk in the form of performance-dependent pay.

Performance Awards (Bonuses)

The Executive Performance Plan (the "Plan"), first established in 1994, sets a minimum performance goal of

COMPENSATION COMMITTEE REPORT (continued)

$700 million of Net Income as defined in the Plan. In addition, the Committee has determined that no award will be paid to those named in the Proxy Statement if a minimum economic profit level associated with the Dow employees' variable pay program is not achieved. Once these goals have been met, the Committee evaluates corporate and individual performance. The Committee was notified that the Net Income goal was not achieved in 2002. In accordance with the Plan, no bonuses were paid to senior executives under the Plan for 2002 performance.

Long-Term Incentive Compensation

In 2002, long-term incentive compensation ("LTI") for selected executives, including the senior executives of the Company, consisted of grants of Market-Priced Stock Options and Performance Shares. Market-Priced Stock Options include a three-year pro-rata vesting period to encourage retention of key executives and to provide a longer-term focus on creation of stockholder value. The exercise price of these options was the fair market value on the grant date. As a result, senior executives receive future gains from these options only to the extent the price of Dow stock increases. Performance Shares are shares of deferred stock that are earned only if the Company's financial performance over a five-year period (2002-2006) exceeds pre-established goals. The goals emphasize superior returns on capital, value growth, and share price appreciation that supports a Total Stockholder Return equal to the Company's cost of equity capital. The Committee approved LTI compensation awards for 2002 after evaluating the contribution of each senior executive to the Company's long-term performance and the impact of each senior executive's position on the organization.

To determine the former CEO's LTI compensation for 2002, the Committee evaluated progress towards several longer-term objectives, including:

- Dow's long-term performance against key financial objectives, including measures of returns on capital at all points along the chemical pricing cycle, value growth and total stockholder return.
- The multi-year achievement of bottom-line and top-line synergies from Dow's mergers and acquisitions, with a current emphasis on the effective integration of the Union Carbide Corporation into the overall operations of the Company.
- The sustained realization of bottom-line results from the implementation of Six Sigma throughout the Company.
- Initiatives regarding the development of Dow employees, including the recruitment and retention of a talented global workforce, and effective succession planning at the highest levels of the Company.

In addition, the Committee considered the appropriate mix of short-term and long-term compensation, the long-term incentive awards previously granted to the CEO and Dow's competitive position as compared to market data from the compensation comparison group.

The Committee determined that for 2002 the levels of LTI compensation granted to then CEO Mr. Parker reflected actual performance in 2001 measured against these goals, with appropriate consideration of the desired emphasis on long-term incentive compensation and the competitive positioning of the overall compensation package.

Share Ownership Guidelines

Minimum stock ownership guidelines for key Dow executives were established in 1998. The ownership requirement for the CEO is Dow stock equal in value to six times the current annual base salary. Mr. Stavropoulos exceeds the ownership guidelines required of the CEO. Other executives named in the Proxy Statement tables, as well as a group of other global business and corporate leaders, are required to own within four years from the date they entered the group of leaders subject to ownership guidelines, shares approximately equivalent in value to either three or four times the typical annual base salary for their job level. These guidelines are subject to periodic review to ensure that the levels are appropriate.

Retirement Agreement

The Company entered into an agreement with former CEO Mr. Parker effective February 12, 2003, which provided that Mr. Parker would retire from the Company and resign from the Board of Directors. The agreement provides for severance payments totaling $5,600,000 to be paid in three installments over two years, along with reimbursement of legal fees in the amount of $100,000. Mr. Parker will also receive a pension annuity from The Dow Chemical Company Executive Supplemental Retirement Plan that recognizes the incremental benefit associated with the approximately fifteen years during

COMPENSATION COMMITTEE REPORT (continued)

which he worked for the Company while residing in the United States. Mr. Parker's outstanding LTI awards will be allowed to run for their full term and without reduction, subject to other terms and conditions of the awards and certain forfeiture provisions as outlined in the agreement. The agreement is subject to Mr. Parker not engaging in certain employment for a period of two years from February 12, 2003, as well as other terms and conditions.

A Sub-Committee of the Compensation Committee, consisting of Messrs. Shapiro and Stern, represented the Compensation Committee during the Company's deliberations over this agreement with Mr. Parker. The agreement was approved by the Compensation Committee at its meeting of February 12, 2003.

Policy on Deductibility of Compensation

As noted above, the Company's compensation policy is based upon a pay-for-performance philosophy. U.S. federal tax laws (Section 162(m) of the Internal Revenue Code of 1986, as amended) impose a limitation on the Company's U.S. income tax deductibility of senior executive compensation unless it is "performance-based" under the tax rules. The Company's executive performance award and long-term incentive programs are stockholder-approved and are designed to comply with the requirements of Section 162(m). These policies do not preclude the Committee from making payments or awards where appropriate to retain and provide incentives to key executives, whether or not they may qualify for such deductibility.

Compensation Committee

Harold T. Shapiro, Chairman
Jacqueline K. Barton
J. Michael Cook
Willie D. Davis
Barbara H. Franklin
Paul G. Stern

OTHER GOVERNANCE MATTERS

Future Stockholder Proposals

If you satisfy the requirements of the Securities and Exchange Commission ("SEC") and wish to submit a proposal to be considered for inclusion in the Company's proxy material for next year's Annual Meeting, please send it to the Office of the Corporate Secretary.* Under the rules of the SEC, proposals must be received no later than November 28, 2003.

Nominations for Director

The Committee on Directors and Governance will continue its long standing practice of accepting stockholders' suggestions of candidates to consider as potential Board members, as part of the Committee's periodic review of the size and composition of the Board and its committees. Such recommendations may be sent to the Committee on Directors and Governance through the Office of the Corporate Secretary.*

Under the Company's Bylaws, stockholders wishing to formally nominate a person for election as a Director at the next Annual Meeting must notify the Office of the Corporate Secretary* between November 28, 2003, and January 27, 2004. Such notices must comply with the provisions set forth in the Bylaws. A copy of the relevant provisions of the Bylaws may be found on the Company's website at *www.dowgovernance.com*. Alternatively they will be sent without charge to any stockholder who requests them in writing. Such requests should be addressed to the Office of the Corporate Secretary.*

Notification of Future Annual Meeting Business

Under the Company's Bylaws, if you wish to raise items of proper business at an Annual Meeting you must give advance written notification to the Office of the Corporate Secretary.* For the 2004 Annual Meeting, written notice must be given between November 28, 2003, and January 27, 2004. Such notices must comply with the Bylaws provisions and include your name and address, representation that you are a holder of common stock entitled to vote at such Meeting and intend to appear in person or by proxy at the Meeting, disclosure of any material interest in such business, description of the business proposed, and the reasons for conducting such business. A copy of the relevant provisions of the Bylaws may be found on the Company's website at *www.dowgovernance.com*. Alternatively they will be sent without charge to any stockholder who requests them in writing. Such requests should be addressed to the Office of the Corporate Secretary.*

* The address is: Office of the Corporate Secretary, The Dow Chemical Company, 2030 Dow Center, Midland, MI 48674.

OTHER GOVERNANCE MATTERS (continued)

Multiple Stockholders with the Same Address

In accordance with a notice sent previously to stockholders who share a single address, only one Annual Report and Proxy Statement will be sent to that address unless contrary instructions were received from any stockholder at that address. This practice, known as "householding," is designed to reduce printing and postage costs. If you did not respond that you did not want to participate in householding, you were deemed to have consented to the process. If you hold your stock in "street name," you may revoke your consent to householding at any time by sending your name, the name of your brokerage firm, and your account number to Householding Department, ADP, 51 Mercedes Way, Edgewood, NY 11717. If you are a registered stockholder, you may revoke your consent at any time by sending your name and your account number to EquiServe, P.O. Box 43016, Providence, RI 02940-3016. The revocation of your consent to householding will be effective thirty days following its receipt.

Copies of Proxy Material and Form 10-K

Dow's Proxy Statement, Annual Report and annual report on Form 10-K are posted on Dow's website: *www.dow.com*. Stockholders can receive printed copies of each of these documents without charge by calling or writing EquiServe at 1-800-369-5606 or 781-575-3899, or P.O. Box 43016, Providence, RI 02940-3016.

Internet Delivery of Proxy Materials

Stockholders may consent to receive their Proxy Statement and Annual Report in electronic form rather than in printed form. This results in faster delivery of the documents and significant savings to the Company by reducing printing and mailing costs. Registered stockholders may provide their consent when they vote their shares on the Internet at *www.eproxyvote.com/dow*. Most holders in street name may provide their consent for electronic delivery while voting on the Internet at *www.proxyvote.com*. If you previously consented to electronic delivery but have since changed your email address, please re-register.

Stockholder Rights Policy (Poison Pill)

Your Board of Directors adopted the following policy on February 13, 2003:

The Board of Directors shall obtain stockholder approval prior to adopting any stockholder rights plan; *provided, however*, that the Board may act on its own to adopt a stockholder rights plan if, under the then current circumstances, the Board in the exercise of its fiduciary responsibilities, deems it to be in the best interest of Dow's stockholders to adopt a stockholder rights plan without the delay in adoption that would come from the time reasonably anticipated for stockholder approval. Any stockholder rights plan so adopted by the Board without prior stockholder approval will be submitted to a non-binding vote of stockholders as a separate ballot item at the next subsequent meeting of Dow stockholders. The Board shall not repeal this policy without first submitting it to a non-binding vote of Dow stockholders.

Other Matters

The Board does not intend to present any business at the Meeting not described in this Proxy Statement. The enclosed proxy voting form confers upon the persons designated to vote the shares they represent with discretionary authority to vote such shares in accordance with their best judgment. Such discretionary authority is with respect to all matters that may come before the Meeting in addition to the scheduled items of business, including matters incident to the conduct of the Meeting and any stockholder proposal omitted from the Proxy Statement and form of proxy. At the time this Proxy Statement went to press, the Board of Directors was not aware of any other matter that may properly be presented for action at the Meeting, but the enclosed proxy form confers the same discretionary authority with respect to any such other matter.

Tina S. Van Dam
Secretary of the Company

Midland, Michigan
March 27, 2003

Appendix A

AUDIT COMMITTEE CHARTER

(As amended and readopted in full on February 26, 2003.)

Purpose

The Audit Committee is appointed by the Board to assist the Board in monitoring:

1. The integrity of the financial statements of the Company.
2. The independent auditors' qualifications, independence, and performance.
3. The performance of the Company's internal audit function.
4. The compliance by the Company with legal and regulatory requirements.

The Audit Committee shall prepare the report required by the rules of the Securities and Exchange Commission (the "Commission") to be included in the Company's annual proxy statement.

Committee Membership

The Audit Committee shall consist of no fewer than three members. The members of the Audit Committee shall meet the independence and experience requirements of the New York Stock Exchange, Section 10A(m)(3) of the Securities Exchange Act of 1934 (the "Exchange Act") and the rules and regulations of the Commission. The Company shall disclose as required by the Commission whether at least one member of the Audit Committee is an "audit committee financial expert" as defined by the Commission. The simultaneous service on the audit committees of more than two other public companies requires a Board determination that such simultaneous service does not impair the ability of such member to effectively serve on the Company's Audit Committee.

The members of the Audit Committee shall be appointed by the Board on the recommendation of the Committee on Directors and Governance. Audit Committee members may be replaced by the Board.

Meetings

The Audit Committee shall meet as often as it determines, but not less frequently than quarterly. The Audit Committee shall meet at each in-person meeting with management, the internal auditor and the independent auditors in separate executive sessions, and also in executive session with only the Committee members. The Audit Committee may request any officer or employee of the Company or the Company's outside counsel or independent auditors to attend a meeting of the Audit Committee or to meet with any members of, or consultants to, the Audit Committee.

Committee Authority and Responsibilities

The Audit Committee shall perform the duties assigned to it by Section 4.3 of the Company's Bylaws and by the Board of Directors.

The Audit Committee shall have the sole authority to appoint or replace the independent auditors (subject to shareholder ratification). The Audit Committee shall be directly responsible for the compensation and oversight of the work of the independent auditors (including resolution of disagreements between management and the independent auditors regarding financial reporting) for the purpose of preparing or issuing an audit report or related work. The independent auditors shall report directly to the Audit Committee.

The Audit Committee shall preapprove all auditing services and permitted non-audit services (including the fees and terms thereof) to be performed for the Company by its independent auditors, subject to the *de minimis* exceptions for non-audit services described in Section 10A(i)(1)(B) of the Exchange Act, which should be approved by the Audit Committee prior to the completion of the audit. The Audit Committee may form and delegate authority to subcommittees consisting of one or more members when appropriate, including the authority to grant preapprovals of audit and permitted non-audit services, provided that decisions of such subcommittee to grant preapprovals shall be presented to the full Audit Committee at its next scheduled meeting.

The Audit Committee shall have the authority, to the extent it deems necessary or appropriate, to retain independent legal, accounting or other advisors. The Company shall provide for appropriate funding, as determined by the Audit Committee, for payment of compensation to the independent auditors for the purpose of rendering or issuing an audit report and to any advisors employed by the Audit Committee.

The Audit Committee shall make regular reports to the Board. The Audit Committee shall review and reassess the adequacy of this Charter annually and recommend any proposed changes to the Board for approval. The Audit Committee shall annually review the Audit Committee's own performance.

AUDIT COMMITTEE CHARTER (continued)

The Audit Committee, to the extent it deems necessary or appropriate, shall:

As to Financial Statement and Disclosure Matters

1. Review and discuss with management and the independent auditors the annual audited financial statements, including disclosures made in management's discussion and analysis, and recommend to the Board whether the audited financial statements should be included in the Company's Form 10-K.
2. Review and discuss with management and the independent auditors the Company's quarterly financial statements prior to the filing of its Form 10-Q, including the results of the independent auditors' review of the quarterly financial statements.
3. Discuss with management and the independent auditors significant financial reporting issues and judgments made in connection with the preparation of the Company's financial statements, including any significant changes in the Company's selection or application of accounting principles, any major issues as to the adequacy of the Company's internal controls and any special steps adopted in light of material control deficiencies.
4. Review and discuss quarterly reports from the independent auditors on:
   (a) All critical accounting policies and practices to be used.
   (b) All alternative treatments of financial information within generally accepted accounting principles that have been discussed with management, ramifications of the use of such alternative disclosures and treatments, and the treatment preferred by the independent auditors.
   (c) Other material written communications between the independent auditors and management, such as any management letter or schedule of unadjusted differences.
5. Discuss with management the Company's earnings press releases, including the use of "pro forma" or "adjusted" non-GAAP information, as well as financial information and earnings guidance provided to analysts and rating agencies. Such discussion may be done generally (consisting of discussing the types of information to be disclosed and the types of presentations to be made) rather than specifically as to individual press releases, analysts, and rating agencies.
6. Discuss with management and the independent auditors the effect of applicable regulations and accounting profession initiatives as well as off-balance sheet structures on the Company's financial statements.
7. Discuss with management the Company's major financial risk exposures and the steps management has taken to monitor and control such exposures, including the Company's risk assessment and risk management policies.
8. Discuss with the independent auditors the matters required to be discussed by Statement on Auditing Standards No. 61 relating to the conduct of the audit, including any difficulties encountered in the course of the audit work, any restrictions on the scope of activities or access to requested information, and any significant disagreements with management.
9. Review disclosures made to the Audit Committee by the Company's CEO and CFO during their certification process for the Form 10-K and Form 10-Q about any significant deficiencies in the design or operation of internal controls or material weaknesses therein and any fraud involving management or other employees who have a significant role in the Company's internal controls.

As to Oversight of the Company's Relationship with the Independent Auditors

10. Review and evaluate the lead partner of the independent auditors team.
11. Obtain and review a report from the independent auditors at least annually regarding (a) the independent auditors' internal quality-control procedures, (b) any material issues raised by the most recent internal quality-control review, or peer review, of the firm, or by any inquiry or investigation by governmental or professional authorities within the preceding five years respecting one or more independent audits carried out by the firm, (c) any steps taken to deal with any such issues, and (d) all relationships between the independent auditors and the Company. Evaluate the qualifications, performance and independence of the independent auditors, including considering whether the auditors' quality controls are adequate and the provision of permitted non-audit services is compatible with maintaining the auditors' independence, and taking into account the opinions of management and internal auditors. The Audit Committee shall present its conclusions with respect to the independent auditors to the Board.
12. Ensure the rotation of the lead (or coordinating) audit partner having primary responsibility for the audit and the audit partner responsible for reviewing the audit as required by law. Consider whether, in order to assure

AUDIT COMMITTEE CHARTER (continued)

continuing auditor independence, it is appropriate to adopt a policy of rotating the independent auditing firm on a regular basis.

13. Recommend to the Board policies for the Company's hiring of employees or former employees of the independent auditors who participated in any capacity in the audit of the Company.

14. Discuss with the independent auditors matters of audit quality and consistency and any significant auditing or accounting issues presented by the audit engagement on which the audit team has consulted with their national office.

15. Meet with the independent auditors prior to the audit to discuss the planning and staffing of the audit.

As to Oversight of the Company's Internal Audit Function

16. Review the appointment and replacement of the senior internal auditing executive.

17. Review the significant issues raised in reports to management prepared by the internal auditing department and management's responses.

18. Review at least annually the internal audit department and its mission, responsibilities, independence, budget and staffing and any recommended changes in the planned scope of the internal audit.

As to Compliance Oversight Responsibilities

19. Obtain from the independent auditors assurance that Section 10A(b) of the Exchange Act has not been implicated. Section 10A(b) relates to illegal acts that have come to the attention of the independent auditors during the course of the audit.

20. Obtain reports from management, the Company's senior internal auditing executive and the independent auditors concerning whether the Company and its subsidiary/foreign affiliated entities are in conformity with applicable legal requirements and the Company's Code of Business Conduct and Ethics. Review reports and disclosures of insider and affiliated party transactions. Advise the Board with respect to the Company's policies and procedures regarding compliance with applicable laws and regulations and with the Company's Code of Business Conduct and Ethics.

21. Establish and implement procedures for the receipt, retention and treatment of complaints received by the Company regarding accounting, internal accounting controls or auditing matters, and the confidential, anonymous submission by employees of concerns regarding questionable accounting or auditing matters.

22. Discuss with management and the independent auditors any correspondence with regulators or governmental agencies and any published reports which raise material issues regarding the Company's financial statements or accounting policies.

23. Discuss with the Company's General Counsel legal matters that may have a material impact on the financial statements or the Company's compliance policies.

Limitation of Audit Committee's Role

While the Audit Committee has the responsibilities and powers set forth in this Charter, it is not the duty of the Audit Committee to plan or conduct audits or to determine that the Company's financial statements and disclosures are complete and accurate and are in accordance with generally accepted accounting principles and applicable rules and regulations. These are the responsibilities of management and the independent auditors.

Appendix B

THE DOW CHEMICAL COMPANY 2003-2013 EMPLOYEES' STOCK PURCHASE PLAN

1. **Purpose.** The purpose of the Plan is to provide Employees of the Company with an opportunity to purchase shares of Common Stock through accumulated payroll deductions or direct payments during specified time periods.

2. **Definitions.** When the following terms are capitalized within the text of the document, they have the meaning stated below.

2.01 "**Annual Offering Price.**" For each Offering, the price at which Eligible Employees may purchase Common Stock. Subject to the limitations of Sections 9.02, 10, 11, 12, 13, 14, 18 and 20 below, it shall be the lower of:

(a) Eighty-five percent of the average of the daily high and low price for Common Stock as reported on the New York Stock Exchange Composite Tape for any consecutive 15 trading days between February 1 and April 30 of the same calendar year as such Offering, each such 15 trading day period determined by the Plan Administrator in his or her sole discretion; *provided however*, that in 2003, such 15 trading day period to occur between June 1 and September 1, 2003, to allow for stockholder consideration of the Plan at the Company's 2003 Annual Meeting of Stockholders; or

(b) Market Price on a Final Annual Offering Payment Date.

2.02 "**Common Stock.**" Common Stock of The Dow Chemical Company, par value $2.50.

2.03 "**Company.**" The Dow Chemical Company.

2.04 "**Co-op.**" An Employee who is classified by his or her Participating Employer as having Co-op status for employment purposes.

2.05 "**Dow.**" The Dow Chemical Company.

2.06 "**Eligibility Date.**" The date designated each year by the Plan Administrator on which an Eligible Employee must be on the payroll of the Company or a Participating Employer to be eligible to participate in that year's annual Offering.

2.07 "**Eligible Employee.**" See Section 3 for definition.

2.08 "**Employee.**" A person who:

(a) Is employed by a Participating Employer to perform services in an employer-employee relationship; and

(b) Receives a payment for services performed for the Participating Employer directly from the Participating Employer's or Dow's payroll department; and

(c) Does not receive compensation for services performed for the benefit of a Participating Employer from an entity that is not the Participating Employer or Dow. The definition of "Employee" does not include an individual who performs services for the benefit of a Participating Employer if his or her compensation is paid by an entity that is not the Participating Employer or Dow; such individual is not an "Employee" for purposes of the Plan even if such individual is determined by a court or regulatory agency to be a "common law employee" of a Participating Employer.

2.09 "**Final Annual Offering Payment Date.**" The final date on which lump sum payment or prepayments may be made and the deadline to withdraw from the Offering. It is also the deadline for the selection of Plan options available to former Employees who retired, went on long-term disability, entered the military service, or died while subscribers under the Offering. (If no written election is received by this date, shares of Dow stock paid for up to that time will be issued and any excess remaining from the amount deducted will be refunded, without interest.)

2.10 "**Full-time Employee.**" An Employee who is classified by his or her Participating Employer as having full-time status for employment purposes and whose normal work schedule is equivalent to the standard hours defined by their Salary Plan.

2.11 "**Hourly Employee.**" An Employee who is represented by a collective bargaining unit that has been recognized by his or her Participating Employer.

2.12 "**Intern.**" An Employee who is classified by his or her Participating Employer as having Intern status for employment purposes.

2003-2013 EMPLOYEES' STOCK PURCHASE PLAN (continued)

2.13 "**Less-than-full-time Employee.**" An Employee who is classified by his or her Participating Employer as having less-than-full-time status for employment purposes.

2.14 "**Market Price.**" The average of the high and low prices of Common Stock as reported on the New York Stock Exchange Composite Tape.

2.15 "**Offering.**" One of up to ten annual Offerings (the "Offerings") that may be made under the Plan to Eligible Employees to purchase shares of Common Stock. The Annual Offering Price and other material terms may differ for each Offering pursuant to the terms of the Plan.

2.16 "**Offering Enrollment Period.**" The time period determined by the Plan Administrator in his or her sole discretion during which Eligible Employees may enroll in an Offering to qualify for participation.

2.17 "**Part-time Employee.**" An Employee who is classified by his or her Participating Employer as having part-time status for employment purposes.

2.18 "**Participating Employer.**" Dow or a Subsidiary of Dow that Dow has authorized to participate in the Plan. In order to qualify as a Participating Employer, any Subsidiary in which the Company has less than 100 percent of the voting power must agree that entities owning the remaining percentage of voting power will underwrite their proportional costs of the Offering.

2.19 "**Plan.**" The Dow Chemical Company 2003-2013 Employees' Stock Purchase Plan.

2.20 "**Plan Administrator.**" The Vice President of Human Resources of the Company.

2.21 "**Prepayment Start Date.**" The first date during each Offering that subscribers may prepay all (lump sum payment) or the remaining balance of his or her subscription (see Section 10 below).

2.22 "**Salary Plan.**" A grouping of jobs based on market salary similarities and/or related job requirements associated with the Eligible Employee.

2.23 "**Student.**" An Employee who is classified by his or her Participating Employer as having Student status for employment purposes.

2.24 "**Subscription Contract.**" A document designated by the Plan Administrator for the purpose of contracting to participate in an Offering.

2.25 "**Subsidiary.**" Any corporation, partnership or other legal entity in which the Company has, directly or indirectly, 50 percent or more of the voting power that is organized under the laws of one of the United States of America, a possession of the United States of America or the laws of any non-U.S. country.

2.26 "**Temporary Employee.**" An Employee who is classified by his or her Participating Employer as having temporary status for employment purposes.

3. **Eligible Employees.** An Offering will be made to Eligible Employees who, during the entire period between the Eligibility Date for such Offering and the last day of the Offering Enrollment Period for such Offering, are regular Full-time Employees of a Participating Employer. Groups of otherwise Eligible Employees may be excluded from participation based upon terms of negotiated labor agreements that apply to such Employees.

Members of Dow's Board of Directors who on the Eligibility Date are Decelerating Directors shall not be Eligible Employees.

Part-time, Less-than-full-time, and Temporary Employees whose normal work schedule is 50 percent or more of the standard hours for their Salary Plan are Eligible Employees for an Offering if they have been on the payroll of a Participating Employer during all or part of the calendar year prior to the year of the Offering. Co-ops, Interns and Students are not eligible to subscribe. Employees whose normal work schedule is less than 50 percent of the standard hours for their Salary Plan are not eligible to subscribe. Employees under majority age may subscribe to an Offering if they meet all the other requirements stated above.

A group of Employees whose employer is acquired by the Company or another Participating Employer through merger and acquisition activity may, at the discretion of the Plan Administrator, be provided the opportunity to participate in an Offering upon close of such merger or acquisition transaction, provided the Employee was on the payroll of the acquired company during the entire period between the Eligibility Date of such Offering and the last day of the Offering Enrollment Period. Notwithstanding any other provisions herein, for such a group of Employees, the Offering Enrollment Period and the date used to determine the size of an Eligible Employee's maximum subscription under the Offering may differ from the dates applicable to such Offering if, in the judgment of the Plan Administrator, this modification is necessary or desirable to further the purpose of the Plan.

2003-2013 EMPLOYEES' STOCK PURCHASE PLAN (continued)

4. **Participation and Duration of Offer.** Participation in an Offering is voluntary on the part of the Eligible Employee. In order to participate in an Offering, however, an Eligible Employee must properly subscribe to the Offering by following the instructions of the enrollment materials made available to Eligible Employees for such Offering. The Plan Administrator shall not make individual exceptions to the Offering Enrollment Period deadlines.

5. **Annual Offering Calendar.** Prior to each Offering, the Plan Administrator will provide a calendar of key events for such Offering to Eligible Employees. The calendar shall include the Eligibility Date, the Offering Enrollment Period, the dates for determining the Annual Offering Price, the Prepayment Start Date, and the Final Annual Offering Payment Date. The Plan Administrator shall not have the discretion to make individual exceptions to the Offering deadline dates.

6. **Market Price on a Final Annual Offering Payment Date.** If the Market Price on the Final Annual Offering Payment Date becomes the Annual Offering Price for any Employees pursuant to Section 2.01, any amount by which the total withheld from the pay of such subscriber still participating in the Offering exceeds the total Market Price on the Final Annual Offering Payment Date of the shares for his or her current subscription shall be refunded (without interest) to the subscriber.

   Such refund shall only be available to subscribers who:

   (a) During the Offering Enrollment Period, made the election to pay by payroll deduction;

   (b) Did not prepay for their shares (see Section 10 below);

   (c) Remain enrolled in an Offering on the Final Annual Offering Payment Date; and

   (d) Are not covered by Sections 11 through 14 below.

   No subscriber will be permitted to purchase, except as provided in Section 17 below, more shares than those for which he or she originally subscribed, or to which his or her subscription has been prorated. If any subscriber has reduced his or her subscription prior to the end of the withholding period, such subscriber may not purchase more than the shares in the reduced subscription. Any subscription prepayment, lump sum payment or cancellation during the withholding period shall be final, and shall not be affected by the terms of the Plan with respect to Market Price on the Final Annual Offering Payment Date.

7. **Number of Shares an Employee May Purchase.** For each Offering the minimum subscription that will be accepted is for five shares of Common Stock or a percentage of base pay that will purchase no less than five shares of Common Stock. Eligible Employees may enroll in any Offering for either a specific number of shares of Common Stock or a specific percentage of their annual base salary to be used to purchase shares of Common Stock. No Eligible Employee may enter a subscription for shares of Common Stock having a total purchase price (based on Section 2.01(a)) in excess of ten percent of such Eligible Employee's annual base salary. If enrollment is for a percentage of annual base salary, the enrollment must be in a whole percentage that cannot be greater than ten percent. For this purpose, "annual base salary" consists of regular base pay only and does not include any overtime pay, shift premium, sales incentives and commissions, cash awards, performance pay, compensation resulting from participation in this or any other similar employee stock purchase plan, or award and option plan compensation. In the case of an Hourly Employee, the term "annual base salary" means, for the purpose of the Plan, such Eligible Employee's base hourly rate multiplied by the standard number of working hours in a year as determined by the applicable Participating Employer. The size of an Eligible Employee's permissible subscription under the Plan if the Eligible Employee is a regular Full-time Employee will be determined using base wage and salary rates in effect on the Eligibility Date of the Offering. The size of an Eligible Employee's permissible subscription for any Offering, if the Eligible Employee is a Part-time or Temporary Employee, will be determined using the Eligible Employee's total actual paid base salary or wage earnings in the prior year. Whether enrollment is by number of shares or by percentage of annual base salary will be determined on an annual basis by the Plan Administrator based upon the availability of systems to facilitate the enrollment. If enrollment is by percentage of annual base salary, when converted to purchased shares of Common Stock, the purchase will be for whole shares. If there is a fractional share, the purchase will be rounded down to the next whole share.

8. **Annual Registration of Shares.** Each year for which there is an Offering, the Company will register the number of additional shares believed to be sufficient for that year's Offering. Registered shares

2003-2013 EMPLOYEES' STOCK PURCHASE PLAN (continued)

not issued in an Offering may be used in subsequent Offerings. If the number of shares for which Eligible Employees subscribe is greater than the number of shares then currently registered, the subscription level for each Eligible Employee will be determined by prorating the available shares among the subscriptions received.

9. **Method of Payment.** Eligible Employees will irrevocably elect either payroll deduction or lump sum payment for each Offering to which he or she wishes to subscribe.

9.01 **Payroll Deductions.** Subject to a subscriber's right to prepayment as described in Section 10 below, subscriptions will be payable by means of payroll deductions for those Eligible Employees electing this method of payment. Each subscriber shall authorize a deduction from such subscriber's pay by subscribing to an Offering in the manner specified in Section 4 above. In connection with each Offering the Plan Administrator will provide, prior to the Offering Enrollment Period, the per share amount that will be deducted each pay period for weekly, bi-weekly, semi-monthly, and monthly pays. Payroll deductions pursuant to each Offering will commence within 60 days after the end of an Offering Enrollment Period. The schedule of deductions may not result in deductions for the exact amount of a subscriber's total subscription price. Any necessary adjustments will be made in the final deduction. Eligible Employees of certain Subsidiaries of the Company may not be offered this payroll deduction alternative. If a subscriber misses any payment because of temporarily being off the payroll and does not make up such payment through the applicable payroll department, he or she shall be required to make one of the elections listed under Section 11 below on or before the Final Annual Offering Payment Date. Otherwise the Company shall deliver the shares of Common Stock paid for (based on the Annual Offering Price as set forth in Section 2.01) and refund any excess remaining from the amount deducted, without interest.

9.02 **Lump Sum Payment.** Eligible Employees electing this method of payment shall remit a lump sum payment to the Company for the entire subscription amount. Lump sum payments can be made at any time after the Prepayment Start Date (see Section 10) and before the Final Annual Offering Payment Date. Lump sum payments remitted prior to the Final Annual Offering Payment Date shall be based upon the Annual Offering Price and shall be final, and such subscribers shall not thereafter benefit from any terms of the Plan with respect to Market Price on a Final Annual Offering Payment Date. If a partial payment is received by the subscriber's payroll department, the Company shall deem the subscriber to have reduced the subscription to a lesser number of shares of Common Stock, but no reduced subscription shall be for less than five shares. Any unpaid shares will be considered canceled. In the event a subscription payment is not **received** by the subscriber's payroll department prior to the close of business on the Final Annual Offering Payment Date, the Company shall deem the subscriber to have canceled his or her subscription under the Plan in its entirety. It is the subscriber's sole responsibility to monitor his or her payment obligation; subscribers will not be issued individual reminders. Some Subsidiaries of the Company located outside the United States may not be offered the lump sum payment alternative due to tax regulations associated with that payment option. Employees who elect the lump sum payment method are reminded that there is a one-day window that provides the opportunity to purchase shares of Common Stock at the Market Price on the Final Annual Offering Payment Date if the Market Price on the Final Annual Offering Payment Date is lower than the Annual Offering Price. In this case, the SP-3 form and payment must be received by the subscriber's local payroll department prior to the close of business on the Final Annual Offering Payment Date, and must be dated on the Final Annual Offering Payment Date. Employees electing this alternative are limited to remitting payments during the period between the Prepayment Start Date and the Final Annual Offering Payment Date, both dates inclusive. Subscribers who leave the employment of the Company prior to the Prepayment Start Date of an Offering for reasons other than retirement, long-term disability, entry into military service, death, separation under a severance policy due to corporate downsizing or restructuring, sale of a business where the subscriber accepts a position and transfers employment to the new purchaser or transfers to a company affiliated with Dow that is not a Participating Employer will not have an opportunity to purchase the shares and the subscription will be deemed canceled in its entirety.

9.03 **Payment Terms Applicable to Employees Outside of the United States.** Subscribers residing outside of the United States shall pay for their subscriptions in the currency in which they are paid. On the first day of each calendar month during each Offering period, the area controller's department will calculate a new conversion rate for converting the applicable currencies to U.S. dollars

2003-2013 EMPLOYEES' STOCK PURCHASE PLAN (continued)

based on the prevailing rates of exchange. In the case of subscribers electing payroll deduction payment, such conversion rates will be used to determine the local currency amount deducted from subscribers' pay that month, sufficient to produce the U.S. dollar amount necessary for their individual subscriptions based on the Annual Offering Price. If a subscription is reduced or canceled, or if the applicable Annual Offering Price is the Market Price on the Final Annual Offering Payment Date, any refund (without interest) due the subscriber shall be paid in the currency in which the Employee is paid, based on the total local currency amount previously deducted. In the case of subscribers electing a lump sum payment, such conversion rates will be used to determine the local currency amount to be remitted to the local payroll office of the Company.

10. **Prepayment.** At any time beginning with the Prepayment Start Date of an Offering, and ending on the Final Annual Offering Payment Date, both dates inclusive, any subscriber under an Offering may, without penalty, make a single payment or prepayment of the entire balance of his or her subscription remaining unpaid up to the time of such payment or prepayment or make a payment for a reduced number of shares of Common Stock, but such reduced number of shares must be no less than five shares. No payment or prepayment will be accepted until the Prepayment Start Date of an Offering. Lump sum payments remitted prior to the Final Annual Offering Payment Date shall be based upon the Annual Offering Price as described in Section 2.01(a) and shall be final. Such paying subscriber shall not thereafter benefit from any terms of the Plan with respect to Market Price on the Final Annual Offering Payment Date.

11. **Cancellation or Reduction of Right to Purchase.** At any time up to and including the Final Annual Offering Payment Date in an Offering, any subscriber may cancel his or her subscription under the Offering in its entirety or, once and once only, reduce (but not increase) such subscription to a lesser number of shares of Common Stock, but no reduced subscription shall be for less than five shares. If a subscriber cancels his or her subscription under the Offering in its entirety, he or she shall receive a refund of the entire amount deducted from his or her pay for such subscription up to the time of cancellation, without interest. If a subscriber reduces his or her subscription under the Offering and if the sum of prior deductions equals or exceeds the total purchase price (based on the Annual Offering Price as described in Section 2.01(a)) of the reduced subscription, such subscriber will be issued the reduced number of shares of Common Stock for which he or she has subscribed and will receive a refund for any excess of the prior deductions over the purchase price of the reduced subscription, without interest. If the amount of prior deductions is less than the total purchase price of the reduced subscription, the subscriber may:

    (a) Beginning on the Prepayment Start Date of an Offering, pay in a single payment the new unpaid balance and instruct the Participating Employer to issue the reduced number of shares; or

    (b) Leave the amount previously deducted with the Participating Employer and instruct such employer to reduce future deductions in proportion to the subscription reduction; or

    (c) Instruct the Participating Employer to refund deductions previously made for the number of shares by which the subscription is reduced and to reduce the amount of future deductions to that necessary to pay for the reduced subscription.

    All elections concerning the cancellation or reduction of subscriptions under the Plan shall be made on the appropriate cancellation/reduction of subscription form (instructions will be provided in the annual enrollment materials). Any cancellation or reduction of a subscription or any payment or prepayment in connection with a reduction of a subscription shall be final and the subscriber shall not thereafter benefit from any terms of the Plan with respect to Market Price on the Final Annual Offering Payment Date. All repayments and refunds will be paid without interest.

12. **Retirement, Long-Term Disability, Entry into Military Service or Death.** If a subscriber under an Offering retires under a Participating Employer's retirement plan, becomes a participant of a long-term disability plan maintained by his or her Participating Employer, enters military service or dies, such subscriber or his or her executor, administrator or heirs, as the case may be, shall have the following four options:

    (a) To receive delivery of the shares of Common Stock paid for up to that time (based on the Annual Offering Price as described in Section 2.01(a)) if five or more shares have been paid for, and to receive a refund of any excess remaining from the amount deducted; or

2003-2013 EMPLOYEES' STOCK PURCHASE PLAN (continued)

(b) To receive a lesser number of shares (at least five shares) of Common Stock (based on the Annual Offering Price as described in Section 2.01(a) above) and a refund of the balance; or

(c) To receive a refund of the entire amount previously deducted; or

(d) To pay the remaining balance of his or her subscription in full or in part (at least five shares) and receive delivery of the total number of shares of Common Stock paid for (based on the Annual Offering Price as described in Section 2.01(a)).

Such options by a retired or disabled subscriber, a subscriber who has entered the military service, or on behalf of a deceased subscriber must be elected not later than the Final Annual Offering Payment Date for the Offering. In the event no election is made by the Final Annual Offering Payment Date for the Offering, the Company shall deliver the shares of stock paid for up to that time (based on the Annual Offering Price as set forth in Section 2.01(a)) and refund any excess remaining from the amount deducted. All elections with respect to the options available to subscribers under the Plan who retire, become disabled or who enter the military service, or made on behalf of deceased subscribers, shall be made on the appropriate subscription form (instructions will be provided in the enrollment materials). Any payment or prepayment shall be final and the subscriber shall not thereafter benefit from any terms of the Plan with respect to Market Price on the Final Annual Offering Payment Date. All repayments and refunds will be paid without interest.

13. **Separation from Employment.** If a subscriber under the Plan leaves the employment of the Company or another Participating Employer (except in the case of transfer from one of such companies to another in which case there will be no change; or except in cases of retirement, long-term disability, entry into military service or death, which latter four cases are governed by Section 12; or except if such termination of employment is the result of the Company selling a line of its business and the subscriber accepts a position and transfers employment to the new purchaser, or separation under a severance policy due to corporate downsizing or restructuring, or transfers to a company affiliated with Dow that is not a Participating Employer, which cases are governed by Section 14), such departing subscriber shall at that time have Options (a), (b), and (c) set forth in Section 12. If such departing subscriber leaves such employment on or after the Prepayment Start Date of an Offering, Option (d) in Section 12 is also available. The departing subscriber must elect an option not later than the last business day of employment. In the event no timely election is made, the Company shall treat such failure as an election to exercise Option (c) in Section 12 and shall refund the entire amount of deductions accordingly. All elections with respect to the foregoing options upon termination of employment shall be made on the appropriate subscription form (instructions will be provided in the enrollment materials). Any payment or prepayment shall be final and the subscriber shall not thereafter benefit from any terms of the Plan with respect to Market Price on the Final Annual Offering Payment Date. All repayments and refunds will be paid without interest. If such departing subscriber elected the lump sum payment method, payment in full along with any applicable withholding taxes must be received by the subscriber's payroll department of the Company prior to the last business day of employment. If such departing subscriber leaves such employment prior to the Prepayment Start Date of a Plan year, which is the earliest date that subscribers can remit lump sum payments for annual subscriptions under the Plan, the departing subscriber will not have an opportunity to purchase the shares and the subscription will be deemed canceled in its entirety. All elections with respect to the foregoing options upon termination of employment shall be made on the appropriate subscription form (instructions will be provided in the annual enrollment materials). Any payment received prior to the Final Annual Offering Payment Date shall be based upon the Annual Offering Price as described in Section 2.01(a), and shall be final, and such subscribers shall not thereafter benefit from any terms of the Plan with respect to Market Price on the Final Annual Offering Payment Date. All repayments and refunds will be paid without interest.

14. **Selling Line of Business, Separation under a Severance Policy, or Transfer to a Non-Participating Employer.** If the employment of a subscriber for shares of Common Stock under an Offering is terminated by the Company or another Participating Employer as a result of the Company or another Participating Employer selling a line of business **and** if the subscriber accepts a position and transfers employment to the new purchaser, or if the subscriber separates under a severance policy due to corporate downsizing or restructuring, or if the subscriber transfers to a company affiliated with Dow that is not a Participating Employer, such subscriber shall have the same four options as a departing subscriber who leaves his or her employment due to retirement, long-term disability, entry

2003-2013 EMPLOYEES' STOCK PURCHASE PLAN (continued)

into military service or death, as set forth in Section 12 except that the subscriber shall have 30 days after his or her termination of employment or transfer elect an option; all other aspects of a subscriber's election pursuant to this Section 14 shall be governed by Section 12. This Section 14 also covers subscribers who transfer to a Subsidiary located in a country where the lump sum payment alternative is not made available due to tax or legal reasons. In that situation, the subscriber shall have a period of 30 days after his or her transfer to remit the subscription payment in full or in part (at least five shares) and receive delivery of the total number of shares of Common Stock paid for (based on the Annual Offering Price as described in Section 2.01).

15. **Issuance of Shares.** After a subscription under an Offering is fully paid (or, at the subscriber's option, upon prepayment, or reduction and prepayment, all in accordance with the terms and conditions of the Plan), the subscriber may receive a certificate or a deposit into a book entry account such as the Dow Dividend Reinvestment Account or brokerage account at an institution that has been engaged by the Company to facilitate delivery of shares to Employees, for the number of shares of Common Stock for which he or she has paid and shall be a stockholder and have all the rights incident thereto, including the right to such future dividends as may from time to time be declared by the Board of Directors. The Company reserves the right to determine which methods of delivery will be available on an annual basis. A minimum of five shares shall be issued, and not more than one certificate shall be issued pursuant to any one subscription, except to replace a lost stock certificate. Until the shares are issued, the subscriber will not be entitled to any dividends or voting rights on stock subscribed for under an Offering. Under no circumstances will a subscriber be entitled to receive any interest on subscription payments.

16. **Assignment.** No Eligible Employee may assign, transfer, pledge or use as security for a loan any of his or her rights under the Plan. Any attempt to do so will be cause for the Plan Administrator to treat the action as if it were a complete withdrawal from the Plan. After a stock certificate has been issued, such certificate may be assigned or transferred the same as any other stock certificate.

17. **Adjustments Upon Changes in Capitalization, Etc.** In the event of a reorganization, recapitalization, stock split, stock dividend, combination of shares, merger, consolidation or any other change in the corporate structure of the Company affecting Common Stock, the price per share and the number of shares covered by any subscription under the Plan, but unissued at the record date of such stock split, dividend, distribution or reclassification, will be adjusted proportionately. No fractional shares of Common Stock shall be issued pursuant to such an adjustment, however, and the fair market value of any fractional shares resulting from adjustments pursuant to this Section 17 shall be paid to the subscriber, without interest.

18. **Alternate Conditions for Non-U.S. Subscribers.** Alternate conditions may be incorporated in Subscription Contracts or related agreements with Eligible Employees or subscribers residing in countries outside the United States, as may be required to comply with the laws and regulations of such countries relating to the purchase or taxation of U.S. securities.

19. **Administration and Interpretation.** The Vice President of Human Resources of the Company will administer the Plan with the assistance of human resources and payroll personnel of the Company and other Participating Employers at various locations throughout the world. Subject to the express provisions of the Plan, the Plan Administrator shall have authority to interpret and construe any and all provisions of the Plan, to adopt rules for administering the Plan, to develop and approve all documents necessary for carrying out the Plan, to establish the start and end dates for each Offering, and to make all other determinations deemed necessary or advisable for administering the Plan. Nothing herein shall require an Offering to be made in each and every year of the term of the Plan. The Board of Directors, upon the recommendation of the Compensation Committee and in its best judgment, may determine not to make one or more Offerings.

20. **Amendment.** The Plan may be amended or terminated by the Board of Directors of the Company. However, any "material revision" to the Plan, as that term is defined in the Listing Standards of the New York Stock Exchange, or in other applicable laws or regulations, shall require shareholder approval.

21. **Shares Available Under the Plan.** The maximum number of shares that is authorized for the term of the Plan is 65,000,000 shares, subject to adjustment pursuant to Section 17.

Appendix C

THE DOW CHEMICAL COMPANY
2003 NON-EMPLOYEE DIRECTORS' STOCK INCENTIVE PLAN

1. **Establishment and Purpose of the Plan.**

The Dow Chemical Company 2003 Non-Employee Directors' Stock Incentive Plan (the "Plan") is established upon the following terms and conditions. The purposes of the Plan are to advance the interests of The Dow Chemical Company (the "Company") through the attraction, motivation and retention of qualified non-employee Directors. The Plan will provide a means for non-employee Directors to increase their equity ownership of the Company consistent with the Company's guidelines for stock ownership by non-employee Directors. By increasing their ownership interest in the Company, the economic interests of the non-employee Directors will more closely align with those of all other stockholders of the Company. If approved by the stockholders, no additional grants will be made from the 1998 Non-Employee Directors' Stock Incentive Plan after the date of such approval.

2. **Definitions.**

2.01 **Award:** A grant of Options, Restricted Stock, and/or Deferred Stock to an Awardee.

2.02 **Awardee:** An Eligible Director to whom an Award is made.

2.03 **Award Agreement:** Each Award of Options, Restricted Stock or Deferred Stock shall be evidenced by an Option Agreement, a Restricted Stock Agreement or a Deferred Stock Agreement. Such Award Agreement shall conform to the provisions of the Plan and shall specify the Date of Grant, the Option Price for grants of Options, vesting provisions and any restrictions for grants of Restricted Stock or Deferred Stock.

2.04 **Basic Annual Award:** An Award granted to each Eligible Director once each year based upon the formulas described in Section 13.

2.05 **Board of Directors:** The Board of Directors of the Company.

2.06 **Change of Control:** A Change of Control of the Company of a nature that would be required to be reported in response to Item 403(c) of Regulation S-K whether or not the Company is then subject to such reporting requirement; provided that, without limitation, a Change of Control shall be deemed to have occurred if (a) any individual, partnership, firm, corporation, association, trust, unincorporated organization or other entity, or any syndicate or group deemed to be a person under Section 14(d)(2) of the Securities Exchange Act of 1934 ("Exchange Act"), is or becomes the "beneficial owner" (as defined in Rule 13d-3 of the General Rules and Regulations under the Exchange Act), directly or indirectly, of securities of the Company representing 20 percent or more of the combined voting power of the Company's then outstanding securities entitled to vote in an election of Directors of the Company; or (b) during any period of two (2) consecutive years (not including any period prior to the adoption of this Plan), individuals who at the beginning of such period constitute the Board of Directors and any new Directors, whose election by the Board of Directors or nomination for election by the Company's stockholders was approved by a vote of at least three quarters (¾) of the Directors then still in office who either were Directors at the beginning of the period or whose election or nomination for election was previously so approved, cease for any reason to constitute a majority thereof.

2.07 **Common Stock:** The Common Stock of the Company, par value $2.50 per share, or such other class or kind of share or other securities as may be applicable under Section 6.

2.08 **Company:** The Dow Chemical Company, a Delaware corporation, or any successor to substantially all its business.

2.09 **Date of Grant:** The date an Award is granted to an Eligible Director. The Date of Grant will be March 5 of each year during the life of the Plan and for any supplemental grant, on a date determined by the Board of Directors. If the New York Stock Exchange ("NYSE") is not open on such date, the Date of Grant will be the next subsequent day on which the NYSE is open.

2.10 **Deferred Stock:** Deferred Stock is Common Stock of the Company to be issued to an Awardee under the Plan in one or more installments beginning at such time in the future as the Committee on Directors and Governance shall determine. Prior to the issuance of Deferred Stock, the Company shall pay or accrue an amount equivalent to the dividends on that Deferred Stock from the date of grant. Awards of Deferred Stock shall be made pursuant to a Deferred Stock Agreement between the Company and each Awardee that may contain additional terms.

2003 NON-EMPLOYEE DIRECTORS' STOCK INCENTIVE PLAN (continued)

2.11 **Deferred Stock Agreement:** The written agreement between the Company and the Awardee for a grant of Deferred Stock.

2.12 **Eligible Director:** Any person who on the date of grant is a member of the Board of Directors of the Company who on the and is not an employee of the Company or of any Subsidiary as defined in Section 2.20.

2.13 **Fair Market Value:** As applied to a specific date, the average of the highest and lowest market prices of Common Stock, as reported on the consolidated transaction reporting system for the NYSE on such date, or, if the Common Stock was not traded on such date, on the next preceding day on which the Common Stock was traded.

2.14 **Option:** Any option or options providing for the purchase of a stated number of whole, not fractional, shares of Common Stock pursuant to Section 5.

2.15 **Option Agreement:** The written agreement between the Company and Awardee for the grant of an Option.

2.16 **Option Price:** The price at which Common Stock of the Company may be purchased upon the exercise of an Option shall be the Fair Market Value on the Date of Grant.

2.17 **Plan:** The Dow Chemical Company 2003 Non-Employee Directors' Stock Incentive Plan.

2.18 **Restricted Stock:** Restricted Stock under the Plan is Common Stock of the Company restricted as to sale for such time, and/or under such conditions, as the Committee on Directors and Governance shall determine. Prior to the lifting of the restrictions, the Awardee will nevertheless be entitled to receive dividends from and to vote the shares of Restricted Stock. Awards of Restricted Stock shall be made pursuant to a Restricted Stock Agreement between the Company and each Awardee that may contain additional terms.

2.19 **Restricted Stock Agreement:** The written agreement between the Company and the Awardee for a grant of Restricted Stock.

2.20 **Subsidiary:** Any business association (including a corporation or a partnership other than the Company) in an unbroken chain of such associations beginning with the Company if each of the associations other than the last association in the unbroken chain owns equity interests (including stock or partnership interests) possessing fifty (50) percent or more of the total combined voting power of all classes of equity interests in one or the other associations in such chain.

2.21 **Supplemental Grant:** A grant of Options, Restricted Stock, or Deferred Stock that is in addition to the Basic Annual Award and is granted to an Eligible Director as a result of that Eligible Director taking on additional responsibilities as a member of the Board of Directors of the Company.

3. **Stock Subject to the Plan.**

The total number of shares of Common Stock which may be awarded under the Plan is 1,500,000. If any shares subject to any Award granted hereunder are forfeited or such Award otherwise terminates without the issuance of such shares or of other consideration in lieu of such shares, the shares subject to such Award, to the extent of such termination or forfeiture, shall again be available for grant under the Plan during the term of the Plan.

4. **Duration of Plan.**

The Plan shall have a duration of ten (10) years commencing on January 1, 2003.

5. **Grants of Stock.**

5.01 **Frequency of Grants.** Basic Annual Awards shall be made on an annual basis on the Date of Grant as defined in Section 2.09. Supplemental Grants may be made at any time in the discretion of the Board of Directors. If the Plan is approved by the Company's stockholders, grants of Restricted Stock pursuant to Section 13(b) will be made as of March 5, 2003.

5.02 **Size of Grants.** The size of each Basic Annual Award shall be calculated by the formulas as described in Section 13. The size of any Supplemental Grant shall be determined by the Board of Directors.

5.03 **Individual Limits.** An annual aggregate limit of 25,000 shares (including Options, Restricted Stock, and Deferred Stock) is set for any individual Director, such limit including both the Basic Annual Award and any Supplemental Grant received during any given calendar year.

5.04 **Types of Grants.** Grants may consist of Options, Restricted Stock, or Deferred Stock or a combination of Options, Restricted Stock and Deferred Stock during any given calendar year.

2003 NON-EMPLOYEE DIRECTORS' STOCK INCENTIVE PLAN (continued)

5.05 **Terms of Grants.** Stock Options are non-qualified right-to-buy Options for the purchase of Common Stock of the Company. The term of each Option shall be ten (10) years from the Date of Grant. The Option Price shall be the Fair Market Value of Dow Common Stock on the date the Option is granted. Under no circumstances shall any Option vest in less than one year from the Date of Grant. Shares purchased upon exercise of an Option must be paid for in full at the time of exercise either in cash or with currently owned shares. Neither the Committee on Directors and Governance nor the Board of Directors may reprice any Option that is "underwater." Restricted Stock is Common Stock of the Company restricted as to sale in such fashion as the Committee on Directors and Governance shall determine. Prior to the lifting of the restrictions, the Awardee will be entitled to receive dividends from and to vote the shares of Restricted Stock. Lifting of restrictions will be accelerated in the event of a Change of Control as defined in Section 2.06. Deferred Stock is Common Stock of the Company to be issued to an Awardee under the Plan in one or more installments beginning at such time in the future as the Committee on Directors and Governance shall determine. Prior to the issuance of Deferred Stock, the Company shall pay or accrue an amount equivalent to the dividends on that Deferred Stock from the date of grant. Delivery of the Deferred Stock will be accelerated in the event of a Change in Control as defined in Section 2.06.

5.06 **Termination of Membership on the Board of Directors.** Notwithstanding the provisions of Section 5.05, an Option whose term has not yet expired that is held by an Awardee shall become fully vested and immediately exercisable upon such Awardee's death or retirement from the Board of Directors. Any such Options must be exercised (a) within five (5) years from such termination of Board membership or Change of Control or (b) within the original term of the Option, whichever time is less, or such Option shall thereafter automatically terminate. Options held by an Awardee whose membership on the Board of Directors terminates for reasons other than those described above, unless subject to the provisions of Section 8 of the Plan, shall expire within six (6) months from Board termination and are exercisable only to the extent they have vested, as provided for under Section 5.05, prior to expiration. Grants of Restricted Stock shall have their restrictions accelerated in the event of the Director's death or retirement from the Board of Directors. In such event, the Common Stock related to such grant shall be delivered to the retired Director or such Director's beneficiary as soon as administratively feasible after such event. Grants of Deferred Stock shall have their issuance accelerated in the event of the Director's death or retirement from the Board of Directors. In such event, the Common Stock related to such grant shall be delivered to the retired Director or such Director's beneficiary as soon as administratively feasible after such event.

6. **Adjustments upon Changes in Capitalization.**

In the event of a reorganization, recapitalization, stock split, stock dividend, combination of shares, merger, consolidation or any other change in corporate structure of the Company affecting Common Stock, or a sale by the Company of all or a substantial part of its assets, or any distribution to stockholders other than a cash dividend, the Board of Directors of the Company will make appropriate adjustment in the number and kind of shares authorized by the Plan, and any adjustments to outstanding awards as it deems appropriate. However, no fractional shares of Common Stock will be issued pursuant to any such adjustment, and the Fair Market Value of any fractional shares resulting from adjustments will be paid in cash to the Awardee.

7. **General Provisions.**

Each Award is normally made through a written Award Agreement between the Company and the Awardee. Nothing contained in the Plan, or in any Award granted pursuant to the Plan, shall confer upon any Awardee any right with respect to continuance as a Director.

8. **Forfeiture.**

All Options, Restricted Stock, and Deferred Stock granted to an Awardee shall automatically terminate and be null and void as of the date an Eligible Director's service on the Board of Directors terminates if the directorship is terminated as a result of any act of (a) fraud or intentional misrepresentation, or (b) embezzlement, misappropriation, or conversion of assets or opportunities of the Company or any Subsidiary.

9. **Non-Assignability.**

Awards may not be pledged, assigned, or transferred for any reason during the Awardee's lifetime, and any attempt to do so shall be void and the relevant Award shall be immediately forfeited.

2003 NON-EMPLOYEE DIRECTORS' STOCK INCENTIVE PLAN (continued)

10. **Beneficiary upon Awardee's Death.**

Notwithstanding the provisions of Section 9, an Awardee's Award shall be transferable at his or her death to the beneficiary designated by the Awardee on forms prescribed and filed with the Company. Upon the death of an Awardee, such beneficiary shall succeed to the rights of the Awardee. If no such designation of a beneficiary has been made, the Awardee's Award(s) shall succeed to his or her legal representative and shall be transferable by will or pursuant to the laws of descent and distribution.

11. **Plan Administration.**

The Plan is administered by the Committee on Directors and Governance of the Board of Directors. The Committee shall have the authority to interpret the Plan and to provide for additional terms and conditions as may be reflected in the Award Agreements.

12. **Amendment and Termination of the Plan.**

The Board of Directors of the Company shall have the power to amend or terminate the Plan without further action of the stockholders, but no such amendment may: materially increase the number of shares available under the Plan (other than an increase solely to reflect a reorganization, recapitalization, stock split, stock dividend, combination of shares, merger, consolidation or any other change in corporate structure of the Company affecting the Common Stock, or a sale by the Company of all or a substantial part of its assets, or any distribution to stockholders other than a cash dividend); withdraw administration of the Plan from the Committee on Directors and Governance of the Board of Directors; change the types of awards available under the Plan; extend the term of the Plan; constitute a "material revision" to the Plan requiring stockholder approval pursuant to the New York Stock Exchange Corporate Governance Listing Standards; or delete or limit the scope of the Plan provision prohibiting the repricing of Options that are "underwater."

The duration of the 2003 Plan shall be ten years. No additional grants will be made after December 31, 2012 unless the Board of Directors decides to terminate the Plan earlier or the stockholders of the Company approve an extension.

13. **Formulas for Basic Annual Awards of Stock Options and of Restricted Stock.**

(a) Stock Options:

Prior Year Average Remuneration x 45% = Target Net Present Value

Target Net Present Value / (BSV% x Dow Share Price) = Number of Options Granted

(Note: Number of Options granted will be rounded up to the next increment of 50)

Definition of Terms:

Prior Year Average Remuneration is the average of the aggregate total of retainer and meeting fees paid to the non-employee Directors during the calendar year prior to the Option grant being calculated, excluding from the average any non-employee Director's compensation that does not represent a full year of Board service.

45% represents the net present value percentage of the Prior Year Average Remuneration that this Basic Annual Award is targeted to deliver.

BSV% represents the Black-Scholes valuation of a ten-year Option to purchase shares of Common Stock of The Dow Chemical Company at market price upon commencement of the Option term. The Black-Scholes value is updated on a periodic basis.

Dow Share Price represents the average of high and low prices on the NYSE for common shares of The Dow Chemical Company on the Date of Grant of the Options.

(b) Restricted Stock:

66.67% x Annual Basic Retainer = Target Value

Target Value / Market Price of Dow Stock on Grant Date = Grant of Restricted Shares

The Grant of Restricted Shares will be rounded up to the next increment of 50 shares.

Definition of Terms:

Annual Basic Retainer is the annual basic amount paid to all non-employee Directors (on 1/1/03, an amount equal to $45,000).

Target Value is the cash value of the Restricted Stock Grant on the Date of Grant (on 1/1/03, an amount equal to $30,000).

2003 NON-EMPLOYEE DIRECTORS' STOCK INCENTIVE PLAN (continued)

Market Price on the Date of Grant is the Fair Market Value as defined in Section 2.13 on the Date of Grant.

14. **Income Tax Status.**

The Company has been advised by its tax counsel that awards made under the Plan will give rise to the following tax events for U.S. citizens and residents under current U.S. federal income tax law:

A. **Non-qualified Options.** The Awardee will not be subject to tax upon the grant of the Option, and the Company will not be entitled to a tax deduction by reason of such grant. If an Awardee exercises a Non-qualified Option, the difference between the Option Price and the Fair Market Value of the shares on the date of exercise will be treated as taxable compensation to the Awardee. The Company will be entitled to a tax deduction in the amount of and for the taxable year in which such amount is treated as compensation to the Awardee.

B. **Awards of Restricted Stock.** Unless the Awardee makes an election under Section 83(b) of the Code, Restricted Stock will not be taxable when issued, and the Company will not be entitled to a deduction at the time of issuance. Any dividends paid to the Awardee prior to the lifting of restrictions are taxable compensation income to the Awardee. When the restrictions are lifted, the Awardee will be treated as receiving taxable compensation in the amount of the excess of the then Fair Market Value over the amount, if any, paid by the Awardee for the shares.

C. **Awards of Deferred Stock.** The Award of a right to receive stock at a future date will not have any immediate tax consequence. Any dividends paid to the Awardee prior to the issuance of shares are taxable compensation income to the Awardee. At the time shares of Common Stock are issued under any such Award, the Awardee will be treated as having received taxable compensation. The amount of that income will be the Fair Market Value of one share of Common Stock times the number of shares received. The Company will receive a federal income tax deduction for the same amount as is treated as taxable compensation to the Awardee.

*Trademark of The Dow Chemical Company

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The Dow Chemical Company 2002 Annual Report

DOW

The Way Forward

The Way Forward

At Dow, we know that the way forward requires us to accelerate and intensify our efforts to improve our business and maximize both near- and long-term shareholder value.

This is why we are constantly striving to eliminate waste, reduce costs, improve productivity, find better ways to do business, create new and improved products and services, enhance production methods and be more sustainable.

We are also conscious that the actions we take today not only set the foundation for long-term business success, but also pave the way forward for improving the daily lives of current and future generations.

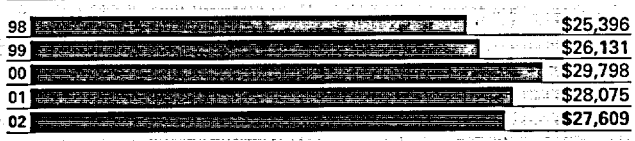
Dow invites you to explore our 2002 Annual Report to learn more about how we are leading the way forward.

2002 Financial Highlights

IN MILLIONS, EXCEPT AS NOTED	2002	2001
Net Sales	$27,609	$28,075
Earnings before Interest, Income Taxes and Minority Interests ("EBIT")*	86	35
Net Income (Loss)	(338)	(385)
Return on Stockholders' Equity	(4.4)%	(3.9)%
Earnings (Loss) per Share—Basic (in dollars)	(0.37)	(0.43)
Earnings (Loss) per Share—Diluted (in dollars)	(0.37)	(0.43)
Dividends Declared per Share (in dollars)	1.34	1.295

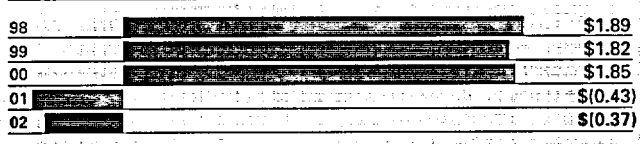
*See page 22 for a reconciliation of EBIT to "Income (Loss) before Income Taxes and Minority Interests."

Net Sales (dollars in millions)

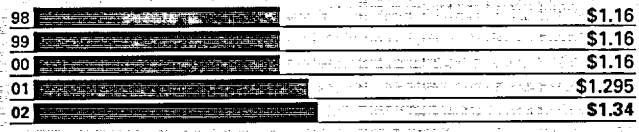


EBIT (dollars in millions)

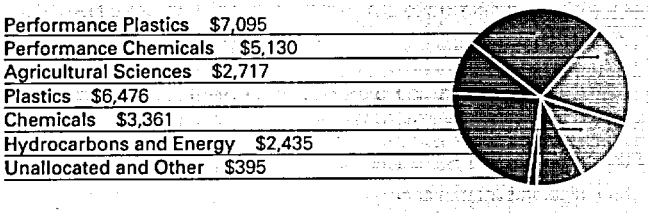
Earnings (Loss) per Share—Diluted (dollars)



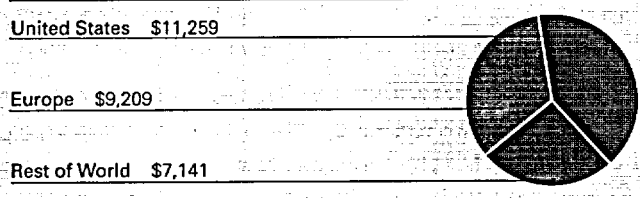
Dividends Declared per Share (dollars)



2002 Sales by Operating Segment (dollars in millions)



2002 Sales by Geographic Area (dollars in millions)



Results for 2002 included the pretax impact of merger-related expenses and restructuring of $280 million and a pretax charge of $828 million related to Union Carbide Corporation's potential asbestos-related liability. Results for 2001 included the impact of a $1.5 billion pretax special charge for merger-related expenses and restructuring. See Notes B and J to the Consolidated Financial Statements for additional information.

C-4

To the Stockholders of The Dow Chemical Company:

2002 was not a good year for Dow. Neither the general economy nor industry fundamentals offered much relief from the difficult conditions we faced in 2001. Despite expectations that industry conditions would improve in the second half of the year, the economic rebound never materialized, and lagging demand and excess capacity continued to impede our efforts to adequately raise prices and substantially increase volume. As a result, profit margins were severely compressed.

Although industry conditions were tough, they are not an excuse for earnings that were, in a word, unacceptable.

Regardless of the conditions we face, the management of this company is being held responsible and accountable for performance. That is why the Board of Directors decided in December to make a change in executive leadership.

Building our financial strength

In returning as Dow's CEO, my immediate tasks are to raise profit margins, improve cash flow and reduce debt. To do so, we are restructuring, consolidating and streamlining our company in order to improve our cost structure, reduce capital spending and focus more on our competitive assets and businesses. All options are on the table. The measures we are pursuing in 2003 include:

Bill Stavropoulos,
Chairman, President and CEO

- Divesting non-strategic and under-performing assets.
- Closing assets that are either under-utilized or non-competitive, including our announcement in January of 2003 to close two Union Carbide ethylene crackers in Texas that will reduce U.S. Gulf Coast ethylene capacity by roughly 4%.
- Sharply reducing structural costs by $400 million, including cuts in discretionary spending, strict limitations on new hires, productivity improvements and the elimination of 3,000-4,000 jobs through divestitures, plant shutdowns, attrition and efficiencies.
- Reducing capital spending by $400 million, or 25%, from 2002, placing capital expenditures well below depreciation levels. The bulk of these spending cuts will come from reduced planned capacity expansions. We will continue to devote capital to maintaining the reliability and safety of our plants.
- Shifting our successful Six Sigma methodology to cost-reduction projects that have an immediate, positive impact on earnings, rather than longer term revenue-increasing projects.
- Delaying or canceling all corporate initiatives, except those that positively impact the bottom line in 2003.
- On the revenue side, focusing on our customers and market dynamics to increase prices and improve volume. Since 1995, Dow's oil and energy costs have increased while prices have fallen, with a negative impact on profits of nearly $9 billion. We are working closely with our customers to confront the challenge we face, given the highly volatile cost of feedstocks.

These measures, taken together, are designed to increase cash flow by over a billion dollars from 2002 and generate positive free cash flow in 2003.

Meanwhile, we will continue to pursue our long-term strategy to invest in our franchise businesses—those with long-term competitive advantage—and in our less cyclical performance businesses. In doing so, we will emphasize productivity, which is the *sine qua non* of this industry. Ours is a world of unremitting competitiveness. Trends toward supplier and customer consolidation, high and volatile energy costs, and increased competition from developing countries continue to challenge the chemical industry. Productivity must and will be a priority for Dow not only at the trough of the cycle, but also at the peak.

On track for long-term profitability

Looking at the long-term, it is important to remember that difficult conditions are not new to the chemical industry. Herbert H. Dow, this company's founder, encountered them in the early years of the 20th century, as have more recent Dow managers in the 1980s and 90s, when deep troughs were followed by periods of robust profitability.

Our task is to ensure that the company will benefit not just from better conditions, but from the work we are doing right now to improve profitability regardless of where we are in the cycle. Towards that end, we are building on our accomplishments in 2002; chief among them were:

- Completing the integration of Union Carbide and other key acquisitions, including Ascot fine and specialty chemicals, Rohm and Haas's agricultural chemicals business, Gurit-Essex, and EniChem's polyurethanes business. With Union Carbide alone, we achieved cost synergies of $1.2 billion dollars, significantly improving the profit margins of Carbide's businesses and making them globally competitive.
- Growth in Performance Chemicals, a $5.1 billion portfolio of businesses that was Dow's most profitable segment in 2002. Specialty businesses from Carbide not only substantially increased the sales of Performance Chemicals, they also increased profits. Performance Chemicals is now one of the top five specialty chemical businesses in the world.

- Continued growth in Asia, where our volume increased by 12% and sales by 7%. This region now accounts for $3.3 billion of our revenues, with performance businesses comprising over 60%. The Union Carbide joint ventures in Kuwait and Malaysia, a source of low-cost feedstocks, are instrumental to our expansion in Asia. In addition, we started up a latex plant in Zhangjiagang, The People's Republic of China, and our joint venture with Asahi Kasei began polystyrene production there. In the second quarter of 2003 we expect to start up production of a new epoxy resins plant at the site.

Meanwhile, we continue making progress towards our 2005 goals in Environmental, Health and Safety performance, and here it is worth mentioning that these ambitious goals represent an improvement of up to 90% from our starting point in 1994. During the year, we reduced our injury and illness rate by 20%, and leaks, breaks and spills by 14%. Lest we forget what these numbers mean, consider this: since 1994, more than 8000 injuries and illnesses did *not* occur as a result of our progress—in other words, Dow employees and contractors are safer.

And, in response to the corporate governance lapses that have shaken investor confidence, we are reaffirming and clarifying our code of ethics and strengthening the oversight of our company.

Managing the asbestos issue

We also took a new look at asbestos issues associated with Union Carbide's former business activities, with the goal of bringing greater clarity to investors.

Towards that end, the well-known firm, Analysis, Research & Planning Corporation, with more than 20 years of experience working on major liability issues, including asbestos, quantified the potential cost of resolving pending and future claims against Carbide. Based on the results of this analysis, Carbide increased the reserve for its potential asbestos liabilities to $2.2 billion. It also increased the receivable for asbestos-related insurance recoveries to $1.35 billion.

As a result of this assessment, Carbide—and consequently Dow—took a pretax charge to earnings of $828 million in the fourth quarter of 2002.

This action reflects our belief that quantifying the pending and future costs of resolving asbestos claims against Carbide will help alleviate the uncertainty surrounding asbestos, and help our company realize its full value. Meanwhile, Carbide will continue to press its strong legal position in litigation. Because the overwhelming majority of Carbide lawsuits involve people who show no symptoms of illness—including some who were never even *exposed* to its asbestos products—the defense strategy will be aggressive. We are also joining the efforts of many industries to pursue a legislative resolution to the asbestos issue, which we believe is gaining momentum.

Driving for better results

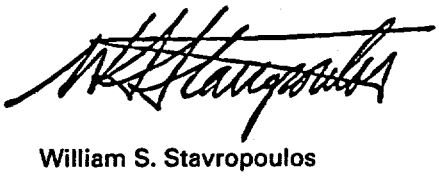
Given the realities of geo-political uncertainty, industry overcapacity, and oil priced at more than $30 a barrel in early 2003, we do not expect industry conditions to substantially improve at least for the first quarter of 2003.

But it is *not* our intention to simply wait for conditions to get better.

Regardless of conditions, we intend to reach three key objectives in 2003: to improve our earnings, build our financial strength and work safely.

To do so, we are concentrating on the things we can control: discretionary spending, capital expenditures, asset sales, asset shutdowns, customer focus, price-volume management, and workplace safety.

Our ultimate objective remains what it has always been: to maximize long-term shareholder value. What has changed is our sense of urgency to reach that goal. I have confidence that the people of Dow, whose talent and dedication are second to none in this industry, will do so quickly and decisively.



William S. Stavropoulos
Chairman, President and Chief Executive Officer

February 12, 2003

Strong Leadership for Corporate Governance

The thirteen men and women who comprise Dow's Board of Directors have distinguished themselves as pre-eminent leaders in a broad array of disciplines: business, government, science, technology, engineering, accounting, finance, and academia. Individually, each is clearly an asset to the Company. Collectively, they fulfill an increasingly important role in Dow's corporate governance practices. Dow's Board Committee on Directors and Governance, in recommending this particular combination of people, sought the optimum balance of critical skills, knowledge of the Company and industry, and outside perspective.

Recent corporate governance lapses and the loss of investor confidence in the stock markets, combined with new rules approved by the U.S. Congress, Securities and Exchange Commission and the stock exchanges, have elevated the visibility of corporate governance in every industry. In this environment, Dow's Board and management continue to make critical business decisions with due deliberation, keeping their responsibilities to Dow stockholders in the forefront.

The role of the Board

The role of a board of directors is to oversee its company's strategy and business plan, enhance the long-term value of the company in the best interests of its stockholders, and reinforce the highest standards of ethics and integrity. Many of the responsibilities of Dow's Board are reflected in the Company's corporate governance documents, such as the Certificate of Incorporation, Bylaws, Board Committee charters, and other policy documents (see Dow's Corporate Governance page on www.dow.com). Such responsibilities include: selection and evaluation of the CEO; setting executive compensation; determination of key corporate policies; approval of major Company initiatives; advice and counsel to management; and oversight of the Company's compliance with financial, legal, and regulatory requirements.

The ability to think and act independently is a factor in Board performance, since the Board provides checks and balances to management activities. More than two-thirds of Dow's Board are non-employee Directors. Both formal and informal executive sessions (meetings without Company management present) have been a part of Dow's Board practices since the late 1980s.

Historically, Dow's norm has been separation of the Chairman and CEO positions, with a non-executive Chairman. However, with Chairman William S. Stavropoulos now also serving as the CEO, the Board created the position of Presiding Director. Among other responsibilities, the Presiding Director leads executive sessions of the Board, works with the Chairman to set the Board agenda (which determines the Board's activities) and determines what internal and external information and resources are necessary for the Directors to perform their jobs. Dr. Harold T. Shapiro, President Emeritus and Professor of Economics and Public Affairs at Princeton University, a Dow director since 1985, was elected by the non-employee Directors as the Company's first Presiding Director.

Another Dow Director recognized for her strong credentials is Barbara Hackman Franklin, President and CEO of Barbara Franklin Enterprises, and former U.S. Secretary of Commerce, who chairs Dow's Audit Committee. The Audit Committee retains the Company's independent auditing firm, oversees its performance, and pre-approves all the services the auditing firm provides to Dow. In addition to other significant responsibilities set forth in the Audit Committee's charter, this committee, composed entirely of independent directors and with multiple members meeting the new financial expertise standards, monitors the federally mandated certification of financial statements by the CEO and CFO. An internal disclosure committee ensures appropriate disclosure and integrity in that process. Dow's Audit Committee is often cited for pioneering best practices in governance.

In addition to Board Committees formed to address traditional committee functions (Audit, Compensation, and the Committee on Directors and Governance), Dow also has standing committees to focus on Finance; Environment, Health & Safety; and Public Interest, reflecting the interests and concerns of the Company's diverse stakeholders.

Other long-standing, sound Board practices include:

- A mandatory retirement policy requiring that Directors not be re-nominated after reaching age 70 (but allowing completion of any term to which they have been elected by stockholders);
- Periodic visits to Dow sites to give Directors the opportunity to learn firsthand about the various businesses and to interact with Dow employees;
- Executive sessions before and during every Board meeting, at each Audit Committee meeting, and at other times, as appropriate;
- A requirement that each Director hold a requisite amount of Dow stock; and
- Non-employee Director compensation programs designed so that a significant amount of fees are paid in the form of Dow stock or stock equivalents. Employee Directors receive no fees for Board service.

More information about Dow's Board of Directors and corporate governance may be found on the corporate governance website at www.dow.com.

Board of Directors at March 1, 2003

Arnold A. Allemang
Executive Vice President
Director since 1996

Jacqueline K. Barton
Arthur and Marian Hanisch Memorial Professor of Chemistry, California Institute of Technology
Director since 1993

Anthony J. Carbone
Vice Chairman of the Board and Senior Consultant
Director since 1995

J. Michael Cook
Retired Chairman/CEO of Deloitte & Touche LLP
Director since 2000

John C. Danforth
Partner, Bryan Cave LLP and Former U.S. Senator
Director since 1996

Willie D. Davis
President and Chief Executive Officer, All Pro Broadcasting, Inc.
Director since 1988

Barbara Hackman Franklin
President and Chief Executive Officer, Barbara Franklin Enterprises and Former U.S. Secretary of Commerce
Director 1980-92 and 1993 to date

Keith R. McKennon
Former Chairman and CEO of PacifiCorp
Director 1983-1992 and 2003 to date

J. Pedro Reinhard
Executive Vice President and Chief Financial Officer
Director since 1995

James M. Ringler
Vice Chairman of the Board, Illinois Tool Works, Inc.
Director since 2001

Harold T. Shapiro
Presiding Director
President Emeritus and Professor of Economics and Public Affairs, Princeton University
Director since 1985

William S. Stavropoulos
Chairman of the Board, President and Chief Executive Officer
Director since 1990

Paul G. Stern
Partner, Thayer Capital Partners and Arlington Capital Partners
Director since 1992

Arnold A. Allemang

Jacqueline K. Barton

Anthony J. Carbone

J. Michael Cook

John C. Danforth

Willie D. Davis

Barbara H. Franklin

Keith R. McKennon

J. Pedro Reinhard

James M. Ringler

Harold T. Shapiro

William S. Stavropoulos

Paul G. Stern

Committees of the Board of Directors

Audit Committee
B.H. Franklin, Chairman
J.C. Danforth
J.M. Ringler
H.T. Shapiro
P.G. Stern

Compensation Committee
H.T. Shapiro, Chairman
J. K. Barton
J.M. Cook
W.D. Davis
B.H. Franklin
P.G. Stern

Committee on Directors and Governance
W.D. Davis, Chairman
J.K. Barton
H.T. Shapiro
P.G. Stern

Environment, Health & Safety Committee
A.J. Carbone, Chairman
A.A. Allemang
J.K. Barton
P.G. Stern
R.M. Gross, *ex officio*
R.L. Manetta, *ex officio*
F. Ruiz, *ex officio*
S.L. Smolik, *ex officio*
L.J. Washington, Jr., *ex officio*

Executive Committee
W.S. Stavropoulos, Chairman
A.A. Allemang
J.P. Reinhard

Finance Committee
J.P. Reinhard, Chairman
A.J. Carbone
J.M. Cook
W.S. Stavropoulos
F.H. Brod, *ex officio*
K.C. Fothergill, *ex officio*
C.J. Hahn, *ex officio*
F. Ruiz, *ex officio*

Public Interest Committee
J.C. Danforth, Chairman
J.M. Cook
W.D. Davis
B.H. Franklin
K.R. McKennon
J.P. Reinhard
J.M. Ringler
H.T. Shapiro
W.S. Stavropoulos
R.W. Charlton, *ex officio*
T.S. Van Dam, *ex officio*
L.J. Washington, Jr., *ex officio*

Amerchol provides functional ingredients that improve the performance of shampoos, facial cleansers and body washes by providing enhanced conditioning properties to hair and skin.

At Dow, we continue to shape, simplify and align our portfolio to ensure that our businesses set the competitive standard in each of the regions and market segments we serve.

Delivering long-term value to our stakeholders requires us to continually align and balance our global business portfolio. Dow is focused on moving beyond the integration of recent mergers and acquisitions to ensure that our organization is ideally suited to serve our target market segments, which range from water purification and food, to transportation and building maintenance and construction.

We continue to focus on ensuring that our portfolio is strategically positioned, with the right resources in the right places. This helps us to best meet the needs of the marketplace and to deliver value to our customers. For example, with the integration of Union Carbide's Amerchol subsidiary, Dow is now a leading supplier of performance specialties to the $120 billion personal care industry on a global basis, providing key functional ingredients for products like conditioning shampoos and body washes.

We are committed to being a leader and to setting the competitive standard with both global and local customers. With resources on the ground in all major geographic regions, our business structure allows us to capitalize on the efficiencies of our manufacturing capabilities while still being able to quickly respond to rapidly changing marketplace dynamics.

In addition, we are pursuing opportunities to better capture value within growing market segments. One such effort is the recent introduction of the Dowpharma business, which supplies a broad range of technology and manufacturing services to pharmaceutical companies, thereby improving the next generation of life-saving medicines. By capitalizing on Dow's history of producing pharmaceuticals, and combining the recent acquisition of Ascot Plc with Dow's historical strengths in manufacturing and R&D, this new business positions Dow as a leader in this rapidly growing $8 billion sector of the pharmaceutical industry.

Dow's engineering plastics business recently created two market-facing business groups to better meet the needs of customers in the fast-growing information technology equipment and appliance market segments. The new alignment is helping the business enhance customer loyalty through a better understanding of each segment's business dynamics, including market drivers, industry trends, product and service needs, and demands from end users.

Our strategic global portfolio effectively extends our global reach further than ever. This allows Dow to continue to responsibly expand our presence and enhance our responsiveness in rapidly developing markets. In Southeast Asia, for example, Dow and the OPTIMAL Group of Companies—affiliates of Dow and PETRONAS, the national oil and gas company of Malaysia—recently completed construction and start-up of a world-scale, fully integrated petrochemical facility with state-of-the-art technology and products.

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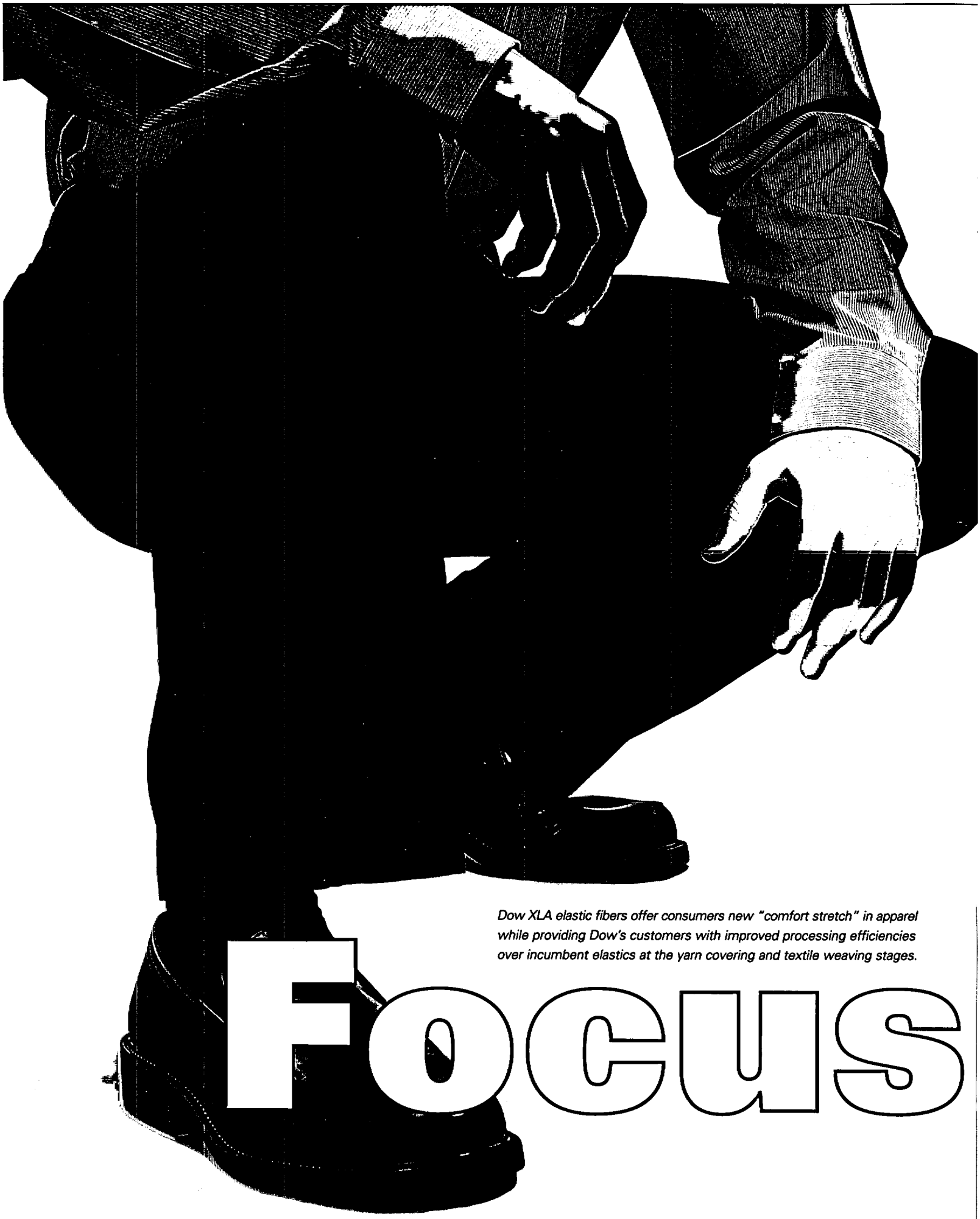

Dow XLA elastic fibers offer consumers new "comfort stretch" in apparel while providing Dow's customers with improved processing efficiencies over incumbent elastics at the yarn covering and textile weaving stages.

Focus

The key to Dow's success is being highly focused on the needs of our customers *and* the ultimate end user. This helps ensure that the technologies in our labs today become the "real world" successes of tomorrow, delivering value to Dow and our stakeholders.

Working hand-in-hand with our customers, Dow has helped discover, develop and bring to market high-value solutions to many marketplace challenges. Dow's actions range from helping customers overcome technical issues and meet industry goals, to improving established materials and even developing new and exciting consumer products.

An excellent example is Dow Automotive, which works with automakers and their suppliers to translate scientific innovation into products and systems that enable the industry to meet its goals. *Betafoam* polyurethane foam from Dow Automotive provides a safer and quieter ride in the 2003 Cadillac CTS from General Motors. The automaker uses the product in the vehicle's frame to provide the necessary structural enhancement for compliance with stringent front and offset crash safety requirements. Another *Betafoam* product is used in the body of the luxury car to seal the vehicle and eliminate wind and road noise.

A constant focus on customers has also made our Emulsion Polymers business a leading supplier to carpet, paper and paperboard manufacturers for more than 50 years. The Emulsion Polymers business invests in state-of-the-art testing facilities around the globe where Dow technical experts conduct a wide range of innovative research. This allows Dow to offer customized solutions that meet specific customer needs. The strong customer positions the business enjoys are indicative of Dow's commitment to quality products and value-added services.

Additionally, in response to growing demand in the carpet industry for sustainable products, Dow Polyurethanes introduced *Biobalance* polymers. This new soybean-based technology replaces a portion of the petroleum-based material required to make polyurethane carpet backings. This breakthrough technology addresses industry needs while supporting the agricultural community.

In 2002, Dow launched a new business offering, *BioAqueous* solubilization services, which leverages unique Dow technology and advanced pharmaceutical process expertise to enhance the ability of drugs to rapidly dissolve in the body. Dow works directly with major pharmaceutical manufacturers to create more effective medicines, which are highly sought after by doctors and patients. We also use biotechnology processes to manufacture new drugs and vaccines for pharmaceutical companies, and we're making strides toward capitalizing on the promises of plant-based biopharmaceuticals.

Our intense focus on customers and end users is the reason why many of the world's most successful companies, such as Procter & Gamble (P&G), choose Dow as their leading supplier for a wide range of products and services—from packaging resins and functional ingredients, to custom processing and supply chain services. Dow and P&G maintain cross-functional teams who work together to find synergies and deliver value to both companies. A joint packaging steering team, for example, takes advantage of Dow's core competence in plastic packaging to improve P&G's consumer purchase and usage experience. The result is a positive bottom-line impact for both companies.

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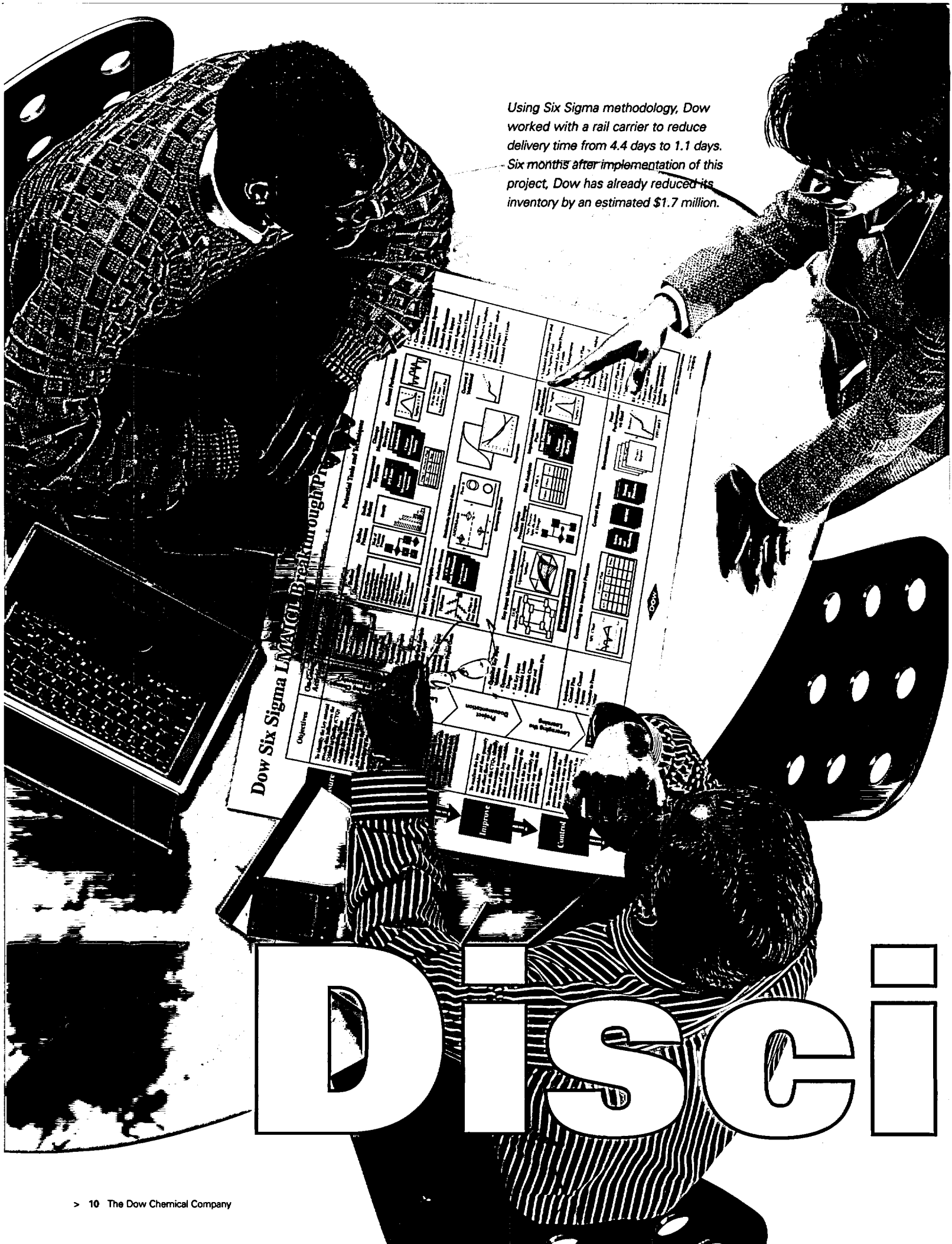
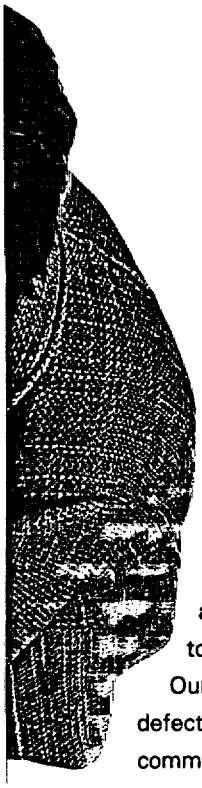


Using Six Sigma methodology, Dow worked with a rail carrier to reduce delivery time from 4.4 days to 1.1 days. Six months after implementation of this project, Dow has already reduced its inventory by an estimated $1.7 million.

Disci



A steadfast and disciplined approach to business success is the driving force that allows us to improve our productivity and retain our position as the industry's lowest-cost global supplier.

From empowering our employees to finding even more efficient ways to operate our manufacturing plants and work with suppliers, Dow takes a decisive and disciplined approach to business.

Our intolerance for variation and defects is evidenced by a continued commitment to Six Sigma, which plays a major role in our decision making and management processes. During the past three years, Six Sigma has become an integral part of Dow's operations, delivering strong successes and measurable cost reductions, the value of which will become more visible as market conditions improve. Six Sigma is also proving to be a valuable tool for Dow's customers by delivering cost, time and resource savings.

Dow also documents practices, equipment and systems that are considered best-in-class with a tool called Most Effective Technology (MET). We then share that information within and between businesses, regions and functions to capitalize on knowledge, expertise and purchasing power company-wide and improve Dow's competitive advantage. For example, effective sharing of MET, as externally benchmarked on capital projects, has resulted in an 18 percent lower capital cost for Dow on those projects, relative to the chemical industry average.

Our disciplined approach to operations has made Dow a key contributor to the industry's impressive track record of improving energy efficiency. After reducing the amount of energy used per pound of product produced by 20 percent in the early 1990s, we remain on track to achieve our goal of further reductions of 2 percent per year through 2005.

Taking full advantage of its global organization and information systems infrastructure, Dow is also leading efforts to gain competitive advantage through the use of eProcurement tools. When fully implemented, eProcurement will deliver significant value by increasing Dow's marketplace, as well as improving organizational and supplier interface efficiency. One tool, online auctions, is already allowing Dow to conduct increasingly efficient and effective supplier negotiations for purchases such as the printing of this Dow Annual Report.

We are also dedicated to maintaining the highest safety levels in our operations, so we can continue to make progress toward our vision of an incident-free workplace for employees and contractors. Our overall safety performance reached an historical best for Dow in 2002, with an Injury and Illness Rate now 73% better than our 1994 performance. Our safety discipline extends throughout the world, as we help integrate our safety programs into developing regions. In 2002, for example, Dow completed construction and start-up of world-scale polystyrene and emulsion polymers plants in Zhangjiagang, The People's Republic of China, without any safety incidents.

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We are committed to delivering long-term value for our stockholders, employees, communities and society.

At Dow, we understand and embrace the need to be a responsible corporate citizen. We are committed to the principles of sustainable development and the Triple Bottom Line business model of economic prosperity, environmental stewardship and social responsibility. We continue to make tremendous progress, and our results are reported via the Dow Global Public Report (http://www.dowpublicreport.com).

We remain dedicated to improving the quality of life in the communities where we operate and throughout society in general. From our leading environmental health and safety practices and the development of sustainable technologies, to our dedication to corporate contributions and volunteerism, we aspire to earn the satisfaction and support of this key stakeholder group.

Dow actively explores ways to reduce our overall environmental impact and improve manufacturing efficiencies. Our focus on recycling chlorine demonstrates that the two goals can go hand-in-hand. In 2005, we expect to have increased our recovery and reuse of chlorine by 1.3 billion pounds from 1995—the equivalent of two world-scale plants. We have also reduced the amount of flaring—the controlled combustion of process gases—at our hydrocarbons facilities by 20 percent since 1998, and remain committed to further reductions. Although flaring is an important safety practice, the noise, smoke, heat and light it produces impact community residents; and burning valuable products has a negative impact on Dow's bottom line.

Our commitment to ethical business practices is a critical element of our accountability to stakeholders. Dow's Board of Directors plays an important role in Dow's corporate governance practices (see pages 4-5). Additionally, high ethical standards are built into company culture, as employees operate around the world according to an established Dow Code of Business Conduct. The Company's Finance employees specifically are required to adhere to a Financial Code of Ethics, and standardized global financial work processes help ensure integrity and timeliness in our financial statements. Operating under the auspices of the Audit Committee of Dow's Board, a highly experienced internal auditing function exists to evaluate the adequacy of financial and operating controls for Dow's global operations. Dow's Office of Global Ethics and Compliance provides employees with guidelines for ethical conduct and a means of reporting potential violations, as well as implementing global training programs.

We recognize that our greatest competitive advantage is Dow's 50,000 employees. Therefore, we are committed to maintaining their satisfaction. Our comprehensive People Strategy addresses Dow's ability to attract and retain outstanding professionals, provide them with continuous learning, encourage performance excellence, achieve diversity and develop leaders at all levels.

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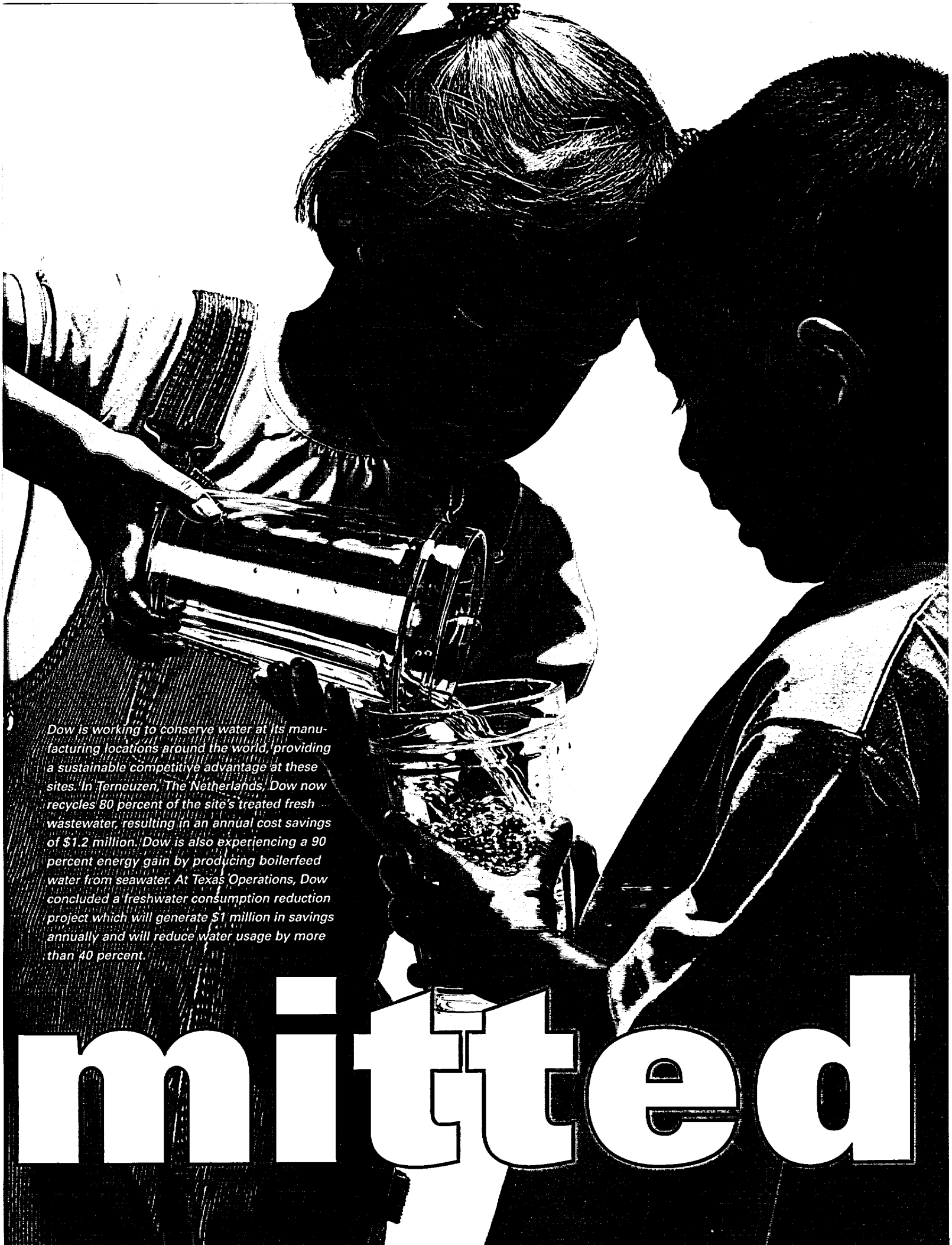

Dow is working to conserve water at its manufacturing locations around the world, providing a sustainable competitive advantage at these sites. In Terneuzen, The Netherlands, Dow now recycles 80 percent of the site's treated fresh wastewater, resulting in an annual cost savings of $1.2 million. Dow is also experiencing a 90 percent energy gain by producing boilerfeed water from seawater. At Texas Operations, Dow concluded a freshwater consumption reduction project which will generate $1 million in savings annually and will reduce water usage by more than 40 percent.

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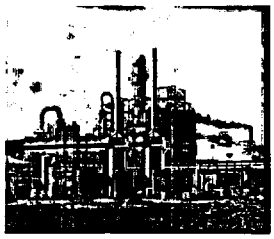
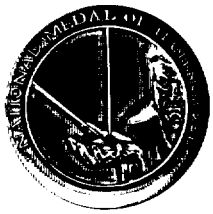
First Quarter

- Dow declares 362nd consecutive cash dividend.
- Dow Custom & Fine Chemicals global business unit forms two contract services businesses, Dowpharma and Dow Haltermann Custom Processing, to focus on the needs of customers in pharmaceutical, biopharmaceutical, and custom and fine chemicals industries.
- The U.S. Environmental Protection Agency awards "Stratospheric Ozone Protection Awards" to Dow AgroSciences LLC for the development of alternatives to methyl bromide, a widely used agricultural and structural fumigant.
- Cargill Dow Polymers LLC, a joint venture of Cargill Incorporated and Dow, begins operation of its first world-scale polylactide manufacturing plant in Nebraska to turn corn into commercial-grade plastic.



Second Quarter

- Dow declares 363rd consecutive cash dividend.
- Dow holds 105th Annual Meeting of Stockholders.
- Dow and Sumitomo sign joint development agreement to enhance run-flat tire *PAX System* technology.
- Dow receives "Sustained Excellence Award" from American Chemistry Council for demonstrating excellent safety records over three-year period.



- U.S. President George W. Bush presents *The National Medal of Technology* to Dow for leadership in science and technology, for the vision to create great science and innovative technology in the chemical industry, and for the positive impact that commercialization of this technology has had on society.
- Dow spearheads the formation of a chemical industry forum to develop a sector-wide cyber-security strategy, contributing to the U.S. government's National Strategy to Secure Cyberspace.
- Dow AgroSciences receives full food and feed approval from Japanese regulatory agencies for *Herculex I* Insect Protection, a genetically-engineered trait that provides resistance to European corn borer, black cut worm, and other insects in corn.

Third Quarter

- Allan D. Gilmour elects to retire from Dow Board of Directors.
- Dow and BASF announce plans to join in the development of technology for the manufacture of propylene oxide, utilizing hydrogen peroxide as a key raw material.

R&D 100

- Dow earns "R&D 100 Award" from *R&D Magazine* for *Quash* sound management foam.
- Dow receives third consecutive "*CIO* 100" award for exemplary business integration.
- Dow announces that beginning in the first quarter of 2003, it will expense stock options granted to employees.
- Dow declares 364th consecutive cash dividend.
- Dow Europe GmbH announces intention to build a second world-scale PET production train at its integrated Buna Sow Leuna Olefinverbund site in Schkopau, Germany.
- 2002 Dow Jones Sustainability Group Index includes Dow for fourth consecutive year.
- Dow Fiber Solutions, a new business within the global Polyolefins and Elastomers portfolio of Dow, introduces *Dow XLA* elastic fiber to the global textile marketplace.

Fourth Quarter

- Dow Automotive dedicates new state-of-the-art production facility within Ford Motor Company's newest manufacturing site in Brazil, providing "pellet-to-part" manufacturing for more than 20 parts on the Ford Fiesta, as well as ongoing technical development, R&D, manufacturing and production expertise.
- Dow Plant-Based Biopharmaceuticals acquires global, exclusive assignment of patents involving significant technology for enabling the production of mammalian-like glycans in plants.
- Dow releases its Global Public Report, highlighting company progress on sustainability goals.
- Dow and the OPTIMAL Group of Companies—affiliates of Dow and PETRONAS, the national oil and gas company of Malaysia—announce the start-up of all units. The facility includes a cracker to manufacture ethylene and propylene, and various production units for downstream products in the Chemicals and Performance Chemicals segments.
- Dow Emulsion Polymers and Metso Paper sign cooperation agreement to develop and bring to market a new paper- and board-coating process.
- Dowpharma business announces plans for commercial production capabilities for oligonucleotides, which are segments of chemically synthesized DNA used in pharmaceuticals.

- Emulsion Polymers business inaugurates styrene-butadiene latex plant in Zhangjiagang, The People's Republic of China.
- Dow receives *Modern Plastics* magazine's "2002 Humanitarian Award" for its involvement in many charitable programs around the world.
- Dow and Asahi Kasei polystyrene joint venture starts production at Zhangjiagang, The People's Republic of China.
- Dow announces 365th consecutive cash dividend.
- Dow board of directors elects William S. Stavropoulos as president and chief executive officer, succeeding Michael D. Parker.

Living. Improved daily.

Corporate Social Responsibility Highlights

Committed to the principles of sustainable development, Dow strives to make our communities, and society in general, a better place—not only through our science and technology, but also through corporate social responsibility. The examples highlighted below are representative of the hundreds of humanitarian efforts in which Dow participated throughout the world in 2002. For a broader explanation of company progress on Dow's sustainability goals, see the Dow Global Public Report (http://www.dowpublicreport.com).

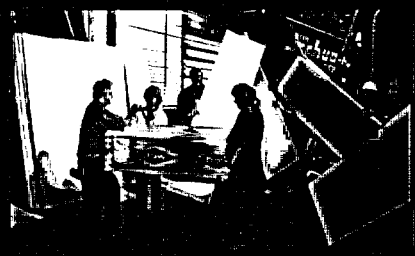
- Dow continued to support Habitat for Humanity, its flagship global humanitarian effort. Dow executives, employees and customers participated in home builds around the world—including a 100-home "blitz-build" in Durban, South Africa, alongside former U.S. President and Nobel Peace Prize recipient Jimmy Carter. Dow also continued to donate *Styrofoam* extruded polystyrene insulation for every Habitat home built in North America, as well as providing financial assistance for house sponsorships.

- Working with local non-governmental organizations, Dow helped develop a program to introduce oyster cultivation as an alternative source of income in Caboto, Brazil, where residents had previously used explosives to draw oysters out of the water. Cultivating the oysters in captivity provides a viable alternative that has a substantially higher growth rate and doesn't harm the environment. This award-winning project should become self-sufficient during its second year.

- Dow expanded its 16-year commitment to The Ocean Conservancy's International Coastal Cleanup (ICC). Approximately 350 Dow executives, customers, employees and family members removed trash from the beaches and waterways along the Texas coast. In addition, Dow made a substantial financial contribution to the ICC and donated polyethylene resin that was converted into 300,000 bags that were used at local cleanup sites around the United States.

- In China, Dow supported "Hand in Hand, Building an Earth Village," which promotes environmental education and recycling among school children, and raises funds for schools and libraries in poor communities. By 2002, Dow had helped nearly 300 elementary and high schools set up recycling banks, environmental education libraries and bulletin boards in Beijing, Shanghai and Zhangjiagang. In all, more than 1,000 schools became involved, and the funds raised through recycling paid for the construction of six primary schools in the Jianxi province and other poverty areas in China.

- Through cash and product donations, Dow helped several cities in Central Europe recover from the devastating floods that occurred during the summer of 2002. In Prague, Czech Republic, Dow helped rebuild an elementary school/nursery by donating money for the purchase of plaster and supplying *Styrofoam* extruded polystyrene insulation from Dow's production facility in Hungary. In Germany, Dow donated funds to help rebuild a children's center, and supplied more than 4,300 cubic meters of *Styrofoam* extruded polystyrene insulation for flood repairs in Saxony and Saxony-Anhalt.



Dow is a leading science and technology company that provides innovative chemical, plastic and agricultural products and services to many essential consumer markets. In 2002, Dow had annual sales of approximately $28 billion and employed approximately 50,000 people. The Company serves customers in 175 countries and a wide range of markets that are vital to human progress, including food, transportation, health and medicine, personal and home care, and building and construction, among others. The Company has 191 manufacturing sites in 38 countries and supplies more than 3,400 products grouped within the operating segments listed on the following pages. The Corporate Profile is an integral part of Note T to the Financial Statements.

Performance Plastics

APPLICATIONS:

• automotive interiors, exteriors, chassis/powertrain and body engineered systems • building and construction, thermal and acoustic insulation, roofing • communications technology, telecommunication cables, electrical and electronic connectors • computer housings and accessories • footwear • home and office furnishings: appliance insulation, mattresses, carpeting, flooring, furniture padding, office furniture • 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 delivers innovative solutions for automotive interior, exterior, chassis/powertrain and body engineered systems applications. As a leading global supplier of resins, engineering plastic materials, fluids, adhesives, sealants, epoxy dampers, structural bonding and reinforcement products, and thermal and acoustical management solutions, Dow Automotive has been recognized for its automotive components and systems. It also provides research and development, design expertise and advanced engineering.

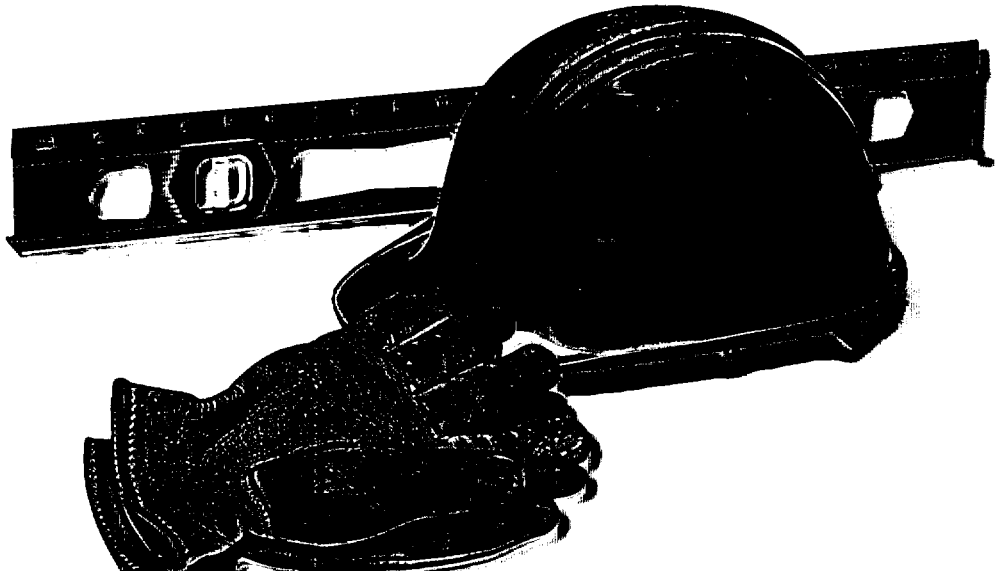
Products: *Betabrace* reinforcing composites; *Betadamp* acoustical damping systems; *Betafoam* NVH and structural foams; *Betaguard* sealers; *Betamate* structural adhesives; *Betaseal* glass bonding systems; *Calibre* polycarbonate resins; *Dow* polypropylene resins and automotive components of *Dow* polypropylene; Injection-molded dashmats and underhood barriers; *Inspire* performance polymers; *Integral* adhesive film; *Magnum* ABS resins; *Pulse* engineering resins; *Questra* crystalline polymers; *Retain* recycle content resins; *Spectrim* reaction moldable polymers; *Strandfoam* polypropylene foam

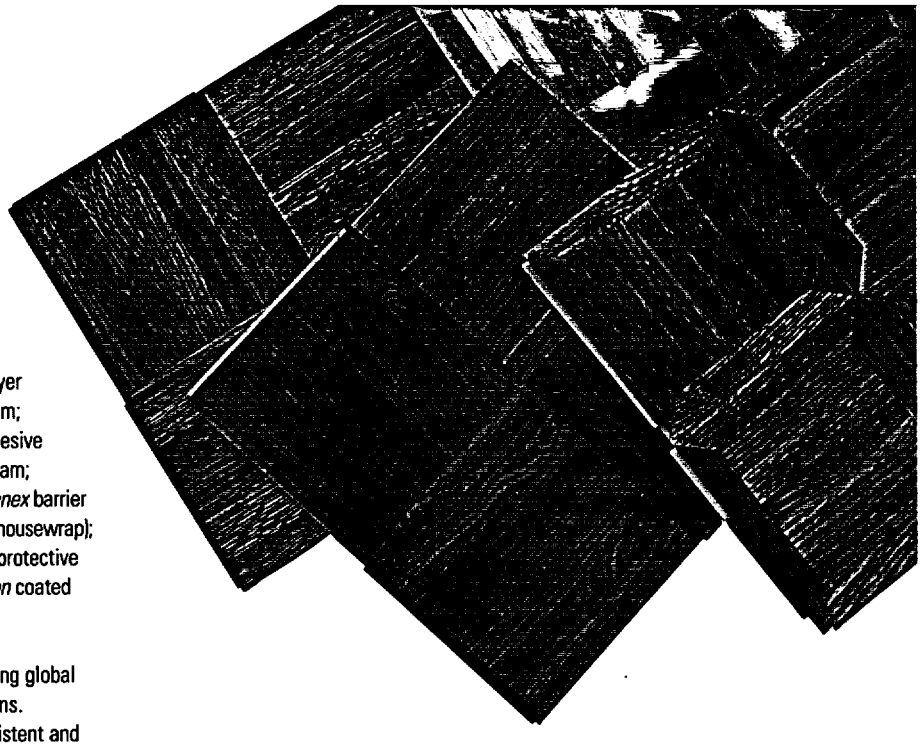
Engineering Plastics business offers one of the broadest ranges of engineering polymers and compounds of any global plastics supplier. Dow's Engineering Plastics business complements its product portfolio with technical and commercial capabilities to develop solutions that deliver improved economics and performance to its customers.

Products: *Calibre* polycarbonate resins; *Emerge* advanced resins; *Isoplast* engineering thermoplastic polyurethane resins; *Magnum* ABS resins; *Pellethane* thermoplastic polyurethane elastomers; *Prevail* engineering thermoplastic resins; *Pulse* engineering resins; *Questra* crystalline polymers; *Tyril* SAN resins

Epoxy Products and Intermediates business manufactures a variety of basic epoxy products, as well as intermediates used by other major epoxy producers. Dow is a leading global producer of basic epoxy products, supported by high-quality raw materials, technical service and production capabilities.

Products: Acetone; Acrylic monomers; Allyl chloride; Bisphenol A; *D.E.H.* epoxy catalyst resins; *D.E.N.* epoxy novolac resins; *D.E.R.* epoxy resins (liquids, solids and solutions); *Derakane* and *Derakane Momentum* epoxy vinyl ester resins; Epichlorohydrin; Epoxy acrylates; *Optim* glycerine; Phenol; UV specialty epoxies





Fabricated Products business manufactures and markets an extensive line of plastic film and foam products. Fabricated Products sets the competitive standard by creating high-performance solutions in industries ranging from packaging and construction to telecommunications, automotive and medical.

Products: *Covelle* HF weldable polyolefin film; *Dow* backing layer film; *Envision* custom foam laminates; *Ethafoam* polyethylene foam; *Immotus* acoustic panels; *Instill* vacuum insulation core; *Integral* adhesive film; *Lamdex* polyolefin foam; *Opticite* label film; Polypropylene foam; *Procite* window envelope film; *Quash* sound management foam; *Saranex* barrier medical film; *Styrofoam* brand products (including *Weathermate* Plus housewrap); *Synergy* soft touch foam; *Tanklite* protective insulation; *Trenchcoat* protective film; *Trycite* polystyrene film; *Trymer* polyisocyanurate foam; *Zetabon* coated metal cable armor

Polyurethanes and Polyurethane Systems businesses are leading global producers of polyurethane raw materials and polyurethane systems. Differentiated by their ability to globally supply a high-quality, consistent and complete product range, these businesses emphasize both existing and new business developments while facilitating customer success with a global market and technology network.

Products: Dispersions; *The Enhancer* and *Lifespan* carpet backings; *Froth-Pak* polyurethane spray foam; *Great Stuff* polyurethane foam sealant; *Insta-Stik* roof insulation adhesive; *Intacta* performance polymers; *Intacta* polyurethane gloves; *Isonate* pure and modified methylene diphenyl diisocyanate (MDI); *Papi* polymeric MDI; Propylene glycol; Propylene oxide; *Syntegra* polyurethane; *Tile Bond* roof tile adhesive; *Voracor, Voralast, Voralux* and *Vorastar* polyurethane systems; *Voranate* toluene diisocyanate; *Voranol* and *Voranol Voractiv* polyether and copolymer polyols; *Woodstalk* fiberboard products

Technology Licensing and Catalyst business includes licensing and supply of related catalysts for the *Unipol* polypropylene process, the *Meteor* process for ethylene oxide and ethylene glycol, the *LP Oxo* process for oxo alcohols, and Dow's bisphenol A process. In addition, licensing of the *Unipol* polyethylene process and related catalysts, including metallocene catalysts, is handled through Univation Technologies, LLC, a 50:50 joint venture. The business also includes UOP LLC, a 50:50 joint venture, which supplies process technology, catalysts, molecular sieves and adsorbents to the petroleum refining, petrochemical and gas processing industries.

Products: Bisphenol A process technology and catalyst; *LP Oxo* process technology; *Meteor* EO/EG process technology and catalysts; *Shac* and *Ucat* catalysts; *Unipol* process technology

Wire & Cable Compounds business is the leading global producer of a variety of performance polyolefin products that are marketed worldwide for wire and cable applications. Chief among these are polyolefin-based compounds for high-performance insulation, semiconductives and jacketing systems for power distribution, telecommunications and flame-retardant wire and cable.

Products: *Redi-Link* polyethylene, *Si-Link* crosslinkable polyethylene, *Unigard* high-performance flame-retardant compounds, *Unigard* reduced emissions flame-retardant compounds, *Unipurge* purging compounds, Wire and cable insulation and jacketing compounds

Performance Chemicals

APPLICATIONS:

• agricultural and pharmaceutical products and processing • building materials • chemical processing and intermediates • food processing and ingredients • household products • paints, coatings, inks, adhesives, lubricants • personal care products • pulp and paper manufacturing, coated paper and paperboard • textiles and carpet • water purification

Custom & Fine Chemicals business provides products and services to other specialty chemical, pharmaceutical, biopharmaceutical and agricultural chemical producers, and also produces fine chemicals for household paints and various other applications.

Products: Basic nitroparaffins and nitroparaffin-based specialty chemicals of ANGUS Chemical Company; Contract manufacturing services provided by Dowpharma and Dow Haltermann Custom Processing; Fine and specialty chemicals from Dow Haltermann Custom Processing, Chirotech Technology Limited and Mitchell Cotts; Test and reference fuels, printing ink distillates, pure hydrocarbons and esters, and derivatives of Haltermann Products

Emulsion Polymers business is the world's largest supplier of synthetic latex, and the most globally diverse of the styrene-butadiene latex suppliers. Dow is the largest supplier of latex for coating paper and paperboard used in magazines, catalogues and food packaging. Dow is also the world's largest supplier of latexes used in carpet production.

Products: Acrylic latex; Butadiene-vinylidene latex; Polystyrene latex; Styrene-acrylate latex; Styrene-butadiene latex

Industrial Chemicals business provides products used as functional ingredients or processing aids in the manufacture of a diverse range of products. Dow's surfactants and biocides businesses provide value-added ingredients for household and personal care products.

Products: Biocides; *Carbowax* polyethylene glycols and methoxypolyethylene glycols; Diphenyloxide; *Dow* polypropylene glycols; *Dowfax, Hamposyl, Tergitol* and *Triton* surfactants; *Dowtherm, Syltherm* and *Ucartherm* heat transfer fluids; *UCAR* deicing fluids; *UCON* fluids; *Versene* chelating agents

Oxide Derivatives business is the world's largest supplier of glycol ethers and amines to a diverse set of market applications, including coatings, household products, gas treating and agricultural products.

Products: Alkyl alkanolamines; Ethanolamines; Ethylene oxide- and propylene oxide-based glycol ethers; Ethyleneamines; Isopropanolamines

Specialty Polymers business is a diverse portfolio serving numerous markets. The largest unit, Liquid Separations, uses several technologies to separate dissolved minerals and organics from water, making purer water for human and industrial uses.

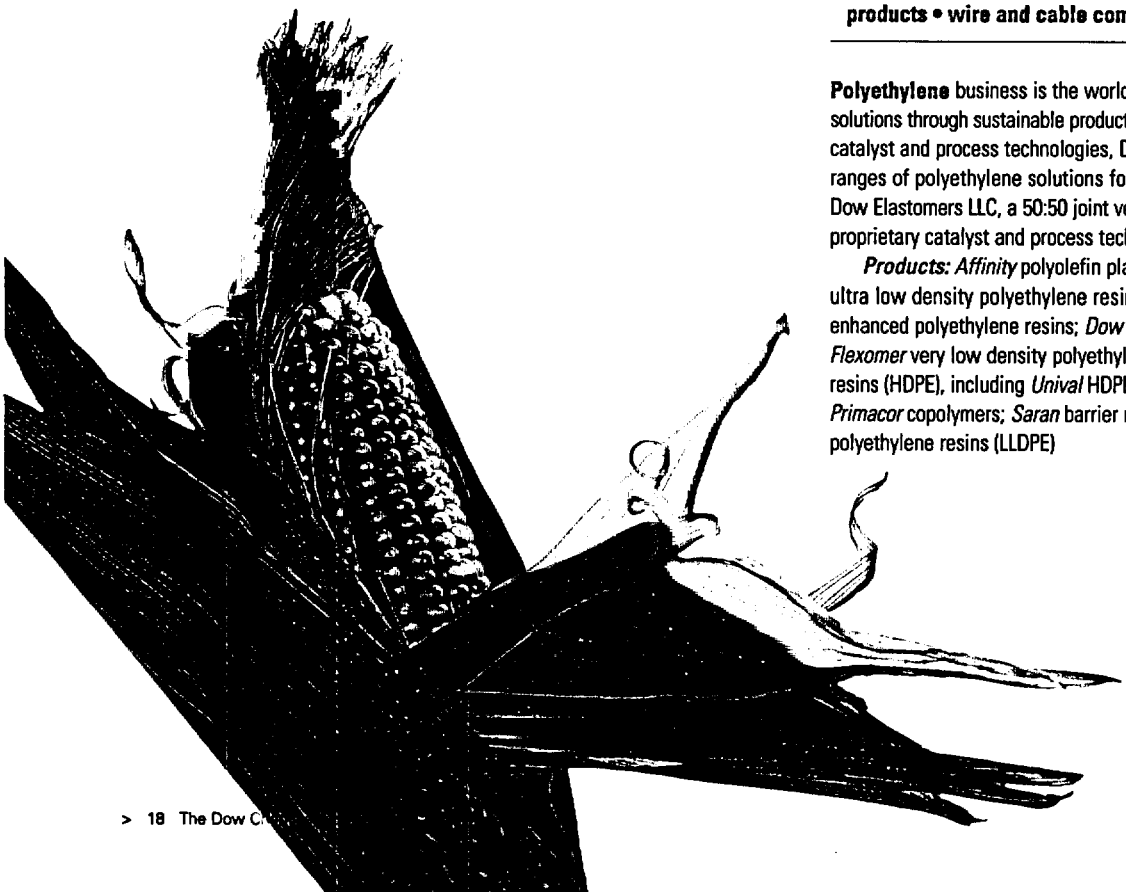
Products: Acrolein derivatives; Acrylic acid/Acrylic esters; *Cyracure* cycloaliphatic epoxides; *Daxad* dispersants; *Dowex* ion exchange resins; *Drytech* superabsorbent polymers; Epoxidized vegetable oils; *FilmTec* membranes; Glycine; Peroxymerics; Polyvinyl acetate resins; Quaternaries; Redispersible polymer powders; Solution vinyl resins; Specialty monomers; Sulfur derivative compounds; Surface sizing polymers; *Tone* polyols, polymers and monomers

***UCAR* Emulsion Systems** is a leading global supplier of water-based emulsions used as key components in decorative and industrial paints, adhesives, textile products, and construction products such as caulks and sealants. These products allow customers to formulate more environmentally friendly products that contain less or no solvent.

Products: Neocar branched vinyl ester latexes; *Polyphobe* rheology modifiers; *UCAR* all-acrylic, styrene-acrylic and vinyl-acrylic latexes

Water Soluble Polymers business provides a portfolio of high-value, multifunctional ingredients used to enhance the physical and sensory properties of end products in a wide range of applications, including food, pharmaceuticals, oilfield, paints and coatings, personal care, building and construction, and many other specialty applications.

Products: Cellosize hydroxyethyl cellulose; *Ethocel* ethylcellulose resins; *Methocel* cellulose ethers; *Polyox* water-soluble resins; Products for hair/skin care from Amerchol Corporation



Agricultural Sciences

APPLICATIONS:

• control of weeds, insects and diseases in plants • pest management • seeds • traits (genes) for crops and agriculture

Dow AgroSciences LLC is a global leader in providing pest management, agricultural and crop biotechnology products. 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 crop seeds and traits for seeds.

Products: Acetochlor herbicide products; *Clincher* herbicide; *Dithane* fungicide; *Dursban* and *Lorsban* insecticides; *FirstRate* herbicide; *Fortress* fungicide; *Garlon* herbicide; *Glyphomax* herbicide; *Grandstand* herbicide; *Herculex I* Insect Protection; *Lontrel* herbicide; *Mustang* herbicide; *Mycogen* seeds; *PhytoGen* cottonseeds; *Sentricon* Termite Colony Elimination System; *Spider* herbicide; *Starane* herbicide; *Stinger* herbicide; *Strongarm* herbicide; *Telone* soil fumigant; *Tordon* herbicide; *Tracer Naturalyte* insect control; *Treflan* herbicide; *Vikane* structural fumigant

Plastics

APPLICATIONS:

• appliances and appliance housings • agricultural films • automotive parts and trim • beverage bottles • building and construction • consumer and durable goods • consumer electronics • disposable diaper liners • fibers • films, bags and packaging for food and consumer products • flexible and rigid packaging • housewares • hygiene and medical films and nonwovens • industrial and consumer films and foams • information technology • oil tanks and road equipment • toys, playground equipment and recreational products • wire and cable compounds

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, Dow offers one of the industry's broadest ranges of polyethylene solutions for a wide variety of applications. DuPont Dow Elastomers LLC, a 50:50 joint venture, leverages *Insite* Technology, Dow's proprietary catalyst and process technology, into elastomeric products.

Products: Affinity polyolefin plastomers; *Aspun* fiber grade resins; *Attane* ultra low density polyethylene resins; *Dowlex* polyethylene resins; *Elite* enhanced polyethylene resins; *Dow XLA* elastic fiber for the textile industry; *Flexomer* very low density polyethylene resins; High density polyethylene resins (HDPE), including *Unival* HDPE; Low density polyethylene resins (LDPE); *Primacor* copolymers; *Saran* barrier resins and films; *Tuflin* linear low density polyethylene resins (LLDPE)

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: Homopolymer polypropylene resins; Impact copolymer polypropylene resins; *Inspire* performance polymers; Random copolymer polypropylene resins

Polystyrene business, the global leader in the production of polystyrene resins, is uniquely positioned with geographic breadth and broad industry experience to meet a diverse range of customer needs. By implementing breakthrough proprietary technology, Dow continues to improve efficiencies and product performance.

Products: Styron A-Tech advanced technology polystyrene resin; *Styron* general purpose polystyrene resin; *Styron* high-impact polystyrene resin; *Styron* ignition-resistant polystyrene resin

The Plastics segment also includes polybutadiene rubber, polyethylene terephthalate (PET), purified terephthalic acid (PTA), styrene-butadiene rubber and several specialty resins.

Chemicals

APPLICATIONS:

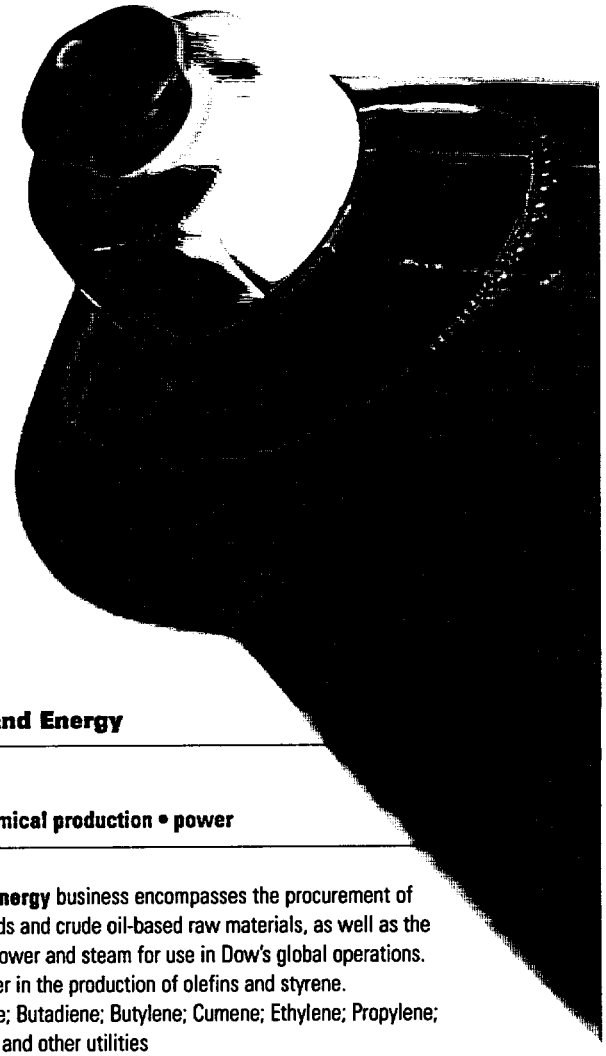
• agricultural products • alumina • automotive antifreeze, coolant systems • carpet and textiles • chemical processing • dry cleaning • dust control • household cleaners and plastic products • inks • metal cleaning • packaging, food and beverage containers, protective packaging • paints, coatings and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

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; Magnesium hydroxide; *Maxicheck* procedure for testing the strength of reagents; *Maxistab* stabilizers for chlorinated solvents; Methyl chloride; Methylene chloride; Oxo products; *Peladow* calcium chloride pellets; Perchloroethylene; *Safe-Tainer* closed-loop delivery system; Trichloroethylene; Vinyl acetate monomer (VAM); Vinyl chloride monomer (VCM)

Ethylene Oxide/Ethylene Glycol business is the world's leading producer of ethylene oxide, used primarily for internal consumption, and ethylene glycol, which is sold for use in polyester fiber, PET for food and beverage applications, polyester film and antifreeze.

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



Hydrocarbons and Energy

APPLICATIONS:

• polymer and chemical production • power

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 for use in Dow's global operations. Dow is the world leader in the production of olefins and styrene.

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

New Business Growth includes Industrial Biotechnology, Pharmaceutical Technologies, and new developments with a focus on identifying and pursuing commercial opportunities. The results of Advanced Electronic Materials; New Business Growth; Venture Capital; the Company's insurance operations; as well as Cargill Dow LLC and Dow Corning Corporation, both of which are 50:50 joint ventures, are included in Unallocated and Other.

Management Team at March 1, 2003

Arnold A. Allemang, Executive Vice President, Operations

Kathleen M. Bader, Business Group President (Engineering Plastics, Fabricated Products, Polystyrene, Synthetic Rubber); and responsibility for Six Sigma

A. Charles Fischer, President and CEO, Dow AgroSciences LLC

Richard M. Gross, Corporate Vice President, Research & Development and New Business Growth

David E. Kepler, Corporate Vice President and Chief Information Officer; and responsibility for eBusiness and Advanced Electronic Materials

Romeo Kreinberg, Business Group President (Dow Fiber Solutions, Polyethylene, Polypropylene, PET/PTA, Wire & Cable Compounds)

Andrew N. Liveris, Business Group President (Custom and Fine Chemicals, Emulsion Polymers, Industrial Chemicals, Oxide Derivatives, Specialty Polymers, *UCAR* Emulsion Systems, Water Soluble Polymers)

Richard L. Manetta, Corporate Vice President and General Counsel

Lee P. McMaster, Business Group President (Core Chemicals, Environmental Operations, Technology Licensing and Catalysts)

J. Pedro Reinhard, Executive Vice President and Chief Financial Officer

Luciano Respini, President, Dow Europe; Chairman of the Global Geographic Council; and responsibility for Sales and Marketing

William S. Stavropoulos, President and Chief Executive Officer

Theo H. Walthie, Business Group President (Hydrocarbons & Energy, Ethylene Oxide/Ethylene Glycol)

Lawrence J. Washington, Jr., Corporate Vice President, Environment, Health & Safety, Human Resources and Public Affairs

Robert L. Wood, Business Group President (Polyurethanes, Polyurethanes Systems, Epoxy Products and Intermediates, Dow Automotive)

Corporate Organization at March 1, 2003

Chairman of the Board, President and Chief Executive Officer
William S. Stavropoulos

Executive Vice President and Chief Financial Officer
J. Pedro Reinhard

Executive Vice President
Arnold A. Allemang

Corporate Vice President, Environment, Health & Safety, Human Resources and Public Affairs
Lawrence J. Washington, Jr.

Corporate Vice President, Research & Development and New Business Growth
Richard M. Gross

Corporate Vice President and Chief Information Officer
David E. Kepler

Corporate Vice President and General Counsel
Richard L. Manetta

Vice President and Controller
Frank H. Brod

Vice President and Treasurer
Fernando Ruiz

Secretary of the Company
Tina S. Van Dam

Assistant Secretary
Charles J. Hahn
Thomas E. Moran

Corporate Auditor
Douglas J. Anderson

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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.

INTRODUCTORY NOTES TO READERS

The accompanying consolidated financial statements of The Dow Chemical Company and its subsidiaries give retroactive effect to the Union Carbide merger, which was completed on February 6, 2001, and accounted for as a pooling of interests. Accordingly, the consolidated financial statements include the combined accounts of the two companies for all periods presented. See Note C to the Consolidated Financial Statements for additional information.

Prior to this annual report, the net results of the Company's insurance operations were presented on a separate line entitled "Insurance company operations, pretax income" on the income statement. The consolidated financial statements in this annual report reflect a reclassification of these results to "Net sales" and "Cost of sales" for all periods presented.

RESULTS OF OPERATIONS

The year 2002 was a difficult year for the chemical industry and Dow. Neither the general economy nor industry fundamentals offered much relief from the difficult conditions the Company faced in 2001. On the positive side, the Company completed the integration of Union Carbide and other recent acquisitions, including Ascot Plc ("Ascot"), Rohm and Haas' agricultural chemicals business, the remaining 50 percent of Gurit-Essex AG ("Gurit-Essex"), and EniChem's polyurethanes business. With the Union Carbide integration alone, the Company achieved cost synergies of $1.2 billion, exceeding its ambitious targets.

Dow's sales for 2002 were $27.6 billion, compared with $28.1 billion in 2001 and $29.8 billion in 2000. Sales declined slightly in 2002 as selling prices fell 6 percent and volume increased 4 percent (see Sales Price and Volume table on page 27). Prices were lower in all operating segments and across all geographic areas, reflecting the difficult economic environment. Volume growth was strongest in Asia Pacific and Latin America, with Plastics showing the greatest improvement in both regions. Volume also improved in Europe, aided by the acquisitions in mid-2001 of Ascot, EniChem's polyurethanes business, and Rohm and Haas' agricultural chemicals business. Volume declined in the United States, principally in Performance Plastics and Performance Chemicals. Excluding the impact of the 2001 acquisitions, overall volume improved 3 percent in 2002.

Sales in the United States accounted for 41 percent of total sales in 2002, compared with 43 percent in 2001 and 44 percent in 2000. Sales and other information by operating segment and geographic area are provided in Note T to the Consolidated Financial Statements.

The Company expects 2003 to be another challenging year. The global economy is expected to improve gradually, with global GDP increasing 2 to 2.5 percent. The Company expects some improvement in most regions of the world. However, with the extreme volatility in feedstock and energy prices caused by geopolitical factors, the Company expects its raw material costs to be substantially higher, at least for the first half of the year. To mitigate the effects of the challenging environment, the Company has announced plans to control discretionary spending, reduce capital expenditures, and sell or shut down non-strategic or underperforming assets in order to improve overall financial performance.

SEGMENT RESULTS

The Company uses "Earnings before Interest, Income Taxes and Minority Interests" ("EBIT") as its measure of profit/loss for segment reporting purposes. The reconciliation between EBIT and "Income (Loss) before Income Taxes and Minority Interests" is shown below:

IN MILLIONS	2002	2001	2000
EBIT	$ 86	$ 35	$3,105
Interest income	66	85	146
Interest expense and amortization of debt discount	774	733	665
Income (Loss) before Income Taxes and Minority Interests	$(622)	$(613)	$2,586

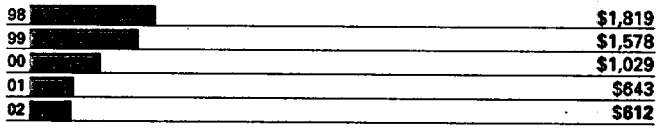
Performance Plastics

Performance Plastics sales decreased 3 percent to $7.1 billion in 2002, compared with $7.3 billion in 2001. Sales were $7.7 billion in 2000. Volume increased 3 percent over 2001, while prices decreased 6 percent. Excluding 2001 acquisitions, volume in 2002 was up just 1 percent, reflecting weak industry demand in many of the segment's businesses. Sales in 2001 reflected a 1 percent volume decline while prices decreased 4 percent versus 2000.

EBIT for the segment was $612 million in 2002, compared with $643 million in 2001 and $1.0 billion in 2000. EBIT in 2002 decreased as the impact of continued competitive price pressure more than offset the realization of acquisition-related cost synergies and lower feedstock costs. EBIT in 2002 also included the impact of a $10 million restructuring charge (Dow's share) recorded by UOP LLC, a joint venture between Union Carbide and Honeywell International Inc., in the second quarter. EBIT in 2001 decreased from 2000 due to soft demand and lower prices. Results for 2000 included an unusual charge of $31 million recorded by UOP LLC, related primarily to losses associated with certain customer contracts coupled with restructuring charges.

Performance Plastics—Sales (in millions)

Performance Plastics—EBIT (in millions)



Dow Automotive sales were up 1 percent versus 2001. Prices declined 2 percent in 2002 due to an intensely competitive environment within the automotive industry. Volume was up 3 percent as Dow Automotive continued to expand its new product offerings, including the start-up of a parts manufacturing facility in Brazil. EBIT increased as a result of improved margins from higher-value products and the realization of cost synergies related to the acquisition of the remaining 50 percent interest in Gurit-Essex in 2001.

Engineering Plastics sales were down 14 percent compared with 2001. Prices declined 15 percent, as low industry operating rates caused competitive price reductions. Sales of polycarbonate to Asia Pacific declined in 2002, as LG Dow Polycarbonate Ltd., a 50:50 joint venture with LG Chemical Ltd., now sources customers in that region. Sales volume was also impacted as Dow exited its nylon alliance with Solutia Inc. Despite these changes, volume was up 1 percent. During 2002, Dow successfully completed the start-up of a new ABS manufacturing facility in Terneuzen, The Netherlands. EBIT in 2002 was down, reflecting the dramatic drop in prices.

Epoxy Products and Intermediates sales decreased 7 percent compared with 2001. Volume was flat to 2001, as the electronics industry in Asia Pacific failed to recover from the dramatic market decline in 2001. Intense competitive activity continued, resulting in a 7 percent price decline. As a result, Dow temporarily idled one of its epichlorohydrin manufacturing plants in Freeport, Texas, in 2002. Despite the decline in sales, EBIT improved due primarily to cost reductions and lower feedstock costs.

Fabricated Products sales increased 2 percent in 2002. Volume was up 4 percent compared with last year reflecting the first full year of sales of polyisocyanurate insulation products acquired in the third quarter of 2001 from Celotex Corporation. Excluding the addition of these products, volume declined 3 percent due to weakness in the electronics packaging and fiber optic telecommunications industries. Dow experienced strong sales growth in China and Russia in 2002, as construction and infrastructure spending increased. Prices decreased 2 percent, predominantly due to industry overcapacity for engineered films and laminates. Capacity optimization improved late in 2002 with the addition of a new production facility for *Styrofoam* insulation in Estarreja, Portugal. EBIT was lower in 2002, reflecting the impact of lower selling prices and higher raw material costs.

Technology Licensing and Catalyst sales were down 8 percent from 2001 due to reduced volume. Reduced production rates among polyethylene and polypropylene licensees lowered catalyst sales and royalties. While ethylene oxide/ethylene glycol ("EO/EG") technology licensing was also slow, EO/EG catalyst sales were robust due to the start-up of new facilities in Malaysia in 2002. EBIT in 2002 was lower due to reduced volumes.

Polyurethanes sales were up 1 percent versus last year. Volume increased 6 percent reflecting the acquisition of EniChem's polyurethanes business in April 2001. Excluding this acquisition, volume increased 3 percent, led by growth within polyurethanes systems. Compared with last year, prices declined 5 percent, hitting ten-year lows in the first half of the year for several product lines. Prices began to recover in the second half of the year. EBIT in 2002 declined due to lower selling prices and increased raw material costs.

Wire and Cable sales in 2002 were down 17 percent as demand from the telecommunications industry dropped 30 percent versus 2001. Prices were stable in 2002, but EBIT declined due to lower volumes.

Performance Plastics Outlook for 2003

The Performance Plastics segment expects some improvement in 2003 market conditions, resulting in an increase in sales from 2002. Competition is expected to remain aggressive while industry capacity utilization remains low, but prices are not expected to return to the low levels of 2002. Profitability is expected to improve with increased focus on higher-margin products and cost control initiatives.

Dow Automotive anticipates that the continued launch of new product offerings will result in expanded market participation. Engineering Plastics expects price competition to continue as competitors aggressively invest in Asia Pacific. Volume is expected to grow due to ABS capacity added in 2002 in Terneuzen, The Netherlands.

Epoxy Products and Intermediates anticipates improved sales, as volumes are expected to return to long-term trend line growth rates with higher volumes in Asia Pacific due to some improvement in the electronics industry from its low 2002 levels. Prices are expected to remain highly competitive due to industry oversupply. Start-up of a new epoxy resin manufacturing facility in Zhangjiagang, The People's Republic of China, is scheduled for the second quarter of 2003.

Fabricated Products expects volume growth in the building materials industry. The Technology Licensing and Catalyst business expects the competitive environment for polypropylene catalysts to continue in 2003, since new suppliers have entered the market with competitive offerings using technologies from recently expired patents.

Polyurethanes' results are expected to improve from very difficult industry conditions in 2001 and 2002. Dow announced several strategic actions designed to improve profitability, including a review of manufacturing assets, initiatives to reduce operating costs and an increased emphasis on accelerating growth for higher-margin new products. The business also expects continued growth of polyurethanes systems into new emerging geographic markets.

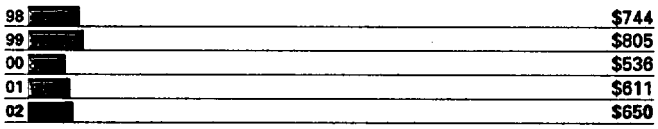
Performance Chemicals

Performance Chemicals sales were $5.1 billion in 2002 and 2001, and $5.3 billion in 2000. Prices declined 2 percent versus last year due to weak economic conditions, while volume increased 3 percent. The increase in volume was primarily due to the acquisition of Ascot in the second quarter of 2001 and stronger sales of emulsion polymers into the coated paper and carpet industries. Volume grew in Europe and Asia Pacific, partially offset by declines in North America. Sales in 2001 declined from 2000 due to divestitures of businesses required for regulatory approval of the Union Carbide merger and softening demand in the automotive, steel, and pulp and paper industries.

EBIT in 2002 was $650 million versus $611 million in 2001 and $536 million in 2000. The improvement in EBIT in 2002 reflects the combined impact of higher sales volume, cost synergies from the Union Carbide merger and the Ascot acquisition, and a continued focus on productivity improvements. EBIT in 2001 increased from 2000 due to price increases, lower feedstock and energy costs, realization of cost synergies from recent acquisitions, and productivity improvements.

Performance Chemicals—Sales (in millions)

Performance Chemicals—EBIT (in millions)



Custom and Fine Chemicals sales increased 25 percent compared with 2001 due to the acquisition of Ascot in the second quarter of 2001. EBIT improved in 2002 due to an increase in volume and the realization of cost synergies associated with the acquisition of Ascot.

Emulsion Polymers increased sales 7 percent versus last year. Volume, up in all geographic areas, increased 11 percent. This volume improvement was driven by stronger demand for coated paper and the acquisition of the carpet and paper latex businesses of Reichhold, Inc. Prices declined 4 percent due to competitive pressures in North America and Europe. Price increases implemented late in 2002 restored margins back to the levels of the fourth quarter of 2001. Despite the increase in sales, EBIT in 2002 declined due to higher styrene monomer costs.

Industrial Chemicals sales were down 6 percent compared with 2001. Both volume and prices declined 3 percent due to competitive pressures in polyglycols and surfactants and weaker demand in the heavy industrial markets. EBIT in 2002 declined slightly versus 2001, as the decline in prices and volume offset the realization of merger-related cost synergies and the impact of productivity improvements.

Oxide Derivatives sales were down 4 percent in 2002 compared with 2001. Volume declined 3 percent due to the divestiture of certain businesses related to the Union Carbide merger in mid-2001 and a decision to eliminate lower-margin business in North America and Europe. Prices declined 1 percent. Despite lower sales, EBIT increased substantially in 2002 due to the realization of merger-related cost synergies and savings achieved through a continued focus on productivity.

Specialty Polymers sales were down 1 percent versus last year, as prices declined 2 percent, offset by a 1 percent improvement in volume. Prices declined due to excess global industry capacity in acrylic acid, which created a difficult, competitive environment. EBIT declined in 2002, as margins were compressed due to lower selling prices.

UCAR Emulsion Systems ("UES") sales were down slightly versus last year, as a 2 percent decline in prices was partially offset by a 1 percent increase in volume. EBIT improved in 2002 due to the combined favorable impact of higher volume and the realization of merger-related cost synergies.

Water Soluble Polymers sales were up 1 percent versus 2001 due to increased demand in the construction industry driven by lower interest rates. Prices were relatively flat versus 2001. EBIT improved in 2002 due to higher volume, the realization of merger-related cost synergies and improved manufacturing operations.

Performance Chemicals Outlook for 2003

Performance Chemicals anticipates improving demand in selected markets. Sales volume is expected to grow through continued integration of recent acquisitions and net capacity additions at a number of Dow facilities. Prices are also expected to improve slightly as supply/demand balances tighten in several businesses. EBIT is expected to improve in 2003 due to the continued realization of cost synergies from recent acquisitions, cost reductions, productivity improvements, and asset and supply chain optimization. Production facilities will be temporarily idled in Edison, New Jersey, by Amerchol Corporation, a wholly owned subsidiary of Dow, and by UES in Bayamon, Puerto Rico, in early 2003. Customers will be supplied from other facilities.

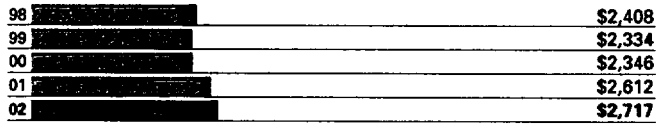
Capacity for *Methocel* cellulose ethers and styrene-butadiene latex will start up in Stade, Germany, and Terneuzen, The Netherlands, respectively, to meet growing demand. Custom and Fine Chemicals will complete the construction of a new facility in Midland, Michigan, to manufacture oligonucleotides, a new class of breakthrough pharmaceutical therapeutics.

Agricultural Sciences

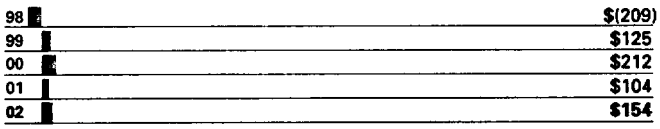
Agricultural Sciences sales were $2.7 billion in 2002, compared with $2.6 billion in 2001 and $2.3 billion in 2000. Volume increased 6 percent versus 2001, while prices declined 2 percent. The addition of Rohm and Haas' agricultural chemicals business, acquired in June of 2001, was the key driver behind the 2002 volume increase. Excluding the impact of this acquisition, volume declined 2 percent. Volume growth in 2002 was hampered by drought and reduced demand for insecticides in key geographic areas. The competitive environment remained challenging in 2002 with continued industry consolidation and an increasing presence of generic products. Sales in 2001 improved versus 2000, as a 15 percent increase in volume, primarily due to acquisitions, was partially offset by a 4 percent decline in prices.

EBIT in 2002 was $154 million versus $104 million in 2001 and $212 million in 2000. There was a strong focus on cost reductions to improve profitability in 2002. These improvements, however, were offset by seed plant write-offs, the impact of a new import tax and currency weakness in Argentina, and severance of $5 million related to a workforce reduction program. EBIT in 2001 was reduced by a $69 million charge for purchased in-process research and development ("IPR&D") associated with the Rohm and Haas acquisition (See Note B to the Consolidated Financial Statements). EBIT in 2001 included the impact of goodwill amortization of $72 million; goodwill amortization in 2000 was $54 million. The Company ceased amortizing goodwill upon adoption of Statement of Financial Accounting Standards ("SFAS") No. 142, "Goodwill and Other Intangible Assets," on January 1, 2002 (see Notes A, F and T to the Consolidated Financial Statements).

Agricultural Sciences—Sales (in millions)



Agricultural Sciences—EBIT (in millions)



Agricultural Sciences Outlook for 2003

Agricultural Sciences sales for 2003 are expected to increase, with improvements in both price and volume. The agricultural chemicals industry is expected to stabilize from the decline experienced in recent years. The trend toward genetically modified crop plantings will continue to transform the demand for insecticides and selective herbicides to biotechnology-derived products. In the near term, this trend will result in continued pressure on the Company's traditional agricultural chemicals business. Growth is anticipated through line extensions of spinosad insect control products and florasulam, a post emergent broadleaf cereal herbicide that provides outstanding control of a wide spectrum of broadleaf weeds. In 2003, Dow AgroSciences expects to launch *Herculex I* insect protection, a genetically engineered trait in corn that provides resistance to certain insects. Japanese regulatory agencies approved *Herculex I* for full food and feed use in 2002.

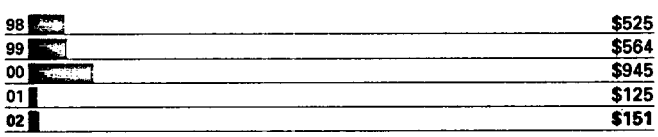
Plastics

Sales for the Plastics segment were $6.5 billion in 2002 and 2001, and $7.1 billion in 2000. Prices declined 8 percent in 2002 compared with 2001, while volume increased 8 percent. The significant erosion of selling prices during the second half of 2001 continued through the first quarter of 2002 before improving. Volume increased 12 percent during the first half of the year compared with 2001; however, demand growth slowed during the second half of the year. Sales in 2001 were down 9 percent from 2000, as prices declined 10 percent and volume improved 1 percent.

EBIT for the year was $151 million, up from $125 million in 2001. EBIT in 2002 improved as increased volume and lower feedstock and energy costs more than offset the impact of lower selling prices. Also contributing to the improvement in EBIT was the continued realization of merger-related cost synergies, the impact of productivity improvements, and higher equity earnings. Equity earnings were up 20 percent, primarily due to improved earnings from DuPont Dow Elastomers L.L.C., despite a restructuring charge of $8 million (Dow's share). EBIT in 2002 includes a $20 million write-down of ethylene styrene interpolymers market development assets located in Sarnia, Ontario, Canada. EBIT in 2001 was down sharply from $945 million in 2000, due to significantly lower selling prices and equity earnings.

Plastics—Sales (in millions)

Plastics—EBIT (in millions)



Polyethylene sales decreased 4 percent in 2002, as a decline in prices exceeded volume growth. Prices were down 11 percent in 2002, with significant declines reported in all geographic areas. Early in the year, prices continued the decline that began in 2001. Prices improved during the middle of the year but moved lower at year-end. Certain production capacity remained idle during the year due to low margins. Volume grew 7 percent versus 2001 with significant increases for most products in Latin America and Asia Pacific. *Affinity* polyolefin plastomers and *Saran* resins both saw significant volume growth during the year. EBIT for the business was flat compared with 2001, as the significant decline in selling prices offset the favorable impact of lower feedstock and energy costs, productivity improvements, and the continued realization of merger-related cost synergies.

Polypropylene sales increased 25 percent in 2002, as volume increased 21 percent and prices increased 4 percent. Increased demand was met with capacity that started up at the end of 2000 and a polypropylene plant purchased from Basell in 2001. Demand for *Inspire* performance polymers, introduced in mid-2000, continued to grow at a strong pace. EBIT improved significantly from 2001 due to strong volume, improved prices and the realization of merger-related cost synergies.

Polystyrene sales grew 8 percent during 2002. Volume increased 11 percent, returning volume to levels above those experienced in 2000. Prices declined 3 percent in 2002, reaching historically low levels in the first quarter of 2002. Increased demand and tight styrene monomer supply moved prices upward in the second half of the year, though margins remained under pressure. EBIT declined significantly in 2002 due to lower prices and higher feedstock costs.

Plastics Outlook for 2003

Anticipated increases in feedstock and energy costs in 2003 and continued low operating rates will make 2003 another challenging year for Plastics.

Polyethylene volumes are expected to increase in most geographic areas, with improvements in price driven by increases in feedstock costs. The anticipated start-up of a new polyethylene production facility in Terneuzen, The Netherlands, will better position Dow to serve customers in Europe. New industry capacity in the Middle East will impact markets in Asia Pacific and keep capacity utilization rates under pressure.

Polypropylene volume is expected to decline in 2003 primarily due to the temporary shutdown of Dow manufacturing facilities in Germany for required maintenance. New capacity within the industry is expected to start up in the first half of 2003, keeping supply and demand balanced in spite of expected demand growth.

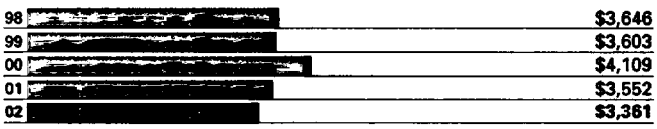
New styrene capacity starting up in 2003 in Europe is not expected to match the anticipated increase in demand, which should result in higher global styrene operating rates and some improvement in polystyrene profitability. In October 2002, Styron Asia Limited, a joint venture between Dow and Asahi Kasei, began operations in Zhangjiagang, The People's Republic of China. Polystyrene expects improvement in equity earnings, resulting from a full year of operations at Styron Asia Limited.

Chemicals

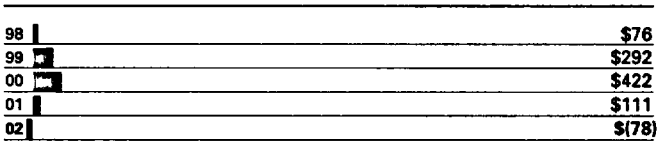
Chemicals sales were $3.4 billion in 2002, compared with $3.6 billion in 2001 and $4.1 billion in 2000. Prices decreased 11 percent versus 2001, primarily due to decreases in organic intermediates, solvents and monomers ("OISM"), caustic soda, and chloromethanes, somewhat offset by higher vinyl chloride monomer ("VCM") and ethylene dichloride ("EDC") prices. Volume was up 6 percent from 2001, with increases in ethylene glycol ("EG"), chlorinated organics and VCM. In 2001, prices declined 5 percent and volumes declined 9 percent versus 2000.

EBIT was a loss of $78 million in 2002, down from income of $111 million in 2001, principally due to declining prices that were only partially offset by lower feedstock and energy costs. EBIT was also impacted by costs related to the start-up of new VCM facilities in Freeport, Texas, and chlor-alkali facilities in Stade, Germany; and a $13 million charge for the write-down of assets related to the shutdown of a chlor-alkali facility in Fort Saskatchewan, Alberta, Canada. EBIT in 2001 was down from $422 million in 2000, principally due to declining prices and volumes.

Chemicals—Sales (in millions)



Chemicals—EBIT (in millions)



VCM pricing in the fourth quarter of 2002 increased over 60 percent from the trough-level prices of the fourth quarter of 2001, due to favorable polyvinyl chloride ("PVC") supply/demand balances in North America and Europe. Industry demand for PVC, the largest end-use product for VCM, was 6 percent higher in North America in 2002 versus 2001. During the first half of 2002, caustic soda pricing continued the decline that began in the second half of 2001. Prices began to improve in the second half of 2002. Caustic soda volume in 2002 was up 4 percent compared with 2001. Additional chlor-alkali capacity was brought on-line in 2002 in Stade, Germany, while older capacity in Plaquemine, Louisiana, and Fort Saskatchewan, Alberta, Canada, was idled. Late in 2002, the Company made the decision to permanently shut down the chlor-alkali facility at Fort Saskatchewan in early 2003, resulting in a charge of $13 million for the write-down of the assets. A VCM manufacturing unit in Freeport, Texas, was restarted after a 40 percent expansion project.

EG prices were down in 2002, compared with 2001, while volume was up. During 2002, a plant in Louisiana was idled for the full year, and a plant in Prentiss, Alberta, Canada, was idled for two months due to slow demand. In the second half of 2002, demand began to recover and some upward price movement was achieved.

OISM prices declined in 2002 while volume increased. OISM continued to operate in a highly competitive market. Industry oversupply of oxo alcohols weakened prices in 2002. Global demand for vinyl acetate monomers remained weak.

Chemicals Outlook for 2003

Caustic soda pricing is expected to continue improving as a result of global production shutdowns within the industry, improvement in underlying demand and higher energy costs. Global chlor-alkali industry operating rates are expected to significantly improve due to recent plant shutdowns combined with no planned capacity expansions through 2005. However, increased energy costs, and the resulting compressed margins, are expected in early 2003.

PVC demand is expected to improve slightly in 2003, reflecting the anticipated gradual economic recovery in North America and Europe. VCM prices are expected to recover in the first half of 2003 with increased activity in the construction industry, the largest end-user of PVC.

Both price and volume for EG are expected to improve in 2003, as the supply/demand balance begins to tighten. Polyethylene terephthalate ("PET") and polyester, two major end-uses of EG, are expected to recover to historical market growth rates after two years of growth significantly below the trend line. New EG capacity was started up in 2002 by OPTIMAL Glycols (Malaysia) Sdn Bhd, Union Carbide's joint venture in Malaysia. No significant industry capacity for ethylene oxide or ethylene glycol is expected to be added until late 2004.

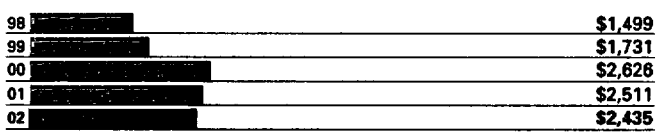
OISM volume is expected to slowly trend upward during 2003, as some improvement in global market conditions is anticipated. Prices are also expected to rise in the first half of 2003, driven by higher hydrocarbon and energy costs. Equity earnings are expected to improve in 2003 following the start-up of new butanol and butyl acetate capacity in 2002 by Union Carbide's joint venture in Malaysia.

Hydrocarbons and Energy

Hydrocarbons and Energy sales were $2.4 billion in 2002, compared with $2.5 billion in 2001 and $2.6 billion in 2000. Prices decreased 7 percent while volume grew 4 percent versus last year. In 2001, this segment experienced a 14 percent decrease in prices and a 10 percent increase in volume versus 2000.

The Hydrocarbons and Energy business transfers materials to Dow's derivative businesses at cost. EBIT was income of $96 million in 2002 versus a loss of $22 million in 2001 and income of $136 million in 2000. EBIT in 2002 included a gain of $63 million on the sale of the Company's share in the Oasis Pipe Line Company, and a loss of $44 million reflecting the impairment of the ethylene production facility in Texas City, Texas, which will be shut down in the first half of 2003. EBIT in 2000 included a gain of $98 million on the sale of the Cochin pipeline system (see Note C to the Consolidated Financial Statements).

Hydrocarbons and Energy—Sales (in millions)



Compared with 2001, the Company's cost of purchased feedstocks and energy in 2002 decreased approximately $850 million, or 10 percent, due to price, led by significant declines in feedstock and natural gas costs in North America. This decline primarily impacted the ethylene-based businesses within Dow. Monomer costs for styrene- and propylene-based businesses were generally higher in 2002 than in 2001. While there was substantial price volatility during the year, on average for 2002, crude oil prices were 45 cents per barrel above 2001 levels. Oil-based feedstocks hit a low point in the first quarter of 2002 as crude oil prices averaged $21.10 per barrel and rose to an average of $26.90 per barrel for the third and fourth quarters. North American natural gas prices started the year below $2.50 per million Btu and ended the fourth quarter at over $4.00 per million Btu.

Hydrocarbons and Energy Purchase Price Index (2001=100)

Major expansions in ethylene and cumene began operating in 2002 at the Company's site in Terneuzen, The Netherlands.

Hydrocarbons and Energy Outlook for 2003

Crude oil and feedstock prices are expected to be very volatile during the year, particularly in the first half of the year, with the full year up from 2002 levels. Natural gas prices in North America are also expected to be very volatile and average above 2002 levels, thereby increasing Dow's overall energy costs for 2003. Monomer prices are expected to respond to underlying feedstock costs in the first part of the year, tempered by continuing weak demand. Price movement in the second half of the year will largely depend on the pace of the global economic recovery.

In addition to the shutdown of Union Carbide's ethylene production facility in Texas City, Texas, in the first half of 2003, the Company announced in late January 2003 that it plans to shut down Union Carbide's Seadrift, Texas, ethylene facilities by year-end 2003. The shutdown of this plant is expected to have an immaterial impact on the Company's results of operations.

Unallocated and Other

Sales were $395 million in 2002, compared with $546 million in 2001 and $589 million in 2000. Sales in 2002 were down primarily due to divestitures of Sentrachem businesses in 2001 and lower revenue from insurance operations. Sales in 2001 were down versus 2000 due to two small divestitures of Sentrachem businesses.

Included in the results for Unallocated and Other are:

- expenses related to new business development activities,
- overhead and cost recovery variances not allocated to the operating segments,
- results of insurance operations,
- gains and losses on sales of financial assets,
- foreign exchange hedging results,
- Dow's share of the earnings/losses of Dow Corning Corporation ("Dow Corning") and Cargill Dow Polymers LLC, and
- the results of several small diversified businesses acquired in Dow's acquisition of Sentrachem Limited.

EBIT was a loss of $1.5 billion in 2002 and 2001, and a loss of $175 million in 2000. Results for 2002 were negatively impacted by several unusual items, including an asbestos-related charge of $828 million, merger-related integration costs of $41 million, additional merger-related severance of $66 million, restructuring severance of $37 million, and the write-down of Sentrachem assets of $54 million (see Note B to the Consolidated Financial Statements). Results for 2002 were also negatively impacted by Dow's share of Cargill Dow Polymers LLC losses and lower results from insurance operations. EBIT in 2001 was negatively impacted by several unusual items: a special charge of $1.5 billion for costs related to the Union Carbide merger (see Note B to the Consolidated Financial Statements); Dow's $11 million share of a restructuring charge recorded by Dow Corning, which reduced equity earnings; and an $11 million reinsurance loss on the World Trade Center (reflected in "Cost of sales"); offset by a $266 million gain on the sale of stock in Schlumberger Ltd. (reflected in "Sundry income—net").

Sales Price and Volume

	2002			2001			2000		
PERCENT CHANGE FROM PRIOR YEAR	PRICE	VOLUME	TOTAL	PRICE	VOLUME	TOTAL	PRICE	VOLUME	TOTAL
Operating Segments:									
Performance Plastics	(6)%	3%	(3)%	(4)%	(1)%	(5)%	1%	8%	9%
Performance Chemicals	(2)	3	1	1	(6)	(5)	–	6	6
Agricultural Sciences	(2)	6	4	(4)	15	11	(4)	5	1
Plastics	(8)	8	–	(10)	1	(9)	15	8	23
Chemicals	(11)	6	(5)	(5)	(9)	(14)	18	(4)	14
Hydrocarbons and Energy	(7)	4	(3)	(14)	10	(4)	46	6	52
Total	(6)%	4%	(2)%	(6)%	–	(6)%	9%	5%	14%
Geographic Areas:									
United States	(4)%	(2)%	(6)%	(3)%	(5)%	(8)%	9%	3%	12%
Europe	(4)	8	4	(8)	10	2	8	6	14
Rest of World	(11)	10	(1)	(8)	(2)	(10)	11	7	18
Total	(6)%	4%	(2)%	(6)%	–	(6)%	9%	5%	14%

Price includes the impact of currency.

COMPANY SUMMARY

Earnings before Interest, Income Taxes and Minority Interests ("EBIT")

EBIT for the Company was $86 million in 2002, compared with $35 million in 2001 and $3.1 billion in 2000. In 2002, selling prices declined $1.7 billion, exceeding the favorable impact of lower feedstock and energy costs of approximately $850 million and the realization of merger- and acquisition-related cost synergies. EBIT for the year was further reduced by the net impact of several unusual items: integration costs of $41 million and additional severance of $66 million related to the Union Carbide merger; severance of $5 million related to a workforce reduction program at Dow AgroSciences; asset write-downs and impairments of $131 million and severance of $37 million related to restructuring activities undertaken late in the year, following the appointment of a new President and CEO (see Note B to the Consolidated Financial Statements for additional information regarding the preceding charges and Note T to the Consolidated Financial Statements for the impact of these charges by operating segment); a charge of $828 million for asbestos-related expenses, reflected in Unallocated and Other (see Asbestos-Related Matters of Union Carbide Corporation); Dow's $10 million share of a restructuring charge recorded by UOP LLC (reflected in "Equity in earnings of nonconsolidated affiliates" in the Performance Plastics segment); Dow's $8 million share of a restructuring charge recorded by DuPont Dow Elastomers L.L.C. (reflected in "Equity in earnings of nonconsolidated affiliates" in the Plastics segment); goodwill impairment losses of $16 million related to investments in nonconsolidated affiliates (reflected in "Equity in earnings of nonconsolidated affiliates" in Unallocated and Other); and a $63 million gain on the sale of Oasis Pipe Line Company in the fourth quarter (reflected in "Sundry income—net" in the Hydrocarbons and Energy segment).

Selling Price Index (2001=100)

Volume/Mix Index (2001=100)

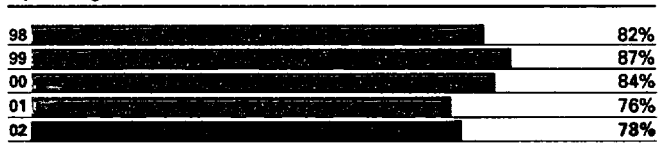
EBIT for 2001 declined as the favorable impact of lower feedstock and energy costs of approximately $750 million was more than offset by the negative impact of lower selling prices of $1.6 billion and lower equity earnings from joint ventures around the world. EBIT was further reduced in 2001 by the net impact of several unusual items: merger-related expenses and restructuring totaling $1.5 billion related to the Union Carbide merger, reflected in Unallocated and Other (see Note B to the Consolidated Financial Statements); a charge for IPR&D of $69 million associated with the acquisition of Rohm and Haas' agricultural chemicals business, reflected in the Agricultural Sciences segment (see Note C to the Consolidated Financial Statements); an $11 million reinsurance loss on the World Trade Center (reflected in "Cost of sales" in Unallocated and Other); Dow's $11 million share of a restructuring charge recorded by Dow Corning (reflected in "Equity in earnings of nonconsolidated affiliates" in Unallocated and Other); and a $266 million gain on the sale of stock in Schlumberger Ltd. (reflected in "Sundry income—net" in Unallocated and Other). EBIT in 2001 included the impact of goodwill amortization of $141 million. The Company ceased amortizing goodwill upon adoption of SFAS No. 142 on January 1, 2002 (see Notes A, F and T to the Consolidated Financial Statements).

EBIT in 2000 was reduced $20 million by the net impact of several unusual items. These items included a gain of $98 million on the sale of the Cochin pipeline system (reflected in "Sundry income—net" in the Hydrocarbons and Energy segment), offset by IPR&D costs of $6 million in the Performance Plastics segment related to the acquisition of Flexible Products, recognition of the anticipated $81 million loss on the disposition of certain businesses required for regulatory approval of the Union Carbide merger (reflected in "Sundry income—net" in Unallocated and Other), and a nonrecurring charge of $31 million from UOP related primarily to losses associated with certain customer contracts coupled with restructuring charges (reflected in "Equity in earnings of nonconsolidated affiliates" in the Performance Plastics segment). EBIT in 2000 included the impact of goodwill amortization of $114 million.

Gross margin for 2002 decreased $354 million versus 2001, as a $1.7 billion decline in selling prices more than offset the favorable impact of lower feedstock and energy costs of approximately $850 million. Higher volume, cost control efforts and the realization of merger- and acquisition-related cost synergies reduced the negative impact of this margin compression. Gross margin for 2001 decreased $1.3 billion compared with 2000. While feedstock and energy costs in 2001 were down approximately $750 million versus 2000, selling prices fell $1.6 billion, drastically compressing margins. Gross margin in 2001 was also negatively impacted by lower operating rates.

Dow's global plant operating rate for its chemicals and plastics businesses was 78 percent of capacity in 2002, compared with 76 percent in 2001 and 86 percent in 2000. The lower operating rates of the past two years reflect reduced run rates at several of the Company's plants in an effort to manage inventory levels. Depreciation expense was $1,680 million in 2002, compared with $1,595 million in 2001 and $1,554 million in 2000.

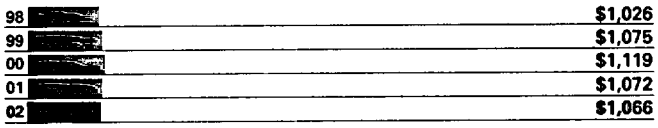
Operating Rate (percent)



Operating expenses (research and development, and selling, general and administrative expenses) totaled $2,664 million in 2002, down 6 percent from $2,837 million in 2001, and down almost 10 percent from $2,944 million in 2000, due to continued cost control efforts and the realization of merger- and acquisition-related cost synergies.

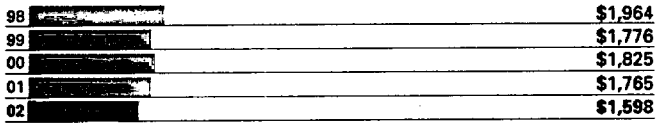
Research and development ("R&D") expenses were $1,066 million in 2002, compared with $1,072 million in 2001 and $1,119 million in 2000. R&D expenses declined over the past two years as merger-related cost synergies were realized and spending on growth initiatives was intensely focused on those opportunities with the greatest potential for value creation.

Research and Development Expenses (in millions)



Selling, general and administrative ("SG&A") expenses were $1,598 million in 2002, down from $1,765 million in 2001 and $1,825 million in 2000. SG&A expenses represented 6 percent of sales in all three years.

Selling, General and Adminstrative Expenses (in millions)



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 Operations, Notes to the Consolidated Financial Statements, and Eleven-Year Summary of Selected Financial Data.

Production Costs and Operating Expenses

COST COMPONENTS AS A PERCENT OF TOTAL	2002	2001	2000
Hydrocarbons and energy	29%	31%	34%
Salaries, wages and employee benefits	14	13	14
Maintenance	4	4	4
Depreciation	6	6	6
Merger-related expenses and restructuring, IPR&D and asbestos-related charge	4	5	–
Supplies, services and other raw materials	43	41	42
Total	100%	100%	100%

During 2001, the Company completed the appraisal of the technology acquired with the purchase of Rohm and Haas' agricultural chemicals business and recorded an IPR&D charge of $69 million in the Agricultural Sciences segment. See Notes B and C to the Consolidated Financial Statements for further details regarding the acquisition and IPR&D charge.

During 2002, the Company recorded one-time merger and integration costs of $41 million and additional merger-related severance of $66 million. "Merger-related expenses and restructuring" also included the following charges in 2002: severance of $5 million related to a workforce reduction at Dow AgroSciences; and asset write-downs and impairments of $131 million and severance of $37 million related to restructuring activities undertaken by the Company following the appointment of a new President and CEO. Additional decisions on businesses and facilities are expected in 2003. See Note B to the Consolidated Financial Statements for additional information.

During 2001, a special charge of $1.5 billion was recorded for merger-related expenses and restructuring, which included transaction costs, employee severance, the write-down of duplicate assets and facilities, and other merger-related expenses. At the time of the merger, the Company expected its integration plans and synergy activities to result in annual cost savings of $1.1 billion by the end of the first quarter of 2003. By the end of 2002, the Company had taken actions that will result in annual cost savings of $1.2 billion, exceeding the original target. The cost reductions will affect cost of sales, research and development expenses, and selling, general and administrative expenses. These actions are not expected to have an impact on future revenues. For further details, see Note B to the Consolidated Financial Statements.

In the fourth quarter of 2002, following the completion of a study to estimate the cost of resolving pending and potential future asbestos-related claims filed against Union Carbide and Amchem Products, Inc., the amount recorded for asbestos-related liabilities was increased to $2.2 billion, resulting in a charge of $828 million after recording related insurance receivables. See Critical Accounting Policies, Asbestos-Related Matters of Union Carbide Corporation, and Note J to the Consolidated Financial Statements for additional information.

Dow's share of the earnings of nonconsolidated affiliates in 2002 amounted to $40 million, up modestly from $29 million in 2001, but down significantly from $354 million in 2000. Current year equity earnings were higher than last year primarily due to improved earnings by Dow Corning and DuPont Dow Elastomers L.L.C., and the addition of earnings from Dow Reichhold Specialty Latex LLC, a newly formed joint venture between Dow and Reichhold, Inc. Equity earnings in 2001 were lower as a result of the consolidations of Gurit-Essex in the first quarter of 2001 and BSL in 2000, and the April 2001 divestiture of Union Carbide's interest in Polimeri Europa S.r.l., which was required for regulatory approval of the merger (see Note C to the Consolidated Financial Statements). Equity earnings in 2000 reflected improved earnings in several of the Company's joint ventures around the world, including strong performance by several plastics joint ventures in Asia Pacific and Latin America, improved results from several hydrocarbons joint ventures in North America, final resolution of BSL matters related to the reconstruction period, and significantly better performance by Union Carbide's joint ventures in Kuwait and Europe.

Through May 2000, equity earnings included the Company's share of the financial results of BSL during the reconstruction period. On June 1, 2000, BSL became a wholly owned subsidiary of the Company, after which the financial results of BSL were fully consolidated (see Note C to the Consolidated Financial Statements). From the first quarter of 1995 through the third quarter of 2000, the Company recorded and reserved its share of equity earnings in Dow Corning due to Dow Corning's filing for bankruptcy protection under Chapter 11 and the uncertainty of the recovery of that asset. Following Judge Denise Page Hood's November 13, 2000 affirmation of the Bankruptcy Court's order confirming the Joint Plan of Reorganization, the Company reviewed the value of its investment in Dow Corning and revised its assessment of the recoverability of its investment. In the fourth quarter of 2000, the Company resumed recording its share of Dow Corning's earnings. See Notes G and J to the Consolidated Financial Statements for additional information on this matter.

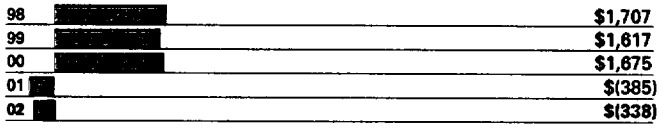
Sundry income includes a variety of income and expense items such as the gain or loss on foreign currency exchange, dividends from investments, and gains and losses on sales of investments and assets. Sundry income for 2002 was $54 million, compared with $394 million in 2001 and $352 million in 2000. Sundry income in 2002 included a gain of $63 million on the sale of Oasis Pipe Line Company in the fourth quarter. Sundry income in 2001 included a gain of $266 million on the sale of stock in Schlumberger Ltd.

Personnel count was 49,959 at December 31, 2002; 52,689 at the end of 2001 and 53,289 at the end of 2000. Headcount decreased primarily due to the Company's merger-related workforce reduction program.

Net Income

"Net income (loss) available for common stockholders" in 2002 was a net loss of $338 million, a loss of $0.37 per share, compared with a net loss of $385 million, a loss of $0.43 per share in 2001, and net income of $1.7 billion, earnings of $1.85 per share in 2000. Results for 2002 were negatively impacted by a $1.7 billion decline in selling prices that exceeded the favorable impact of lower feedstock and energy costs of approximately $850 million and the realization of merger- and acquisition-related cost synergies. Results for 2001 were negatively impacted by lower selling prices of $1.6 billion, which far exceeded the favorable impact of lower feedstock and energy costs of approximately $750 million, and several unusual items. In addition to the unusual items for 2002 and 2001 discussed in the preceding section, the net losses for 2002 and 2001 were impacted by changes in accounting principles. In 2002, an after-tax transition adjustment gain of $67 million was recognized related to the adoptions of SFAS No. 141, "Business Combinations" and SFAS No. 142, "Goodwill and Other Intangible Assets." In 2001, an after-tax transition adjustment gain of $32 million was recognized related to the adoption of SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities." See Note A to the Consolidated Financial Statements for additional information regarding changes in accounting principles.

Net Income (Loss) Available for Common Stockholders (in millions)



Interest income in 2002 was $66 million, compared with $85 million in 2001 and $146 million in 2000. The decline in interest income reflects a decrease in short-term investment activity.

Interest expense (net of capitalized interest) and amortization of debt discount totaled $774 million in 2002, compared with $733 million in 2001 and $665 million in 2000. Interest expense was up versus 2001 due to an increase in total debt partially offset by lower interest rates. Interest expense was lower in 2000 due principally to lower average levels of borrowing.

The credit for income taxes was $280 million in 2002 versus a credit of $228 million in 2001 and provision of $839 million in 2000. Dow's overall effective tax rate was 45 percent in 2002, compared with 37.2 percent for 2001 and 32.4 percent for 2000. U.S. and other tax law and rate changes during 2002 did not have a material impact on Dow. The underlying factors affecting Dow's overall effective tax rates are summarized in Note S to the Consolidated Financial Statements.

Minority interests' share of net income in 2002 was $63 million, up from $32 million in 2001, and down from $72 million in 2000. The increase in minority interest was primarily due to improved results at PBBPolisur S.A., which had lower results in 2001 that corresponded with the lower results in Dow's Plastics businesses.

The following table summarizes the impact of unusual items on EBIT and net income (loss):

	EBIT			NET INCOME (LOSS)		
IN MILLIONS	2002	2001	2000	2002	2001	2000
Unusual items:						
Merger-related expenses and restructuring	$ (280)	$(1,487)	–	$(182)	$(992)	–
Asbestos-related charge	(828)	–	–	(522)	–	–
Purchased in-process R&D	–	(69)	$ (6)	–	(43)	$ (6)
Reinsurance loss on WTC	–	(11)	–	–	(8)	–
Dow Corning restructuring	–	(11)	–	–	(11)	–
UOP restructuring	(10)	–	(31)	(7)	–	(23)
DuPont Dow Elastomers restructuring	(8)	–	–	(8)	–	–
Goodwill impairment losses in nonconsolidated affiliates	(16)	–	–	(16)	–	–
Gain on sale of Schlumberger stock	–	266	–	–	168	–
Gain on sale of Oasis Pipe Line	63	–	–	40	–	–
Gain on sale of Cochin Pipeline	–	–	98	–	–	62
Recognition of anticipated loss on disposition of merger-related businesses	–	–	(81)	–	–	(55)
Cumulative effect of changes in accounting principles	–	–	–	67	32	–
Total unusual items	$(1,079)	$(1,312)	$ (20)	$(628)	$(854)	$ (22)
As reported	$ 86	$ 35	$3,105	$(338)	$(385)	$1,675
Excluding unusual items	$ 1,165	$ 1,347	$3,125	$ 290	$ 469	$1,697

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:

IN MILLIONS	2002	2001	2000
Cash provided by (used in):			
Operating activities	$ 2,108	$ 1,789	$ 1,691
Investing activities	(1,626)	(2,674)	(1,094)
Financing activities	787	831	(857)
Effect of exchange rate changes on cash	(5)	(4)	(9)
Net change in cash and cash equivalents	$ 1,264	$ (58)	$ (269)

Cash provided by operating activities in 2002 increased versus 2001 due to a number of factors. Accounts payable increased and inventories decreased due to the Company's efforts to optimize working capital. Trade accounts receivable balances increased due to improved sales in the fourth quarter of 2002 compared with the fourth quarter of 2001. Cash provided by operating activities in 2001 increased versus 2000 as the impact of lower receivables and inventories offset the impact of lower earnings for the year. Accounts receivable balances decreased in 2001 due to lower net trade sales and increased sales of U.S. trade receivables. Inventory balances at December 31, 2001, (excluding the impact of acquisitions and divestitures) decreased due to lower feedstock costs compared with year-end 2000.

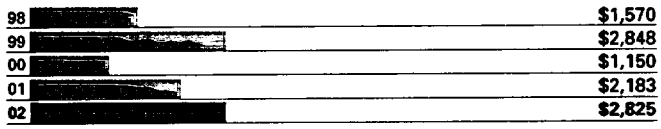
Cash used in investing activities decreased in 2002 compared with 2001 due to a number of factors. Cash used for acquisitions decreased, but was partially offset by an increase in cash used for purchases of available-for-sale securities in excess of sales of similar securities. Cash used in investing activities increased in 2001 compared with 2000, principally due to $2.3 billion invested in acquisitions, including Rohm and Haas' agricultural chemicals business, Ascot, Gurit-Essex, and EniChem's polyurethanes business, offset by lower capital expenditures and investments in nonconsolidated affiliates.

Cash provided by financing activities decreased in 2002 compared with 2001. An increase in net cash generated from short- and long-term borrowings was partially offset by an increase in dividends paid in 2002. In addition, cash was generated in 2001 from the issuance of preferred securities by a new subsidiary. Cash provided by financing activities in 2001 increased compared with 2000 also due to an increase in net cash generated from short- and long-term borrowings. Cash used in financing activities in 2000 related principally to the payment of dividends.

Working Capital at December 31

IN MILLIONS	2002	2001
Current assets	$11,681	$10,308
Current liabilities	8,856	8,125
Working capital	$ 2,825	$ 2,183
Current ratio	1.32:1	1.27:1

Working Capital (in millions)

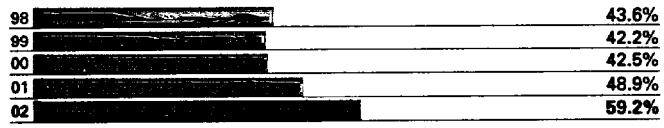


Cash, cash equivalents, marketable securities and interest-bearing deposits increased $1.3 billion in 2002. At December 31, 2002, total inventories were $4.2 billion, down from $4.4 billion at December 31, 2001, primarily due to the Company's supply chain optimization efforts. Days-sales-in-inventory at December 31, 2002 were 64 days versus 77 days at December 31, 2001. At December 31, 2002, trade receivables were $3.1 billion, up from $2.9 billion last year. Days-sales-outstanding-in-receivables (excluding the impact of sales of receivables) were 45 days at December 31, 2002 and 50 days at December 31, 2001.

Short-term borrowings of $580 million at December 31, 2002 were down from $1.2 billion at year-end 2001, primarily due to the issuance of long-term debt. Long-term debt due within one year was $797 million compared with $408 million at year-end 2001. Long-term debt at year-end was $11.7 billion, up from $9.3 billion at year-end 2001 due to the refinancing of short-term borrowings and new long-term debt that was used for general corporate purposes. During the year, $2.9 billion of new long-term debt was incurred and $472 million of long-term debt was retired. See the "Contractual Obligations" table presented later in this section for information regarding Dow's annual installments on long-term debt.

Total debt was $13 billion at year-end compared with $10.9 billion at December 31, 2001. Net debt, which equals total debt less cash, cash equivalents, marketable securities and interest-bearing deposits, was $11.5 billion at December 31, 2002, up from $10.6 billion last year due to the use of funds for general corporate purposes. Gross debt as a percent of total capitalization was 59.2 percent at the end of 2002, compared with 48.9 percent at year-end 2001. Net debt as a percent of total capitalization was 56.0 percent at the end of 2002, compared with 48.3 percent at year-end 2001.

Debt as a Percent of Total Capitalization



As part of its ongoing financing activities, Dow routinely issues promissory notes under its U.S. and Euromarket commercial paper programs. At December 31, 2002, there were no outstanding commercial paper borrowings. In the event Dow is unable to access these short-term markets, due to a systemic market disruption or other extraordinary events, Dow has the ability to access liquidity through its committed and available credit facilities which are in excess of $3 billion.

Liquidity and Capital Resources (continued)

During the year, the Company completed two shelf registrations for the issuance of SEC registered securities. On September 12, 2002, a $1.5 billion registration became effective, and on December 18, 2002, a $2 billion registration became effective. At December 31, 2002, there was a total of $2.3 billion available in SEC registered securities, as well as Japanese yen 70 billion (approximately $583 million) available in yen-denominated securities through the Japanese Ministry of Finance, and Euro 900 million (approximately $942 million) available under the Company's Euro Medium-Term Note Program. On June 21, 2002, the Company launched a retail Medium-Term Note Program. As of December 31, 2002, $460 million of notes had been issued under this program, with maturity dates ranging from 2005 through 2012.

At December 31, 2002, the Company had unused and committed credit facilities with various U.S. and foreign banks totaling $3.1 billion in support of its working capital requirements and commercial paper borrowings. These facilities include a $1.75 billion 364-day revolving credit facility agreement that matures in June 2003, a $1.25 billion 5-year revolving credit facility agreement that matures in June 2004, and a $75 million 364-day bilateral facility with a major financial institution that matures in June 2003. The Company intends to renew these facilities at their respective maturities. Additional unused and uncommitted credit facilities totaling $857 million were available for use by foreign subsidiaries.

Dow's public debt instruments and documents for its private funding transactions contain, among other provisions, certain covenants and default provisions. See Note K to the Consolidated Financial Statements for information on such covenants and default provisions.

Dow leases real property, railcars, and certain manufacturing facilities from various special purpose entities. These entities are not owned directly or indirectly by the Company or any of its directors, officers or employees. Those transactions that meet the requirements for operating lease treatment under SFAS No. 13, "Accounting for Leases," are recorded as such and are disclosed in Note M to the Consolidated Financial Statements, including information regarding future minimum lease commitments. Nine of the entities qualify as variable interest entities ("VIEs") under FASB Interpretation ("FIN") No. 46, "Consolidation of Variable Interest Entities." Based on the current terms of the lease agreements and the residual value guarantees Dow provides to the lessors, the Company expects to be the primary beneficiary of the VIEs. As a result, if the facts and circumstances remain the same, the Company would be required to consolidate the assets and liabilities held by these VIEs in the third quarter of 2003.

The Company has not determined the carrying amount of the assets that will be included in the Consolidated Financial Statements. Accordingly, the Company has not yet determined the impact of adoption of FIN No. 46. The following table provides the approximate amount of debt of the VIEs described above at December 31, 2002 and 2001:

IN MILLIONS	LEASE MATURITIES	2002	2001
Manufacturing facilities	2006–2017	$1,032	$ 917
Railcars	2004–2008	418	402
Real property	2005	133	133
Total		$1,583	$1,452

Upon termination or expiration of each lease, Dow may return the assets to the lessor, renew the lease, or purchase the assets for an amount based on a fair market value determination. Dow had provided residual value guarantees totaling $1,694 million, which included $1,365 million related to VIEs, at December 31, 2002 and $1,566 million, which included $1,242 million related to VIEs, at December 31, 2001, to the various lessors. Given the productive nature of the assets, it is probable they will have continuing value to Dow or another manufacturer in excess of the residual value guarantees.

The following table summarizes the Company's contractual obligations and commercial commitments at December 31, 2002. Additional information related to these obligations can be found in Notes J, K and M to the Consolidated Financial Statements.

Contractual Obligations at December 31, 2002

	PAYMENTS DUE BY YEAR						
IN MILLIONS	2003	2004	2005	2006	2007	2008 AND BEYOND	TOTAL
Annual installments on long-term debt [1]	$ 797	$1,102	$ 598	$1,134	$1,177	$ 7,648	$12,456
Minimum operating lease commitments	260	235	206	150	80	816	1,747
Purchase commitments	556	511	472	408	407	2,041	4,395
Total	$1,613	$1,848	$1,276	$1,692	$1,664	$10,505	$18,598

(1) Includes capital lease obligations of $42 million in "2008 and beyond."

The Company also had outstanding guarantees at December 31, 2002. Additional information related to these guarantees can be found in the "Guarantees" table provided in Note J to the Consolidated Financial Statements.

Outlook for 2003

During the second half of 2002, the Company took advantage of historically low interest rates by issuing additional long-term debt. Proceeds from the debt issuance were used to reduce short-term borrowings and prefund cash requirements for debt payments due in 2003. On January 31, 2003, Moody's Investor Services reaffirmed the Company's senior unsecured debt rating of "A3" and its short-term debt rating of "Prime-2," but changed its ratings outlook to "negative." On February 3, 2003, Fitch, Inc. lowered the Company's senior unsecured debt rating from "A" to "A-" and its short-term debt rating from "F1" to "F2" and maintained its rating outlook as "negative." The Company does not expect its ability to access credit facilities to be affected as a result of these changes, although the Company may incur higher borrowing costs.

In the fourth quarter of 2002, the Company announced a plan designed to reduce overall spending in 2003. The plan includes a 25 percent reduction in overall capital expenditures from 2002 levels, a reduction in structural costs of $400 million from 2002 levels, the divestiture of non-strategic and under-performing assets, and the shutdown of assets that are underutilized or non-competitive. Other than those activities necessary to maintain the reliability and safety of plants, corporate initiatives have been delayed or canceled. This program is expected to improve overall cash flow by $1 billion through 2003. As a result, the Company expects to have overall positive cash flow in 2003, and expects to fund operations, capital expenditures and dividends from operating activities.

Capital Expenditures

Capital spending for the year was $1.6 billion, essentially flat with spending in 2001 and down 10 percent from $1.8 billion in 2000. The lower capital spending in 2002 and 2001 reflected the completion of a new ethylene facility built jointly with NOVA Chemicals Corporation and a polyethylene project, both of which started up in the second half of 2000, in Alberta, Canada. In 2002, approximately 43 percent of the Company's capital expenditures was directed toward additional capacity for new and existing products, compared with 40 percent in 2001. Approximately 18 percent was committed to projects related to environmental protection, safety, loss prevention and industrial hygiene in 2002 and 2001. 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 2002 included expansion of production facilities for EDC and polymeric MDI in Freeport, Texas; chlorine and *Methocel* cellulose ethers in Stade, Germany; and ABS and latex in Terneuzen, The Netherlands. Additional major projects included installation of a brine pipeline in White Castle, Louisiana and a hazardous waste incineration kiln in Midland, Michigan. 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.

Capital Expenditures (in millions)

Dividends

On February 13, 2003, the Board of Directors announced a quarterly dividend of $0.335 per share, payable April 30, 2003, to stockholders of record on March 28, 2003. Since 1912, the Company has paid a dividend every quarter and in each instance Dow has maintained or increased the quarterly dividend. The Company declared dividends of $1.34 per share in 2002, $1.295 per share in 2001 and $1.16 per share in 2000.

OTHER MATTERS

ACCOUNTING CHANGES

See Note A to the Consolidated Financial Statements for a discussion of accounting changes and recently issued accounting pronouncements.

CRITICAL ACCOUNTING POLICIES

The preparation of financial statements and related disclosures in conformity with accounting principles generally accepted in the United States of America ("GAAP") requires management to make judgments, assumptions and estimates that affect the amounts reported in the Consolidated Financial Statements and accompanying notes. Note A to the Consolidated Financial Statements 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 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.

CRITICAL ACCOUNTING POLICIES (continued)

Asbestos-Related Matters of Union Carbide Corporation

Union Carbide Corporation ("Union Carbide"), a wholly owned subsidiary of the Company, is and has been involved in a large number of asbestos-related suits filed primarily in state courts during the past three decades. At the end of 2001 and through the third quarter of 2002, Union Carbide had concluded it was not possible to estimate its cost of disposing of asbestos-related claims that might be filed against Union Carbide and Amchem Products, Inc. ("Amchem") in the future due to a number of reasons, including its lack of sufficient comparable loss history from which to assess either the number or value of future asbestos-related claims. During the third and fourth quarters of 2002, Union Carbide worked with Analysis, Research & Planning Corporation ("ARPC"), a consulting firm with broad experience in estimating resolution costs associated with mass tort litigation, including asbestos, to explore whether it would be possible to estimate the cost of disposing of pending and future asbestos-related claims that have been, and could reasonably be expected to be, filed against Union Carbide and Amchem.

In projecting Union Carbide's resolution costs for future asbestos-related claims, ARPC applied two methodologies that have been widely used for forecasting purposes. As of December 31, 2002, ARPC estimated the undiscounted cost of resolving pending and future asbestos-related claims against Union Carbide and Amchem, excluding future defense and processing costs, for the 15-year period from the present through 2017 to be between approximately $2.2 billion and $2.4 billion, depending on which of the two accepted methodologies was used.

Although ARPC provided estimates for a longer period of time, based on ARPC's advice that forecasts for shorter periods of time are more accurate and in light of the uncertainties inherent in making long-term projections, Union Carbide determined that the 15-year period through 2017 is the reasonable time period for projecting the cost of disposing of its future asbestos-related claims. Union Carbide concluded that it is probable that the undiscounted cost of disposing of asbestos-related pending and future claims ranges from $2.2 billion to $2.4 billion, which is the range for the 15-year period ending in 2017 as estimated by ARPC using both methodologies. Accordingly, Union Carbide increased its asbestos-related liability for pending and future claims at December 31, 2002 to $2.2 billion, excluding future defense and processing costs. For pending claims, Union Carbide had an asbestos-related liability of $233 million at December 31, 2001.

Union Carbide also increased the receivable for insurance recoveries related to its asbestos liability to $1.35 billion at December 31, 2002. Union Carbide's receivable for insurance recoveries related to its asbestos liability was $223 million at December 31, 2001. In addition, Union Carbide had receivables for insurance recoveries for defense and resolution costs of $219 million at December 31, 2002 and $35 million at December 31, 2001. The amounts recorded by Union Carbide for the asbestos-related liability and related insurance receivable described above were based upon currently known facts. However, projecting future events, such as the number of new claims to be filed 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. Union Carbide expenses defense and processing costs as incurred. Accordingly, defense and processing costs incurred by Union Carbide in the future for asbestos-related litigation, net of insurance, will impact Union Carbide's results of operations in future periods. For additional information, see Asbestos-Related Matters of Union Carbide Corporation in Management's Discussion and Analysis of Financial Condition and Results of Operations 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. The Company had accrued obligations of $444 million at December 31, 2001, for environmental remediation and restoration costs, including $47 million for the remediation of Superfund sites. At December 31, 2002, the Company had accrued obligations of $394 million for environmental remediation and restoration costs, including $43 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. For further discussion, see Environmental Matters in Management's Discussion and Analysis of Financial Condition and Results of Operations and Note J to the Consolidated Financial Statements.

Merger-Related Expenses and Restructuring

On February 6, 2001, Union Carbide Corporation merged with a subsidiary of the Company and became a wholly owned subsidiary of Dow. On March 29, 2001, Dow's management made certain decisions relative to employment levels, duplicate assets and facilities and excess capacity resulting from the Union Carbide merger. These decisions were based on management's assessment of the actions necessary to achieve synergies as a result of the merger. The economic effects of these decisions, combined with merger-related transaction costs and certain asset impairments, resulted in a pretax special charge of $1,384 million in the first quarter of 2001. Subsequent periodic reviews of the Company's integration plans resulted in minor revisions to the reserve. The planned merger-related program for workforce reductions was substantially completed in the third quarter of 2002, although during the fourth quarter of 2002, an additional charge was recorded for merger-related severance to be paid in the first quarter of 2003. Upon completion of the program, the outstanding merger-related reserve for employee-related costs associated with pension and postretirement benefit plans became part of the Company's regular pension and other postretirement obligations. The reserve related to the abandonment of leased facilities is included in "Other noncurrent obligations."

In late 2002, immediately following the appointment of a new President and CEO, management began a series of studies to determine potential actions relative to under-performing assets and employment levels. Prior to the end of the year, certain studies were completed and management made decisions relative to certain assets. The economic effects of these decisions resulted in a pretax charge in the fourth quarter of 2002 of $168 million for severance and asset write-downs and impairments. The program for severance was based on plans communicated to employees, and is expected to be completed by the third quarter of 2003. The charge related to asset write-downs was based on the net book value of the manufacturing plants to be shut down. The charge related to asset impairments was determined using either discounted cash flows or a fair market value assessment.

Additional decisions on businesses and facilities are expected in 2003. The Company will account for future workforce reductions as they occur, in accordance with SFAS No. 146, "Accounting for Costs Associated with Exit or Disposal Activities." For further discussion and information regarding merger-related expenses and restructuring, see Note B 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, 2002, 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 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 expected long-term rate of return on assets is developed with input from the Company's actuarial firm, which includes the actuary's review of the asset class return expectations of several respected consultants and economists, based on broad equity and bond indices. The Company's historical experience with the pension fund asset performance and comparisons to expected returns of peer companies with similar fund assets is also considered. The long-term rate of return assumption used for determining net periodic pension expense for 2002 was 9.25 percent. This assumption was reduced to 9 percent for determining 2003 net periodic pension expense. Lowering the expected long-term rate of return of the U.S. qualified plan assets by 0.25 percent (from 9.25 percent to 9 percent) would have reduced the pension income of the U.S. qualified plans for 2002 by approximately $25 million. The Company's historical actual return averaged 9.1 percent for the ten-year period ending December 31, 2002. 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 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. For the year ending December 31, 2002, $1.2 billion of losses remain to be recognized by the U.S. qualified plans in the calculation of the market-related value of plan assets. These losses will result in decreases in future pension income as they are recognized.

The discount rate utilized for determining future pension obligations of the U.S. qualified plans is based on long-term bonds receiving an AA- or better rating by a recognized rating agency. The resulting discount rate decreased from 7 percent at December 31, 2001, to 6.75 percent at December 31, 2002.

For 2003, the Company left its assumption for the long-term rate of increase in compensation levels for the U.S. qualified plans unchanged at 5 percent.

Based on the revised pension assumptions and the actual investment performance of the plan assets in 2002, the Company expects to record $100 million of incremental expense for all pension and other postretirement benefits in 2003.

The value of the U.S. qualified plan assets decreased from $9.3 billion at December 31, 2001, to $7.7 billion at December 31, 2002. The investment performance and declining discount rates reduced the funded status of the U.S. qualified plans, net of benefit obligations, by $2.2 billion from December 31, 2001 to December 31, 2002. The Company does not expect significant cash contributions to be required for the U.S. qualified plans in 2003.

Income Taxes

Deferred tax assets and liabilities are determined using enacted tax rates for the effects of net operating losses and temporary differences between the book and tax bases of assets and liabilities. The Company records a valuation allowance on deferred tax assets when appropriate to reflect the expected future tax benefits to be realized. In determining the appropriate valuation allowance, certain judgments are made relating to recoverability of deferred tax assets, use of tax loss carryforwards, level of expected future taxable income and available tax planning strategies. These judgments are routinely reviewed by management. At December 31, 2002, the Company had a net deferred tax asset balance of $2.9 billion, after valuation allowances of $645 million. For additional information, see Note S 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* and progress made toward the Company's EH&S Goals for 2005. In 1996, Dow publicly announced its voluntary global EH&S 2005 Goals—ambitious performance targets to measure progress toward sustainable development, including targets to reduce chemical emissions, waste and wastewater by 50 percent. Equally aggressive are Dow's EH&S 2005 Goals to reduce leaks, spills, fires, explosions, work-related injuries and transportation incidents by 90 percent. Dow continues to work aggressively toward attainment of these goals and its "Vision of Zero." More information on Dow's performance regarding environmental matters can be found online in Dow's 2001 Public Report.

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 for the businesses the "who, what, when and how" needed to achieve the Company's policies, requirements, performance objectives, leadership expectations and public commitments. EMS is also designed to minimize the long-term cost of environmental protection and to comply with these laws and regulations. Furthermore, EMS is integrated into a company-wide Management System for EH&S, Operations, Quality and Human Resources, including implementation of the global EH&S Work Process to improve EH&S performance and to ensure ongoing compliance worldwide. It is Dow's stated EH&S policy that all global operations and products meet Dow's requirements or their country's laws and regulations, whichever are more stringent.

It is also 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 wastes that are transferred to non-Dow facilities.

Dow believes third-party verification is a cornerstone of world-class EH&S performance and building public trust. Over the last five years, 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. In 2002, Dow received the American Chemistry Council's *Responsible Care* Employee Health & Safety Code Sustained Excellence Award. The annual Sustained Excellence Award recognizes companies that have demonstrated outstanding safety records over a three-year period. This is the first time that any company from the "large" size category has been eligible for the award. For the fourth year in a row, Dow was also added to the Dow Jones Sustainability Group Index.

Dow's EMS and EH&S Goals are designed to minimize environmental risks and impacts, both past and future. The following paragraphs outline some of these potential risks and how they are managed to minimize environmental impact and overall costs.

Climate Change

There is 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. Dow takes global climate change very seriously and is committed to reducing its GHG intensity (lbs. of GHG per lb. of product), developing climate-friendly products and processes, and, over the longer term, implementing technology solutions to achieve even greater climate change improvements. Since 1995, Dow has reduced GHG intensity by over 25 percent. Total direct emissions of GHG have also been significantly reduced. This trend could reverse, however, depending on business growth, capacity utilization and the pace of new technology development.

Given the uncertainties regarding implementation of the Kyoto Protocol and related climate change policies, it is speculative to engage in an assessment of either the potential liability or benefit associated with climate change issues. As noted in the 2001 Public Report, Dow is making progress toward its 2005 goal to improve energy efficiency by 20 percent. By the time Dow achieves this goal, it will have avoided the production of over 290 trillion Btus, thus contributing in a positive way to climate change. 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 does not currently engage in emissions trading but is studying this concept and engaging in dialogue with governments about the development of fair and effective mechanisms to achieve GHG reductions at the lowest possible cost.

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 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 becomes available. Dow had an accrued liability of $351 million at December 31, 2002, related to the remediation of current or former Dow-owned sites. The liability related to remediation at December 31, 2001 was $397 million. The Company has not recorded any third-party recovery related to these sites as a receivable. Dow filed a lawsuit in November 1999 against several of its insurers seeking recovery of remediation costs at certain current or former Dow-owned sites. Settlements have been reached with all carriers, except one.

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. Management's estimate of the Company's remaining liability for the remediation of Superfund sites at December 31, 2002 was $43 million, which has been accrued, although the ultimate cost with respect to these sites could exceed that amount. In addition, receivables of $12 million for probable recoveries from other PRPs have been recorded related to Superfund sites. At December 31, 2001, the Company's liability for the remediation of Superfund sites was $47 million; the receivable for probable recoveries from other PRPs was $7 million.

In total, the Company's accrued liability for probable environmental remediation and restoration costs was $394 million at December 31, 2002, compared with $444 million at the end of 2001. 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 accrued or 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 $52 million in 2002, $47 million in 2001 and $53 million in 2000. Capital expenditures for environmental protection were $147 million in 2002, $179 million in 2001 and $166 million in 2000.

ASBESTOS-RELATED MATTERS OF UNION CARBIDE CORPORATION

Union Carbide Corporation ("Union Carbide"), a wholly owned subsidiary of the Company, is and has been involved in a large number of asbestos-related suits filed primarily in state courts during the past three decades. These suits principally allege personal injury resulting from exposure to asbestos-containing products and frequently seek both actual and punitive damages, often in very large amounts. 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.

The rate at which plaintiffs filed asbestos-related suits against various companies, including Union Carbide and Amchem, increased in both 2001 and 2002, influenced by the bankruptcy filings of numerous defendants in asbestos-related litigation. Union Carbide expects more asbestos-related suits to be filed against Union Carbide and Amchem in the future. Union Carbide will aggressively defend or reasonably resolve, as appropriate, both pending and future claims.

Typically, Union Carbide is only one of many named defendants, many of which, including Union Carbide and Amchem, were members of the Center for Claims Resolution ("CCR"), an entity that defended and resolved asbestos cases on behalf of its members. As members of the CCR, Union Carbide's and Amchem's strategy was to resolve the claims against them at the relatively small percentage allocated to them pursuant to the CCR's collective defense. The CCR ceased operating in February 2001, except to administer certain settlements. Union Carbide then began using Peterson Asbestos Claims Enterprise, but only for claims processing and insurance invoicing.

Certain members of Dow's legal department and certain Dow management personnel have been retained to provide their experience in mass tort litigation to assist Union Carbide in responding to asbestos-related matters. In early 2002, Union Carbide hired new outside counsel to serve as national trial counsel. In connection with these actions, aggressive defense strategies were designed to reduce the cost of resolving all asbestos-related claims, including the elimination of claims that lack demonstrated illness or causality.

At the end of 2001 and through the third quarter of 2002, Union Carbide had concluded it was not possible to estimate its cost of disposing of asbestos-related claims that might be filed against Union Carbide and Amchem in the future due to a number of reasons, including its lack of sufficient comparable loss history from which to assess either the number or value of future asbestos-related claims. During the third and fourth quarters of 2002, Union Carbide worked with Analysis, Research & Planning Corporation ("ARPC"), a consulting firm with broad experience in estimating resolution costs associated with mass tort litigation, including asbestos, to explore whether it would be possible to estimate the cost of disposing of pending and future asbestos-related claims that have been, and could reasonably be expected to be, filed against Union Carbide and Amchem.

Union Carbide provided ARPC with all relevant data regarding asbestos-related claims filed against Union Carbide and Amchem through November 6, 2002. ARPC concluded that it was not possible to estimate the full range of the cost of resolving future asbestos-related claims against Union Carbide and Amchem, because of various uncertainties associated with the litigation of those claims. These uncertainties, which hindered Union Carbide's ability to project future claim volumes and resolution costs, included the following:

- Until a series of bankruptcies led to the CCR ceasing operations in early 2001, Union Carbide and Amchem generally settled claims filed against CCR members according to a sharing formula that would not necessarily reflect the cost of resolving those claims had they been separately litigated against Union Carbide or Amchem.

ASBESTOS-RELATED MATTERS OF UNION CARBIDE CORPORATION (continued)

- The bankruptcies in the years 2000 to 2002 of other companies facing large asbestos liability were a likely contributing cause of a sharp increase in filings against many defendants, including Union Carbide and Amchem.
- It was not until the CCR ceased operating in early 2001 that Union Carbide took direct responsibility for the defense of claims against itself and Amchem.
- New defense counsel for Union Carbide and Amchem implemented more aggressive defense strategies in mid-2002.

Despite its inability to estimate the full range of the cost of resolving future asbestos-related claims, ARPC advised Union Carbide that it would be possible to determine an estimate of a reasonable forecast of the cost of resolving pending and future asbestos-related claims likely to face Union Carbide and Amchem, if certain assumptions were made. Specifically, ARPC advised Union Carbide that for purposes of determining an estimate it is reasonable to assume that in the near term asbestos-related claims filed against Union Carbide and Amchem are unlikely to return to levels below those experienced prior to 2001—when the recent spike in filings commenced—and that average claim values are unlikely to return to levels below those experienced in 2001-2002, the years immediately following CCR's cessation of operations. ARPC advised Union Carbide that, by assuming that future filings were unlikely to exceed the levels experienced prior to 2001 and extrapolating from 2001 and 2002 average claim values, ARPC could make a reasonable forecast of the cost of resolving asbestos-related claims facing Union Carbide and Amchem. ARPC also advised Union Carbide that forecasts of resolution costs for a 10 to 15 year period from the date of the forecast are likely to be more accurate than forecasts for longer periods of time.

In projecting Union Carbide's resolution costs for future asbestos-related claims, ARPC applied two methodologies that have been widely used for forecasting purposes. Applying these methodologies, ARPC forecast the number and allocation by disease category of those potential future claims on a year-by-year basis through 2049. ARPC then calculated the percentage of claims in each disease category that had been closed with payments in 2001 and 2002. Using those percentages, ARPC calculated the number of future claims by disease category that would likely require payment by Union Carbide and Amchem and multiplied the number of such claims by the mean values paid by Union Carbide and Amchem, respectively, to dispose of such claims in 2001 and 2002. In estimating Union Carbide's cost of resolving pending claims, ARPC used a process similar to that used for calculating the cost of resolving future claims.

As of December 31, 2002, ARPC estimated the undiscounted cost of resolving pending and future asbestos-related claims against Union Carbide and Amchem, excluding future defense and processing costs, for the 15-year period from the present through 2017 to be between approximately $2.2 billion and $2.4 billion, depending on which of the two accepted methodologies was used.

Although ARPC provided estimates for a longer period of time, based on ARPC's advice that forecasts for shorter periods of time are more accurate and in light of the uncertainties inherent in making long-term projections, Union Carbide determined that the 15-year period through 2017 is the reasonable time period for projecting the cost of disposing of its future asbestos-related claims. Union Carbide concluded that it is probable that the undiscounted cost of disposing of asbestos-related pending and future claims ranges from $2.2 billion to $2.4 billion, which is the range for the 15-year period ending in 2017 as estimated by ARPC using both methodologies. Accordingly, Union Carbide increased its asbestos-related liability for pending and future claims at December 31, 2002 to $2.2 billion, excluding future defense and processing costs. For pending claims, Union Carbide had an asbestos-related liability of $233 million at December 31, 2001.

Union Carbide also increased the receivable for insurance recoveries related to its asbestos liability to $1.35 billion at December 31, 2002, substantially exhausting its asbestos product liability coverage. This resulted in a net income statement impact to Union Carbide of $828 million, $522 million on an after-tax basis, in the fourth quarter of 2002. Union Carbide's receivable for insurance recoveries related to its asbestos liability was $223 million at December 31, 2001. 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.

In addition, Union Carbide had receivables for insurance recoveries for defense and resolution costs of $219 million at December 31, 2002 and $35 million at December 31, 2001. Defense and resolution costs for Union Carbide's asbestos-related litigation were $247 million in 2002, $53 million in 2001 and $53 million in 2000. The $247 million in 2002 included $92 million for defense costs (which included significant costs for the development and implementation of Union Carbide's new and more aggressive defense strategies) and $63 million for bulk settlements with multiple claimants. To date, substantially all of these defense and resolution costs were covered by insurance. Insurance coverage for future asbestos-related defense costs will exist, but to a lesser extent. The pretax impact to Union Carbide for these defense and resolution costs, net of insurance, was $9 million in 2002, $9 million in 2001 and $4 million in 2000, and was reflected in "Cost of sales."

The amounts recorded by Union Carbide for the asbestos-related liability and related insurance receivable described above were based upon currently known facts. However, projecting future events, such as the number of new claims to be filed 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. Union Carbide expenses defense and processing costs as incurred. Accordingly, defense and processing costs incurred by Union Carbide in the future for asbestos-related litigation, net of insurance, will impact Union Carbide's results of operations in future periods.

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 and processing 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 and processing 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.

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, 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 Japanese yen; 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.

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

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.

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 move in the respective price levels. These amounts are relatively insignificant in comparison to the size of the equity of the Company. The VAR methodology used by Dow is based primarily on the variance/covariance statistical model. The year-end VAR and average quarterly VAR for the aggregate of non-trading and trading positions for 2002 and 2001 are shown below:

Total Daily VAR at December 31*

	2002		2001	
IN MILLIONS	YEAR-END	AVERAGE	YEAR-END	AVERAGE
Foreign exchange	$ 7	$ 10	$ 21	$ 17
Interest rate	94	83	106	70
Equity exposures, net of hedges	3	4	7	9
Commodities	17	11	4	5

*Using a 95 percent confidence level

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

Management Statement of Responsibility and Independent Auditors' Report

Management Statement of Responsibility

The management of The Dow Chemical Company and its subsidiaries prepared the accompanying consolidated financial statements and has responsibility for their integrity, objectivity and freedom from material misstatement or error. These statements were prepared in accordance with accounting principles generally accepted in the United States of America. The financial statements include amounts that are based on management's best estimates and judgments. Management also prepared the other information in this annual report and is responsible for its accuracy and consistency with the financial statements. The Board of Directors, through its Audit Committee, assumes an oversight role with respect to the preparation of the financial statements.

Management recognizes its responsibility for fostering a strong ethical climate so that the Company's affairs are conducted according to the highest standards of personal and corporate conduct. Management has established and maintains internal controls that provide reasonable assurance as to the integrity and reliability of the financial statements, the protection of assets from unauthorized use or disposition, and the prevention and detection of fraudulent financial reporting.

Internal controls provide for appropriate division of responsibility and are documented by written policies and procedures that are communicated to employees with significant roles in the financial reporting process and updated as necessary. Management continually monitors internal controls for compliance. The Company maintains a strong internal auditing program that independently assesses the effectiveness of the internal controls and recommends possible improvements.

Deloitte & Touche LLP, independent auditors, with direct access to the Board of Directors through its Audit Committee, have audited the consolidated financial statements prepared by the Company, and their report follows.

Management has considered recommendations from the internal auditors and Deloitte & Touche LLP concerning internal controls and has taken actions that are cost-effective in the circumstances to respond appropriately to these recommendations. Management further believes the controls are adequate to accomplish the objectives discussed herein.

The undersigned have executed certifications dated February 28, 2003, as required by Sections 302 and 906 of the Sarbanes-Oxley Act of 2002, and the Company has filed those certifications as part of, or as exhibits to, the Company's Annual Report on Form 10-K for the year ended December 31, 2002. In addition, William S. Stavropoulos, Chairman, President and Chief Executive Officer of the Company, has certified to the New York Stock Exchange ("NYSE") that he is unaware of any violation by the Company of the NYSE corporate governance listing standards in effect as of February 28, 2003.

William S. Stavropoulos
Chairman, President
and Chief Executive Officer

J. Pedro Reinhard
Executive Vice President
and Chief Financial Officer

Independent Auditors' Report

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

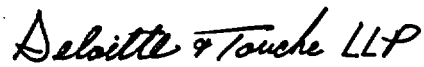
We have audited the accompanying consolidated balance sheets of The Dow Chemical Company and its subsidiaries as of December 31, 2002 and 2001, and the related consolidated statements of income, stockholders' equity, comprehensive income and cash flows for each of the three years in the period ended December 31, 2002. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on the financial statements based on our audits. The consolidated financial statements give retroactive effect to the merger of The Dow Chemical Company and Union Carbide Corporation, which has been accounted for as a pooling of interests as described in Note C to the consolidated financial statements. We did not audit the statements of income, stockholders' equity and cash flows of Union Carbide Corporation for the period ended December 31, 2000, which consolidated statements reflect total revenues of $6,550 million. Those consolidated statements were audited by other auditors whose report has been furnished to us, and our opinion, insofar as it relates to the amounts included for Union Carbide Corporation for 2000, is based solely on the report of such other auditors.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. 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 and the report of the other auditors provide a reasonable basis for our opinion.

In our opinion, based on our audits and the report of the other auditors, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of The Dow Chemical Company and its subsidiaries at December 31, 2002 and 2001, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2002, in conformity with accounting principles generally accepted in the United States of America.

As discussed in Notes A and H to the consolidated financial statements, effective January 1, 2001, The Dow Chemical Company changed its method of accounting for derivative instruments and hedging activities to conform to Statement of Financial Accounting Standards No. 133.

As discussed in Notes A and F to the consolidated financial statements, effective January 1, 2002, The Dow Chemical Company changed its method of accounting for goodwill to conform to Statements of Financial Accounting Standards Nos. 141 and 142.



Deloitte & Touche LLP
Midland, Michigan
January 30, 2003
(February 13, 2003 as to Note U)

Consolidated Statements of Income

(IN MILLIONS, EXCEPT PER SHARE AMOUNTS) FOR THE YEARS ENDED DECEMBER 31	2002	2001	2000
Net Sales	$27,609	$28,075	$29,798
Cost of sales	23,780	23,892	24,310
Research and development expenses	1,066	1,072	1,119
Selling, general and administrative expenses	1,598	1,765	1,825
Amortization of intangibles	65	178	139
Purchased in-process research and development charges	–	69	6
Merger-related expenses and restructuring	280	1,487	–
Asbestos-related charge	828	–	–
Equity in earnings of nonconsolidated affiliates	40	29	354
Sundry income—net	54	394	352
Interest income	66	85	146
Interest expense and amortization of debt discount	774	733	665
Income (Loss) before Income Taxes and Minority Interests	(622)	(613)	2,586
Provision (Credit) for income taxes	(280)	(228)	839
Minority interests' share in income	63	32	72
Income (Loss) before Cumulative Effect of Changes in Accounting Principles	(405)	(417)	1,675
Cumulative effect of changes in accounting principles	67	32	–
Net Income (Loss) Available for Common Stockholders	$ (338)	$ (385)	$ 1,675
Share Data			
Earnings (Loss) before cumulative effect of changes in accounting principles per common share—basic	$ (0.44)	$ (0.46)	$ 1.88
Earnings (Loss) per common share—basic	$ (0.37)	$ (0.43)	$ 1.88
Earnings (Loss) before cumulative effect of changes in accounting principles per common share—diluted	$ (0.44)	$ (0.46)	$ 1.85
Earnings (Loss) per common share—diluted	$ (0.37)	$ (0.43)	$ 1.85
Common stock dividends declared per share of Dow common stock	$ 1.34	$ 1.295	$ 1.16
Weighted-average common shares outstanding—basic	910.5	901.8	893.2
Weighted-average common shares outstanding—diluted	910.5	901.8	904.5

See Notes to the Consolidated Financial Statements.

Consolidated Balance Sheets

(IN MILLIONS) AT DECEMBER 31	2002	2001
Assets		
Current Assets		
Cash and cash equivalents	$ 1,484	$ 220
Marketable securities and interest-bearing deposits	89	44
Accounts and notes receivable:		
Trade (net of allowance for doubtful receivables—2002: $127; 2001: $123)	3,116	2,868
Other	2,369	2,230
Inventories	4,208	4,440
Deferred income tax assets—current	415	506
Total current assets	11,681	10,308
Investments		
Investments in nonconsolidated affiliates	1,565	1,581
Other investments	1,689	1,663
Noncurrent receivables	577	578
Total investments	3,831	3,822
Property		
Property	37,934	35,890
Less accumulated depreciation	24,137	22,311
Net property	13,797	13,579
Other Assets		
Goodwill	3,189	3,130
Other intangible assets (net of accumulated amortization—2002: $349; 2001: $346)	613	607
Deferred income tax assets—noncurrent	3,470	2,248
Asbestos-related insurance receivables—noncurrent	1,489	224
Deferred charges and other assets	1,492	1,597
Total other assets	10,253	7,806
Total Assets	$39,562	$35,515
Liabilities and Stockholders' Equity		
Current Liabilities		
Notes payable	$ 580	$ 1,209
Long-term debt due within one year	797	408
Accounts payable:		
Trade	2,834	2,713
Other	1,789	926
Income taxes payable	202	190
Deferred income tax liabilities—current	30	236
Dividends payable	326	323
Accrued and other current liabilities	2,298	2,120
Total current liabilities	8,856	8,125
Long-Term Debt	11,659	9,266
Other Noncurrent Liabilities		
Deferred income tax liabilities—noncurrent	994	760
Pension and other postretirement benefits—noncurrent	3,775	2,475
Asbestos-related liabilities—noncurrent	2,072	233
Other noncurrent obligations	3,214	3,306
Total other noncurrent liabilities	10,055	6,774
Minority Interest in Subsidiaries	366	357
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)	2,453	2,453
Additional paid-in capital	–	–
Unearned ESOP shares	(61)	(90)
Retained earnings	9,520	11,112
Accumulated other comprehensive loss	(2,097)	(1,070)
Treasury stock at cost (shares 2002: 68,721,252; 2001: 76,540,276)	(2,189)	(2,412)
Net stockholders' equity	7,626	9,993
Total Liabilities and Stockholders' Equity	$39,562	$35,515

See Notes to the Consolidated Financial Statements.

Consolidated Statements of Cash Flows

(IN MILLIONS) FOR THE YEARS ENDED DECEMBER 31	2002	2001	2000
Operating Activities			
Income (Loss) before cumulative effect of changes in accounting principles	$ (405)	$ (417)	$1,675
Adjustments to reconcile net income (loss) to net cash provided by operating activities:			
Depreciation and amortization	1,825	1,815	1,738
Purchased in-process research and development	–	69	6
Provision (Credit) for deferred income tax	(311)	(391)	143
Earnings/losses of nonconsolidated affiliates less than (in excess of) dividends received	53	25	(222)
Minority interests' share in income	63	32	72
Net gain on sales of consolidated companies	(4)	–	–
Net (gain) loss on sales of nonconsolidated affiliates	(60)	2	(13)
Net gain on sales of property and businesses	(8)	(49)	(102)
Other net gain	(65)	(245)	(340)
Merger-related expenses and restructuring	202	906	–
Asbestos-related charge	828	–	–
Tax benefit—nonqualified stock option exercises	31	39	37
Changes in assets and liabilities that provided (used) cash:			
Accounts and notes receivable	(299)	1,340	(335)
Inventories	223	34	(559)
Accounts payable	474	(586)	429
Other assets and liabilities	(439)	(785)	(838)
Cash provided by operating activities	2,108	1,789	1,691
Investing Activities			
Capital expenditures	(1,623)	(1,587)	(1,808)
Proceeds from sales of property and businesses	79	153	166
Acquisitions of businesses, net of cash received	(1)	(2,301)	(678)
Proceeds from sales of consolidated companies	39	–	–
Investments in nonconsolidated affiliates	(98)	(92)	(186)
Advances to nonconsolidated affiliates, net of cash received	–	203	(179)
Proceeds from sales of nonconsolidated affiliates	89	181	47
Purchases of investments	(1,799)	(2,561)	(3,074)
Proceeds from sales and maturities of investments	1,688	3,330	4,618
Cash used in investing activities	(1,626)	(2,674)	(1,094)
Financing Activities			
Changes in short-term notes payable	(510)	(1,573)	136
Payments on long-term debt	(472)	(259)	(562)
Proceeds from issuance of long-term debt	2,932	3,165	401
Purchases of treasury stock	(6)	(5)	(4)
Proceeds from sales of common stock	138	146	150
Proceeds from issuance of preferred securities of subsidiary	–	500	–
Distributions to minority interests	(78)	(80)	(74)
Dividends paid to stockholders	(1,217)	(1,063)	(904)
Cash provided by (used in) financing activities	787	831	(857)
Effect of Exchange Rate Changes on Cash	(5)	(4)	(9)
Summary			
Increase (Decrease) in cash and cash equivalents	1,264	(58)	(269)
Cash and cash equivalents at beginning of year	220	278	547
Cash and cash equivalents at end of year	$ 1,484	$ 220	$ 278

See Notes to the Consolidated Financial Statements.

Consolidated Statements of Stockholders' Equity

(IN MILLIONS) FOR THE YEARS ENDED DECEMBER 31	2002	2001	2000
Common Stock			
Balance at beginning of year	$ 2,453	$ 2,453	$ 818
3-for-1 stock split	–	–	1,635
Balance at end of year	2,453	2,453	2,453
Additional Paid-in Capital			
Balance at beginning of year	–	–	165
3-for-1 stock split	–	–	(184)
Other	–	–	19
Balance at end of year	–	–	–
Unearned ESOP Shares			
Balance at beginning of year	(90)	(103)	(57)
Transfer from temporary equity	–	–	(64)
Shares allocated to ESOP participants	29	13	18
Balance at end of year	(61)	(90)	(103)
Retained Earnings			
Balance at beginning of year	11,112	12,675	13,357
Net income (loss)	(338)	(385)	1,675
3-for-1 stock split	–	–	(1,451)
Common stock dividends declared	(1,228)	(1,162)	(906)
Other	(26)	(16)	–
Balance at end of year	9,520	11,112	12,675
Accumulated Other Comprehensive Income (Loss)			
Unrealized Gains on Investments at beginning of year	6	325	298
Unrealized gains (losses)	(29)	(319)	27
Balance at end of year	(23)	6	325
Cumulative Translation Adjustments at beginning of year	(982)	(834)	(646)
Translation adjustments	333	(148)	(188)
Balance at end of year	(649)	(982)	(834)
Minimum Pension Liability at beginning of year	(72)	(51)	(63)
Adjustments	(1,307)	(21)	12
Balance at end of year	(1,379)	(72)	(51)
Accumulated Derivative Loss at beginning of year	(22)	–	–
Cumulative transition adjustment	–	65	–
Net hedging results	(23)	(45)	–
Reclassification to earnings	(1)	(42)	–
Balance at end of year	(46)	(22)	–
Total accumulated other comprehensive loss	(2,097)	(1,070)	(560)
Treasury Stock			
Balance at beginning of year	(2,412)	(2,625)	(2,932)
Purchases	(6)	(5)	(4)
Issuance to employees and employee plans	229	218	311
Balance at end of year	(2,189)	(2,412)	(2,625)
Net Stockholders' Equity	$ 7,626	$ 9,993	$11,840

See Notes to the Consolidated Financial Statements.

Consolidated Statements of Comprehensive Income

(IN MILLIONS) FOR THE YEARS ENDED DECEMBER 31	2002	2001	2000
Net Income (Loss) Available for Common Stockholders	$ (338)	$(385)	$1,675
Other Comprehensive Income (Loss), Net of Tax (tax amounts shown below for 2002, 2001, 2000)			
Unrealized gains (losses) on investments:			
Unrealized holding gains (losses) during the period (less tax of $(12), $(34), $20)	(21)	(60)	35
Less: Reclassification adjustments for net amounts included in net income (loss) (less tax of $(5), $(152), $(4))	(8)	(259)	(8)
Cumulative translation adjustments (less tax of $175, $(21), $(33))	333	(148)	(188)
Minimum pension liability adjustments (less tax of $(729), $(8), $5)	(1,307)	(21)	12
Net loss on cash flow hedging derivative instruments (less tax of $(11) for 2002, $(13) for 2001)	(24)	(22)	–
Total other comprehensive loss	(1,027)	(510)	(149)
Comprehensive Income (Loss)	$(1,365)	$(895)	$1,526

See Notes to the Consolidated Financial Statements.

Notes to the Consolidated Financial Statements (dollars in millions, except as noted)

A. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING CHANGES

Principles of Consolidation and Basis of Presentation

The accompanying consolidated financial statements of The Dow Chemical Company and its subsidiaries ("Dow" or the "Company") include the assets, liabilities, revenues and expenses of all majority-owned subsidiaries over which the Company exercises control. Intercompany transactions and balances are eliminated in consolidation. Investments in nonconsolidated affiliates (20–50 percent owned companies, joint ventures and partnerships, and majority-owned subsidiaries over which the Company does not exercise control) are accounted for on the equity basis.

The consolidated financial statements give retroactive effect to the Union Carbide merger, which was completed on February 6, 2001, and accounted for as a pooling of interests. See Note C for additional information.

Prior to this annual report, the net results of the Company's insurance operations were presented on a separate line entitled "Insurance company operations, pretax income" on the income statement. The consolidated financial statements in this annual report reflect a reclassification of these results to "Net sales" and "Cost of sales" for all periods presented.

Certain reclassifications of prior years' amounts have been made to conform to the presentation adopted for 2002.

Use of Estimates in Financial Statement Preparation

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America ("GAAP") requires the use of estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. The Company's consolidated financial statements include amounts that are based on management's best estimates and judgments. Actual results could differ from those estimates.

Foreign Currency Translation

The local currency has been primarily used as the functional currency throughout the world. Translation gains and losses of those operations that use local currency as the functional currency are included in the consolidated balance sheets as "Accumulated other comprehensive income (loss)" ("AOCI"). Where the U.S. dollar is used as the functional currency, foreign currency gains and losses are reflected in income.

Environmental Matters

Accruals for environmental matters are recorded when it is probable that a liability has been incurred and the amount of the liability can be reasonably estimated, based on current law and existing technologies. These accruals are adjusted periodically as assessment and remediation efforts progress or as additional technical or legal information becomes available. Accruals for environmental liabilities are included in the consolidated balance sheets as "Other noncurrent obligations" at undiscounted amounts. Accruals for related insurance or other third-party recoveries for environmental liabilities are recorded when it is probable that a recovery will be realized and are included in the consolidated balance sheets as "Noncurrent receivables."

Environmental costs are capitalized if the costs extend the life of the property, increase its capacity, and/or mitigate or prevent contamination from future operations. Costs related to environmental contamination treatment and cleanup are charged to expense. Estimated future incremental operations, maintenance and management costs directly related to remediation are accrued when such costs are probable and estimable.

Cash and Cash Equivalents

Cash and cash equivalents include time deposits and readily marketable securities with original maturities of three months or less.

A. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING CHANGES (continued)

Financial Instruments

The Company calculates the fair value of financial instruments using quoted market prices whenever available. When quoted market prices are not available for various types of financial instruments (such as forwards, options and swaps), the Company uses standard pricing models with market-based inputs, which take into account the present value of estimated future cash flows.

The Company utilizes derivative instruments to manage exposures to currency exchange rates, commodity prices and interest rate risk. The fair values of all derivative instruments are recognized as assets or liabilities at the balance sheet date. Changes in the fair value of these instruments are reported in income or AOCI, depending on the use of the derivative and whether it qualifies for hedge accounting treatment.

Gains and losses on derivative instruments qualifying as cash flow hedges are recorded in AOCI, to the extent the hedges are effective, until the underlying transactions are recognized in income. To the extent effective, gains and losses on derivative and nonderivative instruments used as hedges of the Company's net investment in foreign operations are recorded in AOCI as part of the cumulative translation adjustment. The ineffective portions of cash flow hedges and hedges of net investment in foreign operations, if any, are recognized in income immediately.

Gains and losses on derivative instruments designated and qualifying as fair value hedging instruments, as well as the offsetting losses and gains on the hedged items, are reported in income in the same accounting period. Derivative instruments not designated as hedges are marked-to-market at the end of each accounting period with the results included in income.

Inventories

Inventories are stated at the lower of cost or market. The method of determining cost is used consistently from year to year at each subsidiary and varies among last-in, first-out ("LIFO"); first-in, first-out ("FIFO"); and average cost.

Property

Land, buildings and equipment, including property under capital lease agreements, are carried at cost less accumulated depreciation. Depreciation is based on the estimated service lives of depreciable assets and is provided using the straight-line method. For most assets capitalized through 1996, the declining balance method was used. Fully depreciated assets are retained in property and depreciation accounts until they are removed from service. In the case of disposals, assets and related depreciation are removed from the accounts, and the net amounts, less proceeds from disposal, are included in income.

Long-Lived Assets

The Company evaluates long-lived assets and certain identifiable intangibles for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. When undiscounted future cash flows will not be sufficient to recover an asset's carrying amount, the asset is written down to its fair value. Long-lived assets to be disposed of other than by sale are classified as held and used until they are disposed of. Long-lived assets to be disposed of by sale are classified as held for sale and are reported at the lower of carrying amount or fair value less cost to sell, and depreciation is ceased.

Investments

Investments in debt and marketable equity securities, including warrants, are classified as trading, available-for-sale, or held-to-maturity. Investments classified as trading are reported at fair value with unrealized gains and losses included in income. Those classified as available-for-sale are reported at fair value with unrealized gains and losses recorded in AOCI. Those classified as held-to-maturity are recorded at amortized cost. The cost of investments sold is determined by specific identification.

The excess of the cost of investments in subsidiaries over the values assigned to assets and liabilities acquired through June 30, 2001, is shown as goodwill and was amortized on a straight-line basis over its estimated useful life (maximum 40 years) through December 31, 2001. Effective January 1, 2002, goodwill is no longer amortized, but is subject to the impairment provisions of Statement of Financial Accounting Standards ("SFAS") No. 142, "Goodwill and Other Intangible Assets." See Accounting Changes below for further discussion.

Revenue

Sales are recognized when the revenue is realized or realizable, and has been earned. Approximately 97 percent of the Company's sales are related to sales of product, while 1 percent is related to the Company's service offerings, 1 percent to its insurance operations and 1 percent to the licensing of patents and technology. Revenue for product sales is recognized as risk and title to the product transfer to the customer, which usually occurs at the time shipment is made. Substantially all of the Company's products are sold FOB ("free on board") shipping point or, with respect to countries other than the United States, an equivalent basis. Title to the product passes when the product is delivered to the freight carrier. Dow's standard terms of delivery are included in its contracts of sale, order confirmation documents, and invoices. Freight costs and any directly related associated costs of transporting finished product to customers are recorded as "Cost of sales."

The Company's primary service offerings are in the form of contract manufacturing services and services associated with Dow AgroSciences' termite solution, *Sentricon* Termite Colony Elimination System. Revenue associated with these service offerings is recognized when services are rendered, according to contractual agreements.

Revenue related to the Company's insurance operations includes third-party insurance premiums, which are earned over the terms of the related insurance policies and reinsurance contracts. Revenue related to the licensing of patents and technology is recognized according to licensee production levels.

Legal Costs
The Company expenses legal costs, including those costs expected to be incurred in connection with a loss contingency, as incurred.

Income Taxes
The Company accounts for income taxes using the asset and liability method. Under this method deferred tax assets and liabilities are recognized for the future tax consequences of temporary differences between the carrying amounts and tax bases of assets and liabilities using enacted rates.

Annual tax provisions include amounts considered sufficient to pay assessments that may result from examinations of prior year tax returns; however, the amount ultimately paid upon resolution of issues raised may differ from the amounts accrued. Provision is made for taxes on undistributed earnings of foreign subsidiaries and related companies to the extent that such earnings are not deemed to be permanently invested.

Earnings per Common Share
The calculation of earnings per common share is based on the weighted-average number of the Company's common shares outstanding during the applicable period. The calculation for diluted earnings per common share reflects the effect of all dilutive potential common shares that were outstanding during the respective periods. Periods prior to 2001 have been adjusted to reflect the effects of the issuance of common shares of the Company in exchange for the common shares of Union Carbide.

Accounting Changes
In May 2000, the Emerging Issues Task Force ("EITF") of the Financial Accounting Standards Board ("FASB") reached a consensus with respect to EITF Issue 00-10, "Accounting for Shipping and Handling Fees and Costs." EITF Issue 00-10 recognized the inconsistencies in practice with regard to the recording of shipping and handling costs incurred by most companies that sell goods. The Company, with the exception of Union Carbide, historically recorded freight and any directly related associated cost of transporting finished product to customers as a reduction of net sales. At the end of 2000, following the guidance of EITF Issue 00-10, the Company reclassified these costs to cost of sales for all periods presented. As a result, reported net sales increased approximately 4 percent, with a corresponding increase in cost of sales.

The FASB issued SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities," in June 1998. SFAS No. 133 requires an entity to recognize all derivatives as either assets or liabilities in the statement of financial position and measure those instruments at fair value. The Company adopted SFAS No. 133, as amended and interpreted by the FASB and the Derivatives Implementation Group through "Statement 133 Implementation Issues," on January 1, 2001. See Note H regarding the impact of adoption.

In September 2000, the FASB issued SFAS No. 140, "Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities." This statement, which replaces SFAS No. 125, revises the standards for accounting for securitizations and other transfers of financial assets and collateral, and requires certain disclosures, but it carries over most of the provisions of SFAS No. 125 without reconsideration. SFAS No. 140 was effective for transfers and servicing of financial assets and extinguishments of liabilities occurring after March 31, 2001. It was effective for recognition and reclassifications of collateral and for disclosures relating to securitization transactions and collateral for fiscal years ending after December 15, 2000. The adoption of SFAS No. 140 did not have a material impact on the Company's consolidated financial statements. See Note I regarding sales of certain qualifying accounts receivables.

In June 2001, the FASB issued SFAS No. 141, "Business Combinations," which replaces Accounting Principles Board ("APB") Opinion No. 16, "Business Combinations." Under SFAS No. 141, all business combinations initiated after June 30, 2001 are accounted for using the purchase method. As required by SFAS No. 141, negative goodwill of $89 associated with the acquisition of Buna Sow Leuna Olefinverbund ("BSL") in 1997 was written off and included in "Cumulative effect of changes in accounting principles" in the first quarter of 2002. The application of SFAS No. 141 did not result in the reclassification of any amounts previously recorded as goodwill or other intangible assets.

In June 2001, the FASB issued SFAS No. 142, "Goodwill and Other Intangible Assets," which replaces APB Opinion No. 17, "Intangible Assets," and establishes new accounting and reporting requirements for goodwill and other intangible assets, effective for fiscal years beginning after December 15, 2001. Under this statement, goodwill and intangible assets that are deemed to have indefinite useful lives are not amortized, but are subject to impairment testing. Impairment testing is required to be performed at adoption and at least annually thereafter. On an ongoing basis (absent any impairment indicators), Dow plans to perform impairment tests during the fourth quarter of each year, in conjunction with the Company's annual budgeting process. Effective January 1, 2002, Dow ceased all amortization of goodwill, which is its only intangible asset with an indefinite useful life, and tested recorded goodwill for impairment by comparing the fair value of each reporting unit, determined using a discounted cash flow method, with its carrying value.

A. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING CHANGES (continued)

As a result of the Company's impairment testing, goodwill impairment losses totaling $22 were recorded in the first quarter of 2002 and included in "Cumulative effect of changes in accounting principles." Summaries of the impairment losses are as follows:

- The Hampshire Fine Chemicals reporting unit has experienced increased competition and the loss of several large customers. The reporting unit has revised its 10-year earnings forecast to reflect the decreased profitability outlook, and, as a result, the Company recognized a goodwill impairment loss of $18 in the first quarter of 2002 in the Performance Chemicals segment.
- The Rubber reporting unit has faced increased competition and rapidly rising hydrocarbon costs with a significant oversupply of natural rubber, resulting in steadily declining margins. Revisions were made to the 10-year earnings forecast to reflect these negative trends and, as a result, a goodwill impairment loss of $4 was recognized in the first quarter of 2002 in the Plastics segment.

As required by SFAS No. 142, the Company also reassessed the useful lives and the classification of its identifiable intangible assets and determined them to be appropriate. See Note F for additional disclosures regarding the adoption of SFAS No. 142.

In June 2001, the FASB issued SFAS No. 143, "Accounting for Asset Retirement Obligations," which requires an entity to record the fair value of a liability for an asset retirement obligation in the period in which it is incurred and a corresponding increase in the related long-lived asset. The liability is adjusted to its present value each period and the asset is depreciated over its useful life. A gain or loss may be incurred upon settlement of the liability. SFAS No. 143 is effective for fiscal years beginning after June 15, 2002. Adoption of SFAS No. 143 will result in a charge of approximately $15 in the first quarter of 2003, which will be included in "Cumulative effect of changes in accounting principles."

In August 2001, the FASB issued SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets." This statement replaces SFAS No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to be Disposed of," and provisions of APB Opinion No. 30, "Reporting the Results of Operations—Reporting the Effects of Disposal of a Segment of a Business, and Extraordinary, Unusual and Infrequently Occurring Events and Transactions" for the disposal of segments of a business. The statement creates one accounting model, based on the framework established in SFAS No. 121, to be applied to all long-lived assets, including discontinued operations. SFAS No. 144 is effective for fiscal years beginning after December 15, 2001. The Company determined that its current accounting policy for the impairment of long-lived assets is consistent with SFAS No. 144.

In June 2002, the FASB issued SFAS No. 146, "Accounting for Costs Associated with Exit or Disposal Activities," which nullifies EITF Issue 94-3, "Liability Recognition for Certain Employee Termination Benefits and Other Costs to Exit an Activity." This statement, which is effective for exit or disposal activities initiated after December 31, 2002, will change the measurement and timing of costs associated with exit and disposal activities undertaken by the Company in the future.

On August 26, 2002, the Company announced that in the first quarter of 2003 it would begin expensing stock options issued to employees in accordance with SFAS No. 123, "Accounting for Stock-Based Compensation." Dow currently uses the accounting method prescribed by APB Opinion No. 25, "Accounting for Stock Issued to Employees," as allowed by SFAS No. 123; however, expensing stock options is considered the preferable method of accounting for stock-based compensation. On December 31, 2002, the FASB issued SFAS No. 148, "Accounting for Stock-Based Compensation—Transition and Disclosure," which amends SFAS No. 123. SFAS No. 148, which is effective for fiscal years ending after December 15, 2002, provides alternative methods of transition for a voluntary change to the fair value based method and requires more prominent and more frequent disclosures in the financial statements about the effects of stock-based compensation. For its transition, Dow will use the transition method originally provided by SFAS No. 123 and expects the after-tax expense associated with stock options to be approximately $0.02 per share in 2003, growing to approximately $0.06 per share in 2005. These estimates were based on the terms of Dow's stock option plans and current assumptions for stock option grants and valuation, which may change when stock options are granted in 2003 and in the future. See Note N for disclosures related to stock compensation.

In November 2002, the FASB issued FASB Interpretation ("FIN") No. 45, "Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others." FIN No. 45 clarifies the requirements of SFAS No. 5, "Accounting for Contingencies," relating to the guarantor's accounting for and disclosures of certain guarantees issued. The initial recognition and measurement provisions of the interpretation are applicable on a prospective basis to guarantees issued or modified after December 31, 2002, irrespective of the guarantor's fiscal year-end. The disclosure requirements of the interpretation are effective for financial statements of interim or annual periods ending after December 15, 2002. The Company's disclosures related to guarantees for the year ended December 31, 2002 can be found in Note J.

In January 2003, the FASB issued FIN No. 46, "Consolidation of Variable Interest Entities." FIN No. 46 clarifies the application of Accounting Research Bulletin No. 51, "Consolidated Financial Statements," to certain entities in which equity investors do not have the characteristics of a controlling financial interest or in which equity investors do not bear the residual economic risks. The interpretation applies to variable interest entities ("VIEs") created after January 31, 2003, and to VIEs in which an enterprise obtains an interest after that date. It applies in the fiscal year or interim period beginning after June 15, 2003, to VIEs in which an enterprise holds a variable interest that was acquired before February 1, 2003. See Note M for disclosures regarding the Company's VIEs, and the expected impact of adoption in the third quarter of 2003.

B. PURCHASED IN-PROCESS RESEARCH AND DEVELOPMENT, AND MERGER-RELATED EXPENSES AND RESTRUCTURING

Purchased In-Process Research and Development

Purchased in-process research and development ("IPR&D") represents the value assigned in a purchase business combination to research and development projects of the acquired business that had commenced but had not yet been completed at the date of acquisition and which have no alternative future use. In accordance with SFAS No. 2, "Accounting for Research and Development Costs," as clarified by FIN No. 4, amounts assigned to IPR&D meeting the above-stated criteria must be charged to expense as part of the allocation of the purchase price of the business combination.

The method used to determine the purchase price allocations for IPR&D for the acquisitions listed below was an income or cash flow method. The calculations were based on estimates of operating earnings, capital charges (representing the effect of capital expenditures), trade name royalties, charges for core technology, and working capital requirements to support the cash flows attributed to the technologies. The after-tax cash flows were bifurcated to reflect the stage of development of each technology. Discount rates reflecting the stage of development and the risk associated with each technology were used to value IPR&D. The Company has substantial experience in research and development projects for new products, which enables it to establish realistic time frames for the completion of such projects; therefore, the Company believes there is limited risk that the projects described below will not be concluded within reasonable proximity to the expected completion dates.

In 2000, the Company completed the appraisal of the technology acquired with the purchase of Flexible Products (see Note C) and recorded a pretax IPR&D charge of $6 in the Performance Plastics segment. Projects associated with technology acquired are expected to improve profitability and create new growth opportunities in the Polyurethanes formulations-based business. At year-end 2002, projects were approximately 75 percent complete.

In 2001, the Company completed the appraisal of the technology acquired with the purchase of Rohm and Haas Company's agricultural chemicals business (see Note C) and recorded a pretax IPR&D charge of $69 in the Agricultural Sciences segment. Projects associated with technology acquired are expected to create new growth opportunities for fungicides. At year-end 2002, the remaining projects were approximately 10 percent complete, with projected completion in 2008 or beyond.

Merger-Related Expenses and Restructuring

On March 29, 2001, Dow's management made certain decisions relative to employment levels, duplicate assets and facilities and excess capacity resulting from the Union Carbide merger. These decisions were based on management's assessment of the actions necessary to achieve synergies as a result of the merger. The economic effects of these decisions, combined with merger-related transaction costs and certain asset impairments, resulted in a pretax special charge in the first quarter of 2001 of $1,384, which was included in Unallocated and Other for segment reporting purposes.

The 2001 charge included $122 for transaction costs, which consisted primarily of investment banking, legal and accounting fees. All of these costs had been paid at March 31, 2001.

The 2001 charge included $619 for the write-down of duplicate assets and facilities directly related to the merger. Included in the write-down were charges of $299 for assets and facilities that were rendered redundant as a result of the merger, $81 for lease abandonment reserves, $138 for asset impairments and $101 for losses on divestitures required for regulatory approval of the merger. Duplicate assets consisted principally of capitalized software costs, information technology equipment, and research and development facilities and equipment, all of which were written off during the first quarter of 2001. The fair values of the impaired assets, which include production facilities and transportation equipment, were determined based on discounted cash flows and an appraisal, respectively. These components of the special charge will require limited future cash outlays, and will result in a decrease in annual depreciation of approximately $62. In November 2001, the decision to close a research and development facility in Bound Brook, New Jersey, was reversed, in light of difficult economic conditions; the facility will now remain open until at least 2005. Consequently, $55 of the special charge was reversed during the fourth quarter of 2001. At December 31, 2001, $77 of the reserve remained for the abandonment of leased facilities and demolition costs. The leased facilities will remain open until at least 2005.

In addition to the special charge, one-time merger and integration costs, exclusively related to the Union Carbide merger, of $115 were recorded in 2001. These costs totaled $41 for 2002.

The 2001 charge included $643 for employee-related costs, which consisted predominantly of provisions for employee severance, change of control obligations, medical and retirement benefits, and outplacement services. The Company's integration plans included a workforce reduction of approximately 4,500 people, primarily from Union Carbide's administrative, marketing, purchasing, research and development, and manufacturing workforce. The charge for severance was based upon the severance plan provisions communicated to employees. According to the initial integration plans, the Company expected to expend approximately 66 percent of the employee-related costs within the first two years following the merger, though the timing of severance payments is dependent upon employee elections. Expenditures with respect to employee-related costs associated with pension and postretirement benefit plans will occur over a much more extended period. During the fourth quarter of 2001, a review of the Company's integration plans resulted in a revision to the estimated workforce reduction, as actual reductions had exceeded the original plans. Consequently, the severance provision was increased $56 for an additional workforce reduction of approximately 600 people. As of December 31, 2001, severance of $333 had been paid to approximately 3,100 former employees. In the first three quarters of 2002, severance of $132 was paid to approximately 1,750 former employees, bringing the program-to-date amount to $465 paid to approximately 4,850 former employees. The planned merger-related program for workforce reductions was substantially completed in the third quarter of 2002.

B. PURCHASED IN-PROCESS RESEARCH AND DEVELOPMENT, AND MERGER-RELATED EXPENSES AND RESTRUCTURING (continued)

The following table summarizes the activity in the merger-related special charge reserve:

	TRANSACTION COSTS	WRITE-DOWN OF DUPLICATE ASSETS AND FACILITIES	ONE-TIME MERGER AND INTEGRATION COSTS	LABOR-RELATED COSTS	TOTAL
2001					
Special charge	$ 122	$ 619	–	$ 643	$ 1,384
Adjustments to reserve	–	(55)	$ 115	43	103
Charges against reserve	(122)	(487)	(115)	(333)	(1,057)
Balance at December 31, 2001	–	$ 77	–	$ 353	$ 430
2002					
Adjustments to reserve	–	–	$ 41	$ 21	$ 62
Charges against reserve	–	$ (12)	(41)	(132)	(185)
Completion of program [1]	–	(65)	–	(242)	(307)
Balance at December 31, 2002	–	–	–	–	–

(1) Upon completion of the program, the outstanding merger-related reserve for employee-related costs associated with pension and postretirement benefit plans is considered part of the Company's regular pension and other postretirement obligations. The reserve related to the abandonment of leased facilities is included in "Other noncurrent obligations."

During the fourth quarter of 2002, additional severance of $11 was paid to 123 former employees and an additional charge of $34 was recorded for merger-related severance. Under this revised severance program, 776 additional employees will receive severance payments in the first quarter of 2003. Additional reductions in headcount may continue as the Company continues its restructuring efforts. The Company will account for future workforce reductions as they occur.

Other Restructuring

In late 2002, immediately following the appointment of a new President and CEO, management began a series of studies to determine potential actions relative to under-performing assets and employment levels. Prior to the end of the year, certain studies were completed and management made decisions relative to certain assets. The economic effects of these decisions resulted in a pretax charge in the fourth quarter of 2002 of $168.

The fourth quarter charge included $37 for severance for 624 employees and was included in Unallocated and Other for segment reporting purposes. The charge for severance was based on severance plans communicated to employees. Employees have been notified and severance payments will begin in the first quarter; the program is expected to be completed by the third quarter of 2003.

The remaining $131 of the fourth quarter charge related to asset write-downs and impairments and included the shutdown of a chlor-alkali production facility in Canada, the shutdown of an ethylene manufacturing facility in Texas, the impairment of non-strategic components of Dow's operations in South Africa, and the impairment of a product development facility in Canada. The charge for the shutdown of facilities was $57 and represented the write-off of the net book value of those manufacturing plants. The impairment charge was $74 and was based on the fair values of the impaired business and production facilities: discounted cash flows for the Canadian facility, and fair market offers for the South African non-strategic assets.

In 2002, the Company also recorded severance of $5 related to a workforce reduction program at Dow AgroSciences.

C. ACQUISITIONS AND DIVESTITURES

Union Carbide Corporation Merger

In August 1999, The Dow Chemical Company and Union Carbide announced a definitive merger agreement for a tax-free, stock-for-stock transaction. Under the agreement, Union Carbide stockholders received 1.611 shares of Dow stock (on a post-split basis) for each share of Union Carbide stock they owned, for a total of approximately 219 million shares. Based upon Dow's closing price of $124 11/16 (pre-split) on August 3, 1999, the transaction was valued at $66.96 per Union Carbide share, or $11.6 billion in aggregate including the assumption of $2.3 billion of net debt. At the time of the closing on February 6, 2001, the transaction would have been valued at $10.0 billion, on the same basis. According to the agreement, the merger was subject to certain conditions, including approval by Union Carbide stockholders and review by antitrust regulatory authorities in the United States, Europe and Canada. Union Carbide stockholders approved the merger on December 1, 1999. On May 3, 2000, the European Commission approved the merger subject to certain conditions. On February 6, 2001, after receiving clearance from the U.S. Federal Trade Commission, the Canadian Competition Bureau and other jurisdictions around the world, Union Carbide merged with a subsidiary of The Dow Chemical Company, and Union Carbide became a wholly owned subsidiary of Dow. As part of the regulatory approval process, the Company agreed to:

- Divest certain European polyethylene assets. *(The sale of Union Carbide's 50 percent ownership in Polimeri Europa S.r.l. to EniChem was completed in April 2001.)*
- Divest and license certain polyethylene gas-phase technology globally. *(Completed in the first quarter of 2001.)*
- Contribute the *Unipol* polyethylene process technology licensing and polyethylene conventional catalyst businesses of Union Carbide to Univation Technologies LLC. *(Occurred simultaneously with the merger.)*
- Divest Dow's worldwide ethyleneamines business (with the exception of Dow's facility in Terneuzen, The Netherlands). *(Business was sold to Huntsman International, LLC in the first quarter of 2001.)*

- Divest Dow's worldwide ethanolamines business.
  (Business was sold to INEOS plc in the first quarter of 2001.)
- Divest the North American *Gas/Spec* gas treating business.
  (Business was sold to INEOS plc in the first quarter of 2001.)

The Union Carbide merger was accounted for as a pooling of interests. Accordingly, the consolidated financial statements include the combined results of Dow and Union Carbide for all periods presented. See Note B regarding a special charge for merger-related expenses and restructuring recorded during 2001.

Other Significant Acquisitions and Divestitures

The acquisitions included below were accounted for using the purchase method of accounting.

In April 1995, the Company signed an agreement with Bundesanstalt für vereinigungsbedingte Sonderaufgaben ("BvS") for the privatization of three state-owned chemical companies in eastern Germany, Buna Sow Leuna Olefinverbund ("BSL"). Economic transfer of business operations to the Company, through the privatization agreement and various service agreements, occurred in June 1995, and the Company began a reconstruction program of the sites. In September 1997, the Company acquired 80 percent ownership in BSL for an investment of $174; BvS maintained 20 percent ownership. The Company had a call option and BvS a put option for the remaining 20 percent of BSL after the reconstruction period. In May 2000, the Company announced the completion of the reconstruction program and, for an additional investment of $156, acquired the remaining 20 percent of BSL. On June 1, 2000, BSL became a wholly owned subsidiary of the Company and, beginning on that date, the financial results of BSL are fully consolidated.

BvS provided certain incentives during the reconstruction period to cover portions of the reconstruction program and retained environmental cleanup obligations for existing facilities. Incentives related to property construction reduced the cost basis of such property. Incentives related to expenses during the reconstruction period were recognized as such expenses were incurred. During the reconstruction period, the Company included the financial results of BSL as a nonconsolidated affiliate.

In February 2000, the Company acquired Flexible Products Company of Marietta, Georgia, for approximately $160. Flexible Products Company was one of the largest polyurethane systems suppliers in North America and a leader in custom polyurethane foam formulations and dispensing technology.

In December 2000, the Company sold its 32.5 percent ownership interest in the Cochin pipeline system to NOVA Chemicals Corporation for $119, resulting in a pretax gain of $98. The Company initially announced its agreement to sell its interest in the pipeline to a unit of Williams' energy services business in August 2000. In October 2000, NOVA Chemicals Corporation, one of the owners of Cochin, exercised its right of first refusal as provided in the contractual agreements among the Cochin owners.

In January 2001, the Company acquired the 50 percent interest in Gurit-Essex AG that it did not previously own from Gurit-Heberlein AG for approximately $390, and began fully consolidating the results of Gurit-Essex AG. Gurit-Essex AG is the largest European supplier of automotive adhesives, sealants and body engineered systems for the automotive OEM and aftermarket. The acquisition has globalized Dow Automotive's product availability and doubled the Company's adhesives, sealants and body engineered systems business.

On February 9, 2001, Dow announced it had reached an agreement with EniChem to acquire its polyurethanes business, which had annual sales of approximately $500. The acquisition, which strengthens Dow's polyurethanes portfolio by enhancing its European presence, was completed in April 2001 for a net cash cost of approximately $80. In the second quarter of 2001, the Company began including the results of this business in its consolidated financial statements. Under the terms of the agreement, Dow divested Union Carbide's 50 percent interest in Polimeri Europa S.r.l. to EniChem in order to satisfy the European Commission's conditions for approval of the merger.

On March 8, 2001, Dow announced it had reached an agreement to acquire Rohm and Haas Company's agricultural chemicals business, including working capital, for approximately $1 billion. After receiving regulatory approval, the Company announced completion of the acquisition on June 1, 2001, and began including the results of this business in its consolidated financial statements. During the third quarter of 2001, the Company recorded a pretax charge of $69 for IPR&D costs as part of the allocation of the purchase price (see Note B). In the second quarter of 2002, the Company finalized its allocation of the purchase price to the assets acquired and liabilities assumed, principally resulting in adjustments to the values assigned to goodwill, property and accounts receivable.

On March 29, 2001, Dow announced it was making a tender offer to acquire 100 percent of the outstanding shares of Ascot Plc, a publicly traded U.K. company with annual chemical sales of approximately $335. The European Commission granted regulatory approval of the acquisition on May 11, 2001, and the Company declared its offer to acquire Ascot wholly unconditional on June 1, 2001, and began including the results of Ascot in its consolidated financial statements. The acquisition was valued at approximately $450. Dow has integrated the Fine Chemicals and Specialty Chemicals businesses of Ascot into the Performance Chemicals segment. In the second quarter of 2002, the Company finalized its allocation of the purchase price to the assets acquired and liabilities assumed, principally resulting in adjustments to the values assigned to goodwill, property and other intangible assets.

See Note B regarding certain charges recorded related to acquisitions and divestitures.

D. INVENTORIES

The following table provides a breakdown of inventories at December 31, 2002 and 2001:

	2002	2001
Finished goods	$2,523	$2,675
Work in process	843	894
Raw materials	452	509
Supplies	390	362
Total inventories	$4,208	$4,440

The reserves reducing inventories from the first-in, first-out ("FIFO") basis to the last-in, first-out ("LIFO") basis amounted to $209 at December 31, 2002 and $146 at December 31, 2001. Inventories valued on a LIFO basis, principally hydrocarbon and U.S. chemicals and plastics product inventories, represented 40 percent of total inventories at December 31, 2002 and 36 percent of total inventories at December 31, 2001.

A reduction of certain inventories resulted in the liquidation of some quantities of LIFO inventory, which reduced pretax loss $71 in 2002 and $19 in 2001, and increased pretax income $67 in 2000.

E. PROPERTY

Property at December 31

	ESTIMATED USEFUL LIVES (YEARS)	2002	2001
Land	–	$ 506	$ 445
Land and waterway improvements	15–25	1,060	994
Buildings	5–55	3,169	3,009
Machinery and equipment	3–20	28,135	26,221
Utility and supply lines	5–20	1,732	1,584
Other	3–30	1,968	2,351
Construction in progress	–	1,364	1,286
Total		$37,934	$35,890

	2002	2001	2000
Depreciation expense	$1,680	$1,595	$1,554
Manufacturing maintenance and repair costs	1,090	1,015	1,027
Capitalized interest	51	54	98

F. GOODWILL AND OTHER INTANGIBLE ASSETS

The Company ceased amortizing goodwill upon adoption of SFAS No. 142 on January 1, 2002 (see Note A). The following table provides pro forma results for the years ended December 31, 2001 and 2000, as if the non-amortization provisions of SFAS No. 142 had been applied in 2001 and 2000, compared with actual results for the year ended December 31, 2002:

	2002	2001	2000
Reported income (loss) before cumulative effect of changes in accounting principles	$ (405)	$ (417)	$1,675
Reported net income (loss)	$ (338)	$ (385)	$1,675
Adjustments:			
Goodwill amortization, net of tax	–	$ 128	$ 99
Negative goodwill amortization, net of tax	–	(10)	(3)
Equity method goodwill amortization, net of tax	–	11	9
Total adjustments	–	$ 129	$ 105
Adjusted income (loss) before cumulative effect of changes in accounting principles	$ (405)	$ (288)	$1,780
Adjusted net income (loss)	$ (338)	$ (256)	$1,780
Reported earnings (loss) before cumulative effect of changes in accounting principles per common share—basic	$(0.44)	$(0.46)	$ 1.88
Reported earnings (loss) per common share—basic	$(0.37)	$(0.43)	$ 1.88
Adjustments:			
Goodwill amortization, net of tax	–	$ 0.14	$ 0.11
Negative goodwill amortization, net of tax	–	(0.01)	–
Equity method goodwill amortization, net of tax	–	0.01	0.01
Total adjustments	–	$ 0.14	$ 0.12
Adjusted earnings (loss) before cumulative effect of changes in accounting principles per common share—basic	$(0.44)	$(0.32)	$ 2.00
Adjusted earnings (loss) per common share—basic	$(0.37)	$(0.29)	$ 2.00
Reported earnings (loss) before cumulative effect of changes in accounting principles per common share—diluted	$(0.44)	$(0.46)	$ 1.85
Reported earnings (loss) per common share—diluted	$(0.37)	$(0.43)	$ 1.85
Adjustments:			
Goodwill amortization, net of tax	–	$ 0.14	$ 0.11
Negative goodwill amortization, net of tax	–	(0.01)	–
Equity method goodwill amortization, net of tax	–	0.01	0.01
Total adjustments	–	$ 0.14	$ 0.12
Adjusted earnings (loss) before cumulative effect of changes in accounting principles per common share—diluted	$(0.44)	$(0.32)	$ 1.97
Adjusted earnings (loss) per common share—diluted	$(0.37)	$(0.29)	$ 1.97

Accumulated amortization for goodwill upon adoption of SFAS No. 142 was $569. The following table shows changes in the carrying amount of goodwill for the year ended December 31, 2002, by operating segment:

	PERFORMANCE PLASTICS	PERFORMANCE CHEMICALS	AGRICULTURAL SCIENCES	PLASTICS	HYDROCARBONS AND ENERGY	TOTAL
Goodwill at January 1, 2002	$889	$754	$1,303	$121	$63	$3,130
Increase related to acquisition of remaining 49.99% interest in Branco Dow Compostos de Engenharia	1	–	–	–	–	1
Impairment losses:						
Hampshire Fine Chemicals	–	(18)	–	–	–	(18)
Rubber	–	–	–	(4)	–	(4)
Total impairment losses	–	(18)	–	(4)	–	(22)
Goodwill write-off related to sale of Chlorchem	–	(3)	–	–	–	(3)
Purchase price allocation adjustments:						
Ascot	–	27	–	–	–	27
Buildscape	11	–	–	–	–	11
Gurit-Essex	3	–	–	–	–	3
Rohm and Haas agricultural chemicals	–	–	17	–	–	17
Reichhold paper and carpet latex	–	25	–	–	–	25
Total adjustments	14	52	17	–	–	83
Goodwill at December 31, 2002	$904	$785	$1,320	$117	$63	$3,189

During the fourth quarter of 2002, the Company performed impairment tests for goodwill in conjunction with its annual budgeting process. As a result of this review, it was determined that no goodwill impairments existed.

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

Other Intangible Assets at December 31

	2002			2001		
	GROSS CARRYING AMOUNT	ACCUMULATED AMORTIZATION	NET	GROSS CARRYING AMOUNT	ACCUMULATED AMORTIZATION	NET
Intangible assets with finite lives:						
Licenses and intellectual property	$304	$(121)	$183	$278	$ (87)	$191
Patents	156	(66)	90	161	(54)	107
Software	258	(124)	134	291	(188)	103
Trademarks	137	(15)	122	126	(6)	120
Other	107	(23)	84	97	(11)	86
Total	$962	$(349)	$613	$953	$(346)	$607

The following table provides a summary of acquisitions of intangible assets during the year:

Acquisitions of Intangible Assets in 2002

	ACQUISITION COST	WEIGHTED-AVERAGE AMORTIZATION PERIOD
Intangible assets with finite lives:		
Licenses and intellectual property	$16	7.6 years
Software	56	5.0 years
Other	4	10.5 years
Total	$76	5.9 years

Amortization expense for other intangible assets (not including software) was $65 for 2002, compared with $48 for 2001 and $29 for 2000. Amortization expense for software, which is included in cost of sales, totaled $30 in 2002, compared with $18 in 2001 and $39 in 2000. Total estimated amortization expense for the next five fiscal years is as follows:

	ESTIMATED AMORTIZATION EXPENSE
2003	$84
2004	80
2005	72
2006	67
2007	57

G. SIGNIFICANT NONCONSOLIDATED AFFILIATES AND RELATED COMPANY TRANSACTIONS

The Company's investments in related companies accounted for by the equity method ("nonconsolidated affiliates") were $1,565 at December 31, 2002 and $1,581 at December 31, 2001. These amounts approximate the Company's proportionate share of the underlying net assets of the companies accounted for by the equity method. Differences between the Company's investments in nonconsolidated affiliates and its share of the investees' net assets, exclusive of Dow Corning Corporation ("Dow Corning") were $203 at December 31, 2002 and $218 at December 31, 2001. Prior to 2002, the differences were amortized over estimated useful lives, which ranged from 5 to 40 years. Amortization ceased effective January 1, 2002, in accordance with SFAS No. 142, "Goodwill and Other Intangible Assets" (see Note F).

In May 1995, Dow Corning, in which the Company is a 50 percent shareholder, voluntarily filed for protection under Chapter 11 of the U.S. Bankruptcy Code (see Note J). As a result, the Company fully reserved its investment in Dow Corning and reserved its 50 percent share of equity earnings from that time through the third quarter of 2000. For the first three quarters of 2000, equity earnings totaling $39 were recorded and reserved. It was the Company's determination during this period of time that the decline in the value of its investment in Dow Corning was other than temporary. Following Judge Denise Page Hood's November 13, 2000 affirmation of the Bankruptcy Court's order confirming the Joint Plan of Reorganization, the Company reviewed the value of its investment in Dow Corning, revised its assessment of the recoverability of its investment, and determined that it had adequately provided for the other than temporary decline associated with the bankruptcy.

A difference between the Company's recorded share of the underlying equity of Dow Corning and the carrying value of this investment has existed since May 1995, when the Company wrote down its investment to zero in response to Dow Corning's bankruptcy filing. The difference at December 31, 2002 was approximately $237. Dow Corning recognized the financial impact of implementing the approved Joint Plan of Reorganization during 1998 and 1999, including all liabilities and obligations. With the exception of the remote possibility of a future bankruptcy related charge, the Company considers the difference between the carrying value of its investment in Dow Corning and its 50 percent share of Dow Corning's equity to be permanent.

Dow's principal nonconsolidated affiliates and the Company's direct or indirect ownership interest for each at December 31, 2002, 2001 and 2000 are shown below:

Principal Nonconsolidated Affiliates at December 31

	OWNERSHIP INTEREST		
	2002	2001	2000
Dow Corning Corporation	50%	50%	50%
DuPont Dow Elastomers L.L.C	50%	50%	50%
EQUATE Petrochemical Company K.S.C.	45%	45%	45%
Gurit-Essex AG	–	–	50%
Nippon Unicar Company Limited	50%	50%	50%
Polimeri Europa S.r.l.	–	–	50%
Siam Styrene Monomer Co., Ltd.	49%	49%	49%
TOTAL Raffinaderij Nederland N.V.	45%	45%	45%
UOP LLC	50%	50%	50%

The Company's investment in these companies was $1,113 at December 31, 2002 and $1,007 at December 31, 2001, and its equity in their earnings was $142 in 2002, $97 in 2001 and $412 in 2000, after reserving the earnings related to Dow Corning through the third quarter of 2000. All of the nonconsolidated affiliates in which the Company has investments are privately held companies; therefore, quoted market prices are not available. The summarized financial information presented below represents the combined accounts (at 100 percent) of the principal nonconsolidated affiliates.

On June 1, 2000, BSL became a wholly owned subsidiary of the Company and, beginning on that date, the financial results of BSL are fully consolidated (see Note C). The summarized income statement information for 2000 includes BSL's sales, gross profit and net income from January 1, 2000 through May 31, 2000.

On January 10, 2001, Gurit-Essex AG became a wholly owned subsidiary of the Company and, beginning on that date, the financial results of Gurit-Essex AG are fully consolidated. In April 2001, in order to satisfy the European Commission's condition for approval of the Union Carbide merger, the Company divested its 50 percent interest in Polimeri Europa S.r.l. to EniChem S.p.A. The summarized balance sheet and income statement information below for the principal nonconsolidated affiliates for 2001 and 2002 does not include Gurit-Essex AG or Polimeri Europa S.r.l. (see Note C).

Summarized Balance Sheet Information at December 31

	2002	2001
Current assets	$3,557	$3,365
Noncurrent assets	6,178	5,849
Total assets	$9,735	$9,214
Current liabilities	$2,148	$1,843
Noncurrent liabilities	5,018	4,972
Total liabilities	$7,166	$6,815

Summarized Income Statement Information

	2002	2001	2000
Sales	$5,542	$5,291	$8,574
Gross profit	1,628	1,378	2,158
Net income	229	109	710

Dividends received from related companies were $93 in 2002, $54 in 2001 and $132 in 2000.

The Company has service agreements with some of these entities, including contracts to manage the operations of manufacturing sites and the construction of new facilities; licensing and technology agreements; and marketing, sales, purchase and lease agreements. Transactions with related companies and balances due to related companies were not material to the consolidated financial statements.

H. FINANCIAL INSTRUMENTS

Investments

The Company's investments in marketable securities are primarily classified as available-for-sale. Maturities for approximately 26 percent of the debt securities were less than five years at December 31, 2002.

Investing Results

	2002	2001	2000
Proceeds from sales of available-for-sale securities	$1,659	$2,900	$4,231
Gross realized gains	333	410	343
Gross realized losses	(334)	(157)	(163)

Risk Management

The Company's risk management program for interest rate, foreign currency and commodity risks is based on fundamental, mathematical and technical models that take into account the implicit cost of hedging. Risks created by derivative instruments and the mark-to-market valuations of positions are strictly monitored at all times. The Company uses value at risk and stress tests to monitor risk. Credit risk arising from these contracts is not significant because the counterparties to these contracts are primarily major international financial institutions and, to a lesser extent, major chemical and petroleum companies, and the Company does not anticipate any such losses. The net cash requirements arising from risk management activities are not expected to be material in 2003. The Company reviews its overall financial strategies and impacts from using derivatives in its risk management program with the Board of Directors' Finance Committee and revises its strategies as market conditions dictate.

The Company minimizes concentrations of credit risk through its global orientation in diverse businesses with a large number of diverse customers and suppliers. No significant concentration of credit risk existed at December 31, 2002.

Interest Rate Risk Management

The Company enters into various interest rate contracts with the objective of lowering funding costs or altering interest rate exposures related to fixed and variable rate obligations. In these contracts, the Company agrees with other parties to exchange, at specified intervals, the difference between fixed and floating interest amounts calculated on an agreed-upon notional principal amount.

Foreign Currency Risk Management

The Company's global operations require active participation in foreign exchange markets. The Company enters into foreign exchange forward contracts and options, and cross-currency swaps to hedge various currency exposures or create desired exposures. Exposures primarily relate to assets and liabilities and bonds denominated in foreign currencies, as well as economic exposure, which is derived from the risk that currency fluctuations could affect the dollar value of future cash flows related to operating activities. The primary business objective of the activity is to optimize the U.S. dollar value of the Company's assets, liabilities and future cash flows with respect to exchange rate fluctuations. Assets and liabilities denominated in the same foreign currency are netted, and only the net exposure is hedged. At December 31, 2002, the Company had forward contracts and options to buy, sell or exchange foreign currencies. These contracts and options had various expiration dates, primarily in the first quarter of the next year.

Commodity Risk Management

The Company has exposure to the prices of commodities in its procurement of certain raw materials. The primary purpose of commodity hedging activities is to manage the volatility associated with these forecasted inventory purchases. The Company had futures contracts, options and swaps to buy, sell or exchange commodities. These agreements had various expiration dates in 2003 through 2004.

Fair Value of Financial Instruments at December 31

	2002				2001			
	COST	GAIN	LOSS	FAIR VALUE	COST	GAIN	LOSS	FAIR VALUE
Marketable securities:								
Debt securities	$ 1,035	$ 85	$ (50)	$ 1,070	$ 952	$ 18	$ (12)	$ 958
Equity securities	651	5	(86)	570	630	47	(35)	642
Other	22	6	–	28	5	–	–	5
Total	$ 1,708	$ 96	$(136)	$ 1,668	$ 1,587	$ 65	$ (47)	$ 1,605
Long-term debt including debt due within one year[1]	$(12,456)	$ 45	$(417)	$(12,828)	$(9,674)	$ 7	$(516)	$(10,183)
Derivatives relating to:								
Foreign currency	–	$128	$(510)	$ (382)	–	$154	$(117)	$ 37
Interest rates	–	67	(86)	(19)	–	27	(34)	(7)
Commodities	–	123	(12)	111	–	4	(29)	(25)

(1) Cost includes fair value adjustments per SFAS No. 133 of $129 in 2002 and $22 in 2001.

Cost approximates fair value for all other financial instruments.

H. FINANCIAL INSTRUMENTS (continued)

Accounting for Derivative Instruments and Hedging Activities
Effective January 1, 2001, the Company adopted SFAS No. 133, as amended by SFAS No. 137 and SFAS No. 138, and as interpreted by the FASB and the Derivatives Implementation Group through "Statement 133 Implementation Issues." The adoption of SFAS No. 133 resulted in the Company recording a transition adjustment gain of $32 (net of related income tax of $19) in net income and a net transition adjustment gain of $65 (net of related income tax of $38) in "Accumulated other comprehensive income" ("AOCI") at January 1, 2001. The short-cut method under SFAS No. 133 is being used when the criteria are met. The Company anticipates volatility in AOCI and net income from its cash flow hedges. The amount of volatility varies with the level of derivative activities and market conditions during any period. Derivative assets are included in "Deferred charges and other assets" and derivative liabilities are included in "Accrued and other current liabilities" on the consolidated balance sheets.

At December 31, 2002, the Company had interest rate swaps in a net gain position of $55 designated as fair value hedges of underlying fixed rate debt obligations and a net loss position of $68 designated as cash flow hedges of underlying forecasted interest payments. These hedges had various expiration dates in 2003 through 2022. The mark-to-market effects of both the fair value hedge instruments and the underlying debt obligations were recorded as unrealized gains and losses in interest expense and are directly offsetting to the extent the hedges are effective. The effective portion of the mark-to-market effects of the cash flow hedge instrument is recorded in AOCI until the underlying interest payment affects income. The net loss from interest rate hedges included in AOCI at December 31, 2002 was $51 after tax. The amount to be reclassified from AOCI to interest expense within the next twelve months is expected to be a net loss of $16. The unrealized amounts in AOCI will fluctuate based on changes in the fair value of open contracts at the end of each reporting period. All existing fair value and cash flow hedges are highly effective. As a result, there was no material impact on income due to hedge ineffectiveness. Net gains recorded in interest expense related to fair value hedge terminations were $11 in 2002 and $3 in 2001. There was no material impact on income due to cash flow hedge terminations in 2002 and 2001.

Commodity swaps and futures contracts with maturities of not more than 36 months are utilized and qualify as cash flow hedges. Current open contracts hedge forecasted transactions until December 2004. The effective portion of the mark-to-market effects of the cash flow hedge instrument is recorded in AOCI until the underlying commodity purchase affects income. The net gain from commodity hedges included in AOCI at December 31, 2002 was $21 after tax. A net after-tax gain of approximately $15 is expected to be reclassified from AOCI to "Cost of sales" in the consolidated statements of income within the next twelve months. The unrealized amounts in AOCI will fluctuate based on changes in the fair value of open contracts at the end of each reporting period. During 2002 and 2001, there was no material impact on the financial statements due to hedge ineffectiveness.

In addition, the Company utilizes option and swap instruments that are effective as economic hedges of commodity price exposures, but do not meet SFAS No. 133 hedge accounting criteria. At December 31, 2002, the Company had derivative assets of $73 and derivative liabilities of $7 relating to these instruments, with the related mark-to-market effects included in "Cost of sales" in the consolidated statements of income.

At December 31, 2002, a net loss of $146 ($92 after tax) resulting from hedges of the Company's net investment in foreign operations was included in the cumulative translation adjustment in AOCI. There was no material impact on income due to hedge ineffectiveness. At December 31, 2001, the Company reported a net gain of $112 ($70 after tax) from hedges of the Company's net investment in foreign operations in AOCI and a net gain of $9 ($6 after tax) from net investment hedge ineffectiveness in income.

The Company also uses other derivative instruments that are not designated as hedging instruments, primarily to manage foreign currency exposure, the impact of which was not material to the consolidated financial statements.

I. SUPPLEMENTARY INFORMATION

Accrued and Other Current Liabilities at December 31

	2002	2001
Accrued payroll	$ 124	$ 65
Accrued vacations	176	159
Employee retirement plans	296	123
Interest payable	211	206
Accrued miscellaneous taxes	185	204
Insurance companies' reserves	337	302
Deferred income	233	317
Other	736	744
Total	$2,298	$2,120

Sundry Income—Net

	2002	2001	2000
Gain on sales of assets and securities [1]	$53	$378	$206
Foreign exchange gain (loss)	(7)	(24)	37
Other—net	8	40	109
Total	$54	$394	$352

(1) 2002 included a gain of $63 on the sale of Oasis Pipe Line Company. 2001 included a gain of $266 on the sale of stock in Schlumberger Ltd. 2000 included a gain of $98 on the sale of Cochin pipeline system (see Note C) and impairment losses of $77 for the anticipated disposition of businesses related to the Union Carbide merger.

Other Supplementary Information

	2002	2001	2000
Cash payments for interest	$806	$711	$705
Cash payments for income taxes	105	278	730
Provision for doubtful receivables	12	39	24

Sales of Accounts Receivables

Since 1997, the Company has routinely sold, without recourse, a participation in a pool of qualifying trade accounts receivables. According to the agreements of the program, Dow maintains the servicing of these receivables. In 2000, a maximum of $450 in receivables was available for sale in the pool, and as receivables in the pool were collected, new receivables were added. In June 2001, a new agreement for sales of qualifying trade accounts receivables of Union Carbide increased the pool maximum to $750. In June 2002, the pool maximum was revised to $700. The average monthly participation in the pool was $471 in 2002, $432 in 2001 and $155 in 2000. The net cash flow in any given period represents the discount on sales, which is recorded as interest expense. The average monthly discount was approximately $0.7 in 2002, $1.1 in 2001 and $0.7 in 2000.

Earnings (Loss) Per Share Calculations

	2002		2001		2000	
SHARES IN MILLIONS	BASIC	DILUTED	BASIC	DILUTED	BASIC	DILUTED
Income (Loss) before cumulative effect of changes in accounting principles	$ (405)	$ (405)	$ (417)	$ (417)	$1,675	$1,675
Cumulative effect of changes in accounting principles	67	67	32	32	–	–
Net income (loss) available for common stockholders	$ (338)	$ (338)	$ (385)	$ (385)	$1,675	$1,675
Weighted-average common shares outstanding	910.5	910.5	901.8	901.8	893.2	893.2
Add back effect of dilutive securities:						
Stock options and awards [1]	–	–	–	–	–	10.8
Converted preferred stock	–	–	–	–	–	0.5
Weighted-average common shares for EPS calculations	910.5	910.5	901.8	901.8	893.2	904.5
Earnings (Loss) per common share before cumulative effect of changes in accounting principles	$ (0.44)	$ (0.44)	$ (0.46)	$ (0.46)	$ 1.88	$ 1.85
Earnings (Loss) per common share	$ (0.37)	$ (0.37)	$ (0.43)	$ (0.43)	$ 1.88	$ 1.85

(1) Due to reported net losses in 2002 and 2001, the effect of stock options and awards of 7.0 million shares in 2002 and 11.2 million shares in 2001 was antidilutive and was therefore excluded from the diluted earnings per share calculation.

J. COMMITMENTS AND CONTINGENT LIABILITIES

Litigation

Breast Implant Matters

On May 15, 1995, Dow Corning Corporation ("Dow Corning"), in which the Company is a 50 percent shareholder, voluntarily filed for protection under Chapter 11 of the Bankruptcy Code to resolve litigation related to Dow Corning's breast implant and other silicone medical products. As a consequence of that action and prior charges taken by Dow Corning, the Company fully reserved its investment in Dow Corning and reserved its 50 percent share of equity earnings through the third quarter of 2000 (see Note G).

The Company's financial statement exposure for breast implant product liability claims against Dow Corning is limited to its investment in Dow Corning, which, after fully reserving its investment in Dow Corning and reserving its share of equity earnings through the third quarter of 2000, is not material. As a result, any future charges by Dow Corning related to such claims or as a result of the Chapter 11 proceeding would not have a material adverse impact on the Company's consolidated financial statements.

The Company is separately named as a defendant in more than 14,000 breast implant product liability cases, of which approximately 4,000 state cases are the subject of summary judgments in favor of the Company. In these situations, plaintiffs have alleged that the Company should be liable for Dow Corning's alleged torts based on the Company's 50 percent stock ownership in Dow Corning and that the Company should be liable by virtue of alleged "direct participation" by the Company or its agents in Dow Corning's breast implant business. These latter, direct participation claims include counts sounding in strict liability, fraud, aiding and abetting, conspiracy, concert of action and negligence.

Judge Sam C. Pointer of the U.S. District Court for the Northern District of Alabama was appointed by the Federal Judicial Panel on Multidistrict Litigation to oversee all of the product liability cases involving silicone breast implants filed in the U.S. federal courts. Initially, in a ruling issued on December 1, 1993, Judge Pointer granted the Company's motion for summary judgment, finding that there was no basis on which a jury could conclude that the Company was liable for any claimed defects in the breast implants manufactured by Dow Corning. In an interlocutory opinion issued on April 25, 1995, Judge Pointer affirmed his earlier ruling as to plaintiffs' corporate control claims but vacated that ruling as to plaintiffs' direct participation claims.

On July 7, 1998, Dow Corning, the Company and Corning Incorporated ("Corning"), on the one hand, and the Tort Claimants' Committee in Dow Corning's bankruptcy on the other, agreed on a binding Term Sheet to resolve all tort claims involving Dow Corning's silicone medical products, including the claims against Corning and the Company (collectively, the "Shareholders"). The agreement set forth in the Term Sheet was memorialized in a Joint Plan of Reorganization (the "Joint Plan") filed by Dow Corning and the Tort Claimants' Committee (collectively, the "Proponents") on November 9, 1998. On February 4, 1999, the Bankruptcy Court approved the disclosure statement describing the Joint Plan. Before the Joint Plan could become effective, however, it was subject to a vote by the claimants, a confirmation hearing and all relevant provisions of the Bankruptcy Code. Voting was completed on May 14, 1999, and the confirmation hearing concluded on July 30, 1999.

J. COMMITMENTS AND CONTINGENT LIABILITIES (continued)

On November 30, 1999, the Bankruptcy Court issued an Order confirming the Joint Plan, but then issued an Opinion on December 21, 1999, that, in the view of the Proponents and the Shareholders, improperly interpreted or attempted to modify certain provisions of the Joint Plan affecting the resolution of tort claims involving Dow Corning's silicone medical products against various entities, including the Shareholders. Many of the parties in interest, including the Shareholders, filed various motions and appeals seeking, among other things, a clarification of the December 21, 1999 Opinion. These motions and appeals were heard by U.S. District Court Judge Denise Page Hood on April 12 and 13, 2000, and on November 13, 2000, Judge Hood affirmed the Bankruptcy Court's November 30, 1999 Order confirming the Joint Plan and reversed, in part, the Bankruptcy Court's December 21, 1999 Opinion, including that portion of the Opinion the Shareholders had appealed. In turn, various parties in interest appealed Judge Hood's decision to the United States Court of Appeals for the Sixth Circuit, which heard oral arguments in the matter on October 23, 2001. On January 29, 2002, the Sixth Circuit issued its opinion which, among other things, affirmed Judge Hood's determination that claims against various entities, including the Shareholders, may be enjoined where "unusual circumstances" exist, and remanded the case to the District Court for certain factual determinations. On December 11, 2002, Judge Hood found that the release and injunction provisions of the Plan were appropriate based on the factual determination that "unusual circumstances" do exist in this case. The effectiveness of the Joint Plan remains subject to any subsequent appellate action. Accordingly, there can be no assurance at this time that the Joint Plan will become effective.

It is the opinion of the Company's management that the possibility is remote that plaintiffs will prevail on the theory that the Company should be liable in the breast implant litigation because of its shareholder relationship with Dow Corning. The Company's management believes that there is no merit to plaintiffs' claims that the Company is liable for alleged defects in Dow Corning's silicone products because of the Company's alleged direct participation in the development of those products, and the Company intends to contest those claims vigorously. Management believes that the possibility is remote that a resolution of plaintiffs' direct participation claims, including the vigorous defense against those claims, would have a material adverse impact on the Company's financial position or cash flows. Nevertheless, in light of Judge Pointer's April 25, 1995 ruling, it is possible that a resolution of plaintiffs' direct participation claims, including the vigorous defense against those claims, could have a material adverse impact on the Company's results of operations for a particular period, although it is impossible at this time to estimate the range or amount of any such impact.

DBCP Matters

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

Environmental Matters

Accruals for environmental matters are recorded when it is probable that a liability has been incurred and the amount of the liability can be reasonably estimated, based on current law and existing technologies. The Company had accrued obligations of $444 at December 31, 2001, for environmental remediation and restoration costs, including $47 for the remediation of Superfund sites. At December 31, 2002, the Company had accrued obligations of $394 for environmental remediation and restoration costs, including $43 for the remediation of Superfund sites. This is management's best estimate of the costs for remediation and restoration with respect to environmental matters for which the Company has accrued liabilities, although the ultimate cost with respect to these particular matters could range up to twice that amount. Inherent uncertainties exist in these estimates primarily due to unknown conditions, changing governmental regulations and legal standards regarding liability, and evolving technologies for handling site remediation and restoration. It is the opinion of the Company's management that the possibility is remote that costs in excess of those accrued or disclosed will have a material adverse impact on the Company's consolidated financial statements.

Asbestos-Related Matters of Union Carbide Corporation

Union Carbide Corporation ("Union Carbide"), a wholly owned subsidiary of the Company, is and has been involved in a large number of asbestos-related suits filed primarily in state courts during the past three decades. These suits principally allege personal injury resulting from exposure to asbestos-containing products and frequently seek both actual and punitive damages, often in very large amounts. 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.

The rate at which plaintiffs filed asbestos-related suits against various companies, including Union Carbide and Amchem, increased in both 2001 and 2002, influenced by the bankruptcy filings of numerous defendants in asbestos-related litigation. Union Carbide expects more asbestos-related suits to be filed against Union Carbide and Amchem in the future. Union Carbide will aggressively defend or reasonably resolve, as appropriate, both pending and future claims.

Typically, Union Carbide is only one of many named defendants, many of which, including Union Carbide and Amchem, were members of the Center for Claims Resolution ("CCR"), an entity that defended and resolved asbestos cases on behalf of its members. As members of the CCR, Union Carbide's and Amchem's strategy was to resolve the claims against them at the relatively small percentage allocated to them pursuant to the CCR's collective defense. The CCR ceased operating in February 2001, except to administer certain settlements. Union Carbide then began using Peterson Asbestos Claims Enterprise, but only for claims processing and insurance invoicing.

Certain members of Dow's legal department and certain Dow management personnel have been retained to provide their experience in mass tort litigation to assist Union Carbide in responding to asbestos-related matters. In early 2002, Union Carbide hired new outside counsel to serve as national trial counsel. In connection with these actions, aggressive defense strategies were designed to reduce the cost of resolving all asbestos-related claims, including the elimination of claims that lack demonstrated illness or causality.

At the end of 2001 and through the third quarter of 2002, Union Carbide had concluded it was not possible to estimate its cost of disposing of asbestos-related claims that might be filed against Union Carbide and Amchem in the future due to a number of reasons, including its lack of sufficient comparable loss history from which to assess either the number or value of future asbestos-related claims. During the third and fourth quarters of 2002, Union Carbide worked with Analysis, Research & Planning Corporation ("ARPC"), a consulting firm with broad experience in estimating resolution costs associated with mass tort litigation, including asbestos, to explore whether it would be possible to estimate the cost of disposing of pending and future asbestos-related claims that have been, and could reasonably be expected to be, filed against Union Carbide and Amchem.

Union Carbide provided ARPC with all relevant data regarding asbestos-related claims filed against Union Carbide and Amchem through November 6, 2002. ARPC concluded that it was not possible to estimate the full range of the cost of resolving future asbestos-related claims against Union Carbide and Amchem, because of various uncertainties associated with the litigation of those claims. These uncertainties, which hindered Union Carbide's ability to project future claim volumes and resolution costs, included the following:

- Until a series of bankruptcies led to the CCR ceasing operations in early 2001, Union Carbide and Amchem generally settled claims filed against CCR members according to a sharing formula that would not necessarily reflect the cost of resolving those claims had they been separately litigated against Union Carbide or Amchem.
- The bankruptcies in the years 2000 to 2002 of other companies facing large asbestos liability were a likely contributing cause of a sharp increase in filings against many defendants, including Union Carbide and Amchem.
- It was not until the CCR ceased operating in early 2001 that Union Carbide took direct responsibility for the defense of claims against itself and Amchem.
- New defense counsel for Union Carbide and Amchem implemented more aggressive defense strategies in mid-2002.

Despite its inability to estimate the full range of the cost of resolving future asbestos-related claims, ARPC advised Union Carbide that it would be possible to determine an estimate of a reasonable forecast of the cost of resolving pending and future asbestos-related claims likely to face Union Carbide and Amchem, if certain assumptions were made. Specifically, ARPC advised Union Carbide that for purposes of determining an estimate it is reasonable to assume that in the near term asbestos-related claims filed against Union Carbide and Amchem are unlikely to return to levels below those experienced prior to 2001—when the recent spike in filings commenced—and that average claim values are unlikely to return to levels below those experienced in 2001–2002, the years immediately following CCR's cessation of operations. ARPC advised Union Carbide that, by assuming that future filings were unlikely to exceed the levels experienced prior to 2001 and extrapolating from 2001 and 2002 average claim values, ARPC could make a reasonable forecast of the cost of resolving asbestos-related claims facing Union Carbide and Amchem. ARPC also advised Union Carbide that forecasts of resolution costs for a 10 to 15 year period from the date of the forecast are likely to be more accurate than forecasts for longer periods of time.

In projecting Union Carbide's resolution costs for future asbestos-related claims, ARPC applied two methodologies that have been widely used for forecasting purposes. Applying these methodologies, ARPC forecast the number and allocation by disease category of those potential future claims on a year-by-year basis through 2049. ARPC then calculated the percentage of claims in each disease category that had been closed with payments in 2001 and 2002. Using those percentages, ARPC calculated the number of future claims by disease category that would likely require payment by Union Carbide and Amchem and multiplied the number of such claims by the mean values paid by Union Carbide and Amchem, respectively, to dispose of such claims in 2001 and 2002. In estimating Union Carbide's cost of resolving pending claims, ARPC used a process similar to that used for calculating the cost of resolving future claims.

As of December 31, 2002, ARPC estimated the undiscounted cost of resolving pending and future asbestos-related claims against Union Carbide and Amchem, excluding future defense and processing costs, for the 15-year period from the present through 2017 to be between approximately $2.2 billion and $2.4 billion, depending on which of the two accepted methodologies was used.

J. COMMITMENTS AND CONTINGENT LIABILITIES (continued)

Although ARPC provided estimates for a longer period of time, based on ARPC's advice that forecasts for shorter periods of time are more accurate and in light of the uncertainties inherent in making long-term projections, Union Carbide determined that the 15-year period through 2017 is the reasonable time period for projecting the cost of disposing of its future asbestos-related claims. Union Carbide concluded that it is probable that the undiscounted cost of disposing of asbestos-related pending and future claims ranges from $2.2 billion to $2.4 billion, which is the range for the 15-year period ending in 2017 as estimated by ARPC using both methodologies. Accordingly, Union Carbide increased its asbestos-related liability for pending and future claims at December 31, 2002 to $2.2 billion, excluding future defense and processing costs. For pending claims, Union Carbide had an asbestos-related liability of $233 at December 31, 2001.

Union Carbide also increased the receivable for insurance recoveries related to its asbestos liability to $1.35 billion at December 31, 2002, substantially exhausting its asbestos product liability coverage. This resulted in a net income statement impact to Union Carbide of $828, $522 on an after-tax basis, in the fourth quarter of 2002. Union Carbide's receivable for insurance recoveries related to its asbestos liability was $223 at December 31, 2001. 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.

In addition, Union Carbide had receivables for insurance recoveries for defense and resolution costs of $219 at December 31, 2002 and $35 at December 31, 2001. Defense and resolution costs for Union Carbide's asbestos-related litigation were $247 in 2002, $53 in 2001 and $53 in 2000. The $247 in 2002 included $92 for defense costs (which included significant costs for the development and implementation of Union Carbide's new and more aggressive defense strategies) and $63 for bulk settlements with multiple claimants. To date, substantially all of these defense and resolution costs were covered by insurance. Insurance coverage for future asbestos-related defense costs will exist, but to a lesser extent. The pretax impact to Union Carbide for these defense and resolution costs, net of insurance, was $9 in 2002, $9 in 2001 and $4 in 2000, and was reflected in "Cost of sales."

The amounts recorded by Union Carbide for the asbestos-related liability and related insurance receivable described above were based upon currently known facts. However, projecting future events, such as the number of new claims to be filed 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. Union Carbide expenses defense and processing costs as incurred. Accordingly, defense and processing costs incurred by Union Carbide in the future for asbestos-related litigation, net of insurance, will impact Union Carbide's results of operations in future periods.

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 and processing 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 and processing 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.

Other Litigation Matters

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

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

Purchase Commitments

The Company has three major agreements for the purchase of ethylene-related products in Canada. The purchase prices are determined on a cost-of-service basis, which, in addition to covering all operating expenses and debt service costs, provides the owner of the manufacturing plants with a specified return on capital. Total purchases under the agreements were $293 in 2002, $221 in 2001 and $178 in 2000.

At December 31, 2002, the Company had various outstanding commitments for take or pay and throughput agreements, including the purchase agreements referred to above, with terms extending from one to 25 years. In general, such commitments were at prices not in excess of current market prices. The fixed and determinable portion of obligations under these purchase commitments at December 31, 2002 are presented in the following table:

Fixed and Determinable Portion of Take or Pay and Throughput Obligations at December 31, 2002

2003	$ 556
2004	511
2005	472
2006	408
2007	407
2008 through expiration of contracts	2,041
Total	$4,395

In addition to the take or pay obligations at December 31, 2002, the Company had outstanding purchase commitments which ranged from one to 23 years for steam, electrical power, materials, property and other items used in the normal course of business of approximately $158. In general, such commitments were at prices not in excess of current market prices. The Company was also committed to lease manufacturing facilities under construction in The Netherlands and a pipeline under construction in Germany (see Note M).

Guarantees

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

Guarantees

Guarantees arise during the ordinary course of business from relationships with customers and nonconsolidated affiliates when the Company undertakes an obligation to guarantee the performance of others (via delivery of cash or other assets) if specified triggering events occur. Non-performance under a contract by the guaranteed party triggers the obligation of the Company. Such non-performance usually relates to commercial obligations or loans.

Residual Value Guarantees

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

The following table provides a summary of the aggregate terms, maximum future payments and associated liability reflected in the consolidated balance sheet for each type of guarantee:

Guarantees at December 31, 2002

	FINAL EXPIRATION	MAXIMUM FUTURE PAYMENTS	RECORDED LIABILITY
Guarantees	2009	$ 928	–
Residual value guarantees	2017	1,694	–
Total		$2,622	–

Warranties

The Company records a liability when certain special-use products are sold with an express warranty for which the customer pays a fee in return for a quality guarantee. The guarantee is usually expressed in a formal surety agreement. Most sureties cover a 15 to 20 year period and Dow is obligated to take out specific insurance to warrant that customers will be paid for any covered loss regardless of whether Dow continues in that line of business. Minor and recurring adjustments for quality defects on products in general are handled through routine procedures and charged against sales revenue upon issuance of a sales credit. Loss experience determines the potential expense associated with the surety agreements. Favorable loss experience could result in a profit to Dow. The Company's product warrant liability at December 31, 2002 and 2001 was $1.

K. NOTES PAYABLE, LONG-TERM DEBT AND AVAILABLE CREDIT FACILITIES

Notes payable consisted primarily of obligations due to banks with a variety of interest rates and maturities.

Notes Payable at December 31

	2002	2001
Commercial paper	–	$ 205
Other notes payable	$580	1,004
Total	$580	$1,209
Year-end average interest rates [1]	6.42%	4.07%

(1) The increase in 2002 reflects a significant increase in interest rates in Latin America.

Annual Installments on Long-Term Debt for Next Five Years

2003	$ 797
2004	1,102
2005	598
2006	1,134
2007	1,177

Long-Term Debt at December 31

	2002 AVERAGE RATE	2002	2001 AVERAGE RATE	2001
Promissory notes and debentures:				
Final maturity 2002	–	–	6.95%	$ 348
Final maturity 2003	6.62%	$ 523	6.62%	523
Final maturity 2004	5.25%	1,010	5.25%	1,000
Final maturity 2005	7.00%	308	7.00%	298
Final maturity 2006	8.63%	197	8.63%	188
Final maturity 2007	5.03%	519	–	–
Final maturity 2008 and thereafter [1]	6.84%	6,192	7.12%	4,756
Foreign bonds:				
Final maturity 2003, Euro	5.00%	157	5.00%	133
Final maturity 2006, Japanese yen	0.71%	251	0.71%	228
Other facilities:				
U.S. dollar loans—various rates and maturities	3.35%	61	3.80%	65
Foreign currency loans—various rates and maturities	5.01%	121	6.42%	66
Dow ESOP, final maturity 2004	9.42%	29	9.42%	42
Medium-term notes, varying maturities through 2022	6.10%	753	8.60%	292
Foreign medium-term notes, final maturity 2006, Euro	5.00%	633	5.00%	523
Foreign medium-term notes, final maturity 2007, Euro	5.63%	544	–	–
Pollution control/industrial revenue bonds, varying maturities through 2033	3.45%	1,186	3.59%	1,247
Unexpended construction funds	–	(2)	–	–
Capital lease obligations	–	42	–	46
Unamortized debt discount	–	(68)	–	(81)
Long-term debt due within one year	–	(797)	–	(408)
Total	5.50%	$11,659	6.21%	$9,266

(1) Holders of $250 of debentures due in 2025 may request redemption on June 1, 2005.

The Company had unused and committed credit facilities at December 31, 2002, with various U.S. and foreign banks totaling $3.1 billion. These credit facilities require the payment of commitment fees. These facilities include a $1.75 billion 364-day revolving credit facility agreement that matures in June 2003, a $1.25 billion 5-year revolving credit facility agreement that matures in June 2004, and a $75 364-day bilateral facility with a major financial institution that matures in June 2003. The Company intends to renew these facilities at their respective maturities. Additional unused and uncommitted credit facilities totaling $857 were available for use by foreign subsidiaries. These facilities are available in support of commercial paper borrowings and working capital requirements.

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

The Company's primary credit agreements contain covenant and default provisions in addition to the covenants set forth above with respect to the Company's public debt. Significant other covenants and defaults include:

(a) the obligation to maintain the ratio of the Company's consolidated indebtedness to consolidated capitalization at no greater than 0.65 to 1.00 at any time the aggregate outstanding amount of loans under the primary credit agreements exceeds $500,

(b) a default if the Company or any applicable subsidiary fails to make any payment on indebtedness of $50 or more when due, or any other default under the applicable agreement permits the acceleration of $200 or more of principal, or results in the acceleration of $100 or more of principal, and

(c) a default if the Company or any applicable subsidiary fails to discharge or stay within 30 days after the entry of a final judgment of more than $200.

Failure of the Company to comply with any of the covenants could result in a default under the applicable credit agreement which would allow the lenders not to fund future loan requests and to accelerate the due date of the outstanding principal and accrued interest on any outstanding loans.

At December 31, 2002, the Company was in compliance with all of the covenants and default provisions, referred to above.

L. PENSION PLANS AND OTHER POSTRETIREMENT BENEFITS

Pension Plans

The Company has defined benefit pension plans which cover employees in the United States and a number of other countries. The Company's funding policy is to contribute annually to those plans where pension laws and economics either require or encourage funding. Plan assets of $9.6 billion consist mainly of equity and fixed income securities of U.S. and foreign issuers, including Company common stock with a value of approximately $269 at December 31, 2002.

The U.S. funded plan covering the parent company is the largest plan. Benefits are based on length of service and the employee's three highest consecutive years of compensation.

U.S. Plan Assumptions for Pension Plans

	2002	2001
Weighted-average discount rate	6.75%	7.00%
Rate of increase in future compensation levels	5.00%	5.00%
Long-term rate of return on assets	9.25%	9.18%

All other pension plans used assumptions that are consistent with (but not identical to) those of the U.S. plan.

U.S. employees are eligible to participate in defined contribution plans (Employee Savings Plans) by contributing a portion of their compensation, which is partially matched by the Company. Defined contribution plans also cover employees in some subsidiaries in other countries, including Australia, France, Spain and the United Kingdom. Contributions charged to income for defined contribution plans were $49 in 2002, $75 in 2001 and $66 in 2000.

Pension Plans with Accumulated Benefit Obligations in Excess of Plan Assets at December 31

	2002	2001
Projected benefit obligation	$11,952	$1,579
Accumulated benefit obligation	11,421	1,394
Fair value of plan assets	9,337	849

Other Postretirement Benefits

The Company provides certain health care and life insurance benefits to retired employees. The Company funds most of the cost of these health care and life insurance benefits as incurred.

The U.S. plan covering the parent company is the largest plan. The plan provides health care benefits, including hospital, physicians' services, drug and major medical expense coverage, and life insurance benefits. For employees hired before January 1, 1993, the plan provides benefits supplemental to Medicare when retirees are eligible for these benefits. The Company and the retiree share the cost of these benefits, with the Company portion increasing as the retiree has increased years of credited service. There is a cap on the Company portion. The Company has the ability to change these benefits at any time.

U.S. Plan Assumptions for Other Postretirement Benefits

	2002	2001
Discount rate	6.75%	7.00%
Weighted-average 5-year projected medical cost trend, remaining constant thereafter	7.05–6.62%	7.47–6.62%
Long-term rate of return on assets	9.25%	9.50%

All other postretirement benefit plans used assumptions that are consistent with (but not identical to) those of the U.S. parent company plan.

Increasing the assumed medical cost trend rate by 1 percentage point in each year would increase the accumulated postretirement benefit obligation at December 31, 2002, by $9 and the net periodic postretirement benefit cost for the year by $1. Decreasing the assumed medical cost trend rate by 1 percentage point in each year would decrease the accumulated postretirement benefit obligation at December 31, 2002, by $11 and the net periodic postretirement benefit cost for the year by $1.

L. PENSION PLANS AND OTHER POSTRETIREMENT BENEFITS (continued)

Net Periodic Cost for All Significant Plans

	DEFINED BENEFIT PENSION PLANS			OTHER POSTRETIREMENT BENEFITS		
	2002	2001	2000	2002	2001	2000
Service cost	$ 219	$ 206	$ 219	$ 31	$ 31	$ 32
Interest cost	748	708	655	135	133	119
Expected return on plan assets	(1,105)	(1,072)	(986)	(21)	(23)	(24)
Amortization of transition obligation	–	–	(5)	–	–	–
Amortization of prior service cost (credit)	20	23	23	(36)	(40)	(49)
Amortization of unrecognized (gain) loss	(20)	(73)	(54)	11	7	(5)
Special termination/curtailment cost (credit) [1]	(7)	113	–	(13)	106	–
Net periodic cost (credit)	$ (145)	$ (95)	$(148)	$107	$214	$ 73

(1) See Note B regarding a special charge for merger-related expenses and restructuring recorded during 2001.

Change in Projected Benefit Obligation, Plan Assets and Funded Status of All Significant Plans

	DEFINED BENEFIT PENSION PLAN		OTHER POSTRETIREMENT BENEFITS	
Change in projected benefit obligation	2002	2001	2002	2001
Benefit obligation at beginning of year	$11,341	$ 9,985	$ 2,035	$ 1,797
Service cost	219	206	31	31
Interest cost	748	708	135	133
Plan participants' contributions	8	11	–	–
Amendments	28	31	(8)	(4)
Actuarial changes in assumptions and experience	443	629	61	117
Acquisition/divestiture activity	5	190	2	2
Benefits paid	(745)	(625)	(167)	(145)
Currency impact	76	93	(3)	(2)
Special termination/curtailment cost (credit) [1]	(26)	113	(14)	106
Benefit obligation at end of year	$12,097	$11,341	$ 2,072	$ 2,035
Change in plan assets				
Market value of plan assets at beginning of year	$11,424	$12,435	$ 266	$ 282
Actual return on plan assets	(1,230)	(611)	(4)	(16)
Employer contributions	112	30	–	1
Plan participants' contributions	9	11	–	–
Acquisition/divestiture activity	4	158	–	–
Benefits paid	(741)	(599)	–	(1)
Special settlement paid	(17)	–	–	–
Market value of plan assets at end of year	$ 9,561	$11,424	$ 262	$ 266
Funded status and net amounts recognized				
Plan assets in excess of (less than) benefit obligation	$ (2,536)	$ 83	$ (1,810)	$ (1,769)
Unrecognized net transition obligation	2	5	–	–
Unrecognized prior service cost (credit)	132	123	(33)	(62)
Unrecognized net (gain) loss	2,796	(34)	169	95
Net amounts recognized in the consolidated balance sheets	$ 394	$ 177	$ (1,674)	$ (1,736)
Net amounts recognized in the consolidated balance sheets consist of:				
Accrued benefit liability	$ (2,214)	$ (768)	$ (1,674)	$ (1,736)
Prepaid benefit cost	309	818	–	–
Additional minimum liability—intangible asset	124	15	–	–
Accumulated other comprehensive income—pretax	2,175	112	–	–
Net amounts recognized in the consolidated balance sheets	$ 394	$ 177	$ (1,674)	$ (1,736)

(1) See Note B regarding a special charge for merger-related expenses and restructuring recorded during 2001.

M. LEASED PROPERTY AND VARIABLE INTEREST ENTITIES

Leased Property

The Company routinely leases premises for use as sales and administrative offices, warehouses and tanks for product storage, motor vehicles, railcars, computers, office machines, and equipment under operating leases. In addition, the Company leases gas turbines at two U.S. locations, aircraft in the United States, ethylene plants in Argentina, Canada, and The Netherlands, and a polyethylene plant in Argentina. At the termination of the leases, the Company has the option to purchase these plants and certain other leased equipment and buildings based on a fair market value determination.

Rental expenses under operating leases, net of sublease rental income, were $447 for 2002, $469 for 2001 and $431 for 2000.

Minimum Operating Lease Commitments at December 31, 2002

2003	$ 260
2004	235
2005	206
2006	150
2007	80
2008 and thereafter	816
Total	$1,747

Variable Interest Entities

Dow has operating leases with various special purpose entities. Nine of these entities qualify as variable interest entities ("VIEs") under FIN No. 46, "Consolidation of Variable Interest Entities." Based on the current terms of the lease agreements and the residual value guarantees Dow provides to the lessors, the Company expects to be the primary beneficiary of the VIEs. As a result, if the facts and circumstances remain the same, Dow would be required to consolidate the assets and liabilities held by these VIEs in the third quarter of 2003.

Two VIEs, established in 1998 and 1999, are foreign trusts which lease manufacturing facilities to Dow, including ethylene and polyethylene facilities in Argentina valued at $532 at December 31, 2002 and 2001, and an ethylene facility in The Netherlands valued at $356 at December 31, 2002 and $363 at December 31, 2001.

Two VIEs, established in 2001 and 2002, are foreign trusts currently constructing manufacturing facilities that Dow is committed to lease upon completion of construction. The facilities include a polyethylene facility in The Netherlands valued at $190 and an ethylene pipeline in Germany valued at $115.

Four VIEs, established between 1997 and 2001, are U.S. trusts which lease railcars to Dow for use in the United States and Canada. The value of the leased railcars was $418 at December 31, 2002 and $402 at December 31, 2001.

One VIE is a U.S. trust established in 2000 to lease office buildings in Indianapolis, Indiana, valued at $133 at December 31, 2002 and 2001.

The Company has not determined the carrying amount of the assets that will be included in the consolidated balance sheet upon consolidation of the VIEs. Accordingly, the Company has not determined the cumulative effect adjustment that will be required upon adoption of FIN No. 46. The following table provides the approximate amount of debt of the VIEs described above at December 31, 2002 and 2001:

	LEASE MATURITIES	2002	2001
Manufacturing facilities	2006–2017	$1,032	$ 917
Railcars	2004–2008	418	402
Real property	2005	133	133
Total		$1,583	$1,452

Upon termination or expiration of each lease, Dow may return the assets to the lessor, renew the lease, or purchase the assets for an amount based on a fair market value determination. Dow has provided residual value guarantees totaling $1,365 at December 31, 2002 and $1,242 at December 31, 2001, to the various lessors. Given the productive nature of the assets, it is probable they will have continuing value to Dow or another manufacturer in excess of the residual value guarantees.

N. STOCK COMPENSATION PLANS

At December 31, 2002, the Company had stock-based compensation plans, which had been approved by the Board of Directors, under which shares or options could be granted to employees and nonemployee directors. The Company measures the compensation cost for these plans using the intrinsic value method of accounting prescribed by APB Opinion No. 25, "Accounting for Stock Issued to Employees." Given the terms of the Company's plans, no compensation cost has been recognized for its fixed stock option plans and its stock purchase plan.

The Company's reported net income (loss) and earnings (loss) per share would have been reduced (increased) had compensation cost for the Company's stock-based compensation plans been determined using the fair value based method of accounting as set forth in SFAS No. 123, "Accounting for Stock-Based Compensation." For purposes of estimating the fair value disclosures below, the fair value of each stock option and subscription to purchase shares under the Company's Employees' Stock Purchase Plans has been estimated on the grant date with a binomial option-pricing model using the following weighted-average assumptions:

	2002	2001	2000
Dividend yield	4.4%	3.8%	3.3%
Expected volatility	42.75%	46.97%	35.83%
Risk-free interest rate	4.18%	4.72%	6.46%
Expected life of stock option plans	7 years	7 years	7 years
Expected life of stock purchase plans	0.83 years	0.83 years	0.83 years

N. STOCK COMPENSATION PLANS (continued)

The effects of using the fair value based method of accounting are indicated in the pro forma amounts below:

	2002	2001	2000
Net income (loss), as reported	$ (338)	$ (385)	$1,675
Deduct: Total stock-based compensation expense determined using fair value based method for all awards, net of tax	89	112	101
Pro forma net income (loss)	$ (427)	$ (497)	$1,574
Earnings (Loss) per share:			
Basic—as reported	$(0.37)	$(0.43)	$ 1.88
Basic—pro forma	(0.47)	(0.55)	1.77
Diluted—as reported	(0.37)	(0.43)	1.85
Diluted—pro forma	(0.47)	(0.55)	1.74

On August 26, 2002, the Company announced it would begin expensing stock options issued to employees in accordance with SFAS No. 123 as of January 1, 2003. The Company expects the after-tax effect of expensing stock options to be approximately $0.02 per share in 2003, growing to approximately $0.06 per share in 2005. These estimates were based on the terms of Dow's stock option plans and current assumptions for stock option grants and valuation, which may change when stock options are granted in 2003 and in the future.

Employees' Stock Purchase Plans

In each of the last three years, The Board of Directors authorized Employees' Stock Purchase Plans. Under these plans, most employees were eligible to purchase shares of common stock of the Company valued at up to 10 percent of their annual base earnings. The value was determined using the plan price times the number of shares subscribed to by the employee. The plan price of the stock was set each year at no less than 85 percent of market price. Approximately half of the eligible employees participated in the annual plans during the last three years. See Note U for information regarding a related subsequent event.

Employees' Stock Purchase Plans

	2002		2001		2000	
SHARES IN THOUSANDS	SHARES	EXERCISE PRICE*	SHARES	EXERCISE PRICE*	SHARES	EXERCISE PRICE*
Outstanding at beginning of year	4,513	$27.45	3,817	$29.52	3,531	$27.82
Granted	5,047	26.95	5,399	27.45	4,263	29.52
Exercised	(3,406)	27.43	(3,308)	28.99	(3,461)	27.89
Forfeited/Expired	(1,445)	27.38	(1,395)	29.46	(516)	28.68
Outstanding and exercisable at end of year	4,709	$26.95	4,513	$27.45	3,817	$29.52
Fair value of purchase rights granted during the year		$ 7.73		$13.07		$10.93

*Weighted-average per share

Stock Option Plans

Under the 1988 Award and Option Plan, a plan approved by stockholders, the Company may grant options or shares of common stock to its employees subject to certain annual and individual limits. Under the 1994 Non-Employee Directors' Stock Plan, the Company may grant up to 300,000 options or shares of common stock to non-employee directors. Under the 1994 Executive Performance Plan, the Company may grant up to 300,000 options or shares of common stock to executive officers of the Company. Under all plans, the terms are fixed at the grant date.

At December 31, 2002, there were 11,653,596 shares available for grant under the 1988 Plan; 212,000 shares available for grant under the 1994 Non-Employee Directors' Stock Plan; and 278,837 shares available for grant under the 1994 Executive Performance Plan. The exercise price of each option equals the market price of the Company's stock on the date of grant, and an option's maximum term is 10 years. Options vest from one to three years. In addition, certain options granted under the 1988 Plan have performance-based vesting provisions. Total compensation expense for stock option plans was $0 in 2002, $(35) in 2001 and $0 in 2000. In 2001, management revised its previous assessment that it was probable that certain contingent performance goals would be achieved prior to the expiration of grants issued in 1998 and 1999, resulting in the reversal of compensation expense of $35 previously recognized in 1999.

The following table summarizes the stock option activity of the 1988 Plan and the former Union Carbide plan, which had terms similar to the 1988 Plan:

Stock Options

	2002		2001		2000	
SHARES IN THOUSANDS	SHARES	EXERCISE PRICE*	SHARES	EXERCISE PRICE*	SHARES	EXERCISE PRICE*
Outstanding at beginning of year	67,476	$28.30	65,208	$26.90	54,738	$24.67
Granted	8,214	30.43	6,893	33.65	13.459	34.06
Exercised	(4,373)	17.30	(4,172)	16.47	(2,497)	18.63
Forfeited/Expired	(351)	17.30	(453)	16.47	(492)	18.63
Outstanding at end of year	70,966	$29.28	67,476	$28.30	65,208	$26.90
Exercisable at end of year	53,356	$28.91	49,578	$26.24	40,206	$22.87
Fair value of options granted during the year		$10.65		$13.65		$13.23

*Weighted-average per share

Stock Options at December 31, 2002

		OPTIONS OUTSTANDING			OPTIONS EXERCISABLE	
SHARES IN THOUSANDS	RANGE OF EXERCISE PRICE PER SHARE	SHARES	REMAINING CONTRACTUAL LIFE	EXERCISE PRICE*	SHARES	EXERCISE PRICE*
	$10.00 to $16.00	2,848	0.68 years	$12.52	2,848	$12.52
	16.01 to 24.00	7,776	1.60 years	20.70	7,775	20.70
	24.01 to 30.50	25,717	6.52 years	28.04	17,770	26.98
	30.51 to 31.00	6,242	5.16 years	30.52	5,403	30.52
	31.01 to 32.00	8,698	6.13 years	39.73	7,696	35.71
	32.01 to 43.00	19,685	7.46 years	35.53	11,864	35.96
Total	$10.00 to $43.00	70,966	5.84 years	$30.34	53,356	$28.91

*Weighted-average per share

Under the 1988 Plan and the former Union Carbide Plan, the Company grants deferred stock to certain employees. The grants vest either after a designated period of time, generally two to five years, or when the Company attains specified financial targets. The Company recognizes the expense for deferred stock grants over the vesting period of the grants.

SHARES IN THOUSANDS	2002	2001	2000
Deferred stock compensation expense	$16	$15	$67
Deferred shares outstanding	3,028	3,690	4,350

O. LIMITED PARTNERSHIP

In April 1993, three wholly owned subsidiaries of the Company contributed assets with an aggregate fair value of $977 to Chemtech Royalty Associates L.P. ("Chemtech"), a then newly formed Delaware limited partnership. In 1993, outside investors acquired limited partner interests in Chemtech totaling 20 percent in exchange for $200.

In early 1998, a subsidiary of the Company purchased the limited partner interests of the outside investors in Chemtech for a fair value of $210 in accordance with wind-up provisions in the partnership agreement. The limited partnership was renamed Chemtech II L.P. ("Chemtech II"). In June 1998, the Company contributed assets with an aggregate fair value of $783 (through a wholly owned subsidiary) to Chemtech II and an outside investor acquired a limited partner interest in Chemtech II totaling 20 percent in exchange for $200. In September 2000, the Company contributed additional assets with an aggregate fair value of $18 (through a wholly owned subsidiary) to Chemtech II.

Chemtech II is a separate and distinct legal entity from the Company and its affiliates, and has separate assets, liabilities, business and operations. Chemtech II affords the Company a diversified source of funding through a cost effective minority equity participation. The partnership has a general partner, a wholly owned subsidiary of the Company, which directs business activities and has fiduciary responsibilities to the partnership and its other members.

The outside investor in Chemtech II receives a cumulative annual priority return of $13 on its investment and participates in residual earnings.

Chemtech II will not terminate unless a termination or liquidation event occurs. The outside investor may cause such an event to occur in the year 2003. In addition, the partnership agreement provides for various wind-up provisions wherein subsidiaries of the Company may purchase at any time the limited partner interest of the outside investor. Upon wind-up, liquidation or termination, the partners' capital accounts will be redeemed at current fair values.

For financial reporting purposes, the assets (other than intercompany loans, which are eliminated), liabilities, results of operations and cash flows of the partnerships and subsidiaries are included in the Company's consolidated financial statements, and the outside investors' limited partner interests are reflected as minority interests.

P. PREFERRED SECURITIES OF SUBSIDIARIES

The following transactions were entered into for the purpose of providing diversified sources of funds to the Company.

In July 1999, Tornado Finance V.O.F., a consolidated foreign subsidiary of the Company, issued $500 of preferred securities in the form of preferred partnership units. The units provide a distribution of 7.965 percent, are mandatorily redeemable in 2009, and may be called at any time by the subsidiary. The preferred partnership units have been classified as "Preferred Securities of Subsidiaries" in the consolidated balance sheets. The distributions are included in "Minority interests' share in income" in the consolidated statements of income.

In September 2001, Hobbes Capital S.A., a consolidated foreign subsidiary of the Company, issued $500 of preferred securities in the form of equity certificates. The certificates provide a floating rate return (which may be reinvested) based on London Interbank Offered Rate ("LIBOR"), and may be redeemed in 2008 and at seven-year intervals thereafter. The equity certificates have been classified as "Preferred Securities of Subsidiaries" in the consolidated balance sheets. The preferred return is included in "Minority interests' share in income" in the consolidated statements of income. Reinvested preferred returns are included in "Minority Interest in Subsidiaries" in the consolidated balance sheets.

Q. STOCKHOLDERS' EQUITY

On May 11, 2000, stockholders approved a measure to increase the number of authorized common shares from 500 million to 1.5 billion and Dow's Board of Directors approved a three-for-one split of the Company's common stock. On June 16, 2000, Dow stockholders received two additional shares of stock for each share they owned on the record date of May 23, 2000. All references in the consolidated financial statements to common shares, share prices, per share amounts and stock plans have been restated retroactively for the stock split, unless otherwise noted.

The number of treasury shares issued to employees under option and purchase programs was 8.0 million in 2002, 7.9 million in 2001 and 9.9 million in 2000. The number of treasury shares purchased was 186,653 in 2002, 117,997 in 2001 and 127,771 in 2000.

Gross undistributed earnings of nonconsolidated affiliates included in retained earnings were $250 in 2002, $165 in 2001 and $423 in 2000.

There are no significant restrictions limiting the Company's ability to pay dividends.

Reserved Treasury Stock at December 31

SHARES IN MILLIONS	2002	2001	2000
Stock option and deferred stock plans	64.0	72.0	78.2
Employees' stock purchase plans	4.7	4.5	3.8
Total shares reserved	68.7	76.5	82.0

R. EMPLOYEE STOCK OWNERSHIP PLANS AND REDEEMABLE PREFERRED STOCK

The Company has the Dow Employee Stock Ownership Plan ("Dow ESOP"), which is an integral part of The Dow Chemical Company Employees' Savings Plan, and, prior to December 27, 2001, had the Union Carbide Corporation Employee Stock Ownership Plan ("UCC ESOP"), which was an integral part of the Union Carbide Savings and Investment Program for Employees of Union Carbide Corporation and Participating Subsidiary Companies. On December 27, 2001, the UCC ESOP and the Dow ESOP were merged into one ESOP trust (the "ESOP") under The Dow Chemical Company Employees' Savings Plan. A significant majority of full-time employees in the United States are eligible to participate in the ESOP through the allocation of shares of the Company's common stock ("ESOP shares"). Shares held by the ESOP are treated as outstanding shares in the determination of basic and diluted earnings per share.

In 1989, the Dow ESOP borrowed $138 at a 9.42 percent interest rate with a final maturity in 2004 and used the proceeds to purchase convertible preferred stock from the Company. The preferred stock was convertible into the Company's common stock (on a pre-split basis) at either:

- a conversion rate of 1:1 if the fair market value of the common stock equaled or exceeded $86.125 per share, or
- the number of shares of common stock equivalent to $86.125 per share if the fair market value of the common stock was less than $86.125 per share, subject to the conversion conditions of the ESOP.

The preferred stock was redeemable in whole or in part at the Company's option any time after January 1, 2000, at $86.125 per share plus an amount equal to all accrued and unpaid dividends. The dividend yield on the preferred stock was 7.75 percent of the $86.125 per share redemption value. On February 9, 2000, the Company exercised its option to redeem the preferred stock. On that same date, the trustee of the ESOP elected to convert the preferred stock into common stock at a ratio of 1:1.

In 1990, the UCC ESOP borrowed $325 from Union Carbide at 10 percent per annum with a maturity date of December 31, 2005, which was used to purchase shares of Union Carbide convertible preferred stock. In 1997, the UCC ESOP trustee exercised its right to convert all outstanding UCC ESOP preferred stock into Union Carbide common stock. The UCC ESOP shares were converted into shares of Dow common stock on February 6, 2001. On December 27, 2001, the UCC ESOP note was restructured with a new maturity date of December 31, 2023, and a new interest rate of 6.96 percent.

Dividends on shares held by the ESOP are paid to the ESOP and, together with Company contributions, are used, in part, by the ESOP to make debt service payments on the loans. Shares are released for allocation to participants based on the ratio of the current year's debt service to the sum of the principal and interest payments over the combined life of the two loans.

Accounting for the plans has followed the principles that were in effect for the respective plans when they were established. Expense associated with the ESOP was $6 in 2002, $5 in 2001 and $16 in 2000. At December 31, 2002, 21.1 million common shares held by the ESOP were outstanding, 15.2 million of which were allocated to participants' accounts. During 2002, 2.0 million ESOP shares were allocated to participants' accounts.

Since the conversion of the preferred stock, the Company's guarantee of the Dow ESOP's borrowings is reported as "Long-Term Debt" and, combined with the receivable from the UCC ESOP, as "Unearned ESOP shares" in the consolidated balance sheets as a reduction of "Stockholders' Equity."

S. INCOME TAXES

Operating loss carryforwards at December 31, 2002 amounted to $4,825 compared with $4,765 at the end of 2001. Of the operating loss carryforwards, $730 is subject to expiration in the years 2003 through 2007. The remaining balances expire in years beyond 2007 or have an indefinite carryforward period. Tax credit carryforwards at December 31, 2002 amounted to $834, of which $477 is subject to expiration in the years 2003 through 2007. The remaining tax credit carryforwards expire in years beyond 2007.

Undistributed earnings of foreign subsidiaries and related companies that are deemed to be permanently invested amounted to $6,056 at December 31, 2002, $5,202 at December 31, 2001 and $4,297 at December 31, 2000. It is not practicable to calculate the unrecognized deferred tax liability on those earnings.

The Company's valuation allowances of $645 at December 31, 2002 were primarily related to BSL (see Note C) and to foreign tax credits to be used in the United States. BSL's valuation allowance reduces BSL's deferred tax asset in recognition of the uncertainty regarding full realization of the tax benefit. BSL's deferred tax asset is a result of tax net operating losses during the five-year reconstruction period and the excess of the tax basis over the GAAP basis of its fixed assets. The Company also had valuation allowances for operations in Argentina, Brazil, Switzerland and South Africa.

In 2000, Germany enacted a lower corporate income tax rate effective January 1, 2001. This change reduced the value of the deferred tax asset of BSL by $201 and resulted in a $9 decrease in the provision for deferred income tax for the other Dow subsidiaries in Germany.

Domestic and Foreign Components of Income (Loss) Before Income Taxes and Minority Interests

	2002	2001	2000
Domestic	**$(828)**	$(1,214)	$ 861
Foreign	**206**	601	1,725
Total	**$(622)**	$ (613)	$2,586

S. INCOME TAXES (continued)

Reconciliation to U.S. Statutory Rate

	2002	2001	2000
Taxes at U.S. statutory rate	$(218)	$(215)	$905
Amortization of nondeductible intangibles	–	37	30
Foreign rates other than 35%	101	32	(36)
U.S. tax effect of foreign earnings and dividends	(61)	2	(10)
U.S. business and R&D credits	(143)	(45)	(21)
Other—net	41	(39)	(29)
Total tax provision (credit)	$(280)	$(228)	$839
Effective tax rate	45.0%	37.2%	32.4%

Provision (Credit) for Income Taxes

	2002			2001			2000		
	CURRENT	DEFERRED	TOTAL	CURRENT	DEFERRED	TOTAL	CURRENT	DEFERRED	TOTAL
Federal	$(119)	$(367)	$(486)	$(111)	$(354)	$(465)	$179	$158	$337
State and local	24	(5)	19	31	(24)	7	23	19	42
Foreign	126	61	187	243	(13)	230	494	(34)	460
Total	$ 31	$(311)	$(280)	$ 163	$(391)	$(228)	$696	$143	$839

Deferred Tax Balances at December 31

	2002		2001	
	DEFERRED TAX ASSETS	DEFERRED TAX LIABILITIES	DEFERRED TAX ASSETS	DEFERRED TAX LIABILITIES
Property	$ 386	$(2,033)	$ 878	$(2,046)
Tax loss and credit carryforwards	2,421	–	2,171	–
Postretirement benefit obligations	1,558	(321)	728	–
Other accruals and reserves	865	(56)	247	(257)
Inventory	105	(69)	155	(21)
Long-term debt	545	(258)	126	(194)
Investments	265	(1)	372	–
Other—net	163	(64)	22	(128)
Subtotal	$6,308	$(2,802)	$4,699	$(2,646)
Valuation allowance	(645)	–	(295)	–
Total	$5,663	$(2,802)	$4,404	$(2,646)

T. OPERATING SEGMENTS AND GEOGRAPHIC AREAS

Dow is a diversified, worldwide manufacturer and supplier of more than 3,400 products. The Company's products are used primarily as raw materials in the manufacture of customer products and services. The Company serves the following industries: appliance; automotive; agricultural; building and construction; chemical processing; electronics; furniture; housewares; oil and gas; packaging; paints, coatings and adhesives; personal care; pharmaceutical; processed foods; pulp and paper; textile and carpet; utilities; and water treatment.

Dow conducts its worldwide operations through global businesses, which are aggregated into reportable operating segments based on the nature of the products and production processes, end-use markets, channels of distribution and regulatory environment. The reportable operating segments are: Performance Plastics, Performance Chemicals, Agricultural Sciences, Plastics, Chemicals, and Hydrocarbons and Energy. The Corporate Profile on pages 16-19 describes the operating segments, how they are aggregated, and the types of products and services from which their revenues are derived.

Unallocated and Other contains the reconciliation between the totals for reportable segments and the Company totals. It also represents the operating segments that do not meet the quantitative threshold for determining reportable segments, research and other expenses related to new business development activities, and other corporate items not allocated to the operating segments. New business development activities include advanced materials for electronics, industrial biotechnology and new developments with a focus on identifying and pursuing emerging commercial and technology opportunities.

Transfers between operating segments are generally valued at cost. Transfers of products to the Agricultural Sciences segment from the other segments, however, are generally valued at market-based prices. The revenues generated by these transfers are immaterial.

Operating Segment Information

	PERFORMANCE PLASTICS	PERFORMANCE CHEMICALS	AGRICULTURAL SCIENCES	PLASTICS	CHEMICALS	HYDROCARBONS AND ENERGY	UNALLOCATED AND OTHER	TOTAL
2002								
Sales to external customers	$7,095	$5,130	$2,717	$6,476	$3,361	$2,435	$ 395	$27,609
Equity in earnings (losses) of nonconsolidated affiliates	–	–	(5)	18	44	23	(40)	40
Merger-related expenses and restructuring and asbestos-related charge [1]	–	–	5	20	13	44	1,026	1,108
EBIT [2]	612	650	154	151	(78)	96	(1,499)	86
Total assets	7,534	5,467	3,980	6,856	3,751	1,813	10,161	39,562
Investments in non-consolidated affiliates	264	83	37	743	174	205	59	1,565
Depreciation and amortization	426	360	125	481	327	92	14	1,825
Capital expenditures	485	240	71	171	407	242	7	1,623
2001								
Sales to external customers	$7,321	$5,081	$2,612	$6,452	$3,552	$2,511	$ 546	$28,075
Equity in earnings (losses) of nonconsolidated affiliates	(13)	(2)	(5)	15	45	25	(36)	29
IPR&D and merger-related expenses and restructuring [1]	–	–	69	–	–	–	1,487	1,556
EBIT [2]	643	611	104	125	111	(22)	(1,537)	35
Total assets	7,297	5,283	4,242	6,857	3,527	1,513	6,796	35,515
Investments in non-consolidated affiliates	316	47	55	625	119	236	183	1,581
Depreciation and amortization	415	342	183	516	286	58	15	1,815
Capital expenditures	381	268	119	218	493	103	5	1,587
2000								
Sales to external customers	$7,667	$5,343	$2,346	$7,118	$4,109	$2,626	$ 589	$29,798
Equity in earnings (losses) of nonconsolidated affiliates	2	20	(9)	239	78	36	(12)	354
IPR&D [1]	6	–	–	–	–	–	–	6
EBIT [2]	1,029	536	212	945	422	136	(175)	3,105
Total assets	6,603	4,805	3,448	7,228	3,796	1,795	8,316	35,991
Investments in non-consolidated affiliates	394	76	57	661	277	320	311	2,096
Depreciation and amortization	392	359	185	394	276	97	35	1,738
Capital expenditures	323	214	121	427	289	414	20	1,808

(1) See Note B for a discussion of purchased in-process research and development ("IPR&D"), and merger-related expenses and restructuring. See Note J for additional information regarding the asbestos-related charge in 2002.

(2) The reconciliation between "Earnings (Loss) before Interest, Income Taxes and Minority Interests" ("EBIT") and "Income (Loss) before Income Taxes and Minority Interests" is shown below:

	2002	2001	2000
EBIT	$ 86	$ 35	$3,105
Interest income	66	85	146
Interest expense and amortization of debt discount	774	733	665
Income (Loss) before Income Taxes and Minority Interests	$(622)	$(613)	$2,586

T. OPERATING SEGMENTS AND GEOGRAPHIC AREAS (continued)

The Company ceased amortizing goodwill upon adoption of SFAS No. 142 on January 1, 2002 (see Note A). Total goodwill amortization expense, including equity method goodwill, impacting EBIT in 2001 and 2000 are provided below by operating segment:

	2001	2000
Performance Plastics	$ 32	$ 19
Performance Chemicals	28	14
Agricultural Sciences	72	54
Plastics	13	23
Hydrocarbons and Energy	4	4
Unallocated and Other	(8)	–
Total	$141	$114

The Company operates 191 manufacturing sites in 38 countries. The United States is home to 62 of these sites, representing 57 percent of the Company's long-lived assets. Sales are attributed to geographic areas based on customer location. Long-lived assets are attributed to geographic areas based on asset location.

Geographic Area Information

	UNITED STATES	EUROPE	REST OF WORLD	TOTAL
2002				
Sales to external customers	**$11,259**	**$9,209**	**$7,141**	**$27,609**
Long-lived assets[1]	**7,846**	**3,430**	**2,521**	**13,797**
2001				
Sales to external customers	$11,995	$8,891	$7,189	$28,075
Long-lived assets	8,032	2,904	2,643	13,579
2000				
Sales to external customers	$13,051	$8,742	$8,005	$29,798
Long-lived assets	8,455	2,533	2,723	13,711

(1) At December 31, 2002, long-lived assets located in Germany represented approximately 11 percent of the total; long-lived assets in Canada represented approximately 9 percent of the total.

U. SUBSEQUENT EVENT

On February 13, 2003, the Board of Directors authorized a 10-year Employees' Stock Purchase Plan, subject to the approval of shareholders at the annual meeting on May 8, 2003. Under the plan, most employees would be eligible to purchase shares of common stock of the Company valued at up to 10 percent of their annual base earnings. The value would be determined using the plan price times the number of shares subscribed to by the employee. The plan price of the stock would be set annually at no less than 85 percent of market price. See Note N for additional information.

Quarterly Statistics

IN MILLIONS, EXCEPT PER SHARE AMOUNTS (UNAUDITED)

2002	1ST	2ND	3RD	4TH	YEAR
Net sales[1]	$ 6,305	$7,259	$7,084	$ 6,961	$27,609
Merger-related expenses and restructuring and asbestos-related expenses	13	10	32	1,053	1,108
Earnings (Loss) before interest, income taxes and minority interests	243	539	401	(1,097)	86
Income (Loss) before cumulative effect of changes in accounting principles	38	238	128	(809)	(405)
Cumulative effect of changes in accounting principles	67	–	–	–	67
Net income (loss) available for common stockholders	105	238	128	(809)	(338)
Earnings (Loss) before cumulative effect of changes in accounting principles per common share—basic	0.04	0.26	0.14	(0.89)	(0.44)
Earnings (Loss) per common share—basic	0.12	0.26	0.14	(0.89)	(0.37)
Earnings (Loss) before cumulative effect of changes in accounting principles per common share—diluted	0.04	0.26	0.14	(0.89)	(0.44)
Earnings (Loss) per common share—diluted	0.11	0.26	0.14	(0.89)	(0.37)
Common stock dividends declared per share of Dow common stock	0.335	0.335	0.335	0.335	1.34
Market price range of common stock:[2]					
High	37.00	34.59	34.73	32.21	37.00
Low	23.66	29.71	24.80	24.10	23.66

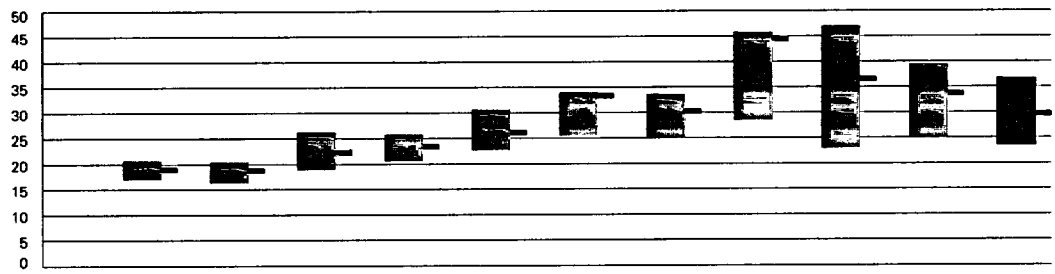
2001	1ST	2ND	3RD	4TH	YEAR
Net sales[1]	$ 7,456	$7,416	$6,775	$ 6,428	$28,075
Merger-related expenses and restructuring and IPR&D	1,384	24	115	33	1,556
Earnings (Loss) before interest, income taxes and minority interests	(882)	558	253	106	35
Income (Loss) before cumulative effect of change in accounting principle	(717)	280	57	(37)	(417)
Cumulative effect of change in accounting principle	32	–	–	–	32
Net income (loss) available for common stockholders	(685)	280	57	(37)	(385)
Earnings (Loss) before cumulative effect of change in accounting principle per common share—basic	(0.80)	0.31	0.06	(0.04)	(0.46)
Earnings (Loss) per common share—basic	(0.76)	0.31	0.06	(0.04)	(0.43)
Earnings (Loss) before cumulative effect of change in accounting principle per common share—diluted	(0.80)	0.31	0.06	(0.04)	(0.46)
Earnings (Loss) per common share—diluted	(0.76)	0.31	0.06	(0.04)	(0.43)
Common stock dividends declared per share of Dow common stock	0.29	0.335	0.335	0.335	1.295
Market price range of common stock:[2]					
High	37.31	39.67	37.00	38.67	39.67
Low	28.80	31.04	25.06	31.55	25.06

(1) Adjusted for reclassification of insurance operations in 2002 (see Note A to the Consolidated Financial Statements).
(2) Composite price as reported by the New York Stock Exchange.

See Notes to the Consolidated Financial Statements.

Eleven-Year Review of Market Price per Share of Common Stock [1]

IN DOLLARS



	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002
High	$20.96	$20.67	$26.42	$26.00	$30.83	$34.21	$33.81	$46.00	$47.17	$39.67	$37.00
Close on December 31	19.08	18.92	22.42	23.46	26.13	33.83	30.31	44.54	36.63	33.78	29.70
Low	17.08	16.33	18.83	20.46	22.75	25.25	24.90	28.50	23.00	25.06	23.66

(1) Adjusted for 3-for-1 stock split in 2000.

Eleven-Year Summary of Selected Financial Data

All data presented reflects the retroactive effect of the Union Carbide merger in 2001 (see Note C).

IN MILLIONS, EXCEPT AS NOTED (UNAUDITED)	2002
Summary of Operations [1]	
Net sales [2]	$27,609
Cost of sales [2]	23,780
Research and development expenses	1,066
Selling, general and administrative expenses	1,598
Amortization of intangibles	65
Purchased in-process research and development charges	–
Special charges and merger-related expenses and restructuring	280
Asbestos-related charge	828
Other income	94
Earnings before interest, income taxes and minority interests	86
Interest expense—net	708
Income (Loss) before income taxes and minority interests	(622)
Provision (Credit) for income taxes	(280)
Minority interests' share in income	63
Preferred stock dividends	–
Income (Loss) from continuing operations	(405)
Discontinued operations net of income taxes	–
Cumulative effect of changes in accounting principles	67
Net income (loss) available for common stockholders	$ (338)
Per share of common stock (in dollars):	
Income (Loss) from continuing operations—basic	$ (0.44)
Net income (loss) available for common stockholders—basic [3]	(0.37)
Income (Loss) from continuing operations—diluted [4]	(0.44)
Net income (loss) available for common stockholders—diluted [3,4]	(0.37)
Cash dividends declared per share of Dow common stock	1.34
Cash dividends paid per share of Dow common stock	1.34
Book value	$ 8.36
Weighted-average common shares outstanding—basic	910.5
Weighted-average common shares outstanding—diluted	910.5
Convertible preferred shares outstanding	–
Year-End Financial Position	
Total assets	$39,562
Working capital	2,825
Property—gross	37,934
Property—net	13,797
Long-term debt and redeemable preferred stock	11,659
Total debt	13,036
Net stockholders' equity	7,626
Financial Ratios	
Research and development expenses as percent of net sales [1,2]	3.9%
Income (Loss) before income taxes and minority interests as percent of net sales [1,2]	(2.3)%
Return on stockholders' equity [3,5]	(4.4)%
Debt as a percent of total capitalization	59.2%
General	
Capital expenditures	$ 1,623
Depreciation [1]	1,680
Salaries and wages paid	3,202
Cost of employee benefits	611
Number of employees at year-end (in thousands)	50.0
Number of Dow stockholders of record at year-end (in thousands) [6]	122.5

(1) Restated for the sale of the pharmaceutical businesses in 1995.
(2) Adjusted for reclassification of freight on sales in 2000 and reclassification of insurance operations in 2002.
(3) Before cumulative effect of change in accounting principle in 1992.
(4) 1992 amounts are based on Fully Diluted Earnings per Common Share as reported in Exhibit II of the Company's Form 10-K.
(5) Included Temporary Equity in 1992–1999.
(6) Stockholders of record as reported by the transfer agent. The Company estimates that there were an additional 300,000 stockholders whose shares were held in nominee names at December 31, 2002.

Eleven-Year Summary of Selected Financial Data

2001	2000	1999	1998	1997	1996	1995	1994	1993	1992
$28,075	$29,798	$26,131	$25,396	$27,814	$27,267	$27,140	$22,634	$20,691	$21,387
23,892	24,310	20,422	19,566	20,961	19,981	18,702	17,036	16,100	16,892
1,072	1,119	1,075	1,026	990	962	997	960	970	1,004
1,765	1,825	1,776	1,964	2,168	2,426	2,543	2,267	2,159	2,310
178	139	160	106	80	58	52	57	91	65
69	6	6	349	–	–	–	–	–	–
1,487	–	94	458	–	–	–	–	–	433
–	–	–	–	–	–	–	–	–	–
423	706	424	1,166	657	523	200	180	465	124
35	3,105	3,022	3,093	4,272	4,363	5,046	2,494	1,836	807
648	519	432	458	355	246	211	342	335	536
(613)	2,586	2,590	2,635	3,917	4,117	4,835	2,152	1,501	271
(228)	839	874	902	1,320	1,423	1,822	791	592	112
32	72	74	20	113	194	197	200	171	120
–	–	5	6	13	17	17	17	17	19
(417)	1,675	1,637	1,707	2,471	2,483	2,799	1,144	721	20
–	–	–	–	–	–	187	166	71	423
32	–	(20)	–	(17)	–	–	–	(97)	(1,126)
$ (385)	$ 1,675	$ 1,617	$ 1,707	$ 2,454	$ 2,483	$ 2,986	$ 1,310	$ 695	$ (683)
$ (0.46)	$ 1.88	$ 1.87	$ 1.92	$ 2.72	$ 2.61	$ 2.73	$ 1.07	$ 0.68	$ 0.02
(0.43)	1.88	1.85	1.92	2.71	2.61	2.91	1.22	0.75	0.43
(0.46)	1.85	1.84	1.89	2.63	2.51	2.62	1.04	0.66	0.02
(0.43)	1.85	1.82	1.89	2.61	2.51	2.80	1.19	0.73	0.41
1.295	1.16	1.16	1.16	1.12	1.00	0.97	0.87	0.87	0.87
1.25	1.16	1.16	1.16	1.08	1.00	0.93	0.87	0.87	0.87
$ 11.04	$ 13.22	$ 12.40	$ 11.34	$ 11.17	$ 10.95	$ 10.09	$ 9.20	$ 8.93	$ 9.05
901.8	893.2	874.9	888.1	898.4	950.1	1,025.8	1,069.8	1,059.0	1,023.8
901.8	904.5	893.5	904.8	936.2	997.2	1,073.4	1,117.6	1,115.2	1,077.0
–	–	1.3	1.4	1.4	27.3	27.6	27.9	28.5	28.8
$35,515	$35,991	$33,456	$31,121	$31,004	$31,219	$29,838	$31,573	$30,194	$30,301
2,183	1,150	2,848	1,570	1,925	4,799	6,234	2,580	2,324	1,954
35,890	34,852	33,333	32,844	31,052	30,896	29,575	29,099	27,234	27,174
13,579	13,711	13,011	12,628	11,832	11,893	10,921	11,268	11,000	11,340
9,266	6,613	6,941	5,890	5,703	5,770	6,067	6,268	6,885	7,343
10,883	9,450	8,708	8,099	8,145	7,067	6,726	7,524	7,910	8,940
9,993	11,840	10,940	9,878	9,974	10,068	9,406	9,721	9,462	9,302
3.8%	3.8%	4.1%	4.0%	3.6%	3.5%	3.7%	4.2%	4.7%	4.7%
(2.2)%	8.7%	9.9%	10.4%	14.1%	15.1%	17.8%	9.5%	7.3%	1.3%
(3.9)%	14.1%	14.7%	17.2%	24.5%	24.5%	30.5%	13.4%	7.3%	4.7%
48.9%	42.5%	42.2%	43.6%	43.1%	36.5%	36.7%	37.9%	39.8%	44.0%
$ 1,587	$ 1,808	$ 2,176	$ 2,328	$ 1,953	$ 2,065	$ 1,959	$ 1,592	$ 1,792	$ 1,954
1,595	1,554	1,516	1,559	1,529	1,552	1,661	1,484	1,505	1,533
3,215	3,395	3,536	3,579	3,640	3,645	3,475	3,980	4,061	4,036
540	486	653	798	839	875	854	989	1,044	1,148
52.7	53.3	51.0	50.7	55.9	52.0	51.0	65.7	68.5	77.1
125.1	87.9	87.7	93.0	97.2	104.6	111.1	114.5	102.5	105.9

Stockholder Reference Information

Stockholder Services
Inquiries about stock accounts, dividends, change in name or address, or requests for financial reports may be directed to Dow's stock transfer agent:

EquiServe Trust Company, N.A.
P.O. Box 43016
Providence, RI 02940-3016 USA
Telephone: 800-369-5606 (U.S. and Canada)
781-575-3899
Fax: 781-828-8813

General information about EquiServe services may be found at:
www.equiserve.com

Telecommunications Devices for the Hearing Impaired (TDDs):
800-368-0328 (U.S. and Canada)

General Information
Web Site: www.dow.com
Telephone: 800-258-2436 (Customer Information Group) or
989-832-1556
989-636-1000 (Dow Operator/Switchboard)

Investor Relations
The Dow Chemical Company
2030 Dow Center
Midland, MI 48674 USA
Telephone: 800-422-8193 (U.S. and Canada)
989-636-1463
Fax: 989-636-1830

Office of the Corporate Secretary
The Dow Chemical Company
2030 Dow Center
Midland, MI 48674 USA
Telephone: 989-636-1792
Fax: 989-636-3402

Audiocassette tapes of the 2002 Annual Report are available by contacting Investor Relations.

Annual Meeting
The 2003 Annual Meeting of Stockholders will be held at 2 p.m. on Thursday, May 8, 2003, at the Midland Center for the Arts, 1801 West St. Andrews, Midland, Michigan, USA.

Dow Dividend Reinvestment Plan
All registered stockholders may reinvest cash dividends in additional Dow shares. For more information on the Plan, please contact Dow's transfer agent, EquiServe (see Stockholder Services).

Stock Exchange Listings and Trading Privileges
Symbol: DOW
Amsterdam, Bavarian, Berlin, Brussels, Chicago, Düsseldorf, German, Hamburg, Hannover, London, New York, Pacific, Paris, Stuttgart, Switzerland and Tokyo.

The following trademarks of The Dow Chemical Company appear in this report: *Affinity, Aspun, Attane, Betabrace, Betadamp, Betafoam, Betaguard, Betamate, Betaseal, Blox, BioAqueous, Biobalance, Calibre, ComboTherm, Covelle, D.E.H., D.E.N., D.E.R., Derakane, Derakane Momentum, Dow, Dow XLA, Dowex, Dowfax, Dowflake, Dowlex, Dowper, Dowtherm, Drytech, Elite, Emerge, The Enhancer, Envision, Ethafoam, Ethocel, Immotus, Insite, Inspire, Instill, Intacta, Integral, Isonate, Isoplast, Lamdex, Lifespan, Liquidow, Magnum, Maxicheck, Maxistab, Methocel, Opticite, Optim, Papi, Peladow, Pellethane, Prevail, Primacor, Procite, Pulse, Quash, Questra, Retain, Safe-Tainer, Saran, Saranex, SiLK, Spectrim, Strandfoam, Styrofoam, Styron, Styron A-Tech, Synergy, Syntegra, Tanklite, Trenchcoat, Trycite, Trymer, Tyril, Versene, Voracor, Voralast, Voralux, Voranate, Voranol, Voranol Voractiv, Vorastar, Weathermate, Zetabon*

The following trademarks of Dow AgroSciences LLC appear in this report: *Clincher, Dithane, Dursban, FirstRate, Fortress, Garlon, Glyphomax, Grandstand, Herculex I, Lontrel, Lorsban, Mustang, Sentricon, Spider, Starane, Stinger, Strongarm, Telone, Tordon, Tracer Naturalyte, Treflan, Vikane*

The following trademark of American Chemistry Council appears in this report: *Responsible Care*

The following trademark of Dow BioProducts Ltd. appears in this report: *Woodstalk*

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

The following trademark of FilmTec Corporation appears in this report: *FilmTec*

The following trademarks of Flexible Products Company appear in this report: *Froth-Pak, Great Stuff, Insta-Stik, Tile Bond*

The following trademarks of Hampshire Chemical Corp. appear in this report: *Daxad, Hamposyl*

The following trademark of INEOS plc appears in this report: *Gas/Spec*

The following trademark of Michelin North America, Inc. appears in this report: *PAX System*

The following trademark of Mycogen Corporation appears in this report: *Mycogen*

The following trademark of PhytoGen Seed Company, LLC appears in this report: *PhytoGen*

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Mission

To constantly improve what is essential to human progress by mastering science and technology.

Values

Integrity: We believe our promise is our most vital product—our word is our bond. The relationships that are critical to our success depend entirely on maintaining the highest ethical and moral standards around the world.

Respect for People: We believe in the inherent worth of people and will honor our relationships with those who let us be part of this world: employees, customers, shareholders and society.

Unity: We are one company, one team. Balancing empowerment and interdependence makes us strong.

Outside-in Focus: We will see through the eyes of those whose lives we affect, identifying unmet needs and producing innovative and lasting solutions.

Agility: Our future depends on speed and flexibility. Responding resourcefully to society's fast-changing needs is the only road to success.

Innovation: We will make science a way of living. Our job is to unlock answers that make a fundamental difference to people's lives.

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