



**Company Info**

<b>Ticker</b>	DOW
<b>Meeting</b>	Annual May 14, 2009
<b>Record Date</b>	March 16, 2009
<b>Incorporated</b>	Delaware
Manufactures chemicals, plastics, and agricultural products (GICS:15101020 )	

**Shareholder Returns**

	1 yr%	3 yr%	5 yr%
<b>Company</b>	-59.20	-26.57	-15.02
<b>S&amp;P 500</b>	-36.99	-8.36	-2.19
<b>GICS peers</b>	-20.90	13.20	19.56

Annualized shareholder returns. Peer group is based on companies inside the same "Global Industry Classification Standard" code

**CGQ Rating**

<b>Index Score</b>	70.6
<b>Industry Score</b>	96

DOW outperformed 70.6% of the companies in the S&P 500 and 96% of the companies in the Materials group.

ISS calculates governance rankings for more than 8,000 companies worldwide based on up to 63 corporate governance variables.

**Report Contents**

- Proposals and recommendations
- Equity Capital
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- Director Profiles
- Company Financials
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- Dilution and Burn-Rate
- Vote Results
- Proposals

# The Dow Chemical Company

**Recommendations - US Standard Policy**

Item	Code*	Proposal	Mgt. Rec.	ISS Rec.
1	M0201	Elect Director Arnold A. Allemang	FOR	FOR
2	M0201	Elect Director Jacqueline K. Barton	FOR	FOR
3	M0201	Elect Director James A. Bell	FOR	FOR
4	M0201	Elect Director Jeff M. Fettig	FOR	FOR
5	M0201	Elect Director Barbara H. Franklin	FOR	FOR
6	M0201	Elect Director John B. Hess	FOR	FOR
7	M0201	Elect Director Andrew N. Liveris	FOR	FOR
8	M0201	Elect Director Geoffery E. Merszei	FOR	FOR
9	M0201	Elect Director Dennis H. Reilley	FOR	FOR
10	M0201	Elect Director James M. Ringler	FOR	FOR
11	M0201	Elect Director Ruth G. Shaw	FOR	FOR
12	M0201	Elect Director Paul G. Stern	FOR	FOR
13	M0101	Ratify Auditors	FOR	FOR
14	S0207	Provide for Cumulative Voting	AGAINST	FOR
15	S0235	Amend Articles/Bylaws/Charter -- Call Special Meetings	AGAINST	FOR
16	S0500	Stock Retention/Holding Period	AGAINST	FOR
17	S0517	Advisory Vote to Ratify Named Executive Officers' Compensation	AGAINST	FOR
18	S0731	Report on Environmental Remediation in Midland Area	AGAINST	FOR

\*S indicates shareholder proposal

*This issuer may have purchased self-assessment tools and publications from ISS Corporate Services, Inc. ("ICS"), a wholly-owned subsidiary of Institutional Shareholder Services Inc. ("ISS"), or ICS may have provided advisory or analytical services to the issuer in connection with the proxies described in this report. No employee of ICS played a role in the preparation of this report. If you are an ISS institutional client, you may inquire about any issuer's use of products and services from ICS by emailing [disclosure@riskmetrics.com](mailto:disclosure@riskmetrics.com). If you have questions about this analysis, call 301-556-0576 or send an email to [USResearch@riskmetrics.com](mailto:USResearch@riskmetrics.com)*

## Corporate Governance Profile

### Governance Provisions:

- The full board of directors is elected annually
- Shareholders do not have cumulative voting rights in director elections
- The positions of chairman and CEO are combined
- The company does not have a poison pill in place
- A simple majority vote of shareholders is required to amend the charter or bylaws
- A simple majority vote of shareholders is required to approve a merger
- Shareholders may not act by written consent
- Shareholders may call special meetings
- The board may amend the bylaws without shareholder approval
- There is not a dual class capital structure in place
- Executives are subject to stock ownership guidelines
- Directors are subject to stock ownership guidelines

### Non-Shareholder Approved Incentive Plans:

- Stock-based incentive plans have been adopted without shareholder approval

### State Statutes:

- The company is incorporated in a state with anti-takeover provisions
- The company is incorporated in a state without a control share acquisition statute
- The company is incorporated in a state without a cash out statute
- The company is subject to a freezeout provision
- The company is incorporated in a state without a fair price provision
- The company is incorporated in a state without stakeholder laws
- The state of incorporation does not endorse poison pills

## ISS Corporate Governance Rating

Governance Factor	Positive	Negative
The audit committee is comprised solely of independent outside directors	x	
The average annual burn rate over the past three fiscal years is 2% or less, or is within one standard deviation of the industry mean	x	
All of the audit committee members are "financial experts"	x	
Directors are subject to stock ownership guidelines	x	
The company does not utilize performance-based equity awards with specific performance criteria and hurdle rates disclosed		x
There is no disclosure of mandatory holding periods for stock acquired upon exercise of options		x
Stock-based incentive plans have been adopted without shareholder approval		x
There is no disclosure of a policy that limits the number of other boards that directors may serve on		x

## Equity Capital

Type	Votes per share	Issued
Common Stock	1.00	925,833,022

Ownership - Common Stock	Number of Shares	Percent of Class
Dodge & Cox, Inc.	54,350,284	5.88
State Street Global Advisors	37,352,635	4.04
Barclays Global Investors NA (California)	36,037,547	3.90
Vanguard Group, Inc.	29,898,937	3.24
Brandes Investment Partners LP	17,684,536	1.91
NFJ Investment Group	13,884,100	1.50
Capital Research Global Investors	12,339,500	1.34
RiverSource Investments LLC	12,269,877	1.33
Allianz Global Investors	11,567,987	1.25
Northern Trust Investments	11,438,756	1.24
LSV Asset Management	8,824,770	0.96
Columbia Management Advisors, Inc.	8,741,177	0.95
Aberdeen Asset Managers Ltd.	7,099,129	0.77

BlackRock Advisors, Inc.	6,064,693	0.66
Blenheim Capital Management LLC	5,911,900	0.64
Bank of New York Mellon Asset Management	5,806,385	0.63
Mellon Capital Management	5,518,570	0.60
Dimensional Fund Advisors, Inc.	5,401,445	0.58
JPMorgan Asset Management, Inc.	5,389,460	0.58
Quantitative Management Associates LLC	5,228,199	0.57

Source: © 2007 Factset Research Systems, Inc. All Rights Reserved.  
As of: 12/31/2008

## Company Financials

### Stock Snapshot

Industry: Chemicals	
Closing Price	\$15.09
Shares Outstanding	924.3M
Market Cap	\$13948.4M
Book Value/share	\$14.62
Dividend Yield	11.1%
Annual Dividend	\$1.68
Sales/share	\$62.22
EPS	\$0.62
Price to Earnings	24.3
Price to book value	1.0
Price to cash flow	5.2
Price to sales	0.2
YTD Performance	-61.7%

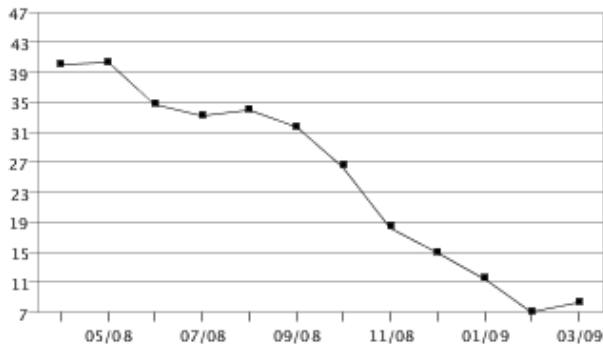
Note: Data in the table above is fiscal year-end.

### Historical Financial Performance

Profit & Loss	2008	2007	2006
Revenue	57,514	53,513	49,124
Operating Income after Dep.	2,374	3,872	4,721
Net Income	579	2,887	3,724
Working Capital	2,952	6,209	6,608
EBITDA	4,482	5,903	6,675
Cash Flow	2008	2007	2006
Operating Activities (\$ Flow)	4,711	4,484	4,160
Total cash from investing	(2,737)	(2,858)	(1,913)
Total cash from financing	(978)	(2,728)	(3,302)
Net change in cash	1,064	(1,021)	(1,049)

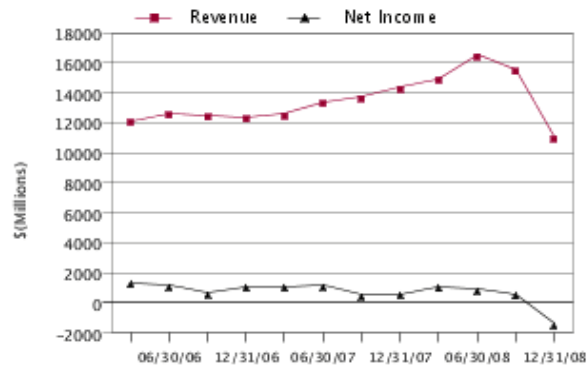
Note: Data in the table above is fiscal year-end. \$ (in Millions)

### Price Performance



Note: Data points in the chart above represent month-end stock prices.

### Revenue/Income Performance



Note: Data points in the chart above represent quarterly figures.

Comparative Performance	DOW	DD	PPG	MON	PX	APD
Gross Margin	13.5%	27.4%	36.5%	59.4%	39.8%	34.4%
Profit Margin	2.3%	7.8%	5.7%	25.7%	15.9%	14.2%
Operating Margin	4.1%	11.9%	8.7%	25.4%	18.9%	14.3%
EBITD Margin	7.8	15.7	12.1	30.4	26.8	22.7
Return on Equity	4.3%	29.0%	16.1%	21.4%	30.2%	21.7%
Return on Investment	2.6%	13.1%	8.3%	18.0%	15.1%	12.6%
Return on Assets	1.3%	5.5%	3.7%	11.2%	9.3%	8.7%
P/E	24.3	11.4	13.0	31.2	15.3	13.3
Quick Ratio	0.7	0.9	0.9	1.0	0.5	0.8
Current Ratio	1.2	1.6	1.5	1.7	0.8	1.3
Debt/Assets	26.1	26.7	26.6	10.1	38.5	31.6
Debt/Equity	87.8	135.4	117.4	19.4	125.3	78.9
Total Return	DOW	DD	PPG	MON	PX	APD
1 Yr TSR	-59.20%	-40.11%	-37.32%	64.96%	-31.74%	-28.57%
3 Yr TSR	-26.57%	-12.78%	-6.92%	54.26%	5.74%	9.62%
5 Yr TSR	-15.01%	-8.11%	-5.03%	56.48%	11.04%	10.90%

#### Notes:

- S&P Compustat data is "standardized" not "as-reported" so there may be a difference from what is reported in the company's 10-K or 10-Q. Compustat standardizes the original filings to allow for accurate comparisons across companies and industries.
- Shaded cells in the Comparative Performance table identify the company with the highest performance.

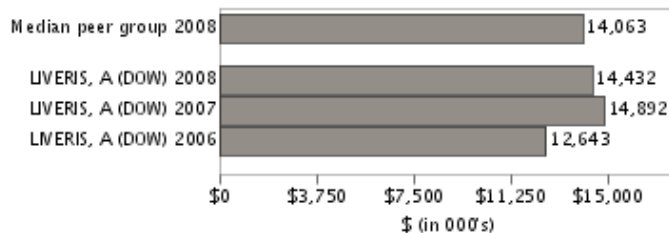
Source: Standard & Poor's Compustat Xpressfeed

For a list of frequently asked questions, go to <http://www.riskmetrics.com/issgovernance/research/companyfinancialsFAQ.html>

## Executive Compensation

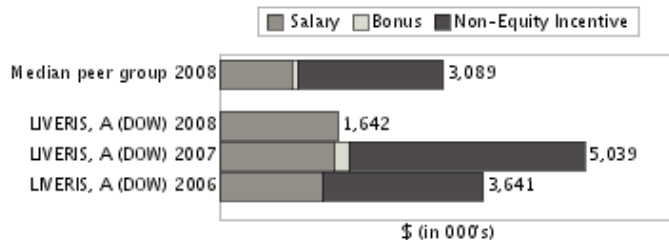
The following executive compensation charts compare the company's CEO total compensation against RMG's selected peer group of at least eight and no more than 12 companies. The charts provided herein are for information purposes and do not directly result in withhold/against vote recommendations on director nominees or equity plan proposals. RMG's selected peer group is independently constructed based on the following key criteria: (1) the company's Global Industry Classification Standards (GICS) and (2) company's size as indicated by revenue, assets (for financial companies) or market capitalization. All compensation data, with the exception of stock award and options valuations, are taken from the company's most recent proxy statement. Stock awards and option values are based on the full grant date fair value rather than the amortized value over the requisite service period. Also, the estimated present value of stock options is determined under full-term assumptions. For a complete listing of frequently asked questions, go to [www.riskmetrics.com/policy/ExecutiveCompensationFAQ](http://www.riskmetrics.com/policy/ExecutiveCompensationFAQ)

### Total Compensation



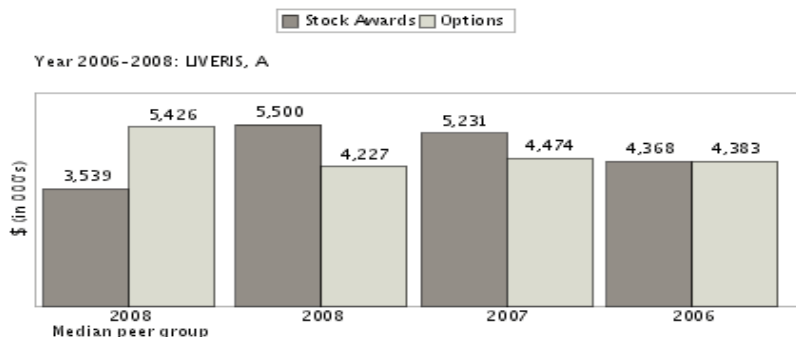
This chart shows a comparison of total compensation for the company's CEO and the median of a peer group for the most recent fiscal year.<sup>1 2</sup> Total compensation is the sum of all pay components as reported in the summary compensation table by the company. The calculated total compensation figure will not match with the company's disclosed total compensation because stock awards and options are valued under the full grant date fair value rather than the amortized value over the requisite service period. Additionally, options are valued under full-term assumptions. Performance shares are based on target values.

### Salary, Bonus and Non-Equity Incentive Awards



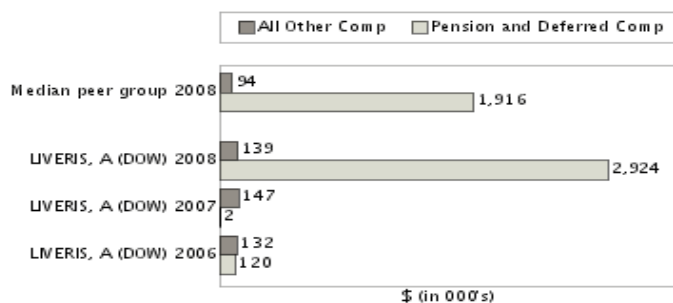
This chart shows a comparison of salary, bonus and non-equity incentive awards for the company's CEO and the median of a peer group for the most recent fiscal year.<sup>1 2</sup> Bonus may include discretionary or guaranteed amounts. Non-equity incentive awards may include annual performance-based cash bonus, multi-year performance cash award, or awards where performance measures are not stock price driven and are not settled in company's stock.

### Stock Awards and Option Awards



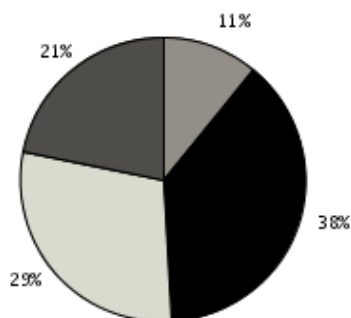
This chart shows the different types of equity plan awards. Stock awards and options values will not match with the company's disclosure as they are valued under the full grant date fair value rather than the amortized value over the requisite service period. The value of stock awards reflects the full grant date value under FAS 123R. Performance shares are based on target values. The estimated present value of options is determined under full-term assumptions.

### Change in Pension Value and Deferred Compensation and All Other Compensation



This chart shows the aggregate increase in actuarial value of pension plans, above-market earnings on deferred compensation and all other compensation, which may include, but are not limited to, the following items: perquisites, tax gross-ups, dividends paid on stock or option awards or life insurance premiums. The median group calculation includes companies that do not provide pension and preferential earnings in deferred compensation.

### Compensation Mix for Most Recent Fiscal Year



This chart shows the percentage of executive compensation that came from five key areas - Cash compensation, stock awards, options, performance cash compensation and non-performance compensation (which may include perks, tax gross-ups, annual company contributions to vested and unvested defined contribution plans, insurance premiums, dividends paid on stock or options and other compensation not disclosed in other columns).

### CEO Stats

#### General

Age	54
Tenure	5
# of Outside Boards	1
Outside Boards *	Citigroup Inc.
Committees at Outside Boards *	Audit at Citigroup Inc.

#### Retirement Data

	Qualified & Non-Qualified Plan
Present Value of Accumulated Benefit	\$11,832,860

#### Equity Compensation

Did the company grant performance-contingent options last FY?	No
Did the company grant premium-priced options last FY?	No
Did the company grant discount options last FY?	No
Did the company grant performance-contingent stock awards last FY?	Yes
What were the specific performance measures?	ROC / ROIC

#### Other Stats

CEO pay as % of company revenue (CEO total comp/revenue)	0.03%
CEO pay as % of company net income (CEO total comp/net income)	2.49%

\* As of the most recent annual meeting date of the other companies listed.

## Company Financials

### Change in Total Direct Compensation vs. Stock and Financial Measures

	% chg in TDC (2008-2007)	1-yr TSR %	3-yr TSR %	Revenue (\$MM)	% Chg in Revenue
LIVERIS, A	-3.09%	-59.20%	-26.57%	\$57,514	7.48%
Peer Group Avg.	44.26%	6.85%	18.81%	\$11,638.78	16.96%

## CFO and Other Named Executive Officers (\$ in 000s)

	Subject Company		
	Principal Financial Officer	Other Three Named Execs*	Top Five Named Execs
Base	\$855	\$2,197	\$4,694
Bonus + Non-Equity Incentive	\$533	\$0	\$533
Stock Awards	\$2,062	\$5,949	\$13,511
Options	\$1,583	\$4,298	\$10,108
Chg in Pension value	\$1,395	\$1,672	\$5,986
Above Market Earning on Deferred Comp	\$0	\$11	\$16
All Other Comp	\$39	\$443	\$621
Total	\$6,467	\$14,570	\$35,469
As a Multiple of Net Income	1.12%	2.52%	6.13%
As a Multiple of Revenue	0.01%	0.03%	0.06%

\* Values equate to aggregate totals of those other named executives. Positions include: Executive Vice President, Basic Plastics and Chemicals, and Manufacturing and Engineering, EXECUTIVE VICE PRESIDENT, HEALTH, AGRICULTURE AND INFRASTRUCTURE GROUP, EXECUTIVE VICE PRESIDENT AND CHIEF TECHNOLOGY OFFICER

## Footnotes

1. RMG's selected peer group generally contains a minimum of eight and maximum of 12 companies, comprised of companies within the same six-digit Global Industry Classification Standard (GICS) with revenue ranging between 0.5- to 2.0-times the company's revenue. If there are insufficient companies within the six-digit GICS, peer companies would be supplemented from the four-digit GICS or even the two-digit GICS, using the same size parameters. For Financial companies, size is measured by assets rather than revenue; for companies with very high or very low revenues or assets (making it difficult to create a peer group on that basis), market cap is used as the size measure. In cases of some very large companies, a standard index (such as the Dow 30) may be used as the peer group. The peer group does not represent the financial or compensation peer groups that may be disclosed in the company's proxy statement. References made to the peer group are only relevant to this page. GICS represents the Global Industry Classification Standard indices developed by Standard & Poor's and Morgan Stanley Capital International.
2. List of peer companies: Air Products & Chemicals, Inc., Freeport-McMoRan Copper & Gold Inc., MOSAIC CO, Newmont Mining Corp., Nucor Corp., Praxair, Inc., Rohm and Haas Co., Southern Copper Corporation

Source: Equilar - Executive Compensation, Standard & Poor's Research Insight - Financial

The following sections show a comparison of the company's share dilution and burn rate against its four-digit GICS group of Materials. The information presented is for informational purposes only.

## Dilution Comparison

Dilution is the sum of the total amount of shares available for grant and outstanding under options and other equity awards (vested and unvested) expressed as a percentage of total basic common shares outstanding as of the record date. The dilution figure typically excludes employee stock purchase plans (ESPPs) and 401(k) shares. Existing shareholders face dilution to their ownership interests as companies issue shares of their stock to compensate employees. The distribution of equity may result in a significant reallocation of ownership in a company between existing shareholders, management, and employees. The underlying information for the company is based on the company's equity compensation table in the most recent proxy statement or 10-K.

The Dow Chemical Company	15.61%
Peer group median	8.46%
Peer group weighted average	6.46%
Peer group 75th percentile	12.58%

## Burn Rate

Burn rate is a measure of dilution that shows how rapidly a company is using its shares reserved for equity compensation plans. The higher the annual share usage, the more likely the company will dilute the value of shares held by existing investors. It is calculated as the number of shares granted in each fiscal year, including stock options, restricted stock (units), actual performance shares delivered under the long-term incentive plan or earned deferred shares, to employees and directors divided by weighted average common shares outstanding. The adjusted burn rate places a premium on grants of full-value awards using a multiplier based on the company's annual volatility.

The Dow Chemical Company	Non-Adjusted Burn Rate	Adjusted Burn Rate
1-year burn-rate	1.29%	1.60%
3-year average burn-rate	1.29%	1.71%

## Vote Results

### Vote Results for 05/15/2008 Annual meeting

Proposal	Mgmt Rec	Vote Requirement	Base	Result	% For
1.1. Elect Director Arnold A. Allemang	For	Plurality	F+A	Majority	96.51
1.2. Elect Director Jacqueline K. Barton	For	Plurality	F+A	Majority	96.50
1.3. Elect Director James A. Bell	For	Plurality	F+A	Majority	97.02
1.4. Elect Director Jeff M. Fetting	For	Plurality	F+A	Majority	96.95
1.5. Elect Director Barbara H. Franklin	For	Plurality	F+A	Majority	94.66
1.6. Elect Director John B. Hess	For	Plurality	F+A	Majority	96.85
1.7. Elect Director Andrew N. Liveris	For	Plurality	F+A	Majority	96.44
1.8. Elect Director Geoffery E. Merszei	For	Plurality	F+A	Majority	93.29
1.9. Elect Director Dennis H. Reilley	For	Plurality	F+A	Majority	97.00
1.10. Elect Director James M. Ringler	For	Plurality	F+A	Majority	96.63
1.11. Elect Director Ruth G. Shaw	For	Plurality	F+A	Majority	96.77
1.12. Elect Director Paul G. Stern	For	Plurality	F+A	Majority	96.51
2. Ratify Auditors	For	50%	F+A	Pass	98.45
3. Report on Potential Links Between Company Products and Asthma	Against	50%	F+A	Fail	9.14
4. Report on Environmental Remediation in Midland Area	Against	50%	F+A	Fail	22.82
5. Report on Genetically Engineered Seed	Against	50%	F+A	Fail	7.77
6. Pay For Superior Performance	Against	50%	F+A	Fail	26.47

### Notes

1. Vote results are for the most recent annual meeting.
2. Abbreviations for the "Base" identifier are as follows: F+A - For and Against; F+A+AB - For, Against and Abstain; Outstanding - Outstanding shares.

## Note

### ***Related Party Transactions***

Given the large size of the company and its diverse commercial and geographic markets, there are times when the company sells products to, or purchases products or services from, other firms for which the company's directors serve as executive officers or directors. All such purchases and sales were made at arms-length, commercial terms, and in all instances, the extent of business represented less than 2 percent of the company's and the other firms annual revenues. These transactions do not qualify as material under RMG's definition of independence. The board attested the independence of Jacqueline K. Barton, James A. Bell, Jeff M. Fettig, Barbara H. Franklin, John B. Hess, Dennis H. Reilley, James M. Ringler, Ruth G. Shaw and Paul G. Stern under NYSE listing standards. (*Source: The Dow Chemical Company, most recent Proxy Statement, p. 6.*)

## Proposals

### **Items 1-12: Elect Directors**

**FOR**

#### **Insight & Overview**

##### **The Rohm and Haas Acquisition**

###### *The Deal*

On July 10, 2008, The Dow Chemical Company ("Dow") and the Rohm and Haas Company ("Rohm and Haas") entered into a merger agreement pursuant to which Rohm and Haas would become a wholly owned subsidiary of Dow. Rohm and Haas shareholders would receive \$78 for each share of common stock, representing a 74 percent premium over the closing price of Rohm and Haas stock the day before the merger was announced. Following the announcement of the merger, Dow shares closed approximately 4 percent below their closing price the day before the merger was announced.

In the event that the merger did not close by Jan. 10, 2009, the per share merger consideration would increase by an amount equal to the excess, if any, of (I) \$78.00 multiplied by the product of (A) 8 percent and (B) the quotient obtained by dividing the number of days elapsed from Jan. 10, 2009, to the earlier of the date of the closing of the merger and July 10, 2009, by 365, over (II) any dividends or distributions (valued at the date of the closing of the Merger using 8 percent simple interest per annum from the applicable date of payment) declared on a share of Rohm and Haas common stock with a record date between Jan. 10, 2009, and the earlier of July 10, 2009, and the closing of the merger and thereafter paid.

###### *Financing*

In connection with the planned merger, Dow entered into equity commitment letters with Berkshire Hathaway and the Kuwait Investment Authority pursuant to which these investors agreed to acquire 3 million and 1 million shares, respectively, of cumulative convertible perpetual preferred stock of Dow, having a liquidation preference of \$1,000 per share, for an aggregate consideration of \$4 billion. Each share of the convertible preferred stock would be converted at any time, at the option of the holder, into 24.2010 shares of Dow's common stock, equal to an initial conversion price of approximately \$41.32 per share and representing a 20 percent premium over the average of the daily volume weighted average price per share of Dow's common stock for the period from July 7, 2008 through July 9, 2008. Dividends on the convertible preferred stock would be payable at annual rate of 8.5 percent. These commitments were finalized on Oct. 27, 2008.

On Sept. 8, 2008, Dow entered into a loan agreement with numerous lenders in order to partially finance the Rohm and Haas acquisition and to retire certain debt of Rohm and Haas. Under the loan agreement, the lenders committed to lend Dow \$12.5 billion on the date of the closing of the acquisition

###### *RMG Recommendation and Rohm and Haas Special Meeting*

On Oct. 2, 2008, RMG recommended Rohm and Haas shareholders vote for the merger agreement, citing the significant cash premium, a competitive bidding process, and the market's initial apparent acceptance of the offer. On Oct. 29, 2008, at a special meeting held by Rohm and Haas for shareholders to adopt the merger agreement, over 99 percent of shares outstanding were cast in support of the acquisition.

#### *Failed Joint Venture*

On Nov. 28, 2008, Dow entered into a joint venture formation agreement ("JVFA") with Petrochemical Industries Company ("PIC"), a wholly owned subsidiary of Kuwait Petroleum Corporation ("KPC"). Dow and PIC were already partners in several existing joint ventures. The JVFA provided that Dow and PIC would establish a 50:50 joint venture that would be operated through K-D Petrochemicals C.V. ("K-Dow"), a limited liability partnership to be formed under the laws of The Netherlands. At the closing of the transaction, Dow and certain of its subsidiaries would transfer by way of contribution and sale to K-Dow and its subsidiaries ("K-Dow Group"), directly or indirectly, certain, and K-Dow would assume certain liabilities relating thereto, in exchange for (i) a 50 percent equity interest in K-Dow and (ii) the payment by PIC of an initial purchase price equal to 50 percent of the difference between (1) \$17.440 billion and (2) the sum of (A) the estimated net indebtedness of the K-Dow Group at the closing, which was expected to be \$1.0 billion, and (B) \$1.4 billion, which had been agreed as the estimated amount of working capital deficit of the K-Dow Group at the closing. As a result, the initial purchase price was estimated to be \$7.5 billion, of which \$4.175 billion was payable in cash at the closing, \$1.6 billion was payable in cash within three days after closing and \$1.5 billion would be payable in cash at closing, unless PIC elected to pay such amount in fixed equal monthly installments through June 30, 2009. It was expected that the new company would begin operations no later than Jan. 1, 2009.

On Dec. 28, 2008, Dow received a verbal notification from PIC about the Kuwait Supreme Petroleum Council's decision to reverse its prior approval of the JVFA between Dow and PIC. This notification was followed on Dec. 31, 2008, by a written notification in which PIC advised Dow of its position that conditions to closing were not satisfied and therefore PIC was not obligated to close the deal on Jan. 2, 2009. Dow disagreed with PIC's conclusions and stated that it would fully enforce its rights under the JVFA.

#### *Regulatory Clearance*

On Jan. 8, 2009, Dow announced that it had been informed by the European Commission that its proposed acquisition of Rohm and Haas was compatible with the European common market. On Jan. 23, 2009, Dow and Rohm and Haas announced jointly that the United States Federal Trade Commission had voted to accept a consent decree agreed to by Dow that would allow the merger to be closed.

#### *The Rohm and Haas Lawsuit*

On Jan. 26, 2009, Rohm and Haas sued Dow in the Delaware Chancery Court, after Dow indicated it would not close the deal on or before Jan. 28, 2009. Rather than close, as required under the merger agreement within two days of receipt of antitrust approvals, Dow indicated it needed until June 30, 2009, to decide whether to go forward with the deal. Dow had not claimed a material adverse effect or breach by Rohm and Haas. Nor did Dow appear to take issue with Rohm and Haas's interpretation of the merger agreement. Dow seemingly positioned itself as a victim of unforeseen circumstances from (i) the demise of its planned K-Dow Petrochemicals joint venture, from whose cash proceeds Dow expected to help fund the deal with Rohm and Haas; (ii) the deepening credit crisis; and (iii) a claimed precipitous drop in end demand in the weeks leading up to the lawsuit. On Jan. 27, 2009, Chancellor Chandler set a trial date of March 9, 2009, overriding Dow's request for a delay until early April 2009.

#### *Consummation of the Deal*

Following discussions between the two companies, on March 9, 2009, Dow and Rohm and Haas reached an agreement to close the acquisition on April 1, 2009, resolving the pending lawsuit. The settlement agreement involved a new equity investment in Dow of \$2.5 billion, and at Dow's option an additional \$500 million of equity, at the closing of the merger by the two largest shareholders of Rohm and Haas: Paulson & Co., Inc. and the Haas Family Trusts. Pursuant to the agreement, other Rohm and Haas shareholders would receive the original cash consideration of \$78 per share upon closing. At the request of both parties, The Delaware Chancery Court entered an order providing that Dow would close the merger no later than April 1, 2009, conditioned only on the funding by the two major shareholders and on Rohm and Haas's compliance in all material respects with its interim operating covenants after March 9, 2009. Importantly, the restructured transaction reduced the need for debt financing to consummate the deal, from \$13 billion to approximately \$7.5 billion. On April 1, 2009, the companies consummated the merger.

## Restructuring Activities

On Dec. 8, 2008, the company announced that it would restructure its business activities into five business divisions supported by a common Business Services Group and a Corporate Center. The five divisions are as follows: Hydrocarbons and Basic Plastics; Basic Chemicals; Performance Products; Health, Agriculture, and Infrastructure; and Rohm and Haas Advanced Materials. As part of the restructuring actions, the company said it would eliminate approximately 5,000 full-time jobs, close 20 facilities in high-cost locations, and divest several non-strategic businesses. According to the company, the job reductions represent a reduction of roughly 11 percent of Dow's global workforce. Once fully implemented, the company expects these actions are expected to result in \$700 million in annual operating cost savings by 2010.

## Reduction in Dividend

On Feb. 12, 2009, the board slashed the company's quarterly dividend from \$0.42 per share to \$0.15 per share, the first time in 389 quarters—97 years—that the company had cut its dividend. The board said the dividend cut was due to a confluence of factors, including uncertainty in the credit markets, unprecedented lower demand for chemical products, the ongoing global recession and pending business issues.

## Suspension of Cash Bonus to Executive Management

On Feb. 17, 2009, the company announced that its board had decided that Dow's executive management, which includes CEO Andrew Liveris and his direct reports, would not be receiving a 2008 Performance Award cash payout as earned. The board made this decision upon management recommendation that the action would be "a prudent and appropriate alignment with leadership's accountability for overall results."

## Divestiture of Morton International

On April 1, 2009, Rohm and Haas, which on that date had become a wholly owned subsidiary of Dow, announced the divestiture of its salt business Morton International to K+S Aktiengesellschaft. This sale was part of Dow's de-leveraging plan in conjunction with the Rohm and Haas acquisition.

## Board Profile

Nominees	Classification	ISS	Affiliation	Term Ends	Tenure	Age	Audit	Comp	Nom	Committee (C = chair, F= financial expert)	
										Public	Boards
Arnold A. Allemang <sup>1</sup>	Not Independent	Affiliated Outsider	Former Executive	2010	13	66				0	
Jacqueline K. Barton	Independent	Independent Outsider		2010	16	56		M		0	
James A. Bell <sup>2</sup>	Independent	Independent Outsider		2010	4	60	F		M	0	
Jeff M. Fettig <sup>3</sup>	Independent	Independent Outsider		2010	6	51	F		M	1	Y
Barbara Hackman Franklin <sup>4</sup>	Independent	Independent Outsider		2010	16	68	C F		M	3	
John B. Hess <sup>5</sup>	Independent	Independent Outsider		2010	3	54		M		1	Y
Andrew N. Liveris	Not Independent	Insider	CEO/Chair	2010	5	54				1	
Geoffery E. Merszei	Not Independent	Insider		2010	4	57				1	
Dennis H. Reilley	Independent	Independent Outsider		2010	2	55	F			2	
James M. Ringler	Independent	Independent Outsider		2010	8	63		C		5	
Ruth G. Shaw	Independent	Independent Outsider		2010	4	61		M		1	
Paul G. Stern	Independent	Independent Outsider	Lead Director	2010	17	70	F		C	1	

## Notes

- 1 . Arnold A. Allemang served in various executive positions with the company since 1965 and most recently as senior advisor from 2004 until 2008. Source: The Dow Chemical Company, most recent Proxy Statement, p. 11.
- 2 . James A. Bell serves or has served as an executive officers of firms in which the company has made purchases or sales during the past three years. The amount of such purchases and sales were less than two percent of the company's and the firms' annual revenues during each of the past three years. These transactions do not qualify as material under RMG's definition of independence. The board attested the independence of this director under NYSE listing standards. Source: The Dow Chemical Company, most recent Proxy Statement, p. 6.
- 3 . Jeff M. Fettig serves or has served as an executive officers of firms in which the company has made purchases or sales during the past three years. The amount of such purchases and sales were less than two percent of the company's and the firms' annual revenues during each of the past three years. These transactions do not qualify as material under RMG's definition of independence. The board attested the independence of this director under NYSE listing standards. Source: The Dow Chemical Company, most recent Proxy Statement, p. 6.
- 4 . Barbara Hackman Franklin previously served on the board from 1980 until 1992. Source: The Dow Chemical Company, most recent Proxy Statement, p. 12.
- 5 . John B. Hess serves or has served as an executive officers of firms in which the company has made purchases or sales during the past three years. The amount of such purchases and sales were less than two percent of the company's and the firms' annual revenues during each of the past three years. These transactions do not qualify as material under RMG's definition of independence. The board attested the independence of this director under NYSE listing standards. Source: The Dow Chemical Company, most recent Proxy Statement, p. 6.

## Independence

	Number of Directors	Number of Insiders	Number of Affiliated	Percent Independent
Board (12 mtgs)	12	2	1	75%
Audit (9 mtgs)	5	0	0	100%
Compensation (7 mtgs)	4	0	0	100%
Nominating (5 mtgs)	4	0	0	100%

## Vote Standard

The company has adopted a majority vote standard (of shares cast) for the election of directors with a plurality carve-out for contested elections, and has a director resignation policy in its governance guidelines.

## Summary Information

Average age	60
Average tenure	8
Average outside boards per director	1.3
Percent of directors who have attended an ISS Accredited Program	8%
Percent of directors who are outside CEOs	17%
Directors with less than 75% attendance	None
Directors who do not own company stock	None
All Current Executive Officers and Directors Beneficial Ownership Percentage	0.63%

## Director Profile

### Nominees

Name	Primary Employment	Public Boards	Interlock***	Common Shares Presently Held	Number of Exercisable Options**	Percentage of TVP	Total Compensation
Arnold A. Allemang	Retired	The Dow Chemical Company		474,799	127,500	<1%	221,342
Jacqueline K. Barton	Academic	The Dow Chemical Company		52,560	36,550	<1%	244,117
James A. Bell	CFO, Executive Vice President, Finance - The Boeing Co.	The Dow Chemical Company		16,520	10,950	<1%	256,473
Jeff M. Fettig	CEO, Chairman - Whirlpool Corp.	The Dow Chemical Company, Whirlpool Corporation		30,720	19,650	<1%	246,904
Barbara Hackman Franklin	Consultant	The Dow Chemical Company, Aetna Inc., American Funds, J.P. Morgan Value Opportunities Fund		56,081	36,550	<1%	261,904
John B. Hess	CEO, Chairman - Hess Corporation	The Dow Chemical Company, Hess Corporation		88,320	6,050	<1%	241,202
Andrew N. Livers	CEO, Chairman, President - The Dow Chemical	The Dow Chemical Company, Citigroup Inc.		1,589,765	1,381,622	<1%	*

	Company						
Geoffery E. Merszei	CFO, EVP - The Dow Chemical Company	The Dow Chemical Company, Chemical Financial Corporation		709,036	654,189	<1%	*
Dennis H. Reilley	Retired	The Dow Chemical Company, Marathon Oil Corporation, H.J. Heinz Company		8,420	0	<1%	236,342
James M. Ringler	Retired	The Dow Chemical Company, Teradata Corporation, FMC Technologies, Inc., Corn Products International, Inc., Autoliv Inc., John Bean technologies Corporation		55,390	39,166	<1%	243,071
Ruth G. Shaw	Executive Advisor - Duke Energy Corp.	The Dow Chemical Company, DTE Energy Company		17,640	10,950	<1%	241,747
Paul G. Stern	Financial Services	The Dow Chemical Company, Whirlpool Corporation		60,210	36,550	<1%	283,494

### Notes

\*For executive director data, please refer to the "Executive Compensation" section

\*\*Common shares which can be acquired upon exercise of options within 60 days

\*\*\*An interlocking board relationship is defined as a situation where an executive of the current company sits on the board of a company where the director is an executive.

## Board Review

The Governance Committee serves as the nominating committee. A substantial majority of the board members are independent outsiders, and key board committees include no insiders or affiliated outsiders.

Director Ruth G. Shaw served as a director of the board of Wachovia until its acquisition by Wells Fargo & Company, where she sat on the Compensation Committee and the Corporate Governance and Nominating Committee. Ms. Shaw had been on Wachovia's board since 1990. Dow did not mention in its proxy statement whether its Governance Committee considered Ms. Shaw's association with Wachovia when deciding to nominate her for re-election. There may be investors who are concerned about former Wachovia directors continuing to serve on other boards.

## Company Performance

Dow Chemical has sustained poor total shareholder return (TSR) performance, as determined by RMG's standards. RMG defines poor performance as one- and three-year TSRs in the bottom half of the company's four-digit GICS industry group within the Russell 3000. Note that the Shareholder Returns table on the first page of this publication uses a different methodology in that it also includes non-Russell 3000 companies. Additionally, RMG downloads TSR performance data at the end of March, June, September, and December for all Russell 3000 companies and their respective four-digit GICS industry groups. When a company has sustained poor performance per RMG's methodology, RMG will examine the company's executive compensation practices and governance structure. Specifically, poor TSR coupled with an increase in CEO compensation from the prior year and/or egregious governance provisions will result in close scrutiny by RMG and may lead to recommendations affecting director elections.

In this case, Dow Chemical's one- and three-year TSRs were -59.20 percent and -26.57 percent, respectively, versus -47.78 percent and -5.31 percent for the median of the company's four-digit GICS peer group (1510: Materials), respectively, based on the Dec. 31, 2008, download. As such, RMG will review the compensation paid to the CEO this year over last year, and the company's current governance provisions.

## Pay-for-Performance Analysis

RMG has a pay-for-performance policy that considers a CEO's compensation package in light of poor company stock performance over an extended time period. As mentioned above, a company performing in the bottom half of its corresponding four-digit GICS industry group over the past one and three years, coupled with an increase in the CEO's compensation, receives closer scrutiny per this methodology.

In applying this analysis, RMG makes a year-over-year comparison of the total compensation paid to the company's CEO, including base salary, bonus, stock awards (as disclosed in the Grants of Plan-Based

Awards table), target performance shares (as disclosed in the Grants of Plan-Based Awards table), option awards (as calculated by Equilar), non-equity incentive plan compensation, change in pension value and nonqualified deferred compensation earnings, and all other compensation. In cases where a continuing CEO's compensation increased in the most recent year-over-year period, despite prolonged relative poor stock returns, RMG will evaluate the nature and rationale of the pay increase to determine whether against/withhold recommendations for compensation committee members are warranted.

In this case, Andrew Liveris has served as the company's CEO since 2004. Using the formula described above, Mr. Liveris' compensation decreased by approximately 3.1 percent from 2007 (\$14.89 million) to 2008 (\$14.43 million). Because the CEO's compensation did not increase from 2007 to 2008, RMG will not recommend that shareholders vote against Compensation Committee members for this issue at this time. We will, however, continue to monitor the company's pay practices to ensure that there is no pay-for-performance disconnect going forward.

### **Executive Compensation Review**

In 2008, the company provided tax gross-ups for certain named executive officers (NEOs) for unanticipated tax liabilities resulting from participation in certain insurance and non-U.S. pension plans. CEO Andrew Liveris received tax gross-ups totaling \$3,012, while executive vice presidents Michael Gambrell and Heinz Haller received tax gross-ups totaling \$97,618 and \$255,499, respectively.

The tax gross-up Mr. Liveris received relates to his prior participation in Executive Split Dollar Life Insurance. This plan was terminated in 2003 as a result of tax law changes that resulted in an additional tax burden to employees for continuation in other life insurance programs. Dow elected to cover this additional tax burden in order to maintain the originally intended benefit value for employees. In discussions with RMG, the company noted that only 11 active employees remain recipients of tax protection associated with this 2003 termination with gross-ups in the range of \$500 to \$3,200.

With regard to the tax gross-ups provided to Mr. Gambrell, \$2,567 relates to the aforementioned Executive Split Dollar Life Insurance, while the balance of \$95,051 relates to a similar unanticipated additional tax burden starting in 2003 for participants in the Key Employee Insurance Program (KEIP), a program that was only offered from 1997-1999. According to the company, when the tax law changes arose in 2003, Dow put in place a phase out of the program to provide tax protection for program completion dates from 2003 to 2012. As a result, 2012 is the last year in which a KEIP tax reimbursement could possibly appear for Mr. Gambrell in connection with the phase out of the KEIP program.

Regarding the tax gross-ups provided to Mr. Haller, all amounts relates to his relocation to the United States. According to the company, Dow allows foreign based employees to remain in their home country pension and social security programs when relocating to another country and when home country laws allow. In certain situations, such as Mr. Haller's, this results in an additional tax burden in the country they are working in and Dow has provided tax protection to cover those impacts in order to keep the value of their benefits equal to what it would have been if the employee remained in their home country. The company claims that this creates no greater benefit to the employee than other similarly situated employees.

### *Analysis*

In light of the new SEC disclosure rules on executive compensation, many companies are eliminating unwarranted perks, such as tax gross-ups, which may be considered stealth compensation. RMG believes that tax gross-ups for executives are not an efficient use of corporate assets. Further, most executives are paid at levels at which they should be able to afford to pay their own taxes. However, RMG notes that the tax gross-ups relating to the Executive Split Dollar Life Insurance are small in amount, limited to a small number of executives, and are not available to new participants. In addition, RMG notes that the gross-ups relating to the KEIP program are limited to a small number of executives and will be phased out by 2012.

### *Conclusion*

RMG will not recommend shareholders vote against Compensation Committee members for this issue at this time. However, RMG strongly encourages the company to expedite its phasing out of tax gross-ups under the KEIP program and to eliminate all other tax gross-ups going forward. RMG will continue to monitor the company's compensation practices for any poor pay practices.

**Vote FOR Items 1-12.**

*US Standard Policy*

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**Item 13: Ratify Auditors****FOR**

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The board recommends that Deloitte & Touche LLP be approved as the company's independent accounting firm for the coming year. Note that the auditor's report contained in the annual report is unqualified, meaning that in the opinion of the auditor, the company's financial statements are fairly presented in accordance with generally accepted accounting principles.

**Audit Summary**

Accountants	Deloitte & Touche LLP
Auditor Tenure	99
Audit Fees	
Audit Fees :	\$ 20,942,000.00
Audit-Related Fees:	\$8,300,000.00
Tax Compliance/Preparation*:	\$7,910,000.00
Other Fees:	\$62,000.00
Percentage of total fees attributable to non-audit ("other") fees:	0.17%

\* Note: Only includes tax compliance/tax return preparation fees. If the proxy disclosure does not indicate the nature of the tax services, those fees will appear in the "other" column.

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**Vote FOR Item 13.***US Standard Policy*

**Proposal**

A shareholder has filed a resolution requesting the board adopt cumulative voting in the election of directors. More specifically, the resolution reads:

"RESOLVED: Cumulative Voting. Shareholders recommend that our Board take the steps necessary to adopt cumulative voting. Cumulative voting means that each shareholder may cast as many votes as equal to number of shares held, multiplied by the number of directors to be elected. A shareholder may cast all such cumulated votes for a single candidate or split votes between multiple candidates. Under cumulative voting shareholders can withhold votes from certain poor-performing nominees in order to cast multiple votes for others."

**Vote Requirement**

Approval of the resolution requires a majority of votes cast, while abstentions and broker non-votes are not included.

**Shareholder's Supporting Statement**

The proponent believes that cumulative voting allows a significant group of shareholders to elect a director of its choice – safeguarding minority shareholder interests and bringing independent perspectives to board decisions. Cumulative voting also encourages management to maximize shareholder value by making it easier for a would-be acquirer to gain board representation, in the proponent's opinion. The proponent believes that it is not necessarily intended that a would-be acquirer materialize, however that very possibility represents a powerful incentive for improved management of the company.

**Management's Response**

The board believes that majority voting is the fairest way to elect the company's directors in uncontested elections, as well as the method most likely to produce a board that will effectively represent the interests of all of the company's shareholders. Cumulative voting gives a small number of stockholders a voice in director elections that is disproportionate to their economic investment in the company, in the board's opinion. Thus, the board believes that this proposal could potentially allow a small stockholder group to have a disproportionate effect on the election of directors, possibly leading to the election of directors who advocate the interests of just those stockholders who elected them, rather than the positions that are in the best interests of the company and its shareholders as a whole.

**RMG Analysis**

Cumulative voting is one of the corporate governance tools that provide shareholders access and influence over director elections. Under a cumulative voting policy, a shareholder can amass (cumulate) all his or her votes for directors and apportion these votes among one, a few, or all of the directors on a multi-candidate slate. This provision facilitates the election of minority representatives to the board and can be particularly significant in proxy contests where dissident candidates are seeking election to the board. Currently shareholders can only cast one vote for each nominee.

RMG believes that cumulative voting is an important tool in the protection of shareholders' rights, but recognizes that the need for cumulative voting can be offset if a company has other safeguards in place to protect shareholders' rights and to promote management accountability. In light of the introduction of majority voting and proxy access which have directly addressed the voting process, proposals to provide for cumulative voting are evaluated based on an assessment of whether the company has these two safeguards in place. A majority vote standard ensures board accountability in uncontested elections. In contested elections, similar to cumulative voting, proxy access allows shareholder access to the ballot without a veto from the nominating committee, but unlike cumulative voting, it also requires majority support to elect such directors.

RMG will generally recommend FOR proposals to restore or provide for cumulative voting unless:

--the company has proxy access or a similar structure to allow shareholders to nominate directors to the company's ballot, and

--the company has adopted a majority vote standard, with a carve-out for plurality in situations where there are more nominees than seats, and a director resignation policy to address failed elections.

A similar structure to proxy access would be one that allows shareholder nominees on the management ballot or that proactively encourages and sufficiently considers shareholders' input into the nomination process through an interactive means including, but not limited to, regular shareholder meetings, town hall meetings, and/ or a formal process for solicitation of shareholder input into the nomination process.

At controlled companies, where majority insider control would preclude minority shareholders from having any representation on the board, cumulative voting would allow such representation. In such cases, RMG would support shareholder proposals requesting cumulative voting.

### **Company-Specific Analysis**

RMG notes that in 2008 the company adopted a majority voting standard for the election of directors in uncontested elections, with a carve-out for plurality in situations where there are more nominees than seats, and a director resignation policy to address failed elections. However, the company does not have proxy access or a similar structure to allow shareholders to nominate directors to the company's ballot.

### **Conclusion**

In this case, the company fails to meet the requirements listed above, in that while it has adopted a majority vote standard in the election of directors, it does not have proxy access or a similar structure. Accordingly, the proposal warrants shareholder support.

**Vote FOR Item 14.**

*US Standard Policy*

**Proposal**

A shareholder has filed a resolution requesting the board amend the company's governing documents to give holders of 10 percent of the company's outstanding common stock the right to call special meetings. More specifically, the resolution reads:

"RESOLVED, Shareowners ask our board to take the steps necessary to amend our bylaws and each appropriate governing document to give holders of 10% of our outstanding common stock (or the lowest percentage allowed by law above 10%) the power to call special shareowner meetings. This includes that such bylaw and/or charter text will not have any exception or exclusion conditions (to the fullest extent permitted by state law) that apply only to shareowners but not to management and/or the board."

**Vote Requirement**

Approval of the resolution requires a majority of votes cast, while abstentions and broker non-votes are not included.

**Shareholder's Supporting Statement**

The proponent believes that special meetings allow shareowners to vote on important matters, such as electing new directors, which can arise between annual meetings. If shareowners cannot call special meetings, management may become insulated and investor returns may suffer, in the proponent's opinion. The proponent believes that shareowners should have the ability to call a special meeting when a matter is sufficiently important to merit prompt consideration.

**Management's Response**

The board notes that while Delaware law does not require that stockholders have the ability to call special meetings, the company's bylaws provide that special meetings of stockholders may be called upon the written request of stockholders owning 50 percent or more of the company's common stock. The board believes that this threshold provides an appropriate balance between ensuring the board's accountability to a majority of stockholders and enabling the board and management to operate the company effectively.

The board believes that allowing 10 percent of the outstanding common stock to call a special meeting could allow a small minority of stockholders, who may not be focused on the long-term interests of all stockholders, to exert undue influence by causing the company to hold one or more special meetings outside of the traditional annual meeting cycle, even if those stockholders are advocating an issue that is not supported by a majority of the company's stockholders. A 10 percent threshold for calling special meetings thus could lead to tactics diverting the attention of the board and management from the company's day-to-day operations, in the board's opinion.

In addition, the board does not believe that there is merit to the proponent's contention that the ability of stockholders to call a special meeting is necessary to prevent the board from becoming insulated from investors. The board notes that the company already is required to obtain stockholder approval for a wide variety of matters, including significant transactions, new equity compensation plans and amendments to the company's certificate of incorporation.

**RMG Policy**

Most state corporation statutes allow shareholders to call a special meeting when they want to take action on certain matters that arise between regularly scheduled annual meetings. Most often, this right applies only if a shareholder, or group of shareholders, owns a specified percentage of the outstanding shares. The percentage of shareholder votes required to force the company to call the meeting depends on the state statute, as does the company's ability to limit or deny altogether shareholders' right to call a special meeting. Notably, Delaware, home to more than half of all U.S. publicly traded corporations, has no statute with regard to the right to convene special meetings though does allow companies to opt in.

Commonly, companies will set the threshold to call special meetings at 10 percent of outstanding common stock. According to a RMG analysis of S&P 1,500 companies, 46 percent of such companies allow shareholders to call special meetings as of Jan. 1, 2009, with just under one-third (29 percent) providing for the right based on ownership of 10 percent of outstanding stock. The next most prevalent threshold is 51 percent, which 24 percent of companies have set, and then 25 percent, as set by 14 percent of surveyed firms, according to RiskMetrics data.

In terms of day-to-day governance, shareholders may lose an important right—the ability to remove directors or initiate a shareholder resolution without having to wait for the next scheduled meeting—if they are unable to act at a special meeting of their calling. Shareholders could also be powerless to respond to a beneficial offer if the bidder cannot call a special meeting. The inability to call a special meeting and the resulting insulation of management could adversely affect corporate performance and shareholder returns.

Companies appear to be responding to shareholder concerns over the right to convene meetings. For example, the percentage of S&P 500 companies allowing shareholders to call special meetings has jumped roughly ten percentage points between Jan. 1, 2007, and Jan. 1, 2009, according to RMG data, while a number of high-profile companies—including corporate titan General Electric—have in recent months agreed to allow for the right or reduce the threshold for calling a special meeting.

### **Vote Recommendation**

While the company provides shareholders owning 50 percent or more of the company's common stock to call a special meeting, the 10-percent threshold is a reasonable request and, as such, this proposal warrants shareholder support.

**Vote FOR Item 15.**

*US Standard Policy*

**Proposal**

A shareholder has filed a resolution requesting the board adopt a policy requiring senior executives retain a significant portion of their shares acquired through equity compensation programs until two years following the termination of their employment. More specifically, the resolution reads:

"RESOLVED, that stockholders of Dow Chemical Company ("Dow") urge the Compensation Committee of the Board of Directors (the "Committee") to adopt a policy requiring that senior executives retain a significant percentage of shares acquired through equity compensation programs until two years following the termination of their employment (through retirement or otherwise), and to report to stockholders regarding the policy before Dow's 2010 annual meeting of stockholders. The stockholders recommend that the Committee not adopt a percentage lower than 75% of net after-tax shares. The policy should address the permissibility of transactions such as hedging transactions which are not sales but reduce the risk of loss to the executive."

**Vote Requirement**

Approval of the resolution requires a majority of votes cast, while abstentions and broker non-votes are not included.

**Shareholder's Supporting Statement**

The proponent notes that according to the company's 2008 proxy statement, equity-based long-term incentives make up 66 percent of named executive officer compensation and are used to align executive actions with long-term management and stockholder goals. However, the proponent believes that the alignment benefits touted by the company are not being fully realized. The proponent believes there is a link between stockholder wealth and executive wealth that correlates to direct stock ownership by executives. Requiring senior executives to hold a significant portion of shares obtained through compensation plans after the termination of employment would focus them on the company's long-term success and would better align their interests with those of the company's shareholders, in the proponent's opinion.

In the context of the current financial crisis, the proponent believes it is imperative that companies reshape their compensation policies and practices to discourage excessive risk-taking and promote long-term, sustainable value creation. The proponent believes the company's stock ownership guidelines for executives does not go far enough to ensure that equity compensation builds executive ownership, especially given the extended time period for compliance. The proponent also views a retention requirement approach as superior to a stock ownership guideline because a guideline loses effectiveness once it has been satisfied.

**Management's Response**

The board believes that the company's equity compensation policies have been essential to attracting and retaining talented executives and in motivating them to manage toward long term value for the company's stockholders. The board believes that this proposal would result in an overemphasis on post-retirement compensation and undermine the effectiveness of the company's existing executive compensation programs. The board asserts that the company's ownership requirements are in the top quartile of market practice for both the base salary multiple and the time required to meet ownership targets. The board notes that the company's CEO and senior executives significantly exceed the ownership guidelines by an average of over 65 percent and the guideline is met well before the four-year requirement. The board believes that these existing programs have achieved the right balance between providing executives with meaningful compensation in the form of equity awards and also ensuring that they have an appropriate investment in the company's future.

Adopting this proposal would constrain the Compensation and Leadership Development Committee's ability to utilize significant at-risk equity components because a requirement to hold such awards through termination of employment would mean that executives would not have access to a majority of the equity component of compensation until two years after they retire or otherwise cease to be employed by the company, in the board's opinion. In addition, by requiring retention for a period of two years following termination of employment, the board believes that executives who have been successful in enhancing stockholder value may choose to leave the company earlier than they otherwise would if they are interested in sharing in the value they have helped to create by selling any of their shares.

## **RMG Policy**

RMG views such proposals on a case-by-case approach. We take into account the following factors:

1. Whether the company has any holding period, retention ratio, or officer ownership requirements in place. These should consist of:

--Rigorous stock ownership guidelines (10x salary for CEOs with the multiple declining for other executives)

--A short-term holding period requirement (six months to one year) coupled with a significant long-term ownership requirement, or

--A meaningful retention ratio (at least 50 percent for full tenure)

2. Actual officer stock ownership and the degree to which it meets or exceeds the proponent's suggested holding period/retention ratio or the company's own stock ownership or retention requirements.

3. Problematic pay practices, current and past, which may promote a short-term versus long-term focus.

## **Company-Specific Analysis**

Dow has had minimum stock ownership guidelines for its named executive officers (NEOs) and other senior executives since 1998. The guidelines are stated as a fixed number of shares of the company's common stock, which increase with job level and are reviewed periodically to ensure relevance. The CEO and each of the NEOs continue to meet or exceed ownership guidelines, which are six times base salary for the CEO, and four times base salary for other NEOs.

Even though actual officer stock ownership exceeds the company's guidelines, RMG does not consider the company's stock ownership guidelines, which are less than 10 times base salary for the CEO, to be rigorous. More importantly, the company does not have a retention ratio or a holding period requirement for the vast majority of its equity awards. However, the company's supplemental executive retirement program provides the CEO with substantial cash pension benefits following retirement, and it would not appear that additional retention and holding requirements as proposed by the proponent would preclude the board from providing reasonable diversification opportunities.

In 2008, the CEO acquired 171,508 shares (valued by the company at \$6.75 million) upon vesting of stock awards. Mr. Liveris beneficially owned 208,143 shares as of Feb. 19, 2009, and has rights to acquire the beneficial ownership of an additional 1,381,622 shares, which includes any shares that he could acquire by exercise of an option through April 19, 2009; performance shares to be delivered prior to April 19, 2009; and payment of any balance due under a subscription in the company's Employee Stock Purchase Plan.

## **Vote Recommendation**

While the current ownership multiples established by the company are reasonable, the company lacks a post-employment holding period or retention ratio as requested by the proponent. As such, this proposal warrants shareholder support.

**Vote FOR Item 16.**

*US Standard Policy*

**Proposal**

A shareholder has filed a resolution requesting the board adopt management say on pay. More specifically, the resolution reads:

"RESOLVED, that shareholders request our board of directors to adopt a policy that provides shareholders the opportunity at each annual shareholder meeting to vote on an advisory resolution, proposed by management, to ratify the compensation of the named executive officers set forth in the proxy statement's Summary Compensation Table and the accompanying narrative disclosure of material factors provided to understand the Summary Compensation Table (but not the Compensation Discussion and Analysis). The proposal submitted to shareholders should make clear that the vote is non-binding and would not affect any compensation paid or awarded to any named executive officers."

**Vote Requirement**

Approval of the resolution requires a majority of votes cast, while abstentions and broker non-votes are not included.

**Shareholder's Supporting Statement**

The proponent believes that investors are increasingly concerned about mushrooming executive pay especially when it is insufficiently linked to performance. The proponent notes that other companies have agreed to an advisory vote. The proponent also notes that the Council of Institutional Investors endorsed advisory votes and a bill to allow annual advisory votes passed the House of Representatives by a 2-to-1 margin.

**Management's Response**

The board believes that an advisory vote on the Summary Compensation Table would provide the board or management with valuable information as an up-or-down referendum but would not identify any particular elements of compensation with which stockholders may be concerned. The board notes that there is widespread concern that implementing a system like the one advocated by the proposal would lead to pressure to conform compensation programs to broader generic standards rather than tailoring these programs to the specific business and objectives of the company. In addition, the board notes that the company is in a cyclical industry and understanding annual business goals in that context would be difficult and complex. By providing non-specific input in the form of an advisory vote, possibly based on voting guidelines developed by third parties and based on broad, non-company specific standards, the proposal would effectively limit the Compensation and Leadership Development Committee's ability to calibrate and tailor the appropriate form and amount of compensation to reward long-term, strategic decisions and company results. Moreover, the company believes the implementation of an advisory vote requirement is not necessary as shareholders have several means for relaying specific input on these issues by direct communications with directors.

**RMG Analysis**

Executive compensation has been a perennial concern for shareholders. Many have long argued that high executive compensation not linked to performance may be contrary to shareholders' interests, given the money may be better used for other, value-enhancing corporate expenditures such as research and development. A recent tightening of SEC compensation disclosure requirements has focused attention on the dollar value of potential retirement and severance packages, lucrative pay packages decoupled from company performance, and the total value of top executives' compensation arrangements, thus sharpening the focus on pay and prompting demands for an advisory vote on executive compensation.

Better disclosure is an important step toward promoting board accountability for pay, as well as giving shareholders a better perspective to evaluate board performance regarding executive pay. However, shareholders have limited means to act on the information if they are dissatisfied with executive pay arrangements. As noted by the proponents, requirements do exist for companies to obtain shareholder

approval on equity-based compensation plans and performance-based compensation under Section 162(m), but such plans often provide the administrator substantial latitude in implementation. Shareholders have no direct means of weighing in on how those plans have been executed following approval. Shareholders can withhold votes from compensation committee members. However, the effect of withholding votes from compensation committee members is greatly diminished in cases where companies maintain a classified board structure and/or a plurality vote standard. Supporters of an advisory vote on compensation, dubbed "say on pay," say such a vote would address these critical concerns.

Opponents of pay votes, however, argue the proposals do not provide an ideal mechanism to address pay concerns while also holding the potential of giving boards a shield to avoid accountability. Another sticking point, opponents contend, is whether shareholders will understand what they are voting on, given the variance in Compensation Discussion & Analysis disclosures between companies and what firms to date have put to a shareholder vote. For example, last year, insurer Aflac became the first-ever company to allow for a pay vote when it asked investors to "approve the overall executive pay-for-performance compensation policies and procedures employed by the company, as described in the Compensation Discussion and Analysis and the tabular disclosure regarding named executive officer compensation (together with the accompanying narrative disclosure) in the Proxy Statement." On the other hand, Littlefield, an Austin, Texas-based holding company focused on entertainment, real estate, and hospitality, sought shareholder ratification that compensation for the company's president and CEO and its directors were within 20 percent of "an acceptable amount."

But elsewhere in the world, countries including the U.K., Sweden, and Australia have adopted say on pay with few problems. Indeed, a 2007 report by Yale University's Millstein Center for Corporate Governance and Performance highlighted the efficacy of the proposal in the U.K. market, noting its ability to tame the rate of increase in CEO pay, curb opportunities for "pay for failure" and link compensation "dramatically closer" to performance.

In the U.S., momentum for say on pay is building. Investors continue to press companies for the right to vote on pay, with approximately 20 corporations allowing for pay votes as of April 1, 2009. Shareholders have given solid backing to investor resolutions calling for say on pay, moreover. According to RiskMetrics data, average support of votes cast "for" and "against" for shareholder say on pay resolutions stood at 42.5 percent in 2007 and 41.5 percent in 2008, with 11 resolutions receiving majority support last year. Through April 1, 2009, the proposal is averaging 46.7 percent support, based on preliminary tallies at early meetings.

U.S. lawmakers, meanwhile, also are expected to press for legislation mandating say on pay, the idea for which has gained wide currency in light of a pay vote mandate - under the recently promulgated American Recovery and Reinvestment Act - for all companies receiving federal assistance under the Troubled Asset Relief Program. The House of Representatives passed say on pay legislation in 2007, though a companion bill on the Senate side remains in the legislative queue.

### **Vote Recommendation**

RMG believes that the advisory vote would provide shareholders an additional voice in a company's executive compensation practices. The advisory vote would be a confidence vote on the work of the compensation committee and would encourage constructive dialogue between the committee and investors on any contentious pay issues. RMG encourages companies to allow shareholders to express their opinions on executive compensation practices by establishing an annual referendum. An advisory vote on executive compensation is another step forward in enhancing board accountability. RMG's recommendation for this proposal should be seen as support for the principle of increased shareholder communication rather than as disapproval of this company's current compensation practices.

Since an advisory vote on executive compensation is another step forward in enhancing board accountability, this proposal warrants shareholder support.

**Vote FOR Item 17.**

*US Standard Policy*

**Proposal**

A Dow Chemical shareholder has submitted a non-binding resolution requesting the company issue a report by April 2010, at reasonable cost and excluding confidential information, summarizing the pace and effectiveness of the environmental remediation process being undertaken by the company in the vicinity of and downstream from its Midland headquarters.

Specifically, the resolution's resolved clause reads:

"Resolved: Shareholders request that the Board of Directors issue a report to shareholders by April 2010, at reasonable cost and excluding confidential information, summarizing the pace and effectiveness of the environmental remediation process being undertaken by Dow in the vicinity of and downstream from its Midland headquarters."

**Vote Requirement**

Approval of the resolution requires a majority of votes cast, while abstentions and broker non-votes are not included.

**Shareholder's Supporting Statement**

The proponent believes that Dow's continued delays of remediation of dioxin exposures in the vicinity of Dow's Midland facilities may lead to increased long-term liabilities and reputational damage for the company. The supporter contends that the U.S. Environmental Protection Agency (EPA) has charged Dow with delaying cleanup of downstream waterways and found significant deficiencies in the company's work plan, and contends that in 2007 EPA issued consent orders requiring immediate action to remove hazardous sediments from certain areas with some of the highest concentration. The proponent cites a Dow-funded study which confirmed increased levels of dioxin in the blood of residents living in the contaminated floodplain near Dow. Further, the supporter contends that the Michigan Department of Environmental Quality's (MDEQ) has warned Tittabawassee-area residents that regularly eating fish and game from the river can dramatically increase dioxin exposure and cites that a National Academy of Science (NAS) review reaffirmed dioxin's toxicity as a known human carcinogen. The supporter also notes that Dow is facing a class-action lawsuit alleging that dioxin pollution from the Midland plant threatened the health and lowered the property values of certain Tittabawassee-area residents. The proponent suggests that the requested report include the overall public exposure and environmental goals; the estimates of the overall volume of dioxin contaminated soil and sediment alleged to be caused or affected by Dow Chemical; the portion that will have been removed or remediated on a year by year basis, for each of the next twelve years; the methods of remediation; and the effectiveness of those methods at removing dioxin from waterways, floodplains, and the food chain.

**Management's Response**

The company opposes this proposal, stating that the report is "duplicative of the regulatory process and of existing communications," and contend that a number of the proponent's arguments are either inaccurate, misleading, out of context, or ill-informed. Management explains that beginning in December 2008, Dow has been negotiating with the EPA and the Michigan Department of Environmental Quality (MDEQ) and the intended outcome of discussions is a signed agreement outlining duties and responsibilities. The company notes that the work plan would be available for public review and comment and that, in March 2009, EPA deferred negotiations to meet with citizen groups. Dow asserts that it has regularly and intends to continue communicating its plans and the anticipated effects as they become known; however, "it is simply too early to provide a report the filer seeks as it would "contain information that is speculative, at best." The company points out that there is no way to disclose the effectiveness of the remediation process with any degree of confidence before the Remedial Investigation which will result from current negotiations, prior to feasibility studies, and before final remedies have been implemented. Further, management notes that it already discloses verifiable anticipated environmental liabilities as part of its required regulatory process.

In pointing out the filer's statements which are out of context or ill-informed, the company explains that University of Michigan study concluded that the most significant factors contributing to combined dioxin, furan,

and PCB blood levels were that people living in this area tend to be older and heavier than people in the control group. Management also counters that the proponent's statement about MDEQ warnings to Tittabawassee-area residents regarding consumption of fish and game is also ill-informed given a current fish consumption advisory lists walleye (the preferred species for consumption) as a "safe fish for families" and allows "unlimited consumption of walleye under 22 inches" for adults. The company points to the University of Michigan's study finding that eating any fish (store bought or sport caught) translates to higher dioxin levels in people's food. Regarding the NAS' dioxin report cited by the filer, management contends that the NAS stated that long-term, low-level exposure to dioxin was not directly observable in the general public and it remains controversial, and that the EPA's sole reliance on non-threshold models for determining risk "lacked adequate scientific support."

### **Background on Dioxin and Dow Chemical's Midland Michigan Remediation Activities**

Dioxin is a generic term used to describe a family of 210 chlorinated hydrocarbons (75 of which are different types of dioxin compounds and 135 are related compounds called furans). Dioxins are a by-product of the combustion process and have been linked with cancer, birth defects, reproductive problems, immune system damage, and other health risks. Concerned stakeholders consider them to be a significant concern on the human health population because they are soluble in fat, a fact that allows dioxins to accumulate in living tissues. Dioxins also persist in the environment and may travel long distances after their release. Certain animal tests have suggested that some dioxins are among the most potent carcinogenic chemicals ever tested. Studies assessing human risk from dioxin exposure remain somewhat inconclusive in light of the difficulties and complications associated with research methods and processes. The EPA conducted a reassessment of dioxins in 2000, and its 2003 draft report lists dioxins as a "possible human carcinogen." In October 2004, the EPA had the NAS review its draft dioxin reassessment. The NAS review concluded that there were substantial flaws EPA's methodology and research methods. Beyond recommending that the report be reworked by EPA, the NAS committee generally agreed that dioxins should be classified as "likely to be carcinogenic to humans."

#### *Dioxin in Midland and its Remediation Costs to Dow*

The elevated dioxin in Midland soils was created by historical, not current, emissions from incinerators operated on Dow's Michigan Operations plant site, according to the company. Dow's 2008 annual report's background into the Midland dioxin remediation program explains that in the early days of operations at the Midland site, manufacturing wastes were usually disposed of on-site, resulting in soil and groundwater contamination, which has been contained and managed on-site under a series of Resource Conservation and Recovery Act (RCRA) permits and regulatory agreements. The most recent Hazardous Waste Operating License for the Midland site, issued in 2003, also included provisions for Dow to conduct an investigation to determine the nature and extent of off-site contamination from historic Midland site operations. The scope of the investigation includes Midland area soils; Tittabawassee and Saginaw River sediment and floodplain soils; and Saginaw Bay and requires Dow to conduct interim response actions.

Dow's 2008 10-K provides a historical overview of the situation dating to 2003. It explains that on June 12, 2003, the MDEQ issued a Hazardous Waste Operating License to Dow's Midland manufacturing site, which included provisions requiring the company to conduct an investigation to determine the nature and extent of off-site contamination in Midland area soils, Tittabawassee and Saginaw River sediment and floodplain soils, and Saginaw Bay. The License required Dow, by Aug. 11, 2003, to propose a detailed Scope of Work (SOW) for the off-site investigation for review and approval by the MDEQ. Revised SOWs were approved by the MDEQ on Oct. 18, 2005.

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

More recently, Dow's annual report highlights the completion in Dec. 2008 of soil remediation along the lower part of Tittabawassee River. Also, in Sept. 2008, Dow and MDEQ reached agreement on implementing a pilot projects along the Tittabawassee River.

At the end of 2008, Dow had an accrual for off-site corrective action of \$8 million based on the range of activities that Dow proposed and discussed implementing with the MDEQ set forth in the Framework. In 2007, the accrual for off-site corrective action was \$5 million.

The company notes that at Dec. 31, 2008, Dow had an accrual of \$35 million (\$36 million for 2007 and \$41 million for 2006) for environmental remediation and investigation associated with the Midland site. In 2008, the company spent \$36 million (\$52 million in 2007 and \$20 million in 2006) on environmental remediation at the Midland site.

#### *2007 Notice of Deficiency and Delay Concerns from MDEQ*

The company also notes that it was required to submit a SOW for the investigation of the Saginaw River and Saginaw Bay by Aug. 11, 2007, which was submitted by Dow on July 13, 2007. The company notes that it received a Notice of Deficiency dated Aug. 29, 2007, from the MDEQ with respect to the SOW for the Saginaw River and Saginaw Bay. Dow submitted a revised SOW for the Saginaw River and Saginaw Bay to the MDEQ on Oct. 15, 2007.

In a Nov. 9, 2007, letter to Dow from MDEQ, the Waste and Hazardous Materials Division (WHMD) determined that Dow's Oct. 2007 Direct Contact Criteria Report for Midland Area Soils (DCC) Report was incomplete, contained substantial inaccuracies, and major deficiencies, and that Dow was in violation of its hazardous waste management facility operating license. MDEQ did ultimately approve Dow's SOW on Feb. 1, 2008, but that the state did so to prevent further delays and that based upon past experience with Dow, the MDEQ concluded that substantial delay would have likely resulted from an additional iterative process of subsequent review and comment. MDEQ issued the approval noting that Dow failed to incorporate comments from the MDEQ into a prior draft of the SOW. By taking the action it did, the MDEQ's goal was to speed the cleanup process and, thus, to properly protect it. Further, the MDEQ notes that continuing legal challenge by Dow to the MDEQ's Approval will only serve to unnecessarily delay a timely cleanup of the Saginaw Bay watershed.

In its 2008 annual report, the company notes that it, "Appealed the MDEQ's approval with modification action in Midland Circuit Court on February 21, 2008 and then by filing a Contested Case Petition with the Michigan Office of Administrative Hearings and Rules on March 28, 2008. Following subsequent discussions between the Company and the MDEQ, a Remedial Investigation Work Plan along with a revised Scope of Work for the Saginaw River was submitted to the MDEQ on June 10, 2008. The Midland Circuit Court matter has been stayed by agreement of the parties. The company has not received comments on these plans, according to the 10-K.

#### *2006 Notice of Deficiency*

Dow's 2006 annual report explains that the MDEQ provided two Notices of Deficiency to Dow regarding its initial Remedial Investigation Workplans (RIWPs). MDEQ's deficiency notice dated Feb. 10, 2006, concluded that Dow's RIWPs were critically deficient according to the EPA and, as a result, it must be amended the company and resubmitted to MDEQ. Of particular concern to both EPA and MDEQ was the fact that Dow's Human Health Risk Assessment Work in the RIWPs did not comply with EPA risk assessment policy and guidance and, therefore, could not be approved by EPA. The deficiency notice also concluded that "a single comprehensive schedule is needed for all activities including: all work plan submittals, all field work, all deliverables, human health risk assessment activities and supporting studies, ecological risk assessment activities and supporting studies, and all deliverables. EPA understands that exact dates cannot be stated for all activities, but it is important for MDEQ and EPA to understand the sequencing and interdependencies of the activities to allow for work planning."

#### **Analysis**

Since the early 2006 Notice of Deficiencies to the initial RIWPs, Dow has demonstrated a commitment to address the noted deficiencies. However, it is evident from the more recent Saginaw Bay SOW review that the MDEQ argues that Dow failed to incorporate comments from the MDEQ and only approved the SOW with modification to speed up the remediation process, avoid potential legal challenges by the company, and avoid the delay of another remedial work plan. Documentation relating to these issues is a public record on the MDEQ Web site. Included in the October 2007 Remedial Investigation SOW for the Saginaw River and Saginaw Bay are schedules which include estimated timelines for tasks within the SOW.

In January 2008, the U.S. EPA Region 5 stopped its negotiations with Dow aimed at a settlement to conduct a study and interim cleanup actions for dioxin contamination in the Tittabawassee River. The letter states, "the EPA does not believe that the deal Dow is offering goes far enough," according to Ralph Dollhopf, Associate Director for the Superfund Division of EPA's Regional Office in Chicago. EPA's Dollhopf goes on to say, "Key issues that are paramount for protecting human health and the environment remain unresolved. EPA simply

will not accept any deal that is not comprehensive."

#### *Status of EPA Negotiations*

Dow's stalled negotiations with EPA recently resumed as a result of EPA's Dec. 15, 2008, Special Notice Letter. The letter requested the company conduct a remedial investigation and design, a feasibility study, and that the company agree to pay roughly \$1.8 million for EPA's related payroll cost, regional travel costs, and other indirect costs. In its response to this resolution, the company explains the status of negotiations. Specifically, "The EPA has further noted that the recommended clean up plan would be available for public review and comment before any final decision is reached. Additionally, in early March 2009 EPA deferred further negotiations in order to meet with citizen groups that have contacted EPA to discuss EPA's approach to the site."

#### *Dow's Corporate Web-site Disclosure*

Dow has provided a significant amount of publicly available disclosure regarding dioxins and furans, including information about the potential health effects of dioxin exposure, a history of these chemicals in the Tittabawassee River, and a detailed discussion on its remediation activities and expenses relating to dioxin contamination from its Midland, Michigan operation. Also, the company provides information detailing the related class-action lawsuit, including briefs, motions, and local property home value information.

The "Community Information" segment provides an open letter to the community describing the key health risk associated with dioxin in soils in the Tittabawassee Flood Plain and Midland. Also, the company provides its "Initial Actions to Address Dioxin Concerns," which includes neighborhood discussions, wild game sampling, and general information relating to its work with the MDEQ. Dow states, "In the coming months, we will provide information on additional programs, including local soil sampling, river flow and sediment sampling and establishing public information centers." Also, the company provides a letter to the community generally describing the Framework for an Agreement (Framework) between the State of Michigan and Dow Chemical. The company's last quarterly "Community Newsletters" date back to Nov. 2004.

Dow also informs interested stakeholders about existing scientific studies relating to environment and health. The company's "Regulatory Activities" Web site provides a significant amount of studies and work plans relating to the cleanup of dioxin contamination in Midland, along the Tittabawassee River, the Saginaw River, and Saginaw Bay. Also, the company provides a hyperlink to the MDEQ Web site which offers more immediate actions planned.

Despite the public availability of detailed regulatory information relating to the Midland area remediation, neither the company nor the MDEQ appears to provide a summarization of the pace and effectiveness of the various environmental remediation activities in the region.

#### *Related Shareholder Activism*

This shareholder proposal represents the third consecutive year that Dow has received this nearly identical resolution. The 2007 and 2008 proposals received approximately 22.2 percent (of FOR and AGAINST votes) and 22.8 percent shareholder support, respectively.

#### **RMG Policy**

RMG generally supports requests by shareholders for improved transparency, particularly on issues that may impact shareholder value through possible litigation or negative impact on a company's reputation. When evaluating requests for reports relating to community environmental impacts, RMG recommends on a case-by-case basis evaluating: the scope and content of the requested report; current applicable policies, risk assessments, and existing corporate disclosure and actions to address the underlying concern; the impact of regulatory non-compliance, litigation, remediation, and reputational loss associated with failure to manage operations; and, the nature, purpose and scope of the company's operations in the region.

#### **Vote Recommendation**

The proponent has requested that Dow prepare a report summarizing the pace and effectiveness of the environmental remediation in the vicinity of Midland Michigan by April 2010. Regarding the feasibility of summarizing the pace and effectiveness of the remediation process, shareholders may be sympathetic to the

fact that various remediation activities are based on presumed timeframes for the public participation process, MDEQ review and approval and other factors outside of Dow's control, such as the length of property access negotiations and weather. That said, Dow has in the past sufficiently demonstrated an ability to provide estimated timelines for its SOW. Ultimately, shareholders are entitled to easily accessible information summarizing the progress of its Midland-related remediation processes to fully assess management's continued commitment to complying with the regulatory process. Further, the proponent of this resolution has afforded management a degree of latitude regarding how this information should be summarized and presented to shareholders.

Considering Dow's continued significant financial obligations relating to the Midland environmental remediation which amounted to \$20 million in 2006, \$52 million in 2007, and \$36 million in 2008, providing the potential for future remediation costs, legal fees, and reputational damage associated with its Midland environmental remediation; given prior notices of deficiencies relating to the company's Scope of Work in the region, challenges by the U.S. EPA, and the continued protracted negotiations with EPA; and, based on the existing availability of estimated timelines for various remediation projects which would limit the expense associated with summarizing the pace and effectiveness of these environmental remediation processes, this resolution merits shareholder support.

**Vote FOR Item 18.**

*US Standard Policy*

## Additional Information and Instructions

The Dow Chemical Company  
2030 DOW CENTER  
MIDLAND MI 48674-2030  
989-636-1000

**Shareholder Proposal Deadline:** December 1, 2009

**Solicitor:** D.F. King & Co.

**Security ID:**260543103 (CUSIP),

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The Dow Chemical Company

April 24, 2009

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## Analysts

**Lead Analyst(s):** Dan Smith

**Contributing Analyst(s):** Eric Shostal



**Company Info**

<b>Ticker</b>	DOW
<b>Meeting</b>	Annual May 14, 2009
<b>Record Date</b>	March 16, 2009
<b>Incorporated</b>	Delaware
Manufactures chemicals, plastics, and agricultural products (GICS:15101020 )	
<b>Shares Held on Record Date</b>	
<b>Shares Voted</b>	
<b>Date Voted</b>	

**Shareholder Returns**

	1 yr%	3 yr%	5 yr%
<b>Company</b>	-59.20	-26.57	-15.02
<b>S&amp;P 500</b>	-36.99	-8.36	-2.19
<b>GICS peers</b>	-20.90	13.20	19.56

Annualized shareholder returns. Peer group is based on companies inside the same "Global Industry Classification Standard" code

**CGQ Rating**

<b>Index Score</b>	70.6
<b>Industry Score</b>	96

DOW outperformed 70.6% of the companies in the S&P 500 and 96% of the companies in the Materials group.

ISS calculates governance rankings for more than 8,000 companies worldwide based on up to 63 corporate governance variables.

**The Dow Chemical Company**

**Recommendations - US Standard Policy**

Item Code*	Proposal	Mgt. Rec.	ISS Rec.	VOTED
1	M0201 Elect Director Arnold A. Allemang	FOR	FOR	
2	M0201 Elect Director Jacqueline K. Barton	FOR	FOR	
3	M0201 Elect Director James A. Bell	FOR	FOR	
4	M0201 Elect Director Jeff M. Fettig	FOR	FOR	
5	M0201 Elect Director Barbara H. Franklin	FOR	FOR	
6	M0201 Elect Director John B. Hess	FOR	FOR	
7	M0201 Elect Director Andrew N. Liveris	FOR	FOR	
8	M0201 Elect Director Geoffery E. Merszei	FOR	FOR	
9	M0201 Elect Director Dennis H. Reilley	FOR	FOR	
10	M0201 Elect Director James M. Ringler	FOR	FOR	
11	M0201 Elect Director Ruth G. Shaw	FOR	FOR	
12	M0201 Elect Director Paul G. Stern	FOR	FOR	
13	M0101 Ratify Auditors	FOR	FOR	
14	<b>S0207 Provide for Cumulative Voting</b>	<b>AGAINST</b>	<b>FOR</b>	
15	<b>S0235 Amend Articles/Bylaws/Charter -- Call Special Meetings</b>	<b>AGAINST</b>	<b>FOR</b>	
16	<b>S0500 Stock Retention/Holding Period</b>	<b>AGAINST</b>	<b>FOR</b>	
17	<b>S0517 Advisory Vote to Ratify Named Executive Officers' Compensation</b>	<b>AGAINST</b>	<b>FOR</b>	
18	<b>S0731 Report on Environmental Remediation in Midland Area</b>	<b>AGAINST</b>	<b>FOR</b>	

\*S indicates shareholder proposal