

DUPONT E I DE NEMOURS & CO

Form 10-K

February 23, 2007

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**2006**

**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549  
FORM 10-K**

**Mark One**

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

**For the fiscal year ended December 31, 2006**

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

**Commission file number 1-815**

**E. I. DU PONT DE NEMOURS  
AND COMPANY  
(Exact name of registrant as specified in its charter)**

**DELAWARE  
(State or Other Jurisdiction of Incorporation or  
Organization)**

**51-0014090  
(I.R.S. Employer Identification No.)**

**1007 Market Street  
Wilmington, Delaware 19898  
(Address of principal executive offices)**

**Registrant's telephone number, including area code: 302 774-1000  
Securities registered pursuant to Section 12(b) of the Act  
(Each class is registered on the New York Stock Exchange, Inc.):**

**Title of Each Class**

Common Stock (\$.30 par value)  
Preferred Stock  
(without par value-cumulative)  
\$4.50 Series  
\$3.50 Series

No securities are registered pursuant to Section 12(g) of the Act.

Indicate by check mark whether the registrant is a well-known seasoned issuer (as defined in Rule 405 of the Securities Act). Yes  No

Indicate by check mark whether the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes  No

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

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

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

Large accelerated filer  Accelerated filer  Non-accelerated filer

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act). Yes  No

The aggregate market value of voting stock held by nonaffiliates of the registrant (excludes outstanding shares beneficially owned by directors and officers and treasury shares) as of June 30, 2006, was approximately \$38.0 billion.

As of January 31, 2007, 924,125,197 shares (excludes 87,041,427 shares of treasury stock) of the company's common stock, \$.30 par value, were outstanding.

**Documents Incorporated by Reference**

(Specific pages incorporated are indicated under the applicable Item herein):

**Incorporated  
By Reference  
In Part No.**

The company's Proxy Statement in connection with the Annual Meeting of Stockholders to be held on April 25, 2007

III

**E. I. du Pont de Nemours and Company****Form 10-K****TABLE OF CONTENTS**

The terms "DuPont" or the "company" as used herein refer to E. I. du Pont de Nemours and Company and its consolidated subsidiaries, or to E. I. du Pont de Nemours and Company, as the context may indicate.

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Subsidiaries of the Registrant

Consent of PricewaterhouseCoopers LLP

Rule 13a-14(a)/15d-14(a) Certification of the company's Principal Executive Officer

Rule 13a-14(a)/15d-14(a) Certification of the company's Principal Financial Officer

Section 1350 Certification of the company's Principal Executive Officer

Section 1350 Certification of the company's Principal Financial Officer

### **Note on Incorporation by Reference**

Information pertaining to certain Items in Part III of this report is incorporated by reference to portions of the company's definitive 2007 Annual Meeting Proxy Statement to be filed within 120 days after the end of the year covered by this Annual Report on Form 10-K, pursuant to Regulation 14A (the Proxy).

**Table of Contents****Part I****ITEM 1. BUSINESS**

DuPont was founded in 1802 and was incorporated in Delaware in 1915. DuPont is a world leader in science and technology in a range of disciplines, including biotechnology, electronics, materials science, safety and security and synthetic fibers. The company operates globally, manufacturing a wide range of products for distribution and sale to many different markets, including the transportation, safety and protection, construction, motor vehicle, agriculture, home furnishings, medical, electronics, communications, protective apparel and the nutrition and health markets. Total worldwide employment at December 31, 2006, was approximately 59,000 people.

The company is strategically aligned into five market- and technology-focused growth platforms consisting of Agriculture & Nutrition; Coatings & Color Technologies; Electronic & Communication Technologies; Performance Materials; and Safety & Protection. In addition to the five growth platforms, the company's reportable segments include Pharmaceuticals. The company includes developmental businesses, such as bio-based materials and nonaligned businesses in Other.

In 2004, the company sold the majority of the net assets of the then Textiles & Interiors segment (INVISTA) to subsidiaries of Koch Industries, Inc. (Koch). Beginning in 2005, any activities related to the remaining assets of Textiles & Interiors are included in Other. In January 2006, the company completed the sale of its interest in an equity affiliate to its equity partner thereby completing the sale of all of the net assets of Textiles & Interiors. Information describing the business of the company can be found on the indicated pages of this report:

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The company has operations in approximately 80 countries worldwide and about 60 percent of consolidated Net sales are made to customers outside the United States of America (U.S.). Subsidiaries and affiliates of DuPont conduct manufacturing, seed production, or selling activities and some are distributors of products manufactured by the company.

**Sources of Supply**

The company utilizes numerous firms as well as internal sources to supply a wide range of raw materials, energy, supplies, services and equipment. To ensure availability, the company maintains multiple sources for fuels and most raw materials, including hydrocarbon feedstocks. Large volume purchases are generally procured under competitively priced supply contracts.

A substantial portion of the production and sales in Performance Materials is dependent upon the availability of hydrocarbon and hydrocarbon derivative feedstocks. Current hydrocarbon feedstock requirements are met by

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**Part I**

**Item 1. Business, *continued***

purchases from major energy and petrochemical companies. In addition, the company obtains adipic acid and hexamethylenediamine from Koch under a long-term supply contract.

Within Agriculture & Nutrition, the company's wholly-owned subsidiary, Pioneer Hi-Bred International, Inc. (Pioneer), operates in the seed industry and has seed production facilities located throughout the world. Seed production is performed directly by the company or contracted with independent growers and conditioners. The company's ability to produce seeds primarily depends upon weather conditions, grower contract terms and the availability of preferred hybrids with desired traits.

The major commodities, raw materials and supplies for the company's reportable segments in 2006 include the following:

***Agriculture & Nutrition:***

carbamic acid related intermediates; insect control products; natural gas; polyethylene; soybeans; soy flake; soy lecithin; sulfonamides

***Coatings & Color Technologies:***

butyl acetate; chlorine; HDI based poly aliphatic isocyanates; industrial gases; titanium ore; pigments

***Electronic & Communication Technologies:***

block co-polymers; chloroform; fluorspar; hydrofluoric acid; copper; hydroxylamine; oxydianiline; perchloroethylene; polyester film; precious metals; pyromellitic dianhydride

***Performance Materials:***

adipic acid; butanediol; dimethyl terephthalate (DMT); ethane; ethylene glycol; fiberglass; hexamethylenediamine (HMD); natural gas; purified terephthalic acid; methanol; butadiene

***Safety & Protection:***

alumina hydroxide; ammonia; benzene; high density polyethylene; isophthaloyl chloride; metaphenylenediamine; methyl methacrylate; natural gas; paraphenylenediamine; polyester fiber; propylene; terephthaloyl chloride; wood pulp

No commodities or raw materials are purchased for the Pharmaceutical segment. This segment's revenues arise from licensing arrangements for Cozaar<sup>®</sup> and Hyzaar<sup>®</sup> antihypertensive drugs, which are manufactured and distributed by Merck & Co. (Merck).

Since 1997, DuPont has contracted with Computer Sciences Corporation (CSC) and Accenture LLP (Accenture) to provide certain services for the company. CSC operates a majority of the company's global information systems and technology infrastructures and provides selected applications and software services. In December 2005, DuPont entered into a new contract with CSC to provide these services through December 2014. Accenture provides selected applications, software services and enterprise resource planning solutions designed to enhance the company's



manufacturing, marketing, distribution and customer service. Accenture is contracted to provide these services through December 2008.

In November 2005, DuPont contracted with Convergys Corporation to provide the company with global human resources transactional services including employee development, workforce planning, compensation management, benefits administration and payroll. The full scope of these services is scheduled to be operating by the end of 2008. Convergys Corporation is contracted to provide services through 2018.

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**Part I**

**Item 1. Business, *continued***

**Backlog**

The company does not consider backlog to be a significant indicator of the level of future sales activity. In general, the company does not manufacture its products against a backlog of orders. Production and inventory levels are based on the level of incoming orders as well as projections of future demand. Therefore, the company believes that backlog information is not material to understanding its overall business and should not be considered a reliable indicator of the company's ability to achieve any particular level of revenue or financial performance.

**Patents and Trademarks**

The company believes that its patent and trademark estate provides it with an important competitive advantage. It has established a global network of attorneys, as well as branding, advertising and licensing professionals, to procure, maintain, protect, enhance and gain value from this estate.

The company owns and is licensed under various patents, which expire from time to time, covering many products, processes and product uses. These patents protect many aspects of the company's significant research programs and the goods and services it sells. The actual protection afforded by these patents varies from country to country and depends upon the scope of coverage of each individual patent as well as the availability of legal remedies in each country. The company owns approximately 21,000 worldwide patents and approximately 15,000 worldwide patent applications. In 2006, the company was granted about 500 U.S. patents and about 1,900 international patents. The company's rights under its patents and licenses, as well as the products made and sold under them, are important to the company as a whole, and to varying degrees, important to each reportable segment. For a discussion of the importance of patents to Pharmaceuticals, see the segment discussion on page 37 of this report.

The environment in which Pioneer and the rest of the companies within the seed industry compete is increasingly affected by new patents, patent positions, patent lawsuits and the status of various intellectual property rights. Ownership of and access to intellectual property rights, particularly those relating to biotechnology and germplasm, are important to Pioneer and its competitors. No single patent owned by Pioneer or its competitors is essential to Pioneer's ability to compete. However, Pioneer will continue to address freedom to operate issues by enforcing its own intellectual property rights, challenging claims made by others and, where appropriate, obtaining licenses to important technologies on commercially reasonable terms.

The company has approximately 1,900 unique trademarks for its products and services and approximately 17,000 worldwide registrations and applications for these trademarks. Ownership rights in trademarks do not expire if the trademarks are continued in use and properly protected. The company has many trademarks that have significant recognition at the consumer retail level and/or business to business level. Significant trademarks at the consumer retail level include the DuPont Oval and DuPont™ (the DuPont Brand Trademarks); Pioneer® brand seeds; Teflon® fluoropolymers, films, fabric protectors, fibers and dispersions; Corian® surfaces; Kevlar® high strength material; and Tyvek® protective material. The company is actively pursuing licensing opportunities for selected trademarks at the retail level. For example, the DuPont Brand Trademarks have been licensed for hard surface flooring, automotive appearance products, air filtration, water filtration and lubricants. In addition, the Teflon® trademark has been extended through licensing to personal care products, automotive care products, automotive wiper blades, eye glass lenses, home care products, lubricants, paint, paint accessories, cookware and small appliances.

As part of the sale of INVISTA to Koch in 2004, DuPont transferred certain patents and patent applications as well as certain trademarks and their related registrations and applications. In addition to this transfer, Koch and DuPont have entered into agreements regarding intellectual property rights, including patent and trademark licenses.

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**Part I**

**Item 1. Business, *continued***

**Seasonality**

Sales of the company's products in Agriculture & Nutrition are affected by seasonal patterns. Agriculture & Nutrition's performance is strongest in the first half of the year. The segment generally operates at a loss during the third and fourth quarters of the year. As a result of the seasonal nature of its seed business, Agriculture & Nutrition's inventory is at its highest level at the end of the calendar year and is sold down in the first and second quarters. Trade receivables in Agriculture & Nutrition are at a low point at year-end and increase through the selling season to peak at the end of the second quarter.

In general, businesses in the remaining segments are not significantly affected by seasonal factors.

**Marketing**

With the exception of Pioneer® brand seeds and Solae® soy proteins, most products are marketed primarily through DuPont's sales force, although in some regions, more emphasis is placed on sales through distributors. Pioneer® brand products are aggressively promoted through multiple marketing channels in North America. In the high corn and soybean concentration markets of the U.S. Corn Belt, products are sold through a specialized force of independent sales representatives. In more diverse cropping areas, Pioneer® products are marketed through distributors and crop input retailers. Pioneer® products outside of North America are marketed through a network of subsidiaries, joint ventures and independent producer-distributors. Solae® isolated and functional soy proteins are marketed using a combination of outside distributors, joint ventures and direct sales.

**Major Customers**

The company's sales are not materially dependent on a single customer or small group of customers. However, collectively, Coatings & Color Technologies and Performance Materials have several large customers, primarily in the automotive original equipment manufacturer (OEM) industry. The company has long-standing relationships with these customers and they are considered to be important to the segments' operating results.

**Competition**

The company competes on a variety of factors such as price, product quality and performance or specifications, continuity of supply, customer service and breadth of product line, depending on the characteristics of the particular market involved and the product or service provided.

Major competitors include diversified industrial companies principally based in the U.S., Western Europe, Japan, China and Korea. In the aggregate, these competitors offer a wide range of products from agricultural, commodity and specialty chemicals to plastics, fibers and advanced materials. The company also competes in certain markets with smaller, more specialized firms who offer a narrow range of products or converted products that functionally compete with the company's offerings.

Agriculture & Nutrition sells advanced plant genetics through Pioneer, principally for the global production of corn and soybeans and thus directly competes with other seed and plant biotechnology companies. Agriculture & Nutrition also provides food safety equipment and soy-based food ingredients in competition with other major grain and food processors.

## **Research and Development**

The company conducts research in the U.S. at over 30 sites in 14 states at either dedicated research facilities or manufacturing plants. The highest concentration of research is in the Wilmington, Delaware area at several large research centers. Among these, the Experimental Station laboratories engage in investigative and applied research, the Chestnut Run laboratories focus on applications research and the Stine-Haskell Research Center

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**Part I**

**Item 1. Business, *continued***

conducts agricultural product research and toxicological research to assure the safe manufacture, handling and use of products.

Other major research locations in the U.S. include Marshall Lab in Philadelphia, Pennsylvania and Mt. Clemens in Mt. Clemens, Michigan, both dedicated to coatings research; Pioneer research facilities in Johnston, Iowa; The Solae Company facilities in St. Louis, Missouri; polymer research facilities in Richmond, Virginia and Parkersburg, West Virginia; and electronic technology research facilities in Research Triangle Park, North Carolina, Towanda, Pennsylvania and Santa Barbara, California.

DuPont, reflecting the company's global interests, operates more than 30 additional research and development facilities at locations outside the U.S. in Belgium, Canada, China, France, Germany, Japan, Luxembourg, Mexico, The Netherlands, Spain and Switzerland. A new research and development facility was opened in Taiwan in 2006 to better serve the integrated circuit market.

The objectives of the company's research and development programs are to create new technologies, processes and business opportunities in relevant fields, as well as to improve existing products and processes. Each segment of the company funds research and development activities that support its business mission. In 2006, the company broadened its sustainability commitments beyond environmental footprint reduction to include market-driven targets for research and development investment. The company will expand its offerings addressing safety, environment, energy and climate challenges in the global marketplace by developing and commercializing renewable, bio-based materials; advanced biofuels; energy-efficient technologies; enhanced safety and protection products; and alternative energy products and technologies. The goals are tied directly to business growth, specifically to the development of safer and environmentally improved new products that enhance the environmental profile of its traditional businesses for DuPont's key global markets, including transportation, building and construction, agriculture and food and communications.

The corporate research laboratories are responsible for conducting research programs aligned with corporate strategy as provided by the growth platforms. All research and development activities are administered by senior research and development management to ensure consistency with the business and corporate strategy. The future of the company is not dependent upon the outcome of any single research program.

Additional information with respect to research and development, including the amount incurred during each of the last three fiscal years, is included in Item 7, Management's Discussion and Analysis of Financial Condition and Results of Operations, on page 24 of this report.

**Facility Security**

DuPont recognizes that the security and safety of its operations are critical to its employees, neighbors and, indeed, to the future of the company. As such, DuPont has merged chemical site security into its safety core value where it serves as an integral part of its long standing safety culture. Physical security measures have been combined with process safety measures (including the use of inherently safer technology), administrative procedures and emergency response preparedness into an integrated security plan. The company has conducted vulnerability assessments at operating facilities in the U.S. and high priority sites worldwide and identified and implemented appropriate measures to protect these facilities from physical or cyber attacks. DuPont is partnering with carriers, including railroad, shipping and trucking companies, to secure chemicals in transit.

**Environmental Matters**

Information related to environmental matters is included in several areas of this report: (1) Environmental Proceedings on page 13, (2) Management's Discussion and Analysis of Financial Condition and Results of Operations on pages 28 and 48-50 and (3) Notes 1 and 20 to the Consolidated Financial Statements.

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**Part I**

**Item 1. Business, *continued***

**Available Information**

The company is subject to the reporting requirements under the Securities Exchange Act of 1934. Consequently, the company is required to file reports and information with the Securities Exchange Commission (SEC), including reports on the following forms: annual report on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, and amendments to those reports filed or furnished pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934.

The public may read and copy any materials the company files with the SEC at the SEC's Public Reference Room at 100 F Street, NE, Washington, DC 20549. The public may obtain information on the operation of the Public Reference Room by calling the SEC at 1-800-SEC-0330. The SEC also maintains an Internet site at <http://www.sec.gov> that contains reports, proxy and information statements, and other information regarding issuers that file electronically with the SEC.

The company's annual report on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K and amendments to those reports are also accessible on the company's website at <http://www.dupont.com> by clicking on the tab labeled "Investor Center" and then on "SEC filings." These reports are made available, without charge, as soon as is reasonably practicable after the company files or furnishes them electronically with the Securities and Exchange Commission.



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**Part I**

**ITEM 1A. RISK FACTORS**

The company's operations could be affected by various risks, many of which are beyond its control. Based on current information, the company believes that the following identifies the most significant risk factors that could affect its businesses. However, the risks and uncertainties the company faces are not limited to those discussed below. Additional risks and uncertainties not presently known to the company or that the company currently believes to be immaterial also could affect its businesses. Past financial performance may not be a reliable indicator of future performance and historical trends should not be used to anticipate results or trends in future periods.

**Price increases for energy costs and raw materials could have a significant impact on the company's ability to sustain and grow earnings.**

The company's manufacturing processes consume significant amounts of energy and raw materials, the costs of which are subject to worldwide supply and demand as well as other factors beyond the control of the company. Significant variations in the cost of energy, which primarily reflect market prices for oil and natural gas and raw materials affect the company's operating results from period to period. When possible, the company purchases raw materials through negotiated long-term contracts to minimize the impact of price fluctuations. The company has taken actions to offset the effects of higher energy and raw material costs through selling price increases, productivity improvements and cost reduction programs. Success in offsetting higher raw material costs with price increases is largely influenced by competitive and economic conditions and could vary significantly depending on the market served. If the company is not able to fully offset the effects of higher energy and raw material costs, it could have a significant impact on the company's financial results.

**Failure to develop and market new products could impact the company's competitive position and have an adverse effect on the company's financial results.**

The company's operating results are largely dependent on its ability to renew its pipeline of new products and services and to bring those products and services to market. This ability could be adversely affected by difficulties or delays in product development such as the inability to identify viable new products, successfully complete research and development, obtain relevant regulatory approvals, obtain intellectual property protection, or gain market acceptance of new products and services. Because of the lengthy development process, technological challenges and intense competition, there can be no assurance that any of the products the company is currently developing, or could begin to develop in the future, will achieve substantial commercial success. Sales of the company's new products could replace sales of some of its current products, offsetting the benefit of even a successful product introduction.

**The company's results of operations could be adversely affected by litigation and other commitments and contingencies.**

The company faces risks arising from various unasserted and asserted litigation matters, including, but not limited to, product liability claims, patent infringement claims and antitrust claims. The company has noted a nationwide trend in purported class actions against chemical manufacturers generally seeking relief such as medical monitoring, property damages, off-site remediation and punitive damages arising from alleged environmental torts without claiming present personal injuries. Various factors or developments can lead to changes in current estimates of liabilities such as a final adverse judgment, significant settlement or changes in applicable law. A future adverse ruling or unfavorable development could result in future charges that could have a material adverse effect on the company. An adverse outcome in any one or more of these matters could be material to the company's financial results.



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**Part I**

**Item 1A. Risk Factors, *continued***

In the ordinary course of business, the company may make certain commitments, including representations, warranties and indemnities relating to current and past operations, including those related to divested businesses and issue guarantees of third party obligations. If the company were required to make payments as a result, they could exceed the amounts accrued, thereby adversely affecting the company's results of operations.

**As a result of the company's current and past operations, including operations related to divested businesses, the company could incur significant environmental liabilities.**

The company is subject to various laws and regulations around the world governing the environment, including the discharge of pollutants and the management and disposal of hazardous substances. As a result of its operations, including its past operations and operations of divested businesses, the company could incur substantial costs, including cleanup costs, third-party property damage or personal injury claims. The costs of complying with complex environmental laws and regulations, as well as internal voluntary programs, are significant and will continue to be so for the foreseeable future. The ultimate costs under environmental laws and the timing of these costs are difficult to predict. The company's accruals for such costs and liabilities may not be adequate because the estimates on which the accruals are based depend on a number of factors including the nature of the allegation, the complexity of the site, site geology, the nature and extent of contamination, the type of remedy, the outcome of discussions with regulatory agencies and other Potentially Responsible Parties (PRPs) at multi-party sites and the number and financial viability of other PRPs.

**The company's ability to generate sales from genetically enhanced products, particularly seeds and other agricultural products, could be adversely affected by market acceptance, government policies, rules or regulations and competition.**

The company is using biotechnology to create and improve products, particularly in its Agriculture & Nutrition segment. Demand for these products could be affected by market acceptance of genetically modified products as well as governmental policies, laws and regulations that affect the development, manufacture and distribution of products, including the testing and planting of seeds containing biotechnology traits and the import of crops grown from those seeds.

The company competes with major global companies that have strong intellectual property estates supporting the use of biotechnology to enhance products, particularly in the agricultural products and production markets. Speed in discovering and protecting new technologies and bringing products based on them to market is a significant competitive advantage. Failure to predict and respond effectively to this competition could cause the company's existing or candidate products to become less competitive, adversely affecting sales.

**Changes in government policies and laws or worldwide economic conditions could adversely affect the company's financial results.**

Sales outside the U.S. constitute more than half of the company's revenue. The company anticipates that international sales will continue to represent a substantial portion of its total sales and that continued growth and profitability will require further international expansion. The company's financial results could be affected by changes in trade, monetary and fiscal policies, laws and regulations, or other activities of U.S. and non-U.S. governments, agencies and similar organizations. These conditions include but are not limited to changes in a country's or region's economic or political conditions, trade regulations affecting production, pricing and marketing of products, local labor conditions

and regulations, reduced protection of intellectual property rights in some countries, changes in the regulatory or legal environment, restrictions on currency exchange activities, burdensome taxes and tariffs and other trade barriers. International risks and uncertainties, including changing social and economic conditions as well as terrorism, political hostilities and war, could lead to reduced international sales and reduced profitability associated with such sales.

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**Part I**

**Item 1A. Risk Factors, *continued***

**Economic factors, including inflation and fluctuations in currency exchange rates, interest rates and commodity prices could affect the company's financial results.**

The company is exposed to fluctuations in currency exchange rates, interest rates and commodity prices. Because the company has significant international operations, there are a large number of currency transactions that result from international sales, purchases, investments and borrowings. The company actively manages currency exposures that are associated with monetary asset positions, committed currency purchases and sales and other assets and liabilities created in the normal course of business. Failure to successfully manage these risks could have an adverse impact on the company's financial position, results of operations and cash flows.

**Business disruptions could seriously impact the company's future revenue and financial condition and increase costs and expenses.**

Business disruptions, including supply disruptions, increasing costs for energy, temporary plant and/or power outages and information technology system and network disruptions, could seriously harm the company's operations as well as the operations of its customers and suppliers. Although it is impossible to predict the occurrences or consequences of any such events, they could result in reduced demand for the company's products, make it difficult or impossible for the company to deliver products to its customers or to receive raw materials from suppliers, create delays and inefficiencies in the supply chain and result in the need to impose employee travel restrictions. The company actively manages the risks within its control that could cause business disruptions to mitigate any potential impact from business disruptions regardless of cause including acts of terrorism or war, natural disasters and severe weather events. Despite these efforts, the impact from business disruptions could significantly increase the cost of doing business or otherwise adversely impact the company's financial performance.

**Inability to protect and enforce the company's intellectual property rights could adversely affect the company's financial results.**

Intellectual property rights are important to the company's business. The company attempts to protect its intellectual property rights in jurisdictions in which its products are produced or used and in jurisdictions into which its products are imported. However, the company may be unable to obtain protection for its intellectual property in key jurisdictions. Additionally, the company has designed and implemented internal controls to restrict access to and distribution of its intellectual property, including confidential information and trade secrets. Despite these precautions, it is possible that unauthorized parties may access and use such property. When misappropriation is discovered, the company reports such situations to the appropriate governmental authorities for investigation and takes measures to mitigate any potential impact.

**ITEM 1B. UNRESOLVED STAFF COMMENTS**

None.

**ITEM 2. PROPERTIES**

The company's corporate headquarters are located in Wilmington, Delaware. The company's manufacturing, processing, marketing and research and development facilities, as well as regional purchasing offices and distribution centers are located throughout the world.



**Table of Contents****Part I****Item 2. Properties, *continued***

Information regarding research and development facilities is incorporated by reference to Item 1, Business-Research and Development. Additional information with respect to the company's property, plant and equipment and leases is contained in Notes 11 and 26 to the Consolidated Financial Statements.

The company has investments in property, plant and equipment related to manufacturing operations in the U.S. and Puerto Rico at over 100 sites. Some of these sites and their applicable segment(s) are set forth below:

**Delaware:** Edgemoor<sup>(2)</sup> and Newark<sup>(4)</sup>

**Florida:** Starke<sup>(2)</sup>

**Georgia:** Valdosta<sup>(1)</sup>

**Illinois:** El Paso<sup>(1)</sup>

**Iowa:** Fort Madison<sup>(2,3)</sup> and Johnston<sup>(1)</sup>

**Louisiana:** La Place<sup>(4,5)</sup>

**Michigan:** Mt. Clemens<sup>(2)</sup>

**Mississippi:** DeLisle<sup>(2)</sup> and Pascagoula<sup>(5)</sup>

**New Jersey:** Deepwater<sup>(3,4,5)</sup> and Parlin<sup>(3)</sup>

**New York:** Buffalo<sup>(3,5)</sup> and Niagara Falls<sup>(5)</sup>

**North Carolina:** Fayetteville<sup>(3,4)</sup> and Research Triangle Park<sup>(3)</sup>

**Ohio:** Circleville<sup>(3,4)</sup>

**Pennsylvania:** Towanda<sup>(3)</sup>

**South Carolina:** Charleston<sup>(4)</sup> and Florence<sup>(4)</sup>

**Tennessee:** Chattanooga<sup>(4)</sup>, Memphis<sup>(5)</sup>, New Johnsonville<sup>(2)</sup> and Old Hickory<sup>(4,5)</sup>

**Texas:** Bayport<sup>(3)</sup>, Beaumont<sup>(4,5)</sup>, Corpus Christi<sup>(3)</sup>, LaPorte<sup>(1,3,4)</sup>, Orange<sup>(4)</sup> and Victoria<sup>(4)</sup>

**Virginia:** Front Royal<sup>(2)</sup>, Hopewell<sup>(4)</sup> and Richmond<sup>(4,5)</sup>

**West Virginia:** Belle<sup>(1,5)</sup> and Parkersburg<sup>(3,4)</sup>

**Puerto Rico:** Manati<sup>(1,3)</sup>

In addition, the company has investments in property, plant and equipment related to manufacturing operations outside the U.S. and Puerto Rico at over 100 sites. Some of these sites and their applicable segment(s) are set forth below:

**Asia Pacific:** Guangzhou, China<sup>(5)</sup>; Shenzhen, China<sup>(3,4)</sup>; Chiba, Japan<sup>(3,4)</sup>; Gifu, Japan<sup>(4)</sup>; Ibaraki, Japan<sup>(4)</sup>; Shimizu, Japan<sup>(3)</sup>; Tokai, Japan<sup>(3)</sup>; Utsunomiya, Japan<sup>(4)</sup>; Ulsan, Republic of Korea<sup>(4,5)</sup>; Singapore<sup>(4)</sup>; Kuan Yin, Taiwan<sup>(2)</sup>; and Taoyuan, Taiwan<sup>(3)</sup>

**Europe:** Mechelen, Belgium<sup>(2,3,4)</sup>; Cernay, France<sup>(1)</sup>; Neu Isenberg, Germany<sup>(3)</sup>; Uentrop, Germany<sup>(4)</sup>; Wuppertal, Germany<sup>(2)</sup>; Luxembourg<sup>(3,4,5)</sup>; Asturias, Spain<sup>(1,5)</sup>; Dordrecht, The Netherlands<sup>(3,4)</sup>; and Maydown, United Kingdom<sup>(5)</sup>

**Canada:** Kingston, Canada<sup>(4)</sup>; and Thetford Mines, Canada<sup>(5)</sup>

**Latin America:** Camacari, Brazil<sup>(1)</sup>; Sao Paulo, Brazil<sup>(2)</sup>; and Altamira, Mexico<sup>(2)</sup>

(1) Agriculture & Nutrition

(2) Coatings & Color Technologies

- (3) Electronic & Communication Technologies
- (4) Performance Materials
- (5) Safety & Protection

The company's plants and equipment are well maintained and in good operating condition. Sales as a percent of capacity were 84 percent in 2006, 82 percent in 2005, and 84 percent in 2004. Properties are primarily directly owned by the company; however, certain properties are leased. No title examination of the properties has been made for the purpose of this report and certain properties are shared with other tenants under long-term leases.



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**Part I**

**ITEM 3. LEGAL PROCEEDINGS**

**Litigation**

**Benlate®**

Information related to this matter is included in Note 20 to the Consolidated Financial Statements under the heading Benlate®.

**PFOA: Environmental and Litigation Proceedings**

For purposes of this report, the term PFOA means collectively perfluorooctanoic acid and its salts, including the ammonium salt and does not distinguish between the two forms. Information related to this matter is included in Note 20 to the Consolidated Financial Statements under the heading PFOA.

**Elastomers Antitrust Matters**

Information related to this matter is included in Note 20 to the Consolidated Financial Statements under the heading Elastomers Antitrust Matters.

**Environmental Proceedings**

**Acid Plants New Source Review Enforcement Action**

In 2003, the U.S. Environmental Protection Agency (EPA) issued a Notice of Violation and Finding of Violation for the company's Fort Hill sulfuric acid plant in North Bend, Ohio. The EPA conducted a review of capital projects at the plant over the past twenty years. Based on its review, the EPA believes that two of the projects triggered a requirement to meet the New Source Performance Standards for sulfuric acid plants and that the company should have sought a permit under the New Source Review requirements of the Clean Air Act (CAA). In July 2004, the EPA issued a Notice of Violation for the James River sulfuric acid plant with similar allegations. The company disagrees with the EPA's findings because the EPA continues to change its interpretation of these rules and requirements without going through the required process to amend them. The courts are split on these interpretations. The company has a total of four sulfuric acid plants that use similar technology.

In October 2006, the EPA, several states and the company reached an agreement in principle to settle this matter under which the company will pay a total of \$4,125,000 in civil penalties to the U.S. federal government and the states. Depending on which plants the company elects to retrofit, the company may incur capital expenditures in the range of about \$35 million to \$70 million. The agreement is subject to the parties' negotiation of acceptable written terms and to various governmental approvals.

**Sabine River Works, Orange, Texas**

On November 19, 2004, the company received a Notice of Enforcement Action (NoE) from the Texas Commission on Environmental Quality (TCEQ) regarding its Sabine River Works facility located in Orange, Texas. The Notice contained 45 allegations relating to reportable and non-reportable emission events from 2002 through 2004 and sought an administrative penalty of \$134,852. In addition to this NoE, the company had received 6 other NoEs raising allegations of air, water and monitoring violations dating back to 2001. The company has reached an agreement with

the TCEQ combining all of these enforcement actions and settling the allegations for a total penalty of \$176,575. As a condition of the agreement, the company did not agree to the allegations and the allegations remain in dispute. Under the agreement, \$88,288 will be paid as a penalty to the TCEQ with the remaining balance being paid to a local Supplemental Environmental Project.

**Table of Contents****Part I****Item 3. Legal Proceedings, continued***Gibson City, Illinois*

The EPA has alleged that The Solae Company violated the CAA's New Source Review Regulations and certain Prevention of Significant Deterioration requirements at its plant in Gibson City, Illinois. The Solae Company, a majority-owned venture with Bunge Limited, was formed in 2003. The EPA has proposed a settlement of this matter that would include sites located in Indiana, Ohio, Oklahoma and Tennessee, some of which are wholly owned by DuPont, in addition to the Gibson City site. The EPA's proposed settlement includes a penalty of \$350,000 and Supplemental Environmental Projects involving expenditures of at least \$500,000. The company and The Solae Company are negotiating with the EPA and U.S. Department of Justice (DOJ).

**ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS**

None.

**Executive Officers of the Registrant**

The following is a list, as of February 23, 2007, of the company's executive officers:

	Age	Executive Officer Since
<b>Chairman of the Board of Directors and Chief Executive Officer:</b>		
Charles O. Holliday, Jr.	58	1992
<b>Other Executive Officers:</b>		
James C. Borel, Senior Vice President – Global Human Resources	51	2004
Thomas M. Connelly, Jr., Executive Vice President and Chief Innovation Officer, and Electronic & Communication Technologies	54	2000
Richard R. Goodmanson, Executive Vice President and Chief Operating Officer	59	1999
Jeffrey L. Keefer, Executive Vice President and Chief Financial Officer	54	2006
Ellen J. Kullman, Executive Vice President – Safety & Protection and Coatings & Color Technologies	51	2006
Stacey J. Mobley, Senior Vice President and Chief Administrative Officer and General Counsel	61	1992

The company's executive officers are elected or appointed for the ensuing year or for an indefinite term and until their successors are elected or appointed.

Charles O. Holliday, Jr. joined DuPont in 1970, and has advanced through various manufacturing and supervisory assignments in product planning and marketing. He is a former president, executive vice president, president and

chairman-DuPont Asia Pacific. Mr. Holliday became an executive officer in 1992 when he was appointed senior vice president. He became Chief Executive Officer on February 1, 1998, and Chairman of the Board of Directors on January 1, 1999.

James C. Borel joined DuPont in 1978, and held a variety of product and sales management positions for Agricultural Products. In 1993, he transferred to Tokyo, Japan with Agricultural Products as regional manager, North Asia and was appointed regional director, Asia Pacific in 1994. In 1997, he was appointed regional

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**Part I**

**Item 4. Submission of Matters to a Vote of Security Holders, *continued***

director, North America and was appointed vice president and general manager-DuPont Crop Protection later that year. In January 2004, he was named to his current position, Senior Vice President-DuPont Global Human Resources.

Thomas M. Connelly, Jr. joined DuPont in 1977 as a research engineer. Since then, Mr. Connelly has served in various research and plant technical leadership roles, as well as product management and business director roles. Mr. Connelly served as vice president and general manager-DuPont Fluoroproducts from 1999 until 2001, when he was named senior vice president and chief science and technology officer. In June 2006, Mr. Connelly was named Executive Vice President and Chief Innovation Officer and given the added responsibility for DuPont Electronic & Communication Technologies in October 2006.

Richard R. Goodmanson joined DuPont in 1999 as Executive Vice President and Chief Operating Officer. Prior to joining DuPont, Mr. Goodmanson was president and chief executive officer of America West Airlines from 1996 to 1999. He was senior vice president of operations for Frito-Lay Inc. from 1992 to 1996, and he was a principal at McKinsey & Company, Inc. from 1980 to 1992.

Jeffrey L. Keefer joined DuPont in 1976 as a financial analyst in the titanium dioxide business. In 1982, he accepted a field sales assignment and was appointed customer service manager in 1985. He advanced through various sales and management assignments and in February 1999 he was named vice president and general manager DuPont Titanium Technologies. In January 2004, he was named group vice president DuPont Performance Materials. In June 2006, he was named Executive Vice President DuPont Finance and Chief Financial Officer.

Ellen J. Kullman joined DuPont in 1988 as marketing manager and progressed through various roles as global business director and was named vice president and general manager of White Pigment & Mineral Products in 1995. In 2000, Ms. Kullman was named group vice president and general manager of several businesses and new business development. She became group vice president-DuPont Safety & Protection in 2002. In June 2006, Ms. Kullman was named Executive Vice President DuPont Safety & Protection and DuPont Coatings & Color Technologies and assumed leadership of Marketing & Sales along with Safety and Sustainability.

Stacey J. Mobley joined DuPont's legal department in 1972. He was named director of Federal Affairs in the company's Washington, D.C. office in 1983, and was promoted to vice president-Federal Affairs in 1986. He returned to the company's Wilmington, Delaware headquarters in March 1992 as vice president Communications in External Affairs and was promoted to Senior Vice President in May 1992. He was named Chief Administrative Officer in May 1999 and General Counsel in November 1999.

**Table of Contents****Part II****ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES****Market for Registrant's Common Equity and Related Stockholder Matters**

The company's common stock is listed on the New York Stock Exchange, Inc. (symbol DD) and certain non-U.S. exchanges. The number of record holders of common stock was 84,240 at December 31, 2006, and 83,821 at January 31, 2007.

Holders of the company's common stock are entitled to receive dividends when they are declared by the Board of Directors. While it is not a guarantee of future conduct, the company has continuously paid a quarterly dividend since the fourth quarter 1904. Dividends on common stock and preferred stock are usually declared in January, April, July and October. When dividends on common stock are declared, they are usually paid mid March, June, September and December. Preferred dividends are paid on or about the 25th of January, April, July and October. The Stock Transfer Agent and Registrar is Computershare Trust Company, N.A. (formerly EquiServe Trust Company, N.A.).

The company's quarterly high and low trading stock prices and dividends per common share for 2006 and 2005 are shown below.

	<b>Market Prices</b>		<b>Per Share</b>
	<b>High</b>	<b>Low</b>	<b>Dividend Declared</b>
<b>2006</b>			
First Quarter	\$ 43.50	\$ 38.52	\$ 0.37
Second Quarter	45.75	39.53	0.37
Third Quarter	43.49	38.82	0.37
Fourth Quarter	49.68	42.48	0.37
<b>2005</b>			
First Quarter	\$ 54.90	\$ 45.74	\$ 0.35
Second Quarter	51.88	42.76	0.37
Third Quarter	44.75	37.87	0.37
Fourth Quarter	43.81	37.60	0.37

**Issuer Purchases of Equity Securities**

There were no purchases of the company's common stock during the three months ended December 31, 2006.

**Table of Contents****Part II****Item 5. Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities, *continued*****Stock Performance Graph**

The following graph presents the cumulative five-year total return for the company's common stock compared with the S&P 500 Stock Index and a self-constructed peer group of companies. The peer group companies are Alcoa Inc.; BASF Corporation; The Dow Chemical Company; Eastman Kodak Company; Ford Motor Company; General Electric Company; Hewlett-Packard Company; Minnesota Mining and Manufacturing Company; Monsanto Company; Motorola, Inc.; PPG Industries, Inc.; Rohm and Haas Company; and United Technologies Corporation.

**Stock Performance Graph**

	<b>12/31/2001</b>	<b>12/31/2002</b>	<b>12/31/2003</b>	<b>12/31/2004</b>	<b>12/31/2005</b>	<b>12/31/2006</b>
DuPont	\$ 100	\$ 103	\$ 115	\$ 127	\$ 114	\$ <b>135</b>
S&P 500	\$ 100	\$ 78	\$ 100	\$ 111	\$ 117	\$ <b>135</b>
Industry Peer Group	\$ 100	\$ 72	\$ 100	\$ 115	\$ 119	\$ <b>133</b>

The graph assumes that the value of DuPont Common Stock, the S&P 500 Stock Index and the peer group of companies was each \$100 on December 31, 2001 and that all dividends were reinvested. The peer group is weighted by market capitalization.

**Table of Contents****Part II****ITEM 6. SELECTED FINANCIAL DATA**

<i>(Dollars in millions, except per share)</i>	<b>2006</b>	<b>2005<sup>1</sup></b>	<b>2004</b>	<b>2003</b>	<b>2002</b>
<b>Summary of operations</b>					
Net sales	\$ 27,421	\$ 26,639	\$ 27,340	\$ 26,996	\$ 24,006
Income before income taxes and minority interests	\$ 3,329	\$ 3,563	\$ 1,442	\$ 143	\$ 2,124
Provision for (benefit from) income taxes	\$ 196	\$ 1,470	\$ (329)	\$ (930)	\$ 185
Income before cumulative effect of changes in accounting principles	\$ 3,148	\$ 2,056	\$ 1,780	\$ 1,002	\$ 1,841
Net income (loss)	\$ 3,148	\$ 2,056	\$ 1,780	\$ 973 <sup>2</sup>	\$ (1,103) <sup>3</sup>
Basic earnings (loss) per share of common stock					
Income before cumulative effect of changes in accounting principles	\$ 3.41	\$ 2.08	\$ 1.78	\$ 1.00	\$ 1.84
Net income (loss)	\$ 3.41	\$ 2.08	\$ 1.78	\$ 0.97 <sup>2</sup>	\$ (1.12) <sup>3</sup>
Diluted earnings (loss) per share of common stock					
Income before cumulative effect of changes in accounting principles	\$ 3.38	\$ 2.07	\$ 1.77	\$ 0.99	\$ 1.84
Net income (loss)	\$ 3.38	\$ 2.07	\$ 1.77	\$ 0.96 <sup>2</sup>	\$ (1.11) <sup>3</sup>
<b>Financial position at year-end</b>					
Working capital	\$ 4,930	\$ 4,986	\$ 7,272	\$ 5,419	\$ 6,363
Total assets	\$ 31,777 <sup>4</sup>	\$ 33,291	\$ 35,632	\$ 37,039	\$ 34,621
Borrowings and capital lease obligations					
Short-term	\$ 1,517	\$ 1,397	\$ 937 <sup>5</sup>	\$ 6,017 <sup>5</sup>	\$ 1,185
Long-term	\$ 6,013	\$ 6,783	\$ 5,548	\$ 4,462 <sup>5</sup>	\$ 5,647
Stockholders' equity	\$ 9,422 <sup>4</sup>	\$ 8,962	\$ 11,377	\$ 9,781	\$ 9,063
<b>General</b>					
For the year					
Purchases of property, plant & equipment and investments in affiliates	\$ 1,563	\$ 1,406	\$ 1,298	\$ 1,784	\$ 1,416
Depreciation	\$ 1,157	\$ 1,128	\$ 1,124	\$ 1,355	\$ 1,297
Research and development (R&D) expense	\$ 1,302	\$ 1,336	\$ 1,333	\$ 1,349	\$ 1,264
Average number of common shares outstanding (millions)					
Basic	921	982	998	997	994
Diluted	929	989	1,003	1,000	999
Dividends per common share	\$ 1.48	\$ 1.46	\$ 1.40	\$ 1.40	\$ 1.40
At year-end					
Employees (thousands)	59	60	60	81	79
Closing stock price	\$ 48.71	\$ 42.50	\$ 49.05	\$ 45.89	\$ 42.40
Common stockholders of record (thousands)	84	101	106	111	116



- 1 In the fourth quarter 2006, the company adopted FSP AUG AIR-1, Accounting for Planned Major Maintenance Activities, and retrospectively applied these provisions effective January 1, 2005. The effects of the accounting change on the company's results of operations and financial position for the year ended December 31, 2005 were not material. See Note 1 to the Consolidated Financial Statements.
- 2 Includes a cumulative effect of a change in accounting principle charge of \$29 million or \$0.03 per share, basic and diluted, relating to the adoption of Statement of Financial Accounting Standards (SFAS) No. 143, Accounting for Asset Retirement Obligations .
- 3 Includes a cumulative effect of a change in accounting principle charge of \$2,944 million or \$2.96 (basic) and \$2.95 (diluted) per share, relating to the adoption of SFAS No. 142, Goodwill and Other Intangible Assets (SFAS 142).
- 4 On December 31, 2006, the company adopted Statement of Financial Accounting Standards (SFAS) No. 158, Employers Accounting for Defined Benefit Pension and Other Postretirement Plans, an amendment of FASB Statements No. 87, 88, 106 and 132(R). Total assets and stockholders' equity were reduced by \$2,159 million and \$1,555 million, respectively, as a result of such adoption.
- 5 Includes borrowings and capital lease obligations classified as liabilities held for sale.

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**Part II**

**ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS**

**CAUTIONARY STATEMENTS ABOUT FORWARD-LOOKING STATEMENTS**

This report contains forward-looking statements which may be identified by their use of words like plans, expects, will, anticipates, intends, projects, estimates or other words of similar meaning. All statements that address expectations or projections about the future, including statements about the company's strategy for growth, product development, market position, expenditures and financial results are forward-looking statements.

Forward-looking statements are based on certain assumptions and expectations of future events. The company cannot guarantee that these assumptions and expectations are accurate or will be realized. For some of the important factors that could cause the company's actual results to differ materially from those projected in any such forward-looking statements see the Risk Factors discussion set forth under Part I, Item 1A beginning on page 9.

**Overview**

DuPont continues to successfully employ its three growth strategies *Putting Science to Work*, *Leveraging the Power of One DuPont* and *Going Where the Growth Is* by leveraging resources through its five growth platforms: Agriculture & Nutrition, Coatings & Color Technologies, Electronic & Communication Technologies, Performance Materials and Safety & Protection. The company's sixth reportable segment, Pharmaceuticals, continues to receive substantial income from two anti-hypertension (AIIA) drugs, Cozaar® and Hyzaar®, developed by DuPont and licensed to Merck.

By successfully executing its three growth strategies, DuPont expects to achieve over the long term, annual financial targets of 6 percent revenue growth, 10 percent earnings growth in earnings per share and 1 percentage point improvement in Return on Invested Capital (ROIC). In 2006, sales increased 3 percent, diluted earnings per share increased 63 percent and ROIC increased 7 percentage points.

*Putting Science to Work* Science is the basis for the capabilities, offerings and competitive advantages of the company's businesses. The company's research and development programs are focused on creating new technologies, processes and business opportunities in relevant fields, as well as improving existing products and processes. Market-driven innovation, which relies on the voice of the customer and concrete market opportunities, is central to the company's research efforts. In 2006 over 1,000 new products were commercialized, 1,800 new U.S. patent applications were filed and more than one third of 2006 sales were derived from products introduced in the last 5 years. The company is focused on prioritizing deployment of research resources to the most promising opportunities and is aggressively filing patent applications to protect the intellectual property created by that research. The company has identified the top 75 technology projects expected to generate commercial success and continues to prioritize programs for faster and larger payoffs.

*Leveraging the Power of One DuPont* The company's strategy is to increase productivity and leverage market access, capabilities and customers, with a single focus, thereby creating wider opportunities for its businesses. In late 2005, management committed to intensify cost and capital productivity efforts by adjusting capital and resources allocation among its businesses. By doing so, management expects to reduce fixed costs as a percentage of sales and increase ROIC. Target reductions of \$1 billion in costs and \$1 billion in working capital savings over a three year period starting in 2006, were set to partially offset cost increases from inflation and desired growth investments. Management

exceeded its goal for fixed cost savings in 2006 by reducing fixed costs by approximately \$170 million, or approximately 2 percentage points as a percentage of sales. In addition, the company continued to take actions to standardize and simplify its supply chains and support functions globally and improve its sales effectiveness.

**Table of Contents****Part II****Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations, continued**

***Going Where the Growth Is*** The company has achieved significant growth in emerging markets by increasing its direct presence and sales efforts including extending the company's science, products, brands and market position into new applications and uses. The company has a strong presence in the fastest-growing emerging markets and continues to leverage resources and market position to realize new growth. Sales outside of North America, the United Kingdom, Germany, France, Italy and Japan have increased to 36 percent of total company sales in 2006 from 33 percent in 2004.

**Analysis of Operations**

During 2006, the company maintained a leading position in biotechnology, safety and protection and crop yield improvement and continued to execute its growth strategies, while overcoming record-high energy costs. Management estimates that year over year cost increases for raw materials in 2006 exceeded \$800 million, principally reflecting higher market prices for oil, natural gas and hydrocarbon feedstock and overall tight supply in certain raw materials. The company took actions to increase pricing and improve productivity to offset these cost increases, particularly in the Agriculture & Nutrition and Coatings & Color Technologies platforms where the company initiated restructuring actions to streamline operations and further reduce fixed costs. The company's operations have completely recovered from hurricane disruptions of 2005. The most significant damage was to the company's DeLisle, Mississippi, titanium dioxide plant which remained shut down from August 2005 until production began a phased-in restart in January 2006. Normal operations resumed by the end of the second quarter 2006. In 2006, the company received \$204 million in insurance recoveries related to losses suffered from Hurricane Katrina and asbestos settlements; \$128 million is recorded in Cost of goods sold and other operating charges and \$76 million is recorded in Other income, net.

The company adopted a dual approach to quantifying materiality and elected to refine the accounting related to the following existing cutoff practices. For certain of the company's sales transactions, ownership title transfers when goods are received by the customers. Historically, the company recorded these sales when shipped and monitored the impact of this difference. Additionally, some accruals were historically recorded on a month-lag basis. The impacts of these sales and accrual cutoff practices were considered to be immaterial in every interim and annual period. During the fourth quarter of 2006, the company chose to change its practices to record these sales when received by customers and to record certain accruals without a lag. As a result, sales of \$107 million were not recorded as of December 31, 2006 that historically would have been. If the company had applied this new practice throughout 2006, sales would have been \$81 million higher than reported. Incremental accruals of \$24 million were also recorded at December 31, 2006, that would not have been recorded under prior practices. The after-tax impact on the 2006 income statement of these changes was \$39 million.

*(Dollars in millions)*

	<b>2006</b>	<b>2005</b>	<b>2004</b>
<b>NET SALES</b>	<b>\$ 27,421</b>	\$ 26,639	\$ 27,340

**2006 versus 2005** Consolidated net sales for 2006 were \$27.4 billion, up 3 percent. The increase reflects 2 percent higher local selling prices and 2 percent higher net volume partially offset by a 1 percent reduction in worldwide sales attributable to the transfer of certain elastomers assets in 2005. Local selling prices increased across all regions. During 2006, significant volume increases in key growth regions, particularly Asia Pacific and Latin America, along with modest growth in Europe, more than offset lower U.S. volume. Volume declines in the U.S. are largely

attributable to lower demand in motor vehicle and residential housing related markets. These declines more than offset the recovery in the U.S. of titanium dioxide, industrial chemical and packaging polymer sales lost in 2005 due to hurricane business interruption.

**Table of Contents****Part II****Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations, continued**

The table below shows a regional breakdown of 2006 Consolidated net sales based on location of customers and percentage variances from prior year:

<i>(Dollars in billions)</i>	2006 Net Sales	Percent Change vs. 2005	Percent Change Due to:			
			Local Price	Currency Effect	Volume	Other <sup>1</sup>
Worldwide	\$ 27.4	3	2		2	(1)
United States	11.1		3		(1)	(2)
Europe	7.9	3	2	(1)	3	(1)
Asia Pacific	4.8	5	3	(2)	7	(3)
Canada & Latin America	3.6	10	2	3	5	

<sup>1</sup> Percentage change due to the absence in 2006 of sales from elastomers businesses transferred to Dow on June 30, 2005. Sales attributable to the transferred assets were \$386 million in 2005.

**2005 versus 2004** Consolidated net sales for 2005 were \$26.6 billion, down 3 percent. The 2004 sale of INVISTA resulted in a \$2.1 billion or 8 percent reduction in Net sales. This reduction was partly offset by a 6 percent increase in sales resulting from 5 percent higher local selling prices and 1 percent favorable currency effect. In 2005, growth in key markets, particularly those in Asia Pacific and Latin America, helped offset the reduction in U.S. volumes. Volume declines in the U.S. and Europe were related to lower demand in motor vehicle and production agriculture markets and the impact of the 2005 hurricanes.

The table below shows a regional breakdown of 2005 consolidated net sales based on location of customers and percentage variances from prior year:

<i>(Dollars in billions)</i>	2005 <sup>2</sup> Net Sales	Percent Change vs. 2004	Percent Change Due to:			
			Local Price	Currency Effect	Volume	Other <sup>1</sup>
Worldwide	\$ 26.6	(3)	5	1	(1)	(8)
United States	11.1	(4)	6		(2)	(8)
Europe	7.7	(4)	3	2	(3)	(6)
Asia Pacific	4.5	(4)	5	1	2	(12)
Canada & Latin America	3.3	9	4	6	4	(5)

- 1 Percentage changes in sales due to the absence of \$2.1 billion in sales attributable to the divested Textiles & Interiors business in 2004.
- 2 Sales related to elastomers businesses transferred to Dow on June 30, 2005, were \$386 million and \$467 million in 2005 and 2004, respectively, primarily in the U.S. and Asia Pacific. Excluding these sales, the company's worldwide sales were \$26.2 billion in 2005, down 2 percent from 2004 with volume essentially flat.

*(Dollars in millions)*

	<b>2006</b>	<b>2005</b>	<b>2004</b>
<b>OTHER INCOME, NET</b>	<b>\$ 1,561</b>	<b>\$ 1,852</b>	<b>\$ 655</b>

**2006 versus 2005** Other income decreased \$291 million versus 2005. This reduction is primarily due to a \$407 million decrease in net pretax exchange gains (see page 54 for a discussion of the company's program to manage currency risk and Note 3 to the Consolidated Financial Statements). The company records royalty income related to its licenses for Cozaar<sup>®</sup>/Hyzaar<sup>®</sup> in Other income. Licensing income related to these products was \$815 million and \$747 million in 2006 and 2005, respectively.

**Table of Contents****Part II****Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations, continued**

In 2006, the company recorded \$76 million of insurance recoveries in Other income from its insurance carriers. Of this amount, \$61 million related to costs, including outside counsel fees and expenses and settlements paid over the past twenty years as part of asbestos litigation matters. During this twenty year period, DuPont has been served with thousands of lawsuits alleging injury from exposure to asbestos on DuPont premises. Most of these claims have been disposed of through trial, dismissal or settlement. Management believes it is remote that the outcome of remaining or future asbestos litigation matters will have material adverse effect on the company's consolidated financial position or liquidity. These asbestos related insurance recoveries are reflected in Cash provided by operating activities within the company's Statements of Cash Flows. The remaining \$15 million is part of a total recovery of \$143 million relating to insurance recoveries associated with damages to the company's facilities suffered as a result of Hurricane Katrina in 2005. The majority of the Hurricane Katrina recovery is included in Cost of goods sold and other operating charges in the Consolidated Income Statement; additional recoveries are not expected to be material. No amounts are expected to be received from insurance carriers for damages suffered by the company as a result of Hurricane Rita.

**2005 versus 2004** Other income increased \$1,197 million versus 2004. The increase is primarily due to net pretax exchange gains in 2005 of \$423 million compared to losses in 2004 of \$391 million (see page 54 for a discussion of the company's program to manage currency risk and Note 3 to the Consolidated Financial Statements). Royalty income related to the licenses for Cozaar<sup>®</sup>/Hyzaar<sup>®</sup> was \$747 million and \$675 million in 2005 and 2004, respectively. Equity in the earnings of affiliates increased \$147 million over 2004, primarily due to the absence of a \$150 million elastomers antitrust litigation charge in the DuPont Dow Elastomers LLC (DDE) joint venture recorded in 2004 (discussed in detail in Note 20 to the Consolidated Financial Statements).

*(Dollars in millions)*

	<b>2006</b>	<b>2005</b>	<b>2004</b>
<b>COST OF GOODS SOLD AND OTHER OPERATING CHARGES</b>	<b>\$ 20,440</b>	<b>\$ 19,683</b>	<b>\$ 20,827</b>
As a percent of Net sales	<b>75%</b>	<b>74%</b>	<b>76%</b>

**2006 versus 2005** Cost of goods sold and other operating charges (COGS) for the year 2006 were \$20.4 billion, versus \$19.7 billion in 2005, up 4 percent. COGS was 75 percent of sales versus 74 percent in the prior year. The 1 percentage point increase in COGS as a percent of sales principally reflects higher raw material costs not entirely covered by selling price increases and higher costs for restructuring plans discussed below.

In 2006, the company recorded a benefit to COGS for \$128 million for insurance recoveries related to the property damage suffered as a result of Hurricane Katrina in 2005. In 2005, the company recorded a charge of \$160 million related to the clean-up and restoration of manufacturing operations, as well as the write-off of inventory and plant assets that were destroyed by two major hurricanes in the U.S. Hurricane charges reduced segment earnings as follows: Coatings & Color Technologies \$116 million; Performance Materials \$17 million; and Safety & Protection \$27 million.

In 2006, restructuring plans were introduced within the Coatings & Color Technologies and the Agriculture & Nutrition segments. These programs include the elimination of approximately 3,200 positions and redeployment of about 400 employees in excess positions to the extent possible. The company recorded a net charge of \$326 million in 2006 related to employee separation costs and asset impairment charges. This included \$184 million to provide severance benefits for approximately 2,800 employees involved in manufacturing, marketing and sales, administrative



and technical activities. The company also recorded a benefit of \$6 million in 2006 resulting from changes in estimates for prior years restructuring programs. Additional details related to these programs are contained in the individual segment reviews and in Note 5 to the Consolidated Financial Statements.

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Payments from operating cash flows to terminated employees as a result of the 2006 plans total about \$28 million during the current year. The remainder will be substantially paid during 2007. Annual pretax cost savings of about \$135 million per year are associated with the Coatings & Color Technologies program. Approximately 35 percent was realized in 2006. An additional 50 percent is expected in 2007, with the remainder expected to be realized in 2008. A substantial portion of the Agriculture & Nutrition program involves reinvestment in research and development activities so cost savings are largely neutral under this plan.

In 2005, the company evaluated capital investment requirements at its Louisville, Kentucky facility and the declining demand for the neoprene products produced at the facility. As a result, the company has made plans to consolidate neoprene production at its upgraded facility in LaPlace, Louisiana, which is now expected to be completed by the end of 2007. A charge of \$34 million was recorded in 2005 reflecting severance and related costs for approximately 275 employees, principally at the Louisville site. Additionally, a benefit of \$13 million was recorded in 2005 to reflect changes in estimates related to employee separations that were implemented in earlier years.

**2005 versus 2004** COGS for the year 2005 was \$19.7 billion, a decrease of \$1,144 million from the prior year. 2005 COGS includes a \$160 million hurricane charge, a \$34 million charge and a \$13 million benefit related to employee separations discussed above. 2004 COGS included a \$108 million litigation charge related to PFOA and a charge of \$118 million related to elastomers antitrust litigation (see Note 20 to the Consolidated Financial Statements). COGS also included employee separation costs and asset impairment charges in 2004 of \$411 million as described below. As a percent of sales, COGS was 74 percent in 2005 versus 76 percent in 2004. The improvement principally reflects the changes in employee separation costs and the sale of INVISTA, which had higher COGS in relation to sales than the rest of the company, partly offset by raw material costs that escalated at a higher rate than the increases in selling prices. A modestly favorable effect of currency translation offset a small decrease in sales volumes.

COGS in 2004 includes a net charge of \$411 million in 2004 related to employee separation costs and asset impairment charges as a result of actions taken in that year to ensure the company's global competitiveness as a more focused, science-based company. This included \$302 million to provide severance benefits for approximately 2,700 employees involved in manufacturing, marketing and sales, administrative and technical activities. Essentially all of these employees were separated as of December 31, 2005. These staff reductions affected essentially all segments. The company also recorded a benefit of \$12 million in 2004 resulting from changes in estimates for prior years restructuring programs. In addition, the company recorded impairment charges of \$121 million in 2004 which included: \$27 million to reflect an other than temporary decline in the value of an investment security; \$23 million related to the shutdown of U.S. manufacturing assets; \$42 million related to the write down of certain European manufacturing assets; and \$29 million to write off abandoned technology.

Payments from operating cash flows to terminated employees as a result of the 2004 plan total about \$300 million. Approximately 44 percent of these cash outlays were made in 2004, 45 percent were made in 2005 and the remainder in 2006 and thereafter. Annual pretax cost savings of about \$225 million per year are associated with the 2004 restructuring plan. About 40 percent was realized in 2004 and essentially all the remaining savings in payroll costs were realized in 2005. Over 50 percent of the savings associated with the staff reductions are reflected in Selling, general and administrative expenses, approximately 30 percent in COGS and other operating charges and the balance in Research and development expense.



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<i>(Dollars in millions)</i>	<b>2006</b>	<b>2005</b>	<b>2004</b>
<b>SELLING, GENERAL AND ADMINISTRATIVE EXPENSES</b>	<b>\$ 3,224</b>	<b>\$ 3,223</b>	<b>\$ 3,141</b>
As a percent of Net sales	<b>12%</b>	<b>12%</b>	<b>11%</b>

Selling, general and administrative (SG&A) expenses increased \$1 million and remained constant as a percent of sales in 2006 as compared to 2005. In 2005, SG&A expenses increased \$82 million. The 1 percentage point increase as a percent of sales primarily reflects the absence of INVISTA in 2005, which had lower selling expenses as a percent of sales compared to the rest of the company.

<i>(Dollars in millions)</i>	<b>2006</b>	<b>2005</b>	<b>2004</b>
<b>RESEARCH AND DEVELOPMENT EXPENSE</b>	<b>\$ 1,302</b>	<b>\$ 1,336</b>	<b>\$ 1,333</b>
As a percent of Net sales	<b>5%</b>	<b>5%</b>	<b>5%</b>

Research and development expense as a percent of sales remained constant over the three-year period. Expenditures in 2006 were consistent with spending by segment in 2005 and reflect concentration in expansion of seed traits, breeding advancement and product development within Agriculture & Nutrition, as well as activities to support the growth platforms. Spending in 2005 reflects increases across most segments, offset by the absence of spending in Textiles & Interiors after April 30, 2004. The company continues to support a strong commitment to research and development as a source of sustainable growth and expects research and development funding to increase modestly in 2007.

<i>(Dollars in millions)</i>	<b>2006</b>	<b>2005</b>	<b>2004</b>
<b>INTEREST EXPENSE</b>	<b>\$ 460</b>	<b>\$ 518</b>	<b>\$ 362</b>

Interest expense decreased \$58 million in 2006 compared to 2005 primarily due to lower average borrowing level partially offset by higher average rates. An increase in the average interest rates from 3.46 percent to 4.60 percent and a 3 percent higher average borrowing level resulted in the increase in interest expense for 2005 as compared to 2004.

<i>(Dollars in millions)</i>	<b>2006</b>	<b>2005</b>	<b>2004</b>
<b>SEPARATION ACTIVITIES    TEXTILES &amp; INTERIORS</b>		<b>\$ (62)</b>	<b>\$ 667</b>

On April 30, 2004, the company sold a majority of the net assets of Textiles & Interiors, referred to as INVISTA, to Koch. In January 2006, the company sold its interest in a Textiles & Interiors equity affiliate to its equity partner for proceeds of \$14 million thereby completing the sale of all of the net assets of Textiles & Interiors.

During 2005, the company sold its investments in three affiliated companies to Koch and its investment in a fourth affiliated company to its equity partner. The divestiture activities resulted in a net benefit of \$62 million and the

transfer of the company's interest in the affiliates to Koch resulted in a gain of \$35 million. The sale of two of these affiliates had been delayed until the company received approval from its equity partners. Although the transfer of these affiliates completed the sale to Koch, the company will have significant continuing involvement with INVISTA as a result of long-term purchase and supply contracts and a long-term contract manufacturing agreement in which INVISTA will manufacture and supply certain products for the company. In addition, the company indemnified Koch against certain liabilities, primarily related to taxes, legal matters, environmental matters and representations and warranties (see Note 20 to the Consolidated

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Financial Statements). The company's total indemnification obligation for the majority of the representations and warranties can not exceed approximately \$1.4 billion. The company also recorded a gain of \$29 million in 2005 related to the sale of the company's investment in another equity affiliate and \$2 million of other charges associated with the separation. Net cash proceeds from these transactions totaled \$135 million. See Note 6 to the Consolidated Financial Statements for information regarding the charges that were recorded in 2004.