DUPONT E I DE NEMOURS & CO
Form 10-Q
July 24, 2012
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-Q

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

For the quarterly period ended June 30, 2012

OR

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 | 51-0014090 |
|---|---|
| (State or other Jurisdiction of Incorporation or Organization) | (I.R.S. Employer Identification No.) |

1007 Market Street, Wilmington, Delaware 19898
(Address of Principal Executive Offices)

(302) 774-1000
(Registrant's Telephone Number)

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 x No o

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that registrant was required to submit and post such files.) Yes x No o

Indicate by check mark whether the Registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See definitions of "large accelerated filer," "accelerated filer," and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one):

| Large Accelerated Filer x | Accelerated Filer o |
|---|---|
| Non-Accelerated Filer o | Smaller reporting company o |

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

The Registrant had 930,373,000 shares (excludes 87,041,000 shares of treasury stock) of common stock, $0.30 par value, outstanding at July 16, 2012.

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E. I. DU PONT DE NEMOURS AND COMPANY

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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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PART I. FINANCIAL INFORMATION

Item 1. CONSOLIDATED FINANCIAL STATEMENTS

E. I. du Pont de Nemours and Company
Consolidated Income Statements (Unaudited)
(Dollars in millions, except per share)

| | Three Months Ended June 30, | | Six Months Ended June 30, | |
|---|---|---|---|---|
| | 2012 | 2011 | 2012 | 2011 |
| Net sales | $11,006 | $10,264 | $22,236 | $20,298 |
| Other income, net | 277 | 229 | 303 | 254 |
| Total | 11,283 | 10,493 | 22,539 | 20,552 |
| Cost of goods sold and other operating charges | 7,815 | 7,191 | 15,342 | 14,022 |
| Selling, general and administrative expenses | 1,186 | 1,136 | 2,355 | 2,163 |
| Research and development expense | 528 | 462 | 1,033 | 861 |
| Interest expense | 117 | 115 | 231 | 215 |
| Total | 9,646 | 8,904 | 18,961 | 17,261 |
| Income before income taxes | 1,637 | 1,589 | 3,578 | 3,291 |
| Provision for income taxes | 449 | 360 | 890 | 618 |
| Net income | 1,188 | 1,229 | 2,688 | 2,673 |
| Less: Net income attributable to noncontrolling interests | 9 | 11 | 21 | 24 |
| Net income attributable to DuPont | $1,179 | $1,218 | $2,667 | $2,649 |
| Basic earnings per share of common stock | $1.26 | $1.31 | $2.85 | $2.85 |
| Diluted earnings per share of common stock | $1.25 | $1.29 | $2.82 | $2.80 |
| Dividends per share of common stock | $0.43 | $0.41 | $0.84 | $0.82 |

See Notes to the Consolidated Financial Statements beginning on page 7.

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E. I. du Pont de Nemours and Company
Consolidated Statements of Comprehensive Income (Unaudited)
(Dollars in millions, except per share)

| | Three Months Ended June 30, | | Six Months Ended June 30, | |
|---|---|---|---|---|
| | 2012 | 2011 | 2012 | 2011 |
| Net income | $1,188 | $1,229 | $2,688 | $2,673 |
| Other comprehensive income (loss), before tax: | | | | |
| Cumulative translation adjustment | (412) | 73 | (242) | 117 |
| Net revaluation and clearance of cash flow hedges to earnings: | | | | |
| Additions and revaluations of derivatives designated as cash flow hedges | 38 | (5) | 36 | 3 |
| Clearance of hedge results to earnings | (23) | 25 | (55) | 52 |
| Net revaluation and clearance of cash flow hedges to earnings | 15 | 20 | (19) | 55 |
| Pension benefit plans: | | | | |
| Net gain (loss) | 4 | (3) | (19) | (3) |
| Prior service cost | — | (2) | 22 | (2) |
| Reclassifications to net income: | | | | |
| Amortization of prior service cost | 3 | 4 | 7 | 8 |
| Amortization of loss | 220 | 153 | 439 | 306 |
| Pension benefit plans, net | 227 | 152 | 449 | 309 |
| Other benefit plans: | | | | |
| Reclassifications to net income: | | | | |
| Amortization of prior service benefit | (30) | (31) | (60) | (61) |
| Amortization of loss | 22 | 15 | 44 | 30 |
| Other benefit plans, net | (8) | (16) | (16) | (31) |
| Net unrealized gain (loss) on securities | 1 | (1) | 2 | — |
| Other comprehensive income (loss), before tax | (177) | 228 | 174 | 450 |
| Income tax expense related to items of other comprehensive income | (76) | (54) | (140) | (116) |
| Other comprehensive income (loss), net of tax | (253) | 174 | 34 | 334 |
| Comprehensive income | 935 | 1,403 | 2,722 | 3,007 |
| Less: Comprehensive income attributable to noncontrolling interests | 34 | 9 | 48 | 21 |
| Comprehensive income attributable to DuPont | $901 | $1,394 | $2,674 | $2,986 |

See Notes to the Consolidated Financial Statements beginning on page 7.

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E. I. du Pont de Nemours and Company
Condensed Consolidated Balance Sheets (Unaudited)
(Dollars in millions, except per share)

| | June 30, 2012 | December 31, 2011 |
|---|---|---|
| Assets | | |
| Current assets | | |
| Cash and cash equivalents | $3,506 | $3,586 |
| Marketable securities | 50 | 433 |
| Accounts and notes receivable, net | 9,476 | 6,022 |
| Inventories | 6,011 | 7,195 |
| Prepaid expenses | 151 | 151 |
| Deferred income taxes | 932 | 671 |
| Total current assets | 20,126 | 18,058 |
| Property, plant and equipment, net of accumulated depreciation (June 30, 2012 - $19,962; December 31, 2011 - $19,349) | 13,342 | 13,412 |
| Goodwill | 5,348 | 5,413 |
| Other intangible assets | 5,228 | 5,413 |
| Investment in affiliates | 1,087 | 1,117 |
| Deferred income taxes | 3,822 | 4,067 |
| Other assets | 1,078 | 1,012 |
| Total | $50,031 | $48,492 |
| Liabilities and Equity | | |
| Current liabilities | | |
| Accounts payable | $3,695 | $4,816 |
| Short-term borrowings and capital lease obligations | 3,696 | 817 |
| Income taxes | 930 | 255 |
| Other accrued liabilities | 4,117 | 5,297 |
| Total current liabilities | 12,438 | 11,185 |
| Long-term borrowings and capital lease obligations | 11,254 | 11,736 |
| Other liabilities | 14,643 | 15,508 |
| Deferred income taxes | 1,051 | 1,001 |
| Total liabilities | 39,386 | 39,430 |
| Commitments and contingent liabilities | | |
| Stockholders' equity | | |
| Preferred stock | 237 | 237 |
| Common stock, $0.30 par value; 1,800,000,000 shares authorized; Issued at June 30, 2012 - 1,017,365,000; December 31, 2011 - 1,013,164,000 | 305 | 304 |
| Additional paid-in capital | 10,494 | 10,107 |
| Reinvested earnings | 14,975 | 13,422 |
| Accumulated other comprehensive loss | (8,743) | (8,750) |
| Common stock held in treasury, at cost (87,041,000 shares at June 30, 2012 and December 31, 2011) | (6,727) | (6,727) |
| Total DuPont stockholders' equity | 10,541 | 8,593 |
| Noncontrolling interests | 104 | 469 |
| Total equity | 10,645 | 9,062 |
| Total | $50,031 | $48,492 |

See Notes to the Consolidated Financial Statements beginning on page 7.

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E. I. du Pont de Nemours and Company
Condensed Consolidated Statements of Cash Flows (Unaudited)
(Dollars in millions)

| | Six Months Ended June 30, | |
|---|---|---|
| | 2012 | 2011 |
| **Operating activities** | | |
| Net income | $2,688 | $2,673 |
| Adjustments to reconcile net income to cash used for operating activities: | | |
| Depreciation | 702 | 607 |
| Amortization of intangible assets | 198 | 137 |
| Contributions to pension plans | (692) | (198) |
| Other noncash charges and credits - net | 314 | 624 |
| Change in operating assets and liabilities - net | (4,327) | (4,487) |
| Cash used for operating activities | (1,117) | (644) |
| **Investing activities** | | |
| Purchases of property, plant and equipment | (696) | (741) |
| Investments in affiliates | (14) | (27) |
| Payments for businesses - net of cash acquired | — | (6,264) |
| Proceeds from sales of assets - net of cash sold | 166 | 59 |
| Net decrease in short-term financial instruments | 388 | 2,404 |
| Forward exchange contract settlements | 80 | (454) |
| Other investing activities - net | (7) | (13) |
| Cash used for investing activities | (83) | (5,036) |
| **Financing activities** | | |
| Dividends paid to stockholders | (788) | (767) |
| Net increase in borrowings | 2,406 | 3,823 |
| Repurchase of common stock | (400) | (272) |
| Proceeds from exercise of stock options | 406 | 768 |
| Payments for noncontrolling interest | (447) | — |
| Other financing activities - net | 27 | (22) |
| Cash provided by financing activities | 1,204 | 3,530 |
| Effect of exchange rate changes on cash | (84) | 155 |
| Decrease in cash and cash equivalents | $(80) | $(1,995) |
| Cash and cash equivalents at beginning of period | 3,586 | 4,263 |
| Cash and cash equivalents at end of period | $3,506 | $2,268 |

See Notes to the Consolidated Financial Statements beginning on page 7.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
(Dollars in millions, except per share)

Note 1. Summary of Significant Accounting Policies

Interim Financial Statements

The accompanying unaudited consolidated financial statements have been prepared in accordance with generally accepted accounting principles in the United States of America (GAAP) for interim financial information and the instructions to Form 10-Q and Rule 10-01 of Regulation S-X. In the opinion of management, all adjustments (consisting of normal recurring adjustments) considered necessary for a fair statement of the results for interim periods have been included. Results for interim periods should not be considered indicative of results for a full year. These interim Consolidated Financial Statements should be read in conjunction with the audited Consolidated Financial Statements and Notes thereto contained in the company's Annual Report on Form 10-K for the year ended December 31, 2011, collectively referred to as the "2011 Annual Report". The Consolidated Financial Statements include the accounts of the company and all of its subsidiaries in which a controlling interest is maintained, as well as variable interest entities for which DuPont is the primary beneficiary.

Note 2. Other Income, Net

| | Three Months Ended June 30, | | Six Months Ended June 30, | |
|---|---|---|---|---|
| | 2012 | 2011 | 2012 | 2011 |
| Cozaar®/Hyzaar® income | $14 | $79 | $39 | $127 |
| Royalty income | 25 | 35 | 66 | 66 |
| Interest income | 37 | 32 | 60 | 60 |
| Equity in earnings of affiliates, excluding exchange gains/losses | 21 | 35 | 31 | 83 |
| Gain on sale of equity method investment | 122 | — | 122 | — |
| Net gain on sales of other assets | 5 | 33 | 10 | 39 |
| Net exchange gains (losses) [1] | 28 | 4 | (52) | (139) |
| Miscellaneous income and expenses, net [2] | 25 | 11 | 27 | 18 |
| Total | $277 | $229 | $303 | $254 |

[1] The company routinely uses foreign currency exchange contracts to offset its net exposures, by currency, related to the foreign currency-denominated monetary assets and liabilities. The objective of this program is to maintain an approximately balanced position in foreign currencies in order to minimize, on an after-tax basis, the effects of exchange rate changes on net monetary asset positions. The net pre-tax exchange gains and losses are recorded in other income, net and the related tax impact is recorded in provision for income taxes on the interim Consolidated Income Statements.

[2] Miscellaneous income and expenses, net, generally includes interest items, insurance recoveries, litigation settlements and other items.

Note 3. Provision for Income Taxes

In the second quarter 2012, the company recorded a tax provision of $449, including $59 of tax expense primarily associated with the company's policy of hedging the foreign currency-denominated monetary assets and liabilities of its operations.

Year-to-date 2012, the company recorded a tax provision of $890, including $23 of tax expense primarily associated with the company's policy of hedging the foreign currency denominated monetary assets and liabilities of its operations.

In the second quarter 2011, the company recorded a tax provision of $360, including $7 of tax benefit primarily associated with the company’s policy of hedging the foreign currency-denominated monetary assets and liabilities of its operations.

Year-to-date 2011, the company recorded a tax provision of $618, including $142 of tax benefit primarily associated with the company's policy of hedging the foreign currency denominated monetary assets and liabilities of its operations.

Each year the company files hundreds of tax returns in the various national, state and local income taxing jurisdictions in which it operates. These tax returns are subject to examination and possible challenge by the taxing authorities. Positions challenged by the taxing authorities may be settled or appealed by the company. As a result, there is an uncertainty in income taxes recognized in the company’s financial statements in accordance with accounting for income taxes and accounting for uncertainty in income taxes. It is reasonably possible that changes to the company’s global unrecognized tax benefits could be significant, however, due to the uncertainty regarding the timing of completion of audits and possible outcomes, a current estimate of the range of increases or decreases that may occur within the next twelve months cannot be made.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
(Dollars in millions, except per share)

Note 4. Earnings Per Share of Common Stock

Set forth below is a reconciliation of the numerator and denominator for basic and diluted earnings per share calculations for the periods indicated:

| | Three Months Ended June 30, | | Six Months Ended June 30, | |
|---|---|---|---|---|
| | 2012 | 2011 | 2012 | 2011 |
| Numerator: | | | | |
| Net income attributable to DuPont | $1,179 | $1,218 | $2,667 | $2,649 |
| Preferred dividends | (2) | (2) | (5) | (5) |
| Net income available to common stockholders | $1,177 | $1,216 | $2,662 | $2,644 |
| Denominator: | | | | |
| Weighted-average number of common shares outstanding - Basic | 934,057,000 | 930,798,000 | 933,982,000 | 927,860,000 |
| Dilutive effect of the company’s employee compensation plans | 8,775,000 | 13,189,000 | 9,551,000 | 14,601,000 |
| Weighted-average number of common shares outstanding - Diluted | 942,832,000 | 943,987,000 | 943,533,000 | 942,461,000 |

The following average number of stock options were antidilutive, and therefore, were not included in the diluted earnings per share calculations:

| | Three Months Ended June 30, | | Six Months Ended June 30, | |
|---|---|---|---|---|
| | 2012 | 2011 | 2012 | 2011 |
| Average number of stock options | 12,750,000 | — | 11,737,000 | — |

The change in the average number of stock options that were antidilutive in the three and six months ended June 30, 2012 compared to the same periods last year was primarily due to changes in the company’s average stock price.

Note 5. Inventories

| | June 30, 2012 | December 31, 2011 |
|---|---|---|
| Finished products | $3,927 | $4,541 |
| Semifinished products | 1,746 | 2,293 |
| Raw materials, stores and supplies | 1,234 | 1,262 |
| | 6,907 | 8,096 |
| Adjustment of inventories to a last-in, first-out (LIFO) basis | (896) | (901) |
| Total | $6,011 | $7,195 |

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
(Dollars in millions, except per share)

Note 6. Goodwill and Other Intangible Assets
There were no significant changes in goodwill for the six months ended June 30, 2012.

The gross carrying amounts and accumulated amortization of other intangible assets by major class are as follows:

| | June 30, 2012 | | | December 31, 2011 | | |
|---|---|---|---|---|---|---|
| | Gross | Accumulated Amortization | Net | Gross | Accumulated Amortization | Net |
| Intangible assets subject to amortization (Definite-lived): | | | | | | |
| Customer lists | $1,802 | $(274) | $1,528 | $1,841 | $(220) | $1,621 |
| Patents | 510 | (101) | 409 | 518 | (77) | 441 |
| Purchased and licensed technology | 1,921 | (976) | 945 | 1,854 | (878) | 976 |
| Trademarks | 57 | (27) | 30 | 57 | (25) | 32 |
| Other [1] | 327 | (153) | 174 | 330 | (151) | 179 |
| | 4,617 | (1,531) | 3,086 | 4,600 | (1,351) | 3,249 |
| Intangible assets not subject to amortization(Indefinite-lived): | | | | | | |
| In-process research and development | 69 | — | 69 | 70 | — | 70 |
| Microbial cell factories [2] | 306 | — | 306 | 306 | — | 306 |
| Pioneer germplasm [3] | 975 | — | 975 | 975 | — | 975 |
| Trademarks/tradenames | 792 | — | 792 | 813 | — | 813 |
| | 2,142 | — | 2,142 | 2,164 | — | 2,164 |
| Total | $6,759 | $(1,531) | $5,228 | $6,764 | $(1,351) | $5,413 |

1 Primarily consists of sales and grower networks, marketing and manufacturing alliances and noncompetition agreements.

2 Microbial cell factories, derived from natural microbes, are used to sustainably produce enzymes, peptides and chemicals using natural metabolic processes. The company recognized the microbial cell factories as an intangible asset upon the acquisition of Danisco. This intangible asset is expected to contribute to cash flows beyond the foreseeable future and there are no legal, regulatory, contractual, or other factors which limit its useful life.

3 Pioneer germplasm is the pool of genetic source material and body of knowledge gained from the development and delivery stage of plant breeding. The company recognized germplasm as an intangible asset upon the acquisition of Pioneer. This intangible asset is expected to contribute to cash flows beyond the foreseeable future and there are no legal, regulatory, contractual, or other factors which limit its useful life.

The aggregate pre-tax amortization expense for definite-lived intangible assets was $92 and $198 for the three and six months ended June 30, 2012, respectively, and $70 and $137 for the three and six months ended June 30, 2011, respectively. The estimated aggregate pre-tax amortization expense for the remainder of 2012 and each of the next five years is approximately $140, $332, $348, $351, $308 and $180.

Note 7. Commitments and Contingent Liabilities
Guarantees
Indemnifications
In connection with acquisitions and divestitures, the company has indemnified respective parties against certain liabilities that may arise in connection with these transactions and business activities prior to the completion of the transaction. The term of these indemnifications, which typically pertain to environmental, tax and product liabilities, is

generally indefinite. In addition, the company indemnifies its duly elected or appointed directors and officers to the fullest extent permitted by Delaware law, against liabilities incurred as a result of their activities for the company, such as adverse judgments relating to litigation matters. If the indemnified party were to incur a liability or have a liability increase as a result of a successful claim, pursuant to the terms of the indemnification, the company would be required to reimburse the indemnified party. The maximum amount of potential future payments is generally unlimited. Although it is reasonably possible that future payments may exceed amounts accrued, due to the nature of indemnified items, it is not possible to make a reasonable estimate of the maximum potential loss or range of loss. No assets are held as collateral and no specific recourse provisions exist. The carrying amounts recorded for all indemnifications as of June 30, 2012 and December 31, 2011 were $241 and $105, respectively. The increase in the carrying amount at June 30, 2012 primarily relates to the settlement of the 2008 lawsuit filed by subsidiaries of Koch Industries, Inc. (INVISTA) alleging that certain representations and warranties in the Purchase and Sale Agreement concerning the sale of the majority of the net assets of Textiles and Interiors were breached.



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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
(Dollars in millions, except per share)

Obligations for Equity Affiliates & Others
The company has directly guaranteed various debt obligations under agreements with third parties related to equity affiliates, customers and suppliers. At June 30, 2012 and December 31, 2011, the company had directly guaranteed $485 and $563, respectively, of such obligations. These amounts represent the maximum potential amount of future (undiscounted) payments that the company could be required to make under the guarantees. The company would be required to perform on these guarantees in the event of default by the guaranteed party.

The company assesses the payment/performance risk by assigning default rates based on the duration of the guarantees. These default rates are assigned based on the external credit rating of the counterparty or through internal credit analysis and historical default history for counterparties that do not have published credit ratings. For counterparties without an external rating or available credit history, a cumulative average default rate is used.

In certain cases, the company has recourse to assets held as collateral, as well as personal guarantees from customers and suppliers. Assuming liquidation, these assets are estimated to cover approximately 48 percent of the $287 of guaranteed obligations of customers and suppliers. Set forth below are the company's guaranteed obligations at June 30, 2012:

| | Short-Term | Long-Term | Total |
|---|---|---|---|
| Obligations for customers and suppliers[1]: | | | |
| Bank borrowings (terms up to 5 years) | $167 | $120 | $287 |
| Obligations for equity affiliates[2]: | | | |
| Bank borrowings (terms up to 1 year) | 198 | — | 198 |
| Total | $365 | $120 | $485 |

1 Existing guarantees for customers and suppliers arose as part of contractual agreements.
2 Existing guarantees for equity affiliates arose for liquidity needs in normal operations.

Imprelis®
The company has received claims and been served with multiple lawsuits alleging that the use of Imprelis® herbicide caused damage to certain trees. The lawsuits seeking class action status have been consolidated in federal court in Philadelphia, Pennsylvania. In addition, about 60 individual actions have been filed in state court in various jurisdictions. DuPont is seeking to remove these cases to federal court.

In August 2011, the company suspended sales of Imprelis® and in September began a process to fairly resolve claims associated with the use of Imprelis®. The deadline for property owners to file claims was February 1, 2012, although DuPont continues to receive claims at a declining rate which it expects to consider as part of the claims resolution process. However, the company believes that the number of unasserted claims is limited due to the fact that sales were suspended in August 2011 and the product was last applied during the 2011 spring application season.

The company has established review processes to verify and evaluate damage claims. There are several variables that impact the evaluation process including the number of trees on a property, the species of tree with reported damage, the height of the tree, the extent of damage and the possibility for trees to naturally recover over time. Upon receiving claims, DuPont verifies their accuracy and validity which often requires physical review of the property.

At June 30, 2012, DuPont had recorded charges of $490 related to the Imprelis® matter, which included charges of $265 and $315 recorded during the second quarter and year-to-date 2012, respectively. It is reasonably possible that additional charges could result related to this matter. While there is a high degree of uncertainty, total charges could

range as high as $575. DuPont has submitted and will continue to submit requests for payment to its insurance carriers for costs associated with this matter in excess of $100.

Litigation

The company is subject to various legal proceedings arising out of the normal course of its business including product liability, intellectual property, commercial, environmental and antitrust lawsuits. It is not possible to predict the outcome of these various proceedings. Except as otherwise noted, management does not anticipate their resolution will have a materially adverse effect on the company's consolidated financial position or liquidity. However, the ultimate liabilities could be significant to results of operations in the period recognized.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
(Dollars in millions, except per share)

PFOA
DuPont uses PFOA (collectively, perfluorooctanoic acids and its salts, including the ammonium salt), as a processing aid to manufacture fluoropolymer resins and dispersions at various sites around the world including its Washington Works plant in West Virginia. At June 30, 2012, DuPont has accruals of $16 related to the PFOA matters discussed below.

The accrual includes charges related to DuPont's obligations under agreements with the U.S. Environmental Protection Agency and voluntary commitments to the New Jersey Department of Environmental Protection. These obligations include surveying, sampling and testing drinking water in and around certain company sites and offering treatment or an alternative supply of drinking water if tests indicate the presence of PFOA in drinking water at or greater than the national Provisional Health Advisory.

Drinking Water Actions
In August 2001, a class action, captioned Leach v DuPont, was filed in West Virginia state court alleging that residents living near the Washington Works facility had suffered, or may suffer, deleterious health effects from exposure to PFOA in drinking water.

DuPont and attorneys for the class reached a settlement in 2004 that binds about 80,000 residents. In 2005, DuPont paid the plaintiffs' attorneys' fees and expenses of $23 and made a payment of $70, which class counsel designated to fund a community health project. The company is also funding a series of health studies by an independent science panel of experts (the "C8 Science Panel") in the communities exposed to PFOA to evaluate available scientific evidence on whether any probable link exists, as defined in the settlement agreement, between exposure to PFOA and human disease. The company expects the C8 Science Panel to complete these health studies through October 2012 at a total estimated cost of $33.

In December 2011, the C8 Science Panel concluded that there is a probable link, as defined in the settlement agreement, between exposure to PFOA and pregnancy-induced hypertension, which includes preeclampsia. In April 2012, the C8 Science Panel announced its probable link determinations regarding cancer and adult onset diabetes. The C8 Science Panel found a probable link between exposure to PFOA and two categories of cancer (kidney and testicular). A panel of medical experts will determine an appropriate medical monitoring protocol, if any, as a result of these findings. If a medical monitoring protocol for any of these diseases is defined, DuPont is required to fund a medical monitoring program to pay for such medical testing. Plaintiffs may pursue personal injury claims against DuPont only for those human diseases for which the C8 Science Panel determines a probable link exists once the C8 Science Panel completes its work. In January 2012, the company put $1 in an escrow account as required by the settlement agreement. The company will reassess its liability based on the medical monitoring panel's determination since costs are not reasonably estimable until a medical monitoring protocol, if any, is identified. The company will continue to reassess its liability based on the C8 Science Panel's future probable link findings, if any, and associated medical monitoring protocols, if any. Under the settlement agreement, the company's total obligation to pay for medical monitoring cannot exceed $235. In addition, the company must continue to provide water treatment designed to reduce the level of PFOA in water to six area water districts, including the Little Hocking Water Association (LHWA), and private well users.

An Ohio action brought by the LHWA is currently in discovery. In addition to general claims of PFOA contamination of drinking water, the action claims "imminent and substantial endangerment to health and or the environment" under the Resource Conservation and Recovery Act (RCRA). DuPont denies these claims and is defending itself vigorously.

While DuPont believes that it is reasonably possible that it could incur losses related to PFOA matters in addition to those matters discussed above for which it has established accruals, a range of such losses, if any, cannot be reasonably estimated at this time.

Environmental

The company is also subject to contingencies pursuant to environmental laws and regulations that in the future may require the company to take further action to correct the effects on the environment of prior disposal practices or releases of chemical or petroleum substances by the company or other parties. The company accrues for environmental remediation activities consistent with the policy as described in the company's 2011 Annual Report in Note 1, “Summary of Significant Accounting Policies.” Much of this liability results from the Comprehensive Environmental Response, Compensation and Liability Act (CERCLA, often referred to as Superfund), RCRA and similar state and global laws. These laws require the company to undertake certain investigative, remediation and restoration activities at sites where the company conducts or once conducted operations or at sites where company-generated waste was disposed. The accrual also includes estimated costs related to a number of sites identified by the company for which it is probable that environmental remediation will be required, but which are not currently the subject of enforcement activities.

Remediation activities vary substantially in duration and cost from site to site. These activities, and their associated costs, depend on the mix of unique site characteristics, evolving remediation technologies, diverse regulatory agencies and enforcement policies,

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as well as the presence or absence of potentially responsible parties. At June 30, 2012, the Condensed Consolidated Balance Sheet included a liability of $430, relating to these matters and, in management's opinion, is appropriate based on existing facts and circumstances. The average time frame, over which the accrued or presently unrecognized amounts may be paid, based on past history, is estimated to be 15-20 years. Considerable uncertainty exists with respect to these costs and, under adverse changes in circumstances, potential liability may range up to three times the amount accrued as of June 30, 2012.

### Other

The company has various purchase commitments incident to the ordinary conduct of business. In the aggregate, such commitments are not at prices in excess of current market.

## Note 8. Stockholders' Equity

### Share Repurchase Program

During the first quarter 2012, the company entered into an agreement with a financial institution in which the company paid $400 for the purchase of shares of common stock which were received in the second quarter 2012. As a result, during the second quarter 2012, the company purchased and retired 7.8 million shares in connection with this agreement. These purchases completed the 2001 $2,000 share buyback plan and began purchases under the 2011 $2,000 share buyback plan. Under the completed 2001 plan, the company purchased a total of 42.0 million shares. Under the 2011 plan, the company has purchased 5.5 million shares at a total cost of $284 as of June 30, 2012. There is no required completion date for the purchases under the 2011 plan.

During the three months ended June 30, 2011, there were no purchases of stock under the 2001 plan. During the six months ended June 30, 2011, the company purchased and retired 5.0 million shares at a total cost of $272 under this plan.

### Noncontrolling Interest

In May 2012, the company completed the acquisition of the remaining 28 percent interest in the Solae, LLC joint venture from Bunge Limited for $447. As the purchase of the remaining interest did not result in a change of control, the difference between the carrying value of the noncontrolling interest of $362 and the consideration paid, net of taxes of $74, was recorded as an $11 reduction to additional paid-in capital.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
(Dollars in millions, except per share)

Other Comprehensive Income
A summary of the changes in other comprehensive income for the three and six months ended June 30, 2012 and 2011 is provided as follows:

| | Three Months Ended June 30, 2012 | | | Three Months Ended June 30, 2011 | | |
|---|---|---|---|---|---|---|
| | Pre-Tax | Tax | After-Tax | Pre-Tax | Tax | After-Tax |
| Cumulative translation adjustment | $(412) | $— | $(412) | $73 | $— | $73 |
| Net revaluation and clearance of cash flow hedges to earnings: | | | | | | |
| Additions and revaluations of derivatives designated as cash flow hedges | 38 | (15) | 23 | (5) | 2 | (3) |
| Clearance of hedge results to earnings | (23) | 10 | (13) | 25 | (9) | 16 |
| Net revaluation and clearance of cash flow hedges to earnings | 15 | (5) | 10 | 20 | (7) | 13 |
| Pension benefit plans: | | | | | | |
| Net gain (loss) | 4 | 7 | 11 | (3) | 1 | (2) |
| Prior service cost | — | (1) | (1) | (2) | — | (2) |
| Amortization of prior service cost | 3 | (1) | 2 | 4 | (1) | 3 |
| Amortization of loss | 220 | (77) | 143 | 153 | (53) | 100 |
| Pension benefit plans, net | 227 | (72) | 155 | 152 | (53) | 99 |
| Other benefit plans: | | | | | | |
| Amortization of prior service benefit | (30) | 9 | (21) | (31) | 11 | (20) |
| Amortization of loss | 22 | (7) | 15 | 15 | (5) | 10 |
| Other benefit plans, net | (8) | 2 | (6) | (16) | 6 | (10) |
| Net unrealized gain (loss) on securities: | | | | | | |
| Unrealized loss on securities arising during the period | (1) | — | (1) | (1) | — | (1) |
| Reclassification of loss realized in net income | 2 | (1) | 1 | — | — | — |
| Net unrealized gain (loss) on securities | 1 | (1) | — | (1) | — | (1) |
| Other comprehensive (loss) income | $(177) | $(76) | $(253) | $228 | $(54) | $174 |

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| | Six Months Ended June 30, 2012 | | | Six Months Ended June 30, 2011 | | |
|---|---|---|---|---|---|---|
| | Pre-Tax | Tax | After-Tax | Pre-Tax | Tax | After-Tax |
| Cumulative translation adjustment | $(242) | $— | $(242) | $117 | $— | $117 |
| Net revaluation and clearance of cash flow hedges to earnings: | | | | | | |
| Additions and revaluations of derivatives designated as cash flow hedges | 36 | (15) | 21 | 3 | (1) | 2 |
| Clearance of hedge results to earnings | (55) | 23 | (32) | 52 | (20) | 32 |
| Net revaluation and clearance of cash flow hedges to earnings | (19) | 8 | (11) | 55 | (21) | 34 |
| Pension benefit plans: | | | | | | |
| Net loss | (19) | 10 | (9) | (3) | 1 | (2) |
| Prior service cost | 22 | (8) | 14 | (2) | — | (2) |
| Amortization of prior service cost | 7 | (2) | 5 | 8 | (2) | 6 |
| Amortization of loss | 439 | (152) | 287 | 306 | (106) | 200 |
| Pension benefit plans, net | 449 | (152) | 297 | 309 | (107) | 202 |
| Other benefit plans: | | | | | | |
| Amortization of prior service benefit | (60) | 20 | (40) | (61) | 22 | (39) |
| Amortization of loss | 44 | (15) | 29 | 30 | (10) | 20 |
| Other benefit plans, net | (16) | 5 | (11) | (31) | 12 | (19) |
| Net unrealized gain on securities: | | | | | | |
| Unrealized gain on securities arising during the period | — | — | — | — | — | — |
| Reclassification of loss realized in net income | 2 | (1) | 1 | — | — | — |
| Unrealized gain on securities | 2 | (1) | 1 | — | — | — |
| Other comprehensive income | $174 | $(140) | $34 | $450 | $(116) | $334 |

Note 9. Financial Instruments

Debt

The estimated fair value of the company's total debt including interest rate financial instruments was determined using level 2 inputs within the fair value hierarchy, as described in the company's 2011 Annual Report in Note 1, “Summary of Significant Accounting Policies.” Based on quoted market prices for the same or similar issues or on current rates offered to the company for debt of the same remaining maturities, the fair value of the company's debt was approximately $16,313 and $13,880 as of June 30, 2012 and December 31, 2011, respectively.

Cash Equivalents

The estimated fair value of the company's cash equivalents was determined using level 2 inputs. Based on current interest rates for similar investments with comparable credit risk and time to maturity, the fair value of the company's cash equivalents approximates its stated value of $1,628 and $1,932 as of June 30, 2012 and December 31, 2011, respectively.

Derivative Instruments

Objectives and Strategies for Holding Derivative Instruments

In the ordinary course of business, the company enters into contractual arrangements (derivatives) to reduce its exposure to foreign currency, interest rate and commodity price risks. The company has established a variety of derivative programs to be utilized for financial risk management. These programs reflect varying levels of exposure

coverage and time horizons based on an assessment of risk.

Derivative programs have procedures and controls and are approved by the Corporate Financial Risk Management Committee, consistent with the company's financial risk management policies and guidelines. Derivative instruments used are forwards, options, futures and swaps. The company has not designated any nonderivatives as hedging instruments.

The company's financial risk management procedures also address counterparty credit approval, limits and routine exposure monitoring and reporting. The counterparties to these contractual arrangements are major financial institutions and major

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commodity exchanges. The company is exposed to credit loss in the event of nonperformance by these counterparties. The company anticipates performance by counterparties to these contracts and therefore no material loss is expected. Market and counterparty credit risks associated with these instruments are regularly reported to management.

The notional amounts of the company's derivative instruments were as follows:

| | June 30, 2012 | December 31, 2011 |
|---|---|---|
| Derivatives designated as hedging instruments: | | |
| Interest rate swaps | $1,000 | $1,000 |
| Foreign currency contracts | 1,547 | 2,032 |
| Commodity contracts | 90 | 553 |
| Derivatives not designated as hedging instruments: | | |
| Foreign currency contracts | 8,040 | 6,444 |
| Commodity contracts | 95 | 437 |

Foreign Currency Risk
The company's objective in managing exposure to foreign currency fluctuations is to reduce earnings and cash flow volatility associated with foreign currency rate changes. Accordingly, the company enters into various contracts that change in value as foreign exchange rates change to protect the value of its existing foreign currency-denominated assets, liabilities, commitments and cash flows.

The company routinely uses forward exchange contracts to offset its net exposures, by currency, related to the foreign currency-denominated monetary assets and liabilities of its operations. The primary business objective of this hedging program is to maintain an approximately balanced position in foreign currencies so that exchange gains and losses resulting from exchange rate changes, net of related tax effects, are minimized. The company also uses foreign currency exchange contracts to offset a portion of the company's exposure to certain foreign currency-denominated revenues so that gains and losses on these contracts offset changes in the USD value of the related foreign currency-denominated revenues. The objective of the hedge program is to reduce earnings and cash flow volatility related to changes in foreign currency exchange rates.

Interest Rate Risk
The company uses interest rate swaps to manage the interest rate mix of the total debt portfolio and related overall cost of borrowing.
Interest rate swaps involve the exchange of fixed for floating rate interest payments to effectively convert fixed rate debt into floating rate debt based on USD LIBOR. Interest rate swaps allow the company to achieve a target range of floating rate debt.

Commodity Price Risk
Commodity price risk management programs serve to reduce exposure to price fluctuations on purchases of inventory such as copper, corn, soybeans, soybean meal and natural gas. The company enters into over-the-counter and exchange-traded derivative commodity instruments to hedge the commodity price risk associated with energy feedstock and agricultural commodity exposures.

Fair Value Hedges
Interest Rate Swaps
At June 30, 2012, the company maintained a number of interest rate swaps, which were implemented at the time debt instruments were issued. All interest rate swaps qualify for the shortcut method of hedge accounting, thus there is no

ineffectiveness related to these hedges.

Cash Flow Hedges

Foreign Currency Contracts

The company uses foreign currency exchange instruments such as forwards and options to offset a portion of the company's exposure to certain foreign currency-denominated revenues so that gains and losses on these contracts offset changes in the USD value of the related foreign currency-denominated revenues.

Commodity Contracts

The company enters into over-the-counter and exchange-traded derivative commodity instruments, including options, futures and swaps, to hedge the commodity price risk associated with energy feedstock and agriculture commodity exposures.

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While each risk management program has a different time maturity period, most programs currently do not extend beyond the next two-year period. Cash flow hedge results are reclassified into earnings during the same period in which the related exposure impacts earnings. Reclassifications are made sooner if it appears that a forecasted transaction will not materialize. The following table summarizes the after-tax effect of cash flow hedges on accumulated other comprehensive income (loss) for the three and six months ended June 30, 2012 and 2011:

| | Three Months Ended June 30, | | Six Months Ended June 30, | |
|---|---|---|---|---|
| | 2012 | 2011 | 2012 | 2011 |
| Beginning balance | $19 | $(9) | $41 | $(31) |
| Net revaluation and clearance of cash flow hedges to earnings | 10 | 15 | (12) | 37 |
| Ending balance | $29 | $6 | $29 | $6 |

At June 30, 2012, the after-tax amount expected to be reclassified from accumulated other comprehensive income (loss) into earnings over the next 12 months is $28.

Derivatives not Designated in Hedging Relationships
Foreign Currency Contracts
The company routinely uses forward exchange contracts to reduce its net exposure, by currency, related to foreign currency-denominated monetary assets and liabilities of its operations so that exchange gains and losses resulting from exchange rate changes are minimized. The netting of such exposures precludes the use of hedge accounting; however, the required revaluation of the forward contracts and the associated foreign currency-denominated monetary assets and liabilities intends to achieve a minimal earnings impact, after taxes. Additionally, the company has cross-currency swaps to hedge foreign currency fluctuations on long-term intercompany loans.

Commodity Contracts
The company utilizes options, futures and swaps that are not designated as hedging instruments to reduce exposure to commodity price fluctuations on purchases of inventory such as corn, soybeans and soybean meal.

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Fair Values of Derivative Instruments

The table below presents the fair values of the company's derivative assets and liabilities within the fair value hierarchy, as described in the company's 2011 Annual Report in Note 1, "Summary of Significant Accounting Policies."

| | | Fair Value Using Level 2 Inputs | |
|---|---|---|---|
| | Balance Sheet Location | June 30, 2012 | December 31, 2011 |
| Asset derivatives: | | | |
| Derivatives designated as hedging instruments: | | | |
| Interest rate swaps | Other assets | $62 | $66 |
| Foreign currency contracts | Accounts and notes receivable, net | 35 | 44 |
| | | 97 | 110 |
| Derivatives not designated as hedging instruments: | | | |
| Foreign currency contracts | Accounts and notes receivable, net | 102 | 100 |
| Foreign currency contracts | Other assets | 83 | 43 |
| | | 185 | 143 |
| Total asset derivatives | | $282 | $253 |
| Liability derivatives: | | | |
| Derivatives designated as hedging instruments: | | | |
| Foreign currency contracts | Other accrued liabilities | $1 | $12 |
| Commodity contracts | Other accrued liabilities | 1 | 1 |
| | | 2 | 13 |
| Derivatives not designated as hedging instruments: | | | |
| Foreign currency contracts | Other accrued liabilities | 32 | 21 |
| Commodity contracts | Other accrued liabilities | 2 | 2 |
| | | 34 | 23 |
| Total liability derivatives | | $36 | $36 |

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Effect of Derivative Instruments

| | Amount of Gain (Loss) Recognized in OCI[1] (Effective Portion) | | Amount of Gain (Loss) Recognized in Income[2] | | |
|---|---|---|---|---|---|
| Three Months Ended June 30, | 2012 | 2011 | 2012 | 2011 | Income Statement Classification |
| Derivatives designated as hedging instruments: | | | | | |
| Fair value hedges: | | | | | |
| Interest rate swaps | $— | $— | $(1) | $20 | Interest expense[3] |
| Cash flow hedges: | | | | | |
| Foreign currency contracts | 27 | 1 | 4 | (7) | Net sales |
| Commodity contracts | 12 | (4) | 19 | (18) | COGS[4] |
| | 39 | (3) | 22 | (5) | |
| Derivatives not designated as hedging instruments: | | | | | |
| Foreign currency contracts | — | — | 238 | (51) | Other income, net[5] |
| Commodity contracts | — | — | (3) | 10 | COGS[4] |
| Interest rate swaps | — | — | — | (1) | COGS[4] |
| | — | — | 235 | (42) | |
| Total derivatives | $39 | $(3) | $257 | $(47) | |

| | Amount of Gain (Loss) Recognized in OCI[1] (Effective Portion) | | Amount of Gain (Loss) Recognized in Income[2] | | |
|---|---|---|---|---|---|
| Six Months Ended June 30, | 2012 | 2011 | 2012 | 2011 | Income Statement Classification |
| Derivatives designated as hedging instruments: | | | | | |
| Fair value hedges: | | | | | |
| Interest rate swaps | $— | $— | $(4) | $9 | Interest expense[3] |
| Cash flow hedges: | | | | | |
| Foreign currency contracts | 17 | (20) | 7 | (12) | Net sales |
| Commodity contracts | 18 | 26 | 48 | (40) | COGS[4] |
| | 35 | 6 | 51 | (43) | |
| Derivatives not designated as hedging instruments: | | | | | |
| Foreign currency contracts | — | — | 110 | (424) | Other income, net[5] |
| Commodity contracts | — | — | (14) | 11 | COGS[4] |
| Interest rate swaps | — | — | — | (1) | COGS[4] |
| | — | — | 96 | (414) | |
| Total derivatives | $35 | $6 | $147 | $(457) | |

[1] OCI is defined as other comprehensive income (loss).

[2] For cash flow hedges, this represents the effective portion of the gain (loss) reclassified from accumulated OCI into income during the period. For the three and six months ended June 30, 2012 and 2011, there was no material ineffectiveness with regard to the company's cash flow hedges.

[3] Gain (loss) recognized in income of derivative is offset to $0 by gain (loss) recognized in income of the hedged item.

[4] COGS is defined as costs of goods sold and other operating charges.

[5] Gain (loss) recognized in other income, net, was partially offset by the related gain (loss) on the foreign currency-denominated monetary assets and liabilities of the company's operations, which were $(210) and $55 for the three months ended June 30, 2012 and 2011, respectively, and $(162) and $285 for the six months ended June 30, 2012 and 2011, respectively.

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Note 10. Long-Term Employee Benefits

The following sets forth the components of the company's net periodic benefit cost for pensions:

| | Three Months Ended June 30, | | Six Months Ended June 30, | |
|---|---|---|---|---|
| | 2012 | 2011 | 2012 | 2011 |
| Service cost | $66 | $61 | $134 | $120 |
| Interest cost | 295 | 314 | 592 | 624 |
| Expected return on plan assets | (379) | (369) | (760) | (734) |
| Amortization of unrecognized loss | 220 | 153 | 439 | 306 |
| Amortization of prior service cost | 3 | 4 | 7 | 8 |
| Net periodic benefit cost | $205 | $163 | $412 | $324 |

The following sets forth the components of the company's net periodic benefit cost for other long-term employee benefits:

| | Three Months Ended June 30, | | Six Months Ended June 30, | |
|---|---|---|---|---|
| | 2012 | 2011 | 2012 | 2011 |
| Service cost | $10 | $9 | $19 | $17 |
| Interest cost | 48 | 53 | 96 | 106 |
| Amortization of unrecognized loss | 22 | 15 | 44 | 30 |
| Amortization of prior service benefit | (30) | (31) | (60) | (61) |
| Net periodic benefit cost | $50 | $46 | $99 | $92 |

Note 11. Segment Information

Segment sales include transfers to another business segment. Products are transferred between segments on a basis intended to reflect, as nearly as practicable, the market value of the products. Segment pre-tax operating income (loss) (PTOI) is defined as income (loss) before income taxes excluding exchange gains (losses), corporate expenses and interest.

| Three Months Ended June 30, | Agriculture[1] | Electronics & Communications | Industrial Biosciences | Nutrition & Health | Performance Chemicals | Performance Coatings | Performance Materials | Safety & Protection | Pharmaceuticals | Other | Total |
|---|---|---|---|---|---|---|---|---|---|---|---|
| 2012 | | | | | | | | | | | |
| Segment sales | $ 3,388 | $ 795 | $300 | $885 | $ 1,968 | $ 1,089 | $ 1,699 | $986 | $ — | $1 | $11,111 |
| Less: Transfers | 2 | 5 | 2 | — | 69 | — | 24 | 3 | — | — | 105 |
| Net sales | 3,386 | 790 | 298 | 885 | 1,899 | 1,089 | 1,675 | 983 | — | 1 | 11,006 |
| PTOI | 661 [2] | 197 [3] | 44 | 112 | 538 | 92 | 317 | 127 | 16 | (206) [4] | 1,898 |
| 2011 | | | | | | | | | | | |
| Segment sales | $ 2,997 | $ 891 | $123 | $486 | $ 1,995 | $ 1,105 | $ 1,745 | $1,025 | $ — | $1 | $10,368 |
| Less: Transfers | — | 5 | 1 | — | 69 | — | 26 | 3 | — | — | 104 |
| Net sales | 2,997 | 886 | 122 | 486 | 1,926 | 1,105 | 1,719 | 1,022 | — | 1 | 10,264 |
| PTOI | 826 | 103 | (7) [5] | 5 [5] | 503 | 73 | 254 | 143 | 80 | (37) | 1,943 |

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| Six Months Ended June 30, | Agriculture[1] | Electronics & Communications | Industrial Biosciences | Nutrition & Health | Performance Chemicals | Performance Coatings | Performance Materials | Safety & Protection | Pharm-aceuticals | Other | Total |
|---|---|---|---|---|---|---|---|---|---|---|---|
| 2012 | | | | | | | | | | | |
| Segment sales | $ 7,468 | $ 1,472 | $ 588 | $ 1,693 | $ 3,868 | $ 2,139 | $ 3,299 | $ 1,927 | $ — | $ 2 | $ 22,456 |
| Less: Transfers | 4 | 9 | 5 | — | 146 | — | 50 | 6 | — | — | 220 |
| Net sales | 7,464 | 1,463 | 583 | 1,693 | 3,722 | 2,139 | 3,249 | 1,921 | — | 2 | 22,236 |
| PTOI | 1,925 [2] | 230 [3] | 85 | 195 | 1,050 | 179 | 557 | 227 | 43 | (266) [4] | 4,225 |
| 2011 | | | | | | | | | | | |
| Segment sales | $ 6,501 | $ 1,702 | $ 123 | $ 810 | $ 3,792 | $ 2,098 | $ 3,452 | $ 1,990 | $ — | $ 37 | $ 20,505 |
| Less: Transfers | — | 10 | 1 | — | 136 | — | 54 | 6 | — | — | 207 |
| Net sales | 6,501 | 1,692 | 122 | 810 | 3,656 | 2,098 | 3,398 | 1,984 | — | 37 | 20,298 |
| PTOI | 1,937 | 214 | (7) [5] | 30 [5] | 897 | 138 | 542 | 288 | 130 | (101) | 4,068 |

1 As of June 30, 2012, Agriculture net assets were $8,221, an increase of $3,456 from $4,765 at December 31, 2011. The increase was primarily due to higher trade receivables due to normal seasonality in the sales and cash collections cycle.

2 Included charges of $(265) and $(315) during the three and six months ended June 30, 2012, respectively, recorded in cost of goods sold and other operating charges associated with the company's process to fairly resolve claims associated with the use of Imprelis®. See Note 7 for additional information.

3 Included a $122 gain recorded in other income, net related to the sale of the company's interest in an equity method investment.

4 Included a $(137) charge recorded in cost of goods sold and other operating charges primarily related to the company's settlement of litigation with INVISTA. See Note 7 for additional information.

5 Included a $(50) charge for transaction related costs and the fair value step-up of inventories that were acquired as part of the Danisco acquisition in 2011, which impacted the segments as follows: Industrial Biosciences - $(17) and Nutrition & Health - $(33).

Reconciliation to Consolidated Income Statements

| | Three Months Ended June 30, | | Six Months Ended June 30, | |
|---|---|---|---|---|
| | 2012 | 2011 | 2012 | 2011 |
| Total segment PTOI | $ 1,898 | $ 1,943 | $ 4,225 | $ 4,068 |
| Net exchange gains (losses), including affiliates | 28 | 4 | (52) | (139) |
| Corporate expenses and net interest | (289) | (358) | (595) | (638) |
| Income before income taxes | $ 1,637 | $ 1,589 | $ 3,578 | $ 3,291 |

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## Item 2. 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," "believes," "intends," "projects," "estimates" or other words of similar meaning. All statements that addre expectations or projections about the future, including statements about the company's strategy for growth, product development, regulatory approval, market position, anticipated benefits of recent acquisitions, outcome of contingencies, such as litigation and environmental matters, expenditures and financial results, are forward-looking statements.

Forward-looking statements are based on certain assumptions and expectations of future events which may not be accurate or realized. Forward-looking statements also involve risks and uncertainties, many of which are beyond the company's control. 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 are:

- Fluctuations in energy and raw material prices;
- Failure to develop and market new products and optimally manage product life cycles;
- Outcome of significant litigation and environmental matters, including those related to divested businesses;
- Failure to appropriately manage process safety and product stewardship issues;
- Effect of changes in tax, environmental and other laws and regulations or political conditions in the United States of America (U.S.) and other countries in which the company operates;
- Conditions in the global economy and global capital markets, including economic factors, such as inflation, deflation and fluctuations in currency exchange rates, interest rates and commodity prices, as well as regulatory requirements;
- Impact of business disruptions, including supply disruptions, and security threats, regardless of cause, including acts of sabotage, cyber-attacks, terrorism or war, weather events and natural disasters;
- Inability to protect and enforce the company's intellectual property rights; and
- Successful integration of acquired businesses and completion of divestitures of underperforming or non-strategic assets or businesses.

For additional information on these and other risks and factors that could affect our forward-looking statements, see the company's Risk Factors set forth under Part I, Item 1A of the company's 2011 Annual Report.

Results of Operations

Overview

The company continued to execute its strategy for growth by applying its science and technology to address three challenges driven by global population growth: feeding the world, reducing our dependence on fossil fuels and keeping people and the environment safe. The following are highlights from the results of operations for the three and six months ended June 30, 2012:

- Second quarter and year-to-date 2012 earnings were $1.25 and $2.82 per share, respectively, versus $1.29 and $2.80 per share in the same periods last year.
- Sales of $11.0 billion for the second quarter 2012 were up 7 percent including 6 percent higher local prices and a 5 percent net sales increase from portfolio changes. Volume was 1 percent lower compared to the same period last year, but increased sequentially from the first quarter to the seasonally stronger second quarter. Sales in developing markets[1] grew 11 percent, led by growth in Agriculture and the benefit of prior-year acquisitions in Nutrition & Health and Industrial Biosciences. Year-to-date sales of $22.2 billion were up $1.9 billion or 10 percent.
- Segment pre-tax operating income for the second quarter 2012 was $1,898 million versus $1,943 million for the same period last year. Year-to-date segment pre-tax operating income was $4,225 million, up 4 percent compared to the

same period last year.

- DuPont continues to achieve fixed cost, working capital and variable cost productivity through disciplined business processes called DuPont Integrated Business Management and DuPont Production Systems. The company is ahead of plan versus its full-year 2012 productivity targets of $300 million for both fixed costs and working capital, achieving year-to-date improvements of approximately $190 million for fixed costs.

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[1] Developing markets include China, India and countries located in Latin America, Eastern and Central Europe, Middle East, Africa and Southeast Asia.

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Net Sales

Net sales for the second quarter 2012 were $11.0 billion versus $10.3 billion in the prior year, an increase of 7 percent, reflecting 6 percent higher local prices and a 5 percent net increase from portfolio changes, principally the Danisco acquisition, partly offset by a 3 percent reduction from currency impact and 1 percent lower volume. The decline in total company volume reflects higher volumes for Agriculture, Nutrition & Health, Performance Materials and Industrial Biosciences, more than offset by lower combined volume for the other segments. Sales in developing markets totaling $3.4 billion increased 11 percent from 2011 including the benefit from portfolio changes. The percentage of total company sales in these markets increased to 30 percent from 29 percent in the prior year.

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

| | Three Months Ended June 30, 2012 | | Percent Change Due to: | | | |
|---|---|---|---|---|---|---|
| | Net Sales ($ Billions) | Percent Change vs. 2011 | Local Price | Currency Effect | Volume | Portfolio |
| Worldwide | $11.0 | 7 | 6 | (3) | (1) | 5 |
| U.S. & Canada | 5.0 | 12 | 8 | — | 2 | 2 |
| Europe, Middle East & Africa (EMEA) | 2.5 | (2) | 5 | (7) | (8) | 8 |
| Asia Pacific | 2.4 | 5 | 1 | (1) | (1) | 6 |
| Latin America | 1.1 | 14 | 9 | (5) | 4 | 6 |

Net sales for the six months ended June 30, 2012 were $22.2 billion versus $20.3 billion in the prior year, an increase of 10 percent, reflecting a 6 percent net increase from portfolio changes, principally the Danisco acquisition, and an 8 percent increase in local prices, partly offset by 2 percent lower volume and a 2 percent sales reduction from currency impact. The decline in total company volume reflects higher Agriculture global volume more than offset by lower volume for the other segments combined, primarily related to lower demand in the EMEA and Asia Pacific regions. Sales in developing markets totaling $6.8 billion improved 13 percent from 2011 including the benefit from portfolio changes. The percentage of total company sales in these markets increased to 31 percent from 30 percent in the prior year.

| | Six Months Ended June 30, 2012 | Percent Change Due to: |
|---|---|---|
| | Net Sales ($ Billions) | |