

### **Affidavit of Claire P. Gotham**

Claire P. Gotham, being first duly sworn, disposes and says:

1 Pursuant to an order of the Court dated February 13, 2007, Richard M. Hutson, II (the "Trustee"), Chapter 11 Trustee for Natural Gas Distributors, LLC (the "Debtor") in Case No. 06-00166-8-ATS now pending in the U.S. Bankruptcy Court for the Eastern District of North Carolina, employed Claire P. Gotham and the firm of GSC Energy, Inc. to provide expert testimony and litigation support.

2 My resume setting out my background and experience in the energy industry is attached hereto as Exhibit 1. Based upon my specialized knowledge, skill, experience, training and education involving the natural gas industry as summarized in my resume, and after applying my experience to the matters discussed in this affidavit, I believe that I have a sufficient basis to form the opinions set forth below.

3 In developing the opinions set forth in this Affidavit, I have reviewed the following:

- a. Authentication Declaration of Robert E. Miller (the "Miller Affidavit") and supporting exhibits attached (i) as Exhibit B to the memorandum in support of the Motions to Dismiss and for Summary Judgment filed by Smithfield Packing Company ("Smithfield") in AP No. 06-00267-8-ATS, and (ii) as Exhibit B to the memorandum in support of the Motions to Dismiss and for Summary Judgment filed by Stadler's Country Hams, Inc. ("Stadler") in AP No. 06-00266-8-ATS.
- b. Authentication Declaration of David J. Maier (the "Maier Affidavit") and supporting exhibits attached as Exhibit B to the memorandum in support of the Motions to Dismiss and for Summary Judgment filed by E.I. Du Pont De Nemours and Company's ("Dupont") in AP No. 06-00268-8-ATS.

- c. North American Energy Standards Board, Inc. (“NAESB”) Base Contract for Sale and Purchase of Natural Gas, NAESB Standard 6.3.1 dated April 19, 2002 (the “NAESB Base Contract”), as used by the Debtor and the Defendant and a copy of which is attached to the Miller Affidavit and the Maier Affidavit.
- d. International Swaps and Derivatives Association (“ISDA”) 2002 Master Agreement.
- e. Financial Accounting Standards Board Statement No. 133 as amended and interpreted, “Accounting for Derivative Instruments and Hedging Activities” (“FAS 133”).
- f. 2005 Forms 10K filed by Smithfield and Dupont with the Securities and Exchange Commission, relevant portions of which as discussed below are attached hereto as Exhibits 2 and 3, respectively.

4 The transactions described in the Miller Affidavit and the Maier Affidavit are contracts for the purchase and sale of a physical commodity (sometimes referred to as “physical contracts”) and reflect an agreement between two parties for the actual delivery by a seller (the Debtor) to a purchaser (Smithfield, Stadler or Dupont) as an end-user of the commodity (natural gas). Transactions involving the physical transfer of a commodity are typically documented by use of the NAESB Base Contract, which is the industry-standard contract document for physical contracts prescribed by the North American Energy Standards Board, Inc.

5 The NAESB Base Contract provides an agreed set of terms and conditions which will apply to subsequent physical contracts for the sale of natural gas as and when the parties may agree to one or more transactions. The NAESB Base Contract was in fact used by the Debtor in its transactions with Smithfield, Stadler and Dupont, and the particular transactions involved

reflect a series of sales and deliveries of physical goods over the period in question, as set forth in the Miller Affidavit and the Maier Affidavit.

6 Swap agreements are “financial instruments (contracts) that do not represent ownership rights in any asset but, rather, derive their value from the value of some other underlying commodity or other asset.”<sup>1</sup> The Financial Accounting Standards Board defines a derivative as:

“A financial instrument or other contract” with all three of the following characteristics:

- a. it has one or more underlyings and one or more notional amounts or payment provisions or both
- b. it requires no initial net investment (or practically none)
- c. its terms require or permit net settlement <sup>2</sup>

7 Unlike the transactions involving the physical transfer of a commodity where the NAESB Base Contract was used by Debtor and the other parties, swap participants typically use the 2002 Master Agreement prescribed by the International Swaps and Derivatives Association (ISDA) for their contract documentation.

8 Physical contracts are distinctly different from swap agreements, also known as derivatives, which involve the purchase or sale of financial instruments or derivative instruments and provide for an exchange of cash flows with differing characteristics and an ultimate net “settlement” between the parties. While physical contracts involve the sale and delivery of goods by the seller and the corresponding payment of the purchase price by the purchaser, swap agreements involve the exchange of similar but differing obligations followed by a settlement payment from one party to the other. For example, in a swap transaction one party could “swap” one type of risk such as one dependent on a fixed price for another type of risk such as one dependent on a floating price. That floating price is usually tied to a market-based indicator, such

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<sup>1</sup> <http://www.eia.doe.gov/oiaf/servicrpt/derivative/index.html>

<sup>2</sup> FASB Statement No. 133 as amended and interpreted, “Accounting for Derivative Instruments and Hedging Activities”

as an index price. The other party takes on the opposite risk. The parties then exchange (swap) a set of payments dependent on the difference between the two cash flows generated by the different risks at specified, agreed upon intervals. No physical commodity is exchanged.

9 By way of contrast, a physical contract is never “settled” to adjust for risk or market fluctuations, and a swap agreement is never settled by the delivery or exchange of goods.

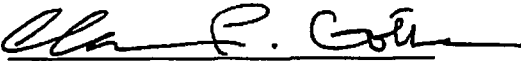
10 Regardless of whether a physical contract may be labeled as or considered to be a forward contract, the underlying characteristics of the transaction will determine whether the market considers the arrangement to be a swap agreement. A physical contract lacks the essential elements of a swap agreement, in that a physical contract is not a purely financial arrangement between two financial contract parties participating in a financial market. Thus, a forward contract in and of itself is not a swap agreement if the true characteristics of a swap are lacking.

11 Many market participants use the Intercontinental Exchange (“ICE”) as a method for price discovery and/or trading exchange for energy transactions. ICE operates an electronic marketplace for trading both futures and OTC energy contracts. ICE offers OTC market participants a selection of derivative contracts, as well as contracts for physical delivery of commodities. The types of OTC products available for trading in ICE’s markets include forwards and swaps. ICE offers a range of OTC contracts based on crude oil and refined products, natural gas, power and emissions. ICE specifically lists swaps contracts for the following commodities: global oil, North American power, North American gas, UK gas and UK power. On the physical natural gas side, ICE offers hundreds of products for trade, varying by delivery point, term, etc. ICE clearly delineates and separates contracts/products that settle through physical delivery from those that are cash-settled. These are not considered by the marketplace to be the same thing, or subsets of the same thing.


12 The Financial Accounting Standards Board's Statement of Financial Accounting Standards No. 133<sup>3</sup> ("FAS 133") requires that a reporting entity recognize all derivatives measured at fair value as either assets or liabilities in its statement of financial position unless the derivative meets certain exceptions including one for normal purchases and sales. I have reviewed the statement of financial position and accompanying notes contained in the financial statements filed with the 2005 Form 10K filed by Smithfield<sup>4</sup> and Dupont with the Securities and Exchange Commission. Neither of these parties recognized the transactions that are the subject of this litigation as derivatives in their statements of financial position.

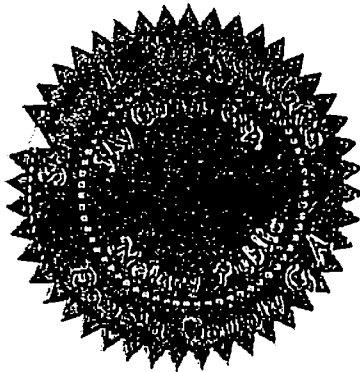
13 I am not aware of any market that would recognize the transactions described in the Miller Affidavit and the Maier Affidavit as swap agreements, and in my opinion the transactions are not swap agreements.

This the 13<sup>th</sup> day of March 2007.

  
Claire P. Gotham

Sworn to and subscribed before me this  
the 13<sup>th</sup> day of March 2007.

  
Notary Public  
My Commission Expires: 2-1-09



<sup>3</sup> FASB Statement No. 133 as amended and interpreted, "Accounting for Derivative Instruments and Hedging Activities"

<sup>4</sup> According to the answer filed by Stadler in the adversary proceeding, Stadler is now a subsidiary of Smithfield.

**EXHIBIT 1**

**Resume of Claire P. Gotham**

EXHIBIT 1 TO AFFIDAVIT

**Claire P. Gotham**

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GSC Energy, Inc.  
(404) 889-0652  
Claire@hedger.com

**HIGHLIGHTS**

- Experience in multiple areas of energy industry, including retail end-users, utilities, & wholesale trading
- Extensive skills & experience in client relations, negotiations, & account management
- Recognized speaker, with proven experience in leading large seminars on energy-related issues

**Relevant Professional Experience**

**GSC Energy, Inc., Atlanta, GA**

**05/06 to Present**

*President*

- ❖ Oversee all day to day duties involved in developing & managing consulting business
- ❖ Develop and execute marketing plan for new business lines
- ❖ Teach energy risk management seminars across the country including:
  - *FAS 133 Derivative & Hedge Accounting*
  - *Natural Gas Hedging 101*
  - *Advanced Natural Gas Hedging and Deal Structure*
- ❖ Develop service offerings and perform market research

**Deloitte & Touche, Los Angeles, CA**

**09/05 – 05/06**

*Senior Consultant*

- ❖ Performed various duties as a subject matter expert in the following areas:
  - Risk analysis and management concepts and practices
  - Internal controls related to the trade life cycle (including front, middle, and back office functions)
  - Specific deregulated regional energy markets
  - Regulatory issues affecting deregulated wholesale energy markets
  - Fundamental analysis of physical energy markets
- ❖ Developed service offerings and performed market research
- ❖ Reviewed and analyzed clients risk management policies and procedures

**Independent Consultant, Los Angeles, CA**

**06/02 to 09/05**

- ❖ Development & execution of risk management strategies, such as physical or financial hedges
- ❖ Analysis of energy market fundamentals & current events
- ❖ Provide current & forward pricing for various natural gas markets, at both citygates & burnertips
- ❖ Trading of natural gas, both physical & financial
- ❖ Review, validate & update current energy information infrastructure
- ❖ Manage all operational issues, from physical flow to contract negotiations

**PacifiCorp Power Marketing, Portland, OR**

**06/01 to 06/02**

***Lead/Senior Gas Trader***

- ❖ Developed & executed monthly trading strategy around company's fuel supply requirements for generation projects
- ❖ Managed strategy daily by monitoring market activity, risk management system reports, & power-trading
- ❖ Participated in the development of intermediate & long-term fuel supply strategies
- ❖ Executed gas trades for all spark spread transactions, both speculative & for asset management
- ❖ Executed trades for proprietary trading book, with company set profit goals & stop losses
- ❖ Continuously monitored market for capacity opportunities, forward basis markets for spread & basis hedging opportunities, & the NYMEX for price hedging opportunities
- ❖ Reported daily to entire trading group on EIA/AGA storage developments & market impact
- ❖ Monitored & evaluated all regulatory proceedings & rulings, & advised on business impact

**Sempra Energy Solutions, Los Angeles, CA**

**10/99 to 1/01**

***Natural Gas Portfolio Manager***

- ❖ Developed portfolio strategy of natural gas supply & delivery for 200+ industrial/commercial retail accounts
- ❖ Negotiated pricing & supply agreements for term & immediate supply needs
- ❖ Hedged transactions to lock in margins & to manage price risk, utilizing derivatives
- ❖ Managed imbalances through trading & storage on six separate delivery systems in the West, core & non-core
- ❖ Managed storage injections & withdrawals to maximize operational flexibility & capture seasonal price variations
- ❖ Developed & implemented strategy for product design & pricing which allowed company to earn margin & offer competitive products while minimizing risk
- ❖ Executed daily to multi-year energy usage forecasts for retail customers
- ❖ Generated offers for fixed prices, caps, floors, collars, & index based pricing for national sales force
- ❖ Created & authored daily e-newsletters to customers, detailing prices, market outlook & recommendations

**Cook Inlet Energy Supply, Los Angeles, CA**

**9/98 to 10/99**

***Manager, Transportation & Exchange***

- ❖ Traded physical & financial natural gas in Canada, the Pacific Northwest, California, & Rockies, including futures, swaps, & options
- ❖ Purchased/Sold spot natural gas to maximize monthly positions & to increase revenue
- ❖ Negotiated pricing with other marketing firms & financial brokers for long term deals
- ❖ Supervised scheduling, nominating, dispatching gas on a daily & intra-day basis, resolving allocations & imbalances
- ❖ Researched & recommended strategy regarding natural gas storage/transportation projects, & regulatory issues
- ❖ Acquired & coordinated the acquisition of gas transportation, including released capacity
- ❖ Composed & presented transportation & storage analysis for potential buyers, during corporate sale process
- ❖ Represented CIES as a speaker at energy industry trade shows, customer meetings, & conferences



**Pacific Gas & Electric Company, San Francisco, CA**

**9/96 – 9/98**

***Product Management/ Product Development***

- ❖ Responsible for all parts of product process: concept development, program policies, market introduction, product management, & contract negotiation
- ❖ Led cross-functional teams to create & launch new products, with operational, financial, regulatory considerations
- ❖ Developed product enhancements based on market knowledge, customer segmentation, & market research
- ❖ Planned & led all sales force training for new or upgraded products
- ❖ Organized & executed customer focus groups in various cities

***Sales & Service***

- ❖ Negotiated & executed short/long term storage, hub services & transportation deals for California pipeline
- ❖ Developed pricing decisions through understanding of market issues & identification of financial opportunities
- ❖ Researched these opportunities, as well as competitive options & provided analysis to department heads
- ❖ Gathered, managed, & communicated market intelligence throughout department via E-mail & Lotus Notes database
- ❖ Coordinated sales activities with Product Management & Market Relations to ensure sales goals were achieved

**GSC Energy, Atlanta, GA**

**8/94 - 8/96**

***Energy Futures Trader***

- ❖ Obtained Series 3 license & registration with the NFA & the CFTC
- ❖ Order execution of NYMEX energy futures contracts
- ❖ Assisted with the development of risk management & hedge programs for clients, utilizing various derivatives
- ❖ Researched & evaluated current data regarding risk management incentive mechanisms utilized by public utilities
- ❖ Created & implemented new marketing strategies for GSC Energy daily publications
- ❖ Qualified & pursued sales leads for consulting group generated by risk management workshops held across the U.S. & Canada

**EDUCATION & QUALIFICATIONS**

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**Bachelor of Arts in Anthropology & Spanish, *Cum Laude***  
Orleans, LA  
Fluency in Spanish

**TULANE UNIVERSITY, New**

**EXHIBIT 2**

**Note 8 to Smithfield 2005 Consolidated Financial Statements**

**SMITHFIELD FOODS, INC. AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)**

\$90.00 subject to adjustment. Each Preferred Share will entitle its holder to 2,000 votes and will have an aggregate dividend rate of 2,000 times the amount, if any, paid to holders of common stock. The Rights will expire on May 31, 2011, unless the date is extended or unless the Rights are earlier redeemed or exchanged at the option of the board of directors for \$.00005 per Right. Generally, each share of common stock issued after May 31, 2001 will have one Right attached. The adoption of the Rights Plan has no impact on the financial position or results of operations of the Company.

*Stock Held in Trust*

During fiscal 2005, the Company's Supplemental Executive Retirement Plan purchased 350,000 shares of Company stock at an average price of \$25.40 per share.

*Accumulated Other Comprehensive Loss*

The table below summarizes the components of accumulated other comprehensive loss, net of tax, as of May 1, 2005 and May 2, 2004.

(in millions)	<u>2005</u>	<u>2004</u>
Minimum pension liability .....	\$(53.4)	\$(41.4)
Foreign currency translation .....	27.4	(0.5)
Hedge accounting .....	(0.8)	1.7
Unrealized gain on securities .....	0.1	—
Accumulated other comprehensive loss .....	<u>\$(26.7)</u>	<u>\$(40.2)</u>

**Note 8: Derivative Financial Instruments**

The Company's meat processing and hog production operations use various raw materials, primarily live hogs, live cattle, corn and soybean meal, which are actively traded on commodity exchanges. The Company hedges these commodities when management determines conditions are appropriate to mitigate these price risks. While this hedging may limit the Company's ability to participate in gains from favorable commodity fluctuations, it also tends to reduce the risk of loss from adverse changes in raw material prices. The Company attempts to closely match the commodity contract terms with the hedged item. The Company also enters into interest rate swaps to hedge exposure to changes in interest rates on certain financial instruments and periodically enters into foreign exchange forward contracts to hedge certain of its foreign currency exposure.

*Cash Flow Hedges*

The Company utilizes derivatives (primarily futures contracts) to manage its exposure to the variability in expected future cash flows attributable to commodity price risk associated with forecasted purchases and sales of live hogs, live cattle, corn and soybean meal. These derivatives have been designated as cash flow hedges.

Derivative gains or losses from these cash flow hedges are deferred in other comprehensive income (loss) and reclassified into earnings in the same period or periods during which the hedged forecasted purchases or sales affect earnings. To match the underlying transaction being hedged, derivative gains or losses associated with anticipated purchases are recognized in cost of sales and amounts associated with anticipated sales are recognized in sales in the consolidated statement of income. Ineffectiveness related to the Company's cash flow hedges was not material in fiscal 2005, 2004 or 2003. There were no derivative gains or losses excluded from the assessment of hedge effectiveness and no hedges were discontinued during fiscal 2005, 2004 or 2003 as a result of it becoming probable that the forecasted transaction would not occur.

**SMITHFIELD FOODS, INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)**

*Fair Value Hedges*

The Company's commodity price risk management strategy also includes derivative transactions (primarily futures contracts) that are designated as fair value hedges. These derivatives are designated as hedges of firm commitments to buy live hogs, live cattle, corn and soybean meal and hedges of live hog inventory. Derivative gains and losses from these fair value hedges are recognized in earnings currently along with the change in fair value of the hedged item attributable to the risk being hedged. Gains and losses related to hedges of firm commitments are recognized in cost of sales in the consolidated statement of income. Ineffectiveness related to the Company's fair value hedges was not material in fiscal 2005, 2004 or 2003. There were no derivative gains or losses excluded from the assessment of hedge effectiveness during fiscal 2005, 2004 or 2003.

*Foreign Currency and Interest Rate Derivatives*

In accordance with the Company's risk management policy, certain foreign currency and interest rate derivatives were executed in fiscal 2005, 2004 and 2003. These derivative instruments were primarily recorded as cash flow hedges or fair value hedges, as appropriate, and were not material to the results of operations.

The following table provides the fair value gain or (loss) of the Company's open derivative financial instruments as of May 1, 2005 and May 2, 2004.

(In millions)	<u>2005</u>	<u>2004</u>
Livestock .....	\$(1.6)	\$(64.8)
Grains .....	(3.2)	6.3
Interest rates .....	(5.2)	(6.2)
Foreign currency .....	(2.0)	(1.2)

As of May 1, 2005, no commodity futures contracts exceed twelve months. As of May 1, 2005, the weighted average maturity of the Company's interest rate and foreign currency financial instruments is twenty months, with maximum maturities of fifty-four and four months, respectively. The Company believes the risk of default or nonperformance on contracts with counterparties is not significant.

The Company determines the fair value of public debt using quoted market prices and values all other debt using discounted cash flow techniques at estimated market prices for similar issues. As of May 1, 2005 and May 2, 2004, the fair value of long-term debt, based on the market value of debt with similar maturities and covenants, was approximately \$2,359.6 million and \$1,903.0 million, respectively.

**Note 9: Pension and Other Retirement Plans**

The Company provides the majority of its U.S. employees with pension benefits. Salaried employees are provided benefits based on years of service and average salary levels. Hourly employees are provided benefits of stated amounts for each year of service.

The Company also provides health care and life insurance benefits for certain retired employees. These plans are unfunded and generally pay covered costs reduced by retiree premium contributions, co-payments and deductibles. The Company retains the right to modify or eliminate these benefits. The Company considers disclosures related to these plans immaterial to the consolidated financial statements and notes thereto.

**EXHIBIT 3**

**Note 29 to DuPont 2005 Consolidated Financial Statements**

**E. I. du Pont de Nemours and Company**  
**Notes to Consolidated Financial Statements (continued)**

*(Dollars in millions, except per share)*

In 2004 the company made contributions of \$709 to its pension plans, including a \$300 contribution to its principal U.S. pension plan. In 2003, the company contributed \$460 to pension plans other than the principal U.S. pension plan. There were no contributions made to the principal U.S. pension plan during 2003.

***Estimated Future Benefit Payments***

The following benefit payments, which reflect future service, as appropriate, are expected to be paid:

	Pension Benefits	Other Benefits
2006	\$1,449	\$ 350
2007	1,432	347
2008	1,420	340
2009	1,417	338
2010	1,417	337
Years 2011 – 2015	\$7,360	\$1,639

***Defined Contribution Plan***

The company sponsors several defined contribution plans, which cover substantially all U.S. employees. The most significant is The Savings and Investment Plan (the Plan). This Plan includes a non-leveraged Employee Stock Ownership Plan (ESOP). Employees are not required to participate in the ESOP, and those who do are free to diversify out of the ESOP. The purpose of the Plan is to provide additional retirement savings benefits for employees and to provide employees an opportunity to become stockholders of the company. The Plan is a tax qualified contributory profit sharing plan, with cash or deferred arrangement, and any eligible employee of the company may participate. The company will contribute an amount equal to 50 percent of the first 6 percent of the employee's contribution election. The company's contributions to the Plan were \$51, \$53 and \$60 for years ended December 31, 2005, 2004, and 2003, respectively. The company's contributions vest immediately upon contribution to the plan.

**29. Derivatives and Other Hedging Instruments**

**Objectives and Strategies for Holding Derivative Instruments**

Under procedures and controls established by the company's Financial Risk Management Framework, the company enters into contractual arrangements (derivatives) in the ordinary course of business to reduce its exposure to foreign currency, interest rate and commodity price risks. The framework has established a variety of approved derivative instruments to be utilized in each risk management program, as well as varying levels of exposure coverage and time horizons based on an assessment of risk factors related to each hedging program. Derivative instruments utilized during the period include forwards, options, futures and swaps. The company has not designated any nonderivatives as hedging instruments.

The framework sets forth senior management's financial risk management philosophy and objectives through a Corporate Financial Risk Management Policy. In addition, it establishes oversight committees and risk management guidelines that authorize the use of specific derivative instruments and further establishes procedures for control and valuation, counterparty credit approval, and routine monitoring and reporting. The counterparties to these contractual arrangements are major financial institutions and major commodity exchanges. The company is exposed to credit loss in the event of nonperformance by these counterparties. The company manages this exposure to credit loss through the aforementioned credit approvals, limits, and monitoring procedures and, to the extent possible, by restricting the period over which unpaid balances are allowed to accumulate. The company does not anticipate nonperformance by counterparties to these contracts, and no material loss

**E. I. du Pont de Nemours and Company**  
**Notes to Consolidated Financial Statements (continued)**

*(Dollars in millions, except per share)*

would be expected from such nonperformance. Market and counterparty credit risks associated with these instruments are regularly reported to management.

The company hedges certain business-specific foreign currency exposures as well as foreign currency denominated monetary assets and liabilities. In addition, the company enters into exchange traded agricultural commodity derivatives to hedge exposures relevant to agricultural feedstock purchases.

In January 2004, the company terminated its broad-based foreign currency revenue hedging program, as well as its programs to hedge natural gas purchases. All outstanding foreign currency and natural gas hedging positions related to these contracts expired during 2004. In October 2005, the company re-approved the use of financial derivatives to hedge exposure to price fluctuations for certain energy feedstock purchases. However, at December 31, 2005, the company had not entered into any derivative instruments with respect to this program.

**Fair Value Hedges**

During the year ended December 31, 2005, the company has maintained a number of interest rate swaps that involve the exchange of fixed for floating rate interest payments that allow the company to maintain a target range of floating rate debt. All interest rate swaps qualify for the shortcut method of hedge accounting, thus there is no ineffectiveness related to these hedges. Changes in the fair value of derivatives that hedge interest rate risk are recorded in Interest expense each period. The offsetting changes in the fair values of the related debt are also recorded in Interest expense. The company maintains no other fair value hedges.

**Cash Flow Hedges**

The company maintains a number of cash flow hedging programs to reduce risks related to foreign currency and commodity price risk. Foreign currency programs involve hedging a portion of certain foreign currency-denominated raw material purchases from vendors outside of the United States. Commodity price risk management programs serve to reduce exposure to price fluctuations on purchases of inventory such as corn, soybeans, and soybean meal. While each risk management program has a different time horizon, most programs currently do not extend beyond the next two-year period.

Hedges of foreign currency-denominated revenues are reported on the Net sales line of the Consolidated Income Statement, and the effects of hedges of inventory purchases are reported as a component of Cost of goods sold and other operating charges.

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. Cash flow hedge ineffectiveness reported in earnings for 2005 is a pretax gain of \$3. During 2005, there were no pretax gains (losses) excluded from the assessment of hedge effectiveness. The amount reclassified to earnings for forecasted transactions that did not occur was a loss of approximately \$32 in 2005 and is recorded in Other income. The following table summarizes the effect of cash flow hedges on Accumulated other comprehensive income (loss) for 2005:

	Pretax	Tax	After-tax
Beginning balance	\$ 6	\$(2)	\$ 4
Additions and revaluations of derivatives designated as cash flow hedges	8	(3)	5
Clearance of hedge results to earnings	(11)	4	(7)
Ending balance	\$ 3	\$(1)	\$ 2
Portion of ending balance expected to be reclassified into earnings over the next twelve months	\$ 3	\$(1)	\$ 2

**E. I. du Pont de Nemours and Company**  
**Notes to Consolidated Financial Statements (continued)**

*(Dollars in millions, except per share)*

**Hedges of Net Investment in a Foreign Operation**

During the year ended December 31, 2005, the company has not maintained any hedges of net investment in a foreign operation.

**Derivatives not Designated in Hedging Relationships**

The company uses forward exchange contracts to reduce its net exposure, by currency, related to foreign currency-denominated monetary assets and liabilities. 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 results in a minimal earnings impact, after taxes. Several small equity affiliates have risk management programs, mainly in the area of foreign currency exposure, for which they have elected not to pursue hedge accounting. In addition, the company maintains a few small risk management programs for agricultural commodities that do not qualify for hedge accounting treatment.

In 2003, in conjunction with the acquisition of the 23.88 percent minority interest in DuPont Canada (see Note 27), the company entered into option contracts to purchase 1.0 billion Canadian dollars for about \$700, in order to protect against adverse movements in the USD/Canadian dollar exchange rate. The changes in fair values of these contracts were included in income in the period the change occurred. The contracts expired during the second quarter 2003 resulting in a pretax exchange gain of \$30.

**Currency Risk**

The company routinely uses forward exchange contracts to offset its net exposures, by currency, related to monetary assets and liabilities of its operations that are denominated in currencies other than the designated functional currency. 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.

From time to time, the company will enter into forward exchange contracts to establish with certainty the functional currency amount of future firm commitments denominated in another currency. Decisions regarding whether or not to hedge a given commitment are made on a case-by-case basis, taking into consideration the amount and duration of the exposure, market volatility, and economic trends. Forward exchange contracts are also used from time to time to manage near-term foreign currency cash requirements and to place foreign currency deposits and marketable securities investments.

**Interest Rate Risk**

The company primarily 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 that are fully integrated with underlying fixed-rate bonds or notes to effectively convert fixed rate debt into floating rate debt based on three- or six-month USD LIBOR.

At December 31, 2005, the company had entered into interest rate swap agreements with total notional amounts of approximately \$2,900, whereby the company, over the remaining terms of the underlying notes, will receive a fixed rate payment equivalent to the fixed interest rate of the underlying note and pay a floating rate of interest that is based on three- or six-month USD LIBOR.

Interest rate swaps did not have a material effect on the company's overall cost of borrowing at December 31, 2005 and 2004. See Note 21 for additional descriptions of interest rate swaps.



**E. I. du Pont de Nemours and Company**  
**Notes to Consolidated Financial Statements (continued)**

*(Dollars in millions, except per share)*

**Commodity Price Risk**

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.

**30. Geographic Information**

	2005		2004		2003	
	Net Sales <sup>1</sup>	Net Property <sup>2</sup>	Net Sales <sup>1</sup>	Net Property <sup>2</sup>	Net Sales <sup>1</sup>	Net Property <sup>2,3</sup>
<b>United States</b>	\$11,129	\$ 7,131	\$11,591	\$ 7,161	\$12,117	\$ 7,452
<b>Europe</b>						
Belgium	\$ 200	\$ 144	\$ 231	\$ 133	\$ 242	\$ 115
Germany	2,040	359	2,047	390	1,946	528
France	986	124	996	130	982	133
Italy	799	26	876	28	959	29
Luxembourg	53	186	39	188	27	181
Netherlands	192	228	175	215	187	375
Spain	457	248	504	208	484	347
United Kingdom	657	124	697	68	710	714
Other	2,312	251	2,428	248	1,885	227
<b>Total</b>	<b>\$ 7,696</b>	<b>\$ 1,690</b>	<b>\$ 7,993</b>	<b>\$ 1,608</b>	<b>\$ 7,422</b>	<b>\$ 2,649</b>
<b>Asia Pacific</b>						
China/Hong Kong	\$ 1,198	\$ 175	\$ 1,197	\$ 138	\$ 1,232	\$ 232
India	287	18	287	15	198	16
Japan	1,107	98	1,183	88	899	81
Taiwan	391	112	564	107	792	547
Korea	563	63	526	54	509	51
Singapore	147	46	168	53	128	343
Other	822	45	800	51	784	53
<b>Total</b>	<b>\$ 4,515</b>	<b>\$ 557</b>	<b>\$ 4,725</b>	<b>\$ 506</b>	<b>\$ 4,542</b>	<b>\$ 1,323</b>
<b>Canada &amp; Latin America</b>						
Brazil	\$ 1,055	\$ 270	\$ 920	\$ 251	\$ 860	\$ 481
Canada	897	171	875	243	894	676
Mexico	698	198	581	169	568	169
Argentina	241	29	232	29	221	85
Other	408	263	423	257	372	185
<b>Total</b>	<b>\$ 3,299</b>	<b>\$ 931</b>	<b>\$ 3,031</b>	<b>\$ 949</b>	<b>\$ 2,915</b>	<b>\$ 1,586</b>
<b>Total</b>	<b>\$26,639</b>	<b>\$10,309</b>	<b>\$27,340</b>	<b>\$10,224</b>	<b>\$26,996</b>	<b>\$13,020</b>

<sup>1</sup> Net sales are attributed to countries based on location of customer.

<sup>2</sup> Includes property, plant and equipment less accumulated depreciation.

<sup>3</sup> Includes INVISTA assets held for sale.