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EDITED TRANSCRIPT

ADM.N - Archer-Daniels-Midland Co at Barclays Consumer Staples Conference (Virtual)

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Juan Ricardo Luciano *Archer-Daniels-Midland Company - Chairman, CEO & President*

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Benjamin M. Theurer *Barclays Bank PLC, Research Division - Head of the Mexico Equity Research & Director*

PRESENTATION

Benjamin M. Theurer - *Barclays Bank PLC, Research Division - Head of the Mexico Equity Research & Director*

Thank you very much, and welcome back for the last presentation in this room in the afternoon. ADM, global leader in human and animal nutrition, world's premier agricultural origination and processing company. Its purpose is to unlock the power of nature, to enrich the quality of life through industry advancing innovations, a complete portfolio of ingredients and solutions to meet any taste and the commitment to sustainability.

ADM gives customers an edge in solving the nutritional challenges of today and tomorrow. Its breadth, depth, insights, facilities and logistical expertise gives the company unparalleled capabilities to meet the growing global needs for food, beverages, health and wellness and many more.

We're very pleased to welcome Juan Luciano, Chairman, President and CEO of ADM, who joined the company back in 2011 as EVP and Chief Operating Officer, became President back in 2014, CEO in 2015 and Chairman in 2016. He has successfully transformed ADM into a diversified industry leader within Ag services and human and animal nutrition. So thank you very much for joining us today.

And before going into questions, I'm pretty sure you have some opening remarks and the current status of the different businesses. And if you don't mind, could you also give us an update on the lasting impacts of Russia's invasion in Ukraine and its implications for the global ag markets?

Juan Ricardo Luciano - *Archer-Daniels-Midland Company - Chairman, CEO & President*

Sure. Well, thank you very much for the invitation. Thank you to Barclays, and great to see you all.

So as Ben described, and we -- I joined ADM in 2011, an exceptional company with an incredible footprint. And I think that we worked a lot on the strategy. If I take you a little bit on a strategic trip, the main focus of our strategy and our organization was to improve ROIC. ROIC was about half of what it is today, at that point in time.

And I think we did a lot to create what we call a better ADM. We worked on the portfolio of that. We worked on our mindset about how we spend capital and how we considered capital available, but expensive. And we did many things in terms of the way we operate the company, introducing not only more controls in CapEx and the way we allocated capital, but also in operational excellence and the way we will add value -- adding value and get closer to customers.

So it was a period in not only that we improved the portfolio and we reduced the volatility of earnings, we increased the earnings, but also we positioned the company into better growth opportunities. We've given ourselves the opportunity to create a nutrition business. That's going to deliver three-quarters of a billion dollars in operating profit this year.

And we also aligned the company and the portfolio of the company to what we consider 3 enduring trends that are going to be with us for many, many years in terms of food security, health and well-being and sustainability. So during that process, ADM has continued to develop and fulfill our promise as this big connector, if you will, of supply and demand around the world, but we also brought into the industry a lot of solutions in the nutrition space to improve the health experience of both animals and humans.

This transformation continues now through productivity and innovation. Given coverage, given the complexity of the environment, we try to simplify the message internally clarifying it again in productivity and innovation. And maybe to give you a flavor of it, so in productivity, we include

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things like all our automation and digital control that we implemented in Marshall, when we had double-digit returns on that project, and we had the opportunity to copy and paste the same things in maybe more than 50 locations around the world. We continue to work into that. So big opportunity to improve operational excellence.

And at times in which energy is expensive, in which grains are expensive, improved yield, improved efficiency overall of our facilities. We also continue to hammer on our returns orientation and our cash flow -- our desires to continue to drive cash flows and ROIC. We launched another $1 billion challenge. We did that originally when we launched the strategy to kind of educate people on the importance of giving a return to every dollar that we have around, and we are on our way to deliver that $1 billion as well.

In terms of innovation, there are many opportunities that we have. And I think for the first time since I've been in ADM, we have this challenge in front of us of prioritization of opportunities. And the opportunities are significant. The opportunities are driven by 3 events or 3 social changes maybe that are impacting the company.

One of that is consumers' desire to focus on their nutrition as a way to improve their health and well-being. And we've seen that across plant-based proteins, but also probiotics, prebiotics, special beverages and all that. So it, to a certain degree, is impacting every aspect of our company.

The second is some of these consumers or some of the food companies desire to have grains that actually have been grown in a certain way. So we're working a lot in regen ag with the farmers that have the desire and the will to be held into better and more sustainable farming practices. So these 2 have become important.

And of course, the trend of decarbonization. There are a lot of industries that are looking to honor their 2050 or 2040 net-zero or pledges and promises. And in order to do that, having access to large scale -- large quantities of low-carbon intensity feedstocks is very important.

So when we put together these 3 things, we have a portfolio of innovations that is unparalleled in our history. So we feel very good about productivity and innovation. We feel very good about our team's execution this year. So of course, the first half of the year was very good with more than $4 EPS. ROIC is like 11.6%, so four quarter adjusted ROIC. So it is important that the company is transforming, but also performing at the same time.

When we look at the immediate future, if you will, the environment in the second half of the year continues to be very strong. We expect Q3 for ag services and oilseeds and carb solutions to be significantly higher than Q3 last year. Still, conditions from a structural perspective are strong. The team continues to execute well.

Our Nutrition business continued to be on path to end up around 20% operating profit growth in 2022 versus 2021. So everything going well. We expect, as I said, to have a strong second half. We're probably going to have profits north of $6.50, and cash flow generation is strong. So we have announced, for the second half of the year, the ability to purchase about $1 billion in buybacks.

So things are going well right now. When we go into -- when we see the future, given our strong cash flow generation, we have the ability to not only fund organic growth opportunities that will get the priority, we're going to also making sure that we strengthen our assets reliability given the tight environment we're going to be seeing.

We plan to grow the dividend as we have done this year and in future years. And again, over the next 5 years, the plan looks like we were going to be able to buy probably $5 billion in buybacks. So opportunities are terrific in front of us given the trends that I mentioned before.

So good time to be in ADM. A lot of people joining us. We will certainly wish to have more labor availability in manufacturing in general around the world. But demand is strong, and consumers has been very resilient through some of this volatility and some of those increases.

So company is in good shape, transforming at good pace.

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QUESTIONS AND ANSWERS

Benjamin M. Theurer - *Barclays Bank PLC, Research Division - Head of the Mexico Equity Research & Director*

Okay. Thank you very much. A few things, and you've touched on it. And obviously, back in December, you presented a very comprehensive framework on how you want to get to an adjusted EPS of about $6 to $7, you just this year, it's already north of $6.50.

But obviously, there are a few things. And I remember back in December when you laid out the strategy how to get there. One of the things was that you talked about, what the current market environment is very beneficiary.

Has anything changed over the last, call it, 9 months that you would almost think that going forward, maybe it's not going to go back as much on market forces, you have more potential to deliver as you've accelerated already the share buybacks because that initiative wasn't even planned for this year?

Juan Ricardo Luciano - *Archer-Daniels-Midland Company - Chairman, CEO & President*

Yes. So I've been doing this for quite a while. And I think that, as an investor, you need to think that I think we are very thoughtful about where we put our bets, and I think that you can trust that what we're betting is going to happen.

The timing of it -- sometimes we're not that good at predicting. So as maybe in the period before, when we were looking at $4 to $4.50, maybe we came a couple of years late into that environment. And then we missed it because we went from $3.60 to $5.20, if you will. But -- and now we said in December that in 5 years, we're going to go to a number that actually we're going to hit this year.

And so that's kind of meant to happen. I wouldn't worry about that much as we think about long term. I think that the conditions -- the macro conditions, the structural forces that we saw that made us believe that in the future, margins, even if they correct it a little bit, will remain higher than historical averages are still there, whether it's better feeding in China after ASF, whether it's population growth around the world, and their desire to improve protein -- to increase proteins in their diets. The new demand by -- for the decarbonization of transportation industry or industrial things.

So we see all those things still the same. I think that -- if you think about the weather and what happened with the crops over the last 2 or 3 years, we probably lost about 100 million to 150 million tons of production in general, that make the market tight in an environment in which population continues to consume more.

So I would say, we said at the -- in December that we expected that it probably was going to take 2 or 3 years of good crops, both in the Southern Hemisphere and the Northern Hemisphere for us to get to some comfort into that.

And then, of course, the war happened and actually, I realized I didn't address your initial comment on Ukraine, which I could. So I think we feel good about this environment we can manage in this environment, but it's going to be tight for the next 2 to 3 years.

What I think is accelerating versus what we said in December is probably some of these opportunities, driven by either decarbonization or the excitement about the microbiome or how these things are growing or -- so I think that that's where the activity in the company is, can we fund those things.

I know everybody wants us to reset, if you will, the numbers given that we are delivering this. But to be honest, it's much more interesting working on building the future than explaining the numbers. So we're going to take advantage and execute on the environment and whatever it is, it is. Really, I think the important thing is that I think the base has become higher than what we expected at that point in time. I think that some of the structural changes are there.

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I think I would say even when we did that algorithm about productivity and innovation will be bigger than some of the market forces. The market forces have not declined or may be corrected as we expected. But there's another reality, which is some of the inflationary factors also are of a magnitude, we didn't expect at that time.

Today, we're probably paying in Europe about 10x the energy values than we were paying last year. Of course, we didn't have that in the forecast in December. So I think labor availability has been more difficult and will become a little bit more of a permanent inflation into our cost than maybe we expected at that point in time.

So there is a little bit of a reset of all the buckets. We spend a lot of time on the things that we can control. So we spend a lot of time in productivity and innovation and making sure those things continue to get traction around the company.

And again, in being good capital allocators, to take advantage of the opportunities that these big 3 trends are providing us. So again, I think good year, good trajectory. We still plan to grow earnings past this. I mean this is just a trajectory.

And making sure that the team does not forget about the importance to continue to drive ROIC. I know for a while, we have a goal of 10%. We are at 11.6%, but we continue to aim higher at that. And we continue to make the point.

Maybe if I can go back to answer your Ukrainian question. Of course, that has been something that nobody could imagine we will be discussing about the country being invaded. And we have 652 colleagues in Ukraine. Of course, 83 of them are refugees in other countries, where we're holding them. And we are providing for them and their families.

But the incredible thing is that during all this period, we still kept our facilities there. We still managed to export from Odessa now that the corridor has been opened. And Ukraine, which exported about 40% of what they used to export in the period March to August, now with the corridor, we are close to maybe 60% of the original export capacity in August. And maybe in September, we could be close to 80% or 90% of that. So I think it has recovered very pretty quickly. We have a lot of the players in the industry help with the process. We have exported from there, and hopefully, it continues.

The agreement is valid until November 22, in which it needs to be ratified and extended by agreement of both parties. So hopefully, that continues to happen because I think that it goes a long way to alleviate any pressure in the food system right now.

Benjamin M. Theurer - *Barclays Bank PLC, Research Division - Head of the Mexico Equity Research & Director*

Okay. Now one of the other things and you've also had in your operating remarks, obviously, the nutrition business and all the investments into human as well as animal nutrition, it's now, I think, you said three quarters of a billion. So definitely on track to get to the $1 billion that you've once laid out a few years back.

Now within that segment, where do you see actually the biggest growth drivers in coming years and stronger potential beyond? And if you also could elaborate a little bit on some of the most recent partnerships and agreements, Benson Hill, New Culture and how they're going to play a role within nutrition to get this beyond $1 billion?

Juan Ricardo Luciano - *Archer-Daniels-Midland Company - Chairman, CEO & President*

Yes. Listen, it's been an incredible journey, the creation of this Nutrition division. Again, as you said, we put a goal out there to make $1 billion in operating profit and we are again thinking that we're going to deliver that next year.

So it's exciting to see. And in the process, we've been expanding our footprint, our palette of products that our country, if you will. Our value proposition was always to create solutions for customers. So we can take customers -- we can help take customers, their products to market faster than anybody else.

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And we've done that. and that has been reflected the embracement of our value proposition in our growth rates. We've been growing revenue at double digits all these years, and we've been growing profit of 30%, 40% in the past and now we're saying circa 20% for this year.

So of course, as complete the footprint that we have, we continue to have customer insight groups and trying to follow customers into -- and consumers into where they're going next. And so what I'm excited about, plant-based proteins is certainly an area that is growing north of 10% for us and it has been growing all this year.

So we continue to expand our capabilities. We built a plant in Brazil a couple of years -- a couple of few years ago about $0.25 billion we put there in plant-based proteins, soy-based. We are expanding the indicator with $300 million there also on this. And we bought soya protein in Serbia to have extra capacity in Europe.

So we see that continue to grow aggressively. The other area that is -- I'm a big believer and is growing incredibly fast. It's still small. It's on the area of the microbiome, probiotics, prebiotics, postbiotics, just a little bit of an academic on that. So probiotics are the bacteria that you have. Prebiotics are the fibers that feed the bacteria. Postbiotics is when we achieve dead organism that actually keeps a functionality even if they are dead. So what postbiotics does, it allows you to put probiotics in actually in the broader range of products because now you are not afraid of killing the organism.

So before you could only put it in yogurts or in a pill in the supplement, now you can put it in a product that can be extruded, that can be put in the microwave oven. So imagine the possibilities that we have to now push probiotics with all their functionality through all those products that now technology have made possible. So we have one of those postbiotics.

To give you a feeling of my excitement, we are expanding our capacity in Valencia, Spain to probiotics. We are expanding by a factor of 5. I've been 30-something years in industries, I never expanded anything by 5x. Our operating profit this year, year-to-date has grown in that business north of 50%.

So -- and the penetration of probiotics in the houses, if vitamins have a penetration of about 80% to 90% in the homes, probiotics is about 10% to 15%. So the opportunity to grow that business is spectacular. And we know because we run clinical trials that we can recommend those products for a lot of applications in which allow people to improve certain conditions that sometimes are not treated properly by the normal means. And I think that we know the relationship between the microbiome and some of things like atopic dermatitis or migraines or obesity, but we also know and it's a growing body of evidence about the connection between the brain and the microbiome.

So that you can start treating or thinking about things like insomnia or anxiety or things like that. So the field of operation in that is spectacular. And to be honest, it's almost as fertile in humans than in pets. And not only pet, but also production animals. You can use probiotics to reduce the amount of methane that maybe a cow is generating. So -- or increase the amount of milk that we generate. So my point is the body of evidence here and the ability to grow is spectacular. So I feel great about these 2 things.

Benjamin M. Theurer - *Barclays Bank PLC, Research Division - Head of the Mexico Equity Research & Director*

Is that your next new $1 billion business?

Juan Ricardo Luciano - *Archer-Daniels-Midland Company - Chairman, CEO & President*

I don't know. When I think about that, and I'm working on that, I'm preparing for that. Since you want more, we already achieved the 6 to 7 and moving towards next. So I'm working on that.

So I believe in the power of our scale and our ability to bring low-carbon intensity feedstocks in massive quantities. We started our carbon capture and sequestration unit in 2017. When it didn't make a lot of economic sense at the time, there were no 45Q credits or customers asking for that, but it gives us the ability to the experience that we have already injected 3.5 million tons of CO2 underground safely.

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We have -- we sit on a geological formation that is multiples of times of what we have put there. So it will have the ability to take the whole Decatur and decarbonize, if you will, or being able to do that. That will be great for things like sustainable aviation fuels, think that where you need massive quantities of something that if today, you make it with a carbon intensity of 80 or 90, then you can make it sub-40, and we can do those things.

So we're working on that technology. We're working now with the Inflation Reduction Act. We had a little bit of a sense of the economics of that. So I'm working on that. So decarbonization of fuels is important, but also decarbonization of industrial products. Our business that we call biosolutions, which is products that we sell to industrial customers, maybe pharmaceutical customers, construction, adhesive packaging and all that to replace oil-based products, that business is growing about -- so far this year, 36% versus last year in terms of revenue.

So I like that decarbonization is something that is important. I also look at the fermentation and the ability to do synthetic biology and all that we are a fermentation company. We have sugars. We have a portfolio of products that we have in the ventures business.

And when I look at the future and how we're going to feed the planet, I think it's going to be part with animals, part is going to be with plants, part is going to be with microbes or cell-based proteins. And I think we're going to be a player in the 3 of them, I will make sure we do so.

Benjamin M. Theurer - *Barclays Bank PLC, Research Division - Head of the Mexico Equity Research & Director*

Okay. Now one of the topics, obviously, very prominent is just inflationary environment, and you've said about the energy cost, for example, as one piece. There are multiple considerations here, but one of them, obviously, it's having an impact on consumers and their ability to spend.

Have you seen amongst your customers because you're -- obviously not direct to the consumer, but amongst customers like a change in mindset, a change in shift like how they think about what they can take on price, what not and looking into different solutions and how you work with your customers to provide them with the materials without further driving inflation?

Juan Ricardo Luciano - *Archer-Daniels-Midland Company - Chairman, CEO & President*

So yes, inflation is impacting us. Inflation is impacting in our legacy businesses more in terms of people and energy, of course, mostly in Europe. So in Europe, we have shift capacity, as you know, in terms of crush capacity.

So we -- there are better margins in rapeseeds. So we have shifted as much as we can there to protect our margins. And at this point in time, we have positive margins even with this crazy energy prices that we are living right now.

And of course, there is a lot of risk management going on to make sure not only we have the price, but we have the product available, especially as we get into the winter. So I feel good about our coverage and what we're doing there.

Nutrition is a little bit more exposed to this because Nutrition have a set of raw materials and these bigger, more SKUs and more complexity and more complexity of the customer base given by the complexity of the product mix. So I would say that's where you see a little bit more of the movement of customers, where customers are saying, "Can you send me product over here or maybe I gave you this forecast for liquid, but now I need it in solid because it goes in a different form.

So I would say in Nutrition, like in every business, we have not had the impact in absolute demand yet. But to a certain degree, in nutrition, all these movement has translated in more difficulty in demand fulfillment.

So I have very strong demand, but all of a sudden, it's more; difficult to fulfill that demand because some of the things and some of the delivery points or some of the products have shifted. So if something I worry more now is that. I checked even to this week because I knew we were going to have a question about whether there was demand destruction. I still -- maybe with the exception of Animal Nutrition, I still cannot find any volumes that are lower than last year.

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At this point in time, volumes, whether it's meal, even domestic meal or export is strong, oil strong, even in the Carbohydrate Solutions business, strong. So I still see a strong second half of the year. And of course, we do a lot of risk management, a lot of efficiencies, but we have to do pricing to protect our margins. And so far, the consumer and so far the customers have been very resilient to those price increases.

Benjamin M. Theurer - *Barclays Bank PLC, Research Division - Head of the Mexico Equity Research & Director*

Okay, okay. You also said and we touched about it on the bigger opportunities within renewable energy and the different areas, you previously mentioned sustainable aviation fuel, but there's also renewable green diesel. So maybe remind us when and how you expect all these investments you've been doing are actually going to be delivering results and become more meaningful as capacity is going to be added? And where do you see the need to further invest from a capital allocation perspective?

Juan Ricardo Luciano - *Archer-Daniels-Midland Company - Chairman, CEO & President*

Yes. So you take renewable green diesel. So we have expanded some of our existing capacity in Quincy, and that is ongoing. We announced our Spiritwood joint venture with marathon. That will be, I think, in the fall 2023. So it's coming on stream. So we feel good about that. We feel good about the location we pick. I mean we are a little bit crazy. We studied, I think, for 2 years, you probably think you could make a decision a little bit sooner there.

We wanted to have it properly located to get the good access to beans and properly located to be able to export the meal if we needed to do so. So we feel very good about the project. The project is coming on a stream -- on a schedule, which these days is a little bit of a miracle, so we feel good about that.

In terms of other expansions, we're going to be a player in probably sustainable aviation fuels, but a little bit like RGD, we're probably going to stay in the supplier of feedstocks or those things versus being the fuel producer. So all this is probably going to take the form of joint ventures with different degrees of participation. You've seen, for example, a little bit of the manifestation of that in our recent agreement with LG Chem in which they're going to make lactic acid. And so we're going to have a joint venture to make the precursor of that in which we have like 51% of that ownership.

And then the other joint venture, we have like 10% if you will. So I think that that's a little bit -- I don't want to stretch ourselves that more into applications where I like to keep ourselves into the food and beverage applications, if you will. Those are our markets. The other ones, we become suppliers of important partners that they can take those products forward in which we became an enabler, if you will, of decarbonizations more than just a fuel player, which we try not to be.

Benjamin M. Theurer - *Barclays Bank PLC, Research Division - Head of the Mexico Equity Research & Director*

Okay. And then just also in the interest of time. And the last question I have is Ag Services & Oilseeds, Carbohydrate Solutions was like very strong first half. And you said third quarter is basically on track to be better than the third quarter last year. Obviously, that's going to give a very strong power -- earnings power this year.

So how has recent volatility kind of impacted the way you manage the business? How have you changed to manage the business to like kind of run through the risks on the volatility side? And then ultimately, with all that, as it comes down to cash flow generation, just closing out on capital allocation priorities.

Juan Ricardo Luciano - *Archer-Daniels-Midland Company - Chairman, CEO & President*

Yes. So -- we always look at our cash flow generation as a big indication of our success, of course, also with the ROIC. So I think the teams have been working together and focusing on this for quite a long time to the sense that there is -- there is not a fear of volatility.

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Volatility is what happened to us. We deal with 160 countries in which geopolitics are an issue all the time. Sometimes it's more present to us in the U.S. than others, but geopolitics is an issue, strikes are an issue and weather is an issue, whether it's typhoon in South Korea or a hurricane in the Gulf Coast and then the valuations. I mean, I'm from Argentina. We have 7 dollars right now in Argentina, 7 types of dollar exchange rates.

So that happens on my point is we go into this all the time. So I think we have a very disciplined way in which I approved some of the risk limits and I allow exceptions to that. We all get together Monday mornings in our risk management team. So there is a culture of that.

And I think that one thing that is important in ADM is that we have an integrated set of very valuable assets, and they go all the way from, again, origination and very close to farmers all the way to being B2C, if you want. And I think that, that long value chain allows us that at times we make money in feedstocks for biodiesel, but maybe in North America, biodiesel margins are not that good. But in Europe, biodiesel margins make a lot of money.

And sometimes, crush in soy is not that great in Europe, but we can make money if we shifted to rapeseed. So -- and sometimes money shift in those value chains and the way we remunerate people is to make money overall for ADM. So there are no silos. Sometimes we make the money here. Sometimes we make the money here. And the ability to have that integration with transportation and all that gives us more tools to offset that volatility.

Volatility basically means that an established trade flow or an established relationship has been interrupted. And then it becomes our ability to say, can we go around that? And can we go around that profitably? And can we go around it in an affordable way so customers can continue to take advantage of that?

So you've seen it through ASF, through COVID, through the war, I mean, so far, the company has continued to perform. So I'm very confident in our team, and that gives us the confidence, given our cash flow, we need about 30% to 40% of our free cash flow to reinvest in the business, to take advantage of all these opportunities I mentioned. That leaves 60% to 70% of this growing cash flow to be either for strategic acquisitions or for returning to shareholders. That way, we felt comfortable to say in the 5-year plan, we saw about $5 billion of buybacks.

And we felt always given the accelerated results that we can do $1 billion of that in the second half. So capital allocation priorities at this point is to strengthen the resiliency of our plants, making sure everything runs well, given these margins, support organic growth, dividends and buybacks. And we're going to do M&A and now the question always come. It's more like bolt-ons. I think it's - still valuations need to correct. I don't want us to be the last company to buy something at the last high price.

So we have good organic prospects to be entertained. I don't need to be chasing anything. So I feel good about -- I think you should expect the same balanced capital allocation that we used over the last 10 years. We're not planning to change that, only that we have a little bit better options for growth into the future.

Benjamin M. Theurer - *Barclays Bank PLC, Research Division - Head of the Mexico Equity Research & Director*

Perfect. Juan, thank you very much for coming.

Juan Ricardo Luciano - *Archer-Daniels-Midland Company - Chairman, CEO & President*

Thank you very much. Always a pleasure.

Benjamin M. Theurer - *Barclays Bank PLC, Research Division - Head of the Mexico Equity Research & Director*

And we're going over to the breakout.

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Juan Ricardo Luciano - *Archer-Daniels-Midland Company - Chairman, CEO & President*

Thank you.

Benjamin M. Theurer - *Barclays Bank PLC, Research Division - Head of the Mexico Equity Research & Director*

Thank you.

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