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Conference Call Transcript

ADM - Archer Daniels Midland Company at Consumer Analyst Group of New York Conference

Event Date/Time: Feb 17, 2009 / 09:15PM GMT

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PRESENTATION

Unidentified Speaker

All right, if we take our seats, we're ready to get started with ADM. ADM has been a long-time supporter and participant in CAGNY. And once again, we're glad to have them come and speak with us this year. Also want to thank you in advance for sponsoring dinner for us on Thursday night. Thank you for that.

I don't think this crowd clapped for anybody today. Apparently, free dinner is worth something. With us today is -- are Patricia Woertz is Chairman, CEO, President; John Rice, Vice President of Commercial and Production; and Steve Mills, Executive Vice President and CEO. Patricia, I'll turn it over to you.

Pat Woertz *- Archer Daniels Midland Company - CEO & President*

Great. Thank you. Thank you, Bryan. We're very pleased to be here. And we appreciate the opportunity to present at the CAGNY today. In this time of unprecedented change and uncertainty perhaps and even challenge, we certainly look forward to the chance to describe to you our unchanging strengths in our Company and the opportunities we see to continue to build shareholder value.

As Bryan said, John and Steve and I are all here with you, as well as Dwight. And John and Steve will join me in the question and answer session. So welcome to all of you who are joining us on the webcast as well.

So to get started, looking at our agenda here, I will discuss our strategy and our execution of that strategy. John will provide a little bit more detail on the business and describe our current market conditions as we see them now. Steve will look at our financial performance. And then we'll all come back to take your questions.

And to provide a little bit of context, I realize that probably a little more than two-thirds of you don't see ADM or Archer Daniels Midland much, except at the CAGNY Conference. So I would like to start with a little bit of an overview of how we see the world and our business. And it will link into our strategy. So if the third of you that see us all the time would bear with us a bit, let me get started and provide you a little bit of background.

Our role and our strategy are detailed in this year's annual report. We've titled it Vital to the World. And Vital to the World isn't a boast. In fact, we think it's rather an acknowledgement of the role that we play. With global demand for food, for feed, and to double by 2050, ADM's ability to originate, to store, to transport, and to transform crops into the essential nutrients that people need everyday and the livestock that people need to grow is more important every single day. And as the world seeks cleaner and more secure alternatives and supplements to traditional energy sources, we also feel that ADM's ability to produce renewable alternatives also remains vital.

And for several years now, we have been talking to you about these longer-term trends and the opportunities they present to ADM. We believe that our size and diversification continues to make us the best-positioned agricultural processor to capitalize on these long-term trends. But to do so requires a bit of bifocal vision.

We need to look ahead to the future, always planning for that future, and how we can continue to have the scale and the reach to serve growing global needs. But at the same time, we need to look quarter by quarter. And we have to anticipate and manage our business quickly to respond to

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external factors -- commodity prices, weather, planting conditions. So they always present an ever-changing set of challenges and circumstances. So today, I hope you'll hear a little bit about both that long-term opportunity and that shorter-term growth.

Let's review those long-term trends if we could for just a minute because we do think they offer sustained growth opportunities for ADM. There's three of them. And I'll run through them very quickly. You probably already know them. The world's population, it grows every year, increasing the need for our products to go to global food and global feed markets. It may be obvious. But it's probably worth restating that the need to feed people and to feed more people on the earth is perhaps the most inevitable trend.

The second trend is that energy needs continue to grow. And the desire for energy security, even though we have currently some cheaper energy prices than we've formerly experienced, the need for diverse and homegrown sources of energy is important throughout the world. And we think it will increase demand for some of our renewable energy products.

And with increased emphasis on environmental improvement -- and that's the third trend -- we see a growing opportunity to develop a range of environmentally friendly products.

So in light of these long-term trends, some have questioned whether or not agriculture -- agriculture in general -- has the ability. Does it have the ability to meet for all of these growing needs -- for food, for feed, for industrial products, for energy -- in a responsible, sustainable manner?

Now ADM shares the view of many -- that agriculture in the United States and globally can increase productivity to meet these growing global demands. It can do so through increased innovation, through investment, through efficiencies along the entire value chain, all the way from the farm through the end product. And these practices will be sustainable best practices.

We're confident that the boost in agricultural production can allow agriculture to derive ever more from yields and will be able to meet the growing demand for all the vital uses of agriculture.

Now let's look at how our asset base as we look at this platform for growth. This slide shows the global reach and positioning of all of our assets. Our origination facilities -- they're shown in the small black dots -- they include over 300 facilities around the world, six continents. We continue to add capacity to those facilities in strategic geographic areas, areas where customer demands or new opportunities warrant.

We have more than 230 processing plants around the world to generate a remarkable array of products, from corn, from wheat, from oilseeds, and other feedstocks. And the breadth of this operation, the breadth is what gives us the flexibility to adjust our manufacturing environments to where the demand warrants.

Our primary sourcing distribution, those routes are shown in red. And our major processing distribution routes, those are shown in gray. And as market dynamics warrant, again, we can ship actually any crops or products anywhere in the world almost at any time.

So while these dots and lines on the screen here, they represent -- they may be small as you see them on the screen. But they do represent one of the largest agricultural processing network chains of origination, processing, distribution in the world.

And with this asset base, we are able to add significant value along the entire aspect of the chain. So let's just look at a picture of that chain. This slide shows our business model. And some of you have seen this before. It spans the chain, again, from sourcing and transportation, through processing, to distribution and sales. And our crop and processed-product volumes, they grow to connect the crops of the world to the markets I mentioned. And they have varying uses.

So let's look at the key to growing shareholder value for ADM. It's actually leveraging the earnings power of that chain. Our strategy is focused on expanding the volumes and the scope, expanding the volumes and the scope of that core model. So when we expand origination and processing activities as the market grows, we're working on additional opportunities that have sort of a thick link to this chain or have a significant link to this chain. And let's look at a couple of those areas.

First of all, we're finding ways to diversify our feedstocks. We've announced a joint venture in Brazil. This is a sugar joint venture. We announced it last quarter with a partner that we are confident has the experience to operate in Brazil. And we'll have those plants up and running in 2009.

We've grown the palm business. First, we've consolidated our joint venture operations into an investment in Wilmar, the largest ag-processor in Asia. And we have supply agreements with Wilmar. We have a seat on their board. And we continue to participate in their growth.

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We're also exploring other palm opportunities outside of the Wilmar investment. And we're also advancing some of our biomass efforts. We have a partnership with Monsanto and Deere to explore the commercialization of corn stover used in feed and fuel opportunities. And this aligns very well with our partners' expertise as well as our expertise in processing and corn processing in particular.

We're also finding value along the chain to expand the geographic scope and reach of our core operations. And in fact, I'd say that's sort of the meat of a lot of what we have been adding to in the past 12 to 18 months. I'll just mention a few activities there. And John will provide a little more detail in a minute.

In the US and in Brazil, we've expanded our origination and transportation network, adding elevators, rail shipping terminals, large capacities, and actually boats and barges. We've expanded our processing capabilities in the US, in Brazil, in Bolivia, in Germany, and in Ghana. We've added a palm refinery, a rapeseed crush facility, two biodiesel plants, two cocoa plants. We've expanding our oilseed and sunflower crush capacity. And we're building some fertilizer blending plants in South America. We've also recently announced the acquisition of Schokinag, which is strengthening our cocoa position in Europe, which is the largest market for chocolate.

In addition, the last piece of our expand volume and scope of the core model is diversifying our product portfolio. And an example is that when we have the existing scale that we have today in corn processing or in oilseed and oilseed processing, the bioenergy business presents a very unique opportunity to someone like us. Because we're not a standalone energy company, we leverage our key crop inputs. We leverage our transportation system, our product streams. And the total value of the chain is enhanced by these additional products.

We continue to build capacity in this. We opened our biodiesel facility in the US and in Brazil this year. We're completing our sugar mills, as I mentioned in Brazil. We also have two ethanol plants under construction that John will talk about in a moment in Nebraska and Iowa.

And then looking ahead to the next generation of biofuels, particularly in this country, we have a joint -- we have several projects under way. One that is probably on a more rapid path is the one with ConocoPhillips, where we're looking to take biomass and converting it into a biocrude oil, or a crude oil made from the biomass, a nonfossil fuel crude oil that can be run in the traditional petroleum refineries and petroleum infrastructure.

Now underpinning this core strategy of growth is innovation and technology. And we've made a couple of advances in this area of late. For example, we have driven some efficiencies in our manufacturing process due to some of our recent innovations. We've reduced water consumption in our ethanol plants in the past five years by more than 35%. We also have a carbon sequestration project underway or about to be underway in Decatur to actually sequester the CO2 from our ethanol plants in Decatur.

Our two new coal cogeneration plants will provide cost-effective steam and electricity, again, to two of our major corn facilities. And we're focusing on other R&D efforts that will take technology and actually leverage across the value chain, some of it information technology as well as processing technology.

Now the bedrock if you can see on that chart, that lower portion, is to represent sort of the core bedrock of our Company. And we think that area is in financial strength and in the acumen of our individuals or the industry acumen of our people. We think this bedrock is what allows us to execute on that strategy, and particularly in these very challenging times.

Our ability to succeed extends beyond sort of the traditional looks at longer-term growth because we think in the shorter-term the intelligence that's provided, the intellectual capital that's provided in looking across the global network does provide us to use our assets in a way that shifts perhaps production from one market to the next. It maybe moves profitable end products in a different way, optimizes our products, and sometimes actually takes even transportation along more profitable and value-added routes. We think it's one of our more compelling strengths. And we think it also differentiates us in this market.

Now Steve will talk in a moment a little bit about our core financial strengths as well. But let me take a couple of minutes to illustrate why I think that financial strength also adds to our expanded set of opportunities and also differentiates us from the competition.

Let's take a minute to look at some of the short-term opportunities we're focusing on. We think we have three core competencies that have served us very well in the short term. Today, we think that they're even stronger than they were. And they're very well-established ADM core philosophies. They've been a hallmark of our Company for years. They are cost management, risk management, and financial management.

And we take a very disciplined approach to all three of those. We control our expenses. We optimize our balance sheet. We talk about having a credit card, a credit card in reserve that only we can use. Steve's sort of the keeper of the credit card. And we don't use it without the right kinds of

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discipline and understanding around it. It's served us extremely well through these very different business cycles. And we continual to work to advance every one of these key strengths. So let's talk about a couple of examples for each of them.

First of all, the cost management system -- we've established global, cross-functional, initiative teams. And they're championed -- each of our initiatives are championed by a different member of management. John Rice happens to be championing the cost area. We seek to optimize costs and cost efficiencies without compromising safety or quality. And we set goals. And we set benchmarks for each area related to cost. And while, again, we have been doing this for years, I think we're taking a much more systemic effort and a cross-functional effort across the Company than we had before.

Some of these are very small changes and small efficiencies. But they add up. A couple of examples -- we have renegotiated various vendor contracts. We're implementing new expense tracking and knowledge-sharing tools that go across the entire globe. And maybe they start in South America. But then they go across the globe.

We're using surplus seed corn to supplement coal in some of our co-gen systems. We have captured millions in savings that go all the way through the organization and add to the bottom line. Again, it represent the core of what we do. But we think these efforts taken together, we've reached a deeper level of competence here.

On the financial-management side, as I said, Steve will talk about this a little bit later. But let me say that we took some purposeful actions last year to strengthen our balance sheet during very volatility times in the commodity markets. We took this at a view of maintaining our credit rating, which is very important to us to have access to tier I commercial paper. We took it as a step to continue to deliver results and to execute our long-term strategy.

We raised $1.2 billion in cost-effective long-term debt. We issued $1.75 billion convertible offering. And at December 31st, our long-term debt-to-equity ratio stood at 28%. And we had no commercial paper outstanding at that time. And we have $3.4 billion in cash and short-term investments. So I hope you see that these actions have enhanced ADM's ability, financial flexibility, its liquidity positions, reinforcing the very strong financial bedrock of our Company.

Now the third area I mentioned was a core competency is risk management. Quite simply, I think we excel at risk management. Our business operates by capturing very small margins across very huge volumes. And you saw that supply chain. At every touch point, we need to add value. But our ability to manage risk across that entire value chain with various and large numbers of counterparties is critical to our success.

Let me give you a couple of examples. We manage risk with South American farmers. We provide fertilizer and other inputs. They're paid back with a portion of the farmer's crop. We actively manage our counterparty risk with customers and suppliers. Our credit folks sit side by side with our commercial folks. It's a competency that I think is unmatched anywhere else.

We hedge commodity inputs, commodity outputs. We turn crops into a broad portfolio. We really have to have this understanding throughout the markets and throughout our value chain and where our positions are at any point in the day, at any hour of the day.

Our success depends on the ability to continually manage this risk at all levels. And we continue to believe not only this is a core competency, but we continue to work to improve it. I think it's allowed us to manage very well in real time and capture higher margins during a period of volatility.

So putting it all together, we are excited about the opportunities ahead. We think we can continue to expand the volume and scope of our chain to meet the growing needs of food, of feed, of fuel and industrial customers. We will grow our chain. And we build out what we've already announced as our capital projects. We'll find new opportunities for growth. And we'll have probably some opportunities for small to larger acquisitions in this time.

We see continued depressed valuations in this ag space. And we recognize that there are few people that can take advantage of that opportunity. We intend to pursue those opportunities with the enduring diligence that we've had in the past. And the diligence about spending money is, again, very much part of who we are.

So we'll plan to do that. We'll come back to you with some Q&A. But now I'll turn it over to John, who will talk a little bit more about the business and the current market conditions, and then Steve, who will talk a little bit more about our financial flexibility. Thank you. John?

John Rice - ***Archer Daniels Midland Company - EVP, Commercial and Production***

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Thanks, Pat, and good afternoon. ADM's earnings power comes from our unique global asset base, which connects such crops as corn, oilseeds, cocoa, and wheat with the demands of our customers for the food, feed, fuel, and industrial markets.

Pat talked about our core competencies. What I'm going to talk about is our core strengths and our ability to match the crops with the right processing technology to meet these customers' specific needs in a very cost-effective way.

As Pat mentioned, our origination and transportation network spans the whole globe. And with these assets, we can source crops from virtually anywhere they're grown and transport them to any destination in the world. And our transportation network includes 330 elevators, 13 ports, 2,100 barges, 1,600 tractors and trucks, and 24,000 rail cars. And then we also use ocean freight time charters to ship about 66 million tons of products and raw materials each year.

And while our asset base is well suited to handling today's crops, we are expanding our network in anticipation of greater volumes that will result from cultivation of new land and the implementation of advanced technology and better farming practices. So let me give you more detail on what Pat mentioned.

We're adding to our elevator network. In recent months, we've acquired, leased, and expanded operations throughout the whole globe. And this is to handle more corn, wheat, soybeans, and also more rapeseed.

At the same time, we are continuing to improve our elevator operations to increase throughput and also lower our operating costs.

And we're also upgrading our export and import capabilities to enable more efficient loading and unloading of vessels, which can reduce our demurrage and actually increase dispatch revenue.

And we're also expanding our South American barge fleet by 50%. And this will also increase our sourcing capability in this growing region.

And we're also growing our destination business, where we're pricing our products on a delivered basis, where we can capture the whole value chain from the farmer, through our elevators, through out transportation system, all the way to the customer. And this origination really helps cost effectively for the customers. And it really addresses their pressing needs, which is food security, product quality also on a timely shipment.

Now while our physical assets enable ADM to collect, store, and transport crops are really the foundation form of our value chain, it's really our global acumen and the knowledge and experience of our people that ultimately create the shareholder value. Because our experience extended from the crop sourcing clear all the way through to customer sales, we have exceptional insight in supply and demand conditions throughout the entire ag value processing chain. This global intelligence provides competitive edge as our team, who uses real-time market knowledge to coordinate global activities and merchandising activities.

On the crop-supply side, with experts stationed in growing regions around the world, we benefit from detailed, real-time crop and market information. And at the same time, our extensive knowledge of our customer base gives us intelligence, key things on when they're buying, when they're delaying shipment, when they're cutting back on purchasing, and also when they're expanding, when they're going to buy ahead of the market. And armed with this data, we find opportunities to source crops and supply our customers with products they need in also, once again, the most cost-effective way.

Now the heart of our business involves processing crops into products ranging from food, feed ingredients to biofuels to industrial chemicals. As Pat mentioned, risk management is a key component and is very critical to how we manage our business. And we generally run a hedged position to lock in processing margins. And we employ different -- a lot of different instruments -- to maximize profits.

A defining feature of our processing operation is our ability to manufacture a variety of different products from our core commodities. When it comes to oilseeds, for example, our vegetable-oil manager can either sell crude vegetable oil that comes out of the processing plant as is, or we can refine it into other products that can be bottled, that can be sold in bulk, or blended with other oils to meet each specific customer needs.

A little bit further down the line, the refined oil can also be hydrogenated, interesterified, and also used in a variety of shortenings, or we can take this oil and convert it into biodiesel. So each of these finished products has its own supply and demand dynamics and profit margins. And our product flexibility gives our business manager the discretion needed to maximize the total volume or the total value of the processing chain.

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Our corn processing operations are also quite flexible. Today, ADM can make 24 products from a single kernel of corn. And while a large percentage of that corn goes into either ethanol or sweetener production, every additional product we manufacture enhances the total value of these processing operations. That's why we are working to add new products that respond to market demands.

Two examples of this is in Clinton, IA, where we're producing PHA -- it's a renewable, sustainable, biodegradable plastic -- and our new propylene-ethylene glycol facility in Decatur, IL. And these two facilities are expected to be on line here in 2009. And we're seeing already a lot of interest from our customers for these products.

Just as we're expanding our sourcing and transportation network, we're preparing for greater crop volumes. We're also increasing processing capabilities and capacity to meet this long-term demand that we see. We're expanding oilseed crushing at five of our North American plants. We recently acquired a rapeseed crushing facility in Germany. And we're evaluating many opportunities for additional capacity expansion in Eastern Europe and also in South America. And we're expanding our fertilizing blending capabilities in Brazil and also in Paraguay.

In corn, our Columbus, NE, facility is scheduled to be on line this fall. And work continues in our Cedar Rapids, IA, ethanol facility, while we're slowing the pace of this to be able to save on labor and material costs in the light of what we see in the ethanol market and then also in the labor and material markets.

But once on line, these two new plants will each produce 275 million gallons of ethanol per year and are being built next to our existing wet corn mills. And this will help lower our processing costs and also fit into our logistics network.

An additional step we've taken is to improve the production flexibility and optimize the cost in our PHA plant. This is a good time with this world economy to be able to go out, as Pat mentioned, renegotiate and look at where we can make additional savings in construction of these projects. And we're also investing long-term in our coal plants in our two largest in Cedar Rapids, IA, and Columbus, NE. This will also lower our costs because it'll be cogeneration units.

In cocoa, to capitalize on the growing demand for cocoa and chocolate products, we're adding new processing facilities in Hazleton, PA, and in Ghana. And the acquisition, as Pat mentioned, in Shockinag, Germany, will allow us to better serve the European market.

Finally also, we're continuing to work on our wheat-processing network to make substantial improvements in the processing that we're always looking to all our operations to make sure we're maximizing all cost savings we can. And also, in the back of our handouts, we have an update of our major projects.

On the distribution and sales sides of our business, we use our capabilities and expertise to address a wide variety of customer needs, to work to ensure that our products are delivered quickly, efficiently, and through our worldwide distribution networks. From there, our sales and marketing team, technology teams work directly with the customers to help formulate different solutions to their specific needs. And it's our job to add value through this whole agricultural processing chain and to work all these important steps together and really building long-lasting relationships with our customers.

That's a brief scope, scale, and reach of our operations today. And now I'd like to shift gears here a little bit and talk a little bit about our view on the global agricultural supply and demand picture and the various items that come into play in managing our business and also affect our supply and demand scenarios.

Over the last couple of years, we've experienced extreme volatility in the global agricultural marketplace. Putting some context around these events and underlying factors that triggered them will help provide a broader aspect to our business. This brief overview will also provide you with a sense of how well positioned we are to weather these turbulent times.

ADM has a decade of experience managing through business cycles and extraordinary events, whether they're manmade or natural. In both favorable and challenging times, our industry acumen, unparalleled global asset base, flexible processing operations, and strong customer relations all serve us very well. And while current global conditions are certainly challenging, we are confident in our ability to thrive, even in a challenging of uncertainty times and change.

From our perspective, recent volatility in commodity marketplace has resulted from the confluence of three short-term trends and one long-term trend. The dominant trend shaping world demand for agricultural products the past 20 years has been a dramatic increase in meat consumption, especially in developing countries like China that have had growth that's been a substantial part of their personal income.

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As you can see here, pork and poultry consumption has grown 61% and 146%, respectively, since 1988, 1989. In order to meet that demand, farmers in these nations had to change the way they fed their livestock. Traditional all-grain rations were balanced with protein to make their feeding more efficient. That's why feed and wheat grains consumption were only up 19% to 36% during this period, while consumption of protein meal more than doubled. At the same time, expanded crushing operations also yielded higher production of vegetable proteins and fats that also met consumers' needs.

Now just recently, the rate of growth in the meat consumption appears to have tapered off somewhat as the GDP around the world has slowed, and in China and India especially. Ultimately though, we see circumstances improve. And we do expect to see the rate of growth back to what it's been historically over the last 20 years.

Now it's important to note that the trend towards greater meat consumption has had substantial increase on global land usage. With arable land at a premium, the acreage dedicated to oilseed increased at the expense of wheat and feed grains. This bar on this chart illustrates how the land was divided among the major crops, while the line shows how production has increased during this same period.

The takeaway here is that as long as grain production and yields were increasing, the world was satisfied to let oilseeds borrow area from the grains to provide balanced animal rations sought by developing nations. But of course, what's happened is we had a drought in Australia in 2006 and then a drought in Australia and Europe in 2007. And this really led to a tightening of the stocks-to-usage ratio. And these events combined with several other short-term factors served to drive prices higher.

The first of these other factors was the extraordinary volatility in world crude oil prices. As you know, prices shot up to $150 a barrel. Then they dropped back to $36 a barrel. They went back up to about $43. And I think now they're down to about $34 a barrel.

The second major influence on the commodities marketplace has been the sharp fluctuation in the US dollar. Though it has rallied considerably here in the last few months, the dollar at one time had declined by 25% versus the euro. This essentially meant that Europeans were getting a significant discount on US-produced agricultural products.

The opposite effect was felt in Brazil. Farmers were receiving less in their local currencies for production. So a weak dollar dampened the incentive for adding new soybean acreage. But now recently here, we've seen the dollar's resurgence has helped the Brazilian farmers regain competitiveness, even though the prices have declined. But the takeaway here is that crop prices have been significantly impacted by the various dollar's ups and downs.

The final and the third factor bearing on the commodities prices was speculative investment in the commodity futures, particularly by index funds. The destruction of wealth and the change in investment strategies that occurred since last fall led these funds to substantially reduce their commodity positions.

Where at one time, these funds held somewhere about 2.25 billion bushels of corn in their position, they now hold less than that. And with the vast amount of money exiting the market again, the impact on crop prices has really been considerable.

So the combination of crude oil price shocks, the dollar's ups and down, the speculative rush in and out and subsequently retreating from commodities all set against the backdrop of increased meat consumption globally combined to produce market volatility in historic proportions.

On the supply side, meanwhile, record prices prompted farmers to step up their production, which has led to greater output. The market is currently anticipating a 72 million ton increase in wheat production in this 2008-2009 crop year. Higher stocks have lowered prices, which will almost certainly lead to less wheat being grown this next year. And the market is also expecting a 15 million ton increase in oilseeds, a 21 million ton increase in coarse grains, but meanwhile also, corn production we expect to be about 5 million tons less.

Today, the market's monitoring the soybean crop in Argentina and Brazil. Harvest is just starting. We're about 8% down in Brazil right now. And we're constantly watching the rains in Argentina. And this result will ultimately determine what the American farmer's going to produce when their planting comes around about in March time period.

ADM is well positioned to perform on these challenging and changing marketplaces. And as we look out in the long term, there's really great reason for optimism. Despite some drawdown, the overall global livestock base remains strong. And while demand for some of our products has been impacted by current economic forces, long term, we believe to see strong, relatively consistent demand for agriculture as the world needs more food, feed, and environmentally friendly fuels and industrial products.

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So again, we underscore that our company has decades of experience in challenging business cycles. Our unique combination of assets and capabilities enable us to weather volatility and respond to shifts in a dramatic global marketplace before. And we're confident about our ability to manage through the good and bad coming forward. And now I'd like to turn it over to Steve to review our financial performance.

Steve Mills - ***Archer Daniels Midland Company - EVP & CFO***

Thank you, John, and good afternoon, everyone. As we reported earlier this month, the Company announced strong second quarter results. Our quarterly net earnings and earnings per share increased 24% and 25%, respectively, as lower segment operating profit was more than offset by a credit from the change in our LIFO inventory reserves, which continued to fall in parallel with lower commodity prices.

The segment operating profit decrease of 15% this quarter was principally a result of declines in our corn processing segment and in our other segment, which more than offset improved results of both our agricultural services segment and our oilseeds processing group.

Fiscal year-to-date, we've achieved record results for the first six months of the year, from both a segment operating profit perspective as well as from a net earnings perspective. The swing in our LIFO reserves has been significant, from charges last year to credits this year, again, following commodity price movements.

Operationally, our oilseeds processing and our ag services segments have had an excellent six months. Oilseeds group was well positioned from a raw material perspective vis-a-vis the late US harvest. And we had a good bit of business booked forward with good margins, which we've been executing on. Similarly, our ag services segment also benefited from good forward sales positions. And we are able to capture excellent results from opportunities arising from the commodity price volatility.

However, we have seen business slowing. Global protein demand is down. Crushing rates are down. US grain exports are still low relative to last year. And we see some of our customers reducing their forward cover.

In corn processing, results are down as operating conditions, especially in the bioproducts business, was difficult. As we continue to work our way through higher net corn costs, ethanol margins have fallen off. Demand for gasoline has dropped. And gasoline prices have declined. Additionally, the excess ethanol industry production capacity and the resulting supply-demand imbalances have kept a lid on ethanol selling prices.

Although we are experiencing challenges in the ethanol business as the industry goes through its expansion stage on the way to supplying the longer-term RFS requirements, we believe ethanol is an attractive long-term market for ADM and a good long-term investment for our company.

Long term, our earnings growth comes from the strength of our diversified business portfolio. A look at the earnings mix for ADM over the past three years demonstrates this diversity. From year to year, the earnings of our individual business units vary as a percent of the total. But the diversity of our business mix gives us the ability to grow our earnings as market conditions change.

These pie charts show our segment operating profit mix for fiscal years '06, '07, and '08. And you'll note that while the percentage of earnings from individual business units changed from year to year, overall earnings have grown each year. Earnings growth from fiscal '06 to '07 came from every business unit and included especially strong contribution from our corn processing segment, while earnings growth from '07 to '08 was led by our oilseeds processing and our ag services segment.

As we look at the pie chart for our most recent six-month period as compared to the prior year's six months, our earnings growth in fiscal '09, as I mentioned earlier, has come primarily from our ag services and oilseed processing segments. The takeaway here is that our value chain gives us the ability to capture profits as conditions change across these various segments.

In fact, in many ways, we look at our operations as one line of business. And as you can see from the changing sizes of our segment results, profit opportunities can and do shift along our value chain. And we are well positioned in each segment to benefit from those opportunities whenever and wherever they arise.

As shown here on our balance sheet, our strong earnings for the first half of the fiscal year and our reduced working capital requirements due to the drop in commodity prices have significantly impacted our balance sheet over the past six months. Operating working capital is down $4.7 billion. Debt is down. We have no commercial paper outstanding. And our cash balances are up.

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Our net property, plant, and equipment continues to increase due principally to the spending on our major seven capital projects. And as you will see from the chart in the appendix, these projects are beginning to come on line, some of them in stages. And we've updated our completion date on this slide. Our balance sheet is getting stronger. And we continue to increase our financial flexibility.

As we look at the next chart, the blue bars depict our liquidity over the past 30 months in terms of cash, short-term marketable securities, and available commercial paper capacity. You can see from this chart that we have come through the recent volatilities in the commodities market with substantial liquidity and that our long-term debt-to-equity levels have returned to a much more comfortable 28%.

We are well positioned to cope with market conditions as well as being well positioned for market opportunities, both large and small, that may present themselves in today's challenging economic climate.

This slide provides an update of our current financial performance using return on equity and return on net assets adjusted for LIFO as measures. Both of these metrics are presented on a rolling four-quarters basis. And as you would expect with the decline in commodity prices, our working capital asset base is declining, now smoothed out in this chart by the rolling four-quarters effect. And our fixed-asset base is rising in line with the expenditures on our major capital projects.

RONA adjusted for LIFO now stands at 13.5%. And ROE is at 18.7%, both solid numbers in the light of the volatile market conditions we've been experiencing and the significant amount of pre-productive capital that is currently on our balance sheet.

We noted on our recent earnings conference call that our industry is certainly not immune from the impact of the slowing global economy. Some of our businesses will slow more than others. However, we are confident that our long-term volumes and opportunities will grow as the world will need more food, feed, and renewable energy and industrial products.

So while we will work through the short-term challenges the economy brings our way, we remain focused on our core business as we look for opportunities to grow our value chain, growth opportunities that may come from our own expansion projects or through select acquisition of assets.

As we look across our value chain, we see opportunities to expand in nearly every area of our operations, opportunities to expand our sourcing abilities through acquisition of or partnerships with selected regional elevator owners. We see opportunities to strengthen our long-term transportation and distribution asset base through an expanded barge fleet and possibly ship ownership. Longer term, we will need more processing capacity. And we are selectively expanding our regional capacities as well as exploring specific acquisition opportunities.

Bottom line, we believe that the current economic downturn may provide us with opportunities to use our financial strength to grow our global footprint in a cost effective way. We are well positioned both to handle current challenges and to build up our capabilities for the longer-term growth in our markets.

I want to assure you that as we expand our asset base and lever our value chain, our focus is on building shareholder value. Whether through acquisition, expansion of current facilities, or construction of new assets, each and every investment must both support our long-term strategy and meet our financial objectives. We are confident that we will enhance shareholder value as we grow our business. And now I'll turn it back over to Pat.

Pat Woertz *- Archer Daniels Midland Company - CEO & President*

Thank you, Steve. Before I open the floor for your questions, let me just quickly summarize. We do believe there are global trends, the trend for more food, more energy, more environmental security that allows for great opportunities for our company. We're committed to delivering value and growth. We think our people have extraordinary capability. And we think our asset base is unmatched. And the portfolio is strong. And the balance sheet is strong. So we think our industry is vital. And we look forward to your questions. I think we have a couple over there. [Christina]?

QUESTION AND ANSWER

Unidentified Audience Member

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Thank you. Bundy just announced recently a closure of an oilseed facility. And Cargill talked about closing a corn processing plant. And your presentation seemed to focus on expanding volumes, expanding capabilities and capacity. I'm just wondering, given current utilization rates, if there's room for any capacity closure on your part.

Pat Woertz - ***Archer Daniels Midland Company - CEO & President***

Well, maybe I'll start. And John can add to that. I think we always try to match our processing capability with the market conditions. So we have slowed some plants. But we're not looking at entire plant closures at the moment. We think we're actually well matched in the certain regional markets where that demand has perhaps shrunk and we've reduced capacity to match that.

Our comments about expansion has to do with the long term and at great valuation. So it's not about meeting this quarter or this month demand, but meeting that longer-term demand at an absolutely great price.

John Rice - ***Archer Daniels Midland Company - EVP, Commercial and Production***

And over the last I want to say ten years, we have been consolidating a lot of our plants, shutting down the least efficient ones and building our plants to become more efficient on the oilseed side of the business. On the corn side of the business, we've been really working to make sure we expand -- I'd mentioned we make 24 products from a kernel of corn -- expand and be able to make new additional industrial products and also maybe be able to expand into some other fuel products in our corn plants.

Unidentified Audience Member

Steve, what sounded new to me is that you said you might consider possibly investing in ships. Are you referring to ocean vessels? And how big of an investment would you make? Are you seeing some very low asset prices? I believe Cargill had a big ship business at one point. And what are the -- how do you evaluate that?

Steve Mills - ***Archer Daniels Midland Company - EVP & CFO***

We are a big user of ocean freight today. Freight rates are at -- and values -- are at some historically low levels. We've over time either on voyage charters or we've entered into long-term time charters. So as we analyze the cost structure as it fits today, we're looking at that possibility whether ownership -- and I think maybe to answer your first question, we are talking about ocean-going vessels. It's just something we're evaluating because it is part of our cost structure everyday. And we've chosen over the years not to invest directly. But we are seeing unusual times with relatively low values.

Unidentified Audience Member

How big of a fleet? How big of a fleet would you consider?

Steve Mills - ***Archer Daniels Midland Company - EVP & CFO***

I think we're not ready to commit to that. I don't see us being a large -- I don't see it being a large number.

Unidentified Audience Member

Thank you. What will it take for the ethanol business to actually become profitable? And what is the timing on such an event?

John Rice - ***Archer Daniels Midland Company - EVP, Commercial and Production***

That's a very tough question to answer. Right now, we have 2.9 billion gallons of overcapacity in the market. The market is right around 10.5 billion gallons of production. But there seems to be about maybe 1 billion gallons of [rens]. Depending on what the ren market is any given week,

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this industry's really turned into more of a real-time -- if people can buy ethanol at 35 over and create a ren for next year, they're doing that. And they'll start blending for another two, three, maybe four weeks at a time. When you look at the long term and the number of plants shutting down, there is reason for optimism, maybe around 2010 when we get to 12 billion gallons.

Unidentified Audience Member

And then my second question is -- how much corn capacity has to be diverted to other uses? Or how much capacity has to come out the balanced high fructose corn syrup supply with demand?

John Rice - ***Archer Daniels Midland Company - EVP, Commercial and Production***

I don't know the answer to that off the top of my head.

Unidentified Audience Member

Can you give a -- I mean, how out of balance is it? Can you give us some parameters?

John Rice - ***Archer Daniels Midland Company - EVP, Commercial and Production***

It's not out of balance right now. We are running our plants. We have one plant slowed down a little bit. I know a couple of our competitors have had issues with their operations also. So I think long term as we keep looking to expand into other products, our goal is to make sure we keep expanding our grind. It may not be in ethanol and sweeteners but in also other areas to really make it cost competitive and effective. In this last year, we've seen increase in [lysine] and trading demand. We're able to increase our production in that.

Unidentified Audience Member

Just as follow up on that last question, how much of a factor is the current imbalance in supply and demand in high fructose a function of Mexico's inability to buy a lot of high fructose, given the weakness in the peso?

And then secondly and on a separate subject, if you could just talk about -- you mentioned in your comments that there's obviously dry conditions in South America. It may be a little early to make the call right now. But given that market and what we're seeing in China right now with some iffy weather conditions there, are we setting up for another big year of imbalances globally that given your global strength might create again another perfect storm?

Unidentified Company Representative

I hate to say this. But what was the first question again?

Unidentified Audience Member

I'm so wordy. Just on a --

Unidentified Company Representative

Corn syrup Mexico, right?

Unidentified Audience Member

Yes, right.

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Unidentified Company Representative

This is the time of year where we usually don't see much soft drink consumption. So to answer that question, I'd really just as soon wait until after the summer period. We get through sugar harvest. And it depends on what the sugar supply and demand comes through the world. And a lot of it could have to do with the peso. Of course, that's going to affect the price of fructose. But still, fructose is very competitively priced going into Mexico.

On the weather around the world, this is something we monitor all the time. They had some rains down in Argentina. Brazil seems to be okay. Rio Grande still seems to be a little bit dry. As harvest is coming along, we get more information. February's when you know and make the Argentine crop. But there's also other issues in Argentina right now which could also have an impact on whether supply and demand is balanced.

Right now, we're shipping out of the United States a lot more products and soybeans than normally come out of South America at this time. So I mean, it's always a moving target, where the weather is. But right now, it seems like the world has plenty of commodities.

Unidentified Audience Member

In the upcoming battle for acreage in the US, in terms of what it means for ADM's P&L, should we think about it more beneficially if the planting intentions favor corn over soybeans because corn is less of a pass-through type of business? Or is that not the right way to look at it?

Pat Woertz ***- Archer Daniels Midland Company - CEO & President***

I think generally speaking, ADM likes plentiful crops for -- under all circumstances. So really, it's not necessarily a battle. It's good weather. It's good crop production. It's good yields in both cases. And both cases help our export market as well. So anyone add anything to that?

Unidentified Company Representative

When you look at the current supply and demand balance sheet, it doesn't seem that corn's going to need as much acres as what people were originally thinking. You can -- different people are using the 1.7 billion or 2 billion carry out. That means you can have less acreage in corn this next year. A lot of it's going to have to do with what the prices are and the price of fertilizer. But the corn seems to be in a better situation than maybe soybeans here in the United States.

Unidentified Audience Member

And on the fertilizer point, at the retail level, have we seen a return to kind of movement there? Or is the standoff still with farmers still kind of in place?

Unidentified Company Representative

I guess I can't comment that much on fertilizer. We're seeing fertilizer prices come down here in the United States. But I'd just as soon not comment anymore I guess.

Unidentified Audience Member

Okay. And one final question -- I'm just curious if the current global demand environment has caused you to even in the place kind of tweak your long-term assumptions on any of your capital projects -- I mean, clearly still very committed it seems. But I know you had made a comment about maybe renegotiating some of the project costs with your contractors and just kind of curious if those costs weren't renegotiated if some of these projects based on existing assumptions or any updated assumptions still make complete economic sense for you.

Pat Woertz ***- Archer Daniels Midland Company - CEO & President***

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Well, if you look at the projects list that's in the appendix, you'll see that quite a few projects we've moved out a quarter as far as completion. So that has as much to do with a cost renegotiation. But you'll see that the Cedar Rapids dry mill plant is being reviewed for 2010 completion. It's really slowed relative to both market conditions and optimizing costs. So I think that one you could attributed to market conditions as well, which is your point. Thank you.

Unidentified Speaker

We have time for one more question in this room.

Pat Woertz ***- Archer Daniels Midland Company - CEO & President***

Thanks, Bryan. Sorry, we had one way in the back. Thank you.

Unidentified Audience Member

Yes, a big part of this story kind of just long-term agriculture depends on increased meat consumption in emerging markets, primarily Asia. I've seen some studies that suggest that the intensity of protein consumption kind of plateaus at a certain point. So I'm wondering -- is that part of a contingency plan that you have? Or how much of your kind of asset planning depends on that type of growth? In other words, this is a little dip. And it just keeps going on the straight line that we've seen it for the last 25 years.

Pat Woertz ***- Archer Daniels Midland Company - CEO & President***

Well, I'll start. And maybe John wants to add to this. I would say our scenario planning does a lot of different scenarios, including ones that continue to grow at what the 20-year average has been but also as based on GDP growth assumptions in many of these emerging markets.

So as people have migrated from agricultural or much more rural communities into major cities and have employment in those cities and change their diets and have greater prosperity, world data tells you that continues generally for another 15 years and before it even slows, to use your term, plateau. So there's different shapes to those curves. But our longer-term scenario planning kind of takes into consideration quite a few different shapes to those curves.

Unidentified Speaker

All right, I think we're out of time. We can move to the breakout room. And again, Patricia, thanks for coming. And thanks for dinner on Thursday.

Pat Woertz ***- Archer Daniels Midland Company - CEO & President***

Thank you, everyone.

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