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Conference Call Transcript

ADM - Archer Daniels Midland Company at Deutsche Bank Securities Global Consumer, Food Retail and Luxury Goods Conference

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PRESENTATION

Christina McGlone - ***Deutsche Bank Securities - Analyst***

Okay, why don't we get started. Good morning, thanks for joining us. I am Christina McGlone, Deutsche Bank's agribusiness and protein analyst. Today, I am pleased to have Archer Daniels Midland with us as a leading global agribusiness diversified in all crop player. We have Steve Mills presenting. He is the Executive Vice President and Chief Financial Officer. To my left is John Rice, EVP of Commercial & Production and we also have Dwight Grimestad, Vice President of Investor Relations.

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

Well, thank you, Christina and we are glad to be back here at the Deutsche Bank conference and of course, we welcome everyone's interest in Archer Daniels Midland Company today. We are always happy to discuss the strengths of our Company and the opportunities we see to continue to build long-term value for our shareholders. And as Christina mentioned, John and Dwight will be here to help with questions at the end of the presentation.

Let me remind you today that our comments are covered by our Safe Harbor statement, which you can read in the handout or on our website.

ADM and the products and services we provide are truly vital to the world. Today, I am going to share with you the actions we are taking to continue to fulfill our vital purpose and to drive shareholder value. We will talk about the strength of the ADM value chain and we will discuss the strategy for growth and returns.

There are three long-term global trends that offer a sustained growth opportunity for ADM. First, the world's population grows each and every year, increasing the world's need for our many products that go into the global food and feed markets. The need for more food to feed more people is perhaps one of the world's most inevitable trends.

The second trend we see is that energy needs will also continue to grow and the need for energy diversity, coupled with a desire for energy security, increases demand for our renewable energy products.

And third, with the increased interest in environmental improvement, we see a growing opportunity to develop a range of environmentally-friendly renewable industrial products. We believe ADM's size and diversification continues to make us the best positioned agricultural processor to capture the opportunities coming from these long-term trends.

As we grow our Company to meet these long-term needs, I would like to outline for you today our global growth strategy we are pursuing to build shareholder value. This slide depicts the global reach and positioning of our assets. ADM's origination facilities, the black dots on the map, include more than 300 locations on six continents.

The other dots on the map represent our more than 230 processing plants around the world, which generated an array of products from corn, wheat, cocoa, oilseeds and other feedstocks. The breadth of our operation gives us the flexibility to adjust our manufacturing activities to respond to shifts in the global marketplace.

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Our primary sourcing distribution routes are depicted here in red and our major processing distribution routes are shown here in gray. As market dynamics warrant, we can ship crops or products anywhere in the world. This asset base is one of the world's largest, most diversified agriculture origination, processing and distribution networks in the world, creating a value chain that allows us to generate incremental earnings at every stage of our operations.

We will grow shareholder value at ADM by leveraging the earnings power of the entire value chain and our strategy is focused on expanding the volume and the scope of our core model. We will expand our origination and processing activities as market demands grow or as acquisition opportunities present themselves. And we will continue to work to find additional opportunities that will connect to and leverage this value chain.

We are expanding the scope of our model as we increase the volumes of the crops we originate and as we diversify our feedstocks into the areas of palm, sugar and biomass. We are finding opportunities to add value to the core model as we expand the size and the geographic reach of our origination, transportation and processing operations. And we are expanding the volume and scope of our core model as we grow and diversify our product portfolio. Diversifying our portfolio of food, feed, bioenergy and industrial products lets us optimize our processing capacity to maximize profitability as products and market demands change.

At the front end of our value chain is the origination and transportation of grains and oilseeds to their many markets around the world. We take about a third of the crops we originate and send them on to our own processing facilities. And the remaining crops that we originate then flow through our network of elevators, transportation equipment and port facilities to a broad array of food, feed and industrial customers.

Each and every day, we use our industry acumen at ADM to add value to our global asset network. I would like to give you an example here this morning. Here, a customer in Egypt needs to buy feed for his poultry operations. The market price for the key feed ingredients at the port in Egypt actually determines the commodities values at various export ports around the world. ADM can supply these four major export terminals from our extensive origination network. The commodity values at each of our elevators is determined by the local supply and demand.

For this particular example, we find that the best and highest value opportunity for ADM is to ship corn by rail from central Illinois to the St. Louis River terminal, then by barge onto New Orleans, then by sea onto Egypt.

On another day though, this order could have come from the interior elevators in Brazil through the port of Santos and then onto Egypt or it could have come from Paraguay through Nueva [Palmira] on the [Damietta] or it could have come through central Europe through [Odessa] onto Egypt.

At ADM, we have great insight into the supply and demand dynamics throughout the entire ag value chain as our operations span the globe and extend from crop sourcing through to customer sales. This global intelligence provides us with a competitive edge as our team uses real-time market knowledge to coordinate global processing and merchandising activities and to take advantage of market opportunities as they happen.

From a strategic perspective, as the global production of grains and oilseeds increases to meet the ever-growing and ever-increasing global demand, we will expand and improve our origination and transportation network. We will selectively add elevators and improve our throughput capabilities as we build on our origination and transportation leadership position in North and South America. We are going to grow our origination footprint in Canada and Europe and in the Middle East, Asia and Africa, we will expand our destination business where we have the opportunity to capture value at every stage and every step of our origination, transportation and logistics network.

And we have been executing on this strategy. We have acquired seven oceangoing vessels and we have been modernizing our North and South American barge fleets. Also, in South America, besides expanding the barge fleet, we have added tugboats and we have also grown our origination footprint by adding silos in Brazil, Paraguay and Uruguay and in Argentina where we are already the largest exporters of grains and oilseeds, we are expanding our port operations to increase our presence in that ever-important soybean production region.

Moving onto oilseeds where we are indeed a global leader, we have a geographically diverse integrated value chain in oilseeds with strong sourcing capabilities of all oilseeds and the ability to produce a wide variety of products that serve the food, feed, fuel and industrial markets.

Our oilseeds processing operations cover the globe with crushing, refining, packaging and biodiesel operations in all major regions. This morning, I will compare our oilseeds processing businesses by region and I will share our global strategy for oilseeds.

The core of our North American oilseeds business model is in crushing a variety of oilseeds into protein meal and vegetable oil for the food and feed markets. In North America, soybeans account for the majority of our processing volumes, although you can see here that we are diversified across a wide variety of oilseed crops, including sun, canola, flax and cottonseed.

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We in turn refine all of these oils and in addition, we refine palm and coconut oils, which we import to meet our food customers' needs. We also produce a number of further value-added products such as [lecithin], sterols and vitamin E. The vast majority of our protein meal we produce goes to the feed markets where we also produce soy flours, concentrates and isolates for use as food ingredients.

In Europe, we also have a leadership position in oilseeds crushing and refining. The model is a bit different here as we need to import the soybeans that we crush from North and South America, often using our own port facilities. And we also use our inland European elevators to source locally grown grapeseed and sunflower seed. Again, we import and refine palm oil in Europe, principally at our Hamburg facility and we are a leader in the large European biodiesel market.

We also make foodgrade glycerin. We make shortenings, margarines and [lecithin] to serve European markets and we have oil-bottling facilities in England, Germany and Poland.

Our South American oilseeds operations not only process soybean into protein meal, vegetable oil and biodiesel, but this group also manages our origination and distribution activities for the region. South America's business model differs from our other regions as in South America, we provide farmers with crop pre-financing in order to help procure the crop. This pre-financing is a form of cash or as in the form of crop inputs such as seeds, crop nutrients and crop protection.

Our participation in the Asian oilseed markets is primarily through our strategic partner in this region, [Wilmar] International Limited. Wilmar operates over 80 crushing, refining and packaging facilities, principally in India or in China and Indonesia, producing protein meal, edible oils and flours. Wilmar also operates 10 palm plantations in Indonesia and Malaysia.

Through ADM's origination and logistics network, we are a strategic supplier of soybeans and other products to Wilmar and conversely, Wilmar is a supplier of palm and lauric oils to us.

Our oilseeds strategy is centered on enhancing the value of our existing network and footprint, increasing plant efficiencies and to regionally expand our business model. In North America, we will grow our value-added businesses and we will grow our global destination protein business to build more consistent demand for our products.

In South America, origination and transportation are vital to our domestic and global oilseeds businesses so are expanding our crop input business and origination assets to support producers and to increase our raw materials supply for domestic and global use.

Also, in South America, we will continue to build out our processing model in Brazil, Bolivia and Paraguay through organic growth and acquisition.

In Europe, we will continue to expand our footprint, specifically looking at Eastern Europe. We will also continue to expand our existing processing capabilities, adding seed-switching capacity to reduce costs and to maximize our ability to leverage input cost differentials. And we look to build up our business in India to meet its growing demand.

And we have been executing on those strategies. Over the past several years, we have increased efficiencies across our asset base by shutting smaller, less efficient plants and upgrading our larger plants. We have formed the Stratus Foods joint venture in the US, combining the strengths of our packaging businesses with those of ACH.

We have built a low trans fat vegetable oil portfolio and in South America, we have added to our fertilizer blending capacity in Brazil and we are in the midst of constructing our first fertilizer blending facility in Paraguay. We have grown our South America processing capabilities by expanding our current facilities, as well as adding bottling and biodiesel capacity.

We have added flexibility to our plants in Europe by constructing seed-switch capabilities, allowing us to optimize profit opportunities and we have added crushing facilities in Europe with the acquisitions of plants in southeast Germany and the Czech Republic.

Turning to corn processing where we have a competitive advantage with our large, integrated, efficient plants and where our leading market positions in our major productlines are supported by our strong grain origination and logistics capabilities.

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We have seven major corn processing plants in North America, as well as a joint venture plant in Mexico and joint venture plants in Eastern Europe. We have recently established a sugarcane joint venture in Brazil. We are a leader in both corn wet milling and corn dry milling and we use coal cogeneration at our large integrated corn processing plants giving us a cost advantage over many of our competitors.

Our corn processing operations are very flexible. Today, ADM can produce more than two dozen products from a single kernel of corn and while a large percentage of the corn we process is used to make either sweeteners or ethanol, each additional product we manufacture leverages the entire corn processing facility and enhances the total value of these operations. That is why we continue to strive to find new products that we can produce from corn such as propylene ethylene glycol and PHA. Our propylene ethylene glycol plant is nearly complete and the first phase of our bioplastics facility is now lined out and providing product to customers.

Our products go into a wide range of food, feed, fuel and industrial applications, several of which are shown here. I will briefly speak about two of our principal markets. The majority of the corn we are grinding today goes into ethanol and serves the fuel markets. The size and scale of our operations, including our extensive ethanol distribution network shown here, in addition to the deep experience that we have and our financial wherewithal, have made ADM a preferred supplier to this industry with an assurance of product supply and on-time delivery.

As this next chart shows, the demand for this renewable product has exceeded the renewable fuel standards mandated volumes due to favorable blending economics. The current challenges in the ethanol industry are well-known. And although the Energy Independence and Security Act of 2007 calls for increasing usage of ethanol over time to lessen the US dependence on foreign oil, the industry capacity currently exceeds short-term demand.

ADM and the RFA are actively involved in efforts to increase ethanol blend rates to alleviate this imbalance. So while we have short-term challenges in ethanol, we are very well-positioned to supply the growing longer-term needs of this product.

The second major market for us in the corn processing group is the 32 billion pound corn sweetener market with the largest part of this market being high fructose corn syrup where ADM has a leading position. And I would like to provide some perspective on some aspects of this market today.

Some customers have recently shifted away from HFCS to sugar, but we see several reasons why this shift may be short-lived. First, it is important to understand that nutritionally high fructose corn syrup is the same as sugar, honey and many other sweeteners. Remember that the human digestive system converts sucrose, or table sugar, into fructose and glucose molecules. And fructose and glucose are naturally occurring sweeteners present in varied proportions in fruit and fruit juices that customers consume today. And there is a slide in the appendix that compares HFCS with other sweeteners. Also to help educate those consumers who are interested, the industry has set up a website, sweetsurprise.com.

Secondly, from a functionality and handling perspective, we have found that many of our customers prefer HFCS over sugar and while there is no nutritional difference between sugar and high fructose, there is a substantial price difference. At current spot prices, we estimate that HFCS provides between $3 billion and $3.5 billion of savings annually to the food industry. So with price and functionality advantages for this product, over the long term, we continue to see a significant market for corn sweeteners in the US.

And with strong demand that we are seeing from Mexico, we have more than offset the declines in US consumption and we are currently seeing improved year-over-year HFCS volumes. Shipments to Mexico have risen 220% year-to-year, year-to-date from last year's levels and we have developed many new customers in Mexico that have not used HFCS before. So while this level of usage may change with swings in sugar prices, we believe these Mexican customers will maintain some level of fructose in their formulations due to its operational advantages over sugar.

As the HFCS market has shifted over the last few years, our flexible and diverse value stream has allowed us to maintain nearly full capacity utilization at our foreign wet mills and we continue to invest in R&D to expand the slate of products we make from starch. So as we look ahead, we remain confident that our assets and expertise position us well to capitalize on opportunities in this continuing market.

Our strategy in corn processing is to continue to diversify our product portfolio and to optimize the flexibility of our processing operation. Over time, we will expand the number of products in our industrial chemicals and advanced biofuels portfolio. We are also interested in expanding our carbohydrate processing capabilities globally as the broad products -- the broad portfolio of products that we currently make from corn can also be made from a variety of carbohydrate sources. And as we expand globally, we will make our products from the lowest-cost locally available feedstock.

We have been executing this long-term strategy with our recent ethanol expansions, cogeneration investments and our new industrial chemical plants. Our Columbus, Nebraska ethanol dry mill is fully operational and our Cedar Rapids, Iowa ethanol facility is just getting started up this

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week. Each of these plants is being built to produce 300 million gallons of ethanol although our permits will allow us to expand up to 400 million gallons.

These plants are located next to existing wet corn mills to leverage our infrastructure and extensive logistics network. We have increased our ethanol swing capacity at our Decatur facility by 50 million gallons and as I mentioned earlier, our Clinton and Columbus cogeneration facilities are running well and reducing our energy costs.

Our new propylene ethylene glycol facility in Decatur will be in production here soon and the first phase of our PHA bioplastics plant in Clinton, Iowa is now online. And we are currently producing ethanol from our Brazilian sugar joint venture.

Turning to corn and wheat milling business where in each of these businesses, we are industry leaders. We are a premier supplier of cocoa and chocolate ingredients worldwide with a global origination footprint and a cocoa processing and chocolate manufacturing presence in the key consuming markets.

We are one of the largest flour millers in the world and a supplier of high-quality flours, blends and baking ingredients to the food industry. Our strategies in cocoa and wheat are focused on improving our utilization and efficiencies. We recently expanded our global cocoa operations with the acquisition of a chocolate business in Europe. We have also constructed a new origination and processing facility in Ghana and we have built a new plant in Hazleton, Pennsylvania.

Now let me briefly highlight our recent performance and review our focus on profitable growth. Included in the appendix of this presentation are financial highlights from our most recent quarter-end. A look at the earnings mix for ADM over the past three years demonstrates the diversity of ADM's business portfolio. From year to year, the earnings of our individual business units vary as a percentage of the total, but the diversity of our business mix gives us the ability to grow our earnings as market conditions change.

ADM has delivered solid results over these time periods and you will note that the percentage of earnings coming from each of these business units has shifted from year-to-year. Supporting this performance is a well-capitalized balance sheet and a financial strength that allows us to execute our strategy and grow our Company.

Furthermore, ADM's strong earnings performance and recent debt buybacks have further improved our already strong credit metrics and after a period of limited ability to buy our own stock, we again will have the option to repurchase shares, which we can use along with organic growth and acquisitions to deliver value to our shareholders.

Pursuant to recent dialogue that we have had with some of the rating agencies, we expect to have moderate flexibility to buy back stock. The ultimate size of the buyback will depend on a variety of factors, including share price and market conditions and of course, maintaining our strong credit rating remains an important capital structure objective for ADM.

This next chart reflects our earnings growth since the year 2000. Now these numbers remove the impact of LIFO, but they do indeed reflect a compound annual growth rate, a CAGR, of 18.5%. Like many large companies, we have years where we have unusual or nonrecurring items such as the securities gains and asset disposals that we had in 2007. And as an agricultural commodity-based business, predicting exact earnings levels at precise future points in time is very difficult. But as demonstrated in this chart, our business model has strong earnings power.

Taking a quick look at returns, this slide provides an update of our recent financial performance using various financial return measures. We have recently added a trailing four-quarters ROIC measure to our basket of measures shown here as the black line on the chart. And we believe ROIC is a more transparent measure and is more easily calculated. It also can be used to compare our returns to other companies' returns and of course, as well as against our own cost of capital.

As you can see, our trailing four-quarter ROIC shows the same trends as our return on net assets and return on equity. Trailing four-quarter returns have rebounded as our fiscal 2009 third and fourth quarters, which were negatively impacted by the global slowdown, roll out of the calculations. So let me emphasize again that whatever the measure, we are committed to profitable growth at rates of return that generate value for our shareholders.

So let me summarize by reminding you that major food, energy and environmental trends suggest ongoing opportunities for ADM. As you have seen today, our global asset base is well-positioned to capture value in origination, transportation, processing and distribution. Our people have the in-depth market intelligence to leverage our asset base to capture value. Our business portfolio is diverse and our balance sheet is strong. At ADM, we are vital to the world. So at this point in time, we will be glad to take your questions.

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Christina McGlone - ***Deutsche Bank Securities - Analyst***

I am going to start with one. Steve, I guess the most incremental part of the presentation was the fact that you now have more flexibility in share repurchases. Can you talk about -- basically, can you remind us, first of all, what is outstanding under your current authorization, what is your appetite for share repo and what do you think about current valuations? What is the basis for your decision in terms of buying back stock?

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

Well, just quickly with background. We have been restricted by the rating agencies for the last couple of years pursuant to a mandatory equity or mandatory convertible that we issued two years ago. So we have had -- as we have talked to many groups, we have had ongoing discussion with the rating agencies and they have given us some flexibility.

Historically, we have been opportunistic buyers of our stock and I guess I would see it, looking forward, that we will now have that as another tool or another lever in the portfolio to use. We have been hamstrung as I have said before.

Right now, as we are finishing up our fourth quarter and we are going to be in a -- we are in a quiet period relative to stock purchases, so we wouldn't even be able to look at buybacks here until after we release earnings, which will be the first of August. So at that point in time, we will be looking at stock buybacks and it will be dependent on a number of factors, including size of other potential growth-related opportunities, investments, cash flows, market prices, all the things that you normally consider. So we will look at it and in the end, we will compare stock buybacks with the other opportunities to use our cash. So the important news today is that we have some flexibility back that we didn't have, Christina.

QUESTION AND ANSWER

Unidentified Audience Member

So your equity associate, Wilmar, seems to make extremely high returns based on some over-the-market information. Could you give us any? And do you have any insight into how it makes these returns?

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

Well, I guess I will start -- do I have insight on how they make returns? Well, first of all, we have been with Wilmar since their establishment almost 20 years ago. They are a good partner of ours and we have grown along with them. They have very strong market positions in both China crushing, as well as in the palm markets of Indonesia and Malaysia.

They are good businessmen, good traders, a good asset base. Many of the things that you have seen in this presentation of ours, they would be able to replicate for their parts of the world. So other than good, hard work, good investment and good strategy, I don't know much more to add to that. I don't know, John, would you comment on Wilmar or does that pretty much cover it?

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

(inaudible).

Unidentified Audience Member

Do you think they are frontrunning their clients to make such high returns? They are several times your own return.

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

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Sorry, I don't have any comment on that. Thank you. I'm sorry -- I don't know -- am I choosing questions? So it doesn't matter. Whoever has the microphone.

Unidentified Audience Member

Just a follow-up question is can you talk about the risks inherent in your business model say with regards to a sudden sharp fluctuation in commodity price as you have quite a long supply chain, as well as the risk of oversupply of different segments. Say, for example, corn processing? My understanding is now it is very profitable and a lot of Chinese may be building various corn processing capacity. How vulnerable is your business to oversupply?

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

Well, our business -- I will start and let John build on this. Our business is one that is supply and demand balances are very critical aspects of our business model. We start with the global size and strength in the asset base and you need to be well located, but each and every year, we have to manage in real time with a set of circumstances that are there.

So it is an interesting business because it is not just straight supply and demand of an individual commodity because there is a lot of substitutability. The market is very efficient, there is a new harvest in one hemisphere or the other every six months. So it is a very fluid, fluid market. So the addition of additional supply into the marketplace is a very critical decision and depending on growth rates, it gets to be a real factor of how quickly that supply can be used up and so it is always -- the market always knows if there is -- we always say if there is one bushel too many or one bushel too few in whatever it is.

So in general, that is how we live and so when you ask about how we -- your first question about how we look at the risk relative to the business model, it is something that we live with, we understand, and we deal with as we go. When there is oversupply, usually one of a couple things happen. Eventually either demand grows into it or margins are weak to a point that people fall by the wayside, there is acquisitions, there is a lot of things that happen, but there is a lot of different mixes there.

There are a lot -- I know there were a lot of other embedded questions in there. John, do you want to tackle some of that?

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

Yes, I would just add that we manage our risk in each of our businesses we do. Historically. have shown we have done a great job of managing that risk. Each business has its own little set of risk. Some of these products are hedgeable, others are not hedgeable, but we have positions with all our position limits with all our traders throughout the world and it is rolled up into one corporate position that Steve and I look at everyday and I am very involved with what our corporate position is.

And as risk has grown with the volatility in the markets, we have also been able to expand our returns we feel for being able to manage risk and being able to help customers manage risk. But it is a global market and we are -- I feel we are very good at managing risk globally in our business.

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

And I think there was a question, John, about -- and maybe I didn't get it quite right -- about China and I don't know -- (inaudible) want to talk about China in the marketplace. Teere was a specific question in there about corn.

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

If it is specifically about corn, they have been buying a little bit of corn here lately. They have been selling corn out of their reserve, lowering their carryout and I think going forward, it is going to be predicated on what kind of weather they have. But eventually they will want to increase their reserves back up again. But once again, it is going to be the size of their crop I think will determine what their buying needs are going forward.

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Unidentified Audience Member

What role do you see for genetically modified food in your industry? And particularly in Europe going forward?

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

Sorry, could you repeat that?

Unidentified Audience Member

GM, genetically modified food given food shortages worldwide, etc.

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

John, do you want to talk about our position on --?

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

We will supply what our customers want. We still have genetically modified crops that we -- and non-GMO and GMO crops that we handle, but we will ask for a premium just because it costs more for our farmers to grow those and segregate it and all the way through the supply chain, but it is really customer-driven whether we have non-GM or GM crops throughout the world.

Unidentified Audience Member

And in terms of end customer acceptance of GM or GMO, do you see that trend as becoming more favorable towards GM growing acceptance of it as it becomes more broadly based?

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

In the United States, we are not seeing an increase in non-GM or in Asia, which is the big growing area. It is really Europe that we see the most for non-GM foods. But in other areas of the world, we are not seeing --.

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

I think the basics of it, there are more and more GM crops being grown. As John pointed out, we simply are in the middle of this trying to supply the customers with the products they need. But will there be a time that that gets out of balance, what the customers want and what is available, that is always the challenge and as we said, oftentimes, price solves that because somebody wants that, somebody will indeed grow that and that I think continues to evolve.

Unidentified Audience Member

Can you please share with us to what extent is the second generation ethanol going to be an opportunity or a threat for ADM?

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

That's a good question. There has been a lot of work and I think part of it is a definition of what second-generation ethanol is. As we look forward sitting here today, the corn-based ethanol is, and we believe will continue to be a foundational piece of the ethanol pie from a cost perspective, ease of handling, etc.

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Second-generation or further generations -- again, a lot of work being done trying to find solutions there. The ones that show early promise still look to be challenged from a cost perspective. The real question is how cost-effective can they be done. Some of the work that we are aware of, kind of in best case scenario still shows pricing at $0.50 or so above the cost of corn-based ethanol.

So we really don't see it as a significant threat. We are continuing to monitor it, but we have got confidence that corn-based ethanol is going to be here for here to stay. Now one could always say there could be some breakthrough that we are not aware of, but there has been a lot of time, energy and money spent on this. And again, we are monitoring that.

And I guess the other piece to that is that if and when that second generation comes about, we, at ADM, have have a network of handling it, moving it and if it is crop-based at all, I am confident we will find a place to play in that.

Unidentified Audience Member

Thank you. My question is about [Gruma]. I am sure you haven't enjoyed the volatility in earnings there, but longer term and strategically, how do you view your equity position in Gruma and has that view changed since your first investment in the '90s?

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

Yes, it has. The answer to the last question -- it has changed. We still own over 20% of Gruma's shares. We also have a venture arrangement with Gruma with a couple of their subsidiaries.

For those not familiar with Gruma, a Mexican-based tortilla corn flour producer with large operations in the US and in Central America who had a problem with currency a year ago that cost them a lot of money, cost us all a lot of money.

This has been an operation that we continue to look for synergies and ways to work with them. As much as I described Wilmar, we are looking for activities that we can join forces, share powers. Those synergies haven't been as prevalent; I will just be honest. I was there when we bought it and did the first investment. They haven't been as prevalent as we would have liked and so we continue to look at how Gruma fits into our portfolio long term.

There is no question we took a long pause as they worked their way through their financial difficulties and we are continuing to work with them as they come out of that. But it is something that we are reassessing as we sit here today.

We have got time for a couple more questions based on the time.

Unidentified Audience Member

Again on ethanol, obviously, you are now in the process of expanding capacity whilst competitors like [Tate] and Lyle have announced (inaudible) finally sort of decided not to go on with their new (inaudible) plant. So how much -- what is the sort of rough capacity utilization you two have now? How critical is capacity utilization to returns and how are you sort of betting on E12 or E15 in order to drive returns up for us?

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

I will start with that and then I will let John talk a little bit about E12. But first of all, capacity utilization is critical. We believe our plants are all -- our large plants, even our new dry mills are integrated into our wet mill complexes. We believe we have just inherent advantages, both size, scale, logistics, origination. So as the market evolves, we believe we are the low-cost player.

At this point in time, the mandated renewable ethanol demand is 15 billion gallons by the year 2015. The current mandate is 12 billion gallons. There is actually demand today of about 12.8 billion gallons. The capacity that is either idled or to come on yet will bring total supply up to about 14.8 billion, just slightly under 15 billion. So the industry in essence has built the capacity for the total mandate.

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The concern today is the fact that gasoline consumption is down and that at a 10% blending rate, it will be difficult, if not impossible, to get to the 15 billion gallons of demand at a 10% blend rate by 2015. So the question is how to solve that. We believe that E11, E12 are steps to that and we believe the EPA has the ability to make that decision. That is all starting with a conversation around blending at 15%, which has complications.

So the EPA has said that they are going to comment on the request to grant the 15% blend rate yet this summer, so we are hopeful that we will get some positive news from that. We don't really know much more than that. In the meantime, we are trying to find those extra gallons to blend. We know -- again, we know we are on kind of the best end of the spectrum, but it is a difficult market right now. I don't know -- John, did I get most of those there?

Christina McGlone - ***Deutsche Bank Securities - Analyst***

I am going to slip one in very quickly. So John, you touched on the whole idea that we are sending corn to China, which is a new trade flow. We also are seeing soybean oil go from the US to China, which is a brand-new trade flow to the best of my knowledge. Can you characterize the magnitude of these kind of shifts in trade and whether they are providing a dislocation opportunity for ADM?

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

With the volumes that China is buying when it comes to soybean oil, no, that is not going to change or any disruptions in the trade flow. That has been an ongoing trade argument between Argentina and China is why the US is starting to see some soybean oil shipments. But we have very large stocks of soybean oil right now and it looks like we will carry those over into next year.

And in terms of corn, I think it is predicated on what their weather forecast and what the weather looks like for the rest of this year and how much corn they will need to buy for next year.

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

I think our time is up, Christina.

Christina McGlone - ***Deutsche Bank Securities - Analyst***

Thank you.

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

Thank you, everyone.

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