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EDITED TRANSCRIPT

ADM - Q4 2012 Archer Daniels Midland Co Earnings Conference Call

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OVERVIEW:

Co. reported 4Q12 net income of $284m and EPS of $0.43. 2012 net income was $1.2b and EPS was $1.84.

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PRESENTATION

Operator

Good morning, and welcome to the Archer Daniels Midland fourth-quarter and fiscal year 2012 earnings call. All lines have been placed on listen-only mode to prevent background noise. As a reminder, this conference call is being recorded.

I would now like to introduce your host for today's conference call, Ms. Ruth Ann Wisener, Vice President, Investor Relations for Archer Daniels Midland Company. Ms. Wisener, you may begin.

Ruth Ann Wisener - *Archer Daniels Midland Company - VP of IR*

Thank you, Christy. Good morning, and welcome to ADM's fourth-quarter earnings conference call. Before we begin, I would like to remind you that we are webcasting this presentation on our website, ADM.com. The replay will also be available at that address.

For those following the presentation, please turn to slide two, the Company's Safe Harbor statement, which says that some of the comments constitute forward-looking statements that reflect management's current views and estimates of future economic circumstances, industry conditions, Company performance and financial results. Statements are based on many assumptions and factors, including availability and prices of raw materials; market conditions; operating efficiencies; access to capital; and actions of government. Any changes in such assumptions or factors could produce significantly different results.

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To the extent permitted under applicable law, the Company assumes no obligation to update any forward-looking statements as a result of new information or future events.

Please turn to slide three. On today's call, our Chairman and Chief Executive Officer, Pat Woertz, will provide an overview of the quarter. Our Senior Vice President and Chief Financial Officer, Ray Young, will review financial highlights and corporate results. Our Executive Vice President and Chief Operating Officer, Juan Luciano, will review our operations and outlook. And then Craig Huss, our Senior Vice President and Chief Risk Officer will join Pat, Ray and Juan during the question-and-answer portion of the call.

Please turn to slide four. I will now turn the call over to Pat.

Pat Woertz - *Archer Daniels Midland Company - Chairman, President, CEO*

Thank you, Ruth Ann, and welcome, everyone, to our fourth-quarter conference call. This morning, we reported fourth-quarter net earnings of $284 million or $0.43 per share on a diluted basis. Our adjusted EPS was $0.38 per share. Our segment operating profit was $544 million.

For the full fiscal year, net earnings were $1.2 billion or $1.84 per share, adjusted EPS was $2.25 per share and segment operating profit for the year was $2.5 billion.

In a challenging fourth quarter, we saw solid results from our global oilseed business, particularly in South America. They were more than offset by negative US ethanol margins and weaker US merchandising results.

During the 2012 fiscal year, we have worked to optimize profits in this environment, and we have also implemented actions that will improve ADM's earnings power and returns. We restructured our organization to improve productivity. Through that and other cost actions, we expect to reach more than $150 million in annual run rate savings by March of 2013.

This year, we invested $1.5 billion in capital -- $1.5 billion in capital spending and $200 million in acquisitions, with a focus on our growth CapEx on investments outside the US. For the second half of the calendar year 2012, July through December, we are planning about $500 million to $600 million of capital spending.

Later this morning in his remarks, Juan will discuss our plans to buy a port and upgrade it in northern Brazil.

During the 2012 fiscal year, we managed our portfolio very carefully, shuttering operations in Oilseeds, Corn and Milling that were not part of our objectives for profits or returns. And we returned nearly $1 billion to shareholders through dividends and share repurchases.

As we look ahead, while the drought in the US has reduced the potential size of the US corn crop, we are tracking the development of other crops in North America and in Europe. While US crop carryouts are expected to be low, we have an exceptional and experienced business team to manage through this environment. Conditions like these demonstrate the vital role of our global agra business. As weather has regional effects on crops, we respond by working with our customers to provide the best alternatives to meet their needs from all growing regions of the world.

Now I will turn the call over to Ray.

Ray Young - *Archer Daniels Midland Company - SVP, CFO*

Thanks, Pat, and good morning, everyone. Slide five provides some financial highlights for the quarter, which I will run through briefly. As Pat noted, quarterly segment operating profit was $544 million, down from last year's $921 million. Quarterly net earnings were $284 million, down 25% from last year's fourth quarter.

Looking at our effective income tax rate for the quarter, we recorded taxes at 30%, resulting in an annual rate of 30% for the fiscal year.

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Our earnings per share were $0.43 on a fully-diluted basis compared to last year's $0.58. Our adjusted earnings were $0.38 per share compared to last year's $0.69 per share. For the full fiscal year 2012, our adjusted earnings were $2.25 per share, down from the $3.45 level in fiscal year 2011.

On chart 18 in the appendix, you can see the reconciliation of reported earnings to adjusted earnings for the fourth quarters of fiscal year 2012 and fiscal year 2011, as well as for both fiscal years.

In our LIFO-adjusted, four-quarter trailing return on invested capital of 5.3% was 50 basis points below our WACC of 5.8%. Excluding other specified items, such as our PHA charge in the second quarter and the global workforce restructuring charge in the third quarter, our adjusted ROIC of 6.2% was above our WACC by 40 basis points. Details of our ROIC and WACC performance can be found in chart 19 of the appendix.

Slide six provides an operating profit summary and the components of our corporate line. Juan will talk about the business segment results in his update. I would like to remind you that we realigned our segment reporting in the fourth quarter, with cocoa included in the Oilseeds segment and milling and Gruma included in the Ag Services segment. This is to reflect how we are now managing these businesses.

You can see a line called cocoa and other in Oilseeds, which includes the cocoa, peanut and cellulose businesses. And you can see a line in Milling and Other in Ag Services which includes Milling and Gruma and our Alliance Nutrition and our Edible Beans businesses.

In addition, we have moved working capital interest out of the business segments and into the corporate line.

A restatement of historical quarterly segment information to the new reporting format is included in the appendix.

Now, let me touch on a few items of significance in the corporate line. I mentioned LIFO earlier, a small credit of $50 million for the quarter, similar to last year. Interest expense of $112 million for the quarter was similar to last year. Unallocated corporate expenses of $67 million are down significantly from last year, due primarily to lower salary and benefit costs, in part from the global workforce reduction, and lower general overhead expenses.

Turning to the cash flow statement on slide seven, we generated $2.6 billion from operations before working capital changes for the fiscal year. We had a $300 million improvement in working capital, in part from the $1 billion sale of receivables executed in the third quarter.

Total capital spending and acquisitions in the fiscal year was comprised of about $1.5 billion in capital spending and about $200 million in acquisitions. This was consistent with the revised target we communicated earlier in the year.

Despite a challenging year from an earnings perspective, we were able to generate cash to pay down some debt, return a significant amount of capital to shareholders and also increase our cash balances. Our total debt decreased by about $100 million and our cash balances increased by $676 million. For the fiscal year, we returned about $1 billion to shareholders in the form of dividends and share buybacks. Of the 44 million shares issued in June 2011 related to the equity unit conversion, we have bought back 30 million shares.

Our intent is to mitigate the impact of the dilution by June 2013, although we will adjust the pace of the buybacks to reflect near-term working capital needs and near-term leverage.

We finished out the year with shares outstanding of 659 million shares and our average outstanding shares for the fiscal year 2012 was 666 million shares.

Slide eight shows the highlights of our balance sheet. Fourth-quarter cash on hand was approximately $1.5 billion, up from the $1.2 billion level in the third quarter. Our operating working capital was about $15 billion, similar to the third quarter, of which $12 billion was inventories and $8 billion was readily marketable.

Total debt was about $10 billion and shareholders' equity was $18 billion, also similar to our third-quarter levels.

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Our ratio of net debt to total capital, excluding cash from gross debt, is 33%, which is similar to the level at the end of fiscal year 2011. We had $1.3 billion outstanding in commercial paper, and we had available credit capacity of $4.4 billion at the end of the fourth quarter.

With our solid balance sheet, we are prepared to handle an environment of higher commodity prices. Even with the recent surge in commodity prices, we still have about $3 billion of available credit capacity globally.

Next, Juan will take us through an operational review for the quarter.

Juan Luciano - *Archer Daniels Midland Company - EVP, COO*

Thanks, Ray. Good morning to everyone on the call. Beginning on slide nine, I will take you through the highlights of each of our business segments. Then I will provide our current assessment of market conditions and their implications for ADM.

Oilseeds operating profit in the fourth quarter was $331 million, down $118 million from the same period one year earlier. Crushing & Origination operating profit was $150 million, down $76 million from the year-ago quarter, which benefited from significant favorable timing effect in Europe. This year's quarter reflected about $70 million less in favorable timing effects.

South American soybean crushing and grain origination results improved significantly. We had lower North American softseeds crushing results as supplies were tight.

Refining, packaging, biodiesel and other generated a profit of $84 million for the quarter, down $6 million, mainly on weaker biodiesel results from Europe.

Cocoa and other results declined $19 million, mainly due to weaker cocoa press margins. The Oilseeds resulted in Asia for the quarter were down $17 million from the prior year's fourth quarter, principally reflecting our share of the results from equity investee, Wilmar.

Please turn to slide 10. As you see, Corn Processing operating profit was $74 million, a decrease of $48 million from the same period one year earlier. Sweeteners and Starches operating profit increased $124 million to $135 million amid continued sweetener export demand and higher average selling prices. Last year's fourth-quarter results were negatively impacted by higher net corn costs resulting from the timing of economic hedges, [with] mark-to-market gains were recognized in earlier quarters in that fiscal year.

Bioproducts results in the quarter decreased $172 million to a loss of $61 million. We saw improved results from the rest of our Bioproducts businesses, but those gains were offset by significantly weaker ethanol results. Industry ethanol replacement margins were negative through the quarter, as industry supply exceeded demand.

Turning to slide 11, you will see a review of our Agricultural Services segment. Operating profit was $123 million, down $222 million from the same period one year earlier. Merchandising & Handling earnings fell $152 million to $30 million due to lower US merchandising results and lower US crop supplies, which reduced North American export volumes. Results for the quarter also reflected an increase in loss provisions of about $40 million.

Transportation results increased $5 million to $17 million. Excluding a $78 million gain related to ADM's share of a Gruma asset disposal that benefited last year's fourth quarter, Milling and Other results were steady.

On slide 12, you can see highlights from Other financials. In the fourth quarter, operating profit from these businesses was $16 million, up $11 million from the same period one year earlier. The improvement was primarily a result of lower captive insurance loss reserves and better results at ADM Investor Services.

On slide 13 I would like to update you on our capital spending and M&A for fiscal year 2012. As Ray mentioned, we invested $1.5 billion in capital spending and $200 million on acquisitions, consistent with our revised target. Of our $1.2 billion in global growth spending, about half was spent

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outside of the United States. And we targeted the majority of this growth spending in the Oilseeds and Ag Services divisions as part of our capital allocation strategy.

Our largest investment in 2012 fiscal year included the acquisition of Elstar Oils in Poland, our construction of the Paraguay Soybean Crush Plant, which is on track to start operations by harvest, our purchase of a group of grain elevators in Wisconsin, our acquisition of storage facilities in East Slovakia, and our purchase of barges for the Mississippi River to support export operations.

Each of these larger investments supports either our strategy to expand our international origination and processing footprint or our strategies to strengthen our US export infrastructure.

Looking forward to the second half of calendar year 2012, we plan to spend approximately $500 million to $600 million in capital spending over the six-month period. The reduced rate of spending reflects a more cautious view of the global macroeconomic and commodities environments, our likely increased needs for working capital. Our spending in this period will again be focused on strengthening our international footprint.

Later this morning, we will be announcing an agreement to purchase a port terminal in northern Brazil. This investment is part of our overall strategy to increase our origination and transportation networks in the world's most productive regions. This port will increase our capacity to export grain from West and Northern Brazil and further expand our fertilizer operations throughout the country. We will be converting the facility from handling minerals to handling ag products, and we expect it to be up and running by early 2014. Our purchase is subject to regulatory approval.

Turning to slide 14, we want to provide some perspective on current market conditions and their implications for ADM. Global protein meal demand remains solid, so we expect good US industry capacity utilization. The smaller South American spring harvest means the US is currently world's main seller of meal. It has also improved soybean crush margins in Europe.

Solid demand for corn sweeteners means industry sweetener capacity will remain tight. And ethanol inventories are declining as production has dropped. US corn and soybean yields have been reduced by drought. Wheat was less affected. US corn exports will be lower. Export demand for US soybeans should be good, given the limited South American carryout, and wheat exports should be good. And as always, the cure for high prices is high prices. We expect that South American farmers will respond to high crops prices by increasing planted acres.

Now I turn the call back to Pat.

Pat Woertz - *Archer Daniels Midland Company - Chairman, President, CEO*

Thank you, Juan. Before we take your questions, let me just recap. We had a challenging fourth quarter, solid Oilseed results, poor ethanol margins, lower Ag Services results. And in the full fiscal year, we had workforce reductions with upwards of $150 million in annual savings. Our growth CapEx is focused outside the US. We carefully -- we managed our portfolio and we returned nearly $1 billion to shareholders.

Now Craig will join Juan, Ray and me for the Q&A. So Christie, would you please open the line for questions?

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Ryan Oksenhendler, Bank of America Merrill Lynch.

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Ryan Oksenhendler - *BofA Merrill Lynch - Analyst*

Good morning. Pat, can you talk about the current ethanol environment? You said that inventory is declining; it sounds like the industry is reacting to high prices. But could you give us a sense of what current margins are and what the breakeven price is at $8 dollar corn?

Pat Woertz - *Archer Daniels Midland Company - Chairman, President, CEO*

I'm going to ask Juan to talk about the ethanol environment. If you want, I can talk about policy issues in Washington. So, Juan.

Juan Luciano - *Archer Daniels Midland Company - EVP, COO*

Ryan, good morning. Currently, the industry has been adjusting production. We are -- if you take the peek at 14.7 billion gallons, we are about 2.5 billion gallons lower than that, so we are running at around 12 something. So we can see that rationalization.

That has started to reduce inventories, and that has started to turn margins, if you will. Margins continue to be extremely volatile, because as the industry is trying to reduce inventories, corn is moving at the same time, so that produces a lag. So we've seen overall, if you will, an improvement in margins. They are still -- replacement margins are still negative if you think about that.

Pat Woertz - *Archer Daniels Midland Company - Chairman, President, CEO*

And I might just --

Ryan Oksenhendler - *BofA Merrill Lynch - Analyst*

Okay -- sorry. Yes, go ahead, Pat.

Pat Woertz - *Archer Daniels Midland Company - Chairman, President, CEO*

I might just comment, as I said on the Washington side, kind of two conversations are going on in Washington. One relates to ethanol continuing to be the lowest-cost fuel in the world, strong job creation, strong important economics in the Midwest. And yet the drought discussions about who experiences the pain associated with higher prices and how that will continue to be rationed.

Ryan Oksenhendler - *BofA Merrill Lynch - Analyst*

Got it. Do you guys expect margins to remain negative until we harvest the US?

Juan Luciano - *Archer Daniels Midland Company - EVP, COO*

Last year, Ryan, the margins turned about June 15. Candidly, we were expecting that to happen about the same time for this year. I think that probably the industry has more corn ownership and maybe they've been running a little bit on that. Now for the summer, we expect, with the high corn prices and also some of the chilling units not running as hard, we expect margins to turn within this quarter.

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Ryan Oksenhendler - *BofA Merrill Lynch - Analyst*

Okay, thanks. And then just one last quick one. In terms of the -- I know the Agrinational Insurance Company that you guys own, you guys do write insurance for farmers. I guess could you give us an idea of the size of that business or what your exposure is? And if you are potentially going to have losses, when would you have to recognize them?

Ray Young - *Archer Daniels Midland Company - SVP, CFO*

Ryan, it is Ray Young here. We are still relatively small from a market share perspective in the United States in terms of crop insurance, although we are growing. We have taken some provisions already in the fourth quarter related to this business, related to the crop. But we are monitoring the situation here. So it is not going to be material for our business here.

Ryan Oksenhendler - *BofA Merrill Lynch - Analyst*

All right, thanks. I'll get back in the queue.

Operator

Robert Moskow, Credit Suisse.

Robert Moskow - *Credit Suisse - Analyst*

I was hoping for a little more detail on what Ag Services could do for fiscal 2013. You say you are tracking other crops and you mentioned wheat and oilseeds, but is it fair to say that we should be expecting a below-average year? According to the prior definition, average was $150 million to $200 million a quarter. I was thinking along the lines of below that range. What do you think, Ray?

Juan Luciano - *Archer Daniels Midland Company - EVP, COO*

Robert, this is Juan. I can answer the question for you. We certainly have been impacted this quarter with lower volumes, so you can see the results. As we look into the future, we certainly are facing this prospect of reduced crops.

So we have -- we are developing contingency plans for our business to make sure that we adjust our cost position. Certainly, we have contingency plans in terms of quality. We think there are going to be big variances in quality that would present opportunities for us. Although the crops will be reduced by an x-factor. That x-factor is not evenly distributed around the country, and as we look at the position of our assets and our transportation network, we think that will provide opportunity also to serve these locations.

We do believe that our global footprint, especially in South America, has performed this quarter very, very well. We think it will provide advantages going forward. You know Brazil has a spectacular safrinha of corn, and we are moving that. And I think that our international merchandising group has been improving the origination around the world and that will serve good for them, too.

Also, as we come into this next quarter, we have -- in Q4, we suffered a little bit -- our export program in Argentina suffered from some logistic strikes, and that is being corrected. And we think that we are going to have a better execution in Q1.

Robert Moskow - *Credit Suisse - Analyst*

Juan, I appreciate all the detail. Thank you. Can I follow up on corn? Your corn sweetener margins were pretty solid, and I know that you had a price increase that went into effect on your fixed contracts in January. Can you give us a sense of how your corn is positioned on those contracts? Can

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we expect that same cost basis that you had in the second quarter? Is that going to follow through in calendar third quarter and calendar fourth quarter?

Juan Luciano - *Archer Daniels Midland Company - EVP, COO*

Yes, Robert. We are -- I think we said it before -- we are mostly hedged in those contracts. So yes, as you see, we have solid volume and we implemented the new price increases, and we expect that solid performance to continue throughout the year.

Robert Moskow - *Credit Suisse - Analyst*

Okay. I'll get back in the queue. Thanks.

Operator

Ken Zaslow, BMO Capital Markets.

Ken Zaslow - *BMO Capital Markets - Analyst*

Good morning, everyone. Just to follow up on those two questions. The first one was can you actually price through the recent higher spike in corn prices in sweeteners, and can you talk about the outlook on that in terms of the margin ability going into 2013?

Ray Young - *Archer Daniels Midland Company - SVP, CFO*

Ken, a couple things. First of all, in terms of the sweeteners, for the fixed-price contracts, those are locked in. And as we indicated, we generally hedge those contracts. So that is why Juan made the comment that we feel pretty comfortable on that.

There is always going to be some level of spot business available. And given the tightness that we have in terms of sweetener capacity in the United States, we generally feel that we will be able to pass on price increases on spot businesses. Now look at calender year (multiple speakers)

Ken Zaslow - *BMO Capital Markets - Analyst*

(multiple speakers) talking about for next year. I'm not talking for the contracting year coming up.

Ray Young - *Archer Daniels Midland Company - SVP, CFO*

Yes, for calendar year 2013, as you know, we generally have contracts on a calendar year basis. We haven't started negotiating that yet. We will get into the negotiation towards the end of the calendar year, and we will look at the market at that point in time and we will negotiate with the customers, in terms of arriving at contract prices reflective of market conditions.

Juan Luciano - *Archer Daniels Midland Company - EVP, COO*

I will say, Ken, our commercial team is getting very close to our customers these days, and I would say that conversations have started. Obviously, customers are worried about that. So we started discussions. But not contract negotiations yet.

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Ken Zaslow - *BMO Capital Markets - Analyst*

With respect to the change in the US crop outlook, is there anything that you guys need to do in terms of either capital allocation changes, changes in capacity levels or something that is reacting to this condition that you need to kind of reposition -- again, either your allocation of capital or your capacity levels?

Juan Luciano - *Archer Daniels Midland Company - EVP, COO*

In terms of the allocation of capital, Ken, you saw in my prepared remarks that we have reduced the capital just to be prudent going forward, given the maybe elevated working capital demands that these new prices would post on us.

But second, we continue to increase our investment outside the US to balance our global footprint.

In terms of Ag Services, per se, we are implementing a set of contingency plans, just to make sure we match our cost position with maybe a reduced volume for the year. So several things are being put in place right now.

Ken Zaslow - *BMO Capital Markets - Analyst*

In that situation where you reallocate for Ag Services, do you think you could still reach that lower level of the $150 million, or -- on an ongoing level, or is that -- do we have to wait until the next crop year to actually replenish that $150 million to $200 million level?

Juan Luciano - *Archer Daniels Midland Company - EVP, COO*

I think at least I would like to know what kind of crop are we having in front of us. So I think it is a little bit too premature. It is a volume business, as you know, and we are still watching the weather. So I would probably -- I will wait until the final USDA report on crops.

Ken Zaslow - *BMO Capital Markets - Analyst*

Thanks a lot.

Operator

David Driscoll, Citi Research.

David Driscoll - *Citi Research - Analyst*

Great. Thank you and good morning. I wanted to go over to soybean processing. So with -- given where we are in the timeline of growth for the US soybean crop, I think we are getting pretty clear information that the US soybean crop is also going to be significantly damaged because of the drought. I don't know that anybody knows exactly where the numbers are, but I think it is pretty sure that we're -- it's safe to say that.

So when I think about crushing margins on new-crop soy and then externally in other parts of the world, I'd just like to hear your comments on how your asset base will handle a very tight global oilseed situation. And I'm thinking that this isn't really all that bad, that, yes, you will have to pay up for the underlying crop, but just simply given the fact that these end customers have to have it, crushing margins in the environment really ought to be perhaps okay, maybe even better than if you had a tremendous crop in both North and South America, and then we would have seen the effect of the overcapacity, which you've talked about at length on prior calls. So apologies for the long-winded question, but can you discuss these factors on Oilseed Processing and what your outlook is for that business?

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Juan Luciano - *Archer Daniels Midland Company - EVP, COO*

Sure. We've seen, as I'd mentioned before, very good results in South America. Demand for Hi-Pro has been very good, and also Brazil has been able to cover for some of the shortages of Argentinean oil and also some needs in China. So business was very good over there.

I would say the soybean crushing in the US continues to be very strong this quarter. Actually, this past quarter was a little bit softer in softseeds, but in soybeans has been very strong, as, again South America doesn't have a lot of meal to compete with.

The same impact we have seen in Europe, in which our soybean crushing in Europe, the margins there have improved significantly, too. But still Europe continues to be a little bit soft in the oil side, but I think that even canola is getting a little bit of a boost from meal demand. So we will say, all in all, our assets are faring very well into that. Maybe I pass it a little bit to Craig to comment also on some of the soybean conditions.

Craig Huss - *Archer Daniels Midland Company - SVP, Chief Risk Officer*

I think the very positive thing about soybeans is that you replenish the supply twice a year when you -- so we have very tight demand now; that should be very good for our crop. We will ration that through, but we know that in Feb/March, we will have South America to come on. So it is a margin basis and it is a crush volume basis. So soy is not nearly the concern, although we do have concerns about the crop. We need rain across the country, obviously, to finish this crop off.

David Driscoll - *Citi Research - Analyst*

So it sounds like you guys would agree with my assessment that the crushing margin environment the next 12, 18 months is really actually pretty good because of the tightness out there. Is that -- bottom line, is that correct?

Juan Luciano - *Archer Daniels Midland Company - EVP, COO*

Yes, we are optimistic about our business. It has been solid performer and we expect it to continue that way.

David Driscoll - *Citi Research - Analyst*

Okay. One final question here, just following up on the ethanol margin comment. I think you actually said you expect margins in ethanol to go positive next quarter. Now -- boy, I would really like to probe this one a bit.

Juan, were you talking about old crop corn ethanol margins, simply because people run out and you guys have corn? Are you talking about new crop corn? And if you are talking about new crop corn, that seems to be remarkably optimistic given the pressures. I would love to hear kind of the details as to why those margins would go positive under such tremendous corn stress.

Juan Luciano - *Archer Daniels Midland Company - EVP, COO*

Yes, I said that we were expecting as of -- last year, we saw margins turning June 15. We were expecting this time to take a little bit longer. We said that maybe we expected it to have happened, and it hasn't today. So we continue to look with hope for that to happen in the future.

We think that with more corn availability, with more heat making this plant produce a little bit less, that maybe there is an opportunity there to supply get in line with demand, and maybe we see improvement in margins.

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David Driscoll - *Citi Research - Analyst*

Okay, that's an old crop corn comment, though, and then -- I believe so. And then new crop corn, just given where prices look like they are headed and the fact that the damage, it looks to be -- this could surpass the '88 drought, would you agree that the future is currently showing negative margins and that the environment for ethanol on the new crop looks to be pretty tough?

Juan Luciano - *Archer Daniels Midland Company - EVP, COO*

I think yes and no. The way I tend to think about it, David, is more a supply and demand issue. And it is an issue of how many people can produce versus how many people can stay in the game for a relatively, maybe, inelastic demand.

So, as I said, we are 2 billion gallons per year down from the peak. And corrected for gasoline consumption, demand is pretty much flat, if you will, flattish or slightly down. So that is our hope or our view, that if production continues to be lower because more people are having difficulty financing their working capital or running their plants, we expect those margins to tighten a bit.

David Driscoll - *Citi Research - Analyst*

Thank you for the comments.

Operator

Christine McCracken, Cleveland Research.

Christine McCracken - *Cleveland Research - Analyst*

Good morning. Just in terms of your ethanol production, because in the past when we've seen drought-stressed corn, we've seen a big increase in aflatoxin and big knock-on effects in the distillers, are you at all concerned with the quality of the corn coming out this year? And if you could comment on how you are managing that.

Craig Huss - *Archer Daniels Midland Company - SVP, Chief Risk Officer*

This is Craig. Yes, we are certainly concerned. You're always concerned when there is heat on a crop like this. We are making all kinds of plans of alternatives that we can do. All the way from back in 1988, the government allowed blending of aflatoxin. We will have to wait and see where they go if, and there is aflatoxin, we will direct that. And there are legal specifications of which animals can handle which degrees. And our transportation network, we are prepared, for example, to go to Texas with aflatoxin with higher degrees, and we will certainly protect our plants on the front end. But it is all part of the planning process.

Christine McCracken - *Cleveland Research - Analyst*

Is there any way -- do you expect to adjust or lower your ethanol volumes if you can't get sufficient corn in certain areas? How do you adjust for that? If you can't secure delivery. I'm hearing a lot about farmers not delivering on contracts. I'm just curious how you manage that.

Craig Huss - *Archer Daniels Midland Company - SVP, Chief Risk Officer*

I think that is always the case when prices run up. I think as an industry, we have less ownership this year than we have in the past, which helps that risk.

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But also, 80 something percent of the farmers are insured with the program. So we see less of that in the past. But it will be a concern, and we are checking contracts on a regular basis, as you do any time a crop runs up like that. But dislocation, yes, if there aren't -- we will manage the margin process in ethanol just like we do in any part of our business.

Christine McCracken - *Cleveland Research - Analyst*

Just on your crushing side, you know, with the losses that we are seeing on the livestock industry and, on a relative basis, probably pretty sizable declines in overall feed demand here, as we see some cutbacks, how are you looking at kind of their ability to take on that kind of price increase, especially on meal, and what are the alternatives? I know that historically, distillers have been a good substitute there, maybe some amino acids. Can you talk about how that all fits into your outlook?

Craig Huss - *Archer Daniels Midland Company - SVP, Chief Risk Officer*

Substitution will be a major concern for -- these are our customers. We live with these guys and we are working with everyone to provide the full stratus of all of our different divisions, whether it be the cotton group could pick it up or it would be the softseeds group.

For example, I think we will see canola move into soy rations, and it should help the Bio group with the Lysine, et cetera. But it's a -- we all talk to these livestock people, and our concern more than anything is that we help these people preserve the herds and help this thing go forward.

Christine McCracken - *Cleveland Research - Analyst*

All right. I'll leave it there. Thanks.

Operator

Vincent Andrews, Morgan Stanley.

Vincent Andrews - *Morgan Stanley - Analyst*

Thank you and good morning, everyone. Pat, maybe we could draw on your pre-ADM experience to talk a little bit more about ethanol. Let's assume that -- I guess my question is ethane, as I understand it, is an important source of octane for the gasoline pool. And I also understand it to be the least expensive source of octane in terms of getting from 84 to 87, which I think is the minimum to sell commercial gasoline.

What would happen if for some reason ethanol wasn't available to the gasoline pool? And I guess what I'm really saying is if you got rid of the RFS, would it actually make a difference?

Pat Woertz - *Archer Daniels Midland Company - Chairman, President, CEO*

Vincent, as your question has as its premise, really economics and blending economics are what is driving and, more importantly, what is driving the ethanol business more so than the mandate, or it's less dependent on the mandate.

You're right that other alternative octane substitutes or blending components are more expensive today, whether it is alcolates or imported blending components are more expensive than ethanol. Ethanol is less than RBOB or regular unleaded gasoline. And so the economics are there to blend.

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So hopefully, not only is it available because the industry can supply our customers, as we are attempting to do, but it's the most economic for blenders and they look to it as the most important octane booster.

Vincent Andrews - *Morgan Stanley - Analyst*

Do you think that is something that's well understood in sort of the policy debate around this?

Pat Woertz - *Archer Daniels Midland Company - Chairman, President, CEO*

A lot about the policy debate has different arms and legs to it, depending on the constituencies who are presenting their point of view. So no, I don't think it is completely understood by everyone, but all aspects of this sometimes are interrelated. So we try to communicate the issues as factually and economically as we can, with all the components considered.

I think the EPA is very informed and smart about things, and I think they will duly consider anything in this regard. So I don't think they are uninformed.

Vincent Andrews - *Morgan Stanley - Analyst*

Okay. And then just a follow-up on your own ethanol operations. It clearly is a supply-and-demand issue, and, as we just discussed, the underlying octane value of ethanol compared to substitutes is much higher. And if the supply and demand were tighter, there is actually a case where ethanol could trade above RBOB, so long as it was cheaper than alcolates or an aromatic or what have you.

And so I guess the question is do you guys ever think about acting as a swing producer in ethanol and maybe sort of being that lever that gets the industry from oversupply to undersupply? Because it would seem like perhaps the margin improvement on the gallons that you would sell might offset the lost operating leverage. Could you maybe talk to that a little bit?

Juan Luciano - *Archer Daniels Midland Company - EVP, COO*

Yes, Vincent. This is Juan. Good morning. I would say we will consider that if we believed that we could make that impact. At this point in time, there are probably 28 plants down of a total of maybe 204 plants down. So it's still a very fragmented market. I think the market will evolve into a more consolidated market one day, where maybe we can have that kind of impact, like maybe these days in the soybean market, where sometimes we adjust capacity utilization and we see a result.

I don't think the market is mature for us to accomplish that goal by reducing our capacity. So at this point we put all our efforts in continuing to drive our cost position down and over through our whole value chain, all the way from origination to transportation, and that is what our focus is.

Vincent Andrews - *Morgan Stanley - Analyst*

Thanks very much. I will pass it along.

Operator

Tim Tiberio, Miller Tabak.

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Tim Tiberio - *Miller Tabak - Analyst*

I guess based on your comments that you see ethanol margins turning within the quarter, is it fair to say that you are pretty comfortable with the carrying value of long-term, long-lived ethanol assets?

Ray Young - *Archer Daniels Midland Company - SVP, CFO*

Yes, this is Ray here. Yes, as you appreciate, we do analysis of impairments every quarter, and we take a hard look at end of fiscal year. But based upon our outlook, our long-term outlook in terms of where we think margins are -- and remember, impairment analysis based on cash flow, not earnings here -- we feel comfortable where we are right now.

Tim Tiberio - *Miller Tabak - Analyst*

One last question on consolidation. With some of the smaller players maybe struggling even more than ADM, do you see the opportunity to potentially over the next 9 to 12 months to act as a consolidator within the industry?

Juan Luciano - *Archer Daniels Midland Company - EVP, COO*

Tim, we are always looking. When it makes sense and is a plan that actually we can plug into our system and doesn't detract our future position, I think we will consider.

Tim Tiberio - *Miller Tabak - Analyst*

Okay. Thanks for your time.

Operator

Ann Gurkin, Davenport & Company.

Ann Gurkin - *Davenport & Company - Analyst*

Regarding potential acquisitions, is there any change in the number of opportunities out there?

Pat Woertz - *Archer Daniels Midland Company - Chairman, President, CEO*

I'd say the opportunity set may change going forward. Certainly when you have distressed times or people are looking at such, there may be some opportunities going forward that currently are not in our queue. But we continue to look and have, as we indicated even on our port this morning in Northern Brazil, we have our eye outside the US and particularly in the growing regions and areas that complement our system quite nicely.

Ann Gurkin - *Davenport & Company - Analyst*

In other words, reduction and/or the more cautious capital spending forecast reflects more cautious stance and potential higher working capital needs versus a change in the landscape of potential opportunities. Is that fair?

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Pat Woertz - *Archer Daniels Midland Company - Chairman, President, CEO*

That's correct.

Ann Gurkin - *Davenport & Company - Analyst*

Okay, perfect. And secondly, a number of protein companies are now talking about importing corn from South America. Are you participating in any of that business?

Craig Huss - *Archer Daniels Midland Company - SVP, Chief Risk Officer*

We have not at this point, but we certainly would. We are marketing corn out of Brazil and we have discussed that. In this case, the market is the market and if we can help the livestock producers with their margin structure, we will help to do that. This is a rationing process, and that is part of that rationing.

Ann Gurkin - *Davenport & Company - Analyst*

Okay, and then the other question, you talked about developing contingency plans in your Ag Services, and one of them was matching cost and volume. Can you give us any other indication of what areas you may also make adjustments or what other plans you're working on?

Juan Luciano - *Archer Daniels Midland Company - EVP, COO*

Yes, we have a lot of -- sometimes we hire temporary workers for the harvest season, and we can adjust that. We can adjust the time in which some of our elevators will be receiving or be open. So we adjust our transportation things. There is a battery of things. We have many, many assets and there are many levers that we can pull.

Ann Gurkin - *Davenport & Company - Analyst*

Okay, great. Thank you.

Operator

Eric Larson, C.L. King. That question has been withdrawn. Ian Horowitz, Topeka Capital Markets.

Ian Horowitz - *Topeka Capital Markets - Analyst*

Juan, you mentioned high prices take care of high prices. I guess the concern is you are discussing the potential for margin improvement in ethanol due to capacity rationalizations. This capacity, at least the last time we saw this from a margin standpoint, capacity shut-ins were very temporary and far more financial than any structural issue. When margins returned, so did all of that periphery capacity.

Why would it be different this time, and why would we not see some of that subpar capacity come right back online when margins show any sign of improvement?

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Juan Luciano - *Archer Daniels Midland Company - EVP, COO*

I think I tend to agree with you, when I said before this is a relatively new industry that needs to mature and consolidate. I think that we are still going to have some periods in which -- when margins improve, some of that capacity will come back up. So I think that is where we need to get to things like maybe E15 or other measures or exports to actually tighten that up with the full capacity.

I was describing about reproducing the cycle maybe we had last year that maybe we had half of the year unprofitable, half of the year with margins. But I agree with you -- until there is more consolidation, you are always going to have some shutdowns, and then when the margins come back, some of that capacity will come back up.

Ian Horowitz - *Topeka Capital Markets - Analyst*

Sure, okay. Understood. And from a policy standpoint, or maybe not even a policy, but just kind of an understanding of what is the conversations going on inside the Beltway, if we see overall gasoline demand somewhere below that ability to absorb RFS2 on a 13.8 billion gallon level for 2013, with no regard to high corn prices or negative livestock margins or anything, what is in place to handle that obligation, where blenders are kind of unable to meet that volume obligation simply because their end market is a lot smaller than RFS2 forecasted?

Pat Woertz - *Archer Daniels Midland Company - Chairman, President, CEO*

Well, there is certainly the RIN process in place. There is also the expectation that as E15 gets into the market, it absorbs some of the -- obviously, it doesn't take much to get back to more in line with gasoline demand being ethanol -- if ethanol blends greater in the gasoline pool.

And then also with exports. So I think the natural economic factors that allow greater blending and E15 being part of that is what Washington expects, even as total gasoline consumption is flat or slightly down.

Ian Horowitz - *Topeka Capital Markets - Analyst*

But exports aren't going to help you with your RFS2 obligation, correct?

Pat Woertz - *Archer Daniels Midland Company - Chairman, President, CEO*

No, they just help with the overall production.

Ian Horowitz - *Topeka Capital Markets - Analyst*

Overall production. And so even -- this is the difference between the RFS2 volume map out to 15 billion gallons and these CFRs that we get at the beginning of the year more on a percentage basis. Not you, but the blenders are more obligated on a volume basis than they are on a percentage, so that even if we see gasoline demand flat to slightly down, they are not going to be adjusting based off of a percentage level. They are going to still be beholden to that 13.8 billion gallon requirement. Is that correct?

Pat Woertz - *Archer Daniels Midland Company - Chairman, President, CEO*

That's correct.

Ian Horowitz - *Topeka Capital Markets - Analyst*

Okay, thank you.

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Operator

(Operator Instructions) John Roberts, Buckingham Research.

John Roberts - *Buckingham Research - Analyst*

Ray, the net invested working capital was down slightly year on year. How much are the unit prices in your working capital up and unit tons that you are carrying in working capital down?

Ray Young - *Archer Daniels Midland Company - SVP, CFO*

A couple comments on working capital. I mentioned we did sell about $1 billion in receivables, so that helps your working capital. When I look at the price volume variance on inventory, we are actually -- price had an impact taking up inventory about $1 billion. And so the offset would be volume. So our absolute level of inventory in terms of volume is down, but the price is up by approximately $1 billion year-over-year.

John Roberts - *Buckingham Research - Analyst*

Is that down because it is a little more difficult for you to source? Or are you purposely carrying it down because of your outlook on crop prices?

Ray Young - *Archer Daniels Midland Company - SVP, CFO*

No -- I mean, a couple things. We consciously try to manage working capital and manage inventory. Plus also it is just -- we just time the year, the seasonal rental of inventory.

John Roberts - *Buckingham Research - Analyst*

So that was looking at year-over-year? I mean, it is down a little bit same season last year.

Ray Young - *Archer Daniels Midland Company - SVP, CFO*

Yes, and our inventory levels are generally down. And as you saw on the Ag Services results, we just had fewer inventory in order to sell.

John Roberts - *Buckingham Research - Analyst*

Okay. And then how do you -- maybe this is for Pat -- but how do you handle the stub period here with respect to your management targets? Do you have an incentive to get your returns up during the six-month stub period before you go to the new fiscal year basis?

Pat Woertz - *Archer Daniels Midland Company - Chairman, President, CEO*

Yes, we are looking at a stub year, or six-month cycle, for our incentive plan, sort of in a -- in fact, we are doing -- we will address that this week at our Board meeting. And then we will start new with the calendar year in 2013. And yes, returns are very much part of our incentive recommendations.

John Roberts - *Buckingham Research - Analyst*

Finally, what was the $40 million provision for loss? Is that something we might expect on a recurring basis here until market conditions improve?

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Ray Young - *Archer Daniels Midland Company - SVP, CFO*

No, John, it was a unique factor. So I view it as kind of one-off for the quarter.

John Roberts - *Buckingham Research - Analyst*

Thank you.

Operator

Eric Larson, C.L. King.

Eric Larson - *C.L. King - Analyst*

Thank you. I'll try again. Sorry, everyone. Thanks for taking my question. Just want to quickly ask a question on your Ag Services division in the quarter and your export number, which was down in the quarter. I am assuming that your soybean and your meal exports were actually pretty good, and corn was pretty weak. Can you give me some flavor of what the direction -- size of direction of each of those commodities were in the quarter?

Craig Huss - *Archer Daniels Midland Company - SVP, Chief Risk Officer*

Obviously, there was rationing going on in corn. And as crush margins got better, we ran our plants harder, and a big part of that [with] export. So not surprising at all, I don't think, looking at last year's crop that there was rationing at the tail end of the crop. It was a little bit of a surprise and I would say the smaller South American crop gave us a nice run on the soy and on the meal exports.

Eric Larson - *C.L. King - Analyst*

Then that meant that corn was particularly weak. Obviously, the rationing is pretty rampant at this point.

Craig Huss - *Archer Daniels Midland Company - SVP, Chief Risk Officer*

Yes, and that is going to be rationed -- prices had to go higher, they are higher, and that creates front-end rationing, and that is what we've seen.

Eric Larson - *C.L. King - Analyst*

Sure, okay. And then if Ray could give me a little bit better feel -- you talked about your credit availability, flexibility to finance your higher working capital, your inventories coming this fall. If in fact you need to find other sources of financing, would you look at Accounts Receivable sales first, or would you consider another preferred offering? Can you give us a little flavor as to how much relative flexibility you have in financing your inventories this fall?

Ray Young - *Archer Daniels Midland Company - SVP, CFO*

I think we have a lot of flexibility. Like I say, even with the run-up in commodity prices, we still have $3 billion available right now. And then we do have debt capacity. We could go out right now and raise debt, both short-term and long-term, if we wanted to as well. So I feel pretty comfortable

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that -- and we've done some stress testing, too, by the way, in terms of sensitivities under different price-volume scenarios. So I think we can handle any additional run-up that may occur.

Eric Larson - *C.L. King - Analyst*

Okay, thank you.

Operator

Robert Moskow, Credit Suisse.

Robert Moskow - *Credit Suisse - Analyst*

I wanted to follow up on exports to Mexico for high fructose corn syrup. Can you give us a sense -- are you charging more for those exports than you were just a few months ago? Are those tolling contracts based on the price of corn? And if so, how close are you to coming to the breakeven on sugar? Do you see a risk that Mexico would switch to sugar at some point? Thanks.

Juan Luciano - *Archer Daniels Midland Company - EVP, COO*

Our exports to Mexico continue growing. I think they are growing less rapidly than before, but continues on a solid pace. Certainly with these high corn prices we're getting, the gap has narrowed. But at this point in time, there is still an advantage and we don't see a shift. And there is not only an economic shift just of fructose versus corn syrup, but also the handling of it. You need to handle in a solid and you need to melt it. So there are many other costs versus -- just beside the pound-per-pound basis. So I think at this point we don't see any potential for change in the short term.

Robert Moskow - *Credit Suisse - Analyst*

Okay, thank you.

Operator

Ian Horowitz, Topeka Capital Markets.

Ian Horowitz - *Topeka Capital Markets - Analyst*

Just a follow-up. We've been hearing a lot about changes in water levels along the Mississippi River due to the drought and how that is impacting traffic on the river. Can you comment at all about how this may be impacting your business, and is there any way to kind of do a workaround around this critical path?

Craig Huss - *Archer Daniels Midland Company - SVP, Chief Risk Officer*

Obviously, there has been -- with no rain, you get lower water levels. We actually have seen a slight rise Memphis and south this week. But overall, we are still loading our barges to a nine-foot draft. We have seen several restrictions as we've had to use narrower tows, smaller tows. It is a supply and demand deal, but right now, our costs are going up. I think the key for us is can we get prices up to maintain operation.

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But I don't see us -- I don't see the river shutting down at this point. I think it is going to be a matter of competing with rail to be competitive. At this point, we have some facilities that might be out due to low water, and you will continue to hear that a river section may be down for a day or so. But they bring the dredges in, fix the channel and we go forward. We've had droughts many times.

Ian Horowitz - *Topeka Capital Markets - Analyst*

Okay, thanks.

Operator

There are no further questions at this time. I would now like to turn the conference over to Pat Woertz for closing remarks.

Pat Woertz - *Archer Daniels Midland Company - Chairman, President, CEO*

Thank you all for joining us today, and as always, feel free to follow up with Ruth Ann or Ray if you have any other questions. Have a good day. Thanks for your time and your interest. Bye now.

Operator

Ladies and gentlemen, this concludes today's conference call. Thank you for your participation. You may now disconnect. Good day.

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