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# EDITED TRANSCRIPT

ADM - Q1 2012.5 Transition Year Archer Daniels Midland Company Earnings Conference Call

EVENT DATE/TIME: OCTOBER 30, 2012 / 1:00PM GMT

**OVERVIEW:**

Management reported 1Q 2012 1/2 results, reporting net earnings of $182m or $0.28 per fully diluted share.



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## CORPORATE PARTICIPANTS

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

**Pat Woertz** *Archer Daniels Midland Company - Chairman and CEO*

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

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

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

## CONFERENCE CALL PARTICIPANTS

**Ken Zaslow** *Bank of Montreal - Analyst*

**Vincent Andrews** *Morgan Stanley - Analyst*

**Ann Gurkin** *Davenport - Analyst*

**Christine McCracken** *Cleveland Research - Analyst*

**Cornell Burnette** *Citigroup - Analyst*

**Christine Healy** *Scotiabank - Analyst*

## PRESENTATION

**Operator**

Good morning, and welcome to Archer Daniels Midland Company conference call for the quarter ended September 30, 2012. 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.

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

Thank you. Good morning, and welcome to ADM's first-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 2, 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. 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 3. On today's call, our Chairman and Chief Executive Officer, Pat Woertz, will provide an overview of the quarter. Our Chief Financial Officer, Ray Young, will review financial highlights and corporate results. Our Chief Operating Officer, Juan Luciano, will review our operations and outlook. And then, Craig Huss, our Chief Risk Officer, will join Pat, Ray, and Juan during the question-and-answer portion of the call.

Please turn to slide 4. I will now turn the call over to Pat.



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**Pat Woertz** - *Archer Daniels Midland Company - Chairman and CEO*

Thank you, Ruth Ann, and welcome, everyone, to our first half-year first-quarter conference call. First, let me start with a word to our friends on the East Coast coping with the effects of the storm. Our thoughts are with you and your families as you manage through this, and we hope you have stayed safe and are able to recover quickly.

Turning to our results this morning, we reported first-quarter net earnings of $182 million or $0.28 per share on a diluted basis. Our adjusted EPS was $0.50 per share. Segment operating profit was $498 million. Our first-quarter segment results were mixed. Oilseeds performance was strong. The ethanol industry experienced sustained negative margins, and the agricultural services managed well through a complicated quarter challenged by the impacts of the drought.

As we look ahead to 2013, we are bringing online our large Paraguay soy processing plant, as South American farmers are responding to market conditions with record plantings. And we're implementing plans to navigate the tight US crop supply. Longer-term, we remain optimistic as we see continued growth in global demand for protein meal and other agricultural products. We continue to execute our strategy, aligning our business to serve rising demand from customers around the world.

During this first quarter, we focused actions that will improve ADM's return. We made progress on our ongoing portfolio management efforts, including discussions to sell our shares of Gruma and our investment in GrainCorp in Australia. We are restructuring our pension and debt obligations, and we've engaged the organization in a focused effort to drive down working capital.

And we are ahead of schedule on our target to achieve $150 million in annual run rate savings from our organizational restructure and other cost actions, and plan to have that in place by the end of this current quarter. I am proud of our efforts and the results of our work to reduce costs and capital, and these actions and others will improve ADM's returns.

I'll now turn the call over to Ray.

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

Okay. Thanks, Pat, and good morning, everyone. Slide 5 provides some financial highlights for the quarter, which I'll run through briefly.

As Pat noted, quarterly segment operating profit was $498 million, down from last year's $721 million. This quarter's operating profit was negatively impacted by a $146 million pre-tax impairment charge we took related to our investments in Gruma and its related affiliates. So excluding it, we earned $644 million in OP.

As Pat indicated, our intent to divest of Gruma is part of our ongoing portfolio management activities. We took the charge based upon a letter of intent we reached in mid-October to sell our interest to a Mexican third party. This agreement is subject to the approvals of the ADM and Gruma Boards, and to rights of first refusal on the part of the controlling shareholder.

Looking at our effective income tax rate for the quarter, we recorded taxes at about a 37.5% rate. The effective tax rate this quarter included approximately an 8% impact from factors associated with the change in fiscal year-end from June 30 to December 31, and the estimated tax impact from the planned Gruma disposal. Excluding these specified items, the effective tax rate was 30%, in line with last year's first quarter.

Our earnings per share were $0.28 on a fully diluted basis compared to last year's $0.68. Our adjusted earnings were $0.50 per share compared to last year's $0.58 per share. On Chart 17 in the Appendix, you can see the reconciliation of reported earnings to adjusted earnings for the first quarters of fiscal year 2012-and-a-half and fiscal year 2012. We primarily excluded the Gruma charge and the LIFO charge for this quarter to get to adjusted earnings.



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In our LIFO-adjusted fourth quarter trailing return on invested capital of 4.6% was 100 basis points below our WACC of 5.6%. Excluding specified items such as the PHA charge, the work force reduction charge, and the Gruma charge over the past four quarters, our adjusted four-quarter trailing ROIC of 6% was above our WACC by about 30 basis points.

Slide 6 provides an operating summary and the components of our corporate line. Juan will talk about the business segments results in his update. I'd like to remind you again that we realigned our segment reporting in the fourth quarter. To assist you with historical comparisons, we have provided in the Appendix, in Chart 21, the historical quarterly segment information in the new segment reporting format.

Now, let me touch on a few items of significance in the corporate line. I mentioned LIFO or other, a charge of $53 million for the quarter, due to the impact of rising commodity prices on our inventory valuation compared to a credit of $126 million a year ago. Interest expense of $106 million for the quarter, higher than prior-year, due to greater borrowings in the absence of interest credits from the prior year.

And allocate corporate expenses of $70 million are down 17% from last year, due primarily to lower salary and benefit costs, in part from the global work force restructuring efforts, and lower general overhead expense. We also had an improvement in other corporate expenses, primarily due to higher earnings in corporate investments.

Turning to the cash flow statement on slide 7, we generated $658 million from operations before working capital changes for the fiscal year. Working capital was a use of $175 million. Total capital spending for the first quarter was $252 million, consistent with the $500 million to $600 million target range we communicated with you for the six months stub fiscal year.

After considering changes in working capital, and investments in capital spending and acquisitions, our free cash flow was positive for the quarter. We invested more of our excess cash into marketable securities for the quarter -- over $300 million. Our total debt increased slightly by $138 million in the quarter to finance the higher working capital requirements.

We're currently reviewing our stock buyback timing in view of the potential GrainCorp acquisition. We finished out the quarter with average shares outstanding of 661 million shares on a fully diluted basis.

Slide 8 shows the highlights of our balance sheet. The first quarter cash on-hand was approximately $1.7 billion, up about $200 million from the fourth quarter. Our operating working capital was about $15 billion, similar to the fourth quarter, of which about $13.7 billion was inventories and $8.6 billion of that was readily marketable. Total debt was about $10.5 billion and shareholders equity was $18.4 billion, both slightly higher than our fourth-quarter levels.

Our ratio of net debt to total capital, excluding cash from gross debt, is 32%, which is similar to the level at the end of fiscal year 2012. We had $2.4 billion outstanding in commercial paper, and we had available credit capacity of $5.3 billion at the end of the first quarter. We have a balance sheet strong enough to finance additional working capital requirements due to the harvest and to finance strategic acquisitions.

During the quarter, we announced or undertook several balance sheet optimization actions. First, we undertook a debt exchange where we bought back $568 million of high coupon debt and reissued new lower coupon debt with 30 year maturities. We locked in a low 4% 30-year rate. We closed in early October. In addition, we announced a pension settlement offer for terminated vested employees, where we expect to reduce our projected benefit obligations by $140 million to $210 million, depending upon acceptance rates. This will further strengthen our balance sheet.

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

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

Thanks, Ray. Good morning to everyone on the call. Beginning on slide 9, I will take you through the highlights of each of our business segments. Then I will give an update on work we're doing to improve returns.



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Oilseeds operating profit in the first quarter was $336 million, up $116 million from the same period one year earlier. Crushing and origination operating profit was $256 million, up $150 million from the year-ago quarter on strong improvements by all three geographies. Our US soybean operations delivered very strong results, with high seasonal utilization, and made good US demand and meal exports.

In Europe, soybean and rapeseed crushing earnings improved significantly. Refining, packaging, biodiesel and other, generated a profit of $28 million for the quarter, down $27 million, with steady results in North and South America offset by weaker European biodiesel results. Cocoa and other results increased $27 million. Weaker cocoa press margins were offset by the absence of last year's significant negative mark-to-market impacts. Oilseeds results in Asia for the quarter were down $34 million from the previous year's first quarter, principally reflecting ADM's share of Wilmar's results.

Please turn to slide 10. As you see, corn processing operating profit was $68 million, a decrease of $115 million from the same period one year earlier. Sweeteners and starches operating profit increased $64 million to $94 million, as tight sweetener industry capacity supported higher year-over-year selling prices. The year-ago quarter's results were negatively impacted by higher net corn costs related to the timing effects of economic hedges. Bioproducts results in the quarter decreased $179 million to a loss of $26 million. Weak US ethanol exports, strong Brazilian imports, and a slow E15 implementation kept industry margins negative.

Turning to slide 11, you will see a review of our ag services businesses. Operating profit, excluding the Gruma charge, was $224 million, down $99 million from the same period one year earlier. Merchandising and handling earnings fell $101 million to $108 million, mostly due to weaker US merchandising results, impacted by the smaller US harvest. Transportation results decreased $9 million to $19 million, impacted by low barge freight utilization driven by reduced corn exports.

Milling and other results increased $11 million, excluding the Gruma charge. Milling results remain strong, and ADM Alliance Nutrition saw improved margins amid the stronger demand.

On slide 12, you can see highlights from other financials. In the first quarter, operating profit for ADM's other financial businesses was $16 million, up $21 million from the same period one year earlier. The improvement reflected better captive insurance results and a strong performance by ADM investor services.

Turning to slide 13, I would like to update you on some of the work we're doing to improve returns, focused on the three C's -- cost, cash, and capital. In the area of cost management, as Pat mentioned, we are on track to deliver $150 million in annual run rate savings from our organizational restructure and other cost actions by the end of this quarter.

For example, oilseeds SG&A is down 5.5%. Corn is down more than 2% and ag services is down nearly 2%. In addition to that, we have achieved meaningful reductions in manufacturing costs. Oilseeds is down 12% and corn is down nearly 7% versus last year. Ag services is essentially flat, given low asset utilization.

We are taking that same energy and focusing on cash management, working to shorten our cash conversion cycle, and engaging the entire organization in an effort to reduce working capital. And we continue to be disciplined with capital and managing our portfolio effectively. We remain focused on projects that align with our stated strategies and deliver strong paybacks.

In time for the South American harvest, our soybean crush plant in Villeta, Paraguay is coming online. That plant will add nearly 25% to our South American soybean crush capacity. We are working to upgrade our recently acquired port facility in northern Brazil, and hope to have it up and running ahead of schedule.

We have received final approvals for our partnerships with Wilmar in European edible oils, global fertilizers, and global ocean freight. And, as we recently announced, ADM holds an economic interest in 14.9% of GrainCorp in Australia. We have met with GrainCorp management and have presented our proposal. As we said, ADM's goal is to arrive at an agreement under which GrainCorp's Board would recommend to its shareholders a cash acquisition by ADM. We understand that GrainCorp's Board is reviewing our proposal.



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So we're making real progress on cost, cash, and capital to improve returns. Now I'll turn the call back over to Pat.

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**Pat Woertz** - *Archer Daniels Midland Company - Chairman and CEO*

Thank you, Juan. Let me say just a few additional words about the GrainCorp investment. GrainCorp is a very well-managed company. We think ADM and GrainCorp have compatible cultures and shared values. Together with ADM, GrainCorp would be better positioned to connect Australia's productive growers with rising global demand for crops and food, particularly in Asia and the Middle East. Our interest in GrainCorp is consistent with our ongoing portfolio management effort, our stated financial goals, and our strategy to invest in growing regions and agricultural services, and oilseeds in key global growing regions.

So now, before we take your questions, just let me recap briefly our first-quarter performance. Strong oilseeds earnings from all three geographies. Challenging ethanol environment. Ag services fought well in a tough environment and against a very tough comparable quarter. We are taking actions to improve returns. We're ahead of schedule on our $150 million in annual run rate savings. We're focused on driving down invested capital, and good progress on our ongoing portfolio management.

So now, Craig will join Juan, Ray and me for the Q&A. So, Monserrat, if you could please open the line for questions.

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## QUESTIONS AND ANSWERS

**Operator**

(Operator Instructions) Ken Zaslow, Bank of Montreal.

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**Ken Zaslow** - *Bank of Montreal - Analyst*

Just a couple of questions. One is, the first one I was just looking at is the high fructose corn syrup environment. Your profitability was a little bit sequentially lower than I would have thought. Can you talk about what actually happened during the quarter on that?

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

Sorry, Ken, did you say corn syrup?

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**Ken Zaslow** - *Bank of Montreal - Analyst*

(multiple speakers) Yes, high fructose corn syrup.

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

Okay.

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**Pat Woertz** - *Archer Daniels Midland Company - Chairman and CEO*

You're breaking up a little bit, so I'm just going to repeat the question to make sure we've got it. You were asking about sweetener and starches segment or corn syrup segment?



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**Ken Zaslow** - *Bank of Montreal - Analyst*

Yes. I was asking about the high fructose corn syrup. Sequentially, it was a little bit lower than I thought it would be. And then if you could also talk about how that kind of looks for the future as well.

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

Yes, I would say, normally, the only thing you have to see there is a little bit of seasonal down in volumes. But things continue very steady in that segment. Capacity utilization continues to be very tight. We're focusing mostly at this time of the year in the start of renegotiation of contracts. We will get into the peak season for that over the next 30 days.

But I would say other than some -- a little bit of a shift in seeing we send trains down to Mexico and all that, other than a little bit of a shift in volume, then maybe the fall into this quarter versus the previous quarter, we don't see major changes, Ken, on that segment

**Ken Zaslow** - *Bank of Montreal - Analyst*

Would you expect to be able to hold dollar margins going into next year?

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

Well, you see that sugar prices are down. So I think that may put a little bit of a pressure in our renegotiations, especially in the Mexico side. But overall, as I said, capacity utilization is tight and demand is good. So we expect to be resolving that over the next 30 days in our negotiations.

**Ken Zaslow** - *Bank of Montreal - Analyst*

Right. Last question is on basis. Can you talk about how basis is going to impact your results for the next, call it, three to four quarters? And is it the procurement of corn? Is it the procurement of soybeans? How is basis going to have an impact on your outlook?

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

Okay, this is Craig. I would tell you that right now, there's very little carry in the markets. So, there's very little reason to own high percentages of corn. On the bean side, obviously, the margins are good enough that people are going to buy beans and sell meal forward. It's a very good margin environment.

The offset to both is, what's the farmer going to do with this? He doesn't like the flat price and he's in pretty good financial shape. But I would say that we don't want to own too much corn, because there's just no financial incentive to own way forward with no carries.

**Ken Zaslow** - *Bank of Montreal - Analyst*

Great. I appreciate it.

**Operator**

Vincent Andrews, Morgan Stanley.



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**Vincent Andrews** - *Morgan Stanley - Analyst*

Ray, can I just ask a follow-up on your question about looking at the share buyback relative to GrainCorp. Presumably there's not a whole lot you're going to want to say about potential valuations for GrainCorp. But I just want to make sure I understood what you were saying correctly, which is, if you're saying you might suspend the buyback in order to finance GrainCorp, should we not be thinking about that similarly to using equity to finance GrainCorp? Because the buyback was meant to pay or to repurchase the equity issued with the convert from 2008?

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

I think how you need to be thinking about this is, right now, we're evaluating GrainCorp, as you know. We'll be going through a process of engaging in discussions. And we're working through how we're going to be financing it, in terms of our old capital structure. So I think there's more to come after we go through the transaction here.

**Vincent Andrews** - *Morgan Stanley - Analyst*

So does that mean that you would consider suspending the buyback? That's just meant to reduce the shares issued in the convert? Or does that mean you're talking about buybacks in general?

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

No, I think in general, as we indicated in the last call, we indicated that due to the commodity price environment, we're going to actually look at our leverage ratio, look at what our commodity price environment appears. We have this investment as well. So we are going to evaluate the timing and pace of the buyback activity here.

**Vincent Andrews** - *Morgan Stanley - Analyst*

Okay. And then if I could just ask -- somebody mentioned utilizations in ag services being lower, which makes sense. Can you talk about how much lower they were sequentially or year-over-year? And maybe you don't want to give complete numbers, but just give us a sense of where that is and where that's -- and how that's going to trend over the next couple of quarters, as the US crop gets smaller -- or supplies get smaller.

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

This is Craig again. I will -- I'll try to answer that one. First of all, I think we had a fairly reasonable quarter in ag services with the drought. And this drought gave us quite a bit of notice, and we've done some cost-cutting and other things in that area. But along with the lower crops, which we can't do much about, we have done a lot of merchandising activity as part of moving quantities from areas where there are, obviously, the North and the Northwest where there is plenty, to the areas without.

We also have an Aflatoxin environment this year to some extent that has created huge opportunities. Along with the problems, it's opportunities of moving grain across regions. And our transportation network certainly allows us to do that. We had a low-water situation, which this storm will help remedy, and we move forward.

**Vincent Andrews** - *Morgan Stanley - Analyst*

And so do you think that this quarter's result, which I agree with, was good and it's certainly better than what we were looking for. Do you think this is sort of -- how should we be thinking about the new normalized rate, given the new way that ag services is reported? It used to be [$150 million] to [$200 million], but now it will be -- you know, what?



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

I think, Vincent, this is Juan. I think, first of all, not only what Craig said, but also we use our international footprint to take advantage of some opportunities where we found cheap grain, and moving into places where there were tightness. So that was a big component too, as the US was trying -- was struggling with the drought.

I would say as we look at the next quarter, we think that the environment of the results are kind of stable, maybe a little bit better, given that the harvest will be -- will provide a little bit more volumes for us. But with kind of in the range that we've seen.

**Vincent Andrews** - *Morgan Stanley - Analyst*

Okay, thank you very much. Appreciate it.

**Operator**

(Operator Instructions) Ann Gurkin, Davenport.

**Ann Gurkin** - *Davenport - Analyst*

I had a couple of questions. One, given the continued challenges in the many economies globally, have you made any changes to expectations for growth in different markets like Asia, Latin America, Europe, et cetera? Can you comment on that as you look out over the next year?

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

Yes, I would say we don't see a lot of reduction in demand at this point in time in most of our markets. I would say, obviously, we see the reports on Asia, but China slowed down from a 9% to a 7%, which continues to be very strong numbers. South America, we've seen every now that maybe for the next quarter a little bit softer in meal, but we were very high, very strong in refined oils in this quarter. So overall, we don't see in our basic staples any big reduction going forward, to be honest, Ann.

**Ann Gurkin** - *Davenport - Analyst*

Okay. And then, I get asked a lot about expectations for improving return, ROIC measure. And should we start seeing that get better over the next 12 to 18 months? Can you help me frame that at all as to where you are in terms of the portfolio rationalization, and improving utilization and return on assets? Can you just help me a little bit with that?

**Pat Woertz** - *Archer Daniels Midland Company - Chairman and CEO*

Yes, Ann. There is -- first of all, as we've said about portfolio review, we've taken a pretty comprehensive look at the portfolio, and identified things that are needed for performance plans, things that may be an opportunity for divestiture to reinvest in higher growth and return projects; for areas of strategic review, et cetera. So that is underway. I think it's well underway, and we've commented about a few things related to that.

Then there is the effort on the numerator and denominator, so to speak, on our ROIC improvement effort. And I might comment that there is a full-court press with the organization -- you know, all employees having additional training, having focused on reducing capital employed, even reductions, both -- again, costs or freeing up cash, improving the cash conversion cycle. So I think all of this is underway, but I would say we're in the early stages of that, and should see continued -- should see improvement over the next year or so.



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**Ann Gurkin** - *Davenport - Analyst*

Okay. And then, finally, with the increased partnership with Wilmar, should that benefit earnings over the next year or two? Can you help me frame that a little bit?

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

Yes, Ann. I think we said it when we launched this, that in the medium-term, we would expect in like about $30 million from improved earnings from these three joint ventures. I think you will see that ramping up over the first couple of years.

Those joint ventures have started in fertilizer and ocean freight; in tropical oils, we're basically going out and communicating to customers, and doing the training and all that. So you will see having the -- an increased impact in our earnings in 2013. We're very pleased; very pleased with the way that they've gone, and with the speed at which we gotten we've gotten all the regulatory approvals in all three.

**Ann Gurkin** - *Davenport - Analyst*

Super. Congratulations on your quarter. Thank you.

**Operator**

Christine McCracken, Cleveland Research.

**Christine McCracken** - *Cleveland Research - Analyst*

Yes, I just wanted to touch on ethanol, where I guess results were as expected, a disappointing quarter, I guess, on a relative basis. But just wanted to see, in terms of shutdowns, on what you're seeing? Obviously, there's some seasonal maintenance right now, but I'm wondering what your expectation is, as we move into kind of the new year, and if you expect some of that production to come back online?

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

Christine, this is Juan. Obviously, disappointing results in terms of ethanol. But I would say we see the industry becoming a little bit more disciplined. When we look at the production of ethanol, September marked the lowest level since probably July 2010 in the production of ethanol. So you see plants being turned down.

So you can construct out of this maybe a bull case scenario and a bear case scenario. A bear case scenario is, we continue in this positive cash flow/negative margins kind of scenario. The more optimistic case is a case in which exports climb next year, where E15 implementations continue. We have now -- the last time we talked, we have two gas stations dispensing and now we have eight over two states.

So this is still a slow climb, but we need about 5% penetration to turn these SDs in the right way. So, we continue to work very hard and cut our costs, and try to increase exports and drive E15 implementation. That, again, I can see a bull case scenario based on that, in which we see a little bit of improvement next year.



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**Christine McCracken** - *Cleveland Research - Analyst*

And just in terms of the mid-level blend, is that -- you know, the resistance you're getting there, I mean, eight gas stations is obviously a ways away from where you need to be, given what the mandate is going to be. Is it your expectation they're just going to use RINs to meet that mandate? When does that, in your view, come into play? Is that a calendar '13 event? Or is it something you expect to see into '14?

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

Yes, I think it's later on.

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**Christine McCracken** - *Cleveland Research - Analyst*

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

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

Thank you, Christine.

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**Operator**

David Driscoll, Citi.

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**Cornell Burnette** - *Citigroup - Analyst*

This is actually Cornell Burnette calling in for David. We're still digging out of the water and dealing with power outages. But I just wanted to ask a few questions, if I may.

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**Pat Woertz** - *Archer Daniels Midland Company - Chairman and CEO*

You may, please.

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

Sure, Cornell. Yes.

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**Cornell Burnette** - *Citigroup - Analyst*

Okay, great. The first one is, on the ethanol side, I wanted to know if you were starting to see some sequential improvements, perhaps in profitability, in the current market, relative to where you were at in the September quarter, given that the US crop is harvested now?

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

Yes, I think we started the quarter, obviously, with a little bit of the same supply demand balances. Maybe a little bit better disciplined, as I said, in the industry. But we're starting with lower corn prices in this. So, from that perspective, maybe there's a little bit of an improvement sequentially -- potentially.



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**Cornell Burnette** - *Citigroup - Analyst*

Okay (multiple speakers) --

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

But again, it depends a lot on supply demand, you know, Cornell.

**Cornell Burnette** - *Citigroup - Analyst*

Great, great. Well, then on the demand side, I know you've mentioned strong exports as being a possible catalyst over the next 12 months. Is there some risk, though, to that story? I mean, first of all, right now, how competitive is the US ethanol industry in the export markets relative to Brazilian ethanol, sugar ethanol? And then, secondly, is there a risk to that kind of setup if Brazil produces a very big sugar crop next year and sugar prices continue to fall?

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

Cornell, there are many risks in this story, so, for sure. But I think we heard Brazil -- Brazil is importing a lot of gasoline as it is, and that's very expensive -- we heard Brazil, already some of the government officials unofficially talking about increasing the blending rate from 20% to 25% by May and June. So, we expect by the second half of next year that we will see a little bit of an uptick in exports. But, as you said, there are risks to this forecast.

**Cornell Burnette** - *Citigroup - Analyst*

Okay. Thanks a lot, guys.

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

You're welcome, Cornell.

**Operator**

Christine Healy, Scotiabank.

**Christine Healy** - *Scotiabank - Analyst*

Just a couple of questions for you guys on GrainCorp. First one is just -- can you talk about the malt business? And would your intention be to keep the malt business if you were successful in acquiring GrainCorp?

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

Christi, we like the fact that this is a global business with a lot of scale. We like that it has a good position with the customers. Other than that, without due diligence, very hard to tell. With all of this with public information and without further due diligence, very hard to make an assessment.



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**Christine Healy** - *Scotiabank - Analyst*

Okay, that's fair. And then just second question on GrainCorp, just -- can you guys talk about why you chose to, I guess, submit the proposal to GrainCorp in the way you did, by buying the 10% stake at the large premium before entering in the talks? Were you guys -- and are you guys still very concerned by competing bids for GrainCorp?

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**Pat Woertz** - *Archer Daniels Midland Company - Chairman and CEO*

Well, Christine, there is a -- it's quite common in Australia to do a pre-bid stake. And I think it shows our commitment to wanting to do a deal with them. I think it's premature to say anything about any next steps. We just can't. They're evaluating our bid, as they have said, and we'll leave it there.

The investment itself is, of course, in line with our strategy, as we've discussed before. And just in globally and oilseeds and ag services, it's part of our ongoing portfolio management, as I mentioned. And it will meet our financial hurdles as we continue to be disciplined, as we look at these kinds of opportunities.

So I'm very proud of the work we did getting to this point. I think we have good capabilities to manage this kind of a deal, this kind of integration. And we look forward to hearing from them.

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**Christine Healy** - *Scotiabank - Analyst*

Okay. Thanks very much.

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**Operator**

(Operator Instructions) And at this time, there are no further questions. I would like to pass the call over to Pat Woertz for closing remarks.

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**Pat Woertz** - *Archer Daniels Midland Company - Chairman and CEO*

Well, thank you for everyone that joined us on the call today. I certainly thank you for everybody that was able to call in. I know there were cell phone line issues. There were things in your -- as you try to get over this storm. So we really appreciate using all the abilities you can to be part of this.

As always, feel free to follow-up with Ruth Ann if you have any other questions. And a last comment for those of you who may be less familiar with ADM, we have included in the Appendix of our deck, our slide deck today, some general information about the Company and general background that comes from previous presentations.

So, thank you again. Have a good day, and thanks for your time and interest in ADM.

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**Operator**

And ladies and gentlemen, this concludes today's presentation. We thank you for joining. You may now disconnect.

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