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EDITED TRANSCRIPT

ADM - Q2 2012 Archer Daniels Midland Co Earnings Conference Call

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OVERVIEW:

ADM reported 2Q12 net earnings of $80m or $0.12 per share on fully diluted basis.

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PRESENTATION

Operator

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

I would now like to introduce your host for today's conference call, Mr. Dwight Grimestad, Vice President Investor Relations for Archer Daniels Midland Company. Mr. Grimestad, you may begin.

Dwight Grimestad - *Archer Daniels Midland Company - VP IR*

Thank you, Christie. Good morning and welcome to ADM's second-quarter earnings conference call. Before we begin I would like to remind you that we are webcasting this presentation on our website, ADM.com, and 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.

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Now, 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 Senior Vice President and Chief Financial Officer, Ray Young, will review financial highlights and corporate results. And our Executive Vice President, Chief Operating Officer, Juan Luciano, will review our operations and outlook. 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.

Now, please turn to slide 4, and I will turn the call over to Pat.

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

Thank you, Dwight, and welcome, everyone, to our second-quarter conference call. This morning we reported second-quarter net earnings of $80 million or $0.12 per share on a fully diluted basis. Our adjusted EPS was $0.51; and that would exclude LIFO and the impairment charges we took this quarter related to our bioplastics business.

Segment operating profit when excluding the impact of the impairment charges was $648 million. It was a tough quarter, particularly for comparisons. Last year's segment operating profit was a record, and this quarter we took our asset impairment charges on PHA.

And the operating environment was challenging. Ongoing weakness in global oilseed margins, lower results in corn, and poor international merchandising results hurt our second-quarter profits.

We remain optimistic about the long-term fundamentals of our business and the growing earnings power of our Company. We continue to execute our plan to drive shareholder value. We are prioritizing capital projects, and we have adjusted our combined CapEx and M&A projection from $2 billion to $1.7 billion for this fiscal year.

We are driving productivity. Our savings from these efforts should exceed $100 million when they are fully implemented.

And we are returning capital to shareholders through dividend increases and share buybacks. This quarter, we returned over $300 million in capital to our shareholders.

Now, I'll turn the call over to Ray.

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

Thanks, Pat. Slide 5 provides some financial highlights for the quarter which I will run through briefly. As Pat noted, segment operating profit excluding the PHA charge was $648 million, down from the record quarterly $1.4 billion level a year ago. Quarterly net earnings including the charges were $80 million, down 89% from last year's second quarter.

Looking at our effective income tax rate for the quarter, we recorded taxes at 31% to bring our six-month rate to 30%. We continue to analyze our forecast geographic mix of earnings; but for the purposes of estimating our effective tax rate for the 2012 fiscal year, we still believe a 30% rate is a good number, inclusive of the impact of the PHA charge.

Our earnings per share were $0.12 on a fully diluted basis compared to last year's $1.14. We recorded a LIFO charge of $59 million pretax or approximately $0.06 per share, compared to a $0.25 charge in the same period last year. Adjusting for specified items, including LIFO and the PHA impairment charges, ADM earned $0.51 per share compared to last year's $1.20 per share.

On chart 19 in the appendix, you can see the reconciliation of reported earnings to adjusted earnings.

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We also had some significant negative mark-to-market timing effects in the Other segment, which impacted our overall results by $127 million pretax or about $0.13 per share. Our four-quarter trailing return on invested capital of 6% including the impact of the charge was below our WACC by 30 basis points. If we excluded the impact of the charge, our four-quarter trailing ROIC would be about 7%.

Slide 6 provides an operating profit summary and the components of our Corporate line. Juan will talk about the business segment results in his update. Let me touch on a few items of significance in the Corporate line.

I talked about LIFO earlier. Market prices for our LIFO-based inventories rose in the second quarter, resulting in a charge of $59 million compared to a charge of $254 million last year. Our interest expense was lower due to lower interest rates and lower debt levels.

Unallocated corporate costs are slightly higher due to labor costs and outside services. Last year's results had the positive impact of gains on interest rate swaps related to the debt remarketing.

Turning to the cash flow statement on slide 7, we generated $1.4 billion in cash from operations before working capital changes in the first six months of 2012. Working capital was a source of cash to us of $1.6 billion as commodity prices have fallen this fiscal year versus last year's first half, when it was a large use of cash.

We made capital investments of $852 million in the first six months of 2012. In addition, we spent $206 million in acquisitions of assets.

Our net debt decreased $1.2 billion in the first half of the year. For the quarter, we returned $304 million to shareholders in the form of dividends and share buybacks. For the first six months we returned $651 million to shareholders.

In this quarter, we bought back 6.5 million shares, bringing our fiscal-year repurchases to 15 million shares. Of the 44 million shares issue related to the equity units, we have bought back to date about 27 million shares.

Slide 8 shows the highlights of our balance sheet. Second-quarter cash on hand was approximately $1.5 billion. Total debt was $9.2 billion, down slightly from the level at the beginning of the quarter. We had $130 million outstanding in commercial paper and we had available credit capacity of $4.5 billion in US commercial paper and $1.7 billion in other global credit lines, including our accounts receivable securitization facility.

I also want to note that, of the $12.4 billion of inventories, about $8 billion is readily marketable. We believe this strong balance sheet provides us with the financial flexibility to manage our business in volatile markets and continue to invest for profitable growth.

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

Juan Luciano - *Archer Daniels Midland Company - EVP, 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 and then update you on our CapEx plan. I will conclude with our current assessment of market conditions and their implications for ADM.

In Oilseeds Processing, our operating profit in the second quarter was $253 million, down $72 million from the same period last year. While margin conditions in our Oilseeds segment were generally weak, the diversity of our global Oilseeds business mitigated some of these pressures.

Crushing and origination operating profit fell $61 million to $139 million. Continued weakness in global Oilseeds crushing margin, particularly in Europe, reduced overall results.

In response to this, we continued to take actions, reducing crushing rates at European rapeseed-only plants and at European swing plants, moving some capacity from rapeseed to soybeans.

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Last year's second quarter reflected the $71 million pretax gain related to the acquisition of the controlling interest in Golden Peanut. In addition, last year's results included significant negative mark-to-market timing effects which were not repeated this year.

Refining, packaging, biodiesel, and other generated a profit of $74 million for the quarter, which was essentially flat from last year.

Oilseeds results in Asia for the quarter were in line with last year, principally reflecting ADM's share of the results from equity investee Wilmar International Limited. This quarter in Oilseeds, we continued to grow our international footprint.

We completed the acquisition of Polish rapeseed crushing, refining, packaging, and biodiesel business, Elstar Oils S.A. Our integration efforts are underway and we are very satisfied with the assets and the team.

We began a project to diversify and increase quality and efficiency at our Olomouc, Czech Republic, sunflower seed crushing and refining facility. And we announced plans to construct a biodiesel plant adjacent to ADM's existing canola crushing facility in Lloydminster, Canada.

Please turn to slide number 10. As you see, Corn Processing operating results in the second quarter showed a loss of $133 million, a decrease of $532 million from the same period one year earlier.

The loss primarily reflected $339 million asset impairment charges related to the PHA renewable plastic production facility at Clinton, Iowa. Excluding the PHA impairment charges, Corn Processing operating profit of $206 million represented a $193 million decline from last year.

Overall, net corn costs were up, in part reflecting the economic hedging benefits that were recognized in the prior year and that we previously discussed. Sweeteners and starches operating profit decreased $46 million to $73 million as 36% higher net corn costs more than offset higher average selling prices on sales volumes. Export demand for sweeteners remained strong.

Bioproducts results in the quarter decreased $486 million to a loss of $206 million, including the negative impact of the PHA impairment charge. In December, ethanol margins declined as additional industry capacity came online due to attractive margins seen at the beginning of the quarter and as export demand declined.

Let me comment on our decision to terminate our joint venture in PHA earlier this month. The uncertainty around projected capital and production costs, combined with the rate of market adoption, led to projected financial returns for ADM that were insufficient. We are evaluating other commercially valuable options for the fermentation assets at Clinton.

We continue to look to optimize our Corn business portfolio. We are pleased that our two new dry mills in Columbus and Cedar Rapids were able to produce at above nameplate capacities in each month of the quarter. These facilities are very cost efficient and are strategically located near very productive corn acreage.

We are currently undertaking a strategic review of our Brazil ethanol operation. We have also completed negotiating sweetener contracts for calendar-year 2012. We achieved a price increase in the low double digits. We expect improved margins for the calendar year.

Please turn to slide 11. You will see a review of our Agricultural Services segment. Operating profit was $158 million, down $268 million from the very strong period one year earlier, when we were well positioned to meet the strong global demand, shipped record US export volumes, and as a result earned $426 million. The current quarter's result is consistent with the historic quarterly range of $150 million to $200 million that we have talked about in the past.

Merchandising and handling earnings decreased from last year's very strong results on poor international merchandising results and reduced US grain exports. Earnings from transportation operations were steady despite lower US grain export volumes.

On slide 12 you can see highlights from our Other businesses. In the second quarter, profit from ADM's Other business units was $31 million, down $181 million from the same period one year earlier. In Other processing, profits fell $150 million to $10 million.

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Results in the segments were impacted by $127 million in mark-to-market net timing losses in cocoa, which cost approximately a $0.13 per share hit to our quarterly results. Last year's results reflected a $23 million in net timing gains.

Excluding the impact of this timing effect, the results in Other processing were basically comparable to last year's strong results. The underlying performance in cocoa remains strong, driven by cocoa powder demand. Wheat milling results remain steady.

Looking forward, it is difficult to estimate the impact of timing effects on our cocoa results. We have built up about $100 million of timing losses which will eventually reverse.

In Other financial, we saw a decline of $31 million to $21 million, with improvements in ADM Investor Services offset by a decline in our captive insurance operation.

As we continued to optimize our asset base in these businesses, we began the permanent closure of our sorghum mill in Plainview, Texas. We will consolidate that production into our North City, Kansas, mill.

Turning to slide 13, halfway through our fiscal year, we have invested about $850 million in CapEx. We have spent about $200 million in acquisitions, with Elstar Oils of Poland being our major acquisition so far this year.

We continue to target approximately half of our growth capital investment outside the US, and a significant portion of our US investments will be to serve export markets.

As part of our financial discipline, we have adjusted our CapEx and M&A projection. We are looking to invest about $1.4 billion in CapEx and about $300 million in acquisitions. This total spend of about $1.7 billion is 15% lower than our prior $2 billion estimate.

Turning to slide 14, we want to provide some perspective on current market conditions and their implications for ADM. Oilseed crush margins, while improved, remain weak; and we expect continued challenges in regional margin environments.

Longer term, as global protein meal demand continues to grow, led by emerging economies, improved capacity utilization should strengthen industry margin structure over time. We are managing our regional processing capacity to better align supply and demand.

In Corn Processing, we expect poor spot ethanol margins to continue until supply and demand are re-balanced. We are seeing a strong demand for our corn wet milling portfolio, which we expect to continue.

With continued growth in industry exports of high-fructose corn syrup and with our calendar-year 2012 contracting completed, we expect improved HFCS margins.

The South American harvest is beginning. While it will be big, it is forecast to be smaller than last year's record harvest. It should maintain the current adequate global soybean supply. And in wheat we see an ample global supply.

While we don't foresee significant crop dislocations, we are monitoring the harvest in South America and crop conditions in the Black Sea region. Crops in stress in those regions could present opportunities for increased US exports.

And as always, ADM will use our global origination and transportation network to help serve growing global demand. Now, I will turn the call back to Pat.

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

Thanks, Juan. Before we open the line and take your questions let me just recap. Tough quarter; challenging environment. Operating profits were down across-the-board particularly against a record year comparison. The PHA impairment and the cocoa mark-to-market significantly impacted our results.

We continue to take actions to drive our long-term performance. We remain focused on shareholder value. We increased the dividend in November. We continue to buy back shares.

So, with that, Craig will join Juan, Ray, and me for the Q&A. And Christie, if you could open the line for questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Vincent Andrews, Morgan Stanley.

Vincent Andrews - *Morgan Stanley - Analyst*

Thank you. Good morning, everyone. Maybe I will just ask a couple of quick questions. Pat, on the last call, you made some comments about what you thought the trajectory of ethanol was post the tax credit. So we are a month after the tax credit and production hasn't given up at all, but margins are sort of bouncing around slightly above breakeven. There was a comment I believe in the release about export weakness, and exports were a big story in 2011.

So could you just give us a sense of where that market stands on the demand side and what your expectations are for exports this year?

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

Hi, Vincent. This is Juan. I will address the question.

Remember, I told you in the last call that we were going to see a shrinking in the margins as we were going into -- through all these changes. Obviously, exports were very good at the end of the quarter. And at this point in time, with those great margins that we had by Thanksgiving, I would say, we saw a lot of capacity coming into the market.

Also, you understand that with these weather conditions everybody can produce at very, very high rates. So we have the industry producing at the end of the year at about 14.7 type of rate.

Then we saw after the end of the year, normally January is our low mileage season for the US with the winter. So we saw a decline in gasoline consumption. But we also saw the impact in exports of Brazilian reducing their mandate from 25% to 20%.

So as we go into the year, we saw margins decline significantly in December, although as I told you I have anticipated that to you; we didn't see the magnitude and the speed at which it turned from Thanksgiving onwards.

So today we have the situation in which probably some capacity had come out already in the last couple of weeks, so we may be producing at around 14.5, 14.4 in the industry; but we have a demand of about 12.2. Even despite the 13.2 mandate we have about 12.2 of current demand.

And exports are starting to pick up, but they are still reduced. Probably this year we are seeing something about 500 gallons per year. That is our estimate at this point.

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Vincent Andrews - *Morgan Stanley - Analyst*

Okay, so just to be clear, you have got 12.2 of current demand; you mean for the full year of calendar --?

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

This is current rates.

Vincent Andrews - *Morgan Stanley - Analyst*

Current rate? Okay, fine. Okay. All right.

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

(multiple speakers) since driving mileages are low, that is kind of the demand --

Vincent Andrews - *Morgan Stanley - Analyst*

Okay, I got you. That is your run rate and that will improve seasonally; and then as exports come back and obviously we will meet the mandate and so forth.

Can I ask you -- I read this morning that Russia is considering an export duty on grains. If you put that in concert with what is happening with the South American crop, how would that change the fundamentals in Ag Services potentially?

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

This is Craig. I read several releases this morning, and basically one minister says yes and one minister says no, and it comes down to politics.

But we do see some seasonal issues, whether they be weather -- dry weather in Argentina or wet weather getting the harvest started in Brazil. We do have obviously some potential winter kill in the Soviet Union, Ukraine, of all that Eastern Europe production. At this point, it is all conjecture; but they could bring opportunities to us as we go forward.

Vincent Andrews - *Morgan Stanley - Analyst*

Okay. Thanks very much. I will pass it along.

Operator

David Driscoll, Citi Investment Research.

David Driscoll - *Citigroup - Analyst*

Great, thank you. Good morning, everybody. Wanted to talk a little bit more about Agricultural Services. So you made in your prepared comments the statement that the $150 million was within the historic range. So are you -- what were you trying to get at right with that statement? Were you

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trying to say that this result is not a bad result? Or are you trying to say that this is just an explanatory factor in terms of the year-on-year delta? I wasn't sure what the conclusion, what the takeaway was supposed to be from that.

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

Well, I think -- this is Pat, David. I think the idea of a range that we have tried to clarify is a somewhat average range of the past of $150 million to $200 million. That even with poor international merchandising results, which we did comment on, and slower exports out of the US, that we were within the range.

So I guess you can take that -- if you had more average of both of those you would be higher in the range.

David Driscoll - *Citigroup - Analyst*

Then expanding on the poor international results, can you talk about why they were poor? Is this a veiled reference to the European problems and how they crept into grain markets? Or is this something fundamentally specific to ADM?

Then furthermore on that question, does it have a bearing on the March quarter and the rest of calendar '12?

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

This is Craig. I guess I would say our job is to manage market volatility around our assets, and we have a very structured process for doing so. We analyze the variables going out there and decide the risk/reward relationship in positions. And our risk positions have been somewhat lower, but it has been a difficult situation.

It is lower this year, but that is not a change in our thought process. Much more just a -- we haven't seen the opportunities that we have seen in the past.

David Driscoll - *Citigroup - Analyst*

Okay. So, Craig, you're not trying to say that this had -- like one of your competitors flat-out said that the European debt problems affected the grain markets and led to their business having lower origination results. I am trying to get a sense if you agree with that statement.

And then critically what I really want to know here is what your thoughts are going forward, if this continues to negatively affect your ability to profit within Ag Services.

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

We have not changed our process at all. I would say that carried inventories and things like that have been a little difficult this year just because of the risk/reward on them. And that is basically why. We have just seen less opportunity.

David Driscoll - *Citigroup - Analyst*

Okay. Final question for me is on Oilseeds. We have seen a pickup in spot cash crushing margins in the United States. In fact, it has been fairly material on a year-over-year basis.

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Juan, in your comments you made a statement that of course things are still weak. But I am very curious about, number one, the spot US margin impact on your business in the December quarter. And then what do you take away from the improvement in those margins on a go-forward basis?

It looks material; but I would like you to tell us if that is a fact, or if it is really not as good as it otherwise appears on the spot crush.

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

Yes, David, in Q2 for us, we saw a sequential improvement versus Q1. So what we said before that we have seen with the harvest, the situation improved a little bit. So in the US, margins have come up a little bit, but from low levels.

As we go forward, we see Europe continued concerns, especially on the rape side because of the tight supply there. The US, you know, it will depend a lot what happens with South America, obviously. If you remember a couple of years ago when South America had a bad crop, we didn't have a problem with the extra demand that the US get and to have full capacity utilization of all this capacity.

Now we are wrestling with capacity utilization. But it is that. It is that South America becomes very competitive.

So that is why I would say at this point in time it is very much a weather market. So last week was very dry and 40 degrees in Argentina, and people start to worry. And sometimes we get a little bit of a meal export market going.

And then it is raining today; it rained yesterday in Argentina. So the markets come back a little bit in soy. So it is a weather market for this quarter.

But I would say despite the improvement, we still see relatively softness in -- overall in Oilseeds.

David Driscoll - *Citigroup - Analyst*

Do you expect your Brazilian crushing margin business to be better than what your comments were for Europe rapeseed?

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

Yes, we see South America kind of in between.

David Driscoll - *Citigroup - Analyst*

Okay, thank you. I will pass it along.

Operator

Ken Zaslow, BMO Capital Markets.

Ken Zaslow - *BMO Capital Markets - Analyst*

Hey, good morning, everyone. Just a couple questions. How much oilseed capacity are you guys taking out?

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

We took -- when you say taking out, Ken, if you mean permanently shut down, we shut down one that we announced last quarter. At this point in time, we are just slowing it down, and we are running probably in the range of 80%, 75%, depending on the oilseed.

What I think I told this quarter is that as we are seeing -- I gave a little bit more detail of what we are doing in Europe, and we are seeing a little bit more -- we have seen a little bit of a decline in demand in biodiesel in Germany, because of German GDP probably has been affected by all these things.

And also the winter was a little bit milder than expected, so heating oil demand is not that huge. So we shifted a little bit more to soy crush when we had that flexibility, and we slowed down a little bit rape in Europe.

But, so that is something that we normally do. I just wanted to give you more color.

Ken Zaslow - *BMO Capital Markets - Analyst*

Okay, so it is not incremental? It is the one facility in the US; that is really what has changed?

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

Yes.

Ken Zaslow - *BMO Capital Markets - Analyst*

Okay.

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

Yes, we didn't shut down anything else.

Ken Zaslow - *BMO Capital Markets - Analyst*

Okay. Then when you reduced the CapEx and acquisition capital by 15%, is it (technical difficulty) of expected lower cash flow? Less opportunities? Or just why was the -- there was a change in that? Like what was the reason for the change?

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

Yes, I wouldn't describe it as a change. It was the continued working on our process of capital allocation that we started six months ago, maybe. So when we started we had like -- we wanted to see the full pie chart of opportunities, the full pipeline in front of us. We saw $3.3 billion; we said okay on that. We think that $2 billion will be something reasonable.

Then we started working and increasing our hurdles and going through our prioritization, into giving priority to outside US and giving priority to Oilseeds and Ag Services. So as we put those filters, we started to become more -- a little bit tighter into that. And that is what at this point the update is we are at about $1.7 billion into that.

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Ken Zaslow - *BMO Capital Markets - Analyst*

Okay, how much capital are you spending on the Agri business? And could you just say how much have you spent over the last 12 months? A ballpark would be very helpful.

Just kind of -- because I know you are spending more on logistics. So I'm just trying to figure out how much of that $2 billion -- of the $1.7 billion is now on Agri business and how much has it been over the last year or so. Just some sort of estimate would be very helpful.

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

Yes, Ken. I think we have indicated -- it is Ray here -- that we are targeting about 70% of our growth investments in the Agri, the Ag Services sector, as well as the Oilseeds segment. A lot of that is targeted outside of the United States as well.

I don't think we want to go beyond that, because I think how we want to think about capital allocation is where are the segments we are focused on growth, and what of segments that we are focused on optimizing, and we are going down that path right now.

Ken Zaslow - *BMO Capital Markets - Analyst*

Okay. My last question is the ethanol exports for this year. I think at one point you guys thought it was going to be closer to 750. Now you I think you guys are saying now 500. What was the change?

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

Yes, I think that 500 is net from the imports that Brazil will bring into the US. So probably the gross number is probably 750 to 800, as we said before, Ken.

Ken Zaslow - *BMO Capital Markets - Analyst*

So, there is no change to that?

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

No, not in our view at this point. Too early, although.

Ken Zaslow - *BMO Capital Markets - Analyst*

Okay. No, great. Thank you very much.

Operator

Christina McGlone, Deutsche Bank.

Christina McGlone - *Deutsche Bank - Analyst*

Good morning. I guess first question, Pat, with respect to the PHA writedown. It was an investment that was made in the pretty recent history. And I am just curious what changed that caused you to walk away and to write it down.

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

Well, I guess we -- as you probably know, we started an exploratory arrangement with our partner there back in 2004, and further made an alliance and investment just early 2006. But it's truly a change in the last review of our project that looked at the economic equation.

It is kind of a calendar-year budget cycle, and as the budget was brought to us with cash spending and what the outlook was, and revised several times, it still could not be in the economic projections that we felt made sense to us. So we evaluated what to do, and clearly it's something where we decided to take the write-down and do the -- look at -- it's a non-cash, of course, write-down. Then we will look at those assets as Juan has mentioned in his remarks to see if there are other options for use of them in Clinton.

Christina McGlone - *Deutsche Bank - Analyst*

Okay. I guess just going forward when you talk about the CapEx plans, I guess now there the question would surface -- is there a chance that some of these new projects would have this risk as well? Because there wasn't that much time that that passed since you decided to do it, to writing it down.

Is there a different process in terms of evaluating the projects?

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

Christina, this is Juan. Good morning. I would say that the only difference with the process is that it adds a little bit more to the hurdle rate when we go into things that we are less familiar with, like in this case. So it is difficult to compare the other projects in the pipeline where we are focusing on the things that are core to us and the businesses that we have, obviously, growth momentum in.

So, I think that the issue in PHA is the difficulty of us going with something that is new in the world in a market that is completely new to us. So I don't think that you should extrapolate those difficulties into our current CapEx. Also, the current CapEx adjusted also reflects the fact that we will not have to spend extra CapEx into PHA that we had in the plan, too.

Christina McGlone - *Deutsche Bank - Analyst*

Okay, thank you. That's helpful. Then, Ray, for cocoa, it is the most frustrating segment to model. So we have $100 million of mark-to-market losses that eventually will reverse; but we had no idea on the timing.

Then are there more losses that could happen? Or now we are kind of in a steady state where the gains should start rolling in? How do we think about this?

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

Well, first of all, I think we are sympathetic to you in terms of the volatility of the mark-to-market in the cocoa segment. Christina, a lot of it is going to be a function of how cocoa bean prices move.

Part of the reason why we saw the large negative mark-to-market adjustment is the fact that cocoa bean prices fell over 20% in the quarter, which is a dramatic move in a short period of time. So when Juan talks about the fact that we've built up about $100 million of cumulative losses on our balance sheet, we know that eventually that will unwind.

So as we sell down the beans or as prices move up a lot of that should unwind. We are just hesitant to provide any indication in terms of the exact timing because, frankly, it is difficult to estimate; and secondly, there's a lot of other factors that drive how the unwind will occur.

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So we just wanted to alert you that there is about a cumulative $100 million of losses built up. It will eventually unwind. We ourselves are not forecasting specifically when it is going to unwind. So I -- we thought that was just useful information for you.

Christina McGlone - *Deutsche Bank - Analyst*

Okay, thank you. And then, Pat, for ethanol, it sounds like E15 may be a bit closer; just what I have been reading seems a little more optimistic. But I wanted to understand with respect to the RVP waiver, is that a real hurdle? Is that something that needs to happen before we can have Midwest adoption of E15, assuming that the EPA puts it in the registrar?

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

I don't know, Christina. I am looking around the table here. To your first point of looks like it is closer, I think we still believe it is the spring. It looks like it has the opportunity to have the i's dotted and the t's crossed, so to speak, in all the technical reviews. We don't see any reason why it won't be certified as a fuel.

Illinois and Iowa are ready to go. I believe Pennsylvania is not far behind. So the states are dispensing transport fuels -- or they have rules on dispensing transport fuels as a state component, and they are ready to go as soon as the federal approval is certified. So that part is positive.

I don't know about the RVP. We can follow up and get a question -- answer back to you on that.

Christina McGlone - *Deutsche Bank - Analyst*

Okay, thank you. Then last question, just on the rapeseed in Europe, Juan, is that purely a function of the short crop? So then when we get the new crop, I guess sometime in the summer, it will -- margins will recover?

Or is there something else on the demand side? I guess you mentioned the biodiesel in Germany that we should be thinking about.

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

I think even when the new crop comes we still expect it to be tight and needing some imports from Australia to compensate for that. So I think we -- the way I think about it, Christina, is that we're going to see a little bit of a margin improvement from the market; and we are trying to get a lot of our own margin improvement by the things that we are doing with that. But it is still difficult environment.

Christina McGlone - *Deutsche Bank - Analyst*

Thank you. I will pass it on.

Operator

Ryan Oksenhendler, Bank of America.

Ryan Oksenhendler - *BofA Merrill Lynch - Analyst*

Good morning, guys. Ray, I was wondering if you can elaborate. You talked -- there was a lot of talk about capital allocation, and I know last year at a conference you talked about changing the framework in the way you make capital allocation decisions.

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You provided some expectations for the investments that you were making that year. Do you plan on providing some transparency on the projects that you are spending on now? I just think it would help.

I know, Pat, you talked about how you are excited about long-term earnings growth. I think that would help provide some reference for investors how you get there.

Also, do you plan on providing some targets for segments besides the Oilseeds segment?

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

Yes, a couple comments, Ryan. We indicated that we were looking at our hurdle rates as part of our improved capital discipline. And Juan has talked about in the past that we have increased our hurdle rates overall; and in addition we provide some differential hurdle rates reflective of projects that are maybe in new geographic areas or into new product types of areas. So that process has been put in place.

Then secondly, we indicated that we are going to continue to do a lot of smaller projects. I mean I think I highlighted at your conference that there is a core competency within our Company about doing these small bolt-on projects, and we continue to focus on a lot of these bolt-on projects which provide returns in excess of our hurdle rates.

I think the new element that you have recently seen from us is also a focus on allocating more capital towards emerging markets or the growth areas. So I think that through Juan's team, the global operating committee, looking at all these different projects, we provide a lot more filters towards projects. And I think going forward I think you will see that reflected in terms of our earnings power of the Company going forward.

I mean, the reason why we are investing in all these projects is to drive the earnings power here. So we are going to have blips in certain quarters. I kind of viewed this quarter as one of these blips whereby we under-earned relative to our long-term targets; but if we continue to have the capital discipline, filter the projects, look very critically in terms of what we are going to invest, I fundamentally believe that it is going to get reflected in our forward earnings in the future.

Ryan Oksenhendler - *BofA Merrill Lynch - Analyst*

Okay, thanks. Then just in terms -- it sounds like you're evaluating some options for some of the smaller businesses, like I guess your fermentation assets and then I think the sugar assets in -- or the ethanol assets in Brazil.

I guess, how far along are you in the process of this? Have these businesses been a drag on earnings or limited your earnings growth? And how far along are you in that process?

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

Yes, Ryan, this is Juan. Obviously, we made the decision on PHA based on these [constant] change in circumstances that we have seen late last year. And in terms of Brazil and our investment in ethanol from sugarcane, that is an important area for us. That continues to be an area of focus, and we learn a lot by operating that facility on a crop that we were not that familiar with.

But fundamentally we, like everybody in Brazil, we need to have good access to cane supply. So we are not satisfied with our current position and we are looking at options to improve that competitive position. So we are probably a couple of months into looking at that.

Ryan Oksenhendler - *BofA Merrill Lynch - Analyst*

Got it. Thanks a lot, guys.

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Operator

Diane Geissler, CLSA.

Diane Geissler - *CLSA - Analyst*

Good morning. Hey, I was wondering if you could give us a little color on the CapEx that you have spent year-to-date. Could you break out for us, Juan, what percentage you think was spent on obviously maintenance, and then the piece that went toward the smaller bolt-on type projects or the ones that are sort of immediately additive, I am assuming? And then the game-changers like the Paraguay oilseed crush that will take longer to have some kind of return associated with it.

Just give us a framework for how those -- the bucket of spending went.

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

Yes, Diane, it's Ray here. I think how we want to think about it on a fiscal-year basis is in terms of just what we call the maintenance and compliance CapEx. We are still thinking we will probably be running about around a $400 million type of number there for the fiscal year. I am looking at the estimates for the fiscal year right now.

Diane Geissler - *CLSA - Analyst*

Okay, great. Thanks.

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

Okay? Then the rest would be really what we'd view as the growth type of investments. Of the growth type investments we are still looking to target about half of that outside of United States; the other half within United States.

We are focused on both combination of capital spending and M&A. And we have indicated that in the first half of the year we spent about $200 million in M&A, and in Juan's estimates probably another $100 million to get to about $300 million for the fiscal year.

Then with respect to the organic growth initiatives, generally how I think through that is a vast majority of the organic growth initiatives are smaller types of projects which we feel very, very comfortable executing. We believe we have got good returns on those, and we have continued to work on those smaller types of projects, the ones I define as less than $25 million.

Diane Geissler - *CLSA - Analyst*

Okay. So if we think about total CapEx budget of $1.4 billion minus $400 million for maintenance, that leaves $1 billion spend. I mean you are midway through the year; you should have a pretty good idea about what percentage of that $1 billion will be on the smaller projects. Is it 70%, 80%? Just --?

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

Yes, I think a ballpark number is probably about three-quarters of it is probably in the smaller projects.

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Diane Geissler - *CLSA - Analyst*

Three-quarters? Okay, great. Then I just had a question on the comment on the ethanol business. I think you said you were running above the nameplate in the December quarter.

Is that --? It just sort of shocks me because the bioproducts profit was actually below my expectations despite what seemed to be fairly decent industry results. So, I just am curious about the thought process that went behind -- with where corn prices are versus where ethanol prices are, are you running above your capacity still? Or how are you adjusting to the reduced operating environment?

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

Well, the industry is running all very hard, to be honest, Diane. And we ran very hard through the quarter in the past quarter, as we saw those spectacular margins. Then obviously demand especially on exports disappeared on that.

We continue to run hard those plans, and those plants are not similar to the oilseeds plants that allow for big adjustments in capacity utilization without taking a big hit on costs. Those plants are very big, are very intensive on energy.

So we think that we have the cost advantage, and we think that in reality slowing down our plants will not bring a significant benefit to us as it happens maybe in oilseeds. So we continue to run them hard.

I think that we believe that some of the smaller players will slow down, as they have slowed down already a little bit during the quarter.

Diane Geissler - *CLSA - Analyst*

Okay. So it sounds to me like you guys are just going to have to suck it up for a period. The question is, is that six months or --? I mean there was a period I guess a couple years ago where you had basically four quarters of losses in that group or in that line item.

Is that what we are looking at here? Or is it maybe not as bad as it was two to three years ago?

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

Yes, I am thinking, Diane, less than that, certainly. I think that there is going to be a combination. I think that the driving season in the US is going to pick up. I think exports with these ethanol prices will pick up, and it is just a matter of putting the programs together take a little bit of time.

I think that also some of the smaller players, the less competitive players, will also adjust their capacity. There is also a mid-annual or semiannual shutdown for maintenance of these plants that normally happens too. So we see that with all that probably at the end of this quarter we should see a little bit of a pickup in the ethanol margin.

Diane Geissler - *CLSA - Analyst*

Okay, great. Thank you for the additional commentary.

Operator

Christine Healy, Scotiabank.

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Christine Healy - *Scotiabank GBM - Analyst*

Hi there. Just a couple of questions for you. First, just on your Ag Services business, I'm just curious if you are seeing any impact at all from the rise in US on-farm storage. I saw that it rose again in 2011. Have you seen since harvest that farmers are holding on to their grain a bit more tightly?

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

This is Craig. I think that on-farm storage is an issue, but I think much bigger than that is the farmer's holding on to the crop, period. Whether he was holding on to it on-farm or at the country elevator or at the terminal is insignificant.

The farmer has had fairly strong financial results over the past few years and he is capable of holding and he has been bullish. So I don't think -- I think it is obvious that we have continued to have an increase in on-farm storage, but I think it is farmer holding of the crop much more than on-farm storage which has created the strong basis.

Christine Healy - *Scotiabank GBM - Analyst*

Did you see that improve in mid-December when the prices started to come back up? Has that improved since last quarter?

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

Well, the farmer has a situation where he is very strong. But there is a very strong inverse where the old crop is worth more than the new crop. So he will gradually start selling the new crop, because it is a financial hindrance for him to sell new crop.

Christine Healy - *Scotiabank GBM - Analyst*

Okay. Then just moving on to your growth plans here, you recently announced several expansions in Europe, Romania and Poland, Slovakia.

Maybe you can talk about Ukraine. Is that a focus market for you? What opportunities would you see in that particular market? Would that be more likely to be a build versus a buy situation?

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

Yes, Christine. This is Juan. (technical difficulty) We are certainly building our position in Eastern Europe, so you see all these elevators and bringing it -- it is building our origination. We already have some processing capacity there.

So, we try to do more in terms of acquisitions because there are smaller players there. So we have a very aggressive team, and I think that you have seen some of those results posted in our announcements over the last couple of months. So we will continue to do that.

You know, acquisition game is a game of percentages. So it is very difficult to forecast. But we feel satisfied with the rate that we are going.

Christine Healy - *Scotiabank GBM - Analyst*

My understanding, though, just from some of your competitors is there is a bit of a lack of opportunities in Ukraine in particular. Do you see that particular market as more tricky to grow?

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

In terms of acquisition, you have seen that our forecasts have been reduced for the rest of the year, so you may say that some of those opportunities that we thought originally were going to be there are either no longer attractive or no longer available. Yes.

Christine Healy - *Scotiabank GBM - Analyst*

Okay. Thanks very much.

Operator

Lindsay Drucker Mann, Goldman Sachs.

Lindsay Drucker Mann - *Goldman Sachs - Analyst*

Thanks. Good morning, everyone. I just had a couple quick ones. First, you commented on ethanol dynamics post the expiration of the subsidy. I was hoping you could give us an update on the biodiesel side and whether you are seeing RIN carryover from last year, whether your expectation is that end demand will ultimately be lower than what the mandate calls for?

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

Yes, Lindsay, this is Juan. Certainly we are seeing a little bit of a hangover from the inventory buildup on biodiesel 99 at the end of the calendar year in 2001. We think that that is weighting heavily on demand for probably the first two months of this year.

We are starting to see some better business interest, although margins are still not great. I would say on [deposits] -- so we think that we are going to make the 1 billion gallons of the mandate, certainly. The industry has the ability to do that in a shorter period of time, so they can start midyear and they can still catch up.

On the positive side on biodiesel, I would say the EPA has finalized the ruling on palm-based biodiesel, and they have ruled that they do not meet the 20% greenhouse gas reduction -- emissions reduction. So that will be a positive for the domestic industry since we don't have to compete with palm-based imports.

Lindsay Drucker Mann - *Goldman Sachs - Analyst*

Great. I also just wanted to clarify; I think you mentioned in your prepared remarks an expectation that South American crops would actually be lower on a year-over-year basis. I know they are lower than where people had thought they would be because of some of the weather issues. But unless I am mistaken I still thought that we were looking for an increase in the absolute output on a year-over-year basis at least as far as what [WASI] some of the other organizations are looking for.

So do you have a different view? Or am I misunderstanding your expectations?

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

This is Craig. I think that we are looking for smaller crops than last year. It is all conjecture at this point because we have just started actually bringing the crop in, in Brazil. But the dry weather in Argentina has had an impact on corn for certain, and it has had some impact on beans.

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But as in the United States, it's August rains here; well, it's the late January, February rains in Argentina that are going to make or break that crop. So we are not necessarily estimating where it will be, but it is going to be lower than we would have said six weeks ago, for certain.

Lindsay Drucker Mann - *Goldman Sachs - Analyst*

Okay, thanks. Then one of your competitors in the US announced I believe another crushing plant closure. Are you seeing -- first of all, do you have facilities that are in close proximity to that one? Would you expect to see some immediate benefit in terms of your P&L as a result? And are you seeing that impact flow through?

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

We think that in general the producers in the US have been reacting to the difficult demand situation and have been disciplined in managing their capacity. So I think that everybody will benefit when we have that situation.

Lindsay Drucker Mann - *Goldman Sachs - Analyst*

Okay. Then lastly, if you could just maybe go around the Horn, I know that you have crushing capability in lots of different regions. So which of your regions, Europe, US, is most profitable on a gross margin basis? How would you rank-order them?

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

I will rank, as I think I said before, US, South America, and Europe in that order.

Lindsay Drucker Mann - *Goldman Sachs - Analyst*

Great. Thanks very much, everyone.

Operator

John Roberts, Buckingham Research.

John Roberts - *Buckingham Research - Analyst*

Thank you very much. The $100 million on timing losses in cocoa that you mentioned, should we assume any timing issues going forward in either corn or soy would be smaller than that, since you haven't called them out?

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

Yes, actually, John, if you recall last year we had quite a bit of mark-to-market impacts in the Oilseeds segment. We have been able to mitigate that impact through some differences in terms of how we are treating devaluation. So that is a reason you should not see mark-to-market impacts or timing impacts flowing through the Oilseeds segment going forward.

They were very, very significant last year in the second quarter, as you recall. Now going forward in the cocoa segment, we are actually looking at ways to try to mitigate that mark-to-market impact as well. So we are looking at techniques in order to provide a more consistent treatment with

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respect to the inventory as well as the hedges. So that is work in progress, and we will report back when we find a method to try to mitigate that impact.

In the Corn segment, if you recall last year in the second quarter we had some fairly significant mark-to-market gains in the Corn segment due to our ownership position when prices moved up. I think we highlighted that in this particular quarter we didn't have the similar types of ownership gains.

But it did have an impact in our net Corn cost because we recognized the benefits last year in the second quarter -- which economically one can aruge that it really would have accrued to this particular quarter. So remember, John, if you recall at the last quarter's call we said approximately $100 million of the benefits in the second quarter last year with respect to hedging would have accrued to really the first and second quarter of this fiscal year.

John Roberts - *Buckingham Research - Analyst*

Okay. I was asking specifically more about the forward couple quarters here. There is nothing known major in soy or corn at this point?

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

As you know, John, we don't comment on our positions here. So, I think -- I just want to make sure you understood some of the accounting issues regarding mark-to-market. But again we don't comment on our positions going forward.

John Roberts - *Buckingham Research - Analyst*

Again, could you remind us how much high-fructose corn syrup -- what the revenue impact is going to be from the pricing rolling forward here in the new contracts?

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

Well, the price increases are in -- we say in the low teens, John.

John Roberts - *Buckingham Research - Analyst*

Teens. Thank you.

Operator

Ann Gurkin, Davenport.

Ann Gurkin - *Davenport & Company - Analyst*

Good morning. Continuing on with HFCS, is that -- did that come in line with expectations, marginally better? Can you give any kind of color on that?

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

Yes, I will say that when you finish this, this was a long process and there are many people, many players involved. When we finish all that, considering where we land in the volumes and the prices I would say we are satisfied.

Ann Gurkin - *Davenport & Company - Analyst*

Great. Then, Pat, just your comments in the release about growing earnings power of ADM, we have seen three quarters now of down earnings year-over-year. I guess, what is behind that statement? Can you help me reconcile what we are seeing come through the earnings versus that statement?

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

Well, I think it relates back to also another question earlier; and as Ray responded, we are looking very carefully at all of our future investments, and they are all related to creating earnings power in the long term. So the long term doesn't always mean the next quarter, although it is helpful if you see quarter to quarter to quarter improvement.

This happens to be a down period relative to the external environment. But our cost to -- our objective to be above our cost of capital by 2 points, 200 basis points, is very, very important.

We are also on -- if you think about our productivity efforts, which we've had underway for a while, we're looking at every aspect of our costs, of our cost lines, looking at organization structure to allow for even greater productivity. And we expect over the next several quarters to see $100 million pretax benefit from those productivity efforts.

Ann Gurkin - *Davenport & Company - Analyst*

That helps. Thank you very much.

Operator

Christine McCracken, Cleveland Research.

Christine McCracken - *Cleveland Research Company - Analyst*

Good morning. Just wanted to touch on a couple of quick things. We have been hearing a little bit about some wheat and soy meal quality issues potentially impacting exports. I am just wondering if (technical difficulty) been a factor in your business and if you could provide any color around that.

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

Are you talking international? US?

Christine McCracken - *Cleveland Research Company - Analyst*

US, US wheat. Apparently there were some issues here over the past few weeks. Soy meal specifically as well, we have been hearing some issues possibly impacting exports to China.

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

No, I don't -- quality is always an issue but I don't see anything outside the norm. As we get later in the crop in Eastern Europe we are seeing a few quality issues over there, but certainly nothing outside the norm.

On wheat? On wheat, it has been mostly a competitive issue, not a quality issue, as (technical difficulty) getting US wheat competitive in the world markets, and it is basically in that neighborhood right now.

Christine McCracken - *Cleveland Research Company - Analyst*

All right. Then what do you make of China's move yesterday to ban Indian rapeseed imports due to quality issues specifically? Is that a retaliatory measure, or do you think there is something, a real concern there?

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

Probably some of both as in most decisions that come out of China. But there is a quality issue and there's probably politics there also. But it is just part of the markets.

Christine McCracken - *Cleveland Research Company - Analyst*

Do you see that as a potential benefit then? Any way to quantify how big of a potential opportunity that might be for some of your markets?

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

Any dislocation can be an opportunity. It depends on degree.

Christine McCracken - *Cleveland Research Company - Analyst*

Fair enough. Then just one last one, a separate question on the low carbon fuels standard decision in California. I know that is being appealed. But have you seen any change as it relates to your business and that announcement?

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

I will take that, Christine. The courts have ruled on that; and while there will probably always be an appeal process in California, I think it is a positive for the industry that the level playing field, so to speak, was the successor at the end of the day. And that should be positive for US ethanol as opposed to a lot of imported ethanol into California.

Christine McCracken - *Cleveland Research Company - Analyst*

But nothing specific is moving into that market at this --?

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

Nothing in the current place. We are still shipping and we have good ethanol moving into the California market.

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Christine McCracken - *Cleveland Research Company - Analyst*

All right. Thanks so much.

Operator

David Driscoll, Citi Investment Research.

David Driscoll - *Citigroup - Analyst*

Thanks for taking the follow-up. Just two quick questions. Ray, on the cocoa, just to make sure I am clear on this one. So the mark-to-market that you took there is related to a hedge that is in place. And the reason why you have said what you said is that in the future, as the hedge plays through, you will not be penalized by the 100-what? I forget what the number was, $130 million, $130 million of mark-to-market because there is the other side of the hedge which reverses this thing out. But the accounting rules are forcing you to take the market mark-to-market in the quarter. Did I say that about right?

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

You are absolutely right. It is just a mismatch in terms of the treatment of the hedge relative to the underlying asset that you are hedging. You're absolutely right.

David Driscoll - *Citigroup - Analyst*

So maybe one suggestion then. Since you guys have made the effort to go an adjusted earnings number, I was curious almost why you didn't just take that $0.51, and then add I think it is $0.13 to it, which would put us at $0.64 on an underlying economic rationale for the quarter itself. Would you guys generally agree that my logic is reasonable?

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

Yes, generally reasonable. The issue, David, is there is a lot of (technical difficulty) across-the-board in all of our segments, and it would be difficult for us to try to highlight that on an adjusted earnings for every little bit.

So what we felt would be useful was for us to highlight just the significant ones when they occur. And frankly, we are trying to figure out means in order to mitigate this impact so these things don't impact results going forward. So that is what we are working on right now, David; and hopefully our finance and accounting teams will be able to find a solution and we will be able to report back to you in the future.

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

I think your logic, though, David, is right one. If you think about the significant timing adjustment in this quarter, you could argue that is an adjusted item; but since there are small ones other places, we didn't put that in as a part of our adjusted EPS.

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David Driscoll - *Citigroup - Analyst*

I see what you are saying. So you are just being concerned about -- hey, if you add that $0.13, then you should have gone through in every other segment and taken into account mark-to-market gains or losses. And since that disclosure is not currently available, you don't include it in the adjusted number; but logically the economics are what we have said.

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

Yes.

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

Correct.

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

And like you said, we try to highlight the material ones in order to help you out.

David Driscoll - *Citigroup - Analyst*

I appreciate that. On high-fructose corn syrup my last question or two would just be -- so the pricing comes in at low teens. That sounds good especially in context of expanding margins. Can you talk a little bit about your expectations for volumes?

And I missed it if you said what sweetener volumes did in the quarter year-over-year. Did you say sweetener volumes were up or down? I apologize; I missed that.

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

We didn't say. But, David, in terms of volumes, when we finish with our negotiations, we are about -- our volumes for next year are intact. So we get a price increase, whatever we conceded in one side we got it on exports.

So our volume in grind overall was up like 5%, but I think in sweeteners we were flat quarter-over-quarter. So we finished, as I said before, satisfied the negotiations. We achieved our price increases. We didn't give up any volumes. So we will still have a strong demand for our wet milling portfolio.

David Driscoll - *Citigroup - Analyst*

And as regards Mexico, so you did cite the strong export volumes which are going to Mexico. When you look forward and you think about the demand from that country, as I understand it, it is a substitution effect as we're taking sugar out, putting fructose in.

There is a mix issue, though. It's like 100% of the sugar in the carbonated soft drinks does not come out day one. It takes years, I think, for this to occur.

If I am right about those pieces, would you agree that we should continue to see export growth in calendar '12 and '13 and probably for a number of years to come, given the relative attractiveness of high-fructose versus local Mexican sugar?

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

Yes, David, our forecast is for export to continue to be strong and continue to provide a tight balance for sweeteners, yes.

David Driscoll - *Citigroup - Analyst*

Okay. Thank you very much.

Operator

(Operator Instructions) Ian Horowitz, Topeka Capital Markets.

Ian Horowitz - *Topeka Capital Markets - Analyst*

Good morning, everyone. Just quick questions. Ray, you commented on the CapEx going forward will be much more leaning towards your traditional lines of business. In that last wave of CapEx that we did on a large scale a few years ago, there were a couple projects beyond the PHA that weren't really in that mainstream. The one I think about the most is the propylene glycol business.

We haven't heard a lot about that. I am not sure it is anywhere near the size of what the PHA investment was, but if we could just talk about that and maybe any other things that may spring up as potential issues here in the future.

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

Sure, Ian, this is Juan. We are very satisfied with the propylene glycol project. We announced I think in the past quarter that for the first time we have a biobased propylene glycol USP, so United States Pharmacopeia grade, that will increase not only the usage of that product but certainly it commands a premium price versus industrial grade. That is the one that we used to have.

So we are very satisfied with that. We think that there is a big market for that. If you know propylene glycol and maybe a difference to other products, it is using in a myriad of applications and it doesn't require a lot of qualification or a lot of testing or a lot of application development, because it is a liquid and you replace the petroleum-based liquid with the biobased liquid one-on-one, which makes very easy the market penetration.

So is completely different project in that sense to the PHA introduction into the market. So we are very satisfied with it, and it is going and growing.

Ian Horowitz - *Topeka Capital Markets - Analyst*

Would the product be priced at parity to the petroleum product, or a premium to it?

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

Aha, that is the million-dollar question, Ian. It depends on the application and depends on the customer. So I won't say more than that.

Ian Horowitz - *Topeka Capital Markets - Analyst*

Okay. Then like say just a quick question. On global crush capacity, we are still fairly underutilized. If we were to simply grow into the capacity from demand, what is your internal forecast as when we should tighten up this overall crush supply?

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

I think I can help you with the calculation. If you think that probably the industry runs at about 80-something-% and you have a demand growing at about 4% to 6% per year, if I quote USDA, that is how it is going to take.

But I think that it is something that my teachers here have taught me in this market. It's that you can have that; but every year you have it reset with the difference in crops in the US versus South America and all that. So you have a bad South American crop and all of a sudden the US gets an extra boost in demand that closes that gap significantly.

So it all depends whether you have all your asset base geographically distributed and what happens with the crops around the world. But again, the fundamental demand is growing at around 4% to 6% per year around the globe.

Ian Horowitz - *Topeka Capital Markets - Analyst*

Sure, I understand the different geographies, but could you assume that now, going forward, that capacity shut-ins may start to slow down or the rate of them, of you and your competitors shutting down capacity will slow down due to the fact that there is that light at the end of the tunnel? That you will make it through, slog through these next couple quarters of difficult or overcapacity, thinking that you're going to grow -- the demand is going to grow into it?

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

Ian, I cannot speak for our competitors, but certainly from our perspective, our view is we are still in the mode of adjusting capacity and taking it down or reviewing our operations of which plant we keep running or not versus adding.

I think that in general I will imagine that the industry needs a period of recovery after this versus just investing. So I don't think anybody is out there thinking on the next plant.

Ian Horowitz - *Topeka Capital Markets - Analyst*

Great. Thank you.

Operator

Ken Zaslow, BMO Capital Markets.

Ken Zaslow - *BMO Capital Markets - Analyst*

Hey, I appreciate the follow-up. (technical difficulty) bioproducts profitability, if I look at the margin structure that was during this quarter relative to last year, it was actually higher but your profitability came in lower. Can you just talk about why the dynamics in the spot market are so different than what you guys are actually experiencing on the magnitude?

I know directionally it is kind of in the realm, but it just seems that there is something. You would have thought it would have been a better quarter given the ethanol margin structure that we are seeing out there.

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

Yes, Ken. This is Juan. You are right; on average, it was a probably highly volatile quarter from an ethanol margin perspective. So we climbed to very, very high margins by I think I said Thanksgiving and then it collapsed faster and steeper than we thought.

I will say if you look at quarter-over-quarter, the biggest difference is our net corn costs are up. And that is mostly, I would say, different positioning gains versus last year.

Ken Zaslow - *BMO Capital Markets - Analyst*

So in the sweeteners and starches, it is the high-fructose corn syrup less the starch product. But in the ethanol it is the ethanol minus the corn prices. I thought there was a transfer pricing that was different between the two.

I thought I got it backwards. I thought your net corn costs are in your starch but maybe I -- in your sweeteners. Did I have that backwards?

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

No, it is bioproducts.

Ken Zaslow - *BMO Capital Markets - Analyst*

Okay. Then sweeteners, it is sweeteners less the starch, not the corn, right? I thought you -- there was a transfer pricing differential between the two divisions.

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

Both take net corn costs.

Ken Zaslow - *BMO Capital Markets - Analyst*

Okay, I don't know why I had it in my head that there was something that was a different transfer pricing. But even if it go forward is -- so the other implication from I think it was Diane's question is that you could actually expect negative ethanol profitability going forward until there is a supply-demand rebalancing. Is that the other implication that you were saying with Diane?

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

No. I don't recall exactly what we said, but basically we expect current margins for ethanol are depressed right now. We expect probably they are depressed right now and we expect a slowly climbing out of that maybe in two or three months, when you know when supply and demand balance itself either by shutting down some capacity or growing exports and growing domestic demand, based on more driving mileage.

Ken Zaslow - *BMO Capital Markets - Analyst*

But it will be relatively -- if gross margins are roughly breakeven-ish, you would argue that your profitability in that business should be somewhat in that breakeven to up and down a little bit -- but nothing even at the level that we're at right now, that you had in this current quarter. Is that fair?

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

Yes, it should get better as the quarter goes by.

Ken Zaslow - *BMO Capital Markets - Analyst*

Okay. Then my final question truly is the workforce reduction. You guys decided to cut the workforce by 3%. Part A of that is why 3%, not 5%, not 1%? What was the thought process behind that?

And when will we -- where will we and when will we see the benefit of the cost reduction? Again I guess I use the word benefit not as a positive word; but where would you see the lower cost coming into the income statement?

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

Well, Ken, first of all, we have offered a voluntary retirement program to some of our employees; and we don't have the outcome of that program yet. But after that, we are looking at restructuring that allows for at least a 1,000-person reduction or about 3%, which was our estimate at where we could find the benefits of further work process improvements, further efficiencies, further reporting lines and span of control improvements.

And I would say the majority of that is at the SG&A kind of lines or corporate and administrative types of roles.

And the when is within the next nine to 12 months, when the -- I would say the majority of it in the first six months and then the balance in the last six months as we see folks -- these positions roll off the payroll and have reduced costs.

Ken Zaslow - *BMO Capital Markets - Analyst*

(technical difficulty) Thank you very much.

Operator

Lindsay Drucker Mann, Goldman Sachs.

Lindsay Drucker Mann - *Goldman Sachs - Analyst*

Hey, thanks for the follow-up. Just quickly, I was curious if you could give a couple remarks on the Chinese market. Just two points there.

Number one, we are hearing about some excess inventory of vegetable oil there. I was curious if you had any perspective on what that dynamic is about and if it is getting better.

And then number two, just your view on what Chinese crushing capacity is going to do this year. Thanks.

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

Well, crushing margins in China have not been terrific. They reflect the rest of the world to some extent.

The short-term, the oil problem is to me just a short-term problem. Their demand for oil continues to be strong and I consider it just a short-term issue.

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Lindsay Drucker Mann - *Goldman Sachs - Analyst*

Then just to -- first of all, what is the short-term issue? And then secondly, if you have a view on Chinese crushing capacity.

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

Well, we consider Chinese crushing capacity is -- margins themselves are weak, I would say, but some were better than Europe.

As far as the oil glut that you talk about, it is just a short-term trading issue. I don't see it to be a significant overall issue.

Lindsay Drucker Mann - *Goldman Sachs - Analyst*

Okay, thanks.

Operator

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

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

Well, thank you everyone for joining us today. Please, as always, feel free to follow up with Dwight if you have any further clarification or questions.

We do have a Note on slide 16; it shows our upcoming webcast events. We will be presenting at CAGNY on February 21, and also we will be hosting a global oilseeds business review in Hamburg on March 28.

Have a great day and thanks for your time.

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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