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ADM - Q1 2013 Archer Daniels Midland Company Earnings Conference Call

EVENT DATE/TIME: MAY 01, 2013 / 10:00PM GMT

OVERVIEW:

ADM reported 1Q13 net earnings of $269m or $0.41 per fully-diluted share and adjusted EPS of $0.48.

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PRESENTATION

Operator

Good afternoon, and welcome to the Archer Daniels Midland Company first quarter 2013 conference call. All lines have been placed on a 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 call, Ms. Ruth Ann Wisener, Vice President, Investor Relations for Archer Daniels Midland Company. Ms. Wisener, you may begin.

Ruth Ann Wisener - *Archer Daniels Midland Co - VP, IR*

Thank you. Good evening, and welcome to ADM's first quarter earnings conference call. Thank you all for understanding our decision to postpone our earnings announcement and call until after our announcement about GrainCorp I want to note that we have just posted an updated earnings presentation, including slides related to our GrainCorp acquisition process. You can download that updated presentation at www.adm.com/webcast. During today's webcast, we will also discuss those GrainCorp slides, even though they will not appear on the webcast video. So please go to www.adm.com/webcast to download the updated slides for today's call. After we finish our call, we will also be posting a longer presentation regarding GrainCorp at the same address.

A replay of today's presentation 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 our comments constitute forward-looking statements that reflect management's current views and estimates of future economic circumstances, industry conditions, Company performance, and financial results. The statements are based on many assumptions and factors that are subject to risk and uncertainties, including availability and prices of raw materials, market conditions, operating efficiencies, access to capital, actions of governments, the parties' ability to consummate the transaction described herein, the conditions to the completion of the transaction, and receipt of any required regulatory approvals, including on terms or schedules different than anticipated.

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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. Then Pat will discuss our process to acquire GrainCorp After that 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.

Pat Woertz - *Archer Daniels Midland Co - Chairman & CEO*

Thank you Ruth Ann, and welcome everyone to our first quarter conference call. This morning we reported first quarter net earnings of $269 million, or $0.41 per share on a diluted basis. Our adjusted EPS was $0.48 per share. Segment operating profit was $630 million. As expected, this was a challenging quarter, with Agricultural Services negatively impacted by the ongoing effects of last summer's US drought. In Oilseeds, our earnings were reduced by the challenges in Brazil, and also by depressed margins in cocoa. Our ethanol business improved, as declining inventories supported overall industry margins, and we began to see positive results from the actions we've been taking to improve the profitability of that business.

We continue to manage through tight US stocks of oilseeds and grains, until the North America harvest. Demand for our products remains solid, and we will continue to leverage our global origination and processing network to serve the needs of our customers worldwide. Earlier this afternoon, we announced that we completed our due diligence and intend to acquire GrainCorp. Following Ray and Juan's update on the quarter, I'll come back -- with a few more details and provide some information on the process for that transaction. Now, I'll turn the call over to Ray.

Ray Young - *Archer Daniels Midland Co - CFO*

Thanks, Pat. Slide 5 provides some financial highlights for the quarter, which I'll run through briefly. Quarterly segment operating profit was $630 million, down from last year's strong $918 million. Our effective tax rate for the quarter was 28%, slightly down from our tax rate in the quarter last year. Our earnings per share of $0.41 on a fully diluted basis, compared to last year's $0.60. And our adjusted earnings were $0.48 per share, compared to last year's $0.78 per share. In the Appendix, you can see the reconciliation of reported earnings to adjusted earnings for the periods ending March 31. For this quarter, we had a LIFO inventory charge of $34 million, or $0.03 per share. In addition, we established a reserve of $0.04 per share for the future settlement of the FCPA matter that we have previously disclosed in our 10-Qs and 10-Ks. Based upon discussions to date with various US governmental regulators, we felt we had sufficient information to establish a reserve in this quarter.

In our LIFO-adjusted four quarter trailing return on invested capital of 5.1% was 30 basis points below our WACC of 5.4%. Excluding specified items, our adjusted four quarter trailing ROIC of 5.5% was above our WACC by about 10 basis points. Our spread of ROIC over WACC was lower this quarter compared to the prior quarter, due to weaker earnings. 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 mentioned LIFO earlier. A charge of $34 million for the quarter due to the impact of increasing commodity prices during the quarter on our inventory valuation, compared to a charge of $107 million a year ago.

Interest expense of $105 million for the quarter, lower than prior year, due to the lower net debt levels. Unallocated corporate expenses of $82 million were up from the $67 million level a year ago. We incurred some one-time costs associate with our fiscal year-end changes, and related systems changes, and some additional project costs. The other of $34 million is primarily related to the $25 million provision we booked in the quarter to cover potential assessments relating to a previously disclosed FCPA matter dating back to 2008 and earlier. Turning to the cash flow statement on Slide 7. We present here the cash flow statement for the quarter ending March 31, 2013 when compared to the same period the prior year.

We generated $0.4 billion from operations before working capital changes in the quarter, compared to $0.5 billion last year. Working capital changes were neutral to our cash flows this quarter, compared to a large use of cash last year. Now, normally in this quarter, working capital is a use of cash due to large payments we make to American farmers in the month of January. So we think we had good results in working capital management this quarter, even with these large payments. Total capital spending for the quarter was $248 million. We are tracking towards the $1 billion capital

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spending level this calendar year. After changes in working capital and investments, our free cash flow was positive $100 million for the quarter, compared to a large use of cash of $1.1 billion last year.

We did not repurchase stock for the quarter, pending the resolution of the GrainCorp transaction, and our discussions with the rating agencies. We finished out the quarter with average shares outstanding of 662 million shares on a fully diluted basis. Slide 8 shows the highlights of our balance sheet as of March 31. For comparison, we also show the balance sheet as of March 31, 2012. Cash on hand was approximately $1.6 billion, up from the $400 million level the prior year. Our operating working capital was about $13.6 billion, down from the $15 billion level last year, despite commodity prices slightly higher. We are continuing to see the benefits of our focus on working capital.

Total debt was about $8.9 billion, resulting in a net debt balance, that is debt less cash, of $7.2 billion, down significantly from the March 31, 2012 net debt balance of $9.1 billion. The $7.2 billion net debt balance is same level as where we closed on December 31, 2012. Our shareholders' equity of $19 billion is about of $0.5 billion higher from the level last year, and our ratio of net debt to total capital, excluding cash from gross debt, is 28%, much improved from the March 31, 2012 level of 33%. So we are reducing leverage and maintaining a strong balance sheet. We have $6.3 billion in available global credit capacity at the end of March. So with our $1.6 billion of cash balances, we've had about $8 billion of available liquidity at the end of the quarter. Next, Juan will take us through an operational review of the quarter.

Juan Luciano - *Archer Daniels Midland Co - COO*

Thanks, Ray. Good evening to everyone on the call. Beginning on Slide 9, I will take you through the highlights of each of our business segments. Oilseeds operating profit in the first quarter was $313 million, down $229 million from the same period one year earlier. Year-ago results included net favorable mark-to-market timing effects of about $60 million, while this quarter included minimal timing effects. Crushing & origination operating profit was $156 million, down $108 million from the year-ago quarter. In North America, soft seed crushing results were down from last year's strong results, as tight supplies affected seed basis and capacity utilization. North American soybean crushing results were strong in the quarter, but margins and production declined through the quarter amid weaker export meal demand and lower bean availability.

In South America, higher trucking costs and reluctant farmer selling negatively impacted our results. European crushing & origination results improved from the year-ago quarter, aided by reduced imports of North and South American meal. Refining, packaging, biodiesel, and other generated a profit of $108 million for the quarter, up $29 million, as US biodiesel demand saw a modest recovery, offset by poor margin conditions in Europe. Results included about $20 million in biodiesel's blenders credits, retroactive to 2012 blending. Cocoa and other results decreased $181 million, amid weaker press margins and the absence of last year's $72 million favorable mark-to-market timing effect. Press margins were negatively impacted by the addition of industry processing capacity, lower cocoa powder prices, and customer inventory reductions.

Oilseeds results in Asia for the quarter were up $31 million from the same period last year, principally reflecting our share of the improved results from Wilmar. Please turn to Slide 10. As you see, Corn Processing operating profit of $153 million represented an increase of $20 million from the same period one year earlier. This quarter's results included $44 million in negative timing effects related to corn cash flow hedges that remained open at quarter-end. That was up from $11 million in the same period last year. Compared to the quarter ending December 31, 2012, corn operating profit is up $150 million, primarily due to improved ethanol results. Compared to the same period last year, sweeteners & starches operating profit decreased $19 million to $76 million.

When adjusting for the timing effect I mentioned, this quarter's results were an improvement over the year-ago period, as solid demand translated to tight sweetener industry capacity. Bioproducts results increased $39 million to $77 million. Our bioproducts business is now solidly profitable compared to the quarter ended December 31, 2012, in which we had significant losses due to weak ethanol margins. Ethanol margins improved through the first quarter as reduced inventory -- industry production rates, lower levels of imports, and a steady domestic demand resulted in reduced inventories and improved margins. Results also benefited from actions taken by ADM to improve the performance of its ethanol business.

Turning to Slide 11, you will see a review of our Ag Services segment. Operating profit was $151 million, down $110 million from the same period one year earlier. Merchandising & handling earnings declined $62 million to $86 million, due to lower volumes of US origination and export, and lower execution margins in international merchandising. Transportation results decreased $21 million to $6 million, as lower US exports reduced barge freight utilization. Milling and other results remained steady, excluding last year $20 million in equity income from Gruma. The milling

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business continued to perform well. As you recall, we sold our interest in Gruma last quarter as part of our ongoing portfolio management. Looking ahead, we see continued impact from the US drought. We will see the seasonal shift to South America, as farmers sell more of that harvest and the industry manages the ongoing logistic challenges. And we expect ethanol margins to remain positive but volatile for the rest of 2013.

Please turn to Slide 12. As Pat mentioned, earlier today we announced our intent to acquire GrainCorp Pat will discuss the transaction in a minute, but I would like to say a few words because I just returned from Australia, where ADM's staff and advisors have been conducting confirmatory due diligence. While I was there, I also got the chance to meet with some of the GrainCorp team. I was extremely impressed. GrainCorp has built a great business, a great network of assets, a very talented team, and they have a culture and a business model that are very compatible with our own. In summary, an excellent platform for us to build a successful (inaudible) strategy. There are still a number of milestones to come, but we could not be more excited about the prospect for this investment. Pat?

Pat Woertz - *Archer Daniels Midland Co - Chairman & CEO*

Thank you, Juan. Indeed, we are all very pleased and confident that we have driven to a very good place on this transaction. As we said, the acquisition fits well with our growth strategy. It meets our financial objectives. And it provides an excellent platform to serve growing global demand, particularly in the Middle East, Africa, and Asia. Slide 13 provides an overview of the transaction. We have completed our due diligence and we will make a cash offer of AUD12.20, which the GrainCorp board has indicated it will recommend. You will recall we acquired 19.8% of GrainCorp's outstanding shares in several tranches. That was at an average cost of AUD11.24. So the total weighted acquisition cost to us would be about AUD12 per share.

GrainCorp additionally intends to pay its shareholders dividends out of current and retained earnings of AUD1 per share. If regulatory conditions are not satisfied or waived by October 1 of this year, they will also pay an additional AUD0.035 each month -- each full month beyond that date, subject to GrainCorp being profitable over that period. The acquisition implies an aggregate transaction value of AUD3.4 billion, including ADM's existing ownership and GrainCorp's debt. Slide 14 outlines the key transaction metrics. Our weighted acquisition cost, excluding synergies, represents a multiple of about 8.5 times the 2013 consensus EBITDA for GrainCorp This multiple compares favorably with recent M&A transactions in the global ag space.

We expect this acquisition to be earnings accretive to ADM in the first full year. We estimate run rate synergies of AUD50 to AUD70 million dollars by the end of year two. Now, we went into the confirmatory due diligence period with that estimate, and we were able to confirm and feel confident about that estimate, with roughly half of those synergies being cost- or efficiency-related, and the other half revenue-related. Once we close the transaction and have full insight into the business, I am confident there will be additional upside opportunities. We fully expect this investment to meet our return objectives as the synergies are realized. We think this transaction is a great win-win for both ADM and GrainCorp shareholders.

We believe it delivers strong value for both companies' shareholders. For ours, it meets our key financial objectives, and will help drive future earnings growth. And for the GrainCorp shareholders, they will be receiving the AUD12.20 per share from ADM, plus dividends from GrainCorp out of earnings generated by their strong recent performance. Slide 15 discusses our financial flexibility, funding, and balance sheet implications. We have excellent financial flexibility to fund this investment. We will acquire AUD2.2 billion of GrainCorp's remaining equity, and estimated net debt of AUD700 million. As Ray pointed out earlier, as of March 31, ADM has available liquidity of about $8 billion.

We expect to continue generating operating cash flows up to closing, and depending on the US harvest and its impact on crop prices, working capital could also be a source of funding in the second half of the year. So we can easily finance this transaction. As the closing approaches, we'll make a final decision on how we'll balance funding between operating cash flows and some sort of debt, and Ray will keep us up-to-date on this. Turning to Slide 16 and summarizing, GrainCorp is an excellent investment for our Company. You've all seen this core model chart before. It lays out both the elements of our core model and our strategy. GrainCorp fits both. It expands the size and reach of our core model.

It's keeping with our strategy of investing in Oilseeds and Ag Services outside of the US, and in this case, in the Southern Hemisphere. It expands the crops we handle and process. And it provides a very advantageous platform to growing Austro-Asia destination markets. GrainCorp has significant activity in the same value chain elements that ADM does, sourcing, transportation, processing, transforming, distribution, marketing, and selling. It meets our financial objectives, and will deliver good return for shareholders. All of us here at ADM are looking forward to working

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with the GrainCorp team, and with Australian growers to build on their history of success. So now Craig will join Juan, Ray, and me for the Q&A. So, Jared, if you could please open the line for questions. Operator?

QUESTIONS AND ANSWERS

Operator

(Operator Instructions)

And you have a question from Farha Aslam.

Farha Aslam - *Stephens Inc. - Analyst*

Hi, good morning --evening. Congratulations on the GrainCorp transaction.

Pat Woertz - *Archer Daniels Midland Co - Chairman & CEO*

Thank you.

Farha Aslam - *Stephens Inc. - Analyst*

And Pat, just starting off with GrainCorp, could you provide us any greater detail in terms of the earnings accretion you do expect? I know it's supposed to be earnings accretive in year one, but could you provide us any detail about the scale?

Pat Woertz - *Archer Daniels Midland Co - Chairman & CEO*

Well, as you know, we did some confirmatory due diligence. So I think the combination of what you have noted, or can be noted from the AUD3.4 billion of the transaction value, and what we have paid per share. We look at the EBITDA forecasted with their 2013, and looking forward to 2014. I think it's reasonable to expect the $0.20 to $0.30 per share that that math would come out to. We, of course, haven't closed the deal yet. It's a long way off. We're looking forward to spending time on it in greater detail. But again, I think with accounting work to do and the closing ahead of us, I think that's a high level number that's probably not out of line.

Farha Aslam - *Stephens Inc. - Analyst*

That's very helpful. And then in terms of the October close, are you at all concerned about the Chinese component, or do you have any kind of carve-outs in case there's delays for that one portion of the transaction?

Pat Woertz - *Archer Daniels Midland Co - Chairman & CEO*

Well, we feel good that we've planned for this. So the filings and the work underway on the time chart to get filings in place for all of the transaction, our advisors have it in progress. I don't think we can speak to the specifics of Chinese approval at this time, and we look forward to making that happen as quickly and smoothly as possible.

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Farha Aslam - *Stephens Inc. - Analyst*

Great. And just two quick questions on your base business. In terms of the improvement in ethanol, I think you've highlighted that going forward margins are going do be volatile, but just kind of near term for the second quarter, are margins materially better than what you've realized for the first quarter? It's just the nearest term direction would be helpful.

Juan Luciano - *Archer Daniels Midland Co - COO*

Yes, Farha, this is Juan here. I think margins continue to be good at this point in time. Obviously, when the margins are good for a period of time, some of the capacity may come back. So that's why we are calling the volatility. I think we've seen the market reaction that we predicted in the previous quarter, and at the moment they're healthy margins.

Farha Aslam - *Stephens Inc. - Analyst*

Healthy margins. And then if you just, on Oilseeds, you highlighted that part of the impact was from North America and part of it was from the Brazilian and South American farmer and congestion issues. If you had to break the two, could you just give us roughly how much of an impact each was in terms of --

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Juan Luciano - *Archer Daniels Midland Co - COO*

I will describe that the biggest impact was probably South America. I think North America was a little bit down in soft seeds, but offset by the good performance in Europe. I think South America was the biggest impact, and in South America was probably 50/50 between the origination business, if you will, the farmer not selling, and the tracking impact in the transportation of that. So part of that will not come back, which is the tracking extra costs. Part of that will come back when the sellers sell, so.

Farha Aslam - *Stephens Inc. - Analyst*

Fantastic. Thanks. I'll pass it on.

Juan Luciano - *Archer Daniels Midland Co - COO*

You're welcome.

Pat Woertz - *Archer Daniels Midland Co - Chairman & CEO*

Thank you.

Operator

Your next question comes from Ryan Oksenhendler.

Ryan Oksenhendler - *BofA Merrill Lynch - Analyst*

Yes. Juan, just wondered, had a question about ethanol in terms -- where we stand in terms of RINS available for use this year, and how many will -- do you think will get used in 2013? And then as we roll into 2014, if there's not that many RINS available for use, is the market pretty much in balance for the whole year? Maybe makes it a more stable year in ethanol?

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Juan Luciano - *Archer Daniels Midland Co - COO*

Yes, we share your view there, Ryan. I think there are like 2 billion RINS available to carry into 2013. When we make the forecast for RINS available to carry into 2014, we get under 1 billion. So I think that we believe that E15, E85 will be needed to fulfill the mandate. So we are optimistic about our view of the '13, '14, '15 time frame for ethanol. We think that there's going to be a healthy supply/demand balance for the industry.

Ryan Oksenhendler - *BofA Merrill Lynch - Analyst*

Okay. Then also, I guess, can you talk about some of the returns on the capital you've spent over the last 12 months? It's kind of hard to see, I guess, given the drought, it's probably masking a lot of the returns. But if the cycle does turn, normalized earnings, are they higher than they have been historically? I guess, could you quantify, I guess, some of the numbers on a margin or profit basis?

Juan Luciano - *Archer Daniels Midland Co - COO*

Yes, I'm not sure I'm going to quantify it, Ryan. I would say yes, they're going to be higher. I think that we have expanded our earnings power through all the work that we have done in capital discipline and cost and cash, and you will see that when we have a normalized crop running through our asset base.

Ryan Oksenhendler - *BofA Merrill Lynch - Analyst*

All right. Thanks, guys.

Pat Woertz - *Archer Daniels Midland Co - Chairman & CEO*

Thank you.

Operator

Your next question comes from David Driscoll.

David Driscoll - *Citigroup - Analyst*

Thanks a lot, and good evening.

Pat Woertz - *Archer Daniels Midland Co - Chairman & CEO*

Good evening, David.

David Driscoll - *Citigroup - Analyst*

Congratulations.

Pat Woertz - *Archer Daniels Midland Co - Chairman & CEO*

Thank you.

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David Driscoll - *Citigroup - Analyst*

I'd just like to kind of come back to the quarter, and then the remaining outlook for 2013. Is it fair to say that the conditions will continue to worsen in the second and in the third quarters, as US crop supplies dwindle even further, which should just be an ongoing and significant negative impact to Oilseeds and Ag Services, kind of the two biggest pieces to the pie? Is that a fair statement?

Juan Luciano - *Archer Daniels Midland Co - COO*

David, Juan here. I think you heard me saying in the previous call that first quarter and second quarter will be progressively worse. So you are correct in terms of Ag Service. Until we're going to have a new crop, we will struggle with the lack of volume. It's like a fixed cost business, if you will, in that sense. So in Oilseeds, we're going to see the shift to South America, and obviously our footprint is bigger in North America than in South America. So that's from an earnings perspective, that also is an impact. So we expect second quarter to be a difficult quarter for us. Third quarter will depend on planting, harvest, and all that. So we are, though, very pleased with our -- the start-up of our Paraguay plant. The plant performed very, very well in South America, and actually from a profit perspective, although it was (inaudible) and a lot of the moving part, it actually performed above expectations in the first quarter. So we are pleased with our investments, in that sense.

David Driscoll - *Citigroup - Analyst*

Just one follow-up. Is there enough corn, in your opinion, in the United States for this summer? I note that the United States corn stocks are at 17-year lows. given the -- and given the planting delays, it doesn't look like there's any chance of an early harvest. So how does that impact your thought process in the summertime for your entire Corn Processing segment?

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

David, this is Craig. First of all, we've had a couple things happen. We've obviously ended the drought, and we're very wet, which has -- with the wet, we have much more opportunity going forward on a grain crop. We are delayed a couple of weeks. But as you know, where the corn will mature on degree days of temperature, so it's a time period. We will be very tight. We'll have to manage margins. But we've done an awful lot of work in that area, and we'll have to let the markets play themselves out.

David Driscoll - *Citigroup - Analyst*

Okay. I appreciate those comments. I'll pass it along. Thank you.

Operator

And your next question comes from Vincent Andrews.

Vincent Andrews - *Morgan Stanley - Analyst*

Pat, could you just give us your level of confidence in the 2013 GrainCorp earnings forecast, and I guess you're even talking about going to '14. And just sort of how do you sort of bridge that with where earnings were in '11? And sort of we heard some scuttlebutt sort of throughout this process that maybe '12 was a better year than -- sort of was an above average year. How do you think through that, and have confidence in where things are there?

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Pat Woertz - *Archer Daniels Midland Co - Chairman & CEO*

Well, one thing I can say, Vincent, is that when we modeled and looked at this opportunity, we really took into account the long range, and the over multiple year crop conditions and earnings forecasts. We realized they've had strong years, and less than strong years, and actually there was a -- the outlook going forward by many analysts, the consensus is, that that would come down over time. They also have some improvements planned. So I think it's more about what we can do together once we have closed on the deal. We feel confident that they can reach their earnings to pay out their dividend, or they feel confident about that. That's the indication from their board, and I think it's about going forward in 2014, once we have the opportunity to reach the synergies, to assess more in detail, more than a week's worth of due diligence, but assess in detail what everything it is we can do.

Vincent Andrews - *Morgan Stanley - Analyst*

Okay. Then a separate question. Last week the MLP Parity Act was reintroduced into Congress to make all sort of renewable energy assets MLP-able. When I saw that, I couldn't help think of your ethanol assets, and wondering whether turning those into an MLP at some point of time would be something you would be interested in.

Ray Young - *Archer Daniels Midland Co - CFO*

It's Ray here. We've been studying this thing in the past. In the past, the ethanol assets weren't eligible specifically for an MLP, but I guess we're going to, again, look at studying it, and look at the opportunity to see whether it makes sense.

Vincent Andrews - *Morgan Stanley - Analyst*

Okay. Great. I'll pass it along. Thanks.

Pat Woertz - *Archer Daniels Midland Co - Chairman & CEO*

Thanks.

Operator

You have a question from Ken Zaslow.

Pat Woertz - *Archer Daniels Midland Co - Chairman & CEO*

Hey, Ken.

Ken Zaslow - *BMO Capital Markets - Analyst*

Couple of questions. One is, in terms of the ethanol side, I have two questions. One is, are you guys running your ethanol plant at full capacity, and did you run them at full capacity during the quarter?

Juan Luciano - *Archer Daniels Midland Co - COO*

Ken, Juan here. How are you doing? We are back at 100% capacity.

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Ken Zaslow - *BMO Capital Markets - Analyst*

Did you run it at full capacity during the last quarter?

Juan Luciano - *Archer Daniels Midland Co - COO*

Not the full quarter, no. We brought it back during the quarter.

Ken Zaslow - *BMO Capital Markets - Analyst*

Okay. And then in terms of 2014 on ethanol, how quickly does the United States need to get to E15 pumped to be able to actually meet the mandate? Can you just like -- how does that work? Because I feel like the rins are going to run out, and then the E15 and E85 pumps are really not popping up as quickly. How does the bridge work to get to the mandate?

Juan Luciano - *Archer Daniels Midland Co - COO*

I don't remember exactly the math, but it's not a huge number. We believe that with E85 and maybe 15, 20% or something like that of penetration of E15 we think, but you know, don't quote me. I have to get back to you on that. I'm quoting a memory. I don't remember exactly the math.

Ken Zaslow - *BMO Capital Markets - Analyst*

Don't usually ask a cocoa question, but how sustainable is the, or how long will the performance of cocoa last at this somewhat sub-average level? Is that something that gets corrected immediately? Does it turn around over a year? Can you talk about that? It's not huge, but it's probably about a $0.05 to $0.10 relative to expectations.

Juan Luciano - *Archer Daniels Midland Co - COO*

During January and March period, the grindings exceeded consumption. And so if you look at the overall world, we were coming from a period in which we couldn't produce enough powder to satisfy growing demand. There was a slowdown to that, and with the change in price direction, everybody's starting a destocking. So I would say underlying demand is recovering, although it's an early recovery. But it's mostly a slowdown and destocking of the industry. We think that probably going to be impacted for this quarter and the next, in that sense, until we're receiving the more tight supply/demand balance.

Ken Zaslow - *BMO Capital Markets - Analyst*

My last question for Ray is repurchasing stock, can you talk about that? You said your liquidity's about $8 billion, the transaction's about $3.5 billion, $3.4 billion. Can you talk about, will you start repurchasing stock? How does that all play out? Can you talk about the sequential share repurchase opportunities?

Ray Young - *Archer Daniels Midland Co - CFO*

Yes, Ken. Again, we're committed towards mitigating the impact of the remaining dilution on these equity units, about 14 million more shares we need to repurchase. The timing, we're working through it. As you know, in terms of our -- some of our credit metrics, especially the debt to EBITDA metrics, due to just weaker earnings, we had some weaker metrics. The GrainCorp transaction, we believe we can easily finance the transaction. But we do need to kind of work through the next couple of quarters in terms of getting the earnings power up, and our metrics up. But again, we

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feel confident that we will mitigate this impact, maybe not by the end of this calendar year, but over the next couple years, we will mitigate that impact.

Ken Zaslow - *BMO Capital Markets - Analyst*

Great. Thank you.

Operator

Your next question comes from Ann Gurkin with Davenport & Company.

Pat Woertz - *Archer Daniels Midland Co - Chairman & CEO*

Ann, are you there?

Ann Gurkin - *Davenport & Company - Analyst*

I am. Hello?

Juan Luciano - *Archer Daniels Midland Co - COO*

Hello, Ann.

Ann Gurkin - *Davenport & Company - Analyst*

Can you hear me, Pat?

Pat Woertz - *Archer Daniels Midland Co - Chairman & CEO*

I can now, yes.

Ann Gurkin - *Davenport & Company - Analyst*

Congratulations on your GrainCorp news, first of all. I had a question related to GrainCorp. I'm just curious, with the strategy for developing your exposure and business in the Austro-Asia region, have you tempered expectations at all? There's been a lot of news, discussion about maybe there's been global overproduction of grains and proteins. Is there any reason to temper kind of expectations for growth rate in that area of the world?

Pat Woertz - *Archer Daniels Midland Co - Chairman & CEO*

I don't think so. I'm not sure I'm reading the same thing you are, because we're seeing expansion. Maybe if you expand what you think is Austro-Asia to North Africa to where some of the grains go even farther west from just north of Australia, there's been some significant -- there's been growth year-on-year. Going forward, I think we have thoughts about integration in some of our already positioned imports into Asia, imports into China and so forth, and that's probably part of what we kind of talk about in that overall strategy.

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Ann Gurkin - *Davenport & Company - Analyst*

Okay. Great. And then the gap between adjusted ROIC and WACC narrowed in the quarter, which you explained. How should we think about that relationship as the year unfolds?

Ray Young - *Archer Daniels Midland Co - CFO*

One way to think about it is clearly the impact of the drought is having an impact on our earnings for the purposes of the ratio there. As Juan indicated, we'll probably have more pressure going through the second quarter, but I'm pretty confident that as we kind of move through the rest of the calendar year, assuming we get a normal harvest in the United States, we should see our earnings power being restored. We're actually doing a very, very good job on our invested capital base. By the way, when you take a look at our invested capital base at the end of March compared to the end of December, we're actually lower. So we continue to do a good job on the -- both the costs, the cash, and the capital side. We'll continue to work through that over the next quarters. And so when we start having earnings recovery associated with getting to more normal US crop conditions, as well as seeing the full benefit of recovery in terms of the ethanol margins, I'm confident that our spread of ROIC over WACC will improve.

Ann Gurkin - *Davenport & Company - Analyst*

Okay. Great. And then just one more question on South America. Going into the quarter, we were expecting some logistical issues, and you all were preparing for that. What was the biggest difference versus your preparation efforts for logistics in South America? Was it the trucking industry and expenses there, or was there something else?

Juan Luciano - *Archer Daniels Midland Co - COO*

Yes, Ann. I think the trucking is the most difficult, because we hedged that. And I think that there were a couple of issues in the environment that maybe that were difficult to anticipate. I think the corn exports were longer and extended into February, and to a certain degree collided also with the soybean exports. I think that there was a new trucks legislation in South America that restricted the daily trucker work journey, and then with that transport companies were able to pass those cost increases in terms of higher tariffs. So the situation is getting a little bit better, but it still continues, and I think it will continue into June, July at this point.

Ann Gurkin - *Davenport & Company - Analyst*

Great. Thank you very much.

Pat Woertz - *Archer Daniels Midland Co - Chairman & CEO*

Thank you, Ann.

Operator

Your next question comes from Ann Duignan with JPMorgan.

Michael Shlisky - *JPMorgan - Analyst*

Filling in for Ann. Was wondering if you could maybe first give us a brief overview. You had mentioned you would be able to meet your return goals within three years after you close GrainCorp. I was wondering if you could give us maybe some color as to what exactly those return goals are?

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Ray Young - *Archer Daniels Midland Co - CFO*

Yes. As you know, we've stated that our return objectives for this Company is to earn 200 basis points over our weighted average cost of capital. As we look at this transaction, look at our estimates of earnings, and as we look at the roll level of the synergies over the next three years, that's how we're estimating that we will achieve our return objectives by year three.

Michael Shlisky - *JPMorgan - Analyst*

Great. Thanks for that. And secondly, can you guys give us your latest view on some of the changes to ethanol mandates that are currently being discussed in Washington, DC, and at the state level as well?

Juan Luciano - *Archer Daniels Midland Co - COO*

What changes in ethanol that you're talking about?

Michael Shlisky - *JPMorgan - Analyst*

For example, the RFS Reform Act or other efforts by some of the politicians in various states to change ethanol mandates going forward.

Pat Woertz - *Archer Daniels Midland Co - Chairman & CEO*

Maybe I'll take that, Mike. First of all, I don't believe the RFS will be repealed, and while there is a lot of noise around this and many other subjects in Washington, if you kind of peer through it, it is a federal law. It would take agreement between House, Senate, President to change or repeal the law. We continue to feel confident about informing and educating lawmakers about the many benefits and the impact of continued and enhanced ethanol use. So I think it's stay the course, and that's how I see it in Washington.

Michael Shlisky - *JPMorgan - Analyst*

Okay. Great. Thank you so much.

Operator

Your next question comes from Tim Tiberio with Miller Tabak.

Tim Tiberio - *Miller Tabak - Analyst*

Just wanted to go back to the GrainCorp transaction. When you look across the various segments within the business, is there any rethinking about the strategic fit as far as the malting business? Are you still kind of early in that process? Can you provide us with any color? Thanks.

Juan Luciano - *Archer Daniels Midland Co - COO*

Sure. This is Juan. The malting business appeared to be a very well-run global business of GrainCorp, and you see the earning generation and the cash flow has been very steady. So we would like to really get to know the business better over the future months. As I said, we have a week exposure to this company and, again, this looks like a very well-run global business. So we'll take a look at it.

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Tim Tiberio - *Miller Tabak - Analyst*

Okay. And then on the European Oilseed business, you suggested that it was slightly better, as well. Is there anything going on within that segment that we should be aware of, and should we expect that that can continue into Q2 and Q3 of this year?

Juan Luciano - *Archer Daniels Midland Co - COO*

Yes, it did better mostly because of delays in South American export in meal. So I think they have less competition in that sense. So I think that eventually it's going to catch up, and South America will normalize the export of meals and that will revert back a little bit. At this point, it was a good quarter for Europe Oilseeds, especially soybean.

Tim Tiberio - *Miller Tabak - Analyst*

Great. Well, thanks for your time, and congratulations again on the transaction.

Pat Woertz - *Archer Daniels Midland Co - Chairman & CEO*

Thanks, Tim.

Juan Luciano - *Archer Daniels Midland Co - COO*

You're welcome.

Operator

(Operator Instructions)

Your next question comes from Diane Geissler with Credit Agricole.

Diane Geissler - *Credit Agricole Securities - Analyst*

Can you hear me okay?

Pat Woertz - *Archer Daniels Midland Co - Chairman & CEO*

We can hear you, Diane.

Diane Geissler - *Credit Agricole Securities - Analyst*

Okay, terrific. Can you just talk a little bit about maybe the GrainCorp acquisition, just in terms of what you expect with the rest of your capital spending program, and in particular, if you could address additional investments in South America, Brazil, in specific?

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Pat Woertz - *Archer Daniels Midland Co - Chairman & CEO*

Well, I'll take that one, Diane. If you think about our $1 billion that we were planning to spend in 2013, we've talked about it being 50% -- over 50% outside the US, and particularly in Ag Services and Oilseeds, which GrainCorp fits. But we did not include large acquisitions like this in that number. In the same token, if you think about it, since this is mostly in our Ag Services and Oilseeds area, we're taking a further look at the pipeline of those investments. We're happy with what we've done, both last year and up through this year, but that team is going to think forward around integration and the good opportunities that come with the acquisition. So there may be a little bit of scaling back in the next opportunity in those two areas. But I think we can stick under that $1 billion, and still find some great opportunity and returns within the GrainCorp acquisition.

Diane Geissler - *Credit Agricole Securities - Analyst*

So given the timing, the expectation that it closes in October, do you expect your CapEx in '14 and '15 will be below the $1 billion rate?

Ray Young - *Archer Daniels Midland Co - CFO*

We will be going through a updated planning process as we move into the fall. We will incorporate GrainCorp into the planning process, and based upon that, we will come up with an updated assessment as to what our capital spending plan will be going forward.

Diane Geissler - *Credit Agricole Securities - Analyst*

Okay. All right. And you mentioned that fructose supply was tighter and that demand was strong. Can you talk about where your contracting is for the full year in terms of pricing?

Juan Luciano - *Archer Daniels Midland Co - COO*

Yes, Diane, this is Juan. We're mostly done with our contracting, and we expect that from that perspective, resulting margins will be in line with 2012.

Diane Geissler - *Credit Agricole Securities - Analyst*

Okay. And then just one further question on the Corn Processing group, in specific on ethanol. You did talk about the fact that you had slowed some of your plants and were you back online, but you mentioned in your press release some things you had done internally to drive the margins. Is that referring to scaling back production, or were there other things that you did within your manufacturing base that improved your margin structure, and that's something that will continue through the -- over the next few years?

Juan Luciano - *Archer Daniels Midland Co - COO*

Yes, the business did a very thorough review in December, and we continue with our energy efficiency, and continue to improve our operations from a cost perspective. That continues to accrue every quarter. We look at things like terminals. We look at the logistics. So it was an overall review of the business, inclusive of turning down some of the capacity. So I would say, part of that was market recovery, and part of that we have gotten better, and you will see that incorporated into 2013 results going forward.

Diane Geissler - *Credit Agricole Securities - Analyst*

Is there any way to quantify what the cost savings is from maybe some of the things you've done internally to improve the efficiency of the operations?

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Juan Luciano - *Archer Daniels Midland Co - COO*

I'd rather don't.

Diane Geissler - *Credit Agricole Securities - Analyst*

Okay, great. Thank you.

Pat Woertz - *Archer Daniels Midland Co - Chairman & CEO*

Thank you.

Operator

(Operator Instructions)

You have a question from Robert Moskow with Credit Suisse.

Robert Moskow - *Credit Suisse - Analyst*

Two questions on Corn Processing. The first, I think Ray you mentioned a $43 million open position on corn hedging. What does that mean for the rest of the year? Does it influence your margins for the rest of the year, or is this just kind of a one-time thing? And then secondly, on ethanol, I wanted to know if there's any like -- if there's a disincentive for competitors of yours to chase production this summer, just because perhaps there's not a lot of capacity available on freight lines, just to move ethanol around. I thought I picked that up somewhere, and wanted to know if there's not a lot of railcar capacity available, do you think that will slow competition from chasing after margins? Thanks.

Ray Young - *Archer Daniels Midland Co - CFO*

Rob, let me take the first one, and Juan will take the second one. Just to be clear, on the $44 million, this is actually related to an accounting hedge ineffectiveness. Just for background, Rob, you recall back in '010 and '011 we saw a lot of volatility in our sweeteners & starches line. (Multiple speakers) hedging. And so we changed the approach towards hedging by actually designating the hedges in order to obtain cash flow hedge accounting treatment. So in effect, by matching up our hedges to our corn requirements for the different sweetener contracts, we're able to defer gains and losses on these hedges and match it up with the actual contracts.

There are situations when the cash and the futures prices diverge, or stated another way, the basis moves, and when that occurs, the accounting treatment actually requires that when ineffectiveness occurs, you're going to have to recognize this gain or loss in the current period income. So one way to think about this, Rob, is the fact that this $44 million charge really represents an acceleration of some impacts from the future into current period, and this will reverse itself out in the future, either through the hedge becoming effective again, or through just economically we'll be purchasing corn at a more advantageous price relative to where we thought. Stated another way, we should see this impact reverse itself out over the course of the rest of the calendar year.

Robert Moskow - *Credit Suisse - Analyst*

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

Rob, on the second part of your question, this is Craig, I would say that, as we talked about earlier on the grain, we are going to have dislocations, as we have a little bit later harvest. We consider that problem a core competency of ADM. We have the railcars. We have contracts with all the major railroads. It will be difficult for people to perform in that environment, but we did it in '05, we did it last year, and we'll do it again this summer and fall.

Robert Moskow - *Credit Suisse - Analyst*

And your competition, you don't think they'll have that same access, or is there plenty of capacity available during the summer to move corn around?

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

There is capacity I'd say, but we have the asset base. I mean, when it comes to railcars and barges, and -- it's a core competency. We've made huge investments in them, and while those maybe --we can pull them from one area, put them in another. We've, as I say, we've done that in every other inverse, and we've certainly got plans in place, both barge- and rail-wise to monitor and handle that situation.

Robert Moskow - *Credit Suisse - Analyst*

I got it. Thank you.

Operator

We have no further questions. I would now like to turn the call back to Patricia Woertz for closing remarks.

Pat Woertz - *Archer Daniels Midland Co - Chairman & CEO*

Thank you all for joining us today, particularly at this late hour. Slide 18 does list our upcoming investor events, and as always, feel free to follow up with Ruth Ann if you have any questions. I really thank you for your time and continued interest in ADM. Bye now.

Operator

Thank you for participating. This concludes today's call. You may now disconnect.

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